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reviewed by Mária Ilona Bábosik
Contemporary Chinese Political Economy and Strategic Relations: An International Journal

Notes for Contributors

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FOREWORD

Hegemon on a Roll or Realism in the Periphery? – China and the Developing World in the Context of Transnational Linkages and Comparisons

This first issue of Volume 5 of Contemporary Chinese Political Economy and Strategic Relations: An International Journal (2019) is designated as an April/May issue to commemorate two events that were set to impact on and redefine China’s contemporary relations with ASEAN countries and with potential reverberations even beyond the region. While early April sees the 7th anniversary of the Scarborough Shoal standoff in the South China Sea between China and the Philippines in 2012 that culminated in the 2016 Permanent Court of Arbitration at The Hague’s ruling in favour of the Philippines, early May sees the first anniversary of the almost impossible electoral defeat of the more than six-decade rule of the increasingly authoritarian and kleptocratic National Front (called in the early years the Alliance) in whom recent years witnessed increasing politico-economic dependence and subservience to China. What these two events share is the bravery and determination of the people of two small nations in the region to stand up against a regional hegemon in order to protect their sovereignty and rights long encroached upon by the latter.
These two momentous events are the subjects of inquiry for the two papers that begin the present April/May 2019 issue of the journal — “Into China’s Rough Seas: Troubled Maritime Institutions in the West Philippine Sea – Implications for Philippine National Security” by Rhisan Mae E. Morales, and “Malaysia Baru: Reconfiguring the New Malaysian Capitalism’s Dependency on China – A Chronicle of the First Post-GE 2018 Economic Reforms” by Elsa Lafaye de Micheaux, both under the first section of this journal issue, Sovereignty, Dependency and Peripheral Realism.

Although the PCA ruling favouring the Philippines has been cast aside after Rodrigo Duterte’s assumption of the Philippine presidency for what Duterte considered as pragmatic reasons, as described in the third paper in this section, “On President Rodrigo Duterte’s “War on Drugs”: Its Impact on Philippine-China Relations” by Diosdado B. Lopega, the Scarborough Shoal incident seven years ago which began on 8th April 2012 over the Philippine Navy apprehension of eight mainland Chinese fishing vessels in the disputed Scarborough Shoal that as Morales notes, lies 530 miles (853 km) from the closest Chinese shore of the Province of Hainan but just 138 miles (222 km) from the coast of Zambales of the Philippines and within Philippines 200-nautical mile exclusive economic zone (EEZ).

Lopega in his paper analyses how Duterte’s “War on Drugs” attracted barrage of criticisms from the Philippines’ traditional Western allies that turned him to China as a sympathetic ally, a newfound ally so unlikely just years ago after the Scarborough Shoal Standoff, and made him give a cold shoulder to the PCA ruling – a sacrifice on sovereignty assertion that is apparently worth making for currying China’s favour in order to mitigate the effects of his diplomatic fiasco with the West and to press on with his quixotic “War on Drugs” that he had promised the people during his election campaign. Politics does make strange
bedfellows, and in this case, as Lopega points out, makes the Duterte Administration turns away from the earlier years of sovereignty assertion to be a willing peripheral-realist rule-taker “religiously toeing the line along orders” by China the emerging regional rule-maker.

Placing the 2012 Scarborough Shoal Standoff in the wider contexts of a long-term approach to address the Philippines’ maritime security issue, the consciousness of its identity being a quintessential archipelagic state whose marine ecosystem is being continuously destroyed by maritime dispute and the installation of military posts by the encroaching power, and the urgent need for effective maritime inter-agency coordination in the Philippines to overcome her territorial debacle in the South China Sea, Morales, in her paper, emphasizes the importance of protecting the Philippines’ territorial integrity that should be equated “with that of other national concerns like poverty, corruption, insurgencies and drug-related issues” and the South China Sea should be given similar importance as that of the present Duterte Administration’s campaign against drugs and corruption, as the government should not lose sight of its crucial role “to uphold the primary consideration of its foreign policy: to protect the country’s territorial integrity and national sovereignty”.

Such being a critical consideration indeed in a region in an era that is witnessing the rise of neighbouring power with whom the ASEAN countries have long had a vacillating love-hate relationship since the 1949 Communist Party conquest of the Chinese Mainland, Lafaye de Micheaux’s article represents a pertinent, timely exploration of another ASEAN member state, Malaysia’s own love-hate relations with this rising powerful regional hegemon to whom “Malaysia’s remaining sovereignty seemed indeed to have been sold off in favor of political benefits and commercial contracts” over the last few years before the long-ruling kleptocratic regime was overthrown in an unexpected
electoral defeat on 9th May 2019, after which the newly sworn-in government had wasted no time, as promised to the electorate during the election campaign, in scrutinizing the “unequal” contracts that the scandal-ridden previous government had signed with China – in a breathtaking process of cancelling and renegotiating for fairer terms – in a valiant effort in “regaining control of a sovereignty abused by China”, as Lafaye de Micheaux describes.

In the playing out of these events, what not to be missed has to be the brazen way China’s influence – calling it “united front” or “sharp power” – had swept, tsunami-style, into whether the Philippines or Malaysia in quite an instance, be that during President Rodrigo Duterte’s being condemned by the Philippines’ traditional Western allies for his bloodied “War on Drugs” campaign by means of massive extrajudicial killings that led to the International Criminal Court (ICC) launching inquiry into allegations of crimes against humanity he committed in his brutal anti-drugs campaign, or during Prime Minister Najib Razak’s being embroiled in the 1MDB fraud-of-the-century and with international investigators, from America to Australia, from UK to UAE, from Switzerland to Singapore, closing in on the shocking scandal and the prime minister’s personal links to it.

In the case of Najib’s Malaysia, such remarkable inroads of China’s growing influence was also reflected in the further strengthening of the relationship between the ruling regimes of these two long-lasting one-party dominant systems (one without electoral democracy, one with relatively free but unfair elections): a close cooperation and strategic partnership between two authoritarian/neo-authoritarian regimes, in sharing a common priority in perpetuating political dominance. It is noteworthy that when Najib brought home US$33.6 billion in deals after he visited China in November 2016 he had been criticized by the opposition who accused the ruling coalition of playing the China card to
win votes as well as to cover up corruption scandals to the degree of selling out Malaysia’s sovereignty\(^1\), similar to the Thai junta government’s using “China deals” to please domestic audience and gather support by demonstrating its foreign relations capacity in producing economic and international strategic benefits (Hewison, 2018). Even though Malaysia has a multi-party electoral liberal democratic political system, it is not surprising to witness such increasing degree of political convergence\(^2\) and empathy between two long-lasting one-party dominant states. A similar scenario is seen in the increasing closeness to and dependence on China of another ASEAN state, Cambodia, under Hun Sen’s rule which was sliding fast into an autocracy.

Hun Sen, the prime minister of Cambodia whom CCP has apparently tutored much in the art of dealing with dissidents, has closed his country’s best independent newspapers on trumped-up charges\(^3\), liquidated the Cambodian National Rescue Party in November 2017 in a move that has definitely made his mentor CCP proud, that Charles Santiago, Chairman of ASEAN Parliamentarians for Human Rights and a member of the Malaysian parliament from the then Malaysian opposition party the Democratic Action Party (a component party of the new ruling Alliance of Hope coalition after the 9th May 2019 elections), called “the final nail in the coffin for Cambodian democracy”, exiled former CNRP president Sam Rainsy and arrested then CNRP president Kem Sokha.\(^4\) As a payback to its mentor, Hun Sen’s government has several times broken ranks with the ASEAN consensus, especially when it refuses to criticize China’s behaviour in the South China Sea.

Similar to the Cambodian political situation, Malaysia’s then long-ruling Barisan Nasional (National Front) coalition had turned even more authoritarian than before with heavier misuse of public instruments including police force and anti-corruption agency to try to destabilize the
opposition and opposition-held states after its unprecedented electoral upset in the 2008 “political tsunami” and its losing the popular vote in the following 2013 elections.

Such convergence of political and financial interests between the planet’s largest dictatorship and the increasingly authoritarian one-party dominant regime during the Najib administration has set a really worrying trend before a combination of civil society’s disgust against grand and blatant corruption of an arrogant regime, a modern cross-ethnic younger generation’s aspiration for liberalism and democracy and more respect for human rights, and Malay backlash against the Najib administration’s perceived sell-out of national interests to China, in an almost miraculous and unexpected nation-wide political tsunami finally achieved the unachievable deed of ousting the previous seemed undefeatable governing machinery of the National Front in the 9th May 2018 general elections. Nobody had foreseen the what was coming, not least the China embassy, which up to the days of election campaigns, as noted by the former Malaysian ambassador Dennis Ignatius: “Despite its oft-repeated commitment to the principle of non-interference, the Chinese embassy increasingly thinks nothing of warning opposition leaders who question the direction of Malaysia-China relations or favouring certain political parties by its high-profile attendance at conferences and political events. It is even attempting to position itself as one of the principal interlocutors of the Malaysian Chinese community […] Needless to say, the more China has to lose, the more it will be tempted to involve itself in domestic affairs.” (Ignatius, 2017)

And indeed as Ignatius highlighted, the embassy’s statement in early 2017 that it would “not allow anyone to jeopardize … bilateral cooperation” was a thinly veiled warning that it would intervene where necessary to protect its interests, as moreover “the billions of ringgit in infrastructure projects, business and trade deals that China brings to the
table gives it unparalleled domestic leverage to influence and affect outcomes.” ([ibid.])

Interestingly, in order to court the Malaysian ethnic Chinese community for votes, during the 2018 general election campaign, the Malaysian Chinese Association (the ethnic Chinese component party of the then ruling National Front coalition) – which launched the “MCA Belt and Road Centre” (Mbrace)\(^5\) in December 2016, and further with the “MCA Belt and Road 2.0”\(^6\) in February 2018, as well as Penang’s “One Belt and Road Centre” (OBRC)\(^7\) in June 2017 in the prosperous northern heavily ethnic Chinese island state the federal ruling coalition has lost to the opposition alliance led by the ethnic Chinese-based Democratic Action Party (DAP) since the 2008 political tsunami, a series of actions jeered by many political commentators, who find it ridiculous for a Malaysian political party to set up a centre within for a politico-economic strategic program of China, as a sinking party grasping at a last straw perceived to be given by China’s OBOR initiative\(^8\) – even came up with huge incredible billboards and banners declaring “一帶一路造福人民” [One Belt, One Road is a blessing for the people] and even more incredibility “投票陣，等於支持中國！” [To vote for the National Front is to support China!]\(^9\) On this, the former Malaysian ambassador Dennis Ignatius stated bluntly that: “Even some of our political parties are now behaving more like extensions of the PRC embassy – setting up PRC affairs committees and OBOR centres – than as Malaysian political parties.” (Ignatius, 2017)

The unabashed way the Najib has brought Malaysia under China’s shadow was astounding – testifying to how China had been seen as a saviour, economically and politically, of that kleptocratic regime that was bringing the country closer by the day to financial ruin, regardless of the fact that the large sum of money China lends Malaysia must one day be repaid by this generation and next – for there is a major China-
funded project in nearly every state in the Malaysian federation, including, *inter alia*: (1) East Coast Rail Line (ECRL) project, the largest of all – a high-speed railway traversing Peninsular Malaysia’s east coast and across the peninsula to Kuala Lumpur; (2) Melaka Gateway project, a large new port in Peninsular Malaysia’s west coast state of Melaka (Malacca); (3) Kuantan Port Expansion project, a large new port in the east coast state of Pahang; (4) Kuala Linggi International Port – also in Melaka, a 12.5 billion ringgit new port in the south supposed to compete with Singapore – which “has left experts, who deemed the project an environmental hazard, puzzled”\(^{10}\); (5) a big land reclamation project in the northern state of Penang; (6) Green Technology Park in the state of Pahang – a project that involves a solar power station to be built in Najib’s hometown and parliamentary seat of Pekan; (7) a steel complex in the East Malaysian (Borneo) state of Sarawak; (8) a methanol derivatives plant, also in Sarawak; (9) Robotic Future City in the southernmost state of Johor; (10) massive real estate developments in Johor and the East Malaysian (Borneo) state of Sabah, with that planned for Johor nearly exclusively to provide second-home investment opportunities for middle-class house buyers from China (Case, 2018: 23-24). Political scientist Professor William Case actually considers Malaysia one of the most intriguing countries to participate in the Belt and Road Initiative, for among the countries on the Maritime Silk Road it have been most closely embraced by China, bypassing even Thailand and Indonesia to so enthusiastically assume such an agential role on China’s Maritime Silk Road become the latter scheme’s hub and central node in the region featuring far more such China-funded projects and ventures than any other Southeast Asian countries, in view of the sociocultural and developmental features (related to the Malay majority vs ethnic Chinese minority divide). Case attributes this to “Malaysia’s distinctive political economy, made manifest in durable single-party
dominance” whereby even more crucial than developmental gains are patronage resources and distributions in that while projects and ventures are undertaken in hopes of development, “any such gains are but positive externalities that spring from more primary largesse. Thus, as one project goes to ground, the indebtedness that sets in makes another and larger project more necessary, both to repay creditors and to placate patronage seekers, generating a pyramidal sequencing.” (ibid.: 22)

In July 2018, about two months after the old regime’s electoral defeat, the Malaysian Ministry of Finance under the new Pakatan Harapan (“Alliance of Hope”) coalition government found clear elements of money laundering in the Multi-Product Pipeline (MPP) and Trans-Sabah Gas Pipeline (TSGP) projects when the previous government’s contracts involved paying to China firms for work yet to be completed and that related to the notorious 1Malaysia Development Berhad (1MDB) scandal.

“The entire project smelt like a scam … We were giving money out [8.3 billion Malaysian ringgit, i.e. 88% of total project value] — to a Chinese company [despite an average of only 13% work completion] — and we suspect this money was being funnelled to parties related to the previous administration,” Tony Pua, who is special officer to the Malaysian finance minister Lim Guan Eng, told the BBC in an interview in mid-July. The new government has said it is investigating whether part of the loan from this Chinese state-owned bank for US$2.3 billion (RM9.3 billion) projects was used in helping to repay dues of scandal-ridden state fund 1MDB through a money-laundering arrangement disguised as loan repayment.11

With Malaysia’s 93-year-old new prime minister Mahathir Mohamed having repeatedly said that he will be reevaluating Chinese investments in the country, including those that are part of the Belt and Road Initiative, the referring of payments worth US$2 billion for these
Chinese-built pipelines to the anti-graft commission over potential connections to the financial scandal linked to former prime minister Najib could be a bad sign for other Chinese investments, including a $14 billion railway joining Peninsular Malaysia’s coasts, and could potentially causing huge disruption to China’s grand scheme.

“Would China be happy with the [9 May 2018 Malaysian election] result?” said Euan Graham, the director of the Lowy Institute’s international-security program, when interviewed by Business Insider; “I suspect they will be rather worried because Najib has been almost taken for granted as a pliable figure,” referring to the scandal-ridden ousted former Malaysian prime minister who has hardly been seen protesting China’s claims in the South China Sea, and who brought into his country as much as US$93 billion in investments from China for port and railway projects, including even a potential plan in 2016 for a China construction company to be awarded a rail project linking the east and west coasts of Peninsular Malaysia in exchange for paying $850 million for assets from 1MDB, the state investment fund from which hundreds of millions of dollars were reportedly found in Najib’s personal bank accounts a year earlier.\textsuperscript{12}

Regarding US$14 billion (55 billion Malaysian ringgit) East Coast Rail Link (ECRL), the 688-kilometre railway track project from Malaysia’s Port Klang to Gombak and onwards to Kuantan and Pengkalan Kubor (Malaysia-Thailand border in the Malaysian state of Kelantan), which is viewed as part of the Belt and Road Initiative, the new prime minister Mahathir has described it as “strange” because payments are based not based on work done but on a pre-determined timetable, and the money does not come to Malaysia but is kept abroad to pay the contractor in China who then disburses payments.\textsuperscript{13}

The new Malaysian finance minister Lim Guan Eng (林冠英)’s special officer Tony Pua Kiam Wee (潘俭伟) has suggested that the
China Petroleum Pipeline Company (CPPC) was paying 1MDB debts using funds for its oil pipelines projects in Malaysia, leading later to allegation that the finance minister was unable to accompany the prime minister in the latter’s visit to China due to a request by Beijing infuriated by claims that Lim was behind several raids by the Malaysian Anti-Corruption Commission (MACC) against the China companies in Malaysia involved in the scandal.¹⁴

The scandalous smell of the ECRL project indeed comes from various angles. It is so obvious the cost of the rail project has been greatly inflated, with Malaysia suspected to be overpaying by a hundred per cent to enable half of the funds be returned by China to Malaysia which the BN government could probably then use to repay its debt on 1MDB (Case, 2018: 23).

Malaysia “would eventually have to pay well over three times the original cost estimates” and even “at the much lower costs, the project would never ever pay for itself”, said the new government’s Council of Eminent Persons (CEP) member, renowned social economist Jomo KS in Free Malaysia Today (26th July 2018), “After discounting the original cargo and passenger projections to more realistic levels, the project would have implied permanent haemorrhage of operating costs, even after writing off the gargantuan development costs of [Malaysian ringgit] RM81 billion plus interest,” and together with various other dubious project brought in by the Najib administration from China, “the mammoth resulting debt burdens will be borne by future generations of Malaysians.”

Malaysia’s Economic Planning Unit awarded the ECRL project to China Communications Construction Co (CCCC) through direct negotiations in August 2016 “without any competition and little transparency, but generous special privileges, including massive tax exemptions” (Jomo, 2018), against the correct practice for public
projects, and Malaysia Rail Link Sdn Bhd (MRL), the Finance Ministry-owned company set up to spearhead the project, was formed only a month after the award to CCCC and the experts responsible for implementing the project only started coming on board late October and were just employed on time to sign the loan agreement and see through the implementation but did not have control on the terms of the agreement which was signed in November 2016, according to which China’s Export-Import Bank (Exim Bank) will provide 85% of the financing.

Also, there had been a relationship between 1MDB and companies from China a few months before the ECRL deal was sealed when China General Nuclear Power Corp emerged as the highest bidder for the power-generation assets of 1MDB in April 2016, a deal that provided 1MDB with much-needed cash flow. “To be sure,” as Jomo points out, “ECRL would not have involved foreign investment from China, but rather, huge loans from China’s Export-Import Bank, ostensibly for 85% of projected costs” (ibid.) which was expedited to start in early 2018 before the May general elections, and even with little work done, half the total loan – amounting to almost 20 billion Malaysian ringgit – had already been disbursed in dubious circumstances a few months later. As ECRL and many other big Chinese projects that the Najib administration brought into Malaysia are actually being financed through soft loans rather than foreign direct investments, and given “the massive amounts involved – all coming from a single country, much of it from the state itself – the government of China could soon emerge as one of our largest creditors” (Ignatius, 2017).

In its list of 28 countries in terms of their willingness to pay bribes, Transparency International’s 2011 Bribe Payer Index ranks China companies No. 2. As Dennis Ignatius, a former Malaysian ambassador, keenly observes, “Malaysia, for its part, is now one of the most corrupt

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countries in the world. When two corrupt systems interact on projects that are worth billions, can there be any doubt that billions will be diverted into private coffers or used to further subvert what’s left of our democracy?”

It is indeed questionable why CCCC has been allowed to draw down US$5 billion (RM20 billion Malaysian ringgit, strangely including a sum as “advance payment”) just a year after work started and where the money actually went to. There has long been suspicion that the contract for the ECRL can actually be built for under 40 billion ringgit was inflated to 60 billion ringgit (by 2018 expected to cost as much as 70 billion ringgit) when it was signed in 2016 whereby the extra 20 billion ringgit was to be used to help 1MDB meet some of its debt obligations and for the purchase of two companies linked to Jho Low (Low Taek Jho / 劉特佐), Najib’s family friend and a Malaysian financier and the beneficiary of numerous discretionary trust assets said by the US government to originate from payments out of the Malaysian 1MDB fund, now a wanted key suspect involved in the 1MDB scandal.15

Adding to such dubious practices of China’s companies, and the fact that dubious deals from China with questionable terms had helped sustained a kleptocratic and increasingly repressive regime until the latter was ousted in a general election on 9th May 2018, is the generally felt sentiment among the local people as that expressed by the former New Straits Times group editor-in-chief Kadir Jasmin who backs Mahathir’s fear that China companies and workers would have a monopoly on China-funded projects in Malaysia as China had a track record for putting “China first”: “China’s way of doing business in monopolistic and is founded on the concept of ‘China first’ – a throwback to ancient times when the Chinese believed they were the centre of the earth”.16 His argument is that China’s political control is in the hand of one single party, the Communist Party of China, to whom
electoral challenge is not allowed, which owns almost all the economic and industrial assets of China, and over the past decades has become the biggest business conglomerate in the world and is doing business with the rest of the world very much like the way it controlled the government and the military in China. Citing the example of an ongoing project to restore a heritage building to house the Malaysia’s Penang state branch of the Bank of China as an example of China’s monopolistic business methods, for if even the contract for such a sundry, everyday project as the rehabilitation and conversion of a heritage building was awarded to a China company, he asked, what is the likelihood of China awarding multi-billion ringgit projects it has secured in Malaysia, such as the East Coast Railway Line, to local contractors? He thus warned, “Unless we are fools or commission agents to China companies, we surely know that doing business with China is not the same as doing business with the USA, Europe and Japan. Or, for that matter, with any country practising multi-party democracy.”

As the new Malaysian government’s deputy minister of defence, political and civil rights activist Liew Chin Tong (劉鎮東) comments in *Free Malaysia Today* (13th July 2018), “Having the Pan-Asia Railway [under China’s BRI] in mind would also show that the East Coast Rail Link (ECRL) and High-Speed Rail (HSR) are ideas that were not thought through carefully [...] The economics of this project is unfeasible. It would take a maximum of three days to cross Peninsular Malaysia and, on top of that, having to carry out the extra work of unloading and re-loading of goods”, as this is not the Cape of Good Hope, where the size of the continent justifies the Suez Canal. However, the new deputy defence minister assures the Malaysian east coast states’ residents that: “It doesn’t mean that the east coast states don’t deserve better rail services but it can be done through double-tracking and electrifying the existing Gemas to Tumpat line.” Likewise, the
passenger-only HSR from Kuala Lumpur to Singapore, Liew says in comparison, would never generate the sort of traffic like that of the HSR between Beijing and Shanghai. While not rejecting the benefits of BRI’s Singapore-Kunming link idea, Liew emphasises that “it should be one that carries goods and not just passengers, as there will never be a HSR that is faster than flying from Kuala Lumpur to Beijing or Shanghai for passenger purposes.” (Liew, 2018)

The bold moves the vibrantly anti-graft new Alliance of Hope coalition government has immediately taken to make good on its election promise of scrutinizing the previous government’s dubious China deals with “unequal” terms perceived to be linked to the previous administration’s 1MDB “scandal of the century” and especially proceeded to cancel several extravagant infrastructural projects – which included among others the East Coast Rail Link (ECRL) that would result in the country’s over-indebtedness to China and turn the country into a pawn in the advancement of China’s ambitious regional agenda at the expense of Malaysia’s own national goals – have unexpectedly soured Malaysia-China relations as well as put certain parts of Malaysia’s new coalition government’s domestic electoral support base at risk. However, in recent months the new government has incredibly pulled off a *tour de force* by successfully renegotiating with China and relaunching the ECRL at a much lower cost – an achievement on which economics Professor Panos Mourdoukoutas thus commented, “In dealing with China, Malaysia has dared to do something Sri Lanka, Pakistan, and the Philippines didn’t – bring Beijing back to the negotiating table to cut the cost of the investment projects assigned to Chinese contractors”, in this case the ECRL that he described as serving the interests of Beijing more than the interests of Kuala Lumpur (Mourdoukoutas, 2019a). With this turn of events several other China-linked infrastructural projects that have also been shelved by the new Malaysian government are expected
to also be brought back to negotiation table for possible relaunching on more “equal” terms – for as Professor Mourdoukoutas ruminates, “Malaysia is already caught in China’s web, and there’s no escape from it” and the best it can do “is to bring Beijing to the negotiating table, and try to get better deals for projects under way” (Mourdoukoutas, 2019b) – while New Malaysia’s prime minister Mahathir Mohamad went to Beijing apparently to further mend fences by announcing his full support for BRI at the 2nd Belt and Road Forum for International Cooperation (BRF) held in late April 2019, pointing to a rebooting of the sometimes enigmatic relationship between the two countries which seems to be, after the recent hiccups and turns of events, now undergoing a rapid reconfiguration which constitute a main focus of Lafaye de Micheaux’s paper. After the “real democratic coup de théâtre born out of broad aspirations for justice, a return to law and the preservation of purchasing power” on 9th May 2019, Lafaye de Micheaux remarks, the new government has to juggle with Malaysia’s various economic and diplomatic partners to carry out reforms while inevitably recalibrating and defining from scratch the country’s dependency on China whose relations with Malaysia “had become too close and marked by embezzlement and support for a corrupt regime” prior to 9th May 2019.

Whether we are talking about China’s actions in the South China Sea or in Malaysia taking advantage of the vulnerability of the scandal-ridden Najib regime with the Filipino fishermen and Malaysian citizens facing the prospect of transgenerational mounting national debt on the receiving end, it is the people’s welfare that is being impacted upon by such encroachment upon or abuse of sovereignty. “As nation-state get overtaken by the prioritization of the global oriented activities […] the welfare of those within the nation-state becomes a secondary matter”, as an article in US-China Education Review comments on sovereignty and state welfare in jeopardy (Jotia, 2011: 245). Similarly for the people of a
country whose government’s corruption or repressive authoritarianism or human rights-eroding policy paves the way to dependency on and subservient to a predatory power who help to its head above water, as explored and analysed by the three articles of Rhisan Mae E. Morales, Elsa Lafaye de Micheaux and Diosdado B. Lopega respectively under this section, *Sovereignty, Dependency and Peripheral Realism*. The related focus on social welfare will be dealt with in more details in the subsequent section, *Social Welfare, Social Movement and Social Control*.

Rajendra Baikady, Shengli Cheng and R.M. Channaveer in the first article under the section, *Social Welfare, Social Movement and Social Control*, “Politics of Social Welfare: A Comparison of Social Work Curriculum and Pedagogy in India and China”, provides an interesting comparison of history and development of social work and public welfare programmes in India and China, keeping in mind it is the state’s responsibility to ensure the wellbeing of its citizens, and through in-depth interviews conducted with social work educators and students across India and China derives implications for pedagogy, practice and research.

Lawrence Ka-ki Ho, in the second paper under this section, “Policing Transnational Protests in an Asian Context: The WTO Sixth Ministerial Conference in Hong Kong”, reviews the first-ever transnational protest in Hong Kong that occurred in 2005 and studies the strategic foundations of the Hong Kong Police (HKP) in its debut encounter with transnational activism in a globalized context using multiple sources of data and derives conclusion with implications for policing in post-MC6 Hong Kong and the region, especially as to how the strategies carried out by the HKP reveal the similarities and variations between the policing environment in liberal democracies and the rest. The study’s significance certainly extends beyond its temporal
context too, especially for readers who are interested to see whether and in what way policing has evolved and changed crossing the 1997 British-to-China Handover in response to the changing context of the protesting trends emerging in Hong Kong since the early 2010s, and the outbreak of “Umbrella Movement” of 2014 as a large-scale broad-based popular protest against Beijing’s refusal to allow genuine free and fair direct popular elections of Hong Kong government and Chief Executive and continued intervention of Beijing that encroached upon the promised autonomy of the Hong Kong Special Administrative Region (as CitizenNews and Voice of Hong Kong’s Chris Yeung aptly titled his article “One Country Looms as Two Systems Fade” in a previous issue of the journal last year17) which was the focus of an earlier special focus issue of this journal, From Handover to Occupy Campaign: Democracy, identity and the Umbrella Movement of Hong Kong,18 published upon the second anniversary of Occupy Campaign / Umbrella Movement.

In terms of policing and crowd-control tactics, it is also interesting to note that bean bag rounds (baton rounds fired as shotgun shells used for less lethal apprehension of suspects but can still severely injure or kill in a wide variety of ways) that were first used on Korean protestors during the 2005 WTO Sixth Ministerial Conference protests were used again 14 years later in Hong Kong citizens’ protest demanding the withdrawal of the Fugitive Offenders and Mutual Legal Assistance in Criminal Matters Legislation (Amendment) Bill 2019 proposed by the Government of Hong Kong in fear of the law being abused to further the repressive Mainland Chinese government’s extraterritorial action against political dissidents and further undermine the already much-eroded “One Country, Two Systems”. Three days after 1.03 million people took to the streets on 9th June 2019 breaking 16-year record of protests in Hong Kong, a total of 20 bean bag shots were fired, in addition to around 150 tear gas canisters and “several” rounds of rubber bullets according to

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Hong Kong Police Commissioner Stephen Lo (盧偉聰), during their clash with anti-extradition law protesters on 12th June 2019 outside the Legislative Council’s complex, which resulted in 81 people aged between 15 and 66 having been injured, with several in a critical condition.

Two articles in the next section, *Trade, Investment and Regional Dynamics*, pick up the important topic of China’s Belt and Road Initiative (BRI) that has been the focus of an earlier special issue of this journal last year.

The BRI has featured prominently earlier in the enigmatic China-Malaysia relations explored by Elsa Lafaye de Micheaux in the first section of this journal issue and China’s charm offensive to secure the Philippines tightly in the web of influence as investigated by Rhisan Mae E. Morales’s and Diosdado B. Lopega’s respective articles under that section, as well as in the background of how and why China’s inroads of influence into the geopolitically strategic ASEAN state of Malaysia taking advantage of the latter’s vulnerable previous kleptocratic regime was of such importance and why China finds it vital to mend fences with Malaysia after the latter’s change of government to the extent of willing to reduce the ECRL cost by one third (from the crazily inflated 65.5 billion Malaysian ringgit or US$15.6 billion to just 44 billion ringgit or US$10.5 billion).

In their paper under this section on *Trade, Investment and Regional Dynamics*, “Belt and Road Initiative and the South American Integration Initiatives: A Comparative Analysis between Asian and Latin American Initiatives with a Complementary Proposition”, Henrique Pissaia de Souza and Tingyu Liu compare in detail crucial aspects of China’s Belt and Road Initiative and the integration initiatives developed in South America, derive conclusions about what South America can learn from the Chinese initiative and vice versa and propose the creation of a South
American Road focusing not only on South America but also Central America and the Occidental part of Europe, including places where the BRI is not prioritizing and yet could be complemented.

Saifur Rahman in his article, “Does the “Belt and Road Initiative” Possess Soft Power?”, on the other hand, views whether BRI’s strength bears potentiality for state actor’s national interest or will create chaos as depending upon the perspective and choice of the actor, and the accompanying financial burden, environmental issue, and lack of coherent governance architecture have the potential to provoke repulsion along participating nations, and hence it falls to China to showcase itself as a responsible actor to curb any such repulsion by way of proper institutions that can channel all parties’ activities through legal framework and posit a universality.

After the two papers on BRI, this section on Trade, Investment and Regional Dynamics closes with an article by Chii Torng Liew and Tuck Cheong Tang that leaves Mainland China to focus on Taiwan-ASEAN trade relations, “‘New Go South Policy’: Are Exports and Imports of Taiwan with ASEAN-10 Cointegrated?”, with empirical results that trade balances of Taiwan with ASEAN-10 are sustainable and that the Taiwan government’s macroeconomic policies including current president Tsai Ing-wen (蔡英文)’s “New Southbound Policy” (新南向政策) as well as the early versions of such Go South policy since former president Lee Teng-hui (李登輝) have been effective in the long run. Placing in the context of the long-running cross-Strait rivalry over influence and relations with ASEAN countries, the empirical findings of Liew and Tang can serve to contribute further understanding of the subject matters covered in the preceding articles and sections.

This journal issue has begun with China’s relations with the ASEAN member states of the Philippines and Malaysia and the potential analytical significance of a peripheral-realist context. In the last section
of this journal issue, China, Sustainable Development and the Peripheral Frontier, our focus again moves to the periphery, but this time the domestic periphery, to examine the issue of sustainable development in China southwestern frontier region of the Mekong River Basin and northern frontier grassland region of Inner Mongolia.

In the first paper of this section, “China’s ECM Model in Sustainable Management of Rivers: Drawing Lessons for the Zambezi River Basin from the Case of Mekong River”, Lucy Anning analyses China’s two-in-one model comprising the environmental impact assessments (EIAs) and the corresponding ecological compensation mechanism (ECM), and the cumulative environmental impacts of the cascade development which is adopted and applied to the sustainability, management and development of the Mekong River Basin to derive conclusion on gains and future prospects to be attained in terms of socioeconomic, environmental, ecological and geopolitical benefits if these key strategic ecological management models are applied to the management of Africa’s Zambezi River Basin, given the severe negative impacts Chinese-built dam projects that have already been widely blamed for ecologically and geopolitically debilitating and damaging effects on local community and natural environment in the African countries, such as those from Sudan to Ethiopia in the eastern side of Africa and from Ghana to Cameroon to Congo in the west.

While Lucy Anning looks at China’s southwestern peripheral region and lessons from the hydro-projects there for the African continent, Emile Kok-Kheng Yeoh and Suruna focus on the country’s northern border frontier region of Inner Mongolia in their paper, “Environmental Dimension of Regional Development in China, with special focus on Grassland Ecological Compensation in Alxa League of Inner Mongolia”. While China’s population in poverty are concentrated in the “western region” (officially designated “western” but includes also Inner

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Mongolia which is actually northern), in the mountainous areas and in ethnic minority areas, most of the country’s 592 poverty counties (366 of which are in the “western region”) are distributed over several major areas of fragile environmental habitat including, *inter alia*, Inner Mongolian plateau’s southeastern border area that suffers from desertification. Yeoh and Suruna’s paper focuses on poverty in China’s “western region”, its determining factors especially environmental degradation that is dominated by the three main issues of soil erosion, desertification and grassland deterioration, and State policies to overcome these problems, and includes a specific case study of the grassland ecological compensation policy in the Alxa League of Inner Mongolia.

This journal issue ends with the book review by Mária Ilona Bábosik on Ling Chen’s *Manipulating globalization: The influence of bureaucrats on business in China* (2018). Before ending this foreword, 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 5, Issue 1 (April/May 2019) of *CCPS* possible. For the three articles on the Philippines-China relations and India-China comparison respectively which represent new versions of the earlier papers presented at the 2017 Sizihwan International Conference on Asia-Pacific Studies – “Challenges to Local Politics in the Asia-Pacific Region”, duly revised by incorporating critical peer feedback received at the conference and from other reviewers, we would also like to thank these conference presenters who have taken great effort to revise their papers for inclusion in this special issue as well as the discussants, conference participants and other reviewers who have given invaluable assistance in providing critical comments on the earlier versions of these three papers. We are also grateful to Miss Wu Chien-yi
(吴千宜) 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

Notes


2. Which can be vividly illustrated in the instrumental aspect by comparing the equally draconian dissent-crushing laws: in China the crime of “inciting subversion of State power” (煽動顛覆國家政權罪 / shandong dianfu guojia zhengquan zui) and “gathering a crowd to disrupt public order” or “picking quarrels and provoking troubles” (尋釁滋事 / xunxin zishi) charge which was described by the Dui Hua Foundation (中美對話基金會), the San Francisco-based human rights organization that focuses on detainees in Chinese prisons, as a nebulously defined “pocket crime”
charge into which “anything can be stuffed”; in Malaysia the Sedition Act
and not long ago also the Internal Security Act.

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party less than a year before scheduled elections, but also completely
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Sovereignty, Dependency and Peripheral Realism
Into China’s Rough Seas: Troubled Maritime Institutions in the West Philippine Sea – Implications for Philippine National Security

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Ateneo de Davao University, Philippines

Abstract
The maritime dispute in the South China Sea challenged the efficacy of Philippine government institution and the applicability of its policies. In 2011, President Benigno Aquino proposed the establishment of the Zone of Peace, Freedom, Friendship, and Cooperation (ZOPFF/C) that provides a framework for separating disputed territorial features to be considered for joint activities from non-disputed waters. In the same year, President Aquino also employed the observance of Posse Comitatus (the principle of separating civilian and military authority and prohibiting the use of military in civilian law enforcement) as its first line of external defense to settle the issue peacefully. However, Posse Comitatus was not employed appropriately during the Scarborough Shoal incident on April 10, 2012, that resulted in the standoff. The Inter-agency Coordinating Committee on the West Philippine Sea (ICC-WPS) was created in 2014, together with the National Coast Watch Council (NCWC); these institutions were tasked to address maritime disputes.
This study utilizes the framework of Bureaucratic Politics Model (BPM) in Foreign Policy Analysis (FPA) to focus primarily on the relationship of bureaucracies in the formulation of foreign policy and how these agencies influence the process of foreign policy formulation. Findings of the study reveal that; first, the initiative embarked by the Philippine government caused a shift on how enforcers defined the issue as a traditional security concern to non-traditional security. The demilitarization of the issue thereby limits the role of the defense agency particularly the Navy in securing Philippine maritime entitlements in the South China Sea. As a consequence, the Navy felt deprived of their traditional roles at sea. Secondly, despite the Aquino administration’s call for peaceful settlement of the dispute, inter-agency committees including the ICC-WPS and the NCWC that are tasked to monitor, propose and recommend policies concerning maritime security are dominated largely by the officials coming from the Department of National Defense. Therefore, the approach of the Philippines towards the issue is demilitarization in principle but there seems to have been a creeping militarization of policies as implied by the composition of these inter-agencies. Lastly, there is a main problem concerning government institutions that take part of these inter-agencies in their lack of archipelagic consciousness making them less committed to implement policies concerning territorial maritime concerns.

**Keywords:** Philippine foreign policy, Scarborough Shoal standoff, West Philippine Sea, bureaucratic politics

1. Introduction

Philippine foreign policy upholds peaceful coexistence and mutual respect with other states, neutrality, ideological openness, and adherence to international law for peaceful resolution of conflict (Morales, 2016:}
59). The South China Sea issue is one of the many concerns that challenges the Philippines’ commitment to international law and regional stability. Various measures were embarked by different administrations of the Philippine government, fundamentally inclined to the principle of its foreign policy that ensures the integrity of its national territory and sovereignty. However, initiatives were deemed ineffective at the level of implementation as each administration has a different approach in dealing with the South China Sea and in general, with China.

2. Development of Philippine Strategy in the South China Sea: Cabinet Committees on the Law of the Sea

The Marcos administration was responsible in the establishment of Pag-Asa Island as the Philippines’ northernmost frontier. President Ferdinand Marcos issued Presidential Decree (PD) 1596 that defined the extent of Philippine territory including the Kalayaan Island Group with Pag-Asa Island as its municipality. When the Philippines became signatory to the International Tribunal for the Law of the Sea (ITLOS) in 1981, Marcos issued Executive Order (EO) 738 establishing a Cabinet Committee on the Treaty of the Law of the Sea (CABCOM-LOS) which is responsible for the implementation of the treaty at the domestic level headed by the Ministry of Foreign Affairs as coordinating agency (Morales, 2016: 63). With this initiative, succeeding administrations adapted the committee and modified its functions and composition to adjust to the current concerns about maritime issues (see Table 1). President Corazon Aquino expanded the structure of the CABCOM-LOS from the original six members to 12.¹
Table 1 Cabinet Committees (CABCOM) or Inter-agency Committees Focused on Maritime Affairs and the Law of the Sea from the Time of Marcos to Arroyo

<table>
<thead>
<tr>
<th>Ferdinand Marcos</th>
<th>Corazon Aquino</th>
<th>Fidel Ramos</th>
</tr>
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<tbody>
<tr>
<td>CABCOM-LOS</td>
<td>CABCOM-LOS</td>
<td>CABCOM-MoA</td>
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<td>Executive Order 738</td>
<td>Executive Order 328</td>
<td>Executive Order 186</td>
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</table>

Minister of Foreign Affairs as Chairman, with the Minister of National Defense, the Minister of Natural Resources, the Minister of Energy, the Minister of Justice, the Director-General of the National Economic Development Authority

Members:
- Secretary of Finance
- Secretary of Justice
- Secretary of Agriculture
- Secretary of National Defense
- Secretary of Trade and Industry
- Secretary of Transportation and Communications
- Director-General, National Economic and Development Authority
- Secretary of Budget and Management
- Executive Secretary
- Secretary of Science and Technology

Foreign Affairs – Chair
Secretary of Environment and Natural Resources – Vice-Chairman

Foreign Affairs – Chair
Secretary of Environment and Natural Resources – Vice-Chairman

Members:
- Secretary of Finance
- Secretary of Justice
- Secretary of Agriculture
- Secretary of National Defense
- Secretary of Trade and Industry
- Secretary of Transportation and Communications
- Director-General, National Economic and Development Authority
- Secretary of Budget and Management
- Executive Secretary
- Secretary of Science and Technology
<table>
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<tr>
<th>Joseph Ejercito Estrada</th>
<th>Gloria Macapagal-Arroyo</th>
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<tbody>
<tr>
<td>CABCOM-MOA Executive Order 132</td>
<td>MOAC Executive Order 37</td>
</tr>
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</table>

**Members:**
- Secretary of Foreign Affairs – Chair
- Executive Secretary
- Director-General of the National Security Council
- Secretary of National Defense
- Secretary of Environment and Natural Resources
- Secretary of Agriculture
- Secretary of Socio-Economic Planning
- Secretary of Science and Technology
- Secretary of Transportation and Communications
- Secretary of Energy
- Secretary of Trade and Industry
- Secretary of Justice
- Secretary of Finance
- Secretary of Budget and Management
- Secretary of Interior and Local Government
- Secretary of Labor and Employment
- Secretary of Tourism

**Department of Foreign Affairs Secretary-General**

**Six Divisions:**
- Division I – Territorial and other Maritime jurisdictions; Archipelagic Sealanes and Sealanes of Communications; Cartography
- Division II – International Seabed Authority (ISBA); Exclusively Economic Zone; Continental Shelf
- Division III – Fisheries; Marine Environmental Protection; Marine Scientific Research
- Division IV – Oceans Law and Policy; Research and Preparation of Negotiating briefs in various issues on UNCLOS and other fora or bilateral negotiations; International Dispute Settlement Procedures
- Division V – Other Law of the Sea issues; Piracy and Sea Robbery
- Division VI – Law of the Sea Library; Information dissemination; Records; Conference and Secretariat Services

**Members:**
- Executive Secretary as Chair, the Secretary of Justice and the Secretary of Foreign Affairs as Vice-Chairs
- Department of National Defense (DND), National Security Council (NSC), Department of Environment and Natural Resources (DENR), Department of Budget and Management (DBM), Department of Transportation and Communications (DOTC), Department of Tourism (DOT), Department of Trade and Industry (DTI), Bureau of Fisheries and Aquatic Resources (BFAR), the Solicitor General (SolGen), the Chief Presidential Legal Counsel (CPLC), National Mapping and Resources Information Authority (NAMRIA), the Philippine Coast Guard (PCG).
The committee was renamed by President Fidel Ramos through his Exertive Order 186 into Cabinet Committee on Maritime Affairs. The committee was transformed into a recommendatory body that proposed practical solutions and policies in the implementation of the United Nations Convention on the Laws of the Sea (UNCLOS) and other issues related to marine security. In 1994, the Philippine government adopted the National Marine Policy (NMP). The NMP was the initial effort of the government in its attempt to frame guidelines and frameworks in coming up with a definitive national marine strategy and ocean management (Morales, 2016: 62). The initiatives of the Ramos administration were challenged when the Mischief Reef incident erupted in 1994-95. The Chinese started to install military posts in the area said to be claimed by the Philippines. The incident raised tensions between China and the Philippines. Alberto Romulo, the Department of Foreign Affairs (DFA) Secretary, assured that Philippine laws will be applied in the area as sovereign owner while committed to peaceful means in resolving the issue (Severino, 2010: 66-104). The short-lived administration of President Joseph Estrada succeeded Fidel Ramos, and he was responsible in renaming the previously Cabinet Committee on Maritime Affair into Cabinet Committee on Maritime and Ocean Affairs (CABCOM-MOA) and tasked the committee to recommend a national maritime policy to the President.² The administration of President Gloria Macapagal-Arroyo was crucial in the passing of Republic Act (RA) 9522 that articulated the Archipelagic Baseline of the Philippines defining the extent of Philippine territory. Under the RA 9522 the Philippines exercises sovereignty and jurisdiction over Kalayaan Group of Islands a stated by PD 1596 and Bajo de Masinloc. The RA 9522 was the Philippines’ first step to conform to the requirements of the United Nations Convention on the Laws of the Sea (UNCLOS). The CABCOM-MOA, under Executive Order (EO) 37 issued by Gloria
Macapagal-Arroyo, was abolished and all necessary functions most particularly the updating and implementing of the National Marine Policy were transferred to the Department of Foreign Affairs.\(^3\) EO 37 also called for the establishment of a Maritime and Ocean Affairs Center (MOAC) attached to the DFA with general functions that include promoting the development of national capabilities and institutions through consultations with government and non-government agencies concerning the maritime and ocean-related matter, producing research program and policy studies for strategic or maritime security purposes, and harmonizing and updating domestic legislation with international agreements to which the Philippines is a party. After the MOAC became defunct, Arroyo issued EO 612 calling for the reorganization of DFA-MOAC into the Commission on Maritime and Ocean Affairs (CMOA) and transferred the commission under the Office of the President. The CMOA is tasked to continue the responsibilities of the previous commissions specifically the updating and implementation of a Philippine Marine policy.

3. Amidst Crucial Seas: Joint Exploration and Peaceful Settlement

Since the Philippines launched its formal claims in the South China Sea, through the initiative of Ferdinand Marcos’s PD 1596, the Philippines has continuously committed itself to a peaceful settlement of the dispute in the area. Ferdinand Marcos foresaw the anticipated crises in the Asian region. Thus, he formulated a foreign policy that will bring the nation closer to its Asian neighbors. In his speech he mentioned: “As the situation arises in Asian nations, it would be most dangerous to procrastinate, for we have time to prepare ourselves and strengthen our defense if we act now.”
Marcos established the Zone of Peace, Freedom and Neutrality (ZOPFAN) that aimed to set Southeast Asian nations apart from any strategic posturing of superpowers in the Cold War. The Philippines also adhered to the Treaty of Amity and Cooperation in Southeast Asia and the Manila Declaration for Peaceful Settlement of International Disputes. These two initiatives provided the Philippines frameworks to settle disputes peacefully while preserving stability and cooperation in the region. The South China Sea was less of a concern during the time of Corazon Aquino. In his official visit to China, Vice-President Salvador Laurel was received by the Chinese leader Deng Xiaoping; he mentioned the South China Sea, the latter assured him that the issue in South China Sea should not concern the two nations (Villa, 2014). The Philippine adopted the 1992 ASEAN Declaration on the South China Sea. The Declaration emphasized the necessity to resolve all sovereignty and jurisdictional issues on the South China Sea by peaceful means without resort to force and urged all parties concerned to exercise restraint with the view of creating a favorable climate for the eventual resolution of all disputes. In congruence with the Declaration, President Ramos called for demilitarization in the South China Sea during the Mischief Reef incident and started cooperative undertakings in the area. He also proposed joint development of resources among claimant states. President Joseph Estrada saw the importance to strengthen the capacity of the Philippines to defend its territorial integrity and sovereignty. In his first State of the Nation Address (SONA), President Estrada included the protection of the territorial security of the region.

“Effective national defense requires not just modern weaponry but better fighting men. Before we spend on expensive hardware, let us have the right kind of soldiers. It is not the weapon that wins wars but the men who fight them. Until we develop a credible military
deterrent, we must depend on the goodwill of our neighbors, on our treaty commitments with the United States, and on the skills of our diplomats in the conveying to everyone that we want only peace, stability, and shared prosperity. It is said that my stand as a senator against the US BASE Treaty disqualifies me as President from endorsing the Visiting Forces Agreement. On the contrary, because I stood up for the Philippine sovereignty in 1991, now as your President, I have the moral right to stand up for Philippine security today.”

The approved Visiting Forces Agreement posed constraints to the relations of Philippines and China. The Philippines called for the support from the United States over the Spratly issue; however, the United States maintained its neutrality to the conflicting claims in the South China Sea. Apart from enhancement of defense and security cooperation between the Philippines and the United States for external security, President Estrada called for peaceful settlements in the South China Sea together with other ASEAN claimant states as a means to protect territorial sovereignty. During the bilateral meeting with Chinese President Jiang Zemin and President Joseph Estrada in Malaysia, they vowed to settle conflicting claims over the islands peacefully that caused the diffusion of the tension in the Mischief Reef, and both agreed on the creation of expert groups which will pursue negotiations to enhance confidence-building measures over the Kalayaan Islands.

Philippine-China relation was at the time of significant confidence-building during the Arroyo administration. Under the Arroyo presidency, the Philippines adopted the Regional Code of Conduct in the South China Sea that set as the basis for the prevention of conflict and establishment of peaceful resolution among claimant states. However, the “China card strategy” of the Arroyo administration was marked with
controversies due to irregular undertakings. In 2005 the Philippines, China and Vietnam signed the Tripartite Agreement for Joint Maritime Scientific Research in Certain Areas in the South China Sea, under which China National Offshore Oil Cooperation, Vietnam Oil and Gas Cooperation and Philippine National Company aimed to ensure cooperation in the seismic exploration and marine research as well as the use of each country’s vessels and ports to accumulate supplies. In that same year, China provided large amounts of Overseas Development Assistance to the Philippines; loans were approved swiftly, and funds for the North Luzon Railway and South Luzon Railway were also fast. Another crucial issue during the time of Arroyo was the National Broadband Network aimed to link 2,295 offices and 24, 549 barangay municipal offices using Chinese telecom provider ZTE, which later on was revealed to be anomalous as local politicians and lawmakers allegedly received bribes and payoffs (Bower, 2010: 3). Critics of the Arroyo government linked the tripartite agreement to the generous loans and funds provided by China to the Philippines, accusing Arroyo of selling Philippine sovereignty over the Spratly Islands to the Chinese.

4. Philippines’ Approach before the Scarborough Standoff:
   The Doctrine of Posse Comitatus

   “Now, our message to the world is clear: What is ours is ours; setting
   foot on Recto Bank is no different from setting foot on Recto Avenue.”

Prior to the Scarborough Standoff, President Benigno “Pnoy” Aquino clearly stated his assertion over the South China Sea. He launched the Zone of Peace, Freedom, Friendship and Cooperation (ZOPFF/C) and directed the Department of Foreign Affairs to promote the ZOPFF/C concept through sustained consultations and dialogue. The ZOPFF/C
Figure 1 Zone of Peace, Freedom, Friendship and Cooperation (ZOPFF/C) and the Proposed Joint Cooperation Area (JCA)

Source: Banlaoi (2012: 5).

provides a framework for separating the disputed territorial features that may be considered for collaborative activities from non-disputed waters in the West Philippine Sea in accordance with international law in general and UNCLOS in particular (Thayer, 2011: 24). The ZOPFF/C separates the disputed area from the non-disputed areas through “enclaving” or implies the shelving of territorial disputes.
The “enclave” area could be designated as Joint Cooperation Area (JCA) (Banlaoi, 2012). Under the JCA, the ASEAN Code of Conduct should be applied to prevent accidental military encounters between and among parties, demilitarization should also be established within the JCA by replacing military personnel with civilian law enforcement agencies, and joint activities can be done in the area including marine protecting activities and research, search and rescue operations as well as safety navigation and communication in the sea (see Figure 1).

To realize the implementation of this policy, President Aquino issued a memorandum with the subject “Ensuring Safety and Security to Off-shore oil and Gas Exploration and Production in Western Philippine Seaboard”, employed “international diplomacy” as its first line of external defense and ordered the observance of the international doctrine of Posse Comitatus. It is the principle of separating civilian and military authority and prohibiting the use of the military in civilian law enforcement, as acceptable and customary practice in the international community, in ensuring the safety and security of the country’s offshore oil and gas exploration and production in the Western Philippine Seaboard. This strategy is also known as the policy of “White on White” which meant sending coast guard vessel to uphold law enforcement.

Under the International Doctrine of Posse Comitatus, states adherent to international conventions such as the UNCLOS and the various international maritime conventions will help establish an environment of “maritime cooperation” to address maritime concerns such as fighting piracy, marine environmental protection, anti-drug trafficking, and anti-human smuggling, all of which requires civilian law enforcement and not military intervention. The Philippine Coast Guard (PCG) was tasked to uphold this requirement as dictated by the doctrine because it can enforce the national and international maritime laws with wide power of arresting both foreigners and national citizens.
Figure 2 Scarborough Shoal

Source: Courtesy of the National Mapping Resource and Information Agency (NAMRIA).

The initiative caused an alteration of traditional security roles set to address the West Philippine Sea. As a consequence, a sense of traditional entitlements arouse from the part of the Philippine Navy (PN). There was a need for the Navy to prove their capacity to regulate and monitor traditional maritime concerns. To prove this capacity, on April 8, 2012, the Navy boarding BRP Gregorio del Pilar of which at that time was in Malampaya near Palawan received information that there was a presence of illegal Chinese fishermen poaching in Scarborough Shoal. Scarborough Shoal is a ring-shaped coral reefs with several rocks encircling the lagoon. It is 124 nautical miles (N) from the Municipality of Masinloc, located within 200N of the Philippine exclusive economic zone (EEZ) and 200N Philippine continental shelf (see Figure 2 and
Figure 3 Approximate Distance of the Scarborough Shoal from the Masinloc Town in Zambales

Source: Author.

Figure 3). After two days of travel from Malampaya to Scarborough Shoal, they inspected eight Chinese fishing vessels. The Navy discovered endangered maritime resources such as corals, sharks, turtles, and clams. In a personal communication with an anonymous officer from the Philippine Coast Guard, he said:

“So there was a race who can do, what were. So you can imagine the PCG has no big platforms the Navy has so there was a rush to prove to the world, who can do it, they can do it, so they did it. They were able to do it in April 2012 in Scarborough, and it backfired, it
attracted adverse Chinese reactions. There was disquiet at the policy circle as to why the Navy was there. But because in traditional security it was the Navy who can project maritime and naval power, they felt the need to prove their role.”

The Navy perceived the PCG was incapable of patrolling the area; therefore it is by tradition the Navy’s responsibility to provide support and enact the arrest of the Chinese fishermen:

“So there is a need to capacitate the capabilities of the PCG so that the law enforcement operations will be handled not by the Navy but by the PCG. The reason why the Navy was asked to patrol the area is that as of this moment the PCG has limited capability to do so.”

“In terms of using coast guarding as the tool to defend national interest in the WPS, I think we are capable; we just have to rationalize all these things.”

The Scarborough Shoal was an outcome of the competing relationship between law enforcement agency and defense sector caused by the policy issued by President Benigno Aquino. The presence of illegal Chinese poachers called for the initiation of maritime policing – a task directed to the PCG, however, with the perception of proving its traditional role in maritime security; the responding BRP Gregorio del Pilar faced by the Chinese Maritime Surveillance caused the Standoff. The Philippine Navy was supposed to act as the muscle of the policy and protect civilian agencies like the PCG in the frontline.
5. The Philippines after the Scarborough Standoff: Strengthening Commitment to International Law and Diplomacy

A Senate Hearing was held on April 27, 2012, headed by the Chairperson of the Committee of Foreign Affairs Senator Loren Legarda and Senate President Juan Ponce Enrile together with prominent scholars and academics as well as officers from the Coast Guard, the Navy and the Department of Foreign Affairs, to discuss and address the incident. The Department of Foreign Affairs Secretary General of the Commission of the Maritime and Oceans Affairs (CMOA), Atty. Henry Bensurto explained that there is still a mechanism within the UNCLOS that the Philippines can utilize to peacefully settle the problem in contesting claims over areas in the South China Sea. As for Professor Clarita Carlos of the University of the Philippines’ Political Science Department, the problem in the South China Sea is rather scientific and not legal. According to Professor Carlos, claimant states should focus on cooperative actions to protect the resources of the South China Sea. The Coral Triangle is located in the South China Sea, known for its importance to the marine life, and scholars are proposing the protection of the triangle as a means to protect the biodiversity of natural resources in the area. Senator Juan Ponce Enrile emphasized the possibility that China might have deployed underwater military vessels in the West Philippine Sea; hence, he called for the review of the Mutual Defense Treaty (MDT) with the United States as a means to counter China’s aggression. At the end of the hearing, the Philippines was decisive to bring the matter to international arbitration particularly the UNCLOS. However, China strongly disagreed on any international arbitrations, and instead, offered that the issue should be dealt with bilaterally between the two claimant states.
The Department of Foreign Affairs utilized the Rules-Based Approach as its primary mechanism to address maritime and territorial debacle in the South China Sea. Then Foreign Affairs Secretary perceived that the only legitimate and viable way to resolve the territorial dispute with China over the South China Sea is Rules-Based Approach. The Rules-Based Approach consists of three tracks: diplomatic, political and legal. The political track constitutes the unremitting efforts to create the disputed areas as a zone of peace for claimant states in a way that will further cooperation between China and the ASEAN countries; the diplomatic track involves the incessant bilateral negotiations between the Philippines and China; and lastly, the legal track resorts to international arbitration like the UNCLOS and other legal mechanisms that will be an appropriate measure to address the issue in accordance to international law. On September 5, 2012, President Benigno Aquino passed the Administrative Order No. 29 or known as the Naming of West Philippine Sea (WPS) of the Republic of the Philippines – a step of the Aquino administration to inculcate a sense of ownership in the Filipinos over three areas that compose the WPS: Scarborough Shoal, Reed Bank and Kalayaan Group of Islands.

The Benigno “Pnoy” Aquino administration called for a peaceful resolution while simultaneously amassing defense and security capability to protect its territorial integrity. President Aquino envisioned the Philippine to be well equipped and modernized in terms of its defense capability. President Aquino vaunted the allocation worth 28 billion pesos for the Armed Forces of the Philippines Modernization Program and would continue to allocate 75 billion pesos for defense in the next five years as soon as the Armed Forces Modernization Bill had been passed in the Congress.7 He also added that the 30 million dollar fund entrusted to the Philippines by the United States for Defense Capability Upgrade and Sustainment of Equipment Program of the
Armed Forces of the Philippines (AFP), as an addition to their assistance in improving the country’s coast guard patrols under the Coast Watch Center of the Philippines which will soon be established, was readily available.

President Aquino also perceived the importance of a well-developed and upgraded military to defend national territory:

“In our agenda for good governance, it is clear that we are telling the whole world: the Philippines is for the Philippines and we are capable of protecting our territory against any aggressor in our territory.”

However, President Aquino ensured the international community that this development is not to counter any aggressive moves of China, but it is a sign to the world that the Philippines will vigorously defend its right over its territory:

“We do not wish to increase tensions with anyone, but we must let the world know that we are ready to protect what is ours. We are also studying the possibility of elevating the case on the West Philippine Sea to the International Tribunal for the Law of the Sea, to make certain that all involved nations approach the dispute with calm and forbearance.”

The commitment of the Philippines to international law and diplomacy urged the country to bring the case to the Permanent Court of Arbitration (PCA). On March 30, 2014, the Philippines submitted a memorial to the PCA and expected China to respond; however, China did not participate but instead circulated its position paper, outside the ambit of the arbitration (Ambassador Maria Hellen Barbers-De La Vega,

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interview with the author, December 18, 2014). Ambassador De La Vega from the DFA explained that the PCA will be giving questions to the Philippine side and is expected to respond to these questions until March 15, 2015, oral arguments will be presented in July 2015, and an award will be issued during the first quarter of 2016. Philippines received a favorable decision coming from the Permanent Courts of Arbitration on July 12, 2016. The ruling coming from the Arbitral Court fueled the country’s moral high-ground, but it does not imply victory of ownership over territorial claims in the region. The ruling simply clarified the maritime entitlements of the Philippines in the West Philippine Sea, the severity of damage of marine ecosystem, and the recommendations to mitigate the continuous destruction of marine and oceanic environment due to ongoing reclamation in the area. Maritime entitlements intend to define low-tide and high-tide elevations responding to the UNCLOS definition of what features could be identified as islands which can generate an EEZ and are subject to territorial ownership. Whereas the Scarborough Shoal cannot generate an EEZ, it cannot sustain life. Therefore, it is not an island, contrary to China’s belief.

The Philippines’ close relations to the United States made the issue of settlement problematic. China was unremittingly insisting on discussing the issue between the Philippines and China, not to include other superpowers like the United States to interfere. However, the Philippines continuously involves the United States being its ally to the issue with the belief that in the escalation of the conflict, the United States will support the Philippines under the Mutual Defense Treaty signed by the two countries. In April 28, 2014, United States President Barack Obama visited the Philippines. The two-day State Visit of President Obama resulted in two important developments to the “special” relationship between the United States and its sole ally in the Pacific, the Philippines: one is the signing of the Enhanced Defense
Cooperation Agreement (EDCA) that was signed before Obama arrived in the country, with Philippine Defense Secretary Voltaire Gazmin and US Ambassador to the Philippines Philip Goldberg; second is the assurance of the US President that the United States will ensure to defend the Philippines against any potential aggressor. President Obama assured that its commitment to protect the Philippines is ironclad and the United States will keep that commitment because he believed that allies never standalone.

Under the Enhanced Defense Cooperation Agreement (EDCA), the Philippines and the United States strengthen their defense cooperation to maintain and develop their military capacities. In furtherance of Article II of the Mutual Defense Treaty which states that “Parties separately and jointly by self-help and mutual aid will maintain and develop their individual and collective capacity to resist armed attack”, and within the context of the Visiting Forces Agreement which states the supporting of parties’ shared goal of improving interoperability of the parties’ forces and for the AFP. President Aquino took pride in the developments in the defense and avowed that with the challenges then faced by the country, the AFP had acquired brand new assets including 8 Sokol Combat Utility Helicopters, 3 AgustaWestland-109 helicopters, the BRP Tagbanua known as the first landing craft utility ship built in the country, 4 refurbished UH-1 helicopter and 2 navy cutters, and inaugurated the Naval Forces West’s state-of-the-art Command Center in Palawan.10

Prior to these defense and military advancements, the Aquino government had procured several armaments particularly the BRP Gregorio del Pilar and BRP Ramon Alcaraz that were deployed to patrol the West Philippine Sea. There is an increase in military expenditure under the Aquino government, as part of the military modernization to protect national and territorial integrity. The creation of the new Naval Command Center in Palawan signified the government’s firm move to
deter China’s naval forces over the disputed areas in the South China Sea. But regardless of the increase in military procurement and defense enhancement of the Aquino administration, President Aquino continuously called for a peaceful settlement of the South China Sea issue and bringing the case to international arbitration. During the Joint Press Conference held in Kuala Lumpur, Malaysia, on February 27, 2014, President Aquino mentioned the close kinship between nations and firmly believed that the prosperity and peace can be fulfilled in the South China Sea region if the problem could be addressed peacefully in accordance with international law and the UNCLOS.

On August 8, 2014, DFA Secretary Alberto del Rosario presented the proposed Triple Action Plan (TAP) to the Foreign Ministers of ASEAN member-states during the 47th ASEAN Foreign Minister’s Meeting (AMM) held in Nay Pyi Taw, Myanmar (Department of Foreign Affairs, 2014). The Triple Action Plan is aimed to reduce and manage the tensions in the South China Sea until a settlement of disputes is obtained (ibid.). The TAP involves three approaches: first, the immediate approach which calls for a suspension of specific activities that will escalate tension in the South China Sea through an effective exercise of self-restraint in the conduct of activities coming from claimant states; second, the intermediate approach which highlights the need for the implementation of the Declaration of Conduct and the efficient conclusion of the Code of Conduct; and lastly, the final approach which emphasizes the need for settlement mechanism to bring the disputes to a final and enduring resolution anchored on international law. In pursuance of the TAP in October 2014, President Aquino ordered a moratorium on all military infrastructure development and the repair of the airport on Pag-Asa Island in the Kalayaan Island Group. According to former Defense Secretary Voltaire Gazmin, the action taken by the Executive will boost the Philippines’ moral high ground to pursue its
arbitration case against China before the International Tribunal for Law of the Seas over the territorial claim in the West Philippine Sea (see Figure 4).

6. Bureaucratic Institutions in the West Philippine Sea Claims: Shared Image in Foreign Policy Making

6.1. Bureaucratic Politics Model in Foreign Policy Analysis

The South China Sea policy covers overlapping subsets of public policies in fisheries, environmental, energy, shipping, foreign affairs, defense, trade and economics, which are handled by specific agencies involved in the process of making South China Sea policy decision (Song, 1999). Bureaucratic Politics Model in Foreign Policy Analysis (FPA) is used to understand the roles of different agencies and their relationship with each other in the process of foreign policy-making. The Bureaucratic Policy Model approach of Foreign Policy Analysis (FPA) encompasses all necessary agencies that influence the states foreign policy highlighting the decision-making process to explain the dynamics of state conduct in the international system. The role of bureaucratic organizations is relevant to foreign policy because of the outputs (e.g., information provided to the government, foreign policy alternatives presented, and the standard operating procedures which shape how foreign policy decisions are implemented) generated by these bureaucracies in which policy-makers take decisions (Alden and Aran, 2012: 33). Bureaucracies develop common attitudes and shared images through the establishment of an inter-agency committee that helps in framing how a particular agenda or problem should be perceived by policymakers and what are the implications of the actions embarked. Thus, the BPM presents the interplay among government bureaucracies in the formulation of specialized agencies involved in the policy-making.
**Figure 4** The Bureaucratic Politics Model (BPM) in Foreign Policy Analysis

process. However, different agencies uphold different views and positions towards the issue, in this case, the West Philippine Sea. Thus, Bureaucratic Politics Model (BPM) describes the relationship of agencies as bargaining, struggling and competing (see Figure 4).
6.2. Roles of Bureaucracies

The approach of the Philippines to address the West Philippine Sea issue involves the different subset of policies on defense and security, foreign affairs, maritime law enforcement, energy, mapping and maritime resource protection. Agencies tasked to uphold these policies draw their influence over foreign policy from the roles they played in the policy-making process.

After the Scarborough Shoal Standoff, the Department of Foreign Affairs was into public diplomacy campaign for the Filipino people to understand the West Philippine Sea and the country as an archipelagic nation linking it to the ASEAN integration as well (De La Vega interviewed 2015) The National Security Council (NSC) secures three elements: safety; welfare of the Filipino people; territorial integrity and safeguarding sovereignty of the country as with the West Philippine Sea (Agdamag, interviewed 2015). The NSC capacitates the full sovereignty over the Philippines’ territory and protects its maritime and strategic interests. The interpretation of provisions of international agreements like the UNCLOS, the Law of the Sea Convention and all other international agreements as well as domestic laws, the Philippine Constitution, and the definition of national territory by existing law was under the obligation of the National Mapping Resource and Information Agency (NAMRIA) (Carandang, interviewed 2014). The Philippine Coast Guard (PCG) was tasked to enforce the national and international maritime laws with a wide power of arresting both foreigners and national citizens under the Doctrine of Posse Comitatus. The Coast Guard installed a coast guard detachment in the Municipality of Kalayaan Island for search and rescue operation, marine environmental cooperation and maritime safety enforcement as dictated by the Doctrine of Posse Comitatus. The PCG coordinated closely with other civilian
agencies particularly the Bureau of Fisheries and Aquatic Resources (BFAR) and the NAMRIA; the Coast Guard crews both. These civilian agencies are in the frontline while being secured by the Defense: the Navy and the Air Force in consonance with the policy of “White on White” embarked by the Aquino administration:

“Because we are deterring war, by creating a condition that the use of military might is morally wrong as an option. If we fail then we retreat, and they (Navy) will lead, and we will render aid to them (Defense sector), in terms of security and logistics like transporting their supplies if they sink, we will rescue.”

6.3. Roles of the Informal Working Group

The academe has minimal involvement in the policy-making process. The government relates to the academe informally but not as an official institution (Batongbacal, interviewed 2014). An Informal Working Group (IWG) was organized with the initiatives of former Senator Leticia Ramos-Shahani and University of the Philippines Professor Aileen S.P. Baviera. The IWG was an independent effort initiated by technical experts from the academe and retired officials from different agencies including the NAMRIA, BFAR, DND, PCG, and Navy. Members of the IWG drafted a White Paper on the West Philippine Sea which calls on the government to (1) establish, eradicate or strengthen permanent high-level institutions that shall undertake policy formulation, planning, coordination assessment; (2) provide sustainable and responsible fisheries, with government assistance for artisanal and small-scale fishermen and optimized oil exploration and resource exhaustion without jeopardizing the environment; (3) develop a clear, feasible and resolute security and defense strategy for the West Philippine Sea; (4) establish strategic, comprehensive foreign policy
goals such as promotion of national security, economic development and the welfare of nationals in a way that will not affect the country’s long-term aspirations for its relationship with China, ASEAN, and the US; (6) organize programs that will inculcate archipelagic consciousness and identity of the Philippines and the Filipinos as a maritime nation. The White Paper was sent to the government; however, only the National Security Council responded but no with formal feedback afterward. The National Security Council admits that they consult with local experts and scholars from the academe on a personal basis, but in the formulation of strategy and action plans that define the policy of the government, they deal with it among bureaucracies themselves in a close-door set-up to minimize different interpretations and slants or biases coming from private individuals and the media (Batongbacal, interviewed 2014). Initiatives to discuss about the West Philippine Sea are conducted on an unofficial basis and informative in nature, for instance the Maritime League, an institution that advances the need of the maritime profession, conducts a bi-monthly meeting (7-8 times a year) to incorporate the West Philippine Sea in the agenda (Agustin, interviewed 2014). Although scholars and technical experts are consulted informally, there was no official consultation or formal meeting involving the Informal Working Group in the process of policy formulation.

The “deadlock” in the relationship between government and the Informal Working Group is a clear manifestation of the resistance of some actors to compromise their traditional roles concerning their mandates to other stakeholders involved in the issue. There is a sense of exclusivity coming from government agencies that decision-making process should be handled only by the government officials leaving no room for the informal working group. The high political nature of the current problem justifies the reluctance of the government to involve the academe. Government agencies consult with scholars informally and
not as a group. But among scholars and academics, they have different stands and analysis on the issue, making it difficult to establish an integrated group of think tanks that will provide a collaborative perspective on the problem. Even official institutions, for instance, the Maritime League, are incapable of establishing a formal agenda to discuss the issue and release a joint output of information, updates and mechanism that will raise consciousness to the public and even to the government agencies. Hence, it will be difficult for the government to commission an Informal Working Group who has like-minded perceptions that pertain to the WPS issue.

6.4. Inter-agency Institutions

The National Security Council (NSC) relates to the Department of Foreign Affairs in dealing with territorial issues on the West Philippines Sea. The objectives of the Department of Foreign Affairs ran in consonance with the National Security Policy of the NSC in the process of policy-making. The Coast Guard crews and escorts ships of the National Mapping Resource and Information Agency (NAMRIA) and the Bureau of Fisheries and Aquatic Resources (BFAR) for its surveillance operation. The Department of Energy, the Bureau of Fisheries and Maritime Resource and the Department of Energy and the Navy are members of the National Coast Watch Council (NCWC) and relate with the Department of Foreign Affairs in as far as territorial claims over the West Philippine Sea is concern.

Prior to the Scarborough Shoal Standoff, the National Coast Watch Council was emergent; although it was issued under Executive Order 57 in 2011, it took its effect in 2013. The established National Coast Watch System will act as the central inter-agency mechanism for a coordinated and coherent approach on maritime issues and maritime security operations towards enhancing governance in the country’s maritime
domain. There are identified fifty government agencies, offices and departments that had something to do with the maritime domain and the role of the Council is to review their mandates and determine the probable gaps or overlaps and recommend to these agencies action plans that will minimize if not avoid the overlaps and gaps. The central mechanism in doing an inter-agency coordination is by inviting all member agencies to discuss issues that will impact an agency’s mandate and work it out so no resources will be overspent in a particular concern while other funds are being spent on other concerns as well (Zata, interviewed 2014).

The Standoff did not only challenged the newly established National Coast Watch Council, but it also revealed how unprepared the country was in responding to an event such as the Scarborough Shoal Standoff:

The country was not prepared in terms of policy response like that of the Scarborough Standoff, the government had exerted its efforts, it has already recognized its weakness when it comes to policy, so the Office of the President issue that Executive Order 57 to bring in at one body relevant agencies involved in policy formulation and even in strategy formulation.

In 1994, the Philippine government formulated the National Marine Policy; however, since its formulation it has not been applied nor evaluated until the Scarborough Shoal Standoff. Although cabinet committees established by previous administrations called for the formulation and review of the marine policy, it was not provided with full attention by the Philippine government. After the standoff, government agencies saw the need to come up with a National Marine Policy (NMP) as a means to capacitate the Philippines to protect its maritime domain and prevent incidents at sea from happening.
The NCWC is under review, and it plans to define, evaluate or reevaluate the NMP, and the next president should present the NMP (Zata, interviewed 2014).

Although the government has been continuously exerting diplomatic efforts to deal with the West Philippine Sea issue under the framework of the Declaration of Conduct and bilateral negotiations with China, it recognizes the need for a greater inter-agency coordination that will specifically respond to the problems in the West Philippine Sea (WPS) particularly on security matters pertaining to the areas within the WPS. Hence, the Inter-Agency Coordinating Committee on the West Philippine Sea (ICC-WPS) was created in 2014. Ambassador Hellen Barbers-De La Vega of the Office of the Undersecretary for Policy of the Department of Foreign Affairs admitted that because of the incident in the Scarborough Shoal the bilateral negotiation with China had been suspended, so there is a need to move and speak in one voice. For this reason, the government created the ICC-WPS that will directly handle the territorial issues in the West Philippine Sea which includes Scarborough Shoal and the Kalayaan Island Group (KIG):

“The ICCWPS chaired by the Department of Foreign Affairs Undersecretary for Policy, co-chaired by the Office of the Executive Secretary; however, the one sitting now is the National Coast Watch Council; the Department of National Defense as Vice-Chair and the National Security Council headed the Secretariat.”

Members of the ICC-WPS are: (a) Department of Justice, (b) Department of the Interior and Local Government, (c) Presidential Communications Development and Strategic Planning Office, (d) Philippine Coast Guard, (e) Armed Forces of the Philippines, (f) National Intelligence Coordinating Agency, (g) Bureau of Fisheries
and Aquatic Resources, (h) National Coast Watch Council, and (i) Bureau of Immigration.

As for external or territorial security, the ICC-WPS ensures the steadiness of the diplomatic and political efforts of the government as it pursues a continuous implementation of strategies (political, diplomatic, economic and military) that will define the country’s foreign policy on its claims over the West Philippine Sea yet maintaining a good relationship with China. The National Coast Watch Council (NCWC) and the Inter-agency Committee on the West Philippine Sea (ICC-WPS) are two mechanisms embarked by the government to deal with the issue in the West Philippine Sea, after the Scarborough Shoal Standoff (see Figure 5 and Figure 6). Both inter-agency mechanisms aim to harmonize the roles and relationships of different bureaucracies and monitor that these agencies share similar understanding defining their strategic objectives. The only difference between these agencies is the scope of their respective objectives: while the National Coast Watch Council handles the general direction of policy formulation, coordination and operation with member-agencies on all maritime issues of the country, the Inter-agency Committee for the West Philippine Sea monitors diplomatic, political and military strategies that will support claims over the Scarborough Shoal and the Kalayaan Island Group and how they affect the Philippine’s relations with China and other claimant states.

Despite the need for demilitarization and civilian approach in dealing with maritime issues in the West Philippine Sea, the inter-agency institutions primarily involved in identifying actions that define the country’s policy in the WPS are predominantly composed of officials from the defense sector, and hence projecting a military nature. The National Coast Watch Council is currently headed by a Navy official; most of its key personnel are Navy officers. The ICC-WPS is co-chaired by the DFA under the Office of Policy and the National Coast Watch
Figure 5 Members of the National Coast Watch Council
Figure 6 Inter-agency Committee on the West Philippine Sea (ICC-WPS) /National Task Force on the West Philippine Sea

Council. The Navy looks at the Scarborough Shoal in a traditional security framework as compared to the Coast Guard who looks at it from a non-traditional perspective. As for the Navy, it is an issue of naval defense, while for the PCG it involves law enforcement. The Philippines’ strategy in the South China Sea calls for “demilitarization”, deploying civilian agencies at the forefront as the country’s campaign to assert rights over the WPS. However, in reality, the country’s strategy is still maneuvered with a traditional military approach. The approach of the Philippines to address the South China Sea issue involves heavily the role of the Coast Guard. However, the strategy to demilitarize the issue has not been fully implemented due to the reason that major decision-makers in the maritime inter-agency institutions are from the defense sector and they perceive the problem in a traditional security sense. Nevertheless, the Philippines’ attempt to develop a holistic and unified
approach through the establishment of maritime inter-agency institutions has manifested clearly in its strategies, but it does not necessarily imply success at the level of implementation. Questions as to who is willing to bargain traditional roles and who is going enact new roles have challenged member-agencies.

6.5. Outcomes and Implication of the Decision-making Process among Agencies of Government

For a long time, the Philippines’ primary security concern is to combat the internal insurgency, particularly in Mindanao. The primary focus of the Philippine government is to address domestic security concerns, neglecting external or territorial security. Since the country lacks a long-term approach that will address maritime issues, the Scarborough Shoal Standoff proved its incapacity to secure its territorial claims in the West Philippine Sea. Prior the Scarborough Shoal Standoff, the Philippines focused itself on internal security issues; it is only after the Standoff that territorial sovereignty became an issue perceived to be a more significant problem. To address the security concerns of the Philippines, its National Security Council releases the National Security Policy for 2011-2016 that will deal with three security issues of the country: internal security; territorial security; and other security concerns involving transnational crimes, protection of overseas Filipino workers, environmental disaster, and crises. The National Security Policy serves as a guide among agencies particularly the DFA, the DND and other supporting agencies like the Navy. To ensure that these concerns are addressed, agencies cooperate to establish balance in disseminating military resources. For this reason, the government has created the National Coast Watch Council as an inter-agency institution tasked to harmonize the different mandates of each agency concerning maritime issue; allocates tasking for a particular agency; and crafting a standard
protocol for agencies on the rules of engagement pertaining to security issues. The NCWC continuously meets with member-agencies, creating a monitoring group that supervises each agency in coming up with standard operating procedures aimed to improve maritime cooperation and coordination.

After the standoff in 2012, the Philippines reassessed its security concerns and considered the West Philippine Sea a major security issue of the country. As a response, the Philippine government issued the policy on “White on White”, thereby shifted the Philippines approach from military to civilian, deploying the Philippine Coast Guard on the frontline to meet with the Chinese Coastguard to diffuse tension in the area. The situation in the West Philippine Sea requires demilitarization as well as the observance of maritime law enforcement to ensure maritime cooperation among claimant states:

“As of now geopolitics calls for demilitarization, geopolitics require non-use of force, globalization discourages war amongst states. The more that you can prevent war, the more that you can achieve national interest, and what is the national interest, means the people way of life. The practical thing for us to do, is to create that environment that would render China impotent in terms their military might, that they cannot use their military might because it is politically, morally wrong and more costly for them to use their military might. One thing in our country that we can bolster: our legal and moral high ground that we are the good guys and we follow the rules.”

As part of the Triple Action Plan, boosting the Philippines’ moral high ground is the new strategy embarked by the Aquino administration to show the international community that the country abides by international laws so that it could win the support of other claimant
states like Vietnam to rally against Chinese aggression in the South China Sea. However, the shift of approach has caused a problem among agencies that are not willing to consolidate their traditional roles. The Navy has a different mindset compared with the Coast Guard. While the Coast Guard sees it as a maritime law enforcement concern, the Navy defines the West Philippine Sea as a defense issue.

The Scarborough Shoal Standoff in April 2012 made the Philippine government realize that it had neglected external or territorial security for a long time. Hence the government reassessed the security concerns of the country and categorized them into three: internal, external or territorial and environmental, disasters and crises management. The main concerns that were tackled under these inter-agency mechanisms include: the review of the National Maritime Policy in 1994, the establishment of a mechanism that will monitor the country’s archipelagic sea lanes, the harmonization of roles that will ensure cooperation among agency-members so that there will be a balance in the allocation of military capacity that will render support to the security operations in the country, and the continuous efforts to create and recommend policies to help alleviate the overlapping claims in the West Philippine Sea. With the three security concerns, it implies stronger inter-agency coordination to manage military resources and deploy it equally to areas in Mindanao for internal security operations, in the West Philippine Sea for territorial security operations and to calamity and crises response in other areas of the country (see Figure 7).

In March 2016, Memorandum Circular No. 94 was issued creating the National Task Force for the West Philippine Sea (NTFWPS). The functions of the ICC-WPS were transferred to the task force. Unlike the ICC-WPS, the task force is chaired by National Security Adviser. The DFA and the DND are still part of the task force along with new member-agencies that were not formerly part of the ICC-WPS, namely
Figure 7 Analyzing the Philippine Foreign Policy in the West Philippine Sea Using the Bureaucratic Politics Model (BPM)

Department of Foreign Affairs
Department of National Defense
National Security Council

Bargaining
Competing
Struggle

Foreign Policy Approach
- ZOPFF/C
  - Posse
  - Comitatus
- Rule-Based Approach
- TAP

Outcomes:
- Demilitarization
- Shift from military to civilian approach
- Re-assessment of national security from internal to external/territorial
- ICCWPS
  - NTFWPS

Support Agencies:
National Coast Watch Council
Philippine Coast Guard
Philippine Navy
National Mapping Resource and Information Agency
Bureau of Fisheries and Aquatic Resources

Implication:
- More collaborative inter-agency committee to ensure the completion of the NMP
- Proper monitoring capacity to ensure that member-agencies will collaborate and consolidate roles
- Even representation from the different sectors in the process of decision-making
- Modernization of security assets concerning defense and law enforcement
  - Capacity building for the PCG

Department of Energy, Department of Agriculture, Department of Trade and Industry, Department of Transportation and Communications, Department of Finance, and National Economic Development Authority. The Task Force has expanded its recommendatory role by providing recommendations to the President through the Security Cluster, in contrast to the previous inter-agency committee. Furthermore, the task

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force emphasizes the improvement of more synchronized efforts of different member-agencies through the creation of area-level and tactical-level forces which were not present in the ICC-WPS\textsuperscript{17} (see Figure 8).

**Figure 8** National Task Force for the West Philippine Sea

The Philippines received a favorable decision coming from the Permanent Court of Arbitration on July 12, 2016. The decision from the Arbitral Court fueled the Philippine moral victory in the issue. However, with the new administration of President Rodrigo Duterte, the question
after the release of the arbitral ruling is how to maximize the country’s moral victory into concrete and practical initiatives that will address the territorial brawl in the South China Sea. However, Rodrigo Duterte clearly stated not to use the decision of the Arbitral Court but instead to engage with China peacefully and collaboratively, considering China’s massive investment in the country, particularly in Mindanao under its Belt and Road Initiative. Mindanao has become a crucial part for the Chinese government to establish routes connecting China to Asia and the Pacific.

7. Conclusion: Setting Lessons for the Duterte Administration

The Scarborough Shoal Standoff implies three lessons that the Rodrigo Duterte administration should reflect on. First, there is a need to establish a long-term approach to address the maritime security issue. This long-term approach includes the formulation, recommendation, and implementation of an updated National Marine Policy (NMP) that articulates the different mechanisms set to address, prevent or at least mitigate issues that challenge the Philippines’ maritime sovereignty. The marine policy not only covers border security but also includes ocean governance and marine protection. The NMP sets guides to be followed by every administration incapacitating agencies responsible for protecting the country’s maritime territory. Thus, it will ensure the Philippines’ establishing a consistent attitude towards other claimant states of the South China Sea.

Secondly, the success of a fully realized marine policy is contingent on the commitment of not only the executive but other agencies involved in crafting the NMP. This commitment is rooted in a developed archipelagic consciousness. Although this consciousness may take time to flourish since it requires constant inculcation of ideas about the
importance of being an archipelagic state as well as the responsibilities tasked to protect and conserve the domain of the country’s archipelago. There is a need to raise the awareness of every Filipino about how the maritime dispute and the installation of military posts that continuously destroy the Philippines’ marine ecosystem could affect the entire nation. For the longest time, the Philippines neglected its identity being a quintessential archipelagic state. The continuous disregard of this identity is influencing how the country crafts policies related to the protection of its coastal and maritime areas.

Third, parochial interests of bureaucracies resulting in constant rivalries and oppositions from member-agencies of Philippine maritime institutions have affected the establishment of an effective inter-agency committee. The territorial debacle in the South China Sea requires an effective maritime inter-agency coordination, and to attain this, there is a need for even representation of members coming from other stakeholders like the informal working group, the academe, local NGOs representing direct stakeholders (e.g., fishermen, coastal folks), and technical experts. The South China Sea issue concerns maritime policing and law enforcement. Hence, it is essential to establish a capacity-building mechanism for the Philippine Coast Guard.

The Philippines should equate the importance of protecting its territorial integrity with that of other national concerns like poverty, corruption, insurgencies and drug-related issues. A long-term approach defined in policies about marine protection and policing has to be enacted consistently regardless of the existing administration. Territorial dispute is a vital national issue that affects the integrity of the whole nation. The protection of territories should foremost be through occupation, deployment of assets, empowering the country’s maritime and defense agencies in the call for exercising territorial sovereignty. As the Philippines witnesses the rise of China, the Duterte Administration...
has supported its development programs through the Belt and Road Initiative deemed compatible with that of the country’s development and infrastructure plans. The Duterte Administration has to provide importance to the South China Sea similar to that of his campaign against drugs and corruption. More importantly, while the Philippines engages with other countries it is crucial to uphold the primary consideration of its foreign policy: to protect the country’s territorial integrity and national sovereignty.

Notes

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Malaysia Baru: Reconfiguring the New Malaysian Capitalism’s Dependency on China – A Chronicle of the First Post-GE 2018 Economic Reforms†

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Abstract

In the aftermath of the elections of 9 May 2018, the Federation of Malaysia entered a new era, the so-called Malaysia Baru. Unexpected and of deep historical significance, this change, spearheaded by the 92-year-old leader Mahathir Mohamad, paved the way for the country’s sovereignty to be taken back from China. Under the previous Prime Minister Najib Razak, China, the new center of gravity in East Asia, had moved closer to Malaysia in all respects, at the risk of increased dependence of the latter – and with the corollary corruption and high public debt – without altering its institutional architecture. In this article, based on a field survey among the main economic authorities, we propose an account of the first reforms, focusing on the measures taken with regard to China. It appears that cooperation between the two countries is rapidly reconfiguring itself, but not moving towards a rift:
the relationship is deepening within the framework of negotiated and agreed-upon dependence on China, while it is the Malaysian accumulation regime, dominated by the State and international integration resulting from the 1971 New Economic Policy, that could move toward a distribution of income less unfavorable to labor.

**Keywords:** Malaysia, Malaysia-China relationship, political economy, Mahathir Mohamad, fieldwork results, Malaysia Baru, dependency, controlled dependence, sovereignty, patronage, BRI, silk roads

1. **Introduction: 9 May 2018, an Unexpected Democratic Turn of Events Calls into Question the Close Relationship between Malaysia and China**

On 9 May 2018, the Malaysian general elections led to the overthrow of Prime Minister Najib Razak, who was supposed to be involved in a corruption scandal of pharaonic proportions, but was nonetheless expected to win by all analysts and commentators, both local and foreign. Indeed, and despite real and permanent political competition, these major national elections had previously always ended with a victory for the conservative coalition, Alliance and then Barisan Nasional, dominated by the Malay party UMNO (United Malays National Organization). This ability to win had been fuelled in recent years by a tightening of the conditions of the rule of law and increasing repression – particularly since 2014-2015 – of the various forms of political criticism. However, in May 2018 and for the first time since the country gained its independence in 1957, a political changeover took place. The new Prime Minister from the opposition coalition Pakatan Harapan – *harapan* means “hope” – is none other than Mahathir Mohamad, the former Prime Minister who reigned supreme from 1981
to 2003. During his tenure, Malaysia accelerated its industrialization and economic growth, became part of the Asian Miracle, established itself on the regional scale and defended its cultural values. The country suffered through and resisted the 1997 financial crisis, then acquired the status of emerging economy, while aiming for full developed-country status by 2020. At the age of 92, Mahathir Mohamad had turned over a new leaf, including, it seemed, abandoning his authoritarian dispositions, and enjoyed unprecedented popular support and affection. In addition to the admiration that his political strength and foresight had always attracted, including from his critics, in 2018 he was granted exceptional trust. He took advantage of it to forge and win an unexpected victory, becoming both the providential man and the most fragile link (because of his great age) of the fledgling Malaysian democracy. In the new government’s program, the return of the rule of law, the restoration of dignity and a certain national pride after the shame linked to the 1MDB scandal,\(^1\) went hand in hand with the revival of the defense of Malaysian sovereignty, and this, very explicitly, was in relation to China.

Coming out of post-colonialism, Malaysia was thus entering a new age that some have called the era of “its substantial independence”, after the “nominal independence” negotiated with the British in 1957: the Malaysians gave it the name of Malaysia Baru (or Baharu), that is “New Malaysia”. Consequently, and in an extremely significant way, the new government has sought to loosen the relationship, and thus the pressure and objective dependence established in a few years by Najib Razak in relation to the People’s Republic of China, which had in the meantime become the leading trade partner (16% of bilateral trade), as well as the greatest participant in investment projects (25% of projects in 2016-2018 period). China’s rise in power is very marked on the scale of Southeast Asia and is reflected in its relations with Malaysia according to asymmetrical modalities, structured according to different dimensions.
Their rapprochement is characterized by its acceleration, driven by a political valorization which becomes clear from 2013 onwards.

As early as 2013, we had begun to study the new contours of this close relationship, and established that there was an extremely broad consensus surrounding a faster rapprochement between the two economies at that time (Lafaye de Micheaux, 2014a). Collaborative and multidisciplinary work, carried out between 2014 and 2016 from Kuala Lumpur with a geographer and a political sociologist, who were regularly on site, then gave rise to an in-depth analysis of the different facets of this dense relationship: diplomatic and political, industrial, financial, commercial and monetary, and involving real estate, but also including transportation and spatial planning (Delfolie, Fau and Lafaye de Micheaux, 2016). What emerged is that Malaysia had built a new and deep dependence on the Chinese economy with a strong political basis – that fit China’s strategic plans – while at the same time charting out a unique and comfortable course for the Malaysian government as well. Indeed, Malaysia’s “precious relationship” with China greatly benefited Najib Razak, his party – the UMNO – and the country (in that order) in terms of its own international relations, allowing the latter, in a so-called hedging logic, to loosen its traditional dependence on the West (the United States, Europe) and Japan, to be valued in its leadership role in ASEAN, while neutralizing the push for any common position on the South China Sea. Last but not least – and perhaps most importantly – Najib Razak ended up with symbolic and probably hard-cash political support and,\(^2\) whereas the United States allowed his most direct opponent, Anwar Ibrahim, to express himself publicly from his Malaysian prison,\(^3\) through an opinion piece in The Wall Street Journal. Meanwhile, the American justice system was conducting the first major international investigation (FBI investigation and then California court ruling) into the hundreds of millions and then billions of dollars of
1MDB’s misappropriated assets. Thus, during this period, the global Sino-American rivalry was diffracting itself amidst the Malaysian political arena.

Thus, the point here is not so much to demonstrate to what extent Malaysian capitalism has become dependent on China, closely associating political, geopolitical and economic plans, but rather to highlight how, at very close upon a major democratic break and in a Southeast Asian context transformed by the rise of Chinese power, the affirmation of sovereignty and close economic commitments are articulated and reconfigured in Malaysia.

**Box 1 National Sovereignty and Dependent Capitalism: A Dialectic at the Heart of Malaysian National Construction and Development**

A central question, which arose from the very beginning of our own work on Malaysia, was that of the sovereignty of this otherwise extroverted country – exports and imports represented 220% of the GDP at the end of the 1990s – and whose economy seemed to be totally dependent on external demand (Lafaye de Micheaux, 2012). This was indeed the case in the first decades of a colonial 20th century (Sultan Nazrin Shah, 2017), which the British administrator J.S. Furnivall described as “colonization through capital”. From the 1970s onwards, the implementation of industrial specialization was made possible by dependence on foreign capital and electronics technologies (United States then Japan, Taiwan, Korea). Foreign direct investment accounted for 10% of the GDP in the 1990s. Similarly, where colonization had literally turned the demography of the Malay Peninsula upside down by bringing in Chinese coolies and Tamil rubber tappers in the 19th and early 20th centuries, the national economy still relies heavily on foreign labor (Indonesian, Filipino,
Bangladeshi, Pakistani, Nepalese, etc.), which is estimated to make up over 20% of the workforce (Bastide, 2019).

Having only truly broken away from colonial structures in terms of the role of the State in the economy – and this only relatively recently (1971) – Malaysia has nevertheless established a sovereign mode of development thanks to this State structure which, starting with the government of Tun Abdul Razak (1970-1976), then very strongly under Mahathir Mohamad (1981-2003), asserted itself as central and interventionist, as opposed to the laissez-faire attitude of British liberalism which had until then prevailed. Industrialization, development and reduction of inter-ethnic inequalities have been the hallmarks of Malaysia’s unique trajectory. However, as we have stressed, playing on the dual meaning of sovereignty according to Sieyès (1789), although the nation was sovereign, the people were not under this semi-authoritarian regime, governed by the same coalition since independence. The democratic overtures of the successor Abdullah Badawi (2003-2009) were accompanied by a real diversification of international specialization, both in terms of sectors and partners, and a diplomatic overture towards China. When the global financial crisis began, this quickly translated into a new form of economic dependence, which also became political in the second part of Najib Razak’s mandate (2009-2018). As the country’s ties with China became close and dense, Najib’s frustration with his semi-electoral failure in 2013 and the revelation, in 2014-2015, of a huge financial scandal directly involving him, contributed to a decline in the rule of law in that country (Fau, 2014; Lafaye de Micheaux, 2016; Weiss, 2015). Thus, economic dependence, sovereign development and popular sovereignty are linked together in varying ways over time.
We therefore propose our continuing reflection on Malaysian development sovereignty when, in the historic moment of 2018, popular sovereignty and national sovereignty seem to be reaffirmed within the very framework of a lasting and increasing dependence on China\(^4\). The “close-to-hand” reading of an exceptional political moment offered here is informed by a long-term analysis of political economy and political sociology.

The present institutionalist economic perspective establishes a link between the question of dependency, with a strong political and geopolitical content when it comes to China, and the dynamics of objective social relations and as they are represented in political speeches or in the media. It integrates into the analysis of this new dependency the particular history of the Malaysia-China relationship, the colonial history of the country’s extroversion and, finally, the history of its highly interventionist economic policy since 1971. It is based on a field survey\(^5\) conducted in August 2018 in the political (Kuala Lumpur) and administrative (Putrajaya) capitals. The text thus traces out, beyond the study of the changes in Malaysia’s new dependence on China, the economic chronicle of a political change: it begins on 9 May 2018 and ends with the announcement of the budget on 2 November 2018.

This discussion is characterized by its particular approach points, sometimes going through the back door of an interview with New Malaysia actors who have taken on a completely new position, explained in the notes. It also deviates, through its reflection on sovereignty and more generally on the concrete and practical relationships between economics and politics, from the perspectives of business economists, in particular analysts from the major banks present in Malaysia, who are regularly interviewed and quoted in economic newspapers and regional economic journals (Nikkei Asian Review; Financial Times; The Wall Street Journal; The Washington Post; The Diplomat), which focus on the
issue of corruption and the fall of the UMNO party. It departs from the government’s own discourse, which is often excessive when it comes to Mahathir Mohamad and which we have sought to convey, and which quickly appears to be re-appropriated in political games, questions of allegiance and succession disputes over the post-Mahathir era. Finally, it differs from the international financial institutions, such as the World Bank which published *Navigating change* at the end of June, its annual report on the national economy – both positive and balanced, or the International Monetary Fund (IMF) which puts the maintenance of macroeconomic and public accounts balance at the forefront of its concerns and recommendations: “Important policy measures resulting from the government election mandate to lower living costs will need to be managed carefully to ensure they do not bring additional risks to the economy” (p. 9).

This text is structured in three stages. *Section 2*: It starts from the impulse of the new government to regain control of national sovereignty in late spring 2018, when China found itself clearly under attack. *Section 3*: But Mahathir Mohamad had to face the reality of the close, positive, lasting and asymmetrical relationship between Malaysia and China; he was then led to seek to redeploy this dependence sotto voce to the benefit of Malaysians, with the objective of pursuing a development trajectory that was very open to the outside world. *Section 4*: Finally, while the Malaysian government was reformulating the political control of its dependence to its benefit, in the context of intense regional industrial competition, it is conceivable that it could ultimately commit the national economic system to a new regime of accumulation. According to the reforms undertaken and the priorities announced, the transformation of the labor-wage nexus at the heart of the regional and international division of labor could thus be the real challenge for *Malaysia Baru*. 
2. Regaining Control of a Sovereignty Abused by China

Malaysia and China were involved in a trajectory of deepening their trade relations that had gone uninterrupted for more than twenty years: the share of Chinese exports in Malaysian trade, at 2% in 1990 and 5% in 2001, is now up to 14%. Under Najib Razak, Malaysia became China’s largest ASEAN trading partner, while China became its largest supplier and largest customer (or the second largest, depending on the year, after Singapore). As a result, the national currency, the ringgit, became closely linked to the Chinese currency. Finally, between 2013 and 2015, the Chinese investor, hitherto marginal, suddenly gained the rank of a crucial industrial and financial partner, with the political implications that have been mentioned. Restoring a threatened national sovereignty, of which he had been the tireless and brilliant promoter at the end of the 20th century, was one of Mahathir Mohamad’s priorities. The loosening of ties with China was thus included in the 10 points of the Pakatan Harapan Manifesto: during his campaign, and alongside promises concerning the fight against corruption, the rescue of national institutions and the restoration of purchasing power, candidate Mahathir had announced that he would withdraw part of the contracts signed between Najib Razak and the Chinese government, thus denouncing too close an involvement, a link that had become too tightly knit and a sovereignty sold off on the cheap by his predecessor. As soon as he was appointed Prime Minister, he asked his Minister of Finance, Lim Guan Eng – who was formerly Penang State Chief Minister and leader of the Democratic Action Party – to review the “unequal treaties” that China had established with Malaysia in the previous period. This section looks back at the break enacted between May and August 2018 by the new Malaysian government, which went beyond electoral rhetoric, in the economic and, in particular, industrial relations with China. It
demonstrates that some projects, such as the acquisition of the port of Kuantan and its upgrading to deep-water standards, the East-West railway line project and the North-South high-speed line, are part of the Belt and Road Initiative (BRI) strategy and are part of contracts of varying degrees of benefit to Malaysia. The Mahathir government worked as quickly as possible to challenge some of them, discovering, once it was in power, that these close ties were sometimes difficult to unravel.

2.1. Downwardly Revised Contracts with China, Based on the Discovery of the Real State of Public Accounts

In fact, not only were there many “gifts” from China to Malaysia, such as the 2nd Penang Bridge, the East-West railway line or the Kuantan Binational Industrial Park, but they were also increasing in financial value and on a schedule that was closely linked to Malaysian political deadlines: the 13th general election in 2013 and, even more so, the 14th general election in 2018. Indeed, the question of his re-election had become crucial in the course of the international investigations involving Najib Razak, who was protected by his immunity as Prime Minister. Over the most recent period, the massive Chinese investments seem to have occurred according to a timetable that seemed to respond to the US judicial measures against illegal assets, and were probably intended to finance the UMNO campaign for the 14th general election.

Derogating from its principle of non-interference in Chinese international relations, Xi Jinping’s China openly expressed its support for Najib Razak in 2018, as the latter had in fact also been supported and welcomed in the 2013 election. This more explicit involvement of the Chinese government eroded the broad domestic consensus in favor of a close Malaysia-China relationship that, by 2018, was no longer appropriate (Yeoh, 2019). On the contrary, following the so-obvious
favors granted by the People’s Republic of China (PRC) to Najib Razak and the UMNO, a new division formed at the heart of the Malaysian political scene: Najib Razak foregrounded his links and successes with China, while their respective media refrain from mentioning points of tension between the countries (the Chinese incursion into Malaysian territorial waters; China demanding the return of Uighur refugees in Kuala Lumpur; the families of missing persons from flight MH370). Conversely, the issue of dependence on China and the political denunciation of part of huge Chinese-interest real-estate programs as an “invasion” were becoming campaign arguments for Pakatan Harapan.

This context explains Mahathir’s questioning of the Chinese government’s political relationship with the former Malaysian Prime Minister: over time, Malaysia’s debts became increasingly linked to Najib Razak’s person and personal benefit. When – a real shock in the fragile and tense geopolitical situation in the South China Sea – Malaysia announced in November 2016 that it would acquire military coastal-patrol vessels from China, implicitly weakening its independence in matters of defense, Malaysia’s remaining sovereignty seemed indeed to have been sold off in favor of political benefits and commercial contracts.

Elected, against all expectations, after a very short campaign, the government tackled the task with immense ambition, the awareness of taking on a historic moment and with limited resources. A council of wise men, formed by Tun Daim Zainuddin, who had twice been Minister of Finance under Mahathir Mohamad (1984-1991, then 1999-2001), immediately got to work. This national-unity team, designed to advise the Prime Minister who found himself in an exceptional situation, included two highly respected figures: Tan Sri Zeti, former Governor of the Central Bank, and Jomo K.S., Leontiev Prize economist, former assistant to the Secretary-General for Economic Development at the
United Nations. The mandate of the Council was to respond within a hundred days to the citizens’ expectations, and the reference to the history of France is explicit. More than a hundred Malaysian professionals and prominent individuals were interviewed and the Council submitted its report (not published) on 17 August. It then dissolved itself, contrary to Mahathir Mohamad’s wish and Daim’s strategies. The urgencies were clear: the first of them concerned the public accounts, which were officially sound (budget deficit of 3% in 2017, projected at 2.8% in 2018), but which hid very large-scale corruption and numerous large government projects, which proved to be poorly managed or even legally dubious. As they combed through the files, the economists gathered by Jomo K.S. and Tan Sri Zeti discovered “a real disaster”. Many of the projects in question were Chinese investments or public projects involving significant financing from China. In this context, Mahathir Mohamad said he would like to review a number of these agreements and be able to study and possibly renegotiate their terms. This announcement sounded like a break not only in Malaysia-China relations, but also in the freedom China had had to maneuver in Southeast Asia up until then, and in particular to deploy, as it had been since 2013, its new Silk Road project.8

The concern the European embassies had regarding the New Malaysia during the summer of 2018 had less to do with the macroeconomic context, which was considered favorable, or its legitimacy or political options, which were observed with confidence, than the new government’s ability to remain within public-finance limits.9 In fact, in his 2019 budget speech, the Minister of Finance announced10 that the budget deficit was actually 3.7% and that in June 2018 the actual public debt was one-third higher than the official amount, reaching more than a trillion MYR (1,065 billion MYR or US$255 billion). Malaysia, partly protected by its oil revenue, is certainly
accustomed to deviations from fiscal orthodoxy and has pursued a policy of fiscal stimulus in the past in the immediate aftermath of the crises encountered, such as in 1997, 2000 and 2008 (Lafaye de Micheaux, 2017a). But since the drop in prices in 2014, the oil-wealth share in the State budget has been reduced and the room for maneuver has rapidly shrunk.11 Nevertheless, as the 2018 World Bank report points out, the share of federal government debt in the GDP remains within international standards (the criterion often used is 60% of the GDP) and, even better, seems to be in a phase of reduction: from 51.6% in 2012 to 54.5% in 2015, it has gradually declined to 50.8% in 2017. Finally, in order to more fully assess the risks in terms of public debt, one should also take into account that the multiplication of large-scale infrastructure projects implemented by companies directly linked to the State and by public companies (non-financial public corporations / NFPCs) has led to a significant increase in debt guarantees by the State (from 15 to 17.6% of the GDP between 2016 and 2017), while government commitments through public-private partnerships (PPPs) to limit the government’s financial involvement resulted in tax commitments of 15% of the GDP at the end of 2017.12

Thus, Mahathir Mohamad and his team knew that the New Malaysia’s credibility in the markets, on which they heavily rely, depended on meeting public-account standards. Controlling the budget deficit remained a priority: commitments were to limit it to 3.4% of the GDP in 2019; 3% in 2020 and 2.8% in 2021.13 This restraint is evident, despite the decision made after the elections to immediately abolish the value-added tax introduced in 2014: the rate of the highly unpopular Goods and Services Tax, introduced under Najib Razak in 2015 and which accounted for 20% of budgetary revenues in 2017, went from 6% to 0% on 1 June 2018. But it was partially offset by the reintroduction of an old business services tax (BST) as of 1 September. Similarly, oil-price
support measures at the pump were also immediately reinstated – they had been withdrawn by Najib Razak in 2014. Nevertheless, and despite the doubts expressed by the chancelleries, the conviction that budgetary balance was not in jeopardy was shared by the administrative bodies, including Johan Merican, Budget Director at the Ministry of Finance.¹⁴ To cut short speculation about his government’s ability to balance the budget, Mahathir Mohamad brutally hammered home the issue in his own way, referring to his finance minister, Lim Guan Eng, on October 9: “I will shoot him if he fails (the fiscal consolidation).”¹⁵

2.2. Some Chinese Projects Suspended Indefinitely; Others Maintained

Given the assurance of investment, the megaprojects begun with China became problematic, and they were re-examined one after the other. For example, the Kuala Lumpur-Singapore high-speed line, estimated to cost US$36 billion and for which China already owned the station site in Kuala Lumpur, was suspended at the end of May. Another major infrastructure project that came into question, which was compared to infrastructure projects in Sri Lanka that over-indebted the government: the line linking the east coast of the Malaysian peninsula to the large port of Klang, west of Kuala Lumpur. The US$17 billion East Coast Rail Link (ECRL) project was launched in November 2016, in addition to major Chinese investments in Kuantan, developing a deepwater port and a binational industrial park (MCKIP), estimated at US$9 billion. The new line was to connect the southern part of Thailand to the two east-coast states of Kelantan and Terengganu, before passing through Kuantan in Pahang and then crossing the peninsula from east to west. Despite the lack of a clear technical definition of the Chinese Belt and Road Initiative (Tham, 2018), it is now presented as a Malaysian component of this program. In the north along the east coast, there are
already some poorly developed rail lines, which were damaged by the major floods of 2014, but the transverse line is an innovation. Begun in 2017, the project was to be led by the China Communications Construction Company and 85% financed by a loan from EXIM and the Bank of China, both public entities. According to Jomo K.S., this project was approved by the Najib Razak government with no transparent procedure and no competition, while granting tax exemptions. The delivery date of 7 years was also unrealistic (recommended delivery date: 18 years). Moreover, in 4 months of work, a quarter of the total loan had already been disbursed. Finally, this project appears to be completely oversized in relation to Malaysian needs and financial capabilities, without even taking into account foreseeable additional costs, which are very high with this type of project. The ECRL project was therefore brought to a halt, following an announcement made on 20 August by Mahathir Mohamad during his first state visit to Beijing, 16 where the terms of unequal treaties and Chinese incursion are no longer pertinent: Mahathir Mohamad then chose to play the role of the leader of an indebted Third World country: “I believe that China itself does not want to see Malaysia become a bankrupt country.”

Later, before an assembly of officials and managers of public companies, some of whom were considered corrupt and on the verge of internal sabotage, another thorny practical problem raised by the transition phase, 17 he also referred to China as a model in the fight against corruption. A model from which, he said, pointing out the irony of the situation, he distanced himself to avoid instituting the death penalty for guilty Malaysian officials. Thus, the Malaysian government, aware, as is public opinion, of the strictly internal and structural dimensions of corruption in Malaysia, beyond the high points reached by 1MDB, seemed determined to loosen the tight link established by the previous regime between corruption and Chinese involvement in the
national economy.

But, as with the high-speed line, China quickly argued that it would demand very significant penalties for stopping the ECRL line and nationalist enthusiasm was treated to a cold shower. The Minister of Transport put forward small-scale and low-cost solutions to develop railways on the economically less-favored east coast and across the peninsula in the autumn: the cost would be half as much. To reinforce the thesis that it was not Chinese influence that was being countered but rather poorly negotiated investments, which had become unsustainable in a context of stressed public finances, other domestic public projects for the development of urban transport infrastructure were stopped (new MRT3 metro lines).

During the visit to China, it was also announced that the funding of a gas pipeline (Sabah) built by a Chinese subsidiary had been halted: according to The New York Times and The Washington Post, citing Mahathir Mohamad, almost all the funds had been disbursed without any work having been done. However, when 80% of a project’s funds have been committed but 0% and 15% of the work carried out, as was the case for the pipelines, is suspending it really the best decision or should one not just let the company finish?

Finally, other investments were moving forward but facing difficulties such as Forest City, a huge project to develop four artificial islands near Singapore, designed to last 30 years (Delfolie et al., 2016: 225; Fau, 2019). Finally, the new port of Malacca on the new Maritime Silk Road, known as Melaka Gateway, again reclaimed from the sea and intended to accommodate industry, luxury cruises and mass tourism, not to mention an important transshipment port activity, was announced during Premier Li Keqiang’s visit in autumn 2015 as a promising “new High”, a new zenith in the relationship: it was also postponed.
2.3. Exit Chinese Nuclear Power

Unexpectedly, the exclusion of nuclear power from Malaysia’s energy mix was announced in October. China General Nuclear Power, China’s leading State-owned nuclear company, had been present in Malaysia since 2015 and had been advocating the nuclear line for the country, notably at the ASEAN Energy Ministers’ Meeting in Kuala Lumpur in autumn 2015. The Malaysian scenarios presented did not emphasize the use of this technology in this country, where there is an electricity surplus. However, other analysts did not hesitate to predict a share of nuclear energy in their 5- or 10-year forecasts on Malaysian production. Following this meeting, China General Nuclear Power formalized the purchase of an electricity plant and its site in the center of Kuala Lumpur, at a price well above the market. Coming from the portfolio of assets belonging to 1MDB (then more or less bankrupt and under the spotlight for embezzlement investigations), this power plant acquisition was clearly a complacent one, a real breath of fresh air for the investment fund and a relief for Prime Minister Najib Razak. Since then, the civil nuclear track seemed, in 2016-2017, to be progressing rapidly under the auspices of a new economic and technological partnership with China set to come on line. A bilateral agreement had reportedly been reached to this effect, and the establishment of a Chinese nuclear power plant in Malaysia was planned for 2022 (Morin, 2019). Interrupting a dependency in this particular area that was already considered excessive and politically constraining, the new government therefore preferred not to use nuclear energy in Malaysia.

Nevertheless, and this as early as the May 2018 elections, the writings that too directly highlighted unfavorable signals to China provoked reactions: for example, the economist and CEP member, Jomo K.S., sent a letter to the Financial Times following on the publication of
an article (which happened to also quote him) announcing the questioning of Chinese investments: cleverly, Jomo stated that “like the Chinese government itself”, the Malaysian government was becoming much more discerning regarding the investments coming into the country, but recognized the value and crucial importance of foreign direct investment (FDI) and technology transfer for its future.\textsuperscript{19} The ECRL train project is taken as an example of mismanagement that deserves to be denounced, while several priority sectors for hosting Chinese FDI are mentioned: 5G telecommunications, “useful” artificial intelligence applications, financial technologies, renewable energy, new medicines and electric vehicles. It should be noted that these sectors strongly reflect the ten Chinese priorities of the \textit{Made in China 2025} program.\textsuperscript{20} Indeed, both Jomo and Mahathir Mohamad remain very concerned about the industrial future of the country, whose limits they well know, particularly in terms of education and technology (Jomo (ed.), 1993; Jomo, Felker and Rajah Rasia (eds.), 1999; Felker, 2015). Should this be interpreted as direct influence of the Chinese agenda on that of Malaysia? Rather, for Malaysia, it can be seen as a way of containing dependence by choosing its own industrial and technological leverage points, while at the same time securing the bond with the other partner.

Thus, and some Malaysian commentators do not fail to point this out, the relationship is too valuable to be fundamentally challenged. This is the view of the academic Peter T.C. Chang, who considers that China certainly missed the boat with Malaysia by supporting a government that was losing public support: the Chinese government was caught off guard when China’s involvement in the misappropriation of public funds by the Najib Razak administration emerged. Nevertheless (and the euphemism is choice), “The China-Malaysia relationship is unlikely to be derailed by this complication.”\textsuperscript{21} Indeed, as the following section will

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show, the relationship is not about to derail, quite the contrary: the commercial, industrial and monetary dimensions continue to develop and bring the economies closer together.

3. A Relationship That Remains Asymmetrical over the Long Term

The relationship with China is a long-term relationship that is as asymmetrical as it is essential and self-evident, for cultural, geographical or yet again geopolitical reasons. Absolutely capital, it is a relationship in which Malaysia’s future is embedded, and this is undeniable. This remains valid, even if China may have neglected the possibility of Najib Razak’s failure. It must be said that there were few who believed in it, including on the Pakatan Harapan side. On the side of the ruling power, on the other hand, and given the many maneuvers surrounding the election, the event was apparently not considered. As the great human rights defender Ambiga Sreenevasan humorously says, “the Barisan had no plan B ... and the Pakatan had no plan A.”

Whether it be at the level of the Council of Eminent Persons, the Malaysian Investment Development Authority (MIDA), the Central Bank or the Budget Department of the Ministry of Finance, the senior officials in charge of key institutions of the Malaysian economic administration remained cautious and far more wary than the Mahathirian rhetoric about the future of the relationship with China: the officials interviewed did not mention any directive to limit Chinese presence in Malaysia, nor did they seem to be alarmed by it, nor were they mandated to take on any damage caused by dependency at their level. The gap between campaign rhetoric, the first projects brought under scrutiny and business practices seemed to be a given.
3.1. Chinese Investments in Malaysia: In Reality They Are Increasing

Although Malaysian and foreign newspapers published extensively about interrupted or cancelled projects, they did not give much coverage to the fact that, during the first weeks of the new regime, China granted investments to Malaysia. According to the Chinese Ambassador to Malaysia, Bai Tian, they were very high: MYR 1.2 billion in less than three weeks, or one third of the amount received in 2017.25

These new Chinese investments *Malaysia Baru* thus receives are part of a strong growth dynamic in 2018, described by the data available through the authority in charge of receiving and authorizing new industrial investments, the Malaysia Investment Development Authority (MIDA).

These data, compiled since 1987, have the advantage of providing a detailed view by State and economic sector of projected investment amounts. They complement the inwards FDI data provided by the Department of Statistics of Malaysia (DOSM), which also highlight the now dominant importance of Asia (63.5%) in Malaysian FDI in 2017, with Hong Kong in first place (7.7 billion MYR), followed by China (6.9 billion MYR) and Singapore (6.1 billion MYR).

By providing information on future dynamics, MIDA’s investment data illustrate China’s industrial intentions towards Malaysia and thus allow trends to be anticipated. Their evolution reflects, in the absence of actual investments, the geographical and sectoral directions of China’s focus: from a political-economy perspective, they are both precise and suggestive (Delfolie *et al.*, 2016: 157-172). Thus, thanks to MIDA, we can know that the significant Chinese investment in rubber and its derivatives, announced in 2018, contrasts sharply with three decades of low investment in this field by foreign companies (1.4% of the amounts of foreign-funded projects authorized between 1987 and 2014 and 1.5% of Chinese projects) and thus inaugurates an unprecedented industrial
Table 1 Foreign Industrial Investments Authorized by MIDA, Organized by Main Countries of Origin, 2016 – March 2018 (in number of projects and Malaysia ringgit (MYR))

<table>
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<tbody>
<tr>
<td></td>
<td>Projects (number)</td>
<td>Amount (billion MYR)</td>
<td>Projects (number)</td>
<td>Amount (billion MYR)</td>
</tr>
<tr>
<td>China</td>
<td>33</td>
<td>4.77</td>
<td>17.4 %</td>
<td>21</td>
</tr>
<tr>
<td>In % of total</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>18</td>
<td>3.21</td>
<td>13</td>
<td>2.03</td>
</tr>
<tr>
<td>Singapore</td>
<td>96</td>
<td>2.13</td>
<td>100</td>
<td>2.30</td>
</tr>
<tr>
<td>Germany</td>
<td>21</td>
<td>2.64</td>
<td>18</td>
<td>1.51</td>
</tr>
<tr>
<td>Japan</td>
<td>53</td>
<td>1.86</td>
<td>41</td>
<td>1.31</td>
</tr>
<tr>
<td>Total</td>
<td>--</td>
<td>27.40</td>
<td>--</td>
<td>21.50</td>
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</tbody>
</table>

Source: MIDA, August 2018.

cooperation. Finally, a nuance must be made here: these data do not provide information on real-estate investments or transport infrastructure, other major areas of China’s involvement in the Malaysian economy and territory. However, and as S.-Y. Tham has pointed out with regard to the BRI in Malaysia, the funding of the latter projects, financed via trade credits for example, is itself largely beyond the narrow scope of the foreign direct investments (Tham, 2018).

As for the question of whether, at the level of the MIDA planning department, political directives aim to delay Chinese projects, the answer is negative. The new government, which reorganized the administrative staff after its arrival, confirmed to them that the idea was to continue to encourage investment inflows, particularly from China.

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Table 2 Total Foreign Industrial Investments with Chinese Participation (in MYR)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Amount (MYR)</th>
<th>1st</th>
<th>2nd</th>
<th>3rd</th>
</tr>
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<tbody>
<tr>
<td>2016</td>
<td>4.77 billion</td>
<td>Electronic &amp; electrical products (1.8 billion)</td>
<td>Non-metallic mineral products (1.4 billion)</td>
<td>Basic metallurgical products (1.3 billion)</td>
</tr>
<tr>
<td>2017</td>
<td>3.85 billion</td>
<td>Non-metallic mineral products (2.4 billion)</td>
<td>Transport equipment (0.9 billion)</td>
<td>Basic metallurgical products (1.3 billion)</td>
</tr>
<tr>
<td>2018</td>
<td>6.19 billion</td>
<td>Rubber and derivatives (3.2 billion)</td>
<td></td>
<td>Basic metallurgical products (2.9 billion)</td>
</tr>
<tr>
<td>January-March</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: MIDA, August 2018.

As for any reservations expressed, they only bring up the environmental aspect of these investments, which must now be included in the evaluation and will decide the terms of the agreements, but in a way that still seems rather vague.²⁶

In addition to the rubber and derivatives sector, China was moving into new areas by 2018, particularly in Kuantan (Pahang), which gathers together within the Malaysia-China Kuantan Industrial Park (MCKIP) a large number of plants linked to the respective Chinese and Malaysian
governments. These are indeed public or publicly owned companies that have been given a mandate by the authorities, as has often been the case since the beginning of the new phase of Malaysia-China relations (Lim, 2015). These companies were mobilized to give industrial consistency to the bi-national MCKIP, a Malaysian-Chinese development that came out of nowhere and may have appeared absurd in terms of location for some time (Delfolie et al., 2016: 183-193). But the project of the East-West ECRL line has given it its full strategic meaning: part of the Belt and Road Initiative, it links the port of Kuantan, which became 49% Chinese in 2013, to the West Coast. Serving the bi-national MCKIP that, as the months go by, welcomes more and more large Chinese public companies, the line ends in Klang, the leading port in Malaysia and the second in Southeast Asia, and where many of the warehouses have recently been purchased by China. Finally, via this train line, Kuantan will also eventually be connected to the future deep-water port of Melaka Gateway, also a project financed by Chinese capital and the next step on the new Silk Road, located along the Strait of Malacca, between Klang and Tanjung Pelapas, north of Singapore (Fau and Tréglodé (eds.), 2018).

3.2. Institutional Cooperation That Continues against a Backdrop of Deepening Monetary and Financial Exchanges

The Malaysian currency, the ringgit, which has been unstable again since summer 2005, is managed by the central bank, called Bank Negara, with a view to “growth, price stability and monetary stability” but with a clear emphasis on supporting growth. This orientation, adopted since 1971, was maintained after the elections. Due to structural trade surpluses, foreign exchange reserves are very high. Finally, the key interest rate was raised by 1/4 of a percentage point in January 2018, up to 3.25%, following on the increase in the US Federal Reserve rate and was
maintained at this percentage thereafter. Against a backdrop of slowing global growth prospects at the end of 2018, the fall of the Turkish lira and the depreciation of many regional currencies, particularly the Indonesian rupiah, the Malaysian currency is holding up well and appears to be the most stable of the emerging economies’ currencies.

In recent years, and like most regional currencies, the national currency – the ringgit (MYR/RM) – has become closely linked to the Chinese currency. According to Jomo K.S., the latter is now the most decisive,28 as confirmed by Bank Negara officials. To frame this new source of monetary interdependence, the Malaysian central bank is part of a series of multiplied and diversified regional monetary agreements, where the relationship with China, in terms of dedicated volume, remains the most significant. Indeed, Malaysia participated in several currency swap agreements, first to ensure the stability of its currency in the event of a liquidity shock and to support monetary stability in ASEAN (ASEAN Swap Arrangement (ASA), corresponding to Malaysia’s US$300 million commitments), then to allow trade in the local currency (bilateral swap agreement with China (bilateral currency swap agreement / BCSA): US$22 billion) and with South Korea (BCSA: US$3.7 billion). As for the Chiang Mai Multilateralization Agreement (Chiang Mai Initiative (CMI), 2000; Chiang Mai Initiative Multilateralisation (CMIM) Agreement, 2010), headed up by China among the ASEAN countries + 3 others in the aftermath of the 1997 crisis (Figuière and Guilhot, 2007), it has been renewed year after year. Under this agreement, Malaysia commits US$9.1 billion (MYR 3.7 billion) to contribute to regional monetary stability. But no request for support has been recorded so far: none of these swap agreements have been activated (Bank Negara, Annual Report 2017, pp. 174-175).
In addition, foreign exchange transactions between the two currencies, authorized since 2016 and operated by the Bank of China in Malaysia, have increased after having remained almost nil until then. The latest development in the internationalization of the Chinese renminbi (RMB) in relation to Malaysia – the allocation of an allowance of renminbi financial operations authorized for Malaysia since 2016 (RQFII) – opens up market access for Malaysian investors to certain securities (A-shares) in the Chinese currency. The institution currently holding a monopoly on market access is CIMB, a large Malaysian bank that was until recently managed by Nazir Razak, the brother of Najib Razak. Called the China Direct Opportunities Fund, the Malaysian investment fund with access to this segment of the Chinese capital market opened in May 2018. China granted a cap of 600 million RMB, or US$100 million.

As for the renminbi’s share of Malaysia’s foreign exchange reserves, although it is increasing, the monetary authorities are keeping it secret. This monetary cooperation, which has been institutionalized over the past decade, aims essentially to control and support, in monetary terms, the large volume of trade between the two countries.

3.3. Very High Bilateral Trade ... Caught in the Uncertainties of the US-China Trade War but on a Stable Trajectory

Trade with China has a very long history, but in the contemporary period its volume has entered a new phase, progressing slowly at first during the 1990s and then soaring during the 2000s. This acceleration is taking place against the backdrop of China’s breaking into the Asian electronics value chain, in which Malaysia had long been involved. This explains the disparity between increasing exports to China and sharply decreasing exports to Japan, the region’s prime contractor in the electronics sector, while the overall import content of Malaysian exports remains stable.
Figure 1 China in Total Malaysian Trade (2004-2017)

Source: Bank Negara (2018), Table 3.6.3.

As a result of the global financial crisis that affected Asia through the trade channel, China became Malaysia’s largest trading partner from 2009. During the first half of the 2010s, bilateral trade was still improving, but it now seems to be in a stabilization phase (Delfolie et al., 2016). Finally, given the steady pace of Malaysian exports over the decade, it can be assumed that this new partner has made a significant
Figure 1a Focus on Trade Balances (2004-2018)

Source: Bank Negara (2018), Table 3.6.3.

correlation to sustaining Malaysian growth dynamics, particularly in the face of the global demand crash in 2009, when demand from Western countries and Japan fell sharply while Malaysia was still thriving at 162% (amount of its imports and exports in GDP). Again in 2014-2015, when the fall in oil prices seemed to threaten to affect Malaysia’s trade balance, the stability and composition of exports to China (electronic components accounting for 41% of the total) played a positive role in Malaysian economic dynamics. Finally, it would appear that Malaysia’s recent trade relations with China go beyond the traditional explanatory factors (Devadason, 2015).
Figure 2 Exports to Some Major Partners (2004-2017)

Source: Bank Negara (2018), Table 3.6.3.

For a time, Malaysia had a surplus in its bilateral trade with China, but has reached a deficit since 2012. And it is at the level of this deficit that the most significant evolution of Malaysia-China trade can now be observed, since its increase now seems structural. During 2017, Malaysian trade with China increased by 21% (+28% for exports alone). The volume of bilateral trade reached US$96 billion in 2017 and is expected to exceed US$100 billion\textsuperscript{32} in 2018: China’s share of Malaysia’s bilateral trade increased from 10% to 16% between 2004 and 2017.

Between January and August 2018, exports to China increased to 13.7% (from 13.1% in 2017), outpacing Singapore (14.7% in 2017 from
13.6% in 2018). Deputy Minister of Commerce Dr Ong Kian Ming attended the 20th China International Fair for Investment and Trade (CIFIT) in Xiamen, before visiting the 15th China-ASEAN Trade Fair in Nanning, where 174 Malaysian companies (compared to 13 in 2017) and 12 government agencies and chambers of commerce were present (7-13 September 2018). Economic diplomacy between the two countries is therefore not on hold.

Another point of close cooperation concerns e-commerce and its future. In this area, Malaysia has been building on its technological and financial cooperation with China since 2017, and the new government is resuming this cooperation right where its predecessor left off. Supported by a dedicated public structure, the Malaysia Digital Economy Corporation (MDEC), e-commerce is part of a much broader policy concerned with avoiding the increase in inequalities and aimed at accelerating Malaysia’s digital transition; the country is already quite connected, since 80% of the population has access to the Internet, mainly via mobile phones, a rate comparable to that of industrialized countries. The national strategy also aims to disseminate electronic technologies, modernize the electronic and digital industry, promote local companies in this sector, create digital-economy ecosystems, promote the “digital-creativity” sector (video games, animation), encourage the creation of companies in these fields and link them to the market, etc.

As part of the National E-commerce Strategy (NeCSR) headed up by a council within the MITI, the structuring of e-commerce underwent significant expansion in 2017 thanks to the agreements concluded between Najib Razak and Jack Ma, the creator and director of the global online business giant, Alibaba. The aim is to position Malaysia as a regional e-commerce transshipment hub, based on the creation of a pilot free-trade zone. The Digital Free Trade Zone (DFTZ), the first in the
world, was established by Alibaba and the Malaysian government in March 2017, and aimed to support Malaysian SMEs with their export capabilities. An interconnection agreement between the Malaysian DFTZ and its Chinese counterpart (the first e-hub in China, created by Alibaba in Hangzhou) was signed in May 2017 to develop an e-commerce platform between Malaysia and China. This very ambitious project, consistent with other financial and logistical innovations under the aegis of Jack Ma – whose ultimate goal is to establish the Electronic World Trade Platform (eWTP), an initiative also adopted by the G20 in 2016 – was signed by the local Chinese (Che Jun, Secretary of Communist Party of China’s Zhejiang Provincial Committee, Hangzhou) and Malaysian authorities (Najib Razak himself) in May 2017. Inaugurated in November, it is located in Sepang near Kuala Lumpur International Airport to offer digital-technology support: specifically, the DFTZ has a huge, highly sophisticated warehouse and offers all the equipment and services needed for international online commerce. This project has been identified and recognized by the World Bank report as one of Malaysia’s productive initiatives, i.e. one that is “unlocking the potential of the digital economy”.

In 2018, the new government took over these contacts and initiatives to support the development of Malaysian SMEs and the development of the digital economy. Alibaba’s regional office for Southeast Asia was inaugurated in the presence of Mahathir Mohamad in June 2018 in Kuala Lumpur: Jack Ma expressed the hope that the new government would trust him and allow him to implement his ideas in order to contribute to Malaysia’s development. He stated that the relationship between Malaysia and China was “so strategically important” for everyone. The Ministry of Trade and Industry opened an “E-commerce” section on its page, and its 2017 annual report highlights the DTZ, which is supposed to have involved 2000 SMEs, while access
points to the international online logistics system, developed through the cooperation of logistics companies, are supposed to have increased.40

In this area, it should be noted that the development of the physical infrastructure of digital communication (digital fiber cabling on the peninsula), which is itself older, had also been largely entrusted to large Chinese companies, companies that were public such as ZTE, or indirectly linked to the State, such as Huawei (Li and Cheong, 2017). The latter made Malaysia its regional hub based out of Iskandar in 2015. More generally, and – something that Abraham Liu, CEO of Huawei Malaysia prides himself on – this company can legitimately be seen as a key contributor to the development of Malaysian digital telecommunications: broadband, 4G and others (ibid.).

As mentioned above, more than 40% of Malaysian exports towards China are in the electronic components sector and are part of Malaysia’s long-standing involvement in the global electronics value chain. These electronic exports to China correspond to products that are mainly coming out of United States, Japanese and Taiwanese factories operating in Malaysia (Penang, but also Selangor and Johor). These products, some of which have themselves been imported from China, are then assembled and packaged in China for export mainly to the United States, Europe and Japan. The way in which the American-Chinese trade war will affect Malaysian trade has not been clearly evaluated, since the local translation of these tensions in terms of induced changes in the Asian electronics value chain remains difficult to assess for the time being.41

However, in early 2018, New Malaysia continued on its current path, with a 6% increase in trade exchanges over the first 8 months, recording a 12% higher trade surplus than the previous year: the trade outlook therefore seems favorable for the new government in the immediate future.42
4. Juggling with the Contradictions of Malaysian Capitalism

China’s rise in power, within a globalization context in which Malaysia had, however, been very well situated in previous decades, raises another central issue for Malaysian development, that of the so-called “middle income trap” (Felipe, 2012). The “middle income trap” is first and foremost a threat felt and expressed by the government at a time when the country was feeling the impact of the 2009 crisis (Lafaye de Micheaux, 2014b). Subsequently, it was contradicted by Malaysia’s positive economic performance, which grew to 5.9% in 2017, and which, according to government figures published in November, is expected to reach 4.7% in 2018 and 4.9% in 2019. The desired horizon of reaching high-income nation status is approaching, after several years of growth at more than 5% (except 2013: 4.7%, and 2016: 4.2%). Yet the question continues to arise within a Southeast Asia that is increasingly integrated regionally within East Asia, where the wages of neighboring countries – notably Vietnam – appear attractive in sectors such as electronics, which they in turn are developing rapidly.

With Mahathir Mohamad, it is a true expert in the diversification of economic and diplomatic partners who has returned to power. He who had been able to play the card of openness to globalization to ensure the country’s sovereign development should once again be able to skilfully juggle the constraints and opportunities of international integration in order to link together external resources (capital, workers, imported technologies) and specific national needs in the context of renewed regional competition. In this last section, the priorities formulated by the new government are connected from a broader perspective to the institutional structure of Malaysian capitalism. Subject to the current economic challenges, in particular industrial ones, but also to extremely
high democratic expectations, the reforms envisaged are likely to transform the Malaysian accumulation regime, if they give themselves the means to take on, along with the issue of living standards, those of wages, qualifications and workers’ productivity.

4.1. Moving up the Value Chain and Increasing the Qualifications of the National Workforce

The idea, shared by the new government and its economic administration, is that it is no longer a question of being taken in by good growth figures, but of admitting that growth may be as good as it is in high-income countries. This diagnosis made, the question of the solutions to be adopted remains open for the time being. Indeed, Malaysia suffers from a long-standing and chronic problem in terms of the quality of its workforce that limits the range of skilled jobs as well as R&D and thus affects the opportunities for upscaling.

International workforce movements are observable at the top and bottom of the qualification scale in Malaysia. At the high qualification level, there have been many departures of qualified Malaysian graduates, who, in most cases, are not of Malay ethnicity (Malaysian Chinese and Malaysian Indians). In Singapore, according to the 2010 census, 47% of the skilled foreign workers are Malaysian. This brain drain cannot explained by the need to escape poverty, but rather by the need to get away from an economic and social system that is institutionally based on broad positive discrimination in favor of Malays, ranging from education to employment, via land and capital ownership, support for SMEs, housing prices and access to tenders (Gomez and Saravananmuttu, 2013). At the same time, the education system itself suffers from rather serious qualitative shortcomings, particularly in higher education (Lafaye de Micheaux, 2019), leading many young Malaysians to study abroad, where they then settle easily. At the other end of the spectrum, the
The abundant use of foreign workers (some talk of one third of private industrial employment) keeps pressure on wages in unskilled jobs, in a context of structural labor shortage and a stable and very low unemployment rate – below 3.5%. Moreover, this unemployment rate is on average slightly higher for graduates (4.5%) than for non-graduates. The skills-content of growth and exports, Malaysia’s position in the future in a regional competition where Vietnam is progressing rapidly and is now positioning itself to specialize in electronics and semiconductors – clearly close to Malaysia’s areas of expertise, are in line with the older critical analyses of Jomo, Felker and Rajah Rasiah on Malaysian industrialization and its national innovation system: the reforms in this area have never really been carried out.

Dependence on foreign technologies, a structural feature of Malaysian industrialization and an essential part of its productive system, therefore remains the solution to progress in the face of these challenges. As a result, Japan was the destination of Mahathir Mohamad’s first official visit abroad in early June 2018. The project of a new car was mentioned, no longer nationalistic as was the Proton he wanted in the early 1980s and developed in the following decades, but one that would contribute to the reindustrialization of the national economic fabric and foster necessary training and technological practice. It is expected that this cooperation will make it possible to pursue a specialization that is also based on industrial upscaling. European and American aerospace companies have already contributed to this progress in recent years. Finally, as shown above, relations with China, which are better calibrated and oriented, will also be mobilized in other sectors to ward off the trap of getting blocked at a mid-range specialization level, which would lead to mediocre wages, with a large increase in imports of foreign labor.
Table 3 Institutional Configurations of Malaysian Capitalism:
A Historical Perspective

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1 Top of the institutional hierarchy

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<td>4</td>
<td>Labor-wage nexus</td>
<td>Labor-wage nexus</td>
<td>Labor-wage nexus</td>
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5 Most subaltern dimension, dependent on the others

Source: The author.
Dominated by the role of the State in the economy, the institutional structure of Malaysian capitalism gives the most subaltern role to labor’s institutional form (Gomez and Lafaye de Micheaux, 2017). This status has been quite constant since the colonial period: (1) The Malaysian State, as a planner, producer, investor and redistributor, has played a leading role in accumulation and development since 1971. (2) Its orientations, which in turn back up its industrial and redistribution policies, are the source of its emphasis on international integration it re-committed in the 1970s, to the explicit and primary aim of resolving the country’s social contradictions, and in particular the economic marginality and poverty of the Malays, also as a major component of Bumiputra, a majority population for whom a policy of positive discrimination has been adopted. (3) The monetary dimension fosters this integration and growth before (4) the form of competition is defined, which is complex in Malaysia, because national/foreign dichotomies intersect there; so do public/private companies, the ethnic dimension (ethnic Malaysian Chinese companies; Bumiputra-Malay, strongly supported by a policy of positive discrimination; and others) and the question of size (SMEs versus – most often – large public or foreign multinational companies). (5) In this scheme, the labor-wage nexus is subordinate, totally predetermined (see the 1971-2018 configuration, Table 3).

We believe that the recent and rapid rapprochement with China – including in the political, financial, industrial and monetary realms – although very important in quantitative terms, has still not jeopardized stability, let alone the hierarchy of Malaysia’s institutional architecture. The country’s dependence on China was at first a close interdependence, then became a strong asymmetry due to the respective masses and China’s potential capacity – through these projects that were disproportionate when transposed onto a Malaysian scale – to destabilize
a sector (steel), a local real-estate market (Iskandar), a market (electricity in which China positioned itself essentially without producing anything – solar – or by producing at a loss – dams in Sarawak), not to mention the environmental damage that an overly complacent (or corrupt) administration may have allowed to occur through deregulated bauxite mining, before reacting late as in Pahang in 2015 and 2016. It is therefore up to the government to take responsibility in terms of environmental rules in particular, but its pre-eminent position in the hierarchy of the Malaysian economic system, recognized and even supported by the Chinese government, is still not questioned.

Taking care not to upset the existing institutional complementarities, the links specifically established with China have not really challenged international integration either, since it is the electronics sector that has been most affected by the deployment of trade, with the monetary cooperation between the countries having contributed to the support of the overall structure, giving the Malaysian currency greater stability and further facilitating existing exchanges. The cross-border e-commerce projects undertaken with Alibaba have accelerated these exchanges – both commercial and monetary – but do not create or distort them. Finally, the form of competition is not disrupted either, except probably in the metallurgy sectors or a particular aspect of residential real estate, since Chinese public companies operating in Malaysia via memoranda of understanding are most often linked to their Malaysian partners through public or State-related companies (government-linked companies). However, it would seem that this institutional architecture, left intact by the new dependence on China, will, after several decades and taking into account the regional environment marked by a new wave of emerging countries, result in certain contradictions: this coherence could be modified if a complete review of the labor issue is considered within the context of the reforms underway.
4.2. Addressing the Issue of Labor and Living Standards: a Shared Political Challenge

The possibility for the Malaysian government to review, through a series of coherent reforms, labor remuneration conjoined with the improvement of employees’ qualifications, in order to open up new potentialities in terms of productivity, innovation capacities and competitiveness within regional trade seems to be emerging in the wake of the May 2018 general elections.

One of the government’s top priorities, the second according to the 2019 budget, is the “socio-economic well-being of Malaysians”. On this subject, there is indeed a consensus among the heads of the Central Bank and the Budget Director at the Ministry of Finance, whose reflections are based on scientific studies revealing the decline in the standard of living of the poorest 40%.45 In addition to the reaffirmation of the principle of fighting corruption, the desire to redistribute dividends more broadly than to the business class is expressed. Growth is to become more “inclusive” again and the question of redistribution is to be seriously addressed. Indeed, this subject has never deserted the UMNO’s political speeches, insofar as the latest budgets and the 11th Malaysian Plan referred to targeted measures in favor of the first four deciles, the Bottom 40 constituting a statistical category in and of itself that is closely monitored. However, the reopening of the scale of inequality from above, the ostentatious enrichment of the upper political fringe, the explosion of tax evasion46 have led Malaysians to consider that their situation is no longer improving, but may even be deteriorating. The 6% VAT (Goods and Services Tax / GST) introduced by Najib Razak in 2015 has proved highly unpopular in this context.

Raising the minimum wage and raising the general level of wages are measures envisaged to improve the social prospects of young
Malaysian graduates. Indeed, labor-force training was already seen as “the weak link in the national innovation system” by G. Felker at the beginning of the 21st century. The plans of attack envisaged by the government are surprisingly broad. With regard to labor and its revaluation, an increase in the minimum wage is provided for in the 2019 budget: 1,100 MYR (235 euros) per month from 1 January 2019, compared to the current 1,000 (the minimum wage was introduced by Najib Razak in 2014). But the hesitations surrounding the redefinition of new institutional forms (which frame the accumulation regime) are clearly perceptible with regard to immigrant workers. This subject is at the heart of objective tensions between the conjunctural concern to reduce recourse to immigrant workers in an attempt to counter the rise in unemployment among young Malaysian graduates; the structural recourse to this foreign labor force in order to limit wage increases; the desire to shift skills and industrial specialization up towards higher value-added production; and the obvious educational limitations that hinder such progress. Especially since the need, from a long-term perspective, to redevelop a quality education system does not seem to be really guaranteed by the already controversial appointment of a Minister of Education with a doctorate in Islamic studies.

The new policy on migrant workers is embedded in a context in which Najib Razak’s Malaysia was very poorly ranked by the United States’ Department of State in successive reports on human trafficking. The dehumanization in the treatment of foreigners and the notorious corruption of the authorities in charge of foreign workers had been far-reaching under the previous regime. Police pursuit of illegal workers increased in July and August 2018: undocumented foreigners, particularly numerous in Kuala Lumpur, were subject to intensive and high-profile police actions. These measures contradicted the ambitions and expectations of human-rights defenders, who expected that the legal,
police and administrative framework in this area would progress rapidly under the new government. However, one month later, in contrast to this rigidifying of migrant conditions in Malaysia, the tax for foreign workers extending their contracts in Malaysia started being charged to employers while it had previously been paid almost entirely by the immigrants themselves.48

By putting education, labor and its remuneration on the agenda, and by thinking about reconsidering the massive use of low-skilled foreign labor, the reforms under way could lead to a profound change in the institutional hierarchy that makes the labor-wage nexus the most subaltern dimension of Malaysian capitalism. The new authorities are aware that a value-added distribution-key of around 35% for wages compared to 65% for return on capital – i.e. exceptionally favorable to capital – could become a source of obstacles to social progress. The lasting historical consensus accompanying the accumulation regime that was established starting in 1971 placed State-led and export-led development under the sign of a pro-Bumiputra redistribution of resources (Gomez and Lafaye de Micheaux, 2017). In recent years, it gave rise to high levels of corruption, which had long been embedded in a context of the political patronage of growth, and more recently linked to a very small number of individuals, focused on Prime Minister Najib Razak (Gomez et al., 2017). Thus, in the medium and long term, labor – it would seem – should undergo profound qualitative and distributional transformations: better paid; less and less marked by ethnic criteria; favoring domestic labor over imported foreign labor; offering local opportunities to young, better-trained and better-skilled Malaysians, and its transformation would open up new macroeconomic and systemic opportunities for Malaysian capitalism, which is currently stuck in a path of specialization with relatively low wages and low technological content.
4.3. Malaysia Baru: Reforms Leading to a New Accumulation Regime

It would thus seem that with Mahathir Mohamad a new accumulation regime is currently emerging: this transition is necessary as a result of the many contradictions that the previous accumulation regime – which had supported the power UMNO – presented. We propose to contextualize the new institutional structure within a long-term historical perspective, which – on the basis of an unprecedented political consensus – could emerge before our very eyes.

The new political authorities, as well as the country’s first economic administrations and in particular Bank Negara, the central bank, as we were told during our recent field survey, are not yet clear on how to proceed.

Maintaining the role of the State at the forefront of the economy seems to be a given, while political priority is given to the fight against corruption and the looting of the nation. The democratic mandate in this sense is unequivocal: “Malaysians have replaced a government that practiced generalized kleptocracy with a transparent (clean) and democratic one”.49 By the fall, Najib Razak and his wife had already been arrested and taken into custody. In each case, the incarceration was actual but very short and followed by release on (substantial) bail. In addition to an expensive villa, countless luxury goods were requisitioned and thus returned to State ownership. Their trial began in April 2019. In addition to the principle of justice, there is also the concern to bring as much of the misappropriated billions back into the State coffers as possible, which will also be facilitated by the arrest and conviction of the multimillionaire Jho Low, jet setter and Najib Razak’s business associate. More systemically, according to an announcement made in October by Mahathir Mohamad, the inheritance tax should be reintroduced. However, on November 2, it did not appear in the new
government’s first budget. On the other hand, concerning the specific aspect of commitments in favor of purchasing power, taxes were immediately reduced in the aftermath of the elections, with the abandonment of GST on 1 June (from 6% to 0%). At the same time, the objective to boost growth was maintained and reaffirmed through the announcement of a monetary policy favorable to activity and purchasing power, while the 2019 draft budget forecasts an inflation rate between 2.5% and 3.5%, while it was 1.5%-2.5% in 2018.

Another government priority is to restore trust in institutions. This should enable the State to regain efficacy in piloting development and free up budgetary room to maneuver. One of the first steps has therefore been to reconsider the mandates of large bureaucracies and public or semi-public companies, known as government-linked companies. Born out of the UMNO’s pro-Malay policies, and having contributed to the political success of Najib Razak and the artificial boost of economic activity via up to 50% of investments during the 2010s – and through some shocking statements by their leaders – these companies have, over the course of a few months, drawn a dividing line within the bureaucracy, according to personal allegiances to the country’s key politicians (Mahathir Mohamad, Daim Zainuddin, Najib Razak, Anwar Ibrahim, etc.). The desire to redefine the role of government in the economy, which has become very intense in recent decades (Gomez et al., 2017), starting from the broad sector of large companies and various public agencies, is very clear. In this respect, we can consider that the institutional dimension known as the forms of competition could be on the way to becoming the most subaltern, because, coming out of the logic of patronage in the service of the continuity of political power, it itself is becoming directly dependent on the financial and monetary dimension. This is happening through a Central Bank that supports growth and reforms, and actively supporting purchasing power and the
reduction of new inequalities. However, the announcement that large State-owned companies, the economic bureaucracy and government-linked companies will be brought under control poses a risk of putting the Malaysian administration on lockdown. Indeed, it is primarily comprised of people of Malay ethnicity, and a direct product of the previous historical compromise. However, as most voted for the New Malaysia, the conversion of the Malaysian public, bureaucratic and economic system – as desired by the new government – remains entirely possible. The recent defections of key UMNO members who decided to join the coalition government, such as Mustapa Mohamed, Najib Razak’s former Minister of International Trade and Industry, should facilitate this changeover.

Thus, and in the context that is currently emerging, the pay ratio, linked once again to other institutional forms, could become a new force for development. This transition could take place in a context of relative economic prosperity, controlled dependence on China and under the auspices of a political break, itself a vector of a continuity that is greater than it might seem.

5. Conclusion: A Profound Structural Change Envisaged for Malaysian Capitalism, within the Framework of an Adjusted and Agreed-upon Dependency on China

In October 2018, a new element related to the Najib Razak trial for multi-billion dollar embezzlement (1MDB) came to light which emphasized the Malaysia-China relationship. This judicial action is necessary in the context of the return of the rule of law, and consistent with the government’s efforts to fight corruption at the level of the heads of large public companies. It involves not only Najib Razak’s wife, who was also arrested, but also Jho Low, Najib Razak’s henchman.
Placed under indictment in absentia, with an extradition warrant, the multimillionaire is supposed to be in Macao and now entering into a bargaining game – in Mahathir Mohamad’s words – on the part of China, which for the time being is categorically refusing to hand him over to the Malaysian authorities.\footnote{51} Mahathir Mohamad’s ability to get what he legitimately wants when he wants it will undoubtedly be a test of his personal power of persuasion in relation to China – a country known to strongly resist extradition requests. But should this be seen, as commentators point out, as a threat to the country’s sovereignty in the context of the new dependency? In May 2018, commentators believed that Malaysia’s political victory would lead China to revise its careless \textit{modus operandi} with regard to ethics and human rights in Southeast Asia; in October, doubt dominated the international press. However, the lines of force in the “precious relationship” are now so well defined that we are leaning towards a controlled dependence, conceived of over the long term and without political jolts, which will allow Mahathir Mohamad, followed by his successor, to continue to build up the country’s prosperity within a peaceful financial, economic and geopolitical framework. This is our opinion at a time when, particularly during the State visit to China in August 2018, it was made clear that corruption was no longer the order of the day; all were reminded of the common benefits to be gained from peace and regional economic integration; when the areas of technology transfer of Chinese investments to Malaysia are jointly identified; and when, finally, it has been noted that the East-West train line will indeed connect the deepwater port of Kuantan in the South China Sea to Klang in the Strait of Malacca.

The Malaysian elections were indeed a surprise: it was a real democratic \textit{coup de théâtre} born out of broad aspirations for justice, a return to law and the preservation of purchasing power. While providing

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a form of continuity in a large number of areas, the new economic dependency and its political underpinnings in relation to China have led the new government to extensively reconsider relations that had become too close and marked by embezzlement and support for a corrupt regime. The great neighbor had supported Najib Razak and led Malaysia into a new and cumbersome form of dependence for this country that is very open, but also very attached to its own sovereignty. This dependence on China, which did not, however, challenge the institutional structure of Malaysian capitalism, will clearly be recalibrated and defined from scratch. Mahathir Mohamad juggles with the country’s various economic and diplomatic partners to carry out reforms (labor, salaries, education, fundamental rights, reindustrialization) deemed necessary for the country’s further development. By doing so, it could ultimately not so much reduce ties with China as fundamentally change the character of Malaysian capitalism, in particular by re-examining – for the first time in modern economic history – an income distribution that is structurally unfavorable to labor. The linkage between maintaining a dependency on foreign trade, technologies and capital with the increase in the share of labor in added value could become generalized into a model.

Notes

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1. *1 Malaysia Development Berhad* (1MDB) is a public investment fund created by Najib Razak in 2009, who was then doubling as both Prime Minister and Minister of Finance. In a text entitled “Disgrace”, we have detailed and analyzed the foundations of this scandal of global impact and its immediate political repercussions. As criticism and public expression had become almost impossible in an increasingly repressive political context of intimidation and threat, this scandal had created a form of shame, subjection and popular despair (Lafaye de Micheaux, 2017b). For a complete study of 1MDB, see Teh (2018).

2. Since 2010, the Chinese Communist Party has been bound by an agreement (MoU) with the UMNO. A strategic partnership was established in 2014, the year the Malaysia-China friendship was sealed. Several State visits were exchanged. Very large industrial trade agreements (several tens of billions of US$) were signed in November 2016.
3. Indeed, until his dismissal and political imprisonment in 1998, Anwar Ibrahim, Mahathir Mohamad’s former Deputy Prime Minister, became the spearhead of the Reformasi opposition movement in the late 1990s, then the leader of Pakatan Rakyat, the first opposition coalition. He was re-imprisoned under Najib Razak, following a new show trial in February 2015.

4. In its «Capitalismes dépendants» (Dependant capitalisms) special Issue (2018), the French Revue de la régulation proposes to reassess the definition and content of the old concept of dependency amidst the current international order. See Magnin, Delteil and Vercueil (2018).

5. This chronicle is based on a series of interviews and observations made possible by the invitation of the French Embassy and the kind hosting of the Pondok Perancis Institute, Kuala Lumpur, Malaysia.

6. This “meta-institution” encapsulates the bound dimensions of wages, productivity level, labour law, labour condition, share of migrant workers, and so on.

7. The Council of Eminent Persons (CEP), ironically also called Council of Elders, was formed by former Minister Daim, known in Malaysia for developing large-scale corruption during his privatizations in the 1980s. He had been recalled by Mahathir Mohamad after the Asian crisis of 1997, while he was also treasurer of the UMNO party (Gomez and Jomo, 1999: 53-56; Jomo (ed.), 1995). Finally, the last to join the eminent intellectual and administrative figures of Jomo K.S. and Tan Sri Zeti were the richest man in the country and almost hundred-year-old “sugar king” Robert Kuok, great magnate of Sino-Malaysian family capitalism, multi-billionaire of the agri-food sector, and Tan Sri Hassan Marican, former president of Petronas, the State-owned oil company and first Malaysian multinational enterprise.

8. “China’s South-east Asia push threatened by new Malaysia regime: Status as Belt and Road posterchild at risk as Mahathir vows to review Chinese
projects” in the *Financial Times* of 16 May 2018; or on the same day in *The Diplomat*, “What’s next for Malaysia-China relations after the 2018 Elections? A closer look at how bilateral ties will likely shape up under the new government in the coming years.”

9. According to the French Embassy, growth (5.9% in 2017) is considered robust. Another point of vigilance concerns private debt, particularly of households (84% of the GDP, +2 points compared to 2010). “Malaisie, cadre économique et financier”, *Publications du service économique*, DG Trésor, August 2018.

10. When the 2019 Budget was presented, the Minister of Finance released his customary economic report on 2 November 2018. The public debt attributable to 1MDB is seemingly MYR 44 billion (US$10 billion).

11. Caught in a phase of falling oil-related budgetary resources, the previous government solved the predicament by artificially withdrawing from its accounts a large number of public-investment projects (Lafaye de Micheaux, 2016).


14. Interview, Putrajaya, 24 August 2018. Under the former government, Johan Mahmood Merican was the Deputy Director of Planning in the Economic Planning Unit (EPU), an entity that was directly linked to the Prime Minister, then also Minister of Finance. The reorganization of the economic administration, including the downgrading of the EPU to the Ministry of Economic Affairs, was implemented by the new government, which does not intend to give the same power and resources to planning in the future. The former EPU second-in-command was in charge of the budget at the Ministry of Finance in Putrajaya, in a ministry headed up by Secretary General Ahmad Badri. The equanimity and consistency of his views in relation to those of the central bank and what we are hearing from the Council of Eminent Persons give credibility to the reforms that are to
be undertaken.

15. We quote the Prime Minister here (KiniTV, 9 October 2018) in order to restitute this very particular political language, always theatrical, excessive, expressive and ironic, which communicates an essential political project and message on the domestic scene. A language that Malaysians hear and understand in the Malay and Malaysian political culture as described by C. Kessler (1995) after A. Milner (1962), and which it would certainly be simplistic to qualify here as a populist diatribe. The tone of Mahathir Mohamad’s speech at the 73rd United Nations Assembly on 28 September 2018 is radically different.

16. This visit took place between 17 and 21 August, after the one made in June to Japan to underline that Mahathir Mohamad wished to retain control over his diplomatic agenda, and his desire to revise the hierarchy between regional powers himself.

17. Senior civil servant positions were caught up, from the summer onwards, in games of allegiance with a strong personal dimension: largely divided not only along the UMNO/Pakatan Harapan divide but also, within the new coalition, by a fracture according to the pro- or anti-Daim line. Mahathir Mohamad was not neutral in this dynamic and was concerned about the possibility of sabotage, which everyone understood could undermine the credibility and scope of action of the new government. For example, Dr. Suraya Ismail, a researcher at the Khazanah Research Institute (KRI), became director after the departure of its previous director Dato’ Charon Mokhzani, who considered the executive’s scathing statements about Khazanah, the country’s first sovereign wealth fund and sword arm of the government, extremely unfair and destructive. Khazanah was publicly accused of not fulfilling its mandate: the entire board of directors resigned (Interview, KRI, Kuala Lumpur, 20 August 2018). In contrast, Dato’ Charon Mokhzani, a former member of Khazanah’s Board of Directors and a close associate of Daim, took over as head of the

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investment department of the Malaysian Industrial Development Finance Bhd, the oldest development fund among domestic investments (1965), and now associated with the other very large national GNI investment fund, now headed up by Tan Sri Zeti. The anger expressed at Khazanah is countered by the optimism regarding the future at the MIDF (Interview, 17 August 2018, MIDF, Kuala Lumpur).


19. *Financial Times*, 23 May 2018: “Malaysia will take a shrewder view on investment from China” (Letter from Jomo Kwame Sundaram, Kuala Lumpur, Malaysia). <https://www.ft.com/content/d0c0e63a-5dab-11e8-ad91-e01af256df68>

20. Four out of five of Malaysia’s priorities are part of China’s ten sectors: education, information, telecommunications, health, care for the elderly, aerospace and aeronautical equipment, electric cars, transport and renewable energy.


22. In the last days of a complicated and extremely short campaign (11 days), some prominent individuals who followed the campaign trail felt a growing faith in the possibility of the victory of Mahathir Mohamad and his allies. Eddin Khoo, a Malaysian intellectual and the son of the great national historian Khoo Boo Teik – a journalist and writer – was among them. (Interview, Kuala Lumpur, 2018.)

23. In a letter later that was made public, Najib Razak asked for CIA support in the event of public unrest: this was considered possible not in the event of failure, but rather as a result of too close of a victory.
24. Following the elections, Dato’ Ambiga Sreenevasan – a lawyer and former president of the Malaysian Bar Association who was closely monitored by the authorities for her fierce denunciations of their violations of human rights and the constitution – was appointed to the Institutional Reform Commission, a body which is responsible for transforming Malaysian law and its judicial system in general. (Interview, 24 August, 2018, Kuala Lumpur.)


26. Miss Choo, Director of Planning, MIDA, 20 August 2018, Kuala Lumpur. With 37 years of experience at MIDA, Miss Choo has headed the statistics department for decades, keeping it up with legendary rigor and impartiality, making herself indispensable to successive ministers. As Director of Planning, she clearly seems happy to serve the new government. But, during our visit, there was a status quo surrounding the activity of the administration, which was confident in its future and that of the country, because the new minister (Darell Leiking) had not yet been appointed. The previous (and highly respected) Minister of International Trade and Industry, elected by the Parliament from the UMNO, would himself join the ranks of the Pakatan Harapan on 27 October 2018.

27. Mohamad Nozlan Khadri, Deputy Director of the Monetary Policy Department, where he has been working for many years. Unlike other less independent authorities, continuity is extremely strong at the central bank: in the position of Governor, Nor Shamsiah, formerly Zeti’s Finance Deputy, following Muhammad bin Ibrahim, formerly Zeti’s Investment Deputy. From 1987 on, Shamsiah was with the central bank where she served as Deputy Governor from 2010 before leaving the institution in April 2016, as Zeti, who was then making a stand against Najib in a period of turmoil caused by the 1MDB scandal. At the time, First Deputy, Mohamed Ibrahim, was appointed Governor after her, before he was fired
by the new government team. Shamsiah was brought back from the IMF in New York on 18 June and, appointed by Mahathir Mohamad, took up her position as Governor on 1 July. (Interview, Bank Negara, Kuala Lumpur, 23 August 2018.)


29. CIMB-PRINCIPAL, China Direct Opportunities Fund Prospectus, “Harnessing the opportunities from direct investments in China A-Shares”, May 2018. We do not yet have data on the activity of this fund, as the first balance sheet will be prepared in the first annual report, which will only be published in early 2019.


31. The 16% drop in Malaysian exports was caught up the following year.

32. New Straits Times, June 2018, “Bilateral trade between Malaysia, China to exceed US $100 bln”.


34. Xiamen is the Chinese city whose university has opened a branch in Malaysia, in Sepang, near the airport: work on the project was inaugurated by Najib in 2014.

35. The stated goal is to double the e-commerce volume by 2020 to reach 211 billion MYR, or US$50 billion. Six avenues are emphasized: accelerate the adoption of e-commerce by sellers; increase the adoption of supplies through the same channels (e-procurement); remove non-tariff barriers (documents completed online; cross-border electronic payment; consumer protection); redesign incentive systems; invest in strategic e-commerce partners; promote national brands through e-commerce). (World Bank, Malaysia Economic Monitor 2018, p. 59.)

36. Cainiao, Alibaba’s logistics subsidiary, Lazada, Alibaba’s e-commerce driver in Southeast Asia, and the Malaysian Post Office were expected to jointly develop a regional e-distribution center at the end of 2017 (to provide e-fulfillment services), while Alibaba Cloud, the group’s IT arm,
was already planning to open a center in Malaysia.

37. “Alibaba signs MoU with Malaysia’s MDEC and Hangzhou Municipal Government to facilitate global trade for SMEs under eWTP” (press release), Alibaba, Hangzhou, China, May 12, 2017.

38. “e-fulfilment hub: a one-stop online cross-border trading services platform, cooperation in e-payment and financing, and the development of e-talent training that will support Malaysia’s planned transformation into a digital economy”. (Source: “Alibaba Signs MoU with Malaysia’s MDEC and Hangzhou Municipal Government to Facilitate Global Trade for SMEs Under eWTP” (press release), Alibaba, Hangzhou, China, May 12, 2017. To better “understand” the atmosphere and context of this initiative: <https://www.youtube.com/watch?v=SzPqkEDSVDw>.


40. *MITI 2017 Report*, p. 44.


42. Despite a decline in agricultural goods, which represent 7% of its exports, compared to 84% of manufactured industrial exports and 9% for mining products (including oil and gas). (Source: Matrade/MITI.)


44. This has led Malaysia to become the world’s largest exporter in a few months and China’s largest supplier (50% of its imports). According to an announcement by the Mahathir Mohamad government in September 2018, this activity, which had been put under a moratorium since then, is expected to resume.

45. Against the backdrop of a financial scandal of exorbitant amounts with, in the foreground, raids of the many residences of Najib and his wife, images of hundreds of luxury handbags, extravagant diamonds and Jho Low’s
huge yacht – worth US$250 million – the value of which the Treasury will never be able to recover.


48. It is on this level that we observed the main discrepancy between Mahathir Mohamad’s public speeches and the discourse of his senior officials (Central Bank, Ministry of Finance) on foreign workers.


51. *ASEAN Today*, 9 October 2018, “How a political trial is straining Sino-Malaysian relations”.

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On President Rodrigo Duterte’s “War on Drugs”:
Its Impact on Philippine-China Relations

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Abstract
This study looks into the “War on Drugs” of the Duterte Administration and how it impacts on the diplomatic relations between the Philippines and China. Although Philippine-China relations have been marred by the case filed by the former with the Permanent Court of Arbitration in relation to the territorial dispute of the two countries in the South China Sea or West Philippine Sea, this study contends that their relationship improved for the better as a consequence of Duterte’s “War on Drugs”. In carrying out his “War on Drugs”, Duterte came under barrage of criticisms from the West in which he became a pariah leader of sort. Consequently, he abandoned old friends and turned to China where he found a sympathetic ally.

Keywords: war on drugs, diplomatic relations, President Duterte, peripheral realism, Scarborough Shoal
1. Introduction

This paper explains the impact of Duterte’s “War on Drugs” on the diplomatic relations between the Philippines and China. The level of analysis is the political actor, in this case the president of the Philippines Rodrigo Duterte, as the torso of the polity (Agpalo, 1973, in Jorge V. Tigno (ed.) (2018), see p. 154) who makes decisions within a sovereign locus, and undoubtedly has overarching effects as to how such a decision affects the Philippines’ relations with other states particularly China. This paper contends that Duterte’s “War on Drugs” although vehemently condemned by most countries and leaders in the West, contributed in certain ways to the cementing of a stronger bond of relationship between the Philippines and China.

The “War on Drugs” was unleashed on July 1, 2016, the day following Duterte’s inauguration on June 30, 2016, as the 16th president of the Philippines. The timing says a lot about the president’s actions vis-à-vis the illegal drugs problem in the country. It must be recalled that during his campaign sorties before the Philippine presidential election on May 9, 2016, Duterte had been “promising to end drugs within 3 to 6 months” (Philstar Global, 16 November 2018). So it is not surprising that the first thing he did as president was to implement his “War on Drugs”. In order to support this policy, the Philippine National Police (PNP) issued and implemented Command Memorandum Circular (CMC) No. 16-2016\(^1\) geared towards the effective implementation of the “War on Drugs”. This memorandum circular sets the general guidelines, procedures and tasks in the conduct of the PNP anti-illegal drugs campaign (Rappler, 21/22 November 2017) and therefore serves as its governing document (GMA News Online, 11 October 2017). However, this memorandum circular has been the subject of a petition in the Supreme Court as it operationalizes the war on drugs (Rappler, 11
October 2017) which the Free Legal Assistance Group (FLAG), an association of lawyers, views as unconstitutional.

There is no doubt then that Duterte invariably attaches great importance and urgency to the problem of illegal drugs. This can be mirrored in his Inaugural Speech on June 30, 2016, when he pointed out that “the rampant sale of illegal drugs is one of the problems that must be addressed with urgency” (*CNN Philippines*, 30 June 2016). As in some other parts of the world, illegal drugs use is also a serious social problem in the Philippines. Although data show that illegal drugs use declined over a five-year period from 2008 to 2012, it noticeably increased from 1.2 million in 2012 to 1.7 million in 2016. This can be seen in Figure 1 (from *Philstar*, which culled its data from the Dangerous Drugs Board (DDB), an office under the Office of the President). However, the increase in number of drug users, at 500,000 over a period of five years, is not as grave as what Duterte pointed out in his first State of the Nation Address (SONA) when he said that “based on data from Philippine Drug Enforcement Agency (PDEA), there were about three million drug addicts in the country two or three years ago and possibly 3.7 million now” (Students from UP, 2016). It must also be pointed out that Duterte used the term drug addicts as against drug users, the term used by *Philstar* (see Figure 1). As not all drug users are drug addicts but all drug addicts are drug users, Duterte’s pronouncement in his first SONA in relation to the number of illegal drug users becomes more problematic as it implies that the 3.7 million drug addicts, during that time when he made his SONA, need effective government intervention. With this, referring to the perception of the president as to the seriousness of the drugs problem, Quimpo (2017: 147) said that Duterte has blown it way out of proportion. On a similar note, Mendoza, Baysic and Lalic (2016) pointed out that around 27% of the 42,605 barangays² all over the country are affected by drugs, including the
Figure 1 Headcount of Drug Users in the Philippines

Note: The graph shows the number of drug users in the Philippines during a particular year and how the number changed over a seventeen-year period from 1999 to 2016. President Duterte calculated in his first State of the Nation Address (SONA) on July 25, 2016, that two to three years before he assumed office, the number of drug addicts were only 3 million and it increased to 3.7 million in 2016 (Source: Philstar Global).

Source: Philstar Global, 16 December 2016. Data from the Dangerous Drugs Board, under the Office of the President (cited by Philstar Global).

National Capital Region with 93% of its 1,706 barangays. Even with all these data, the prevalence of drug problem in the Philippines is still below the global average. It is said that “the country's drug prevalence rate of 2.3 percent is still below the global average of 5.2 percent
(Philstar Global, 16 December 2016). Nevertheless, the Duterte Administration consistently takes issue on illegal drugs and through concerned government agencies aims to attain an illegal-drug-free environment. For instance, one of the board regulations of the DDB, particularly Board Regulation No. 13, Series of 2018, seeks to establish and institutionalize drug-free workplace policies in all government offices, including the conduct of authorized drug testing for elective local officials and appointive public officers (Philippine anti-illegal drugs strategy 2018).

Duterte in many of his public appearances and pronouncements fearlessly pushes his “War on Drugs” as an important public policy. Concomitantly therefore, he issued Executive Order No. 15, with the title, “Creation of an Inter-agency Committee on Anti-Illlegal Drugs (ICAD) and Anti-Illlegal Drug Task Force to Suppress the Drug Problem in the Country” on March 6, 2017. This executive order clearly states that, “it is the policy of the state to pursue an effective campaign against the trafficking and use of dangerous drugs” (E.O. No. 15 s. 2017). To further highlight the seriousness of the drug problem in the country, Duterte again issued Executive Order No. 66, with the title, “Institutionalizing the Philippine Anti-Illlegal Drugs Strategy” on October 29, 2018. The issuance of this executive order is a tacit recognition by the Duterte Administration regarding the proliferation of prohibited drugs and their precursor as a serious national concern (E.O. No. 66 s. 2018). This leads Bautista (2017: 3) to comment saying that his brutal drugs war has become the cornerstone of his administration. And so, using and iron fist, Duterte even “entranced the Filipino people – goading them to kill, to physically eliminate those who oppose their visions and justified deaths in the name of protecting the country” (Narag, 2017). Also, echoing one of his latest pronouncements after the police in Bulacan Province north of Manila netted about 32 drug
dependents who were killed after their so-called “One Time Big Time” operation which started at 12 a.m. on August 15, 2017, and ended at 12 a.m. the following day, Duterte said, “If we could kill another 32 everyday, then maybe we can reduce what ails this country” (Manila Standard, 18 August 2017). His support for the police even if they kill people in the name of doing their duty is beyond doubt when he said, “Do your duty, and if in the process, you kill 1,000 persons, I will protect you” (Philstar Global, 2 July 2016). Here is a national leader showing his strong support for killings in the name of saving his country from perdition.

This study will help in understanding the gravity of the illegal drugs problem in the Philippines and how its current leader, Duterte, deftly offers a panacea to the problem that definitely does not sit well with some leaders not only in the Philippines but also abroad. His handling of the problem in effect leads to a panoply of interpretations, regarding the concepts of justice and human rights. Because of the perceived injustice and violation of human rights supposedly committed by the State against the vulnerable members of the citizenry as a result of the “War on Drugs”, the task of diplomacy becomes both challenging and at the same time a walk in the park. Because of Duterte’s deft handling of the situation, the Philippines’ loss of longtime friends is somehow compensated by an improved relationship it gained with China. Although there had been numerous studies conducted in the past regarding the problem of illegal drugs, few if none dealt with the manner of how such problem is translated into a domestic public policy that somehow serves as a vital factor in the smooth and easy conduct of international relations with countries sympathetic to the Duterte Administration’s “War on Drugs” like China. This paper is a modest contribution to understanding such a situation.
2. Methods of the Study

This is a qualitative study. Data have been collected from and references made to books, journals, newspapers and Internet articles.

For the framework of analysis, this study uses Peripheral Realism Theory in international relations as explicated by Carlos Escudé. Since this study focuses on the improved diplomatic relations between the Philippines and China starting from July 1, 2016, when Duterte was sworn in as president to the present, as an offshoot of his “War on Drugs”, the relationship of the two countries will be examined and explained based on the hierarchical division of countries in the interstate system – rule makers, rule takers and rebel states (Escudé, 2014) or states that command, states that obey and states that rebel (Schenoni and Escudé, 2016). Rule makers or states that command are those states which are also the principal rule breakers; they are the five permanent members of the UN Security Council and they have the capacity to destroy the world (Escudé, 2016). From this perspective it is clear that China being one of the five permanent members of the UN Security Council is a rule maker or a state that commands. And because of its economic performance, China has a newfound role as a global rule maker (Goodman, 2018). China is likewise a rule breaker that has the capacity to destroy the world and it does not always act in accordance with international law (Laurenceson, 2017). On the other hand, rule takers or states that obey are those majority of states who are forced to behave according to the rules (Escudé, 2014), obviously put in place and guarded for compliance by the rule makers. But before Carlos Escudé, the concept of rule taker at least at the personal level has been explained by Immanuel Kant when he argued that it is the people’s duty to endure even the most intolerable abuse of supreme authority. The reason for this is that resistance to the supreme legislation can itself only be unlawful;
indeed it must be conceived as destroying the entire lawful constitution because, in order for it to be authorized, there would have to be a public law that would permit the resistance (Kant, cited in Corlett, 2003). In the interstate system, the Philippines is clearly a rule taker. In many of its dealings with other states in the interstate system, like its dealings with China, the Philippines is forced to behave according to the rules made by the rule makers.

3. “War on Drugs”: An Important Public Policy of the Duterte Administration

The illegal drugs problem in the country has been magnified when Duterte took the helm of governance. When he was inaugurated and subsequently assumed office on June 30, 2016, it was then when he unleashed his “War on Drugs”. This policy is the realization of his campaign promise as one of the presidential candidates in the May 9, 2016, national elections. In his campaign sorties, Duterte stood “on a platform of ending criminality in the country, including the illegal drugs trade” (Rappler, 24 July / 3 August 2017). Also, on the eve of Duterte’s May 9, 2016, election victory, he told a crowd of more than 300,000 that “you drug pushers, holdup men, and do-nothings, you better get out because I’ll kill you” (Human Rights Watch (n.d.), “Philippines’ ‘war on drugs’”). These statements are then the crystallization of what is today his “War on Drugs”. True to his verbal pronouncements he really showed his resolve to combat the illegal drugs problem. So he issued Executive Order No. 15 and Executive Order No. 66 on March 6, 2017, and on October 29, 2018, respectively, which give legal ground to his “War on Drugs”.

Following suit, government agencies mandated to carry out the task of mitigating the proliferation of illegal drugs like the DDB, PDEA and
the PNP simultaneously issued circulars and similar issuances in support to the president if only for the realization of such an aim for an illegal-drug-free Philippines.

It can be said that one of the factors which catapulted Duterte to the Philippine presidency is his hard and uncompromising stance against illegal drugs. In a survey conducted by Pulse Asia it was found out that “support for President Rodrigo Duterte’s war on drugs is the majority sentiment among Filipinos” (Pulse Asia, 17 October 2017). Duterte shows to the people particularly to his supporters that stamping out illegal drugs is non-negotiable. For him, no amount of criticism can prevent the successful implementation of the policy as he shares in the grief of people who are victims of crimes by those who are under the influence of illegal drugs. For example, in one of his speeches before military troops on August 8, 2017, he said, “Filipinos are getting killed, I grieve for so many women raped, men killed, infants raped because of drug addiction” (Al Jazeera, 10 August 2016). In many other times, he is very much unrelenting. His strong stance against illegal drugs is apparent in many occasions wherein he does not mince words in telling the police to kill drug addicts. On July 1, 2016, a day after his inauguration as president of the Philippines while addressing police officers, he boldly told them, “If you know of any addicts, go ahead and kill them yourself as getting their parents to do it would be too painful” (Time, 26 September 2016). He is also unperturbed by the criticism accusing him that his “War on Drugs” actually just targets the poor who are in fact the victims of the policy. Apparently the president acknowledges this when he said, “Well, I am sorry. I have to clean up until such time the drug lords are eliminated from the streets” (Inquirer.net, 26 March 2017). Still, in carrying out his “War on Drugs”, the president is not concerned with what other people will say about him or how people will rate him regarding the way he handles the illegal
drugs problem. In a reaction to the critics of his “War on Drugs”, he said, “You can rate me good, very good, excellent or very poor, and I don’t mind” (GMA News Online, 29 June 2017). Such a statement is an indication of how strong and unperturbed he is in stamping out the illegal drugs problem in his country.

Amidst criticisms hurled at him while at the same time trying to project an image to the international community and the Filipino nation as a focused leader, Duterte is worried about the gravity of the illegal drugs problem in his country, lest it will slide into and become a narco-state. That is why he is determined to stamp out the problem of illegal drugs in the country by all means. Although his method of carrying out the policy is seen by members of the international community and some leaders in the country as against established norms and standards, still there is no trace of slowing down on drug pushers and users. The “War on Drugs” has only been briefly stopped on January 29, 2017, when Duterte announced the disbarment of police operations against illegal drugs and passing the authority of illegal drugs crackdown from the PNP to the PDEA. The disbarment happened when the president sensed that his “War on Drugs” is rearing an ugly head, after the death of South Korean businessman Jee Ick-joo. Jee was believed to have been kidnapped and murdered on October 18, 2017, by the police in the PNP headquarters itself in the name of illegal drugs war. However, the lull in the police operations in the name of the “War on Drugs” was only for a brief time, as it was again resumed by Duterte on February 28, 2017, after the PDEA reported that there was again a resurgence of the activities of people involved in illegal drugs one month after the policy was halted. By Duterte’s pronouncements, the “War on Drugs” must be carried out with determination and without regard even for international groups who criticize him of what he is doing. At one time he even chided human rights groups for getting in the way of his anti-drugs
campaign. Addressing them, Duterte said, “police should shoot if they
obstructed justice” (Reuters, 17 August 2017). This statement from the
Philippine leader generated sharp criticisms from media practitioners
and it undoubtedly fanned the embers of contempt from people critical
of his “War on Drugs”.

As can be observed, the Duterte Administration places the
responsibility of implementing the “War on Drugs” on the police.
Interestingly, he already named Ronald M. dela Rosa as the Director
General and at the same time Chief of the PNP even before assuming
office as president of the country. Their close association can be traced
back when dela Rosa served as the chief of the Davao City Police Office
during Duterte’s term as Davao City Mayor from June 30, 2013, to June
30, 2016. Rightly so, upon assumption of office, the first official action
of PNP Chief dela Rosa was the issuance of Command Memorandum
Circular (CMC) No. 16-2016 that undoubtedly reinforces Duterte’s “War
on Drugs”.

4. Philippine-China Relations: From Distrust to Collaboration

At the moment, although the Philippines and China can be said to be
enjoying strong and firm relations, their future interaction with each
other remains to be anyone’s guess. China’s conduct of its relations with
other countries is determined by the economic and political
circumstances obtaining in the country vis-à-vis other states in the
interstate system. Pye (1984: 107) said that trade became the main form
of contact between China and the West. Interestingly enough, as its
economy developed, the manner how its international relations is
conducted also changes over time. And China of course cannot afford to
ignore the reality in the global market. The country has to adjust. For
China, as what Goodman and Segal (1989 (eds.): 132) pointed out, the
idea of closing doors and ignoring the global market economy seems unlikely and fruitless.

During the early 1990s China was not yet developed as it is today. Many Chinese, especially in the countryside, were poorer then. Glaringly, their poverty constrained them from doing things that would entail financial obligations on their part. Many people did not have the capacity to buy things they need much more to engage in recreation like travelling around for leisure. For instance, in late 1992, a man in his early 80s living in Yantai, Shandong Province, which is 18 hours away from Beijing by ordinary train had not gone to the capital yet since his birth. Asked why, he wryly but frankly answered that he had no money to make such a trip. According to him, a trip to Beijing from Yantai, if he has to stay in the capital for five days, will cost him his one-month salary as a building guard. Here is a Chinese poor as he is by certain standards, who had not yet travelled to his country’s capital even if it is accessible by public transport. This could be an isolated case so to speak but China’s economy was still in doldrums during the early 1970s. Townsend (1980: 7) pointed out that its estimated 1976 per-capita GNP of US$340 places it among the poorer countries of the world. By this standard, China during the mid-1970s although already a permanent member of the United Nation’s Security Council can be considered as a Third World country because of its poor economy. But then the good thing is that China’s economy during the last quarter of the 1980s started to pick up. In 1987, the country’s economy grew at a rate of 9.4% with industrial production up by an amazing 14.6% (Dittmer, 1989). China then was able to move out from the periphery for as what Carlos Escudé (2014) pointed out economic development may be the only way out of the periphery. Before attaining the economic status that it enjoys today China was then so prudent in dealing with other states, lest it be accused of bullying the weak countries, an actuation it dreadfully abhor.
China even in the past had been championing to be against injustice especially committed by strong countries against the weak ones. Because of this, it gained friends among the rank of the weak countries which it viewed as sharing with it the same predicament. Mao Tse-tung for example, knew all too well that Japan has to be contained if only to deter that country from occupying its immediate weak neighbours in Asia. With this, China being a victim of Japan’s imperialism rallied round similarly-situated countries in order to send a signal to Japan that any future aggressive moves will be met with resistance. And China as Mao hinted will be a friend of similarly-situated countries. For example, Mao intimated in one of his interviews with Edgar Snow that China considers the Philippines its friend as it also suffered under the menace of aggressive powers (Snow, 1961: 87), obviously referring to Japan. And yes, the Filipinos were shocked by Japan’s successful invasion and conquest of their homeland in 1941-1942 (Greene, 1957: 479). Apparently, Mao attached great importance to his country’s relations with other counties who have also suffered the same fate his country suffered under the yoke of aggressive powers, including Japan. Indeed, Mao Tse-tung especially empathized with the Philippines who also suffered from Japan’s harsh colonial policies after World War II. To some extent, China’s foreign relations is dictated by what its leaders consider as favourable to China’s national interest (Scalapino, 1980). During this stage of China’s development, the country can be considered as a rule taker, to use Escudé’s yardstick, as it was not yet a permanent member of the United Nations Security Council.

Looking back at China’s international relations history, it pays pointing out that in the 1950s, its foreign policy can be said to be pragmatic and forward-looking. Although it aligned itself with the Soviet Union against the United States at the height of the Cold War, it arguably
did not consider ideology to be an important factor in its interaction with other countries. Considering that the Philippines was with the camp of the United States during the Cold War, still the country remained to be within the orbit of China’s potential friends. China regarded the neutralist nations and diverse non-Communist but anti-imperialist groups as potential allies (Barnett, 1977: 8). The Philippines then aptly suits this description and was therefore a potential friend of China. On October 25, 1971, the United Nations General Assembly voted to admit China as one of the five permanent members of the United Nations Security Council (The Learning Network, The New York Times, 25 October 2011), taking over that prized position from the Republic of China which was then controlled by the Nationalist forces of Chiang Kai-shek. Four years later on June 9, 1975, the Philippines and China established diplomatic relations.

However, the Philippines like China had also its own domestic problems to contend with. Foremost of this is the problem of Communist insurgency that had been trying to overthrow the liberal government in the Philippines in favour of a Marxist-inspired one. With this development, the established legal government of the Philippines has always been suspecting that the Filipino Communists were supported by the Chinese Communists in their political struggle to attain a Communist state and a classless society. This state of events therefore puts a strain on the bilateral relations of the Philippines and China. Although Philippine-China relations have recently improved for the better, historically their relations have been marked by distrust and animosity. In other words, the past relationship of the two countries was not so good. For one, the previous successive Philippine administrations before Duterte’s considered China as the patron and supplier of arms to the New People’s Army (NPA), the armed wing of the Communist Party of the Philippines (CPP), said to be the Maoist descendants of the Huk
(Kim and Ziring, 1977) that seeks to overthrow the Philippine government in favor of a new state led by the working class (Stanford University, 2015). With this, there is a perception among some Filipinos that the NPA is sympathetic to the Chinese residents in the Philippines as a way of showing its indebtedness to the support it gets from China. Greene (1957: 484) for instance wrote that the Communist movement in the Philippines extended its support to the Chinese residents in the country. The perceived intervention of China in the domestic affairs of the Philippines, particularly as regards the Communist insurgency, serves as a constraining factor in the smooth conduct of relations between the Philippines and China.

Upon Duterte’s assumption as president of the Philippines, his uncompromising stance about his “War on Drugs” cost him some valued allies but then the Philippines and China became closer. Their relationship transcended the great animosity the two countries have been nursing in relations to their territorial dispute in the South China Sea or the West Philippine Sea that was capped with the latter filing a case against the former in the Permanent Court of Arbitration (PCA) in The Hague, the Netherlands.

5. Philippine-China Relations during the Aquino Administration: Challenging the Rule Maker

Former president Benigno Aquino III was installed to office as the 15th president of the Philippines on June 30, 2010. The Philippine-China relations under his watch have not been so good. The spotty interaction between the two countries during the Aquino Administration is due to so many factors ranging from the shabby treatment of Hong Kong tourists in Manila during the 2010 hostage crisis to territorial dispute in the South China Sea or the West Philippines Sea.
It must be recalled that the Philippine-China relations suffered a setback in 2010 just barely a month and 23 days after Aquino’s ascendency as president when on August 23, 2010, sacked Senior Inspector Rolando Mendoza of the PNP took a bus with 25 passengers, mostly Hong Kong nationals, hostage in the vicinity of the famous Rizal Park in Manila. Eight Hong Kong nationals plus the hijacker (South China Morning Post, 12 April 2018) Inspector Mendoza himself were killed in the bloody siege. This incident became a major obstacle in the conduct of smooth relations between the Philippines and China in the days that followed. The anger on the part of the Chinese community regarding the Philippine government’s handling of the situation has been blamed on Aquino’s supposed lack of concern for the relatives of the victims. At one point the Chinese government insisted on an apology – but Aquino refused (Martelino-Reyes, 2015). The anger of some Hong Kong nationals associated with the hostage-taking crisis had been slow to die down. After the hostage crisis took place, Aquino was still haunted by this. For instance, he was confronted by some Hong Kong reporters in the APEC Summit in Bali, Indonesia, three years after the hostage crisis as they were trying to interview Aquino regarding this incident in 2010. As Philstar Global (8 October 2013) reported, the behavior of these reporters crossed the line from mere questioning to heckling.

The most sensitive issue that defines the relations between the Philippines and China is their overlapping claims of territory in the Spratlys which the Philippines considers as part of its territory by virtue of the provisions of the United Nations Convention on the Law of the Sea (UNCLOS) which both the government of the Philippines and China ratified. China on the other hand claims that the Spratlys is part of its territory by historical rights (Asia Blog, 16 June 2016). It claims that the islands in the Spratlys have been “discovered” by the Chinese who have
therefore been going about the areas even long before the Philippines sets claim on the islands. And China is not keeping secret about its claim to the South China Sea or the West Philippine Sea for it even unilaterally drew what it called as nine-dash line encircling about 80% of the South China Sea or the West Philippine Sea. Quondam Chinese Foreign Minister Wang Yi said that, “the dispute over the sovereignty of some reefs in the Nansha (Spratly) Islands is a leftover problem of history and historical facts should come first in handling the dispute” (Kim, 2014).

The problem of the two countries with regard to their overlapping claims of territories in the South China Sea or the West Philippines Sea came to a head on April 8, 2012. That day during a routine patrol, members of the Philippine Navy aboard BRP Gregorio del Pilar sighted Chinese vessels in the vicinity of Scarborough Shoal believed to be fishing in the area, which many Filipinos consider as their traditional fishing ground. The Scarborough Shoal is not part of the Spratlys and this shoal is very near to the main island of Luzon in northern Philippines. It is just 230 kilometers or 124 nautical miles from the Philippines’ Zambales Province but 650 kilometers from Hainan Province, the nearest major Chinese land mass. At that moment, the Philippine Navy tried to accost and later inspected the Chinese fishing boats and found poached contraband of rare corals, live shark and giant clams. In a few moments however, medium-sized ships of the Chinese Coast Guard came to the rescue of the Chinese fishermen. The immediacy of the appearance of the Chinese Coast Guard ships is an indication that such ships were just in the vicinity of the shoal. And in November 2012, because of bad weather, the Philippines and China agreed to pull out their patrol ships from Scarborough Shoal. The Philippine government pulled out its patrol vessels but China did not comply. Chinese patrol ships remained in the area then effectively controlling Scarborough Shoal and afterwards even prohibiting Filipino
fishermen from fishing in the area. This incident caused the Philippines and China’s bilateral ties to plunge to a nadir not seen since the end of the Cold War (Heydarian, 2018). The Philippines and China, at least up to the end of former Philippine president Aquino III’s term, remain at odds regarding their conflicting claims over Scarborough Shoal and some other outcrops in the South China Sea or the West Philippine Sea. Their claim over disputed islands and shoals remain unresolved (The New York Times, 18 June 2012) which is a constant cause of friction between the two countries.

Because of China’s continued occupation of Scarborough Shoal the Aquino Administration filed a case – PCA Case No. 2013-19 – with the PCA in The Hague, the Netherlands, in January 2013. The Philippines accused China of encroachment into parts of its territory in the West Philippine Sea, as defined in the UNCLOS. The Scarborough Shoal has been occupied and controlled by China since November 2012. With its close distance to the Philippines, Scarborough Shoal is within its Exclusive Economic Zone (EEZ) as it is situated within the 200 nautical miles as provided for in Article 57 of UNCLOS. After almost three years of hearing the case in which China did not participate even once, the PCA issued its decision in favor of the Philippines on July 12, 2016, just more than a month after Duterte was sworn in as president of the Philippines. The decision of the PCA was a big win for the country but this was not pursued by the Duterte Administration. For Duterte, pressing forward even with the PCA decision in favor of the Philippines would be like committing suicide (Philstar Global, 7 June 2018). The PCA ruling specifically spelled out that there was no legal basis for China to claim historic rights to resources within the sea areas falling within the nine-dash line and that China has violated Philippine sovereign rights (Inquirer.net, 12 July 2016).
It is not a secret that the People’s Republic of China uses force and intimidation to pursue its claim to the Spratlys. In fact, worried about the situation in the Spratlys, the defense ministers of Australia, Japan, and the United States issued a joint statement on June 3, 2018, conveying their governments’ “strong opposition to the use of force or coercion as well as unilateral action to alter the status quo, and to the use of disputed features for military purposes in the South China Sea” (Yiallourides, 2018). China’s use of force against the Philippines is manifested in the continued occupation of the Scarborough Shoal and the Mischief Reef in the Spratlys. Furthermore, China’s unilateral drawing of the nine-dash line, encircling about 80% of the South China Sea where trillions of dollars in ship-borne trade passes every year (The Philippine Star, 6 June 2016), is also a show of force yet a violation of the provisions in the UNCLOS which both the Philippines and China ratified.

6. The Duterte Administration: Following the Rules of the Rule Maker

The close ties the Philippines and China enjoy at present are a result of the impact of a domestic policy on diplomacy. China directly benefited from the falling out of the once-good relations between the Philippines and its Western allies after a constant exchange of words between and among them, as a result of Duterte’s “War on Drugs” which many government leaders in the West view as a violation of the human rights of Filipinos. This then resulted in the withholding of financial grants, arm sales and other concessions to the detriment of the Philippines. As Duterte has been left with limited alternatives, approaching China is his most logical step to take as he became a sort of a pariah leader as a consequence of his “War on Drugs”. As a diplomatic counter-assault, Duterte visited China to send a strong message to the West that he is not
that bad after all he has still friends in China, a powerful country that is a permanent members of the United Nations (U.N.) Security Council with veto power. Undoubtedly, the Philippines’ friendship with China resulted in economic and military aid in favor of the Philippines.

China which is not a traditionally close friend of the Philippines suddenly became the country’s new “big brother” as a result of the “War on Drugs”. During Duterte’s visits to China in April 2018, he exchanged official notes and signed investment pledges and other official agreements between him and China’s leaders. As a tangible result of this state visit, China agreed to provide 3.8 billion Philippine pesos (US$73 million) in economic and infrastructure assistance (Tiezzi, 2018). Furthermore, in the Joint Statement Between the Philippines and China4 released by the Department of Foreign Affairs in 2018, it can be gathered that “China reiterates its firm support to the Philippine government’s efforts in fighting illicit drugs and drug-related crimes, and express willingness to strengthen cooperation in areas including combating the smuggling of illegal drugs and their precursor chemicals, intelligence sharing, joint investigation and operation as well as drug rehabilitation”. The official statement from China expressing its firm support in fighting illicit drugs is in stark contrast to the criticism the “War on Drugs” generated from the West. Furthermore, Heydarian (2017) pointed out that “aside from dangling a multibillion-dollar development package, which includes a large railway network in Duterte’s home island of Mindanao, China has offered to assist in the campaign against illegal drugs”. To concretize its conciliatory stance towards the Philippines, on October 6, 2017, the Chinese government turned over 3,000 units of assault rifles as part of its continuing “military assistance gratis” to the Armed Forces of the Philippines (Inquirer.net, 6 October 2017).

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President Duterte came to power as president of the Philippines by garnering 16,601,997 votes, over 6.6 million more than his closest rival, administration candidate Mar Roxas (CNN Philippines, 30 May 2016). Upon assuming office, he implemented his “War on Drugs” in order to end the country’s supposed narcotics problem (Vera Files, 2017).

Plotting the Philippines’ status in Escudé’s hierarchical order of states in the interstate system under Duterte’s watch, it is still a rule taker. It just transferred its loyalty and friendship from a close ally and rule maker itself – the United States of America – and this time to a new rule maker China. As Duterte himself said, “I am ready to cooperate with my new friends – China and Russia” (Sputnik International, 28 November 2016). Again looking at Escudé’s hierarchical order of states in the interstate system, the Philippines is a rule taker willing to abide by the rules made by the rule makers and one of these rule makers is China.

During this Duterte administration, the Philippines is religiously obeying the rules set by the rule makers, especially the five members of the United Nations Security Council including China, in the light of its position in the hierarchical order of states in the interstate system being a rule taker. For instance, the Philippines dutifully followed the procedures of filing the case against China in relation to the Scarborough Shoal face-off between the two states. As a rule taker the Philippine is more than willing for a peaceful settlement of its conflict with China as reinforced by the pronouncements of Duterte when he said that he did not want to go to war that he could not win (Inquirer.net, 23 May 2018). Looking at the roles played by the states in the hierarchical interstate system, the Philippines aptly conforms to the role of a rule taker because those who defy the interstate hierarchy almost always lose (Escudé 2014). On the other hand, China which is a rule maker did not even attend once to face the judges of the PCA when the hearing of the case was in progress despite the fact that it is a permanent member of the
United Nations Security Council under which the UNCLOS operates and which itself ratified. Ignoring such dispute mechanisms qualifies China to be a rule breaker in Escudé’s hierarchy of states. From this development, it is clear that states do not have the same rights. A few have the power needed to contribute to the establishment of interstate rules, while the great majority are forced to behave according to the rules imposed by this oligopoly (Escudé, 2014).

When Duterte was sworn in to office as president of the Philippines on June 30, 2016, the PCA had not yet issued its ruling of the case the Aquino Administration filed against China concerning the two countries’ overlapping territorial claims in the South China Sea or West Philippine Sea. But when the decision was issued in favor of the Philippines, the Duterte Administration did not confront China about the ruling in its favor. Apparently, it is a question of timing why the Duterte Administration balked at the government’s sweet win in the case it filed with the PCA against China regarding the West Philippine Sea issue that the previous Aquino Administration so vigorously pursued. Duterte was put in a bind because from day one he set into motion his “War on Drugs” that killed people in the process. The killings associated with his “War on Drugs” enraged the international community criticizing it as characterized by barbarism (Zhang, 2016) and violating the human rights of the Filipino people. Criticisms of the policy mostly come from the United States, the European Union and many countries as well as international NGOs in the West. Interestingly, China is quiet about the “War on Drugs” that is going on in the Philippines. In fact China expressed understanding of the government’s efforts to eliminate illegal drugs (Mirasol, 2017). Duterte therefore found an ally in China and rightly so, he visited that country in October 2016 just barely five months after he was sworn in as president.
China promotes itself as champion of the weak states but then it wanders about to do as it pleases as seen in its territorial dispute with the Philippines disregarding established rules like the UNCLOS. Escudé (2014) clearly sheds light on this saying that the world out there is cruel and laden with double standards.

This time, China and the Philippines are closest of friends. Amidst the criticism that Duterte got from the West, China praised the Philippine leader on the way he protects human rights. China’s ambassador to the Philippines Ma Zhaoxu even congratulated Duterte’s administration on its “remarkable achievements” in protecting human rights and said Beijing supported his “holistic campaign” against drugs (Reuters, 8 May 2017). At the moment, the relationship of China and the Philippines is at its best since the two countries established diplomatic relations on June 9, 1975, all because of Duterte’s “War on Drugs”.

7. Summary

Traditionally, the relations of the Philippines with China are not that close as compared to the relations the Philippines has with its traditional allies in the West like the United States of America and the European Union. The relations of the Philippines with China have been marred by many issues foremost of which is the overlapping claims of territories in the South China Sea or West Philippine Sea. China, a permanent member of the United Nations Security Council, continues to flex its muscles in pursuing its claim to almost 80% of the South China Sea or the West Philippine Sea as enclosed within its nine-dash line. In January 2013, because of China’s continued occupation of Scarborough Shoal that lies within the 200 nautical mile Exclusive Economic Zone of the Philippines, the country under the watch of quondam president Aquino filed a case with the PCA in The Hague, the Netherlands. Within the
stretch of the hearing of the case, China did not attend even once. On July 12, 2016, the PCA ruled in favor of the Philippines. Part of the ruling states that there is no legal basis for China to claim historic rights to resources within the sea areas falling within the nine-dash line and that China has violated Philippine sovereign rights. However, the newly-installed leader of the Philippines President Duterte did not follow through with this PCA ruling and let China at least respect the PCA decision.

The newly-installed President Duterte is embroiled in his controversial “War on Drugs” that has been vehemently condemned by the Philippines’ traditional allies in the West like the U.S. and the E.U. resulting in the falling out of their once robust relations. Duterte saw this as interference in the domestic affairs of the Philippines and so he distanced his country from these allies. To mitigate the effects of this diplomatic fiasco, Duterte started to engage with China even in the midst of the fresh court battle the two countries had at the PCA. With Duterte at the helm of governance, the Philippines became closer to China not seen before in the Philippine-China diplomatic history. Their engagement conforms to Escudé’s hierarchical categorization of states in the interstate system: the Philippines being a rule taker religiously toeing the line along orders by a rule maker state that is China.

Notes
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1. This circular was issued by the Philippine National Police (PNP) the day after President Rodrigo Duterte was inaugurated as president of the Republic of the Philippines on June 30, 2016. This was signed by Ronald dela Rosa, the Director-General of the PNP who was then the Police Superintendent of Davao City when Rodrigo Duterte was the mayor of the city from June 30, 2013, to June 30, 2016. Full text of the circular can be viewed at this link <http://didm.pnp.gov.ph/Command%20Memorandum%20Circulars/CMC%202016-16%20PNP%20ANTI-ILLEGAL%20DRUGS%20CAMPAIGN%20PLAN%20%20E%2080%93%20PROJECT%20DOUBLE%20BARREL.pdf>.

2. The barangay is the smallest political unit in the Philippines coming after a municipality or town. A municipality or town in the Philippines is composed of several barangays. A barangay is headed by a Barangay Chairman. The word “barangay” originated from “balangay” which refers to a boat used by Austronesian people when they migrated to the Philippines.

3. This is based on a personal conversation with a man working as a building guard in Yantai, Shandong Province (山东省烟台市), during my tour of China from December 16 to 21, 1992.
4. This joint statement released by the Department of Foreign Affairs of the Philippines was signed between President Rodrigo Duterte and President Xi Jinping (习近平) during the latter’s state visit to the Philippines on November 20-21, 2018.

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Social Welfare, Social Movement and Social Control
Politics of Social Welfare: A Comparison of Social Work Curriculum and Pedagogy in India and China

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Abstract
This study is the result of 66 qualitative interviews conducted with the social work educators and students at the postgraduate departments in India and China. The first author of the article studies at Shandong University in China for six month and the data required for the study were collected during the visit. The aim of the present article is to understand the growth and development of social work education in a parliamentary democracy and a non-electoral Communist regime, i.e. India and China. The study explores (i) the historical background of
social work education in India and China; (ii) how different political ideologies influence social work education; (iii) how different India and China are in their social work / welfare initiatives; (iv) what the learnings from each other’s experiences are. The study is a qualitative exploratory study. Data were collected through in-depth interviews conducted with social work educators and students across India and China.

**Keywords:** social work education, social welfare, curriculum, Communist regime

1. Introduction: History and Development of Social work in India and China

1.1. **Development of Social work in India**

The origin of the practice of social work in India goes back to decades. The concept of social work originated in the pre-modern society as charitable response of individuals or groups of people to address the problems that were affecting the society. All major religions in the society encourage people to help the poor, and some of these religions that were formed thousands of years ago have attached contributions very close to the origin of social work. Therefore, it can be said that social work originated in the ancient times, when human beings started to perform charity work. Until 1936 there were no professional trainings for the social workers as there were no institutions offering social work as an academic discipline in the country. Moreover, at that time social work was considered a service that anyone could offer anyone and did not need any education, qualification or professional training. In 1905 Gopal Krishna Gokhale initiated the specialized ad hoc or short-term training to social workers to infuse a systematic approach. This idea was
initiated through Servants of Indian Society which was established with an idea that a “missionary” spirit alone was not sufficient for an effective social service for the Indian social condition (Ranade, 1987, cited in Adaikalam, 2014). In 1936 the first school of social work then named as Sri Dorabji Tat School of social work came into existence; this was the first effort to professionalize the social work discipline by academic training. Thereafter the social work education and profession have undergone rigorous changes and development. The origins of social work in India are rooted in the humanitarian and altruistic ideals, which took the shape of voluntary work or religious pursuits to help the poor and needy. While these trends continue to influence social work practice in India, the emergence of professional social work has struck a chord for a more radical and action-oriented social work practice (Palattiyil and Sidhva, 2012).

The introduction of professional social work education and training in India was initiated by American educators in 1936 by establishing the first school of social work in Mumbai, which is known today as the Tata Institute of Social Sciences (TISS). TISS was a pioneering effort to professionalize social work with the objective of bringing about social welfare through academic excellence (ibid.). The establishment of TISS was followed by that of a number of other schools of social work, many of which have been set up on Western approaches to practice and catering to the domestic market. At present there are more than 600 schools of social work all over India affiliated to central universities, state universities and independent autonomous colleges (Bodhi and Tripura, 2013). Social work education has shifted its focus to many different areas in the name of specializations and concentrations. At present according to social work educators there is mushrooming of social work institutions which is driven by the global demand for social workers. But the quality and standards of the education and
professionals are still a question. George Palattiyil and Dina Sidhva (2012) argued that globalization and its overwhelming impact on India’s society have led to a more radical and activist type of social work interventions with mass movements, such as efforts to work against the displacement of the rural poor resulting from multi-national hydro-electric projects or movements fostering the equality of Dalits (the untouchables) in the recent years. Looking at the development of the professional social work education in India, Vidya Rao (2012) noted:

The year 1980 was considered as a golden era in the development of professional social work education in India. During this time there were more than 50 new schools of social work established in India and started imparting social work education. Because of the social work academics the concepts like national unity, integrity, democracy, secularism, equality, individual freedom, centralized state, federal system and planned change got a visibility. Further in the year a number of new concepts such as, disaster management, development and environment, social action and social change, rural development were incorporated into social work curriculum.

In the initial days the social work academia was forced to use the American knowledge and sources in the development and delivery of courses in social work. However following this the efforts had been made by social work educational institution and social work educators to develop an Indian model of social work education and practice. The first effort in these directions was the hosting of the Indian Conference of Social Work (ICSW) in the year 1947. Further in the year 1950 the was the signing of contract with the government of the USA which led to the formation of the Technical Cooperation Mission Programme with the council on social work education and the government of USA. And then
the year 1951 saw the beginning of the Rural Community Development and an incorporation of Tribal Welfare (Bodhi and Tripura, 2013).

1.2. Development of Social work in China

Social work education in China was introduced much earlier than India. From its starting in 1920s to its abolition in 1949 and re-introduction in 1986, social work in China has seen many ups and downs. Xia and Guo (2002) noted the three stages that social work in China experienced since its introduction in China: introduction, abolishment and reinstatement. Similar to India, social work was first introduced to China by missionaries in 1922. In the initial days various types of social services were developed by religious organizations for disadvantaged people such as the poor, sick and disabled. The Japanese invasion, the Second World War and the civil war had serious impact on social work departments and schools in China. The schools offering social work educations were either forced to close their programmes or move to western or southern villages during a series of wars. However, in 1949 after the Communist Party assumed power, both social work education and missionary activities were prohibited in China. Social work was absent in China for around 40 years. However, since 1986 China has been offering social work programmes in institutes of higher education (Yan and Tsui, 2007). In a very short span of time social work education institutions have developed considerably and to date, there are nearly 200 social work programmes in colleges and universities throughout China (Yao, 1995; Yan and Tsang, 2005; Yuen-Tsang and Wang, 2002). Similar to India, social work education in China faces many problems and challenges. In order to address these issues an effort was made in 1988 to establish an association of social work education; unfortunately the Tiananmen Square incident took place in 1989 and the incident forced the postponement of the establishment of the association.
Social work in present China is very new professional and academic discipline as it was re-introduced to China after a gap of nearly 40 years. However, at present scholars argue that in spite of its drawbacks social work in present Chinese society is developing rapidly (Xiong and Wang, 2007). Similar to India, Chinese social work faces many challenges related to both education and practice. There is still an existing gap between the education and the practical application of the theoretical knowledge within the Chinese society. In 1999 the Chinese government introduced a new higher education policy, and as a result of this new policy implementation of social work is facing challenges of finding a definition of social work between the civil affairs sectors and other related government sectors. In addition social work across the country also faces the challenge related to overall advancement of social work training programmes, and roles of professional social work organizations in providing quality social services and standardizing training programmes in the country.

Iris Chi (2005) examined the professional growth of social work in China and noted that social work in China has not yet been recognized as a profession. Scholars in social work education further recommended that the most urgent need for social work in China is to improve the quality of training and education which in return will lead to professionalization of social work. However the international social work community expects Chinese social work academia to learn from the experiences of social work from the developed countries and as result of these learnings take the initiative to develop the social work that is more appropriate for the developing countries (Yan and Tsang, 2005; Yan and Cheng, 2009). Further, scholars also argued that China could take any direction in developing its own social work theories and practices which are relevant to Chinese society.
Further, a careful analysis of the literature available in the field of social work in China shows that significant amount of literature has been written on social work and social work education in China. However, most studies are limited to theoretical analyses and only a few have empirical bases (e.g. Yan and Tsang, 2005; Yan and Cheng, 2009). There is a need for empirical study which looks into the aspects of social work education, teaching, and learning and the practice aspects, as well as contribution of the civil society organizations and the professional organizations to social work education and practice.

In effort to develop social work education in China there is a need to understand the social work students’ and the educators’ perception regarding the issues related to social work curriculum, social work teaching and social work practicum and their solution for the problems faced by social work in respective contexts. The present study is important and valid in this line as a significant body of literature has discussed the problems and challenges of current professional education in China, such as the lack of a systematic and standardized curriculum, the insufficient professional training and experience of educators, the separation between university training and field practice, and the shortage of both practice opportunities and qualified supervisors for students (Yuen-Tsang and Wang, 2002; Xiong and Wang, 2007; Yip, 2007; Law and Gu, 2008; Yan and Cheng, 2009). The present study is intended to generate further understanding of the existing knowledge.

Throughout the literature in Chinese social work, one of the major challenges that were frequently discussed is the indigenization of Western social work theories and practice (Yan and Cheng, 2009). Indeed the present study focuses on the indigenization of social work in the respective contexts. The present study holds its importance as the necessity of, and the approaches to, indigenizing Western social work
theories and practice for a local Chinese context have been widely discussed in the Chinese social work academia (Tsang and Yan, 2001; Cheung and Liu, 2004; Yip, 2004; Chan and Chan 2005; Yan and Tsang, 2005; Yan and Cheung 2006; Hutchings and Taylor, 2007; Huang and Zhang, 2008; Hugman, 2009). This study is an attempt to further the understanding of the indigenization.

2. India: Programmes and Policies for Social Welfare

As a welfare state it is the state’s responsibility to ensure the wellbeing of its citizens. Indian constitution provides both rights and duties to its citizens. The state formulates end number of policies and programmes focusing on the development of citizens with special focus on the marginalized and vulnerable. In 1950s Indian government introduced community development programmes with aim to enhance the capacity of the community and village population. The social workers were then closely associated with policy designing, programme planning, and implementation and evaluation of the policy and programmes related to the community development and organizations. In the fifties, sixties and the seventies some social workers were also given opportunity to get involved in the process of formulating policies related to children, women, criminal and custodial justice, habitat planning for the urban poor, rural development, population control, primary health and medical social work. Till about the 1980s and beginning of the 1990s social work educators like Kumarappa, AR Wadia, Bhyram Mehta, MS Gore, PD Kulkarni, Kaikobad, Panakal, SD Gokhale and AS Desai were the contributors to the policy-making at state, national and international levels. These pioneering social work educators had seen the role of social work as a change agent as influenced by the freedom movement and the social movements (Rao, 2012).
There are many state programmes and policies where social work intervenes for the better implementation and making sure that they reach the neediest in the hierarchy. As an affirmative action, the government of India has provided reservation for the Scheduled Caste, Scheduled Tribe and other backward classes of people in education, jobs and political representation as these are the historically marginalized sections of society. The Constitution has provided these guarantees for India’s indigenous peoples (referred to as Scheduled Tribes or STs) and the social group at the bottom of India’s caste hierarchy (the Dalits referred to as Scheduled Castes or SCs). Further, the government came up with a second set of policies focusing on supplementing incomes of the rural poor through a variety of job creation programmes. The Mahatma Gandhi National Rural Employment scheme (MGNREGA) came into existence in 2005 with the aim to provide employment opportunity to the rural below-poverty-line families.

Interestingly most of the government programmes are concentrated towards rural development as the largest and most vulnerable group in India is in the rural settlements and those are also rural landless labourers. The labourers in the Indian villages are lacking in assets, have little bargaining power and are particularly vulnerable due to too much dependency on agricultural output. The state has deployed large amount of administrative, financial and intellectual resources over the years to guarantee employment to the people by employment guarantee programmes. In 1970 an antipoverty programme called the Integrated Rural Development Programme (IRDP) was created to combat poverty. In the later part the same programme was reshaped in many other forms including schemes to make entrepreneurs of the poor such as TRYSEM (Training of Rural Youth for Self-Employment), which provide training and a toolkit, and most recently a self-employment scheme (the Swarnajayanti Grameen Swarozgar Yojana (SGSY), or Golden Jubilee
Rural Self Employment Scheme). Transferring the productive asset to the targeted population is the basic idea behind all these programmes.

Another important problem is the lack of social security for the old-age people as well as for the employment sector. The large number of the labour population of India belongs to the unorganized sector and Indian government does not have a very well established social security system for this section of the population. The two important mandatory pension mechanisms are the civil servants’ defined benefit pension and the “organized sector” system run by the Employees Provident Fund Organization (EPFO), an arm of the Ministry of Labour. At presently only just 11 percent of Indian labour force is covered under the pension system. To date a vast majority of the population lies in the “unorganized sector” and is outside the formal pension system. Support from the children is the principal means of old-age security for the old-age people falling under this group. Responding to this problem many states in India have now introduced old-age pension schemes, but the benefits under these are limited, typically about USD 5 per month and in many cases the benefits are not reaching the needy.

The other important public welfare programme of the Indian government is the public distribution system. The public distribution system aims at equal opportunity and equal distribution of the food grains to all the citizens and the food grains under this system are provided with subsidy by the government. In spite of many developmental programmes, India continues to do poorly on the public provision of basic services even those such as education which are constitutionally obligated. India’s private health expenditure (78%) is one of the highest in the world, reflecting the abysmal provision of public health services. Child mortality and malnutrition are worse than Bangladesh and India’s literacy rates are one of the worst in Asia, as is the extremely limited coverage of sanitation services.
India’s poor record in providing basic public goods and services, like minimal levels of education, health, nutrition, water and sanitation, keeps large number of people marginalized and poor. An unequal society with half-fed population gives enormous space for the social work professionals to intervene with the existing condition.

As Craig (2002) says, radical social work perspective is the one which gives much importance to the political nature of social work where social work professionals engage with political issues that are addressing the underlying causes of oppression. This view of social work clearly indicates that the problem is not one of limited resources, but political priorities and incentives. Further, Burke and Ngonyani (2004), Laird (2004), Mmatli (2008) and Shawky (1972) are of the view that “political” understanding and engagement may be of any kind. It may be raising awareness among the people and the community and struggling against the issues related to politics, economics or geography which are related to social work professional principles. It may also be gaining an understanding of the role of neo-liberal capitalism and its effect on local, national and global relationships between the developed and the developing nations, and the impact of globalization and occupation on democracy, identity and culture.

However Amin (2001), Sewpaul (2006) and Smith (2008) argue that issues of human rights, sexual orientation, genocide and violence, and according to Hölscher and Berhane (2008) displacement and the context of political conflict, are a few areas of concern that need to be addressed more by social work in the present society. In the present scenario the existence of social work itself is threatened by the profession’s inability to confront the forces which are disempowering the profession (Mmatli, 2008: 300). The evidence is that the African social workers lack the power to change the situation which is fundamentally affected by
politics. This confirms that the social work profession is or must be a political endeavour (Sewpaul and Hölscher, 2008: 294). There are also many international incidences where social work has acted politically in challenging the oppression and the discrimination against the profession itself (Hölscher and Berhane, 2008: 312).

Describing the challenges faced by the social workers and social work education in Eritrea, Hölscher and Berhane (2008: 315) state that the macro-political and repressive ideology does not recognize the rights of the people and describe the challenges facing social workers and social work education in Eritrea, highlighting the stark problems facing social workers when working within a macro-political and repressive ideology which does not recognize the Eritrean government’s decision to close down the only university educating social workers due to its belief that it was producing “disobedient nationals”. The condition of social work is not very different in other parts of the world as social workers in other countries affected by conflict such as Northern Ireland and the Middle East have also occupied politically distant stances (Duffy, 2012).

Vidya Rao (2012) notes that the absence of the theory in social work research and emphasis on dealing with immediate practical problems have prevented social work from asking fundamental questions about the role and functions of the state. Every decision that is taken by the state has an implication for people and these need to be addressed by social work. Unfortunately, neither academics nor practitioners have questioned the Indian state in a systematic organized manner and the reason for this is that social work and the social work practitioners consider itself/themselves to be apolitical. But being an agent of change social work is very much political in its approach and cannot think of itself being an apolitical entity.

China in the recent days has made tremendous economic achievements. The income per capita of the country has grown considerably and shown progress of fourfold that of previous growth since 2000. The process of economic development has helped China to pull itself out of absolute poverty especially in the urban parts of the country. However, in spite of the development achieved by China at present a high absolute number of poor persist in the western part of the country (Schatz, 2004). At the same time there are heated debates within the intellectual community about redefining the poverty line that is suitable to Chinese economy and development. On the other hand the Chinese government claims that there are 30 million poor people in the country (Li and Yue, 2004). In order to overcome the problem of poverty and achieve social stability the government implemented a ten-year, nationwide, multi-level (state, province, district, county, municipality) poverty alleviation strategy involving subsidized loans, food for work and grant funds. The programme has been overseen by the State Council Leading Group Office for Poverty Alleviation and Development (Jackson et al., 2005).

The Communist Party of China is also encouraging both foreign and Chinese NGOs to contribute to rural poverty alleviation, within the framework of five-year plan programme (Schatz, 2004). In addition the NGOs, the civil societies in China are working closely with local governments. The NGO’s and civil society interventions are involved in the areas of capacity building, training and service-delivery in microcredit, agriculture, off-farm employment, education, health, water and sanitation, and other activities which are helpful in asset building of the poor and marginalized population (Jackson et al., 2005).

Yip (2007) notes that there are good numbers of studies describing the poverty and analysis that are focusing on social problems in China.
but unfortunately the lacking parts in the studies are solutions, interventions and approaches to these social problems. Further, Yuen-Tsang and Wang (2002) examine a complete dearth of scholarly work on social work response to social problems such as poverty, homelessness, unemployment, marital dissolution, family violence, drug abuse, mental health, HIV/AIDS, natural disasters, etc.

As Leung (2007) observes, social work in China at present is concentrating on clinical social work practice and individualized counseling services. These are evolving to become the dominant form of practice in China, especially in Shanghai. Looking at the Chinese society from the time of the Chinese revolution up to the 1980s, the rural population of China accounted for 80% of the total population (Hewitt, 2008), and 70% among them were peasant farmers (Sachs, 2005). The social and economic inequality between the regions had resulted in the fall of 73% rural population by 1990 (Hewitt, 2008) and to 56% in 2007 (Encyclopaedia Britannica, Inc., 2008). Notwithstanding the reduction in extreme poverty and the rise in income per capita the developmental programmes introduced by the Chinese government are not distributed equality among all the regions. Nevertheless those programmes that are concerned with social development issues had highlighted several problems arising from economic reforms favouring certain special regions, the rapid urbanization of China, and the rural-urban divide, particularly the social and economic inequalities between regions.

Lo and Jiang (2006) argue that the reason for regional imbalance is the negligence of the government in the economic development of the central and the western regions over the last twenty years. Hewitt (2008) points out that one category of the rural population which is in the attention of the government, media and the academia is migrant workers or the floating population who comprises in millions who basically live in the coastal regions of the country and are migrating in search of the
work and better leaving condition in the southern part of the country. However, the contribution by these migrant workers to the Chinese society is remarkable. As Farndon (2008) notes the way these migrant workers have contributed to China’s economic miracle. The contribution of the migrant workers is by providing the hard labour needed in building factories, offices, apartments, and Olympic stadiums. These workers are involved in the work which are low-paid and the work which urban residents are reluctant to do (Lo and Jiang, 2006).

Xiong and Wang (2007) note that social work has emerged as a new solution to many old and new social problems. Further, the present Chinese society has never given so much importance to social work profession. The emerging of social issues after the introduction of economic reforms in China has made the Chinese central government realize the importance of the social work as a solution to the social problems, and then the government decided to import and rebuild social work. As a result of the government initiation the social work programmes were re-introduced in China in Beijing University and three other universities in 1988. The Ministry of Civil Affairs took the initiative of re-inaugurating the social work education programmes in China. Since then social work is addressing and finding solution to social problems which are affecting the Chinese society.

Yan and Tsang (2005) and Qiao and Chan (2005) argue that social problems, such as child abuse, have not been sufficiently addressed by the Chinese government as the major policy focus of the government has been on economic development. As a result of the less consideration of the issues related to children, Qiao and Chan (2005) note that the very term “child abuse” is seldom used in China, even among healthcare professionals who commonly treat injured children. Liao et al. (2011) notes that there are no government interventions for the maltreatment of children as the maltreatment of children in China is still largely
considered as family matter rather than an issue that calls for government attention. It is also interesting to know that child abuse is commonly tolerated in Chinese society, since it is perceived as a means to help children achieve academic success (Liao et al., 2011). Xu et al. (2006) notes that social workers in China act as problem solvers to handle the daily needs of community residents, such as providing home care visits to the elderly who are living alone, and assisting low-income or physically disadvantaged people to obtain social assistance.

4. Empirical Study in India and China: Research Method and Analysis

4.1. Theoretical Approach

This study is based on epistemological assumptions. Epistemology is a philosophical belief system about who can be a knower (Guba and Lincoln 1989; Harding, 1987; Hesse-Biber and Leavy, 2004). Epistemology is also “a way of understanding and explaining how we know what we know” (Crotty, 2003: 3). Epistemology is also “concerned with providing a philosophical grounding for deciding what kinds of knowledge are possible and how we can ensure that they are both adequate and legitimate” (Maynard, 1994). Adopting epistemological approach in the present study, we may say that the social work students in India and China are knowers of the facts related to challenges faced by social work education in their respective countries. Through their experience and participation in the teaching, learning and practice they discover the challenges and the constraints for social work education in India and China. Further, documenting and understanding these experiences of the students through an in-depth interaction in Indian and Chinese schools of social work help the researcher to understand the challenges faced by social work academia in India and

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China, rather than merely discovering the challenges from a researcher’s point of view.

The central aim of the study was to understand the social work students’ perceptions of challenges faced by social work education in India and China. In the view of limited knowledge available on this topic and its exploratory nature, the qualitative research method was chosen because it enables researcher to understand the perception of student social workers along with the challenges faced (Creswell, 2008). A grounded theory approach was used to enable researcher to generate concepts to understand the perception and challenges of social work students (Charmaz, 2006).

4.2. Data Collection

The study is the outcome of first author’s six-month visit to Shandong University, People’s Republic of China. The researcher studied and conducted research at Shandong University as senior visiting scholar during the fall of 2016; the collection of data required for the study was conducted during this visit. The data were collected from the schools of social work spreading across three provinces in China and three metropolitan cites in India. Selection of the regions was guided by the distinct economic, political and administrative reasons. Within these regions the schools of social work were selected based on the following three criteria: (i) the prestigious institutions of social work which are prominently referred to in the respective regions of the country; (ii) institutions having central, state/provincial and university recognition; (iii) the curriculum model of the institution (generic or specialized). Accordingly, five institutions of social work in China and five schools of social work in India that met three or more criteria and added diversity to the data were selected from the Chinese metropolitan cities of Beijing and Shanghai and province of Shandong, and the Indian
metropolitan cities of Delhi, Mumbai and Kolkata. Within the schools of social work, the students were selected purposively for the interview. Accordingly a total of 66 in-depth interviews were carried out in order to collect the data required for the study.

4.3. Data Analysis

The interviews were recorded electronically and then transcriptions of the interview were prepared by the researcher. The transcripts of the interviews were read and analyzed first; then line-by-line review of the transcript was conducted and was coded by highlighting the key words. The themes were determined based on the highlighted key words and were established through phrases, sentences and segments of text. Based on the principles of saturation (Corbin and Strauss, 2008), data were analyzed for each respondent until no new theme emerged. Quotes representing the themes were selected from the transcripts.

5. Research Findings

The results of the study are presented in the following two themes: (1) curriculum; (2) pedagogy. Emerging themes that were developed from the transcripts of the interview of 66 participants are presented under these two main categories. These themes and data within them describe a number of challenges that are faced by social work education in India and China.

5.1. Curriculum

Social work is offered as a teaching and research programme in more than six hundred departments in India. Most of these programmes are offered in different settings, i.e. schools of social work, departments of social work within the State Universities, departments of social
work within the Central Universities, departments within Deemed Universities, departments within Institutes of National Importance and affiliated and constituent colleges of the university systems. In India social work teaching programmes are largely offered by the independent social work departments within university system or as a teaching programme under the schools of social sciences. The University Grant Commission (UGC) and the National Assessment and Accreditation Council (NAAC) are the two national-level bodies which take care of educational standards and the programme delivery within the country. The approval and the accreditation of UGC is a mandatory requirement for all the courses within the country.

Social work as an academic programme in India is well established at the postgraduate level whereas in China social work is offered more at the undergraduate level. In India almost all the social work programmes be they at undergraduate or postgraduate level are affiliated to independent social work departments within the schools of social sciences, where as in China majority of the social work programmes are offered in the departments of sociology or other social sciences departments largely affiliated with technological courses. Perhaps it is because of this reason social work in China is less developed in terms of content development, development of independent theories and field work models. Majority of the social work educators, students and heads of the department interviewed for the study felt the strong need of detaching from sociology and philosophy and establishing an independent department of social work.

Both in Indian and Chinese schools of social work, social work programmes are offered under credit-based semester system. The Master’s level social works’ objective is to prepare the graduates for advanced practice in the areas concerned and to develop expertise in the optional fields. All the five schools of social work studied had a credit-
based social work programme. However, the total credit requirement and the credit distribution among different courses differ from institution to institution within the country.

A comparative analysis of the results shows that the social work curriculum in both India and China has many drawbacks and shortcomings. Even though Indian social work education is 80 years old, the curriculum and contents of the curriculum vary across the schools and there is a complete lack of uniformity in the contents of curriculum. Further, all five university departments in India covered under the present study have diverse curriculum. As respondents reported, maintaining the diversity and some commonality in the social work education throughout the country is the major challenge in the recent past. However, this issue has already been addressed by the Indian social work academia. Many academic conferences and academic meetings have addressed the issue related to widening disparity in the curriculum and pedagogy across the country and its association with the professionalization of social work education, but the condition at present remains the same. Respondent #S2I reported as follows:

It begins from the history and philosophy of social work and there students learn the values, principles and the ethical dilemmas and also philosophy of existence of human beings and that enables them to understand various issues, various problems and solutions keeping in mind human values, and at the same time it supports subjects like working with individuals, groups and communities which actually gives them the applied knowledge in identifying problems and making action plans and also exploring the problem with scientific manner; they have little bit of research subjects and social sciences.
Further analysis shows that in India social work curriculum is largely influenced by the principles of social justice and equality. The base for the curriculum is largely the societal issues and the conditions that are experienced by the people and community. The method courses were borrowed from the West whereas the elective courses and specialization courses were largely dependent on the social problems that are faced by contemporary Indian society. Similar to India, China’s social work academia has social problems in its core curriculum, but by and large the curriculum is based on the Communist ideology. The basic courses taught both at undergraduate and postgraduate level are provided by the Ministry of Education and elective courses are prepared by the educators. While preparing the elective course curriculum the experience of the teacher and interests of the teachers play a major role and based on this the elective courses are provided in the schools of social work. For example, if one school has an educator experienced and interested in offering disability study then that school offers disability studies as an elective or special course in addition to the core courses given by the MOE.

Further, in India the development of social work was influenced by the social issues and the problems that emerged as the result of urbanization and industrialization in the late 1940s. The primary aim of social work as a service profession is to address the social issues that are problematic for the development of the society. The issues such as poverty, unemployment, exploitation of the weaker section, and the problems related to caste, gender, religion and region are always addressed by the social work academia and practice. Four out of five schools studied have extensive contents related to empowerment of the weaker section within the core courses of social work curriculum. The concepts like gender, social justice and social equality, economic and political rights and the entitlements of the people are also included in the
elective and the special courses in majority of the schools of social work. Respondent #S4 said:

The curriculum under study is a good combination of the concepts related to Indian society and the aspects related to lives of the people. In addition, the curriculum also gives overall information about the global social work and social development. The concepts such as poverty, unemployment, gender justice, social justice, equality, economic equality and political injustice are included in the core curriculum as well as elective papers within social work programme. In general the two-year Master of Social Work course curriculum provides an in-depth understanding of social problems and an overall interventional knowledge.

There are other schools where social problems and developmental issues are dealt with separately and the students are taught both social problems and issues related to development. Respondent #E15 said:

We have a separate paper for developmental issues and we have a separate paper for social problems within our social work curriculum. The reason for allocation of two separate issues with difference is because these are the two different things that need different approaches to understand them clearly.

60 out of 66 respondents agreed with the argument that the developmental issues and the social problems need separate and specialized concentrations and interventions in social work programme. Respondent #S4I said:

Within the social work curriculum we see developmental and social issues as two different concepts. The curriculum provides a clear
understanding of how social problems emerge and how they have
effected development of the society. In addition, the curriculum
eqips the students to work with the vulnerable populations such as
the elderly, victims of child sexual abuse, transgender population and
displaced population. The training in the course also helps them to
understand the issues related to unemployment, illiteracy, poverty and
migration.

However, schools of social work in China majorly teach courses
such as introduction to sociology, social work, social statistics, research
methods, social investigation and case work, group work, community
work, social work administration, social work practice, human behavior
and environment, and social psychology in their social work majors.
Further, some other schools also include subjects such as introduction to
social security, history of social thought, Chinese psychological
counseling, organizational sociology, youth social work, social work for
the elderly, social work for women, social work for the disabled, family
social work, and medical social work. Respondent #S34C reported:

The country has more than 300 colleges and universities in the
professional education of social work, more than 60 colleges and
universities running social work professional Master’s education and
training each year of social work graduates about 10000 people but
actually only 10%-30% of the students choose social work; a
considerable part of the others go into the organizations, enterprises
and other units engaged in “counterparts”.

Whereas respondent #S34C said:

The practice components in Chinese social work are missing greatly,
but there must be a combination of adequate theoretical and practical
knowledge. The classroom teaching in social work does not prepare social workers to address the practical issues that are faced by the contemporary Chinese society. Educators, especially those with the practice of case work background, not only in the field of professionals in conducting out social concept classes and teaching students to use the concepts of social work, do not feel free to express a judgment, respect everyone’s ideas and combine with the practical cases.

In India the social work curriculum is largely influenced by the people’s movement, civil society movements, movements related to equality, right and entailment of the people in a democracy. As a result the concepts related to social justice, right-based perspective and social movements are found in both teaching and learning practices. Further, social advocacy and social movement are the integral part of the Indian social work curriculum, whereas in China the social work curriculum is largely influenced by the Communist ideology and government programmes. The social work curriculum in China mainly focuses on social problems, while the right-based approach or the social justice approach is missing in the core curriculum as well as practice.

In sum, the curriculum at the Master’s level among the schools of social work in India and China varies to a great extent. Every school is unique and different in its curriculum structure and content. Some handfuls of institutions have made an attempt to incorporate the indigenous, regional, local context-specific contents into their curriculum. Nevertheless, majority of the schools include the method courses such as case work, group work and community work in the course curriculum spreading across two years of Master’s programme. Through discussion with students it is clear that in both India and China the social work curriculum is highly influenced by the concepts and
theories of the West. Unfortunately, the majority of educators in China are educated and trained in Western countries and bring the same understanding to China and develop Western-influenced curriculum and contents there.

5.2. Pedagogy

Some 29 respondents in India felt that in general the teaching process in the schools is predominantly teacher-centric. Majority of the teachers when coming to class and delivering lecture consider themselves in this process as the subject experts and the students as the learners. In this type of teaching, the students hardly have time to express their views and debate on the issues that need further clarifications. Respondent #S25 said:

The faculties teach from the books written by many authors but the point is that we are in our postgraduate degree programme and we are not given an opportunity to reflect on our knowledge. As postgraduate students we expect our educators to give us some time to discuss and clarify the doubts which we encounter during our learning.

It is also observed that the teaching method changes from teacher to teacher. No schools of social work have a single teaching method defined by the schools and that has to be followed by all the teachers. The curriculum of the schools defines the objectives of the course and it is up to the teachers to adopt any teaching methods that they find suitable for the concepts. Interestingly respondent #S2 reported:

We have some teachers who use different innovative methods of teaching. Some of the teachers make us read books related to the subject and write a review as a part of some evaluation. Some other
teachers show us interesting movies and ask us to write reviews. We find these methods contemporary and relevant to the subjects.

Whereas in China teaching is very much student-friendly and teachers provide an opportunity for the students to discuss and interact with them. Respondent #S40C said:

The educators mainly adopt the way of classroom discussion, group presentation, and the combination of teaching and practice. Through these ways, students can improve their learning initiative, and through the practice, the theory of knowledge for practice, to promote the professional growth of students.

25 out of 33 respondents in Chinese schools of social work reported that the teaching method is student-friendly, but students felt the practice teaching in social work is completely missing and students were unable to link the classroom learning to practical job.

6. Conclusion: Implications for Pedagogy, Practice and Research

In brief, in Indian schools of social work educator integrate their field experience in the teaching. It was observed during the data collection that every educator more or less had experience of working in the field either directly prior to joining the academia or in the research-based activities conducted parallel to teaching. In any case the educators are rich in their practical, field knowledge; hence they could guide students in different field interventions and field-related projects and programmes. In China the major issue related to teaching method is predominantly theoretical and the reason behind this domination of theory is the educators’ lack of field exposure and experience. In many departments of social work the educators who teach social work courses
are not educated in social work or they have gained their degrees from Western countries, probably a large number of them from United States. The lack of field experience for the educators is badly affecting the students learning as they are hardly getting the chance to listen to a teacher who speaks out of his/her experience.

Yuegen Xiong and Sibin Wang (2007) argue that the social work profession in the present China is important as after two decades of rapid economic growth China is facing many social issues like social inequality and social conflict. As reported then by the State Bureau of Statistics, the annual growth rate of the Chinese economy in 2006 remained high at 9.6% (National Bureau of Statistics of China, 2007). Meanwhile, a shift has occurred in the Chinese government policy in the recent years. As per the new policy considerable importance is given to balancing the economic development and social development. Hence the social work as a profession responding to the social problems gains its importance in this context. However, the new policy initiatives by the government of China aim at professionalizing social work education and practice in China.

The new policy is expected to encourage social work schools to strengthen their training programmes by developing curriculum design, empowering faculty members in teaching and research, and standardizing field practice. In the second five-year plan the China Association for Social Work Education set its main objective of enhancing the quality of social work education in the country. Perhaps the focus was then given to social work teaching, enhancing scientific research based on evidence of social work practice in China and strengthening the quality of regulation of field practice. Yuegen Xiong and Sibin Wang (2007) argue both the social development and social welfare institutions in the country will get the benefit of social work development and professionalization.
Zhong (2006) argues that in spite of impressive progress of social work education in China during the past years social work education in China is still in the process of institutionalization. There is much development that needs to be done in the coming years with respect to quality of faculties, the values, knowledge base and skills of the profession, and the disciplinary status of social work. Miu Chung Yan (2013) in a discussion paper notes that the Chinese social work academia should think of indigenization of the social work education in line with learning from the West.

The indigenization of the teaching and the curriculum is important in the context of international social work; through “indigenization” the imported values, knowledge and skills need to be filtered, through a cultural lens, to adapt to the local context. Chinese social work should think of developing the education which is more responsive to the Chinese culture and people. Anything and everything borrowed from the West may not be suited to the Chinese social political and economic condition.

Another serious problem social work education is facing in China presently is the lack of autonomy for the department of social work. As mentioned earlier in this article many social work programmes in China are offered as a major in the department of social policy or department of sociology. In some university departments social work is just a major subject and there is no department of social work. Majority of the social work programmes are associated with the department of sociology; in some cases the department of social work does exist but it is not independent in any respect and it is under the broad umbrella of the sociology department. As students and educators reported, this type of arrangement of the academic affairs is really creating problems for the social work department.
As reflected by majority of the social work students, social work in China needs to be segregated from the other disciplines and social work should be established as a separate department within the school of social sciences. Social work is a practice-oriented course and the needs and demands of a course like social work are different from those of the theory-oriented courses. Hence merging the social work departments along with the strong theory-oriented departments or a school is hindering the actual development of social work in China. But the present situation of social work is not favouring the autonomy of the social work departments as there are very limited number of educators who are educated in the social work education. Hence the social work field in China is currently facing the problem related to experienced educators for restructuring and advocating the autonomy of the social work departments.

Introduction of a new profession needs to experience three stages: introduction, localization and rooted stage. Social work as a profession is at its introduction stage in China at present, and the education and training mainly aims to enlarge its professionals group, raise its social reputation, and then move to the stage of localization. Presently in China everyone, scholar or student, is pushing hard for the development of social work. But social work is alien, and to make the Chinese society completely accept it will require a certain amount of time and space, which is why many social work practitioners feel very tired now, and to be close to exploring the road of social work in China is difficult. In general social work education in China is still expected to provide more theory courses along with some lessons on crisis intervention, knowledge on psychology and psychological problems by using the teachers and their expertise across the departments within the university and across the country.
Notes

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References


Policing Transnational Protests in an Asian Context: 
The WTO Sixth Ministerial Conference in 
Hong Kong

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Abstract

This study utilizes the analytical framework developed by della Porta and Reiter on transnational protest management to study the policing of the Sixth WTO Ministerial Conference (MC6) held in Hong Kong, 2005. Findings show that the Hong Kong Police acted in line with the contemporary emphasis on negotiated management in dealing with its first-ever encounter with transnational protestors, partly due to institutional motivations and severe public scrutiny. Persuasive counter-insurgencies were used to ensure the smooth operation of the conference but at the same time allow the anti-globalization activists to voice out their appeals, in a tug-of-war of antagonistic local demands for freedom of expression and a low tolerance for public disorder. Three major features could be identified, including (1) urban fortification of the conference venue despite its downtown locale; (2) protest zoning with proactive mediation and intelligence gathering; and (3) avoidance of coercive force in both action and appearance. The policing of WTO
MC6 demonstrates the viability of conciliatory strategies in protest management despite hazardous terrains: shortfalls in both broad democratic accountability and internal chains of command may have inadvertently reined in a police force that sought independent claims to legitimacy in the limelight of local and international observers. Societal intolerance to “law-breaking” behaviour, the absence of strong civic movements and traditions and prudent actions by officers all assisted the Hong Kong Police in containing unrest from transnational protestors who have connected with an otherwise sympathetic local population.

**Keywords:** policing, transnational protests, WTO, Hong Kong

1. Introduction

“Asia’s world city”, as the Hong Kong government’s slogan proclaims, tried to live up to its image by hosting the World Trade Organization (WTO) Ministerial Conference in December 2005. Delegates from 149 member states and territories and 116 observer states and international organizations sent 11,000 participants to the WTO-founding member in the largest international summit ever hosted by Hong Kong. In the streets and parks near the conference venue, however, various social movements and protestors were mobilised against the WTO activities. This study draws on the analytical framework developed by Donatella della Porta and Herbert Reiter (2006) on transnational protest management in order to analyse the Hong Kong events. In a series of writings, della Porta and her colleagues addressed major coercive, persuasive and information counter-insurgencies dominantly used by the Western democracies’ police in dealing with internal security events. Her analysis highlighted several strategic adaptations undertaken by modern police forces in response to counter-summits organized by the
transnational protestors, in which officers applied a mix of negotiation and coercive force as foundational tactics. This study is bolstered and supplemented by other scholarly work on the dynamics between policing and public order, given the anomalous autonomy of the Hong Kong police force from representative politicking.

Using multiple sources of data, including government documents, newspaper articles, interviews with activists and police officers and focus groups, this study aims at examining the strategic foundations of the Hong Kong Police (HKP) in its debut encounter with transnational activism in a globalized context. The discussion concludes with implications for policing in post-MC6 Hong Kong and the region: how did the strategies carried out by the HKP reveal the similarities and variations between the policing environment in liberal democracies and the rest? Does the present discourse effectively explain what happened in Wanchai (灣仔), and what are the limitations of della Porta’s theorization attempts on transnational policing when reviewing this especially Eurasian police force’s encounters with anti-globalization protests?

2. Contemporary Overviews: Theory and Practice since the 1970s

Post-WWII policing focused on the use of “escalated force” in protest control, but since the 1970s many mature democracies have ostensibly given up the strategy of “total control” in public order policing (King and Waddington, 2005; Hoggett and Stott, 2010). Under the new conciliatory principle, the police would respond to disorder and ratchet up their responses in varying public order episodes according to the level of violence amongst protestors, but at least initially a degree of public disruption would be tolerated in an effort to avoid violence (Vitale, 2005). The new framework, which came to be called “negotiated
management”, evolved from the escalated force paradigm and was influenced by the modernist penal philosophy which shows greater respect for democratic rights, and consequently a softer protest policing developed (Noakes and Gillham, 2006; Gorringe, Rosie, Waddington and Kominou, 2012).

Naturally, civilian (and not a few scholarly) perceptions remain unconvinced that theory and practice would align. In most deconstructionist discourses, such as those by Gillham on Seattle, players in large-scale transnational protests tend to weave disparate if not outright contradictory narratives with regard to their policing experiences. Having understood from previous experiences that “escalated force” would only lead to increased violence, police authorities considered means to diffuse potential tensions with demonstrators when policing protests. The police in Western Europe and the United States generally apply soft strategies first to maintain a channel for negotiation with the demonstrators, especially when handling anti-globalization events given their experiences with escalating violence that has resulted in property destruction and loss of life, and some would only send in anti-riot squads to irreversibly break up the event as a last resort.

However, the volume on transnational social movements as compiled by della Porta and Tarrow (2005) is notably limited to a subset of nations: it depicts a norm in which the police is concerned with domestic terrorism, citizens are battling corporatism, and politicians are struggling with disenfranchised voters. While broadly useful in some WTO contexts, these assumptions nonetheless put a straitjacket on parallel policing experiences in Asia, especially in states with different widespread expectations of public order. Plainly put, what is seen as a picket scuffle in one country may be described as violent social unrest in another, with subsequent differences in demands and restraints for
officers who, as de Lint (2003) put it, are agencies of moral institutions within the state.

Nonetheless, three global strategic foundations in public order policing have become widespread at the turn of the millennium. The police would attempt to mediate with the protest organizers, avoid coercive intervention against the protests to the best of their ability, and perfect the instruments for information gathering. All these actions are aimed at garnering public approval and creating favourable conditions for subsequent police actions in protest management. This new strategy displays an obvious departure from protest policing in the 1960s which attempted to extinguish all unauthorized demonstrations with prejudice, with a tendency by authorities to posture and adopt “enforcer” attitudes towards any and all protestors.

2.1. Mediation

The first strategy is to seek consensus and common ground with the protestors. Police will take proactive steps to engineer a favourable physical and social environment for protest policing through the introduction of counterstrategies aimed to prevent widespread public disturbances. Under a peacekeeper’s banner, complicated procedures of negotiation emerged with the aim to avoid disasters. Police authorities will take proactive steps to avoid the outbreak of large-scale confrontations between protestors and the police by coordinating some form of agreement with protest organizers on demonstration routes and venues prior to the protest. Designated public protest zones may be established in some cases to give mutually acceptable places for the public to express their appeals. Meanwhile, risk assessment will be conducted by police authorities on corresponding operational plans.

Public relation efforts have also increased. Police authorities will try to gain public approval and acceptance for their counter-insurgencies in
protest management through media management activities (Marx, 1998). For instance, before the protest they will broadcast justifications for their plan and actions in order to win public support. Meanwhile, the police also pay increasing attention to message dissemination and management. It is now a common sight for a police spokesperson waiting in the wings to make explicit the rationale for the actions as soon as possible in order to stop the spread of rumours and accusations.

2.2. Avoiding Coercive Interventions

The second strategy is to avoid coercive intervention through selective non-enforcement of laws for minor violations. Police authorities would exercise less visible and expressive forms of coercion, instead opting for consensus where feasible. Learning from previous encounters, some forces have abandoned zero-tolerance policing in protests as research showed that the militarization of public order policing was more likely to spell catastrophe and bring casualties (Kraska and Paulsen, 1997).

The literature on anti-riot strategies indeed suggests that high-profile actions are more likely to inflame protestors’ violent dispositions. With this in mind, some forces tend to install anti-riot hardware in inconspicuous places and will only dispatch anti-riot squads when the situation has gotten out of hand. If sent, the squad will subdue the protestors and escort them away from the scene using minimum force. In most cases, police officers do not put on anti-riot gear and wear only regular working dress. Various types of “less lethal” arms were often used against demonstrators, from those traditionally deployed by police public order units, such as tear gas and water cannon, to new developments like hand-held irritant sprays and rubber/plastic bullets. The police will also act discreetly when deploying anti-riot teams and heavy arms to avoid provoking the protestors. As long as the situation is under control, and unless they are ordered by their super-ordinates, the
frontline demonstration-control teams will not take any forceful actions against the crowd. But a number of anti-riot members with hardware will be standing by near the demonstration route in case of worsening situations. Meanwhile, minor law-breaking incidents will be tolerated by the police. Thus peacekeeping becomes the predominant concern of the police who aim to create a “win-win” situation in which public order is largely maintained and freedoms of expression and assembly are preserved.

The new strategic paradigm also features the deployment of special police units to selectively intervene against the violent fringes of the demonstrations in a divide-and-contain, if not divide-and-rule, tactic. It is in fact fundamental to the strategy of de-escalating force in that it combines commitment to dialogue with targeted action against militant factions in an attempt to isolate and arrest parties involved in property destruction or physical violence without restricting peaceful demonstrators.

2.3. *Strengthening Intelligence*

The last strategic foundation is wide-ranging collection of information and media management. The police authority’s use of intelligence in the control of protestors has received substantial attention. The police force would compile files on groups and individuals to deter the protestors. Police would place heavy emphasis on the risk assessment prior to the protest and would carry out both “Negotiated Management” and “Intelligence Collection”. Risk assessment is done in every aspect of the forthcoming demonstration; they communicate with protestors’ delegates in the hopes of reaching agreement on the route and other issues. The police also collect live information from group leaders in order to draw multiple contingency plans. Second, the police will assume the role of “Facilitator”, allowing the protestors to put forward their complaints.
while vigilantly watching out for any threats to personal safety, vandalism and theft. Lastly, attempts will be made to infiltrate into the demonstration crowds. Unarmed plainclothes police, often disproportionately female, are often stationed in inconspicuous spots along protesting route, or asked to mingle with the people. They will collect information and evidence of crime and report the latest strategies of the demonstrating groups to commanders.

2.4. The ‘Two-Pronged’ Strategy: Controller to Facilitator, Intelligence and Action

This new protest policing approach was described as a two-pronged strategy originated from the principles and techniques deployed for the management of crime, namely, intelligence gathering, analysis and targeted actions (King and Waddington, 2005). The police place heavy emphasis on the risk assessment prior to the protest and will carry out negotiated management and intelligence collection, the latter of which has been receiving substantial attention amongst general and academic observers.

In general, the tactical tendencies of protest policing in Western Europe and America since the 1980s has reiterated the language of civil and/or human rights, and thus the principle of “control” was replaced by “facilitation” in protest policing. As concluded by della Porta and Reiter (2006), tolerance of minor violations of the law, selective police intervention oriented towards protecting the demonstration rights of peaceful protesters, demilitarization of police intervention and reliance upon bargaining and self-policing have become the foundational parameters in policing protests in liberal democracies – provided that they are the “familiar” kind of protestors.
3. Against Alien Citizens: Tides in Transnational Protest Policing

As identified by Greg Martin and others, however, the policing of protests at international events by transnational protesters has put pressure on and in some cases seemingly reversed the trend towards a more “democratic” protest policing style (Martin, 2011; della Porta and Zamboni, 2012). In the last two decades a rising culture of transnational social movements has gradually developed (della Porta and Tarrow, 2005); a plurality of these members speak out against globalization and its discontents. To give some contemporaneous context in the Asia Pacific region as summarized by Piper and Uhlin’s 2004 compilation, Johan Lindquist described how HIV/AIDS in the Indonesia-Malaysia-Singapore growth triangle was tackled in situating NGOs and networks, while Meredith Weiss examined secular rights-based and Islam-based campaigns spilling out from Malaysia (Lindquist, 2004; Weiss, 2004). Other scholars noted how the furious pace of democratization in Taiwan has taken on a transnational human rights discourse, while Indonesia, the fourth most populous country in the world, pursues a similar course in good governance in the face of economic globalization (Lin, 2004; Jemadu, 2004).

The global pace of protest is even more hectic, with modern technological advances allowing the rapid spread of information and opinion, while veteran anti-globalization groups, anarchists, trade unionists and farmers’ leagues descend on the host countries of major international meetings. At least a vocal portion of these members call for the interruption of many international trade or financial organization meetings such as the Group of Eight (G8), World Bank, and WTO, through means of civil disobedience or outright violence. On the first day of the WTO Ministerial Conference in Seattle in 1999, demonstrators reached 40,000 in number, and a number were injured.
during police actions. The Conference’s opening ceremony was postponed for five and a half hours. Eventually the mayor declared a state of civil emergency and imposed a curfew downtown. For the Cancún Ministerial Conference in Mexico in September 2003, about 2,500 non-governmental organization representatives and anti-globalization activists staged a demonstration on the opening day of the conference. The violence of the clash was compounded by the suicide of Lee Kyang-hae (이경해 / 李京海), a Korean farmer and key activist who stabbed himself during the public demonstration. In both conferences, causalities amongst both the police and protesting groups were reported and considerable economic losses were noted. In addition, the police of the host cities were criticized by protestors and observers for their responses to the demonstrators.

The new trend of social movements also exposed the limitations of negotiated management in protest management. The processes of negotiation, planning, prevention, citizens’ involvement, and engineering could be expensive, time-consuming and insufficient in events that develop rapidly over mere days. Proactive intelligence gathering has been challenged as an infringement of civil liberty by the media, while the soft strategies may also be criticized as simply officers not doing their jobs. The tolerant attitude may also be exploited by the extremists bent on creating maximum disruption or disorder (della Porta and Reiter, 2006). The persuasive strategies also failed to prevent the disruption of law and order as policing succumbed to the urban guerrilla tactics of the transnational protestors.² This strategic adaptation by the protestors in turn has brought changes in police counterstrategies.

### 3.1. Fortification of Conference Venues

The first counterstrategy was fortification of the conference venue. Abundant police resources were deployed to guard the conference
venue. The aim was to insulate the conference delegates from any protests in order to facilitate the uninterrupted running of the summit. On some occasions, the authorities would select a remote spot for the conference, such as resort locales with limited land and air transport access. Since the venue was not easily accessible to all but the most determined demonstrators, police operations become more manageable. The G8 summit held at the Gleneagles Hotel in Scotland in 2005 and the Asia-Pacific Economic Cooperation (APEC) summit in Shanghai in 2001 are probably the best examples. The second strategy was to take stern police actions if officers perceived that the situation was about to spiral out of control, for instance if protestors were attempting to break the police cordon line. The WTO Ministerial Conferences in Seattle in USA in 1999 and Cancún in Mexico in 2003 illustrate this strategy. This new style of protest policing may be called “command and control” and is done in an effort to micro-manage demonstrations and prevent disruption of the peace (King and Waddington, 2005).

King and Waddington (2005) pointed out that police’s adaptive strategy towards the transnational protests could be described as “exclusionary fortress-oriented policing”. There has been much stronger emphasis on isolating political leaders and dignitaries from the risks of contact with demonstrators than on negotiating with organizers to define spaces and limits of protests. Summits were often moved to inaccessible areas, and no-go areas for protestors expanded ever further. Fortification of summits has become in fact the main strategic element in the policing of transnational protest, regardless of the standard modus operandi for otherwise conciliatory policing policies in liberal democracies: Seattle saw fences installed at the venue, trains blocked at border crossings, and personae non grata refused leave to enter (della Porta and Reiter, 2006).
3.2. Selective Incapacitation of “Extremist” Groups

King (1997) identified two distinct but opposing trends in policing strategies in the light of recent transnational protests. Domestic alignment with the institution and practice of more multi-agency, conciliatory, and consultative processes in some parts of the West faces an increasingly militarized and potentially overtly offensive public order policing formula for protests of a transnational nature – and the line is blurring as globalization proceeds apace. Police responses towards the transnational protestors were no longer friendly or tolerant. They inclined to make demonstrations invisible or negate their influences in the public sphere. Antagonistic interventions with a “show of force” attitude were observed and a massive, highly visible police presence is generally reserved for extremist groups in counter-summits.

Administrations would also try to make extensive use of databanks and the exchange of information amongst national police forces in order to prevent individuals deemed dangerous from participating in transnational demonstrations. Meanwhile, the police would place more emphasis on the preventive strategies not aimed at protecting the official summit but pre-emptively directed against movement activists and strategies. This strategy of isolating “symbolic places” has more recently been described as “selective incapacitation”, although it has not always proved successful in maintaining control (della Porta and Zamponi, 2013). The actions include harassing youths due to the demographic makeup of protestors, employing continuous identity checks and stop-and-search powers. To avoid clashes between police and radical protestors, some police authorities would conduct “preventive or anticipatory arrests” – as highly contestable as the concept may be – of key figures in protesting groups and even confiscate their propaganda materials like puppets or banners. Prosecutions usually take place but
oftentimes police allegations against these arrestees were not borne out by judicial authorities (della Porta and Reiter, 2006).

4. The “Siege of Wanchai” in Hong Kong

The WTO’s 6th Ministerial Conference (MC) was held from 13 to 18 December 2005 and ended with the declaration of the Hong Kong Manifesto in which delegates from the 149 voting members reached a consensus on the direction of market opening and the elimination of government farm-export subsidies. Outside the conference hall, the Hong Kong Police used tear gas and water cannons to disperse Korean farmers and activists who attempted to break the police cordon line. On the second last day of conference, a large number of Korean protestors clashed with the police near the conference venue in the Wanchai area of Hong Kong island, less than 5 km from the central business district (CBD) and home to 160,000 residents. In the clashes 141 people were injured and about 900 Korean protestors were arrested.

Although many different transnational social movements have been involved in protests against the ongoing WTO negotiations over many years, the farmers from South Korea seemed to have gained a particularly strong reputation for such activism and even violence. South Korea is not alone in still maintaining a relatively protected agricultural sector, but within South Korea itself and overseas the local farmers, fearing their inability to remain competitive, have been especially vocal in warning of the dangers of both opening up the domestic Korean agricultural market to “foreign” agricultural imports and losing their own export subsidies. In the case of MC6, the farmers’ organisations were joined by a number of militant trade union groups from Korea, who had their own agenda in opposing the market-opening being discussed by the WTO.3
A variety of tactics were employed by the protestors over the days leading up to the final violent confrontation. Appendices 1 and 2 illustrate the methods adopted by the Korean and other transnational protestors in detail, but it can be said that apart from marching (often accompanied by drumming and singing) and adopting peaceful Buddhist-style kow-towing, the protestors did also throw themselves into the sea near the Convention Centre (which is bordered by Victoria Harbour on one side), attempt to snatch police shields, and forcibly try to deliver petitions to the Consulates of the major states involved in the WTO.

The Hong Kong Police force has a long and distinguished, though sometimes turbulent, history. While for the majority of its history it was led by British expatriate officers with a rank-and-file which was mixed Chinese, Indian and expatriate, with the approach of the 1997 handover of Hong Kong to China a considerable degree of “localization” was instituted, the recruitment of Europeans was stopped and the first ethnic Chinese Commissioner of Police was installed in 1989. Currently, the HKP is ethnically 99% Chinese, though a few expatriate officers remain awaiting retirement. Although plagued by problems of corruption and low morale even into the 1970s, reforms subsequently introduced have ensured a high degree of professionalization in the current force. The result is that, by the 2000s, in the view of one experienced observer, the HKP was “characterised by a tight organisational structure, comparatively sufficient resources, high salaries and attractive benefits, operational efficiency and effectiveness, and tremendous work pressure”, while also being “punctuated by institutional checks and balances, media scrutiny, the rule of law and a civic culture that relatively regards police work highly” (Lo, 2012). The HKP had been confronted by violent riots in 1967, but in recent decades those demonstrations that did take place, such as the 1989 mass demonstration
in sympathy with pro-democracy demonstrators being massacred by the Chinese military in and around Tiananmen Square as well as the annual 1st July demonstrations which started in 2003, had been conducted in a peaceful manner. Although the 1967 riots had led to the creation of the Police Tactical Unit (PTU) as an anti-riot force, its use had been highly circumscribed in subsequent years and, in the view of some Hong Kong residents, was largely unnecessary.

In dealing with the transnational protests at MC6, the Hong Kong police force was observed to pursue two objectives. The first was to ensure that the presence of police officers always outnumbered the protestors trying to encircle the conference premises. The second objective was to protect foreign dignitaries from harassment. The negotiated management strategy suffused the whole police operation. A non-confrontational approach aimed at de-escalating violence was emphasized. On the one hand, a conciliatory strategy was used to avoid large-scale, direct confrontations with demonstrators; on the other hand, the police constructed a paramilitary contingency plan to launch massive operations should events escalate.

4.1. Downtown Fort and a Show of Force

The geography of Hong Kong limited police options when they designed the public order policing strategy. The Hong Kong Convention and Exhibition Centre was (in)conveniently located at the Wanchai harbour-front, two underground train stops away from the downtown CBD and 15 minutes from millions of residents. The venue would have hindered hard-line approaches, if any were considered, because escalatory conflicts guaranteed casualties and property destruction in the vicinity. The city is also a free port and a separate customs entity from that of Mainland China, with visa-free regimes and an immense tourist footfall. A total of 10,000 local and overseas protesters were expected, although
the final number was probably closer to 5,000 (Hong Kong Police Force, 2006).

From the beginning of December 2005, HKP initiated the “Force Mobilization Order”, in which nearly all regular police officers who had received “Internal Security” (I.S.) training were formed into a platoon of an I.S. company. It was reported that the police authority had arranged a full quarter of its human resources for the police work of WTO MC6, which came to about 10,000 police officers (Hong Kong Police Force, 2006). All auxiliary officers were required to take over the assignment of regular officers who had been called up for the six-day WTO service. Given original estimates of protestor headcount, it seems that the force aimed to match or outnumber the demonstrators. Meanwhile, containment tactics were also applied to isolate the crowd and minimize potential violent escalation (Police Interview, 18 April 2006).

4.2. Avoiding Coercive Police Actions

The force announced in advance through parliamentary and public channels that they would adopt defensive tactics and strictly adhere to the principle of “exercising maximum restraint” and “using minimum force” in ensuring that only peaceful demonstrations would be held throughout the conference (Hong Kong Legislative Council, 2006).

Overseas experiences seemed to have instructed the force that demonstrators would try to get as close as possible to the conference venue to voice out their dissatisfaction. However, unlike the police in Seattle in 1999 and Mexico in 2003, the Hong Kong frontline police officers did not take on the protestors in an aggressive manner. They did not seem to be provoked when Korean farmers tackled, and in some cases by force, their full-body personnel shields outside the protest zone on day two. This defensive and reactive approach drew doubts and anger from the local media who questioned the police’s readiness to counter
the demonstrators. The police responded by saying that their strategy accommodated “cultural differences” in demonstrations and maintained their tactics of tolerance (*South China Morning Post*, 15 December 2005). The police did not ban any marches organized by Korean protestors despite the scuffles which took place on the earlier days of conference. Instead, they persisted with non-violent and non-provoking operations. During the six-day WTO meetings, the police ultimately only escalated the use of force when the cordon line was confronted outside the conference venue on 17 December, that is, the second last day of the conference. In fact, the police authority has made it clear to the public before the conference that all the front-line officers had been told to follow general orders to the letter in using force when exercising their duties7 (Hong Kong Police Force, 2006).

4.3. A Gendered Deployment: Female Officers in Crowd Control

Women police officers played an important role in the police tactics at the WTO Conference. At the MC6 opening ceremony, a time when radical demonstrations were likely, women officers were deployed in the frontline as the vanguard of the police. Unlike regular anti-riot frontline officers, the women officers in the Tango Police Tactical Unit (PTU) Company only carried normal sidearm. They did not carry any protective riot gear. Some protestors visibly softened their stance upon seeing women officers and revealed to the press that they would “put the women officers aside” before further acts of demonstration8 (Interview, 19 January 2006). Some farmers even presented flowers to women officers as a token of respect and courtesy. These gestures alleviated some tension between the two parties and may have prevented an escalation of physical commotion.
Amidst criticism against using women officers as a “human shield”, local police history provided one rationale to the tactic. The practice traced its roots to the 1967 riots when angry crowds surrounded the Governor’s House in central Hong Kong: female police officers were also deployed in the first tier. Such a tactic was successful at that time, particularly in dealing with irritated and predominantly male crowds. This tactic produced tangible results in crowd management, according to officers’ accounts. However, this approach would be replaced by paramilitary contingency plans when serious riots broke out.

4.4. Special Times Call for Special Police Units

On the one hand, the police had been undertaking close-range surveillance on local and overseas protest organizations for a period of time. They also kept regular contact with relevant consulates in Hong Kong to obtain the latest information about key protest proponents and tactics. On the other hand, the Hong Kong Police actively negotiated with the protest group about the demonstration route as well as the location of the designated public activities areas. An interviewee in the force explained:

“Our leaders put a lot of weight in communications with the protesting groups in this event. Additional resources have been allocated to the police negotiation cadre to strengthen its squad. New members were assessed with a psychological test and those with good emotional quotients were recruited. The team, led by a chief superintendent, aimed to facilitate the operation of the demonstration by taking double roles throughout the WTO.” (Police Interview, 19 April 2006)
In fact, it might be the first time the local negotiation team had assumed an intelligence role in public order policing. Members of the team liaised with the protesting camp and tried to reach some consensus. They also served at the frontline and closely monitored the activities of radical camps. All solicited information would be tape-recorded by the team members at headquarters, and the messages filtered by the headquarters would be disseminated to the on-site commanders and channelled to the top police officers during the meetings at headquarters. The new establishment, according to one interviewee, was set up based on the experience of the SARS epidemic in Hong Kong in 2003. The episode saw the police called on for assistance in much-needed errand runs. The extra requests for support demonstrated certain loopholes in their coordination work, alarming senior police officers who were determined to see that similar problems would be avoided during the WTO operation. Therefore, members of negotiation team were stationed at the frontline of policing arenas so that they could deliver the latest intelligence to decision makers.

4.5. Paramilitary Backup Plans and Actions

These anti-riot police efforts were effective in scaling down the conflicts. The Korean protesters behaved in a manner that locals and the force largely found reasonable and orderly as they protested in a somewhat responsible manner; some took a shine to their carnival style of drumming and dancing in the streets. The police emphasis on intelligence collection, communication, compromise, and public relations did help to prevent the outbreak of mass chaos during the early days of the MC6.

Behind the consistent use of the non-confrontational strategy, the Hong Kong Police had in fact devised contingency plans if things should take a turn for the worse. Faced with uncertainties, senior Hong Kong
police managers did not rule out the possibilities of heavy-hand actions. In fact, the police authority gradually revised its tactics when it predicted substantial involvement of local activist figures in the protests. A stronger line was taken in dealing with the ascending violence. Apart from the employment of higher levels of police force, promptness was emphasized in the dispersal of citizen bystanders/onlookers and observers surrounding the cordon area.

Starting from the third day of the protests, non-aligned “lay” local citizens began to participate in rallies organized by Korean protestors. The onlookers included youths, ethnic minorities (Indians, Pakistanis and Nepalese), senior citizens, parents and even children. They were in a non-confrontational, almost carnival mood and seemed comfortable with the protests that were largely led by Korean protestors. They booed when Korean protestors were subdued with fire hoses and pepper spray. They insulted and even hurled some bottles at the police\(^9\) (*South China Morning Post*, 16 December 2006). Seeing this, the PPRB Chief Superintendent asked citizens to be aware of the tense atmosphere and stay away from the protesting zone in Wanchai district (*South China Morning Post*, 17 December 2005).

The escalating atmosphere put the HKP in a very difficult position. A large-scale riot could occur if Korean protestors changed tactics and stepped up their violence. On the penultimate night of the Conference, more than 1,000 protestors clashed with the police near the conference venue in Wanchai. They broke through police cordons, snatched police shields, batons and helmets, and tried to overturn a police van. With metal barriers and bamboo flagpoles at hand, they went within meters of the conference venue.

The Commissioner of Police decided on escalating police force to clear the scene and restore order. The Secretary for Security made a public statement in a ministerial capacity to urge all citizens to leave
Wanchai. To speed up the dispersal, the Hong Kong Government also, for its first time, disseminated an SMS message to ask the general public to leave Wanchai district as soon as possible. Anti-personnel riot gear, incongruously nicknamed “super sock beanbags”, was used on demonstrators who successfully broke through the police cordon and closed in on the conference venue. Eventually, 141 people were injured in the clashes; they included 61 police officers, 54 Koreans and 13 locals. No serious injuries or deaths were reported.


5.1. Public Intolerance of Law-breaking

Della Porta and Reiter (2006) suggested that public order strategies employed by police are in fact a reflection of citizens’ perceptions of the state’s respect for their rights and freedoms. This aligns with broader power relations interpretations of the state which has a monopoly on the legitimate use of physical force, as noted by Max Weber (1919). The adoption of soft approach was empowered and enabled by a consistently strong public appeal to law enforcement in mainstream Hong Kong society. Hong Kong is arguably the only “liberal autocracy” in the world, in a reversal of Fareed Zakaria’s descriptions of “illiberal democracy” (1997), as evidenced by limited popular representation in its legislature and a moderately free press, but also by a strong popular belief in the rule of law.

One of the legacies of British colonial rule, indeed, has been this firm commitment to the rule of law, and Hong Kong citizens expect the police authority to maintain public order entirely by lawful means subject to the judiciary. The level of scrutiny by a population which has extraordinary expectations of police performance and yet limited agency
to influence the force through political representation is bound to restrain the Hong Kong police from drastic actions. At the same time, the Hong Kong public expects and demands to see demonstrations allowed as long as they are conducted in a peaceful manner, seeing these freedoms as constitutional guarantees established by fiat through international treaties rather than sovereign law. This conditional support from Hong Kongers could easily be seen in the immediate withdrawal of sympathy towards Korean protestors after the outbreak of disturbances in Wanchai on the second last day of the WTO conference. The public voiced displeasure at unlawful acts by those who resorted to violence in pressing their claims (*South China Morning Post*, 18 December 2005).

The dimension of power legitimacy may be one factor which stopped the HKP from acting like the Seattle Police in the 1999 conference. Hong Kong is an international financial centre and it is often cited by both libertarian and conservative think tanks as one of the freest cities in the world for trade and business. High-profile confrontations against civil demonstrations during the WTO conference period under the limelight of international and local press posed grave risks to this reputation. Emphasis on public accountability in domestic political discourses, having spilled over to a search for accountability over all public officials, may have fundamentally reined in the new generation of police officers from taking immediate counter-attack actions when meeting with civil protests. Unless conditions had become out of control and had seriously affected the social stability of Hong Kong, the use of substantial levels of police forces in physical or otherwise authoritarian contexts would not be justified.

The conciliatory strategy reflects the strong public appeal from the mainstream Hong Kong society to govern political protests according to the law. Starting from July 2003, Hong Kong citizens had themselves organized annual large-scale peaceful demonstrations; in voicing support
for democratic reforms and other social policies, these events were marked by orderly behaviour and sensible police-public interactions despite hundreds of thousands of participants. Hong Kong citizens expect the police authority to manage the public order in accordance to laws in a manner befitting globally accepted standards in any liberal society. This means that the HKP cannot justify hardline approaches without extraordinary circumstances, and for much of the MC6 it did not consider the situation to be so.

5.2. Deaf Ears: Managing Antagonistic Actors

The success of the HKP can also be attributed to the benevolence of overseas activists who were not bent on wreaking havoc in the first place. Korean protestors were organized in their pursuit to garner maximum exposure – and sympathy – to the plight of farmers back home and thus refrained from extreme acts of disruption until the final evening. A concrete piece of evidence is a concise declaration: their enemy was the WTO but not the HKP\(^\text{10}\) (South China Morning Post, 15 December 2005). They even privately claimed that they have only used “30%” of their normal strength in Hong Kong.\(^\text{11}\) Although they damaged the barriers and boards and used wooden sticks to strike the police, neither massive property damage nor permanent injury materialized. Protestors proclaimed that they exhibited restraint compared to what they would have done on “home turf”. All police shields were returned in a symbolic act, in stark contrast to hostilities in previous WTO conferences.

However, the ways in which the police handled the anti-WTO protests aroused fierce criticisms from civil libertarian groups in Hong Kong. In a report submitted to the Hong Kong Legislative Council, the city’s parliament, they accused the police of using excessive force against the protestors. The police were also condemned for deliberately
blocking rallies by delaying approval of venue requests, using intimidating measures, and mistreating detainees (Hong Kong People’s Alliance on WTO, 2006). Among those criticisms, the most vocal one was made by Joseph Zen (陳日君), Bishop of the Hong Kong Catholic Diocese, who referred to the mass arrests as “the shame of Hong Kong”. The HKP responded by quoting a magistrate who praised the devotion, measured response and outstanding performance of front-line officers. In their evaluation report, the police claimed that its entire operation had been very successful, despite admitting to the need for improvement in certain areas. The HKP also quoted a survey from the University of Hong Kong which found a record high of 81.7 per cent public satisfaction with the HKP after the WTO operations (Hong Kong Police Force, 2006).

6. Conclusion

Protests and remonstrations are an expression of objections by words or actions to events and policies. Demonstrations, being a collective and an often emotive form of protesting, have become a popular strategy around the world for individuals and groups to bond through shared political, economic and ideological demands. Freedom of protest is explicitly or implicitly guaranteed by legislation in many countries and serves as an instrument to ensure liberty and citizens’ rights in keeping with the spirit of democratic rule. However, as protestors step up the game from expression to action along the rungs of civil resistance/disobedience, citizens’ lives face a parallel sliding scale of risk from inconvenience to bodily harm – whether the demonstrators actively seek escalation or not. Thus, protest policing in democracies is intrinsically morally ambiguous (Waddington, 1994). Police in liberal regimes and administrations are often frustrated by their dual roles to respect freedom of expression and
preserve public order; “command and control” thus slowly gives way to negotiated management. Growth and institutionalization of citizenship as a maturing social construct has restrained states from administering swift force to its own citizens. More efforts are paid by police authorities to legitimize their operations due to increasing public acceptance for political protests (della Porta and Reiter, 2006).

Postcolonial Hong Kong toed a thin line between annexation and independence during the sovereignty transfer to China in 1997. Local libertarians voiced popular concerns that the “highly autonomous” administration would merely reproduce or even strengthen past colonial controls on civil liberties.\textsuperscript{14} The establishment countered that the citizens remain free to assemble in public and have always enjoyed the freedom of speech.\textsuperscript{15} Against the backdrop of these alarming discourses frontline officers ironically find it increasingly difficult to keep the peace as their powers are gradually worn thin.

In the WTO MC6 policing assignment, senior Hong Kong police managers placed great attention on ground appreciation (the proper use of ground and cover during operations) before and throughout the conference. Other than the physical presence of police as seen through the media, the HKP also emphasized “invisible” anti-riot measures. They included intelligence collection, communication and compromise, and public relations work. Contemporary literature suggests that “intelligence-led policing” has been widely adopted as the guiding framework for policing political protests in developed countries. Hong Kong was no exception to that rule.

Martin (2011) has argued that the governments of otherwise established democratic states have increasingly allowed the police to use undemocratic tactics during international events in order to sustain public order and national image. The MC6 experience in Hong Kong shows us that conciliatory approaches are still viable in even the most
disadvantageous settings, but are liable to several prerequisites. Namely, they are (1) the political will to restore social order through para-military means, if necessary; (2) the availability of human and monetary resources for the authorities; and (3) the timely competence of police commanders to de-escalate the violence.

This article reviews the first-ever transnational protest in Hong Kong that occurred in 2005. I made use of some protest policing literature to analyze the counter-insurgency strategies of Hong Kong Police. A lot of Asia-Pacific researchers are aware of the protesting trends emerging in Hong Kong since the early 2010s, and the outbreak of “Umbrella Movement” in the fall of 2014 even captured the eyesight of academia fellows all over the world. This study on the protesting episode in a decade before 2014 would be a useful piece of reference for them to have a better capture on the background of the SAR’s political and social development, as well as the transformation of government-society relations over these years. The relatively successful experience of Hong Kong Police in 2005, however, exposed the fragility of the “negotiated management” strategy in the increasing dynamics of protest policing context. My analysis provides a gateway to understand the saga of policing strategies on the series of local protests in the 2010s, and a primary idea for the readers who are keen on understanding the policing of the Umbrella Movement that is worth a thorough and comprehensive analysis in another study.
Supplementary Tables and Appendices

Table 1 Protest Control Strategies

<table>
<thead>
<tr>
<th>Coercive strategies</th>
<th>Escalated force model</th>
<th>Negotiated management model</th>
<th>Transnational protest policing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coercive strategies</td>
<td>Massive use of force to deter even minor violations</td>
<td>Coercion a last resort; tolerance of minor breaches</td>
<td>Selective toleration and massive use of force against targeted protesting groups</td>
</tr>
<tr>
<td>Persuasive strategies</td>
<td>Intimidating use of relations with organizers</td>
<td>Partnership aimed at ensuring the right of assembly and expression</td>
<td>Low trust in negotiation, confined to protest routes and logistics management</td>
</tr>
<tr>
<td>Information strategies</td>
<td>Generalized information gathering</td>
<td>Information gathering focused on punishable offences</td>
<td>Generalized information gathering; establishment of databank and exchange of intelligence with other states; refusal of leave to enter</td>
</tr>
</tbody>
</table>

Source: Adopted and revised from della Porta and Reiter (2006).

Table 2 Coercive Strategies in Policing the WTO MC in Hong Kong

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>WTO MC 6 in Hong Kong, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Massive police presence</td>
<td>Yes. Full mobilization order.</td>
</tr>
<tr>
<td>High visibility of police</td>
<td>Yes. Conference venue, Designated protest zone, Route of rally.</td>
</tr>
<tr>
<td>Plainclothes policemen</td>
<td>Yes.</td>
</tr>
<tr>
<td>Anti-riot gear</td>
<td>Yes. Deployed in selective episodes.</td>
</tr>
<tr>
<td>Special police units</td>
<td>Yes. G4 (à la US Secret Service), Transportation team, Negotiation team.</td>
</tr>
<tr>
<td>Units from more than one police force</td>
<td>No.</td>
</tr>
<tr>
<td>Police with visible identification</td>
<td>Yes.</td>
</tr>
<tr>
<td>Mass arrests</td>
<td>Yes. After the outbreak of violence.</td>
</tr>
<tr>
<td>Unconfirmed arrests (i.e. arrests made without informing public)</td>
<td>No.</td>
</tr>
<tr>
<td>Encircling / penning in of demonstrators</td>
<td>Yes.</td>
</tr>
<tr>
<td>Excessive use of force</td>
<td>No.</td>
</tr>
<tr>
<td>Water cannons</td>
<td>No.</td>
</tr>
<tr>
<td>Tear gas</td>
<td>Yes.</td>
</tr>
<tr>
<td>Handheld spray cans with irritants</td>
<td>Yes. Excessively used.</td>
</tr>
<tr>
<td>Rubber bullets</td>
<td>No.</td>
</tr>
<tr>
<td>Live ammunition</td>
<td>No.</td>
</tr>
</tbody>
</table>
Table 3 Persuasive Strategies in Policing the WTO MC6 in Hong Kong

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>WTO MC6 in Hong Kong, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-event negotiation</td>
<td>Yes. Designated public protest zones.</td>
</tr>
<tr>
<td>Negotiation (during)</td>
<td>Yes. After the outbreak of Wanchai disturbances.</td>
</tr>
<tr>
<td>Barriers</td>
<td>Yes. Restricted areas.</td>
</tr>
<tr>
<td>Control at the borders</td>
<td>No.</td>
</tr>
<tr>
<td>Denial of entrance at the borders</td>
<td>Selective: Jose Bove, whose refusal to grant leave to enter was rescinded after French diplomats intervened.</td>
</tr>
<tr>
<td>Blocking access to protest areas</td>
<td>No.</td>
</tr>
<tr>
<td>Preventive arrests</td>
<td>No.</td>
</tr>
<tr>
<td>Harassment</td>
<td>Inquiries made with regard to supporting group.</td>
</tr>
<tr>
<td>Entering and search of protestors’ office</td>
<td>No.</td>
</tr>
</tbody>
</table>

Table 4 Information Strategies in Policing WTO MC6 in Hong Kong

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>WTO MC 6 in Hong Kong, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Massive collection of information</td>
<td>Videotape.</td>
</tr>
<tr>
<td>Use of alarmist information</td>
<td>No.</td>
</tr>
<tr>
<td>International exchange of information</td>
<td>Yes.</td>
</tr>
<tr>
<td>Plainclothes policemen</td>
<td>Yes. Interpreters and negotiation cadre members.</td>
</tr>
<tr>
<td>Infiltration and/or agent provocateur</td>
<td>Yes.</td>
</tr>
</tbody>
</table>
### Table 5 Comparing Differing Experiences in Policing

<table>
<thead>
<tr>
<th></th>
<th>WTO in Hong Kong</th>
<th>In “Western Democracies”</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Preparation</strong></td>
<td>1.5 year, study tour in Western Europe and the United States</td>
<td>?</td>
</tr>
<tr>
<td><strong>Force strength</strong></td>
<td>Full Mobilization</td>
<td>Partial mobilization</td>
</tr>
<tr>
<td><strong>Special police units</strong></td>
<td>Anti-riots squad (PTU) established since 1968&lt;br&gt;The women PTU company&lt;br&gt;(Tango)&lt;br&gt;Negotiation Cadre&lt;br&gt;Special Duties Unit</td>
<td>Anti-riot squad&lt;br&gt;Intelligence officers</td>
</tr>
<tr>
<td><strong>Protesting venue</strong></td>
<td>Urban centre with high traffic velocity and dense population</td>
<td>From centre to outlying resorts</td>
</tr>
<tr>
<td><strong>Political leaders’ will</strong></td>
<td>Ensure the smooth operation of the conference, honouring citizens’ freedom of expression, rule of law</td>
<td>Honouring citizens’ right of expression, ensure the smooth operation of the conference</td>
</tr>
<tr>
<td><strong>Public opinion</strong></td>
<td>Show sympathy with the demonstrators but strong appeal to the rule of law</td>
<td>No excessive use of police power, freedom of expression</td>
</tr>
<tr>
<td><strong>Foundational parameters of anti-riot tactics</strong></td>
<td>Containment&lt;br&gt;Facilitating demonstrations&lt;br&gt;Intelligence and publicity&lt;br&gt;Paramilitary contingency plan</td>
<td>Encirclement&lt;br&gt;Pre-event negotiation&lt;br&gt;Selective incapacitation&lt;br&gt;Preventive arrest&lt;br&gt;Deportation</td>
</tr>
<tr>
<td><strong>Typical strategies by protesters to break police blockade</strong></td>
<td>Plunge to sea&lt;br&gt;Three steps and nine kowtows&lt;br&gt;Raid and attack</td>
<td>Human blockade&lt;br&gt;Vandalism&lt;br&gt;Raid and attack&lt;br&gt;Paralyzing social and economic activities</td>
</tr>
<tr>
<td><strong>Local civil societies</strong></td>
<td>A coordinating group with some identifiable key figures, not very high participation rate from local populace</td>
<td>Strong mobilization power, high participation rate</td>
</tr>
<tr>
<td><strong>Overseas protesting groups</strong></td>
<td>Presence of violent groups, but declare “not aim at destroying HK” before setting out</td>
<td>Strong mobilization ability, new means of mobilization in which the police face difficulty in working out counter-insurgencies</td>
</tr>
</tbody>
</table>
## Appendix 1 Tactics Adopted by Korean Protestors to Gain Media Coverage and Public Support towards Their Causes

<table>
<thead>
<tr>
<th>Conference day</th>
<th>The featured tactics adopted by the Korean protesters</th>
</tr>
</thead>
</table>
| 1              | - Plunging into the Victoria Harbour on the first day of conference  
- Burning a wooden coffin in memory of Lee Kyang-hae, the union leader who committed suicide at Cancún 2003 in protest against trade liberalization |
| 2              | - Chanting “I love Hong Kong” when marching to the protest zone along the thoroughfare Lockhart Road  
- Seizing police shields, but returning them to police once the protest was abandoned |
| 3              | - Genuflecting “three steps and one bow” in a Buddhist gesture of deep respect during the third day of the WTO conference  
- Giving flowers to female officers  
- “Raiding” (outside) the US and South Korean Consulates and petitioning diplomats |
| 4              | - Female protestors bursting into tears in vox pop interviews |
| 5              | - Attempting to storm to the conference venue by diversionary tactics  
- Causing the outbreak of “Wanchai Disturbances” |
### Appendix 2 Key Policing Events in the WTO MC6 Hong Kong, 14-20 December 2005

<table>
<thead>
<tr>
<th>Date</th>
<th>Major Issues</th>
</tr>
</thead>
</table>
| 11 Dec   | - First large-scale anti-globalization protest from Victoria Park 2 km away.  
- About 4,700 protesters gathered in the waterfront protest area outside the Wanchai venue. Protestors leapt into the sea, burnt a coffin, and crashed the cordon to global coverage. |
| 13 Dec   | - WTO ministerial conference began.  
- 4,000 protesters marched peacefully from Victoria Park.  
- 200 Asian fishermen staged protest at sea against WTO.  
- Dozens of Korean protesters leapt into the harbour.  
- Korean protesters clash with police as they try to breach police defences.  
- Police use of pepper spray. |
| (Day 1)  |                                                                                                                                                                                                             |
| 14 Dec   | - The protesters, mainly from South Korea and other Asian countries, divided into four groups and marched to US, Japanese, South Korean Consulates and European Union representative office to petition. Others distribute leaflets in Causeway Bay and Wanchai areas.  
- Korean protesters clashed with police as they try to break away from police defences. They used plastic wrap, scarves and handkerchiefs to protect their eyes from pepper spray and slammed their bodies into the police line at the end of the cargo area.  
- Korean protesters snatched the riot shields from police during a heated demonstration but later returned the shields to police.  
- About 100 protesters demonstrated outside Sogo department store at night after a scuffle outside the protest zone. |
| (Day 2)  |                                                                                                                                                                                                             |
| 15 Dec   | - Oxfam launched protest at sea with an old Chinese fishing boat traveling around Victoria Harbour.  
- More than 100 Indonesian fishermen and Filipino workers marched from Victoria Park to Wanchai cargo handling area; one jumped into the harbour.  
- Police allowed 12 Filipino and Indonesian fishermen protestors to go closer to WTO meeting venue, where Filipino Agriculture Secretary Domingo Panganiban accepted their petition.  
- About 300 Asian women farmers marched from Victoria Park to Wanchai cargo handling area against the WTO; they sang, drummed and danced peacefully.  
- Another 1,000 Korean farmers marched to Wanchai protest zone in a Buddhist-style protest, kneeling and kowtowing every three steps.  
- 200 Latin American and African farmers protested in Victoria Park and went to Wanchai. Three leapt into the harbour, while others held a carnival.  
- The Koreans marched to the Consulates General of US and South Korea and handed over petitions to their representatives. The “raid” caused short-lived chaos in both locations.  
- After two days of violent clashes, police stepped up control measures at the scene of the scuffles, installing water-filled barriers and metal fences on Hung Hing Road outside the convention centre. |
| (Day 3)  |                                                                                                                                                                                                             |
| 16 Dec   | - Female Korean protestors broadcasted the popular TV theme tune of “Jewel in the Palace” while chanting slogans in the busy streets of Causeway Bay.                                                          |
| (Day 4)  |                                                                                                                                                                                                             |
| 17 Dec   | - Police used tear gas, fire hoses and pepper spray to drive the protestors back.  
- The demonstrators tried to storm the Convention Centre but were pushed back to Gloucester Road by riot police.  
- More than 1,000 anti-WTO protestors clashed with police in the worst outbreak of mass unrest Hong Kong has seen in decades.  
- Demonstrators broke through police cordon, snatched police shields, batons and helmets, and repeatedly tried, but failed, to overturn a police van. They pulled metal barriers apart to use as weapons, along with bamboo flagpoles, and came within metres of the Convention Centre. Police responded with tear gas, pepper spray and water cannon.  
- The riots disrupted traffic and public transport. Roads were blocked or gridlocked and Wanchai MTR station was closed, with trains skipping the stop.  
- Finally, the Security Bureau sent mass SMS messages to the public, urging them to avoid Wanchai and leave the area. Commissioner of Police Dick Lee also appeared on television early in the evening urging people to avoid Wanchai.  
- 900 protestors were arrested in night riot in Wanchai along the Gloucester Road area.  
- 141 people reported injuries in the clashes, including 61 police officers, 54 Koreans and 13 locals. |
| (Day 5)  |                                                                                                                                                                                                             |
| 18 Dec   | - Police released 188 of the 900 protestors arrested from the previous night.                                                                                                                                |
| (Day 6)  |                                                                                                                                                                                                             |

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Notes

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1. The individual and group interviews with police officers who engaged in the WTO MC6 operation took place during 2006-2010. Directorate-grade officers, Commandant of the Police Tactical Unit (PTU), Commanders of Police Divisions, and patrol sub-units were interviewed and asked about their perspectives on several key strategic dimensions as addressed in della Porta’s analysis on transnational policing. The official evaluation report published by the Hong Kong Police on this WTO MC 6 operation in 2006 was also adopted as another principal reference of this study.

2. The new social movements target influential international institutions, and the transnational protestors usually adopt an innovative repertoire of action that sets them apart from the established movement pattern. Examples include the use of toy water pistols, buzzing helicopters and paper airplanes (della Porta and Reiter, 2006).

of Transportation, Public and Social Service Workers Union, and the
Korean Confederation of Trade Unions.

4. The 1967 riots were in part a spill-over from the Cultural Revolution in
China. For details on the police actions, see Ho and Chu (2012).

5. An anonymous police interviewee explained that the internal security
structure in the WTO operation was the largest in recent years. A three-tier
internal security structure had been set up and more than 40 platoons of
anti-riot police had been turned out on 17 December 2005. It composed of
both regional “Police Tactical Unit” and “Emergency Unit”, “Quick
Reaction Force” and three companies of “Force Escort Companies” formed
from regional and district traffic units. (Police Interview, 19 January 2006)

6. As explained by a graduate trainee of the police anti-riot squad (PTU), the
successful use of the containment tactic could de-escalate potential
violence by (1) preventing disorder from spreading; (2) separating rival
groups within crowds; (3) tranquilizing or pacifying the crowds; and
(4) removing uninvolved persons.

7. In the Police General Order Chapter 29 – 01, it has been laid down that
Officers should display self-discipline, exercise a high degree of restraint
and not resort to the use of force unless strictly necessary; only the
minimum degree of force necessary to achieve the objective may be used;
whenever possible, warning on the degree of force intended to be used
shall be given and persons shall be given the opportunity to obey police
orders before force is used; force will cease immediately when the
objective has been achieved; and force used must be reasonable in the
circumstances.

8. A police interviewee pointed out that the “Tango” platoon was not regarded
as a riot-suppression unit in the internal security assignments. The female
platoon members have all undergone crowd management training
emphasizing the use of soft approaches, like hand belt grip, resistance
control and removal tactics. During the MC 6, the platoon was deployed as
a support team to other platoons of the three tiers, in particular when the handling of female demonstrators was required.

9. For example, the Hong Kong supporters shouted “shame on you” and “you are not human beings” when the Korean protestors were sprayed with pepper spray. According to reports, some Hong Kong citizens took fruit and water to the Koreans at Victoria Park before the march. Those onlookers at the confrontation scene also rushed to offer water, tissues and towels to the Koreans whenever a protester was hit with pepper spray or fell back under the blows of police batons.

10. The Korean protestors repeatedly emphasized that the HKP were not their enemies, but rather the WTO. They said they had “no bad feelings towards the Police”; they described the police as “soft, gentle and merciful” and even claimed that the HKP officers were better than those in Korea.

11. An anonymous police officer who established close contact with the protest group quoted the words from Korean protest leaders that they had not exercised their full strength in Hong Kong. (Personal interview, 19 April 2006)

12. Police evaluation reports argued that all the officers had maintained their cohesion and upheld their discipline in the face of violence. But at the same time, the police admitted that some lessons have been learnt. Aspects that should be improved in the future included the availability of interpretation service, handling of arrested persons, collation of detention locations, vehicle deployment, supporting services and evidence gathering.

13. The concept of civil liberty derives from the idea of individual freedom, which can refer to one’s capacity to take advantages of opportunities, as well as the absence of impediments, constraints, or interferences. A crucial component of realizing civil liberties in democratic countries is the citizens’ right of association and assembly, which refers to the possibility of individuals to impart information and ideas and disseminate their view (Haubrich, 2006).
14. For example, the regulations under the public order ordinance which stipulated that large-scale processions organizers must seek the letter of “no objection” from the police authority before the activities take place is widely regarded by the civil libertarians as a “draconian legislation” to suppress the freedom of assembly.

15. The SAR government often quoted the provisions in the Hong Kong Basic Law to refute these accusations. The Hong Kong Basic Law guarantees the majority of the civil and political rights as stipulated in the International Covenant of Civil and Political Rights, which had been implemented by the Hong Kong government through the 1991 Bill of Rights Ordinance. Citizens are still basically free to take part in any assemblies and have enjoyed freedom of speech.

16. The 79-day “Umbrella Movement” witnessed the police-protestors confrontation in central business districts, and was named after the episode that most demonstrators used their umbrellas to encounter police’s pepper spray tactics in crowd dispersal. The official press release issued by the Hong Kong SAR government did not use “Umbrella Movement” to describe this territory-wide mass demonstration which has come under the spotlight of international media. The official line was that the demonstration and subsequent sit-in protests were “illegal occupation activities” and emphasized that it was an offence obstructing the law and order of Hong Kong that was beyond freedom of expression. The discourse was backed up by Beijing’s propaganda.

17. Studies on “Umbrella Movement” of Hong Kong have gradually been published in academic journals over these years, e.g. Yuen and Cheng (2017) analysed the regime reactions towards the protests; Cheng and Chan (2017) studied the discourses from protestors; and Lee (2018) focused on the impacts of media on mobilization. See: Samson Yuen and Edmund W. Cheng (2017), Neither repression nor concession? A regime’s attrition against mass protests, Political Studies, Vol. 65, No. 3, pp. 611-630;

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Trade, Investment and Regional Dynamics
Belt and Road Initiative and the South American Integration Initiatives: A Comparative Analysis between Asian and Latin American Initiatives with a Complementary Proposition

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Abstract

China has been emerging as an alternative source of international cooperation and recently launched One Belt One Road Initiative. To have a better understanding of the Initiative, to explore possible benefits and lesson to South American countries, this paper firstly investigates the Chinese initiative and later discusses South American Integration and Development initiatives, including financial institutions and the main infrastructural initiative. Lastly, it is proposed the “South American Road” to be created complementing the Chinese initiative and integrating with other regions as Central America, Oriental part of Europe, South and Oriental parts of Africa, and Oceania.
Keywords: Belt and Road Initiative, infrastructure, integration, South America, multilateral development banks

1. Introduction

This paper will investigate the One Belt, One Road (OBOR) initiative, later renamed Belt and Road Initiative (BRI) and compare it with the integration initiatives developed in South America. It will briefly explain what the Belt and Road Initiative is and how it works, showing its two main supportive financial institutions which are the Asian Infrastructure Investment Bank - AIIB and the Silk Road Fund.

Later, it will show the integrational initiatives developed for and in Latin America, describing the main political fora and the financial institutions that focus on the integration of the region, dividing them into political and financial initiatives.

Then the paper will compare the two key aspects of the initiatives and draw the conclusions about what South America can learn from the Chinese initiative and vice versa and propose the “South American Road” that should be complementary to the Belt and Road Initiative aiming to not leave this part of the continent isolated from the main focus of investment of the next decades. The “South American Road” should focus on the region and areas that the South America has historic linkages as Central America, the Oriental part of Europe, mainly Portugal and Spain, Occidental and South area of Africa and also Oceania, and areas that integrate and complement the Belt and Road Initiative.

2. The Belt and Road Initiative

The Belt and Road Initiative (BRI) is one of and probably the most important Chinese endeavors in global cooperation for a community
with shared interest and common development. In the BRI, China introduces and advocates “the Silk Road Spirit of peace and cooperation, openness and inclusiveness, mutual learning and mutual benefit” in order to build globalization towards a more balanced, connected, and diversified system with sustainability. With profound political and financial investment, China is proposing a grand project that, if well designed and managed, will strengthen the power of globalization and deliver real benefits to countries along the road and beyond.

The Initiative was first put forward by China’s President Xi Jinping in his speech at Nazarbayev University during the state-level visit to Kazakhstan in September 2013. Later when President Xi paid his visit to Indonesia in October 2013, a more elaborated picture was envisioned by raising the project of the New Maritime Silk Road which together with the Silk Road Economic Belt compose the One Belt, One Road initiative (later renamed Belt and Road Initiative).

The BRI is designed to cover most countries in Asia and to connect Asia with the Baltic, Persian Gulf and Mediterranean Sea, Indian Ocean, and South Pacific. Built on the legacy of the trading route in the 7th century from China to countries in Central Asia, Europe, and Africa, the new “belt and road” proposes to expand the ancient trading network by strategic planning and funding. The Silk Road Economic Belt, the 21st Century Maritime Silk Road, and six economic corridors have been planned as the framework of OBOR building, which will work to realize “policy coordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people bonds” for strengthened partnership and connectivity among countries along the road.

The cooperation priorities of 21st Century Maritime Silk Road are to create a network called the “Blue Partnership”, seeking green development, safeguarding the marine ecosystems and preserving maritime life; promoting ocean-based prosperity, enhancing maritime
cooperation, facilitation and connectivity; cooperating to ensure maritime security; promoting innovative growth linking academia, think tanks, and governments to develop new ideas and approaches related to maritime and ocean use, defense and cooperation; and putting China in the center of the international action as a key actor to development.  

China also envisioned a series of plans of action for the Belt and Road Initiative in the fields of: education, standard connectivity, initiative to promote trade and cooperation, energy, ecology and environment, culture, sports, tourism, agriculture, science and technology, and metrology.  

By the end of 2016, a total of 77 projects have taken shape in 36 countries and regions with total investment of US$24.19 billion. So far, 56 economic and trade cooperation zones have been established in 20 countries along the road with a total investment of over US$18.5 billion.  

Alone in the year of 2016, the total trade volume between China and BRI member countries reached US$948.7 billion, 25.7% of China’s total export and import volume. These Chinese-led projects will add more than US$ 70 billion in value and create over 212,000 jobs.  

The BRI has been vigorously supported by the Chinese government. In 2017, President Xi engaged in state visits to 43 countries along the road and had 15 relevant agreements, including 4 free trade agreements, signed with 11 countries. The year 2017 embraced another 46 countries to join the Initiative, including Slovenia, Morocco, and Panama, making the total number of member countries reach 86.  

Heads of 18 countries attended the Belt and Road Forum for International Cooperation 2017, during which over 270 cooperation agreements were signed. By 2017, 57 China-EU railways have been built, connecting 35 Chinese cities with 34 cities in 12 European countries; direct flight routes to 43 countries along the road have been approved by Civil Aviation Administration of China; 34 cross-border fiber optic cables have been
established with 12 BRI member countries; trade and investment agreements in various sectors have been signed between China and 58 BRI member countries; and 734 pairs of twin cities have been agreed with 53 countries for increased cultural exchange.

A growing number of proposals and projects have been raised for the Initiative. Air Silk Road was put forward during President Xi’s visit to Luxembourg for easier exchange of human resources and trading;\textsuperscript{7} Polar Silk Road for cooperation with Russia in fairway building in the Arctic Pole;\textsuperscript{8} Digital Silk Road at the opening ceremony of Belt and Road Forum for International Cooperation 2017; and another two economic corridors with Laos and Myanmar respectively.

Beyond what was signed for future implementation, solid steps have been made on the Initiative. So far, 7 massive infrastructure projects have been completed, including the south line of natural gas pipeline development in Kazakhstan, the second phase of crude oil pipeline project between China and Russia, and the affordable housing development in Maldives; 19 large-scale projects have been put to production and operation: the railroads building in Mongolia, wind power development in Jhimpir, the mining development project in Peru, etc.; and 17 massive projects have been commenced: the light rail project in Astana, the hydropower station development in Caculo Cabaça in Angola, the photovoltaic power station in Argentina, etc.

According to the Asian Development Bank (ADB) report \textit{Meeting Asia’s infrastructure needs}, to develop Asia investments of US$1.7 trillion a year in infrastructure will be needed until 2030 to maintain its growth momentum, with a total of US$26 trillion. The Belt and Road Initiative, by itself, is expected to need investments from US$1 trillion to US$8 trillion.\textsuperscript{9} According to Peter Wong Tung-shu, HSBC’s Asia Pacific chief executive, US$6 trillion of funding will be required over the next 15 years.\textsuperscript{10} According to Joe Ngai, senior partner in McKinsey’s Hong
Kong office, it will require between US$2 trillion and US$3 trillion per year.

Infrastructure needs in developing Asia and the Pacific will exceed US$22.6 trillion through 2030. The multilateral development banks (MDBs) have financed an estimated 2.5% of the infrastructure investments in Asia.\textsuperscript{11} When China and India are excluded, the contributions rise above 10%.

This is a massive effort of China to concrete itself as a leading international actor. The MDBs will play a key role in this initiative, as stated in the European Bank for Reconstruction and Development (EBRD), Asian Infrastructure Investment Bank (AIIB) and New Development Bank (NDB) priorities, especially these last two, through their loans and project support, and also from the Silk Road Fund launched by Chinese government with US$40 billion dollars. The fund, which became active in February 2015, is backed by the China Investment Corporation (China’s sovereign wealth fund), China Development Bank, the Export-Import Bank of China and the State Administration of Foreign Exchange (2016).\textsuperscript{12}

\textbf{2.1. The Asian Infrastructure and Investment Bank}

The AIIB was created in June 2015 when representatives from 57 members signed the Articles of Agreement (AOA).\textsuperscript{13} The Agreement entered into force on 25 December 2015 and commenced operations on 16 January 2016.\textsuperscript{14} It is “an important vehicle for delivering Xi Jinping’s signature foreign economic policy – the ‘Silk Road economic belt’ and the ‘21st century maritime Silk Road’ (one belt, one road) initiatives”.\textsuperscript{15} During the first year of activities, the thematic priorities were sustainable infrastructure, cross-country connectivity, and private capital mobilization.
The AIIB has its headquarter located in Beijing, China. It counts with 61 countries, being 40 from Asia-Pacific region and 23 prospective members from all regions of the world. In less than 2 years of implementation, it already has more members than the Inter-American Development Bank – IADB. It shows the importance of the Asian region, of China, and of the Belt and Road Initiative.

The purpose of the Bank is to foster sustainable economic development, create wealth, and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors. It will also promote regional cooperation and partnership in addressing development challenges by working in close collaboration with other multilateral and bilateral development institutions. The key areas of focus are: (i) rural infrastructure; (ii) energy and power; (iii) environmental protection; (iv) transportation and telecommunications; (v) water supply and sanitation; and (vi) urban development and logistics.

The total capital amount of the Bank is US$90 billion, and the paid-in capital is US$18 billion. The paid-in capital of the bank is bigger than any other bank, even the World Bank. It shows again the importance of the AIIB and the Belt and Road Initiative. Its rating is AAA from S&P, as rated by Moody’s and Fitch agencies. In its first two year it approved almost US$4.4 billion in projects – US$3.5 billion in 2016.

2.2. Silk Road Fund

The Silk Road Fund was founded on 29th December 2014, one month after it was put forward by President Xi Jinping during the 22nd APEC Economic Leaders’ Meeting in November 2014. The Silk Road Fund is a unilateral financial institution funded solely by China with a proposed total capital of US$40 billion and a first round of capital instalment of
US$10 billion from State Administration of Foreign Exchange (US$6.5 billion), China Investment Corporation (US$1.5 billion), Export-Import Bank of China (US$1.5 billion), and China Development Bank (US$500 million).\textsuperscript{18} To better fulfill the financial demand for potential projects and allocate the resources for increased cooperation between China and countries along the belt and road,\textsuperscript{19} another RMB 100 billion (US$16 billion) was announced to be injected into the Fund in May 2017 by President Xi during his opening speech at the Belt and Road Forum for International Cooperation.

Together with AIIB, the Fund works to financially fuel the BRI where infrastructure investment and development are taken as the major purpose. The nature of infrastructure investment requires long-term financing and even longer time to deliver benefits. In this sense, the BRI employs bank (AIIB) and corporation (Silk Road Fund) as its financing arms to diversify the approaches and mitigate the risks, where the Bank issues bonds and loan and the Fund adopts equity investment.\textsuperscript{20}

The Silk Road Fund is created as a limited-liability company under the “Company Law of the People’s Republic of China”,\textsuperscript{21} making it different from other funds designed for the similar purposes that are mostly private equity. Since April 2015, when the Fund signed its first memorandum of cooperation with China Three Gorges Corporation and the Private Power & Infrastructure Board of Pakistan till the first quarter of 2017, the Fund has had 15 projects signed and US$6 billion agreed to invest; in addition to that, the Fund has been involved in projects with a total value of US$80 billion, which 70% has been devoted to infrastructure investment.\textsuperscript{22} Other investment areas include energy and resource development which consists of traditional energy resources, clean energy, and renewable energy; industrial capacity cooperation which covers investment of equipment, technology, and services that are part of China’s production capacity and can advance and support the
economic development of countries along the belt and road; and financial cooperation that will contribute to an innovative, diversified, and open model.23

The Silk Road Fund takes equity investment for most of its operations, being over 70% of its investment projects. The Fund participates in equity investment such as direct investment, mergers and acquisitions, IPOs and pre-IPOs, and investment in preferred shares. It also engages in debt investment that includes loans, bonds, mezzanine investment, and other types of investment like entrusted assets and commissions. More than that, the Fund has created subsidiary fund. Its first cooperation fund was invested with US$2 billion – the China-Kazakhstan Production Capacity Cooperation Fund was reached under the framework agreement with Kazakhstan National Export and Investment Agency signed on December 14th, 2015, which is designed to promote regional cooperation, cross-border trade facilitation, and better use of advantageous resources for mutual benefit and a win-win strategy.24

The Silk Road Fund is designed with a vision of “openness, inclusiveness, and mutual benefit” to contribute to the economic development dividend among the community of shared future of mankind. Under the framework of BRI, the Fund stresses on strategic cooperation where all parties in the project could find something to offer and achieve and works to include all countries along the belt and road to participate in the economic globalization.

So far, the Fund has signed or initiated investment projects in six major economic corridors proposed by the BRI, including (i) Central Asia: China-Kazakhstan Production Capacity Cooperation Fund with Kazakhstan National Export and Investment Agency in August 2015, Russian Yamal Liquefied Natural Gas Project with Novatek and Investment cooperation with Vnesheconom bank and the Russian Direct

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Investment Fund in September 2015; (ii) Southern Asia: the cooperation memorandum with the Private Power & Infrastructure Board of Pakistan; (iii) Western Asia: Power Projects in the United Arab Emirates with International Company for Water and Power Projects; (iv) North Africa: power investment projects in Egypt in January 2016; (v) Europe: investment agreements with Pirelli in Italy in June 2015, cooperation agreement on environment-friendly green energy with Beijing Enterprises Holdings Limited and EEW Energy from Waste GmbH in German in June 2016, Serbian Renewable Energy Projects in June 2016, and FC Value Trail Fund Project with Amundi Asset Management in France in November 2016. Among the projects, around 80% were signed in the presence of state leaders of China and the cooperative country/countries, indicating the Fund’s role in expanding BRI.

In addition to investment projects with countries along the belt and road, the Fund has also developed cooperation with multilateral institutions such as the African Development Bank Group, the European Bank for Reconstruction and Development, The European Investment Bank, and the International Finance Corporation, in order to better identify the demands and allocate resources.

3. South American Initiatives

South America had and still has several integrational initiatives, with different fora and some of them being political institutions, financial institutions, multilateral development banks (MDBs), and business initiatives. It will be focused mainly on the bigger Latin American and South American initiatives and MDBs, the two main Americas’ initiatives: the Organization of American States and the Inter-American Development Bank.
3.1. Political Initiatives

3.1.1. Organization of American States (OAS)

The Organization of American States (OAS) is the biggest initiative comprising the whole America, including the Caribbean, Canada and the United States of America; it was created in 1948 and was effective in December 1951. The organization comprises 35 independent states in the Americas, that ratified the OAS Charter\textsuperscript{25}: Antigua y Barbuda, Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Cuba, Dominica, Ecuador, El Salvador, United States of America, Granada, Guatemala, Guyana, Haití, Honduras, Jamaica, México, Nicaragua, Panamá, Paraguay, Perú, Dominican Republic, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Saint Lucia, Suriname, Trinidad and Tobago, Uruguay, Venezuela.

The OAS follows the UN Charter\textsuperscript{26} principles, and its own principles are (Article 2):

a. To strengthen the peace and security of the continent;
b. To promote and consolidate representative democracy, with due respect for the principle of nonintervention;
c. To prevent possible causes of difficulties and to ensure the pacific settlement of disputes that may arise among the Member States;
d. To provide for common action on the part of those States in the event of aggression;
e. To seek the solution of political, juridical, and economic problems that may arise among them;
f. To promote, by cooperative action, their economic, social, and cultural development;
g. To eradicate extreme poverty, which constitutes an obstacle to the full
democratic development of the peoples of the hemisphere; and
h. To achieve an effective limitation of conventional weapons that will
make it possible to devote the largest amount of resources to the
economic and social development of the Member States.

The decisions of the General Assembly must be taken by the
majority of the votes of the members, with exemption of some cases that
requires two-thirds majority (Article 59). In this case it does not need
consensual decision.

3.1.2. Latin American Integration Association (ALADI)

The Latin American Integration Association (ALADI, Spanish acronym)
is composed by 13 country signatories of the Montevideo Treaty of 1980
(TM80) and its predecessors, being members: Argentina, Bolivia, Brazil,
Chile, Colombia, Cuba, Ecuador, México, Panamá, Paraguay, Perú,
Uruguay, and Venezuela.

ALADI replaced the Free-Trade Latin American Association
(ALALC, Spanish acronym), which was created in 1960. The main
motivations for the creation of ALALC were the necessity to overrule
the structural difficulties faced by the countries of the region, as the
mono-export of basic products with no added value, looking for a bigger
international market and to industrialize the member countries.

ALADI kept those ideas, however switched to become a free-tariff
trade zone. The objectives of ALADI are the creation of a preferential
economic region, aiming to create a Latin American Common Market,
through three mechanisms:27
(i) a preferential tariff region, applied to products from Member States (Article 5);
(ii) regional treaties, with the participation of all Member Countries (Article 6); and
(iii) partial regional treaties, with the participation of two or more Member Countries (Article 7).

The supreme organ is the Council (Article 30), which takes all the integration decision, with the affirmative vote of two-thirds of the member states. And some key voting requires two-thirds plus the no negative vote, creating an implicit consensual voting for the most important aspects (article 43).

3.1.3. Common Market of the South (Mercosur)

The Common Market of the South (Mercosur, Spanish acronym) was created by the Treaty of Asunción,28 in 1991, in Asunción, Paraguay. Its institutional basis was created in 1994, in Ouro Preto, Brazil, by the Ouro Preto Treaty.29

Mercosur was created and aimed to be similar to the European Union in Latin America. Its main goals were to create a free trade zone with free flow of people, money, and products. During the years its goals changed as its focus moved to a social approach. The current general goals delineated by the Decision CMC Nº23/14 are to: strengthen the capacity of its members; deepen the regional integration; reduce the regional asymmetries; and exchange knowledge and experiences, good practices, public policies inside and outside Mercosur.

The Common Market Council (CMC) is the supreme decision-making body (Article 3) and all the decisions must be taken by consensus (Article 37). The member countries are Argentina, Brazil,
Paraguay, Uruguay, and Venezuela (Venezuela is currently suspended – decision issued on 5 August 2017), with Bolivia in membership process.

3.1.4. Andean Community (CAN)

The Andean Community (CAN, Spanish acronym) was created by the Cartagena Agreement in 1969, in Cartagena, Colombia, by Bolivia, Chile, Colombia, Ecuador, Perú, and Venezuela. Due to many instabilities and regional divergences, Chile left the organization in 1976, and Venezuela in 2006, when it joined Mercosur. Its current members are only Bolivia, Colombia, Ecuador and Perú.

The key objectives of CAN are:30 (i) to integrate its members commercially, economically, and politically; (ii) to facilitate the integrational process, in a way to progressively create a Latin-American Common Market; (iii) to promote the harmonious and equilibrial development of its member countries, through economic and social cooperation and integration; (iv) job creation; (v) to reduce development asymmetries; (vi) to promote life quality to its populations; and (vii) to improve the economic position of its member countries.

To reach its objectives it should take the following actions: (a) deepening of the integration with the other regional economic blocs and of relations with extra-regional schemes in the political, social, and economic-commercial spheres; (b) gradual harmonization of economic and social policies and the approximation of national legislations in the pertinent matters; (c) joint programming, the intensification of the sub-regional industrialization process and the execution of industrial programs and other forms of industrial integration; (d) a program for the liberation of commercial exchange that is more advanced than the commitments derived from the Treaty of Montevideo 1980; (e) a common external tariff; (f) programs to accelerate the development of the agricultural and agroindustry sectors; (g) channeling of internal
and external resources to the sub-region to provide financing for the investments that are necessary in the integration process; (h) programs in the field of services and the liberalization of intra-sub-regional trade in services; (i) physical integration; and (j) preferential treatment in favor of Bolivia and Ecuador. In addition to the aforementioned mechanisms, the following programs and actions of economic and social cooperation will be advanced in a concerted manner: (a) programs aimed at promoting scientific and technological development; (b) actions in the field of border integration; (c) programs in the area of tourism; (d) actions for the use and conservation of natural resources and the environment; (e) social development programs; and (f) actions in the field of social communication (Article 3).

The Foreign Affairs Ministers Council is the supreme decision-making body of CAN (Article 16). All declarations and decisions taken by the Council are adopted by consensus (Article 17).

### 3.1.5. Union of South American Nations (UNASUR)

The Union of South American Nations (UNASUR, Spanish acronym) was create by the Treaty of the Union of South American Nations, signed on May 23rd of 2008 and entered into force on March 11th, 2011. The permanent headquarters of the General Secretariat are in Quito, Ecuador, and its Parliament will be in Cochabamba, Bolivia.

The UNASUR was preceded by the South American Community of Nations (SACN), which was created at the Meeting of Presidents of South America, on December 8th of 2004, in Cuzco, Perú. The SACN was created with the goal to integrate the Mercosur and the Andean Community and expand it. On September 30th of 2005, in Brasília, Brazil, and on December 9th of 2006, in Cochabamba, Bolivia, it established a strategic plan to agree on a common agenda in the region. In April of 2007, during the South American Energy Summit, on
Margarita Island, Venezuela, the name was changed to Union of South American Nations, UNASUR.

The UNASUR has 21 goals, which aim to integrate the region through infrastructure, circulation of people and value chain, cooperation in safety and counter-terrorism, developing and diminishing inequalities within and between the countries, are (Article 3): (1) Strengthening political dialogue between Member States in order to reinforce the South American integration and the participation of UNASUR in the international arena. (2) Social and human development with equity and inclusion in order to eradicate poverty and overcome inequalities in the region. (3) Illiteracy eradication, equal access to quality education and the regional recognition of courses and degrees. (4) Energy integration for the sustainable and fair use of the resources of the region. (5) Infrastructure development to guarantee the interconnection of the region and its peoples according to criteria of sustainable social and economic development. (6) Adopting mechanisms compatible with the economic and fiscal policies of Member States which will promote financial integration among them. (7) Protection of biodiversity, water resources and ecosystems as well as cooperation among Member States in matters of disaster prevention and the fight against the causes and effects of climate change. (8) Achieving equitable integration in order to overcome asymmetries through the development of concrete and effective mechanisms. (9) Progressive recognition of the rights of a Member State citizen residing in any of the other Member States with the aim of attaining a citizenship of the other Member State. (10) Equal access to social security and health services. (11) Unrestricted respect for human and labor rights through migratory regularization and harmonization of policies. (12) Economic and trade cooperation to achieve progress and consolidation of an innovative, dynamic, transparent, equitable and balanced process. Promote growth and
economic development in order to overcome asymmetries through the complementation of the economies of all the Member Countries as well as promoting the welfare of all sections of the population and the reduction of poverty. (13) Giving attention to small and medium enterprises, cooperative companies, networks and other forms of production organizations with the aim of creating unity in the industrial and productive areas. (14) Creation and implementation of complementary policies and projects of research, innovation, technology transfer and production in order to increase capacity, sustainability and prosperity. (15) Scientific and technological development. (16) Strengthening the identities of the peoples in the region of the Member States through encouragement of expression of knowledge and memory with the aim of promoting cultural diversity. (17) Citizen participation through mechanisms for interaction and dialogue between UNASUR and the various social organizations for the creating of South American integration policies. (18) While taking into account international standards and laws, and through coordination between the specialized agencies of the Member States, strengthening the fight against terrorism, corruption, the global drug problem, trafficking of people, trafficking of small guns and light weapons, transnational organized crime and other threats as well as disarmament, non-proliferation of nuclear weapons of mass destruction and demining. (19) Promoting cooperation between the judicial authorities of the Member States of UNASUR. (20) Exchange of information and experience on defense. (21) Cooperation to strengthen public safety. (22) Sectoral cooperation in order to deepen South American integration through the exchange of information, experience and training.

The UNASUR has 12 members (all the South American countries with exception of French Guyana): Argentina, Bolivia, Brazil, Colombia, Chile, Ecuador, Guyana, Paraguay, Perú, Surinam, Uruguay,
and Venezuela.

The main supreme decision-making board of UNSAUR is the Chiefs of Government’s Board and the subsequent is the Foreign Affairs Ministers’ Board (Article 4). All the legal normative must be adopted by consensus, with the presence of at least three fourths of the member states present (Article 12).

3.1.6. Other Initiatives

The Cumbre de las Américas as a continuity of the Free Trade Area of Americas (FTAA) initiative, created by the United States of America in 1994, that intended to create a free trade zone in whole Americas, which is currently abandoned. The Cumbre is held every two or three years congregating members of all Americas’ countries.

Also, the Community of Latin American and Caribbean States (CELAC, Spanish acronym) was created in Caracas, Venezuela, as a political mechanism for cooperation and integration. It comprises 33 countries, 12 from Latin America (again, with the exception of French Guyana) and the others from Caribbean32.

There are also other smaller initiatives such as the Alianza Bolivariana para los Pueblos de Nuestra América (ALBA); the Petrocaribe to integrate the South American and Caribbean oil producers; the Cumbre de la Cuenca del Plata (CIC), some specific international organizations and United Nations’ specific agencies. In this paper, all these other initiatives will not be discussed due to a methodological cut that permits us to compare with the Belt and Road Initiative.
Table 1 South American Political Institutions (Initiatives for South American Integration)

<table>
<thead>
<tr>
<th></th>
<th>OAS</th>
<th>Aladi</th>
<th>Mercosur</th>
<th>CAN</th>
<th>UNASUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of members</td>
<td>35</td>
<td>13</td>
<td>5</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td>Majority</td>
<td>Yes</td>
<td>Yes</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Special majority</td>
<td>Two-thirds</td>
<td>Two-thirds</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Consensus</td>
<td>-</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Argentina</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Associated</td>
<td>Yes</td>
</tr>
<tr>
<td>Bolivia</td>
<td>Yes</td>
<td>Yes</td>
<td>Integrating</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Brazil</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Associated</td>
<td>Yes</td>
</tr>
<tr>
<td>Chile</td>
<td>Yes</td>
<td>Yes</td>
<td>Associated</td>
<td>Associated</td>
<td>Yes</td>
</tr>
<tr>
<td>Colombia</td>
<td>Yes</td>
<td>Yes</td>
<td>Associated</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Ecuador</td>
<td>Yes</td>
<td>Yes</td>
<td>Associated</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Guyana</td>
<td>Yes</td>
<td>Yes</td>
<td>Associated</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Paraguay</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Associated</td>
<td>Yes</td>
</tr>
<tr>
<td>Perú</td>
<td>Yes</td>
<td>Yes</td>
<td>Associated</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Suriname</td>
<td>Yes</td>
<td>Yes</td>
<td>Associated</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Uruguay</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Associated</td>
<td>Yes</td>
</tr>
<tr>
<td>Venezuela</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

3.2. Financial Institutions

As the Belt and Road Initiative created the AIIB and the Fund, we will discuss the key governmental financial institutions in the region that dedicate themselves to South American integration.

3.2.1. Inter-American Development Bank (IADB/IDB/BID)

The Inter-American Development Bank was created in 1959, with the ordinary capital of US$850 million and 19 member countries. The focus was on integration and development of Latin America and the Caribbean region.33

In its first years, the “operations focused on integration projects, such as improvement of highway connections between countries (beginning with a highway between Paraguay and the Brazilian port of Paranaguá), border integration, regional economic complementation, and development magnet areas”.34
In the 1970s, technical cooperation was a focal operational strategy, with the creation of a specific division, to support the projects of infrastructure and governmental action. “Between 1971 and 1987, loans used for physical infrastructure construction or improvement represented more than 40 percent of total lending.” Energy became the key area, “especially electrical power generation, transmission, and distribution projects which, as was mentioned above, also helped to bring about integration between countries.”

In the 1990s the focus kept being infrastructure, however social investment mainly in education became the core focus of the operations. Of the total of 1994, “$1.161 billion went to urban development; $969 million to education; $748 million to sewerage, drinking water supply and sanitation; $266 million to social investment funds; and $85 million to the environment.”

The Inter-American Development bank is composed of: the Bank; the Inter-American Investment Corporation (IIC), created in 1989; the Multilateral Investment Fund (MIF), which began in 1993; and several special funds. The headquarters are in Washington DC, United States, and has offices in 26 countries, including the newly opened in Haiti, in 2015. It comprises 48 member countries, 26 being Latin America and Caribbean.

The Institutional Strategy 2010-2020 has five goals:35 (i) reducing poverty and social inequalities; (ii) addressing the needs of small and vulnerable countries; (iii) fostering development through the private sector; (iv) addressing climate change, renewable energy and environmental sustainability; and (v) promoting regional cooperation and integration. It also seeks to promote development through the private sector.
The total capital amount of the Bank is US$170.92 billion; the paid-in capital is US$6.04 billion. Its rating is AAA from S&P, Moody’s and Fitch agencies. In 2016, it approved almost US$11 million with an accumulated amount of US$235.23 billion in projects approved until December 2016.36

3.2.2. Development Bank of Latin America (CAF)

Latin-American Development Bank (CAF, Spanish acronym) originally named as Andean Foment Cooperation, was constituted in 1970, by Ecuador, Bolivia, Colombia, Chile, Perú, and Venezuela.37 Nowadays, it has 19 member countries, 10 from South America, 5 from Caribbean, and 2 from Europe, being them: Argentina, Barbados, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Spain, Jamaica, Mexico, Panama, Paraguay, Perú, Portugal, Dominican Republic, Trinidad and Tobago, Uruguay, and Venezuela. Moreover, it counts with 13 private banks of the region.

It has a different shareholding composition with three different stock types (Article 5). There are 15 “A shares” with one vote each, for regional member countries, the “B shares” nominal, which can be held by regional member countries and public or private organizations of regional member countries, and “C shares” that are from extra-regional members.

CAF’s main goals are to promote sustainable development through credit operations, grants and technical cooperation to the public and private sector.

The decisions in Ordinary General Assembly must be taken by at least 60% of the “A shares”, in addition to at least more than 50% of all the other shares represented in the meetings (Article 17). In Extraordinary General Assemblies the “A shares” affirmative votes must be of 80%, in addition to at least more than 50% of all the other shares.
represented in the meeting. In a second round, in both Ordinary and Extraordinary Assemblies the votes needed are only 40% of the “A shares”, in addition to more than 50% of the other shares.

This voting system ensures that no country has the majority of the votes or veto power, however the founding members, i.e., Ecuador, Bolivia, Colombia, Chile, Perú, and Venezuela, can veto every change and potentially approve anything in the second call.

It has its headquarters in Caracas, Venezuela\textsuperscript{38}, and 12 country offices. Its authorized capital is US$15 million. CAF approved US$145 billion in its history.\textsuperscript{39} In 2017 it approved US$12.4 billion.\textsuperscript{40}

\subsection{Development Fund of the Plata Basin (FONPLATA)}

On 23 April 1969, Argentina, Bolivia, Brazil, Paraguay, and Uruguay, in Brasília, Brazil, signed the Plata Basin Treaty,\textsuperscript{41} to promote regional development and physical integration. During the IV Meeting of the Basin Authorities, on 6 June 1971, in Asunción, Paraguay, Development Fund of the Plata Basin (FONPLATA) was created. In the VI Meeting, on 12 June 1974, in Buenos Aires, Argentina, the Constitutive Agreement\textsuperscript{42} was signed.

The operations started in 1977, with the signature Headquarters Agreement with the Government of Bolivia, in the city of Sucre. The headquarters moved to Santa Cruz de la Sierra, Bolivia, in 2002.\textsuperscript{43}

The objectives of FONPLATA are to support its five member countries’ integration to achieve a harmonic and inclusive development, within and between the geographic areas of Plata Basin influence area, operating through credit operations and grants to the public sector. Also, it aims to reduce socio-economic disparity and to focus on complementarities and synergies with the national governments’ development strategies, as to cooperate with other development agencies, by small and medium size projects (Article 3).
FONPLATA, besides its headquarters in Bolivia, has an office in Asunción, Paraguay. Since 2012, it went through a reformulation period, where it approved around US$1.3 billion in projects. In 2016, its loans approvals were US$316 million.44

Its total capital is US$3.1 billion, and the paid-in is US$825 million.45 It has the rating A- by S&P and A2 from Moody’s.46 Argentina and Brazil have 33% of its capital each, and Bolivia, Paraguay and Uruguay 11%, however each country will have only one vote (Article 16). The decisions of the Governors Board, the supreme decision-making instance of the institution, are taken by four fifths (Article 20) of the votes. With this structure no single country will have veto power.

3.2.4. Mercosur Structural Convergence Fund (FOCEM)

Mercosur Structural Convergence Fund (FOCEM, Spanish acronym), is a Mercosur Fund created in 200447 that started its operations in 200648, that aims to finance projects focused on infrastructure and enhance business and social development of the countries that are part of Mercosur, diminishing their asymmetries.

FOCEM operates giving grants to its members in a proportion of 43.65% to Paraguay, 29.05% to Uruguay, 9.1% to Argentina, Brazil, and Venezuela.49 The fund annually used to receive US$100 million, from 2006 to 2013. From 2013 onwards, after the incorporation of Venezuela, the amount is US$127 million.50 Brazil gives US$70 million, Argentina US$27 million, Uruguay US$2 million, and Paraguay US$1 million.51 The fund works in a reverse way of its monetary contributions. And all the decisions are taken on a consensual basis.
3.2.5. *South American Council for Infrastructure and Planning (COSIPLAN)*

South American Council for Infrastructure and Planning (COSIPLAN, Spanish acronym) is the decision-making body to plan and implement the infrastructure integration in South America. It is composed of all UNASUR members (Article 1). Its decisions are taken by consensus (Article 9).

It was created in the Third Meeting of the Council of State Leaders of UNASUR, in January 2009, in Quito, Ecuador. It has 4 general objectives which are (Article 3):

- to develop regional infrastructure integration;
- to foment the regional planning and infrastructure cooperation, through regional strategic alliances;
- to promote the legal compatibilization between the UNASUR members regarding infrastructure development and operation in the region;
- to identify and propel the execution of proprietary projects to integration and evaluate financial alternatives.

Moreover, it has 6 specific objectives (Article 4):

1) Promote the regional connectivity through the construction of infrastructure, taking into consideration the social development and economic sustainability, preserving the environment and ecosystems.
2) Enhance the capacities and potential of local and regional population through infrastructure aiming to provide better life quality and life expectancy.
3) Formulate regional planning strategies to infrastructure development. 
4) Consolidate the projects of the Initiative for the Integration of Regional Infrastructure of South America (IIRSA). 
5) Fomentate the intensive use of information technology and communication tools, aiming to overrule geographic and operative barriers within the region. 
6) Propel the methodology application, the development of sectorial processes and complementary actions to make viable the drawing, execution and operation of the physical integration.

COSIPLAN’s history starts with the creation of Initiative for the Integration of the Regional Infrastructure of South America (IIRSA). During the First South American Presidents Meeting, in Brasília, Brazil, 2000, with the “Comunicado de Brasília”, it aimed to propel the integration and infrastructure modernization under the conception of South American regional space. After that 13 South American meetings were held, until the creation of UNASUR (explained above) and COSIPLAN. In 2001 the IIRSA initiative was incorporated into COSIPLAN. One of the key objectives of IIRSA was to establish a “Strategic Vision to the Physical Integration of South America” among the 12 countries. During its 10 years, IIRSA focused on energy integration, boarder control, ICT, air transport, maritime transport and multimodal transport.

IIRSA had three well-defined stages. “The first one lasted from late 2000 to late 2003 and focused on proposing and discussing the Hubs and the Sectoral Processes, as well as on preparing the Business Vision for each Hub and preliminarily identifying the projects to be included. This period was very special because it made it possible for all countries to recognize each other’s national sensitivities. Between late 2003 and 2004, an indicative territorial planning effort, based on a methodology
that was fundamentally qualitative in nature and grounded on the views of experts very well acquainted with the reality of the projects, regions and countries involved, was implemented. This methodology helped attain the goal of building consensus among the countries over a common project portfolio and appropriate priorities. On the basis of the results and of the experience gained from the methodological developments and their application, a second phase, beginning in 2005, was defined with the purpose of taking a qualitative leap forward in the indicative territorial planning process. This second phase aimed at connecting infrastructure with other territorial development dimensions, such as production and logistics opportunities and the sustainable development and preservation of the natural heritage, including its social impacts. Furthermore, the process of formulating, preparing, and evaluating projects was sought to be enhanced through a georeferenced information system, a standardized database including all the projects within IIRSA Portfolio throughout their lifecycle, and the special treatment required by the transnational infrastructure initiatives."\(^{55}\)

In the first analysis in 2010, there were 524 projects amounting to a total US$96.119 billion. However, 83% of the portfolio was within the national scope, considering that the estimated investment amounts and national-scope projects accounted for 75%, binational projects for 21%, and multinational projects for 4% of the portfolio.\(^{56}\)

Seven years later the “Project Portfolio 2017” showed a total of 562 projects, totaling US$198.901 billion; only 42 projects in 6 years, however, more than doubling the amount of money. The public sector is responsible for 447 projects amounting US$118.993 billion, the Private Sector for 71 projects amounting US$30.807 billion, Public and Private are 44 project amounting to US$49,100. There are 153 projects already finished accounting for US$48.496 billion.
Table 2 South American Financial Initiatives

<table>
<thead>
<tr>
<th></th>
<th>CAF</th>
<th>COSIPLAN</th>
<th>FONPLATA</th>
<th>IADB</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of members</strong></td>
<td>19</td>
<td>12</td>
<td>5</td>
<td>48</td>
</tr>
<tr>
<td><strong>Majority</strong></td>
<td>Yes</td>
<td>No</td>
<td>Three-fourths</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Special majority</strong></td>
<td>Yes</td>
<td>No</td>
<td>Four-fifths</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Consensus</strong></td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Argentina</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Bolivia</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Brazil</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Chile</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Colombia</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Ecuador</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Guyana</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Paraguay</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Perú</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Suriname</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Uruguay</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Venezuela</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

For COSIPLAN 83% of the portfolio projects are national, 16% are binational and 1% are multinational. Similar percentages hold for their estimated investments. When dividing by sectors, transport sector represents almost 90% of the portfolio.57

As can be seen, COSIPLAN-IIRSA in its 16 years of action only concluded 153 projects amounting to US$48 billion, and the public sector is responsible for 60% of the total portfolio and private sector alone for less than 16% of the total portfolio. Transport sector accounts for almost all the investments. The binational projects represent only 16% of the total projects while multinational only for 1%; it represents a decrease of 5% and 3% respectively when comparing 2011 with 2017.
3.2.6. South Bank

Moreover, the South Bank is under implementation. Its treaty was negotiated in 2007, however did not enter into force; its capital will be US$20 billion.

4. Belt and Road Initiative Compared with South American Initiatives

The Belt and Road Initiative will comprise more than 60 countries. The Asian part alone will involve countries that comprise a GDP of US$25.1 trillion a year\(^5\) and with a population of 4.4 billion people\(^5\). The AIIB will have a lending capacity of around US$15 to 20 billion a year\(^6\) and the Silk Road Fund a capacity of US$60 to 80 billion a year, with these two institutions alone totaling US$80 to 100 billion a year, by the year of 2025\(^6\).

On the other hand, South America has 13 countries, and 12 of them participate in the Latin American integration process, mainly through UNASUR and COSIPLAN initiative. South America has a GDP of US$3.9 trillion, and a population of around 420.5 million people.\(^6\)

Putting all the South American initiatives and loans together – CAF, FONPLATA and FOCEM – the total amount available annually is around US$14 billion, an estimated amount 7 times lower than the Chinese initiative. If IADB figures are added to it, the difference falls to around 4 times less, but the IADB loans involve all Central America and México in its acting area. However, here the comparison is only with the investments specifically in the BRI, not the Asian Development Bank (ADB) funds and others like those from the European Investment Bank (EIB) and European Bank for Reconstruction and Development (EBRD), Eurasian Development Bank (EDB), Black Sea Trade and Development Bank (BSTDB), and others that are also involved in the
BRI’s projects.

As explained, the OBOR (later called BRI) was launched in 2013, while IIRSA later COSIPLAN was in 2001, with the same key basic objectives of regional integration through infrastructure projects to better connect the countries. During the first 16 years of IIRSA-COSIPLAN, only around US$50 billion in projects were finished, being only 1% in multinational projects and 16% in binational; there was only around US$500 million and US$15 billion effectively invested in regional integration.

The MDBs initiatives started their activities in the 1960s – the IADB with a strong inclination to the regional integration; however, the South American countries have scored badly in infrastructure and integration. According to the World Bank report Logistics Performance Index 2016, the 11 countries (Suriname does not appear in the ranking) score between 46th position and 138th among 160 nations, with most countries around the 60th position. Chile is the best qualified in the 46th position, followed by Brazil 55th, Uruguay 65th, Argentina 66th, Perú 69th, Ecuador 74th, Guyana 85th, Colombia 94th, Paraguay 101st, Venezuela 122th, and Bolivia 138th.

South America represented only 2.44% of total world imports in 2017, among which Brazil contributed 0.8%, Argentina and Chile 0.4% each, Colombia 0.3%, Perú 0.2%, Ecuador 0.1% and the others together less than 0.1%. As a comparison, China alone presented 10.4%, 13.7% if those from Hong Kong were included, and United States 13.5%. Being the first and second biggest players in the world, China and US each took over 5 times than the combined amount from South American countries. Moreover, the Belt and Road Initiative member countries, excluding China, covered 22.32% of global imports in 2017, almost 10 times bigger than South American countries together. Additionally, several countries engaged in the Belt and Road Initiative have a global
share of above 1% in imports, such as Singapore 1.8%, Russia 1.3%, UAE 1.5%, Thailand 1.3%, Vietnam 1.2%, Poland 1.2%, and Malaysia 1.1%.64

These figures show that the countries involved in the Belt and Road Initiative take a bigger participation in world trade. It also indicates that a better connection has potential to increase even further the trade capacity of the countries, while a lack of integration can weaken, further, the capacity of Latin American countries.

The South American countries represent 6.3% of the USA exports, while only 3.3% of Chinese exports. Meanwhile the Belt and Road countries together represent 11.5% of the USA exports (China excluded), vis-à-vis 26.8% of Chinese exports. Having said that, in 1995 South America represented 1.04% of Chinese exports and 1.44% of imports, while in 2016 it represented 3.13% of exports and 6.05% of imports, achieving a growth of 201% and 320% respectively in a 21-year period. Compared with that, the share of USA exports and imports from South American countries reached 5.59% and 4.03% in 1995, but in the next 21 years to 2016, barely no growth was produced on exports – 5.88% and a 13% drop was landed on imports – 3.54%. This could be seen as a sign that China is growing its participation in the Southern American region trade.65

When we analyze the period from 2013 to 2017, the period after the launch of the Belt and Road Initiative, and last year of data available, China’s exports to the World decreased by 1%, and imports dipped by 3%. Meanwhile, exports from South American countries shrank by more than 2.8%, and imports dropped by 9.1%; exports from Belt and Road countries declined only by less than 0.9%, and imports reduced by 1.8%. Nevertheless, USA decreased its exports to Latin American countries by around 7.75% and imports by almost 9.1%, while exports to Belt and Road countries by about 2.20% and imports by 1.69% (China excluded).
Table 3 United States of America Trade in 2017 – selected partners

<table>
<thead>
<tr>
<th>Importers</th>
<th>Value exported in 2017 (USD thousand)</th>
<th>Trade balance 2017 (USD thousand)</th>
<th>Share in United States of America’s exports (%)</th>
<th>Growth in exported value from 2013 to 2017 (%)</th>
<th>Share of partner countries in world imports (%)</th>
<th>Total imports growth in value of partner countries from 2013 to 2017 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>1,546,272,961</td>
<td>-862,202,741</td>
<td>100</td>
<td>-1</td>
<td>100</td>
<td>-3.00</td>
</tr>
<tr>
<td>South America</td>
<td>96,991,534</td>
<td>7,174,193</td>
<td>6.3</td>
<td>-7.75</td>
<td>2.44</td>
<td>-9.08</td>
</tr>
<tr>
<td>Belt and Road (China excluded)</td>
<td>186,077,172</td>
<td>-127,988,495</td>
<td>11.5</td>
<td>-2.19</td>
<td>20.87</td>
<td>-1.69</td>
</tr>
<tr>
<td>China</td>
<td>129,893,587</td>
<td>-396,165,238</td>
<td>8.4</td>
<td>1</td>
<td>10.4</td>
<td>-3.00</td>
</tr>
</tbody>
</table>

Source: Compilation by the authors – data from International Trade Centre available at: <http://www.intracen.org/>.

Table 4 China Trade 2017 – selected partners

<table>
<thead>
<tr>
<th>Importers</th>
<th>Value exported in 2017 (USD thousand)</th>
<th>Trade balance 2017 (USD thousand)</th>
<th>Share in China’s exports (%)</th>
<th>Growth in exported value from 2013 to 2017 (%)</th>
<th>Share of partner countries in world imports (%)</th>
<th>Total imports growth in value of partner countries from 2013 to 2017 (%)</th>
</tr>
</thead>
<tbody>
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<td>100</td>
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</table>

Source: Compilation by the authors – data from International Trade Centre available at: <http://www.intracen.org/>.

These figures suggest that the Belt and Road Initiative has helped member countries to not be severely affected by the slow-down trend of global trade during the period from 2013 to 2017 (more analysis and data is needed to make further inference, overpassing the scope of this paper). Meanwhile, it must be noted that Venezuela is struggling economically, which pushed the Latin American figures down.

Even with the growth of the participation of the South American countries in the China’s market, it still represents a small share of
Chinese and USA’s trade. However, if Latin America is still being excluded, the countries there could be heavily affected by the Belt and Road model that offers better connectivity and reduced cost.

What can explain its more than 60 years of investments, 4 South American financial institutions plus IADB, 4 South American integration institutions plus OAS, and bad integration, infrastructure indicators and trade indicators? Despite the obvious suspects, such as corruption, instability, inefficiency and bureaucracy, here it is argued that the lack of leadership is the key factor to the poor integration figures.

In all South American initiatives that were analyzed, only IADB has a leading force, that is United States of America. In all the other institutions, no country exercises the leadership, as shown in Table 1, and almost all the institutions take their decisions by consensus, or by a complicated majority of votes by countries. On the other hand, in the Belt and Road Initiative, China is taking the lead with veto power in the AIIB and an especially dedicated single donor Fund devoted to the Initiative.

In this way, South American region must have a leader to lead the integration process (Venezuela was taking the lead with some support of Argentina and Brazil; the UNASUR initiative and the South Bank were good examples, however with the fall of Venezuelan economy, the South Bank was virtually abandoned and the UNASUR is in a delicate situation, with 6 of 12 member countries threatening to exit the organization). The leadership does not need to be as a hegemonic leader as in Antonio Gramsci’s Hegemonic Stability Theory, or regional hegemony. It must be in a Chinese way that looks for cooperation, however with a leading detailed development agenda, working together and cooperating with other major powers such as Japan, India and Russia.
The region nowadays lacks a leader and the South American institutions’ decisions are taken by consensus or special majority, which makes any initiative difficult (see Table 2).

Also, as stated the twelve countries participate in at least 3 financial institutions, and 4 integration initiatives, as shown in Table 2, which clearly causes overlaps and diseconomy of scale. Uniting most of these institutions could help generate more effective initiatives and integration. In the first transition period (3 to 5 years) FOCEM, FONPLATA, and Mercosur should work under the same agenda, due to its sub-regional and membership structure. Also, CAF, ALADI, and UNASUR should integrate themselves. In the second step, CAN and Mercosur (with FONPLATA and FOCEM) should unite themselves with UNASUR and CAF, with divided financial and political arms, taking advantage of each sub-regional area of influence, with a leader or at least with a strong united compromise. Also, these new institutions must seek more member countries, as the AIIB that have 67 members.

Without a united strong region, the region will keep losing competitiveness and foreign investment. One of the most basic economic maxims states that resources are scarce. In other words, the needs are unlimited while the resources are limited. In this way, the Belt and Road Initiative will attract massive resources to the Asian region for the years to come, this movement of money will, likely, attract more foreign investment to Asia and consequently less to South America.

Finally, the region should propose its South American Road. It consists of a strong action plan focusing not only on South America, but also on Central America, and Occidental part of Europe, taking advantage of the historic links between the region and Portugal and Spain, linking with the South and Occidental part of Africa, also taking advantage of Brazilian links mainly with Angola, Mozambique, Cape Verde, Guinea-Bissau, São Tomé and Príncipe, and also linking with
Oceania – places where the Belt and Road Initiative is not prioritizing and could complement the Chinese initiative.

5. Conclusion

The Belt and Road Initiative is the biggest international initiative led by China and will mobilize trillions of dollars. To support this initiative, China created the AIIB and the Silk Road Fund. The AIIB will have the capacity to invest more than US$15 billion and the Fund around US$80 billion a year.

South American Integration started in the 1960s with the first IADB loan to build the Paraguay-Paranaguá road. After that several investment institutions and integration initiatives were launched, however the results are relatively low. The most concrete South American-led integration initiative, and similar to the Belt and Road Initiative, is the IIRSA-COSIPLAN that started in 2001, but with only 153 projects concluded in an amount of US$48 billion, and with only around US$500 million in multinational projects and US$16 billion in binational projects. All the financial South American initiatives together have a mobilization power of only US$14 billion a year, an amount that must be increased and focused on integration.

The Belt and Road Initiative has a clear Chinese leadership, which is what lacks in South America, where all the institutional decisions are taken either by consensus or by complex majority. This requires a common agenda that is relatively difficult to achieve. Also, the institutions’ mandates and actions are overlapping, with most of the members being the same.

As we saw South American countries represent only 2.44% of world import share and less than 7% of USA and 3.5% of Chinese exports, the first and second biggest trade players in the world. Countries involved in
the Belt and Road Initiative, on the other hand, contribute more than 22% of the world’s import share, more than 11% of USA exports, and 26% of China’s. In spite of a growth of more than 200% in Chinese exports and 320% of imports, South America still amounts to little importance in the world trade share. The lack of connectivity and integrations can be considered as a partial explanation for this low participation in world trade. Meanwhile an increase in the connectivity and exchange that the Belt and Road Initiative will allow could further take away the chance of Latin America to participate more in global trading dynamics. Without urgent integrative measures taken, under current and possible crisis in some South American countries, the importance and participation of this region can be even smaller and following the decreasing trend of the last 5 years.

It is understood that the region needs a lead or leaders to unite most of its institutions in a single big initiative with one political and one financial arm. The financial part is the key and should be inspired in the IADB, EBRD, AIIB, bringing together a big number of non-regional member countries focusing on regional integration. Also, the regional international organizations should look for further cooperation and joint work, even with banks from other regions, to strength their capabilities and lending power.

Moreover, it is proposed a South American Road to be created, as a strong action plan, as mentioned earlier, focusing not only on South America, but also on Central America, and Occidental part of Europe, taking advantage of the historic links between the region and Portugal and Spain, linking with the South and Occidental part of Africa, also taking advantage of Brazilian links mainly with Angola, Mozambique, Cape Verde, Guinea-Bissau, São Tomé and Príncipe, and also linking with Oceania – places where the Belt and Road Initiative is not prioritizing and could complement the Chinese Initiative.
### Appendix 1 United States of America Trade in 2017 – selected partners

<table>
<thead>
<tr>
<th>Importers</th>
<th>Value exported in 2017 (USD thousand)</th>
<th>Trade balance 2017 (USD thousand)</th>
<th>Share in United States of America’s exports (%)</th>
<th>Growth in exported value from 2013 to 2017 (%)</th>
<th>Ranking of partner countries in world imports</th>
<th>Share of partner countries in world imports (%)</th>
<th>Total imports growth in value of partner countries from 2013 to 2017 (%)</th>
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Source: Compilation by the authors – data from International Trade Centre available at: <http://www.intracen.org/>.
### Appendix 2 China Trade 2017 – selected partners

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<th>Importers</th>
<th>Value exported in 2017 (USD thousand)</th>
<th>Trade balance 2017 (USD thousand)</th>
<th>Share in China's exports (%)</th>
<th>Growth in exported value from 2013 to 2017 (%)</th>
<th>Ranking of partner countries in world imports</th>
<th>Share of partner countries in world imports (%)</th>
<th>Total imports growth in value of partner countries from 2013 to 2017 (%)</th>
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Source: Compilation by the authors – data from International Trade Centre available at: <http://www.intracen.org/>.
Notes

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7. “China’s Arctic Policy”, White Paper issued by the Information Office of the State Council of PRC.


9. “‘Belt and Road’ to need up to US$6 trillion in funding over next 15 years, says HSBC head” (reported by Enoch Yiu), South China Morning Post (Hong Kong), 19 June 2016. Available at: <http://www.scmp.com/business/mutual-funds/article/1977680/belt-and-road-need-us6-trillion-funding-over-next-15-years>.


23. “Luo Yang, General Manager and Board Member of Silk Road Fund (interview by Xinhua News Agency): Silk Road Fund has covered USD 6 billion of investment in many countries along the Belt and Road” (2017-06-19, in Chinese). Belt and Road Portal. Available at: <https://www.yidaiyilu.gov.cn/xwzx/gnxw/16483.htm>.

24. “Yang Zejun, Chairman of Board of Supervisors of the Silk Road Fund (interview by People’s Daily): Give full play to the role of Silk Road Fund to better serve the construction of the One Belt One Road initiative” (2017-05-10, in Chinese). Belt and Road Portal. Available at: <https://www.yidaiyilu.gov.cn/ghsl/gnzjgd/12587.htm>.


27. Montevideo Treaty 1980 (TM80) – Creation of ALADI.


32. Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bolivia, Brasil, Chile, Colombia, Costa Rica, Cuba, Ecuador, El Salvador, Federation of Saint Christopher and Nevis, Granada, Guatemala, Guyana, Haití, Honduras, Jamaica, Dominica, México, Nicaragua, Panamá, Paraguay, Perú, República Dominicana, Saint Vincent and the Grenadines, Saint Lucia, Suriname, Trinidad and Tobago, Uruguay and Venezuela.
33. The Agreement Establishing the Inter-American Development Bank incorporating the amendments approved by the Board of Governors which entered into effect on July 11, 1995.


37. Agreement Establishing the Andean Foment Cooperation (CAF).

38. Now it is temporary functioning in Montevideo, Uruguay.


40. Andean Foment Cooperation (CAF) Financial Statements as of and for the years ended December 31, 2016 and 2015.


42. Constitutive Agreement of FONPLATA.

43. Headquarters Agreement of FONPLATA.

44. Annual Report and Financial Statements 2016. FONPLATA.


46. FONPLATA - Operating & Finances Institutional Brochure.

47. Decision CMC Nº 45/04 – Creation of FOCEM.

48. Decision CMC Nº 18/05 – Establishes its rules and functioning of FOCEM. The Decision CMC Nº 01/10 is its current regulations.

49. Decision Nº41/12 – Incorporated Venezuela to FOCEM.

50. Decision Nº22/15 – Continuity of the FOCEM.

51. Statute of South American Infrastructure and Planning Council (COSIPLAN).


53. Explained above.


57. Project Portfolio 2017. South American Infrastructure and Planning Council (COSIPLAN), p. 11


60. Estimate by the authors based on its capital and paid-in capital compared with similar institutions such as African Development Bank, Asian Development Bank and Inter-American Development Bank. The Bank projects US$5 billion by 2020.

61. Estimate by the authors based on its capital and paid-in capital compared with similar institutions such as African Development Bank, Asian Development Bank and Inter-American Development Bank.


63. The Logistics Performance Index. Available at: <https://lpi.worldbank.org/about>.


66. Some authors attribute the theory to Charles P. Kindleberger, where a single country should lead the world to keep its stability.

Does the “Belt & Road Initiative” Possess Soft Power?

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Department of Politics, East China Normal University

Abstract

The Belt and Road initiative (BRI) discourse has generated political scholarship in the twenty-first century. It has implications in regional integrations and international politics. In order to realize BRI in full scale, there has to be a level of favorable engagement regarding concerned countries. Oppositional voices can foil the appeal of BRI resulting in the hesitation of nations to participate due to a mixed forecast of its success. A major concern is coercion which may alarm those who want to participate and those who are considering participation. Another is the use of soft power to facilitate favorable outcomes in transnational issues. Thus the assessment of soft power’s presence in BRI provides a comprehensive insight of its appeal. In international politics, soft power seeks to establish stable economic relations, a mutually beneficial relationship and avoids the means of coercion. Nye’s concept of soft power will be used to examine the features of soft power present in BRI. Soft power may resonate in BRI, but issues which are repulsive can curb the appeal of BRI.
Keywords: Belt and Road Initiative, soft power, cultural exchange, peaceful development, China Dream, foreign aid

1. Introduction

From a post-Cold War vantage point, soft power is a popular concept in statecraft. Its dimensions act as a fulcrum to proliferate and shape international relations and politics. Soft power can attract other nations through co-optive means of power, to implement and promote one’s ideas in the international realm. China desires to successfully implement the Belt and Road Initiative (BRI) by appealing to the preferences of nations and to shape these preferences. There are two forks under BRI, which are the “Silk Road Economic Belt” and the “Maritime Silk Road”. Originally it was unveiled as “One Belt, One Road”, now it is commonly referred to as BRI. As observed by some, BRI is viewed as a regressive colonial order of Hyper-masculine Eurocentric Whiteness (Ling, 2017). It is a great game, geopolitically or economically. BRI’s proposal is not as peaceful as it appears to present itself (Sibal, 2014). According to Dollar (2015), China cannot push BRI’s agenda on developing countries who have strong governments. Take for example, India, Indonesia, and Vietnam who all have relatively strong governments. These countries may show disinterest in BRI because BRI will increase the flow of foreign labour and financial burden. On the other hand, it is more ideal for China to send some of its surplus production to countries with weak governance, for example, Pakistan and Cambodia. However, there are reasonable prospects for these countries to participate in BRI (ibid.). These points mentioned above can cause repulsion in transnational relations related to the development of BRI. In order to implement BRI, it first has to appeal to governments in the nations it wishes to infiltrate.
During the 19th National Congress of the Communist Party of China, President Xi Jinping explained that China’s strategies for international relations are based on a peaceful and common development. She will promote cooperation through BRI and will pursue it through open discussion and collaboration. This is a soft power strategy that China is projecting. It has been more than five years since BRI was launched. During this period, there have been small implications of BRI development because there have been no major developments taking place yet. If there are any adverse project impacts under BRI, then it loses its legitimacy. China as the leading state actor can take measures to protect against the rise of BRI repulsion. Examining BRI as a source of soft power may provide insight on understanding political backlash from its development process and its appeal to other nation-states. The central query of this article seeks to answer the question: Does the “Belt and Road Initiative” possess soft power? BRI will play a role in transnational politics. Issues that span across nation-states face many challenges; it is beyond the control of governments and to deal with these challenges requires soft power (Nye and Goldsmith, 2011). China has developed her soft power in a strategic manner. Her method of attraction and agenda setting has received international attention. Her soft power practice in international relations has generated a platform where opinions on major issues can be shared (Ding, 2010). Therefore, the assessment of BRI as soft power is necessary to understand China’s international relations strategy. Culture, political values and foreign policies are sources of soft power (Nye, 2004: 11). The impact of BRI on the sources mentioned above can shape the preferences of other countries and it may act as a magnet to attract others.

The rest of this article is comprised of four sections. First, it begins with a discussion of soft power and it resources in the vein of Joseph
Nye’s conceptual framework as well as a brief background on BRI. Second, it assesses how BRI can be a source of soft power as it appeals through culture. Third, it examines how domestic values are projected through BRI. Finally, it assesses BRI as a foreign policy to gain legitimacy from other nation-states.

2. Soft Power and a Brief Background on BRI

Soft power is the ability for states to achieve national interest goals in international relations: “Power is based on the particular material capabilities that a state possesses” (Mearsheimer, 2001: 55). Power can be exercised with distinction on the degree of intensity – or with command, as oppose to co-optive power. Both coercion and co-option are aspects of ability to shape and appeal to the preferences of others: “Co-optive power is the ability of a country to structure a situation so that other countries develop preferences or define their interests in ways consistent with its own” (Nye, 1990). Co-option is a manifestation of soft power. It is the ability to gain favor without deploying military and economic muscle (Gray, 2011). Soft power could represent a means that is an alternative to an armed force in foreign policy (Smith-Windsor, 2000). It consists of a country’s international appeal, internal mobilization capabilities and external mobilization capabilities (Yan and Xu, 2008). International attractiveness has two aspects which are cultural attractiveness and the national model. International mobilization capabilities are exerted through strategic relations. External mobilization refers to elites and ordinary people who support the government. According to Nye (2004: 5), soft power is the ability of its possessor to get favorable outcome through persuasion instead of coercion. To put it simply, soft power is another form of power. It is not only cultural, including values which sets in internal policies as well as handles the
international relations in the same way. It is not just the same as influencing, but persuading people to move by argument. Its manifestation varies in different contexts and with different degrees of intensity. It does not depend on hard power (coercion or threat). Legitimacy is a core element of soft power. In a simple way we can sum up that soft power is evident in practices of persuasion, attraction, emulation and co-optation. Nye argues that primarily soft power comes from three sources. First, culture is a source of soft power. Culture can be transferred by means of commerce. Travels by tourists and business people are important channels, and exchange programs are an important aspect of cultural exchange. Trade can attract visitors, investors, job seekers as well as people who want to gain knowledge. Culture diffuses by the creation of a unique identity to attract target groups, and the demand for cultural products, business processes, innovative communication technologies and managerial and working styles (Rae, 2005). Second, soft power rests on domestic political values and ideas. Domestic values set internal practices and policies which influence the ways to handle relations with others. It reflects what it does as well as its ideology. The expression of values can promote its image and legitimacy at home, and it can advance its foreign policy objectives. For example, “a path of peaceful development” / “harmonious world” or “development model” bears China’s vision and values, which are championed at localities and strengthened guidance from internal to external orientation (Cho and Jeong, 2008). Third, foreign policy is another source of soft power. Attractiveness as a source of soft power depends on the values expressed through the substance and style of foreign policy. In order to make a policy appealing, a state has to consider the priority of the other state’s interest. The action of a country should be perceived as welfare for other nations or as a signal of legitimacy. Foreign financial assistance can be one considerable well-
thought-out policy which maintains a degree of international development. Financial assistance for development projects can be both a persuasion of agenda setting and co-optive manner, which manifest soft power.

**A Brief of Background BRI**

In September 2013, Xi Jinping introduced the “One Belt, One Road” initiative during his trip to Kazakhstan. He emphasized the importance of a “Silk Road Economic Belt” (SREB), which consists of road and rail construction to link China to Europe through central Asia. A month later, while in Indonesia, he proposed an equivalent project termed as “Maritime Silk Road” (MSR). The MSR will link China’s eastern ports to Europe through Southeast Asia. It will pass through the Indian subcontinent and double back around the Bay of Bengal along the Indian Ocean, making its way towards the east coast of Africa before heading to the Suez Canal. In the nearest time of the BRI introduction, China revealed details about the routes and corridors for the type of construction that will be concentrated. Most of the largest state-owned enterprises released plans of their current projects and these projects are in compliance with the objectives of BRI. This is one of the ways in which BRI is beginning to take shape in practice (Murphy, 2016). The northwest province of Xinjiang and the southeast province of Fujian serve as the core development areas for SREB and MSR respectively. The SREB is designed to build a “Eurasian land bridge” – a logistic chain from China to Western Europe. Along the way, economic corridors will be developed to link China with Mongolia, Russia, Central Asia and Southeast Asia. The MSR is designed to link ports from China across the South China Sea to the India Ocean and heading east towards the South Pacific. The proposed six economic corridors are New Eurasian Land Bridge, China-Mongolia-Russia Corridor, China-Central Asia-West Asia.
Corridor, China-Indochina Peninsula Corridor, China-Pakistan Corridor, Bangladesh-China-India-Myanmar (BCIM) Corridor. Not all the ports will be new as there are some existing ports already in MSR’s proposal. A few of these ports are Piraeus port in Greece, Port of Djibouti in Djibouti, Hambantota port in Sri Lanka, Antwerp in Belgium, Lamu port in Kenya, Mombasa port in Kenya, Gwadar port in Pakistan, and Colombo port city in Sri Lanka among others. The development plans of BRI has been considered to be China’s third round of opening up since becoming a World Trade Organization (WTO) member and the development of special economic zones. The objectives of BRI are to bring prosperity to the undeveloped parts in China, increased connectivity and economic growth, integration with neighbors, energy security, exploration as an outlet for excess production capacity and channelized outward investment.¹ The action plan and vision statement of BRI are in line with the principles of the United Nations charter. In addition, it follows five principles which are mutual respect of sovereignty, non-aggression, non-interference in internal affairs, an equally and mutually beneficial relationship, and a peaceful coexistence.²

3. BRI: Soft Power as Cultural Exchange

Culture (or, a set of practices that have been normalized) can be transmitted by commercial activities and visits. Nye (2004: 11) distinguished exchange programs or education as high-culture and mass entertainment like a company or brand, from commercial advertisement as popular culture. Through trade and exchange programs BRI would embody a set of practices. By normalizing this set of practices BRI would become a way for which soft power can manifest itself.
As China continues to open up its market, BRI will strengthen her competitiveness as the second largest economy in the world. BRI’s purpose is to create a large trade economy linking China all the way to Europe and everything in between. If successful, it will be one of the biggest, most diverse marketplace where experimentation of new business can take place. Any knowledge and experiences produced from BRI can be distributed to participating nations. States with weak economies can find opportunities to generate income, whereas economically viable countries can explore new business ventures. Moreover, companies and corporations, brands, commercial and cultural goods will proliferate and distribution to participating nations can easily be done. These things are not only an economic indication, but are also intellectual, spiritual and emotional factors. These products convey manner, ideology and identity. Culture cannot be separated from this mass trade process because each product carries a narrative to be sold. The labor, trade agreements, services/products distribution methods, and standardization as a whole all concern cultural transmission and generate set of practice in a trading system. The increase flow of trade can more easily normalize and disseminate this set of practice which BRI is promoting.

BRI will proliferate trade in two ways. First, it reduces trade barriers and costs between countries who are perceived to be important trading partners. Second, it explores new trade routes to potential trading partners who are isolated. Improved connections and lower trade cost has significant global impact. BRI countries, including those who signed the BRI “implementation and partnership agreement” with China, involve more than a quarter of world trade, and halving trade costs can increase world trade by 12 percent (Konings, 2018). A well-developed infrastructure and connectivity is one way to reduce trade costs. Lu, Rohr, Hafner and Knack (2018) showed that transportation infrastructure
and connectivity has significant impact on trade. Investment in improving transportation infrastructure increased trade volume significantly, not only in the BRI region but also in other regions such as the European Union. Ramasamy, Yeung, Utoktham and Duval (2017) found that BRI is improving both hard infrastructure, such as roads, ports, and highways, and soft infrastructures, such as customs management and institutional factors etc. In spite of diversity of economies along the corridors, there is potential impact on trade in six economic corridors of BRI due to infrastructural improvement. It enhances export performance of BRI countries and with free trade agreements it acts as a catalyst of cooperation between countries. A report in People’s Daily Online (31 August 2018) gave a snapshot of the impact of BRI in the last five years. China has signed or upgraded five free trade agreements and traded goods between China and BRI countries have exceeded US$5 trillion. It has created US$2.01 billion of tax revenues. A total of 118 cooperation agreements were signed with 103 countries and international organizations. China is the leading state actor of BRI and has become the largest trading partner of 25 BRI nations. There are 82 economic and trade cooperative zones established that have attracted 3,995 companies. Till August 2018, the transportation of goods by freight train has made 10,000 trips from China to 15 European countries. In 2017, the inbound and outbound students of China in BRI regions exceeded 300,000 and 60,000 respectively. Tourism revenue is expected to increase to $110 billion by the year 2020 (ibid.).

In the BRI region, 140 Confucius Institutes, 135 Confucius Classrooms, 85 academic programs and 206 partnership programs between Chinese and foreign institutions have started. Furthermore, 24 BRI nations and China have reached agreements on mutual academic degree recognition (China Daily, 10 August 2018). BRI countries
promoted exchange programs for cooperation and China provided 10,000 Chinese government scholarship per year. BRI has expanded exchange programs through youth employment, training, vocational skill development, social security management and exploring common interest areas. Along this region 50 joint laboratories were set up, 2,500 young foreign scientists were offered a chance to visit China for a short-term visit, and 5,000 foreigners were offered special training. Moreover, holding different festivals, connecting different heritage sites, and creating competitive tourist route will attract visitors to the BRI region. Academicians, scientists, professionals and visitors can familiarized themselves with local rules, gain inter-cultural competence and innovative ideas. These kinds of high cultural contact often produce soft power (Nye, 2004: 45). University students go back their home and they are a remarkable reservoir of goodwill in long term for the host country (where they studied). Simultaneously, these students contribute to change at the national level by adopting the normalized set of practices which BRI embodies. Cultural exchanges over time can affect policies in the domestic political spectrum (Nye, 2004: 46). In a commercial spectrum, trade flow introduces and utilizes new ideas both at home and abroad. BRI will encourage the exchanges of high culture and popular culture.

Long-term trade imbalance and short-term cultural confrontation may repulse the participation in BRI development. Trade imbalance is a cause of anxiety in potential BRI countries. There is already a trade imbalance between China and European countries. For example, Chinese export to BRI countries has increased, whereas European countries’ export has decreased (Holslag, 2017). In 2015, China’s trade with Central Asia has surpassed Russia’s trade with Central Asia. The trade imbalance might lead to different types of long-term implications. Generally, the blessing of science, innovation and new-age business will
proliferate. Some countries occupy an advanced position in high-tech manufacturing and services. Technologically backward countries depend on technologically advanced countries who have reasonable prices. Like China, a low-cost manufacturing goods supplier is in a more favorable position. There may be an increase in welfare for low-income consumers, but low-priced goods and services may challenge the survival of local industries. Even technologically advanced countries may face challenges from China as the latter is known for producing goods and services at low cost. Due to infrastructure development, the economies of BRI countries may expand due to China’s growing demand for goods and services. Importing popular products at a reasonable price and service and production methods all carry a cultural aspect which influences local traditions. Short-term anxiety might rise during BRI implementation phase because of quantitative restrictions, discriminatory taxation, regulatory prohibitions, licensing restrictions, and tariffs. Different conventions, communication expressions and social principles of different parties could be a front for conflict, whose roots derive from cultural diversity (Dai and Cai, 2017). There are two parties involved, one is the enterprise and the other is the host country. They are from different cultures who have different perspectives of the same problem and agreements. Therefore, balancing the trade deficit and cooperation mechanism is important to keep attraction of BRI. On November 5, 2018, the China International Import Expo (CIIE) was held in Shanghai. In this expo Xi Jinping stated China’s plans to lower tariffs, reduce cost in imports, and facilitate customs clearance to expand the scope of imports. In the next 15 years, China is expected to exceed US$30 trillion and US$10 trillion of imported goods and services respectively (Wang, Xu and Li, 2018). If Chinese imports increases in BRI region, then the backlash of trade deficit will turn down. Furthermore, BRI-centric cooperation operates as a bilateral agreement
(making plans, initiating pilot projects etc.), a multilateral agreement
(Conference on Interaction and Confidence-Building Measures in Asia,
Central Asia Regional Economic Cooperation etc.), and a regional
exhibition (Boao Forum for Asia, China-South Asia Expo etc.) which
can act to minimize space for concerns.

4. BRI: Soft Power as a Transfer of Domestic Political Values
The Confucian idea of harmony is embedded in Chinese domestic
values. Chinese history is roughly calculated to be five thousand years
old. China has experienced a number of changes in its history. China has
taken these lessons as they continue their path of development in the
21st century. During President Hu Jintao’s era, its soft power strategy
emphasized the values of “peaceful development” which was coined
with Confucius tones of “harmonious society”. The previous leaders
Deng Xiaoping and Jiang Zemin had promoted that this will lead China
to economic prosperity. The motivation for peaceful development is to
gain acceptance and legitimacy from other nations and for China’s own
modernization. According to the White Paper titled *China’s peaceful
development* (2011), the distinctive features of the path to “peaceful
development” is a path of scientific development, self-reliance, opening
to other nations, and seeking common development. BRI will promote
the path of scientific development through economic progress, social
development, applying science and technology, enhancing social
services and utilizing resources. BRI is China’s own effort and idea. It
implies China’s independent capacity to pursue development and
introduce innovative ideas to other nation-states. The improvement of
social systems and institutions, and domestic market and income
distribution will convey the impression of the Chinese development
model. In addition, BRI proliferates development outside of the national
border. It will carry out domestic improvements in different aspects, engaging at a profound level with other countries, and contribute to human civilization. Creating a harmonious world is the idea of a peaceful development in international affairs, using a non-confrontational means to gain their own interest. On the 60th anniversary of the United Nations, Hu Jintao remarked on China’s aims to build a harmonious world. In 2012, Xi Jinping put forth the idea of the “China Dream”. It is an ideological objective of Xi’s regime, as his predecessor Hu Jintao had defined “harmonious society” (Ferdinand, 2016). Scholars have interpreted the “China Dream” as focused on improving economic aspects, living standards, political aspects and foreign relations (Duan, 2016). These are all reflected in the national values. According to Yang Jiechi, State Councilor and Director of the Office of the foreign affairs Leading Group of the CPC Central Committee, People’s Republic of China, and former foreign minister, writing in The National Interest (10 September 2013), the “China Dream” has garnered empathy around the world and contributes to development of others. BRI advocates the “China Dream”, by minimizing the development gap at the domestic level to achieve economic equality. Let us assess how BRI functions as the ideology of the “China Dream”. Let us first begin to understand at the domestic level. The western parts of China are left behind by the rapid urbanization and development of the east, which is based on an export-oriented strategy. The western regions are far from the east coast and are quite rural. The per capita income in the western provinces are lagging behind those of the eastern provinces. Reducing income inequality and addressing social instability is important for social justice, rule of law, and better living standards. Since the late 1990s, China has launched “the Western development program” to spur growth in these areas; however, these plans for development have not been as successful as
planned. Lastly, the financial crisis of 2008 caused even further unexpected shortcomings. The east coast is heading towards a capital-intensive development, whereas the west is more labor-intensive (van Dijk, 2011). This has important consequences for labor migration and income distribution. BRI will connect the western provinces (such as Xinjiang, Tibet) with neighboring countries. This would act as an energy corridor from Xinjinag to Eurasia. For Tibet, it would connect to the Himalayan economic rim project with BCIM. BRI is expected to mobilize more economic activities with bordering countries of the western parts of China and this should reduce the gap with the east coast. Second, let us look at a case at international level which is how BRI functions for other nations. Central Asia is distant from regions of major economic activities such as North America, Western Europe, East and Southeast Asia. This landlocked region is geographically disadvantaged because they are unable to access oceanic trade and are locked within the world’s largest landmass. In this region, trade carries high costs and is time-consuming because of additional international boundaries, infrastructure and the absence of direct port access. Intra-regional integration is a set of trade policy and intra-regional trade can bring opportunities to this region (White, 2010). Through foreign direct investments, the economy of these countries can significantly expand. A notable territory of this region is the Asia-Pacific economic rim on the east and the European economic rim to its west. BRI can bring prospective advantages to this region by connecting it to the world, in particular China and European countries. In this way central Asia can improve their infrastructures, obtain sea ports and integrate into the global economy.

BRI has thus far proven itself to be in line with the objectives of the “China Dream”. The implications of BRI are economic prosperity at the domestic level which should improve the living standards and conditions
of the people. Furthermore, it deepens the trust of the people in the government. It is resonating with the world’s common desire of economic prosperity. BRI has generated 244,000 jobs along its region and this is one of the factors which makes BRI so attractive in international cooperation. Others’ views, on how and why the BRI is implemented in national and international perspective is important for legitimacy. If the political values perceive that it is not spread with similar spirit at home and abroad, then it would appear as hypocritical to some other people (Nye, 2004: 55, 60). It may restrain the attractiveness of values. Some scholars argue that BRI is countering America’s “Pivot to Asia” and the Trans-Pacific Partnership (TPP). In 2011, the U.S. State Department’s secretary of state Hillary Clinton first outlined the pivot strategy in her article “America’s Pacific Century” (Foreign Policy, 11 October 2011). At the end of the same year, President Barack Obama formally outlined the Asia-Pacific foreign policy strategy. It reshaped USA’s geopolitical priorities moving towards a more Pacific direction and less Atlantic. The objectives of “Asia Pivot” are to preserve USA interest across the regional sea lanes, further expand trade with East Asia and free trade zones in the Asia-Pacific region, not explicitly but seem to contain China’s position (Del Pero, 2013). The TPP is a free trade agreement among twelve Asia-Pacific countries, including USA, Japan, Canada, Australia, Mexico, Malaysia, Singapore, Chile, Vietnam, Peru, New Zealand and Brunei. USA joined the TPP in late 2008 and soon it became the center of president Obama’s economic policy in Asia. In 2015, USA accounted for approximately 65 percent of the combined GDP among TPP countries. The strategic and economic approach of “Asia Pivot” and TPP intrinsically caused security concerns and tensions in economic realities among non-allied states. While “Pivot” including TPP are dealing with Asia, BRI seeks to cultivate relations westward via Eurasia and Southeast Asia. Third parties suspect that BRI is a strategic
race of countering and rebalancing. This kind of suspicion influences state actor’s decision whether to participate in BRI. For example, Washington’s “Asia Pivot” and Beijing’s “BRI” became two platforms vying for India’s participation. Signing BRI for India makes sensitive the topics of security and the Indian Ocean strategy. Due to apprehension, New Delhi has opted out of BRI. Although one can argue that this is a geopolitical race, there is indeed a positive side with BRI. In times like Brexit and the US withdrawal from the Paris Climate Agreement, BRI has stood for and inspired international cooperation. The recent financial crisis slowed down economy and BRI has risen as an opportunity of hope. For India, BRI can further enhanced its confidence. She has previous experience in trade with China particularly along the ancient Silk Road. In 2006, India and China opened up the Nathu La Pass, which was part of the ancient Silk Road. They signed three significant border agreements in 2005, 2012 and 2013 (Ho, 2014). In 2013, they signed a series of MoUs to increase Indian exports to China. In 2014, China proposed US$300 billion for Indian infrastructure development. In the near future, India may reconsider its position in BRI because this is a great opportunity for the “Made in India” campaign, deepening friendships with neighboring states by engaging in the BCIM, reclaiming with pride its former place as one of the ancient Silk Road destinations, and exploring the demand for her IT-based soft technology.

Again, some voices are concerned over a geopolitical dominance competition in Central Asia. Historically, Russia is influential in Central Asia, whereas the influence of BRI appears to be coming from China’s thrall (Denyer, 2015). Russia is leading the Eurasian Economic Union (EAEU) which was established in 2015. The member states are Russia, Belarus, Kazakhstan, Armenia and Kyrgyzstan. It is highly centralized to Russia, largely considered as political, and adopts a defensive approach against any regional supremacy (Patalakh, 2018). It brought many
opportunities to the area such as a free flow of commodities, services and labor force among member states, particularly the Russian market. There is also a regional financial arrangement, namely, the Eurasian Fund for Stabilization and Development (EFSD) also formerly known as EURASEC Anti-Crisis Fund. It was established by Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan. It is managed by the Eurasian Development Bank (EDB), where Russia is the leading contributor. In general, Russia’s dominance prevails in this organization so it can be presumed that the implications of the EAEU and the EFSD give Russia a presiding position in Central Asia. In a way some would argue, the attempt of BRI appears to be the expansion of China’s dominance in Central Asia. In fact, these kind of outlook on Central Asia undercuts the appeal of BRI. Potential economic interdependence can be a factor to reduce apprehension and building trust (Hu, 2017). Under BRI, China, Russia and Central Asia will be interdependent in many respects. Moreover, Russia has joined other initiatives undertaken by China, like BRICS, which is a group comprising Brazil, Russia, China, India and South Africa, Shanghai Cooperation Organisation (SCO), and Asian Infrastructure Investment Bank (AIIB). These platforms can act as cooperative mechanisms. Hence, it can be assumed that BRI might not be the cause of the stumbling block between Sino-Russian relations due to BRI being labelled as a hypocritical vision. Moreover, China should make a more objective assessment of BRI, which can redirect the mixed outlook.

5. BRI: Soft Power as a Source of Foreign Policy

Expression of shared values through substance and style has a pivotal role to attract foreigners (Nye, 2004: 60). According to Yang Jiechi (2013), the path of peaceful development and the strategy of “win-win”
co-operation with other nations are followed by BRI’s leading state actor China. China’s approach to foreign relations voices “equality and mutual benefit” (Geis and Holt, 2009). The expression of “mutual benefit” is the spirit of BRI in dealing with other nations. Infrastructure development brings a common ground to gain mutual benefits. The combination of land use and sea channels through BRI will improve accessibility to advantageous locations and resources, and offer various choices of transportation routes and modes of transportation. China has taken the lead in funding BRI by means of foreign aid which plays a double role. Besides helping to legitimize China as a state actor, it also leads to China gaining benefits from BRI development.

China’s foreign aid principle gives recipient countries the freedom to utilize aid. Sometimes, developing countries fail to meet the conditions of traditional donors such as the World Bank, the IMF, the regional banks, and the Development Assistance Committee members. This limitation makes developing countries aspire for alternative sources of funding for emergency needs. There are three types of foreign aid, which are grants, interest-free loans and concessional loans, and eight forms of foreign aid are provided by China which are all no-strings-attached conditional policies (State Council, PRC, 2014). Conditionality on financial aid posits a kind of negative view such that it is considered to be a type of influence to control the recipient. Tying aid to domestic governance without conditionality ensures relaxation to expend fund according to the recipient’s own domestic appropriateness. It also sensitizes non-intervened nationalism. Outward foreign direct investment (OFDI) is a way to channel foreign aid. China’s OFDI was encouraged by “Go Global strategy” (GGS), which has increased since the wave of BRI. The objectives of GGS are to increase more outflow of capital, acquire higher experiences, and gather expertise as global competitive standard. Over the decade from 2006 to 2015, Chinese
OFDI has increased from US$21.2 billion to US$139.5 billion. In the year of 2015, 2016, 2017 and first three quarters of 2018 China’s direct investment along the BRI countries hit US$14.8 billion⁸, US$14.5 billion⁹, US$20.17 billion¹⁰ and US$10.78 billion respectively. Three types of institutions are providing financial support to BRI – they are specialized agencies such as AIIB, BRICS New Development Bank, Silk Road Fund, and multilateral institutions such as the Asian Development Bank, the World Bank, and Chinese banks. The China Development Bank, the Export-Import Bank of China, and the China Export & Credit Insurance Corporation has signed agreements of different projects to finance in BRI countries. The financial aid for BRI is setting forth projects in a persuading manner and not in coercion manner, i.e. sanction or embargo. The foreign assistance will work as fuel for BRI projects bringing economic growth in participant nations, while simultaneously working as soft power. The China-Pakistan Economic Corridor (CPEC) is an example of how both nations can benefit from BRI. The CPEC will be connected by Gwadar Port of Pakistan and Xinjiang province of China. In this way, Beijing will have access to the Arabian Sea. China’s oil is mostly transported through the Strait of Malacca to Shanghai, roughly about 16,000 km.¹¹ The Gwadar Port reduces the distance and enables more efficient transport for oil and energy resources from the Middle East. China has invested US$19 billion to build or upgrade Pakistan’s infrastructure in Gwadar Port (VOA, 27 October 2018). China benefits from cost saving and time consumption in this development project, while Pakistan’s internal transportation expands. The CPEC has become a transit point to connect Eurasia with South Asia and Southeast Asia which places Pakistan at a strategic point. BRI appears to be mobilizing cooperation without threat or payoffs. The CPEC pursues both parties’ interest which is an example of soft power (Nye, 2004: 60-61).
There are some controversies concerning China’s foreign aid. Recipient countries can manipulate funds for their own interest and there is less possibility to follow standard procedures because there is no stringent conditionality attached to these funds. Thus projects under BRI could be undermined. While other traditional donors are promoting institutional quality, joint responsibility, local capacity, and different cross-cutting themes that strengthen empowerment, China’s financial aid policy undermines change and reform of quality (Shambaugh, 2013: 161-163). China’s foreign aid creates substantial revenues for herself and challenges multilateralism (Kjøllesdal and Welle-Strand, 2010). China’s foreign assistance insists on being mutually beneficial, which leads to her finding substantial gains. BRI-based aid could be posited for accessing local natural resources and creating business opportunities for Chinese companies. This may be a cause of repulsion for BRI. Again, China independently pursues her foreign aid policy, which is an alternative system parallel to traditional multilateral debt relief initiatives. Traditional donors are afraid of increased build-up of debt owed to China; however, the argument here is about another kind of advantage in spite of this controversy. Emerging donors may follow the Chinese foreign aid policy, follow the new approaches of their own aid system considering different goals, structures, and bring about new paradigms of foreign aid system. However, China has to pay heed to criticisms of her financial aid to ensure the quality of projects because BRI will have a long-term implication for human civilization. Though different projects will be implemented under BRI as joint partnership with the transferring of technology, some also follow build-transfer (BT), build operate-transfer (BOT) and public-private partnership (PPP) methods. Project quality management, integrated project solutions and consulting services will play pivotal roles to ensure the standards and
quality of development projects. These all above mentioned processes should be ensured.

Of late, there are a few alarming reports about the implications of BRI for debt distress. It is estimated that BRI would cost as much as US$8 trillion for a full-scale implementation where China is the prime creditor. The Center for Global Development has indicated that BRI’s 23 countries are significantly vulnerable to debt distress with 8 countries at a high risk of debt distress: Djibouti, Kyrgyzstan, Laos, Maldives, Mongolia, Montenegro, Pakistan and Tajikistan (Hurley, Morris and Portelance, 2018). Debt has an obligation – the borrower has to repay the lender at a future point in time. Debt crisis takes place when the borrower is unable to repay liabilities. Moderate-level debt has a positive side to fuel state economy, whereas high debt level has bad impact, i.e. sale of land resources, financial crisis, political instability and privatization of state enterprises.\(^{12}\) Recently, Malaysia cancelled China-funded projects, Sri Lanka is facing a challenge, and Djibouti is also under crisis due to the implication of BRI debt (Hampstead, 2018). This raises the fear of debt crisis in developing countries and is a cause that curbs attraction to BRI. China has responded to the debt crisis stating that she is not the one to be blamed for debt distress because it is a complex and multifarious matter. According to Zhang Jianping, director of the Institute for West Asia and Africa, Ministry of Commerce. PRC, some developing countries are responsible for their excessive foreign debt and their ulterior motive may go against the reality (Zhang, 2018). The *China Economic Watch* (November 2017) mentioned that BRI recipient countries face debt sustainability due to inbound investment flows and bilateral currency swap agreements. BRI stimulates FDI in participating countries, which stimulates economic growth, and leads to sustainable future debt-service capacity. The renminbi (RMB) is internationalized and often used as payment and as traded settlement
currency. Currently, China has swap agreement with 24 BRI countries (Deorukhkar and Xia, 2017). Bilateral currency swap agreements settle trade payouts in RMB, improving operational efficiency and lowering transaction costs. In these currency swaps, both sides can draw upon the credit line at a pre-determined exchange rate. In lieu of debt sustainability due to currency swap arrangements, the implications of BRI brought out debate about debt distress. Both debtors and creditors must work together to identify risk factors and handle them strategically. The AIIB and the New Development Bank can assist to find a common set of practice for debt sustainability. Again, expanding more swap agreements can bring debt sustainability which will diminish worry about debt stress.

6. Concluding Remark

BRI has huge implications for international relations. Usually, states are eager to improve social welfare and BRI can elevate this eagerness. As commonly voiced BRI seeks a common ground while shelving differences for prosperity to attract others. Analyzing how it acts as a magnet is important to understanding the implication of the BRI. Joseph Nye first coined the term “soft power” which possesses the sources of appeal in transnational issues. Nye’s prescribed resources of soft power are considered to assess the appeal of BRI. Whether BRI’s strength bears potentiality for state actor’s national interest or will create chaos depends upon the perspective and choice of the actor. If state actors admire the BRI vision and aspire for the type of prosperity it offers, then they will gravitate towards it. BRI facilitates opportunities for interaction of different nations with trade and exchange programs. It acts as a platform of “flow in, flow out” of popular and high culture. It levers political values through the priority of economic prosperity at home and abroad.
It creates a consensus around shared meaning. It shares understanding and grasps onto shared national goals such as common development. It opens the door to legitimized actions perceived to be in cooperation with that consensus. On the other hand, there are some concerns like trade imbalances. Moreover, China’s state-owned enterprises and state-owned policy bank play pivotal roles for BRI development, even though she pledges to explore the market and allow decisive role in resource allocation (China Daily USA, 4 March 2014). These implications mentioned above may proliferate the sense that BRI can lead to a Sinocentric region. The view of countering geopolitical balance is a cause of undermining the domestic values. Furthermore, financial burden, environmental issue, and lack of coherent governance architecture can provoke repulsion along participating nations. While China’s BRI is going on through bilateral and multilateral arrangement, due to the absence of institutional platform, her actions may appear inconsistent in the eyes of others and raise ambiguity. Institution can channel all parties’ activities through legal framework and posit a universality. China should showcase itself as a responsible actor to curb repulsion of any sort.

Notes

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2. Source: State Council, PRC.


5. Source: MOFCOM.

6. The combined GDP of twelve TPP signatories was US$28,011 billion and USA’s GDP was US$18121 billion in 2015. (Source: The World Bank.)

7. Source: EFSD.


9. Source: Belt and Road Portal.

10. Source: MOFCOM.


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“New Go South Policy”: Are Exports and Imports of Taiwan with ASEAN-10 Cointegrated?

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Abstract

The present Taiwan president Tsai Ing-wen has re-initiated the so-called “New Go South Policy” which is aimed at expanding industrial, educational, cultural and agricultural exchanges between Taiwan and Association of Southeast Asian Nations (ASEAN) as well as South Asia. This study investigates the feasibility of the policy, especially from the perspective of international trade, through looking at the existence of a long-run relationship between exports and imports of Taiwan with ASEAN-10, as well as 9 ASEAN countries, namely Indonesia, Cambodia, Laos, Myanmar, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. The sample period covers monthly exports and imports with observations ranging between 1989m1 and 2017m11. The estimated error correction terms of Autoregressive Distributed Lag (ARDL) models show that both variables (i.e. Taiwan’s exports to, and imports from the ASEAN-10 and the 6 ASEAN countries) are moving together (cointegrated). These countries are Cambodia, Indonesia, Malaysia, Singapore, Thailand, and Vietnam. It reflects that macroeconomic policies, particularly the so-called “New Go South”
policy has been effective in the long run. And Taiwan’s trade positions with ASEAN-10 and the 6 ASEAN countries are not in violation of its international budget constraint. Policy implications are also highlighted and discussed in this study – Taiwan has to relook at bilateral policies with Lao PDR, Myanmar, and the Philippines.

**Keywords:** ASEAN-10, exports, imports, New Go South Policy, Taiwan

1. Introduction

Taiwan’s “Go South” policy is to strengthen the country’s bilateral investment, trade, and other substantive relations with the Southeast Asian region through active promotion of bilateral trade, investment, and technical cooperation. Such policy has been initiated in 1992 and it is still considered as one of the major economic policies in Taiwan to strengthen her economic ties with Southeast Asian countries, in particular the ASEAN (Association of Southeast Asian Nations) member countries. Perhaps, ASEAN countries are geographically close to Taiwan, and they (ASEAN countries) have similar historical and cultural backgrounds. These features combined with the Taiwan’s experience of economic growth, and the rich natural and human resources of Southeast Asian countries, may allow Taiwan to spur prosperity in Southeast Asian countries (see Peng, 1997: 645).

From the geographical perspective, there is plenty of room for Taiwan to further diversify her trade and investment portfolios from China to Southeast Asia, especially ASEAN. In fact, ASEAN is Taiwan’s second-largest overseas direct investment destination, and the second-largest trade partner, although its share is relatively smaller compared to China.¹ According to the Directorate-General of Budget, Accounting and Statistics on 2 June 2017, Taiwan’s exports to the 18 countries covered

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by the government’s “New Southbound” policy picked up more speed during the first four months of the year (2017), reflecting the effectiveness of the initiative in driving the local economy. Again, a key component of President Tsai Ing-wen’s national development strategy, the initiative seeks to deepen Taiwan’s agricultural, business, cultural, education, tourism, and trade ties with 10 ASEAN member countries, 6 South Asian countries, Australia, and New Zealand.²

Ngeow (2017) has reviewed the “Go South” policies from President Lee Teng-hui’s to President Tsai Ing-wen’s version. According the study (Ngeow, 2017), the foreign policy of President Tsai Ing-wen is closely watched by Beijing (China) as well as Southeast Asia. Before her inauguration, Tsai stated that her administration would pursue a so-called “New Go South” foreign policy that would focus on building up ties with countries in Southeast Asia and South Asia. It compares the “Go South” policies of previous administrations (Lee Teng-hui, and Chen Shui-bian), together with former president Ma Ying-jeou’s policy towards Southeast Asia. It is argued that Tsai’s policy will help enhance Taiwan’s soft power, increase the island’s presence in Southeast Asia, but will not be used to counter-balance China-Taiwan economic integration. President Tsai Ing-wen is looking to refresh an old policy, to revive the Taiwan’s flagging economy. She had earlier blamed Taiwan’s “over-dependence” on the China market as the key culprit, and she believes the solution lies in looking for alternative markets, i.e. ASEAN and South Asia. Her “New Go South” policy is a five-year plan aimed at expanding industrial, educational, cultural and agricultural exchanges between Taiwan and the two markets. Its objective is to reduce Taiwan’s economic reliance on China, which absorbs 40 per cent of the island’s exports.³ According to Sun (2017), Tsai’s “New Southbound Policy” is constructed upon the policies of previous administrations that attempt to diminish the Taiwan’s economic reliance on China by building a large
network of cultural and inter-personal relationships throughout the region. Also, the Executive Yuan unveiled a plan to promote the “New Southbound” policy that aims to strengthen the Taiwan’s trade and economic ties with members of the ASEAN, South Asian countries, as well as New Zealand and Australia.⁴

**Figure 1** Taiwan’s Trade Balance by ASEAN-10, 1989m1-2017m11 (by exports to imports ratio)

![Graph of Taiwan’s Trade Balance](https://www.trade.gov.tw/English/)

Source: Data from Bureau of Foreign Trade <https://www.trade.gov.tw/English/>.

Figure 1 illustrates a plot of the Taiwan’s trade balance by ASEAN-10 (included Brunei, Indonesia, Cambodia, Lao PDR, Myanmar, Malaysia, the Philippines, Singapore, Thailand, and Vietnam) over the period 1989m1-2017m11. The vertical lines differentiate the presidency periods from Lee Teng-hui to Tsai Ing-wen, while the horizontal dashed-line (i.e. one) reflects zero balance trade. Overall, Taiwan’s trade balance by ASEAN-10 is fluctuating monthly along its trends, i.e. a downward

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trend is observed until 2006, then by an upward trend until 2016. Again, a downward trend occurs in 2016-2017. Since the introduction of “Go South” policy in 1992 by Lee Teng-hui, Taiwan’s trade balance with ASEAN-10 decreases further even after a deep drop in 1991, but it is still in surplus (i.e. above one). A worsened trade balance position occurs during the Chen Shui-bian’s presidency period with a further downward trend, and in deficit (i.e. below one) for the period around 2005-2007. A recovery move is slightly in place in late 2006, then an upward trend during Ma Ying-jeou’s period (2008-2016). For the current president Tsai Ing-wen from 2016 the trade position by ASEAN-10 is decreasing, but it is still in a favourable positon (surplus).

This study attempts to answer the following research question: Is the “Go South” policy feasible for ASEAN, especially from the perspective of international trade? Existence of a cointegration of imports and exports between Taiwan and ASEAN-10 is necessary to answer this question.5

There is an increasing volume of empirical study on the cointegration between exports and imports, after the seminal work by Husted (1992). For example, an early study by Bahmani-Oskooee (1994) looks at the response of Australian external accounts to macroeconomic policies by investigating the long-run convergence between Australian imports and exports via cointegration tests. He finds that both variables are cointegrated with unity coefficients estimated suggesting that the Australian macroeconomic policies have been effective in the long run. Other studies are Wu and Zhang (1998), Wu et al. (2001), Arize (2002), Baharumshah et al. (2003), Tang (2003; 2005; 2006), Tang and Alias (2005), Narayan and Narayan (2005), Mukhtar and Rasheed (2010), Sonje et al. (2010), Rahman (2011), Tiwari (2011), Al-Khulaifi (2013), Pillay (2014), Babatunde (2014), Husein (2014), Arize and Bahmani-Oskooee (2017), and Chaudhry et al. (2017).
However, such topic is not available for Taiwan from literature search. For a case study of Taiwan, the studies look at finance development and growth (Chang and Caudill, 2005), exports and growth (Chang et al., 2000; Chen, 2007), tourism and economic development (Kim, Chen and Jang, 2006), and so on.

The rest of this paper is organized as follows. The next section is about the theoretical framework depicting a cointegration between exports and imports, the data used, and methodology. Section 3 documents the testing results for cointegration, as well as other related estimates (i.e. long-run estimates, and speed of adjustment). The last section concludes this study with key findings, and policy implications are revealed.

2. Theoretical Framework, Data and Testing Method

2.1. Theoretical Framework

The existing studies on cointegration between exports and imports, have followed the seminal work by Husted (1992). Based on Husted, it starts with the budget constraints of a household that he or she is allowed to borrow and lend freely both at home and in foreign country. A current period budget constraint is illustrated:

\[ C_0 = Y_0 + B_0 - I_0 - (1 + r_0)B_{-1} \]  \hspace{1cm} (1)

where \( C_0 \) stands for current consumption, \( Y_0 \) is output, \( I_0 \) is investment, \( r_0 \) is world interest rate; \( B_0 \) is international borrowing, and \( (1 + r_0)B_{-1} \) is initial debt. Equation (1) must hold and the period-by-period budget constraints can be added up to deliver the economy’s inter-temporal budget constraint, \( R_t = \sum \delta^t \delta^{TB} \delta^m \delta^s \) that trade balance (\( TB \)) is assumed to be zero (i.e. \( E_t = M_t \)) that households’ disposable income or resources (\( Y \) is
fully utilized for two purposes: (i) to pay for their consumption \( C \), and (ii) to finance the domestic investment \( I \) by savings via financial intermediaries. This equality can be expressed in equation (2):

\[
TB_t = X_t - M_t = Y_t - C_t - I_t
\]  

where \( X \) is exports, and \( M \) is imports. Given \( \delta_t = \prod_{s} \delta_s \), where \( B_s = 1/(1 + ir_s) \), and \( \delta_t \) is the discount factor, the crucial element in the above equation is the last term \( \lim_{n \to \infty} R_n^{\delta_t} \), where the limit is taken as \( n \to \infty \). If the limit term, \( B_{\delta} \), is greater than zero, the country is bubble-financing its external debt. If \( B_{\delta} \) is negative, the country is making pareto-inferior decisions (see Husted, 1992).

Assuming a stationary world interest rate \( ir \) with unconditional mean \( ir \), equation (3) is formed as below:

\[
Z_t + (1 + ir) B_{t-1} = X_t + B_t
\]  

where \( Z_t = MM_t + (ir_t - ir) B_{t-1} \). Solving equation (3) by forward substitution, equation (4) can be presented as:

\[
M_t + ir_t B_{t-1} = X_t + \sum_{j=0}^{\infty} \phi^{j} \Delta X_{t+j} - \Delta Z_{t+j} + \lim_{j \to \infty} \phi^{t+j} B_{t+j}
\]  

where \( \phi = 1/(1 + ir) \) and \( \Delta \) is the first-difference operator. The left-hand side refers to the spending on imports including interest payments on net foreign debt. By subtracting exports \( X \) from both sides of equation (4), and multiplying the result by (-1), the left-hand side of equation (4) can be expressed as current account balance. Assuming the limit term is zero, and adding the residual term to the equation, an exports relation is:

\[
X_t = \alpha + \beta M_t^* + e_t
\]
where \( M^* = (M_t + iB_{t-1}) \). A necessary condition for an economy to satisfy its inter-temporal budget constraint is a stationary \( e_p \) which also reflects a cointegration between variables \( X \) and \( M \) (see also Baharumshah et al., 2003: 471-473).

Arize (2002: 104), based on Husted (1992), however considers an alternative empirical equation as given by: \(^6\)

\[
M_t = \alpha + \beta'X_t + e_t'
\]  

(6)

Equation (6) is employed in this study. It is to say that \( M \) is Taiwan’s imports from ASEAN country, and \( X \) is the exports to ASEAN country, including ASEAN-10 aggregated data. This study justifies the feasibility of equation (6) that Taiwan is lacking natural resources, hence highly dependent on importing resources from foreign countries. This equation captures how Taiwan’s imports are affected by her exports (those with high imported contents in production). Indeed, variables \( X \) and \( M \) are interchangeable in a bivariate framework (i.e. two endogenous variables) as in the empirical equations (5) and (6) for single-equation cointegration tests (see Engle and Granger, 1987).

### 2.2. Data

The data used in this study are Taiwan’s exports \( (X) \) and imports \( (M) \) by ASEAN-10 country. They are Indonesia, Brunei, Cambodia, Lao PDR, Myanmar, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. The monthly data (measured in volume\(^7\)) are available online from the Bureau of Foreign Trade.\(^8\) It covers the aggregated data for ASEAN-10, as well as the individual countries. The sample periods are between 1989m1 and 2017m11 with 347 observations for aggregate ASEAN-10 data, while the ASEAN-9 countries (Brunei is excluded) have between
305 and 347 observations (see Table 1, second column, for the respective sample periods). The variables have been log-transformed (natural logarithm, ln) for analysis.

### Table 1 Summary Statistics (Taiwan’s exports to imports ratio)

<table>
<thead>
<tr>
<th>Country</th>
<th>Period</th>
<th>Mean</th>
<th>Median</th>
<th>Maximum</th>
<th>Minimum</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN-10 [1]</td>
<td>1989m1-2017m11</td>
<td>1.033</td>
<td>1.024</td>
<td>1.263</td>
<td>0.973</td>
<td>0.046</td>
</tr>
<tr>
<td>Cambodia</td>
<td>1992m7-2017m11</td>
<td>1.675</td>
<td>1.569</td>
<td>11.182</td>
<td>0.275</td>
<td>0.728</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1989m1-2017m11</td>
<td>1.099</td>
<td>1.083</td>
<td>1.374</td>
<td>0.969</td>
<td>0.074</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>1991m6-2017m11</td>
<td>1.688</td>
<td>1.573</td>
<td>13.780</td>
<td>0.111</td>
<td>0.998</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1989m1-2017m11</td>
<td>1.000</td>
<td>0.993</td>
<td>1.193</td>
<td>0.931</td>
<td>0.046</td>
</tr>
<tr>
<td>Myanmar</td>
<td>1992m2-2017m11</td>
<td>1.415</td>
<td>1.234</td>
<td>2.785</td>
<td>0.146</td>
<td>0.381</td>
</tr>
<tr>
<td>The Philippines</td>
<td>1989m1-2017m11</td>
<td>1.027</td>
<td>1.013</td>
<td>1.592</td>
<td>0.888</td>
<td>0.106</td>
</tr>
<tr>
<td>Singapore</td>
<td>1989m1-2017m11</td>
<td>1.089</td>
<td>1.082</td>
<td>1.498</td>
<td>0.984</td>
<td>0.072</td>
</tr>
<tr>
<td>Thailand</td>
<td>1989m1-2017m11</td>
<td>1.030</td>
<td>1.026</td>
<td>1.185</td>
<td>0.945</td>
<td>0.026</td>
</tr>
<tr>
<td>Vietnam</td>
<td>1989m5-2017m11</td>
<td>1.119</td>
<td>1.119</td>
<td>1.619</td>
<td>0.934</td>
<td>0.079</td>
</tr>
</tbody>
</table>

Notes: [1] Aggregate data includes Brunei obtained directly from Bureau of Foreign Trade.
[2] It is noted that Brunei has been excluded from this study because of her substantial missing data. That is the data for Taiwan’s imports from Brunei are available non-sequentially for 132 observations over the sample period (1989m1-2017m11). But there are 341 observations available for Taiwan’s exports to Brunei. A plot of both Taiwan exports to and imports from Brunei is in the Appendix.

Table 1 presents the descriptive statistics of exports to imports ratio. A value of greater than one reveals trade surplus, and *vice versa*. The trade is in balance if it is equal to one. It shows that, by the mean and median, Taiwan records trade surpluses with ASEAN-10 in general, and the 9 individual countries, except for Malaysia which is eventually in balance trade position. Interestingly, Taiwan with Cambodia, Lao PDR, and Myanmar records higher surpluses (1.2-1.6), i.e. Taiwan exports...
more to, than imports from these countries. Lao PDR which is among the ASEAN-9 has the highest “risk” (i.e. variability) as measured by standard deviation (0.998) followed by Cambodia, and Myanmar.

By and large, a quick look at Brunei shows that Taiwan is a net exporter to the country with the largest trade surplus among the ASEAN-10 (i.e. Taiwan exports more to than import from Brunei) as indicated by mean and median, and the highest variability (standard deviation) (see Table 1). Even if the data are not available to prove anything, non-cointegration between Taiwan exports to and imports from Brunei can be reasoned by its negative correlation coefficient, -0.333, that the pairs are moving in opposite direction or “apart” (i.e. more exports are associated with low imports). Taiwan is a net fuel importer from Brunei (i.e. mineral fuels, oils, waxes and bituminous sub (HS27), and follows with organic chemicals (HS29), and miscellaneous edible preparations (HS21)), while her top 3 exports to Brunei are iron and steel (HS72), miscellaneous edible preparations (HS21), and electrical machinery and so on (HS85).10 As shown in the Appendix, Taiwan’s exports to is always more than her imports from Brunei, except for 31 observed months with trade deficits (i.e. imports more than exports), in particular between 2011 and 2017. However, these inferences may be vulnerable because of huge missing data (see note [2] at Table 1).

2.3. Testing Method

This study applies a so-called cointegration testing method, in layman’s term which examines either the (two) time series variables are moving with a common trend, or not. Cointegration describes if Taiwan’s exports to and imports from the ASEAN countries are moving together over a given period of time, which reflects the effectiveness of the policies implemented including the “New Go South” policy in the long run. Even if it is in the case of surplus trade for Taiwan such as the case with
Cambodia, Lao PDR, and Myanmar, non-cointegration is unfavourable due to the likelihood of countries defaulting on international debt, bearing in mind that all imports are financed by the exports.

Technically, the concept of cointegration is introduced by Engle and Granger (1987) in their work entitled “Co-integration and error correction: Representation, estimation, and testing”. It postulates that OLS (ordinary least squares) regression with non-stationary time series variables yields often spurious results (i.e. there is no meaningful relationship between them). Equilibrium theories that involve the non-stationary variables (let say, \( I(1) \)) require the existence of a linear combination (residuals or error term) of the variables to be stationary (that is \( I(0) \)). More technically, if an OLS regression is estimated with non-stationary data and residuals, the regression equation is considerably spurious. However, such a problem can be handled that the underlying variables have to be tested for a unit root (i.e. whether it is non-stationary or stationary). If the variables are found to be non-stationary, \( I(1) \), and its linear combination is stationary, \( I(0) \), the estimated OLS equation is valid, and the variables are said to be cointegrated.

This study employs a widely applied cointegration test, namely Autoregressive Distributed Lag (ARDL) approach to cointegration proposed by Pesaran et al. (2001). Jenkinson (1986) has also introduced ARDL model for testing a cointegrating relation. This testing and estimation strategy, i.e. ARDL procedure, lies in the fact that it can be applied irrespective of whether the regressors are \( I(0) \) or \( I(1) \), and this avoids the pre-testing problems associated with standard cointegration analysis which requires the classification of the variables into \( I(1) \) and \( I(0) \) (Pesaran and Pesaran, 1997: 302-303). Standard single-equation approach such as Engle and Granger (1987)’s residual-based approach assumes the underlying variables to be \( I(1) \).
A testable cointegrating relation of equation (6) in natural logarithm \((\ln)\) can be re-written in an ARDL version or a conditional unrestricted equilibrium correction mechanism (ECM) model as below.

\[
\Delta \ln M_t = c + \sum_{i=1}^{n} \beta_{1i} \Delta \ln M_{t-i} + \sum_{i=0}^{n} \beta_{2i} \Delta \ln X_{t-i} - \gamma_0 \ln M_{t-1} + \gamma_1 \ln X_{t-1} + u_t \tag{7}
\]

A cointegrating (long-run) relationship between \(\ln M_t\) and \(\ln X_t\) can be tested by considering the null hypothesis \(H_0: \gamma_0 = \gamma_1 = 0\) (there exists no level relationship) against \(H_1: \gamma_0 \neq 0, \gamma_1 \neq 0\) (there exists a level relationship) by running a usual \(F\)-test. If the computed \(F\)-statistic falls outside the asymptotic critical value bounds for the \(F\)-statistic band \(I(0)\) and \(I(1)\) at conventional levels of significance (0.01, 0.05, and 0.10) as in Pesaran et al. (2001, Table CI, pp. 300-301), a conclusive decision can be made, i.e.:

- if the computed \(F\)-statistic exceeds the upper bound of critical value band \(I(1)\), the null hypothesis can be rejected, i.e. cointegration; and
- if the computed \(F\)-statistic falls well below the lower bound of the critical value band \(I(0)\), hence the null hypothesis cannot be rejected, i.e. no cointegration.

In the case that the computed \(F\)-statistic falls inside between \(I(0)\) and \(I(1)\) bounds, inference would be inconclusive. Therefore, the order of integration, \(I(d)\) of the two variables \(\ln X_t\) and \(\ln Y_t\) is acquired via pre-testing procedure (unit root tests) before conclusive inferences can be made. It depends on whether the underlying variables are \(I(0)\) or \(I(1)\) for that pre-testing. The long-run coefficient of \(\ln X, \beta'\) is \(-(\gamma_1/\gamma_0)\) from equation (7) (see Pesaran et al., 2001).

Furthermore, the Engle and Granger Representation Theorem (Engle and Granger, 1987) postulates that if two time series variables are cointegrated, then the relationship between the variables can be
expressed as an error correction mechanism (ECM) representation, in which the error term (residuals) from the OLS (long-run) regression, lagged once, acts as the error correction term, $\text{ect}_{t-1}$. Its estimated coefficient, let’s say $-\gamma_0$ from equation (7), should be small and with a negative sign between zero and one (in absolute value) to show how fast the short-run adjustment (speed of adjustment) toward the long run is. The larger the estimated value, the faster the adjustment takes place.

More specifically, as documented and applied by Bahmani-Oskooee and Fariditavana (2015) in their study on J-curve hypothesis that a significantly negative coefficient for the error correction term ($\text{ect}_{t-1}$), which is based on the critical value provided by Banerjee et al. (1998: 276, Table 1), is an alternative way of supporting cointegration, perhaps a more powerful test for cointegration (see Kremers et al., 1992; Bahmani-Oskooee and Brooks, 1999). For example, “... the ECtt-I carries its expected negative and highly significant coefficient in all cases ... supporting the cointegration results reported in Table 1.” (Bahmani-Oskooee and Kara, 2003: 302).

3. Empirical Findings

This section reports the empirical results. Table 2 is about the bounds tests ($F$-statistics), and it shows that aggregate data of Taiwan exports to and imports from ASEAN-10 are cointegrated since its computed $F$-statistics, 7.526, exceeds the 0.01 upper bound, $I(1)$ critical value, 5.58. It rejects the null hypothesis of there exists no level relationship, suggesting long-run relation exists. The results also reveal that the Taiwan’s exports and imports by the 9 ASEAN countries are cointegrated, except for Cambodia, Lao PDR, Myanmar, and the Philippines (see Table 2, the fourth column).
Table 2: Computed F-statistics of ARDL Bound Test for Cointegration

<table>
<thead>
<tr>
<th>Country</th>
<th>ARDL(.)</th>
<th>Computed F-statistics F(lnM_t</th>
<th>lnX_t)</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN-10</td>
<td>ARDL(3, 2)</td>
<td>7.526</td>
<td>Cointegration ***</td>
<td></td>
</tr>
<tr>
<td>Cambodia</td>
<td>ARDL(4, 0)</td>
<td>3.313</td>
<td>No cointegration **</td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>ARDL(3, 2)</td>
<td>5.254</td>
<td>Cointegration **</td>
<td></td>
</tr>
<tr>
<td>Lao PDR</td>
<td>ARDL(6, 0)</td>
<td>1.896</td>
<td>No Cointegration *</td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>ARDL(1, 1)</td>
<td>6.910</td>
<td>Cointegration ***</td>
<td></td>
</tr>
<tr>
<td>Myanmar</td>
<td>ARDL(4, 0)</td>
<td>2.059</td>
<td>No Cointegration *</td>
<td></td>
</tr>
<tr>
<td>The Philippines</td>
<td>ARDL(6, 3)</td>
<td>2.121</td>
<td>No Cointegration *</td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>ARDL(3, 2)</td>
<td>5.001</td>
<td>Cointegration **</td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td>ARDL(3, 4)</td>
<td>6.928</td>
<td>Cointegration ***</td>
<td></td>
</tr>
<tr>
<td>Vietnam</td>
<td>ARDL(5, 0)</td>
<td>9.713</td>
<td>Cointegration **</td>
<td></td>
</tr>
</tbody>
</table>

Critical values (k=1)  Lower bound, I(0) | Upper bound, I(1)
10%* | 3.02 | 3.51 |
5%** | 3.62 | 4.16 |
1%*** | 4.94 | 5.58 |

Notes: The lag structure of ARDL(.) is suggested by SIC (Schwarz Information Criterion) of a maximum lag length of 7, which is based on Enders’s (2014) rule that $T^{1/3}$, where $T$ is the number of observations. $k$ is the number of regressors. The underlying null hypothesis is “no levels relationship”.

These findings have re-confirmed by the significance of their error correction term, ect_{t-1} (with a negative sign) of ECM equations reported in Table 3, but Taiwan’s exports to and imports from Cambodia are now found to be cointegrated. For those no cointegration cases – Taiwan trades with Lao PDR, Myanmar, and the Philippines, their estimated coefficient of ect_{t-1} has a small $t$-statistic that is less than the critical value, -2.90 (Banerjee et al., 1998) (as marked #), and no cointegration can be concluded.

Based on the cointegration tests above (Tables 2 and 3), this study confirms that Taiwan’s exports and imports by ASEAN-10 (in aggregate data that include Brunei), and the 6 ASEAN member countries, namely Cambodia, Indonesia, Malaysia, Singapore, Thailand, and Vietnam, are
Table 3 Error Correction Mechanism (ECM) Equations – ARDL Approach (dependent variable: ΔlnMf)

<table>
<thead>
<tr>
<th></th>
<th>ASEAN-10</th>
<th>Cambodia</th>
<th>Indonesia</th>
<th>Lao PDR</th>
<th>Malaysia</th>
<th>Myanmar</th>
<th>The Philippines</th>
<th>Singapore</th>
<th>Thailand</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>ΔlnMf_1</td>
<td>-0.242***</td>
<td>-0.591***</td>
<td>-0.532***</td>
<td>-0.6498*</td>
<td>-0.467***</td>
<td>-0.467***</td>
<td>-0.457***</td>
<td>-0.436***</td>
<td>-0.357***</td>
<td>-0.646***</td>
</tr>
<tr>
<td></td>
<td>(0.055)</td>
<td>(0.065)</td>
<td>(0.054)</td>
<td>(0.065)</td>
<td>(0.058)</td>
<td>(0.053)</td>
<td>(0.049)</td>
<td>(0.054)</td>
<td>(0.054)</td>
<td>(0.056)</td>
</tr>
<tr>
<td>ΔlnMf_2</td>
<td>-0.128***</td>
<td>-0.336***</td>
<td>-0.266***</td>
<td>-0.516***</td>
<td>-0.218***</td>
<td>-0.138***</td>
<td>-0.123***</td>
<td>-0.339***</td>
<td>-0.337***</td>
<td>-0.063***</td>
</tr>
<tr>
<td></td>
<td>(0.037)</td>
<td>(0.068)</td>
<td>(0.049)</td>
<td>(0.073)</td>
<td>(0.061)</td>
<td>(0.0531)</td>
<td>(0.038)</td>
<td>(0.049)</td>
<td>(0.049)</td>
<td>(0.063)</td>
</tr>
<tr>
<td>ΔlnMf_3</td>
<td>-0.265***</td>
<td>-0.349***</td>
<td>-0.132***</td>
<td>-0.004</td>
<td>-0.101**</td>
<td>-0.121***</td>
<td>-0.046**</td>
<td>-0.267***</td>
<td>-0.062**</td>
<td>(0.05)</td>
</tr>
<tr>
<td></td>
<td>(0.056)</td>
<td>(0.075)</td>
<td>(0.055)</td>
<td>(0.069)</td>
<td>(0.046)</td>
<td>(0.042)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ΔlnMf_4</td>
<td>-0.214***</td>
<td>-0.208***</td>
<td>-0.046**</td>
<td>-0.024</td>
<td>-0.082**</td>
<td>-0.046**</td>
<td>-0.017**</td>
<td>-0.073**</td>
<td>-0.196**</td>
<td>-0.207**</td>
</tr>
<tr>
<td></td>
<td>(0.056)</td>
<td>(0.078)</td>
<td>(0.072)</td>
<td>(0.112)</td>
<td>(0.065)</td>
<td>(0.072)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ΔlnYf_1</td>
<td>0.903***</td>
<td>0.422***</td>
<td>0.493***</td>
<td>0.493***</td>
<td>1.139***</td>
<td>0.926***</td>
<td>0.573***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.048)</td>
<td>(0.075)</td>
<td>(0.045)</td>
<td>(0.095)</td>
<td>(0.085)</td>
<td>(0.058)</td>
<td>(0.112)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ΔlnYf_1</td>
<td>0.299***</td>
<td>0.283***</td>
<td>0.853***</td>
<td>0.853***</td>
<td>0.466***</td>
<td>0.417***</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>(0.065)</td>
<td>(0.078)</td>
<td>(0.072)</td>
<td>(0.112)</td>
<td>(0.065)</td>
<td>(0.072)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>eet_1</td>
<td>-0.114***</td>
<td>-0.149***</td>
<td>-0.1066**</td>
<td>-0.1203**</td>
<td>-0.0533**</td>
<td>-0.051***</td>
<td>-0.073***</td>
<td>-0.196**</td>
<td>-0.207**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.024)</td>
<td>(0.038)</td>
<td>(0.026)</td>
<td>(0.021)</td>
<td>(0.0203)</td>
<td>(0.018)</td>
<td>(0.043)</td>
<td>(0.038)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adj. R²</td>
<td>0.526</td>
<td>0.390</td>
<td>0.375</td>
<td>0.256</td>
<td>0.217</td>
<td>0.470</td>
<td>0.515</td>
<td>0.445</td>
<td>0.444</td>
<td></td>
</tr>
<tr>
<td>D-W</td>
<td>2.012</td>
<td>2.053</td>
<td>1.9699</td>
<td>2.027</td>
<td>2.138</td>
<td>2.034</td>
<td>2.013</td>
<td>2.039</td>
<td>1.996</td>
<td>2.015</td>
</tr>
<tr>
<td>stat.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: *** ** * denote significance levels at 1%, 5% and 10% based on their p-value, respectively. The value in (.) is standard error. The significance of the error-correction term eet_1 is based on conventional t-statistic (i.e. student-t statistic).

# failure to reject the null hypothesis of a cointegrating relation since their computed t-statistic is statistically insignificant based on Banerjee et al.’s 0.10 critical value, -2.90 (Banerjee et al., 1998: 276, Table 1, regressor k=1, with constant, and sample size T=500).

cointegrated (i.e. moving together in the long run). To remark, Brunei is excluded from country-wise analysis because of insufficient data of Taiwan imports from the country due to missing observations. Broadly speaking, a cointegration finding of Taiwan’s exports and imports reveals that Taiwan’s trade positions with ASEAN-10 and the 6 ASEAN countries are not in violation of its international budget constraint. This finding also highlights that macroeconomic policies, especially the “New Go South” policy, have been effective in the long run. Nevertheless, unfavourable outcomes of non-cointegration is suggested for Taiwan with Lao PDR, Myanmar, and the Philippines.
Table 4 ARDL Long-run Estimates (dependent variable: $lnM_t$)

<table>
<thead>
<tr>
<th>Country</th>
<th>$lnX_t$</th>
<th>Constant</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN-10</td>
<td>1.212 (0.106)**</td>
<td>-5.133 (2.358)**</td>
</tr>
<tr>
<td>Cambodia</td>
<td>0.5799 (0.262)**</td>
<td>1.094 (4.058)</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1.117 (0.215)**</td>
<td>-3.687 (4.182)</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1.123 (0.0949)**</td>
<td>-2.367 (1.954)</td>
</tr>
<tr>
<td>Singapore</td>
<td>0.912 (0.237)**</td>
<td>0.491 (5.023)</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.960 (0.0501)**</td>
<td>0.269 (1.023)</td>
</tr>
<tr>
<td>Vietnam</td>
<td>0.661 (0.098)**</td>
<td>4.5998 (1.836)**</td>
</tr>
<tr>
<td>#Lao PDR</td>
<td>-0.058 (0.358)</td>
<td>8.044 (3.885)**</td>
</tr>
<tr>
<td>#Myanmar</td>
<td>0.985 (0.663)</td>
<td>-2.909 (9.497)</td>
</tr>
<tr>
<td>#The Philippines</td>
<td>1.557 (0.414)**</td>
<td>-11.10 (8.31)</td>
</tr>
</tbody>
</table>

Notes: The estimated coefficient of $lnX$ (independent variable) computed by ARDL approach with OLS estimator. ***, **, * denote significance levels at 1%, 5% and 10% based on their $p$-value, respectively. The value in (.) is standard error. # refers to no cointegration as suggested by their error-correction term, see Table 3.

Since long-run relation has been established for Taiwan’s exports and imports by ASEAN-10, and 6 ASEAN countries, their long-run coefficient of Taiwan exports to, $lnX$ (equation 6) can be estimated by OLS estimator in an ARDL framework (equation 7). Their estimates including the constant values are reported in Table 4. It shows that Taiwan’s exports to ASEAN-10 and all the 6 ASEAN countries ($lnX_t$) have positive sign, and are statistically significant at least at 10% level, in determining the country’s imports from ASEAN-10 as well as the 6 ASEAN countries ($lnM_t$). The estimated coefficient of $lnM_t$ is considerably elastic (i.e. more than unity) for trading with ASEAN-10, and Indonesia and Malaysia. It is to say that a 10% increase in Taiwan’s exports to ASEAN-10 and these two countries, the country’s (Taiwan’s) imports from them will be increased by about 11-12%. Unity elasticity

Contemporary Chinese Political Economy and Strategic Relations: An International Journal 5(1) • 2019
(closer to one) is found for Singapore and Thailand that the impact of Taiwan exports to these countries on her imports from them is the same, let say 10%. Exports inelasticity is found for Cambodia (0.58), and Vietnam (0.66). Taiwan’s imports from Cambodia and Vietnam are less responsive to exports, i.e. 10% increases in Taiwan’s exports to these countries, only 6-7% more Taiwan’s imports from them.

**Table 5** Speed of Adjustment

<table>
<thead>
<tr>
<th>Country</th>
<th>Speed of adjustment (within a month)</th>
<th>Duration (in months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN-10</td>
<td>11.4%</td>
<td>8.8</td>
</tr>
<tr>
<td>Cambodia</td>
<td>15.7%</td>
<td>6.4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>14.9%</td>
<td>6.7</td>
</tr>
<tr>
<td>Malaysia</td>
<td>12.0%</td>
<td>8.3</td>
</tr>
<tr>
<td>Singapore</td>
<td>7.3%</td>
<td>13.7</td>
</tr>
<tr>
<td>Thailand</td>
<td>19.6%</td>
<td>5.1</td>
</tr>
<tr>
<td>Vietnam</td>
<td>20.7%</td>
<td>4.8</td>
</tr>
</tbody>
</table>

Notes: The “speed of adjustment” in a month (the second column) is calculated by multiplying by 100 the absolute value of estimated coefficient of ect\textsubscript{t-1} from Table 3. The “duration” is 100% divided by the “speed of adjustment” in % a month (the second column).

Lastly, Table 5 presents the speed of adjustment (% in a month) of ASEAN-10 and the 6 ASEAN countries including their duration, on how fast the short-run disequilibrium is corrected (adjusted) toward the long-run (equilibrium) over time. For ASEAN-10, it is about 11% short-run disequilibrium being adjusted in a month, that requires about 9 months to achieve long-run (equilibrium), i.e. both exports and imports variables are moving together. It is interesting to show that the fastest adjustment Taiwan-trading ASEAN countries are Thailand and Vietnam, about 20% (5 months) and 21% (5 months) respectively within a month. Singapore is the slowest that requires more than a year ~ 14 month as only 7.3%
disequilibrium is being adjusted within a month. The remaining countries (Cambodia, Indonesia, and Malaysia) require approximately half a year toward long-run relationship – Malaysia requires 8 months.

4. Conclusion and Policy Insight

In short, this study looks at the feasibility of Taiwan’s current “New Go South” policy as well as other past “Go South” policies since 1992, from the international trade perspective by examining whether Taiwan’s exports and imports by ASEAN-10 including the member countries are cointegrated or not. The empirical results based on ARDL cointegration approach as well as error correction term (ECM equation) show a long-run relationship (equilibrium) between Taiwan’s exports and imports by ASEAN-10, and the 6 ASEAN countries, namely Cambodia, Indonesia, Malaysia, Singapore, Thailand, and Vietnam, over the periods ranging between 1989m1 and 2017m11. This finding highlights that trade balances of Taiwan with ASEAN-10, especially the 6 ASEAN countries, are sustainable, that is not in violation of their international budget constraint. An economic perspective on this finding is that the Taiwan government’s macroeconomic policies including the “New Go South” policy as well as its early versions since former president Lee Teng-hui have been effective in the long run. Non-cointegration is found for Lao PDR, Myanmar, and the Philippines. It highlights that the macroeconomic policies including the “New Go South” policy are unfavourable to these ASEAN countries. Perhaps, Taiwan and these countries have to improve their trade practices or policies such as reducing tariff rates, non-tariff measures (NTMs), and so on via bilateral trade negotiations. Therefore, it is important for bilateral trade between Taiwan and the 10 ASEAN countries to have their Taiwan’s exports and imports cointegrated, besides the overall trade. The 10 ASEAN member
countries have different stages of economic and political development; thus, the feasibility of Taiwan’s “New Go South” policy should be formulated and implemented with respect to individual ASEAN country, instead of a broadly-defined framework on overall exports and imports in ASEAN-10.

Why some countries experience cointegration but other countries do not? It can be explained that the ASEAN countries which show cointegration (Cambodia, Indonesia, Malaysia, Singapore, Thailand, and Vietnam) mostly have high GDP per capita, and high openness to trade – the two key determinants of trade, while for the non-cointegration cases such as Lao PDR, Myanmar, and the Philippines, they have been ranked low (i.e. 5-9) in these two indicators.14 A more precise explanation for non-cointegration can be found in the country-specific relations and politics. Myanmar has opened up its economy gradually starting from 2011, and bilateral relations between Taiwan and Myanmar have gradually improved, especially on trade and investment.15 After a hiatus of several decades, relations between Taiwan and Myanmar have been significantly reinstalled since 2014.16 By the same token, Taiwan also faces the risk of having its efforts actively undermined by Beijing, particularly within states close to China’s sphere of influence such as Cambodia, Lao PDR, and increasingly the Philippines, which has a critical relationship with Taiwan.17

For policy implication, the “New Go South” policy is considerably a feasible move for Taiwan as refreshed currently by President Tsai Ing-wen. Perhaps, such “Go South” policy needs to be complemented by macroeconomic policies. Bilateral economic relationship between Taiwan and ASEAN-10 has to further strengthen as such market integration (via trade) mutually benefits Taiwan as well as ASEAN-10, by not only exchanging goods and services that create consumers’ varieties, while it involves trade in knowledge (ideas) and technologies.
It helps to increase productivity and output (growth), in general. Trade agreements and bilateral policies related to trade liberalization need to be adopted in order to ensure greater trade openness between Taiwan and ASEAN countries. For example, recent visit of the Malaysian prime minister Tun Dr Mahathir Mohamad to Japan has revived the “Look East” policy (first introduced in 1982) to deepen collaboration and strengthen business competitiveness for Malaysia and Japan. Our policy recommendation is to include Taiwan in the “East” of this policy. Other ASEAN countries are advised to consider the “Look East” policy at least to include Taiwan. Meanwhile, Taiwan has to re-look at and revise the existing bilateral policies (including trade policies) with Lao PDR, Myanmar and the Philippines, as well as the ASEAN-10 bloc, in order to restore a long-run relation in future.

**Appendix** Plot of Taiwan’s Exports to and Imports from Brunei (in natural logarithm, \( \ln \)), 1989m1-2017m11
Acknowledgment

This study is the first author’s Graduation Exercise (EIA3005) for completing the Bachelor of Economics at the Faculty of Economics and Administration, University of Malaya, in 2019.

Notes

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5. It also answers a research question “Are current account deficits sustainable?” But this study looks at the feasibility of the so-called “Go South” policy/policies on the Taiwan’s exports and imports in the long run, rather than at trade (current) account balance sustainability.

6. It follows the similar derivation exercise as above, but replacing exports, $X$, with imports, $M$.

7. This study uses this unit for convenient, instead of “quantity” as unit of measurement. Other available unit of data for selection are value (US$), and weight (kg). (Accessed at <https://cus93.trade.gov.tw/FSCE010F/FSCE010F?menuURL=FSCE010F>.)


9. A missing value between two observed periods is estimated and added by their averaged value.


11. This study considers two standard unit root tests, namely Augmented Dicky-Fuller (ADF) (Dickey and Fuller, 1979), and Phillips-Perron (PP) (Phillips and Perron, 1988). The test statistics are not reported here, but available from the authors upon request. The tests suggest that most of the
variables are stationary at levels, $I(0)$. But, it may be *infeasible* because most of the economic variables are generally believed to be non-stationary, $I(1)$. The past empirical studies, those referenced in this study on cointegration between exports and imports, confirm this intuition.

12. All of the computations are carried out by the *Eviews* econometrics software (such as the ARDL bounds testing procedure).

13. Since non-cointegration is found for Lao PDR, Myanmar, and the Philippines, interpretation for the estimated long-run coefficient of $\ln X_i$ for these countries is invalid even though the Philippines’ is statistically significant at 1% level. By the same token, this study also considers additional insight for these countries by re-estimating the bound test statistics with nonlinear ARDL method (see Shin et al., 2014). The empirical results show the same finding that non-cointegration occurs for the Philippines and Lao PDR, except for Myanmar (i.e. cointegrated between the country’s exports and imports). The results are not reported here but available upon request from the first author.

14. | Rank | GDP per capita (constant 2010 US$) | Trade Openness (% of GDP) |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>#Myanmar</td>
<td>#Myanmar</td>
</tr>
<tr>
<td>8</td>
<td>Cambodia</td>
<td>Indonesia</td>
</tr>
<tr>
<td>7</td>
<td>#Lao PDR</td>
<td>#Lao PDR</td>
</tr>
<tr>
<td>6</td>
<td>Vietnam</td>
<td>#The Philippines</td>
</tr>
<tr>
<td>5</td>
<td>#The Philippines</td>
<td>Cambodia</td>
</tr>
<tr>
<td>4</td>
<td>Indonesia</td>
<td>Thailand</td>
</tr>
<tr>
<td>3</td>
<td>Thailand</td>
<td>Vietnam</td>
</tr>
<tr>
<td>2</td>
<td>Malaysia</td>
<td>Malaysia</td>
</tr>
<tr>
<td>1</td>
<td>Singapore</td>
<td>Singapore</td>
</tr>
</tbody>
</table>

Based on the average (mean) values of the variables computed with the data (1989-2017) obtained from the *World Development Indictors*, World Bank (http://databank.worldbank.org/data/...). # denotes non-cointegration.

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China, Sustainable Development and the Peripheral Frontier
China’s ECM Model in Sustainable Management of Rivers: Drawing Lessons for the Zambezi River Basin from the Case of Mekong River

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Abstract

With China’s successfully implemented Ecological Compensation Mechanism (ECM) in its management of the Mekong River Basin, one will assume that in the face of enormous cross-sector infrastructural development projects along Africa’s Zambezi River Basin which was implemented through partnerships between riparian states and China, some practical lessons could be drawn to manage the Zambezi River Basin. However, no study has embarked on addressing this nexus. This study therefore comprehensively examines China’s ECM model on a comparative basis to draw practical lessons from the Mekong River Basin for the management of the Zambezi River Basin. In terms of methodology, the study adopts secondary data sources to analyze the socio-economic, environmental, ecological and geopolitical benefits of rivers as a natural resource and some accompanying weaknesses of Chinese-implemented dam projects in riparian states and Africa as a
whole. In conclusion with a suggested recommendation, a relationship of intertwined futures and equal target to meet key tests at the very least where Africa will not only dwell on grants but draw on lessons from its Chinese counterpart and implement them to attain a brighter Africa for the next generation is underscored.

Keywords: China-Africa relations, river management, Mekong River Basin, Zambezi River Basin

1. Introduction

Globally, water security is often understood as the capacity of a population to safeguard access to water resources in sufficient quantity and quality to sustain livelihoods and socioeconomic development. According to UNESCO 2012, the concept embraces issues of health and sanitation, food security, natural disasters, and economic development. It is difficult to overstate the importance of water. Agriculture accounts for 70% of water withdrawals worldwide while some 1.5 billion people work in water-related sectors including agriculture, energy and environmental protection, among others (UNESCO, 2016), yet a large part of the world’s population lacks adequate measures to sustainable water resource management.

One of the most diverse and valuable natural ocean resources in Asia is undoubtedly the Mekong River. The Mekong River, known as the Lancang (澜沧) in China, is the heart and soul of mainland Southeast Asia. While countries in the lower stretch of the river have yet to complete a dam on the mainstream Mekong, China had already built six dams on the Lancang by the year 2013 with at least 14 more dams in the pipeline yet to be completed by the year 2023. The Mekong is the eighth largest river in the world, with a basin covering 800,000 square
kilometers of mainland East Asia. In addition to meeting the basic needs of some 80 million people consisting of about 90% of the riparian population and sustaining a rich and diverse natural environment, the river plays a central role in the economies of China and six Southeast Asian countries including Laos, Thailand, Myanmar, Cambodia and Vietnam. It provides important environmental goods and services to the region and is essential to regional socio-economic development, food security and hydropower production among others.

Shared water resources epitomize the dilemmas surrounding common pool resources, whose use by one party diminishes the potential benefits to others. Rivers are particularly subject to these conflicts in terms of upper or mid-stream pollution, abstraction or impoundment, which may reduce the quality and quantity of water available to downstream users. Furthermore, in the case of an international river like the Mekong, the incongruence between hydro-ecological and political boundaries leads to conflicts between the principle of sovereignty as opposed to common resource issues of ownership, allocation, security and environmental degradation.

Extreme rainfall events, an increase in intensity and frequency of floods and droughts, and a continued deterioration of water quality are all expected to occur. Uncertainty over the length and severity of floods and droughts will likely have severe impacts on regional economic activities and may lead to China storing more water upstream for its own use. All of these factors could spell disaster for downstream countries that depend on the river’s water and sediment flow for agriculture, navigation, fish migrations and other critical ecosystem services.

To mitigate these negative effects likely to affect the Mekong River and its beneficiaries, China administered a mechanism to counteract forecasted damages to the river.
The first aspiration on the agenda of African Union Agenda 63 is first, for Africa to become a prosperous continent on the basis of inclusive growth and sustainable development given factors such as the improvement in blue or ocean (marine resources and energy) economy for accelerated economic growth. Second is for Africa to have environmentally sustainable resilient economies and communities with emphasis on water security, biodiversity, conservation and sustainable natural resource management, climate resilience and natural disasters preparedness and prevention in a bid to improve living standards among communities and economies on the continent. Furthermore, given the critical threat posed to development of water management insecurity, the UN has incorporated sustainable water and sanitation into its Sustainable Development Goals to improve and mitigate the threat-related outcome. This AU agenda amidst UN Sustainable Development Goals in line with the adoption and application of China’s ECM for ocean management heightens the novelty of the extant study.

Based on the preceding developments, this study will analyze the ecological environment of a river basin property (ECM), consider the location and pollution concentrations, and draw relevant lessons and policy implication for the Zambezi River Basin using Mekong River Basin as a case study. This work can provide practical analytical guidance for the application of watershed ecological compensation standards from Chinese perspective to the Southern African context.

**Major Energy Projects by China in Africa**

In a bid to further strengthen and improve on friendship ties between China and Africa, Chinese firms have successfully built or are in the process of building many hydro-power plants across the continent. These energy projects, located in many African countries including Côte d’Ivoire, Uganda, Zimbabwe, Angola and the Democratic Republic of
the Congo (DR Congo), are intended and expected to create nearly 3,700 MW of electricity for the continent amidst creation of jobs for locals. With all these projects, there is a high need for strategic management mechanisms in place to see to its sustainability, development and maintenance.

Table 1 is a list of six Chinese-constructed hydro-power plants, some of which are already commissioned, or almost near completion by the year 2017.

**Table 1 Hydro Projects by Chinese in Africa**

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Country</th>
<th>Installed Capacity on Completion (MW)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soubre Hydroelectric Power Station</td>
<td>Côte d’Ivoire</td>
<td>275</td>
</tr>
<tr>
<td>Kariba South Expansion Project</td>
<td>Zimbabwe</td>
<td>300</td>
</tr>
<tr>
<td>Isimba Power Plant Project</td>
<td>Uganda</td>
<td>183</td>
</tr>
<tr>
<td>Karuma Hydro Power Project</td>
<td>Uganda</td>
<td>600</td>
</tr>
<tr>
<td>Zongo II Hydro Power Project</td>
<td>DR Congo</td>
<td>150</td>
</tr>
<tr>
<td>Caculo Cabaca Hydropower Project</td>
<td>Angola</td>
<td>2,172</td>
</tr>
<tr>
<td>Garissa Power Plant</td>
<td>Kenya</td>
<td>50</td>
</tr>
</tbody>
</table>

Source: Author’s own construction using data from Xinhua, 2017.
2. Research Materials and Methods

This study adopts a qualitative research (comparative case study) approach as methodology in addressing water management system in the southern African region, specifically the Zambezi River. In this regard, China’s ECM model was used as a gauge to measure and draw lessons for restructuring the water management system adopted recently by the Zambezi River Basin located in southern Africa. While elaborating on the historical trends of the Mekong River, thus the case under study, this study analyses the various projects constructed by the Chinese counterpart in the African region and accounts for management systems of which basis practical lessons are drawn to effectively sustain and manage the Zambezi River Basin.

2.1. History and Trends of Mekong River

Perhaps more than any other region in the world, the Mekong River Basin (MRB) provides a case study of the importance of striking a balance between water, food and energy consumption. The Mekong basin is fed by a unique bounty of fresh water capable of supporting energy and food production that has become integral to the regional and global economies.

The Mekong River Basin (MRB) is a region of vast and potentially lucrative water resources. It cradles the Mekong River for almost 5,000 km and is home to more than 70 million people across six countries consisting of Cambodia, China, Laos, Myanmar, Thailand and Vietnam. In the study of Fasman (2016), it was highlighted that the basin’s rich biodiversity includes 20,000 plant and 2,500 animal species, making it a natural endowment matched only by the Amazon and Congo River basins. Despite the long-standing economic challenges faced by these countries, the MRB is an intensely productive region. Its agriculture and
fisheries not only support its own population, but also contribute to supporting that of the world. The Lower Mekong Basin produces 15% of the world’s rice and one-quarter of its freshwater fish. The fisheries alone have an estimated annual value of US$17 billion (Mekong River Commission, 2016). In recent decades, the Mekong river’s massive, untapped hydropower potential has also drawn increased attention and attracted dozens of new dam proposals, amounting to hundreds of gigawatts of installed hydroelectric capacity, that some in the basin view as a pathway to future economic growth. Despite the MRB’s natural wealth, governments within the basin face a number of resource-related challenges that threaten the prosperity of the region. Some of these such as climate change have been foisted on them, while others are the result of unilateral decisions by particular countries about how best to pursue their individual economic interests. For instance, new hydropower construction threatens to impact agriculture and fisheries in the basin’s downstream countries. Agricultural run-off in the form of pesticides and fertilizer also represents a threat to water quality in some areas, and in coming decade’s urbanization and new development could lead to greater industrial pollution. At the same time, vulnerability to natural disasters and food insecurity is already high in some areas, and climate change is a major threat as changes in temperature and rainfall exacerbate drought and flooding. By 2100 rising sea levels could inundate one quarter of the Mekong delta, displacing millions of people and jeopardizing agriculture productivity in Vietnam. Even amid the wealth of water resources in the Mekong basin, the failure to address these problems in a collaborative way that takes into account the transboundary impacts of water use could result in heavy costs for countries in the region.

In the Upper Mekong, which is called the Lancang River, China has been developing hydropower projects as a cascade of dozens of mega
dams; more than six of those have been completed in recent years and more than twelve others are under construction or planned for the near-term future (Magee, 2011). In time past, the upper Mekong dams have caused large-scale and trans-boundary impacts throughout the basin and the Lower Mekong dams are expected to largely compound these impacts by causing abrupt changes in water levels, altering sediment transport, and blocking fish migration (Stone, 2011). Since there is still great untapped potential in the Lower Mekong, downstream countries have also been accelerating dam construction. The study of Magee (2011) further explains that while some large dam projects have recently been completed, others are under construction, and hundreds of others are planned. Among these planned dam projects are 16 dams in the main stem (11 in the LMRB) and over 100 in the tributaries, most of which are expected to be completed by 2030 (Ziv et al., 2012; Winemiller et al., 2016; Grumbine, 1997; Lauri et al., 2012; Stone, 2011; Keskinen et al., 2012; Kummu et al., 2010). While Xayaburi dam has been built to fulfill the growing regional energy needs (its installed capacity will be 1,285 MW), experts believe that the energy supply will come with unprecedented and devastating costs to the environment and livelihoods of tens of millions of people in the region (Stone, 2011; Stone, 2016; International Rivers, 2011). The dam will likely cause irreversible and permanent ecological change to the Mekong by altering the natural flow regime and adversely affecting fisheries and other aquatic resources; it will also affect flood-recession ecosystems in the lowlands and impede sediment delivery to the Mekong delta region (International Rivers, 2011; Kummu et al., 2010; Nguyen Van Manh et al., 2015; Darby et al., 2016; Kummu and Varis, 2007). Growing transportation networks, especially the mountain roads in headwater catchments, some of which are linked with the construction of new dams, are causing significant changes in sediment production and deposition in river channels (Sidle
and Ziegler, 2012). The dam will likely cause basin-wide changes, but the impacts are expected to be felt the most in the regions surrounding and downstream of the dams where serious threats to food security through loss of fisheries and agriculture are likely (Ziv et al., 2012). The Don Sahong (260 MW) and Pak Beng (912 MW) are the second and third largest dams, respectively, among the 11 mainstream cascade dams planned in the LMRB. Construction of these two dams has been approved despite significant controversies due to the complaints about their environmental impacts and long-term implications for ecological well-being and regional food security (Stone, 2016). Similar to the Xayaburi dam, these two dams could irreversibly alter fish migration throughout the LMRB, with potentially devastating consequences for the river’s richest ecosystems and the livelihoods of hundreds of thousands of people (International Rivers, 2015).

2.2. History of Zambezi River Basin

Similar to the Mekong River Basin is the Zambezi River Basin. The Zambezi River Basin (ZRB) is one of the most diverse and valuable natural resources in Africa. Its waters are critical to sustainable economic growth and poverty reduction in the region. In addition to meeting the basic needs of about 30 million people and sustaining a rich and diverse natural environment, the river plays a central role in the economies of the eight riparian countries, viz. Angola, Botswana, Malawi, Mozambique, Namibia, Tanzania, Zambia, and Zimbabwe. It provides important environmental goods and services to the region and is essential to regional food security and hydropower production. Because the Zambezi River Basin is characterized by extreme climatic variability, the River and its tributaries are subject to a cycle of floods and droughts that have devastating effects on the people and economies of the region, especially the poorest members of the population.
The Zambezi River lies within the fourth-largest basin in Africa after the Congo, Nile, and Niger River basins. Covering 1.37 million km², the Zambezi River has its source in Zambia, 1,450 meters above sea level. The main stem then flows southwest into Angola, turns south, enters Zambia again, and passes through the Eastern Caprivi Strip in Namibia and northern Botswana. The Zambezi River then flows through Mosi-oa-Tunya (Victoria Falls), shared by Zambia and Zimbabwe, before entering Lake Kariba, which masses behind Kariba Dam, built in 1958. A short distance downstream from Kariba Dam, the Zambezi River is joined by the Kafue River, a major tributary, which rises in northern Zambia. The Kafue River flows through the Copper belt of Zambia into the reservoir behind the Itezhi Tezhi Dam (ITT), built in 1976. From there, the Kafue River enters the Kafue Flats and then flows through a series of steep gorges, the site of the Kafue Gorge Upper (KGU) hydroelectric scheme, commissioned in 1979. Below the Kafue River confluence, the Zambezi River pools behind Cahora Bassa Dam in Mozambique, built in 1974. Some distance downstream, the Zambezi River is joined by the Shire River, which flows out of Lake Malawi/Niassa/Nyasa to the north. Lake Malawi/Niassa/Nyasa, which covers an area of 28,000 km², is the third-largest freshwater lake in Africa. From the confluence, the Zambezi River travels some 150 km, part of which is the Zambezi Delta, before entering the Indian Ocean. The basin of the Zambezi River is generally described in terms of 13 sub-basins representing major tributaries and segments.

3. The ECM and EIA Model

Ecological compensation is an important economic means to protect ecosystem services and regulate market failure for the protection and sustainable use of the ecosystem (Herzog et al., 2005; Yin and Zhao,
Ecological compensation takes economic means as the main way of adjusting the institutional arrangement of stakeholder interests (Yin and Zhao, 2012). Specifically, ecological compensation consists basically of four main aspects being (1) the cost to protect the ecosystem itself; (2) externality of economic benefits should be internalized by economic means; (3) economic compensation to individuals or regional protection of ecosystems and environments for the loss of development opportunities; and (4) protective actions undertaken for regions or objects with great ecological value (Wunder, 2005).

In the late 1990s, China initiated the ecological compensation mechanism (ECM) with a focus on forest ecological benefits. Since then, many ECM pilot projects have been implemented with notable success through tremendous efforts from central and local governments. Even though there have been some identified challenges such as the allocation and unequal distribution of environmental and economic benefits between various stakeholders amidst various factors including legislative system, financial system, administrative system, the overall benefits have been tremendous.

As a large and densely populated country, China faces major challenges to properly conserve and manage its river basins. It stands to be an undeniable fact that China’s rapid urbanization and economic growth have placed severe demands on available water supplies for both surface water and groundwater (Xie et al., 2009). Major sectors of the Chinese economy including agriculture, industry, and municipal users all compete for increasingly scarce, and often polluted, water supplies. As the availability of water is becoming a major constraint to economic growth, China has adopted mechanisms to better protect and manage existing water supplies and the watersheds that produce them. Ecosystems in upper reaches, especially forests and wetlands, are an important source of clean water that flows down rivers and provides a
source of water for households, communities, and other users, including natural ecosystems, in the lower reaches. In this regard, ecological compensation mechanisms have become an increasing means of protecting water resources, which in turn promotes the economic growth of poor rural areas during ecological protection. With increasing demand for water resources from ecological compensation systems, the topic of water ecological compensation began to appear as an object of study (Qiu and Zhai, 2014; Zhang et al., 2007; Chen et al., 2006). Recently, foreign experts and scholars in the field of watershed ecological compensation standards say that such standards are generally based on ecological environment construction and protection costs, values of ecosystem services or willingness to pay the values of ecological services and other aspects of measurement. In the study of Pagiola et al. (2005), the author interpreted the basic idea of the theoretical framework of ecological compensation and proposed the idea of ecological compensation quota calculation based on the ecological value equivalent from the perspective of geographic scale correlation and scale conversion. In another insightful study, Pimentel et al. (1997) used the ecosystem value equivalent method to estimate the service value of natural capital and calculated the benefits directly or indirectly obtained from the ecosystem. Following the variant of Pagiola et al. (2005), Pimentel et al. (1997) and Kong et al. (2014) adopted the methodology of willingness to pay (WTP) value evaluation method, taking the Poyang (鄱阳) Lake wetland as a case study, and determined watershed ecological service values and the corresponding ecological compensation standard. However, the definition of the ecological environmental property rights of these studies is vague, and the cost and income of the damaged party or beneficiary party are often not considered. Several times, it was found difficult for the determinant of ecological compensation standards to consider the interests of all parties.
Likewise, the ecological compensation is not sufficiently humane and the amount of compensation is infinitesimal. Single compensation standards often lead to the phenomena of excessive compensation and insufficient compensation, which lead to difficulty in implementing compensation policy (Qin and Kang, 2007; Yu et al., 2017). In China, water resources mainly belong to the state and are of collective ownership; therefore, water resources and ecosystem services are not implemented by market transactions but through financial transfer payments for ecosystem services provider compensation by the central or local government (Chen et al., 2015). The upper reaches of major rivers in China are mostly in the western parts of the country. Due to a semi-arid climate, extreme weather, and generally low soil productivity, the upper reach regions are ecologically fragile and susceptible to degradation. These same regions, however, have a long history of settlement. Most of the communities are poor, with an economy dependent on agriculture or animal husbandry. Unsustainable land use practices including steep slope cultivation, overgrazing, poor conservation techniques and the thirst for economic development have put sky-high pressure on ecological conservation. Nationwide, it is estimated that 40 percent of the country’s land area is affected by some form of degradation (wind and water erosion, overgrazing, deforestation), mostly in the upper reaches of river basins. The causes of the degradation include abnormally heavy rainfall, deforestation, and soil erosion in upper reaches. Another significant factor is human encroachment on flood-prone plains and the conversion of flood-prone lands. For instance, a major flood took place in the Yangtze River in 1998. The floods caused major loss of life and extensive property damage. With this, economic losses were estimated at over RMB 200 billion. In the aftermath of this disaster, the Chinese government was determined to take action to protect the ecosystems in upper reaches of
major river basins and prevent similar disasters in the future.

Currently, finding a sound and effective mechanism has been explicitly put forward in many official and guiding documents and reports, such as the state council on implementing the advanced scientific view of development and strengthening environmental protection in 2005 (State Council, PRC, 2005); the outline of the 11th Five-year Plan of national economic and social development, to fully implement the concept of scientific development and to speed up the construction of environment-friendly society in 2006 (Wen Jiabao, 2006); some opinions concerning the implementation of ecological compensations pilot work and report in the 17th National Congress of the Communist Party of China, and the 11th Five-year Plan for national environmental protection in 2007; the outline of the 12th Five-year Plan of national economic and social development and the 12th Five-year Plan for national environmental protection in 2011; and report on the 18th National Congress of the Communist Party of China in 2012 (SEPA, PRC, 2007). Under the context of political and social needs, the Ordinance of Ecological Compensation was initiated for drafting in April 2010 to cover several key fields, including forest, grassland, wetland, resource exploitation, marine, watershed and ecological functional zones, which represents a major achievement of ECM legislative system. For now, through the determined framework of the Ordinance of Ecological Compensation, the principles, the applicable areas, the objectives, the standards, the measurement, and the capital sources of ecological compensation have been clearly defined. Also, the implementing regulations of ECM for watershed, forest, grassland, wetlands, and mineral resources will be further refined. Once officially promulgated in the near future, the Ordinance of Ecological Compensation will be the first law in the world to solely concentrate on ecological compensation.
Presently, four major areas of ECM implementation exist including watershed, resource exploitation, ecosystem services and nature reserves. However, the payment for ecological services has not been widely deployed. During the ECM implementation, the Central Government plays a leading and vital role in the establishment of ECM programs through financial transfer payments, special funds, resource taxation systems, regional policies, major ecological engineering projects, etc. (Chang et al., 2014; Li and Imura, 2007). Also, ecological engineering projects has been the key factor to improve the environmental quality and provide various compensation packages, such as capital, resources and technology, to residents living in project areas.

3.1. Chinese Application of a Two-in-One Model to the Mekong River Basin

Human civilizations over time have seen to be reliant on people’s constant interactions with the nature, socioeconomic activities, and dynamic development of technologies and science. China has taken to many dimensions to study the construction of as well as the management of predicted threats of hydropower projects for harnessing river for development in China, especially along the Lancang-Mekong River (Fan et al., 2015).

One major concern over the development of hydropower is its negative environmental impact. The Mekong River (called Lancang River in China) Basin is managed and developed on a whole-river basis. Therefore, environmental impact assessments (EIAs), the corresponding ecological compensation mechanism (ECM) and the cumulative environmental impacts of the cascade development are all based on the whole river basin. Human survival and development obviously do have anticipated impact on nature. The bottom line is to minimize such
impacts to a sustainable level for future generations, through practical and applicable sophisticated planning, coordination and remedies. The common interest should ensure both inter-generational and intra-generational sustainability; however, this is also accompanied by developmental needs. Thus, serving the common interest needs to address the development needs of the inhabitants, together with the requirements to attain the development of humans and nature. To manage efficiently the Lancang River, China adopted the application of EIA. This mechanism implemented reveals the impacts of projects on the river system, while the ECM investigates the monitoring and management of the river system, as well as suggests technical support for specific environmental and ecological remedies. The overall objective was to develop hydropower projects – in other words, to manage effectively, avoiding ecological problem areas and vulnerable zones to balance the river system and the biodiversity of river basin. It is worth taking note that it is extremely difficult and near impossible to integrate economic consideration and ecological concerns, local benefits and the common interest as well as dynamic efficiency, inter-generational and intra-generational equity into a development plan. More practical thinking is needed to balance competing interests and in settling for what will seem the best outcome to minimize negative environmental impacts to the barest minimal level (carrying capacity) in undertaking the necessary development and in applying remedies where possible.

3.1.1. Environmental Impact Assessment (EIA)

The EIA of the Lancang River’s whole river hydropower development was accomplished by HydroChina. In China, HydroChina is the sole professional corporation that provides technical consultancy services for hydropower and wind power. The study of EIA was incorporated into the
whole process right from the initial proposal, and implementation to the completion and operation of the power plant. It is a parallel system corresponding to hydropower development planning. In Lancang’s case, the EIA acted simultaneously with the initial investigations of the river’s hydropower potential. The EIA aims to set up clear goals for environmental and eco-system maintenance by analyzing general conditions and special features of the river system and the surrounding environment. Its suggestions for avoiding ecological problems and vulnerable zones were sent to a parallel hydropower development planning group at an early stage, so that the project engineers could incorporate their considerations. After project development plans were formulated, the EIA group would start assessing each plan and propose suggestions based on environmental considerations. Once the final development plan was selected, the EIA group had to study the selected plan in-depth and recommend corresponding criteria to be used in their assessments, matching control measures and monitoring schemes. There was also a feedback assessment upon the completion of the project. The EIA for the whole river basin development also suggests the development pace and order of each project to maintain coordination among all cascade projects. Lancang EIA also included an integral downstream Mekong stretch in its assessment. Hence, it covered 4880 km of the Lancang-Mekong River system from 1984 (first proposal of Manwan (漫澀) project) until 2030 (estimated development completion).

The study of EIA consists of two major components, i.e. the water system and the eco-environment. The water system study includes water quality, temperature, hydraulic studies, sedimentation and general water usage. The eco-environment study on the other hand includes the local climate, eco-diversity and the integrity of the river basin, ecological problem areas and vulnerable zones, aquatic organisms and bio-systems,
terrestrial organisms and river basin eco-systems, and water soil erosion. Assessment indicators for each sub-section of those components are elaborated, such as the level of organic pollutants, carrying capacity and remedy capacity of the local bio-system, a study of fish species, and the extent of water soil erosion. The following paragraphs discuss several of these aspects: biodiversity and threats from alien species, water pollution, water soil maintenance, specific concerns for selected individual projects and a comparison between the present conditions and those before the development started in 1984.

For decades the Lancang valley was known to have environmental challenges. These included the frequent natural disasters of landslides, droughts and floods, engineering shortage of reticulated water supply, the fragile ecological environment of upstream regions and the general deterioration of the ecology in the whole river basin, together with the human impacts on the fish and transnational river issues. These are mostly the result of harsh natural phenomena, unsustainable development and unplanned deforestation to sustain a fragile agriculture. Thus, development, though not hydropower, has existed in Lancang valley for as long as humans have lived there.

Biodiversity is critical yet extremely delicate. The Hengduan (横断) mountain ranges in Tibet, Yunnan and Sichuan are endowed with great biodiversity and rare animal and plant species. The Lancang River and its catchment areas are treasures of biodiversity. More than 114 phytoplankton species, 239 zooplankton species and 80 benthonic animals are found in the river valley, as well as 186 fish species. Plant biodiversity is also abundant. Along the river there are 174 plant communities spreading from the cold, dry highland to the hot, moist tropical zone. Among the 692 terrestrial animal species are 78 species that are classed as endangered at a national level, mostly living in downstream regions of Lancang. One negative impact of the hydropower
development was the introduction of alien species that might destroy local biodiversity. Fish, for instance, are under threat by the flourishing of alien species, the blockage of water by the dams and changes in river run-off patterns after the cascade plants came into operation. The topic of fish is always contentious in a hydropower development. A total of 186 fish species live in the Lancang River (from Changdu to Xishuangbanna), including 23 alien species; of these 90% are cypriniformes and siluriformes. The cascade river blockage had had negative impacts on the migration of fish. Subtle temperature changes in the water released from the reservoirs have an obvious impact on fish spawning seasons. Fortunately, very few of the fish in this system are long-distance migrating species, and the short-distance migrating fish are less influenced by blocking the river. Water pollution is the major concern for all river systems in China. The Lancang catchment’s mountainous geographical conditions determined that there are very few farmland and industries along the river banks there. Also, there is further hindrance by way of the difficulty in engineering water supply both for drinking and irrigation, and the risks of seasonal floods. Therefore, most communities are located in highland further away from the river. This is particularly typical in the upstream valley where the arable land ratio is as low as 10%. There is no large industrial development upstream of Lancang, even TVEs (Township and Village Enterprises) are falling behind, and agriculture is also underdeveloped, so water pollution is not serious in those areas. However, there is still some water pollution generated by the small-scale industries, together with agriculture and the discharge of domestic wastewater. Changdu (昌都, Chamdo/Qamdo) in the upstream region is the center of small-scale industries in the Tibetan region, including a concrete factory, a printing factory and a leather manufacturer. However, these factories are too small to have a significant impact on the Lancang River. Comparatively, the downstream
area of Lancang is at a more developed phase, where mining and smelting have become the main source of water pollution.

There are 33 large and medium industrial companies along the Lancang River in Yunnan, mostly concentrated in Dali, Baoshan, Lincang, Pu’er and Xishuangbanna. For instance, Dali City’s industrial companies discharge about 7.45 million tons of industrial wastewater (2002 data). Other prefectures such as Nujiang are less developed industrially, and hence they discharge a limited amount of industrial wastewater. Overall, agricultural water pollution in the Lancang River is not significant because farmland along the river bank is limited. It is estimated that 541,600 tons of nitrogen and phosphorus pollutants are discharged into the river each year via pesticides and fertilizer residue. There are about 22.66 million mu (亩, one mu equals about 667 m²) of farmland in the river basin and the annual pesticide usage is calculated according to the proportion of the Yunnan provincial average level, which is about 23.9 kg/mu, and the pesticide pollutant discharge rate is around 20%, therefore it is estimated that the whole river basin’s agriculture discharges are about 541,600 ton of nitrogen/phosphorus pollutants. The Tibetan area is under-populated, so domestic pollution is insignificant. There are about 10 million people living in the river valley in Yunnan. Nevertheless, the medium and large towns and cities are mostly located far away from the river. The only big city along the Lancang is Jinghong City (downstream in Xishuangbanna). In general, domestic wastewater discharge is about 23% of the industrial wastewater discharge along the Lancang parent river. However, the tributaries are intensively populated, and the domestic wastewater pollution there is correspondingly greater. This also explains why the quality of the mainstream water is much better than that in the tributaries. Over time, wastewater discharge into the river basin has risen by an annual average increment of 5.9 million tons. It is such a relief to note that the main
pollutant, COD (Chemical Oxygen Demand), has decreased since 2006 (after fluctuating between 2001 and 2006). However, the discharge of polluted water from the tributaries to the parent river has become a rising problem. Water soil conservation is the priority for the region due to deforestation. The loss of soil by water run-off has made the river valley vulnerable to landslides and mudslides.

Forest conservation is the priority for both upstream and downstream areas of the entire river. Even though the population is small in upstream areas in Tibet, population density is still comparatively high due to the limited land carrying capacity in this area. There are conflicting issues between development and conservation in these regions because extreme poverty converges with a rich biodiversity. Arable land is limited, the supply of water for both drinking and irrigation is inadequate, and the high altitude and severe weather condition greatly compromise the existing poor transportation access to the region. Sustainable substitutions for production, living, energy supply and development are essential to solving these conflicts.

Deforestation is severe in downstream areas of Lancang, where the precious tropical rainforests are mainly concentrated. The illegal hunting and trading of wild animals prevail in these areas. Because of favorable climate conditions, agriculture develops much better in the downstream region of Lancang. However, some ethnic groups still practice slash-and-burn agriculture, which damages large swathes of forestland. The development of mass tourism has become a huge threat to both regions in recent years, where quantity has been prioritized over quality. Many tourist resorts along the Lancang River exhibit the same tendency to develop similar unsustainable mass tourism since Yunnan became popular as a tourist destination.

At present, six cascade hydropower plants are operating and more are under planning and construction.
In the EIA environmental changes between present conditions and the 1984 pre-development conditions were compared, with the following results. The first impact was the change of hydraulic condition and sedimentation. The largest three regulating projects, Rumei, Xiaowan and Nuozhadu, have altered water run-off patterns throughout the year. While the total water volume has not changed its seasonal distribution has greatly changed, so the volume of water stored is now more even throughout the year. The variations between the rainy season and dry season of the lower reaches have decreased. When the water temperature was monitored no significant changes were found after the development of hydropower. The water quality of the parent river remains at grade III, with no eutrophication. In the Lancang River the volume of sedimentation increases with the volume of water. Thus, near Changdu the river carries 22 million tons of sediment annually while in Xishuangbanna it rises to 139 million tons per year. The annual average sedimentation rate is about 0.6–1.8 kg/m³. Cascade plants help to hold back sedimentation, but each plant is also facilitated with sediment flushing device to release sediment going down the river to reduce the sedimentation pressure of the plant. The second impact is on the aquatic ecosystem. One obvious impact of cascade plants is their segmentation of the holistic eco-system of the river basin. The most obvious impact is on fish including reducing the size of the fish, the significant spatial relocation of the fish and the invasion of alien species. A sophisticated river system was divided into sections of simpler reservoir bio-systems, and the distribution pattern of fish species changed accordingly. Although the change in the numbers of fish species was insignificant, the relocation of fish whose habitats is running water was significant in the new reservoirs, mostly in downstream stretches of Lancang. The slowing down of the river flows also influenced the aquatic ecosystem. The
population of slow-flow fish greatly increased but numbers of torrent-
inhabited fish shrank dramatically. Their concentration made them more
vulnerable to human activities, such as fishing and netting. Fish that live
inside of the reservoir survived but there was an affinity for them to get
smaller. The introduction of alien species also increased the risks to
indigenous species. Seven fish spawning sites in the parent river will be
flooded after all cascade plants have been constructed. These widely
dispersed spawning sites were sticky sinking spawning sites with smaller
scales. Instead, the cascade reservoirs provide large feeding grounds
with abundant food sources for fish. Fish communities (from the
riverhead to Gongguoqiao) and downstream fish communities (from
Xiaowan to the Mekong) maintain their habitat, but the biggest change
has occurred on transitional stretch between Gongguoqiao ( 功果橋 )
and Xiaowan ( 小灣 ). Impacts on the terrestrial ecosystem were small.

The above EIA analyses on China’s Lancang (MRB) provide
evidence to the fact that the water system and aquaculture are two of the
areas mostly affected by the introduction of hydropower and the
construction of dams. It must however be noted that there are other
impacts and pre-development environmental issues as well. The whole-
river cascade development has limited large-scale projects to minimize
their impact, and projects were selected to balance developmental
advantages and environmental disadvantages. Such a dynamic system is
devoted to bringing negative impacts to the possible minimum, because
to completely avoid influences is unrealistic as long as humans live in
Lancang valley, even without hydropower development. It seems,
overall, that planned and coordinated development can better serve the
common interest of sustainability than dispersed uncoordinated
development.
3.1.2. Ecological Compensation Mechanism (ECM)

Undoubtedly, water resource and hydropower development cannot be totally devoid of its accompanying negative effects on the environment and eco-system. ECM mechanisms, primarily consisting of water system remedy, aquatic and terrestrial ecosystem compensation, wildlife rescue, resettling management, monitoring and information sharing, as well as whole-river management ECM is strategically implemented to moderate these adverse effects.

China has been in the limelight following through on the successful application of the ECM model. First, in terms of water system remedy, China built all power plans with an automated system in a bid to critically monitor the river basin in terms of ecological development. To this effect, industrial and domestic launderers from all power plants are treated for recycling while hazardous wastes are also transported to landfill. Construction of a selective water supply was built in the Nuozhadu (糯扎渡). Also, the Ganlanba (橄榄壩) non-economic project is developed to regulate the volumes of the water in the Jinghong (景洪) reservoir. Majority of these projects have undergone a sophisticated treatment for environmental protection projects like the planting of trees along the roads to reduce air pollution. In view of protecting rare plant species, the Gongguoqiao project in 2011 planted 45,000 trees along the Huajiuzhou road while the Nuozhadu project in 2008 built a rare plant garden. In addition, a complete center was established to enlighten the inhabitants about the essence of wildlife and plants among related others.

Following the provision of a water system remedy, China again implemented an aquatic and terrestrial ecosystem compensation mechanism. This saw to it the launching of Nuozhadu’s fish hatchery and the building of a fish breeding plant and hatchery in 2010 by the
Gongguoqiao project all introduced in the same year. In effect all projects along the Lancang (constructed and planned) considered the issue of fish migration and reliable measures to mediate possible effects. Some of these remedial measures included the building of passage channels for fish, establishing fish habitats and reproduction bases on nearby tributaries, and building fish breeding and nurturing stations as an integral part of the power plant. HydroLancang’s provision of man-made flood peaks for instance is one method of catering to the spawning needs of fish in the downstream of the reservoirs. In view of the fact that there are fish spawning sites downstream from the Ganlanba plant, the project was designed to stabilize the fluctuations from the Jinghong project to mitigate changes in the water level, flow speed and run-off volume so that the fish were able to spawn. However, the discharge of water in the cascade plants brought about by the people is most likely to produce artificial flood peaks during fish spawning seasons. To offset this adverse effect, Ganlanba created artificial flood peaks to meet the fish spawning needs. This takes into account the protection of tributaries that have substantial fish populations. In another example, the Yongchun River has been home to the Schizothorax species due to its rapid torrents. Serving as the first-grade tributary of the Lancang River, all existing power plants across the Yongchun were therefore demolished to maintain the habitat for these rare fish. Projects such as Cege, Yuelong and Ganlanba were designed with passages for fish. Furthermore, projects such as Rumei were supplied with a fish hoist because of their narrow river valleys while projects such as Gushui and Dahuaqiao were built with fish transportation amenities.

Another major variable in the ECM model is the management of resettlements. In the case of Lancang projects, land and forest areas occupied during the construction of the dams were paid compensation and restored. To restore the local ecology requires the careful nurturing
of indigenous species, taking the complete local food chain into consideration. Subsequently, ECM is a complicated and long-term process. For instance, to restore a river valley plantation one has to choose among different options according to the specific local conditions. The Lancang upstream highland has an extremely harsh climate, so the best option for China is the adaptation of artificial plantations using indigenous soil and seedlings, which are then replanted in the wild when they are sufficiently sturdy. In the middle stretch of Lancang closed mountainsides facilitate reforestation in situ. The downstream regions have the best natural conditions, so the best choice here is to protect and replant trees on the site.

The fourth variable in the consideration of the ECM model is wildlife rescue, i.e. controlling the raiding of alien species in both animal and plant. The wildlife rescue center upstream is in the Tibetan Mangkang snub-nose monkey national park, specifically aiming to protect snub-nose monkeys, clouded leopards, forest musk deer and other endangered animals. Supplementary ecological compensation schemes include building a wildlife corridor connecting animals on both riverbanks and establishing an endangered plant garden.

It is indicative to note that pre- and post-dam construction and hydropower development often come with recorded natural disasters of which the Lancang valley has not been an exception. These are mostly landslides, floods and droughts. Because of uneven distribution of rainfall between upstream and downstream, there are more frequent floods in the downstream reaches of the river than the top. Flood control facilities in downstream areas are inadequate. For instance, Jinghong City, the largest city along the river, has the ability to cope with a five-year peak flood discharge only, which places the whole city at huge risk of flooding. At present, Nuozhadu located on the upper river from Jinghong City has shouldered the task of flood control for the Jinghong
residents. The flood-control reservoir capacity of Nuozhadu was therefore designed to be large and cope with 2 billion m³. This has greatly increased the flood resistance capability of Jinghong and its surrounding areas. Lancang River flows in a V shape through Yunnan, which makes it difficult to flow over the riverbanks in a flood. In addition, the river basin is in mostly mountainous areas or semi-mountainous areas, and farmland is too sparsely distributed to suffer from huge flood damage, unlike the Chengdu (成都) flat land basin. Flood damage to upstream regions is further reduced because of the small population there. The Lancang project was also faced with natural disaster in the area, i.e. extreme drought. Due to the climate change and other causes, according to Liu et al. (2015), there are increasing concurrent drought events that occurred in China challenging China’s water management and grand water diversion project. To this effect, provinces like Yunnan and the other southwest provinces have already suffered from severe water shortage (engineering shortage) during normal regular times, and even worse during the dry seasons. To mediate the challenge of extreme drought, the Xiaowan reservoir for instance released 840 million m³ of water during the severe drought in 2010 which greatly eased the impact of the drought downstream.

Overall, as a result of its natural endowment of abundant water and rich rainfall, frequent floods have occurred in downstream areas of Lancang, while the recuperation of forestlands has aggravated water soil erosion, repeatedly resulting in overwhelming landslides. The unadorned shortage of land and water has impelled the local people to engage in further deforestation, which has triggered even more severe droughts. Poverty and natural disasters constantly strike the region and people, and they reinforce and aggravate each other. This results in the situation where farmers in extreme poverty struggle to live in a place with such super abundant resources. Yunnan has thus become one of the typical
regions exhibiting poverty with abundant natural resources, which are common in southwest and northwest of China.

Given all the negative impacts discussed above, the ECM is intended to offset the negative impacts from hydropower development and also pre-development problems and natural disasters to maintain environmental and ecological sustainability. Dynamic monitoring is crucial in achieving ECM, and is the ground of possible cooperation along whole Lancang-Mekong river basin. Manwan’s long-term ECM proved its effectiveness and also demonstrated its shortcomings. The ECM is the key to sustaining the common good, so introducing more effective measures and dynamic monitoring are equally important for the future.

4. Assessment of Chinese Dam Projects in Africa

Chinese hydropower companies over the years have explored new hydropower markets given that Africa has huge hydropower potential that is yet to be developed. Africa has rich water resources. The total hydropower potential in Africa is estimated to be 35,000 TWh but only about 5% of Africa’s hydropower potential, estimated to be 1750 TWh, has been exploited (UNIDO, 2009). A number of dam projects have been implemented by African countries in partnership with China. These dam projects include projects such as the Merowe Dam in Sudan, Song’oro Dam in Kenya, Imboulou Dam in the Democratic Republic of Congo (DRC), Kariba South Dam Expansion Project in Zimbabwe, Dam Project in Botswana, Tekeze Dam in Ethiopia, Caculo Cabaca Dam in Angola, Batoka Gorge Dam Project in Zambia, Mamve’ele Dam Project in Cameroon, Soubre Dam Project in Côte d’Ivoire, Poubara Dam Project in Gabon, Mambila Dam Project in Nigeria, Isimba Power Plant Project in Uganda, and Grand Renaissance Dam in Ethiopia, among
other several projects across Africa (Anning and Vhumbunu, 2018). All these dams in spite of the merits have also drawn some negative consequences.

Standing as one of the dam projects developed in recent years in Africa, financed and constructed by China Exim Bank (CEB) and Sinohydro respectively, is the famous Ghana’s Bui Dam. Bui Dam’s history began in 1925 when its location was first deemed to be promising for a dam. In 1978, negotiations on the construction of the dam had evolved to the planning stage, with the involvement of the World Bank and Australia. After some failed attempts to get the dam working, China’s low-interest loans got the Bui Dam project into becoming a reality (International Rivers, 2015). Anane’s (2015) report further highlights this fact when the World Bank refrained from the decision to fund the project in the early 2000s particularly due to “the amount of campaign against the dam” on the environmental impacts of the project (see Anning and Vhumbunu, 2018). Secondly, the 1250 MW Merowe Dam on the fourth cataract of the Nile is Sudan’s biggest hydropower project. The project was funded by Chinese and Arab financiers, and built by Chinese, German and French companies. Zambia’s Lower Kafue Gorge Dam is also contracted with Sinohydro. The Lower Kafue Gorge Dam is situated on the Kafue River – a tributary of the Zambezi. In Ethiopia, Chinese contractors built the 300 MW Tekeze hydroelectric dam. China National Water Resources and Hydropower Engineering Corporation (CWHEC) built the main concrete dam for Tekeze which, at 185 meters high, is one of Africa’s tallest dams. In the Republic of Congo, again, China Exim Bank bankrolled the construction of the 120 MW Imboulou Dam on the Lefini River, a tributary of the Congo River. China’s Sinohydro was also involved in the construction of Zongo II. Lastly in Gabon, Chinese companies were involved in the construction of the Koungou Falls Dam.
4.1. Geopolitical and Ecological Effects of Chinese Dams in Africa

Water is being taken for granted by many. It rarely comes to mind that water has economic value which, in today’s circumstances, is overwhelming its social value. It is even less common to think of water as a political issue. In Africa, 60 percent of the continent is covered by trans-boundary river basins. However, about one third of the population (300 million people) lives under a situation of water scarcity. It is projected that by 2025 half of African countries will experience water stress and the sharing of water will play a significant role in inter-state relations amidst a combination of population growth and recurrent drought and famine in some parts of the continent.

Even though water politics have historically been a central feature of geopolitics in the African region, they have grown particularly tense over the last decade due to the pressures of population growth, industrialization, and climate change. For instance, when Ethiopia diverted the first stretch of the Nile in May 2013 in anticipation of a dam’s construction, tensions reached unprecedented heights and led Egyptian politicians to publicly threaten military action. Egypt and Ethiopia have long struggled for control of the Nile. In an effort to reach a common understanding and develop a mutually beneficial framework, the Nile Basin Initiative was launched in 1999 by all riparian states, viz. Egypt, Sudan, Ethiopia, Kenya, Uganda, Rwanda, Tanzania, Burundi, and the Democratic Republic of Congo (DRC), as well as Eritrea as an observer. The old divides have nonetheless yet to be overcome while nearly all downstream states (Ethiopia, Kenya, Uganda, Rwanda, and Tanzania) signed a May 2010 Cooperative Framework Agreement, which replaced previous colonial-era treaties based on the principle of equitable use; Sudan and Egypt opposed it and claimed that it infringed upon their historical rights. The international law of transnational
watercourses is ambiguous and, as this dispute illustrates, it contains principles that are somewhat contradictory. One principle emphasizes the sovereign rights of states to utilize any resources within their territories, while the other requires that such actions do not cause significant harm to other states that share the resource. Consequently, although all parties cite international law in defense of their hydro-political claims, it has had marginal practical and political consequences. The ensuing diplomatic drama in recent years have led many to question whether or not the millennia-long rivalry over the Nile will finally culminate in an armed confrontation between these two regional giants. In this case as in others, water-politics (i.e. the influence of hydrology on politics) and geopolitics (i.e. the influence of geography on politics) go hand in hand. This discovery does not only pertain to the twenty-first century globalizing world but had been so even in the past. It is needless to cite some of the great river civilizations such as Ancient Egypt on the Nile, Mesopotamia with Tigris and Euphrates, the Senegal, the Niger, the Zambezi river basins among special others. Chinese aqueducts are still objects of admiration as technological achievements with regard to the ecological, environmental, social and geopolitical management of rivers. The rise of nations goes hand in hand with their ability to master water. Conversely, their decline is also accompanied by the loss of their ability to do so. In the case of Ghana for instance, although the Black Volta River originates in Burkina Faso and forms the border between Ghana and Côte d’Ivoire, these countries are upstream of the Bui area of influence at a full supply level of 183 million or less. Downstream of Bui, the Black Volta and Volta Rivers remain within the borders of Ghana. Consequently, impacts on Côte d’Ivoire or Burkina Faso are not anticipated and efforts to investigate the possible threats to neighboring countries as well as to lay practical policies to see to the peaceful sharing of water have not yet been made.
4.2. Weaknesses of Chinese-implemented Dam Projects in Africa

Since 2006, investment from China has rapidly increased in Africa. According to a World Bank report in 2008, most of the Chinese investment goes to the infrastructure sector, mostly hydropower, railroad, and telecommunications. In the light of these projects, dam projects are widely blamed for negative impacts on local community and natural environment amidst ecological and geopolitical harsh effects.

First, the Bui dam project in Ghana has seen forced resettlement of eight communities with some yet to be resettled. There have been several conservation groups both international and local who advocated against the dam project. The challenges and errors in planning the Bui resettlement have therefore marred its successful implementation, resulting in adverse impacts on the affected people. These people have not been duly consulted and given the platform to effectively participate in order to influence the decisions made. They have been relegated to the background and positioned at the receiving end instead of being key participants in an issue which is about their lives. None of the three major livelihood activities of the affected people being farming, fishing and trading as well as their corresponding assets of fertile farmlands and fishing grounds have been restored after years of resettlement. Concurrently, income support given to the people (a daily wage which was less than USD 0.50 per person) has ended. Furthermore, the lands offered to affected persons eligible for land compensation have been identified to be of poor quality indicating a poorly structured ecological compensation mechanism. In addition, trade is on hold and picking forest products will not be possible since the portions of the Bui forest reserves the people could access will be inundated. New farmland preparation assistance was insufficient and some farmers have not received crop compensation yet.
The Merowe Dam in Northern Sudan has become one of the world’s most destructive hydropower projects. Even though, with a capacity of 1,250 megawatts, the project doubled Sudan’s electricity generation, the adverse catastrophes have been massive. In the face of displacing more than 50,000 people from the fertile Nile Valley to arid desert locations, thousands of people who refused to leave their homes were flushed out by the rising waters of the reservoir. No proper environmental impact assessment for the Merowe Dam was ever carried out. Project construction was started without approval by Sudan’s environmental ministry, which violates the country’s laws. The project also submerged immeasurable archeological treasures in its reservoir. The people affected by the Merowe Dam strenuously resisted their displacement from the Nile valley, and proposed to be resettled along the banks of the new reservoir. The government completely ignored their views, and brutally suppressed any protests. Several people were killed and many more were injured in crack-downs by the security forces.

In Ethiopia, the 185-meter Tekeze Dam (which is ten meters higher than the Three Gorges Dam), built on a tributary of the Nile, promises to bring the kinds of serious environmental and social problems that Three Gorges planners are only now beginning to recognize. In addition to the familiar environmental problems associated with large dams, such as altered hydrology and threatened fisheries, Tekeze will also completely change the face of one of Africa’s deepest canyons. The deepness of the canyon walls will likely contribute to major sedimentation at the dam site once the region is flooded. To this effect, the situation will most likely reduce the capacity and lifespan of the dam, leading to reductions in irrigation and economic growth. The rural poor will not benefit from the dam project either, since the power generated will go mainly to large cities or sold to neighboring countries with more developed industries.
Similar undesirable effects are recorded with Chinese dams in various African countries like Cameroon’s Lom Pangar dam, Congo’s Imboulou Dam and Amerti-Neshe dam in Ethiopia.

5. China’s ECM Model in the Sustainable Management of HydroLancang: Drawing Lessons for the Zambezi River Basin

In spite of the regional importance of the ZRB, few improvements have been made in the management of its water resources over the past 30 years. Differences in post-independence development strategies and in the political economy of the riparian countries, as well as the diverse physical characteristics of the Basin, have led to approaches to water resources development that have remained primarily unilateral. There is no doubt that better management and cooperative development of the Basin’s water resources could significantly increase agricultural yields, hydropower outputs, and economic opportunities. Collaboration has the prospect of increasing the efficiency of water use, strengthening environmental sustainability, improving regulation of the demands made on natural resources, and enabling greater mitigation of the impact of droughts and floods. Seen in this light, cooperative river basin development and management provide not only a mechanism for increasing the productivity and sustainability of the river system, but also a potential platform for accelerated regional economic growth, cooperation, and stability within the wider Southern African Development Community (SADC) (SADC, 2008).

Sino-African relations is witnessing the consolidation of trends such as China’s enthusiastic building of dams without regard to their ecological or geopolitical impacts; a pervasive tendency to relegate Africa’s own labor from Chinese-funded energy projects and other
projects; and forward-looking agenda such as on sustainable energy featuring too scantily on the agenda of the China-Africa partnership. Neither China’s enthusiastic burnishing of its own Africa credential nor a Western-inspired attempt to vilify it for its role in Africa presents the whole picture. Nowhere is the need for Chinese help more apparent than in Africa’s strategic power sector where current levels of investment significantly lag fast-growing needs.

Even then, a closer reading of the sector exposes how China instrumentally tailors its investments to further narrow advantages whilst ignoring the inconvenient truths about sustainability and the environment. Deconstructing the Chinese-Africa “partnership” on energy (hydropower sustainability) by way of adopting China’s ECM on the MRB in the context of ZRB offers a much-needed corrective to the distorted lens that Beijing employs to view its role in Africa.

In the light of the above discussion, some relevant lessons to be drawn from EIA and ECM adoption practice to the sustainable management and development of the MRB are as follows.

First, governments in riparian countries along the ZRB should take a leading role in investing up-front in generating and organizing the information that the system will require. As was accomplished in China, a detailed ecosystem database for ZRB accompanied with a scientifically robust selection methodology would help ZRB choose priority compensation sites that are compatible with the national biodiversity conservation plans for riparian countries involved. Spatially explicit, best estimates of restoration and conservation costs could also be included in the database and selection algorithm. Developers could then more easily include compensation costs into overall project feasibility assessments.
Second, the governments of respective countries should facilitate participation by a wide range of third-party compensation providers, including public protected areas, private reserves and indigenous communities. In the short term, ZRB could adopt to partially using public protected areas as a ready supply of offset sites with clear property rights and known conservation gaps while establishing in the longer term the institutions, intermediaries, and mechanisms necessary to facilitate transactions between developers and private offset sellers.

Third, a consistent metric or standard should also be developed for indirect impact estimation as well. In this vein, option for a predictive model based on spatial analyses of historical land-use change by policy-makers could simplify the methodology further by establishing a standardized set of offset multipliers based on the specific type of infrastructure development and a very limited set of biophysical factors that determine indirect impacts (i.e., flat terrain vs. mountains).

Additionally, there is a sky-high possibility that the systems elaborated above could include a habitat banking or financial program, which fits into existing compensation framework (Bovarnick et al., 2010). A fee-based system could allow developers to pay into an ecological compensation fund managed by a third party rather than undertake or contract for offset actions themselves. It is suggested that the fee must be appropriately scaled to the cumulative direct and indirect impact of the development project and funds must be directed toward ecologically equivalent offsets. As in the case of China, where compensations are paid mainly through financial transfer payments for ecosystem services provider compensation by the central or local government, in the case of ZRB, the respective governments can utilize effectively these funds.
6. Final Consideration and Recommendations

Large development projects commonly cause damage to ecosystems, even after some measures have been taken to avoid and reduce the impacts on site. Governments are increasingly seeking to offset losses through ecological compensation programs to maintain overall levels of biodiversity and ecosystem services, with the key to successful programs being criteria that reduce uncertainty and transaction costs while enhancing ecological equivalency.

Even though Zambezi River Basin has existing methods for establishing ecological equivalence, it still has yet to develop mechanisms and institutions necessary to reduce transaction costs. These experiences suggest a trade-off between rules that rigorously compensate losses with ecologically equivalent areas, and simpler approaches that have low transaction costs but may fail to ensure specific biodiversity goals. Again, the success of ZRB’s sustainability and management system will depend on being practical enough to implement at scale and rigorous enough to deliver environmental benefits. In all of these, ecological compensation as well as EIA is still an embryonic effort in the Southern African perspective and policy adjustments will be necessary as better information on success and failure becomes available.

In all recorded dams identified in this study, rural land-users experience and grapple with new social, political and ecological conditions wrought by development processes and uneven power dynamics operating across sites. Rural people’s lived experiences contradict neoliberal and nation-building discourses circulated by politicians and development expert officials. For instance, in Ghana, State elites justified Bui Dam with historical understandings of dams as vehicles for modernization while simultaneously framing rural people as responsible for accessing dam-related “benefits”. Yet, the dam’s socio-ecological outcomes undermined people’s ability to “fit into the system”.
Farming and fishing livelihoods have been radically transformed, resulting in food insecurity, diminished household incomes, and psychological stress. Yet, some respondents reproduced nationalistic discourses of hydro-electric power, articulating the harmful outcomes of various dams with a shared, imagined future of modern economies.

These Chinese dams in Africa show how local socio-ecological as well as geopolitical systems are affected by the globalization of the hydropower industry in the face of management of river basins through the emergence of China as a key source of finance and technical capacity in dam constructions. Local communities therefore face a particularly difficult situation in which the interests of the national government, multinational corporations, and emerging economies are linked. This produces a situation in which communities do not only face their governments but also transnationally operating actors that are not accountable, meaning that there are no formal processes through which local communities could hold transnationally operating companies to account.

Furthermore, a robust environmental policy within Sinohydro and China Exim Bank could have improved the impact the dam has on local communities. One of the ethics of Exim Bank who stands acute in most of the dams constructed by Chinese in Africa is reviewing the quality of the environmental and social impact process during the dam planning process before approving the credit facility. Therefore, an improvement of environmental policies and credit approval procedures on the Chinese side should result in less harmful projects even in projects where Chinese actors are not involved in the resettlement process, as was the case for the Bui dam.

A relationship of intertwined futures and equal partnership – of the type that China trumpets – must meet these key tests at the very least where Africa will not only dwell on grants but draw lessons from its
Chinese counterpart and implement them to attain a brighter Africa for the next generation.

The incorporation of many of these lessons drawn in ecological compensation policy and EIA requires a wider landscape-level perspective on development and balance activities, timing of offset generation, measurement of biodiversity and ecosystem services, consistent accounting procedures and rules for calculating losses and gains, transparent institutions and intermediaries, forecasting of future changes to natural habitats, and approaches to managing risk (Gardner et al., 2013). The enterprise of ecological compensation is still relatively new. Consequently, many ecological compensation programs including those in China will require periodic monitoring and evaluation in order to refine and improve policy design. I am with high hope that these lessons drawn can contribute to the elaboration of appropriate ecological compensation rules in the ZRB leading to the effective internalization of environmental costs, stronger protection for species and habitats, and more socially beneficial development choices on the whole. If this process is successful, it could benefit other forested countries globally as they look for models for their own conservation goals, and the regulations and institutions necessary to achieve them.

Note

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Environmental Dimension of Regional Development in China, with Special Focus on Grassland Ecological Compensation in Alxa League of Inner Mongolia

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University of Malaya

Suruna**
Inner Mongolia University of Finance and Economics

Abstract
There are four characteristics typical of the distribution of China’s population in poverty: (1) concentration in the mountainous areas; (2) concentration in the western region; (3) concentration in environmentally fragile areas; (4) concentration in ethnic minority areas. In particular, poverty in this large country is very much related to environmental factors. Out of the country’s 592 poverty counties, 366 are in the western region, and most of these poverty counties are distributed over several major areas of fragile environmental habitat, including among others Inner Mongolian plateau’s southeastern border area that suffers from desertification. The paper focuses on poverty in China’s western region, its determining factors especially environmental
degradation that is dominated by the three main issues of soil erosion, desertification and grassland deterioration, and State policies to overcome these problems, and includes a specific case study of the grassland ecological compensation policy in the Alxa League of Inner Mongolia.

**Keywords:** China, poverty, environmental degradation, grassland ecological compensation policy, grazing, herders/ herdsmen, Alxa League, Alxa Left Banner, Inner Mongolia

1. Introduction

Since the official beginning of the “Western Regional Development” (xibu dakaifa /西部大开发) strategy in 2000, the State’s investments in the western region have been greatly strengthened, already including more than 70 major projects in the launching decade of the 2000s such as the Qinghai-Tibet (Qing-Zang) Railway and the transmission of natural gas and electrical power from west to east, involving more than 980 billion yuan. Also experiencing rapid growth was western region’s fix capital formation even in the beginning part of the strategy, with an annual average growth rate of 20.5 per cent during the period 2000-2004, being 1.4 percentage points higher than the national average. The rapid development of the western regional economy was reflected in the above 10 per cent economic growth rate of the region during the tenth five-year plan period (2001-2005) which was higher than the national average. In fact, Inner Mongolia, which represents a particular target of investigation (with focus on the grassland ecological compensation policy in the region’s Alxa League) in this paper, topped the country for three consecutive years 2003, 2004 and 2005 with its growth rate of gross regional product of 16.8 per cent, 19.4 per cent and 16.6 per cent
for the three years respectively. (Zhongguo fazhan shuzi ditu, 2006, p. 225) Building on these early years’ achievements, Today, under China’s 13th Five-Year Plan (2016-2020) which emphasises optimising the spatial development, accelerating development of the western region, and balancing regional development, efforts have continued to go into establishing the western region’s economic co-operation with the outside world under the Belt and Road Initiative (HKTDC, 2016).

The rapid growth of fixed capital formation has led to the fast expansion in the scale of industrial production of the western region and remarkable enhancement of economic benefits. Sichuan, Guangxi, Guizhou and Qinghai in particular had achieved unprecedented high level of industrial benefits and profits. Certain pillar industries and industrial clusters with regional resource advantage and territorial advantage can be seen to be in formation and rapid development in the western region and sub-regions. However, the economic foundations of the western region remain weak. The lack of capital and quality human resource and the locational disadvantage that causes its low degree of openness to the outside world have led to the region’s remarkable bottleneck constraint in its basic infrastructure, low level of resource use, irrational industrial structure and low private to public ownership ratio. While experiencing rapid growth during the tenth five-year plan (2001-2005) period, total economic and industrial volumes remained small, compared to the national levels, though as China’s economy has been facing a number of challenges like lacklustre export markets and rising labour and land costs in recent years, the western region’s economy has notably been growing steadily by comparison in the 2010s at a rate surpassing the national average (HKTDC, 2016). However, the region’s “boorish” growth pattern has also led to the increasingly obvious resource and environmental constraints. Blind imitation and disorderly competition are also serious problems for the region’s specialized
**Figure 1** GDP Growth Rate in China’s Western Region Compared with National Average, 2017 (%)

![GDP Growth Rate Chart](chart1)

Source: CGTN (2018); Trading Economics (2019).

**Figure 2** Gross Domestic Product of China’s Western Region (RMB billion)

![GDP Chart](chart2)

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Figure 3 Disposable Income Per Capita of China’s Western Region (RMB)

Source (Figures 2 & 3): HKTDC (2016).

advantaged industries, in addition to the lack of coordination and cohesion in resource exploitation. (Zhongguo fazhan shuzi ditu, 2006, p. 227)

It is in this context that the combined impact of poverty, unemployment, interethnic inequalities and ethnoregional disparities hence represents one of the major challenges facing China’s ruling regime in maintaining social stability for continued rapid economic development that is now increasingly seen as the key to the survival of its unique governance model.

When the government stressed the need for “national unity” in proposing the “Western Regional Development” strategy in 1999/2000, the government simply conveyed its understanding of the need
**Figure 4** Official View of “Western Regional Development” Strategy as Part of National Development Strategy

for different approaches in economic development strategy for the eastern and western regions (Figure 4) due to the contrasting ethnic compositions of the two regions – a recognition of the fact that while the eastern region is demographically dominated by the Han Chinese, the western region is home to a large number of China’s ethnic minorities, and compounding the exigencies engendered by the ethnic factor is not only the socioeconomic disparity between the regions, but also the differences in environmental and ecological conditions between them that pose additional problems to State policies whether to deal with poverty or environmental issues which are inevitably interconnected, such as Inner Mongolia’s grassland degradation and the herders’ livelihood that will form the focus of this article’s later sections on the evaluation of the State’s grassland ecological compensation policy in the particular case of the Alxa League where Suruna, a native of the Alxa League, has conducted her fieldwork and questionnaire survey for her MPA research paper that Emile supervised.

2. Urban-Rural Disparity in Ethnic Minority Regions

Mainly engaged in traditional farming and animal husbandry, China’s ethnic minorities have always been lagging behind in level of urbanization. While the national urbanization over the past decade in terms of cities (chengshihua / 城市化) was around 24 per cent (more than 13 percentage points lower than the national figure of 37 per cent) and that in terms of townships (chengzhenhua / 城镇化) was about 13 per cent – the former being 1.76 times the latter – ethnic minorities’ urbanization in terms of cities was only 12 per cent, not much different from that of in terms of townships (Yeoh, 2013: 240, Figure 20.5). By late 2000s, in minority provinces, such as Tibet, Qinghai, Ningxia,
Xinjiang and Gansu, the population density and city size were still usually smaller, with between 60 per cent and 80 per cent of the cities being ranked within the small city category, while of all the eight extra-large and large cities, minority populations accounted for less than 30 per cent of the city populations, and of 58 minority cities, 70 per cent are found within small-sized cities (Maimaitiming et al., 2013). Maimaitiming et al. (2013) attribute this phenomenon to minority ethnic groups’ preference for small cities and suburban places rather than larger, centralized cities as the daily expenses in small cities are lower than that in large cities, and most minority groups, being generally less educated, cannot find jobs in big cities which are more competitive than smaller cities.

This lower urbanization of the ethnic minorities has directly affected the development of their occupational structure, resulting in the majority of them being engaged in the primary industry (agriculture). The proportion of ethnic minority population in the agricultural sector was 82.51 per cent, i.e. 7.24 percentage points higher than the national average (Yeoh, 2013: 542, Figure 20.10. While these provincial data include also the Han Chinese, it still shows a general increase in the agricultural population in the ethnic zizhiqu and multiethnic provinces, with the exception of Inner Mongolia and Guangxi. The highest increase was registered in Xinjiang, Tibet and Ningxia.)

Looking at urban-rural disparity in general, due to the fact that rural income growth has relatively been slower and more unstable compared to urban income growth, the urban-rural income gap has been expanding over the years.
<table>
<thead>
<tr>
<th>Province/zizhiqu/zhixiashi</th>
<th>Ethnic distribution</th>
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<tbody>
<tr>
<td><strong>1 Qinghai</strong> (Han 54%; Zang (藏) 23%; Hui (回) 16%; Tu (土) 4%; Salar (撒拉) 2%; Mongol (蒙古) 2%)</td>
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<td><strong>2 Xinjiang</strong> (Uyghur Zizhiqu) (Uyghur (维吾尔) 45%; Han 41%; Kazakh (哈萨克) 7%; Hui 5%; Khalkh 1%; Mongol 1%)</td>
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<td><strong>3 Guangxi</strong> (Zhuang Zizhiqu) (Han 62%; Zhuang (壯) 32%; Yao (苗) 3%; Miao (苗) 1%; Dong (侗) 1%)</td>
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<td><strong>4 Guizhou</strong> (Han 63%; Miao 12%; Bouyei (布依) 8%; Dong 5%; Tujia (土家) 4%; Yi (彝) 2%; Gelao (仡佬, Gelo) 2%; Sui (水, Shui) 1%; Bai (白) 1%)</td>
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<td><strong>5 Yunnan</strong> (Han 67%; Yi 11%; Bai 4%; Hani (哈尼) 3%; Dai (傣) 3%; Zhuang 3%; Miao 2%; Hui 2%; Lisu (傈僳) 1%; Lahu (拉祜) 1%; Wa (佤, Va) 1%; Naxi (納西) 1%)</td>
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<td><strong>6 Ningxia</strong> (Hui Zizhiqu) (Han 65%; Hui 34%)</td>
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<td><strong>7 Inner Mongolia</strong> (Mongol Zizhiqu) (Han 79%; Mongol 17%; Manchu (滿, Man) 2%; Hui 1%)</td>
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<td><strong>8 Hainan</strong> (Han 83%; Li (黎) 16%; Miao 1%; Zhuang 1%)</td>
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<td><strong>9 Liaoning</strong> (Han 84%; Manchu 13%; Mongol 2%; Hui 1%; Choson (朝鮮, Korean) 1%)</td>
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<td><strong>10 Hunan</strong> (Han 90%; Tujia 4%; Miao 3%; Dong 1%; Yao 1%)</td>
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<td><strong>11 Jilin</strong> (Han 91%; Korean 4%; Manchu 4%; Mongol 1%)</td>
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<td><strong>12 Gansu</strong> (Han 91%; Hui 5%; Tibetan 2%; Dongxiang (壯族) 1%)</td>
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<td><strong>13 Xizang/Tibet</strong> (Tibetan Zizhiqu) (Tibetan 93%; Han 6%)</td>
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<td><strong>14 Chongqing</strong> (Zhixiashi) (Han 94%; Tujia 5%; Miao 2%)</td>
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<td><strong>15 Sichuan</strong> (Han 95%; Yi 3%; Tibetan 2%)</td>
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<td><strong>16 Heilongjiang</strong> (Han 95%; Manchu 3%; Korean 1%)</td>
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<td><strong>25 Shandong</strong> (Han 99%; Hui 1%)</td>
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<td><strong>26 Anhui</strong> (Han 99%; Hui 1%)</td>
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<td><strong>27 Shanghai (Zhixiashi)</strong> (Han 99%)</td>
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<td><strong>28 Shaanxi</strong> (Han 100%)</td>
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<td><strong>29 Jiangsu</strong> (Han 100%)</td>
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<td><strong>30 Shanxi</strong> (Han 100%)</td>
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<td><strong>31 Jiangxi</strong> (Han 100%)</td>
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Table 1 (Continued)

Notes:
# China as a whole – Han 92% + 55 other “nationalities” (minzu / 民族) including Zhuang 1%, Manchu 0.9%, Hui 0.8%, Miao 0.7%, Uyghur 0.68%, Tujia 0.65%, Yi 0.63%, Mongol 0.47%, Tibetan 0.44%, etc.
+ Decimals are rounded to the nearest. Ethnic groups below 1 per cent are not shown.
* provinces (sheng / 省), “autonomous regions” (zizhiqu / 自治区), and provincial-level cities (zhixiashi / 直辖市) now classified as the “western region”

Source: Yeoh (2013: 522-523), Table 20.2.

3. Ethnoregional Dimension of Poverty

In line with the now well-known fear of instability¹ on the part of China’s ruling Communist Party, the main objective of the country’s poverty alleviation policy is to prevent income and wealth inequality from growing out of political control, by attempting to improve the economic position of the poorest through considerably limited administrative intervention. Furthermore, discontent brewing in the areas resided by ethnic minorities is taken seriously because these areas are also places that show a relative concentration of poor people.

Just how the western region populated by the non-Han peoples has been left behind in China’s economic development is clearly indicated by the poverty problem. Any political or social instability in this ethnic minority region could have grave ramifications throughout the economy that would threaten the development efforts of the central government especially in regard to the development of the regional cores.

Over the past decade, of the around 24 million rural poor of China, the eastern region, central region and western region contributed about 3 million (13.7 per cent), 8 million (35.5 per cent) and 12 million (50.8
per cent) respectively, with incidence of absolute poverty of the central region and western region being respectively 3.1 times and 6.5 times that of the eastern region (Yeoh, 2013: 542, Figure 20.9). Compare this with the 1993 figures of 19.5 per cent, 31.1 per cent and 49.4 per cent for the eastern region, central region and western region respectively (Zhongguo Fazhan Baogao 2007, p. 37), it is obvious that the changes in the regional distribution of the rural population in absolute poverty were mainly reflected in the decline of its proportion in the eastern region, increase of that in the central region, while that in the western region had remained largely unchanged, with the implication that the extent of decline of the number in absolute poverty in the eastern region actually surpassed the national average, that in the central region was obviously below the national average, and that in the western region was the same as the national average (ibid.).

By 2010s, western China still shows a higher incidence of poverty – with 10.4% of people being MPI poor (following the Global Multidimensional Poverty Index (MPI); see Alkire and Shen, 2015) – compared to 4% or less in the eastern and central regions of China, and the average intensity of poverty in western China is also higher, where on average MPI poor people are deprived in 42.8% of the poverty indicators – equivalent to being deprived in, for example, roughly one health indicator, one education indicator, and two living standard indicators. With both higher incidence and higher intensity, poverty in the western region of China is thus, by 2010s, still significantly higher than in China’s eastern or central provinces (Alkire and Shen, 2015).

In terms of interregional differentials in rural poverty incidence, those provinces/zizhiqu with incidence of poverty above 5 per cent (i.e. double the national average) over the past decade were Inner Mongolia, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai and Xinjiang which were all in the western region (Yeoh, 2013: 542, Figure 20.9). The only
province/zizhiqu/zhixiashi of the western region that had incidence of poverty below 5 per cent were Chongqing, Guangxi, Sichuan and Ningxia – the last one, Ningxia, having experienced a steep decline in rural incidence of poverty from a height of 14.5 per cent in 2000 to just 3 per cent over the past decade. Beijing, Tianjin, Shanghai, Jiangsu, Zhejiang, Fujian and Guangdong which are all provinces/zhixiashi in the eastern region have basically eliminated absolute poverty, with incidence of poverty at just 0.2 per cent and below. Shandong also had incidence of poverty below 1 per cent. Hainan, Hebei and Liaoning were the only provinces in the eastern region that still had incidence of poverty above 1 per cent. On the other hand, all provinces in the central region – Anhui, Heilongjiang, Henan, Hubei, Hunan, Jiangxi, Jilin and Shanxi – had rural absolute poverty incidence from 1.5 to 3.5 per cent.

There are four characteristics typical of the distribution of poverty population in China:

1. Concentration in the mountainous areas.
2. Concentration in the western region.
3. Concentration in environmentally fragile areas.
4. Concentration in ethnic minority areas.

For instance, at the end of China’s ambitious “8-7 Plan” (National Plan for Poverty Reduction, 1994-2000), out of the 29 million people in absolute poverty (in 2003), 15.5 per cent were in the eastern region, 35.5 per cent in the central region, and 49 per cent in the western region. Areas with incidence of poverty less than 1 per cent were all located in the eastern region. Guangxi, Sichuan and Chongqing were the only places in the western region with incidence of poverty between 1 and 5 per cent. Inner Mongolia, Yunnan, Shaanxi, Gansu, Ningxia and Xinjiang were places in the western region with incidence of poverty
between 5 and 10 per cent. All areas with incidence of poverty above 10 per cent were in the western region, viz. Guizhou, Tibet and Qinghai. With rural population with income from 637 to 882 yuan per annum are officially classified as the low-income group, those in the low-income group totaled 29.46 million just within the poverty counties alone. (Chen, 2006: 175, footnote 1) Combining the rural poverty population and the low-income group, the number then totaled 85.17 million, of which 40.14 million (47.1 per cent) were in the western region, 31.2 million (36.6 per cent) in the central region and 13.83 million (16.2 per cent) in the eastern region. (ibid.: 176, Figure 7-2) More than a decade later today, the goal of eliminating absolute poverty has become clearer defined as to raise per capita disposable income to 4,000 yuan (US$580) or more, and guarantee compulsory education, medical treatment and housing security to impoverished households in order to reduce the rural impoverished population to less than 15 million and incidence of poverty to below 2 percent with the lifting of about 40,000 extremely impoverished villages and more than 50 percent of the impoverished counties out of poverty (Li, 2018).

Of China’s 592 officially designated poverty counties3 – including 257 ethnic minority poverty counties – 62 per cent were concentrated in the western region. Besides the 592 counties that are officially designated as poor, there are also 14 contiguous poor areas, with some overlapping between the two categories which cover a total of 832 of China’s counties.4 Of the 29 million people in poverty back then at the end of the “8-7 Plan”, more than half were among the ethnic minorities (i.e. non-Han) or in the ethnic minority areas (the 12 zizhiqu and provinces of the western region), totaling 17 million people or 58.55 per cent. (Zhongguo Minzu Fazhan Baogao, 2001-2006, p. 235) Hence, it is discernable that there is a trend of gradual concentration of the poor towards the western region and the frontier areas, and towards the ethnic
minorities. Estimation of the extent of absolute poverty among the ethnic minorities ranges from 40 per cent of the total population as estimated by researchers in China to 60 per cent as estimated by Nicholas Stern of the World Bank. In view of the fact that ethnic minorities only constitute 8.41 per cent of China’s total population, that 40 to 60 per cent of China’s poor come from them is indeed alarming. (ibid.)

One of the most crucial aspects of China’s poverty problem hence is the very fact that the dominant component of the rural poor is the ethnic minorities – as mentioned above, out of the 592 poverty counties, 257 (44 per cent) are ethnic minority counties. By the end of the “8-7 Plan”, among the poor of the 592 poverty counties, 46.7 per cent were in ethnic minority areas, with incidence of poverty of 11.4 per cent that was higher than those of the mountainous areas (10.1 per cent), hilly areas (7.1 per cent), old revolutionary base areas (7.7 per cent) and the plains (7.8 per cent). Eighty per cent of the 4.59 million poor of Guizhou were ethnic minorities, and almost all of the 3.1 million hard-core poor of the province were ethnic minorities. In the mountainous areas of southern Ningxia, 60 per cent of the 520 thousand poor were Hui. Eighty-five per cent of Yunnan’s 4.4 million poor and more than 90 per cent of Tibet’s 250 thousand poor were also ethnic minorities. (Chen, 2006: 177) In fact, out of the country’s 29 million poverty population, 45 per cent or more than 13 million were in the ethnic minority areas. Among the 630 thousand people of 22 ethnic minority groups each with population less than 100 thousand, 394 thousand were in absolute poverty or in the low-income category. (Wu, 2006: 15) Official figures then showed that ethnic minority areas’ rural absolute-poverty population constituted 47.7 per cent of the national total, incidence of poverty was 5 percentage points higher than the national figure, population with low income constituted 46 per cent of the national total, proportion of low-income population in rural population was 9 percentage points higher than the national figure,
absolute-poverty population plus low-income population constituted 46.6 per cent of the national total, and the proportion of absolute-poverty plus low-income population in rural population was 14 percentage points higher than the national figure. Almost 80 per cent of China’s ethnic minorities are found in the country’s western region, especially the rural areas. China’s northwest with about 20 different ethnic minorities and total minority population of more than 15 million and southwest with more than 30 ethnic minorities and total minority population of more than 29 million being the country’s two areas with the most complex ethnic composition and the largest number of and most concentrated ethnic minorities, the geographical correlation of ethnic minority distribution (largely populating the frontier areas) and poverty population distribution is unmistakable, hence reflecting the composite phenomenon made up of rural poverty, geographical poverty, ethnic poverty and frontier poverty. (Nie and Yang, 2006: 153)

As China was experiencing a continuous expansion in urban-rural income gap, the interregional rural income disparity is also widening. The ratio of eastern to central to western rural income had been expanding then from 1:0.83:0.79 in 1980 to 1:0.75:0.63 by 1990 and further to 1:0.68:0.52 by mid-2000s (Dangdai Zhongguo Shehui Ge Jieceng Fenxi 2007, p. 212, Table 7-2).

According to official figures, western regional to national GDP ratio appears to be stable, with slight increases in later years, and there was steady increase in western regional GDP per capita, though it still lagged behind the national level by a very large differential (Zhongguo xibu nongcun quanmian xiaokang zhibiao tixi yanjiu, 2006, pp. 51-52, Tables 4-1, 4-2). Even official figures admitted that the gap between the ethnic regions and the advanced eastern region was expanding, with Shanghai’s and Guangdong’s respective annual average growth rates of 13.11 per cent and 13.97 per cent for the 2000-2004 period exceeding the 13.05
per cent of the ethnic regions, and the annual average growth rate of Guangdong’s total import-export surpassing that of the ethnic regions by 9 percentage points for the same period (Zhongguo Minzu Fazhan Baogao 2001-2006, p. 64). The disadvantage of the western region is even more glaring in terms of public revenue, where the differential has been expanding over the years.

4. Environmental Dimension of Interregional Imbalance

Back at the end of the “8-7 Plan”, Woo et al. (2004) found that China appeared to be off track to achieve the MDG Target 9 with proportion of land covered by forest amounting to 17.5 per cent in 2001, only slightly increased from 15.6 per cent in 1990.

<table>
<thead>
<tr>
<th>Table 2 Natural Ecosystem Reserves in China</th>
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<tr>
<td><strong>Quantity</strong></td>
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<tr>
<td></td>
</tr>
<tr>
<td>Forest ecosystem</td>
</tr>
<tr>
<td>Grassland and meadow ecosystem</td>
</tr>
<tr>
<td>Desert ecosystem</td>
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<tr>
<td>Inland wetland and water area ecosystem</td>
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<td>Marine and coastal ecosystem</td>
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<tr>
<td>Total</td>
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Source: Ministry of Foreign Affairs of the People’s Republic of China and United Nations System in China (2013). *China’s progress towards the Millennium Development Goals - 2013 report*, p. 42. (Table 7-2: Different categories of nature reserves across China, 2012 (source: Ministry of Environmental Protection of PRC)).
While ecological resource protection and governance has since been intensified, with the implementation of natural resource protection of forests, expanding the restoration of farmland to forests or grasslands and returning grazing grass to grasslands, promoting the comprehensive control of desertification, soil erosion, and protected vegetation, rivers, lakes and wetlands, and by the 2010s, 2,669 nature reserves of different categories and levels were set up across China, covering a total area of 149.79 million hectares, with its land area accounts for 14.94 percent of national territory (MFA PRC & UNSC, 2013)\(^5\), this may not auger well enough for China’s continued effort to solve her poverty problem. The reality is that poverty in this large country is still very much related to environmental factors. For instance, the concentration of the poor in the western region is related to the fact that the poverty-stricken mountainous areas are concentrated in this particular region. The country’s 64.8 per cent of poverty-stricken mountainous areas (shanqu / 山區) and 56.2 per cent of the hilly (qiuling / 丘陵) areas are found in 10 provinces/zizhiqu/zhixiashi of the western region, occupying 72.9 per cent of the total area of the region, with mountainous areas alone taking up 53.1 per cent. The most mountainous provinces are the three southwest provinces of Sichuan (including Chongqing), Yunnan and Guizhou, with mountainous areas taking up 72 per cent, 80.3 per cent and 80.8 per cent of the respective total areas of the said provinces. If inclusive of the hilly areas, the figure rises to 95 per cent for Yunnan and Guizhou, and 97.5 per cent for Sichuan. (Chen, 2006: 176)\(^6\) Out of the 592 poverty counties, 366 are in the western region, and out of these 366 counties, 258 are remote mountain counties, occupying about 70 per cent of the western mountain counties. Most of these poverty counties are distributed over 6 major areas of fragile environmental habitat, viz. Inner Mongolian plateau’s southeastern border area that suffers from desertification, Huangtu (黄土) plateau’s gully area that suffers from
severe soil erosion, the environmentally deteriorating mountainous areas of the Qin Ba (秦巴) region, the environmentally endangered hilly areas of the karst plateau, the sealed-off mountain and valley areas of the Hengduan (横断) range and the severely cold mountain areas of the western deserts. Being environmentally fragile and sensitive, all these are areas extremely short of resources, with extremely bad environment for human habitation. (ibid.: 177) Thus, coupled with structural economic disadvantages, the western region populated by many of China’s ethnic minorities is trapped in the vicious cycles of developmental nightmare as depicted by Wu (2006) (see Figure 1).

There are three main issues in the western region’s environmental degradation: soil erosion, desertification and grassland deterioration. Major symptoms like the increasingly serious Huanghe (黄河, Yellow River) drought since the 1990s, the severe flood of mid-Yangzi River (扬子江 / Chang Jiang / 长江) in 1998, and the almost yearly spring sandstorm since 2000 all point to the critical stage of environmental degradation of the western region. For instance, when the first sandstorm of 2008 came in March from the Gobi desert, it affected not only up to 110 million people in China’s 300 cities, towns and counties in 5 provinces/zizhiqu, but also adjacent nations including Korea, Japan and Taiwan, straining bilateral relations. Such sandstorms from China are costing, besides human lives, an estimated US$5.82 billion of losses in Korea alone.7

China’s western provinces and zizhiqu are resource-rich regions (Yeoh, 2013: 544, Figure 20.11), as Cook and Murray (2001: 126-127) succinctly summarized:

Three of China’s four largest coal fields are in this area, as well as four of the most important oil fields. Some 140 kinds of mineral ores have been detected along with large reserves of bauxite for processing
into aluminium, and gold. The Qaidam Basin in the middle of Qinghai Province, home to a large Tibetan population, for example, is described by local officials as the province’s ‘treasure bowl’, containing proven oil reserves of 200 million tons, as well as 4.5 billion tons of mostly high-quality coal with low ash and sulphur content. Under the Kunlun and Qilian mountains are large proven caches of iron, manganese, chromium, vanadium, copper, lead, zinc, nickel, tin, molybdenum, antimony, mercury, gold, silver, platinum, beryllium and selenium. The iron reserves are estimated at 2.2 billion tons, and the province claims the country’s largest lead and zinc mines, and is a primary producer of asbestos. The Hui people in the Ningxia Hui Autonomous Region, meanwhile, are sitting on large proven reserves of oil and natural gas, along with mineral resources such as copper, iron, silver, gold, aluminium and nickel. The growing prosperity of Xinjiang is being built on the back of developments in the vast and inhospitable Tarim Basin, where experts reckon there are reserves of up to 100 billion barrels of oil and 8,300 billion cubic metres of natural gas.

The western region’s coal, petroleum, natural gas and a whole range of abundant mineral resources have been forecasted to be adequate to guarantee China’s economic development or exports by 2010s and beyond, and hence the western region – being the major energy source for the whole of China, providing 34 per cent of the nation’s coal, 78 per cent of hydroelectricity and 59 per cent of natural gas (Zhongguo Xibu Jingji Fazhan Baogao 2006, p. 268) – has long poised to become the country’s important reserve base of strategic resources.

Within this context, adding to those problems of environmental degradation mentioned earlier, there is also an alarming degree of wastage and environmental damage in resource exploitation in the
western region, the former being partly due to the fact that the right for exploitation is given by the government via administrative measures, hence does not feature in the enterprises’ cost structure. Furthermore, resource tax by production volume is as low as just 1.18 per cent of resource volume on average. Zero cost of access to resource and extremely low resource tax have thus led to tremendous wastage in exploitation. For instance, for some oil wells in northern Shaanxi, only around 100 kilograms could be extracted from every ton of crude oil reserve, the other more than 800 kilograms being completely wasted. *(ibid.: 272)* Such over-exploitation and wastage, coupled with neglect of environmental protection, have also led to increasingly severe environmental degradation. For instance, in Shaanxi’s Shenmu (神木) county, over-exploitation by the county’s 216 coal enterprises has resulted in a cavity of up to 99.12 km2 in size, leading to 19 cave-ins. Cave-ins, death of plant life due to the drying up of groundwater, and severe water and air pollution are making the mining regions increasingly uninhabitable. It was reported that while caving-ins are making land uncultivable for farmers and causing grazing problems for animal husbandry, and diminishing groundwater is drying up wells which households depend on for drinking water, the mining company is paying villagers a cave-in compensation of just RMB 20 cents for every ton of coal. *(ibid.: 272-273)*

Up to 80 per cent of the country’s total area of soil erosion, 81.43 per cent of the area of desertification and 93.27 per cent of the area of grassland deterioration are in the western region. (Chen, 2006: 19), and of all the provinces/zizhiqu/zhixiashi (not including Chongqing), seven have area of soil erosion exceeding 100000 km². Other than Shanxi, all of these provinces/zizhiqu are in the western region: Sichuan, Inner Mongolia, Shaanxi, Xinjiang and Gansu. Soil erosion in the southwestern region is also serious.
**Figure 5** Vicious Cycles of China’s Ethnic Minority Areas

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Natural environment

- harsh natural conditions
- soil erosion
- desertification
- declining land quality
- poverty and backwardness
- drought
- frequent natural calamities
- declining production

Economic environment

- little investment for development
- transport backwardness
- ineffective communication and information
- backwardness in merchandise economy
- economically weak
- low productivity
- low average income
- lack of self capability
- inadequate attraction for investment
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The desertification of farmland in the western region involves a total area of up to 1.1 million hectares. While this is only 2.24 per cent of the total area of farmland in the western region, it contributes to 43.24 per cent of the national total area of desertification of farmland – that suffering from light- and medium-degree desertification is 87.95 per cent of the national total area and that suffering from high-degree desertification is 12.05 per cent of the national total area. Provinces/zizhiqu in the western region particularly severely hit by desertification are Xinjiang, Qinghai, Gansu and Tibet. (Chen, 2006: 20) With the “Western Regional Development” strategy inevitably aiming at exploiting the rich natural resources (water, nonferrous metals, petroleum, natural gas, etc.) of the western region (Yeoh, 2008a: 15-19), both to promote the region’s economic growth and enhance the living
standard and welfare of the region’s inhabitants, and to meet the energy needs of the country as a whole, in time there could arise an inherent contradiction between habitat construction/environmental protection and the basic aim of *xibu dakaifa* that cannot be ignored. (*ibid.*: 33)

With 40 million hectares of grassland (41.7 per cent of the country’s total land area), China is one of the few countries in the world with the largest grassland. The country’s natural grassland is mainly distributed in the ethnic minority pastures in the western and northern frontiers. The area of pasture grassland totaled up to 3.6 million km², or 37 per cent of the country’s land area.

The western region is the country’s main region of grassland deterioration. The pasture grasslands of Tibet, Gansu and Sichuan have been deteriorating very rapidly over the past decades (*ibid.*: 22-23). Tibet’s area of deterioration was 24.267 million hectares in 1980, with a deterioration rate of 29.6 per cent. The deterioration area rose to 29.285 million hectares by 2000, with a deterioration rate of 35.7 per cent, i.e. an increase of 6 percentage points in 20 years. Gansu’s area of deterioration was 2.351 million hectares in 1980, with a deterioration rate of 26.7 per cent. The deterioration area rose to 4.405 million hectares by 2000, with a deterioration rate of 50.0 per cent, i.e. an increase of 23.3 percentage points in 20 years. Sichuan’s area of deterioration was only 1.333 million hectares in 1980, with a deterioration rate of only 9.8 per cent. However, the deterioration area tripled within 20 years and rose to 4.541 million hectares by 2000, with a rapid rise in deterioration rate to 33.3 per cent. Qinghai’s area of deterioration was 4.398 million hectares in 1980, with a deterioration rate of 12.1 per cent. The deterioration area rose to 20.367 million hectares by 2000, with deterioration rate increased tremendously to 56 per cent, i.e. a shocking increase of 44 percentage points in 20 years (Yeoh, 2008b: 182-183, Figures 8.25-8.26).
Over the years, efforts are being strengthened to carry out measures for grassland protection, such as restoring grazing grass to grasslands and managing grasslands to control the sources of sandstorms (Yeoh, 2008b: 179). Presently China has about 400 million hectares of grassland, or nearly 6 billion $mu^8$ accounting for about 41.7 percent of the national territory, and the yield of fresh forage on natural grasslands across the country amounts to over 1 billion tons (equivalent to around 323 million tons of hay), with livestock grazing capacity reaching around 254.57 million sheep unit (MFA PRC & UNSC, 2013)$^9$.

5. Grassland Degradation in Inner Mongolia

Grassland ecosystem as the largest terrestrial ecosystem of China, not only plays a vital role in maintaining the ecological balance of arid areas in western and northern China, but also represents an indispensable material basis for the survival and development of some of China’s ethnic minorities (MOA PRC, 2010)$^{10}$. Of China’s nearly 6 billion $mu$ of all kinds of natural grassland, Inner Mongolia Autonomous Region contributes 1 billion 320 million $mu$ and occupies the first place in China’s five largest pasture (Hua, 2013; Li, 2010; Ma and En, 2017). Between 1960 and 2000, with the increasing population of the world and the trend of world economic growth and climate change, human demand for ecosystem services are increasing significantly (MOA PRC, 2011a)$^{11}$. As a result, about 60 per cent to 70 per cent of the world’s ecosystem services are unsustainable, posing a serious threat to human sustainable development (Hao, 2016). Therefore, the Chinese government attaches great importance to grassland ecological protection. The 13th conference of the United Nation Convention to Combat Desertification which was held in Inner Mongolia’s Ordos brought participating members to agree
on the implementation of the United Nations 2030 Sustainable Development Agenda for the development of the promotion of zero growth targets for land degradation\textsuperscript{12}. In China, grasslands cover in total about 41.7 per cent of land area, with almost 80 per cent of them existing in arid and semiarid regions\textsuperscript{13}. As noted earlier, during the past several decades, grassland degradation has led to desertification and sandstorms making it a noteworthy environmental problem in northern China and has already reduced its ecosystem productivity and biodiversity when compared to initial condition (Akiyama and Kawamura, 2007).

While the State has introduced grassland ecological compensation policy to restore the vitality of the grassland and grassland ecology has experienced a certain degree of recovery after the implementation of the policy, the process is still slow and some areas have witnessed the phenomenon of stagnation in recovery. It was also found that some herdsmen did not follow the grassland policy requirement after they had already received their subsidy payments (Gao, 2016). As a result, the State cannot guarantee the efficiency of grassland ecosystem restoration while herdsmen are unable to improve the current state of life in the process of policy implementation.

Unfortunately, China is severely struggling with desertification. China’s pastoral areas are under typical arid and semi-arid climate in which the grassland ecosystem is extremely fragile. With the rapid economic development, the market demand for livestock products is also increasing. This phenomenon results in overgrazing in pastoral areas, and damaging the grassland ecosystem. The country’s grasslands have been brutally damaged and their soil eroded by overgrazing of livestock, drought, mining and other types of development.\textsuperscript{14} Coupled with unreasonable mining and blind land reclamation, as well as drought, rainfall reduction and other natural factors, the height and coverage of grassland in Inner Mongolia Autonomous Region has noticeably
decreased, the quantity of fine forage reduced, the productivity of grassland has become insufficient and the carrying capacity of grassland has decreased year by year.

According to existing statistics, more than 90 per cent of China’s grassland is in varying degrees of degradation, and the total grassland degradation area amounts to 2 billion mu (Yan and Sun, 2005). The degradation of grassland ecological service function has caused the decrease of herdsmen’s income that depends on grassland animal husbandry, which seriously threatened the production and life of local farmers and herdsmen and the development of the pastoral economy. The disharmonious relationship between herdsmen and grassland ecological environment will lead to a series of social, economic and ecological problems, and this will have direct impact on Inner Mongolia’s pastoral social stability, economic development and ecological security. Therefore, the improvement of grassland ecological environment and the restoration of grassland productivity are very important to improve the living standard of farmers and herdsmen, the healthy and sustainable development of grassland animal husbandry and the sustainable development of society and economy.

In the context of the increasingly severe grassland degradation, the Chinese government has introduced a series of grassland ecological compensation policies and regulations, such as the “Grassland Law” which was promulgated in 2002. The grasslands of northern China’s Inner Mongolia Autonomous Region are currently one of the epicenters of global desertification, even as the Chinese government is attempting to create policies to overcome degradation of its grasslands (Wei and Zong, 2014). In 2016, in the annual plenary sessions of the proposal of Inner Mongolia, the third point of the proposal shows that in the “Twelfth Five-Year plan”, the grassland ecological subsidy incentive mechanism was implemented, and the system of grazing prohibition and
grassland balance was strictly enforced. In the implementation of the “Thirteen Five-Year plan” of the first year, the Inner Mongolia Autonomous Region’s government would strengthen the ecological protection and construction to speed up the Beijing-Tianjin sandstorm source management, returning farmland to forests and other key projects, as well as to adhere to the implementation of a new round of grassland ecological compensation policy.

On the practical level, the policies of “converting pastures to grassland” (2003) and “grazing subsidies” (2011) constitute the strategic project of China to improve the ecological environmental balance of the grassland and to promote the sustainable development of the economy in the pastoral area (Gong and Chen, 2016). This is not only related to the country’s ecological security but also has great significance in promoting national and regional economic development. Although there are certain degrees of recovery of the grassland in Alxa League, the grassland problem still exists with contradiction between herders and the government. Therefore, how to establish an effective policy which can keep balance between the grassland ecology and the interests of the herdsmen is extremely significant.

On the theoretical level, the researches in the field of grassland policy and grassland ecological compensation mechanism provide a good reference for the follow-up studies. However, most of those researches are focusing on the theory and policy on the macro level, and there are few studies which focus on the effects and evaluation on the micro level and analyse the grassland ecological compensation from the perspective of the herdsmen. The most important is the herdsmen’s ecological protection consciousness and their behavioural response that is directly related to the implementation of the grassland policies and projects and could decide whether they could proceed smoothly.
6. Review of Grassland Ecological Compensation Research

Environmental degradation is the beginning of environmental concerns (Jin, 2016). Arthur C. Pigou (1920) proposed a solution to the problem of externalities and this is known as a “Pigovian tax”. Taxes and subsidies are fairly common instruments to control externalities. Cupures and Piepers (1996) consider that ecological compensation is a subsidy for ecological function and quality destruction in the process of social transformation. These grants are designed to improve the environmental quality of damaged areas or create an environment with the same ecological function and quality. In the area of ecological compensation research, researchers commonly use the concept of “payment for ecological or environmental services” (PES) (Hao, 2016). That is to say, ecological services are regarded as a kind of commodity, and if one wants to use the service, one has to pay a certain fee. Landell, Mills and Porras (2002) consider that ecological benefit compensation refers to any economic stimulus that helps to improve the efficiency of natural resource management. Hardner and Rice (2002) state that the key to ecological compensation is that economic compensation should be given to the groups that have made or sacrificed their interests in the process of protecting ecological services function and cannot get income or benefit through such protection. Wunder (2005) considers that the international concept of ecological compensation is generally to assess the ecological resources to be compensated, clarify the beneficiaries and their income value, and then make compensation for those who sacrifice their interests because of the protection of ecological resources.

On the study of the ecological compensation mechanism of grassland in China, researchers have made a good discussion on the necessity, compensation principle, compensation subject, compensation source, compensation standard and compensation method of grassland ecological compensation which laid an important theoretical foundation.
for the comprehensive establishment of grassland ecological compensation mechanism (Chen and Wang, 2006; Hou, 2008; Hu, 2009; Song and Tang, 2012; Zhang, 2007). Based on the theory of social welfare economy, ecological economy and herders’ psychology and behaviour, Liu, Shang and Long (2010) discuss the ecological compensation mechanism and compensation scheme of grassland and suggest that the ecological compensation mechanism of grassland can make the ecological service of grassland be compensated by ecological consumers in order to eliminate the irrational exploitation and utilization of grassland resources. After comparing the Alxa Mongolian traditional ecological culture and the ecological policies of grassland in recent years, Zhang and Zhang (2010) find that the grassland policy content covers less level, poor continuity, mandatory and other shortcomings. Li and Gongbuzeren (2013) through the study of academic papers published on the “return grazing to grassland project” during 2002 and 2012 found that this project has had a positive impact on the recovery of the grassland ecosystem and a majority of the scholars considered this grassland policy generating high negative impacts on herdsmen livelihoods. There are also some scholars who have discovered that overgrazing as the main reason for grassland degradation is not possible in traditional pastoralism (Li and Huntsinger, 2011). They found that animals would be moved to new places for available forage before the vegetation of this area is notably damaged by grazing. Furthermore, the restriction of livestock number will unavoidably lead to economic loss for herdsmen and this will obstruct the implementation of the grassland ecological policies and programs (Liu, 2017). As a result, the grassland ecological policies and programs do not seem to be effective enough for recovery of grassland ecosystem, especially for those policies that focus on controlling livestock number of grazing.
The “grazing prohibition”, “encirclement transfer” and “return grazing land to grassland” projects promulgated by the State are beneficial to the restoration of grassland ecology. But this will undoubtedly sacrifice the interests of some herders. Although the government has the subsidies for the herders they are not enough to make up for the losses of the herdsmen. Yu and Da (2013) based on the investigation of the livelihood of grassland subsidy policy for pastoralists in 2011 in Alxa of Inner Mongolia show that different ecological and environmental policies have different effects on the livelihood situation of herders. Besides, it has an impact on the production, life and herdsmen’ psychological factor respectively. Although the research proposes there is incompatibility between the national grassland ecological subsidies and the herdsmen of Alxa of Inner Mongolia, the authors have ignored that the herders are rational economic men, and their attitude can also affect the results of the policy. Based on the perspective of the herdsmen, Qi et al. (2016) use the questionnaire and empirical analysis method to find that although some achievements have been made in the implementation of grassland ecological compensation policy, there still exists a big problem. The results of the study reveal that the development and implementation of existing standards lack regional dynamics and put forward that the policy should be in accordance with “cut the livestock number first and then subsidise” rather than “subsidise first and then cut the livestock number”, in order to completely stop the phenomenon of “both overload and achieve subsidy”.

In summary, there are not many researches on the grassland ecological compensation area and while scholars have concentrated on the research of grassland ecological compensation policy and compensation mechanism, few studies have been done on the ecological
compensation effect of grassland. Besides, when it comes to the research on the effect of grassland ecological compensation policy, most of the studies are mainly focusing on the effect on the ecological environment rather than the effect on the stakeholders. This cannot objectively reflect the impact of the policy on the livelihood of farmers and herdsmen.

In the context of the State’s emphasis on grassland ecology and the implementation of grassland ecological compensation policy, this section of our article will focus on the Alxa League Left Banner in Inner Mongolia based on a field research. The research collected the data of the local herdsmen’s income from grazing before and after the forbidden period to analyse the cost and the interests and evaluate the impact on the households, through visiting the herdsmen to understand their ecological protection consciousness and their attitude towards grassland ecological compensation policy. This should bring a comprehensive understanding of the local herdsmen’s policy awareness, understanding, and herdsmen’s willingness to protect the grassland ecology. Besides, the opportunity cost and direct cost of the herdsmen were taken into consideration.

Over-loading of livestock and the inappropriate structure of livestock pose a major challenge to sustainable grassland development in China. Based on game theory, Liu and Yan (2014) put forward the difference between grassland and farmland. They pose the statement that grassland not only provides the basic needs for production and life of herdsmen, but also maintains ecological balance, water conservation, mitigation of climate warming and plays a significant role in protecting soil. On the basis of empirical analysis, Zhao, Cao and Rong (2009), through setting multivariate regression analysis on the income and attributes of livestock husbandry of herdsmen from 2000 to 2005 in Alxa of Inner Mongolia, propose that the government’s grazing project provides a greater development space and maintain a more stable growth
of the local herders’ income and regional economy based on the purpose of protecting grassland and restoring vegetation productivity. Wei and Liu (2015), through establishing static game model between the local government and herders as well as dynamic game model between the central government and herders, obtain the result that the government should take the difference of different grassland regions into consideration in order to ensure the effectiveness of the grassland ecological compensation policy. The limitation is that the research did not analyse the real case of grassland and herders. Based on the grey comprehensive evaluation method and the entropy weight method, Gong and Chen (2016) conducted an empirical research through the construction of comprehensive evaluation index system to analyse the effect of grassland ecological compensation in Inner Mongolia. The analysis shows that after 2007 there exists a steady upward trend that is to say the effect of compensation is significant. However, there are also many shortcomings especially in ecological environment, with factors such as the funds problems, lack of supervision and the incomplete implementation leading to a less stable grassland ecological environment compensation.

From the perspective of economic theory, environmental problems and policies are usually discussed as a problem of allocating responsibility for externalities. According to Pigou (1920), externalities are described as costs and benefits of a good or service, or the transaction spillovers. Devlin and Grafton (1998) describe environmental problem as a combination of the misuse of a natural resource currently being in the public sphere with open access. They consider that the solution is to treat this as a problem of privatisation, and allocate private property rights to the resource so as to achieve the internalization of externalities. In the process of grazing, the herders see the grassland as representation of collective interest. And when they
pursue personal interest, externalities thus brought about to the grassland tend to be ignored due to the self-interest.

The balance theory and non-balance theory have also been employed to study the internal pattern and development model of grassland systems in China (Li, Chen and Liu, 2004). Many case studies were carried out based on the investigation of these two competing models. In the process of the grassland ecological compensation which is implemented by the local government, the balanced relationship between the herders and the local government is dominated by the attitude and the interests of each other. The government as the regulator in the grassland ecological compensation process must thus establish the strategy and policy in diverse area which is suitable for the situation in that place.

7. Related Stakeholders

The herders act as the representation of individual interest; they do not only has relationship with the government but also have relationship between themselves. From a national development perspective, grassland sustainable development has now evolved to include ecological, economic and social dimensions (Reynolds, 2001). Li, Yang and Xu (2004) state that the root of the deterioration of grassland ecosystem of China is the unbalanced game between the pastoral government and non-pastoral government as well as the game between the herders in the pastoral area, and this happens in the background of the implementation of “return grazing land to grassland” policy. However, the research lacks the analysis of the relationship between the government and the herders, while the conflict is actually always happening between the government and the herders.
**Figure 6** Vicious Circle of Grazing and Grassland Degradation

There is another view that one of the fundamental factors for grassland ecological deterioration is the conflict between human basic needs and grasslands instead of the conflict between livestock and grasslands (Liu and Yan, 2014). Overload grazing is the main reason for the degradation of grassland in China (Zhang and Shen, 2008; Zhu and Jiang, 2012; Jin and Hu, 2014). That is to say, the restoration of grassland ecology is determined by the people who use the grassland and who depend on it for living, i.e. the herdsmen. Mongolian herdsmen have been observed to be overdependent on livestock raising (Gao, 2016). So far, they believe that only increasing the number of livestock...
can increase their income. This means that their choice is limited when it comes to finding new and alternative sources of livelihood. Therefore, the phenomenon of grassland desertification has worsened and the herdsman’s life has also been plunged into a vicious circle as shown in Figure 6.

For herdsman, it is already difficult to increase their income and they will try to do so through increasing the amount of livestock. However, overgrazing is leading to worsening condition of the grassland and therefore the stock output will decrease. At last the income of herdsman still cannot increase. Based on the analysis of the herders’ grassland ecological concepts, some scholars find that the ecological concept of Mongolian herdsman has a direct impact on the development of grassland (Wadley, 2006; Zhao, 2007; Li, Chen and Liu, 2004). Therefore, the herdsman should be taken into the first consideration in the ecological policy design and construction projects (Zhang, Long, Deng and Zhang, 2009).

8. Alxa Left Banner of Inner Mongolia Autonomous Region
Situated on China’s northern frontier, the Inner Mongolia Autonomous Region stretches more than 2,400 km from east to west and 1,700 km from north to south. There are 102 banners and counties (cities and districts) in Inner Mongolia.15

Alxa League is the largest among Inner Mongolia’s 12 leagues. It is located at the western end of Inner Mongolia, with the geographical coordinates of longitude 97°10’～106°52’ , latitude 37°21’～42°47’, and its border line is of 733.48 km long. The league borders the republic of Mongolia to the north, Inner Mongolia’s prefecture-level city (formerly league) of Bayannur to the northeast, prefecture-level cities of Wuhai and Ordos to the east, Ningxia Hui Autonomous Region to the southeast,
Figure 7 Inner Mongolia and Its 102 Counties

and Gansu province to the south and west. There are 3 banners of Alxa League, i.e. Ejin Banner, Alxa Right Banner and Alxa Left Banner. Alxa League’s capital is the town of Bayanhhot in the Alxa Left Banner.

Alxa Left Banner administers 9 towns, 6 sumu\textsuperscript{16}. There are 14 ethnic groups in Alxa Left Banner, such as Mongol, Han, Hui, Manchu, Korean, Daur and so on. Ethnic minority population accounts for 28.3 per cent. Alxa Left Banner is a border banner with Mongol as the main body and the Han nationality as the majority component. The local terrain is the southeast high and northwest low; the average elevation of Alxa Left Banner is 800 meters to 1500 meters, while the highest elevation is 3556 meters. The whole banner is 495 kilometers long, and
**Figure 8** Alxa League of Inner Mongolia

Source: Chk2011 (from Wikimedia Commons, the free media repository) <https://commons.wikimedia.org/wiki/Commons:Reusing_content_outside_Wiki media>, Creative Commons Attribution-Share Alike 4.0 International <https://commons.wikimedia.org/wiki/File:Administrative_Division_Alxa.png>.

**Table 3** Three Banners of Alxa League

<table>
<thead>
<tr>
<th>Name</th>
<th>Population (year)</th>
<th>Area (km²)</th>
<th>Density (/km²)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alxa Left Banner</td>
<td>143,300 (2014)</td>
<td>80,412</td>
<td>2.15</td>
</tr>
<tr>
<td>Alxa Right Banner</td>
<td>26,840 (2010)</td>
<td>72,556</td>
<td>0.35</td>
</tr>
<tr>
<td>Ejin Banner</td>
<td>26,159 (2015)</td>
<td>114,606</td>
<td>0.28</td>
</tr>
</tbody>
</table>
the width from east to west is 214 kilometers. The area is 80,412 square kilometers and the total population is about 150,000. Available grassland is 46,000 square kilometres. Desert covers an area of 34,000 square kilometers. The mainly desert is Tengger and Ulan Buh Desert\textsuperscript{17}.

9. Grassland Utilization Status in Alxa League

Before the 1950s and 1960s, human beings operated grassland of Alxa League in nomadic form (Nasenwuritu, 2012). The grassland ecological damage was very small and the ecological environment was sustainable through damage alleviation and recovery. Since the 1960s, in addition to natural factors, due to the irrational management of the grasslands, grassland ecological environment has deteriorated rapidly.

The first main cause is population growth. Population growth in Alxa League in the 1960s and 1970s (Ma and Zhong, 2007) had exerted a certain pressure on the grassland ecology. The second reason is the “grassland household contract system”. In the 1980s, the rural “grassland household contract system” was moved to the pastoral area, and as a result an original family had turned into several families, with the grassland that had been used as common property for thousands of years being distributed to individual households (Li and Huntsinger, 2011), thus further deepening the pressure on the grasslands. The third reason is dividing pastures. Since the 1990s, the grassland has been divided into several small areas and fixed to every household, and nomadism disappeared. The last one is blind encouragement. In the mid-1980s to mid-1990s, Alxa League had implemented the policy of encouraging herdsmen to “get rich”, and in order to achieve the goal of “getting rich” the herdsmen had increased the number of livestock and carried on the predatory operation to the grassland. The outcome is that grassland with low bearing capacity has been seriously overloaded.
The common effects of the above operating measures are characterized by “overloading grazing” and “overgrazing”. The ultimate harm is grassland deterioration, degradation and desertification. As in the 1970s, most of the pastures in Alxa League had more than 50 per cent of pasture coverage. For example, the vegetation coverage in Jilantai\textsuperscript{18} area in the 1970s, 1980s, 1990s, and year 2000 was 45\%, 35\%, 30\% and 20\% respectively. It can be seen that there is still a serious overloading grazing phenomenon in the Alxa League grassland, and the problem of grassland degradation still exists. Hence, the Alxa League is represents a good, typical research site to analyse the livelihood of the local herders and the restoration of the grasslands under the existing grassland policy.

10. Overview of Alxa Left Banner Grassland Policies

Based on “Alxa Left Banner grassland ecological protection subsidy incentive mechanism implementation”, there are two projects in China’s grassland ecological compensation – one is from 2003 to implement the “converting pastures to grassland project”, and the other is from 2011 to implement the grassland ecological protection subsidy mechanism. The census of natural grassland in Inner Mongolia in 2010 found that in Alxa Left Banner the total area of grassland in accordance with the grassland compensation system is 71.1093 million \textit{mu} in 2011, with the grazing prohibition area covering 57.6784 million \textit{mu}, and grass and livestock balance area covering 13.4309 million \textit{mu}. These cover the whole animal husbandry gacha and semi-agricultural and semi-animal husbandry gacha of Alxa Left Banner. The supplementary award standard is based on the net income per capita of farmers and herdsmen and this will remain unchanged for five years in principle. Herdsmen
who are included in the scope of the grassland compensation award system can enjoy ban-on-grazing subsidies or livestock balance reward, subsidies for fine varieties of pasture and comprehensive subsidies for herdsman’s means of production.

Based on fairness and rationality considerations, because of the difference between the southern and northern grassland\(^\text{19}\) and the quality of pastures owned by herdsman being also very different, the subsidy mechanism subsidies calculated by human units are given to households, and people who enjoy the award mechanism are reviewed once a year and according to age to enjoy different award criteria\(^\text{20}\).

### 10.1. Standard of Subsidy in Prohibition Grazing Areas\(^\text{21}\)

For people who meet the age range of the plan (male from 16 to 60 years old; female from 16 to 55 years old), each person is qualified for a subsidy of RMB 2,000, while

a) per person subsidy is RMB 12,000 per year for complete prohibition of grazing, owning grassland, and engaging in pure animal husbandry production of herdsman;

b) per person subsidy is RMB 3,500 per year for owning grassland, and also having farmland. Grasslands outside the area of ecological non-commercial forests are all included in the scope of grazing prohibition. For herdsman who have enjoyed the non-commercial forest policy, subsidy standards adopt the compensation system in order to achieve the standard of subsidy same as for other herdsman who are in the grazing prohibition area.

As a result of herdsman’s strong resistance to the grassland ecological compensation policy (Zhang, 2015), since 2013 the government of Alxa Left Banner has made the following policy adjustments:
a) per person subsidy of RMB 13,000 per year for complete prohibition of grazing;
b) per person subsidy of RMB 10,000 per year for incomplete prohibition of grazing, allowing keeping one sheep per 120 mu.

From 2013, the subsidy of grassland-livestock balance has been adjusted to RMB 4,000 per year per person. In addition, in order to accommodate the eating habits and living needs of the herders who are in the grazing prohibition area, in the single-form grazing prohibition area, households are allowed to keep 1 to 30 sheep in their own pasture for their living needs.

10.2. Cost Analysis of Local Herdsman under Grassland Ecological Compensation Policy

After the implementation of the grassland ecological compensation policy, the herdsmen cannot carry out grazing in the grazing forbidden area or during the grazing forbidden period. Hence, in order to make a reasonable judgment of the herdsman’s cost due to their participation in the grassland restoration project, the analysis of the herdsmen’s economic loss in the process of grassland ecological compensation project must be taken into consideration. Through policy implementation and participation of herders, the cost of herdsmen in this process is generally made up of direct costs and opportunity costs (Wei and Zong, 2014).

10.2.1. The direct costs

Due to the particularity of grassland ecosystem in the pastoral area of Alxa Left Banner in Inner Mongolia, the local herdsmen are required to pay extra money to afford the cost of pasture feed in the grazing prohibition period that also includes the cost of purchasing farm
implements, fences, stabling facilities, drilling wells and so on (Fan, Xu and Duan, 2012). Besides, labor costs should also be included.

In addition to that, the implementation of the grassland ecological compensation project has led to the phenomenon of unemployment of some herders to a certain extent. With lower educational level, grazing is the only way to bring economic benefits to meet the daily expenses of herdsman families. However, after limiting the number of livestock, some of the female family members will be in the “unemployed” status during the grazing prohibition period, and this has severely reduced the direct income of grazing families. For the male, during the grazing prohibition period, they have to re-run other businesses to bring benefits to their family and this requires more new capital investment. All the above are the direct costs of herdsmen in participating in the grassland restoration project.

10.2.2. The opportunity costs

For herdsmen, before the grazing forbidden period, the grassland not only can provide grazing livestock environment but also can be used to be rented out to obtain additional revenue. When the grazing prohibition policy is implemented, the interests of the herdsmen will be damaged to a certain extent. At the same time, the households need to reduce or restrict the number of grazing livestock. Therefore, the households will lose the overload livestock income and the income which is relying on the overload livestock husbandry, such as income from the sale of livestock and livestock products (mutton, beef, sheep skin, cowhide, cow and wool products, dairy products).

However, the government has never taken into account this part of the opportunity cost of herdsmen in the process of grassland grazing subsidies. Even if households will gain relative income through other business paths, this is undoubtedly increasing the burden of herdsmen.
Then, with the shift of the country’s focus of work and the imperfection of local government supervision, for those who are in the grazing proscriptive area and facing the reduction of livestock, especially for the economically disadvantaged herdsmen, in the absence of other means to generate income for the daily expenses of the family, they will continue to raise livestock over the restricted number in the grazing proscriptive area.

10.3. Alxa Left Banner Field Survey: Data Sources

The intended population of our field survey is a small population of pastoralists in northwestern Inner Mongolia’s Alxa Left Banner. The data are primary, which are collected from questionnaire survey and field investigation conducted by Suruna in her native Alxa League for her MPA research paper that Emile supervised. The sample size for this study is 152 participants out of the nearly 50,000 population who are engaged in agriculture and animal husbandry activities in left banner of Alxa in Inner Mongolia, and the investigation sites are located in three gacha of Alxa Left Banner. Based on the reference of Conte’s (2015) questionnaire and the survey of Hao Ting (2016), this research’s variables would address herders’ income and cost before the “grazing prohibition” project and their gains and losses after the grassland ecological compensation process.

The content of the questionnaire can be subdivided into four parts (Table 4). The first part is about the basic information of herdsmen, including the respondent’s age, gender, family size, labor force participation and so on. The second part is about the change of income and expenditure ratio of herdsmen before and after the implementation of grassland ecological compensation policy, and its impact on the family loans. The third part is about the herdsmen’s perceptions about their responsibility and attitude to effectively manage grassland, and their
### Table 4 Research Variables

<table>
<thead>
<tr>
<th>Category</th>
<th>Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic information of pastoral families</td>
<td>Gender; Age; Ethnic group; Family size; Labor force participation; Education level</td>
</tr>
</tbody>
</table>
| Herdsmen’s expenditure and income distribution and family loan situation | **Before the grazing ban**: Source of income; Expenditure allocation (Animal husbandry production purchase, Education, Health care, Transportation, Housing, Daily expenses, Others).  
**After the grazing ban**: Source of income; Expenditure allocation (Animal husbandry production purchase, Education, Health care, Transportation, Housing, Daily expenses, Others).  
**Family loan situation**: Does the family have a loan?  
After grazing ban, the change of the amount of family loans? (Increased, Decreased, No change)  
The loan is mainly used for ... (Animal husbandry needs, Housing, Transportation, Investment needs for business, Education, Others)  
The amount of the loan ...  
Do the loan meets family needs?                                                                |
| Herdsmen’s awareness of grassland ecological compensation and their attitude toward grassland ecological protection | The awareness of grassland ecological compensation project.  
Did the government propagandise grassland protection policy and projects?  
How do you know the specific content of grassland ecological compensation?  
Who do you think is the main part of grassland ecosystem protection?  
Causes of pasture degradation?  
Are you willing to leave the pasture area after grazing ban?  
After grazing ban, the main difficulty of settling in the city is ...  
Do you hope your children to continue grazing?  
What do you think the ecological status of your pastoral area will be in the future?                                                                 |
| Herdsmen’s comprehensive evaluation of grassland ecology compensation project | What do you think of the standards of grassland ecological compensation?  
Are the compensation payments timely?  
The compensation payments are uses for ... (Buying livestock, Buying forage, Entertainment, Education, Health care, Daily expenses, Others )  
What is the impact of compensation on your family life?  
Are you satisfied with the grassland ecological compensation standard?  
Are you optimistic about the grassland ecological compensation project?  
Should the grassland ecological compensation policy continue?  
What is the impact of grassland policy on the ecological environment?  
Is the amount of grazing approved by the government reasonable?  
Is there any phenomenon of herdsmen not following the grassland policy requirement after they have already received their subsidy payments? |
understanding of grassland ecological compensation. The fourth part is about the comprehensive evaluation of grassland ecology compensation by herdsmen, including the evaluation of the policy itself and the evaluation of the impact of policies on ecological benefits.

10.4. Sample Characteristics

As can be seen in Table 5, the gender proportion of the respondents is balanced, with 56.6 per cent male and 43.4 per cent female. The largest proportion (55.9%) of respondents are 44 years old or below while those between 45 years old and 59 years old take up the second largest proportion (42.8%).

Table 5 Background of Respondents

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>86</td>
<td>56.6</td>
</tr>
<tr>
<td>Female</td>
<td>66</td>
<td>43.4</td>
</tr>
<tr>
<td>Age</td>
<td></td>
<td></td>
</tr>
<tr>
<td>44 and below</td>
<td>85</td>
<td>55.9</td>
</tr>
<tr>
<td>45-59</td>
<td>65</td>
<td>42.8</td>
</tr>
<tr>
<td>60 and above</td>
<td>2</td>
<td>1.3</td>
</tr>
<tr>
<td>Ethnic group</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Han</td>
<td>23</td>
<td>15.1</td>
</tr>
<tr>
<td>Mongol</td>
<td>126</td>
<td>82.9</td>
</tr>
<tr>
<td>Other ethnic groups</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Education level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No education</td>
<td>5</td>
<td>3.3</td>
</tr>
<tr>
<td>With education but did not graduate</td>
<td>4</td>
<td>2.6</td>
</tr>
<tr>
<td>Primary school</td>
<td>24</td>
<td>15.8</td>
</tr>
<tr>
<td>Junior high school</td>
<td>53</td>
<td>34.9</td>
</tr>
<tr>
<td>High school</td>
<td>42</td>
<td>27.6</td>
</tr>
<tr>
<td>University</td>
<td>24</td>
<td>15.8</td>
</tr>
</tbody>
</table>
**Figure 9** Family Size of Respondents

![Bar chart showing family size distribution of respondents.](image)

**Figure 10** Labor Force Participation of Respondents

![Bar chart showing labor force participation of respondents.](image)
In this survey, the majority of the respondents are from Mongol ethnic group, taking up 82.9 per cent. The majority of the respondents have education at junior high school level, accounting for 34.9 per cent. Among the respondents surveyed, most families have three family members, taking up the largest proportion (44.1%) while only a small part of the respondents are living alone. The largest proportion (49%) among the respondents have two family members in the labour force.

11. Benefit Analysis of Grassland Ecological Compensation Policy
Through comparing the data of herders’ income, expenditure ratio and family loans before and after the implementation of the grassland ecological compensation policy, this research analyses if the current grassland ecological compensation policy could enhance the living standards of herdsmen and improve their quality of life.

11.1. Analysis of Changes in Income and Expenditure before and after the Implementation of Grassland Ecological Compensation Policy
Figure 11 (a) shows that before the implementation of grassland ecological compensation policy, almost all of the herders’ income (91%) is from grazing. The data show that the family income of the herdsmen mainly depends on the income of grazing. Figure 11 (b) shows that after the implementation of grassland ecological compensation policy about 60 per cent of the herdsmen’s income mainly comes from the grassland compensation while 40 per cent of herdsmen depend on other ways to earn money, such as doing small business and working for others. Figure 11 (c) shows that only 43 per cent of herdsmen have other ways to get income after the implementation of grassland ecological compensation.
policy. This means that there is still a large proportion of herdsmen who do not have access or ability to earn money without grazing.

**Figure 11 (a) Source of Income before Grassland Ecological Compensation Policy**

**Figure 11 (b) Source of Income after under Grassland Ecological Compensation Policy**
Figure 11 (c) Other Ways Are Available to Get Income after Implementation of Grassland Ecological Compensation Policy

Figure 11 (d) Comparison of Herders’ Allocation of Expenses
As can be seen in Figure 11 (d), before the implementation of grassland ecological compensation policy, the purchase of livestock production materials represents one of the biggest proportions of most families’ allocation of expenses except the daily expenses. After the implementation of the grassland ecological compensation policy, it is obvious that the daily expenses, medical treatment, transportation and housing expenses are increased. Besides, the purchase of livestock production materials has decreased dramatically. During this period of time, the lifestyle and source of income of the local herdsmen have changed a lot, with the expenses on livestock production materials becoming less and less and the expenses on other aspects getting higher and higher. The local herdsmen have to move to the cities and find new ways to get income, and the cost of living in the cities is much higher than living in the pastoral area.

11.2. Analysis of Changes in Herdsmen’s Family Loans

As we can see from Figure 12 (a) and Figure 12 (b), there are about 86 per cent of herdsmen’s families having loans and after grazing was prohibited 75 per cent of the families’ amount of loan is increased.

Figure 12 (c) shows that almost half of the investigated families’ loans exceed RMB 100,000 and there are only 23.68 per cent of the households’ loan below RMB 50,000. It can observed in Figure 12 (d) that the biggest part of the herdsmen’s use of the loan is for housing. It is obvious that after the grazing ban the herdsmen generally have family loans and the amount of loans is high.
Figure 12 (a) Current Family Loans

Figure 12 (b) Changes in Family Loans After Grazing Was Prohibited
Figure 12 (c) Family Loan Amount

Figure 12 (d) Family Loan Use
11.3. Comprehensive Benefit Analysis of Grassland Ecological Compensation Policy

There are three main parts in this section on the comprehensive benefit analysis of grassland ecological compensation policy. The first part is the ecological benefit analysis, wherein we trace the herdsmen’s understanding of grassland ecological compensation and their attitude towards grassland ecological protection that could reflect if the current grassland policy is beneficial for the recovery of the grassland ecosystem. The second part is an economic benefit analysis, from the perspective of changes of herdsmen’s income and expenditure, to analyse if the grassland compensation standard could meet the needs of the local herdsmen as well as improve their life quality and whether the current grassland policy has reached the expected goal of balancing the grassland ecology and herdsmen’s life. The third part is a social benefit analysis that through the evaluation of the herders’ attitude towards and hope for the grassland ecology, their children’s life and their lifestyle explores the influences of the grassland policy towards the whole society.

11.3.1. Ecological benefit analysis of grassland ecological compensation policy

Figure 13 shows that most of the respondents only know a little about the grassland ecological compensation policy and there are only 18 per cent of respondents who know well about the grassland policy and projects. Figure 14 reveals that about 56 per cent of respondents feel that the government does propagandize grassland ecological compensation policy and projects but only rarely, while about 20 per cent of respondents reflect that the government has not propagandized the
**Figure 13** Awareness of Grassland Ecological Compensation Project

![Bar chart showing understanding of grassland ecological compensation policy with percentages: 18.42% know well, 39.47% know a little, 28.29% do not know much, and 13.82% do not know.]

**Figure 14** Does the Government Propagandize Grassland Ecological Compensation Policy?

![Bar chart showing responses to government propaganda: 23.68% yes, 55.92% yes, but rarely, and 20.39% no.]
**Figure 15** Way of Knowing Specific Content Of Grassland Ecological Compensation

![Graph showing the way of knowing grassland ecological compensation policy](image)

**Figure 16** Causes of Pasture Degradation

![Bar chart showing causes of grassland degradation](image)
related policy. On the way of the herdsmen getting to know about the grassland ecological compensation specific content Figure 15 shows that 64 per cent of the respondents know the policy through their township leadership, while there are few people who get to know the policy from TV, Internet and other media.

On causes of pasture degradation, Figure 16 shows most respondents think that that climate impact is the main reason, while there are only about 16 per cent of respondents who think grassland degradation is caused by overload grazing. This result is similar to the finding of Li and Huntsinger (2011).

Regarding who should be playing the main role in grassland ecosystem protection, results in Table 6 show that the education level significantly influences the respondents’ judgment in this regard. Figure 17 shows that the respondents with low education level commonly think that the government should play the vital role in protecting the grassland ecosystem while the respondents with high education level think that the herdsmen or both the herdsmen and the government have important role to play in protecting the grassland. In particular, the respondents who have university education think that the herdsmen are much important in the process of the recovery of grassland ecosystem.

**Table 6 Ecological Benefit – Chi-square Analysis (P-value)**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Causes of grassland degradation</th>
<th>Main part of grassland ecosystem protection</th>
<th>Ecological status of pastoral area in the future</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>0.452</td>
<td>0.770</td>
<td>0.454</td>
</tr>
<tr>
<td>Age</td>
<td>0.266</td>
<td>0.388</td>
<td>0.156</td>
</tr>
<tr>
<td>Ethnic group</td>
<td>0.225</td>
<td>0.089</td>
<td>0.019</td>
</tr>
<tr>
<td>Education level</td>
<td>0.171</td>
<td>0.023</td>
<td>0.400</td>
</tr>
</tbody>
</table>
**Figure 17** Main Part of Grassland Ecosystem Protection

**Figure 18** Ecological Status of Pastoral Area in the Future
Results in Table 6 reveals that ethnic group is the only factor significantly influencing the respondents to predict the ecological status of their pastoral area will be in the future. Figure 18 shows that there are about 83 per cent of the Han respondents thinking that the ecological status of the pastoral area will become better in the future while only about 45 per cent of the Mongol respondents have the same thinking. In fact, about 30 per cent of Mongol respondents think that the status of the pastoral area will become worse in the future, much higher than the proportion of Mongol respondents who think that there will be no change in the status of the pastoral area in the future.

Therefore, there is indeed a difference in attitude between the Han and Mongol ethnic groups towards the grassland ecological compensation policy (while the results of other ethnic groups are not significant). The main difference between the results of the Mongol and Han respondents is that they live in different pastoral areas with a difference in ecological status. Hence it is important for the local government to investigate the herdsmen in different pastoral areas and encourage them to participate in the grassland project.

About the future prospect of the grassland ecological compensation policy, Figure 19 shows that almost half of the respondents thought that the policy should continue because it is good for the recovery of grassland; however, about 18 per cent of the respondents thought that the policy is difficult to continue because the changes in life style will bring high cost to the herdsmen.

In conclusion, from the ecological analysis we can know that not all of the local herdsmen could know the grassland ecological compensation well, and this may has an influence on their attitude towards the policy and the projects. If the local herdsmen do not fully understand the policy, rational judgments are hard to come by, and they will find it difficult to actively cooperate within the implementation of grassland policies and
projects. However, the grassland ecological compensation policy is good for the recovery of the grassland ecosystem and most of the herdsmen are optimistic about the future development of grassland ecology although the recovery speed is not very significant. However, the government still seems to lack good propaganda of the related policy and projects and the various ethnic groups’ understanding ability regarding the grassland ecological compensation policy is also not well recognised by the government.

11.3.2. Economic benefit analysis of grassland ecological compensation policy

Figure 20 shows that the majority of the respondents think that the standards of grassland ecological compensation are low and
Figure 20 Standards of Grassland Ecological Compensation

Figure 21 Are Compensation Payments Timely?
as revealed in Figure 21 only less the one per cent (0.66%) of respondents hold the view that the compensation payments are very timely. In terms of usage, in Figure 22 we can observe that most respondents state that they spend the compensation payments mainly on daily expenses while those who cite spending on entertainment only accounts for about 8 per cent. Hence, the current compensation payments standards do not seem to be effective in improving the quality of life of the herdsmen and in fact most of them are facing problem in trying to save the compensation payments for housing and education of their children.

**Figure 22** Usage of Compensation Payments

![Bar Chart](image-url)
Table 7 Economic Benefit – Chi-square Analysis (P-value)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Are you willing to leave the pasture area after grazing ban?</th>
<th>Facing main difficulty of settling in the city after grazing ban?</th>
<th>Impact of compensation on your family life?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>0.633</td>
<td>0.394</td>
<td>0.606</td>
</tr>
<tr>
<td>Age</td>
<td>0.461</td>
<td>0.024</td>
<td>0.293</td>
</tr>
<tr>
<td>Ethnic group</td>
<td>0.020</td>
<td>0.540</td>
<td>0.160</td>
</tr>
<tr>
<td>Education level</td>
<td>0.074</td>
<td>0.038</td>
<td>0.084</td>
</tr>
</tbody>
</table>

Results in Table 7 reveal that the variable of ethnic group can significantly influence the respondents’ willingness to leave the pasture area after the grazing ban. While Figure 23 shows that regardless of which ethnic group, most of the respondents are willing to stay in pasture area after grazing ban, the percentage of the Mongol respondents who are willing to stay in pasture area is notably the highest (81%) among all.

Table 7 also reveals that both the age and education level can significantly influence the factors which affect the respondents settling in the city. Figure 24 shows the relationship between the age of the respondents and the factors affecting settling in the city. For people who are 44 years old and below, the main difficulty of settling in the city is the problem of re-employment. For people who are between 45 and 59 years old, the main difficulties of settling in the city are problem of re-employment and inability to afford housing. For people who are 60 years old and above, all of them think that the main difficulty of settling in the city is the inability to afford housing. It is obvious that people of different generations have different needs and face different difficulties and the grassland ecological compensation and the related projects do not cover different needs of different age groups.
Figure 23 Willingness to Leave Pasture Area after Grazing Ban

Figure 24 Main Difficulty of Settling in the City after Grazing Ban
Figure 25 Impact of Compensation on Family Life

Figure 25 shows the impact of compensation on the respondents’ family life. The majority of the respondents cite general impact on their family life. During the interview of some herdsmen’s families, some of the herdsmen reflect that because the amount of the compensation is low for the whole family, they do not think that the compensation has a significant influence on their life. Another group of herdsmen reflect that after the grazing ban, they do not have access to other ways for earning money. Therefore, the compensation is extremely important for their family and all of their expenditures are from the compensation. This is the reason why there has been no significant result in the question of the impact of compensation on herders’ family life.

In conclusion, from the economic benefit analysis we see that although the grassland ecological compensation policy does not have negative impact on the herdsmen’s life, the compensation payment standards have failed to improve the herdsmen’s life quality and the compensation payments are sometime not timely enough. Because of the grazing ban and grassland ecological projects, the life style of most of the local herdsmen’ family and their way of earning money have changed. The local herdsmen have to find new way to earn money and
some of them have to move to the city. The majority of the respondents prefer to live in pasture area instead of living in urban area because of the re-employment and housing problems, and there-employment problem is in fact linked to the herdsmen’s lack of skills training as well as the re-employment policy. Therefore, how to improve the life quality of the herdsmen after the grazing ban and at the same time guarantee the implementation of the policy should be taken into consideration.

11.3.3. Social benefit analysis of grassland ecological compensation policy

Regarding the herder society’s view in general about government action towards their grazing activity, Figure 26 shows that about 63 per cent of the respondents think that the amount of grazing approved by the government is not reasonable, while Figure 27 reveals that there still exists the phenomenon of herdsmen not following the grassland policy, such as overgrazing after the grazing ban.

**Figure 26** Whether Amount of Grazing Approved by Government Is Reasonable

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**Figure 27** Phenomenon of Herdsmen Not Following Grassland Policy

**Figure 28** Hope for Children to Continue Grazing
Regarding the herder society’s opinion in general about the future of grazing, Figure 28 shows that about 55 per cent of the respondents do hope that their children would continue grazing while about 30 per cent do not hope so. In a way the nomadic culture and education level do act to restrict the mind of the herdsmen and some of them never do think much about their children’s future and possible alternative way of life.

The social benefit analysis largely shows that as a herder is more willing to live in pastoral areas, and most herdsmen still hope that their future generations can continue grazing. This means that the grassland ecological compensation policy, while having wide coverage, still lacks relevance. When it comes to specific areas, due to the different conditions in different regions and pastoral areas, the policy may not have significant ecological and economic benefits. The State needs to invest great effort in the integration of towns and cities in pastoral areas. It is not only necessary to solve the problem of herdsmen’s relocation; the most important issue is to make long-term plans and provide policy support for the pastoralists in terms of their economic sources.

12. Conclusion

As poverty and inequality constitute one of the most, if not the most, critical challenges China faces in her next phase of politico-socioeconomic development, and poverty in China has the properties of being concentrated in the western region and in the ethnic minority areas (Figure 29), ethnoregionalization of poverty inevitably ensues, presenting China not only with economic challenges but also long-term sociopolitical security risks. Furthermore, if poverty could be seen as a multiconcept construct, it is pertinent that all crucial dimensions – regional, ethnic, urban vs rural, environmental, resource exploitation,
literacy, health care, employment, industrial structure and economic openness, etc. (Yeoh, 2008a: 23-27; Yeoh, 2008b) – of this problem would have to be given due emphasis in any policy response.

**Figure 29** China’s Regional Poverty Alleviation and Economic Development Policy Framework

Source: Adapted from Wu (2006: 111), Table 4-8 for Sichuan-Yunnan-Tibet ethnic regional economic development.

Focusing particularly on the issue of government policy response to the problem of grassland degradation as a representative case of the above problem issue, through the analysis conducted by Suruna on data collected from her native Alxa League for her MPA research paper that Emile supervised on the effect of the grassland ecological compensation with the case of Alxa Left Banner from the perspectives of herdsmen’s attitude and income, we see that the quality of life of pastoralists has improved since the beginning of fixing of farm output quotas for each
household. However, after the grazing ban, the cost of living for pastoralists has also increased. There are both the direct costs and the opportunity costs in herdsmen’s life after the grazing ban. The majority of the herders’ income is from grazing before the grazing ban and they have to depend on the grassland ecological compensation payments after the grazing ban as well as look for other way for earning money. Most of the herdsmen’s families have incurred loans and their amount of loans has also increased after the grazing ban.

The answers to the question of what are the effects of the current grassland ecological compensation policy on herdsmen are as follows:
a) Herdsmen’s cost of living has increased despite improved quality of life.
b) Herdsmen’s loan issue is obvious and housing purchase occupies the main flow of funds. Large percentage of herdsmen have difficulty in living in urban area because of the problems of housing purchase and re-employment, especially for the old.
c) Herdsmen need opportunity and policy support to deal with the re-employment problem.

Based on the our analysis from ecological, economic and social perspectives, we can see that from the ecological aspect, current grassland ecological compensation policy is good for the recovery of the grassland ecosystem and most of the herdsmen are optimistic about the future development of the grassland ecosystem. From the economic aspect, while the current grassland ecological compensation policy has not been observed to have negative impact on the herdsmen’s life, it is noted that the compensation payments have failed to improve the herdsmen’s life quality and most of the herdsmen surveyed are not willing to live in urban areas. From the social aspect, our analysis shows that while the current grassland ecological compensation policy has wide
coverage, it still lacks relevance due to the difference conditions of different pastoral areas.

The answers to the question of whether the current grassland ecological compensation is efficient enough are as follows:

a) The current grassland ecological policy is good for the recovery of the grassland ecosystem but the recovery is slow.
b) The current policy has wide coverage but lacks relevance due to the different conditions in different regions and pastoral areas.
c) There is a lack of government explanation and propaganda and other ways for herdsmen to know about the current grassland policy. Pastoralists have low awareness of the grassland ecological compensation policy, which will affect the herdsmen’s attitude towards participation and cause conflicts between the government and the herdsmen.
d) The compensation payments are not timely enough and cannot meet the needs of the herdsmen’s family life.
e) There is a need for long-term plans and provision of policy support for the pastoralists in terms of their economic sources.

Notes

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1. luan (乱).
2. “Provinces”, “ziziqu” (自治区) and “zhixiaishi” (直辖市) in China refer to the country’s 31 sheng / 省 (i.e. provinces of Anhui / 安徽, Fujian / 福建, Gansu / 甘肃, Guangdong / 广东, Guizhou / 贵州, Hainan / 海南, Hebei / 河北, Heilongjiang / 黑龙江, Henan / 河南, Hubei / 湖北, Hunan / 湖南, Jiangsu / 江苏, Jiangxi / 江西, Jilin / 吉林, Liaoning / 辽宁, Qinghai / 青海, Shaanxi / 陕西, Shandong / 山东, Shanxi / 山西, Sichuan / 四川, Yunnan / 云南 and Zhejiang / 浙江), ziziqu (i.e. “autonomous regions” – each a first-level administrative subdivision having its own local government, and a minority entity that has a higher population of a particular minority ethnic group – of Guangxi / 广西 of the Zhuang, Nei Monggol/Inner Mongolia / 内蒙古 of the Mongols, Ningxia / 宁夏 of the Hui, Xizang/Tibet / 西藏 of the Tibetans and Xinjiang / 新疆 of the Uyghurs) and zhixiaishi (municipality directly ruled by the central government – Beijing / 北京, Chongqing / 重慶, Shanghai / 上海 and Tianjin / 天津).
3. As the applicant of poverty relief fund and the last user of the funds, the county (xian / 县) is the most important and basic unit in the work of poverty alleviation (Chai et al., 2004: 16).
4. “China should no longer have poor counties within 15 years: top poverty alleviation official” (reported by Nectar Gan), South China Morning Post (Hong Kong), 13 March 2015. <https://www.scmp.com/news/china/article/1736661/china-should-no-longer-have-poor-counties-within-15-years-top-
poverty>
8. “Mu” (亩) is a Chinese land area unit. 1 mu = 666.67 m².
12. *People’s Daily*, UNCCD; the 13th conference of UN Convention to Combat Desertification. Inner Mongolia, Ordos. 2017-09-16
14. *China’s grasslands: past and future*. Chinadialogue special series (the bilingual source of high-quality news, analysis and discussion on all environmental issues, with a special focus on China). <https://www.chinadialogue.net/>
16. In Inner Mongolia, the terminology for administrative units differs from other parts of China. Prefectures (zhou / 州), are known as “leagues” (meng / 盟), while counties (xian / 縣) are known as “banners” (qi / 旗), townships (xiang / 鄉) are known as sumu and villages (cun / 村) are known as gaqa/gacha. Alxa Left Banner has six sumu.
18. Jilantai is a town of Alxa League which has the largest salt chemical industry in Alxa League.

19. Based on the field investigation, some northern herdsmen have up to more than 100,000 mu of grassland while some southern herdsmen have only 135 mu of grassland.


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Book Review
Book Review


In her exciting book Ling Chen, an Assistant Professor of Comparative Politics and Political Economy at John Hopkins School of Advanced International Studies (SAIS), presents the emergence and co-existence of varied local forms of capitalism in China in the era of globalization. Chen, who holds a Ph.D. in Political Science from John Hopkins University, Baltimore, finds the origin of these different models in the historical tradition, the authoritarian character of the Chinese state and the interests of the influential local bureaucrats. She describes the two basic forms of the Chinese capitalism in great details and illustrates them by the examples of the cities of Suzhou and Shenzhen on the Yangtze River delta and the Pearl River delta. This way the author goes far beyond the monolithic approach widely used by Western scholars.

*Bureaucrats, Companies and Economic Policies in Globalized China*

The first chapter of Chen’s book starts with an anecdote. In 2005, China’s Trade Minister at the OECD Conference in Paris tried to convince participants that China is not a threat to the manufacturing industry in other countries. He argued that “China should give 8000
million shirts in exchange for a Boeing A380 aircraft”. His speech raised a great deal of resonance in China, where by this time many people questioned the sustainability of production based on cheap labor and modest profit margins and demanded a radical transformation of the manufacturing industry. By this time, China’s manufacturing industry had already switched from textiles to the production of computers and mobile phones, which was facilitated by globalization. The problem was that the production of high-tech products was accompanied by low innovation, which highlighted the need for an economic policy turnaround to avoid the “middle income trap”. The Chinese state intervened. As before, when attracting foreign direct investment (FDI) with significant discounts, it launched a major program to promote technological development, including low-cost corporate loans, tax breaks, free land use and reduced rates of public services, duty-free, etc. It was assumed that officials would enforce this central will locally, and that this new economic policy would be effective. In practice, however, this central economic policy led to very different results locally.

The purpose of Chen’s book, Manipulating Globalization: The Influence of Bureaucrats on Business in China, is to explain the reasons for these differences. It explores the roots of this heterogeneity and the role of officials in the different realization of central will in various regions of China.

The author reminds us that China’s transformation took place in two stages. In the first phase of FDI attraction China, along with the other BRICS countries, has entered a new generation of globalized economies, where FDI played a much more important role than in the formerly industrialized East Asian countries (Japan, South Korea, Taiwan). In the second phase, in the 2000s, economic policy aimed at attracting FDI was replaced by a technology upgrade aimed at raising the level of domestic
technology development. However, the latter did not completely squeeze out the former economic policy, but both were present and competing with each other, creating tensions and contradictions between offices and bureaucrats working in different areas of local governments to gain resources and benefits. In the first phase strong interest alliances were established between local bureaucrats and foreign investors, which in the second phase had an impact on the interpretation of central economic policy, resource allocation and local development strategies. The presence of foreign capital therefore helped or hindered the technological development of local companies. As the majority of foreign investors were not in direct contact with local decision-makers, they influenced through local bureaucrats to shape their local economic policy. For this reason, local strategies designed to attract FDI have fundamentally determined the direction and opportunities for technology development in domestic companies.

Chen reveals that in cities with large global companies that account for a significant share of exports, these companies and local bureaucrats form a strong alliance of interests. This is a compelling force and financial stake for bureaucrats in the international trade departments to create obstacles to the implementation of the new economic policy represented by the bureaucrats of the domestic technology development departments, which hinders the technological development of domestic companies. In cities that attracted smaller foreign companies, and where a large number of domestic manufacturing companies operate, and exports are less concentrated, no such strong alliances are formed because the agencies are in contact with both foreign and domestic companies. Thus, they are competing for the acquisition of central resources for the development of domestic technology, resulting in an increase in the technological level of the local industry.
The author states that the nature of FDI determines technological developments at company level. Global corporations at the top of the value chain follow a group-level offshoring strategy. According to this, foreigners subordinate domestic companies located in their value chain as their suppliers, who are forced to compete with each other, leaving no room for technological advancement. This makes it impossible to implement the central economic policy aimed at technological development at the enterprise level. On the other hand, the production strategy of foreign small “guerrilla” companies located in the middle or bottom of the value chain is subcontracting. It does not mean a strict subordination between domestic and foreign companies and enables the technological development of domestic firms. It promotes the implementation of central economic policy at company level, which is beneficial for both parties.

Chen is of the opinion that the interplay between global capital and local economic policy in China determined the direction of local development in several ways: (1) the increasing inflow of FDI favored cities that stimulate foreign investment, which brought significant benefits to local bureaucrats; (2) large foreign companies with a high export ratio formed a strong alliance with local bureaucrats, which greatly influenced how the city is implementing technological development and how much resources it spends; (3) the nature of foreign companies attracted to the city determined the effectiveness of economic policy for technological development, which had a counter-effect on urban decision-making; (4) local forms of capitalism that selectively allowed globalization to function in the interests of local officials fundamentally determine the development of local economies in China.
Attracting External Capital

The second chapter of the book deals with chasing foreign capital. It starts with mentioning that from the establishment of the People’s Republic of China in 1949 to the 1979 reform and its opening, China – like many other developing countries – pursued an import substitution policy. The state promoted the development of capital-intensive industries such as steel and chemical industry, electronics and machinery, based on the import of machinery and technology and bearing in mind the needs of the military industry. During the 1978 turn, China opened its doors to the outside world, which served not only to stimulate economic development, but also to reckon with conservatives against reforms. The process began cautiously with the opening of four “Special Economic Zones” (SEZs), where foreign investors could set up joint ventures with domestic companies. In these, the foreign partner provided the raw materials, parts, samples, machines and capital, and the Chinese partner the production and assembly, and the final product was re-exported by the foreign company. Although the 1979 “Joint Venture Act” states that the foreign party is required to transfer technology to the Chinese side, the primary purpose of establishing joint ventures was not to acquire foreign technology, but to increase foreign exchange reserves through export promotion and export. This phase laid the groundwork for strongly promoting foreign direct investment (FDI) and establishing “Economic and Technology Development Zones” (ETDZ) to take over advanced technology. To this end, these zones were given the same benefits as the SEZs, but they had to meet higher expectations in terms of technology, management, knowhow, and external relations – the so-called “four windows”.

The book describes that in this environment, the “market for technology” policy gradually became the guiding principle of central economic policy. The market was widely understood, including reexport,
and technology was required to meet China’s needs. However, as the author concludes, the joint ventures of Chinese and foreign companies did not bring the expected results due to cultural differences. These joint ventures were almost immediately integrated into the foreign parent’s global outsourcing strategy, and they did not gain access to the technology developed by the parent company, which was also reinforced by the lack of intellectual property protection in China. The Chinese partner was not encouraged to undertake research and development because it was not in the interest of the parent company. In this way, the central intention and the results achieved in the joint ventures became increasingly distant. However, surprisingly, it did not take away the incentive to attract foreign direct investment but re-interpreted the “market for technology” principle and wanted to implement it on a larger scale than before.

To this end, the central government proposed a selective set-up of joint ventures after 1987-89, and instead of the former “four windows” it defined “three main focus areas”. These include attracting foreign investment, industrial development, and increasing foreign exchange reserves through exports. This involved two very significant changes: on the one hand, the approval of foreign investment was delegated to local governments, and on the other hand, the number of ETDZs was increased to thousands. Because the evaluation of cadres was first and foremost tied to the achievement of economic goals, and the easiest way to achieve them was through foreign direct investment, a very large number of local governments tried to attract foreign capital in every way and therefore offered potential foreign partners a competitive advantage. Two different models emerged: one for large multinational companies and another for small foreign guerrilla companies. While the first model hampered, the second promoted technological development as a central intention.

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From Foreign Direct Investments to Domestic Competitiveness

The third chapter explores the way from attracting FDI to fostering domestic competitiveness. The acceleration of technological development was formulated as a goal from the end of the 1980s through domestic innovation, whose roots go back to the Mao period. Chen thinks that prior to this, state-owned technology organizations were not related to the business world but to the scientific community, and research results and technological progress did not have a significant impact on the development of the Chinese economy. In the economic life adoption and introduction of foreign technology was in the focus.

From the mid-1980s onwards, a kind of “technonationalism” began to appear – using Chen’s expression. High-tech development zones (HTDZs) have been created to attract domestic talented researchers and developers to high-tech industries based on Chinese technological capabilities. In the first half of the 1990s, several medium- and long-term science and technology plans were developed to create a national system of technological innovation, R&D and independent research. In 2001, indigenous innovation was first set as a primary goal to accelerate industrial development and continuous renewal in key high-tech sectors. Subsequently, many new HTDZs and thousands of local development zones were established. Instead of encouraging the FDI, which was supported by government agencies dealing with foreign investment and trade, the promotion of domestic innovation was at the heart of economic policy, supported by government agencies dealing with science and technology policy. This forced stricter requirements for foreign investors; for example, in order to promote technological development, they were required to set up R&D centers in China. This shows that FDI support agencies also recognized the importance of domestic innovation and technological development and incorporated it
into their expectations. This is also reflected in the use of the “Created in China” password instead of “Made in China”.

The chapter concludes that in China, domestic innovation became a national priority, which is expected to make China’s economy a technological power by 2020 and a world leader in technology by 2050.

**Local Economic Policy, Globalized Interest Coalitions and Resources Allocation**

The fourth chapter of the book focuses on the impact of global coalitions on local policy making and resources allocation. The author highlights that in 2006, the Hu-Wen Administration centrally announced an economic policy based on support for domestic innovation, for which large sums of money could be spent by Chinese cities from 2007 onwards. In parallel, the benefits (tax, land provision, public services) enjoyed by foreign companies were gradually withdrawn. Local governments also announced the new line, but there were serious internal struggles between the two groups of institutions and bureaucrats at the local level. Institutions and bureaucrats in charge of international trade gained considerable influence and benefits during the period of support for foreign direct investment, thus their interests were violated by the new institutions and bureaucrats who supported the development of domestic technologies. The implementation of the new central economic policy was thus greatly influenced by the advocacy of these two groups. The book reveals that economic policy processes at the level of local governments are determined by two regularities: the top-down liability system supported by the cadre evaluation system; and divisions and competition to achieve political goals, the three main areas of which are the struggle for survival, the local rulemaking and the establishment of alliances with economic actors.
The author illustrates the role of local interest relationships by describing the development of four major Chinese coastal cities (Suzhou, Wuxi, Ningbo and Shenzhen) of nearly the same size and economic potential. Chen draws the attention to the fact that these cities are significantly different in terms of the nature of the foreign companies settled in them, and thus form four different types. Suzhou and Wuxi are cities where foreign companies are also the largest exporters, many of which are multinationals and partners of international trade institutions and bureaucrats. They saw a serious threat in the new economic policy aimed at promoting domestic innovation and tried to prevent it from being implemented. In contrast, Shenzhen and Ningbo attracted foreign companies to a similar extent, but they are not determinative in their exports. Institutions and bureaucrats responsible for international trade therefore did not see the new direction as threatening, as there were plenty of domestic companies among their partners. Domestic companies were also partners of institutions and bureaucrats responsible for technology development, so the two camps of bureaucrats were not sharply opposed to each other. The competition here took place within institutions responsible for technological development, primarily for acquiring foreign investors engaged in research and technology intensive activities. Out of the four cities, Shenzhen helped the best to implement the new economic policy to promote domestic innovation, Suzhou did the least, Ningbo and Wuxi were between these two.

**The Effectiveness of State Intervention and Economic Policy at the Company Level**

The fifth chapter examines how effective state intervention and economic policy is at the company level. The author holds the view that it varies greatly between cities. The effectiveness of economic policy
means to what extent public economic policy changes the behavior of companies in the desired direction. The key issue is when government grants work properly, i.e. when companies respond to expectations of local bureaucrats by investing in technology.

Chen provides evidence that the type of foreign companies that the local government attracted to the city had a strong impact on local production and thus on industrial development. Together, the local government and the established foreign companies created an environment that determines the opportunities for technological development for domestic companies. Where large foreign companies at the top of the value chain dominate, domestic companies are not encouraged to invest in technology development. However, in cities that attracted smaller foreign companies that are not dominant in local exports, domestic companies are encouraged to invest in technology development.

The author illustrates the very different local realization of the central economic policy with the example of electronics and manufacturing. Her research results show that companies that receive more state support are generally more active in technology development. For companies operating in various cities, the average size of resources devoted to technological development and the efficiency of government economic policy vary considerably. The higher the median value of the size of foreign companies expressed in the value of their assets in the electronics industry of a city, the lower the efficiency of government economic policy among domestic companies. This means that if large global companies are present in the electronics industry of a city, then domestic companies will be less responsive to the government’s policy of technological development than in the cities where smaller foreign companies have settled. This shows that although government support generally contributed to raising the technological level of domestic
electronics companies, the size of foreign companies limited the effect of the state intervention in some cases.

The chapter concludes that as a result of globalization, major economic partners of the developmental state in China were foreign companies rather than large domestic companies. This fact influenced not only the “willingness” of the government to promote technological development, but also the efficiency of the implementation of economic policy.

**Changes in the Perspective of Historical Capitalism**

The sixth chapter of the book raises the question: why did Chinese bureaucrats choose very different foreign companies as their partners in the same political system and economic policy framework? Why were the original preferences fixed? Why did the development paths not come together?

The author’s opinion is that the historical process of the evolution of state preferences played a decisive role in the formation of local capitalist models. In the post-Mao era, bureaucrats were strongly encouraged to promote local economic development through business-to-business cooperation. However, the goals of the bureaucrats were different: for those who were primarily driven by political goals, they made an alliance with the big companies at the top of the value chain, leading to a top-down development model; for those who had primarily economic goals, they generally preferred smaller foreign partners, resulting in a bottom-up development model. Thus, the emergence of different local versions of capitalism and the emergence of different regional development models were rooted in the personal goals pursued by bureaucrats.

It is a merit of the book to diagnose that the nature of capitalism in China is dual. On the one hand, it is “state capitalism” or “development
autocracy”, where the strong development state transforms the economy from the top through strategic planning and the means of state intervention, provides resources for large state monopoly companies at the expense of local private companies. On the other hand, there are also bottom-up mechanisms based on flexible practices, gradual experience and adaptive strategies, which are smaller, but often the drivers of institutional and political change. According to some analysts, one or the other of these two opposing models dominate in a given period, while others argue that they exist together in a dialectic relationship.

Chen notes that these approaches do not consider the regional perspective of Chinese capitalism, which has existed for decades, although various regional models of capitalism can be seen in the study of local economies. Local bureaucrats played a key role in creating regional models of development. They responded differently to the central economic policy, based on their political or economic goals and interests, and formed a narrower or broader alliance with their business partners who belonged to different business circles. This then determined the typical type of capitalism in each region, which is embedded in local customs, norms and institutions, and over time defines the development paths of each region. The significant role of the bureaucrats in determining the path of development derives from the authoritarian nature of the Chinese government and from the relative underdevelopment of the market institutional system.

The book presents two different development models exemplified by the economy of the Yangtze River and the Pearl River Delta. Their development and characteristics are described in detail from the late Qing and early Republican era (1895-1920) through the Mao era (1949-1978), until the era of the post-Mao development state (1979-1990), proving the author’s concept of the dual development model in China.
Implementing Economic Policies

The last chapter of the book is about implementing economic policies at local level. The author draws her readers’ attention to the fact that in China, local government also plays a prominent role in the era of globalization and capitalism as a result of the authoritarian nature of power and decentralization. For this reason, significant differences appeared between the interpretation and implementation of the central economic policy among the various regions, and therefore various forms of capitalism emerged in China. Some local governments placed large multinational companies in the forefront for maximizing their political performance, while others preferred smaller foreign companies to maximize local revenue. When the central government focused on increasing competitiveness, some of the local bureaucrats felt threatened and tried to weaken the new policy, while others tried to maximize the use of locally available resources. In this way, the unified central economic policy has led to the emergence of locally different paths of development, unlike in the capitalist systems of developed democratic countries.

In addition to the two basic types of Chinese capitalism formed in the delta of the Yangtze River and the Pearl River, there are also many intermediate models of regional development that mix different elements of these two types. The development models specific to each region are long-lasting and not influenced by local leaders, such as mayors.

Chen suggests that it is worth comparing China’s development with the models of other countries aiming at vigorous progress. In the period prior to globalization, before the 1990s, the development model based on state support for large domestic corporations dominated and was very successful. This was coupled with an export incentive, and domestic companies were encouraged to improve their global competitiveness by various means. This solution is known as the East Asian development
model and was followed by Japan, South Korea and Taiwan. In the period of globalization, since 1990 – called the global outsourcing period – the inflow of foreign direct investment to developing countries wishing to catch up, opened a new era in the relationship between the state and the economy. The main partners of the state became foreign companies, who determined the development possibilities of domestic companies, hindered or promoted it. The simultaneous presence of domestic and foreign companies made the relationship between the state and the economy more complicated. The main challenge was not the power of the state against the economic actors, but how the divisions within the state and, consequently, the competition between the different groups of the state apparatus affect the choice of the preferred economic actors, the economic policy and its implementation. This is also the case for Vietnam, Singapore, Thailand and Malaysia, who want to catch up.

The author adds that China has meanwhile become a working capital exporter in Africa, Latin America and elsewhere, which poses new challenges. She firmly believes that the role of the state and bureaucrats remains key, as it is up to them to determine how China can meet these new challenges.

_Evaluation Thoughts_

Ling Chen’s book *Manipulating Globalization: The Influence of Bureaucrats on Business in China* is based on an extremely versatile, thorough analytical work. In addition to a comprehensive review of literature, she relies on in-depth interviews and surveys conducted during her long field work in China and on statistical data collection and analysis. Her sources are reliable. The structure of the book is logical, and its chapters are enjoyable in themselves, although they sometimes contain repetitions.
The reviewer is convinced that the book greatly contributes to a better understanding of the economic policies of authoritarian systems and the nature of Chinese capitalism in a globalized world. A novel analysis of the role of state-led development and the role of the interest alliance of bureaucrats and actors in the economic life provides lessons for countries seeking to catch up with the momentum.

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