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中國與亞太區域研究所 Institute of China and Asia-Pacific Studies

Department of Administrative Studies and Politics
Faculty of Economics and Administration, University of Malaya

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Notes for Contributors

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Contents

Contributors

Arief **Bustaman** is a Lecturer at the Department of Economics, Universitas Padjadjaran, Indonesia, with research focus and teaching scope of international trade. Mr. Bustaman's research interest is in the area of International trade & business, Industry, Public-Private Partnership (PPP), and his recent research topics are An Evaluation on Institution of Public-Private Partnership (PPP) in Indonesia, Infrastructure spending and development outcomes in Indonesia: an econometric investigation, Competition in Indonesian steel industry, The Impact of Exchange Rate Volatility on Indonesia's Exports to the USA: An Application of ARDL Bounds Testing Procedure. He is also advisor on free trade at the ASEAN Center for Ministry of Trade, Republic of Indonesia. <*Email: arief.bustaman@fe.unpad.ac.id*>

Chang Le was on the staff of the Malaysian Ministry of Higher Education/University of Malaya High-Impact Research (HIR) grant project "The China Model: Implications of the Contemporary Rise of China" at the Department of Administrative Studies and Politics, Faculty of Economics and Administration, University of Malaya, and is a Ph.D. candidate at the faculty. <*Email: changle1984@siswa.um.edu.my*>

Cheong Kee Cheok, Ph.D., is currently a Senior Advisor at the Asia-Europe Institute (AEI), University of Malaya. A graduate of the University of Malaya, he obtained his Ph.D. at the London School of Economics. Upon his return, he joined the Faculty of Economics and

Administration, University of Malaya (FEA, UM), and was appointed first as Deputy Dean, then Dean of Faculty. After a decade at UM, he spent 16 years overseas at the World Bank in the capacity of Economist and subsequently Senior Economist. At the Bank, he was Coordinator for China and Vietnam in the Economic Development Institute, now the World Bank Institute. After returning to Malaysia in 2000, he continued to work as consultant for the Bank and UN agencies. His work has taken him to China, Vietnam, Cambodia, Laos, Mongolia and North Korea and other Asian countries. His research interests include economic development, transition economies, employment and poverty and international economic relations. <*Email: cheongkeecheok@um.edu.my*>

Chin Chong Foh, Ph.D., is an Associate Professor at the Institute of Chinese Studies, Universiti Tunku Abdul Rahman (UTAR), Malaysia. He holds a doctoral degree of philosophy from College of Social Sciences, Chinese Culture University, Taiwan (2009). <*Email: chincf@utar.edu.my*>

Dong Hanghang is a Ph.D. candidate at the Faculty of Economics and Administration, University of Malaya, Malaysia. She had published a paper with title "Are China's service exports accurately measured? Implications of an alternative measurement approach" in the *International Journal of China Studies* in December 2018. <*Email: donghanghang1991@gmail.com*>

Duong Van Huy, Ph.D., is an Associate Professor, a Research Fellow, and the Director of Department of Insular Southeast Asia Countries, Institute for Southeast Asian Studies, Vietnam Academy of Social Sciences (VASS). He is also a lecturer at Vietnam National University, Hanoi (VNU), and Graduate Academy of Social Sciences, VASS, Vietnam. His research interests currently are on Sino-Southeast Asian relations, Sino-Vietnamese relations, Chinese migration in Southeast Asia, political and security issues in Southeast Asia, South China Sea issues, etc. He has published various articles and books on his research fields. <*Email: huyiseas@gmail.com*>

Ferry **Hadiyanto** is a Senior Lecturer at the Department of Economics, Universitas Padjadjaran, Indonesia, with research focus and teaching scope of macroeconomics and political economy. <*Email: ferry.hadiyanto@fe.unpad.ac.id*>

Obja Borah **Hazarika**, Ph.D., received her M.Phil. in American studies from the School of International Studies, Jawaharlal Nehru University, in 2012, a Master in politics (with specialization in international relations) from Jawaharlal Nehru University in 2010, and her Ph.D. from Dibrugarh University. She is currently working as an Assistant Professor in the Department of Political Science, Dibrugarh University, Dibrugarh, Assam, India. Her research interests include Indian foreign policies, especially sub-national diplomacy and trans-boundary riparian relations. <*Email: obja11@gmail.com*>

Kwei-Bo **Huang**, Ph.D., is currently an Associate Professor of Diplomacy, as well as Vice-Dean of the College of International International Affairs at National Chengchi University, Taipei City, Taiwan (ROC). He received his doctorate from Department of Government and Politics, University of Maryland, College Park, USA. <*Email: kweibo@nccu.edu.tw*>

István Csaba **Moldicz**, Ph.D., is an Associate Professor at the Department of International Relations, Faculty of International Business and Management, Budapest Business School, Hungary. He defended his Ph.D. thesis at the Corvinus University in 2006. His main research field is the economic ties between China and the European Union, and the One Belt, One Road Initiative. He is currently the Head of research at the Oriental Business and Innovation Group, which was founded by the Budapest Business School and the Central Bank of Hungary in 2016, and non-resident research fellow of the China-CEE Institute. <*Email: Moldicz.IstvanCsaba@uni-bge.hu*>

Bagja **Muljarijadi** is a Senior Lecturer at the Department of Economics, Universitas Padjadjaran, Indonesia, with research focus and teaching scope of economics planning and public policy. <*Email: bagdja@fe.unpad.ac.id*>

Sriparna **Pathak**, Ph.D., is an Assistant Professor and the Assistant Academic Dean at the Jindal School of International Relations, at O.P. Jindal Global University, Sonipat, Haryana, India. She has previously worked with the Ministry of External Affairs (New Delhi), Observer Research Foundation (New Delhi) and Kolkata chapters respectively and has taught at Gauhati University in Assam. She is the recipient of prestigious fellowships from the Government of India, and the China Scholarship Council of the People's Republic of China (PRC). She is fluent in English, Hindi, Chinese, Bengali and Assamese. She regularly writes for newspapers, journals and media portals on foreign policy issues between India and China. Her focus areas are economic diplomacy, the Belt and Road Initiative and PRC's political and economic relations in South Asia. <*Email: sriparnapathak@gmail.com*>

Affabile **Rifawan** is a Lecturer and Researcher at the Department of International Relations, Universitas Padjadjaran, Indonesia, with research focus of global leadership, security studies and political economy, and with teaching scope of International Development, International Relations in America, and Quantitative Methods. <*Email: a.rifawan@unpad.ac.id*>

Maman **Setiawan** is a Senior Lecturer and Head of the Department of Economics, Universitas Padjadjaran, Indonesia, with research focus and teaching scope of industrial economics. His work has been published in many international peer-reviewed journals, namely *International Journal of the Economics of Business*, *World Review of Entrepreneurship, Management and Sustainable Development* and *International Review of Applied Economics*. <*Email: maman.setiawan@fe.unpad.ac.id*>

Manganelly **Sumesh** currently works as PhD Research scholar under the Department of Politics at the East China Normal University in Shanghai, China. He has completed his Master of Philosophy (MPhil) program at the Centre for East Asian Studies, School of International Studies, Jawaharlal Nehru University in New Delhi, India, in 2016. He has obtained his Master's Degree from the Department of Politics and International Studies, Pondicherry University in Puducherry, India, in 2014. He completed his Graduation in BSc Statistics from Kannur University in Kerala, India, in 2011. His research interest includes the migrant workers, society, political system and international relations of China, Marxism and Ambedkar's writings. <*Email: sumeshmn08@gmail.com*>

Tan Wooi Yee is a Ph.D. candidate at the Institute of Chinese Studies, Universiti Tunku Abdul Rahman (UTAR), Malaysia. She holds a Master's degree in International and Public Affairs (MIPA) from the University of Hong Kong and a Bachelor degree of Arts (Communication) from Campbell University, USA. She is currently a Lecturer at Faculty of Creative Industries, Universiti Tunku Abdul Rahman. <*Email: tanwy@utar.edu.my*>

Tang Tuck Cheong, Ph.D., is a Senior Lecturer at the Department of Economics, Faculty of Economics and Administration, University of Malaya. He received his Ph.D. degree in Economics from Monash University (Australia) in 2012 which was accompanied by an academic award of Mollie Holman Doctoral Medal. His research area is open economy macroeconomics. He published more than 100 articles in refereed journals to his credit, and also presented his research findings in many conferences around the world. He is regularly invited as reviewer for numerous internationally recognized journals. <*Email: tangtuck cheong@um.edu.my*>

Kodrat **Wibowo** is a Senior Lecturer at the Department of Economics, Universitas Padjadjaran, Indonesia, with research focus and teaching scope of macroeconomics and political economy. He is also appointed as commissioner at Commission for the Supervision of Business Competition (KPPU), Republic of Indonesia. <*Email: kodrat.wibowo@ fe.unpad.ac.id*>

Wong Pei Yi is an undergraduate at the Faculty of Economics and Administration, University of Malaya, Kuala Lumpur, Malaysia. She was one of the committee assistants at the Malaysian Universities Economic Conference (MUEC). <*Email: peiyiwong24@gmail.com*>

Emile Kok-Kheng **Yeoh**, Ph.D., is the editor of the Scopus-indexed triannual academic journal *Contemporary Chinese Political Economy and Strategic Relations: An International Journal* (*C.C. Pol ec S.R.*) jointly published by the Institute of China and Asia-Pacific Studies of Taiwan's National Sun Yat-sen University and the Department of Administrative Studies and Politics, Faculty of Economics and Administration, University of Malaya, and on the Comité de Arbitraje Internacional, *México y la Cuenca del Pacífico* (*MyCP*) (registro en SciELO Citation Index - WoS, Redalyc, SciELO México, Índice de CONACYT, CLASE, Lat-Am-Studies, LATINDEX, LatinREV, REDIB, Biblat, Catálogo de la Biblioteca Nacional de España, publicación del Departamento de Estudios del Pacífico, Centro Universitario de Ciencias Sociales y Humanidades, Universidad de Guadalajara, México). He holds a Ph.D. on ethnopolitics in socioeconomic development from the University of Bradford, West Yorkshire, England (1998), was an associate professor at the University of Malaya, department head of the Department of Administrative Studies and Politics, Faculty of Economics and Administration, University of Malaya, from 1st August 2016 to 31st July 2018, director of the Institute of China Studies, University of Malaya, from 13th March 2008 to 1st January 2014, and the founder and editor of the institute's then SJR top-tier Scopus-indexed triannual academic journal, *International Journal of China Studies* (Vol. 1, 2010 – Vol. 5, 2014). His latest publications include "Between Scylla and Charybdis? – Emerging New Malaysia and its enigmatic relations with China" (book chapter, Wenzao University Press, 2020 *in press*), "Malaysia: Perception of contemporary China and its economic, political and societal determinants" (journal article, *The Pacific Review*, 2019), "China-Malaysia trade, investment, and cooperation in the contexts of China-

ASEAN integration and the 21st Century Maritime Silk Road construction" (journal article, *The Chinese Economy*, 2018), "マレーシア —— 親中心理を支える構造" [Malaysia: the fundamental structure of pro-China sentiment] (book chapter, University of Tokyo Press, 2018), "Environmental policy in Malaysia with reference to Taiwan's New Southbound Policy" (book chapter, Wenzao University Press, 2018), "Malaysia-Taiwan relations and Taiwan's New Southbound Policy" (journal article, *Malaysian Journal of International Relations*, 2018). <*Email: emileyeo@gmail.com, yeohkk@um.edu.my / Website: http://emileyeo5.wix.com/emileyeoh*>

Yong Chen Chen, Ph.D., is currently an Associate Professor at the Department of Economics, Faculty of Economics and Administration, University of Malaya, Malaysia. Her research interests include international trade and human capital. She has published several papers in international journals such as *Singapore Economic Review*, *International Trade and Economic Development*, *Chinese Business Review*, *Malaysian Journal of Economic Studies*, *Journal of Developing Areas*, *International Journal of Economics and Management* and so on. She has undertaken several consultancies for PricewaterhouseCoopers (PwC), PE Research, Talent Corp Malaysia, Construction Industry Development Board (CIDB), Institute of Labour Market Information and Analysis (ILMIA) and Malaysian Science and Information Technology Centre (MASTIC). <*Email: ccyong@um.edu.my*>

Yong Sook Lu, Ph.D., is a Senior Lecturer at Department of Economics, Faculty of Economics and Administration, University of Malaya, Malaysia, where she has been a faculty member since 2004. She received her Bachelor of Economics (First Class Honours) and Master of Economics (with Distinction) from the University of Malaya (Malaysia) and her Ph.D. from the University of Lancaster (United Kingdom). Her teaching interests include Microeconomics, Industrial Economics, Introduction to Mathematical Economics and Malaysian Economy. Her research interests lie in the area of industrial organisation, social security and kidney donation. <*Email: yongsl@um.edu.my*>

China and Taiwan in the Global Arena

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Chinese Direct Investments in the EU and the Changing Political and Legal Frameworks[+]

István Csaba **Moldicz**[*]
Budapest Business School, University of Applied Sciences

Abstract

This paper seeks to shed light on the key geopolitical interests of European countries (EU members) as for technology transfer from China and to China. The paper focuses on the policies of the key EU members (Germany, France, Italy and the United Kingdom). The paper focuses on these countries because on the one hand, these European countries are the main recipients of the Chinese FDI in Europe and offer attractive business environments for Chinese tech firms, while on the other hand, these four countries have measurable geopolitical clout and large markets too. The EU dimension cannot be neglected in this analysis; however, the presumption of the study is that the main features of the national foreign policies are defined by the countries themselves, not the EU. The general question of this paper is how these countries perceive Chinese tech firms' potential role in their economies. Since the paper mainly centers on geopolitical questions, the paper cannot avoid raising the dilemma: how the transatlantic alliance is to be affected by the recent US foreign policy. The paper intends to raise and answer the following questions: (1) What are the basic European interests regarding

international technology transfer? (2) What are the key differences in the interests of the significant European countries? (3) What does the sectoral distribution of Chinese investment say about China's intentions? (4) How is the transatlantic alliance being affected by the recent twists and turns of the US foreign policy? As for the paper's methodology, we must underline that the study paper seeks to deliver a comprehensive analysis of the geopolitical interests, while relying on existing theoretical papers, policy papers of the countries' governments and already existing datasets of Chinese investments.

Keywords: *geopolitics, critical technologies, Germany, France, UK, China, US, transatlantic alliance*

1. Introduction

The European Union's foreign direct investment screening regulation was adopted in 2018 and entered into force April 2019. The regulation created a new coordination mechanism where the European Commission and the Member States can exchange their information and if it is necessary, raise concerns regarding specific investments. There is no doubt that the regulation and the national legal frameworks have the potential to significantly influence Chinese investment in the Single Market. The likelihood of substantial effects is growing when the direct investment targets tech-firms who are front-runners in technology development.

At the same time, we should add that the EU implemented a liberal policy approach (compared to other OECD countries) when setting up the screening mechanism which is rather a platform for the EU countries to cooperate on. Since the implementation of the framework, there has been done significant comparative research on the national regulations;

this paper rather focuses on long-term motivations of these countries, and then it looks at the sectoral distribution of Chinese investments in the selected four European countries. As a first step, let us examine how Chinese firms and especially Chinese investments are perceived in the West.

2. The Perception of China's Technological Development and Its Growing Economy – Literature Overview

When we just go back a few years, the capability of the Chinese firms to innovate was generally evaluated as very low in the West, and the widespread skepticism about the innovative nature of Chinese enterprises dominated the literature. Despite this fact, the Chinese outward investment soared significantly in the early 2000s and peaked in 2016, just a few years ago, and the assumption that the Chinese were unable to innovate was pointed out in the literature. Abrami, Kirby and McFarlan (2014) explained it this way:

> Certainly, China has shown innovation through creative adaptation in recent decades, and it now has the capacity to do much more. But can China lead? Will the Chinese state have the wisdom to lighten up and the patience to allow the full emergence of what Schumpeter called the true spirit of entrepreneurship? On this we have our doubts. The problem, we think, is not the innovative or intellectual capacity of the Chinese people, which is boundless, but the political world in which their schools, universities, and businesses need to operate, which is very much bounded.

As we can see, they establish an alleged link between the capacity of societies to use and innovate new technologies and the nature of their political institutions. In other words, in their opinion, the rapid technological development ultimately requires the introduction of Westminster-type democratic institutions,[1] though the amazing speed of the Chinese technological development contradicts this assumption. (At this point, it is worth underlining that the paper does not intend to specify and describe this technological development in detail; however, given the fear expressed in the American and in several European countries' foreign policies, we take them for granted.)

By referring to Mao's ideas on scientific and technological advancement, Gewirtz (2019) explains on the one side how deeply technology is embedded into the Chinese economic development strategy and on the other side, he argues, there is a strong link between the technological strengths and geopolitical power:

> He [Mao] envisioned the socialist world's "overwhelming superiority" in science and technology and came to see technological strength as central to economic, ideological, and geopolitical power – the view of catch up and surpass that CCP leaders continue to hold today.

He is certainly right about the existence of the link, however, casualty matters, since in many interpretations, the underlying idea is that Chinese investments throughout the world are motivated by ideological reasons and the acquisition of advanced technology (f. ex. in Europe) serves the purpose of extending geopolitical power and strengthening the ideological superiority of the Chinese model. These ideas can be only corroborated if we could prove that Chinese investments ignore the aspect of profitability. And there is a flaw in the logic too: only the technological strengths of a country can lead to growing geopolitical power, not the other way around.

In some cases, critical remarks contradict each other. Gewirtz points out the problems of the top-down, CCP-led technological innovation, while he also finds that Chine swiftly could move up in the value chain:

> But China has quickly moved up the value chain, creating world-class industries in everything from 5G and artificial intelligence to biotechnology and quantum computing. Some experts now believe that China could unseat the United States as the world's leading technological force. And many U.S. policymakers view that prospect as an existential threat to U.S. economic and military power.

Later, he says:

> Top-down, CCP-led technological innovation brings its share of challenges. Many observers correctly cite the risks of misguided government-steered investment, which has led to waste and massive oversupply, or the challenges of supporting small entrepreneurs and researchers without heavy-handed interference.

Not only that these ideas oppose each other, but each argument needs some substantial amendment:

(1) The criticized top-down technological innovation is not a novelty. The Asian development state model has the heavy intervention of the state at its core. Japan, South-Korea, and Singapore implemented a very similar approach and policies in this field.[2]

(2) The assumption that China's rise is a threat to the West is flawed, since neither the Chinese have relevant geopolitical interests in Europe, nor the European countries in Asia. The development of trade and investment are the channels where they have common

> interests. In contrast to this picture, the US and China have significant conflict of interest in the Asia-Pacific region. In other words, the rise of China is much more a threat to the US, than to Europe. (Even in the American and Chinese case, the development of trade and investment would be a common interest, … at least in theory.)

To sum it up, it is rarely emphasized that European and American interests – despite being allies as NATO members – are not the same and can contradict each other in China's case. It must be added that this is not only because of geopolitical considerations, but sometime due to a different market position of their firms. The fiercely debated case of Huawei has different dimensions in Europe. Goldman (2019) maintains that the European competitors simply do not have the necessary capacity in terms of research to compete with Huawei and the end-products of Ericsson, Nokia, and Huawei are so intertwined that banning Huawei from the Single Market would affect European costumers and put the development of the 5G technology on halt for a few years, causing significant damages to Europe.

In general, it can be emphasized that Europe needs a more nuanced China-strategy than the US has developed recently and has tried to force European allies to follow its lead. Zhenglein and Holzmann (2019) put it this way:

> Compared to a geographically distant Europe, China's immediate neighbors are already experienced in dealing with China. Europe can learn from this approach and their experiences. China's East Asian neighbors must manage a far more sophisticated set of challenges: they depend strongly on China economically and at the same time need to consider issues of national security. This is reflected, for

instance, in a restrictive approach to investments from and research cooperation with China. Compared to Europe and the US, Chinese investment flows with East Asian countries are largely a one-way street. Taiwanese and Japanese investment in China is 26 and 35 times larger, respectively, than Chinese investment in both countries.

As we could see in this paper, opinions and assessments of how Chinese investments impact the European markets are divergent, and no mainstream flow of ideas can be observed, in some cases contradicting ideas are being utilized to feature the growing Chinese economic presence in Europe. Based on the literature overview and our assessment, we can formulate the following basic statements as for the nature of the growing activity of the Chinese firms:

(1) European countries and China do not have basic conflicts of a geopolitical nature; however, this kind of tensions and problems is palpable in the American and Chinese relations.
(2) It is argued sometimes that European NATO countries are allies of the US. This argument fails to recognize that the NATO was not only established for self-defense purposes, but even that it is restricted geographically. See the article 6 of the NATO treaty![3] In other words, any kind of American and Chinese disputes – especially the so-called trade war – does not require Europeans to side with the Americans.
(3) At the same time, European countries and China have conflicts of economic nature, which can be more easily solved than geopolitical problems. Nowadays, it has become clear that Chinese firms have the capability to come up with genuine ideas and products, and they also have the financial means to put them on the market and sell them.

(4) Technological development along with the interventionist economic development policy can put European firms under pressure, forcing them to adjust to the new conditions. At this point it must be added that an industrial policy in the Single Market would be the proper answer to the Chinese challenge, though given the political conditions the launch of an industrial policy seems to be very unlikely.
(5) Multinational companies have naturally developed by internationalizing and going abroad, as the Chinese firms have done in the recent years, the only difference being the strong state leadership in this process; however, this again is not new in Asia, since countries such as Japan, Korea, and Singapore used the same tactic in the 70s, 80s and 90s (see the literature on the Asian development states.) However, there are two differences in the recent process: (a) the magnitude of this internationalization stage, completely transforming the world economy, creating new challenges to both European and American firms; (b) the fact that this rapid change was triggered by a state-led economy perplexes the ideologically biased observers who do not question the efficacy of the existing Western model.

3. Chinese Investments in the European Markets

Chinese investments peaked in 2016, since then significant decline characterized the market. The total value of Chinese investment transactions totaled to 17.3 billion Euro in 2018, which is less than half of the 2016 sum (37 billion) (Hanemann, Huotari and Kratz, 2019). In 2018, the bulk of Chinese investments flowed into the United Kingdom (4.2 billion Euro), Germany (2.1 billion euro) and France (1.6 billion Euro). As a result of these trends, we can point out four European

Table 1 Chinese Investments in Europe between 2000 and 2018

Country	Billion Euro	Country	Billion Euro
United Kingdom	46.9	Poland	1.4
Germany	22.2	Denmark	1.2
Italy	15.3	Austria	1.0
France	14.3	Czech Republic	1.0
Netherlands	9.9	Romania	0.9
Finland	7.3	Malta	0.8
Sweden	6.1	Bulgaria	0.4
Portugal	6.0	Croatia	0.3
Spain	4.5	Slovenia	0.3
Ireland	3.0	Cyprus	0.2
Hungary	2.4	Estonia	0.1
Luxembourg	2.4	Latvia	0.1
Belgium	2.2	Lithuania	0.1
Greece	1.9	Slovakia	0.1

Source: Hanemann and Huotari and Kratz (2019: 12).

countries where most of the Chinese FDI poured into. Between 2000 and 2018, the UK received 46.9 billion Euro. During the same period, Chinese firms invested 22.2 billion Euro in Germany, 15.3 billion Euro in Italy and 14.3 billion in France (see Table 1). The decline of Chinese investment in Europe has several explanations:

(1) **Brexit.** Since most of these investment transactions were related to the United Kingdom, the Brexit and the surrounding uncertainty

must have made the Chinese investors more cautious than before, and the question of how British firms will have access to the Single Market after Brexit left some investors doubtful.

(2) **Trade war.** The trade friction between the US and China dampened the mood in the world markets. Since success in the negotiations cannot be predicted due to the negotiation strategy of the American president, the confidence in every sector seems to be weak. (In August 2019, he attacked the Chinese president as the “enemy” in a Twitter post, then just a few days later he called President Xi “the great leader”.)

(3) **German fears.** The backbone of the Germany industry is the automotive industry, which is caught up in a transformation process, challenging the flagships of the Germany economy. And we can also add that new technologies (digitization, Internet of things, 5G communication etc.) are about to transform economies around the world, and the transformation process has winners and losers as well. The German economy built around the technologies of the later 20th century does not seem to be fit for the challenges which can be already observed in the newest data, which makes Chinese investors uncertain and at the same time German politicians seem to be more worried about foreign acquisitions in Germany.

(4) **The adoption of an FDI screening EU regulation.** It is most likely that German fear contributed to the proposal of the European Parliament in 2017, which suggested drafting an EU directive to strengthen the screening of third countries’ foreign direct investments. The Regulation (EU) 2019/452 establishing the framework for the screening of foreign direct investments into the Union can be featured this way: (a) Until now, the EU did not have any regulation for this purpose, though other countries have frequently used this policy tool. (b) The regulation only sets up a

cooperation mechanism; the real screening mechanism must be established on member state level, according to the country's economic development needs, thus decisions are kept on member state level too. (c) The regulation does not apply to procurement transactions, and it can only be utilized based on security and public order concerns. (d) The cooperation mechanism will apply from October 2020. (European Commission, 2019a)

To this date, the following countries implemented a screening mechanism: Austria, Denmark, Finland, France, Germany, Hungary, Italy, Latvia, Lithuania, Netherlands, Poland, Portugal, Spain and the United Kingdom. As it can be seen, all four main FDI recipients – the UK, Germany, Italy and France – are among those countries setting screening up, thus it can be assumed that the EU regulation is most likely to exert significant effects on Chinese investments.

The European Commission published a report on the foreign direct investment in the EU this year (European Commission, 2019b). In the report, the European Commission pointed out the increase of investment from China and Russia, along with the surge of state-owned enterprises' acquisitions in the EU. Though 80 percent of FDI still comes from the traditional main investors (the US, Japan, Canada, Australia, Norway and Switzerland), the report raises alarm about the share of Chinese SOEs in the foreign direct capital flows:

> While state-owned companies represent only a small proportion of foreign acquisitions, their share in the number of acquisitions and their assets have grown rapidly over the latest years. Russia, China and the United Arab Emirates stand out in this respect with a total of 18 acquisitions in 2017, three times more than in 2007.
>
> (European Commission, 2019b: 2)

At the same time, the same report also acknowledges that just 3 percent of the assets in the EU were held by non-European investors in 2016, and the share of the US, Switzerland, Norway, Canada, Australia and Japan in foreign-assets was 80 percent!

It is difficult to assess how the European enterprises will be influenced by Chinese investment. Zenglien and Holzman (2019) try to summarize the effects this way:

- The ability to offer more competitive prices for technology that might not be top-notch but that is good enough will put pressure on European companies in a broader set of industries, also in third markets.
- Companies have started to divert R&D to China, especially in emerging industries. Europe will feel the heat of this shift: Carmakers like BMW, VW and PSA have already opened up facilities for electric vehicle R&D in China.
- Fierce competition from Chinese companies might erode the profitability of European companies and limit their ability to fund R&D. This could slow innovation in Europe, allowing Chinese companies to close existing technological gaps at an even greater pace.

(Zenglein and Holzmann, 2019: 13-14)

This evaluation emphasizes the adverse economic effects; however, it immediately also points out that they mainly derive from weak competitiveness of European firms in certain economic factors.

Growing uncertainties (trade war, Brexit) might have been the main cause for the decline of the Chinese investments in the EU, which might have been exacerbated by the media too in recent years. At this point it is worth pointing out that media voices and opinions were not necessarily implemented by European decision-makers and the adopted EU cooperation mechanism to strengthen FDI screening will not be a significant barrier in the way of Chinese direct investment; however, country-level restrictions can be. The basic question is how the main countries implement the screening tools. The next section focuses on how the UK, Germany, France and Italy evaluate these investments.

4. Member States Level Screening Mechanisms and Attitudes toward Chinese Investments

4.1. The United Kingdom

In the United Kingdom, the Enterprise Act 2002 regulates the screening of foreign direct investments (Tauwhare, 2018). Based on the act, the minister can intervene if necessary based on national security, financial stability and media plurality concerns. But the intervention is only possible if the annual turnover is more than 70 million Pound and/or the acquired enterprise has 25 percent or larger market share. The very liberal approach to foreign direct investment was changed when the UK government published its White Paper on this matter in 2018. The triggering point became the case of the Hinckley nuclear power station, where the Chinese firm, the China General Nuclear Power Group became part of the funding. In this case, the government voiced concerns that it did not have the legal power to screen the involvement of the Chinese firm on security grounds (Bell, 2018, August 2). For a while, then Prime Minister Theresa May delayed the approval of the project but since then green light was given to the Chinese involvement.

In 2018, the government introduced reforms allowing to scrutinize deals of a much smaller value (1 million Pound). The proposals of the UK government came from a Green Paper commissioned by the

Department for Business, Energy & Industrial Strategy. The amendment of the Enterprise Act 2002 clarifies what the government understands by the notion of “relevant enterprises”. These firms are those involved in “military or dual-use goods that are subject to export control; computer processing units; and quantum technology.” (Bell, 2018, May 17)

Despite the fact that the United Kingdom has traditionally one of the most liberal approaches as for foreign direct investment in the world, the public mood has changed over the course of the recent years. The same public mood led to the withdrawal of the United Kingdom from the European Union; the referendum held in 2016 reflected the rise of populism in the British politics. Since then, the political spectrum became more nuanced and complicated, because the traditionally main parties (the Labour Party, the Conservative and Unionist Party) lost support among the voters while left-wing and right-wing Euroskeptics became stronger. The Brexit referendum and the ensuing political chaos put the drafting and the implementation of every long-term political and economic strategy in the United Kingdom, including the China-strategy of the UK, on hold.

The last visit paid by a British Prime Minister was Theresa May’s trip to China in 2018, which followed Xi Jinping’s UK visit in 2015, when the two countries launched their “*China-UK global comprehensive strategic partnership for the 21st century and the Golden Era of China-UK relations*”. Though since the “*Joint UK-China strategy for science, technology and innovation cooperation*” was launched then, Theresa May did not endorse the Belt and Road Strategy formally, suggesting the country still has concerns about China’s political objectives (*The Guardian*, 31 January 2018).

Table 2 Sectoral Distribution of Chinese Investment in the United Kingdom between 2005 and 2018

Sector	$ million	Share (%)
Finance	17.940	21.2
Real estate	15.940	18.8
Logistics	13.790	16.3
Energy	9.440	11.2
Technology	6.480	7.7
Tourism	5.100	6.0
Agriculture	4.130	4.9
Entertainment	3.620	4.3
Transport	3.320	3.9
Health	1.950	2.3
Metals	1.790	2.1
Utilities	1.120	1.3

Source: Own compilation based on American Enterprise Institute, *China Global Investment Tracker* <*https://www.aei.org/china-global-investment-tracker/*>.

According to the Global Investment Tracker, Chinese firms invested around 86 billion Dollar in the United Kingdom between 2005 and 2018, which makes Britain the top target country of Chinese investment in Europe. If looking at the distribution of these investments, it seems to be clear that Chinese investments' motivation is mainly profit, since they heavily invest in strategically less important sectors and technology-orientation cannot be pointed out as mainstream.

At the same time, the traditionally strong sectors were targeted by Chinese firms – finance and real estate. The Chinese Investment

Corporation (CIC) invested substantial funds into one British firm in logistics (Logicor), which is relevant in international trade. The involvement of Chinese firms in the energy sector is substantial; however, it must be added that these transactions rarely led to significant stocks in strategically important firms. (The 1 percent ownership in BP cost the Chinese firm SAFE 2 billion USD, which was almost half of the Chinese investment pouring into this sector.)

To sum it up, the investment climate does not seem to be favorable for Chinese investments now in the UK, though the legal framework is liberal, which does not create sectoral barriers to foreign investment entry, in particular to technology investments. We can admit that at this point the end of the Brexit cannot be predicted and that is the reason why the way of how Britain leaves the EU might change the incentives for Chinese firms to invest in UK's technology firms substantially.

4.2. Germany

Between 2000 and 2018, Chinese firms invested around 22 billion Euro in Germany. Though these investments are significant, they are not if looking at the investments of Germany's main partners. According to Santander data, China cannot make to the group of the top ten investors in Germany.

Like the UK, the German legal framework for foreign direct investment screening is liberal. Although the government can check investment projects in sensitive sectors, however, this kind of validation is not typical.

The German government adopted a new version of the German Federal Act on Foreign Trade and Foreign Ordinance, which became effective in 2013. Based on the new legal framework, the Ministry of Economics and Technology can review and prohibit an investment if the buyer is not located in the EU. The Ministry can investigate the investment; if the acquisition of voting rights in the firm is about at least 25 percent, it is very important to highlight that not only the direct but the indirect participation of at least 25 percent of the voting rights can be screened and prohibited by the Ministry. Moreover, this same law can be applied if the foreign buyer already owns a firm with at least 25 percent participation located in Germany and this firm acquires a third company in Germany.

However, only foreign participation as criterion is not enough to apply this law; the transaction must involve the aspect of the endangerment of the public order or security as well. According to the law,

> the transaction must either affect material legal interests such as the existence, function and supply of the German population, or substantive issues regarding national and international security, in particular the operation of the German economy, German institutions, important public services and the survival of the German population.
>
> (Engelstaedter and Gernoth, 2014)

As we can see technology-related issues are not mentioned in this description, but the sentence allows for a flexible formulation.

The review process must start within a three-month period after closing the deal. After receiving the needed information and documents from the foreign buyer, the Ministry has maximum two months to conclude the screening process. On the one hand, the buyer is not obliged to inform the Ministry about the deal but on the other hand, it can request a clearance certificate from the Ministry that the transaction does not present any threat to public order or security. After receiving the certificate or the two-month investigation period, the transaction cannot be banned by the Ministry.

Table 3 Sectoral Distribution of Chinese Investment in Germany between 2005 and 2018

Sector	$ million	Share (%)
Transport	17020	40.4
Real Estate	6460	15.3
Technology	6010	14.3
Finance	3710	8.8
Energy	3640	8.6
Other	2410	5.7
Health	1260	3.0
Metals	680	1.6
Logistics	440	1.0
Utilities	220	0.5
Transport	130	0.3
Entertainment	110	0.3

Source: Own compilation based on American Enterprise Institute, *China Global Investment Tracker* <https://www.aei.org/china-global-investment-tracker/>.

If looking at the data, we find that the pattern of Chinese investments in Germany is very different from the British one, where finance, logistics and energy sectors dominated the landscape. In Germany, Chinese firms mainly invested in the transport sector which practically means investment in the technology-intensive automotive firms (see Table 3). More than half of the 17 billion USD was concentrated on the 10 percent share acquisition in Daimler (9 billion USD). A similar concentration is to be observed in the technology sector, where 77 percent of the funds spent in this sector was used to purchase the KUKA firm, specialized on industrial robots.

This later acquisition of the Chinese firm Guangdong Midea was the acquisition that drew media attention and became fiercely discussed in Germany. *The New York Times* (16 September 2016) summarizes the story this way:

> In Germany, the takeover of Kuka — frequently cited by politicians as emblematic of the country's future economic development — has drawn particular attention. The economics ministry examined the takeover of the company by Midea Group in China, which already owns 95 percent of Kuka shares, but eventually decided the deal did not meet the strict criteria for a formal review.

The concentration of Chinese investments on two key economic sectors in Germany (automotive and technology) is one of the main concerns of German politicians; however, there are two arguments to add to this picture:

– Germany's performance is excellent at traditional technologies; however the country lags front-runners in digitalization, technologies related to big data, Internet of things etc. That is probably why Chinese investment hurts the German industry that much, and German firms that happen to be the best German firms in these new technologies.
– Ironically, what happens to the German industry now (new foreign capital, technology infusion, and firms entering the German market) is very similar to what took place in Eastern Europe two decades ago, when German firms were the foreign buyers. The Eastern European countries benefited from this process; that same thing could happen to the German economy as well.

Basically, we can argue that the German perception of China's role in the foreign policy is multi-layered. Since they perceive China as a key partner in trade, China is being assessed as key target country of German direct investments and yet, Germany is reluctant to recognize the role Chinese firms could play in the German economy. At the same time, we must point out that the frequency of how often the German chancellor visits China clearly shows that the German political elite is aware of China's economic relevance to the German industry too. To the external observer, the obvious solution seems to be strengthening the trust between the two partners and then building business upon the mutual understanding of each other's aspects and interests. In our understanding, Italy tries to implement a similar approach to China and its technology firms in Europe.

4.3. Italy

Italy is the only country in this group which joined the Belt and Road Initiative. The memorandums of understanding signed by the partners in April 2019 were wide-ranging, covering the banking sector, logistics (ports), agriculture and construction. We can raise the question why Italy's approach widely differs from other European countries' line. There are four basic answers to this question:

– Italy's economy has not improved too much since the Global Financial Crisis hit the country. The permanent government crisis coupled with high public debt, the traditional North-South divide and the problems of the banking system make Italy extremely vulnerable and can make the country the center of a European crisis, thus the country – similar to the Eastern European countries – needs capital import and new technologies.

– Since the Italian economy specializes less on the development of cutting-edge technologies, Italian firms in general are no front-runners in this area, fears of Chinese firms "stealing" Italian technology are not widespread among Italian decision-makers.
– Italy traditionally has been recipient of FDI – in contrast to Germany, the United Kingdom and France – thus the public opinion and the decision-makers are more willing to accept and recognize the need for capital import.
– Italian politicians recognized that while in South Europe there is need for economic incentives but the maneuvering room is minimal, in North Europe there is still maneuvering room for economic stimulus, but the economy policy does not want to use this tool. In other words, they cannot expect the rescue to come from the North, since North European countries seemingly do not want to expand their aggregate demand – in line with the German economic policy, thus Italy must look for other markets. This need was pointed out by Luigi di Maio, Italy's minister for economic development, who after signing said Italy's goal was "rebalance an imbalance" in trade. (*EuroasiaTimes*, 24 March 2019)

Though the Italian stance on foreign direct investment is more liberal than the German one, the Italian government adopted the so-called Decree Law Number 22 that significantly extended the power of the government, thus the laxity (entered into force on 25 March 2019) in declaring 5G technology strategic. It requires an ex-ante notification of any contract/agreement related to design, construction, maintenance, management of the 5G network if foreign entities (outside the European Union) are involved. The government can either prohibit the transaction or require certain conditions from the involved parties. (Giarda, 2019)

The general FDI screening mechanism is provided by the Decree Law No. 21 of 15 March 2012 in Italy. Scassellati-Sforzolini and Iodice (2018) maintain that after the six years of application, the law did not deter foreign firms to invest in Italy. As a rule, the following sectors are considered strategic: defense and national security, energy, transport, communications or high-tech are subject to a prior review procedure mentioned above (*ibid.*).

According to Hanemann *at al.* (2019), Chinese firm invested 15.3 billion Euro between 2000 and 2018; thus Italy ranks as the third in the European Union. The Global Investment Tracker publishes Chinese investment data between 2005 and 2018; according to these data Italy's ranking is slightly worse, seeing as it ranks the fourth. Based on this data set, we can also see the sectoral distribution that might give us a clue about the motivations[4] of Chinese investments in Italy (see Table 4).

In contrast to Germany and the United Kingdom, the real estate and logistics sectors are under-represented in the statistics, which is most likely to change after signing up to the Belt and Road Initiative. The bulk of the transport sector investment (8.6 billion Dollar) comes from one investment transaction (Pirelli – 7.8 billion Dollar). In the technology sector, again one Huawei investment dominates the picture, but in this case the acquisition of Vimpeo stocks did not lead to significant Huawei ownership share in the company. The second most import target sector of Chinese investors has been the energy sector between 2005 and 2018, where the biggest investment was carried out by the Chinese State Grid and SAFE (both transactions' value was 2.7 billion USD).

In Italy's case, it is more difficult to discern patterns or trends in Chinese direct investment. We assume that logistics and real estate will be more present in the data, since the first sector is important due the country's geographical location, and the second can be more important, since the country being a top tourist target can easily attract real estate investors, though we do not think that technology segment will ever be as strongly targeted as in the German case.

Table 4 Sectoral Distribution of Chinese Investment in Italy between 2005 and 2018

Sector	$ million	Share (%)
Transport	8600	35.0
Energy	6480	26.4
Technology	4040	16.4
Finance	2810	11.4
Entertainment	840	3.4
Others	790	3.2
Health	720	2.9
Logistics	200	0.8
Real Estate	87	0.4

Source: Own compilation based on American Enterprise Institute, *China Global Investment Tracker* <https://www.aei.org/china-global-investment-tracker/>.

4.4. France

France has been a case of tightening rules of FDI screening in recent years; however, this is the only country where the new measures do not necessarily have an anti-Chinese tone, but they also react to American acquisitions to the same extent.

The first law empowering the French government to adopt and implement specific regulations as for foreign direct investment was the 1996 French law on foreign exchange. This act was amended, and the

Law No. 2004-1343 was adopted in December 2004. This version of FDI screening allowed for policing FDI in certain business sectors. The latest evolution on the legal framework was the Decree No. 2014-479, extending the authorization of the government. At the same time, we must point out that this tightening most likely was not the last step in this direction.

The French government discussed a business bill autumn 2018 that proposed to widen the scope for government and increased the usage of the so-called "golden shares".[5] According to the proposal, those firms not seeking ex-ante approval in strategic sectors could be fined as high as 10 percent of the company's annual revenue, the Reuters (19 July 2018) stated.

Ultimately, the government adopted the decree No. 2018-1057 on 29 November 2018; once again the scope of FDI screening was widened to include the next sectors:

– space operations;
– cybersecurity;
– artificial intelligence;
– robotics;
– semiconductors and additive manufacturing;
– data hosting;
– systems utilized for capturing computer data or intercepting correspondence;
– IT systems for public authorities in the field of national security;
– information systems utilized in crucial industries;
– research and development of dual-use goods and technologies.

(UNCTAD, 2018)

As this specialization shows, the decree specially targets technology-intensive sectors. When it comes to the public mood for foreign direct investments, it must be clear that the trend of tighter FDI screening rules is part of the bigger picture, and the result of a different economic policy in France. The French president, often praised as a globalist, clearly wants to strengthen the EU and represent Europe with one voice. This was his attitude regarding the Belt and Road Initiative too. He argued, the EU should implement a coordinated approach and negotiate with China about the terms of BRI. At the same time, when the Chinese president visited France in 2019, he signed a 30 billion Euro deal with China about the sale of Airbuses.[6] This sharp contradiction between rhetoric and action was pointed out by Koenig (2019):

> Yet, surprise-surprise! On President Xi's next stop, Paris, coming from Italy, Macron rolled out the red carpet for the Chinese President and, according to RT, went on to sign billions worth of new contracts with the Asian leader. If this looked like a Macron U-turn, it was a Macron U-turn.

As we argued in the abstract, we analyze these processes on country-level, since attempts to implement coordinated approach in issues where country interests are different tend to fail. Economic benefits of the cooperation with China matter in the long run; however, countries such as France and Germany have more to lose in this process than Italy, which is much more reliant on external financing, or the United Kingdom, whose economic competitiveness is very much dependent on the outcome of the Brexit story.

Table 5 Sectoral Distribution of Chinese Investment in France between 2005 and 2018

Sector	$ million	Share (%)
Energy	6600	25.7
Tourism	6540	25.4
Technology	3370	13.1
Transport	2540	9.9
Other	2400	9.3
Agriculture	1650	6.4
Real Estate	1150	4.5
Chemicals	700	2.7
Entertainment	570	2.2
Health	190	0.7

Source: Own compilation based on American Enterprise Institute, *China Global Investment Tracker* <*https://www.aei.org/china-global-investment-tracker/*>.

Looking at the sectoral distribution of Chinese investment, energy and tourism sectors stand out as the main targeted industries. In tourism, the Accor and Auchan deals made up 54 percent of the transaction value in this sector, and in the energy sector only 2 transactions meant 90 percent of the aggregate value (see Table 5). In France, like Germany and Italy, investments are concentrated very much, and they target sectors in which the country is traditionally strong and that probably is why we cannot say that Chinese FDI would focus on technology-intensive sectors.

5. Conclusions

As we could see in the analyses, the top three European destinations of Chinese FDI strongly differ in their interests. Though the stance on Chinese FDI and the legal framework has been toughened in the UK in recent years, the uncertainty caused by the Brexit will sooner or later require a more sophisticated approach from the British, even though the pressure of the American foreign policy would tell British decision-makers differently. In the case of the United Kingdom, we cannot see why and how investment would be more difficult for Chinese tech firms than any other types of firms; however, given the traditionally strong link between the US and the UK, it would not be surprising that the US would exert strong influence on British decision-makers. What might be advisable is to show gestures to the British in the period after the Brexit, creating more trade opportunities with China and weakening up the British approach to Chinese investments.

Germany provides the Chinese investors with the toughest legal framework, and Chinese investments face the greatest challenges here, though we must also point out that the strategic benefits of the investment can be the biggest here, since the acquired companies in the transport and technology sector are front-runners and highly competitive in the international market. The fact that the German chancellor maintains regular contact with Chinese decision-makers is positive, and it shows the practical attitude of the German politics; however, as said before, the benefits of this cooperation will be clear for the German leadership when trade will become more balanced between the two countries.

In France, the picture is very similar as for the economic effects of Chinese investments, though the political approach is very different. The confrontative style of the French president creates a hostile environment, and at the same time, the rhetoric underlining European values and a concerted European approach towards the Chinese stands in sharp contrast with actions, showing which negotiating strategy should be pursued by the Chinese. The French case is the only of the four analyzed countries, where hostility is directed against foreign investors in general, since the anti-American tone is equally as typical in these debates as the anti-Chinese investment comments.

Italy – in need of more capital and better technology – is apparently the country that could benefit most from the cooperation with China under the BRI framework. This is the country where the concentration of Chinese FDI is the highest regarding sectors, and maybe the one where Chinese capital is needed the most. At the same time, that is the only legal framework in the four countries, where special attention is paid to 5G frameworks.

Legal frameworks across the analyzed countries have been changing from a more liberal approach to a more sophisticated one, which can be assessed as more suitable for their economic development goals and national interests; however, one must ask if the strategic decisions are made without ideological bias and with reference to national interests. Because on the other side, less globalization would hurt global growth in the medium and long term, and thus not improving economic ties with China would be a strategic failure, since these countries do not have profound geopolitical conflicts. Pieke (2019) argues that:

> Europe needs to disentangle itself from this spiral of aggression driven by binary, winner-takes-all perspectives. As it does not aspire to be a superpower, Europe can deal with Beijing with more nuance than the US – China is indeed a threat in some areas but remains a positive force in others. This is not an economic or a military challenge – it is a political one. How does Europe decide what to share and withhold? It needs to answer that question – not isolate China.

Table 6 Characteristics of Chinese FDI and the Legal Framework

	France	Germany	Italy	United Kingdom
FDI screening adopted?	Yes	Yes	Yes	Yes
FDI screening's legal framework changes recently? When?	Yes, 2018	No, 2013	Yes, 2019	Yes, 2018
Any discernible pattern in Chinese investment?	Yes	Yes	No	No
The two main targeted sectors	Energy, tourism	Transport, real estate	Energy, transport	Finance, real estate
Aggregate share of the targeted sectors within the Chinese direct investment	51.1%	55.7%	61.4%	40.0%
The aggregate value of Chinese investments in the countries between 2005 and 2018 (billion USD)*	25.77	42.09	25.35	87.45

Source: Own compilation; *American Enterprise Institute, *China Global Investment Tracker* <*https://www.aei.org/china-global-investment-tracker/*>.

Notes

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* István Csaba Moldicz, Ph.D., is an Associate Professor at the Department of International Relations, Faculty of International Business and Management, Budapest Business School, Hungary. He defended his Ph.D. thesis at the Corvinus University in 2006. His main research field is the economic ties between China and the European Union, and the One Belt, One Road Initiative. He is currently the Head of research at the Oriental Business and Innovation Group, which was founded by the Budapest Business School and the Central Bank of Hungary in 2016, and non-resident research fellow of the China-CEE Institute. <*Email: Moldicz.IstvanCsaba@uni-bge.hu*>

1. This is a very old argument. Lipset (1959) was the first social scientist who connected economic success to democratic pluralism, thus provoking debate, which has never subsided since then. A modern version of this argument is to be found at Ferguson (2011) who summarizes all these important elements of (West European) success under six headings: competition, science, property rights, medicine, the consumer society and the work ethic (Ferguson, 2011: 12).
2. The Chinese economic model is unique because of its size. The country's historic development, however, does bear strong resemblance to the original developmental states model of the advanced Asian economies. The model can be efficiently utilized when depicting the Chinese economy, and

the resemblance is more striking if considering how much the world economy has changed over decades. Therefore, in our understanding, the Chinese economy can be considered a special case of the developmental state in the 21st century. The differences between China and the three analyzed Asian economies would be not outstanding if one did not consider the freedom of maneuvering room for economy policy which comes from the size of the economy. (Moldicz, 2018)

3. "For the purpose of Article 5, an armed attack on one or more of the Parties is deemed to include an armed attack: on the territory of any of the Parties in Europe or North America, on the Algerian Departments of France on the territory of Turkey or on the Islands under the jurisdiction of any of the Parties in the North Atlantic area north of the Tropic of Cancer; on the forces, vessels, or aircraft of any of the Parties, when in or over these territories or any other area in Europe in which occupation forces of any of the Parties were stationed on the date when the Treaty entered into force or the Mediterranean Sea or the North Atlantic area north of the Tropic of Cancer." (*The North Atlantic Treaty*. Washington D.C. - 4 April 1949)
4. Le Corre and Sepulchre (2016) name the next basic motivations of Chinese firms to invest in Europe: (1) they argue that Europe is less politicized than the US; (2) Europe needs Chinese capital more than the US. As for their investment strategies, they point out the next version: (1) the desire to go from cheap products to more sophisticated goods and services; (2) the desire to diversify "out of the low-margin Chinese market into higher-margin foreign ones"; (3) the goal to acquire technology to strengthen their domestic and international position; (4) the goal to serve Chinese costumers better in Europe, typical in the hospitality industry; (5) the intention of big state-owned enterprises (national champions) to expand internationally and enter into positions of global market leadership.
5. Golden share is share held by the government which can outvote all other shares under certain circumstances.

6. 290 planes from A320 Family aircraft and 10 planes from A350 XWB Family aircraft.

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India-Taiwan Economic Relations: Charting a New Path

Sriparna **Pathak***
O.P. Jindal Global University, India

Obja Borah **Hazarika****
Dibrugarh University, India

Abstract

People's Republic of China (PRC) has leveraged globalisation to its advantage and has emerged as the manufacturing platform of the world. However, behind China's "economic miracle" is a very important role played by Taiwan. As economic growth slows in the PRC, it becomes imperative for Taiwan to look for alternatives. India, with its "Make in India" campaign, could become a lucrative destination for investment from Taiwan. This paper analyses economic initiatives undertaken to understand where economic ties between India and Taiwan are headed. Complementarities between the Act East policy and the New Southbound Policy are also discussed. Sources of data for this work are Bureau of Foreign Trade (Taiwan), Export-Import Bank (India) and National Bureau of Statistics (People's Republic of China), besides secondary sources.

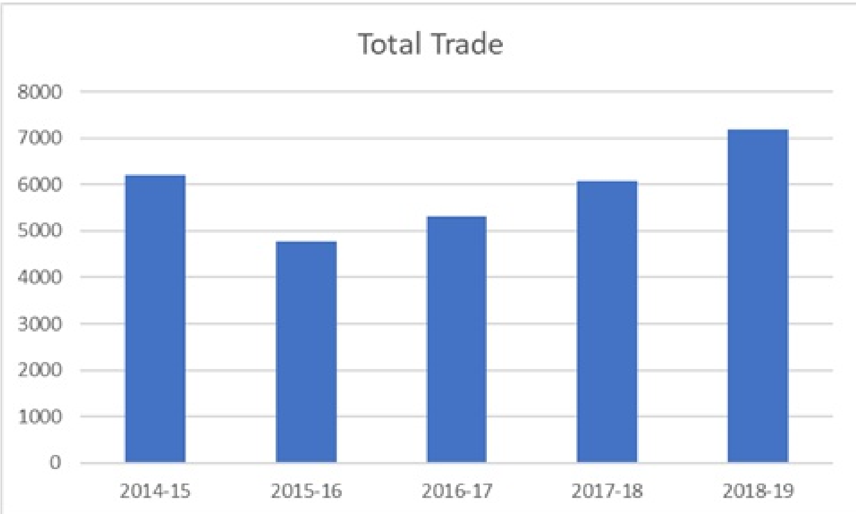
Keywords: *India, Taiwan, Act East, New Southbound Policy, economic relations*

1. Introduction

After the establishment of the People's Republic of China (PRC) in 1949, India's relations with the Republic of China (ROC) ceased to exist, as India recognised and set up official ties with the newly established PRC. The Cold War period did not see any furtherance of relations between India and the ROC. However, in the late 1990s, despite India's official adherence to China's One China Policy and the absence of diplomatic relations between New Delhi and Taipei, minor incremental positive changes in the relationship between the two sides were seen. This change was brought by Prime Minister Narasimha Rao's government, and subsequently, both sides established unofficial relations in 1995 with the formation of the India-Taipei Association (ITA) in Taipei. Since the ITA was founded, the two sides have signed plenty of bilateral agreements relating to trade and investment, technology, education, and culture (Sandano, 2017).

So, far relations between India and Taiwan have been a quiet arena despite the fact that many strides have been made. There is immense scope for taking this forward in a much more dynamic way. Taiwan's information technology (IT) sector with brands like Asus, HTC, Acer and Foxconn have already made their presence felt in India, and companies like Foxconn have even formed alliances with their Indian counterparts. In 2011, India even took the initiative to express its intention for a Free Trade Agreement (FTA) with Taiwan, and the announcement for forging of such an agreement was announced by the Foreign Secretary of the Ministry of External Affairs (MEA), New Delhi. Feasibility studies of such an agreement have already been completed by both sides. Negotiation between representatives of the two sides however are yet to begin. Taiwan's position in the global value chain has immensely added to the PRC's export volumes. This is a case that India could emulate, since at the current stage of development, India could profit immensely by learning from Taiwan's expertise. In order to understand the urgency and the necessity to step up economic ties between India and Taiwan, it is first important to look at how bilateral trade has grown between the two sides. Figure 1 shows the volume of total bilateral trade between India and Taiwan from 1989 to 2015.

Figure 1 Trade between India and Taiwan (unit: USD million)



Source: Department of Commerce, Government of India.

As stated previously, bilateral trade between India and Taiwan increased fivefold from USD 1.19 billion in 2001 to more than USD 5 billion in 2016. In this period, as per statistics from the Taipei Economic and Cultural Center in India, exports to Taiwan from India increased from USD 550 million to USD 2.2 billion, while India's imports from Taiwan increased from USD 640 million to USD 3 billion. India ranks as Taiwan's 16th largest export destination and 21st largest source of imports. (Taipei Economic and Cultural Center in India, 2016) As seen in Figure 1, the trade relationship has generally been on the upward surge. Between the financial years of 2015-16 and 2016-17, there was an 11.42 percentage growth in total trade between the two.

Major articles of export from India to Taiwan include petroleum oils and oils obtained from bituminous minerals, ferro alloys, ferro manganese and unwrought zinc (*InfodriveIndia*, n.d.). The major articles of import from Taiwan include telephone sets, including telephones for cellular networks or for other wireless networks; other apparatus for the transmission or reception of vice, images or other data and polymers of vinyl chloride or of other halogenated olefins, in primary forms (*ibid.*).

However, despite the growth, fact remains that trade between the two sides remains a minuscule amount as part of the total trade. In 2016-17, India's exports to Taiwan were only 0.79 per cent of its total exports to the world, while India's imports from Taiwan in the same year were 0.82 per cent of its total imports from the world.

In the current context, when India wants to step up its manufacturing industry, the motive of the "Make in India" campaign, Taiwan could clearly step in. There is a great amount of synergy between India's current needs; particularly that of the manufacturing sector on the one hand and the Taiwanese machine tool industry on the other. Taiwan is already the world's fourth largest exporter of machine tools and components (*BusinessLine*, 21st August 2015). The complementarities between the two sides arise because of the differences the two have. The economic structures of Taiwan for example are completely different. Taiwan is a developed and fast-growing economy with a high-skilled labour force. It has a positive balance of trade along with a current account surplus. It specialises in the exports of high-tech manufactured goods and high value-added services. India has an abundant labour force and low wages. In the face of rising economic costs in the domestic market in Taiwan, India becomes a natural choice. An increase in the number of Taiwanese enterprises in India can help India diversify its export basket into more value-added products. However, the problem is reflected in the bilateral trade between the two sides. Several products from Taiwanese companies are exported from third country markets such as China and Association of Southeast Asian Nations (ASEAN) countries. This is the result of production relocation by Taiwanese firms.

Additionally there are tariff and non-tariff barriers to trade which are responsible for the relatively low volume of trade between India and Taiwan. In 2019 itself, Taiwan requested disputes consultations with India at the World Trade Organization (WTO) alleging that India has imposed duties on 11 categories of ICT products in excess of India's bound duty rates for the goods (*The Economic Times*, 9 September 2019). Tariffs clearly remain a concern for Taiwan in India. In addition, Taiwanese companies in India are relatively new entrants in the Indian market. The knowledge and awareness of these firms is low among Indian consumers. The countries, the products of which Taiwanese companies are in competition with are those of Japan and South Korea for example. These countries entered the Indian market much before Taiwan and have comprehensive economic partnership agreements (CEPAs) existing with India already. An FTA between India and Taiwan therefore could be beneficial for Taiwan. For Indian companies seeking to export to Taiwan, the problem arises in the fact that the small Taiwanese market is already saturated. Penetration of such a market is difficult. The problem increases due to the lack of competitiveness in manufacturing.

One arena where there is potential for increased trade, investment and technology transfer is that of the food processing sector. Taiwan has a more advanced food processing industry than that of India's, which is labour-intensive and is in dire need of technological upgrading. Technology imports from India could be tailored to suit interest needs of the food processing sector in India. Additionally, the extensive bamboo cultivation in India for example could be exported to Taiwan for the production of bamboo charcoal. According to a study conducted by Indian Council for Research on International Economic Relations (ICRIER) on enhancing trade and investment between the two sides, Taiwan's trade pattern reveals that a significant share of its merchandise trade is driven by intra-industry trade and trade in intermediate goods. This is largely the result of Taiwan's early integration with global value chains (GVCs) through vertical FDI and its present dominance in global contract manufacturing. However, such trade is almost absent between India and Taiwan. India, so far, has not been a part of global production networks due to reasons such as its low manufacturing base and the high cost of manufacturing. High tariff rates and the very high transaction costs associated with doing business in India have adversely impacted India's manufacturing sector. As India gradually lowers its tariff rates and improves its operational efficiency, countries such as Taiwan may find India an attractive alternative for production relocation or vertical FDI. This would not only increase trade flow between these two countries, but would also address some of India's major concerns, such as growth of manufacturing and generation of employment. (Pal, Mukherjee and Hsu, 2013)

Additionally, Taiwan's present emphasis on the green economy and sustainable development is an important potential arena of bilateral cooperation. Prime Minister Narendra Modi's Zero Defect Zero Effect under the broad umbrella of India's Make in India will go well with Taiwan's stress on green economy and sustainable development. Dubbed as ZED, the acronym stands for zero effect, zero defect on the environment, which means high quality manufacturing that is green. The initiative is meant to raise quality levels in the unregulated micro small and medium enterprises (MSME) sector, which is the engine of growth for the Indian economy – driving about 38 per cent of the country's GDP and employing 110 million Indians. It is a cornerstone of the Make in India programme, which is aimed at turning India into a manufacturing hub (*The Economic Times*, 21 January 2016). This will augur well with Taiwan's emphasis on the green economy. Being a key driving force for industry upgrade and sustainable development, the Taiwanese government has been encouraging its industry and academia to invest funds and resources on circular economy-related R&D projects in the hope to facilitate industry transformation. (*Sustainable Business Magazine*, 31 July 2019) This definitely could be another arena where India and Taiwan could cooperate in.

2. Investment from Taiwan

Investment from Taiwan in India has followed a very different pattern than that in the PRC, where the small and medium enterprises began investing from the early 1990s. Taiwanese investment in India has been typically limited to branches of high-profile tech companies such as BenQ and Acer. The top sectors in which Taiwanese companies invest in India are those of services (14 per cent), computer software and hardware (14 per cent), construction (infrastructure) activities (12 per cent), consultancy services (8per cent) and telecommunications (7 per cent) (FICCI, 2013). About 90 per cent of Taiwanese investments are located in Tamil Nadu, Maharashtra, Gujarat and New Delhi (Karackattu, 2013: 31).

From 2002 to 2014, Taiwanese investment in India amounted to a total of just USD 66 million but Taiwanese FDI in India surged exponentially in 2015 with a USD 5 billion investment from Taiwan's Foxconn (Sandano, 2017).

A pact was also signed between Tien Chung-kwang, representative of Taipei Economic and Cultural Center (TECC) in India, and Sridharan Madhusudhanan, director of India-Taipei Association. This pact seeks to institutionalise cooperation between India and Taiwan, in arenas such as design, engineering, product manufacturing, R&D and after-sales services. The two sides have also signed agreements in arenas like agriculture and aviation services. It would be pertinent to point out, that along with India's thrust on Southeast Asia and East Asia, and schemes like Make in India, it is Taiwan's New Southbound policy which focuses on 10 ASEAN countries, six South Asian countries and Australia and New Zealand which has helped in accelerating economic ties between India and Taiwan in trade and investment (Maini and Sachdeva, 2017).

According to the statement on country-wise FDI equity inflows from April 2000 to June 2015, India received USD 99.78 million as FDI from Taiwan. In terms of ranking of countries from which India receives investment, Taiwan ranks 43rd, and the amount received represents 0.04 per cent of the total FDI received by India in the period (DIPP, 2015). The amount increased, and in 2017, it was estimated that the amount of FDI inflows from Taiwan between April 2000 and December 2017 was USD 287.02 million, representing 0.08 per cent of total inflows, and Taiwan now ranks 37th in the list of countries with highest investments in India (DIPP, 2018). In a matter of two years, the investment therefore has increased by USD 187.24 million. Therefore, there has been an upward surge in investment. However, further improvements could be made and more attempts need to be made to step up the volumes. One of the major hurdles faced by Taiwanese investors in India is the lack of a stable investing environment.

According to Pal, Mukherjee and Hsu, "if India wants to attract foreign investment from Taiwan, it has to offer a transparent and stable investment environment. Good governance and strong and supporting regulations not only at the centre but also at the state level are crucial for attracting any foreign investment. Taiwanese investors in countries such as China get supporting infrastructure, such as land and power at competitive and even lower than market rates. Unless basic infrastructure is provided, they will not be keen to invest." (Pal, Mukherjee and Hsu, 2013) In addition to these, there are duty anomalies, tax issues and lack of labour reforms which drown international companies' enthusiasm to invest in India.

Beyond low investments, what is also a fact is that the presence of Taiwan's financial institutions in India and that of India's in Taiwan is extremely limited. The state investment agencies in Taiwan could be encouraged to follow examples set by Singapore, Malaysia and other Asian countries that have invested in India. (Asher, 2006: 1)

A bright spot in Taiwanese investments in India has that been of Foxconn's decision to set up base in Maharashtra. According to the Memorandum of Understanding (MoU) signed between the company and the government of Maharashtra, USD 5 billion will be invested in an electronics factory and an R&D centre, which will lead to the creation of 50,000 new jobs (*The Economic Times*, 17 February 2018). Additionally the company is also planning a joint venture with the Adani group and the proposed investment according to reports is worth USD 5 billion for the manufacture of electronic products such as iPhones and Kindles in factories in Karnataka and Gujarat. Asus is also reportedly exploring the issue of domestic manufacturing in India. While these are welcome steps, infrastructure needs to be stepped up in India, which will be beneficial in the long run for not just economic relations between India and Taiwan, but for bettering the overall growth story in India as well.

According to predictions, trade and investment relations between the two sides will grow rapidly in the near future. According to James Kuo, the Deputy Executive Director of the Exhibition Department of Taiwan External Trade Development Council (TAITRA), "2017 was a year of success in terms of mutual trade and this number will reach USD10 billion within a couple of years. Over the same year, India made a total of 427 investments in Taiwan valued at USD 57.17 million, investing in various fields including information and communication, wholesale and retail, manufacturing, science and technology and more." (*PR Newswire*, 28 February 2018) The following section discusses some of the landmark agreements between India and Taiwan for the promotion of better economic ties.

In 2018, Taiwan invested USD 360 million in India through its companies, and that was 12 times more than that of 2016's. (*The Hindu*, 17 October 2019). Due to the U.S.-China trade war as well as escalating costs in China, Taiwan expects more from doing business with India, and this has been expressed repeatedly at several forums, including on the sidelines of the Taiwan Expo 2019 organised in New Delhi by the Bureau of Foreign Trade (MOEA) and the TAITRA. Walter Yeh, President & CEO of TAITRA, said that there is no limit to the growth potential. The current trade volume between India and Taiwan is to the tune of only USD 7 billion, and there is a lot of market to scale up further. In comparison, Taiwan's trade with China alone is USD 160 billion. (*The Economic Times*, 20 May 2019)

In order to assess what more needs to be done, it first becomes pertinent to take stock of what exists between India and Taiwan in the realm of trade agreements so far.

3. Landmark Agreements Signed between India and Taiwan So Far

Beginning in the 1990s, India started to cultivate extensive ties with Taiwan in trade and investment along with in other spheres. The ITA was established in 1995 in Taipei to promote non-governmental interactions between India and Taiwan, along with the motive to aid tourism, business, cultural, scientific and people-to-people contacts. The Taipei Economic and Cultural Centre in Delhi is the ITA's counterpart. From 2000 to 2015, a number of agreements have been signed between the two sides, ranging from the Double Taxation Avoidance Agreement to the ATA Carnet, to the decision to make the e-visa available to ROC passport holders in 2015. Some of these pertinent to bettering trade and investment between India and Taiwan are briefly discussed as follows:

(1) Bilateral Investment and Promotion Agreement (BIPA): This was signed on 25th February 2005. India has a number of BIPAs with countries across the globe. These are defined as agreements between two countries for the reciprocal encouragement, promotion and protection of investments in each other's territories by the companies based in either country. The primary purpose of these agreements is to create conditions that are favourable for increased investments. These provide a legal basis for enforcing the rights of investors in the countries involved. They provide assurances to investors that their foreign investments will be guaranteed fair and equitable treatment, full and constant legal security and dispute resolution through international mechanism.

(2) Taiwan India Cooperation Council: This was established in February 2006 to promote and facilitate Taiwanese investment into India (Yadav and Baghel, 2009: 240).

(3) Double Taxation Avoidance Agreement (DTAA): The DTAA between India and Taiwan came into force on August 12, 2011. It establishes taxing rights over permanent establishments in each country, while reduced withholding taxes on dividends and interest should promote a rise in the flow of capital investment.
(4) Customs Cooperation Agreement: A customs cooperation agreement between the two countries was signed at the same time as the DTAA, and came into effect on August 1, 2015.
(5) ATA Carnet: On March 20, 2013, this agreement was signed. The agreement, signed by the Indian Chambers of Commerce and Industry (FICCI) and the TAITRA is an attempt to facilitate duty free temporary admission of goods and exhibits between India and Taiwan (*The Statesman*, 20 March 2013).
(6) Taiwan-India Agricultural Cooperation: This agreement was signed in September 2016 between Ambassador Tien and ITA Director General Sridharan Madhusudhanan, on behalf of the ROC and India. This MoU is the first formal agreement for Taiwan, in agricultural cooperation with a South Asian country in history. (Chen and Chattaraj, 2017: 58)
(7) Promotion of Industry Collaboration: This agreement was signed in December 2017, between Taipei Economic and Cultural Center in India and the India-Taipei Association in Taipei. The MoU aims to promote industrial technical cooperation and business matchmaking between the ROC and India, and will effectively boost bilateral economic, trade, and investment ties.

All these agreements in the realm of trade and commerce clearly aim at uplifting the level of economic engagement between India and Taiwan. In addition to these, what is worthy of mention in this context is that in April 2006, Taiwan identified India as the year's target country for trade promotion and investment. Yuen-Chuan Chao, the president and the Chief Executive Officer of TAITRA signed an MoU on April 2, 2006 with the Southern India Chamber of Commerce and Industry and said that Taiwan had shortlisted information and communication technology, auto parts, textiles, food processing and pharmaceutical and biotechnology to be promoted in India (*The Hindu*, 2 April 2006). Also, the Ministry of Economic Affairs, Taiwan, constituted a task force for India in 2011. The sub-groups in the task force are those of economic cooperation, industrial cooperation, trade cooperation, education cooperation, economic cooperation agreement. As is visible through the sub-groups of the task force, the emphasis is on increasing trade and economic ties between India and Taiwan.

However, according to a study conducted by ICRIER, "a large part of Taiwanese investments is routed to India through third countries such as Mauritius and Singapore. It is possible that Taiwanese companies are routing their investment through third countries that have a more favourable BIPA and DTAA. This issue should be addressed in the proposed investment agreement between India and Taiwan". (Pal, Mukherjee and Hsu, 2013) While India and Taiwan already have a BIPA and DTAA, it is not yielding the benefits it should. One of the occasions to address the issue is while signing the FTA. As such, more studies of the nature conducted by ICRIER are needed to understand the problems and to identify the solutions. The FTA which is yet to take shape has arguments in and against its favour. The following section elaborates on the possible consequences of signing an FTA between India and Taiwan.

4. The Case for Signing an FTA between India and Taiwan

Taiwan has been trying for an FTA with India since 2009. In fact, even in as recent as 2017, Chern-Chyi Chen, Deputy Director General of the

Bureau of Foreign Trade in the Taiwanese Ministry of Economic Affairs said that what Taiwan is looking for with India is an FTA-like agreement (IANS, 2017). While India treads with caution given its strict adherence to the One China policy, what becomes pertinent is that an FTA does not amount to steering away from a policy that is political in nature. Taiwan does have existing FTAs with other countries which also follow the One China policy. Examples include the Taiwan-El Salvador-Honduras FTA, FTA between Taiwan and New Zealand and that between Taiwan and Panama.

As stated previously, while bilateral trade between India and Taiwan has increased, speeding up of such improvements is needed for more meaningful bases of economic cooperation. For Taiwanese goods, the competition in the Indian market arises from competition with goods from countries such as Japan and Korea, which already have CEPAs with India. For Indian goods in Taiwan, the problem is one of penetration given the already saturated market. In such a scenario if the Indian market could be used as a base for the assembling of products by Taiwanese and exports to the global market, then a mutually beneficial situation would arise. A concern which the Indian side has with regard to FTAs in general is the fact that the negative balance of trade which India has with the signatory countries has increased even more after the signing of FTAs.

In the India-Singapore CEPA for example, India's negative trade balance has swung from USD 1.34 billion in 2003-04 prior to signing of the CEPA to USD 5.75 billion in 2013-14. This represents a deterioration of 326.03 per cent. In the case of the India-ASEAN FTA, which has been operational since 2010, India's negative balance of trade with ASEAN of USD 7.68 billion in 2009-10 worsened to USD 8.14 billion in 2013-14, representing a deterioration of 5.99 per cent. (Ghosh and Pathak, 2015)

What is clearly missed out in such arguments is that while balance of trade is affected, consumer surplus in India increases. Also if procedures were to be simplified under an FTA, an increase in bilateral trade could be expected. As far as the fear of non-tariff barriers such as sanitary and phytosanitary measures are concerned, the two governments need to come together to speak about removal of sanitary and phytosantiary measures (SPS) and decide on more concrete projects. (Hsu, 2015)

With the Chinese economy slowing, Taiwan clearly needs to relocate and diversify, while India on the other hand could definitely utilise Taiwanese expertise in production and investment. For Taiwan, a major source of concern also emerges due to the recently concluded China-South Korea FTA. About 30 per cent of Taiwanese industrial products may get affected, as the FTA could knock down Taiwan's exports by 1.35 per cent, which amounts to USD 3.75 billion. Industries of petrochemicals, flat panels, machine tools, textiles and steel will be affected. (*BusinessLine*, 13 November 2014)

As stated by Dr. Guann-Jyh Lee, Executive Director of Economic Division, Taipei Economic and Cultural Center in India, "Taiwanese companies can offer their machine tools in a broad spectrum of industries spanning aeroplanes, automobiles, watches, computers, auto ancillary, wind turbine parts, medical equipment and precision mould and help fuel India's growth. Many of the sectors in which we have expertise are those that have been identified as priorities under the Make in India programme". (ANI, 2015)

For India, an FTA with Taiwan would be beneficial in not just increasing the vigour of its manufacturing industry, but also would be beneficial for services. A major feature of the Taiwanese economy is the extremely strong trade-investment-services linkage. Taiwanese investments in the manufacturing sector are often supplemented by significant FDI inflow in supporting services industries, such as banking and finance, logistics and retail. This allows Taiwanese companies to develop and control the entire supply chain. If India attracts substantial Taiwanese investment in the manufacturing sector, it is likely to trigger a secondary wave of investments in related services sectors that are linked to manufacturing. Taiwan may also benefit from India's strength and expertise in services such as software services. (Pal, Mukherjee and Hsu, 2013) In all, a conclusion of the FTA at the earliest between the two sides will be of immense mutual economic benefits.

5. Marrying the New Southbound Policy and India's Act East Policy

The New Southbound policy (新南向政策), an initiative of the government under President Tsai Ing-wen, was officially launched on 5 September 2016. The purpose of the policy is to enhance trade, cooperation and exchanges between Taiwan and 18 countries in Southeast Asia, South Asia and Australia. As reported by *Focus Taiwan* (5 September 2016), the policy was created to make Taiwan less dependent on mainland China and to improve Taiwan's cooperation with other countries. Sharing similar objectives with Taiwan's New Southbound Policy is India's Act East Policy. The policy, an initiative of the Narendra Modi government in India is an attempt to cultivate economic and strategic relations with countries of Southeast Asia in order to bolster its standing as a regional power and to act as a counterweight to the strategic influence of the PRC.

Speaking to journalists in 2017, President Tsai Ing-wen stated that Taiwan should follow the Singaporean model of development, not focusing on its size as a limitation to progress, or brooding over China's One Belt One Road (OBOR) initiative as an obstacle, but should manage to build its own advantages from a positive vision and ambition (*Taipei*

Times, 7 May 2017).

Previously, Taiwan's government under President Lee Teng-hui and President Chen Shui-bian respectively had proposed southbound policies as well. Compared to the previous policies, the New Southbound Policy attempts at bringing in a shift from the labour-intensive sectors to capital- and technology-intensive sectors (Chen and Chattaraj, 2017: 40).

India's Act East policy outlines a multifaceted approach that ranges from expanding cultural links to improving trade ties and transport connectivity. The northeastern region of India, as stated by Prime Minister Narendra Modi in February this year, is at the heart of the Act East policy. As part of the policy, the government is working on plans to link the region through land, air and water with other economies, particularly those of Southeast Asia. Additionally, as stated by Assam Governor Jagdish Mukhi, a plan to develop Assam as a major hub for trade with the 10-nation ASEAN bloc is being worked on. (Press Trust of India, 2017)

Taiwan's strengths in the form of huge foreign reserves, along with expertise in hardware manufacturing, infrastructure, construction, food processing, automobiles, etc., could be leveraged to boost the potential of the north eastern region. A major component of Indian exports is agricultural commodities. Additionally, agriculture accounts for about 55 per cent of jobs. The north eastern region performs well in the production of agricultural goods, but exporting them remains a challenge that needs to be addressed.

An announcement by the prime minister concerning the development of exports from the north eastern region in January 2000 led to the setting up of the Export Development Fund (EDF), the primary objective of which was promoting exports from the region. Forty-seven projects have been sanctioned under the EDF so far. The proposals for funding through the EDF that have been approved include passion fruit in Mizoram and Nagaland, *safed musli* in Assam, ginger in Manipur and Nagaland, cluster development of farms for organic farming in Nagaland and Tripura, etc.

Additionally, agri export zones (AEZs) have been set up for the region in Tripura for pineapples, Sikkim for floriculture, ginger and cherries, and Assam for fresh and processed ginger. However, despite the efforts, the north eastern states have not been able to achieve much growth in the sector due to inherent weaknesses that include poor marketing linkages, lack of infrastructure and lack of awareness. If Taiwanese expertise in food processing and logistics could be utilized, then benefits for the north eastern region could be greater, as the region's foreign trade development could be expedited.

Even in terms of improving the connectivity of the region, Taiwanese expertise and investment could be a solution. In 1950, the per capita income of undivided Assam was much higher than the national average. However, the region began lagging behind after independence as traditional trade routes with countries in Southeast Asia were severed. This in itself is telling as to how important foreign trade is for the region. For the re-establishment of trade, connectivity is very important. In fact, the realization of this is the reason behind the government considering linking Guwahati with all the major Southeast Asian countries with flight services, as a part of a plan to improve connectivity to the northeast and boost the region's trade prospects.

A memorandum of understanding to set up the India-Japan Act East Forum, with the aim of wedding India's Act East policy with Japan's Free and Open Indo-Pacific Strategy is among the major agreements signed during Prime Minister Shinzo Abe's visit to India in 2017 (*The Economic Times*, 18 September 2017). The purpose of the forum is to enhance connectivity and to promote developmental projects in India's northeast.

A cue from the India-Japan Act East Forum could be taken to formulate something similar with Taiwan. President Tsai Ing-wen announced in 2016 that Taiwan seeks to expand its dynamic relationships with India and ASEAN. A closer alignment of the Act East policy and the Southbound Policy would lead to win-win cooperation for both the sides. As India pushed forth with the Act East policy in the northeast, it would do well to take Taiwan on board to maximize the region's potential.

6. India-Taiwan Economic Ties in the Context of the US-China Trade War

The trade war between the US and China began in 2018 when the US increased tariffs on products from China to curtail imports which led to retaliatory tariffs by China. Since then both sides have increased tariffs on imported products. Such retaliatory and escalating tariffs between the US and China has led to certain developments which could have economic ramifications for countries such as Taiwan.

According to an UNCTAD report, China's export losses in the United States market "have resulted in trade diversion effects" and United States imports from Taiwan, Mexico, the European Union and Vietnam among others, "have all substantially increased because of the United States tariffs on China" (Nicita, 2019: 3). It was also reported that the largest beneficiary of the trade diversion effects of the US tariffs on China was Taiwan, "accounting for additional exports to the United States of almost USD 4.2 billion in the first half of 2019. For Taiwan, the benefits are largely related to an increase in exports of office machinery and communication equipment" (*ibid.*: 11). A report by Rob Subbaraman, Sonal Varma and Michael Loo which explores the trade diversion by the US and China arrives at the conclusion that Vietnam, Taiwan and South Korea have benefitted the most in economic terms especially in electronic products due to US import substitution (*Business Standard*, 5 June 2019). The report also mentioned that the trade war can boost exports of countries with smaller economies such as Taiwan which, the report stated, gained 2.1 per cent of GDP making it the second biggest beneficiary after Vietnam which gained 7.9 per cent of GDP. It mentioned that India benefitted 0.2 per cent of its GDP in 2019 and listed items such as petrol, minerals, cement articles, concrete, textiles as some of the products in which India stood to gain from the US-China trade war. Certain other opportunities have been provided by the trade war between the US and China for India on the economic front as well. For instance, India could intensify its trade in the backdrop of the trade war especially in categories where high tariffs have been imposed on China by the US. India also stands to benefit as an alternative destination for investment flows for those countries seeking alternatives to China (Press Trust of India, 2019).

7. The U.S.-China Trade War and Opportunities for Bettering India-Taiwan Trade Ties

A report by the United Nations Conference on Trade and Development (UNCTAD) published in 2019 stated that one of the biggest fallouts of the trade war between the U.S. and China has been that of trade diversion. It went on to state that Taiwan is gaining the most trade diversion effects with a windfall of USD 4.2 billion, which is higher than any other market. (*Forbes*, 29 November 2019) In the first six months of 2019's financial year Taiwan's export to the US picked up drastically as Chinese exports to the U.S. declined.

The most business that Taiwan gained was in machinery and communication equipment. Office machinery including technological hardware made up over USD 2.8 billion of the total (*ibid.*). Taiwan has a mature tech industry, which it has built over the years due to the supply chains it has built, its local talent and business ties with China. After the eruption of the trade war between the U.S. and China, numerous Taiwanese firms have been shifting operations back to Taiwan. Taiwan benefits the most from the trade war because much of its economy relies on technological hardware, the examples of which include semiconductors and new gear. According to a study conducted by Citibank, around 60 per cent of the 10 million people that Taiwanese companies employ in China work in information and communication technology (*South China Morning Post*, 4 July 2019).

According to Taiwan's Central News Agency, by October 2019, 142 Taiwanese investors had repatriated NT$610 billion from China back to Taiwan (*Hellenic Shipping News*, 30 November 2019) Taiwanese firms are reliant on China as the primary production base, which is why as compared to firms from other countries like South Korea or Japan for example, Taiwanese firms did not build non-Chinese overseas supply chains which they could have used readily during the trade dispute. In such an absence, Taiwanese firms are therefore either shifting their production bases back home or are actively looking for new alternative overseas production bases. In such a scenario, India could be a lucrative option, given its potentials in IT and communication technology.

With regard to benefits for India-Taiwan economic relations due to the US-China trade war, it was mentioned that India is the "jewel in its external economic strategy" by James Huang, chair of the Taiwan External Trade Development Council. He stressed that industrial subsidies offered by the Indian government, coupled with the country's highly-skilled, low-cost labour force makes it a perfect site for Taiwanese electronic manufacturing (*Taiwan News*, 4 January 2019).

India has been pitched by Taiwan as a potential market for its businesses such as automobiles, technology, renewable energy and farm sector. High tariffs on billions of dollars' worth of goods due to the trade war have been prompting countries such as Taiwan to shift their companies from China to countries such as India. India's emergence as an alternative market for Taiwan was mentioned by Shih-Chung Liu, the vice-chairman of Taiwan External Trade Development Council, who stated that: "This trade war has encouraged more Taiwanese companies to figure out other options. So India and also other ASEAN countries are the alternative markets" (Reuters, 20 September 2019). He stated, "Taiwanese firms are looking to invest in India's technology, renewable energy, electric vehicle and farm sectors." Boosting economic ties with India is also one of the objectives of Taiwan's southbound policy. Four trade offices have already been opened in India and trade between India and Taiwan is expected to reach USD10 billion in the next few years according to Chung-Kwang Tien, the representative of the Taipei Economic and Cultural Centre (*ibid.*). He stressed that about 120 companies from Taiwan in the fields of information and communications technology have been operating from Bengaluru. In light of these developments, India and Taiwan are favourably positioned to improve economic cooperation by harnessing the opportunities provided by the fallout of the US-China trade war.

India and Taiwan have many economic complementarities which can be harnessed to achieve greater trade and investment. The major one being that India requires investment and Taiwan is seeking a diversification of investment destinations away from China. In the recent past several Taiwanese companies have invested in India and these have been helping India increasing manufacturing in India such as Foxconn. Taiwan can also aid India in technology required in sectors such as healthcare and food processing and can help release India from its overdependence on China in areas such as solar power. Despite these opportunities, economic relations have been less than impressive between the two nations. Trade between the two was below 6.5 billion and investment was only $1.5 billion in 2018 (Madan, 2019). India has been stalling on the FTA, without which these numbers are not likely to change, due to domestic reasons. Even without such an agreement Taiwan has been attempting to create avenues to familiarize its companies with the business environment and opportunities in India by setting up offices in the country and initiating dialogues with Indian counterparts in the fields of business and government in a bid to institutionalize cooperation.

Taiwan is also directly dealing with certain constituent units in India to consider investments given that subnational diplomacy is on the rise in India especially on the economic front with state units competing to provide favourable terms to foreign companies to attract greater investment. The state of Gujarat has been making considerable strides in attracting Taiwan's attention as a plausible destination for investments. The Gujarat Industrial Development Corporation in its meeting with the representatives of the Taiwan External Trade Development office invited firms from Taiwan to invest in the state and even offered land for them to develop a manufacturing base (*Taiwan News*, 27 April 2019). In the Vibrant Gujarat Global Summit of 2019 Taiwan's companies announced investments in the state's chemical and automobile sector. Seven other companies of Taiwan such as Seyi Group, Roller King Enterprise and Kao Ming Machinery Limited among others were reported to have been considering investments in the automobile manufacturing sector of states such as Gujarat. Gujarat has been forthcoming in offering favourable terms to foreign companies as part of the "Make in India" campaign which seeks to boost manufacturing in the country (*The Times of India*, 18 April 2019). Other states such as Karnataka have also been attempting to woo investment from Taiwanese companies. In July 2019 a delegation of the state of Karnataka led by Gunjan Krishna, Commissioner for Industrial Development and Director of Industries and Commerce, interacted with leading Taiwanese companies at the 18th India-Taiwan Joint Business Council Meeting, organised jointly by the Federation of Indian Chambers of Commerce & Industry (FICCI) and Taiwan's Chinese International Economic Cooperation Association which was held in New Delhi. The Taiwanese companies which the Karnataka delegation sought to influence to consider investment in their state were in the sectors of electronics, electric vehicles, FMCG electronics, and green energy industrial (*BusinessLine*, 31 July 2019).Such subnational avenues could be the alternatives to ensure continued and flourishing cooperation on economic areas between the two countries despite the lack of an FTA between Taipei and New Delhi.

8. Conclusion

The India-Taiwan relation has been a meandering one. The steps taken for forging better relations between the two sides have been in spurts and irregular at the very least. The agreements signed have brought about positive changes, but are far away from producing substantial changes. While Taiwan needs to produce more awareness about the Indian economic environment to facilitate more business ventures and investments in India, India needs to have a more long-term perspective on what it wants to do with the relationship between India and Taiwan. Additionally, India needs to take active steps to capitalise on the opportunities brought forth by the U.S-China trade war. Also, it needs to address the concerns raised by Taiwan with regard to import duties.

Bureaucratic processes, an illogical fear of flouting the One China policy if economic engagements are increased with Taiwan along with an unclear idea of what the hurdles in the current economic relationship are form some of the issues that India needs to take care of. The already existing agreements between India and Taiwan need closer study and analysis to understand the benefits that have been produced and what remains yet to be done along with a conclusion of the FTA between the two at the earliest. A bilateral FTA or a similar arrangement would facilitate mutual trade and can help in bringing down investment barriers.

Taiwan's New Southbound Policy and India's Act East policy along with Make in India provide opportunities for mutual cooperation, and this needs acting upon soon. As such, ample synergies between the New Southbound policies and Act East policies exist. As stated previously, trade and economic ties between India and Taiwan have been on the upward swing for many years, and further reinvigoration could look at leveraging Taiwan's strengths to propel the Act East policy forward.

Given the fact that an increasing number of Taiwanese companies are rapidly relocating their manufacturing bases away from China, and consider India as a potential new base, India and Taiwan need to work together to improve productivity and quality in India's manufacturing sector. The two sides have covered sufficient ground to develop a kind of partnership that covers cooperation in high value-added manufacturing and knowledge-based services, along with R&D collaboration and joint human race development. In the backdrop of the trade war between China and the U.S., the time is opportune for India to take advantage and aim for better win-win outcomes from trade and investment relations with Taiwan.

Notes

* Dr. Sriparna Pathak is an Assistant Professor and the Assistant Academic Dean at the Jindal School of International Relations, at O.P. Jindal Global University, Sonipat, Haryana, India. She has previously worked with the Ministry of External Affairs (New Delhi), Observer Research Foundation (New Delhi) and Kolkata chapters respectively and has taught at Gauhati University in Assam. She is the recipient of prestigious fellowships from the Government of India, and the China Scholarship Council of the People's Republic of China (PRC). She is fluent in English, Hindi, Chinese, Bengali and Assamese. She regularly writes for newspapers, journals and media portals on foreign policy issues between India and China. Her focus areas are economic diplomacy, the Belt and Road Initiative and PRC's political and economic relations in South Asia. <*Email: sriparnapathak@gmail.com*>

** Dr. Obja Borah Hazarika received her M.Phil. in American studies from the School of International Studies, Jawaharlal Nehru University, in 2012, a Master in politics (with specialization in international relations) from Jawaharlal Nehru University in 2010, and her Ph.D. from Dibrugarh University. She is currently working as an Assistant Professor in the Department of Political Science, Dibrugarh University, Dibrugarh, Assam, India. Her research interests include Indian foreign policies, especially sub-national diplomacy and trans-boundary riparian relations. <*Email: obja11@gmail.com*>

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From Global Governance to Domestic Challenges

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Bringing Ethics of Global Governance Back In: A Case Study of the Republic of China (Taiwan)[+]

Kwei-Bo **Huang**[*]
National Chengchi University, Taiwan (ROC)

Abstract

This paper touches on the ethical dimension of global governance and calls for a study or (re-)examination of the lack of Taiwan's participation in institutions of global governance. The first section explains the meaning of ethics of global governance, followed by the second section that uses four commonly seen ethical discussions in global governance – i.e., the "actor problem", the "speech act problem", the "accountability fragmentation" issue, and the "universal application" issue – to scrutinize the case of Taiwan that has been largely excluded from the mainstream international society for almost fifty years. Then, this papers provides an idealistic remedy, a "post-international universe" with greater participation and power sharing of non-state actors, while emphasizing the political reality in which major power politics cannot be neglected.

Keywords: *global governance, ethics, Taiwan (ROC), mainland China (PRC)*

1. Introduction

Why have contemporary theoretical arguments of global governance left little room for constructive reflection on the issue that the Republic of China (ROC, commonly known as Taiwan), a very important economy with twenty-three million population and advanced development, has been excluded from the mainstream international community since late 1971? Despite the fact that the People's Republic of China (PRC or mainland China) has established more than one hundred and seventy diplomatic ties with the majority of the international community, the ROC as a sovereign independent country has been holding formal relations with fifteen countries – one in Europe, one in Africa, four in the Asia-Pacific (Oceania), and nine in Latin America and the Caribbean – and is still an international legal person that constitutes an important part of the contemporary world affairs. On the international stage, moreover, the rights of the people in Taiwan have not been taken care of by the PRC for even a single day. It would be fair to argue instead that their rights have been deprived of by the commonly seen practices such that in most of the international governmental organizations (IGOs) the rights of the people in the ROC have been unable to be represented either by the ROC having very limited access to these IGOs or by the PRC having no jurisdiction over Taiwan (臺灣), Penghu (澎湖), Kinmen (金門) and Matsu (馬祖), the territories still controlled by the ROC.

It is hard to imagine that the ROC on Taiwan, once one of the four little dragons in Asia and a place with strong economic power and vigorous people willing to devote themselves to international affairs, has been excluded from the United Nations (UN) in late 1971, its specialized agencies, and most of the IGOs in Asia or the world for more than 4 decades. The moral appeal and the practical need of global governance would easily point out the inappropriateness or self-contradicting nature of isolation of Taiwan from the international community. Beyond a doubt, the pressure of mainland China that centers on the principle of non-interference with "China's domestic affairs" and the unification with Taiwan has made most of the countries unwilling or hesitant to accept Taiwan as part of their joint effort to consolidate or promote global governance, thus leading to an obvious infringement on the rights of people of the ROC. It can be held that current global governance has an obvious defect derived from the political and legal struggle between the two sides of the Taiwan Strait and from the grave concern of world politics influenced and formed partially by mainland China. An urgent task for all is to find a remedy for it.

This article will begin with a brief review of the ethical or moral dimension of global governance. Then, the constraints on the ROC's participation in global governance will be introduced, followed by a call for "remapping" and a reconfiguration of power in world politics. The aim of this article is largely to suggest some morally resilient and appropriate arrangements in the practice of global governance in order to uncover the ROC on Taiwan, a critical missing piece, and deal with the above-mentioned ethical dilemma.

2. Ethical Dimension of Global Governance

It is very likely that global governance and ethics have been taken into account when officials are making their external policies. In numerous IGOs, good governance can result in political, economic and social benefits, which may have continued to create and enhance the need for codes of ethics. Ethical issues have been raised by the structures of global rule and the effects of globalization, as well as by normative questions of state and non-state actors' accountability in world affairs.

For the first part of these ethical issues, international law plays a major role. For the second part, i.e., the "accountability fragmentation", one should scrutinize the maintenance of accountability created both by global governance-related organizations and by individual state or non-state actors more or less with self-centered or self-interested logics of action.

Scholars have addressed concerns as to potential conflict between international law and morally justified acts (e.g., Frost, 2001, and Klabbers and Piiparinen, 2013), as well as the complex relationship between state sovereignty and the desire for effective global governance (e.g., Bexell, 2015). Sovereignty and global governance co-exit but sometimes conflict with each other when coming to the issue of effectiveness or accountability. The institutions of global governance must come from past and current global practices by state and non-state actors. In both of them the individual actors that comprise the practice have equal sets of freedoms and are not subject to any over-arching sovereign government. Traditionally, sovereign countries were the central actors. Nowadays, non-state actors, including individuals as rights holders are also the actors that initiate, implement, maintain and revise the practice (for more details about these practices, see Rosenau, 2003, and Frost, 2002). Being "constrained by the ethical values embedded in the practices within which they are constituted" as states or as non-state rights holders, "the process of their social constitution puts ethical constraints on what institutions of global governance would be proper for them to create." (Frost, 2001)

By being sovereign, a participant country is determined and accepted by other countries within the practice of states. In other words, to become a legitimate member of the institution of global governance, other states' recognition is indispensable. In terms of involving in such an international social practice, "the actor in question has to understand, accept and promote the ethical values embedded in the practice to which entry is sought.” (*ibid.*)

There are many entities around the world that wish to become legal participants in the international community, but they have not yet been given the appropriate recognition. With “a set of actions which all, or at least most, member of these practices can clearly interpret as broadly contributing to the maintenance, upholding and development of the fundamental ethical values embedded in these practices,” state and non-state actors “who are constituted as who they value themselves to be in the practice of sovereignty and, respectively, are constituted through a fact of reciprocal recognition.” (*ibid.*)

In addition to ethical discussions as to sovereignty and global governance, as mentioned earlier, another major focal point is about the management of the potential conflict between the international legal rules and regulations and morally justified acts sometimes deemed as mankind’s tradition or common responsibility.

In the realm of ethics, global governance has challenged contemporary international law to a certain extent. The desire for better global governance sometimes clashes with the current international law system. A good example is strong calls for better and more efficient maritime conflict management and resource explorations has not led to the serious amendment of the United Nations Convention on the Law of the Sea, in part because of the opposition of powerful relevant state actors. A cursory review shows at least the “actor problem”, the “speech act problem”, the “accountability fragmentation” issue, and the “universal application” issue.

As for the “actor problem”, it is worth noticing that behavior related to actors participating in global governance may not necessarily be bound by contemporary international law. Despite the fact that the influence of international law has gradually become more salient after the end of the World War II, according to Jan Klabbers (2013: 313), international law has fared markedly better in granting rights to some countries whose statehood has been questioned or challenged and to non-state actors including civil society organizations and corporations than in presenting them with obligations – i.e., these state and non-state "actors have certain rights under international law, but they cannot be said to be bound by international law in an unequivocal manner." This is what the "actor problem" stands for.

With regard to the "speech act problem", officially or diplomatically, the words available or used for a specific situation already carry an evaluation within them. For instance, those who feel that the promotion of free trade is a positive prerequisite for a better global economic growth and development differ from those who view the promotion of free trade as a negative sign of liberalization and the more advanced economies' candy coated with poison to maneuver or deprive the less advanced (*ibid.*). In the case of cross-Taiwan Strait relations, a soft or positive statement of the mainland Chinese authorities about Taiwan's meaningful participation in functional inter-governmental organizations may be viewed differently in Taiwan by those who are opposed to or dubious about any united front strategy-related move by the mainland Chinese authorities, by those who are seeking a stable status quo between the two sides of the Taiwan Strait, and by those who are in favor of gradual or immediate reunification. This is what the "speech act problem" implies.

With regard to accountability in global governance institutions, it has been expected and created by those who have participated in global governance, and it has remained a critical component of contemporary international organizations. But what is problematic is that due to a likely difference in national or leaders' interest, member states or stakeholders have varied views about the particular accountability their organization chooses and how their organization should be held accountable. For example, the call for accountability of the World Trade Organization (WTO) can carry different meanings that result from who is asking and/or what values that are prioritized. One of the possible explanations is that state and non-state actors have been intertwined with the process of social construction in contemporary international relations within which their beliefs, ideas, and interests are portrayed and interpreted intersubjectively (Onuf, 1989). According to Jan Klabbers (2013: 320), the issue of "accountability fragmentation" is relevant closely "not just to what the rules say, but also to the character traits of those making and applying the rules." It is also very likely that conflicts between domestic responsiveness and international obligation determine in part the level of such fragmentation in an organization of global governance (Wolfe, 2015). Similarly, Michael Barnett (2016) argues that, in addition to the self-interest of individual negotiators or politicians, the priority of public values and interests interpreted and represented by experts who can facilitate effectiveness of an organization and justify anti-democratic rules of the game also affects accountability. Importantly, in order to develop an ethic in governance, which can lay a crucial foundation for more accountability in global governance, Charles Garofano (2008) holds,

> practitioners and scholars need to identify a common set of moral principles; to collaborate on ways to structure the exercise of discretion in public service, to apply moral reasoning, judgment, and values to the concrete circumstances and dilemmas that public servants confront daily; and to commit to morally informed discourse, within their own organizations, with their counterparts in other organizations and polities, and, above all, with citizens.

The above-mentioned points have led to a more serious issue, that is, the universal applicability of global governance approaches agreed by a variety of individual IGOs. Ecological dangers, population growth, and natural resources management and other dimensions close to human welfare would be in favor of universal application as their top priority in respective tasks. In the United Nations, for example, as Vincent Pouliot and Jean-Philippe Thérien (2017) point out, the "universal values" with an array of definitions is a contending concept, and state and non-state actors try to garner and preserve their respective interest by referring to part of such a contending concept, not to mention the domestic politics that would meddle the discussion of universal values in the UN. Ideally, the legitimate voice of the people of the world and of the governments that represent the people, in theory or in practice, can be expressed through the universal application of international law, or the rule of law. The *UN Universal Declaration of Human Rights* and the *Earth Charter* have provided a solid foundation on which to build a universally recognizable and acceptable rule of law that does not discriminate every single person in the world. In both domestic and global governance, fundamental democratic principles signify that universal application and universal participation should co-exist and that a responsible form of global governance should develop with universal participation. Yet, it is beyond doubt that some of the global governance frameworks and mechanisms could impair the non-participating state and non-state actors. As Jamie Gaskarth (2015: 3-4) points to "critique the way global governance discourse masks the exercise of power by elites and state governments, both developed and rising" and to defy the belief that global governance represents some form of public goods, the issue of "universal application" has encountered quite a few challenges both from the practices of global governance favored by certain specific powers and from the unintended consequence of making state actors but not others the vital players in global governance. Furthermore, in the case of Taiwan, with a population of roughly 23 million (ranked 56th in the world in 2019), neither universal application nor universal participation have been applied to the people and the government of Taiwan, for the majority of mainstream IGOs have either limited or denied Taiwan's participation. This ethical issue in relation to global governance will be elaborated in the following section.

3. Taiwan's Participation in Global Governance since 2000

The main goal of this section is to introduce Taiwan's meaningful participation in global governance institutions since Chen Shui-bian's presidency, starting from May 2000, both because the term "meaningful participation" gradually appeared in the mid- or late 1990s and because the governments of Taiwan and the US began to adopt it more often in their respective official statements after the year of 2000.

The most generally recognized institution of global governance is the UN. The ROC was one of the UN founding members and one of the five permanent members in the UN Security Council between late 1945 and most of 1971, despite its withdrawal from the Chinese mainland to the island of Taiwan. Throughout most of that period, the Chinese representation question was brought up for debates, and the "China seat" was not given to the PRC until November 1971, when the PRC was accepted by the UN General Assembly Resolution 2758 as the only legitimate representative of China to the UN. As such, nowadays the ROC only exists, by its title, in Article 23 of the *UN Charter* which states that the "Republic of China" heads the listing of the five permanent members of the Security Council, as well as in Article 110 which states that the *Charter* shall come into force upon the deposit of ratifications by the Republic of China, France, the Union of Soviet Socialist Republics, the United Kingdom of Great Britain and Northern Ireland, and the United States of America, and by a majority of the other signatory states."

Although the UN General Assembly Resolution 2758 indicates that the General Assembly agreed to "expel forthwith the representatives of Chiang Kai-shek from the place they unlawfully occupy at the United Nations and in all the organization related to it," according to James Hsiung (2006: 257), "the delegation to be 'expelled,' as stated in the document, was 'the representatives of Chiang Kai-shek,' not of the Republic of China… By the language of the Resolution, strictly speaking, the representatives sent by any successor to Chiang Kai-shek in the Taipei government are not to be barred from taking the seat of 'the Republic of China' that Art. 23 of the Charter identifies as a permanent member of the UN." The fact is, however, since November 1971, the ROC on Taiwan has gradually lost all its representations in UN-related organizations and never been able to return as a full member. It quit from most of the major IGOS, such as the International Monetary Fund and the World Bank. Thus, the Kuomintang (KMT) government under Lee Teng-hui's leadership chose to "return to the UN", while the DPP government under Chen's leadership claimed either that it would participate meaningfully in the UN or that it would like to be admitted to the UN as a full member state under the title of Taiwan instead of the ROC.

Generally speaking, despite such a rapid development of global governance in various fields, Taiwan has been largely excluded from most of the related institutions simply due to the political struggle between the ROC and the PRC since 1949. It is not that Taiwan has had little interest in participating in global governance but that Taiwan has little access to institutions of global governance. Sometimes Taiwan's call for meaningful participation in such institutions is political, or is seen as political by the PRC and some of its allies.

When "meaningful participation" has become the principal approach for Taiwan to international institutions, the Chen administration was admitted to WTO in January 2002, based on the past effort made by the Lee administration, whereas it failed to either participate meaningfully in or apply for membership of the UN and the World Health Organization (WHO). Only Taiwan's diplomatic allies, sometimes not all of them, officially proposed accepting Taiwan's request for meaningful participation or full membership. The US, Canada, Japan, for example, spoke for Taiwan in their representatives' speeches, but these non-diplomatic allies of Taiwan never joined Taiwan's allies to make an official proposal for Taiwan. In the meantime, cases of Taiwan's non-governmental organizations (NGOs) being pressurized by their mainland Chinese counterparts at international occasions were reported frequently.

When Ma Ying-jeou of KMT came to office in May 2008, his administration submitted a proposal to the UN in September 2008, calling for the ROC's rights to participate in specialized agencies of the UN, but failed to gain a vote on it because of the opposition of the PRC (even though the US was supportive). What differed from previous experiences was that mainland China opposed Taiwan's proposal in a less furious way. The next year, having received some positive acknowledgment from the international community, Ma stopped asking its allies to submit such a proposal. Instead, his objective shifted to meaningful participation in the UN specialized agencies for the sake of stabilizing cross-Taiwan Strait relations which were easily stirred up by sensitive political moves. Taiwan's bid for UN membership was thus put on hold. For Ma, it was more realistic to work on Taiwan's functional representation in major international arenas and to maintain good cross-

Strait relations needed, both for convincing foreign governments of Taiwan's efforts to be less problematic for these governments' relations with mainland China, as well as for smoothly concluding the negotiation of Economic Cooperation Framework Agreement (ECFA), signed eventually in the mid-2010, which was considered ground-breaking for future cross-Strait interactions.

Since 2009, in addition to its desire for participation in the WHO, Taiwan officially showed interest to join the International Civil Aviation Organization (ICAO), the United Nations Framework Convention on Climate Change (UNFCCC), and the International Criminal Police Organization (Interpol). US officials expressed that Washington would like to help Taiwan join international organizations whose membership was not based on statehood, and that "consistent with this longstanding policy", the UN, its agencies, and other international organizations were encouraged "to increase Taiwan's meaningful participation in technical and expert meetings" (Russel, 2014). It is not clear from US officials' statements what meaningful participation really stands for, purposedly leaving some ambiguity for different interpretations on both sides of the Taiwan Strait, but generally speaking, meaningful participation could be interpreted as Taiwan using an acceptable, though not necessarily satisfactory, official title to join international bodies. In reality, however, meaningful participation of Taiwan was always more likely if Washington backed it *and* Beijing did not oppose it. Mainland Chinese leaders Xi Jinping and his predecessor Hu Jintao expressed separately both sides of the Taiwan Strait could address the issue on Taiwan's international participation in talks (see, for example, *Taipei Times*, 30 April 2005, and *Taiwan Today*, 14 June 2013). The statement was made in the historic summit between Ma and Xi in Singapore on November 7, 2015. When Ma brought up the issues on Taiwan's international space and hoped that the mainland Chinese government would handle the issue in a sensible way, Xi responded that he would seriously consider how to put these issues into practice (*South China Morning Post*, 10 November 2015).; ROC Mainland Affairs Council, 2015).

The Barack Obama administration of the US demonstrated obvious support for the Ma-Xi summit, although it was not informed by Taiwan until about four or five days before the meeting. For example, Josh Earnest, the White House Press Secretary, stated on November 3, 2015 that the US government had to see what came out of the meeting, but it "would certainly welcome steps that [were] taken on both sides of the Taiwan Strait to try to reduce tensions and improve cross-Strait relations." (White House, 2015) After the meeting, the US Department of State's spokesperson John Kirby also expressed a similar view by indicating that the US welcomed such a "historic improvement in cross-Strait relations" and encouraged the both sides to build up relations and reduce tension "on the basis of dignity and respect" (*Radio Free Asia*, 8 November 2015). Although in 2015 the Obama administration did not specifically point to its position on the way the two sides of the Taiwan Strait touched on Taiwan's international space and meaningful participation in regional economic institutions, to argue by inference that the Obama administration is supportive for, or at least not opposed to, cross-Strait dialogues as to Taiwan's meaningful participation is not far-fetched at all. In principal, the US "supports Taiwan's membership in international organizations that do not require statehood as a condition of membership and encourages Taiwan's meaningful participation in international organizations where its membership is not possible." (US Department of State, 2019)

In order to get rid of the likely obstacles placed by mainland China and to garner greater support of the US, the Ma administration attempted to deal with diplomatic tensions between the two sides of the Taiwan Strait, hoping they could be eased as much as possible. Mainland China, pushing national reunification to the top of its political agenda, consented implicitly and worked with Taiwan to reach greater cross-Strait mutual trust, leading to a relatively softer and more flexible approach to managing Taiwan's request for more space in international activities. With that, the obstacles to Taiwan's meaningful participation in a limited number of major IGOs somewhat diminished in a handful of cases such as the WHA and the ICAO.

The current Tsai Ing-wen administration has not deviated from the Ma administration, as it claims to work on meaningful participation in the specialized agencies of the United Nations, uses the title "Chinese Taipei" to attend the WHA as an observer in May 2016 only, tries to join more bilateral or regional economic cooperation mechanisms to preserve Taiwan's economic resilience, and so on. A major difference, however, is in its position toward mainland China that it has not accepted the "1992 Consensus" that according to Taiwan's KMT governments (Lee and Ma) refers to "one China, respective interpretations". Consequently, in September 2016, the Tsai administration was not invited to the ICAO Assembly, and in October 2016 the move of the Tsai administration to re-join the Interpol as an observer was unsuccessful due to opposition of mainland China. In November 2016, the DPP government suffered from one more diplomatic setback when its minister of environmental protection could not lead an NGO delegation to join some side events at the twenty-second session of the Conference of the Parties (COP 22) to the UNFCCC. In 2019, Taiwan simply joins thirty-eight IGOs as a full member, and eighteen IGOs as an observer (see Appendix). Of those IGOs, perhaps the World Trade Organization (WTO), the Asia-Pacific Economic Cooperation (APEC), and the Asian Development Bank (ADB) are heavy-weights for Taiwan.

It is obvious that Taiwan's meaningful participation in IGOs will hinge on the greatest common ground shared among the "1992

Consensus" (originally proposed by Taiwan in 2000), the "One-China Principle" (long endorsed by mainland China) and Washington's policy supporting Taiwan to enter IGOs whose memberships are not based on statehood – a policy initiated by President Bill Clinton in 1998. A critical question at a higher level is: What has been the impact since Taiwan, a strong economy with lots of active civil society organizations, has been unable to participate in contemporary global governance? This missing link, i.e., Taiwan, has been there for more than 4 decades, but most of the state actors, even some non-state actors, in global governance institutions have pretended to see nothing about it. The possible impact may need more time and data to examine, but the defect of contemporary global governance that has been much reliant on power politics or material capabilities must be dealt with, in order to improve global governance in world affairs.

Specifically, the case of Taiwan in global governance just reflects the "actor problem", the "speech act problem", the "accountability fragmentation" issue, as well as the "universal application" issue.

With regard to the "actor problem", the ROC, commonly known as Taiwan, enjoys the rights within the framework of international law, because it is still recognized as an independent sovereign country by 15 independent sovereign states in the world. The contemporary global governance often neglects the existence of Taiwan, pretending that the Chinese Communist Party government has taken care of the rights of the people in Taiwan. Besides, Taiwan has been able to participate in a very limited number of global and regional governance institutions, sometimes in an unofficial way. But it has failed to attend others, such as the UN, the International Labor Organization (ILO), and the Association of Southeast Asian Nations Regional Forum (ARF). Taiwan's diplomatic allies view it as a qualified member for all global governance institutions, while mainland China's allies either are in opposition of

Taiwan's participation and see Taiwan as province of China ruled by the PRC, or remain less proactive to Taiwan's attempts to join the mainstream international community. Hence, in many IGOs there are member states for or against Taiwan's participation, and both sides have a different view toward how these IGOs can be more accountable than others may have. At any rate, without Taiwan's participation, a great deal of global governance measures cannot be considered fair or justified to the human society. Accordingly, universal application of rules and principles in global governance has had a serious flaw.

As for the "speech act problem", as mentioned earlier, it has become a vital problem hindering the improvement in cross-Strait relations. In other words, the lack of basic mutual trust has caused such a "speech act problem" between Taiwan and mainland China. It is clear that the both sides of the Taiwan Strait have been adopting a policy that can be described like West Germany's "(Walter) Hallestein Doctrine" which rejected any official ties with the countries (other than the Soviet Union) that recognized East Germany diplomatically. For that reason, after 1971 when the ROC government withdrew from the UN, including the Security Council, the PRC began to win an advantage over the ROC in a number of global or regional governance institutions and successfully replaced the latter to be the only legal government representing "China". These developments have been further complicated with the democratization in the ROC on Taiwan, in particular after the 1990s, as the call for Taiwan independence gradually became a voice in Taiwan's politics that cannot be ignored. The DPP established in 1986 has become the leading political force of Taiwan that promotes Taiwan independence and sees the ROC as the "title" of the country only. As a consequence, the diplomatic struggles between the two sides of the Taiwan Strait have no more been aimed only at the issue of "who represents 'China'". Since the doubt of mainland Chinese authorities about Lee's inclination of Taiwan independence has arose in the mid-1990s, the diplomatic struggles between Taiwan and mainland China can carry the notion of a communist China suppressing another country "(Republic of) Taiwan" on the international or diplomatic front.

For the leaders of mainland China, no political arrangement that represents "two Chinas" or "one China, one Taiwan" will be tolerated. To put it simply, no matter how Taiwan's leaders justify their intention to join or apply for full membership in IGOs, ranging from humanitarian purposes or the desire for contributing back to the international community to normalize Taiwan's "statehood", their move may be viewed by their mainland Chinese counterparts as being political in the sense that Taiwan's appearance in these institutions denotes "two Chinas" or "one China, one Taiwan". For the leaders of Taiwan, despite the frequently seen tough statements issued by the mainland Chinese authorities that insists on the provincial status of Taiwan, the window of opportunities was once open when the "1992 Consensus" became the cornerstone for cross-Strait dialogue between the Communist Party of China (CPC) and the KMT (no matter the latter was in power or in opposition) between the mid-2000s and 2016. It is evident that some in Taiwan think the reason why the mainland Chinese authorities is willing to give Taiwan a limited space in a handful of IGOs (such as an observer status or a guest of the chairperson) is because that can downgrade the ROC's (or Taiwan's) sovereign status, while others sense that the mainland Chinese authorities finally moves its position a little bit in order for a more constructive interaction between Taiwan and mainland China in certain international occasions aimed at functional cooperation. In Taiwan, this is the main difference in interpreting the "speech act" of the mainland Chinese authorities, which thus leads to another argument as to the link between the will of the mainland Chinese authorities to agree implicitly on Taiwan's meaningful participation and the intention of the mainland Chinese authorities about national reunification. Some in Taiwan believe whatever the CPC says and does about Taiwan's international participation is simply for the goal of reunification, whereas others would rather take the CPC's words and deeds in this regard as either purposeful or genuine goodwill.

Concerning the "accountability fragmentation" issue, discrepancy exists obviously in the issue of the ROC's international participation, depending mostly on the state and non-state actors perceiving and interpreting the case of Taiwan. As analyzed before, accountability, in association with "universal values", has been an idiom used by most of the participating actors in global governance. How it is defined, perceived, and practiced depends largely on who is asserting or asking, from what angle and on the basis of what kind of value, including a legal framework. Therefore, in the case of Taiwan's meaningful participation in global governance institutions, whether it would affect the accountability of a given institution has become a subject that is debated among participating members. Take for example Taiwan's request for meaningful participation in the WHO. Most of the countries having diplomatic ties with the ROC voiced their backing for Taiwan's meaningful participation. For instance, in the general debate of the WHO in late September 2019, the representative from Tuvalu viewed Taiwan as a "genuine and durable partnerships" vital for the UN to achieve its Agenda 2030 and Sustainable Development Goals (SDGs), but "the exclusion of a genuine and durable partner like Taiwan from the UN denies its 23 million people of their fundamental rights to participate, benefit and contribute to the UN SDGs." (*Focus Taiwan*, 29 September 2019) On the contrary, the representative from mainland Chinese authorities, working with the representative from Pakistan, held the "one China principle" defined by the CPC government and alleged the promotion of "Taiwan independence" of the DPP government on

Taiwan, thus leading to a conclusion that Taiwan should not participate in the WHA as an observer. The chairperson of the general debate session then decided to get out of the inscription on the agenda.

An obvious "accountability fragmentation" has been connected to the "universal application" issue. For the ROC and its diplomatic allies that make the former's meaningful participation an official proposal, the WHO will lack full accountability if Taiwan is excluded. The principle of "universal application" should be valid for all sovereign states in the world, including the ROC. Yet, for mainland China and its numerous allies, the insistence on the case of Taiwan's participation in the WHO should be in line with the "one China principle", and the way how the CPC officials perceive the WHO's accountability through international cooperation is conditioned by respect of state sovereignty and territorial integrity which was explained by Wu Yi (2003), former Minister of Health of the PRC:

> The WHO is a specialized agency of the United Nations whose membership is open only to sovereign states. There is no legal ground whatsoever for Taiwan's participation in the WHA. Resolution 2758 adopted at the 26th UN General Assembly in 1971 and Resolution 25.1 adopted at the 25th WHA in 1972 settled once and for all the question of China's representation in the United Nations and WHO politically, legally and in procedure… International cooperation in the field of health must be based on the important principle of the UN Charter – respect for state sovereignty and territorial integrity. China attaches importance to international health cooperation and practices the principle of respect for state sovereignty and territorial integrity in international cooperation.

In the same case, the issue of "universal application" then becomes a jargon that has a flexible standard when the ROC, assisted mainly by its diplomatic allies, demonstrates its attempt to participate either fully or meaningfully in the WHO/WHA. In part because of the good health condition in Taiwan, and in part because of the strong opposition of the mainland Chinese authorities, it seems that universal application that includes Taiwan has been ignored on purpose by most of the WHO member states, which makes this global institution on health governance less justified and less accountable (Chen, 2017).

4. A Possible Remedy(?)

I argue that Yale Ferguson and Richard Mansbach's "remapping" global politics (governance) should serve as a conceptual way (remedy) that deals with the unique and difficult status of Taiwan having been unable to participate officially in most of the major IGOs for over four decades. Ferguson and Mansbach (2004) maintain that states have lost their key positions in world affairs when their legitimacy, authority, and capacity to act have all been swayed by non-state actors, so in such a "post-international universe", international regimes should become more significant in the sense that the increased complexity in world affairs has made governments less capable of managing these affairs along or as a small group and that the growth in collective goods issues has demonstrated the inevitable need for multilateral governance mechanisms. Generally speaking, they call for the shift of attention from state-dominant and state-IGOs relations to an understanding that sees global and regional governance institutions both as research objects in their own term and as autonomous actors that share power and influence with IGOs and sovereign states, either member or non-member states in such institutions, as well as interact with NGOs and epistemic communities.

If international relations' future is moving toward a "post-international universe", the influence of power politics will lessen and the reinforcement of global governance institutions will become crucial. At that time, ideally, Taiwan's official or meaningful participation will be gradually considered by more participants of global or regional governance from a relatively less political perspective, provided that the request made by Taiwan does not touch on the potential bottom line of the CPC government, i.e., no "one China, one Taiwan" and no "two Chinas". This scenario is not conceptually impossible.

Nonetheless, for now this remedy is apparently too "innovative" to better manage the condition where Taiwan has not been represented in and obligated and contributing to many contemporary global governance institutions. In practice, relevant major stakeholders have not moved from a realpolitik mindset to a "post-international universe". As Roland Paris (2015) points out, the pluralization of global governance actors and mechanisms has become a trend that is likely to continue in the coming years, whereas foremost contemporary international cooperation still depends largely on consensus of major powers on core norms as a basis for stability and development, thus leaving reasonable the argument that the perspectives of major power consensus and of the growing pluralization of governance arrangements should be combined in order for a better remedy for the unfortunate political interference in global governance nowadays. One should recognize that major powers leading or participating in multilateral institutions or international diplomacy have not abandoned material capabilities and geopolitics/geoeconomics. The issue of Taiwan's official or meaningful participation may be less challenging for many if power can be distributed "not only toward the emerging economies but also toward transnational and non-state actors", and "as the number and variety of participants in global politics multiplies…, be they governmental or nongovernmental, will be those that comprehend that getting things done on a more crowded world stage requires mobilizing diverse coalitions of like-minded actors." (Paris, 2015: 416)

It is unrealistic to anticipate a dramatic change in major stakeholders' view about the political nature of cross-Strait relations and thus in the way how Taiwan should get involved in global governance. Perhaps a more possible way before the arrival of the "post-international universe", if there will be, is a joint effort to advocate a slow transformation of the perception and nature of power relations that can take into account together the fundamental necessity of major powers and the ultimate goal of improving global governance mechanisms by enlarging the coalition of the willing, providing more resources from capable participants, and covering every individual in the world.

The ROC, or Taiwan, has been definitely an important missing piece of global governance. The rapid growth in and the noticeable need of workable global governance, no matter in terms of the number of actors or the mechanisms, indicate the necessity of an innovative method that can better deal with Taiwan as a missing piece of global governance. The conventional way of treating Taiwan's international participation has hindered not only Taiwan's participation and contribution but also downscaled the benefit that should have been garnered out of coordination and cooperation in global governance. The answer to the question of why such an insufficiency, or a missing link, in global governance needs a remedy has been clear enough. Yet, how should stakeholders of global governance correct such an insufficiency? Who should take the lead in response to a call for better management of such an insufficiency? Both of these questions have faced a fundamental issue that still needs wisdom and patience to deal with – i.e., the sovereign struggle between the two sides of the Taiwan Strait. Things will become even more complicated if the issue of “fairness” or “justice” is taken into account, given the different political and sovereign claims made by Taiwan and mainland China, respectively. To envisage the reality, participants of specific global or regional governance mechanisms will have to endeavor to discuss and formulate a more sensible and feasible approach to a win-win-win situation which benefits Taiwan, mainland China, and the other state and non-state actors.

5. Concluding Remarks

As some relatively weaker states are calling for a bigger share of more decision-making rights and as more non-state actors are joining various global governance institutions to better achieve the objectives for the human society, the nature and arrangements of global governance may be affected by the practical need for greater human and financial resources from non-state actors and for all kinds of experience and know-how from an array of aspects. Despite the fact that major powers may be going to remain influential and central in terms of important decision-making and financial resource pooling, the study and (re-)examination of ethical matters in global governance has become indispensable as the difficulty in realizing the objectives of global governance has been more obvious due to the following problems or issues about ethics in global governance that have been touched on earlier: the “actor problem”, the “speech act problem”, the “accountability fragmentation” issue, and the “universal application” issue.

The ROC, established in 1912, is one of the founding member states of the UN, and it has been an evident case where a capable state actor has been deprived of most of its rights of participating in the related institutions of global governance. Given the complex cross-Strait relations and the unyielding posture of mainland China that does not want to see Taiwan's such participation as a catalyst of future "two Chinas" or "one China, one Taiwan", how to attain morally resilient and appropriate arrangements in the practice of global governance in order to uncover Taiwan, a critical missing piece, and deal with this ethical dilemma is very difficult. Despite the fact that the majority of the sovereign governments in the world have either explicitly or implicitly agreed on the political demand of the Chinese Communist government, the strong request of the ROC government and people of Taiwan for greater participation in mainstream international activities should not be ignored. Having been based on Taiwan for more than 6 decades, the ROC is more than capable of contributing to the international community with its relatively abundant human and financial resources. In addition, putting political factors aside, it makes no sense that the 23 million people of Taiwan should be "forgotten" or "punished" by being kept away from collective effort and achievements of global governance. Taiwan needs some or full level of participation in global governance institutions, and global governance institutions need Taiwan's feedback too.

Both from a sovereign perspective and from an international legal perspective, the explanations as to why the majority of contemporary mainstream global governance institutions do not consider or discuss the appeal of the government and people of the ROC for meaningful or full participation are not impeccable. The rules or decisions made by the majority of the participants in these institutions appear very political and unethical in the sense that the rights of the people in Taiwan to join and contribute to the collective effort have been discriminated and deprived. In fact, owning to the tremendous pressure and long-standing insistence of the Chinese Communist government, it seems that there is no effective remedy for such a dilemma faced by Taiwan. Nonetheless, a stronger emphasis on ethics in managing global governance and a compelling ethical argument against the exclusion of Taiwan from related institutions should be made by those concerned in order to, at least, prevent the case of Taiwan from being ignored on purpose. Such an emphasis may not be a direct approach to the better or ultimate resolution for the ROC's status in the mainstream international society, but by doing so the case of the ROC on Taiwan can be attended to unceasingly, thus making possible a fair, just, and politically practical treatment toward the ROC in the future.

Appendix

As a Full Member:

	Organization	Acronym	Since
1	International Council for Harmonization of Technical Requirements for Pharmaceuticals for Human Use	ICH	2018
	North Pacific Fisheries Commission*	NPFC	2015
	Asset Recovery Inter-Agency Network of Asia/Pacific*	ARIN-AP	2014
	Association of World Election Bodies*	A-WEB	2013
5	South Pacific Regional Fisheries Management Organisation*	SPRFMO	2012
	International Council for Information Technology in Government Administration*	ICA	2010

	Inter-American Tropical Tuna Commission*	IATTC	2010
	Standards and Trade Development Facility*	STDF	2010
	International Forum of Independent Audit Regulators*	IFIAR	2008
10	Advisory Centre on WTO Law	ACWL	2004
	Western and Central Pacific Fisheries Commission	WCPFC	2004
	Extended Commission for the Conservation of Southern Bluefin Tuna	CCSBT	2002
	The International Scientific Committee for Tuna and Tuna-like Species in the North Pacific Ocean	ISC	2002
	World Customs Organization (Technical Committee on Customs Valuation)	WCO	2002
15	World Customs Organization (Technical committee on Rules of Origin)	WCO	2002
	World Trade Organization	WTO	2002
	The International Competition Network	ICN	2002
	Asia-Pacific Association of Agricultural Research Institutions	APAARI	1999
	Association of Asian Election Authorities	AAEA	1998

20	Egmont Group	EG	1999
	Asia/Pacific Group on Money Laundering	APG	1997
	Study Group on Asian Tax Administration and Research	SGATAR	1996
	Asia-Pacific Legal Metrology Forum	APLMF	1994
	Association for Science Cooperation in Asia	ASCA	1994
25	International Association of Insurance Supervisors	IAIS	1994
	Central American Bank for Economic Integration	CABEI	1992
	International Satellite System for Search and Rescue	Cospas-Sarsat	1992
	Conference of Governors ofSouth East Asian Central Banks	SEACEN	1992
	Asia-Pacific Economic Cooperation	APEC	1991
30	International Organization of Securities Commissions	IOSCO	1987
	AVRDC-The World Vegetable Center	AVRDC	1971
	Food and Fertilizer Technology Center for the Asian and Pacific Region	FFTC/ASPAC	1970
	Afro-Asian Rural Development Organization	AARDO	1968

	Asian Development Bank	ADB	1966
35	International Cotton Advisory Committee	ICAC	1963
	International Seed Testing Association	ISTA	1962
	Asian Productivity Organization	APO	1961
38	World Organisation for Animal Health	OIE	1954

As an Observer:

	Organization	Acronym	Since
1	International Council for Harmonization of Technical Requirements for Pharmaceuticals for Human Use*	ICH	2015
	International Renewable Energy Agency*	IRENA	2011
	World Health Assembly of the World Health Organization*	WHA	2009
	Fisheries Committee of the Organization for Economic Cooperation and Development		2006
5	World Customs Organization (Revised Kyoto Convention Management Committee)	WCO	2006
	Conferencia de las Fuerzas Armadas Centroamericanas	CFAC	2005

	Organization for Economic Cooperation and Development (Steel Committee)	OECD	2005
	Kimberley Process	KP	2003
	Organization for Economic Cooperation and Development (Competition Committee)	OECD	2002
10	Global Biodiversity Information Facility	GBIF	2001
	Sistema de la Integración Centroamericana	SICA	2000
	Parlamento Centroamericano	PARLACEN	1999
	Food Aid Committee	FAC	1995
	International Grains Council	IGC	1995
15	Commission for the Conservation of Southern Bluefin Tuna	CCSBT	1994
	European Bank for Reconstruction and Development	EBRD	1991
	Foro de Presidentes de Poderes Legislativos de Centroamerica y la Cuenca del Caribe	FOPREL	1991
18	Inter-American Development Bank	IDB	1991

Note: "*" stands for those organizations in which Taiwan, regardless of the title and status, participated between May 2008 and May 2016.

Source: The ROC Ministry of Foreign Affairs, *<http://www.mofa.gov.tw/enigo/default.html>* and *<http://www.mofa.gov.tw/enigo/Link3enigo.aspx?n=58BD38F4400A7167&sms=A72EC821FB103DD9>*.

Notes

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* Kwei-Bo Huang (黃奎博), Ph.D., is currently an Associate Professor of Diplomacy, as well as Vice-Dean of College of International International Affairs at National Chengchi University (國立政治大學), Taipei City, Taiwan (ROC). He received his doctorate from Department of Government and Politics, University of Maryland, College Park, USA. <*Email: kweibo @nccu.edu.tw*>

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Migrant Labour in China: A Case Study of Labour Discontent, Unrest and Protests

Manganelly **Sumesh***
Department of Politics, East China Normal University

Abstract

Labour unrest has been the major source of political and social instability in China since the 1990s. China has been known as the global epicentre of labour unrest. Migrants are vulnerable to exclusion and social dilemmas. Here in China, migrants are only seeking the quality of employment, their socio-economic rights as well as well-being. They are treated as second-class or secondary citizens in the urban spaces, and they have to face discrimination at work place and humiliation by local urban residents. Reduced monthly wages coexist with the violation of the labour rights even when they sign a labour contract. The migrant workers are increasingly fighting against labour unrest by using different means such as legal channels, strikes, protests, violence and so on. They are willing to bargain collectively and so the rate of protests has increased rapidly in the recent years. The rising political awareness among the migrant workers led migrants to organise themselves to fight against discrimination. The maximum number of protests is visible in the manufacturing sectors, especially in China's southern province of Guangdong.

Keywords: *China, migrants, labour unrest, discrimination, protest*

1. Introduction

As migration process, labour protest is also a new phenomenon in China since 1978. China has witnessed thousands of migrant labour protest demonstrations all over the cities in the last few decades. The rising labour unrest is the major factor for these protests and strikes. The so-called socialist way of "organised dependence" of labour system has evolved into "disorganised despotism" in which employers and managers use the measure of coercion with the unorganised labour. China has been called the "global epicentre of labour unrest" (Becker, 2014). Migrants are now willing to bargain collectively by the use of protests and strikes against discrimination. Here in this article, the author argues that the denial of citizenship rights (urban *hukou*)[1] leads to labour unrest as well as discrimination in the Chinese cities. Also, the author argues that migrants fight against discrimination with different means like demonstrations, strikes, legal channels and sometimes in certain cases they choose violent way too. So certain questions need to be addressed at this point: How are migrants easily discriminated and marginalised in the cities? What are the different kinds of workplace discrimination faced by migrant workers in the urban space? How do migrants fight against such discrimination? How does the Chinese state deal with labour protests and how does the state respond to such protest? What are the solutions and policies brought by the government to resolve the rising labour protests in China?

2. Migrants and Labour Unrest

Millions of migrants who work outside of the state-owned industries are the victims of the major labour rights violations. They work in private or informal sectors and they number about more than 250 million (Becker, 2014). These migrants are a vital part of the entire urban labour force. The arrival of massive supply of younger and cheaper labour reduces managerial dependence on the old work force. For example, in Guangzhou, about 50 percent of all textile workforce and one third of those in the plastic industry were migrants and most were inter-provincial migrants in 1995 (Lee, 1999). There are many advantages of employing such workers: (a) they do accept low wages compared with local worker; (b) enterprises can easily under-report their number, so that they can make substantial savings by evading social insurance contributions; (c) being younger and less experienced, migrant workers can be allocated to the most labour-intensive and strenuous jobs on the shop floor by replacing veteran workers.

As the economy develops and employment opportunities increase, the income of urban and rural residents keeps rising. From 1990 to 2003, the disposable income per capita of urban residents rose from 1,510 yuan to 8,472 yuan, an increase of 460 percent or a rise of 160 percent in real terms; and the net income per capita of rural residents increased from 686 yuan to 2,622 yuan, an increase of 280 percent, or a rise of 77 percent in real terms (according to a white paper on *China's Employment Situation and Policies* published in March 2004 by Information Office of the State Council of the People's Republic of China). Still, this is the major factor which leads to rural to urban migration. This income gap continuously keeps on widening year by year, but migration can help rural people earn a better income than that they get from their villages. However, on the other hand, they are not properly paid by urban employers. This unpaid condition is primarily a large reason for labour unrest by migrant workers in the cities.

As the white paper on *China's Employment Situation and Policies* published in March 2004 by Information Office of the State Council of the People's Republic of China says:

> The Chinese Government has gradually improved the administration of labour contracts for rural migrant workers in cities. Any work unit that employs rural workers must sign labour contracts with them according to law to clarify the rights and obligations of the respective parties. The government has reorganized the labour market, strengthened supervision over and inspection of the employing units and intermediaries, enhanced management in such areas as wage payment and labour conditions, carried out a special inspection of law enforcement regarding the protection of rural migrant workers' rights and interests, and severely dealt with illegal job agencies and fabrication of false employment information to deceive rural migrant workers, thus effectively safeguarding the rural migrant workers' legitimate rights and interests and the order of the labour market. Active efforts have been made to develop ways to extend social insurance to rural migrant workers, and in the major localities that bring in rural migrant workforce, such as Guangdong, Fujian and Beijing, the coverage of social insurance has been extended to include rural migrant workers, relevant policies and regulations have been worked out and active efforts have been made to provide social insurance to rural migrant workers in work-related injury, medicare and old-age pension.

In this part of the white paper many good policies and recommendation have been given, but one has to analyse the validity of this white paper statement after a decade of its proposal. How much have these policies been implemented in the cases of rural migrant labour in the cities and to what extent these policies have helped to overcome labour unrest and workplace discrimination in the urban space?

2.1. Migrant Workers and Their Lack of Rights

Rural peasants working in the cities have a very different status, which distinguishes them from the urban people. Migrants' residential status is similar to foreign nationals living as "guest workers" (Chan, 1998). Floaters have very minimal rights in the urban area because they are not eligible to stay in the cities permanently. Apparently, they are required to return to their place of origin when the need for their labour has ended. Migrants are not entitled to any social insurance, property rights, any social welfare like schooling and employment for their children and even any right to residency.

At this juncture we can just have a look at protection of labourers' right to employment stated in Chinese government's white paper on *China's Employment Situation and Policies* published in March 2004 by Information Office of the State Council of the People's Republic of China:

> – **Protecting labourers' right to employment.** Chinese law stipulates that workers must not be discriminated against in the matter of employment because of ethnic identity, race, sex or religious belief. Chinese law strictly prohibits the employment of people under the age of 16. The state strictly investigates and deals with the illegal use of child labourers and the recommendation of children for work. The

> Chinese Government has, by intensifying law enforcement and supervision, urged enterprises to earnestly implement the stipulations specified in laws and regulations concerning equal employment, rectified all acts of discrimination in the labour market, and banned all employment advertisements containing discriminating content in the media. Simultaneously, the Chinese Government strives to enhance the labourers' awareness and ability of protecting their own rights and to create a sound public opinion environment, supports and encourages labourers to use the law to protect their own employment rights and interests. The Chinese Government has continuously improved the state, industrial and local standards in respect of job safety and hygiene. It promulgated the standards for the job safety and hygiene administrative system in 1999, and carried out certification work in an all-round manner. In 2003, the State Council promulgated the "Regulations Concerning Insurance for Work-related Injuries," which became effective as of January 1, 2004.

These are rights which are manifested in the white paper and its implementation is destitute in condition. Till date, China has not reached the 100 percent insurance coverage for work-related injuries. Still, a large number of migrant workers are outside of any such social insurance scheme. In most of the informal or private sectors migrants have to take insurance with their money; no employer is paying a single penny for their insurance coverage. Indeed, there is workplace discrimination occurring in different manners, at least in the name of rural-urban partiality. Apart from these violations of rights migrants are not paid properly. Migrant workers do not have any specific leave and they can hardly get leave opportunities. Over time workloads and child labour are other violations evident in the urban industrial sectors. For example, to show the violation of labour rights have a look at the letter below. This is a letter written and sent to the official trade union newspaper editor in 1995, which illustrates violations of Chinese workers' rights, co-signed by more than twenty workers:

> Dear Comrade Editor:
>
> We are staff and workers of Guangdong's Zhaojie Footwear Company. The company docks our pay, deducts and keeps our deposits, beats, abuses, and humiliates us at will.
>
> Zhaojie Company is a joint venture. It sends people to Sichuan, Henan, and Hunan Provinces to recruit workers. Even children under 16 are their targets. Those of us who came from outside the province only knew we had been cheated after getting here. The reality is completely different from what we were told by the recruiter. Now even though we want to leave, we cannot because they would not give us back our deposit and our temporary residential permit, and have not been giving us our wages. This footwear company has hired over one hundred live-in security guards, and has even set up teams to patrol the factory. The staff and workers could not escape even if they had wings. The only way to get out of the factory grounds is to persuade the officer in charge of issuing leave permits to let you go. A Henan worker wanted to resign but was not allowed to by the officer. So he climbed over the wall to escape, but was crushed to death by a passing train. Although it means forfeiting the deposit and wages and losing their temporary residential permits, each year about 1,000 workers somehow leave this place. Being beaten and abused are everyday occurrences, and other punishments include being made to stand on a stool for everyone to see, to stand facing the wall to reflect on your mistakes, or being made to crouch in a bent knee position. The staff and workers often have to work from 7 a.m. to midnight.

> Many have fallen sick. ... It is not easy even to get permission for a drink of water during working hours.
>
> Signed: Guangdong, Zhaoqing City Zhaojie Co., Yang Shuangqi, Li Shashua and some 20 others.
>
> (Chan, 1998: 888)

This letter shows not only the violation of labourers' rights but also an indication of an extreme violation of human rights for living as a human being with dignity, life and labour. This letter represents the thousands of such case in the different workplaces in all over the Chinese cities. There is always coercion in the workplace where migrants either to work with all these sufferings or they have to leave their job. In such a vulnerable situation migrants have gone for the first option for their income and survival.

The vast majority of mining workers are generally migrants. An average 6000 of them die each year in accidents that occur during mining. Compensation is very low and it varies across the country. Relatively more than 70 percent of the main industrial accidents take place in informal or private (non-state-owned) small enterprises due to the lack of training, and employers' negligence in health and safety protection for production (Cooke, 2007: 563). Working environment is always a barrier to the migrants in which they are more vulnerable and struggle to avoid accidents. Even such vulnerable working conditions challenge the right to life of a migrant. But migrants are willing to do any kind of highly risky work in such dangerous working environment for better income and to protect their family. Migrants enjoy very few labour rights and if they protest for rights then they have to leave their job. So in most of the cases, they remain silent or happy being in employment.

2.2. Rising Inequalities and Discrimination

It has been more than three decades since China started economic reform and began to transform its economy from a closed economy into a market-driven economy. During this period China experienced rapid economic growth and peoples' lifestyle also changed. This growth, however, has been accompanied by widening peoples' income inequality. When the migrants from countryside find employment in the cities, it would be giving them higher income than they would have earned if they had worked in the rural employment sector. Migrant workers from rural areas, whose numbers are growing considerably in recent years, can only obtain lower paying jobs than urban workers. Therefore urban inequality will be higher if the migrant workers are included in calculating urban inequality (Kim, 2010: 36).

Table 1 Average income per capita by region, 2002 and 2007 (yuan)

Region	2002				2007			
	Urban	Rural	Migrant	All	Urban	Rural	Migrant	All
Large munici-palities	9577	3477	4617	7930	16876	8103	12161	14867
Eastern	6836	4076	4986	5153	15278	6418	11701	10742
Central	5535	2640	4230	3552	11063	4380	9824	7031
Western	6129	2039	4853	3162	10707	3630	11648	6106

Source: Shi *et al.* (eds.) (2013).

Table 1 shows the average income per capita by region in two different years (2002 and 2007). This data illustrates the region-wise and average incomes of three different categories (urban, rural and migrant). There is always a huge income gap between people from urban and rural areas, and migrants stand between these two categories of people. The average incomes of all categories have doubled with five year period. The migrants in all the regions and larger municipalities earn a better income than rural people from respective regions. This data is evident that why rural to urban migration is continuously increasing in China. But if one sees the difference between the average income of migrants and local urbanites, it is revealed that the vast income gap is widening in these years even though both categories do the same work. However, in the Western region migrants have more average income than local urbanites in the year 2007. There are huge income disparities in the larger cities and highly developed Eastern region. This income difference led to rising inequality in urban China.

Unlike earlier stage of migration, now females are also migrating in large number. The migrant workers are vulnerable groups in the urban workplace especially female workers, as most of them are discriminated against because of both their sex and their migrant status. Recent research conducted by Chinese Academy of Social Science (CASS) reveals that the average male migrant workers' monthly wage is 1100.24 yuan, while female migrant workers are getting only an average of monthly wage 910.78 yuan. According to CASS, only 37 per cent of this income difference can be explained by the quality of labours (such as education), and the rest is the result of gender-based discrimination (Yang and Li, 2009: 296). The white paper on *Gender Equality* in 2005 in China declared that it had developed a legal system which would protect woman's rights and interests in the workplace and in general.

However, this strong political declaration has to face an uncomfortable reality check. A 2006 All-China Women's Federation article revealed that an investigation by the All-China Federation of Trade Union (ACFTU) noted that "sex discrimination is the norm in today's workplace. The progress made in the early decades of the People's Republic of China has in many cases been abandoned in the years since economic reform began" (Yang and Li, 2009). With these legal protections and different reports, still, migrant women face discrimination in their work in various things. As they are vulnerable and afraid of losing their job, they decide to stay quiet at the workplace. These factors are the leading contributions to the increasing number of protest demonstrations in China.

2.3. Forced and Bonded Labour

There is a kind of situation of forced or bonded labour in the urban China faced by migrants in different occasions when they are new to cities due to lack of awareness. This type of labour unrest was very much there in the 1990s when the movement of people increased rapidly. What is forced or bonded labour here? Forced or bonded labour is a type of circumstance migrants falling in and they have to do the work with a lot suffering. In detail, workers are required to pay for a temporary work permit in the cities to get a license to work in the urban industries. In many cases, the cost of the permit is too high and migrants cannot afford to pay for it. In that situation the factory pays it for the migrants as an advance wage for migrant. This arrangement is immediately trapping those migrants in a bonded relationship. Thereafter the employer dictates the terms and conditions of employment and cut half of the employee's wage as the "deposit" to further bonding the migrants. The worker would be losing this deposit if they wanted to quit without employer's permission before the contract expires or if they are fired. In some factories, the management simply keeps the salary with them and promises to return the money at the end of the year. Because of all these conditions migrants have to work even if the working conditions are terrible. Also, they cannot afford to lose the "deposit money" and they have to finish the contract tenure.

In some cases, the management keeps the migrants' identity paper, work permit and residential permit as for safekeeping, so that they cannot easily leave the work; the management does so even though it is an illegal practice. So in this situation, migrant workers cannot go to any other place or even the streets without their permit. It is becoming vulnerable for them in case of any police identity check. Despite these conditions, they have to live in the cities to build their career and better earnings. However, once migrants are bonded by any one of the methods explained above, the factory can be assured to keep a stable workforce with low-wage workers. All of these are in blatant violation of Article 4 of the *Universal Declaration of Human Rights*, which states: "No one shall be held in slavery or servitude" (Chan, 1998: 891). Here, Chan (1998) criticises that China's *hukou* system also creates a situation of forced or bonded labour. Migrants are treated very badly in such situations and they are also humiliated severely by the management if the industrial outcomes are less than they expected.

2.4. Low Wages

Migrants always have an issue of low wage for their respective work. But at the same time, the urbanite gets more wage than migrants even though they work fewer hours than migrants. In many cases, the migrants are not paid for their overtime duties. In 1997, the Chinese government had introduced some standards on wage for its urban workforce. This standard measure says there is a wage mandatory in

Labour Law. There is forty-four hours work in a week and the minimum standard per month wage for the workers working in the Shenzhen Special Economic Zone was set at 420 yuan (290 yuan for Beijing and 315 yuan for Shanghai). These standard wages were lesser than when compared to the cost of living in the Chinese cities (Chan, 1998).

It was reported (*Workers' Daily*, 6th December 2004) that migrant workers' wage had only increased by 68 yuan in the last 12 years in the Pearl River Delta economic zone. A migrant worker in this area typically earns 6000 yuan a year, while the average annual wage of all workers in the urban area has been increased by more than 1000 yuan per year in recent years to 14040 yuan in 2003 (*China Statistics Yearbook*, 2004). Taking into account inflation, the wage level of the migrant workers has decreased (Cooke, 2007). The wage scale had increased if we compared these two periods (1997 and 2004). But it has not increased in a better way in which labour can earn decent amount for their work efforts. However, Chinese government's white paper on *China's Employment Situation and Policies* published in March 2004 by Information Office of the State Council of the People's Republic of China describes that as the economy develops and job opportunities increase, the income of urban and rural residents keeps rising. From 1990 to 2003, the disposable income per capita of urban residents rose from 1,510 yuan to 8,472 yuan, an increase of 460 percent or a rise of 160 percent in real terms; and the net income per capita of rural residents increased from 686 yuan to 2,622 yuan, an increase of 280 percent, or a rise of 77 percent in real terms.

All the above facts show that there are clear wage inequalities which still exist in China between migrants and local urbanites. Apart from these wage inequalities, many private or informal industries are not properly paying their promised salary to the migrants. Migrants are fighting for these unpaid wages not in direct protests but also by using legal means in the present China. In many factories, management has their laws and regulations to control workers which include fines, penalties and punishments. In most cases, management charges fine to the migrants whenever they are under any disciplinary action. In such cases, fines will be taken from workers' wage. Also, management uses violent methods to assure workplace discipline and increase production.

2.5. Fines, Penalties and Punishments

The factory management using private security guards widely in factory premises and dormitories is very common in private and informal industries in China. Internal rules of many factories stipulated wage deduction and dismissal of workers if they failed to show up at work for two consecutive days in a month or 10 days in a year, forcing workers "to work like real robots manipulated by others". Besides, workers were made to work in overcrowded, hot and suffocating work sites, with inadequate dust-, poison-, and fire-prevention facilities and water supply. Dormitories were crowded: a "70-square-meter dormitory in a Zhuhai-based garment factory housed 86 people, while more than 180 staff and workers of a Zhuhai-based electronics factory were forced to live in a very small dormitory of a little over 100 square meters... Some female staff and workers even complained about being insulted and sexually harassed" (Lee, 1995). In factory regimes, labour control works through coercive manner more than consent, and Lee refers to such condition as "despotism" in factory regime. Most of the factories are fenced on all the four sides by high concrete walls and the main gate is guarded twenty-four hours by security personals with batons. Just have a look at fines in a factory which are written in factory's rules and regulation book which is totally filled with many despotic codes and penalties to workers:

> Workers must put a factory identity card on their uniforms. Violators are fined 5 yuan. Workers who wear slippers at work, spit or litter are fined 10 yuan.... Workers punching cards for others are fined three days' wage. Workers who do not line up for punching time cards, do not change shoes according to rules, do not wear headscarves, have long nails, or roll up uniform sleeves are fined 1 yuan. Workers must apply for a "leave card" when going to the bathroom. Each violation is fined 1 yuan.... Leave of absence without prior permission is fined 30 yuan for the first day and 15 yuan for the second. Leave of absence with prior permission is fined 15 yuan…
>
> (Lee, 1995: 15.6)

The above rules and regulations in the factory during the early 90s reveal how hard migrants life was in factory regime. For going to the bathroom also they need prior permission or leave card from the manager. It is in very much pathetic conditions migrants had to work. This factory example is an outlook of most of the private-owned factories in China. The migrant workers are not only working hard but also they are paying money for each and every disciplinary action. Some factories impose a fine of 60 yuan if workers go to the washroom more than twice in a day (management restricts the frequency and length of time allowed for going to the bathroom) (Chan, 1998). As millions of migrants are roaming in the cities desperately looking for a job, so the demand for job is high; in such conditions migrants are always thinking of termination if they speak against any atrocities against them. The migrants try to adjust and control their pain in the workplace to avoid any such dismissal and secure their income.

The above details describe the labour unrest and management atrocities. There is a high level of labour unrest visible in most of the private workplaces in China. However, the migrants are now collectively or in some other way reacting against such unrest and atrocities. The next part of this chapter discusses in detail the migrant labour protests through demonstration and legal mechanism.

3. Migrants and Labour Protests

China is being known as the "world factory", and assumes to act in a pivotal role in the global political economy in the twenty-first century. China is also notorious for its increasing labour rights violation, labour unrest and protests. Indeed, the trajectory of China's increasing labour protests has generated interest among international policymakers, labour rights activists and different international agencies. On the one hand migrants are collectively bargaining through the use of protests and strikes and on the other hand individuals are fighting through the legal mechanism. The Chinese government does not provide statistical data of the number of protests and strikes. However, anecdotal evidence strongly reveals that migrant workers' strikes have been relatively increasing over the past two decades (Becker, 2014). How are migrant workers organising? What are the methods they use for protesting and safeguarding their rights? How does the Chinese government looking into labour disputes? Sometimes migrants may resort to violence whenever legal and protest methods fail. This violence as a protest strategy is common among migrant labour nowadays.

The introduction of market reforms in the 1980s provided opportunities for peasants to leave the land in search of higher wages in urban areas, while legal labour protections in the early and mid-1990s provided new channels for workers to protest through the courts. The 1994 Labour Law, the first comprehensive labour law in the nation's history, removed many of the differences between workers in the private and the state sector (*ibid.*). There are basically two laws providing individual legal rights to the workers: (1) the individual Contract Law of 2008; (2) Labour Arbitration and Mediation Law of 2008. The first law says that all employees in the state-owned (SOEs) and foreign-owned enterprises individually agreed to terms of employment. The second law provides for voluntary mediation and mandatory arbitration of statutory as well as individual contract disputes involving contract breach (Zack, 2012). In many cases, neither employer does not sign any contract with migrant worker nor do migrants care about such contracts in the beginning. But later, when issues come in with a case of wage or working hour workers cannot have substantial evidence to fight against it. However, Contract Law of 2008 mandated the compulsory employment contract to any worker who is going to work in public or private industries.

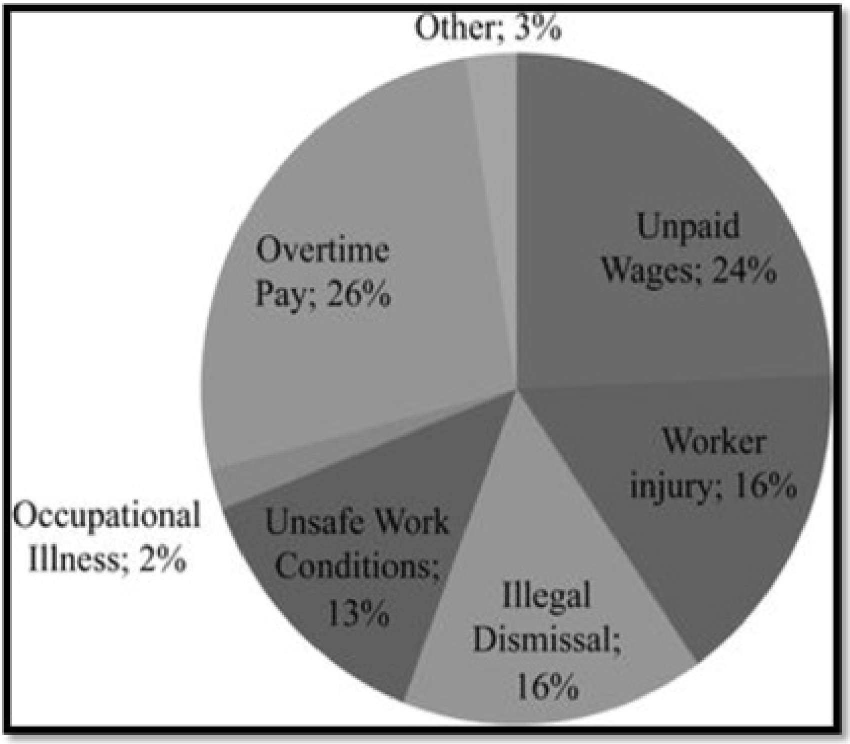
Most of the protests are on unpaid wages and discriminatory treatment. So, here we can understand the evolution process of migrants from peasants to becoming workers and workers becoming protesters in the contemporary China. The common ways to resolve the migrants' demands are going for legal mechanism, use of protests and strikes and at the most extreme condition taking violence as a means to achieve their need.

3.1. Why Do Migrant Workers Protest?

As we discussed above, there are many reasons for labour disputes in Chinese industrial workplaces. We can broadly classify labour disputes by four major categories: unpaid wages (including overtime payment), illegal dismissal, labour injuries and unsafe and dangerous working condition. The frequency of disputes varies from industry to industry and region to region.

Unpaid wages are a severe issue in China especially in the construction sector, and illegal dismissal and labour contract violations remain common in the manufacturing industry. Also, disputes over a lack of social benefits, such as pension and medical insurances, appear to be growing in China.

Figure 1 Labour Disputes



Source: Becker (2014).

3.1.1. Unpaid wage disputes

Unpaid wage issues are the most common form of labour disputes faced by migrants in which management is refusing to pay wages, failing to pay overtime or paying only a portion of the promised wage. Figure 1 shows that 26 percent of disputes take place due to wage disputes. In this 26 percent either migrants are receiving none or only a portion of their promised salary or not getting overtime pay. Since 2001, the National Bureau of Statistics in China started publishing national-level statistics of different labour cases entering arbitration and the courts. Table 2 reveals that around one third of all labour arbitration and court cases are related to unpaid wage problems.

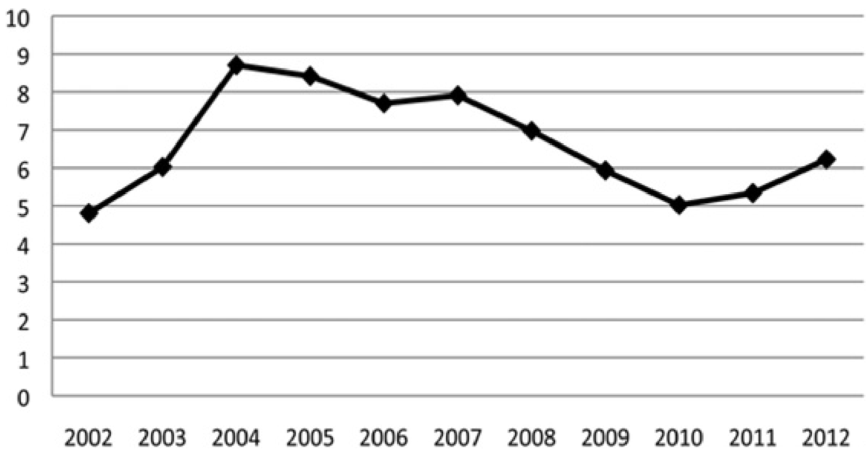
Table 2 Labour Remuneration Cases as a Percentage of Total Labour Arbitration and Court Cases, 2001-2011

Year	Total Cases	Cases caused by remuneration issues	Percentage of total cases
2001	154621	45172	29%
2002	184116	59144	32%
2003	226391	76774	34%
2004	260471	85132	33%
2005	313773	103183	33%
2006	317162	103887	33%
2007	350182	108953	31%
2008	693465	225061	32%
2009	684379	247330	36%
2010	600865	209968	35%
2011	589244	200550	34%

Source: National Bureau of Statistics (2013).

The trend of the unpaid wage issue increased slightly over the period. Delay of salary payment is another issue related to migrant workers. This situation is mainly seen in the construction industry where the developers or builders often delay contractual payment to the construction workers. What is shocking is the fact that the local governments are often among the worst offenders for not paying construction firms for the work they have done on governmental investment projects. The issue has become so extensive and damaging to the migrants and their families that in late 2003, the government issued an order that all outstanding wage payments must be paid within three years. Certain administrative measures were also introduced by the local government.

Figure 2 Number of Workers Receiving Back Wages, 2002-2012 (million)



Source: National Bureau of Statistics (2013).

Some local governments ordered that construction firms must pay an advance wage as insurance by deposit before the start of a new project in order to guarantee the wage payment for the workers. But all these measures only have had some tangible effects, and the issue of delayed salary payment continued in China. On the other hand, trade unions alone are not able to solve this problem with the absence of strong and direct intervention from the government at the grassroots level. *Workers' Daily* reported that a large number of the migrant workers still did not get their wage on time after the Central Government-led campaign of delayed wage payment (Cooke, 2007).

Figure 2 illustrates the number of workers receiving back wage during 2002-2012. The highest number of workers received their back wages in 2004 which is around nine million. The years 2002 and 2010 show lowest number of workers receiving back wages when compared to other years' data (between four and five million). However, the trend becomes declining from 2004 onwards. With these data, still unpaid wage issues remain problematic, and the government needs to give more attention to monitor. Indeed, as China is a big country it is tough to deal with this unpaid issues at the grassroots level.

3.1.2. Labour and work-related injuries

Migrant labour facing work-related injuries is very common in Chinese industries. However, such injuries limit the migrants' opportunities for future job and earnings and if the injury is serious enough, then it can throw the worker from his/her job and the entire family will fall into poverty. Unsafe and dangerous working condition, long duration of continuous duty, the use of heavy machinery without any proper training or safeguards and consistent pressure for greater productivity all contribute to workers' injuries. The State Administration of Work Safety of China reported around 80000 labour-related casualties and over

363000 labour injuries nationwide in 2010 (China Labour Bulletin, 2014). Migrants are the majority of the workforce in the most dangerous industries like chemical production and coal mining in China. A State Administration of Worker Safety Circular found that the rate of life loss in China's coal mining was approximately 0.374 deaths per million tons of coal in 2012. This number is too high when it is compared to 0.02 deaths per million tons in all developed countries (*ibid.*).

Most of the migrants do take work-related injury insurance, but in practice migrants always have difficulties in certifying their injuries. So migrants have to fight for certifying their injury with management and in most of the cases managements deny migrants' access to paperwork necessary to follow a case. Migrants' struggle for getting compensation is another difficult situation to them. In most of the time, employers pay a lower compensation or none. Migrants suffer from their injury with no money for their treatment. There are two kinds of injuries migrants experience in industries, which are minor and major injuries. Workers can recover from minor injury whereas major injury is always a threat to their life and livelihood.

Figure 1 shows around 16 percent of labour disputes happened in China due to work-related injuries. Most of the work-related injuries of migrants are dealt with in courts. Migrants prefer legal means than any other protest option. While in the case of massive accident occurring and management need to pay for a large number of employees and management denies paying then migrants go for a direct protest demonstration in the factories.

3.1.3. Illegal dismissal of migrant workers

The Labour Law of the People's Republic of China in 1994 specifies the condition for the termination of any contract. It says a thirty day notice to the worker or the trade union of details of the contract termination

Table 3 Labour Arbitration and Court Cases Caused by Illegal Dismissal, 2001-2011

Year	Total Cases	No. Caused by Ending the Labour Contract	Percentage of Total Cases
2001	154621	29038	19%
2002	184116	30940	17%
2003	226391	40017	18%
2004	260471	57021	22%
2005	313773	68873	22%
2006	317162	67868	21%
2007	350182	80261	23%
2008	693465	139702	20%
2009	684379	43876	6%
2010	600865	31915	5%
2011	589244	118684	20%

Source: National Bureau of Statistics (2013).

before a management may dismiss its workforce. These regulations were buttressed in the 2008 Labour Contract Law, which stipulates how much compensation is owed to workers based on the duration of their service (Becker, 2014). But in China, most of the private and informal industries do not enforce such Labour Law regulations. Many times migrants got dismissed immediately after their appeal for some grievances like injury insurance, overtime pay, or injury compensation. Figure 1 shows 16 percent of migrant workers faced illegal dismissal and that led to workers' protest.

The official data on the number of labour disputes due to illegal dismissal are limited to the national level. Table 3 illustrates the central government's data on labour arbitration and court cases caused by illegal dismissal during 2001-2011. The number of labour arbitration and court cases due to “relieving or ending the labour contract” (*jiechu, zhongzhi laodonghetong*), has inclined significantly over the past decade, ranging from a high of 23 percent in 2007 to a low of five percent in 2010. However, such cases further increased by 20 percent in the very next year (2011). These given data are on the basis of registered cases, but the actual number will be very high. The government should pay more attention to enforcing the labour laws in industries; otherwise, this illegal dismissal trend will increase in the near future and that would be a thorn in government’s day-to-day program.

3.1.4. Poor and unsafe working environments

The poor and unsafe working conditions are another factor of disputes in Chinese industrial sectors. The migrants adjust even with awful working condition, but in certain cases, they also suffer from unsanitary and hazardous conditions. They are more vulnerable to such condition to escape from any injury. Some hazardous conditions lead to long-term occupational illness. Many get lungs issues like breathing problem, especially those who work in mining industries. On the one hand migrant workers’ workplace is in poor and unsafe conditions and on the other hand their living dormitories are pathetic in nature. Due to unsanitary conditions in both workplace and dormitory, migrants get varieties of epidemic health issues. In most cases, migrants go to work with such epidemic diseases and they would spread to co-workers. They have to spend money on their health care as well as in extreme cases they have to stay away from the workplace. In such situation also, employer do not give leave sanction to those workers and either they have to work or go on leave without pay or be fined. Some surveys reveal that respiratory disease is the most common health problem found in migrants work in mining and construction industries (survey conducted by Health Net). An article published by China Labour Bulletin says that there are approximately one million occupational illness cases found in China, of which 90 percent are pneumoconiosis, a lung disease caused by inhaling a large amount of dust, smoke and other particulate matter.

Employee and employer relationship is always severed if there is any case of such illness treatment and employer has to pay for it. Obtaining compensation or reimbursement for medical treatment can become very difficult and it leads to ending with the termination of an employee. Migrants also face difficult situation whenever they go for treatment claims because they used to work with multiple employers at different times. The Chinese government has been concerned with prospects of wage issues, which have always been a source of collective action among migrant workers. But the desperation of many migrants affected by occupational illness can lead them as a catalyst for violence against the employer. In the next part, we shall discuss the protest and strike scenarios in China.

3.2. Labour Protests in China

The number of migrant workers in China is vast and expanding, and at the same time, the rate of labour unrest is also increasing. The first decade of the twenty-first century witnessed a massive number of labour protests and strikes in all over the Chinese cities. The labour protests geographically concentrated in the coastal and Eastern region of China. A survey finds that more than 70 percent of workers' protests were in manufacturing enterprises (China Labour Bulletin, 2012). The disputes and protests are widely concentrated in manufacturing industries; it is described by the fact that economic growth of China immediately after its accession to World Trade Organisation in 2001 was driven by export-oriented manufacturing that relied on a huge volume of low-cost labour.

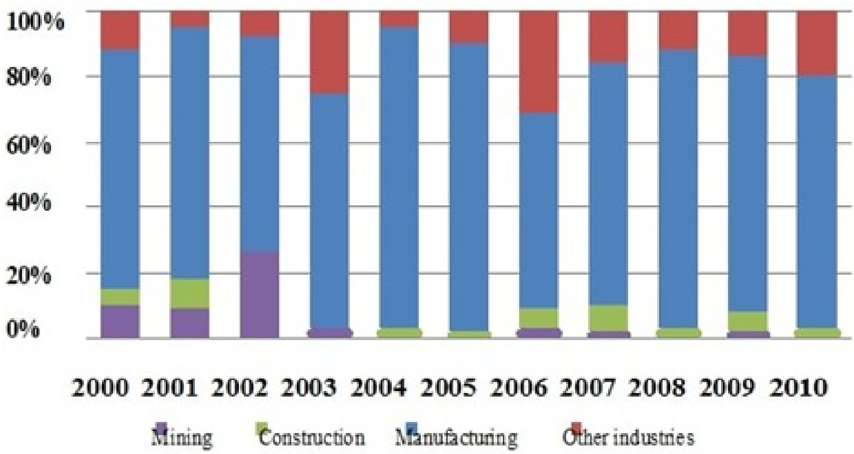
The laws do not specify strike actions in China. However, any such strike is neither legal nor illegal. The migrant workers use both informal and formal bargaining methods such as arbitration, the courts, strike, protest, violence and so on. Workers may attempt to bargain informally with their employer in the beginning, either alone or in groups. If this informal talk fails, then only they go for further strategies to air their grievances.

Compared to informal bargaining, a legal fight is more costly and time-consuming and workers only use this strategy after informal negotiation fails. Cooke (2007) says that due to unavailability of legal channels, migrants may become radicalised and move towards strikes and other types of collective protest. Violence is the utmost step of migrants' reaction to achieve their claim. This mode of action is only taken when all the other strategies are unavailable. Some workers use more than one strategy at a time.

3.2.1. Distribution of migrant workers protests

With unorganised migrant workers and absence of trade unions in the most of the private industries, migrants' life in the workplace becomes very difficult. Figure 3 presents the distribution of workers' protests across industrial sectors during 2000-2010. The data show the major industrial sectors and their respective protest percentages. It is very clear that in manufacturing industries the percentages of protests are much higher than any other major industrial sector. Protests in manufacturing enterprises keep more than 70 percent of total protests happening in China in all these years (2000-2010), except in 2006. However, mining and construction industries are also contributing to increasing protests at the national level. 2004 and 2005 have witnessed the highest percentages of protests in manufacturing industries when compared to other industries. There is no effective mechanism of the trade unions or there are no channels of communication with management; workers are left with no option other than staging protest whenever their rights are violated.

Figure 3 Distribution of Workers Protests across Industrial Sectors, 2000-2010



Source: China Labour Bulletin, 2012.

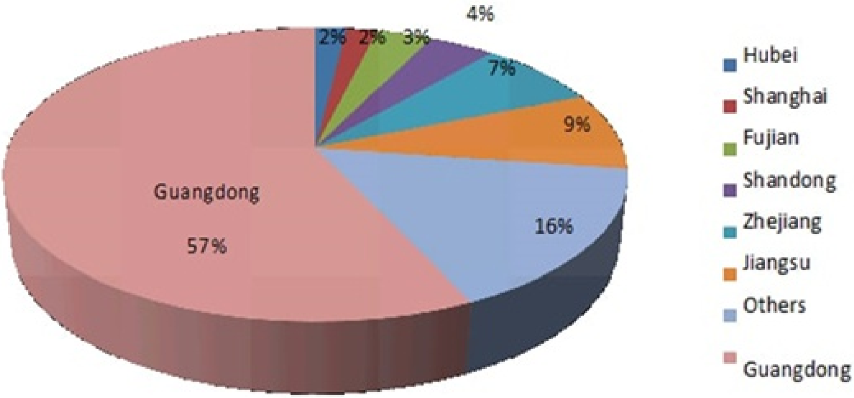
According to migrants' situation in different industries, protests and strikes are relatively easy to organise with the high concentration of workers and where all these workers have same interests and are all facing similar issues. Already most of the industrial workplaces have long-standing dissatisfaction with low wage, unpaid-for overtime and poor and unsafe work conditions and also grievances against management, which would build up to such a situation that it would take a small issue or incident to trigger a strike or mass protest. Such protests provide workers more confidence to organise.

Since the beginning of the 1990s, PRC had acknowledged the possible potential for conflict between labour and management in their market and capitalist economy. So, the government introduced Labour Law (1994) to act as neutral third party enforcement for reducing labour dispute. Still, again there is a problem of implementation and regulation of Labour Law in the private and informal sector due to a huge number of industries. Along with market and economic development, labour relation weakens in the Chinese industrial work space. Mine collapses and death of workers are very common news in China. But when it comes to the case of compensation, then workers have to fight in the streets.

Protests and strikes are not limited to factories. There were regular protests throughout the decade in other sectors too (see Figure 3), especially in the education and transport sectors. The community teachers were some of the most vocal protesters in the educational sector. They had played a vital role in China's grassroots schooling from the 1960s onwards but in the 2000s, in contravention of central government policy, they were systematically discarded by local governments without proper compensation (China Labour Bulletin, 2012).

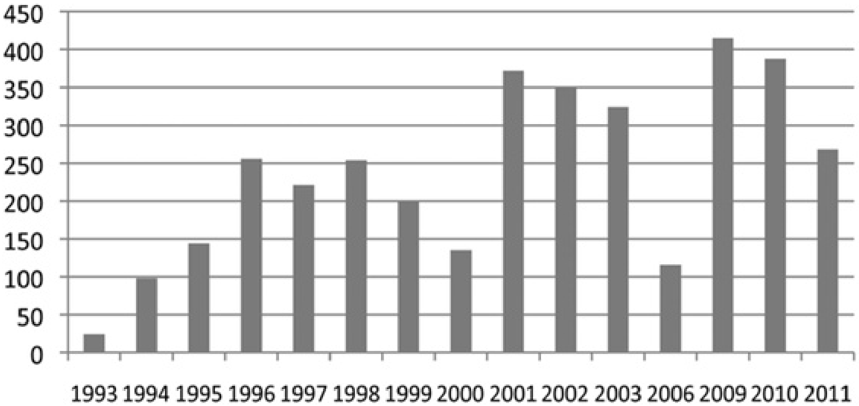
Figure 4 shows protests across provinces in China. The data reveal that more than half of the (57 percent) protests occurred in the Guangdong province which is a highly developed coastal province which also carries a large percentage of migrant workers in China. Jiangsu province is second in witnessing the number of protests (16 percent). The figure also identifies that almost 90 percent of protests occurred in the coastal and Eastern provinces, compared to any other region.

Figure 4 Factory Worker Protests across Provinces



Source: China Labour Bulletin (2014).

Figure 5 Strikes and Sudden Mass Protests Reported in Guangzhou, 1993-2011



Source: Strikes and sudden mass incidents reported by Guangzhou Labour Inspection organs, 1993–2011. (Data from Statistics Bureau of Guangzhou City, various years) (Becker, 2014).

It is very evident that more than half of the percentage of the entire protests in China occurred in Guangdong province (from Figure 4), so let us see the details of strikes and protests that happened in Guangzhou, the most industrialised city of Guangdong as well as in China. Figure 5 shows the strikes and protests in Guangzhou city as reported by Guangzhou Labour Inspection organs during 1993-2011. These data reveal trend of strikes and protests having enormously increased from 2001 onwards, such rate increment occurred due to China's admission to WTO and the manufacturing boom in China. Production pressure, overtime duty and labour exploitation increased since the beginning of the twenty-first century.

The lowest number of protests occurred in 1993 (below 50) whereas the highest number of protests took place in 2009 (above 400). To resolve such huge number of protests neither the central government nor the local governments came up with any effective mechanism. If the labour situation goes worse like this, then it would be difficult to control the protests everywhere in China.

3.2.2. Major demands of the protesting labour

Workers' demands can be divided into two broad categories such as those who are seeking to uphold or defend their existing benefits and rights like claims for compensation and unpaid wage and those who are seeking some additional benefits and rights like improvements in wage and working conditions.

The first half of the twenty-first century witnessed that labour protests mainly focused on the first categories such as defending or upholding their existing basic rights and benefits. The current protests substantiate such claims and it is very much true in the cases of migrant labour in the manufacturing, construction and service industries. However, there are also migrants' protests for other benefits and rights like medical insurance and work-related injury insurance as far as they are at the moment paying for such insurances.

Figure 6 presents the workers' demands in China. The data reveal that 33 percent of the migrant workers demand their compensation which is related to any work-related injuries while 21 percent of workers want to resolve the wage arrears issues. This data clarify that more than half of the migrants demand the basic rights rather than any other demands. Twenty percent of the migrant workers demand an additional benefit like wage increment. However, very small percent of the workers demand the additional benefits such as social insurance (6 percent), overtime (4 percent), management practices (3 percent) and safe working condition (2 percent). So, it is very clear that if the government gives more attention to resolving compensation and wage arrears demands of workers, then it would be decreasing the labour protests widely.

Figure 6 Factory Workers' Demands

Source: China Labour Bulletin (2014).

4. Conclusion

China is passing through a phase of large labour unrest and massive labour protests. The wandering rural migrants in the urban China in the 1990s are now the new forces behind each and every strike and labour protest. The twenty-first century embarked with a wide range of protests in every city of China. Labour unrest is a result of the emergence of new private and informal enterprises in China in which there are huge production pressure, workplace discrimination, denial of payment, lack of implementation of labour laws, government's lack of regulation and monitoring and so on. To an extent China's entry to the WTO in 2001 contributed to its increasing need of huge amount of production thus created China as a world factory. China's global exports of manufacturing products increased its economic growth on the one hand and on the other hand it failed to address the primary demands of labour. Now, migrants are collectively bargaining for their basic rights and benefits. Income inequality between the urban and rural areas led to massive migration in China in the past three decades; however, such inequalities still exist there in the case of wage discrimination in the urban enterprises. Apart from lower wage, the migrants have to pay for their medical and other work-related insurance. The work-related accidents and their compensations and wage arrears are major source of labour protests in China. In China nowadays the migrants are also demanding beyond their basic rights and benefits. However, the range of such demands is very much more limited in nature than that of compensation and unpaid wage issues.

The fact that the lack of citizenship rights has led to increase in labour unrest in China is partially agreeable in China's case because migrants face major problems like unpaid wages and compensation rather than their demands for other basic rights. However, the lack of full citizenship rights makes migrants feel inferior to urbanites. Sometimes they experience humiliation due to the absence of such acknowledgement from the state. So, here labour unrest and protests are a far-reaching matter of concern and the state should take serious action to resolve it to some extent. Migration has helped villagers to earn and learn many things from the cities; at the same time they started airing their demands through collective bargaining. This shows the positive sign of migrant labour mobility for a common cause.

Notes

* Manganelly Sumesh currently works as PhD Research scholar under the Department of Politics at the East China Normal University in Shanghai, China. He has completed his Master of Philosophy (MPhil) program at the Centre for East Asian Studies, School of International Studies, Jawaharlal Nehru University in New Delhi, India, in 2016. He has obtained his Master's Degree from the Department of Politics and International Studies, Pondicherry University in Puducherry, India, in 2014. He completed his Graduation in BSc Statistics from Kannur University in Kerala, India, in 2011. His research interest includes the migrant workers, society, political system and international relations of China, Marxism and Ambedkar's writings. <*Email: sumeshmn08@gmail.com*>

1. *Hukou* (户口) refers to the household registration system in China which was established in 1958. It determines one's belonging to the locality. Chinese population has been divided into two categories under the *hukou* dual classification which are agricultural and non-agricultural population staying in rural and urban areas respectively.

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Southeast Asia in Time of Trade War and BRI

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A Vietnamese Perspective on China's Belt and Road Initiative in Vietnam

Duong Van Huy*
Institute for Southeast Asian Studies, Vietnam

Abstract

China's Belt and Road Initiative (BRI) has attracted significant attention from the international community for the sheer size of potential economic opportunities that it is expected to bring the world. China now is enhancing its peripheral diplomacy and BRI, and thus Chinese diplomacy has also highlighted China's relations with the Association of Southeast Asian Nations (ASEAN), including Vietnam. Vietnam, which is included in the BRI's geographical scope and has a great need for infrastructure investments, stands to benefit from the initiative. The BRI is an important source of funding that Vietnam may want to tap to finance its infrastructure projects. Vietnam's demand for infrastructure investments will keep increasing in the coming years. Those will promote Vietnam-China relations towards a new stage of development. Despite Vietnam's support for the Initiative as a measure to strengthen the overall relations with China, the BRI will face some challenges in Vietnam. In order to ensure the BRI's long-term success in Vietnam, the two countries can do more together to improve people's trust in the initiative and to improve the quality of China's investments in Vietnam.

Given this situation, the paper aims to examine how Vietnam promotes its cooperation and connectivity with China under the context of BRI.

Keywords: *China, Vietnam, Belt and Road Initiative (BRI), China-Vietnam cooperation, China-Vietnam connectivity*

1. Introduction

The "Belt and Road Initiative" (BRI) is a common term for the "Silk Road Economic Belt" and "21st Century Maritime Silk Road" initiative. BRI was launched in 2013, and there has so far has been nearly 6 years of implementation. The introduction and implementation of this initiative by China also shows that the country is ambitious to restructure the global cooperation. China's promoting the construction of "Belt and Road" is to push China to build systematic constructions of "community of shared future" and create a "new type of international relationship". This actually reflects the view of China's official pronouncements, as appears often in President Xi Jinping's speeches on BRI and also that of China's scholars[1]. As a country with an important position in China's regional strategy, as well as the current BRI of Beijing, Vietnam can take advantage of large inflows of capital from China into the field of Infrastructure investment sector. Vietnam has also announced its participation in this initiative of China, and is well aware of the opportunities offered by BRI. However, the challenges of economic relations between the two countries are not small, especially the challenges related to China's trade deficit, investment issues in Vietnam, as well as that Vietnam's enterprises still lack information about the China's economic policies. This makes it difficult for Vietnamese goods and businesses to enter the Chinese market. However, the biggest challenges facing China's BRI in Vietnam are the Vietnamese concerns of "debt-trap" for Vietnam in BRI as China bids for projects, and the BRI as a point of trust concern since it passes through the South China Sea as well.

2. Vietnam's Position on the Belt and Road Initiative

China launched BRI in late 2013; by 2015 Vietnam officially announced its participation in this initiative. Vietnam's official position expressed the welcome and support of BRI to ensure the principles of peaceful, equal and mutually beneficial cooperation, and mutual respect, in accordance with international law, towards the goal, and contribution towards the development and common prosperity of all countries.

In his speech at Belt and Road Forum, President Trần Đại Quang said that "Vietnam supports initiatives on trade and regional connectivity, including the Belt and Road Initiative. Vietnam is willing to join other nations to study and implement projects that could bring mutual benefits and sustainability."[2] And, he proposed that the Belt and Road partnership need to be in line with the United Nations' 2030 Agenda for Sustainable Development, and prioritise practical projects and voluntary and equal collaboration.[3] He also stated that in the context of the world entering a turning point, every country and region seeks new, creative and maximizing approaches to potentials and advantages, bringing into play the efficiency of the advanced achievements of science and technology, ensuring a peaceful, secure and stable environment for mutual sustainable development. In that spirit, Vietnam welcomes initiatives of economic integration, regional connectivity in general, and BRI in particular.[4]

In addition, in the thank you message from President Trần Đại Quang to Chinese President Xi Jinping after his visit to the Belt and Road Forum (May 11-15, 2017), he emphasized: "High-level forum on

Belt and Road cooperation is an important opportunity for countries and other international partners to discuss measures to enhance cooperation and promote international integration for peace, prosperity and sustainable development. Vietnam welcomes BRI and its efforts to promote economic connectivity, regional connectivity and will contribute positively to the common good of the nations."[5] In May 2017, the Roundtable of Leaders in the framework of the Belt and Road Forum for International Cooperation was held in Beijing, China, and President Trần Đại Quang was also emphasizing how Vietnam participates in the "Belt and Road Initiative", saying: "Vietnam advocates efforts to promote economic links and transport links with neighboring countries. Many steps and specific solutions have been implemented, including the cooperation with Mekong countries in developing East-West Economic Corridor, North-South Economic Corridor, and Southern Economic Corridor, towards building the Mekong Sub-region to become a bridge between the Indian Ocean and the Pacific Ocean."[6]

Besides, "Vietnam also actively participates in the implementation of the ASEAN Master Plan and cooperates with China in studying the possibility of connecting "Two Corridors, One Belt" with the "Belt and Road Initiative"; economic cooperation between Vietnam and China has been increasingly expanded, deepened, and practical effected."[7] Although Vietnam considers the "Belt and Road Initiative" as very important to "building a seamlessly connected global market, for the benefit of all parties, for the peace, security, stability and prosperity of the region and the world"[8], the plan to participate in this initiative is still in the feasibility study phase, especially the connection of development strategy as well as infrastructure connection.

From April 25 to 27, 2019, Prime Minister Nguyễn Xuân Phúc attended the Leaders' Roundtable of the 2nd Belt and Road Forum for International Cooperation in Beijing with the theme "*Belt and Road*

Cooperation: Shaping a Brighter Shared Future". In particular, Prime Minister Nguyễn Xuân Phúc also clearly stated Vietnam's views on BRI when he thought that in order to cooperate with BRI to bring substantial and lasting results, the views of nations, big and small, must be respected, listened to and the differences resolved by consultation and dialogue. Cooperation should be equal, transparent, open, sincere, mutually beneficial, and at the same time respect the sovereignty and territorial integrity, in accordance with international law. That is the foundation for successful sustainable connectivity and development. He emphasized: "From our experience, we see that promoting the potential strengths and intensive international integration are the foundation for successful cooperation. Currently, Vietnam is focusing on socio-economic development, while promoting international integration, including cooperation with the BRI."[9] Vietnam continues to cooperate well with China and other countries to build effective, mutually beneficial forms of cooperation. With appropriate resources (capital), Vietnam is actively deploying many infrastructure projects to expand its connectivity with China, Laos, Cambodia and other member states of ASEAN, including transportation, energy, agriculture, technology, education, health care, and tourism.[10]

Furthermore, Prime Minister Nguyễn Xuân Phúc also emphasized the areas of connectivity within the BRI framework, when he stated that connectivity should be promoted comprehensively, including digital connection, and development of transport, energy, information and telecommunication, to people. BRI's sustainable development must be in tune with the 17 Sustainable Development Goals of the United Nations 2030 Agenda. In addition to the efforts of each country, initiatives and international cooperation mechanisms must aim to: (i) balance the short-term growth objectives with the long-term development objectives, ensuring economic efficiency, environmental and social sustainability;

(ii) take people as a center, heighten people's responsibility, contribution and creativity, and people must enjoy the fruits of BRI cooperation with a better life, with no one being left behind; and (iii) transit to a digital economy with innovation-based growth, and science and technology as the basis for the flow of Industrial Revolution 4.0.[11]

3. Promote the Connectivity between China and Vietnam

Among Southeast Asian countries, Vietnam is the country where, from the Chinese perspective, the implementation of BRI is relatively slow. However, up to now, both parties have promoted BRI and have achieved certain results in different fields, in which Vietnam and China also promoted policy connectivity within the BRI framework. Vietnam and China issued a Joint Statement on the occasion of the State visit to Vietnam by Party General Secretary and President of China Xi Jinping (November 5-6, 2015); both parties declared "strengthening the development strategy connection between the two countries, promoting the connection between the framework of 'Two Corridors, One Belt' and the 'Belt and Road Initiative'".[12] It is known that the framework of "Two Corridors, One Belt" is the idea of building a common economic development zone between Vietnam and China. This idea from 2004 was proposed by the current Vietnamese Prime Minister Phan Van Khai to China. The "Two Corridors" here are Guangxi (China) — Quảng Ninh — Hải Phòng (Vietnam) and Yunnan (China) — Lào Cai — Hanoi — Hải Phòng (Vietnam). And "One Belt" includes a number of border provinces in southern China and a number of northern provinces in Vietnam, extending to Quảng Bình province.

Not only that, in 2006 Guangxi (China) and later with the support of the Chinese Government proposed the "One Axis and Two Wings" strategy with a wider scale in terms of number of countries, territories and people. All are far beyond the original idea of "Two Corridors, One Belt" of Vietnam. The "One Axis and Two Wings" strategy is part of China's southern policy. "One Axis" is the economic corridor from Nanning connecting to Singapore. And "Two Wings" include left and right. The "left Wing" is the cooperation of the Greater Mekong Subregion, with participating countries including Vietnam, Laos, Cambodia, Myanmar, Thailand and Guangxi and Yunnan provinces. The "right Wing" is the expanded Gulf of Tonkin cooperation, with the participating countries of Laos, Cambodia, Thailand and most other ASEAN members, along with the provinces/regions of Guangxi, Yunnan, Hainan, Guangdong and Hong Kong.

Besides, the infrastructure connection between Vietnam and China is strongly promoted. The two countries signed a Memorandum of Understanding (MoU) on linking of the "Belt and Road" and "Two Corridors, One Belt" initiatives on the occasion of Chinese Party General Secretary and President Xi Jinping's State visit to Vietnam in 2017. Chinese ambassador to Vietnam Xiong Bo noted that: "In the coming time, China is willing to work closely with Vietnam to successfully implement the common perspectives of senior leaders of both countries, especially activities within the Belt and Road and 'Two Corridors, One Belt' initiatives."[13] Currently, the implementation of infrastructure connection between Vietnam and China has also achieved certain development steps, especially the two sides' connectivity through "Two Corridors, One Belt". Trade between Vietnam and China is more favorable. In particular, there are roads related to the Economic Corridor Kunming (China) – Lào Cai – Hanoi – Hải Phòng – Quảng Ninh (Vietnam) and the route Nanning (China) – Lạng Sơn – Hanoi – Hải Phòng – Quảng Ninh (Vietnam). Currently, the Chinese side has also completed some roads connecting with Vietnam, such as in Dongxing, China, connected to the Móng Cái – Vân Đồn highway of Vietnam.

Besides, the strengthening of connecting air routes between the two countries has also been promoted recently. At the same time, Chinese contractors are flooding into Vietnam to bid for infrastructure projects such as road transport and electricity.

The connection between the two countries' economic development strategies is expressed by the two sides strengthening connectivity in terms of transport and cross-border economic cooperation programs. For trade and industrial activities with China, the Ministry of Industry and Trade (Vietnam) issued Decision No.805/QĐ-BCT dated January 23, 2014 on Approving the Master Plan on Industrial and Commercial Development of Vietnam-China border to 2020, vision to 2030, in which, Vietnam's development viewpoints are: (i) developing Vietnam-China border trade and commerce industry with reasonable structure and speed of development, and developing rapidly, sustainably and efficiently on the basis of promoting the advantages of geographical position, natural resources and border gate system; (ii) linking and enhancing cooperation in all areas to promote industry and trade to develop the entire Vietnam-China border; (iii) developing industry and trade to actively contribute to the economic restructuring of the locality on the route, while at the same time, contributing to hunger eradication and poverty alleviation, employment and social issues; (iv) closely combining industrial and commercial development with preserving national cultural identity, effectively exploiting and using resources, and ensuring national defense, security, defense and environmental protection.[14]

Next, on September 12, 2016, Vietnam and China signed a Border Trade Agreement, in which border trade regulations were implemented through the border gates of land and areas (points).The border market is agreed to be opened in seven provinces of Quảng Ninh, Lạng Sơn, Cao Bằng, Hà Giang, Lào Cai, Lai Châu and Điện Biên of Vietnam and two provinces/regions of China namely Yunnan province and Guangxi Zhuang Autonomous Region, operating at the border markets of people and means of transport on entry or exit, with goods exported or imported from and into the border market (points) through the border crossing between the two sides.

The Yunnan province and Guangxi Zhuang Autonomous Region of China are adjacent to the land border with Vietnam. These two provinces/regions have also developed their border economic development strategy, which is having a strong impact on border economic development in the northern border provinces of Vietnam. Along with China's deepening open-door reform career, especially since the 18th National Congress and the 18th Plenum of the 18th Central Congress, China has also set out to "promote the region along the land border and coastal open development for additional advantages", "strengthening steps to open coastal areas". This has also placed new demands on the work of border areas.

On November 20, 2016, the Yunnan government issued a document called "*Measures to manage the border economic cooperation zone of Yunnan province*", in which the main contents include: (i) Promote the code institutionalizing management of border cooperation areas. In terms of administrative management, a Management Board is established in border economic cooperation zones. (ii) Clearly define incentive policies for industries. In terms of investment and business, this document clearly identifies industries and projects that need to be encouraged such as import and export processing industry, logistics and related industries, national trade and service industry, cross-border tourism and cultural industries, equipment manufacturing, financial services, and industries that match local resource advantages. (iii) Strengthen the policy of "going out". Encourage cooperation in foreign economic investment and border trade, encouraging "going out" of enterprises in economic zones, developing integrated agricultural trades with reciprocal areas. Encourage the mining industry, cooperate in tourism and build outsourcing production infrastructure with foreign countries. Encourage and fund the provincial "going out" strategy. (iv) Strongly encourage financial services. This document clearly promotes the use of renminbi in cross-border trade with economic zones, and encourages the increase in the construction of provincial financial investment playgrounds in border economic zones.[15]

For the construction of China's border gate economic zones in Guangxi, the State Council, China's Cabinet, officially approved the construction plan to make the *National Key Experimental Zone for Development and Opening-up*[16] (国家重点开发开放试验区) for two cities, namely Dongxing and Pingxiang in southern Guangxi Zhuang autonomous region, including Dongxing (Guangxi) National Key Experimental Zone for Development and Opening-up and Pingxiang (Guangxi) National Key Experimental Zone for Development and Opening-up at Border Area, which are the most important spearheads to connect with Vietnam. Dongxing is the only Chinese port city that borders by sea and land with a country in the Association of Southeast Asian Nations. The city and Vietnam's Mong Cai are neighbors facing each other across a river.

It can be said that the *Dongxing (Guangxi) National Key Experimental Zone for Development and Opening-up* is an important spearhead of China not only to increase border economic cooperation with Vietnam but also a gateway to enter ASEAN. Dongxing border economic cooperation zone is an important component of the international trade and economic zone, belonging to a breakthrough pioneer area in Guangxi's reform. Regional infrastructure has been relatively adequate, and with project management and construction agencies having been established and put into operation, China is now speeding up the construction of projects belonging to the functional areas. The fields of trade, transportation and exchange of goods and tourism between the two sides in the cooperation area have been quite developed; however, the manufacturing and processing industry has not yet formed. China built the *Dongxing (Guangxi) National Key Experimental Zone for Development and Opening-up* to become "a breakthrough pioneer in Guangxi reform". Dongxing of Guangxi (China) and Móng Cái of Quảng Ninh (Vietnam) are the two border-gate cities with the closest distance to the border on the Vietnam-China border. According to the common perception of the governments of the two countries and the signed documents of the local governments of the two countries, the determination of Dongxing - Móng Cái cross-border economic cooperation zone emphasizes the implementation of cooperation in areas such as construction of infrastructure, trade, tourism and investment cooperation, production cooperation, financial cooperation, socio-cultural cooperation, environmental protection cooperation, mutual legal assistance and other areas of cooperation of mutual interest.[17]

From 2013, China has kicked off three major start-up projects of Dongxing (Guangxi) National Key Experimental Zone for Development and Opening-up, including: (1) cross-border economic cooperation zone between Dongxing, Guangxi (China), and Móng Cái, Quảng Ninh (Vietnam); (2) Dongxing, Guangxi border-gate trade center; (3) Jintan Tourism Island. In particular, the Chinese side will build Dongxing to become "the first station for ASEAN on both continents and islands to enter China."[18]

Meanwhile, the Vietnamese side has also actively promoted the construction of border economic zones and the improvement of the transportation system. In particular is the Hanoi - Lào Cai highway with a length of 245 km and an investment of 1.45 billion USD, a project started in the third quarter of 2008 and was completed on September 21, 2014. This is one of the cooperation routes to develop the Greater Mekong sub-region, contributing to the successful implementation of the strategy "Two Corridors, One Belt". It is the shortest international transport route from Vietnamese seaports to the Yunnan region (China), and connects China with ASEAN countries. Currently, the Vietnamese government is studying the connection between Noi Bai - Lao Cai highway and Lai Châu province, Dien Bien (via IC16 intersection), connecting with Ha Giang province (via IC12 intersection), and with Tuyên Quang, Phú Thọ (via IC10 intersection). Currently, some localities have been actively asking for the policy and self-funding additional investment intersections to connect with Nội Bài - Lào Cai highway (intersections of Pho Lu, IC13, IC15 ...) in order to create infrastructure.[19] On May 18, 2015, the Vietnamese side officially completed the 19 km highway connecting Nội Bài - Lào Cai to Kim Thành border gate (Lào Cai). When putting into use, motor vehicles carrying passengers and goods from Hanoi will go straight to Kim Thành border gate to China, connecting with Hekou - Kunming highway.

According to representatives of local import-export enterprises, the director of Nghĩa Anh Company (in Lào Cai province) said that "China is a big market, a 'market' of the world, and Nội Bài - Lào Cai highway is the bridge of ASEAN goods with China by meeting the criteria to shorten the time of goods on the road and reduce transportation costs..."[20]

At the same time, on February 1, 2019, Hạ Long - Vân Đồn highway was officially put into operation after more than 3 years of construction (the project was started in September 2015). With a length of nearly 60 km, Hạ Long - Vân Đôn creates a smooth traffic circuit from Hanoi to Vân Đồn, enhancing connectivity in the growth triangle of Hanoi – Hải Phòng – Quảng Ninh. In addition, the project of Móng Cái - Vân Đồn expressway, the highway connecting with two highways of Hạ Long – Hải Phòng and Hạ Long - Vân Đồn, is 80.2 km long with 4 lanes and speeds of 100 km/h was started in December 2018. Time to complete the project is 22 months. When the Móng Cái - Vân Đồn Expressway project is completed, Quảng Ninh will have about 200 km of expressways, connecting with Hanoi – Hải Phòng and Hanoi - Lào Cai highways contributing to the completion of the extended highway from Lào Cai - Hanoi – Hải Phòng - Móng Cái (Quảng Ninh), becoming the longest freeway currently in Vietnam, forming an important traffic gateway connecting trade with ASEAN and China to implement a strategy to enhance border trade activities, gradually making Quang Ninh a leading service center and a gateway for domestic and international trade.

In addition, the Bắc Giang – Lạng Sơn highway was started in 2015 with a length of 64 km and was opened to technicians on September 29, 2019. This highway will be officially put into operation in early 2020. At that time, the travel time from Hanoi to Lang Son will be shortened from the current 3.5 hours to about 2 hours. The Bac Giang - Lang Son expressway project is an important route, one of the road trade gateway between Vietnam and other countries in the region, and in the near future, the further completion of Chi Lăng – Hữu Nghị with 43 km length will connect the entire Hanoi – Lạng Sơn highway.

Furthermore, the Vietnamese government has approved the construction plan for the Trà Lĩnh (Cao Bằng) – Đồng Đăng (Lạng Sơn) highway. This is an important traffic corridor to facilitate the trade of goods from the southwestern provinces (China) to the Trà Lĩnh Border Gate (Vietnam) - Longbang (China) – Lạng Sơn – Hanoi (Vietnam), traveling to ASEAN countries and internationally through Hải Phòng port and vice versa.[21]

Besides, the Vietnamese side is promoting the construction of border economic zones. Vietnam currently has about 24 international border gates, 25 bilateral border gates, 68 secondary border gates, 57 frontier openings and 295 border gate markets in border economic zones for border trade. Across the Vietnam - China border line, there are 7 pairs of state-level border gates: Móng Cái - Dongxing, Đồng Đăng - Pingxiang, Hữu Nghị - Youyiguan; Tà Lùng – Shuikou, Thanh Thủy - Tianbao, Ma Lù Thàng - Jinshuihe, Lào Cai - Hekou; seaports including ports of Fangchenggang, Beihai, Qinzhou, Zhanjiang, Haikou, Sanya of China and Hải Phòng, Cái Lân (Quảng Ninh) of Vietnam; airports including Kunming and Guangzhou of China and Hanoi of Vietnam,.... China and Vietnam are taking positive steps to increase cooperation in the development of border economic zones, trade centers and border markets, develop logistics systems, and continue to promote more. Moreover, measures to shorten customs clearance time, on the other hand, need to establish a modern system of goods storage warehouses waiting for customs clearance (cold storage) to help extend the time of goods preservation.

To build and develop border economic zones into a trade, service and tourist center of the northern midland and mountainous region, the focal point is the Hanoi - Lang Son - Nanning economic corridor, Hanoi - Lào Cai - Yunnan and Hanoi - Móng Cai – Fangchenggang. To promote development cooperation in the economic development planning of Hai Phong - Hanoi - Lao Cai - Kunming and Hai Phong - Hanoi - Lang Son - Nanning, the economic belt of the Tonkin Gulf, to effectively exploit the advantages of natural conditions, economic geographic position and position of each border gate economic zone in developing trade and international and domestic services, thus promoting economic development and economic restructuring of provinces with border-gate economic zones, to develop border-gate economic zones in association with the formation of urban systems and border rural residential areas and in association with the arrangement, and stabilization of population in border communes, to plan the development of traffic axes connecting domestic border economic zones and with China's border gates and border economic zones in order to promote the development and link of border gate economic zones in regions with regions throughout the country and internationally, and to continue investing in perfecting infrastructure in border-gate economic zones according to the development planning and the general planning of border-gate economic zones, focusing priority on border-gate economic zones is the focal point for inter-regional and international economic corridors such as Mong Cai, Lao Cai and Lang Son border gates.

Móng Cái border-gate economic zone of Quang Ninh province was established under Decision 675/TTg of September 18, 1996 of the Prime Minister. On September 18, 2015, the Prime Minister also issued *Decision No.1626/QD-TTg on approving the Master Plan for Construction of Mong Cai Border Gate Economic Zone, Quang Ninh to 2030, with a vision to 2050*. In addition, Mong Cai Border Gate Economic Zone has been selected as one of the nine key Border Gate Economic Zones nationwide focusing on development investment from the state budget in the period of 2016-2020, and it was approved by the Prime Minister to build Móng Cái (Vietnam) – Dongxing (China) Border Economic Cooperation Zone with a system of open policies and mechanisms specifically applied in the Cooperation Area.[22]

On the other hand, Lào Cai Border Gate Economic Zone is one of nine border-gate economic zones, which are paid attention by the Vietnamese government to invest in the construction of plain infrastructure and regulations and policies. This border-gate economic zone plays an important role in connecting with China, especially in

Yunnan province. The Prime Minister issued Decision No.1627/QĐ-TTg dated November 23, 2018, on the General Planning for Construction of Lào Cai Border Gate Economic Zone, Lào Cai province, to 2040, with a vision to 2050. Accordingly, Lào Cai Border Gate Economic Zone has a total area of about 15,929.8 ha (stretching over the entire border of Lào Cai with China), forecasting that by 2040, the population will be about 90,000 people, including about 45,000 labors. This decision also emphasized: "This is a multi-sector border gate economic zone, an economic breakthrough of Lào Cai province and northern midland and mountainous provinces. As a development pole of the Northern midland and mountainous region, the economic center of industry, trade, tourism and services, it is one of the trade centers of ASEAN region and Southwest region of China."[23]

For Dong Dang - Lang Son Border Gate Economic Zone, on October 14, 2008, the Prime Minister issued Decision No.138/2008/QD-TTg on establishing Dong Dang - Lang Son Economic Zone. The Border Gate Economic Zone is located at an important gateway connecting China and ASEAN countries, which is the first point of Vietnam on the economic corridor of Nanning (China) – Lạng Sơn – Hanoi – Hải Phòng (Vietnam), located next to the key economic triangle of Hanoi – Hải Phòng – Quảng Ninh.

4. Enhancement of Cooperation in Trade, Investment and Human Connection

Trade cooperation: opportunities for both sides to strengthen trade relations as well as infrastructure connections not only with China but with other countries within the BRI framework. China is a huge market with 1.4 billion people. Vietnam and China share a common border both on land and at sea, so this is also a favorable condition to increase trade between the two countries. From 2004 up to now, China has been Vietnam's largest trading partner for many consecutive years, with bilateral trade remaining strong. China is currently the second largest export market of Vietnam in the world, after the US. Vietnam is also China's largest trading partner in ASEAN, the eighth largest in the world and the fifth largest export market and China's ninth largest import market in the world. Along with that, the two sides continue to maintain regular mechanisms of bilateral economic and trade cooperation to promptly solve the existing problems in trade relations between the two countries, bringing economic cooperation and bilateral trade development more and more stable towards a more balanced and sustainable manner. In addition to the similarities in culture and consumption habits etc., Vietnam-China bilateral trade has developed with geographical advantage. Besides, China has the largest population in the world and currently has over 400 million people in the middle class so the consumption demand is very large and is an attractive export market for many countries in the world including Vietnam.

The growth rate of trade between the two countries from 2001 to 2008 averaged over 25%. In 2004, the two countries' trade turnover reached approximately 7.2 billion USD, the second time surpassing the target set by the governments of the two countries to achieve the target of 5 billion USD in 2005. In 2008, the Vietnam-China trade turnover reached over 20.18 billion USD, increasing 535 times compared to the turnover in 1991 and the third time to complete two years before the goal of the two countries set to bring the trade turnover of the two countries to 20 billion USD by 2010. In 2016 bilateral trade reached 71.9 billion USD, increasing 7.9% compared to 2015. In 2017, it reached 93.69 billion USD, up to nearly 61.5% compared to 2016, equivalent to the number increased by 13,503 billion USD. In 2018, the two-way trade turnover reached 106.7 billion USD, increasing 13.8% compared to

2017. In the first 4 months of 2019, the Vietnam-China trade turnover reached 33.24 billion USD, increasing 11.58% compared to the same period in 2018.

While participating in the Second Belt and Road Forum for International Cooperation in April 2019 in Beijing, China, Prime Minister Nguyễn Xuân Phúc also suggested China, Vietnam's second largest export market, to continue to open the door for other agricultural products of Vietnam, especially 8 kinds of fruits, pork and bird's nest, to facilitate rice trade between the two countries, to coordinate in handling a number of problems regarding the procedures for finalizing the settlement, capital, slow progress, and low efficiency in cooperation projects between the two parties, to promote the signing of new railway agreement, connecting Lào Cai - Hekou railway. He also proposed increasing the number of non-stop flights between the two countries, providing appropriate take-off hours for Vietnamese airlines to fly regularly to/from Beijing and Shanghai, and to create favorable conditions for businesses of the two countries to effectively participate in the Chongqing-Singapore transport route.[24]

Moreover, Vietnam's border infrastructure, in which there is still inadequate trade infrastructure, cannot meet the demand of rapidly growing bilateral commodity exchanges. Agricultural and aquatic products that are officially exported to China are not abundant. The progress of market opening for new products of Vietnam is still slow. Therefore, in order to boost the export of goods to the Chinese market, Vietnamese businesses need to raise awareness and identify China as a key market and should not say that this is an easy market. Enterprises need to carefully understand the market needs and market areas in China to determine key products and key market areas.

Investment: opportunities to increase foreign investment serve the growing demand for infrastructure construction in Vietnam. In the coming time, Vietnam needs huge infrastructure investment, in which about 10 years from now Vietnam needs 105 billion USD to build infrastructure, ports, trains, and electric systems. Besides, the GI Hub – Global Infrastructure Hub, which is under the management of the G20 Big Economies Group, has just cooperated with Oxford Economics, a leading global forecasting and quantitative analysis unit, to make and publish the Global Infrastructure Perspective report. According to this report, Vietnam's demand for infrastructure investment is 605 billion USD between 2016 and 2040. Considering the ratio of investment in infrastructure to GDP, Vietnam's demand for infrastructure investment accounts for 5.87%, the highest in Southeast Asia and second in Asia after China. Vietnam is expected to meet 83% of total infrastructure investment needs. The biggest gap is in the road sector with an increase in investment demand of up to 70% to meet anticipated needs.[25]

Rapid industrialization in recent years and increasing urbanization require further development of infrastructure. The Global Infrastructure Outlook reports that Vietnam will need more than 600 billion USD to meet its infrastructure goals by 2040. The Asian Development Bank (ADB) estimates that Vietnam needs to average at least 16.7 billion USD per year between 2015 and 2025 to finance infrastructure development needs while the World Bank's forecast is 25 billion USD.[26] Amanda Rasmussen, president of the American Business Association in Vietnam (AmCham), at the mid-2019 Vietnam Business Forum (VBF) in Hanoi on June 26, 2019, said that infrastructure and energy is important to ensure sustained growth in Vietnam. However, according to VBF's Infrastructure Working Group, the current state of Vietnam's infrastructure has only "improved slightly" over the past decade. According to the World Economic Forum's Global Competitiveness

Report 2018, Vietnam's infrastructure rankings (out of 140 studied economies) from 93rd in 2008 have inched to 75th in 2018. In particular, road infrastructure has achieved little success, while water and electricity are ranked as good as those in more developed countries like Thailand.[27]

The "Uoolu 2018 Ten Countries on Belt and Road Property Investment Data Report" by Uoolu, on August 31, 2018[28], selected eight countries in Southeast Asia and two countries in the Middle East along the Belt and Road based on the Cooperative Development Index to assess the investment risk in the Belt and Road Initiative region. The report also reveals that Thailand, the Philippines, the United Arab Emirates, and Vietnam are the major markets today that receive the most attention from Chinese investors. Vietnam is among the top ten major markets that receive the most attention from Chinese Belt and Road property investors.[29] Since June 2018, 33 listed Chinese companies have informed China's two stock exchanges of their plans to follow their foreign counterparts out of the country to mitigate the prolonged trade war between China and the US. Majority of Chinese firms consider Vietnam preferred investment destination. Nearly 70% of 33 Chinese listed companies planning to set up production abroad have cited Vietnam as their preferred destination, while the remaining chose Cambodia, Malaysia, Thailand and others.[30]

Therefore, Chinese enterprises have been choosing Vietnam as their investment destination as part of the Chinese government's long-term strategy of pursuing economic integration with the world and neighbouring countries. So there will be the huge capital source from China in the BRI framework into Vietnam, and this can be considered as one of the important additional sources of capital that thirst for infrastructure investment. The investments of Chinese enterprises in Vietnam is also in line with China's ambitious Belt and Road Initiative (BRI). Projects in Vietnam that come under BRI include the construction of a highway linking the southern provinces of China with Hanoi and the northern ports, and the upgrading or building of new ports in the area. Given that, the Vietnamese government has recently adopted Decree No.63/2018/ND-CP, which clarifies and improves the possibility of investment under the public-private partnership model. This legal framework provides a tool that enables foreign investors to implement major infrastructure developments across Vietnam. Meanwhile, funds are available from various markets like China and Hong Kong. This is an opportunity for Vietnam to capture the benefits of economic growth associated with a national programme of infrastructure development.

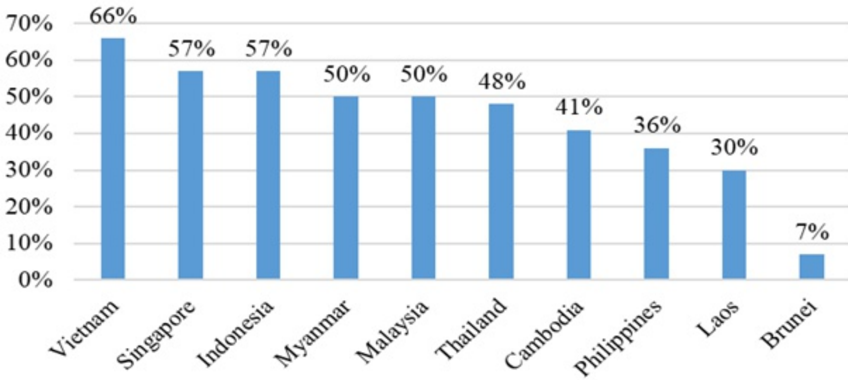
Regarding direct investment, as of December 2008, China invested directly in Vietnam with 628 projects, total registered capital of nearly 2.2 billion USD, in which implementation capital is 271 million USD, ranking 13th among 64 countries and regions investing directly in Vietnam. If counted in the period of 2001-2010, China's FDI into Vietnam increased in both the number of projects and the scale of capital (about 2.5 million USD/project), and there appeared many projects from 1 to 10 million USD. In the period from 2011 to 2017, China's FDI into Vietnam had the most significant change, but also began to show many issues of concern. In particular, in 2016, China's investment capital into Vietnam reached 1.26 billion USD, accounting for 8.3% of total FDI into Vietnam.

By the end of May 2019, China had 2,387 valid investment projects in Vietnam with a total registered capital of 15.1 billion USD, ranking 7/131 countries and territories. In the first half of 2019, China was the largest investor with more than 1.6 billion USD, accounting for 22.6% of the total newly registered capital; followed by South Korea with more than 1.2 billion USD, accounting for 16.7%; Japan 972 million USD, accounting for 13.1%; Hong Kong (China) reaching 920.8 million USD, accounting for 12.4% ... This shows that the two capital flows from

China and Hong Kong increased sharply. Specifically, in the first 6 months of 2019, the total newly and additionally invested capital and capital contribution to purchase shares was 7.5 billion USD, of which Hong Kong was 5.3 billion and China was 2.2 billion USD. Meanwhile, the total investment of China and Hong Kong into Vietnam in 2017 was only 3.7 billion USD, in 2018 was 5.8 billion USD. Particularly, the number of newly registered projects in the first 6 months of 2019 of these two investors also increased sharply, doubled compared to the first 6 months of 2018, reaching 437 projects with a total registered capital of 3.15 billion USD.[31] Thus, after a long time only ranked 3rd or 4th in Vietnam, the investment capital from Chinese investors has surpassed that of big investors from Japan, Korea and Singapore in Vietnam. This is also the first time that the newly registered FDI capital from China has risen to the top.[32]

Especially, in the first half of 2019, Vietnam drew 1.6 billion USD from investments related to China's Belt and Road Initiative (BRI), ranking fourth among Southeast Asian countries. Chinese BRI investment and construction contracts in the Southeast Asian region almost doubled to 11 billion USD in the first half of 2019, from 5.6 billion USD in the last six months of the previous year. These numbers reflect thriving interest in BRI participation in the region, also captured in the other report by PwC and the Singapore Business Federation, which represents more than 25,000 companies' interests in the city-state. Among countries in the region, Indonesia drew the lion's share of new BRI contracts, valued at 3 billion USD in the first half. It was followed by Cambodia at 2.5 billion USD, Singapore at 1.9 billion USD and Vietnam at 1.6 billion USD. Most of the projects were in transport and energy. Their report, released at a mid-August conference in Singapore on infrastructure development, named Vietnam, Singapore and Indonesia as the top countries where organizations see BRI opportunities. The report cites a survey of about 50 public- and private-sector leaders in the region – from industries like financial services, energy and construction – which found that 66% of respondents identified Vietnam as a place with BRI opportunities, followed by Singapore and Indonesia at 57%. Countries like the Laos drew less interest at 30%, while Brunei was near the bottom at 7% (see Figure 1).[33] These numbers show that Vietnam is likely to benefit most from BRI.

Figure 1 ASEAN Countries Where Respondents See BRI Opportunities



Source: Author's calculation using: *Consultancy.asia* (2019), "Singapore seen as especially attractive for Belt & Road investment", 16 August, <*https://www.consultancy.asia/news/2435/singapore-seen-as-especially-attractive-for-belt-road-investment*> (accessed August 25, 2019).

Human connection: this is an area where the two sides have achieved many important achievements. Human exchanges and cultural exchanges on the two sides took place strongly. The number of foreign students exchanging between the two sides increased rapidly. At the same time, tourism activities and cultural exchanges between the two countries took place more strongly. For tourism, in recent years, Vietnam's tourism industry has always been growing at a high speed. According to data from the Vietnam National Administration of Tourism, in 2018, international visitors to Vietnam were estimated at nearly 15.5 million, up nearly 20% over the same period last year. However, out of 15.5 million international visitors, more than half came from China and South Korea with 5 million and 3.5 million respectively. In the first four months of 2019, there were 1.3 million Chinese tourists coming to Vietnam. Each year more than 1 million Vietnamese tourists travel to China. If including cross-border exchanges, each year the number of exchanges between the two sides reaches about 12 million.

5. The Challenges Facing Vietnam under the Belt and Road Initiative

Besides the opportunities that BRI brings to Vietnam, there are challenges facing Vietnam under BRI, which we can consider in some following aspects:

First, *the risk of being economically dependent and falling into a "debt trap".* Vietnam as a whole can be classified as in a group of countries at risk of falling into a "debt trap". Especially, there have been too many lessons in cooperation with China in the investment field. In fact, the first attraction of Chinese capital is that the size and conditions of access are much easier than loans from the World Bank (WB) or the Asian Development Bank (ADB). The AIIB's Charter stipulates that the main function of this institution is to focus and prioritize "promoting investment activities in infrastructure and regional economic links". But unlike the World Bank or ADB, AIIB loans "will definitely not come with political conditions" (No Political Interference). This may initially be similar to China's "no intervention" principle but it eliminates two important factors that the World Bank, ADB, International Monetary Fund (IMF) or European Bank for Reconstruction and Development (EBRD) often include in loans to enhance the governance of a project. These are: (i) political transparency and (ii) human rights issues.

Second, *Chinese projects have also a poor track record in Vietnam.* They have been known for delays, cost overruns, and poor construction quality in various projects, among other issues. And, China lacks typical projects in Vietnam. At present, many Chinese investment projects in Vietnam face problems with investment quality, capital, as well as investment progress. This creates a bad image of China's investment activities in Vietnam. Therefore, the Vietnamese side often feels concerned about Chinese investment activities. The price is cheap and the capital is due to the technical level, and especially when the road is completed, the cost of repair and maintenance increases, the capital will be raised very quickly if the economic stimulus cannot be met from those projects. The Cát Linh – Hà Đông metro line in Hanoi is a stark example.[34] The project, which is being funded by Chinese loans and built by a Chinese contractor, was originally scheduled for completion in 2013 but is still not finished. The 13-kilometre Cát Linh – Hà Đông elevated railway will have 12 stations and a depot linking Dong Da district's Cat Linh street and Ha Dong district's Yen Nghia Bus Station. Once completed, the trains will transport up to 2,110 passengers at an average speed of 35 and a maximum of 80 kilometres per hour. The Cát Linh – Hà Đông metro line has used official development assistance (ODA) from China with appointed contractor and supervision consultant also from China. The project has a total investment of 866 million USD. It was initially scheduled to begin operation in 2016. However, the construction of the project has been delayed numerous times. Since its construction started in 2011, the official operation was delayed eight times. The latest promise made by the transport ministry pushed the deadline to April 2019. At present, around 95 per cent of the project has been completed, while the remaining 5 per cent depends greatly on the disbursement of the remaining 250 million USD. The long operational delays and ballooning budget in Hanoi's metro project have been caused by an inexperienced Chinese contractor.[35]

However, it must be fair, even in the Hồ Chí Minh City No.1 railway: Bến Thành – Suối Tiên is also behind schedule and capital. Nhổn – Hanoi Station railway project, the second railway project of Hồ Chí Minh City with German capital, is also capitalized. This is a matter of policy, management of Vietnam and a problem of Vietnam's public investment. However, we need to understand that Chinese capital is now considered to be easy, but not cheap because of environmental constraints and civil rights interests in borrowing policies. This is different from the environmental constraints, balance, and social security of the WB and ADB recently. Chinese loans have not addressed the issue of pollution emissions and anti-corruption right from their national policies. Due to the relatively convenient mechanism in lending, many people feel quite easy, but would be trapped with this capital inflow. The failure to fully realize the impact of pollution from Chinese capital has been strongly affecting the environment, society and development planning of receiving countries.

Third, *Vietnam at risk of higher trade deficit with China.* China is a big market, but it is also a "factory of the world". While the trade structure of Vietnamese goods is similar to China, it is also more difficult for Vietnam to penetrate the Chinese market. Meanwhile, Vietnam's trade deficit with China increased sharply every year, especially of imported raw materials to serve Vietnam's key export industries. In the past 6 years, the two-way trade relationship between

Vietnam and China has been disproportionate, and Vietnam has a heavy trade deficit with China of about 150 billion USD, an average of about 25 billion USD/year. The structure of Vietnam's imports from China is mainly machinery, equipment, components, electricity, fertilizer, coal, tobacco raw materials, fresh fruits, etc. Meanwhile, Vietnam exports mainly to China low-value products such as rubber, agricultural products, cassava chips, rice, fruit and timber, etc. In the context of the US-China trade war getting increasingly fierce today, with the promotion of BRI in Vietnam, the risk of trade deficit will become more serious.

Fourth, *the interaction between security and economic issues, especially with BRI.* Overall, the Vietnamese are relatively skeptical in doing business with China, so the instability in economic relations between the two sides is clearly shown. This instability manifests itself in two aspects. First is the issue of territorial sovereignty disputes between the two countries regarding the South China Sea. It can be seen that the suspicion lasts between the two countries in the context of the South China Sea dispute. At the formal level, Vietnam's emphasis on principles such as consensus, equality, mutual respect and compliance with the UN Charter and international law in the implementation of BRI shows that Vietnam is being very careful. In addition, Vietnam is also concerned that the impacts of water cooperation on the Mekong River could affect the bilateral cooperation process in general, including BRI. And, one more aspect, is the lack of transparency in China's economic activities. Therefore, Prime Minister Nguyễn Xuân Phúc during his meeting with Chinese senior leaders in Beijing in April 2019 also emphasized that: "Vietnam welcomes and supports the Belt and Road Initiative. Belt and Road Initiative ensures the principles of peaceful, equal and mutually beneficial cooperation, mutual respect and conformity with international law."[36]

Besides, Vietnamese people are also worried that Chinese investment projects may affect national security, such as with the Special Zone Act, a law that would create "Special Economic Zones" (SEZs) with the goal of sparking investment and economic reform in Vietnam. SEZs are expected to be established in three provinces: Bắc Vân Phong in Khánh Hoà province, Vân Đồn in Quảng Ninh province, and Phú Quốc in Kiên Giang province. The bill would allow foreigners, mostly Chinese investors, to lease land for up to 99 years in the three SEZs. This project is codified in the proposed SEZ Law or the "Law on the Special Administrative-Economic Units". Regarding geographic location, however, all the three districts are located in critically strategic sites of Vietnam, and they hold a crucial implication for national security. So, the Vietnamese people are concerned about this issue, and that has fueled anti-Chinese sentiment in Vietnam. There were several demonstrations nationwide against the SEZs that they fear will fall into the hands of Chinese investors. Tens of thousands of people on June 10, 2018 took to the streets in Hanoi, Đà Nẵng, Bình Thuận, Nha Trang, Bình Dương, Đồng Nai, Vũng Tàu and Hồ Chí Minh City to protest against the government's plan to create the three SEZs. Many protesters hold a banner which reads "No Leasing Land to China even for Anytime" during a demonstration against a draft law on the SEZs in Hanoi. Facing the situation, Mrs Nguyễn Thị Kim Ngân, chairwoman of the Assembly, addressed the morning of June 11, 2018 that: "People should stay calm, believe in the decisions of the party and the state, especially in the fact that the National Assembly is always listening to the people's opinions when discussing the bills."[37] Mrs Nguyễn Thị Kim Ngân added that "the concerns and worries of the people and voters were right and the National Assembly need more time to complete the law"[38]. In addition, many members of Vietnam's National Assembly and Vietnamese elite expressed concern that the provision of land for projects up to 99 years in SEZs could affect national sovereignty, with the reason that all three SEZs of Vân Đồn, Bắc Vân Phong and Phú Quốc are located in the front lines, which are very sensitive. Hence, it is necessary to consider the impact of the draft law on the aspect of national defense.[39] Whereby, Vietnam's National Assembly, in the morning of June 2018, agreed not to adopt the draft Law on Special Administrative and Economic Units of Vân Đồn, Bắc Vân Phong, and Phú Quốc at its ongoing fifth session.[40]

As a result, in August 2019, Kiên Giang province has written to the Prime Minister Nguyễn Xuân Phúc proposing the suspension of a major plan to establish a special administrative and economic zone on Phú Quốc Island off the province until the National Assembly passes the law on special administrative and economic zones.[41] And, Khánh Hoà province, in December 2019, has also written to central authorities proposing the suspension of a major plan to establish the Bắc Vân Phong SEZ while waiting for the law on special administrative and economic zones to be passed and for investment calls to be made.[42] For the Vân Đồn case, the Vietnamese government has issued a resolution on the pilot establishment of a management unit of Vân Đồn economic zone under the Quảng Ninh People's Committee after the controversial draft law on SEZs was withdrawn in 2018. Under the master plan for socio-economic development of Vân Đồn economic zone by 2030, the locality is expected to be transformed into a smart, modern and green coastal urban area, as well as the region's economic and cultural hub with gross regional domestic product (GRDP) of 5.6 billion USD, with the population set to grow to 140,000 from the current 52,000, and 89,000 jobs to be created. By 2050, Vân Đồn should become one of Vietnam's major economic driving forces and a worth-living city in the Asia-Pacific.[43]

Fifth, *Vietnam's dilemma with its border economic cooperation with China.* Vietnam lacks up-to-date information on changes in China's economic policies, thus affecting Vietnam's economic cooperation policies with China, especially Vietnam's cross-border cooperation policy making. Besides, the implementation of China's economic development policies took place quickly, flexibly and vibrantly in the border economy (such as loosening the rights and making concessions for the border areas, etc.); meanwhile Vietnam's adaptation is slow. China's development zones facing Vietnam's Border Economic Zones are experiencing higher levels of development in terms of institutions, laws, infrastructure, management discipline, cooperative experience, and trade. While Vietnam is not ready for the full free market, cheap Chinese goods have flooded, causing domestic manufacturers to worry and threaten the employment of workers in many areas. Considering the structure of goods export, in recent years, the structure of exports of Vietnam and China is quite similar, so the competition in the third market is increasingly fierce. In general, with China's current position and power, trade liberalization will cause many difficulties for economic development in Vietnam's Border Gate Economic Zones in the face of higher competitiveness of goods and service from China.

Sixth, *the risk of a new wave of Chinese immigrants.* China is implementing investment strategies in the style: "Where the money goes, people go there" that has a lot of bad consequences; over time, many Chinese resource exploitation projects in Latin American countries, Africa and Southeast Asia are characterized by bringing many unskilled workers into the project, sometimes tens of thousands of people into the country, to invest. In this way, countries have been reassessing the benefits of Chinese investment to development. Chinese investment projects in many other developing countries as well as in Vietnam often entail influx of unskilled Chinese laborers into host countries. Besides, due to the advantage of traffic between Vietnam and China, many Chinese people come to Vietnam to seek business opportunities, especially the activities of small businesses. This has also caused a rapid increase in the influx of Chinese immigrants in Vietnam, and is affecting Vietnam's socio-economic issues such as ensuring social security and order, increase in Vietnamese marriages among Chinese, increasing criminal activities, etc.

Seventh, *because China's business investment practices are "not transparent", this creates the risk of corruption.* This situation of China has also caused Chinese President Xi Jinping in the 2nd BRI Conference (April 25-27, 2019) to also declare transparency and anti-corruption in BRI projects. In developing countries – where corruption is widespread – the lack of transparency reduces the efficiency of capital use in many respects: loans are misused – loans are wasted in usage, which is borrowed even when the effectiveness of the project is low. Besides, while Xi Jinping has vigorously launched the fight against domestic corruption, there has been no sign of Xi's anti-corruption and anti-bribery issues in another country.

Eighth, *environmental issues from Chinese investment.* Although the Belt and Road Initiative extends to about 78 countries, China says it will only commit green standards within its own country. This means that China is not responsible for pollution caused by the construction of railroads, ports, highways and power plants throughout Asia, Africa, Europe and South America. Accordingly, Vietnam will also face environmental issues from Chinese investment projects.

Ninth, *strengthening human connection, in which tourism is considered as an important channel. However, tourism activities between China and Vietnam have increased in an extremely hot way in recent years and have had unexpected effects on Vietnam.* The boom in

Chinese tourists abroad has brought new opportunities and challenges to host countries around the world, including Vietnam. In the first half of 2018, 2.5 million Chinese tourists came to Vietnam, an increase of 36% over the same period last year and accounted for 32% of the total international visitors to Vietnam. However, the benefits Chinese tourists bring to Vietnam may not be as great as they appear.[44]

Various media reports indicate that many tourists have come to Vietnam through the so-called "zero-dollar tours" (known as "zero-đồng tours" in Vietnam) organized by Chinese tourism companies. During these trips, Chinese tourists stay at Chinese-managed hotels, eat at Chinese restaurants and shop at Chinese shopping venues. They also use Chinese tour guides instead of local guides. Just like the use of Chinese e-wallet services, these issues reduce the positive effect that Chinese tourists bring to the economy in general and local businesses in particular.

In May 2018, a group of Chinese tourists wearing T-shirts printed with a Chinese map shaped U caused a rage among the Vietnamese public. In 2016, the Vietnamese public was also angry when a Chinese tour guide was said to have introduced to Chinese tourists that "Huế Citadel has an architecture similar to China because it was formerly in China". The problems that Chinese tourists cause host countries are not unique to Vietnam. Similar stories can be heard across Southeast Asia and elsewhere. For example, a recent article by Cambodian scholar Pheakdey Heng raised similar issues in Cambodia. Among other things, the author found that "Chinese settlers and tourists come to Cambodia but buy from Chinese businesses, eat at Chinese restaurants and stay at Chinese hotels. The spillover impact on local businesses is very small."[45]

Tenth, *increasing electronic payments through the forms of Alipay and Wechat Pay in Vietnam not only makes the government unable to collect taxes but also potentially poses many other risks.* The Ministry of

Finance and relevant government agencies in Vietnam seek to control Chinese e-wallet services such as WeChat Pay and AliPay, as well as points of accepting illegal bank card payments at attractions frequently visited by Chinese tourists. The government is concerned that the use of such payment methods, in which transactions made between Chinese bank accounts of tourists and business owners, may bypass the banking system and goods and services regulations, leading to tax revenue losses and other potential problems.[46]

6. Conclusion

As a country playing an important role in China's BRI, Vietnam stands to benefit from BRI due to its growing demand for infrastructure investments to fuel the country's growth. On the other hand, BRI also brings new opportunities for multinationals investing in Vietnam. As a potential catalyst for greater connectivity, BRI will facilitate manufacturing and cross-border trade in the region. This is no surprise given Vietnam's proximity to China and strategic position in the ASEAN, which will open up more opportunities for the country. Hence, Vietnam has expressed its support and willingness to participate in this initiative of China. The official statements of the Vietnamese leaders on the Belt and Road Initiative are relatively clear, but in reality the implementation of policy on connectivity and infrastructure connection within the BRI framework between the two countries have not been strongly implemented yet, as the two sides still have many gaps in finding common points in their cooperation. Vietnam is cautious about the initiative's implications, given the lingering distrust between the two countries. Trust is a very important issue as the public still does not fully understand the cooperation between Vietnam and China in the BRI. In Vietnam, people are concerned about BRI projects, partly due to worries about rising debt to China. Although the actual implementation of the BRI in Vietnam may be slow, it is most likely that Hanoi will continue to lend diplomatic support to the initiative as a means to strengthen overall relations with China.

Notes

* Dr. Duong Van Huy (楊文輝) is an Associate Professor, a Research Fellow, and the Director of Department of Insular Southeast Asia Countries, Institute for Southeast Asian Studies, Vietnam Academy of Social Sciences (VASS). He is also a lecturer at Vietnam National University, Hanoi (VNU), and Graduate Academy of Social Sciences, VASS, Vietnam. His research interests currently are on Sino-Southeast Asian relations, Sino-Vietnamese relations, Chinese migration in Southeast Asia, political and security issues in Southeast Asia, South China Sea issues, etc. He has published various articles and books on his research fields. <*Email: huyiseas@gmail.com*>

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The Implication of Trade War on Contested Leadership between United States and China in Southeast Asia

Affabile **Rifawan**, Arief **Bustaman**, Kodrat **Wibowo**,
Maman **Setiawan**, Bagja **Muljarijadi** and Ferry **Hadiyanto** *
Universitas Padjadjaran, Indonesia

Abstract

The recent rivalry between United States and China has been escalating and becoming stronger, causing a trade war. The trade war can cause a heated situation in international politics. Southeast Asia as the region that has pivotal role for contested leadership between China and United States will inevitably be affected by the impact of this situation. This study aims at describing the implication of trade war as a part of contested leadership between United States and China in regional dynamics. The concept in this study is mainly viewed from the perspective of contested leadership and enclosed as related to the concept in analysing trade war. The qualitative method is the main methodology in this study. The result of this research shows that both sides are potentially inclined to carry out a military manoeuvre in the South China Sea and Taiwan Strait and this complicates the domestic conflict in Southeast Asia as the proxy of China and the US in strengthening their respective influence and leadership on the region. The other possibility is increasing cooperation with China in containing US influence. In the economic sector, there are two possibilities with rapid change and very dynamic circumstances. First, Southeast Asia can be a new market and export destination for China and US. Second, the trade war could devastate Southeast Asia's economy in facing this rivalry.

Keywords: *trade war, contested leadership, US, China, Southeast Asia*

1. Background

The dynamics of international trade has been influenced by the disruption era. Competition between states or producers moves in a more rapid pace, is unpredictable, and presents the market with a lot of surprises in innovations with advanced technology. It also applies for the tight competition between China and United States as new superpower rivalry today. China is soaring up with its international trade by becoming main actor in this sector and its accession to the WTO has strengthened China's position in international trade with WTO's principle of free trade. On the other hand, US in recent times is willing to regain its position as dominant player in international trade to improve its economic performance after the 2008 crisis and establishes its place as a major power in international politics and global economy.

Southeast Asian countries enjoy the growth of China and US in the trade partnership with them. After the 1998 Asian financial crisis, this region has mostly been gaining stable economic growth and become the most stable region in the world after Europe. With its stability and growth, this region has a good prospect in the future and could be a new pendulum of world economy. In addition, it contributes significantly to international trade (*Bloomberg*, 18 December 2017).

In fact, this situation in Southeast Asia is not as serene as it seems to be. There are a lot of challenges ahead and it needs to overcome them, such as the Rohingya issue and possibility of a trade war between Indonesia and the Philippines. This challenge includes the performance of China and United States as major powers in the region. The trade value between Southeast Asian countries and both states is significant and has a big impact on the economy of the region (Reynolds, 2018).

The other matter that cannot be ignored is contested leadership among US and China in the world, particularly in Southeast Asia in this term. The interests of both countries to this stable region is very high, mainly boosting up its economic advantage and increasing political influence by establishing military bases or gaining new territories. Both countries are eyeing this region because of the growth, stability, and potential base for securing their national interests in winning this contest to become the champion in international politics. Both political and economic issues are very important for both states in captivating influence in this region (Rifawan and Amelia, 2018).

In terms of politics, China has a big interest in securing its new territory in disputed areas of South China Sea. With its nine-dash line claim, it has attracted resistance from member countries of the Association of Southeast Asian Nations (ASEAN) threatened by China's manoeuvre. Four ASEAN countries have disputes with China in the South China Sea and could increase to five countries if China's position becomes stronger and firmer in this dispute. Undeniably, China's power in the South China Sea is ascending and potentially could be a new threat for US presence in this region. On the other hand, the US will not give up its influence in this region easily. The containment policy is the main guideline in US foreign policy. It applies to contain China's movement in Southeast Asia. At least, the US still maintains its ties with its allies in Southeast Asia including Commonwealth states which could be critical for China's military if it intends to penetrate more to hamper those territorial states. Based on that policy, the US will increase its presence and influence to contain China's influence in those states by increasing more engagement of the US in this region. However, the US prefers to avoid direct conflict with China in Southeast Asia.

The economic competition between the US and China in this region tends to intensify due to the establishment of trade wars. In supporting both the economies of the US and China, Southeast Asia has significant role. China has interest in augmenting its trade by enhancing the Belt and Road Initiative (BRI) in rebuilding the legendary silk road that could be the backbone for China's trade in this region. Furthermore, China also initiates the Regional Comprehensive Economic Partnership (RCEP) and the Asian Infrastructure Investment Bank (AIIB) as the institutions that support free trade in Southeast Asia. This region is the first entry to southern China which has abundant resources for China's trade infrastructure. Thus, the contest must be taken first by US in exteriorize China's ambition to become the champion in international trade. Moreover, the US wishes to maintain its domination in this region to contain China's influence. However, there is no convincing action yet following the Donald Trump administration's pulling out from the Trans-Pacific Partnership (TPP) except waging a trade war with China.

That war could have impact on regional stability including in the political and economic sectors. The secondary power in this study (ASEAN countries) cannot avoid this tension and must take action in its foreign policy to respond to this recent situation. Meanwhile, there is a lot of possibility of US and China's actions in maintaining their influence in this region.

This article attempts to answer a few questions regarding the trade war between the US and China. Firstly, what is the impact of the trade war between the US and China on the Southeast Asian region both politically and economically? Secondly, what is the response of ASEAN countries in facing this situation? Those questions will be answered within the framework of contested leadership.

Contested leadership is the concept proposed by Flemes and Wojchewski (2010) and renewed in 2015 by Flemes and Lobell. This concept could explain the competition of major powers in a region. It contains the foreign policy interest of major powers and response from secondary power which in this case is host countries of the Southeast Asian region.

This article, firstly, provides the chronology of trade war between US and China and the impact of trade war on the global stability. Secondly, it expounds the interest of China and US in Southeast Asia and the action that the countries took in this region due to trade war establishment between the two countries. Thirdly, it shows the impact of trade war for Southeast Asian countries on politics and the economic sector. Fourthly, it discusses the response from ASEAN countries in anticipating trade war between the two superpowers of the world.

2. Trade War between China and United States

Undoubtedly, as a new president assuming office on January 20, 2017, Donald Trump should act in accordance with his campaign promise and slogan. Putting America first is the main platform of Trump administration policy. The highlight of that campaign also involves increased surveillance of illegal immigration and tends to raise anti-trade deficit sentiment in the US, including towards China in this case. Since in the presidential campaign, in the statement of Trump with regard to China-US relations China is mentioned as an economic enemy (*ABC News*, 9 November 2017). Apparently, China is placed as the new source of challenge to US interests globally. Even the recent acting defence secretary, who replaced Jim Mattis, upon his new arrival as minister mentioned “China” three times (*CNN*, 2 January 2019). It sparked the question why China is mentioned in the defence sector three times and tends to raise the tension between the US and China. On the other hand, finally, after almost three decades, the US has a perceived serious challenger against its own way for the world to embrace the US.

Trade negotiations between the US and China started since the administration of George Bush, Sr. During the Bill Clinton administration, the China Trade Bill was passed (Skonieczny, 2018), and it has been continuing until now. However, this tension reaches its peak during the Trump administration in which bold declarations were made on this war. Trump’s ambition in making America Great Again opposite to Xi Jinping and China’s passion for taking triumph in international economy particularly in international trade. The US and China trade partnership reached the lowest point in this era, and trade war is inevitable due to unmet interest between the two countries.

Liu and Woo (2018) wrote that three concerns of the US which cause trade war with China are: first, huge trade surplus of China; second, illegal and unfair method conducted by China in cooperating with US company and technology by acquiring it with discounted price; and third, the emerging of China power that potentially obstructs US hyper polar actions in international system. They also added the solution for those concerns technically, which is very interesting and could be supplementary in political economy studies particularly in international trade research. However, the political aspect is not described very well in that paper and by discussing it, it might help to address why the US simply does not prefer fair economic competition. Table 1 gives the US and China trade tension chronology until it reached the trade war situation.

Table 1 Chronology of US-China Trade Tension

Timeline	Policy	Effect
Bush Sr - Clinton Regimes	China Bill	Trade Negotiation between US and China
Bush Jr Regime	More Military Approach	Status Quo
Obama Regime	Request for Consultation	Rising Trade Tension
Trump Regime	America First	Trade War between US and China

Source: Illustrated by authors.

It is unavoidable that China enjoys huge trade surplus with US. With the biggest market and diaspora in the world, the Chinese is well known in every country as accomplished, resilient, and hard-working traders. Thus, China is not only relishing excellent products from the US for domestic consumption but also could learn from and imitate US success in creating a good product with competitive price. The success of China in international trade is also changing its method from the labour-intensive pattern to capital- and technology-intensive exports (Caporale, Sova and Sova, 2015). This could create a tight competition with US products in the global market. The Chinese always prefer cheaper and more local competitors that appear as the new serious challenger and that is a massive loss for US in competing with China product in China's market (Perkowski, 2019). Although US products still dominate the global market, the development of China's products could be a huge threat. This could lead to the disaster of US employment if the trend continues and cannot be handled. Without a good rate of employment, domestic politics could lead to an unstable situation and create more protest from the American people to their government.

Secondly, China's status in the WTO as developing country could also lead to dubious standard treatments in the WTO mechanism (Cutler and Doyle, 2019). China's economy has been soaring up in recent times to compete with US as the new economic superpower in the world. In respecting China's sovereignty, China tend to use developing country status to gain equal partnership with US by acquiring its technology as a condition when US companies want to penetrate China's market. Unfortunately, the US seems satisfied with the current situation and put little development in their products particularly in competing with China's product prices. The US must find a way to overcome China's way in accessing US technology by upgrading its standards and confidently face the competition with China's product with cheaper price.

Thirdly, it is very critical and unavoidable for international politics when two major powers meet in their way and must face each other in competition. The US as the first in power will maintain it in every way to still become number one in power. However, China will not let it happen and will try to seize that crown by realizing its aspirations first through international trade. When the two countries' interests come across each other, political motives will have more influence than anything else.

The differences and dispute between global powers will raise the concern over international stability. The conflict has a big consequence for other nations. Mainly, it is for countries which heavily depend on the economy and stability of the US and China. Moreover, in globalization, trade is one key factor that can smooth integration agenda and nourish global economy. In the worst situation, trade war could trigger military war, namely Bandanese War, Anglo-Dutch War, Opium War, and Shimonoseki War. However, it could be anticipated or converted into other forms except direct full war between states. Certainly, the trade war between the US and China has been making the international economy and security shaken due to the tension between the major powers.

Moreover, China has decided to increase its military budget by 7.5 per cent (Reuters, 5 March 2019), and the US is still consistent with its containment policy in surrounding China by deploying its military bases around China's neighbourhood, reduces its military resources from Middle East and has a possibility to increase military deployment in East Asia. In addition, the US is trying to make peace with North Korea in reducing its threat in the region. North Korea could be a serious threat for US containment policy on China if it is placed as US's enemy, proposes a violence approach and tends to make cooperation with China in military and economic terms.

The effect of the trade war of major powers is not only having an impact on the US and China but also on other countries. With great number of population and advancement of technology, China and US could lead the market trend and product innovation that could disrupt the market. The competition between the two major powers could lead to a political situation regarding the dynamic power changing in each country's domestic affairs. The US as a democratic state will have to maintain its leadership in power, and the main agenda in supporting that ambition is by increasing performance in its economy. Trade, finance and employment are the key factors in supporting political agenda in the economic sector. Meanwhile China, which is more likely to maintain a stable situation in its politics because its Communist one-party political system, prefers to expand its economy by liberating and supporting its private and public companies especially in international trade. Nowadays, China also emphasizes on research and development by not only gaining other foreign companies' technology which entered the Chinese market but also developing its own technology to be a leader in the future market although the result is still modest (Pérez Calle, 2014).

3. Southeast Asia: The Determining Region?

Southeast Asia is now becoming a new hot prospect area for these two major powers in seizing its ambition to be a super power. After the success of USA becoming the largest crude oil producer in the world (*Today in Energy*, 12 September 2018), USA seems prepared for moving its resources from Middle East to other regions including East Asia. In supporting its containment policy, this region is very crucial for containing China's influence and still maintaining US hegemony in this region. While for China, as the adjacent region, Southeast Asia is a main region in which China must stick its influence as the crucial pivot for China's ambition.

The interest of China and US in their presence in Southeast Asia must be explained. China's main objective in this region is crucial for its expansion. Because of the adjacency of this region to China, it will be the front yard of China's territory. The front yard of neighbourhood will be more convenient to be possessed. Instead of treating this region like Africa, China could be more aggressive in impending over this region. China's expansion includes military involvement and sovereignty issue which have never prevailed in Africa or other regions to which China is expanding its influence. Table 2 describes Chinese and US interests in this region.

Table 2 Chinese and US interests in Southeast Asia

China's Interest	US Interest	Area
Nine-Dash Line Claim	Prevent China Domination	South China Sea
Kra Canal	Maintain Status Quo	Logistics Route
OBOR/BRI, RCEP	Democratisation and Human Rights	Increasing Influence

Source: Illustrated by authors.

The South China Sea's disputed islands are hot property for China's territory, and it will be advantageous for China if it owns them and wins the claim of the nine-dash line. China's step in this area is quite progressive and is hardly encountered by other claimant states in this disputed area. Those actions are land reclamation (Davenport, 2018) and cabbage strategy (Kazianis, 2013) in upholding effective occupation and China's presence in the South China Sea.

Until now, China has built military base in the Spratly Islands and Scarborough Shoal on reclaimed land. The way of China in reclaiming the disputed area is unique and shows that China is a major power in region and is trying to create deterrence effect on other claimant states which want to confront China in the disputed area. In smoothing the reclamation process, China uses the cabbage military strategy by first securing the area for land reclamation tools and infrastructure. This strategy involves evicting local fishermen from other claimant states by having military naval vessels of China surround local fisherman's ships and replace the crew with Chinese fishermen. China has also been repelling other states' military ships that approach China's reclamation land project in the disputed areas. It is an effective way in the land reclamation process, which strengthens China's claim in this area. Inevitably, China is strong, firm, and in a superior position in the South China Sea against other claimant states.

It is not only the South China Sea territorial dispute that includes China's objective in Southeast Asia but also its ambition in rebuilding the legendary silk road by enhancing infrastructure development for Southeast Asian countries, namely, OBOR (One Belt One Road)/ BRI (Belt Road Initiative) that China established in Southeast Asia. This project's objective is enhancing China's trade logistics and more likely to assist infrastructure development for Southeast Asian countries that hopefully could produce high return for China's economic development but it could not yield too much for China due to political impact (Blanchard, 2018). Furthermore, in anticipating the US nexus in the Malacca Strait (Singapore and Malaysia), China is planning to continue building the Kra Canal with OBOR/BRI in Thailand (Menon, 2018), which will consequently shorten the route and avoid Singapore as port hub in Southeast Asia but in turn will cut logistical costs and time by passing through this canal (Sulong, 2012). In fact, Singapore and Malaysia are Commonwealth states that has a binding agreement of military protection with Great Britain which is a closer ally to US. This infrastructure ambition and project aims at strengthening the superiority for China's domination in international trade particularly in Southeast Asia.

For US interest, this region is a key factor for the US military and economy nowadays. When the US acting defence secretary mentioned China three times in his first day in office, it could be interpreted that the US is very serious in containing China's influence in the world. Southeast Asia could be a buffer zone too for the US and its allies to contain China. Since the end of Vietnam War, the US tends to stay away from military intervention in Southeast Asia. The US has been using more soft power than hard power as its approach in this region.

However, Jackson (2004) stated that from 1977 to 2000, US policy in this region seems to benignly neglect the regional dynamics and misses opportunities with every chance that have appeared in this territory (Mauzy and Job, 2007). What cannot be neglected from the George Bush to Barack Obama era is that the US tends to focus more on the Middle East than any other region. The main interest in securing valuable resources in the Middle East and securing the interests of its closest ally and the strongest lobbyist in Washington, Israel, is more irreplaceable than any other influencers for its foreign policy. Nevertheless, by securing Afghanistan in containing China's expansion, the US has not totally ignored China's military development. That is the added value of aiming to contain the Soviet Union first and then having an implication for China respectively.

The interest of the US in this region is still to maintain hegemony by practicing US values and ambition of security and economic architecture. The US is finally facing a tougher challenge from China to maintain its hegemony in this region. This region can hopefully be a contained zone for China's expanding ambition according to US interest in containing the development of China's influence. In the security sector, the US has the war on terror agenda in this region in order to maximize its allies' involvement in terrorism eradication including the nearest country, Australia. For its political agenda, the US wants to implement democracy and human rights values in accordance with US values. In the economic field, until now, there is no clear and specific interest from the US in enhancing the economies of both the US and Southeast Asia other than normative efforts such as boosting trade and investment. In fact, the trade war is one of the US agenda in preventing

China's domination in important goods all over the world. Nonetheless, there is no advanced step that US is taking after pulling out from the TPP negotiations.

One of the main agendas that has reaped massive success for US interests in Southeast Asia is democratization. It is the application of US values to other Southeast Asian countries. All ASEAN countries carry out democratic national elections nowadays including even Myanmar, which produced the agreement between Aung San Suu Kyi and the military junta. Although only Singapore and Cambodia are practicing more "closed democracy", other countries are successfully applying democracy openly and will give more space to freedom of the press and other modern democratic values. It is the success of the US agenda since the Cold War, deposing dictatorships in Southeast Asia.

This region is very important for both countries in their efforts to be major power in the world. For China, it is the golden gate and front yard in entering the world market and could be a buffer zone for strengthening its security. While for the US, this is important for the purpose of containing China as a new tough rival in maintaining its hegemony in the international system.

4. The Economic and Political Impact of US-China Trade War in Southeast Asia

Li, He, and Lin (2018) studied the possible impact of US-China Trade War with the global general equilibrium model. The result is that China will yield more devastating results, but it can afford the negative impact. On the other hand, the US could get a stronger bargain, but it will suffer more damages if China retaliates, especially if other countries that potentially take part in a trade war with the US get involved. This superpower war will have collateral damage to other countries especially

Table 3 Possible Impacts of US-China Trade War

Possible political impact	Potential conflict escalation or increasing stability in region (especially the South China Sea) Potential conflict escalation or decreasing democracy domestically (using proxy)
Possible economic impact	Potential windfall for changing supply up to 1 trillion dollars

Source: Illustrated by authors.

in terms of GDP and manufacturing employment, but it will also increase their trade and welfare (Li, He, and Lin, 2018). Rosyadi and Widodo (2017) find, in another study by using Global Trade Analysis Project (GTAP) model, that the short-term effect that could possibly hamper the economies is the decline in the GDPs of China and the US, terms of trade, and welfare but increasing US trade balance. Other impacts could also be specified in solar energy equipment and instalment trade, in which China has 40% of global production, and it involves trade war with the European Union too (Caprotti, 2015). The other trade sectors may possibly be affected by the spread of this competition.

Based on the studies above, the economic impact of the trade war between the US and China not only affects the economy of both states but also other states, particularly developing countries which have weaker bargaining powers than the US and China. It includes Southeast Asian countries as close partners of both parties. Ling (2019) writes that Indonesia and Vietnam will suffer more for its steel and aluminium industries while Myanmar, Cambodia, Philippines, and Thailand will reap more benefits in livestock, textiles, automotive industry, and electronic integrated circuit. The other countries, such as Malaysia and Singapore, will get both benefit and loss due to the trade war conditions. Meanwhile, Malaysia reaps more benefit than loss, and Singapore vice versa (Ling, 2019). For uncertain situations like this, Southeast Asian countries should anticipate and try to reduce dependency on trade to both the states and prefer to avoid being involved in that conflict.

Unfortunately, the US does not seems to be satisfied by only waging a trade war with China but also other states with which it has a trade deficit. The Southeast Asian countries could possibly face that situation in entering the US market. However, this war could mean more opportunity to unlock for Southeast Asian countries. Bain & Co predicted that Southeast Asian countries will gain windfall from this situation. It estimates $1 trillion profit by changing supply chain to avoid trade war effects as ready as Southeast Asian countries to China (CNBC, 23 November 2018). Until now, the ASEAN country that enjoys advantages the most out of the trade war effect is Vietnam. Vietnam's exports to the US have surged by 35 per cent and Taiwan's by 21 per cent (*Taiwan News*, 22 November 2019). In addition, twenty-six manufacturers, which left China, went to Vietnam to place their factories and invest their capital there. In sum, forty-eight manufacturers left China and went to ASEAN countries in continuing their business (*FOXBusiness*, 5 September 2019). Despite the reason of the rapid development of technology and infrastructure in Vietnam and the cheaper cost in doing business there, the windfall to Vietnam could be added by the boldness of Vietnam in its standing in the South China Sea dispute with China. The engagement of Vietnam is more insisting than any other claimant states toward China. There are forty engagements that Vietnam conducted in the dispute with China (Grossman, 2019).

The companies which left China could be safer by placing their factories in Vietnam due to its bold position toward China and the US. Vietnam could be more independent in handling the issue between the two major powers.

The enterprise will look toward Southeast Asia as a new production base, and it could be competitive, filling the market gap of this war. Therefore, the economic impact on this issue would be problematic for some countries in Southeast Asia which are not ready to use the opportunity of the possible outflow of investment from China and use the East Asian market due to the change in the supply chain equilibrium. Readiness is the key to use that opportunity well, and Southeast Asian countries are better pragmatically to use every good possibility in terms of this war.

For political impact, this war could escalate to be a proxy war or real war. Even if it seems impossible or has truncated possibility, every act that trigger more tension could lead to catastrophe in this region. Previous historical conflicts that happened in this region were started from trade war, namely Bandanese War or VOC (Dutch *Vereenigde Oost-Indische Compagnie* / United East India Company) colonialism in Indonesia that began with trade purposes initially. That cannot be neglected if China and US initiate military action to intervene with each other or use proxy in representing each party's own influence. The region with the highest possibility of experiencing it is Southeast Asia. As the nearest zone between the US and China, this region is very vulnerable due to the possibility of military war between the US and China directly or indirectly.

The real impact of this issue politically is that every country in ASEAN tends to be more careful in making foreign policy with regard to braiding relations with the US or China. Both countries seem to be more aggressive in handling this issue. Indeed, the US wants to escalate more in overcoming its trade deficit with every partner in the world. Its view of this region could be linked to East Asia, e.g. by pulling peace treaty talks with the North Korean leader in Singapore and Vietnam. Meanwhile, China has kept a strong grip on this region by lending huge amounts of money for projects and investments, resulting in this region's debts owed to China. That could turn into China's sharpest soft power. In addition, China is very progressive in building military bases in the South China Sea, causing problems with ASEAN countries. However, every country in ASEAN wants to avoid problems and wants no zero-sum game with China and the US.

Political stability is the key for economic growth and development. When democracy is applied in every ASEAN country, it aims to reach stability in politics. However, it is not a guarantee that political stability could be implemented in this way. China's approach in its political system could even inspire ASEAN countries to practice it in their own respective ways. Every country wants to play safe with China and the US.

In fact, economic and political impacts are related and inseparable. The possible windfall effect from this current trade war on Southeast Asia will increase US influence in this region because every country wants to gain more investment in enhancing its economy. If those circumstances turn to profit for ASEAN countries, then, pragmatically, every country in this region will maintain status quo in this trade war. Consequently, ASEAN countries will favour more the US stand in maintaining status quo of the trade war if it does not escalate to other states, including ASEAN countries. It is in accordance with US interests that this region could be the zone that contains China's expansion of influence, but China will not let it happen easily by still strengthening its grips with military expansion in the South China Sea and implementing the OBOR/BRI in ASEAN countries.

5. Response from Host States to the Trade War between the US and China

In economic matters, global trade negotiations in this region are on its way in enhancing international trade. Between two trade initiatives, RCEP (Regional Comprehensive Economic Partnership) and CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership), initiated by these two major powers (the US is replaced by Japan as focal point at CPTPP) differently, every ASEAN country has chosen its own way in going forward through these partnerships. Both trade negotiations are trusted as the way to enhance trade partnership by diminishing barriers among states in Southeast Asia. Free trade is still aimed by most ASEAN members in enhancing economy. With high numbers of export and productivity, the removal of trade barriers will be very lucrative for ASEAN members.

ASEAN countries seem to prefer to obtain more benefit in flourishing trade in this region to being involved in the trade war between the US and China. The possible consequence of the current trade war is that the US will increase the leverage of the war to other states beyond China. It is the high risk that ASEAN members must avert. The economic dispute with the US could lead to damaging trade outcomes in the region. Thus, ASEAN members prefer to address this issue in at least securing its own national interest first. For example, Indonesia prefers to anticipate any US approach in leveraging trade war by collaboration with win-win solution for Indonesia-US bilateral trade (*The Straits Times*, 7 July 2018).

The economic approach of ASEAN members to be favourable to China's economy has a greater tendency to appear as formal policy. ASEAN has a free trade agreement with China – ASEAN-China Free Trade Agreement (ACFTA) – since 2010. Most Southeast Asian countries also vie to gain benefit from OBOR/BRI. It is in accordance with ASEAN connectivity, and the support from China is very valuable to execute that vision. In infrastructure projects, the benefit for ASEAN members can increase the connectivity in economic terms and popularity in national politics. However, not all ASEAN countries take that for granted and some prefer to cancel the projects due to the large amount of debts and being not the main priority at this time – like Malaysia after Mahathir Mohamad's Pakatan Harapan ("Alliance of Hope") coalition won the 2018 Malaysian general election (Reuters, 21 August 2018). The anti-China investment issue also appeared in the elections in Malaysia and Indonesia in anticipation of the debt trap and the movement of low-skilled worker from China to both countries (Han, 2018; *South China Morning Post*, 28 November 2018). The plan of the Kra Canal also is not in favour of the interests of Singapore as the hub in the Malacca Strait and whose economy depends on trade services provided in the port. Nonetheless, the development of China's economy contributes to the advancement of investment in Southeast Asian countries.

The response in the economic sector will have an influence in the political and military fields. China's action in the South China Sea has triggered furious reaction from some claimant states, namely Vietnam and the Philippines. Other ASEAN countries also proposed different responses to China. The Philippines has sued China at the International Court of Justice for South China Sea arbitration with case number PCA 2013-19 (Permanent Court of Arbitration, 2015), and the result is in favour of the Philippines that China does not have historical rights to made the nine-dash line claim in the South China Sea. On the other hand, in 2014 and 2018, there were massive riots and demonstrations by the Vietnamese people in responding to China's action in utilizing natural resources in the disputed area in South China Sea (*CNN*, 15 May

2014). It led to the departure of Chinese people from Vietnam, and perception of China among the Vietnamese people is mostly filled with hatred (Fawthrop, 2018). Investment and trade were going down at that time and so were relations between Vietnam and China. Meanwhile Indonesia prefer to carry out a smart way in facing the nine-dash line claim of China (because there is no direct territorial dispute with China yet) by renaming the South China Sea territory possessed by Indonesia as the "North Natuna Sea" (Connelly, 2017). The change in naming is very important in avoiding China's historical claim in international law. China is not in favour of that but cannot do much because it is related to the sovereignty of a country in determining its territory. However, there is no clear action from the Philippines or other claimant states to prevent China's aggressive action in the South China Sea. Furthermore, a latest research about contested leadership of China and the US in Southeast Asia shows that China has a stronger bargaining position and economic influence in ASEAN countries (Rifawan and Amelia, 2018).

As a consequence, the Philippines prefer to cooperate with China in obtaining more benefit in handling the South China Sea dispute by offering China a joint program in exploiting natural resources in that territory (Ramadani and Trisni, 2019). Meanwhile, the other ASEAN states namely Vietnam, Malaysia, Brunei and Indonesia still insist and are consistent on the sovereignty claim in that area. But, Vietnam is the most determined nation in driving out China's manoeuvres in the South China Sea.

Furthermore, ASEAN as a supra-national regional organization in this region cannot form one common and binding action towards China's action in South China Sea. The non-interference principle of ASEAN is the one which causes the fact of not being able to reach a consensus. Cambodia's stance was an obstacle to the agreement of ASEAN statement on the dispute in the South China Sea. There was indication to delay the code of conduct for South China Sea because the huge amount of investment that China plants in ASEAN countries (Rein, 2018: 8). It is not only applied to Cambodia but also to most of Southeast Asian countries that enjoy ASEAN connection and infrastructure provided by China's funds. Overall, perception of China's among other claimant states' people is not in good shape and could potentially create resistance to China's hegemony in this region militarily.

Contested leadership between the US and China in Southeast Asia cannot be separated from the current trade war. Besides taking advantage in the short run and reducing trade deficit of the US, it could also be beneficial to most Southeast Asian countries in taking the opportunity to capture more investment and market in their international trade. If the US mission in flourishing in this region is successful by filling the gap of the consequence of the Sino-US trade war, then it would be an advantage for both sides that the regional members want to maintain trade war status quo. In terms of US interests, it means the containment of China's influence in the region and for the ASEAN members it is the windfall to its international trade. However, China will insist on the OBOR/BRI plans and will emphasize on its lender power in applying pressure and influence on the ASEAN members.

Notes

* Affabile Rifawan is a Lecturer and Researcher at the Department of International Relations, Universitas Padjadjaran, Indonesia, with research focus of global leadership, security studies and political economy, and with teaching scope of International Development, International Relations in America, and Quantitative Methods. <*Email: a.rifawan@unpad.ac.id*>

Arief Bustaman is a Lecturer at the Department of Economics, Universitas Padjadjaran, Indonesia, with research focus and teaching scope of international trade. Mr. Bustaman's research interest is in the area of International trade & business, Industry, Public-Private Partnership (PPP), and his recent research topics are An Evaluation on Institution of Public-Private Partnership (PPP) in Indonesia, Infrastructure spending and development outcomes in Indonesia: an econometric investigation, Competition in Indonesian steel industry, The Impact of Exchange Rate Volatility on Indonesia's Exports to the USA: An Application of ARDL Bounds Testing Procedure. He is also advisor on free trade at the ASEAN Center for Ministry of Trade, Republic of Indonesia. <*Email: arief.bustaman@fe.unpad.ac.id*>

Kodrat Wibowo is a Senior Lecturer at the Department of Economics, Universitas Padjadjaran, Indonesia, with research focus and teaching scope of macroeconomics and political economy. He is also appointed as commissioner at Commission for the Supervision of Business Competition (KPPU), Republic of Indonesia. <*Email: kodrat.wibowo@fe.unpad.ac.id*>

Maman Setiawan is a Senior Lecturer and Head of the Department of Economics, Universitas Padjadjaran, Indonesia, with research focus and teaching scope of industrial economics. His work has been published in many international peer-reviewed journals, namely *International Journal* *of the Economics of Business*, *World Review of Entrepreneurship, Management and Sustainable Development* and *International Review of Applied Economics*. *<Email: maman.setiawan@fe.unpad.ac.id>*

Bagja Muljarijadi is a Senior Lecturer at the Department of Economics, Universitas Padjadjaran, Indonesia, with research focus and teaching scope of economics planning and public policy. *<Email: bagdja@fe.unpad.ac.id>*

Ferry Hadiyanto is a Senior Lecturer at the Department of Economics, Universitas Padjadjaran, Indonesia, with research focus and teaching scope of macroeconomics and political economy. *<Email: ferry.hadiyanto@fe.unpad.ac.id>*

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High-Level Visits and the Belt and Road Initiative: The Case of Southeast Asia

Wooi Yee **Tan*** and Chong Foh **Chin****
Institute of Chinese Studies, Universiti Tunku Abdul Rahman, Malaysia

Abstract

The study aims to examine the frequency of high-level visits between China and Southeast Asian countries from 2008 through 2019. It argues that the Belt and Road Initiative (BRI) has encouraged diplomatic exchanges between China and Southeast Asian countries. However, the BRI is not the only reason that contributes to the high frequency of visits. The institutionalisation of bilateral and multilateral cooperation mechanism between China and Southeast Asian countries has also increased the close bond between the two sides. Other reasons that affect the frequency of visits include cordial political relations between China and individual Southeast Asian countries. Although the BRI has encouraged mutual visits between China and Southeast Asian countries, the South China Sea dispute remains a challenge to the relations between China and other claimants in the region.

Keywords: *Belt and Road Initiative, China, Southeast Asia, high-level visits*

1. Introduction

Since the launch of the Belt and Road Initiative (BRI) by Chinese President Xi Jinping in 2013, the high-level visits between China and Southeast Asian countries have increased significantly. On 26th and 27th April 2019, nine out of ten heads of state or government from Southeast Asia[1] gathered in Beijing to attend the Second Belt and Road Forum for International Cooperation (*BRF*, 2019). Like Southeast Asian counterparts who have been busy travelling to China, Chinese leaders have also been flying frequently to Southeast Asia. On 2nd to 5th November 2019, Chinese Premier Li Keqiang was in Bangkok, Thailand to attend series of the Association of Southeast Asian Nations (ASEAN) led summits and to pay an official visit to Thailand (Ministry of Foreign Affairs of the People's Republic of China, 2019). A number of agreements and deals were signed during these visits. It seems that the Chinese, as well as Southeast Asian leaders, have viewed high-level visits as a means to promote and enhance cooperation and collaboration under the BRI.

The BRI has attracted much attention from policymakers and academia since its launch. There is a burgeoning literature discussing its intentions and challenges (for example Cheng, 2016; Gan and Mao, 2016; Liu, 2017; Yu, 2017; Siu, 2019). Some examine its impacts and implications to an individual country (Shekhar, 2016; Fang, 2017; Hu, 2017; Choroś-Mrozowska, 2019), the regional as well as the international order (Arase, 2015; Zhang, 2016; Chen *et al.*, 2019; Yuan, 2019). However, there is, so far, no analysis on the impacts of the BRI on high-level visits.

Leadership travel can be a "good indicator" to understand a country's diplomatic priorities and commitments in its foreign relation (Kastner and Saunders, 2012). Close political and economic relations between China and Southeast Asian countries have increased the frequency of high-level exchanges in the 2000s. Exchanges of visits between the two sides have further accelerated after the launch of the BRI. This study attempts to answer the following research questions. *Does the BRI encourage more high-level visits between Chinese and Southeast Asian leaders? What are the implications of this growing high-level visits to China-ASEAN political and trade relations?*

To understand the impacts of the BRI on political relations between China and Southeast Asian countries, we have constructed a new data set that codes all high-level exchanges between Chinese and Southeast Asian leaders from 2008 to 2019. The frequency of visits by Chinese and Southeast Asian leaders during the second term of Hu-Wen administration (2008-2012) will be compared with the visits during the first term and part of the second term of the Xi-Li administration (2013-2019). We argue that the BRI has encouraged diplomatic exchanges between China and Southeast Asian countries. For China, its leaders visit Southeast Asia to promote greater cooperation with the region under the BRI. While for Southeast Asian leaders, their frequent China trips reflect their eagerness for more Chinese investment and trade.

This article begins with a review of the function of high-level visits in diplomacy and the diplomatic relations between ASEAN and China. It is then followed by a description of the collected data. The third section is a detailed analysis of all high-level exchanges between China and Southeast Asian countries between 2008 and 2019. In the fourth section, the authors discuss the reasons contributing to the increasing number of visits and challenges that arise. It is concluded that the BRI has encouraged mutual visits between China and Southeast Asian countries.

2. High-level Diplomatic Visits

High-level visits are the most common forms of diplomatic engagement between two countries to develop and to enhance bilateral relations. They usually involve a head of state or government making a trip to another foreign country. High-level visits between countries reflect the importance of a bilateral relationship. It can appear in various forms: state visit, official visit, working visit, and private visit.

State visit is the highest form of visit offered by a host head of state to another chief of state such as the President or the king. It is characterised by higher ceremonial content such as a motorcade, a stay at a royal residence, a state banquet, and a speech to the house of parliament. These formality and protocol reflect the highest level of hospitality and honour in relations between states. The second highest rank of visit is the official visit offered to a head of government such as prime minister. Sometimes it is called goodwill visit or official goodwill visit. It includes the invitation to attend multilateral meetings and summits such as the Asia-Pacific Economic Cooperation (APEC), ASEAN Plus Three (10+3) and G20 as well as ceremonies like official ceremonies of sports shows. It is followed by a working visit, an official meeting between ministerial level officer with his counterpart to discuss issues concerning both countries. The last type of visit is the private visit, i.e. a visit by a chief of state, head of government or any other ministerial officers to another country without the invitation of the host government.

Face-to-face meetings during high-level visits can be a form of dialogue that allows information exchange, trust and rapport building. Eventually, it enhances understanding and promotes cooperation amongst leaders. Leaders also negotiate for good deals and break the deadlock when they meet as these leaders are the chief policymakers in diplomacy. The practice of a leader's personal approach in diplomacy is sometimes called "presidential diplomacy." It usually involves a direct and personal execution of foreign policy by a nation's leader such as presidents and prime ministers while avoiding the traditional foreign policy bureaucracy led by foreign ministers (See CQ Press (ed.), 2013). While foreign visits do not necessarily tell the quality or content of bilateral relation, they provide valuable clues to understand a country's foreign policy aims and tendencies (Kastner and Saunders, 2012)

The shifting role of leaders in international diplomacy has called for a re-examination of high-level exchange in international politics. Nitsch (2007) examines the effects of state and official visits on bilateral trade. His results show that high-level exchanges indeed have a positive effect on bilateral exports growth.

There are also studies that investigate the geostrategic implications of high-level visits. Kastner and Saunders (2012) investigate China's behaviour through the study of the travel pattern of Chinese leaders. Ekmekci and Yildirim (2013) provide a detailed analysis of Turkish foreign policy through an examination of its Prime Minister Erdogan's foreign visits to the non-Western world between 2003 and 2010. According to Zakhirova's study (2012), intergovernmental visits can serve to provide important information on a region.

3. Overview of the Relations between China and Southeast Asian States

Southeast Asian states have a long history of interactions with China given their historical, cultural and geographical proximity. However, the relations between the two sides have not been easy in the 20th century. In the height of the Cold War, China's radical foreign policies that supported local communist insurgencies in the region had created a tense relationship between China and Southeast Asian countries. To prevent the further spread of communism in Southeast Asia, ASEAN was established in 1967. None of ASEAN's founding members had normal relations with China when they formed the organisation.

However, in the 1970s, a few new developments in the region and China had provided opportunities for China and Southeast Asian states to improve their relations. First, the normalisation of relations between the United States and China in 1972 had changed the regional strategic environment. Second, the intervention of Vietnam into Cambodia had prompted some Southeast Asian countries to reconsider their relations with China. Third, China had experienced a leadership change after the death of Mao Zedong. When Deng Xiaoping rose to power, China introduced Open and Reform Policy in 1979. Trade and economic matters have then become the new foundation of bilateral relations between China and Southeast Asian states. Seeing these changes in the region, some Southeast Asian countries quickly normalised relations with Beijing. Among all, Malaysia was the first ASEAN member state to form diplomatic relations with China in 1974. It was then followed by Thailand and the Philippines in 1975.

China and Southeast Asian states have gradually engaged in high-level exchanges as their relations become closer. These visits have contributed greatly to China's bilateral relations with Southeast Asian countries as well as its multilateral ties with the ASEAN, the regional organisation of Southeast Asia. It has formed a comprehensive strategic partnership with Cambodia, Indonesia, Laos, Malaysia, Myanmar, Thailand, and Vietnam (2013), the all-round cooperation partnership with Singapore (2015), and the comprehensive strategic cooperation with the Philippines (2018).

Meanwhile, its multilateral relations with the region is mainly built on ASEAN. China established dialogue partner relations with ASEAN in 1991[2]. In 2003, China-ASEAN relations entered a new phase when Beijing acceded to the Treaty of Amity, Cooperation in Southeast Asia. It then became ASEAN strategic partners. Since then their relations have been multi-dimensional – from politics and security, economic to social and cultural aspects. Among all, China-ASEAN economic relations in particular trade and investments have gained the greatest success, forming the strongest pillar in bilateral relations between the two sides. China signed the Framework Agreement on Comprehensive Economic Cooperation with ASEAN in 2002, making it the first dialogue partner to set up a Free Trade Area with ASEAN. The ASEAN-China Free Trade Area (ACFTA) was realised in January 2010 and took full effect in January 2015. Both parties then agreed to upgrade the ACFTA in November 2015. The upgrading of the ACFTA will further simplify the rules for trade of goods, services, and investments in the region. Thus, enhancing regional trade and investment cooperation.

China has been ASEAN's largest trading partner since 2009, and ASEAN became China's second-largest trading partner in the first half of 2019 (*China Daily*, 23 July 2019). Since 2012, ASEAN and China together with South Korea, Japan, Australia and New Zealand, and India have jointly launched the negotiation for a Regional Comprehensive Economic Partnership (RCEP) agreement that aims to integrate the economies of 16 countries in Asia and Oceania (ASEAN, 2016c).

Over the years, ASEAN and China have developed a comprehensive relation that covers political and security, economics and trade, and socio-cultural cooperation. However, the overlapping territorial claims between Southeast Asian states and China in the South China Sea have recently strained their close relationships.

4. Data Description

The data consists of all state and official visits by the heads of state and government of China and Southeast Asian countries from 2008 through 2019. It spans across two generations of Chinese leaders, the second term of the then Chinese President Hu Jintao and Premier Wen Jiabao (from 2008 to 2012) as well as the first and part of the second term of Chinese President Xi Jinping and Premier Li Keqiang (from 2013 to 2019)[3]. These two sets of data provide a means of comparing the pattern in Chinese leaderships travel.

For Southeast Asian countries, the China trips made by the heads of state and government of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam are included[4]. Private visits such as Cambodian King Norodom Sihamoni's trips to Beijing every year for a routine medical check-up would not be included in the analysis[5].

Southeast Asian states are heterogeneous in terms of their political systems. Brunei is an absolute monarchy with the king as the head of state. Laos and Vietnam are governed by a Communist one-party system. Thailand had been governed under military rule from late May 2014 till March 2019. On 24th March 2019, the country held its first national election in eight years, which later proved to be a setup for continued de facto military rule[6]. Singapore is under the one dominant party rule. Its neighbour Malaysia experienced the transfer of power after the opposition coalition, *Pakatan Harapan* won the 14th General Elections in May 2018, ending the 61 years ruling by the *Barisan Nasional* government. In contrast, Cambodia has transformed into a de facto one-party state after the ruling party, the Cambodia People's Party (CPP), won all 125 parliamentary seats in the 2018 national election[7] (Reuters, 15 August 2018). On the other hand, Indonesia and the

Philippines are under multi-party democratic systems. Myanmar has dropped the military rule since 2016 and joined the multi-party democratic system club. For the data collection, we have included China trips by both head of state and head of government from 2008 to 2019. Myanmar is a special case as we have included its State Counsellor Aung San Suu Kyi in the data. The post is similar to that of a Prime Minister. It was created by Myanmar's ruling party, National League for Democracy (NLD) party in April 2016 for its chairperson, Aung San Suu Kyi who is constitutionally barred from becoming the President of Myanmar[8]. For China, we include both Chinese President and Premier's trips to Southeast Asian countries from 2008 to 2019.

Data on high-level visits were obtained mainly from China's Foreign Ministry website[9]. The information was then cross-checked against Southeast Asian countries' ministry of foreign affairs, prime minister's or president's office, Chinese, Western and Southeast Asian local news media and scholarly writings to ensure the accuracy of the data. These news reports also provided additional information such as agreements and deals signed during the visits.

5. Analyses and Results

Table 1 shows the frequency of Southeast Asian leaders' visits to China between 2008 and 2019. In total, Southeast Asian leaders travelled 112 times to China during the 12 years period. Between 2008 and 2012, during the second term of the Hu-Wen administration, they travelled 33 times to China, on average 6.6 times a year. Their visits to China almost doubled and reached 65 times during the first term of the Xi-Li administration (2013-2017). The highest frequency of visits occurred in 2014, where Southeast Asian leaders visited China 19 times in just a year. This reflects Southeast Asian countries' strategic calculation to

Table 1 High-level Visits by Southeast Asian Leaders to China, 2008-2019

Country	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Brunei	2	0	0	0	0	1	1	0	1	1	0	1	7
Cambodia	1	1	1	0	1	1	3	2	3	2	0	2	17
Indonesia	0	0	0	0	1	0	1	1	1	2	0	0	6
Laos	1	1	0	1	2	2	3	1	3	1	0	0	15
Malaysia	0	1	0	1	1	0	3	1	1	1	1	1	11
Myanmar	1	1	0	1	1	2	2	2	1	3	0	1	15
Philippines	0	0	0	1	0	0	0	0	1	1	1	2	6
Singapore	2	0	0	0	1	1	3	1	1	1	1	1	12
Thailand	3	1	1	0	1	0	2	0	2	1	0	1	12
Vietnam	2	2	0	0	0	1	1	1	1	1	1	1	11
Total	12	7	2	4	8	8	19	9	15	14	4	10	112

Source: The authors.

increase engagement with China after the launch of the BRI in October 2013. However, the frequency of their visits went back to the Hu-Wen administration level, which is around seven times a year during the first two years of the second term of the Xi-Li administration. Two possible reasons contribute to this reduction. First, there were growing criticism and scepticism over the BRI during the second term of Chinese President Xi Jinping. China was accused of putting the BRI participating countries in financial risk when Sri Lanka handover its southern deep-sea port of Hambantota to China for 99 years in December 2017 after its government failed to repay loans (*The New York Times*, 12 December 2017). In March 2018, the Centre for Global Development released a report that "raises serious concerns about sovereign debt sustainability in eight countries that have participated in the BRI projects" (Hurley *et al.*, 2018). Southeast Asian leaders have thus become less aggressive in wooing Chinese investment. Second, Southeast Asian countries have been busy holding elections in 2018 and 2019. Cambodia and Malaysia held elections in 2018, while Thailand and Indonesia had their general elections in 2019.

Among all, Cambodian leaders were the most aggressive, travelling 17 times to China from 2008 to 2019. It was followed by Laos and Myanmar, in which their leaders both travelled 15 times to China. Leaders from Thailand and Singapore visited China 12 times from 2008 to 2019 respectively. Both Malaysian and Vietnamese leaders made 11 trips to China during the above period. Bruneian leaders visited China 7 times and followed by Indonesian and the Philippines leaders six times respectively from 2008 to 2019.

The table shows that Southeast Asian leaders have travelled more to China after the launch of BRI. The frequency of mutual visits from 2014 to 2019 was accelerated by trips for attending multilateral occasions as reflected in the statistics. Southeast Asian leaders have travelled to China during the period to attend multilateral meetings and occasions such as the APEC Economic Leaders' Meeting, the China-ASEAN Expo, the Lancang-Mekong Cooperation Leaders' Meeting, G20 Meeting, the Boao Forum, and the Belt and Road Forum for International Cooperation.

In recent high-level exchanges between Southeast Asian countries and China, discussion of the BRI and its related activities featured prominently on the agenda of meetings. Different from symbolic goodwill visits in the past, recent visits by Southeast Asian leaders often concluded with the signing of Memorandums of Understanding (MoUs), cooperation agreements and deals for infrastructure projects under the BRI. For instance, during Malaysian Prime Minister Najib's state visit to China in November 2016, 14 agreements worth about RM150 billion (US$34.4 billion) were signed (*New Straits Times*, 2 November 2016). Cambodian Prime Minister Hun Sen brought back US$7 billion investment to Cambodia, including the construction of an expressway

Table 2 Chinese Leaders' Visits to Southeast Asian Countries, 2008-2019

Country	Chinese Leaders	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total visits
Brunei	President	0	0	0	0	0	0	0	0	0	0	1	0	3
	Premier	0	0	0	1	0	1	0	0	0	0	0	0	
Cambodia	President	0	0	0	0	1	0	0	0	1	0	0	0	3
	Premier	0	0	0	0	0	0	0	0	0	0	1	0	
Indonesia	President	0	0	0	0	0	1	0	1	0	0	0	0	5
	Premier	0	0	0	2	0	0	0	0	0	0	1	0	
Laos	President	0	0	0	0	0	0	0	0	0	1	0	0	3
	Premier	1	0	0	0	0	0	0	0	1	0	0	0	
Malaysia	President	0	1	0	0	0	1	0	0	0	0	0	0	4
	Premier	0	0	0	1	0	0	0	1	0	0	0	0	
Myanmar	President	0	0	0	0	0	0	0	0	0	0	0	0	2
	Premier	0	0	1	0	0	0	1	0	0	0	0	0	
Philippines	President	0	0	0	0	0	0	0	1	0	0	0	1	3
	Premier	0	0	0	0	0	0	0	0	0	1	0	0	
Singapore	President	0	1	0	0	0	0	0	1	0	0	0	0	3
	Premier	0	0	0	0	0	0	0	0	0	0	1	0	
Thailand	President	0	0	0	0	0	0	0	0	0	0	0	0	5
	Premier	0	2	0	0	0	1	1	0	0	0	0	1	
Vietnam	President	0	0	0	0	0	0	0	1	0	1	0	0	4
	Premier	0	0	1	0	0	1	0	0	0	0	0	0	
	Total	1	4	2	4	1	5	2	5	2	3	4	2	35

Source: The authors.

from Phnom Penh to Sihanoukville, another satellite city near Phnom Pen and the construction of a tourist centre from his China's trip in December 2017 (*VOA Khmer*, 5 December 2017).

On the other hand, Chinese leaders paid 35 visits to Southeast Asian countries from 2008 to 2019 as shown in Table 2. The data shows that current Chinese President Xi Jinping has travelled more extensively than his predecessor President Hu Jintao who only travelled three times to Southeast Asia from 2008 to 2012. From 2013 to 2017, during Xi's first term in office, he paid nine state visits to Cambodia, Indonesia, Laos, Malaysia, Singapore, and Vietnam. He then travelled to Brunei and the

Philippines between 2018 and 2019, the first two years of his second term as Chinese President. In comparison, his predecessor President Hu Jintao only arranged state visits for Cambodia, Malaysia, and Singapore during his second term from 2008-2013.

The then Chinese Premier Wen Jiabao and current Chinese Premier Li Keqiang would visit at least one country in Southeast Asia every year to attend multilateral events, including APEC meetings, ASEAN Plus One, ASEAN Plus Three, East Asia Summit, and the Lancang-Mekong Cooperation Leaders' Meeting. The latest multilateral meeting was the ASEAN series of summits held in Thailand in 2019 (ASEAN Secretariat – Thailand, 2019). In the 1990s, Chinese secondary leaders would attend these meetings; however, since 2000s top Chinese leaders appeared in these multilateral meetings themselves. The number of visits made by the current Chinese leaders was even higher than their predecessors.

Chinese President Xi Jinping and Chinese Premier Li Keqiang had travelled to almost all ASEAN countries between 2013 and 2019. Among all countries, the most visited Southeast Asian countries by them were Indonesia, the Philippines, Thailand, and Vietnam. They have visited these countries three times between 2013 and 2019. In contrast, they only visited Myanmar once in 2014. Both Xi and Li have visited Brunei, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, and Vietnam. Meanwhile, the Philippines and Vietnam were the two countries visited twice by Chinese President Xi Jinping.

Since the Hu and Wen period (2009-2012), Chinese leaders have averagely visited three times a year to Southeast Asia. The average number of trips taken by Xi and Li appears to be consistent with Hu and Wen. However, Xi and Li's visits to Southeast Asian countries were more likely fruitful with the signing of a series of agreements. During Chinese President Xi Jinping's state visit to Hanoi, Vietnam from 12nd and 13rd November 2017, seven documents, 12 cooperation pacts and

83 trade agreements worth a combined value of US$1.94 billion were signed (*Nhan Dan Online*, 13 November 2017). Chinese Premier Li Keqiang witnessed the signing of 14 agreements during his official visit to the Philippines in November 2017. These included a Renminbi bond issuance amounting to about US$200 million and RMB150 million for the rehabilitation of Marawi City (*ABS-CBN News*, 15 November 2017).

6. Discussion

The above analysis shows how the BRI has created a new impetus for China and Southeast Asian countries to deepen their relations through high-level visits. However, the initiative is not the only factor that contributes to the high frequency of visits. Other factors such as the institutionalisation of bilateral and multilateral cooperation mechanism, close historical relationships between China and some Southeast Asian countries, the disputes in the South China Sea have also intensified the diplomatic exchanges between China and Southeast Asian countries. Nevertheless, closer relations between China and Southeast Asian countries do not mean that Southeast Asia has chosen China in the Sino-US rivalry.

6.1. Building the BRI for Common Development

Chinese leaders view Southeast Asia as a strategic region in implementing the BRI. Indeed, Chinese President, Xi Jinping first announced the creation of the 21st Century Maritime Silk Road to the Indonesian parliament during his state visit to Indonesia in October 2013. Later in the Vision and Actions on Jointly Building the Silk Road Economic Belt and the 21st Century Maritime Silk Road policy initiative released in March 2015, China includes Southeast Asia countries in two of the six corridors envisioned[10]. They are the China-

Indochina Peninsula Economic Corridor, running from southern China to Singapore and China-Myanmar-Bangladesh-India, linking Southern China to Myanmar. China places a strong emphasis on building trade routes from China to Southeast Asia in both land and sea routes.

As discussed above, mutual visits between Chinese and Southeast Asian leaders have increased after the launch of the BRI. For the Chinese leaders, high-level visits can be an effective way to promote this brand-new plan and to achieve the five major goals of the BRI, which are policy coordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people bonds. They actively push for infrastructure development projects that promote strategic cooperation and contribute to connectivity in the region. For example, on 22nd April 2015, Chinese President Xi Jinping witnessed the signing of the cooperation documents on high-speed rail projects from Jakarta to Bandung when he attended Asian-African summit in Jakarta (Ministry of Foreign Affairs of the People's Republic of China, 2015). Then a MoU to build 867km of dual-track railways in Thailand was signed during Chinese Premier Li Keqiang's visit to Thailand to attend the Greater Mekong Subregion (GMS) summit (Reuters, 19 December 2014). Most agreements and deals for building a railway network connecting the southern city of Kunming with Laos, Thailand, Malaysia, and Singapore were reached during these mutual visits.

Concerns about the "Malacca Dilemma" have also led the Chinese leaders to work with the Malaysian government to push for port projects such as the Melaka Gateway[11] along the Straits of Malacca. Meanwhile, the Chinese government has also searched for an alternative route for its energy transportation. It has built an oil pipeline in Myanmar. In June 2017, it reached an agreement with the Myanmar government to develop a US$7.3 billion deepwater port, the Bay of Bengal port at KyaukPyu. The port is part of the US$10 billion KyaukPyu Special Economic Zone, which will be developed by China's state-run CITIC Group (Reuters, 9 June 2017).

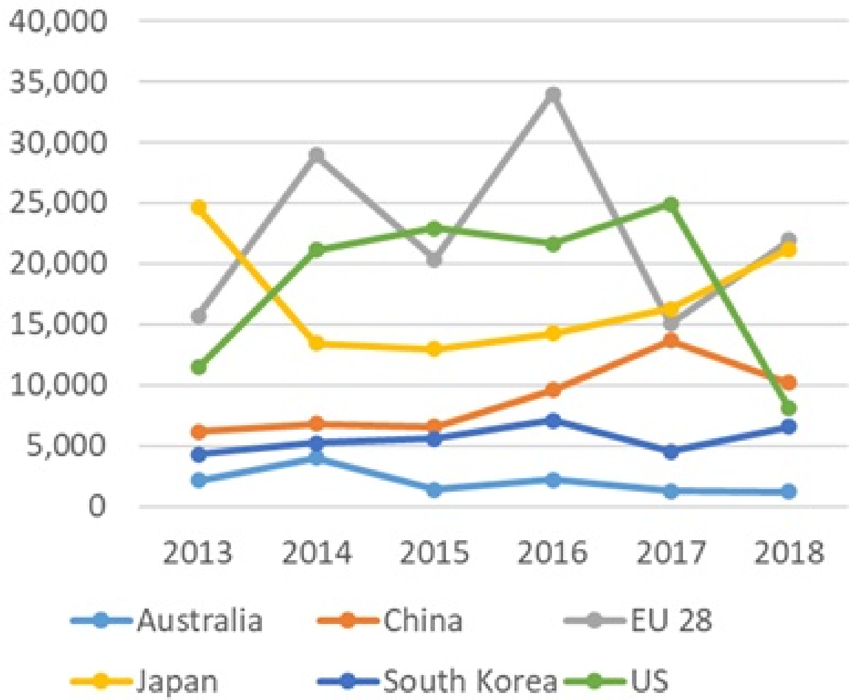
While Chinese leaders aim to promote the BRI through visits, Southeast Asian countries seek to obtain more infrastructure projects, enlarge and diversify trade with China through exchanges of visits. At a time when the global economy has slowed down, and the regional economy was clouded with uncertainties after the United States' withdrawal from the Trans-Pacific Partnership (TPP) free trade pact in January 2017, Southeast Asian countries see China as the main driver of economic growth in Asia. China's proximity and growing influence in the global economy, as well as commitments to fund the BRI infrastructure projects, provide good opportunities to Southeast Asian countries. To support the initiative, China has established the Asian Infrastructure Investment Bank (AIIB) with US$100 billion to fund infrastructure projects. It has also offered another US$40 billion via the Silk Road Fund. At the first Belt and Road Forum for International Cooperation held in May 2017, Chinese President Xi Jinping committed an additional US$14.5 billion to the Silk Road Fund (Xinhua, 14 May 2017). According to Citibank, ASEAN countries need US$100 billion annually in the coming 10 to 15 years to develop infrastructure in particular transportation and power generation infrastructure (Supply Chain Asia, 2016).

For Southeast Asian states, the BRI complements their national development strategies, helping them to boost their connectivity-link economic development. For instance, Thailand wants to link its US$44 billion Eastern Economic Corridor Development Plan (EEC)[12], a plan to build infrastructure and to upgrade industry in its eastern seaboard with the BRI (Bloomberg, 22 June 2017). Cambodia, on the other hand, relies on Chinese investments and aid to implement its Rectangular Strategy[13] and Industrial Development Strategy 2015-2025[14]. To procure an additional 35,000 megawatts (MW) of electricity by 2019[15], Indonesia has welcomed Chinese construction and energy companies to invest in its energy sector. Malaysia has attracted Chinese investments to help attain developed nation status by 2020[16]. Under President Duterte, the Philippines has ambitious Build, Build, Build (BBB) infrastructure programme[17] to improve infrastructure in Metro Manila. The BRI offers huge opportunities for Southeast Asian countries to dock their respective national development plans and strategies with the BRI. At the regional level, it will help ASEAN to realise its Master Plan on Connectivity 2025[18] by boosting inter- and intra-regional connectivity. Many believe that the BRI will increase trade exchange and investment flow, bringing benefits to their economies and trade.

Current Southeast Asian leaders' trips to China are often accompanied by a delegation of businessmen. Besides official functions such as meetings and talks between leaders, the visiting leaders will also arrange tours as well as meetings and talks with Chinese business groups to encourage them to invest in their countries. In recent years, leaders would also conduct tours to prominent Chinese business premises such as Alibaba Group's headquarters in Hangzhou and Huawei in Shenzhen. The then Malaysian Prime Minister Najib Tun Razak, Indonesian President Joko Widodo, as well as Deputy Prime Minister of Thailand Somkid Jatusripitak, had discussed with Jack Ma, the founder of Alibaba Group regarding plans to cooperate on e-commerce during their visits to the headquarters of Alibaba Group in Hangzhou, Zhejiang province (*China Daily*, 10 January 2017).

Figure 1 illustrates foreign direct investment (FDI) flows into ASEAN from 2013 to 2018. With efforts by Southeast Asian leaders to attract China's investment, the inflow of Chinese investment into the region has been growing from about US$6.2 billion in 2013 to about US$10.2 billion in 2018 (*ASEANStatsDataPortal*, 2018d). A study by

Figure 1 FDI Flows into ASEAN, 2013-2018 (in million US$)



Source: *ASEANStatsDataPortal* (2018d).

the CIMB ASEAN Research Institute reports that BRI projects in ASEAN countries amount to more than US$739 billion by 2018 (Cox *et al.*, 2018). Bilateral trade between ASEAN and China has also increased significantly, from US$351.58 billion in 2013 to US$483.76 billion in 2018 (*ASEANStatsDataPortal*, 2018e). ASEAN and China aim to reach US$1 trillion in two-way trade and US$150 billion in two-way investment by the end of 2020 (ASEAN, 2018).

However, Chinese investment slowed down in the second half of 2018, due to the trade war between China and the United States as well as the "debt trap" backlash of the BRI. Amid worries over high project costs and unsustainable debts, several BRI projects in Southeast Asia have either been cancelled or renegotiated. In August 2018, the Myanmar government decided to scale back the Kyaukpyu deepwater port project on the coast of its Bay of Bengal, from US$9 billion to around US$1.3 billion (Reuters, 2 August 2018). Meanwhile, in Malaysia, its new prime minister Mahathir Mohamad cancelled the East Coast Rail Link (ECRL), the Multi-Product Pipeline and Trans-Sabah Gas Pipeline after concluding his first trip to China in August 2018 (*The Edge Markets*, 21 August 2018). The ECRL project was later revived in April 2019 after Malaysia and China renegotiated the construction cost from US$16 billion (RM65.5 billion) to US$10.7 (RM44 billion) (Prime Minister's Office of Malaysia, 2019). During his second trip to China to attend the second Belt and Road Forum for International Cooperation, Mahathir pledged full support for the BRI, saying Malaysia will benefit from the initiative (*The Star*, 27 April 2019).

6.2. Institutionalisation of Regional Multilateral Mechanism

Mutual high-level visits between Chinese and Southeast Asian leaders have also intensified through a series of bilateral and multilateral cooperation mechanism. At the bilateral level, China and most of the Southeast Asian states have upgraded relationships to comprehensive strategic partnerships since 2013. Collaboration and cooperation between the two sides have thus been widened. The high-level exchanges between China and individual Southeast Asian countries have gone beyond state visits and official visits. China has established joint committees at different levels with each Southeast Asian individual countries in the past four years.

On the multilateral level, Southeast Asian countries and China have formed a binding mechanism for their cooperation through various ASEAN Plus One mechanism including summit, ministerial and senior officials' meetings. They have also actively involved in other ASEAN-led frameworks such as the ASEAN Regional Forum (ARF), ASEAN Plus Three (APT), and the East Asia Summit (EAS). Between 2014 and 2017, we also see China taking the initiative to host several international events like the APEC Economic Leaders' Meeting (Summit), the Lancang-Mekong Cooperation Leaders' Meeting, and the Belt and Road Forum for International Cooperation. These series of summits and meetings mark a new period of Chinese foreign political engagement with Southeast Asian countries. China has asserted itself not only an institutional follower but also a creator. These series of activities are effective in reinforcing the bond of mutual interest in various aspects. Indeed, leaders often make full use of these multilateral summits by conducting bilateral meetings with other attending leaders on the side-line of these multilateral summits.

Furthermore, the above multilateral meetings have enabled Chinese leaders to visit Southeast Asian countries. For example, Chinese President paid state visits to the Philippines and Brunei when he attended the 26th Asia-Pacific Economic Cooperation Economic Leaders' Meeting in Papua New Guinea (Ministry of Foreign Affairs of the People's Republic of China, 2018).

6.3. Close Political Relations

Among Southeast Asian countries, China has maintained a high frequency of diplomatic exchanges with Laos and Cambodia due to historical and political closeness. China and Laos are both socialist countries. Their relations are not limited to state-to-state relations, but also extend to cooperation between the Chinese Communist Party and the Lao People's Revolutionary Party. President Xi Jinping called Laos as "a good neighbour, friend, brother and partner" (*China Daily*, 1 December 2016). He had also chosen to pay a state visit to the country on 13th and 14th November 2017 after his re-election in October 2017 (*China Daily*, 9 November 2017). This fact reflects the great importance that China attaches to Laos. In 2017, China was the largest source of foreign investment to Laos, investing around US$1.131 billion and accounting for 25.2 per cent of the total FDI of the country (*ASEANStatsDataPortal*, 2018c; *The Laotian Times*, 15 July 2019). Under the BRI, both sides have agreed to construct the US$5.8 billion Laos-China railway linking Vientiane, the capital of Laos with China's border. The 417-km railway is scheduled to complete by the end of 2021 (*China Daily*, 11 November 2019).

Another close ally of China in the region is Cambodia. Like Laos, Cambodia may be relatively small if compared to other Southeast Asian countries. However, both Chinese President Hu and Xi had visited the country. While Western powers constantly criticise Cambodian Prime Minister Hun Sen over human rights oppression, China's adherence to the principle of non-interference has earned trust from him. Cambodia had twice stood up for China on the South China Sea issue during ASEAN foreign ministers' meeting to block any mention against China over the maritime dispute in the South China Sea in the joint statement by ASEAN[19]. Beijing appreciated Cambodia's support. When Chinese President Xi Jinping travelled to Cambodia on a state visit in 2016, he described Cambodia and China as "good neighbours, real friends who are loyal to each other" on a front-page commentary in Cambodia's biggest Khmer-language newspaper, Rasmei Kampuchea (Reuters, 13 October 2016). Consequently, China had rewarded Cambodia with increasing trade and investments.

Given Cambodia's closeness with China, Hun Sen has described the country's relationship with China as "siblings who share a single future." (*South China Morning Post*, 1 May 2019). When European Union sanctioned the country over the pre-election arrest of main opposition leader Kem Sokha and the dissolution of his National Rescue Party, Beijing reaffirmed its pledges by signing nine deals with Cambodia during the second Belt and Road Forum for International Cooperation (*South China Morning Post*, 1 May 2019). *ASEANStatsDataPortal* (2018b) shows that China invested about US$798.24 million in Cambodia in 2018. It is also the biggest trade partner for Cambodia. Trade between Cambodia and China reached about US$7 billion in 2018 (*ASEANStatsDataPortal*, 2018a). Since 2013, there have been several infrastructure projects launched under the BRI, namely the Sihanoukville Special Economic Zone and the US$1.87 billion Phnom Penh-Sihanoukville Expressway.

6.4. South China Sea Dispute

While there are visits that aim to deepen collaborations under the BRI, there are also some visits meant for mending deteriorating relations caused by the overlapping claims over the South China Sea. The dispute has been a big challenge to China and four claimants in the region – Brunei, Malaysia, the Philippines and Vietnam. Since 2013, China's relations with the Philippines and Vietnam have been marred by the escalating tensions over the South China Sea. The Philippines submitted the controversial case of the South China Sea to the Permanent Court of Arbitration in early 2013. The ruling announced in July 2016 favoured the Philippines in its case against China. The statistics show that no high-level visits between China and the Philippines between 2013 and mid of 2016. The Philippines's relations with China have changed after Duterte assumed office in June 2016. Duterte had extended goodwill to rebuild bilateral ties. The two sides then began a process of rapprochement after that. Duterte‘s first state visit to China in October 2016 was a turning point for the improvement of Sino-Philippine relations (*The Guardian*, 18 October 2016). China-Philippine relations have been further improved by the visit of Duterte to China in May 2017 and Chinese Premier Li Keqiang's visit to the Philippines in November 2017.

On the other hand, there have been continuous tensions between China and Vietnam over the disputed waterway. Bilateral relations between China and Vietnam hit a low in 2014 when a Chinese state-owned company moved an oil rig into disputed waters near the Vietnamese coast in 2014. The move triggered a tense maritime standoff and anti-Chinese riots across Vietnam that killed at least 21 people (*Time*, 15 May 2014). In 2017, the tension between the two countries raised again by oil drilling by Vietnam[20] and China's military drills in the South China Sea[21]. The two countries only reached a consensus to maintain peace and stability in the disputed waterway during a state visit to Hanoi by Chinese President Xi Jinping (*South China Morning Post*, 13 November 2017).

For Southeast Asian countries that have overlapping claims with China in the South China Sea, mutual visits are crucial to enhance trust and to exchange views on the dispute to reduce misjudgement.

6.5. Hedging Approach of Southeast Asian Countries

While ASEAN countries have increased their frequency of visiting China, it does not mean that they have accepted China's increasing power in the region. Most Southeast Asian leaders do not place their eggs in one basket. In practice, most of the Southeast Asian countries continue to pursue a "hedging strategy" by strengthening ties with China's competitors in the region, including the United States, Japan and

India. Vietnam, one of the major claimants of the South China Sea, continues to engage the United States and Japan to resist Chinese expansion in the disputed waters. It has also courted support from India by elevating Vietnam-India bilateral relations to a Comprehensive Strategic Partnership during Indian Prime Minister Narendra Modi's visit to Vietnam in 2016 (Ministry of External Affairs, India, 2016). The two countries have then strengthened cooperation in security, defence and trade.

Other countries in the region have also responded positively to the then US President Obama's 2011 "Pivot to Asia", a policy that provides economic and military support to Asian countries to counterbalance the rising power of China. Four countries in the region - Malaysia, Vietnam, Singapore, and Brunei – joined the Trans-Pacific Partnership (TPP) in February 2016[22]. From 16th to 18th February 2016, all ten Southeast Asian leaders attended the ASEAN Leaders Summit at Sunnylands, California[23] (ASEAN, 2016a). However, they are more cautious in response to the Trump administration's promotion of the Free and Open Indo-Pacific (FOIP) strategy amidst an escalating US-China rivalry. Instead of embracing Trump's FOIP that is exclusive of China, ASEAN promotes the Indo-Pacific that is open to all countries by adopting the "ASEAN Outlook on the Indo-Pacific" at the 34th ASEAN Summit in June 2019 (ASEAN, 2019a). Although Southeast Asian leaders are concerned about rising China's influence in the region, they do not want to distance themselves from China. In the eyes of Southeast Asian leaders, it is important to maintain the regional balance of power.

The ongoing railway projects in the region are good examples of Southeast Asian countries' hedging strategy against China. The Thai government had opened its mega-projects for both China and Japan. It awarded the 670km high-speed railway from Chiang Mai to Bangkok to Japan[24] while offered another high-speed railway from Bangkok to

Nakhon Ratchasima province to China[25]. As Japan and China compete for increasing influence in Southeast Asia, Southeast Asian leaders also practice smart diplomacy by playing one power against the other.

7. Conclusion

While there is extensive literature on the BRI, the growing number of high-level visits has largely been ignored. This study aims to fill the gap by examining the impact of BRI on high-level visits between Chinese and Southeast Asian leaders. We argue that the BRI has encouraged more high-level exchanges between China and Southeast Asian countries. Statistics show that after the launch of BRI in 2013, Southeast Asian leaders' trips to China have almost doubled. These growing diplomatic exchanges have been supported by an economic impulse to seize the new opportunities offered by the BRI. Southeast Asian countries' proactive behaviour towards China has resulted in cooperation agreements and major deals related to the BRI projects. While China views the region as crucial to the implementation of the BRI, it does not reflect in the pattern of Chinese leadership travel to Southeast Asia. Instead of showing an increase in the number of visits, Chinese President Xi Jinping's and Premier Li Keqiang's trips to Southeast Asia do not show much difference as compared to the Hu and Wen period (2008-2012).

The high frequency of visits to China by Southeast Asian leaders is largely due to the BRI. However, the BRI is not the only reason that contributes to the high frequency of visits. The institutionalisation of bilateral and multilateral cooperation mechanism between China and Southeast Asian countries has also increased the close bond between the two sides. Other reasons that affect the frequency of visits include cordial political relations between China and individual Southeast Asian countries. As China has closer political ties with Cambodia and Laos, exchanges between their leaders were more as compared to other countries. Although the BRI has encouraged mutual visits between China and Southeast Asian countries, the South China Sea dispute remains a challenge to the relations between China and other claimants in the region. Vietnam and other claimants have adopted a "hedging strategy" to balance China's growing assertiveness in the disputed waters. They also engage other major powers in the region to advance their economic growth.

Southeast Asian leaders' passion for BRI projects has slowed down in the second term of the Xi-Li administration. Criticisms about corruption, debt trap, and environmental damage have made it a controversial trade and infrastructure scheme. In addressing all these criticisms, Chinese President Xi Jinping pledged on financial sustainability, environmental protection and anti-corruption efforts in the second Belt and Road Forum for International Cooperation held in Beijing in April 2019 (*South China Morning Post*, 28 April 2019). In contrast to US trade protectionism, China's pronounced vision of building a "community of shared future" as well as the openness and inclusiveness of the BRI will sustain China's attractiveness in Southeast Asia.

High-level visit offers a useful way to examine the impacts of BRI on political and economic relations between China and Southeast Asian countries. However, it is an imperfect indicator for accessing the impacts of BRI on bilateral trade and foreign direct investment. In some cases, the narrow focus on high-level visits between Chinese and Southeast Asian leaders limits how a conclusion can make. Other factors could have been ignored in this analysis. Future research should seek to identify the impact of these high-level visits to bilateral trade and foreign direct investment between China and Southeast Asian countries.

Notes

* Wooi Yee Tan (陳韋亦) is a PhD candidate at Institute of Chinese Studies, Universiti Tunku Abdul Rahman (UTAR), Malaysia. She holds a Master's degree in International and Public Affairs (MIPA) from the University of Hong Kong and a Bachelor degree of Arts (Communication) from Campbell University, USA. Wooi Yee Tan is currently a Lecturer at Faculty of Creative Industries, Universiti Tunku Abdul Rahman. <*Email: tanwy@utar.edu.my*>

** Dr Chong Foh Chin (陳中和) is an Associate Professor at Institute of Chinese Studies, Universiti Tunku Abdul Rahman (UTAR), Malaysia. He holds a doctoral degree of philosophy from College of Social Sciences, Chinese Culture University, Taiwan (2009). <*Email: chincf@utar.edu.my*>

1. Indonesian President Joko Widodo who sought for the re-election of presidency seat did not attend the summit as the date of the summit was close to the Indonesian Presidential Election 2019, which was scheduled on April 17, 2019. He sent Vice President Jusuf Kalla to represent Jakarta (*South China Morning Post*, 3 May 2019).
2. China's dialogue relations with ASEAN started when the then Chinese Foreign Minister Qian Qichen was invited by Malaysian Prime Minister Mahathir Mohamad to attend the 24th ASEAN Ministerial Meeting (AMM) held in Kuala Lumpur in July 1991. In July 1996, China became ASEAN's full Dialogue Partner. See: ASEAN (2019b).
3. On 14th March 2013, Xi Jinping was elected as Chinese President while Li Keqiang was elected as the Premier of the State Council at the 12th National People's Congress. On 17th March 2018, Xi Jinping and Li Keqiang were elected to a second term at the annual session of the National People's Congress (NPC). Their second five-year term will be from 2018 till 2022.

4. They are Sultan and Prime Minister of Brunei Haji Hassanal Bolkiah Mu'izzaddin Waddaulah (1984-present), the King of Cambodia King Norodom Sihamoni (2004-present) and the Prime Minister of Cambodai Hun Sen (1985-present), President of Indonesia Susilo Bambang Yudhoyono (October 2004-October 2014) and Joko Widodo (2014-present), President of Laos Choummaly Sayasone (March 2006-January 2016) and Bounnhang Vorachith (2016-present), Prime Minister of Laos Thongsing Thmmavong (December 2010-April 2016) and Thongloun Sisoulith (April 2016 – present), Yang Di-Pertuan Agong Tuanku Abdul Halim Mu’adzam Shah (December 2011-December 2016), Prime Minister of Malaysia Najib Razak (April 2009-May 2018) and Mahathir Mohamad (May 2018-present), President of Myanmar Thein Sein (March 2011-March 2016), Htin Kyaw (March 2016-March 2018), and Win Myint (March 2018-present), Prime Minister of Myanmar Thein Sein (October 2007-November 2011), State Counsellor of Myanmar Aung San Suu Kyi (April 2016-present), President of the Philippines Benigno Aquino III (June 2010-June 2016) and Rodrigo Duterte (June 2016-present), President of Singapore Tony Tan Keng Yam (September 2011-August 2017) and Prime Minister of Singapore Lee Hsien Loong (August 2004-present), Prime Minister of Thailand Abhisit Vejjajiva (December 2008-August 2011) and Prayut Chan-o-cha (May 2014-present), President of Vietnam Truong Tan Sang (July 2011-April 2016) and Tran Dai Quang (April 2016-September 2018), Prime Minister of Vietnam Nguyen Tan Dung (June 2006-April 2016) and Nguyen Xuan Phuc (April 2016-present).
5. The king would travel to China twice a year for medical treatment. Usually the first trip will be in February or March; the second trip will be arranged six months later, which is in July or August. See: Xinhua (18 March 2019) and Xinhua (10 September 2018).

6. General Prayut Chan-o-cha, who is a coup maker in 2013 as well as the head of the National Council for Peace and Order, reclaimed the premiership after winning majority of votes from the House of Representatives and Senate (*Bangkok Post*, 6 Jun 2019).
7. Before the election, the Hun Sen administration has launched a series of crackdown on the oppositions to consolidate Hun Sen and his party leadership. In September 2017, Cambodian opposition leader Kem Sokha was charged with treason (Reuters, 5 September 2017a). In November 2017, Cambodia's Supreme Court ordered to dissolve the country's main opposition party Cambodian National Rescue Party (CNRP) and banned its 118 senior officials from politics for five years (*The Phnom Penh Post*, 17 November 2017).
8. Myanmar's National League for Democracy (NLD) party won a parliamentary majority in the 2015 Myanmar general election. However, the former military rulers had passed a bill that requires the president to be someone who "himself, one of the parents, the spouse, one of the legitimate children or their spouses not owe allegiance to a foreign power". As Suu Kyi's two sons are British citizens, the bill has prevented her from becoming the President of Myanmar. To allow Suu Kyi to govern the country, the NLD has thus created a new role, State Counsellor. The bill was approved in both Houses on 7th April 2016. See: *ABC News* (5 April 2016).
9. Available online at <*http://www.fmprc.com*>.
10. There are altogether six economic corridors proposed by China: the China-Central Asia-Western Asia Corridor, the China-Indochina Peninsula Corridor, the China-Mongolia-Russia Economic Corridor, the China-Myanmar-Bangladesh-India corridor, the China-Pakistan Economic Corridor, and the New Eurasian Land Bridge.

11. Launched in February 2014, the RM40 billion Melaka Gateway project is a mixed development project that includes commercial, residential, entertainment and lifestyle elements. It will be built on three reclaimed islands and one natural island in the Strait of Malacca (*The Sun Daily*, 7 February 2014). Malaysian company KAJ Development Sdn Bhd (KAJD) will be responsible to develop the project with supports from China state-owned Powerchina International Group Ltd (*The Edge Markets*, 1 September 2016). Although the project is set to be Southeast Asia's largest private marina, it has experienced a few setbacks, including a delay from October 2018 to May 2019. In October 2018, Malaysian transport ministry revoked licence to operate the port and terminal hold by KAJD. After an appeal, the licences were reinstated in May 2019. However, there is question about the economic feasibility of the project (*Free Malaysia Today*, 11 October 2019). .
12. The EEC project is part of Thai government's efforts to realize Thailand 4.0, an economic model that will transform the country into a technology and innovation-based country. The project has been designed to develop three eastern provinces – Chonburi, Rayong and Chachoengsao - into a hub of trade and investment with strong connectivity to its neighbours. The EEC area covers over 13,000 km2. It incorporates the upgrade of U-Tapao International Airport, the building of high-speed train, the expansion of the Laem Chabang and the Map Thaput deep seaports, and the expansion of highways and motorways. The project is expected to be completed by 2021.
13. The Rectangular Strategy launched by the Cambodian government in 2004 was a strategy to achieve four objectives: growth, employment, equity and efficiency. It is a supporting tool to achieve poverty reduction, development, prosperity and harmony. In 2013, it entered Phase III that emphasizes the "Socio-economic Policy Agenda". It will become a

comprehensive policy framework for the formulation of the "National Strategic Development Plan" (Royal Government of Cambodia, 2013).

14. Launched in 2015, the Industrial Development Policy is a guide to boost Cambodian industrial development through economic diversification, competitiveness enhancement and productivity promotion. It aims to transform the country's industrial structure from a labour-intensive industry to a skill-driven industry by 2025. See: Royal Government of Cambodia (2015).
15. In 2014, Indonesian President Joko Widodo announced a plan to procure 35,000 megawatts (MW) of new electricity during his first term that will end in 2019. The plan worth Rp1,100 trillion is necessary for the country to realize its annual economic growth of 6-7 percent by 2019.
16. The aspiration for Malaysia to become a fully developed country by 2020 was set in Wawasan 2020 or Vision 2020 launched in 1991.
17. In 2016, the Philippines President Rodrigo Duterte launched this US$180 billion infrastructure programme to improve the country's weak infrastructure. In the first stage, 75 flagship projects have been introduced, including six airports, nine railways, three bus rapid transits, 32 roads and bridges, and four seaports (*Forbes*, 28 February 2018). In November 2019, the list of flagship projects has been expanded to 100 (*ABS-CBN News*, 14 November 2019).
18. In 2016, ASEAN Leaders adopted the Master Plan on ASEAN Connectivity 2025 (MPAC 2025). It focuses on five strategic areas, namely sustainable infrastructure, digital innovation, seamless logistics, regulatory excellence and people mobility. See: ASEAN (2016b).
19. In 2012, Cambodia resisted to language used in the joint statement about the South China Sea. It also rejected the joint statement issued by ASEAN foreign ministers in September 2016 that referred to a ruling made by the Permanent Court of Arbitration in The Hague that denied China's claims in the dispute. (Reuters, 25 July 2016).

20. In July 2017, Vietnam suspended an oil exploration project operated by Spain's Repsol in the South China Sea under the pressure from Beijing (*BBC News*, 21 July 2017).
21. In September 2017, Hanoi condemned Beijing's military live-fire exercises in the South China Sea that had violated its sovereignty (Reuters, 5 September 2017b).
22. After the US President Donald Trump withdrew from the TPP trade deal in January 2017, the remaining eleven countries decided to carry on the implementation of the TPP agreement. They renamed it as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in November 2017 (*The Strait Times*, 11 November 2017).
23. They were Sultan Hassan al Bolkiah of Brunei, Prime Minister Hun Sen of Cambodia, President Joko Widodo of Indonesia, President Choummaly Sayasone of Laos, Prime Minister Najib Razak of Malaysia, President Benigno S. Aquino, 3rd of the Philippines, Prime Minister Lee Hsien Loong of Singapore, Prime Minister Prayut Chan-O-Cha of Thailand, and Prime Minister Nguyen Tan Dung of Vietnam.
24. Thailand and Japan reached an agreement to develop a 670km high-speed rail linking Bangkok and Chiang Mai in 2015 (*Bangkok Post*, 4 July 2015). After conducting a feasibility study in 2016, Japan has been reluctant to jointly invest in the project, fearing the 400 billion baht project will run at a loss. In September 2019, it was reported that the Thai government may cancel the project (*Bangkok Post*, 27 September 2019).
25. The project was announced during the Lancang-Mekong Cooperation Summit on 22-24 March 2016. It was then delayed several times due to disagreements over design, financing and technical assistance (see: Reuters, 21 December 2017; *Bangkok Post*, 21 Decmber 2019).

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NSP and BRI: Prospects and Challenges

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Should I Stay or Should I Go? Taiwan's Foreign Direct Investment (FDI) Inflows and Outflows

Pei Yi **Wong**[*] and Tuck Cheong **Tang**[**]
Faculty of Economics and Administration, University of Malaya

Abstract

This study offers a fresh empirical evidence on the relationship between approved foreign investment (inflows) and approved outward investment in Taiwan. More precisely, it focuses on the Go South policies, which was initiated by the former president, Lee Teng-hui in 1992 that includes negotiating bilateral agreements with Southeast Asian countries to promote investment and other economic cooperation. Since 2012 Taiwan's outflows of foreign investment is observed to be more than its inflows. This study shows that manufacturing is a prominent industry for both Taiwan's foreign investment inflows and outflows. Indeed, Singapore is the top country among the New Southbound Policy (NSP) participated countries with their bilateral investment, then is Malaysia. This study also finds that both Taiwan's approved foreign investment and approved outward investment are positively correlated, and they are interdependent over the period between 1959 and 2017. This study briefly discusses the feasibility of Go South policies, and their implications.

Keywords: *foreign investment, Go South policy, Granger non-causality, Taiwan*

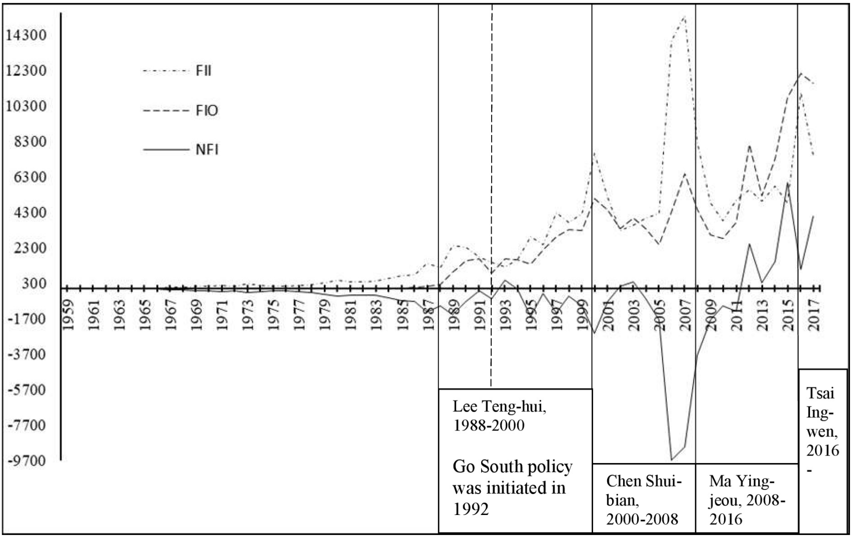
1. Introduction

Taiwan, officially the Republic of China (ROC) is a state in East Asia which located off the coast of southwest of Okinawa, Japan and north of the Philippines. Taiwan had been successfully transformed from an underdeveloped and agriculture-based economy into a well-industrialized and mature economy. Taiwan is a world-class leader in technology and had been labelled as one of Four Asian Tigers (Asian Dragons) with Hong Kong SAR, China, Singapore and South Korea. This is contributed by its increasing priority in manufacturing sector and by the active policy of encouraging foreign direct investment (FDI) with tax credits and setting up export-processing zones that had been implemented since the mid-1960s. The Taiwan's FDI was initially concentrated in labour-intensive industries, and in more diversified and sophisticated industries then (see, Chan, 1998: 351-352).

According to a report entitled "Taiwan: A Closer Look at the Southbound Opportunities" published by DBS (Development Bank of Singapore) Group Research on 19 September 2017, from the geographical perspective, there is plenty of room for Taiwan to further diversify its trade and investment portfolios from China to Southeast Asia considering its 18 New Southbound Policy (NSP) participated countries, namely Australia, Bangladesh, Bhutan, Brunei, Cambodia, India, Indonesia, Laos, Malaysia, Myanmar, Nepal, New Zealand, Pakistan, the Philippines, Singapore, Sri Lanka, Thailand, and Vietnam. In fact, Taiwan is being considered as an attractive destination for FDI because of its economy benefits gained from regional economic dynamism, population with high purchasing power, and prominence of high-technology. The recently ended global economic crisis (2007-2008), the subsequent Eurozone debt crisis (since the end of 2009) and the slowdown in China (as in 2015) have negative implications on Taiwan's FDI positions. Other fundamental concerns such as speculative activities, rising house prices, excessive bureaucracy and the rigidity of the legislative framework, are all obstacles to bother foreign and domestic investments. Undoubtedly, Taiwan's business environment remains highly attractive as ranked 15th out of 190 countries by World Bank in the "*Doing Business*" 2018 ranking.

FDI either inflows or outflows has been established as one of the flagships under the Go South policy which was initiated by the former president, Lee Teng-hui (1988-2000) in 1992, as well as the 'renewed' versions by other administrations. This study is not intended to discuss various versions of Taiwan's Go South policy as they have been comprehensively discussed by Bing (2017), Hsu (2017), and Glaser *et al.* (2018). Lee Teng-hui had unrolled a Go South policy in 1994 which witnessed a remarkable shift in FDI i.e. FDI flows into Association of Southeast Asian Nations (ASEAN) member countries leapt from USD1.76 billion the previous year to USD4.98 billion, while FDI flows to mainland China were dropped by nearly the same amount that was from USD3.17 billion to a mere USD962 million. The later president, Chen Shui-bian (2000-2008) in his version of Go South policy in 2002 shows Taiwan's FDI to ASEAN grew significantly to USD10.4 billion in 2008, but it had been outmatched by FDI to mainland China which grew at a comparable pace and investment in Southeast Asia fell to USD2.04 billion in 2009 (Marston and Bush, 2018). In 2007, the approved foreign investment (inflows) had reached its peak over the observed period 1959-2017 as illustrated in Figure 1 in a relation to the recent global financial crisis (2007-2008).

Figure 1 Taiwan Approved Foreign Investment (FII), Approved Outward Investment (FIO) Excluded China, and Net Foreign Investment (NFI, FIO-FII) (in million USD), 1959-2017



Source: CEIC (Census and Economic Information Center).

In general, Figure 1 shows Taiwan's approved foreign investment (inflows) which is eventually exceeding the approved outward investment, but an oppositve position is observed from 2012 under the later president, Ma Ying-jeou, and present Tsai Ing-wen's administration. Approved outward investment exceeds approved foreign investment which is in line with the later president Ma Ying-jeou's diplomatic strategy "viable diplomacy" that focuses more on overseas direct investment and cross-strait relations. This phenomenon can also be partially explained by the lack of natural resources in Taiwan, which is usually a pull factor in attracting FDI, and the structure of capital inflows to Taiwan have been gradually changing over time. Again, Taiwan's high FDI outflows are contributed by such "globally minded" domestic business firms (Kuo and Kao, 2018). The recent version of Go South policy - New Southbound Policy (NSP) is aimed at diversifying Taiwan's outbound investment away from Mainland China and into Southeast Asia (Glaser *et al.*, 2018) which has been officially announced by President Tsai Ing-wen in her inaugural address on May 20, 2016. It has seen full implementation since January 2017, and her version of Go South policy has different agendas and policy goals comparing to the older versions. As observed in Figure 1, under the Tsai's administration the outflows of Taiwan's foreign investment continue exceeding inflows, and investment inflows dropped largely than of outflows. More interestingly, both foreign investment inflows and outflows are positively correlated, that is an increase in FII (i.e. investment flows into Taiwan) is followed with an increase in FIO (i.e. investment flows out from Taiwan), and vice versa.

Of the availabe past studies on FDI, Labán and Larraín's (1997) theoretical model predicts that relaxation of controls such as liberalization (globalization) of capital outflows can lead, perhaps paradoxically to increase in inflows. Their study supports this hypothesis for the case of the UK in 1979, New Zealand in 1984, Spain after 1987, and Colombia, Egypt and Mexico in the 1990s, but this is not the case for Chile in the 1990s. Accordingly, when the capital outflow restriction is relaxed, investors would be stuck with the 'wrong' asset for a shorter period of time if it turned out they were to make the 'wrong' decision in the noisy period. Investors will be willing to take a higher risk and invest at home even with a higher probability of a change in the rules of the game. For the same probability of policy continuation, they will be willing to invest at home even with a lower risk-premium, and they will assign a lower value to the 'wait-and-see' option of remaining liquid in the noisy period. Therefore, a reduction in the period of time that foreign investment is required to stay in the country is likely to increase – not decrease – net capital inflows (Labán and Larraín, 1997: 429). With the data of bilateral gross capital inflows and outflows for a total of 29 countries (with 406 country pairs) over the period 1995-2014, Davis (2015) finds a lot of positive correlations between bilateral capital inflows and outflows including between their aggregate level, which may be driven by the so-called network effects and non-diversification in international banking relationships. Generally, two possible relationships are postulated either positive or negative between inflows and outflows of foreign investment as explained by Davis (2015). If a shock in a country causes aggregate capital inflows into that country decrease [to fall], then for *liquidity reasons* banks may be forced to retrench and decrease capital outflows that is a high positive correlation between aggregate inflows and outflows around the time of a banking crisis (Davis, 2015: 6). On the contrary, if capital inflows and outflows between a pair of countries are highly correlated because of a global risk shock that leads to global retrenchment, then after controlling for a global factor, bilateral inflows and outflows may be negatively correlated. A country-specific factor may also explain to a positive correlation between bilateral inflows and outflows, but after controlling for aggregate capital flows in both countries, bilateral capital flows would be uncorrelated, or perhaps negatively correlated (Davis, 2015: 4). Another study by Davis and Wincoop (2018) updates that the correlation between capital inflows and outflows increase substantially as a result of financial globalization (measured by stock of external assets and liabilities) over time as found from a sample of 127 advanced and developing countries. However, an increase in trade globalization (measured by exports plus imports) reduces the correlation between capital inflows and outflows.

Other bulk of FDI studies looks at the determinants of FDI either inflows or outflows, or both. An early work by Boatwright and Renton (1975) that they apply the neoclassical theory of optimal capital accumulation and examined the determination of the UK inflows and outflows of direct foreign investment over the quarterly data 1961-1972. They concludes that their results are not conclusive, but encouraging. Globerman and Shapiro (2002) examine the effects of governance infrastructure on both FDI inflows and outflows for a broad sample of developed and developing countries for the period 1995-1997. They find that governance infrastructure is an important determinant of both FDI inflows and outflows that investment in governance infrastructure not only attract capital, but also create the conditions under which domestic multinational corporations emerge and invest abroad. Both the inflows and outflows of foreign investment respond positively to good governance.

In fact, there is relatively empty of such topic for examining the relationship between Taiwan's inflows and outflows of foreign investment. Among those related to FDI, for example Tsai (1991) finds that FDI in Taiwan is probably supply-side determined. Other study by Chen (1992) offers different perspective that that Taiwan's direct foreign investment is motivated by different factors under different macroeconomic conditions. The microeconomic factors are varying with firm size that on average, large firms are more inclined to make direct foreign investment than of small firms. However, the driver that determinates both large and small firms to venture abroad is the prior successful export experience. Lin (1995) examines the trade effects of FDI between Taiwan and the four ASEAN member countries, namely Indonesia, Malaysia, the Philippines, and Thailand. The regression estimates show that Taiwan's outward FDI has a positive effect on exports to and imports from the host country, whereas no such effects are consistently found for inward FDI from the same country. Chan (1998) examines the role of FDI, more specifically to predict Taiwan's economic growth with a multivariate model that includes human capital, fixed investment, exports, and FDI. The study finds a causality from FDI to economic growth. Two transmission channels are outlined by Chan (1998). The first is, FDI could induce technology transfer that results an advance in technology, which in turn promotes economic growth in the host country. Secondly, FDI may induce either fixed investment or exports, which affect economic growth through increased aggregate demand (Chan, 1998: 350). Eventually, the existing studies on Taiwan's FDI have looked at either the determinants of FDI or the effects of FDI on macroeconomic variables such as trade, and economic growth. Indeed, understanding on the relationship between inflows and outflows of investment as the study by Davis and Wincoop (2018) remains vacuum for the case of Taiwan. This study fills this gap.

The objective of study is to explore the relationship between approved foreign investment (inflows, FII), and approved outward investment (outflows, FIO) for a case study of Taiwan. It also focuses on the periods of various versions of Go South policy. This study serves as an extension of Liew and Tang's (2019) study which looks at the feasibility of Go South policies from the perspective of international trade by examining the existence of long-run relation between the flows of exports and imports of Taiwan with 9 ASEAN member countries, namely Indonesia, Cambodia, Laos, Myanmar, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. They find that Go South policies as favourable one for the most ASEAN member countries, except for Lao PDR, Myanmar, and the Philippines. There are two fresh dimensions to be covered by this study. Firstly, this study describes the inflows and outflows of Taiwan's foreign investment by different industries, and by the NSP participated countries. Secondly, this study empirically investigates the relationship between these variables. This study offers a fresh empirical evidence that Taiwan's investment inflows and outflows are positively correlated (associated), and they are interdependent over the sample periods between 1959 and 2017. This finding is in line with the past studies those for other countries' evidence, and adds to the empirical literature given no such study has been found for the case of Taiwan.

Perhaps, study for FII and FIO relationship is important for Taiwan in line with its Go South policies. Duplicating the intuition by Davis and Wincoop (2018: 83), higher expected return in Taiwan should lead both domestic and foreign investors to shift their investments to Taiwan, leading to larger Taiwan capital inflows and lower outflows. Other factor is the change in the relative riskiness of Taiwan's assets that an increase in global risk or risk-aversion will then lead to a general retrenchment towards domestic assets, lowering both inflows and outflows. They add that capital flows have a portfolio growth component (associated with saving) that positive correlation reflects saving is positively correlated across countries, and a portfolio reallocation component (due to changes in expected returns and risk) in which, a negative correlation reflects that domestic and foreign agents face the same portfolio problem shifting their portfolios in the same direction.

The structure of this study is organized as follows. The next section gives a brief descriptive insight on Taiwan approved foreign investment and approved outward investment associating with various versions of Go South policy, by industrial sectors and NSP participated countries. Section 3 offers an empirical evidence of positive relationship between Taiwan's FDI inflows and outflows by applying the relevant econometric tests viz. correlation analysis, Ordinary Least Squares (OLS) estimates, and pairwise Granger non-causality tests. Section 4 concludes this study with policy discussion.

2. A Preview of Taiwan's Foreign Investment Inflows and Outflows

This section offers a descriptive preview on Taiwan's approved foreign investment (FII), and approved outward investment (FIO) over the period 1959-2017 covering the four different administrations from the former president, Lee Teng-hui (1988-2000), Chen Shui-bian (2000-2008), Ma Ying-jeou (2008-2016), and to present president, Tsai Ing-wen (2016- recent). The underlying data are obtained from CEIC (Census and Economic Information Center) database, which is assisted by an anonymous colleague from the Faculty of Economics and Business, Universiti Malaysia Sarawak (UNIMAS). Besides the aggregate FII and FIO data, this section also considers the data by industry, as well as by the NSP participated countries. By and large, these descriptive statistics may be interpreted with caution because of a relatively large missing data either empty or zero values are reported. The summary statistics are computed based on their respective administrates, for example only two observations that is two years of 2016-2017 for current president, Tsai Ing-wen. Therefore, this section is preliminary in depicting a general picture about Taiwan's investment inflows and outflows over the new and old versions of Go South policy, respectively.

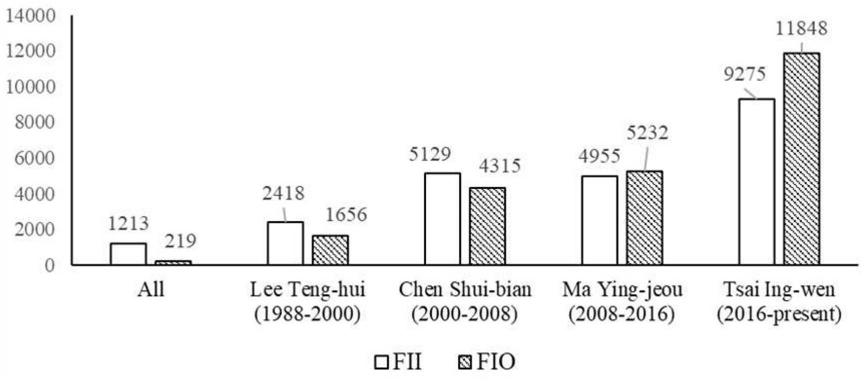
Table 1 reports the summary statistics of FII and FIO. It is interesting to look at the standard deviation statistic which captures the 'risk' (i.e. volatility) that to be bear by domestic (outflows) and foreign (inflows) investors. The FII is found to be in the highest 'risk' during the Chen Shui-bian's administration, while the least under Lee Teng-hui; but Ma Ying-jeou's administration has created the highest 'risk' investment environment for FIO, and Tsai Ing-wen's administration is the least.

Table 1 Summary Statistics for the Approved Foreign Investment (FII) and Approved Outward Investment (FIO), in million USD

	Mean (p.a.)		Median (p.a.)		Maximum		Minimum		Standard Deviation	
	FII	FIO	FII	FIO	FII	FIO	FII	FIO	FII	FIO
All (1959-2017)	2,635	2,108	1,213	219	15,361	12,123	0	0	3,407	3,022
1959-1987	253	13	142	4	1,419	103	1	0	307	23
Lee Teng-hui (1988-2000)	2,862	2,045	2,418	1,656	7,608	5,077	1,183	219	1,780	1,294
Chen Shui-bian (2000-2008)	7,259	4,210	5,129	4,315	15,361	6,470	3,272	2,447	4,554	1,147
Ma Ying-jeou (2008-2016)	5,989	6,387	4,955	5,232	11,037	12,123	3,812	2,823	2,251	3,392
Tsai Ing-wen (2016-2017)	9,275	11,848	9,275	11,848	11,037	12,123	7,513	11,573	2,492	389

Notes: These statistics are overlapped in order to include the transition period between the presidents, for example, Lee Teng-hui 1988-2000, and Chen Shui-bian data for 2000 are included. The reported values are in nominal terms.

Figure 2 Average (Median) p.a. of Approved Foreign Investment (FII) and Approved Outward Investment (FIO) (in million USD) by Different Administrations



Source: CEIC (Census and Economic Information Center).

Figure 2 illustrates their average (median) per annum (p.a.) of FII and FIO excluded China (in nominal USD million) over the four administrations for the available periods between 1959 and 2017 as from Table 1. Outliers and skewed data have a smaller effect on median than of to mean and mode. It generally exhibits an upward trend of their average FII and FIO over the four administrations, except for Ma Ying-jeou that a slightly drops in FII. The overall average FII (USD1,213 million) largely exceeds FIO (USD219 million). It may reflect a positive correlation between the inflows and outflows of Taiwan's foreign investment. The highest average FII and FIO are USD9,275 million, and USD11,848 million, respectively occurred during the current Tsai's administration. The lowest average FII and FIO are observed during the administrate of Lee Teng-hui which are USD2,418 million and USD1,656 million, respectively. Over the four administrations, this phenomenon (i.e. FII > FIO) is only occurred during the administrative of Lee Teng-hui, and Chen Shui-bian, while FIO is slightly higher than FII under Ma Ying-jeou, and even higher under the Tsai Ing-wen.

Table 2 reports the average (median per month) FII and FIO of 12 of 20 industries in Taiwan. The data are mostly available monthly between 2006m1 and 2018m11 that 8 industries and the LeeTeng-hui's administration (1988-2000) are excluded. The statistics show that manufacturing is the most dominant industry with its largest average FII and FIO over the period 2006-2018 regardless of the different administrations. An average FII of USD280.98 million is fourfold larger than of FIO during Chen Shui-bian, but FIO exceeds FII for Ma Ying-jeou (slightly), and Tsai Ing-wen. This industry is generally reflected by the technology-intensive areas, and to encourage domestic technological spillovers. Meanwhile, FII is the only investment for construction; accommodation & eating-drinking places; real estate (except for Tsai Ing-wen); support services (except for Chen Shui-bian); arts,

Table 2 Average (median, per month) of Approved Foreign Investment (FII) and Approved Outward Investment (FIO) by Industry (in million USD)

	Industry:	**Manufacturing (Mfg):**		*Food*		*Textiles mills*		*Printing & reproduction of recorded media*	
President	Period	FII	FIO	FII	FIO	FII	FIO	FII	FIO
Chen Shui-bian	May 2000-May 2008	280.98	68.18	0.08	0	0.18	0.40	0	0
Ma Ying-jeou	May 2008-May 2016	99.36	106.67	1.28	0	0	0	0.01	0
Tsai Ing-wen	May 2016-Nov 2018	106.98	180.43	0.69	0.19	0.02	6.53	0.03	0

		Chemical material		*Chemical products*		*Medical goods*		*Plastic products*	
President:	Period	FII	FIO	FII	FIO	FII	FIO	FII	FIO
Chen Shui-bian	May 2000-May 2008	3.13	0.04	0.88	0	0	0.09	1.41	0
Ma Ying-jeou	May 2008-May 2016	1.84	0.17	1.27	0	0.85	0	1.52	0
Tsai Ing-wen	May 2016-Nov 2018	1.33	0.67	0.57	0	0.16	0.73	0.48	1.00

		Non-metallic mineral products		*Basic metal*		*Fabricated metal products*		*Electronic parts & components*	
		FII	FIO	FII	FIO	FII	FIO	FII	FIO
Chen Shui-bian	May 2000-May 2008	0.50	0	0.38	0	4.98	1.00	132.04	11.29
Ma Ying-jeou	May 2008-May 2016	0.10	0	0.04	0	3.34	0.42	22.03	15.19
Tsai Ing-wen	May 2016-Nov 2018	0.13	0	0.00	1.35	1.54	2.00	25.61	30.60

		Computers, electronic & optical products		*Electrical equipment*		*Machinery & equipment*		*Motor vehicles & parts*	
		FII	FIO	FII	FIO	FII	FIO	FII	FIO
Chen Shui-bian	May 2000-May 2008	16.18	4.35	2.11	1.54	2.15	0.84	0.10	0
Ma Ying-jeou	May 2008-May 2016	3.02	3.14	3.30	1.00	3.69	0.33	0.11	0
Tsai Ing-wen	May 2016-Nov 2018	5.14	1.93	2.65	0.36	3.58	1.85	1.52	0.60

Table 2 (Continued)

		Other transport equipment		*Not elsewhere classified*		**Construction**		**Wholesale & retail trade**	
President:	Period	FII	FIO	FII	FIO	FII	FIO	FII	FIO
Chen Shui-bian	May 2000-May 2008	0.01	0.19	0	0	4.60	0	46.12	13.09
Ma Ying-jeou	May 2008-May 2016	0.30	0	2.36	0	1.08	0	46.83	17.71
Tsai Ing-wen	May 2016-Nov 2018	0.10	0	3.89	1.80	1.25	0	69.34	32.43

		Transportation & storage		**Accommodation & eating-drinking places**		**Information & communication**		**Finance & insurance**	
		FII	FIO	FII	FIO	FII	FIO	FII	FIO
Chen Shui-bian	May 2000-May 2008	1.14	0	0.10	0	8.47	1.44	184.3	135.33
Ma Ying-jeou	May 2008-May 2016	0.57	0.06	1.75	0	5.43	2.18	88.10	82.95
Tsai Ing-wen	May 2016-Nov 2018	1.41	0.98	3.87	0	14.32	4.73	65.49	153.84

		Real estate		**Professional, science & technical services**		**Support services**		**Arts, entertainment & recreation**	
		FII	FIO	FII	FIO	FII	FIO	FII	FIO
Chen Shui-bian	May 2000-May 2008	3.21	0.00	10.01	0.27	0.36	0.25	0	0
Ma Ying-jeou	May 2008-May 2016	20.49	0.00	8.19	1.41	1.00	0	0.03	0
Tsai Ing-wen	May 2016-Nov 2018	25.63	0.78	26.45	2.38	0.81	0	0.43	0

		Other services	
President:	Period	FII	FIO
Chen Shui-bian	May 2000-May 2008	0.15	0
Ma Ying-jeou	May 2008-May 2016	1.72	0
Tsai Ing-wen	May 2016-Nov 2018	0.17	0

Notes: "-" means no data available (reported). The reported values are in nominal terms. The industries those with either zero or "-" (i.e. data are unavailable), and those with only one value for both FII and FIO are excluded here are Agri, forestry, fishery & animal husbandry; Mining & quarrying; Electricity & gas supply; Water supply & remediation services; Public admin, defense & compulsory social security; Educational services; Health care &

social work services; and Miscellaneous. The sub-industries of Manufacturing those excluded are Beverages; Tobacco; Wearing apparel & clothing accessories; Leather, fur & related products; Wood & bamboo products; Pulp, paper & paper products; Petroleum & coal products; Rubber products; Furniture; and Repair & install of industrial machinery & equipment.

entertainment & recreation; and other services. One observed feature is that FII is greater than FIO over different administrations, in which FII in wholesale & retail trade is double than of FIO, other industries are transportation & storage; information & communication; professional, science & technical services; and finance & insurance, except for Tsai Ing-wen's administration.

Of the 17 sub-industries of manufacturing, electronic parts & components is the most important sub-industry which contributes the highest value of both FII and FIO, on average. The average FII is found to be larger than FIO for chemical material; electrical equipment; machinery & equipment; fabricated metal product (except for Tsai Ing-wen); electronic parts & components (except for, Tsai Ing-wen); and computers, electronic & optical products (except for Ma Ying-jeou). An opposite is observed that FIO is greater than FII for textiles mills; and medical good, except for Ma Ying-jeou's administration. Some sub-industries of manufacturing have only FII, namely food; printing & reproduction of recorded media; chemical products; plastic product (except for, Tsai Ing-wen); motor vehicles & parts (except for Tsai Ing-wen); non-metallic mineral product; basic metal; and other transport equipment (except for Chen Shui-bian).

The last preview is about average (median) FII and FIO for 7 out of 18 NSP participated countries due to their data availability as presented in Table 3. It is observed that the largest Taiwan's bilateral investment (FII and FIO) country is Singapore with FII exceeds FIO. It is followed by Malaysia. On the contrary, Indonesia, the Philippines and Thailand have received more investment from Taiwan (i.e. FIO is greater than FII, on average) in their bilateral investment over the four administrations. Also, it is interesting to note that Australia is only with Taiwan's FII, while Vietnam is only with Taiwan's FIO. The latter (Vietnam) is sevenfold with an average of USD33.54 million and USD30.05 million during Ma Ying-jeou and Tsai Ing-wen's administrations, respectively comparing to previous administrations. Nevertheless, no data are available to support either unilateral or bilateral investment between Taiwan and its 11 NSP countries, namely Bangladesh, Bhutan, Brunei, Cambodia, India, Laos, Myanmar, Nepal, New Zealand, Pakistan, and Sri Lanka. It may be the case that their investments are 'too small' (inactive) to be reported.

Table 3 Average (median, per month) of Approved Foreign Investment (FII) and Approved Outward Investment (FIO) by 18 NSP Countries (in million USD)

	By country:	Australia		Indonesia		Malaysia		The Philippines	
President	Sample Period	FII	FIO	FII	FIO	FII	FIO	FII	FIO
Lee Teng-hui	Jan 1988-May 2000	0	-	0	1.26	0.11	1.14	0.10	0.50
Chen Shui-bian	May 2000-May 2008	0.12	-	0	0	3.01	0.82	0	0
Ma Ying-jeou	May 2008-May 2016	0.33	-	0.08	0.11	3.61	0.86	0.02	0
Tsai Ing-wen	May 2016-Nov 2018	1.42	-	0.05	4.46	1.69	1.35	0.05	0.45
		Singapore		Thailand		Vietnam			
		FII	FIO	FII	FIO	FII	FIO		
Lee Teng-hui	Jan 1988-May 2000	6.00	2.59	0	2.96	-	2.62		
Chen Shui-bian	May 2000-May 2008	9.06	2.20	0.02	0.61	-	3.93		
Ma Ying-jeou	May 2008-May 2016	7.28	4.89	0.02	1.06	-	33.54		
Tsai Ing-wen	May 2016-Nov 2018	8.19	2.85	0.10	4.89	-	30.05		

Notes: The reported values are in nominal terms. The data are mostly available monthly between 1989m1 and 2018m11. The median is calculated from the respective monthly data. The countries those with either zero or "-" (i.e. data are unavailable) for both FII and FIO are excluded here, namely Bangladesh, Bhutan, Brunei, Cambodia, India, Laos, Myanmar, Nepal, New Zealand, Pakistan, Sri Lanka.

3. Empirical illustration

This section offers an empirical evidence that Taiwan's inflows and outflows of foreign investment are positively associated over the sample periods between 1959 and 2017 that covers 59 annual observations. Two measures are being considered here, the first pair of foreign investment variables is in real terms, namely real approved foreign investment (RFII) and real approved outward investment, excluded China (RFIO), in New Taiwan dollar (TWD) millions. The raw data of both variables (in nominal USD millions) are obtained from CEIC (Census and Economic Information Center) database. Taiwan's Consumer Price Indices, CPI (2016=100) is employed as price deflator. Exchange rate and CPI data are obtained from DGBAS (National Statistics of the Directorate-General of Budget, Accounting and Statistics, at *http://statdb.dgbas.gov.tw/pxweb/dialog/statfile1L.asp*). The second pair of variables is labelled as FIIGDP and FIOGDP those are Taiwan's approved foreign investment, and approved outward investment as ratio of Taiwan's Gross Domestic Product (GDP), respectively. Taiwan's GDP data are in USD millions at current prices. It is feasible for robustness check that they have been adjusted for the size of Taiwan economy (output).

The underlying variables are visualized in Figure 3. Both measures of approved outward investment (RFIO and FIOGDP) show a take-off in the year of 1988 when Lee Teng-hui (1988-2000) was the president, in which it is established by his Go South policy initiated in 1992. For the inflows of foreign investment, RFII exhibits a gradually increasing trend, while FIIGDP remains volatile around its constant mean with

Figure 3 Time Series Plots of RFII, RFIO, FIIGDP and FIOGDP

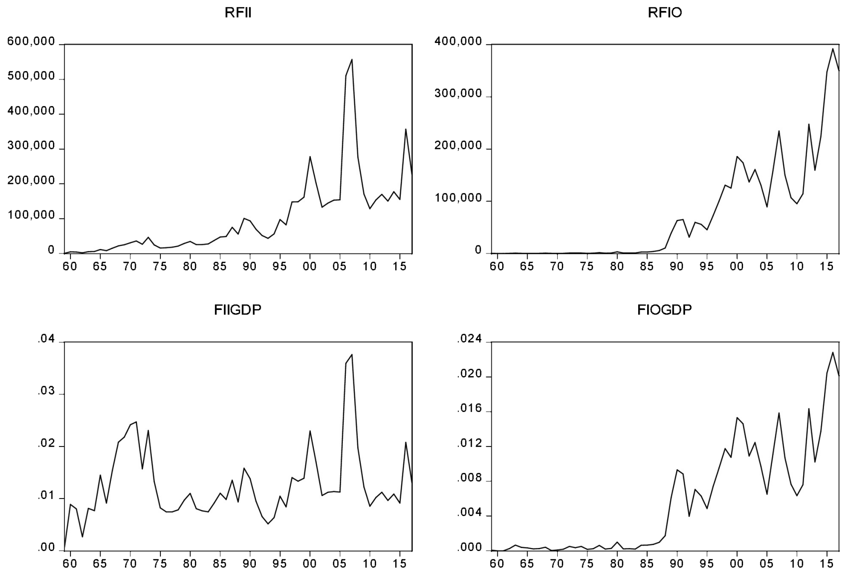
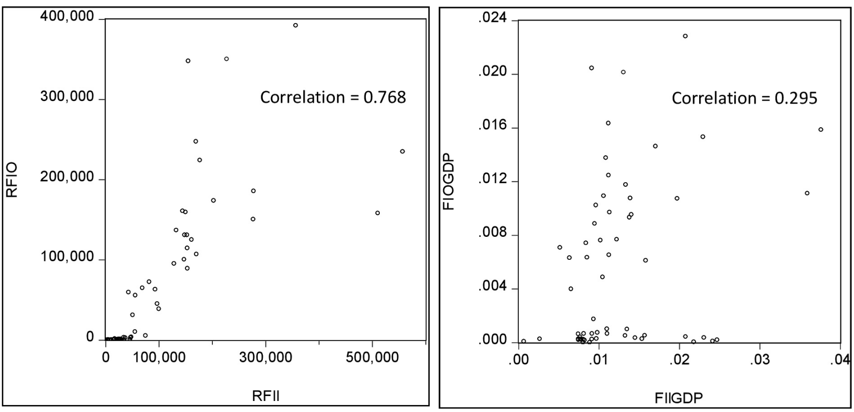


Figure 4 Scatter Plots of RFII-RFIO and FIIGDP-FIOGDP



extraordinary inflows between 2006 and 2007. As explained by the data that FIIGDP volatile because of it inherently volatile, and not the volatility of Taiwan's GDP.

Figure 4 informs the correlation patterns between Taiwan's approved foreign investment and outward investment. The left panel shows a relatively strong positive correlation coefficient of 0.77 between real approved foreign investment and outward investment. Similar observation is shown when both variables are measured as ratio of GDP, but its correlation coefficient is eventually lower, 0.30 after taking the economic size of Taiwan into account. From the policy perspective, however, data in real terms (RFII-RFIO) are preferable to ratio (FIIGDP-FIOGDP) on how much FDI actually are inflows and outflows.

The focus of this section is to investigate the relationship (association) between inflows and outflows of foreign investment in Taiwan by estimating a set of simple linear (time series) regression equations. They are:

$\mathrm{RFII}_{\mathrm{t}} = a + b\mathrm{RFIO}_{\mathrm{t}} + e_t$,
$\mathrm{RFIO}_{\mathrm{t}} = a' + b'\mathrm{RFII}_{\mathrm{t}} + e'_t$,
$\mathrm{FIIGDP}_{\mathrm{t}} = a + b\mathrm{FIOGDP}_{\mathrm{t}} + e_t$, and
$\mathrm{FIOGDP}_{\mathrm{t}} = a' + b'\mathrm{FIIGDP}_{\mathrm{t}} + e'_t$

However, it is to note that these estimated equations by OLS estimator may have suffered from the so-called *spurious* regression problem that is nonsense regression if they involve non-stationary or $I(1)$ variables (see, Engle and Granger, 1987). It generally reflects in a case that some statistically significant coefficients and comes with a very high R^2. A "*rule of thumb*" to describe such *spurious* regression is, a high adjusted R^2 with a low Durbin-Watson statistic. Therefore, it is necessary to ascertain that the underlying time series variables are stationary, or *I*(0) variables before estimating the OLS regression model(s). Table 4 is about the results of Phillips-Perron unit-root test (Phillips and Perron, 1988). It shows that the four variables are stationary in levels, or *I*(0) variables, in which the null hypothesis of a unit root can be rejected at 5 per cent level of significant, except for RFIO. RFIO is suggested to be non-stationary, *I*(1) at 1 per cent level of significant. For such a case, this variable is assumed to be stationary, *I*(0) given its 'weak' rejection of the null hypothesis of a unit root at first-differenced variable (i.e. $\Delta RFIO_t = RFIO_t - RFIO_{t-1}$), that is at 10 per cent significance level. This assumption is to avoid information loss due to first-differencing transformation. By the same token, since both approved foreign investment and outward investment are stationary, or *I*(0), therefore no cointegration (i.e. no long-run relation) can be delivered. Such the finding is also supported by the results reported from Engle and Granger (1987) tests as in Table 5. The null hypothesis of "the underlying [time series] variables are not cointegrated" can be rejected (at least, at 10 per cent level of significant) that is a cointegration does exist, only for the case when RFII and FIIGDP are being served as dependent variable, but it is not true for RFIO and FIOGDP. Therefore, no cointegration can be concluded.

The estimated OLS equations are tabulated in Table 6. All of the independent variables are statistically significant at least, at 5 per cent level, and they have a positive sign as expected. It supports the early intuition of a positive association (i.e. correlation as illustrated in Figure 4) between Taiwan's foreign investment inflows and outflows, regardless of their unit of measurement either in real term or in ratio of GDP. These estimates are *reasonable* as the respective equations have their [adjusted] R^2 which is lower than Durbin-Watson statistic, except for RFIO equation with R^2 (0.58) slightly higher than Durbin-Watson statistic (0.46), but it is still acceptable with such small variation.

Table 4 Phillips and Perron (PP) Root Tests (Phillips and Perron, 1988)

Variable:	Levels	First-differenced	I(d)
$RFII_t$	-3.689** [6]	-	I(0)
$RFIO_t$	-2.239 [1]	-8.097*** [6]	I(1)
$FIIGDP_t$	-3.962** [2]	-	I(0)
$FIOGDP_t$	-3.286* [1]	-	I(0)

Notes: The unit root equation is with constant and linear trend for data at levels, while only constant is included for the first-differenced data. Value in [.] is bandwidth using Bartlett kernel. ***, **, and * indicate significant at the level of 1 per cent, 5 per cent, and per cent, respectively based on their computed *p*-value.

Table 5 Engle and Granger (1987) Cointegration Tests

Dependent variable:	tau-statistic	*p*-value	z-statistic	*p*-value
RFII	-3.398587	< 0.10	-20.77928	< 0.05
RFIO	-1.855630	> 0.10	-10.24574	> 0.10
FIIGDP	-3.825133	< 0.05	-22.65457	< 0.05
FIOGDP	-0.652519	> 0.10	-2.121002	> 0.10

Note: The results are based on a maximum of 3 lags.

Table 6 Estimates of Ordinary Least Squares Regression Equations

	Dependent variable:			
	$RFII_t$	$RFIO_t$	$FIIGDP_t$	$FIOGDP_t$
$RFIO_t$	0.896*** (0.099)	-	-	-
$RFII_t$	-	0.658*** (0.073)	-	-
$FIOGDP_t$	-	-	0.323** (0.139)	-
$FIIGDP_t$	-	-	-	0.269** (0.115)
Constant	34804.43*** (12035.81)	6874.855 (11005.53)	0.011*** (0.001)	0.002 (0.002)
Adj. R^2	0.582	0.582	0.071	0.071
Durbin-Watson	0.726	0.459	0.741	0.162
F-stats	81.898 [0.000]	81.898 [0.000]	5.431 [0.023]	5.431 [0.023]

Notes: value in (.) is standard error, while [.] is p-value. ***, and ** indicate significant at the level of 1 per cent, and 5 per cent, respectively based on their computed *p*-value.

Lastly, this section applies the so-called [pairwise] Granger non-casualty tests (see, Granger, 1969) because of its intuition behind that "*all the cause occurs before effect*". More technically, X is said to Granger-cause Y, if Y can be better predicted using the histories of both X and Y than it can by using the history of Y alone (Granger, 1969). This test helps to identify the possible causality patterns between Taiwan's approved foreign investment and outward investment. In brief, a bivariate VAR (Vector Autoregression) framework, let say X and Y can be expressed as the following OLS linear regression equations with a requirement that the underlying variables are stationarity, $I(0)$:

$$Y_t = a_0 + a_1 Y_{t-1} + \ldots + a_p Y_{t-p} + b_1 X_{t-1} + \ldots + b_p X_{t-p} + v_t, \text{ and}$$
$$X_t = c_0 + c_1 X_{t-1} + \ldots + c_p X_{t-p} + d_1 Y_{t-1} + \ldots + d_p Y_{t-p} + v_t'$$

For the Y equation, for instance, the null hypothesis is labelled as H0: $b_1 = b_2 = \ldots = b_p = 0$ (i.e. X does not Granger-cause Y), against the alternative hypothesis that HA: $b_1 \neq b_2 \neq \ldots \neq b_p \neq 0$ (i.e. X does Granger-cause Y).

Table 7 reports the results of Granger non-causality tests for both pairs of RFII-RFIO and FIIGDP-FIOGDP, respectively as based on a lag length of 1, 2, and 3 year(s). The empirical results suggest a bi-directional causality between Taiwan's real approved foreign investment (RFII) and real approved outward investment (RFIO) given 2 and 3 lags since the null hypothesis can be rejected at least at 10 per cent level. It informs that both inflows and outflows of Taiwan's investment are considerably interdependent. However, if both variables are scaled by GDP, the results turn into a weaker position that is only one-way casualty with 2 lags from approved foreign investment (FIIGDP) to approved outward investment (FIOGDP).

Table 7 Pairwise Granger (1969) Non-Causality Tests (*F*-statistics)

Lags:	1	2	3
Null Hypothesis:			
RFIO =/=> RFII	2.667 [0.108]	2.521 [0.090]*	2.584 [0.064]*
RFII =/=> RFIO	0.108 [0.744]	3.519 [0.037]**	3.308 [0.028]**
FIOGDP =/=>FIIGDP	0.012 [0.914]	0.066 [0.937]	0.858 [0.469]
FIIGDP =/=> FIOGDP	0.556 [0.459]	3.431 [0.040]**	2.158 [0.105]

Notes: =/=> stands for "does not Granger-cause". A value in [.] is *p*-value. ** and * indicate significant at the level of 5 per cent, and 10 per cent, respectively based on their computed *p*-value.

4. Conclusions and Policy Discussions

This study examines the nature of Taiwan's approved foreign investment (FII) and approved outward investment (FIO) by covering both the new and older versions of Go South policy since 1992 from the former president Lee Teng-hui to the present Tsai Ing-wen. The key findings of this study are that, there is an increasing trend on average for both FII and FIO, except for Ma Ying-jeou's administration (2008-2016) in which a slightly decline occurred in FII. In the late Ma's (since 2012) and Tsai Ing-wen's administrations, Taiwan's outflows of foreign direct investment is noticeably more than its inflows, that is more domestic capitals are flowing out abroad which reflects a lower the national savings from the portfolio perspective. It seems to be unfavourable to Taiwan. Secondly, Taiwan's manufacturing industry is ranked the top among the 20 industries of both FII and FIO. Third, Singapore is being considered as the most active among Taiwan's NSP countries for bilateral investment (FII exceeds FIO), while other country is Malaysia. Lastly, and more fundamentally, a positive correlation (association) occurs between FII and FIO for the period 1959-2017.

Meanwhile, a bi-directional causality is found between Taiwan's FII and FIO, which reflects that both inflows and outflows of foreign investment in Taiwan are interdependent.

Do the Go South policy (older versions) and NSP make their success story in reducing the dependency of China, in particularly in term of foreign direct investment? It has been observed that older versions of Go South policy as well as current NSP do alter the foreign investors and the Taiwanese entrepreneurs about their investment decisions – their mindset. This study mirrors that Go South policy (including NSP) is necessary, but insufficient to say a success story without looking at other aspects more comprehensively which are out of the scope of this study. Indeed, it is 'too big' China to be replaced by the active NSP countries by considering that China has accounted for 44.4 per cent of Taiwan's outward FDI flows in 2017, for instance (see, Kuo and Kao, 2018). And, only two NSP countries, namely Singapore and Malaysia are the most active in term of their bilateral foreign investment, while the remaining countries play either a limited role or inactive to Taiwan's inward and outward foreign investment flows.

What are the key factors to determine Taiwan's inward and outward direct investments since the 1992's Go South policy? It is an essential question that to be answered in this study. There are two conventional factors determining the behaviour of investors in Taiwan, namely the expected return in Taiwan and the relative riskiness of Taiwan assets, as pointed out by Davis and Wincoop (2018). However, this study believes that "China factor" is the most fundamental determinant to Taiwan's inflows and outflows of foreign investment, such that Taiwan's policy analysts have identified China as the main obstacle to further progress of the NSP countries in term of trade, investment, educational exchange, and tourism via its "China factor" impinging effect on Taiwan's engagement policies under the NSP. Such "China factor" has consistently undermined Taipei's efforts to strike bilateral investment and free trade agreements (FTAs) with regional partners (Kuo and Kao, 2018).

For policy implications, NSP is being considered as a long-standing policy which requires further *revision and extension*, especially to promote more active participation from the NSP countries in their bilateral investments to the potential (major) industries. Indeed, Taiwan's investment and trade with the NSP participated countries do not seem to grow rapidly. A way out is to enlarge the number of existing 18 NSP participated countries. Taiwan should strengthen its 'connectedness' with the *North (Northeast) Asia* such as Japan, Mongolia, North Korea and South Korea, and with other *South* countries that are inactive, such as Bangladesh, Bhutan, Brunei, Cambodia, India, Laos, Myanmar, Nepal, New Zealand, Pakistan, and Sri Lanka, by revising and strengthening its existing diplomacy policies, in a sense that – *to talk more and do more*. Also, as highlighted by Glaser *et al.* (2018), a clear economic benchmark should be established for the NSP that is rooted in commercial results for Taiwan's businesses including sales, exports, outward and inward investment, employment, and value-added created. Undoubtedly, Taiwan needs foreign investment as well as domestic entrepreneurs for growth. Taiwan is in a situation of battling brain drain that results outside 'resources' especially, foreign investments are being important to boost the economy. It may be hard to realize such the role as foreign investors still face some barriers in setting up their investment in Taiwan, among them are language barrier, high transaction costs, difficulty in obtaining loan from Taiwan's conventional banking system; negative prospect in the island's longer-term economic outlook, the domestic companies investing abroad are pessimistic about their business ideas in Taiwan, and lastly the issues related to protection of intellectual property rights (Susilo, 2018).

Indeed, further study is required from a multidisciplinary perspective for evaluating and revising the NSP for making Taiwan the new economy miracle.

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Notes

* Wong Pei Yi (黃佩沂) is an undergraduate at the Faculty of Economics and Administration, University of Malaya, Kuala Lumpur, Malaysia. She was one of the committee assistants at the Malaysian Universities Economic Conference (MUEC). <*Email: peiyiwong24@gmail.com*>

** Dr Tang Tuck Cheong (鄧德昌) is a Senior Lecturer at the Department of Economics, Faculty of Economics and Administration, University of Malaya. He received his PhD degree in Economics from Monash University (Australia) in 2012 which was accompanied by an academic award of Mollie Holman Doctoral Medal. His research area is open economy macroeconomics. He published more than 100 articles in refereed journals to his credit, and also presented his research findings in many conferences around the world. He is regularly invited as reviewer for numerous internationally recognized journals. <*Email: tangtuckcheong @um.edu.my*>

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China's Service Export Challenges and Future Potential: Benchmarking the USA

Hang-Hang **Dong**[*], Chen-Chen **Yong**[**] and Sook-Lu **Yong**[***]
Faculty of Economics and Administration, University of Malaya

Abstract

China's service trade deficit has increased sharply since 2010, raising questions about the competitiveness of its exports. One way to measure competitiveness is to compare China with its top competitors. In this paper, revealed comparative advantage (RCA) indices of China's service exports are calculated based on the "forward linkage value added export" concept and compared with one of its top competitors – the US over the period from 2000 to 2014. The results show that only four of China's service sectors RCAs, namely (1) construction, (2) wholesale and retail trade, (3) administration and food service activities, and (4) arts, entertainment and recreation, exceed those of the US while RCAs of other service sectors are lower. Furthermore, some Chinese services sector RCAs, especially those in the labor- and capital-intensive service industries, show a downward trend while the US has advantage in knowledge-intensive service industries. To compete successfully, China needs to upgrade its technology-rich service sectors and exports.

Keywords: *service trade, comparison between China and US, forward linkage value added export, revealed comparative advantage, export structure*

1. Introduction

One of the hallmarks of economic advance is the growth of the tertiary sector (services) relative to that of the secondary sector (manufacturing). Together with this advance is the transformation of economic globalization with its concomitant shift from the trade in goods to the trade in services. The development of the services industry is not confined within national borders but can seize opportunities from "globalization" and "product fragmentation". It is also expected that countries that are strong in merchandise trade should be strong in services trade.

In this context, China has become a global powerhouse for merchandise exports, having overtaken the US to become the world's top exporter in 2009. At the same time, it has accelerated the development of its service industry through international specialization. According to the World Trade Organization's (WTO) Trade Statistics, China's total services exports were only US $ 2.5 billion in 1982, but reached US$234 billion in 2018, an increase of nearly 94 times within 37 years.

With exports of goods slowing, service exports would appear to have the potential to be a new driver of China's export growth. However, unlike its merchandise exports, China has suffered quite large service trade deficits for quite a long time. This deficit had increased from US$62 billion in 1995 to US$136.6 billion in 2015, the largest service trade deficit in the world (China's Statistics of Trade in Services, 2015). Even worse, the country's service trade deficit had increase sharply since 2010. Therefore, it is important to first understand the causes of this deficit, and then to address this deficit through improving export competitiveness.

As reported by the IMF, the scale of global trade in services has increased from US$ 2.95 trillion in 2001 to US$10.8 trillion in 2018. Meanwhile, the proportion of world services trade to total trade rose from 19.3 percent to 24.2 percent during 2001 to 2018. Among them, from 2001 to 2018 service trades in the United States increased from US$0.48 trillion to US$1.37 trillion, making it the largest service trader in the world as of 2018.

Furthermore, according to statistics published by the OECD, the Unites States is the largest trading partner of China's service import which contributed US$57.1 billion in 2018. It is also the second largest trading partners of China's service export, second only to Hong Kong. In addition, the People's Republic of China Ministry of Commerce reported that Unites States is the largest source country of China's trade deficit in services and the deficit has grown rapidly in recent years. From 2006 to 2016, the total volume of China-US trade in services increased by 3.3 times, while the deficit increased by 33.7 times.

Understanding the real situation of China's export competitiveness and the gap between China and its powerful competitors represents an important first step to upgrade the nation's industrial structure. This is the primary objective of this paper.

This paper is organized as follows. The next section elaborates the main characteristics of China's service industry and how service trade has become a new engine of the China's exports. Section 3 contains a brief literature review of previous work on industry competitiveness using different statistical methods. Section 4 describes the methodology and data description for this study. Section 5 presents the comparative analysis for China and the US, its top service trade partner while the last section concludes the study.

2. China's Service Industry

Services currently represent more than two thirds of World Gross Domestic Product (WTO, 2010). Recently, due to its increasing importance in international trade and investment, services sector has been identified as the new engine of growth for most countries, especially in developing countries (Park and Shin, 2012). Furthermore, service trade can generate high value-added. According to OECD statistics, services' value-added accounted for around 70 percent of GDP in developed countries in 2016, up from 65 percent in 1997. Except in a few major developing nations such as Indonesia, China, and India, services sector contributed over 60 percent of total value-added in 2017 in all major economies.

World Bank database reported that the export of services in China increased from US$117 billion in 2010 to US$206 billion in 2017, with an average annual increase rate of 11 percent. China's services trade accounted for 17 percent of total international trade in 2017, signaling its importance in the international trade arena. According to the Peoples' Republic of China Ministry of Commerce, China's service industry has become a new engine for economic growth, accounting for 52 percent of the country's total GDP. Despite starting only at a late stage, there has been rapid development in China's services trade. The Peoples' Republic of China Ministry of Commerce reported that the average annual growth rate of China's service trade has increased by nearly 10 percent which is much higher than the 3.9 percent observed in the United States and 2.1 percent in Japan in the last decade. In 2018, China's total service trade volume stood at US$759.4 billion, the second largest in the world.

However, China has been recording large service trade deficit. According to statistics published by the IMF, China's service trade deficit was US$292.2 billion in 2018, accounting for 41 percent of the global service trade deficit, making it the country with the largest service trade deficit in the world. On a sectoral basis, China's service trade surplus is mainly seen in telecommunications, computer and information services, and construction. On the other hand, the country records deficit in travel (including study abroad, tourism, medical treatment), intellectual property and transportation.

3. Literature Review

The concept of revealed comparative advantage is a common yardstick for measuring export competitiveness. For China's service trade, extensive work has been undertaken to estimate this index (Zhao and Li, 2005; Zhao and Xu, 2007; Chen and Li, 2014; Li and Zhang, 2015; Dai, 2015). However, many of these are calculated using gross exports. Since the phenomenon of intermediate services across multiple borders is becoming more popular, the source of value of many products actually involves many countries or regions. Official trade statistics do not necessarily represent the ultimate sources and destination of a country's trade. In view of this, Timmer *et al.* (2013) pointed out that the sectoral comparative advantage index proposed by Balassa (1965) may produce erroneous conclusions. To overcome these drawbacks, Koopman, Wang and Wei (2012) calculated sectoral revealed comparative advantage from the perspective of value added. This method removes the value added from imported foreign intermediate products.

Using Koopman, Wang and Wei (2012), Brakman and Van Marrewijk (2017) applied the data of 35 sectors in 40 economies over 15 years to compare two RCA indices calculated from total gross export and value-added export data and found that value added exports are more concentrated than gross exports. Dai (2015) calculated the RCA of China's 35 sectors using the same types of export values and found that all service subsectors lacked significant comparative advantage and the RCA values calculated from traditional statistical method were larger than RCAs calculated using value added. However, Wang, Wei and Zhu (2013) hold that the sectoral comparisons should be analyzed from the perspective of departmental creation of value added, for which they define the sectoral forward value added exports and the backward value added exports, respectively, from a producer's and user's perspectives. Measuring the value-added forward linkage exports requires deducting the value added created by other countries and the value added created by other domestic departments from the total export value of the sector, while adding the value added created by this sector but indirectly exported through other sectors.

Pu and Ma (2015) compared the service trade competitiveness for the "BRICS" based on Trade in Value Added (TiVA) database. Since TiVA trade database eliminates double counting and takes into account the service trade implicit in the exports of manufacturing sectors it corrects for the error in misjudging competitiveness in official trade data. Using the same data source and methodology, Li and Zhang (2015) investigated the changes of international competitiveness for five Chinese service sectors – wholesale and retail trade, accommodation and food service activities, financial, and commercial services from the perspectives of trade balance and comparative advantage index. In addition, Guo and Liu (2015) corrected and estimated the international market share and RCA index for China taking into account both the direct export value added in specific service sectors and the value added implicit in the indirect export of manufacturing industries. Chen (2017) analyzed the competitiveness of China's service trade based on TiVA database and found China's service trade to be weaker than the results calculated based on traditional method. Like Chen (2017), Zheng and Yan (2018) measured China's service trade competitiveness based on the value added perspective by applying OECD-TiVA database from 1995 to 2011. They found that China's service trade had RCA in labor-intensive industries but weak RCA in other knowledge-intensive industries. The above studies had the advantage of measuring China's service trade using value-added. However, TiVA has its own drawbacks. First, its classification of service industry is relatively simple, and second is the discontinuity of input-output series.

The gradual updating of WIOD provides solid data for studying service trade competitiveness. Fan and Huang (2014) estimated the participation of China's service industry in the global value chain by applying time services data extracted from the WIOD database and found that knowledge intensive service industries developed the fastest. However, this study did not identify specific industries. Dai (2015), however, calculated value added RCAs of China's service sectors at sub-industrial and factor intensity levels from 1995 to 2011 and compared these to RCA indices calculated using traditional statistical method. It was found that China's service sectors lack RCA based on backward linkage value added exports. These were opposite to those found using the traditional statistical methods. Realizing the defects of using the backward-linkage value added export, Li and Feng (2015) calculated the RCA based on forward linkage value added export from 1995 to 2011. The result showed that the RCA of manufacturing industry lies in labor-intensive industries.

Niu, Ma and Song (2016) compared the RCAs of service sectors in China and the US using forward linkage value-added export data for the period from 1995 to 2011. The findings shown that the RCA of China's service sectors are relatively lower than that of the US. China's RCA lies in the labor and capital intensive areas, while that for the US lies in knowledge intensive industries. Dong and Yong (2018) provided a more recent estimate using the forward linkage value added exports and comparing it with estimates from gross exports. China has weak RCA no matter which method was applied.

From the world review, Seleka and Kebakile (2017) evaluated Botswana's beef export competitiveness by using Normalized Revealed Comparative Advantage (NRCA) index. The result demonstrated that value-added export should be taken into account for analysing one sector's competitiveness. Ceglowski (2017) examined countries' manufacturing and services export competitiveness by using the same method as Seleka and Kebakile (2017). However, Ceglowski (2017) gauged the competitiveness based on the Trade in Value-Added (TiVA) database which covers the year from 1995 to 2009. The results indicated that using the gross export values overestimate countries' competitiveness in sectors and China has less competitive in electrical and optical equipment through the lens of domestic value-added. In addition, Brakman and Van Marrewijk (2017) compared the distributions of good's revealed comparative advantage (RCA) in terms of value-added and gross export data. The findings indicated that they are significantly different by applying different data.

This summary revealed that existing literature has made major contributions to understanding China's service sector competitive advantage. However, some issues remain. First, the TiVA database does not contain sufficient detail to permit a detailed analysis of the entire service sector. Second, existing research fails to consider specific industries. For instance, Fan and Huang (2014) only divided China's service industry into four categories based on factor intensity, but did not analyze specific industries. Third, the current literature using value added data usually ignores value added of the sector which is embedded in the export of other sectors (indirect exports). To correct these errors, this study applies continuous time series data (2000-2014) extracted from the WIOD database, using the approach of Wang, Wei and Zhu (2013) in estimating forward linkage value added exports to compare the RCA of sectors in China and the US.

4. Methodology and Data

4.1. Decomposition of Value Added Based on Forward Linkage

Following Wang, Wei and Zhu (2013), this study uses the method of forward linkage value added exports to more accurately measure RCA. The data used for this estimation are from the World Input-Output Table with continuous time series for the period 2000-2014.

Methodologically, it is assumed that there are N countries and S sectors and all countries and sectors employ their own domestic factors (initial inputs) and intermediate inputs for production. The output of each sector can be used as an intermediate product or as a final product for domestic and international use and consumption. Thus, the input-output table has the following balance relationship on the row vector:

Intermediate use + Final use = Gross output. It can be denoted as:

$$\begin{bmatrix} B^{ll} & B^{lm} & B^{ln} \\ B^{ml} & B^{mm} & B^{mn} \\ B^{nl} & B^{nm} & B^{nn} \end{bmatrix} \begin{bmatrix} T^{l} \\ T^{m} \\ T^{n} \end{bmatrix} + \begin{bmatrix} F^{ll} + F^{lm} + F^{ln} \\ F^{ml} + F^{mm} + F^{mn} \\ F^{nl} + F^{nm} + F^{nn} \end{bmatrix} = \begin{bmatrix} T^{l} \\ T^{m} \\ T^{n} \end{bmatrix} \quad (1)$$

Equation (1) is derived from the equation:

$$\begin{bmatrix} Y^{ll} + Y^{lm} + Y^{ln} \\ Y^{ml} + Y^{mm} + Y^{mn} \\ Y^{nl} + Y^{nm} + Y^{nn} \end{bmatrix} + \begin{bmatrix} F^{ll} + F^{lm} + F^{ln} \\ F^{ml} + F^{mm} + F^{mn} \\ F^{nl} + F^{nm} + F^{nn} \end{bmatrix} = \begin{bmatrix} T^{l} \\ T^{m} \\ T^{n} \end{bmatrix}$$

through defining the input coefficient $B^{lm} \equiv Y^{lm} (T^m)^{-1}$ where B represents country B, T represents the total output, the superscript of l, m and n stands for the source country L, partner country M and third country N separately. Y^{lm} and F^{lm} denote the intermediate input and final use parts absorbed by country M but produced by country L. With n sectors in one country, Y is a n×n matrix, while T and F are n×1 column vectors.

Equation (1) can be rearranged to produce the classic Leontief formula:

$$\begin{bmatrix} T^l \\ T^m \\ T^n \end{bmatrix} = \begin{bmatrix} C^{ll} & C^{lm} & C^{ln} \\ C^{ml} & C^{mm} & C^{mn} \\ C^{nl} & C^{nm} & C^{nn} \end{bmatrix} \begin{bmatrix} F^{ll} + F^{lm} + F^{ln} \\ F^{ml} + F^{mm} + F^{mn} \\ F^{nl} + F^{nm} + F^{nn} \end{bmatrix} \tag{2}$$

where

$$\begin{bmatrix} C^{ll} & C^{lm} & C^{ln} \\ C^{ml} & C^{mm} & C^{mn} \\ C^{nl} & C^{nm} & C^{nn} \end{bmatrix} = \begin{bmatrix} 1 - B^{ll} & -B^{lm} & -B^{ln} \\ -B^{ml} & 1 - B^{mm} & -B^{mn} \\ -B^{nl} & -B^{nm} & 1 - B^{nn} \end{bmatrix}^{-1}$$

denotes the Leontief's classical inverse matrix. Since total output = intermediate input + value added, formula (2) can be rearranged as:

$$\begin{aligned} \begin{bmatrix} T^l \\ T^m \\ T^n \end{bmatrix} &= \begin{bmatrix} B^{ll} & 0 & 0 \\ 0 & B^{mm} & 0 \\ 0 & 0 & B^{nn} \end{bmatrix} \begin{bmatrix} T^l \\ T^m \\ T^n \end{bmatrix} + \begin{bmatrix} F^{ll} + E^l \\ F^{mm} + E^m \\ F^{nn} + E^n \end{bmatrix} \\ &= \begin{bmatrix} B^{ll} & 0 & 0 \\ 0 & B^{mm} & 0 \\ 0 & 0 & B^{nn} \end{bmatrix} \begin{bmatrix} T^l \\ T^m \\ T^n \end{bmatrix} + \begin{bmatrix} VA^l \\ VA^m \\ VA^n \end{bmatrix} \end{aligned} \tag{3}$$

where VA^l is 1 ×S vector, if $\Phi = \hat{A}$ ($\hat{A}$ represents a diagonal matrix), thus the equation (3) can be rewritten as:

$$\begin{bmatrix} VA^l \\ VA^m \\ VA^n \end{bmatrix} = \begin{bmatrix} 1-\Phi^{ll} & 0 & 0 \\ 0 & 1-\Phi^{mm} & 0 \\ 0 & 0 & 1-\Phi^{nn} \end{bmatrix} \begin{bmatrix} T^l \\ T^m \\ T^n \end{bmatrix}$$

$$= \begin{bmatrix} V^{ll} & 0 & 0 \\ 0 & V^{mm} & 0 \\ 0 & 0 & V^{nn} \end{bmatrix} \begin{bmatrix} T^l \\ T^m \\ T^n \end{bmatrix} \quad (4)$$

where $V^{ll} = 1 - \Phi^{ll}$, since Φ^{ll} represents the intermediate input rate of gross output, $1 - \Phi^{ll}$ represents the value-added rate of total output. Combining equation (2) and (4), we derived:

$$\begin{bmatrix} VA^l \\ VA^m \\ VA^n \end{bmatrix} = \begin{bmatrix} V^{ll} & 0 & 0 \\ 0 & V^{mm} & 0 \\ 0 & 0 & V^{nn} \end{bmatrix} \begin{bmatrix} C^{ll} & C^{lm} & C^{ln} \\ C^{ml} & C^{mm} & C^{mn} \\ C^{nl} & C^{nm} & C^{nn} \end{bmatrix} \begin{bmatrix} F^{ll}+F^{lm}+F^{ln} \\ F^{ml}+F^{mm}+F^{mn} \\ F^{nl}+F^{nm}+F^{nn} \end{bmatrix} \quad (5)$$

Thus, VC denotes the value-added rate of final use. If we rewrite the right side of equation (5) as an n×n diagonal matrix we obtain:

$$\begin{bmatrix} VA^l \\ VA^m \\ VA^n \end{bmatrix} = \begin{bmatrix} V^{ll}C^{ll}F^{ll} & V^{lm}C^{lm}\ F^{lm} & V^{ln}C^{ln}\ F^{ln} \\ V^{ml}C^{ml}F^{ml} & V^{mm}C^{mm}\ F^{mm} & V^{mn}C^{mn}F^{mn} \\ V^{nl}C^{nl}F^{nl} & V^{nm}C^{nm}\ F^{nm} & V^{nn}C^{nn}\ F^{nn} \end{bmatrix} \quad (6)$$

Rearranging equation (6) leads to

$$vt_1^l = V_1^l C^{ll} F^{lm} + V_1^l C^{lm} F^{ll} + V_1^l C^{ln} F^{nm}$$

$$= [v_1^l \;\; 0] \begin{bmatrix} c_{11}^{ll} & c_{12}^{ll} \\ c_{21}^{ll} & c_{22}^{ll} \end{bmatrix} \begin{bmatrix} f_1^{lm} \\ f_2^{lm} \end{bmatrix} + [v_1^l \;\; 0] \begin{bmatrix} c_{11}^{lm} & c_{12}^{lm} \\ c_{21}^{lm} & c_{22}^{lm} \end{bmatrix} \begin{bmatrix} f_1^{mm} \\ f_2^{mm} \end{bmatrix} + [v_1^l \;\; 0] \begin{bmatrix} c_{11}^{ln} & c_{12}^{ln} \\ c_{21}^{ln} & c_{22}^{ln} \end{bmatrix} \begin{bmatrix} f_1^{nm} \\ f_2^{nm} \end{bmatrix}$$

$$= v_1^l \sum_j^2 c_{1j}^{ll} f_j^{lm} + v_1^l \sum_j^2 c_{1j}^{lm} f_j^{mm} + v_1^l \sum_j^2 c_{1j}^{ln} f_j^{nm} \quad (7)$$

Koopman, Wang and Wei (2014) define the value added export for country l and sector i as:

$$VAX\_F_i^l + RCA\_F_i^l = \sum_{m\neq l}^{G} V_i^l C^{ll} F^{lm} + \sum_{m\neq l}^{G} V_i^l C^{ll} F^{mm} + \sum_{m\neq l}^{G} V_i^l B^{lm} \sum_{n\neq l,m}^{G} F^{ln} + \sum_{m\neq l}^{G} V_i^l C^{lm} F^{ml} \quad (8)$$

where G denotes there are G economies in the world,

$$VAX_{F_i^l} = \sum_{m\neq l}^{G} V_i^l C^{ll} F^{lm} + \sum_{m\neq l}^{G} V_i^l C^{ll} F^{mm} + \sum_{m\neq l}^{G} V_i^l B^{lm} \sum_{n\neq l,m}^{G} F^{ln}$$

implies the value added production by the sector i of country l and absorbed by foreign countries via the parts of final products or intermediate goods, and

$$RCA\_F_i^l = \sum_{m\neq l}^{G} V_i^l C^{lm} F^{ml}$$

denotes the value added produced by sector i of country l and exported through intermediate goods, while finally returns to domestic country.

4.2. Revealed Comparative Advantage

Balassa (1965) first put forward the revealed comparative advantage (RCA) concept to calculate the relative advantage or disadvantage of a certain country in certain sectors. It is defined as the relative weight of a percentage of total export of products or services in a nation divide by the percentage of world export of that products or services. Thus, the RCA formula is expressed as

$$RCA_{ij} = \left(X_{ij}/X_j\right)/(X_{iw}/X_w) \quad (9)$$

The larger the RCA value, the stronger the international competitiveness. When the RCA is greater than 1, a sector has a revealed comparative advantage; otherwise it has a revealed comparative disadvantage. In the context of economic globalization, however, the RCA index fails to take into account international productive specialization and it ignores domestic division of labor as well. First, RCA index ignores the fact that the total export of one country's sector contains foreign value added and double-counted items. Second, the RCA index also fails to consider the fact that one country sector's value added is embodied in the export of other parts of the country. Therefore, based on equation (8), this study made a revision to the Balassa index, and derived the RCA Index based on forward linkage value added exports:

$$RCA_{Value\ Added_i^r} = \frac{(vax\_f_i^r + rdv\_f_i^r)/\sum_i^n (vax\_f_i^r + rdv\_f_i^r)}{\sum_r^G (vax\_f_i^r + rdv\_f_i^r)/\sum_r^G \sum_i^n (vax\_f_i^r + rdv\_f_i^r)} \tag{10}$$

In an open economy, the revealed comparative advantage index can reflect one country's current situation of competitiveness. However, trade in intermediate goods may move across country borders multiple times. According to Koopman, Wang and Wei (2010), the values of the products accrue to many countries or regions and should not be captured solely by the country or region that ultimately exports the product as reflected in official trade statistics. Based on discussed above, this study will calculate China's revealed comparative advantage from the perspective of forward-linkage value added and compare with US.

4.3. Sample and Data Description

As indicated earlier, this study uses the WIOD which provides a 15-years World Input-Output Table (WIOT) from 2000 to 2014. This dataset, released at the end of 2016, is the latest version available. WIOD includes 43 countries (regions), developed, developing spread over five continents. The trade volume of these 43 economies account for over 80 percent of total global trade. According to the WIOT database, in 2014, China's exports to the other 42 countries accounted for 60 percent of total world trade, while its services export to 42 economies accounted for 79 percent of world service exports. Therefore, it is important to measure the decomposition of China's services industry export value added to these economies which are the main services trade partners of China.

According to the International Standard Industrial Classification (ISIC) Rev.4, services are divided into 12 categories. To be more meaningful, this study follows Fan and Huang (2014) who divide services industry into four categories based on factor intensity (Table 1).

Table 1 Service Industry Classification by Factor Intensity

Category	Industry
Labor Intensive	c27 construction; c28-c30 wholesale and retail trade; c36 accommodation and food service activities
Capital Intensive	c31-c35 transportation and storage; c37-c40 information and communication; c44 real estate activities
Knowledge Intensive	c41-c43 financial and insurance activities; c45-c49 professional,scientific and technical activities
Human health, education and public services	c50 administrative and support service activities; c52 education; c53 human health and social work activities; c54 arts, entertainment and recreation

Note: c27 is construction, c28-c30 is wholesale and retail trade, c31-c35 is transportation and storage, c36 is accommodation and food service activities, c37-c40 is information and communication, c41-c43 is financial and insurance activities, c44 is real estate activities, professional, c45-c49 is scientific and technical activities, c50 is administrative and support service activities, c52 is education, c53 is human health and social work activities, arts, c54 is entertainment and recreation.

Source: Author.

5. Comparing Data Estimates between China and the US

5.1. Results and Comparisons

By whatever standard, the US is a major trade partner for China, it being the top country running a trade deficit with China but against which it has a perennial service trade surplus. The RCAs of 12 service sectors between China and US based on WIOD database from the year 2000 to the year 2014 were estimated and the results are shown in Tables 2 and 3. Comparing the forward linkage RCA between two countries in 2014, China has a comparative advantage for c27 construction, c28-c30 wholesale and retail trade, c36 accommodation and food service activities, and c54 arts, entertainment and recreation. The RCAs of China's c27 construction and c28-c30 wholesale and retail trade were lower than for the US before 2010, but exceeded those of the US thereafter. Accommodation and food service activities (c36) showed a downward trend even though it has revealed comparative advantage.

However, other Chinese service sectors such as information and communication (c37-c40), professional, scientific and technical (c45-c49), administrative and support service activities (c50) have weak comparative advantage in comparison with the US. Furthermore, the RCA of information and communication (c37-c40) shows a decreasing trend, while professional, scientific and technical (c45-c49) shows an increasing trend. For education (c52), human health and social work activities (c53) service sectors, China's RCA values surpassed US in earlier years but were overtaken by the US more recently.

In Table 3, the competitive disadvantage of US's service sectors were in construction (c27), accommodation and food service activities (c36), education (c52), human health and social work activities (c53), arts, entertainment and recreation (c54). Specifically, for the c36 sector, US had no comparative advantage and China's RCA far exceeded that of the US in this sector. Most of the service sectors in the US have RCA greater than 1 especially in wholesale and retail trade (c28-c30), information and communication (c37-c40), financial and insurance activities (c41-c43), real estate activities (c44), professional, scientific and technical activities (c45-c49), administrative and support service activities (c50) from the period of 2000-2014.

Table 2 China's RCA Index of Service Sectors Based on Forward Linkage Value Added Export, 2000-2014

Sectors	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
c27	0.381	0.356	0.320	0.275	0.257	0.223	0.225	0.252	0.303	0.313	0.369	0.434	0.448	0.477	0.444
c28-c30	0.900	0.926	0.979	0.882	0.815	0.816	0.788	0.780	0.884	0.995	1.051	1.126	1.180	1.164	1.176
c31-c35	1.070	1.064	1.038	0.937	0.926	0.886	0.890	0.880	0.874	0.849	0.844	0.880	0.875	0.864	0.849
c36	1.158	1.161	1.220	1.191	1.228	1.274	1.279	1.255	1.252	1.160	1.051	0.985	0.972	0.939	0.932
c37-c40	0.415	0.421	0.425	0.411	0.433	0.429	0.439	0.430	0.380	0.323	0.303	0.305	0.307	0.312	0.301
c41-c43	0.744	0.691	0.669	0.618	0.579	0.580	0.650	0.770	0.853	0.851	0.887	0.936	0.967	1.005	1.038
c44	0.538	0.529	0.528	0.531	0.525	0.548	0.642	0.749	0.694	0.840	0.926	0.956	0.996	0.995	0.979
c45-c49	0.481	0.483	0.513	0.535	0.590	0.597	0.631	0.645	0.669	0.716	0.744	0.743	0.748	0.724	0.735
c50	0.008	0.008	0.008	0.010	0.013	0.016	0.019	0.019	0.022	0.026	0.028	0.028	0.045	0.043	0.044
c52	0.456	0.446	0.498	0.447	0.454	0.512	0.522	0.482	0.466	0.477	0.391	0.343	0.343	0.346	0.396
c53	0.558	0.542	0.607	0.673	0.762	0.906	0.949	0.996	0.844	0.638	0.441	0.347	0.293	0.299	0.323
c54	2.220	2.683	2.712	2.215	1.658	1.664	1.504	1.404	1.394	1.379	1.321	1.325	1.336	1.303	1.288

Note: c27 is construction, c28-c30 is wholesale and retail trade, c31-c35 is transportation and storage, c36 is accommodation and food service activities, c37-c40 is information and communication, c41-c43 is financial and insurance activities, c44 is real estate activities, professional, c45-c49 is scientific and technical activities, c50 is administrative and support service activities, c52 is education, c53 is human health and social work activities, arts, c54 is entertainment and recreation.

Source: Author's calculation based on WIOTs.

Table 3 US's RCA Index of Service Sectors Based on Forward Linkage Value Added Export, 2000-2014

Sectors	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
c27	0.457	0.475	0.453	0.428	0.407	0.427	0.413	0.480	0.456	0.371	0.363	0.384	0.411	0.385	0.377
c28-c30	1.166	1.155	1.133	1.152	1.187	1.217	1.222	1.212	1.147	1.081	1.077	1.054	1.085	1.100	1.091
c31-c35	0.901	0.893	0.889	0.875	0.880	0.895	0.920	0.865	0.912	0.889	0.926	0.950	0.940	0.935	0.933
c36	0.570	0.579	0.596	0.572	0.555	0.545	0.543	0.533	0.538	0.488	0.509	0.524	0.524	0.542	0.551
c37-c40	1.448	1.448	1.531	1.535	1.577	1.590	1.532	1.580	1.640	1.617	1.675	1.692	1.629	1.650	1.628
c41-c43	1.163	1.272	1.322	1.318	1.318	1.387	1.369	1.278	1.183	1.291	1.312	1.340	1.398	1.355	1.347
c44	1.265	1.285	1.313	1.326	1.383	1.459	1.307	1.268	1.218	1.088	1.200	1.196	1.171	1.150	1.175
c45-c49	1.457	1.502	1.537	1.458	1.461	1.492	1.529	1.551	1.616	1.599	1.682	1.738	1.751	1.688	1.687
c50	1.222	1.266	1.324	1.332	1.350	1.390	1.391	1.373	1.412	1.345	1.368	1.441	1.456	1.427	1.406
c52	0.376	0.397	0.411	0.415	0.453	0.432	0.480	0.451	0.474	0.521	0.559	0.601	0.584	0.565	0.572
c53	0.345	0.373	0.376	0.373	0.391	0.385	0.410	0.417	0.443	0.439	0.416	0.459	0.495	0.486	0.562
c54	0.880	0.781	0.779	0.754	0.743	0.698	0.714	0.743	0.736	0.713	0.717	0.736	0.747	0.717	0.705

Note: c27 is construction, c28-c30 is wholesale and retail trade, c31-c35 is transportation and storage, c36 is accommodation and food service activities, c37-c40 is information and communication, c41-c43 is financial and insurance activities, c44 is real estate activities, professional, c45-c49 is scientific and technical activities, c50 is administrative and support service activities, c52 is education, c53 is human health and social work activities, arts, c54 is entertainment and recreation.

Source: Author's calculation based on WIOTs.

Furthermore, from the perspective of factor intensity, the results show that the RCAs of China's service sectors are mostly in labor-intensive service industries, such as c28-c30, and c36. For the US, capital intensive, knowledge intensive, human health, education and public services are its comparative advantage. Examples are c31-c35, c37-c40, c44, c41-c43, c45-c49 and c50 which fall under these three factor intensity categories. For the c52 and c53 sectors, both of them have the comparative disadvantage. Clearly, the disadvantage suffered by China in its service exports with the US lies in the lower value added of those services in which it has an RCA, and with the RCAs falling over time.

Starting from the labor-intensive service industry such as c27 and c28-c30, China's revealed comparative advantage of two service sectors are below US's. After that China's two service keep increasing and US keep decreasing which leads to US being overtaken by China. This finding contradicts the conventional wisdom that China has RCA in labour-intensive services. A possible explanation is low labor productivity in China. For the other sectors, the RCAs of most of China's service sectors that are capital-intensive lose out to those in the US which is in accordance with expectations. For the knowledge intensive service industry, China's RCA index increased in sectors c41-c43, achieving comparative advantage in the last two years. However, there is comparative disadvantage for China's c45-c49 sectors. Thus, it can be inferred that the main reason for China's service industry lagging behind the US was the former's disadvantage in knowledge intensive service industries, caused by low productivity (Li and Feng, 2015). For the human health, education and public health sectors, a big gap also exist between China and US and this gap is increasing.

From the discussion above, China lacks comparative advantage in most of the service sectors compared to the US. Additionally, six of China's service sectors have very strong competitive disadvantage and their RCAs are falling. Urgent upgrades of the service industry are needed.

5.2. Factor Intensity of China and US Service Exports

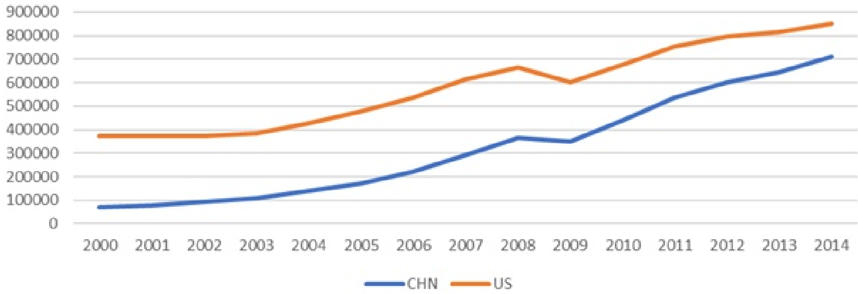
Beyond comparing specific sectors, the factor intensity of the two countries' service exports can be compared using the factor intensity classifications discussed earlier. From Table 4, it can be seen that a big gap exists between China and US's service trade structure in terms of factor intensity. China's service exports focus on labor-intensive industry with the value-added exports at more than 30 percent of the total value added exported. For the US, knowledge intensive industry exports rose during 2000-2014, accounting for around 30 percent of total value-added exports, the largest export category with strong RCA compared to other service exports from the US. The structure of China's service trade is likewise reliant on knowledge-intensive service sectors to generate export value added. However, China still has a way to go to catch up with the US in terms of both quantity and quality of services as shown in Figure 1.

Table 4 Value Added as a Percentage of Total Gross Export Value for Four Service Categories, China and the US

Year	China				US			
	Labour Intensive	Capital Intensive	Knowledge Intensive	Health, Education	Labour Intensive	Capital Intensive	Knowledge Intensive	Health, Education
2000	38.805	32.442	20.585	8.168	29.522	28.758	28.534	13.186
2001	38.544	31.842	19.837	9.777	28.400	28.363	29.950	13.287
2002	39.361	30.822	19.875	9.942	27.056	28.824	30.638	13.482
2003	38.436	31.145	21.440	8.979	27.294	29.149	30.223	13.330
2004	36.934	32.971	22.759	7.337	27.238	29.936	29.911	12.915
2005	36.912	32.410	22.954	7.723	27.050	29.981	30.203	12.767
2006	35.265	32.482	25.182	7.070	27.097	29.001	31.133	12.768
2007	33.975	32.059	27.556	6.410	27.082	28.840	31.269	12.808
2008	37.330	29.546	27.250	5.874	26.770	29.852	30.489	12.889
2009	39.314	27.208	27.810	5.668	25.583	29.294	32.441	12.681
2010	40.960	26.639	27.304	5.096	25.771	29.985	31.893	12.351
2011	42.558	26.151	26.606	4.685	25.492	29.713	32.127	12.668
2012	43.232	25.257	26.700	4.810	26.062	28.394	32.957	12.586
2013	42.551	25.188	27.401	4.860	26.243	28.715	32.558	12.484
2014	42.382	24.405	28.284	4.928	25.999	28.525	33.019	12.458

Source: Author's calculation based on WIOTs.

Figure 1 Export Value Added of Service Trade between China and US during 2000-2014 (unit: billion dollars)



Source: Author's calculation based on WIOTs.

From the perspective of changing trends, the capital intensive and health, education intensive service sectors show a decrease trend in China (from 32.4 percent to 24.4 percent and from 8.2 percent to 4.9 percent respectively), while the percentage of knowledge intensive shows a significant increasing trend, specifically from 20.585 per cent in 2000 to 28.284 per cent in 2014. Labor intensive exports keep increasing during 2000-2014 to account for 42.4 percent of China's service exports in 2014. Just as with merchandise exports, China's service exports are still heavily reliant on labor intensive services industries. The growth of labor-intensive service exports does signify improvements in service quality and speed in these sectors. The other positive finding from Table 4 is that knowledge intensive service industries show a significant increase trend. It is noteworthy that China should pay more attention to improve the competitiveness of knowledge intensive industries in the global value chain so as to optimize China's service industry structures.

In contrast to China's experience, the percentage of US's labor-intensive service exports show a downward trend. In addition, there is an inverse V-shape trend for US capital intensive service exports, with its percentage share almost unchanged between years 2000 and 2014. Between China and the US, the export rate of China's capital-intensive services was higher than that of the US, but this was reversed in the last seven years. US' knowledge intensive exports grew monotonically during the entire period, and it is the biggest contributor to US service exports. It seems clear that the high value-added service exports like those that are knowledge intensive is the new index to measure each country's service trade competitiveness. That the ICT industry is mobile across countries gives countries like China hope in achieving rapid catch-up in knowledge intensive service exports.

The export share of China's human health, education and public services show a downward trend from 2000 to 2014, in contrast to the US where the share remains at around 13 per cent. Since the export share of human health, education and public services are relatively small, the differences in competitiveness have not had too much influence on the countries' service export structure. Still, promoting the competitiveness of human health, education and public services can enhance the development quality of China's service industry and its exports.

As a final basis for comparison, Table 4 shows that in areas where China has an RCA edge, i.e. labor-intensive service exports, its share of value added in gross export value is consistently higher than for the US. In terms of capital-intensive service exports, while China had the upper hand with respect to the share of value added early on, it was overtaken by the US by 2008, with the US superior thereafter. The US is also consistently superior in terms of the value-added share when it comes to knowledge intensive service exports. It is also superior for the health and education service exports. With the US ahead in all except labor intensive service exports, the advantage of the US in service exports is manifestly clear.

6. Conclusion

Estimating RCAs from forward linkage value added exports using WIOD data from 2000 to 2014, this study came to the overall conclusion that China's service exports have at most weak comparative advantage compared to those from the US. For specific sectors, the RCAs of China's service exports are higher than those for the US in construction, wholesale and retail trade, accommodation and food service activities, arts, entertainment and recreation. China's RCAs in other service sectors are significantly lower than those for US. Furthermore, the RCAs of transportation and storage, accommodation and food service activities, information and communication, education, human health and social work activities, arts, entertainment and recreation show a downward trend. In terms of trade structure, China is dominated by labor and resource intensive service exports, while US relies heavily on knowledge intensive service exports. China's service exports have a long way to go before they can catch up on competitiveness with their trading partners in services. However, a positive development is the rising share of China's knowledge intensive service exports as a clear indicator of catch-up higher global value chain.

This study has important policy implications for China's industrial upgrading brought about by the development of the service industry and also for service exports. Understanding the comparative advantage of China's service industry would help promote the service industry and its exports. This will involve firstly changing the direction of exports from labor intensive to knowledge intensive. Second, it is important to realize that individual service sectors are not functioning in parallel but rather self-reinforcing. For example, strengthening investment in higher education would upgrade service quality and other capabilities. Third, further expanding the open strategies of "going out" and "bringing in" will promote the competitiveness of knowledge intensive industries while also expand capital-intensive service exports. Meanwhile, "bringing in" refers to relaxation of foreign investment in China's service industry under the establishment of a sound supervision mechanism.

As a final footnote, and in the context of the ongoing trade war between China and the US, service trade can provide an additional instrument which China can use against the US. By importing services from alternative countries to the US or by curbing service imports, China can adversely affect US export receipts. It remains to be seen if China will resort to this strategy should the conflict deteriorates. The limitation for this study is the outdated data and future research should focus on applying other methods to calculate one country's competitiveness using the value-added data.

Notes

* Dong Hanghang (董行行) is a Ph.D. candidate at the Faculty of Economics and Administration, University of Malaya, Malaysia. She had published a paper with title "Are China's service exports accurately measured? Implications of an alternative measurement approach" in the *International Journal of China Studies* in December 2018. <*Email: donghanghang1991@gmail.com*>

** Dr Yong Chen Chen (楊珍珍) (corresponding author) is currently an Associate Professor at Department of Economics, Faculty of Economics and Administration, University of Malaya, Malaysia. Her research interests include international trade and human capital. She has published several papers in international journals such as *Singapore Economic Review*, *International Trade and Economic Development*, *Chinese Business Review*, *Malaysian Journal of Economic Studies*, *Journal of Developing Areas*, *International Journal of Economics and Management* and so on. She has undertaken several consultancies for PricewaterhouseCoopers (PwC), PE Research, Talent Corp Malaysia, Construction Industry Development Board (CIDB), Institute of Labour Market Information and Analysis (ILMIA) and Malaysian Science and Information Technology Centre (MASTIC). <*Email: ccyong@um.edu.my*>

*** Dr Yong Sook Lu (楊淑茹) is a Senior Lecturer at Department of Economics, Faculty of Economics and Administration, University of Malaya, Malaysia, where she has been a faculty member since 2004. She received her Bachelor of Economics (First Class Honours) and Master of Economics (with Distinction) from the University of Malaya (Malaysia) and her Ph.D. from the University of Lancaster (United Kingdom). Her teaching interests include Microeconomics, Industrial Economics, Introduction to Mathematical Economics and Malaysian Economy. Her research interests lie in the area of industrial organisation, social security and kidney donation. <*Email: yongsl@um.edu.my*>

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Chinese Outward Foreign Direct Investment in Belt and Road Countries: Trends, Characteristics and Policies

Chang Le* and **Cheong** Kee Cheok**
University of Malaya

Abstract

Chinese outward foreign direct investment (OFDI) has attracted more attention in recent years, especially after the Chinese government proclaimed the Belt and Road Initiative (BRI) in 2013. The BRI countries play a key role in receiving Chinese OFDI. This paper analyzes the characteristics and trends of Chinese investment in BRI countries from the geographical and industrial perspectives by using both micro- and macro-level data. Meanwhile, it explores the Chinese government policy that promotes investment in BRI countries. This shows the way of Chinese investment strategy, especially in terms of country chosen and industry chosen. The analysis points out the reasons of Chinese investment, which is natural resource-seeking and market-seeking. Meanwhile, Chinese government policy affects the decision of Chinese enterprises by using economic incentive.

Keywords: *Chinese outward foreign direct investment, BRI, policy, characteristics, trends*

1. Introduction

As the largest developing country in the world, China has employed "go abroad" policy to encourage local enterprises doing investment in foreign countries since 2002. In the context of China's significantly enhanced economic strength, the scale of Chinese outward foreign direct investment begins to rise sharply. In 2017, China became the third largest source country/region for foreign direct investment (*World Investment Report 2018*). In the same year, China made investment in 6,326 overseas enterprises from 174 countries/regions (MOFCOM, 2017). China's outward foreign direct investment becomes the hotspot of research as Chinese capital outflows madly to the rest of the world, especially after Chinese president Xi Jinping proclaimed the "One Belt, One Road" (later renamed "Belt and Road Initiate") in 2013.

Compared with developed countries and even some other emerging economies, such as Brazil, Russia and South Africa, the accumulate amount of China's outward foreign direct investment (OFDI) is still small. But from the perspective of OFDI growth rate, especially in BRI countries, China is at the top of world OFDI. Even under the context of a slight slowdown in China's OFDI in recent years, the volume of Chinese investment in BRI countries still keep increasing. This makes it more important for the analysis of Chinese investment in BRI countries.

The purpose of this paper is to review characteristics and trends of China's outward investment, especially in BRI countries by using both macro- and micro-level data. Meanwhile, this analysis shows the geographical distribution and the industrial distribution of China's OFDI, especially in BRI countries. The Chinese government policies for prompting outward investment are analyzed to show the way of Chinese investment expansion in BRI countries.

This paper is organized as follows. Section 2 reviews Chinese outward FDI globally. Section 3 illustrates the Chinese outward FDI in BRI countries from the geography and industry perspective by using firm-level data, respectively. Section 4 is a discussion of Chinese policies for investment in BRI countries. Section 5 is the conclusion.

2. China's Outward Foreign Direct Investment

2.1. A Brief History and Background of China's OFDI

As of the main source of OFDI comes from state-owned and local government-owned enterprises, the investment is mainly driven by political rather than economic reasons. Since the establishing of People's Republic of China (PRC), the whole economic is controlled by government and no free market is allowed. Basing on rich experiences of dealing with foreign enterprises, foreign trade enterprises are the first allowed to invest in foreign countries. The significance of establishing branches abroad is recognized regarding to securing supplies of natural resources, acquiring advanced technology from developed countries, and facilitating exports and acquiring managerial skills through 'learning by doing'. China's OFDI experiences four stages (Buckley *et al.*, 2007; Wu and Chen, 2001; Yang, 2005; Zhang, 2003).

2.1.1. Cautious Internationalization Stage (1979-1985)

China's OFDI emerges after 1978 as of the launch of 'Open Door' policy. In August 1979, thirteen measures was implied to open the Chinese economy to the world, one was announced by State Council to set up Chinese enterprises overseas (*chuguo ban qiye*), but must all report to the State Council for examination and approval (Huan, 1986). Driven by this policy, some foreign trade companies and enterprises with foreign economic cooperation experiences engage in import and export business for a long time. With their rich foreign related experiences and stable import and export channels, they go abroad to invest overseas and build overseas representative offices or overseas trading companies in foreign countries. In November 1979, Beijing friendship commercial service co., LTD and Tokyo Maruichi Co., Ltd. of Japan jointly set up JingHe co., LTD in Tokyo, which became the first joint venture in foreign countries after China's reform and opening-up policy. In 1980, China State Shipbuilding Corporation and Hong Kong International Shipping Company jointly set up the International Shipping Investment Corporation, which was the largest foreign investment project of China at that time.

Table 1 China's Outward FDI (1979-1984)

Year	Amount (US$, billion)	Enterprise Number	Amount (Stock, US$, billion)	Enterprise Number (Accumulated)
1979	0.001	4	0.001	4
1980	0.031	13	0.032	17
1981	0.002	13	0.034	30
1982	0.003	13	0.037	43
1983	0.009	33	0.046	76
1984	0.081	37	0.127	113

Source: *Almanac of China's Foreign Economic Relations and Trade* (1980-1985).

However, in the early stage of reform and opening up, the main target of 'Open Door' policy is expanding export and attracting foreign investment for development. In this stage, Chinese enterprises invest more than US $100 million to set up 113 non-trading enterprises in foreign countries (Table 1). The main foreign investors are the central foreign trade companies, local foreign trade companies, and provincial international economic cooperation companies, such as China National Chemicals Import and Export Corporation (SINOCHEM) and China National Metals and Minerals Import and Export Corporation (CNMM). The investment areas mainly concentrate in the food and beverage, construction project, consultation service, and trade. The Investment location is also mainly distributed in Hong Kong, Macao and other developing countries near China.

2.1.2. The Initial Stage of Deregulation Stage (1985-1991)

Although, the government promulgated a policy to allow investment abroad, it was not until September 1992 that, the international operations by Chinese firms were officially incorporated into China’s economic reform strategy (Zhang, 2003).

As the economy grew rapidly after Deng Xiaoping’s ‘South Tour’ in 1992, Chinese investment in foreign countries became politically acceptable. In 1985, the central government issued regulations on procedures for the approval and management of non-trade joint ventures abroad and relaxed the restrictions on the scope of foreign investment and simplify the approval process of OFDI. According to this regulation, any firm in China, as long as it has the advantages of technology and management expertise, can apply for or establish joint venture overseas. The main aim of this policy is to acquire overseas advanced technology and equipment, obtain raw materials and products in short supply at home, increase China's foreign exchange income, and promote overseas labor cooperation and export.

Some large and powerful manufacturing enterprises, international trust and investment companies, and other non-trading enterprises begin to participate in outward foreign direct investment. General investment projects less than US$1 million may be approved directly by local government and ministries and commissions under the State Council.

Under the influence of favorable policies, in 1991, China added 895 non-trading enterprises for overseas investment, and the total amount of outward investment was US$1.2 million (Table 2). The investors included large and medium-sized production enterprises and financial enterprises, such as Capital Iron and Steel Company (CISC) and China International Trust and Investment Company (CITIC). and gradually extended to natural resources, manufacturing, processing, transportation, and other 20 industries (Salidjanova, 2011).

Table 2 China's Outward FDI (1985-1993)

Year	Amount (US$, billion)	Enterprise Number	Amount (Stock, US$, billion)	Enterprise Number (Accumulated)
1985	0.070	76	0.197	189
1986	0.033	88	0.230	277
1987	0.410	108	0.640	385
1988	0.075	141	0.715	526
1989	0.236	119	0.951	645
1990	0.107	156	1.058	801
1991	0.337	207	1.395	1,008

Source: *Almanac of China's Foreign Economic Relations and Trade* (1986-1992).

2.1.3. Steady Adjustment and Encouragement Stage (1992-1998)

Encouraged by Deng Xiaoping's 'South Tour' and with internationalization incorporated into the national economic development strategy, both central and local governments promoted the internationalization of enterprises. However, at the same time, some Chinese overseas investment enterprises that had suffered low profits and even sustain losses from poor development plans. Other companies use the pretext of running a multinational operation to funnel out funds. Therefore, in 1993, the State Council issued regulation "Notice on Suspension of Acquisition of Overseas Enterprises and Further Strengthening of Overseas Investment Management" to clean up illegal outflows of capital from OFDI enterprises. The result was stricter approval of foreign direct investment by the state, and the reduced outflow of FDI.

However, with the 15th national congress of the Communist Party of China (CPC) encouraging OFDI and making better use of both domestic and foreign markets, China's OFDI starts to grow again (Table 3).

Table 3 China's Outward FDI (1992-1998)

Year	Amount (US$, billion)	Enterprise Number	Amount (Stock, US$, billion)	Enterprise Number (Accumulated)
1992	0.196	355	1.591	1,363
1993	0.096	294	1.687	1,657
1994	0.071	106	1.758	1,763
1995	0.100	119	1.858	1,882
1996	0.294	103	2.152	1,985
1997	0.173	145	2.325	2,130
1998	0.259	266	2.584	2,396

Source: *Almanac of China's Foreign Economic Relations and Trade* (1993-1999).

2.1.4. Accelerated Development stage (since 1999)

The second plenary session of the fifteenth central committee of the CPC clearly pointed out that local enterprises should actively expand exports, and the central government should take the leadership to have powerful state-owned enterprises to invest in Africa, Central Asia, Middle East, Central Europe, and South America. In 1999, the central government issued another policy to encourage enterprises in light industry, textile, household appliances, and other mechanical electronics, to carry out overseas processing and assembling business mainly in Africa, Central Asia, Middle East, Eastern Europe, and South America. The 16th national congress of the CPC further pointed out that China should encourage inflow and outflow of foreign direct investment to participate in international economic cooperation and competition by opening-up the market.

China became the 143rd member of the WTO in late 2001. With its accession to the WTO, China strengthened its legal system, liberalized its markets, and also makes certain reforms in terms of tariff reduction, foreign exchange regulation, export requirements and also opens nearly all industries to foreign investors. At the same time, President Jiang Zemin formally stated that China would adopt a 'Going Abroad' policy to encourage Chinese firms to invest in foreign countries in 2000. This policy was planned from 1995 and formally adopted in 2001 when the Chinese government passed China's 10th five-year plan (2001-2005). As the policy of 'Reform and Opening-up', Chinese enterprises with the comparative trade advantages were encouraged to invest abroad to promote export of goods and serves, inspire Chinese workers going abroad, and enhance the competition of Chinese enterprises globally. During the 10th five-year plan period, the average annual increase rate of OFDI flows is 53.36 per cent.

In 2004, the State Council issued the "Catalogue of Countries and Industries for Guiding Investment Overseas" to encourage Chinese firms to invest abroad. Those enterprises who follow the catalogue's guidance would enjoy preferential policies on capital, foreign exchange, taxation,and customs. In 2006, the Chinese government established

Overseas Economic and Trade Cooperation Zones (OETCZ), a new mode of overseas investment under the guidance of the government, to increase the employment, taxes income, and the export of the host country.

Table 4 China's Outward FDI (since 1999)

Year	Amount (US$, billion)	Enterprise Number	Amount (Stock, US$, billion)	Enterprise Number (Accumulated)
1999	0.591	220	3.174	2,616
2000	0.551	243	3.725	2,859
2001	0.780	232	4.333	3,091
2002	0.983	350	9.340	6,960
2003	2.855	-	33.222	-
2004	5.498	-	44.777	-
2005	12.261	-	57.206	-
2006	21.160	-	75.026	-
2007	26.506	-	117.911	-
2008	55.907	-	183.971	-
2009	56.529	-	245.755	-
2010	68.811	-	317.211	-
2011	74.650	-	424.781	-
2012	87.804	-	531.941	-
2013	107.844	-	660.478	-
2014	123.120	-	882.642	-
2015	145.667	-	1,097.865	-
2016	196.149		1,357.390	
2017	158.288		1,809.037	

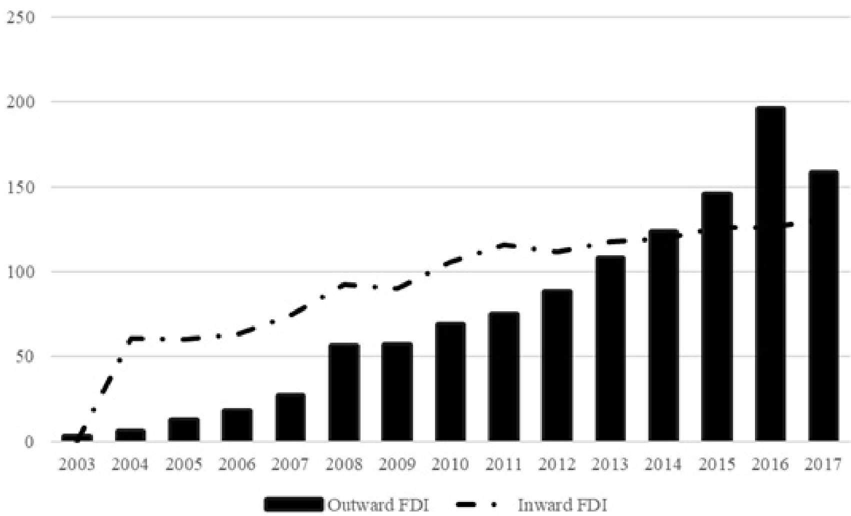
Notes: Since 2003, the data all come from Statistical Bulletin of China's Outward Foreign Direct Investment.

Source: *Almanac of China's Foreign Economic Relations and Trade* (2000-2003); *Statistical Bulletin of China's Outward Foreign Direct Investment* (2004-2017).

These measures effectively promoted Chinese OFDI, and China's international investment begin to enter a period of rapid growth. By the end of 2017, the flow of OFDI from China had increased from $0.591 billion to $158.288 billion, the stock of OFDI from China from $3.174 billion to $1,809.037 billion (Table 4). China had become the third largest OFDI country since 2012.

The fluctuations of China's OFDI are closely related to the evolution of China's policy. The development of Chinese OFDI is essentiality the outcome of government policy promotion. The related policy measures of home country are an important institutional factor which can significantly affect the decision of multinational operation.

Figure 1 China's Inward and Onward Foreign Direct Investment (US$, billion)



Source: UNCTAD, *World Investment Report* (2004-2018); NBSC, *China Statistical Yearbook* (2004-2018).

Table 5 China's Outward FDI Ranking in the World

Year	Global Ranking (Flows)	Global Ranking (Stock)
2002	26	25
2003	21	25
2004	20	27
2005	17	24
2006	13	23
2007	17	22
2008	12	18
2009	5	16
2010	5	17
2011	6	13
2012	3	13
2013	3	11
2014	3	8
2015	2	8
2016	2	6
2017	3	2

Source: *World Investment Report* (2003-2018).

2.2. Geographic Distribution and Characteristics of China's OFDI

China's fast economic growth has increased China's domestic demand for resources and high technology, as well as accumulated enormous foreign exchange reserves, all of which play a significant role in China's recent surge in overseas investments. Since 2003, the gap between inward and outward FDI flows began to close with the launch of the 'going abroad' policy (Figure 1). Despite the rapid growth in China's outbound investment flow, the stock volume is still lower than United States (Table 5).

In 2017, Chinese enterprises conducted 431 outward M&As in 56 countries, with an actual transaction amount of US$119.62 billion. US$33.47 billon was from enterprises and banking loans in China, which accounted for 21.1 per cent of China's total OFDI. Chinese enterprises' M&A s were carried out in 18 industrial categories, including mining, manufacturing, real estate, leasing and business service, information transmission, software and IT services, and wholesale and retail trade (Table 6).

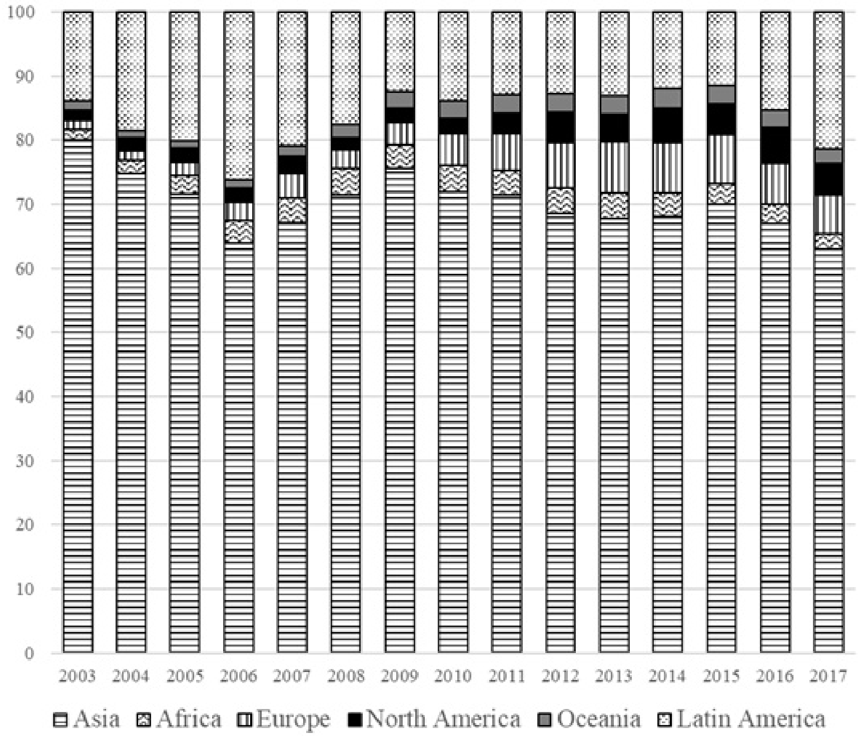
For the destination of capital flow, most of China's outward FDI flows into developing countries. Until 2017, the stock volume of China's OFDI into developing countries was 85.8 per cent of total OFDI. Meanwhile, 12.7 per cent flowed into developed countries and only 1.5 per cent was into transition countries. China's OFDI mainly flows into Asia countries and areas such as Hong Kong, Singapore, Indonesia, Laos, Macau, Kazakhstan, Viet Nam, United Arab Emirates, Pakistan, Myanmar, Thailand, South Korean, Israel, Mongolia, and Malaysia. All Asia countries account for 60 percent of China's total stock volume of OFDI (Figure 2). 20 per cent of total OFDI goes to Latin American counties such as Cayman Islands, British Virgin Islands, Brazil, Venezuela, Argentina, Ecuador, and Jamaica.

Table 6 Industrial Distribution of China's OFDI (M&As in 2017)

Industry	Number of M&As	Amount (billion US Dollars)	Share (%)
Manufacturing	163	607.2	50.8
Information Transmission, Software and IT Services	42	61.2	5.1
Transportation, Storage and Postal Services	13	55.8	4.7
Production and Supply of Electricity, Heat, Gas and Water	30	101.9	8.5
Financial Services	4	34.2	2.9
Leasing and business services	38	63.1	5.3
Real Estate	9	25.2	2.1
Mining	22	114.1	9.5
Hotels and Catering services	1	65.0	5.4
Culture, Sports and Entertainment	5	5.8	0.5
Wholesale and Retail Trade	45	31.2	2.6
Scientific Research and Technical Services	28	11.2	0.9
Public Health and Social Work	5	11.7	1.0
Agriculture, Forestry, Animal Husbandry and Fishery	13	8.1	0.7
Education	3	0.1	--
Water Conservancy, Environment and Public Facility Management	3	0.3	--
Resident Services, Repair and Other Services	4	0.1	--
Construction	3	0.2	--
Total	**431**	**1196.2**	**100**

Source: *Statistical Bulletin of China's Outward Foreign Direct Investment* (2017).

Figure 2 China's OFDI Distribution in Different Area (per cent), 2003-2017



Source: Calculated by author with data from *Statistical Bulletin of China's Outward Foreign Direct Investment* (2003-2017).

European countries became a hot destination for Chinese OFDI, their share increased from 1.5 per cent in 2003 to 6.1 per cent in 2017. The Netherlands, United Kingdom, Russian, Luxembourg, Argentina, France, Sweden, Norway, Italy, and Spain have been the main destinations. African counties had become less important for China's

OFDI since 2008. However, China still needs considerable natural resource for its development, it is making investments mainly in South Africa, Congo, Zambia, Algeria, Nigeria, Ethiopia, Ghana, Zimbabwe, Angola, Tanzania. For North American countries, America's share increases faster than Canada's. In 2003, Canada's share was only a half of American's, but in 2017, Canada's share only account one sixth of American's. For Oceania, Australia accounts 86.62 per cent of the total share, followed by New Zealand and Papua New Guinea.

From an industry perspective, the leasing and business service industry accounts for 34.04 per cent of the total, nearly one third of the total share. Asia countries and areas such as Singapore and Hong Kong are the main destinations of OFDI in the leasing and business service industry. The OFDI in this sector is mainly aimed to assist the production and marketing of the enterprises in other industries. The activities in this sector are mainly influenced by market-seeking motivation (Wang and Shao, 2016). The wholesale and retail trade industry is 12.52 per cent, and the information transmission, computer services and software industry 12.10 per cent. Those industries are mainly concentrated in services and account for nearly 60 per cent of total Chinese OFDI stock.

The mining industry is still important for China's investment, although the share has declined from 19.75 per cent in 2006 to 8.72 per cent in 2017. The outward FDI stock in the mining industry has always remained in the top three. Since 2016, China's economic growth rate has been falling and OFDI activities more constrained. Indeed, OFDI flows in mining industry were negative for the first time in 2017. Although the leasing and business service industry attracts the most China's OFDI, the firm-level data show that part of the business service actually goes to mining industry (Wang and Huang, 2012).

Table 7 Top 50 Countries/Areas for China's Outward FDI, 2017

Ranking	Country/Area	Ranking	Country/Area
1	Hong Kong, China	**26**	France
2	Cayman Islands	**27**	Myanmar
3	Virgin Islands, British	**28**	Cambodia
4	United States	**29**	United Arab Emirates
5	Singapore	**30**	Thailand
6	Australia	**31**	Viet Nam
7	United Kingdom	**32**	Malaysia
8	Netherlands	**33**	India
9	Luxembourg	**34**	Israel
10	Russian Federation	**35**	Congo, DR
11	Germany	**36**	Iran
12	Canada	**37**	Mongolia
13	Indonesia	**38**	Venezuela
14	Macau, China	**39**	Brazil
15	Bermuda	**40**	Japan
16	Switzerland	**41**	Zambia
17	Kazakhstan	**42**	Nigeria
18	South Africa	**43**	New Zealand
19	Sweden	**44**	Angola
20	Lao PDR	**45**	Papua New Guinea
21	Korea, Rep.	**46**	Norway
22	Pakistan	**47**	Saudi Arabia
23	Ethiopia	**48**	Zimbabwe
24	Italy	**49**	Tajikistan
25	Algeria	**50**	Ghana

Source: Calculated by author with data from *Statistical Bulletin of China's Outward Foreign Direct Investment* (2017).

Table 8 Industrial Distribution of China's Outward FDI Stock, 2017

Industry	**Share**
Agriculture, Forestry, Animal Husbandry and Fishery	0.91%
Mining	8.72%
Manufacturing	7.76%
Production and Supply of Electricity, Gas And Water	1.38%
Construction	2.08%
Wholesale and Retail Trade	12.52%
Transport, Storage and Post	3.03%
Lodging and Catering Services	0.19%
Information Transmission, Computer Services and Software	12.10%
Banking	11.21%
Real Estate	2.97%
Leasing and Business Service	34.04%
Scientific Research and Technical Service	1.20%
Management of Water Conservancy, Environment and Public Facilities	0.13%
Residents Service, Repair and Other Service	1.05%
Education	0.18%
Health, Social Works	0.08%
Culture, Sports and Entertainment	0.45%

Source: Calculated by author with data from *Statistical Bulletin of China's Outward Foreign Direct Investment* (2017).

Those industries related to trade and manufacturing contribute to the China's economic growth in an important way. Little Chinese investment has gone to education, health, culture, sports and entertainment (Table 8).

Table 9 Top 5 Industries in Each Continent, 2017

Area	Industry	Volume (billions of US dollars)	Share (%)
Asia	Leasing and Business Service	510.3	44.8
	Wholesale and Retail Trade	153.4	13.5
	Financial Services	140.4	12.3
	Mining	79.5	7.0
	Manufacturing	73.3	6.4
Africa	Construction	12.9	29.8
	Mining	9.8	22.5
	Financial Services	6.1	14.0
	Manufacturing	5.7	13.2
	Leasing and Business Service	2.3	5.3
Europe	Manufacturing	34.1	30.8
	Mining	22.5	20.3
	Financial Services	17.7	16.0
	Leasing and Business Service	10.6	9.6
	Wholesale and Retail Trade	5.2	4.7
Latin	Information Transmission, Computer Services and Software	186.6	48.2
America	Leasing and Business Service	76.6	19.8
	Wholesale and Retail Trade	59.5	15.4
	Financial Services	25.1	6.5
	Mining	8.8	2.3
North	Manufacturing	19.5	22.4
American	Mining	14.7	16.9
	Leasing and Business Service	12.8	14.7
	Financial Services	10.6	12.2
	Information Transmission, Computer Services and Software	6.6	7.6
Oceania	Mining	22.4	53.6
	Real Estate	4.4	10.6
	Leasing and Business Service	3.1	7.5
	Financial Services	2.9	6.8
	Manufacturing	2.0	4.7

Source: *Statistical Bulletin of China's Outward Foreign Direct Investment* (2017).

For different geographical areas, the distribution of China's OFDI seems have different characteristics. China's resource-seeking OFDI are all around the world in Asia, Europe, Oceania, North American, Africa, and Latin American countries. For African countries, China helps to build infrastructure, while at the same time, China gets natural resources from those countries. The advantage of Chinese companies relative to other less-developed countries helps us to explain the multinationals from developing countries based on traditional FDI theory.

China allocates a substantial part of its investment in the manufacturing industry in Europe and North American countries in order to upgrade the industry by merger and acquisition. Chinese enterprises need high-tech to boost their competitiveness. Lacking R&D experience one of the efficient ways to acquire technological know-how it is by M&A. The investment in leasing and business service is mainly allocates in Asia and Latin America countries. Investment in the financial services industry is mainly focuses on developed area such as Europe, North American, and Oceania. Recently, the investment in real estate appears to show up in Oceania and Europe (Table 9).

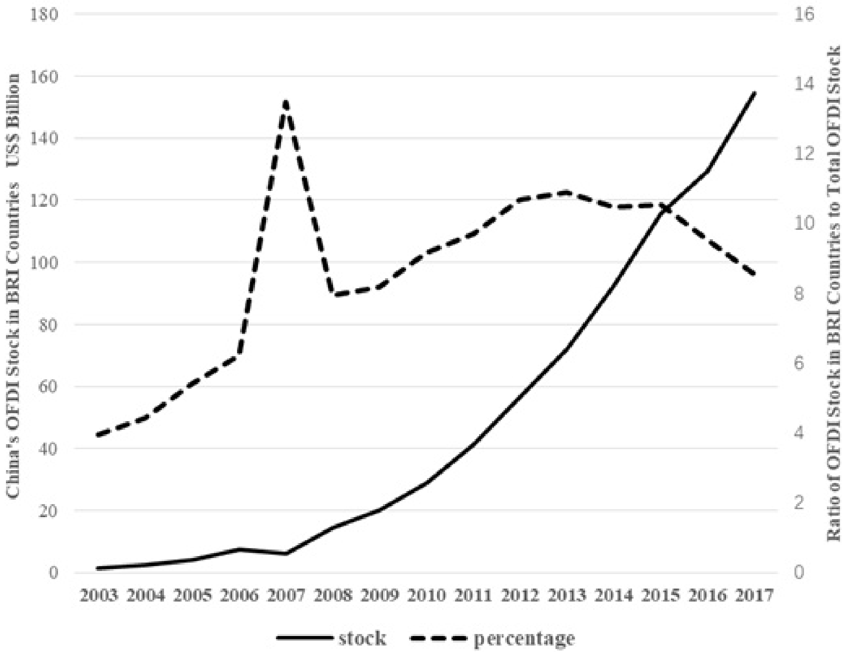
3. China's Outward Foreign Direct Investment along BRI Countries

The Belt and Road Initiative (BRI) is a regional development strategy for the Silk Road Economic Belt and the 21st Century Maritime Silk Road. It involves 65 countries[1] from six different regions: Eastern Asia (China, Mongolia), Southeast Asia (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Timor-Leste, Vietnam,), South Asia (Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri-Lanka), Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan), Europe (Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech, Estonia, Georgia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Turkey, Ukraine), Middle East & Northern Africa (Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Palestine, Qatar, Yemen). The "One Belt One Road" is partly based on the Silk Road Economic Belt which was proposed in September of 2013 when President Xi Jinping made a speech at Nazarbayev University. The Silk Road Economic Belt aims to build a land channel from the Pacific Ocean to the Baltic Sea by improving of cross-border infrastructure and flowing of international trade and capital. Another basement of BRI is the 21st Century Maritime Silk Road which was proposed in October of 2013 when President Xi Jinping made state visit to Indonesia and delivered speech at Indonesian Parliament. The 21st Century Maritime Silk Road not only connects the Association of Southeast Asian Nations (ASEAN) but also tries to link the countries together from South China Sea to Mediterranean Sea and South Pacific Ocean.

From China's perspective, the Belt and Road Initiative, a comprehensive trans-regional development policy combining investment and trade, is considered as a win-win strategy and will bring prosperity for both China and relevant countries. It is financed by the Chinese government and the Asian Infrastructure Investment Bank (AIIB). In fact, some scholars believe it is motivated by keeping high economic growth rate for Chinese economy and strengthening the political influence of China. The Belt and Road Initiative involves 65 countries which account for around 60 percent of the world's population and about 30 percent of world GDP (Huang, 2016). Countries along the BRI are endowed with abundant energy and natural resources, but their manufacturing industry is relative weak.

In this section, the trends and characteristics of China's investment along BRI countries are explained first, and then the motivations of China's OFDI along these countries are clarified deeply.

Figure 3 China's OFDI in BRI Countries (Stock and Percentage), 2003-2017



Source: Calculated by author with data from *Statistical Bulletin of China's Outward Foreign Direct Investment* (2003-2017).

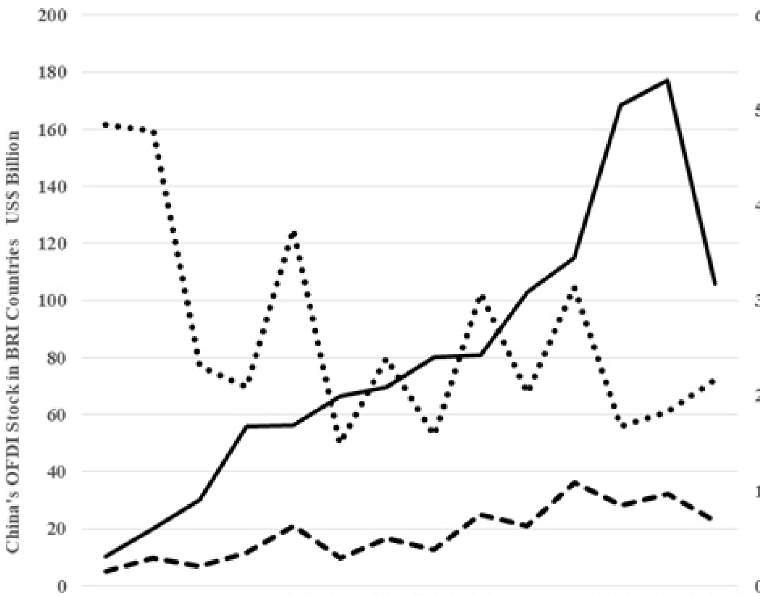
3.1. The Trends and Characteristics of China's OFDI in BRI Countries

The distribution of Chinese OFDI along the BRI countries is an important sign to measure the performance and motivation of Chinese enterprises. The BRI countries saw a sharply increase in Chinese investment from US$1.311 billion to US$154.38 billion between 2003 and 2017 (Figure 3). The annual growth rate of China's OFDI into BRI countries was 40.58 per cent which was much above the 33.05 percent growth rate of Chinese global OFDI stock. The massive investment into BRI countries improves infrastructure and lowers transport costs of participating countries. Furthermore, with high-level government to government cooperation, the relative stable political environment encourages Chinese firms to invest more in BRI countries (Du and Zhang, 2018).

The habit of China's OFDI into BRI countries is more varied than many scholars believe. The Belt and Road initiative, believed to promote Chinese OFDI into BRI countries, has actually not increased the percentage of China's OFDI in BRI countries. As shown in Figure 3, the official data indicates a declining trend in the percentage of China's OFDI stock into BRI countries to China's total OFDI stock after 2013 when China unveiled the BRI initiative. This trend is also captured by the data from the American Enterprise Institute and Heritage Foundation, which recorded China's overseas investment valued at above US$100 million since 2005 (Figure 4).

After unveiling the BRI initiative, the Chinese government sharply increased the investment in BRI countries, reaching a peak in 2015, but then saw OFDI fall until 2018. China's Ministry of Commerce (MOFCOM) shows an on-going increasing trend which is different from that shown by the China Global Investment Tracker (CGIT). One reason for this difference between MOFCOM and CGIT is the later tracks the final destination of capital flows. Another is that as the BRI was announced by Xi Jinping, the data was being modified by the grass-roots officials for political motivation to showcase the achievements of BRI (Reuters, 24 October 2017).

Figure 4 China's OFDI (Flow and Percentage), 2005-2018



Source: Calculated by author with data from American Enterprise Institute and Heritage Foundation.

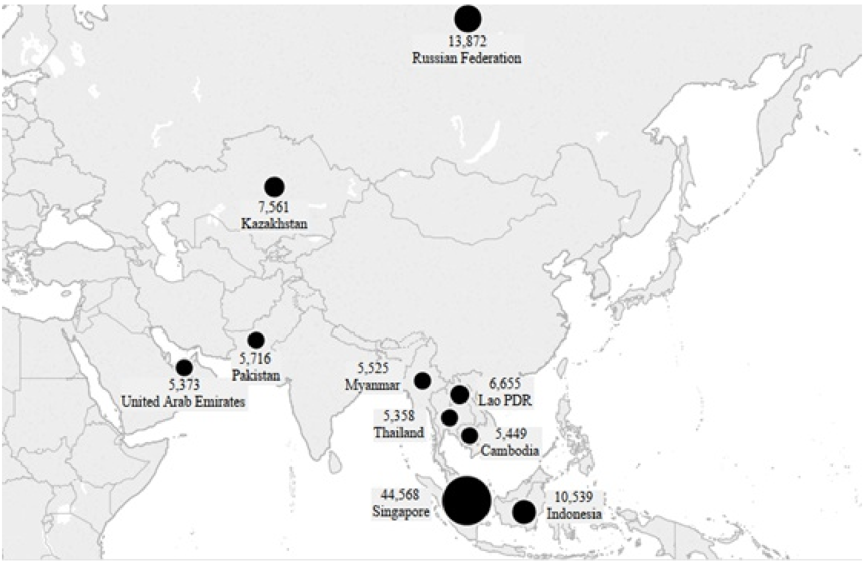
Intensive concentration is one of the characteristics of China's investment in BRI countries. The top 10 recipient countries account for 73 per cent of totally investment in BRI countries and the top 20 recipients account for 92 per cent. Chinese capital mainly flows to Asian countries especially Southeast Asia countries. Of the top 10 host countries for Chinese OFDI, only the Russian Federation and United Arab Emirates are located out of Asia, while six out of ten countries are in Southeast Asia (Figure 5). Singapore receives nearly 30 per cent of total Chinese OFDI stock in BRI countries, mainly in logistics, energy, finance and real estate industries. Taking the advantages of cultural proximity to China, stable government, and being a professional service provider, Singapore as the launchpad into Association of Southeast Asian Nations (ASEAN) countries and attracts most of Chinese investment among BRI countries (*China Daily*, 30 April 2019).

Intensive concentration of China's OFDI in BRI counties also can be seen from a geographical perspective. By the end of 2017, Southeast Asia countries accounted for about 58 percent of total Chinese OFDI in BRI countries. Middle East and North Africa countries accounted for nearly 12 per cent of that Chinese investment, which was approximately equal to the share of Europe countries. South Asia countries attracted a little more investment than Central Asia countries, with nearly 8 per cent. As Mongolia is the only Central Asia country along the BRI, it accounted for 2 per cent of total Chinese investment in BRI countries (Figure 6).

Comparing the data with 2012, after unveiling the BRI, China's investment is more concern on Southeast Asia countries, from 50 per cent in 2012 to 58 percent in 2017. The share of Middle East and North Africa countries only increased 1 per cent. Europe and South Asia countries keep the same proportions as before. East Asia and South Asia countries both decreased their share in China's total OFDI in BRI countries by 3 per cent and 6 per cent, respectively.

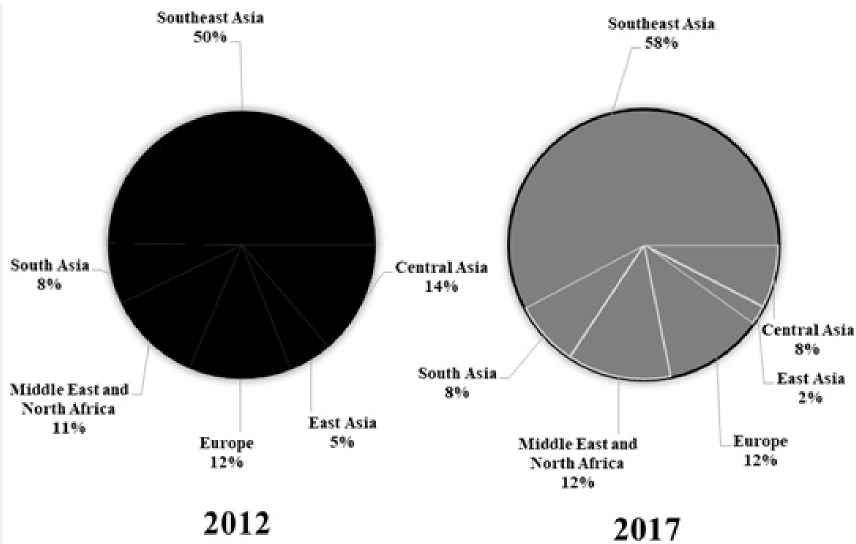
The geographical distribution of Chinese investment in BRI countries suggests that market size is one of the factors affecting the decision-making of Chinese firms. For the top 20 recipient countries of Chinese investment, 13 out of them are in top 20 GDP BRI countries. In other words, Chinese firms prefer to choose large market countries as the destinations of outward investment. MNEs enlarge their production in host countries in order to penetrate the growing local market (Agarwal, 1980; Benito, 1997; Faeth, 2009; Vukanović, 2016). The positive relationship between foreign direct investment and GDP has been supported by other empirical work (Arregle *et al.*, 2013; Ethier, 1986; Harvey, 1990; Iamsiraroj and Doucouliagos, 2015; Lall *et al.*, 2003; Tsai, 1991; Wang and Swain, 1995; Yang *et al.*, 2000).

Figure 5 Top 10 Recipients of China's OFDI in BRI Countries, 2003-2017 (US$ million)



Source: Calculated and mapped by author with data from *Statistical Bulletin of China's Outward Foreign Direct Investment* (2017).

Figure 6 Regional Distribution of China's OFDI Stock in BRI Countries, 2012 and 2017



Source: Calculated and mapped by author with data from *Statistical Bulletin of China's Outward Foreign Direct Investment* (2017).

3.2. The Sectoral Distribution of OFDI in BRI Countries

As industry sector data are not available from MOFCOM, CGIT data are used instead. Foreign direct investment from China mainly targets the energy, metals, and transport industry which account for 68.56 per cent of total industry distribution in BRI countries (Table 10). The top three industries are same as with the distribution of China's OFDI in the world. Investment in the energy sector is mostly in the form of mergers and acquisitions (M&A) FDI, while the others are greenfield FDI.

Table 10 Industry Distribution of China's OFDI in BRI Countries (US$ million)

Sector	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Agriculture	0	0	0	200	0	1,440	100	0	2,040	1,560	440	1,940	280	510	**8,510**
Chemicals	0	0	0	0	0	190	1,920	0	110	0	0	0	0	500	**2,720**
Energy	4,690	6,280	2,010	9,060	18,460	4,590	8,790	4,860	15,430	12,260	20,310	11,380	6,610	5,730	**130,460**
Entertainment	0	0	0	0	0	0	0	240	0	0	0	5,160	1,050	0	**6,450**
Finance	0	0	0	0	530	170	100	1,000	200	320	1,700	1,100	230	690	**6,040**
Health	0	0	0	0	0	0	0	0	240	0	0	0	1,080	100	**1,420**
Logistics	0	0	150	0	0	0	810	0	0	800	290	190	10,090	0	**12,330**
Metals	0	940	4,320	2,160	480	2,140	2,740	2,280	1,920	1,190	2,700	410	470	5,830	**27,580**
Other	0	120	0	0	0	400	0	230	410	530	1,530	1,240	4,060	4,190	**12,710**
Real Estate	0	1,300	0	0	600	500	1,690	1,670	3,390	1,640	1,620	1,740	3,890	140	**18,180**
Technology	0	0	460	0	500	300	0	1,500	110	1,600	3,280	250	410	1,120	**9,530**
Tourism	0	0	0	0	0	0	0	0	450	0	0	1,860	0	0	**2,310**
Transport	0	970	0	330	470	150	550	870	610	930	3,500	2,840	4,180	3,340	**18,740**
Utilities	0	0	0	0	0	0	0	0	0	0	730	140	0	0	**870**
Total	**4,690**	**9,610**	**6,940**	**11,750**	**21,040**	**9,880**	**16,700**	**12,650**	**24,910**	**20,830**	**36,100**	**28,250**	**32,350**	**22,150**	**257,850**

Source: Calculated by author with data from American Enterprise Institute and Heritage Foundation.

Energy subindustries such as oil, coal, gas and hydro are the core driver for BRI which helps China to access reliable and efficient energy network (Len, 2015). Except the demand for traditional energy consumption, China is looking for environment-friendly energy such as gas from Russian Federation and Kazakhstan, as the environmental pollution are being paid more attention in China's the economic development.

Investment in the metals industry is mainly in the steel, copper and aluminum subsectors. Indonesia, Bangladesh, Mongolia and India are the main destinations of Chinese steel sector FDI. Afghanistan, Myanmar and Serbia are the core recipients of Chinese investment in the copper sector. Malaysia, Indonesia, Saudi Arabia and Egypt are the main destinations of Chinese investment in the aluminum sector. Reliable metals supply fulfills the demand of both domestic and foreign consumption, and keeps the status of China as the world's factory (Fessehaie and Morris, 2013; Tan, 2013; Yao *et al.*, 2010).

Table 11 Industry Distribution of China's OFDI in BRI Countries (in number of projects)

Country	2005-2008		2009-2013		2014-2018	
Afghanistan	Metals	1	Energy	1		
Bangladesh					Energy	4
					Finance	1
					Metals	1
					Other	1
Belarus			Transport	1	Logistics	1
Bulgaria			Transport	1		
Bosnia					Energy	1
Brunei					Energy	1
Cambodia	Energy	3	Energy	4		
			Entertainment	1		
			Finance	1	Transport	2
			Metals	1	Agriculture	1
			Real estate	1	Real estate	1
Croatia					Energy	1
Czech Republic					Finance	3
					Real estate	1
Egypt	Logistics	1	Energy	1		
	Metals	1	Real estate	2		
			Other	1	Other	2
Georgia			Finance	1		
			Other	1		
			Real estate	1		
Hungary			Chemicals	3		
			Technology	1	Technology	1
India					Agriculture	3
			Energy	1	Energy	6
					Entertainment	1
					Health	1
	Metals	2			Metals	2
					Other	6
					Real estate	3
					Technology	6
					Tourism	1
			Transport	1	Transport	2
Indonesia	Energy	2	Energy	4	Energy	6
			Metals	5	Metals	6
			Real estate	3	Real estate	4
			Transport	1	Transport	4
					Other	1

Iran	Energy	1	Energy	1	Energy	2
					Metals	1
Iraq			Agriculture	1	Agriculture	2
Israel			Energy	3	Entertainment	1
			Health	1	Health	1
					Other	1
					Technology	2
Jordan					Chemicals	1
					Energy	1
					Other	1
Kazakhstan	Energy	3	Energy	4	Energy	4
			Metals	1	Finance	1
			Transport	1	Other	1
					Real estate	1
Kuwait					Energy	1
Kyrgyzstan					Energy	2
					Metals	1
Laos			Energy	2	Energy	4
					Metals	1
			Other	1	Other	3
			Real estate	1	Real estate	2
					Transport	1
Malaysia					Agriculture	1
			Energy	1	Energy	5
					Finance	1
			Metals	4	Metals	1
			Other	1	Other	1
			Real estate	3	Real estate	5
					Technology	2
					Tourism	1
			Transport	3	Transport	3
Maldives					Transport	1
Mongolia	Energy	1	Energy	3	Energy	2
	Metals	1			Metals	1
Myanmar			Energy	1	Energy	1
	Metals	1	Metals	2		
Nepal			Energy	1	Real estate	2
Oman					Other	1
Pakistan			Energy	4	Energy	7
					Finance	1
					Other	2
	Technology	2	Technology	1	Technology	2
					Transport	1

Poland			Transport	1	Energy	2
					Other	2
					Utilities	1
Philippines	Energy	1				
Qatar			Energy	1		
Russian Federation			Agriculture	1	Agriculture	1
	Energy	2	Energy	9	Energy	9
			Finance	4		
			Metals	5	Metals	1
	Other	1	Other	1		
	Real estate	1	Real estate	1	Real estate	1
			Technology	1	Technology	2
			Transport	1	Transport	2
Saudi Arabia	Metals	1	Energy	1		
Serbia					Energy	2
					Metals	3
					Other	1
					Transport	1
Singapore	Agriculture	1	Chemicals	1	Agriculture	1
	Energy	1	Energy	2	Energy	1
					Entertainment	1
					Finance	2
			Logistics	1	Logistics	6
					Other	3
			Real estate	4	Real estate	8
					Technology	1
	Transport	2			Transport	3
					Utilities	1
Slovenia					Entertainment	1
					Other	1
Sri Lanka			Logistics	1	Logistics	1
			Real estate	1	Real estate	1
			Transport	1	Transport	1
Syria	Energy	2	Energy	1		
Tajikistan			Real estate	1		
Thailand			Agriculture	1	Energy	1
			Finance	1	Other	2
			Real estate	1	Technology	1
			Transport	2	Transport	1
Turkey	Energy	1	Energy	3	Energy	1
					Finance	2
					Technology	1
			Transport	1	Transport	1
Turkmenistan					Energy	1

UAE			Tourism	1	Energy	6
					Other	1
					Transport	1
Ukraine					Energy	1
Uzbekistan			Metals	1	Energy	1
			Other	1	Real estate	2
Vietnam			Energy	1	Energy	5
			Other	1	Other	1
			Technology	1		
			Transport	2	Transport	2
Yemen	Energy	1				

Source: Calculated by author with data from American Enterprise Institute and Heritage Foundation.

As for Chinese investment in the transport industry autos, shipping, and rail are the main targets. To enlarge the production and marketing networks of Chinese auto MNEs, Indonesia, Serbia, Russian Federation and Singapore are targeted as the core investment recipients to serve the host country or to be production bases for other countries in this region, mainly through greenfield investment. China's shipping investment flows largely from state-owned enterprises (SOEs) to Pakistan, Sri Lanka and Turkey acquire orts to guarantee these strategic assets and in line with the China's diplomatic strategy (Lee *et al.*, 2018). Railway investment in BRI countries promotes the connectivity of infrastructure by taking advantages of the high technology of Chinese SOEs and low cost in railway construction (De Soyres *et al.*, 2018).

Since 2014, China's investment in entertainment, finance, health, logistics, technology, tourism, transport and utilities have becoming more attractive relative to other sectors. In other words, China has decreased its investment in natural resources from 77.14 per cent in 2013 to 51.78 per cent in 2018.

4. Chinese Policies for Encouraging OFDI in BRI Countries

SOEs have been the mainly drivers of Chinese OFDI in energy, metals, transportation, logistics, technology and finance industries. What affects the decision-making of SOEs in making OFDI?

The Chinese government, as the direct controller of SOEs and indirect controller of private enterprises, supports both the greenfield investment and M&A investment in BRI countries through its release of the Outbound Foreign Investment Catalogue (OFIC) and Guide for Outbound Investment and Cooperation (GOIC). The Chinese central government vigorously promotes Chinese Overseas Cooperation Zones (COCZs) to boost overseas investment and cooperation with the host country.

4.1. Outbound Foreign Investment Catalogue (OFIC)

The Ministry of Commerce (MOFCOM)'s Ministry of Foreign Affairs (MOFA)'s and National Development and Reform Commission (NDRC)'s OFIC released to guide Chinese enterprises to make investment decisions in different sectors and countries. Since 2004, Chinese government has issued three catalogues covering 130 countries. The aim of OFIC is to encourage Chinese enterprises that have the competitive advantages to engage the high-level international competition, and promote the growth of goods, service trade and technology. Those enterprises that follow the guide to invest abroad can get the support of government preferential policies on capital, foreign exchange, taxation and customs.

For BRI countries, 51 out of 64 countries are covered by the catalogues. The first catalogue was published in 2004 and covered 30 BRI countries. The Southeast Asia countries are the only regional countries that all are covered in the first catalogue. Meanwhile, until now, the top 10 countries that receive most of the Chinese investment are all included in the first catalogue. OFIC can be regarded as one of most important government policies that reflect the real strategy of Chinese government to engage in international business. The preferential policies from government have changed the direction of capital flows of Chinese enterprises.

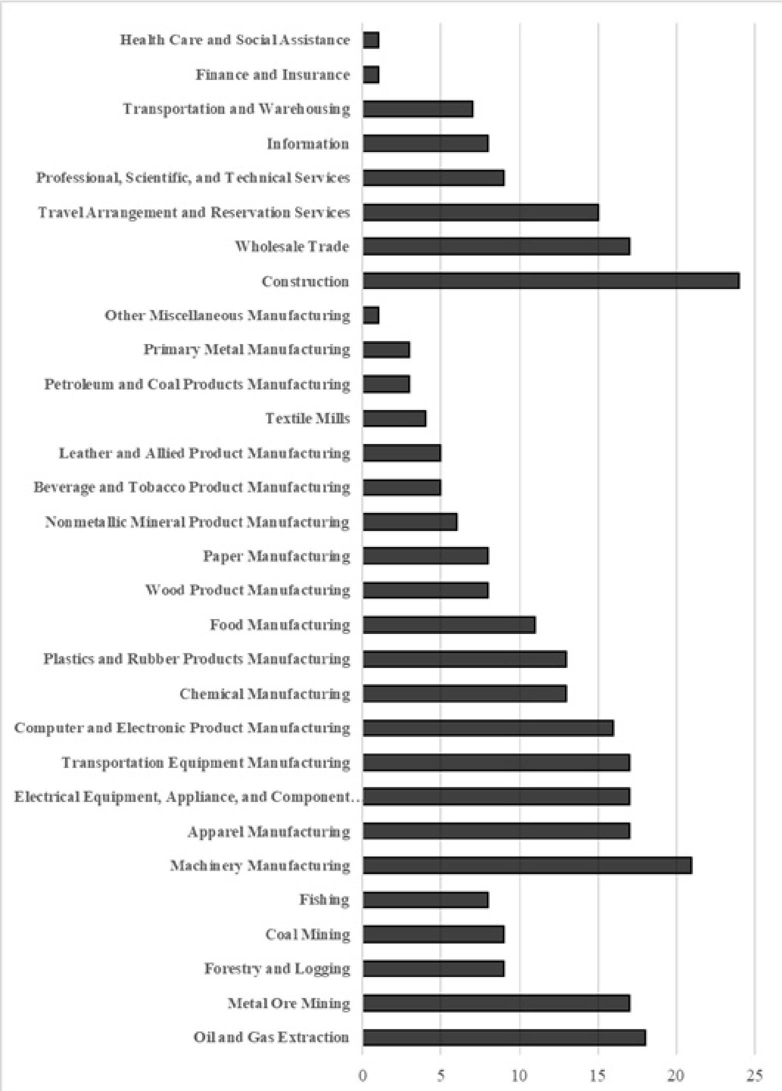
From a sectoral distribution perspective, the catalogue includes natural resources (agriculture, forestry, and fishing industry, and mining, quarrying, and oil and gas extraction industry) manufacturing sector, service sector and others. Chinese OFDI is seeking natural resources such as forestry, fishing, aquaculture and mining in 40 out of 51 BRI countries except Singapore, Turkey, Hungary, Nepal, Jordan, Israel, Bulgaria, Estonia, Lithuania, Slovenia and Slovakia. Forestry is the most attractive sector in agriculture, forestry, and fishing, covering 9 countries such as Thailand, Laos, Myanmar, Cambodia, Malaysia, Indonesia, Czech Republic, Russia and Croatia. Fishing is the second most attractive sector with 8 countries included - Myanmar, Philippines, Indonesia, Brunei, Timor-Leste, Pakistan, Sri Lanka and Oman.

The oil and gas extraction industry is in 18 countries – Myanmar, Indonesia, Brunei, Timor-Leste, Iran, United Arab Emirates, Saudi Arabia, Egypt, Russia, Kazakhstan, Uzbekistan, Azerbaijan, Yemen, Syria, Turkmenistan, Kuwait, Qatar, and Oman. The Chinese government has chosen those countries with abundant oil reserves, and some of them are in top ranking of proven oil reserve countries, such as Saudi Arabia, Iran, Kuwait, United Arab Emirates, Russia, Kazakhstan and Qatar (Table 12). For mining industry, the subsector mainly focuses on coal mining (Malaysia, Kyrgyzstan, Vietnam, Russia, Mongolia, Bangladesh, India, Pakistan and Ukraine), copper mining (Russia, Mongolia, Pakistan, Afghanistan, Poland, Armenia, Kazakhstan, Philippines, Iran, Myanmar) and iron ore mining (Vietnam, Russia, Mongolia, India, Ukraine, Afghanistan, Kazakhstan). According to above analysis, it is clear to see the government policy to encourage natural resources-seeking FDI in BRI countries.

For the manufacturing sector, it covers food manufacturing (Armenia, Vietnam, Belarus, Kazakhstan, Bulgaria, Malaysia, Turkmenistan, Tajikistan, Laos, Kyrgyzstan and Vietnam), beverage and tobacco product manufacturing (Russia, Cambodia, Vietnam, Kazakhstan and Kyrgyzstan), textile mills (Thailand, Azerbaijan, Egypt and Uzbekistan), apparel manufacturing (Jordan, Bangladesh, Cambodia, Pakistan, Sri Lanka, Mongolia, United Arab Emirates, Turkey, Poland, Czech Republic, Romania, Russia, Syria, Tajikistan, Turkmenistan, Estonia and Lithuania), leather and allied product manufacturing (Turkey, Mongolia, Lithuania, Belarus and Yemen), wood product manufacturing (Romania, Belarus, Estonia, Slovenia, Croatia, Indonesia, Myanmar and Russia), paper manufacturing (Thailand, Vietnam, Myanmar, Kyrgyzstan, Ukraine, Laos, Malaysia and Russia), petroleum and coal products manufacturing (United Arab Emirates, Oman and Singapore), chemical manufacturing (Kuwait, Thailand, Myanmar, Malaysia, Syria, Indonesia, Saudi Arabia, Egypt, Uzbekistan, India, Pakistan, Tajikistan and Ukraine), plastics and rubber products manufacturing (Kyrgyzstan, India, Iran, Saudi Arabia, Egypt, Romania, Russia, Kazakhstan, Sri Lanka, Albania, Qatar, Thailand and Malaysia), nonmetallic mineral product manufacturing (Vietnam, Kuwait, Mongolia, Nepal, Yemen and Armenia), primary metal manufacturing (Malaysia, Ukraine and Qatar), machinery manufacturing (Laos, Vietnam, Philippines, United Arab Emirates, Hungary, Saudi Arabia, Albania, Oman, Thailand, Pakistan, Bangladesh, Malaysia, Myanmar, Slovakia, Qatar, India, Syria, Sri Lanka, Estonia, Czech Republic and Turkey), computer and electronic product manufacturing (Singapore, Russia, Poland, Romania, Belarus, Armenia, Slovenia, Bulgaria, Pakistan, Indonesia, Philippines, India, Turkey, Yemen, Jordan and Slovakia), electrical equipment, appliance, and component manufacturing (Czech Republic, Egypt, Indonesia, Iran, Kazakhstan, Uzbekistan, Poland, Myanmar, Malaysia, Bangladesh, Turkmenistan, Indonesia, Hungary, Romania, Vietnam, Jordan and Laos), transportation equipment manufacturing (Czech Republic, Russia, Ukraine, Bulgaria, Cambodia, Bangladesh, Nepal, Laos, Indonesia, Kazakhstan, Myanmar, Iran, Vietnam, Philippines, Pakistan, Egypt and Romania) and other miscellaneous manufacturing (India). Among those 51 countries, Russia, Malaysia, Egypt, Vietnam, Thailand, Myanmar, India, Pakistan, Romania, Laos, Philippines, Indonesia and Czech Republic are the most popular destinations for Chinese government policy to encourage to invest in manufacturing industry.

For the service sector, it is mostly in the construction industry (Russia, Thailand, Iran, Turkmenistan, Indonesia, Jordan, Cambodia, United Arab Emirates, Ukraine, Syria, Myanmar, Turkey, Mongolia, Vietnam, Pakistan, Egypt, Bulgaria, Kazakhstan, Malaysia, Philippines, Qatar, India, Albania and Singapore), wholesale trade (Turkmenistan, India, Belarus, Turkey, Egypt, Kazakhstan, Vietnam, Jordan, Thailand, Hungary, Romania, Singapore, United Arab Emirates, Russia, Ukraine, Malaysia and Pakistan), travel and hospitality (Slovenia, Slovakia, Hungary, Sri Lanka, Egypt, Malaysia, Indonesia, Thailand, Vietnam, India, Cambodia, Nepal, Russia, Estonia and Croatia), professional, scientific, and technical services (Poland, Czech Republic, Estonia, Russia, Belarus, Kyrgyzstan, Oman, Israel and Singapore),information (Romania, Croatia, Russia, Iran, Kyrgyzstan, Kazakhstan, India and Israel) and transportation and warehousing (United Arab Emirates, Indonesia, Philippines, India, Russia, Singapore and Kazakhstan). The finance and insurance industry and health care and social assistance industry have less interest.

Figure 7 Sector Distribution of the Outbound Foreign Investment Catalogue (account in numbers)



Source: Calculated by author with data from MOFCOM.

Table 12 Ranking of Crude Oil Proved Reserves (2018)

Country	Ranking
Saudi Arabia	2
Iran	3
Kuwait	6
United Arab Emirates	7
Russia	8
Kazakhstan	12
Qatar	14
Azerbaijan	21
Oman	22
Turkmenistan	25
Egypt	27
Indonesia	28
Yemen	29
Syria	30
Brunei	40
Uzbekistan	45
Myanmar	63
Timor-Leste	--

Source: *International Energy Statistics*.

China's investment in manufacturing industry and service industry can be explained as promoting trade-substituting and avoiding tariff barriers in order to keep existing host country market share. As Chinese companies have relative advantage in manufacturing textile, television set and electrical machinery as well as in construction industry, it is facing increasing pressure from host country policy to reduce trade deficit. One of the ways to avoid tariff and non-tariff barriers is to transfer its production from China to other countries. The investment in wholesale trade industry can be seen a way to seek new markets. The market seeking FDI motivation can be proved according to relative industry investment encouragement. Meanwhile, the Chinese government encourages Chinese enterprises to compete with MNEs from advanced economies and even acquire high technology by M&As. Those industries include biological pharmacy, computer science, finance and electronics.

The catalogue reflects the motivation of Chinese government to promote overseas investment. The Chinese government chooses the country that has a good relationship and be an important trade partner with China. The selected host country should also be a member of a regional economic organization, and its economy can be complementary with the Chinese economy. For the selection of sectors, it mainly encourages the enterprises that with excess capacity or have the relative advantages with the host country going abroad. Meanwhile, based on the characteristics of the host country, the Chinese government encourages investors to focus on the high technology industry in order to upgrade the Chinese economy.

4.2. Guide for Outbound Investment and Cooperation (GOIC)

In 2009, the MOFCOM published the GOIC that covered 162 countries and areas. This guide is updates year by year and now has included 172 countries and areas, in which all BRI countries are covered except Bhutan, Montenegro and Palestine. The main objective of issuing and updating the guide is to offer comprehensive and authoritative information about the host country for Chinese MNEs to operate production activities overseas. Meanwhile, this guide aims to avoid and underestimation of risks by Chinese overseas investors.

Table 13 Number of Attractive Sectors of China's OFDI in BRI Countries (in numbers of projects)

Country	Agriculture, Forestry, and Fishing	Mining	Manufacturing	Service	Others	Total
First Catalogue						
Thailand	2	1	6	3	0	12
Singapore	0	0	3	6	0	9
Laos	2	1	5	0	1	9
Myanmar	3	3	6	1	0	13
Vietnam	2	1	7	3	2	15
Cambodia	2	0	4	2	0	8
Philippines	2	1	5	2	1	11
Malaysia	1	1	8	4	0	14
Indonesia	2	1	5	3	1	12
Brunei	2	1	0	0	0	3
India	1	1	6	6	1	15
Pakistan	1	1	6	2	1	11
Bangladesh	1	1	4	0	0	6
Afghanistan	0	1	0	0	0	1
Timor-Leste	1	1	0	0	0	2
Mongolia	0	1	3	2	0	6
Iran	0	2	4	2	0	8
United Arab Emirates	0	1	4	4	0	9
Saudi Arabia	0	1	4	0	0	5
Turkey	0	0	4	2	0	6
Egypt	1	1	7	3	0	12
Poland	0	1	4	2	0	7
Czech Republic	1	0	5	1	0	7
Hungary	0	0	4	2	0	6
Romania	0	0	6	3	0	9
Russia	2	2	9	7	0	20
Kyrgyzstan	0	1	4	2	0	7
Kazakhstan	0	2	5	4	0	11
Uzbekistan	0	1	3	1	0	5
Azerbaijan	0	1	1	0	0	2
Subtotal	26	29	132	67	7	261

Second Catalogue						
Sri Lanka	1	1	3	1	0	6
Nepal	0	0	3	1	1	5
Yemen	0	1	3	0	0	4
Syria	0	1	3	1	0	5
Jordan	0	0	3	2	0	5
Israel	0	0	2	2	0	4
Belarus	2	1	4	2	0	9
Tajikistan	1	1	3	1	1	7
Turkmenistan	1	1	3	3	0	8
Ukraine	1	1	4	2	0	8
Bulgaria	0	0	3	1	0	4
Albania	1	0	3	2	1	7
Subtotal	7	7	37	18	3	42
Third Catalogue						
Kuwait	0	1	2	0	0	3
Qatar	0	1	3	1	0	5
Oman	1	1	2	1	0	5
Estonia	0	0	3	2	0	5
Armenia	0	1	3	0	0	4
Lithuania	0	0	3	0	0	3
Slovenia	0	0	2	2	0	4
Slovakia	0	0	2	2	0	4
Croatia	1	0	2	2	0	5
Subtotal	2	4	22	10	0	38
Total	37	42	193	97	12	381

Source: Calculated by author with data from MOFCOM.

The characteristics of the GOIC are the pertinence and authority. The pertinence refers to the guide introducing the basic information of the host country about investment corporation and shows the issues Chinese enterprises may confront, and then gives suggestions to those enterprises. The authority indicates all the information are from the Economic and Commercial Counselor's Office of the Embassy of the People's Republic of China in those counties, official data of the host country departments, and relevant international organizations and institutions.

The guide contains seven sectors. The first sector shows what the host country is. The host country's history, geographical conditions, political conditions and cultural conditions are explored in this sector. The attractiveness of the host country to foreign direct investment sector two. It considers the advantages of the host country for attracting FDI such as domestic market size, consumption capacity, natural resources, technology levels, industry structure, government concerned industry, labor costs, government stability, infrastructure, and trade and investment relationship with China and other countries. The Chinese enterprises can make decision on investment in host country according to this analysis.

Sector three explains the host country's government regulations and policies on foreign trade and attracting FDI. As the branches production in foreign country not only meets the demands of host country but also fulfill the needs of Chinese market or other countries, Chinese enterprises should know the host country's regulations on import and export. For Chinese enterprises, they also should know the host country's local government policies and regulations on tax collection, labor employment, land usage, environmental protection, foreign investment protection, Intellectual property right protection, privilege for foreign enterprises, and anti-commercial bribery. Those factors also affect the decision in making overseas investment of Chinese MNEs. Meanwhile, the Chinese enterprises should have the knowledge of contracting with local project, investing in cultural market, and finance and stock market, and ways of handing disputes.

Handling the relevant procedures of investment in host country are explained in sector four. For new company registration, the requirement for ratio of shares and the minimum registered capital should be known.

This sector gives the suggestions for Chinese enterprises to contract the project, apply for employment visa, file the tax, apply for patent, and register trademark. Also, the list of institutions is given for Chinese MNEs to consult the business about investment.

Sector five tells what Chinese enterprises should pay attention to when they have investment and cooperation with the host country. Chinese investment in the BRI country should not only consider the strategy of business but also take into account the economic benefits. This sector also lists the things that Chinese enterprises should pay attention to on international trade, contracting projects, labor service corporation, and risk prevention.

Sector six and seven give the advice for Chinese enterprise to build a harmonious relationship with the host country and to deal with potential challenges. A good relationship with the country's government and people is a key element for Chinese MNEs to do business. In addition, the Chinese MNEs should also obey the local cultural custom, implement corporate social responsibility, and where feasible to spread Chinese culture. If the Chinese MNEs are facing troubles, it is better to use the law and search help from local government and the Chinese Embassy in host country.

The GOIC can be seen as the government's suggestions for Chinese MNEs. From an investment motivation perspective, it gives the information about markets and natural resources. Besides, the potential investment opportunity such as how to choose industry entry is explained for each host country. Based on the above information, Chinese MNEs can make the first investment decision to choose which country and which sector to enter. Although, the final decision may differ from the government's suggestions, it gives the basic information on the host country and tips for investment.

4.3. Chinese Overseas Cooperation Zones (COCZs)

Established by the Ministry of Commerce, the COCZs refer to industrial parks that receive investment from Chinese-owned enterprises registered in the People's Republic of China (excluding Hong Kong, Macao and Taiwan) with independent legal entities. Equipped with complete infrastructure, clear industrial development strategy, and excellent public service, COCZs play the role of industrial agglomeration centres that promote industrial development.

With Chinese government propeling the going abroad policy, Chinese overseas cooperation zones (COCZs) as a new platform for facilitating investment experience a fast development. Until now, there are totally 113 COCZs, 54 of them located in BRI countries. Among BRI countries, Indonesia, Russia and Cambodia are the most attractive destinations, and a total of 24 COCZs have been built theret. As a corporate platform proposed by the central government, Chinese enterprises that successfully operate in the industrial park and pass the evaluation of the Ministry of Commerce can get the financial support amounting to as much as 0.2 billion RMB. Until now, a total of 30 COCZs has been reviewed and confirmed by the Ministry of Commerce, of which 21 are located in BRI countries. In addition to support from the Ministry of Commerce, the China Development Bank (CDB) also encourages the development of COCZs. COCZs can get financing support in the form of balance transfer loans and syndicated loans.

Because BRI countries are structurally different, leading industries are diverse in each COCZs. From a host country perspective, each country and market has its own relative advantages in specific industry, an example being the Cambodia - China Tropical Agriculture Demonstration Area, with Cambodia having the advantage of cheap land and labour, and good natural environment to attract Chinese enterprises to cooperate in agriculture industry. From China’s home country perspective, China has its need in forest, agricultural planting, and mineral resources, that Cambodia has. In 2019, China imported bananas from the Cambodia - China Tropical Agriculture Demonstration Area for the first time. It means that the COCZs is a win-win way for corporation from both sides.

The Chinese central government proposes to enhance the development of COCZs in official documents such as ‘Vision for Maritime Cooperation under the Belt and Road Initiative’ and ‘Guidelines of the State Council on Promoting International Cooperation in Production Capacity and Equipment Manufacturing’. COCZs should be taken as the instrument for agglomerating different industries along the supply chain and increasing competitive capability, while promoting capacity cooperation and industrial upgrading. As economic growth rate is slowing down, China faces the problem of excess production in steel, cement, electrolytic aluminium, and machinery manufacturing industry. To sustain economic growth, the Chinese government proposes the supply-side reform to reduce the production capacity. Meanwhile, industrial transformation and upgrading is another aim for ‘Made in China 2025’ strategy which aims to transform China from a low-end manufacturer to a high-end one. COCZs in BRI countries, as the industrial parks that represent part of production capacity of Chinese enterprises and the tool of serving the aim the Chinese government, play the role of both absorbing excess production capacity and industrial upgrading.

5. Conclusions

BRI countries play an important role in receiving China’s OFDI. Before the Chinese government propound the belt and road intuitive, the central government had issued policy to encourage outward investment in some

BRI countries. Chinese enterprises choose the countries that have a good relationship with China as a first priority. From the industry distribution perspective, Chinese government proposes policy to guide the OFDI disruption in BRI countries. Those policies include the outbound foreign investment catalogue, guide for outbound investment and cooperation, and Chinese overseas cooperation zones. The motivation behind the investment is not only economic but also political. The political reasons are important for both SOEs and private enterprises. The SOEs as the executor of central government policy, choose the sectors that guarantee the economic growth and national security. The private enterprises to get the finial support from the government, will also choose the sectors that are specified by the central government.

China seeks investment opportunities in BRI countries is not only because of the host country's relative advantages in land, labour, and natural resource, but also because of China's motivation to transfer its excess production capacity and labour-intensive industries. The labour-intensive industries help the host countries to enlarge their employment and increase their GDP. Meanwhile, those industries give rise to environmental pollution, such as with the textile industry. For the BRI countries, they not only need the economic development as the flow of investment from China, but also the updating of technology.

For the BRI countries, the local and central governments should also formulate coherent policies to encourage FDI in sectors that will benefit the host country. Meanwhile, Chinese policy should consider the potential effects of Chinese investment in BRI countries, such as mass merger and acquisition activities, in order to avoid the rising hostile from BRI countries.

For Chinese outward investment, there is still a long way to go before catching up with the investment from the developed countries in BRI countries. As for the conflicts ween China and United States, BRI counties are a new frontier for Chinese enterprises that see limited competition with US interests. Finally, it will stimulus the growth of both China and BRI countries.

Notes

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** Dr Cheong Kee Cheok (張淇綽) is currently a Senior Advisor at the Asia-Europe Institute (AEI), University of Malaya. A graduate of the University of Malaya, he obtained his Ph.D. at the London School of Economics. Upon his return, he joined the Faculty of Economics and Administration, University of Malaya (FEA, UM), and was appointed first as Deputy Dean, then Dean of Faculty. After a decade at UM, he spent 16 years overseas at the World Bank in the capacity of Economist and subsequently Senior Economist. At the Bank, he was Coordinator for China and Vietnam in the Economic Development Institute, now the World Bank Institute. After returning to Malaysia in 2000, he continued to work as consultant for the

Bank and UN agencies. His work has taken him to China, Vietnam, Cambodia, Laos, Mongolia and North Korea and other Asian countries. His research interests include economic development, transition economies, employment and poverty and international economic relations. <*Email: cheongkeecheok@um.edu.my*>

1. The Chinese government declare that there will be no specific country list for BRI. While there are now more and more countries joining this initiative, the official data about China's ODFI in BRI counties only involve 65 countries. Please refer to <*https://www.yidaiyilu.gov.cn/info/iList.jsp?tm_id=513*>, <*https://www.imsilkroad.com/news/p/76186.html*>.

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Postscript

Contemporary Chinese Political Economy and Strategic Relations: An International Journal Vol. 6, No. 1, April/May 2020, pp. 373-394

POSTSCRIPT

A Belt, a Road, a Trade War, and a Pandemic: Exploring Global Relations and Governance

At the time of the preparation of this April 2020 issue (Volume 6, Number 1) of *Contemporary Chinese Political Economy and Strategic Relations: An International Journal*, the world is deep in the grip of a horrific novel conronavirus (nCoV) pneumonia pandemic which the World Health Organization has officially named "COVID-19" that in a global massacre has taken away more than 370 thousand innocent lives around the world by the end of May 2020 and permanently damaged the health of millions more among the rest of the more than 6 million people infected by the virus by then, with no sign of slowing down in infection rates and fatalities. After the initial large-scale macabre outbreak in the city of Wuhan in the Hebei province of the People's Republic of China in late 2019, the deadly disease soon spread throughout the world to all continents due to the exponentially increased international human mobility greatly aided by the convenience of modern means of transport unseen during the time of the last China-originated related deadly disease, the severe acute respiratory syndrome (SARS) of 2002-2004 (the 2019's Wuhan new virus strain has been officially named the "severe acute respiratory syndrome coronavirus 2" (SARS-CoV-2)).

More significantly for China-watchers in the academic domain of domestic and international political economy, besides being a global public health crisis, the speedy and deadly spread of the pandemic has quickly taken on a political dimension, as attention is increasingly being directed towards China's political governance model as a factor in the global spread of the deadly vector, and how the pandemic and its mounting death toll across countries are affecting China's international image and influence that it has been ambitiously building not least through President Xi Jinping's signature "One Belt, One Road", later renamed "Belt and Road Initiative".

While the Communist Party of China's non-electoral one-party political monopoly regime has spared no effort, after the country has more or less pulled through the first wave of the virus attack though with official confirmed number of cases and death toll (at just around 83,000 and 4,600 respectively) widely questioned by international observers given the lack of free press and the environment of tight censorship in the country, to turn the global pandemic situation into a soft-power advantage for itself by promoting its governance model's perceived superiority to deal with the epidemic vis-à-vis the clumsy performances of some of the major Western liberal democracies as well as embarking on a "mask-diplomacy" to recast itself as a saviour of the a pandemic-ravaged world, much of these efforts has since apparently backfired. This backlash is partly aided by the weirdly undiplomatic arrogant "wolf warrior" approach of part of its diplomatic corps that has added to the already simmering resentment among many countries' population who have experienced indescribable family tragedies and suddenly been put under round-the-clock house arrests that before this seem only to be the fate of dissidents in a distant land – sadly to put it, essentially an exponential explosion of Liu Xiaobos and Liu Xias.

China has again risen to be in the world's limelight, this time probably for an unsavoury reason, and attention has been concentrated much on, besides the role played by its centralised and repressive Leninist-corporatist governance model in, if not the creation of a pandemic, the inadvertent contribution to turning a local epidemic into a global pandemic, and China's foreign policy manoeuvres including aggressive propaganda campaigns in a "virus source" blame game (that has at different times targeted at the United States, Italy and France) for culpability deflection. This is reflected in an unusually combative, querulous effort to reshape the virus narrative to elude blame by conflating the disease's initial large-scale outbreak source – from which the virus was carried by multitude of people infected in this initial large-scale outbreak as tourists and other types of travellers around a globalised world to infect others who then carried the disease further around the world – and the ultimate genomic origin of the virus with a result that terms and expressions like "Wuhan pneumonia", "Wuhan virus" and "China the origin of the novel coronavirus pneumonia outbreak" that have not been disputed originally even within China itself have become taboos and points of furious contention for the CCP[1] State narrative since late February this year.[2]

Such an effort is aided by the continuing hijacking of the racism narrative levelled against anyone who points a finger at the Communist Party of China regime with the usual, strategically effective conflation of ruling party, government, state, nation and ethnicity, which is compounded by a major part of the Chinese Overseas who become instrumental in propagandizing this warped narrative under an emotional extortion that has conflated their individual ethnic identity within a current homeland and a deceptive blood-tie loyalty towards an ancestral homeland accentuated by CCP's exhortation that "Overseas Chinese are a major force to tell the China story well" in promoting President Xi's China Dream of a glorious motherland that they should take pride in, and while not being PRC's "fifth column", an "Overseas Chinese is a daughter married out from China" (an expression attributed to former premier Zhou Enlai) who is morally expected to support and promote the good name of her parental family and to bring good things back to her parental abode.[3] Falling victim to such a "transborder Chinese nation" emotional extortion, a major part of the Chinese Overseas have invariably responded in a way akin to what citizenship education scholar Professor Joel Westheimer refers to as the social psychology of authoritarian patriotism (as opposed to democratic patriotism) which depends on a deliberate and complicit populace full of fiercely nationalistic and jingoistic sentiments[4].

At the same time, against foreign countries' accusation and drives to pinpoint the CCP regime's repressive mode of governance for culpability in tuning a local epidemic into a global mass-killer pandemic and of the regime's perceived pulling the WHO into complicity of playing down the disease's potential explosive global danger, the regime's response has been rancorous, pulling no punches in flexing the country's economic muscle and exploiting its market power in punishing the regime's ardent critics. An apparent example probably to serve as a warning to others is the regime's escalating its economic coercion against Australia by imposing two tariffs (a 73.6 percent tariff and then an additional 6.9 percent) on the import of Australian barley in tandem with a beef import ban on four Australian slaughterhouses, after Canberra called for an independent investigation into the origins and early handling of the Covid-19 outbreak.[5]

Table 1 The Politics of Patriotism (Joel Westheimer, 2006)

	Authoritarian Patriotism	Democratic Patriotism
Ideology	Belief that one's country is inherently superior to others.	Belief that a nation's ideals are worthy of admiration and respect.
	Primary allegiance to land, birthright, legal citizenship, and government's cause.	Primary allegiance to set of principles that underlie democracy.
	Nonquestioning loyalty.	Questioning, critical, deliberative.
	Follow leaders reflexively, support them unconditionally.	Care for the people of society based on particular principles (e.g., liberty, justice).
	Blind to shortcomings and social discord within nation.	Outspoken in condemnation of shortcomings, especially within nation.
	Conformist; dissent seen as dangerous and destabilising.	Respectful, even encouraging, of dissent.
Slogans	My country, right or wrong.	Dissent is patriotic.
	America: love it or leave it.	You have the right to NOT remain silent.
Historical Example	McCarthy Era House Un-American Activities Committee (HUAC) proceedings, which reinforced the idea that dissenting views are anti-American and unpatriotic.	The fiercely patriotic testimony of Paul Robeson, Pete Seeger, and others before HUAC, admonishing the committee for straying from American principles of democracy and justice.
Contemporary Example	Equating opposition to the war in Iraq with "hatred" of America or support for terrorism.	Reinforcing American principles of equality, justice, tolerance, and civil liberties, especially during national times of crisis.

Source: Westheimer (2006)[6].

Imperative are the implications of such CCP politically charged campaigns for Chinese domestic audience and its foreign relations, the short-term and long-term impact on China's international relations, especially on Sino-US relations having already been troubled by the ongoing trade war and the issue of Huawei and 5G, and the possible effect on Xi Jinping's signature Belt and Road Initiative and debt diplomacy.

All these are important questions to pose and targets of research in China studies during this unusual time, for the global humanity indeed a time of living (mortally) dangerously. While the present issue of this journal is not to address these issues directly, the papers herein do provide important background context to understand them.

The first paper in the beginning section *China and Taiwan in the Global Arena*, "Chinese Direct Investments in the EU and the Changing Political and Legal Frameworks" by István Csaba Moldicz provides us a context of Euro-China relations in terms of China's direct investments in the member countries of the European Union. The paper's focus on the geopolitical aspect and its analysis of how the EU's transatlantic alliance with the United States could be affected by changes in US foreign policy will serve to provide the readers a good background understanding to aid comprehension of the European countries' foreign relations with China under the unavoidable twin shadows of the ongoing US-China trade war and the deterioration in US-China relations over the deadly impact of the current nCoV pneumonia's global spread after the initial Wuhan outbreak on the American population.

The issue of Taiwan, an imperative topic in China studies, forms the subject of investigation in the second paper of the above section, "India-Taiwan Economic Relations: Charting a New Path" by Sriparna Pathak and Obja Borah Hazarika, and the first paper in the second section *From Global Governance to Domestic Challenges*, "Bringing

Ethics of Global Governance Back In: A Case Study of the Republic of China (Taiwan)" by Kwei-Bo Huang.

The global pandemic situation today has indeed brought Taiwan – officially the Republic of China, the East Asian island state that is the 7th largest economy in Asia and 22nd largest in the world measured by purchasing power parity (PPP), an advanced economy by International Monetary Fund (IMF)'s categorisation and one of the 1960s-90s' Four Asian Tigers (the others being South Korea, Hong Kong and Singapore) that have graduated into high-income economies (by World Bank's categorisation) – into the international limelight. The World Health Organization (WHO) has been bearing the brunt of the opprobrium from the Western liberal democracies (US, Western Europe, Australia in particular) for insisting on excluding Taiwan not only from the organisation (of which the Republic of China now on Taiwan was a founding member when the global health body was created in 1948) but even from its former observer position at the World Health Assembly (WHA) – a status she held from 2009 to 2016 (under the name "Chinese Taipei" as allowed by Beijing) till rescinded by WHO under pressure from China as punishment of the Taiwanese people for electing candidate Tsai Ing-wen from the independence-minded Democratic Progressive Party (DPP) as president of the island state in 2016.

Accusation about WHO's perceived submissiveness towards China that led to its downplaying the seriousness of the Wuhan epidemic and repeated delay in giving adequate warning to the rest of the world centres mainly around its uncritical acceptance of information and data provided by China, a country under the rule of a one-party dictatorship whose penchant for secrecy, suppression of information, fake data, censorship, muzzling of civil societal free speech, and proscription of free press and of investigative journalism has long become a *cause célèbre* for people who are concerned with the rise of new totalitarianism, unfettered raw power of the State aided by modern technology and the emergence of a digital dictatorship unseen before in the history of human civilisation. For this behaviour, some observers have started to question cynically whether WHO should now be more properly renamed CHO with the "C" standing for China.

Adding to such damning indictment of WHO's perceived pro-Beijing stance are its ignoring the highlighting of the possibility of SARS-like human-to-human infectiousness of the Wuhan pneumonia in an early e-mail of inquiry Taiwan sent it at the end of December 2019, and its repeated cold-shouldering Taiwan's request to at least be allowed to join the May 2020 WHA. This request has been very much strengthened by the island state's extraordinary success in preventing the spread of Wuhan's nCoV pneumonia from China into the country which is separated from mainland China by only a narrow Taiwan Strait (with a width of just 180 kilometers (110 miles), narrowest part being only 130 km (81 mi)) – thus providing a good model to emulate for many other liberal democracies that are struggling to balance the need for temporarily constraining certain individual civil liberties and avoiding permanent damage to the system's core values concerning safeguarding civil liberties and political freedom – and as the world's second largest face mask producer, in supplying good-quality face masks to a world stricken by the novel coronavirus pneumonia.

As Taiwan has emphatically pronounced, how can a world body under the pressure from Beijing forces a sovereign state that has its own democratically elected government, one of the world's most vibrant human-rights respecting multi-party liberal democracy that is the product of the region's exemplar of best-case democratisation[7], the first stable electoral liberal democracy *par excellence* fully respecting the people's civil liberties and political freedom in five thousand years of Chinese history and thus a beacon and model to emulate for mainland citizens' aspiration for a future of democratic freedom, to give up her authority and sovereignty, and submit to and be represented by the present repressive one-party dictatorship across the Strait?[8] For a world body to go on doing that is not only unrealistic, but also unethical – as regarding the ethical dimension of global governance that Huang's article focuses on, for "a very important economy with twenty-three million population and advanced development", yet having "been excluded from the mainstream international community since late 1971".

For the Taiwanese state, with the world being expected to remain for some time under menace from the pandemic, what would be the prospect for its survival and resiliency? Talks for economic decoupling from China and moving supply chain out of China have been rife among the world's developed nations from US to Australia, with the pandemic disaster suddenly revealing the danger of over-dependence on China for its market and labour, and for cost-effectiveness. A question will arise for Taiwan in this context, given her close economic relations with China, her mounting investments in China, and the Economic Cooperation Framework Agreement (ECFA), regarding the future prospects of the New Southbound Policy (NSP), including the complementarities between India's Act East policy and Taiwan's NSP that as Pathak and Hazarika point out in their paper that can make India one of the important alternative targets for her outbound direct investments as economic growth continues to slow down in the PRC. This scenario has become even more urgent and serious with the severely damaging effect of the drastic lockdown of cities and months-long halting of economic activities to break the circuit of infection (or flatten the curve) that leads to firms going insolvent and mounting unemployment. Economic growth will definitely suffer, and exports will shrink as foreign demand drops with this Wuhan's epidemic becoming not only a country-wide disease but a global pandemic with horrifying, huge loss of lives, first in Italy, Spain and France and then further across the world. Will that lead to social instability and upheaval in the PRC? No one will expect that to happen immediately given the CCP State's strong grip over society, but in the medium to long term that cannot be completely ruled out, as ongoing social grievances such as those described and analysed in the second article in the second section of this journal issue, "Migrant Labour in China: A Case Study of Labour Discontent, Unrest and Protests" by Manganelly Sumesh, may multiply and grow more acute.

One casualty could be President Xi Jinping's signature project, the Belt and Road Initiative (BRI). Already calls for rescheduling debt repayment and outright debt relief are resonating among poor countries that are heavily indebted to China due to ambitious infrastructure projects under the BRI as projects have slowed to a crawl or are almost completely halted under the shadow of the pandemic that is adding to the woes of a world economy already suffering from the US-China trade war. The next section of this journal issue, *Southeast Asia in Time of Trade War and BRI*, provides a valuable context to understand what is set to emerge on the horizon with its three papers on the particular regional case of Southeast Asia: "A Vietnamese Perspective on China's Belt and Road Initiative in Vietnam" by Duong Van Huy, "The Implication of Trade War on Contested Leadership between United States and China in Southeast Asia" by Affabile Rifawan, Arief Bustaman, Kodrat Wibowo, Maman Setiawan, Bagja Muljarijadi and Ferry Hadiyanto, and "High-Level Visits and the Belt and Road Initiative: The Case of Southeast Asia" by Wooi Yee Tan and Chong Foh Chin.

As shown in these articles, there remain so many pitfalls along this so-called 21st Century Maritime Silk Road, having been referred to by some observers as a return to tributary system established by imperial

China in the seventeenth to eighteenth centuries, though now with a different format. As Duong Van Huy points out in his paper, while Vietnam has so far responded positively to BRI, there are at least ten pitfalls which he has listed that raise worries amidst this improvement in bilateral relations, not least of which being security concerns that in the main are related to the territorial sovereignty disputes between the two countries in the South China Sea. These include the May 26, 2014's ramming and sinking of a small wooden Vietnamese fishing boat by a large ship of China's that chased it near an oil rig in contested waters in the South China Sea, which Hanoi decried as an "inhuman act" by China – the worst since the two countries' stand-off began in early May that year that Vietnam claims has seen Chinese vessels guarding the oil rig injuring 12 people including the 10 on the sunken boat, and damaging 24 Vietnamese law enforcement vessels.[9] There have been so many untoward incidents in that disputed maritime region all these years, and suspected of taking advantage of a strategic vacuum created by the current pandemic crisis, China has been seen to be engaging in a new series of stand-offs with rival claimants in the recent months including one involving the ramming and sinking of a Vietnamese fishing boat, with eight fishermen on board, by a Chinese maritime surveillance/coastguard vessel in the disputed waters in the South China Sea.[10]

While open conflicts over the South China Sea like those between Vietnam and China and between the Philippines and China in recent years have not occurred between China and Malaysia which is located around the southernmost part of China's U-shaped nine-dash lines, in May 2009 China did protest against submissions by Malaysia and Vietnam to the United Nations Commission on the Limits of the Continental Shelf when it officially submitted a map of its own claims depicting the nine-dash lines in a U-shape covering an estimated 80 per cent or more of the maritime area of the South China Sea. However, this U-shaped baseline basically put ASEAN-5 and their oil exploration facilities in areas claimed by China. It is clear from China's map that these dash marks, covering nearly all of the South China Sea, cut deep into the exclusive economic zones (EEZs) declared by especially the two ASEAN claimant states of Vietnam and the Philippines. These EEZs were created by drawing straight baselines around their coasts that extend 200 nautical miles (nmi) seaward, in accord with the 1982 United Nations Convention on the Law of the Sea (UNCLOS) – an EEZ being a sea zone over which a state has special rights regarding the exploration and use of marine resources, including energy production from water and wind, as prescribed by UNCLOS.

In the case of Malaysia, while the ASEAN country that China has viewed as an indispensable important hub in the BRI's Southeast Asian outreach has so far avoided adopting a confrontational stance or statements with regard to its South China Sea dispute with China in order not to jeopardise the tremendous benefits she receives from her economic and investment ties with China, incidents in recent years in the region inevitably make such restraint less tenable. For instance, James Shoal, whose surrounding waters China considers its southernmost territory, the bottom of that looping so-called nine-dash line on maps that comprises an estimated 80 per cent or more of the South China Sea's 3.5 million km2 (1.35 million sq mile) waters, falls approximately 80 km from Malaysia's state of Sarawak on the island of Borneo. On 26th January 2014, a PLAN (People's Liberation Army Navy) flotilla comprising an amphibious landing craft and two destroyers patrolled the shoal while soldiers on board conducted an oath-taking ceremony vowing to safeguard China's sovereignty and maritime interests.[11] Chinese foreign ministry spokesman Qin Gang emphasised at a regular press conference the following day China's "indisputable sovereignty" over James Shoal and said that Malaysia had not lodged an official protest over the 26th January patrol. While this was the second time in two years that PLAN warships visited James Shoal to assert Chinese sovereignty claims, according to the Malaysian government at that time, there have been seven instances of Chinese military incursion into Malaysian South China Sea territory involving a total of 16 Chinese warships.[12]

In fact, since 2011 such incursions by Chinese warships into Malaysian maritime territory have occurred almost every year, mainly around the shoals of BPA, BRJ and Bating Serupai which are all within the Malaysian EEZ. While Chinese foreign ministry spokesman Qin Gang said that China "is willing to use negotiations to resolve the dispute and is committed to protecting regional peace and stability" and Malaysia has expressed a similar approach but with an emphasis on basing any solution to the conflict on UNCLOS, such increasing Chinese aggressive assertiveness in the South China Sea definitely has the potential to shift the state of play in the maritime territorial dispute by antagonizing this largely friendly neighbour who is also an influential member of ASEAN.[13] There is another high-profile standoff in early 2020 when the *West Capella*, a Panamanian-flagged drillship hired by Malaysia's state-owned Petronas, was tailed by China's government-owned research vessel *Haiyang Dizhi 8* and armed Chinese coast guard and China Maritime Militia vessels for several weeks,[14] just a few months after Malaysia submitted to the Commission on the Limits of the Continental Shelf on 12th December 2019 information on the limits of its continental shelf beyond 200 nautical miles from the baselines from which the breadth of the territorial sea is measured in the South China Sea, to be considered in the provisional agenda of the fifty-third session of the Commission to be held in New York from 6th July to 21st August 2021.[15] This same Chinese vessel was also at the centre of a months-long maritime standoff with Vietnam in 2019 over an offshore-drilling project that Hanoi had authorised.[16]

After having been patrolled around by Chinese coast-guard vessels maintaining an intimidating presence, tensions intensified further in mid-April when the Malaysia-authorised *West Capella* saw the Chinese oil-and-gas survey ship *Haiyang Dizhi 8*, which was escorted by Chinese coast-guard ships and fishing-militia ships, arriving close to where it was operating, at one point as close as 8.5 nautical miles from the *West Capella*, and in a show of support for Malaysia the U.S. sent three naval ships on patrols near the said oil-and-gas operations off Malaysia's coast (*ibid.*). Finally China backed down and the *Haiyang Dizhi 8*, after a whole month of tensions, left Malaysia's exclusive economic zone on 15th May en route to China, flanked by at least two other Chinese ships, according to data from Marine Traffic cited by Reuters.[17]

Such flurry of aggressive intimidating manoeuvres by China's vessels in the South China Sea has prompted China-watchers to suggest that China has indeed been tempted to take advantage of this global pandemic disaster that the country has exported, inadvertently as it may be, which has shaken the world powers, to be a good opportunity to exert its international law-defying territorial claims when others are too occupied with the mass-killing disease to put up a prompt effective response to China's actions.[18] Such suspicion is strengthened further by the repeated flyover incursions by China's warplanes into Taiwan's airspace provocatively crossing the middle dividing line between the mainland and Taiwan in mid-February and again in mid-March 2020[19] and the half a dozen sorties by China's military aircraft operating near Taiwan's airspace since the beginning of 2020[20], as well as the shocking mass arrests of Hong Kong's prominent pro-democracy activists in mid-April 2020[21] and China's rubber-stamp parliament, the National People's Congress (NPC)'s passing in May a national security and antisedition law on the city's behalf bypassing Hong Kong's legislature and overriding the territory's constitution,[22] all during this time when the world including the Asia-Pacific region is deeply engaged in a life-and-death battle to combat the novel coronavirus pneumonia COVID-19, which has spread ferociously throughout the world since its original outbreak in Wuhan, China. The articles in the section *Southeast Asia in Time of Trade War and BRI* thus provide a good understanding of the background context in which current events might evolve.

To extend the discussion covered by the above section but more focussed on economics and finance are three articles in the final section of this journal issue, *NSP and BRI: Prospects and Challenges*. While Pei Yi Wong and Tuck Cheong Tang in their paper "Should I Stay or Should I Go? – Taiwan's Foreign Direct Investment (FDI) Inflows and Outflows" focuses on the relationship between Taiwan's approved foreign investment (inflows) and approved outward investment, covering the Go South policies since being initiated by the Lee Teng-hui administration to the New Southbound Policy under the Tsai Ing-wen presidency, Chang Le and Cheong Kee Cheok's paper, "Chinese Outward Foreign Direct Investment in Belt and Road Countries: Trends, Characteristics and Policies", analyses the characteristics and trends of Chinese investment in Belt and Road Initiative-participating countries from the geographical and industrial perspectives by using both micro- and macro-level data. Further extending the discussion into China's foreign trade relations is a paper "China's Service Export Challenges and Future Potential: Benchmarking the USA" by Hang-Hang Dong, Chen-Chen Yong and Sook-Lu Yong that analyses the competitiveness of China's exports by computing the revealed comparative advantage (RCA) indices of its service exports and comparing them with those of the United States, one of the country's top competitors.

While the present journal issue has begun with an article on Chinese direct investments in the European Union, it also ends with a review of a report edited and published by the Netherlands Institute of International Relations 'Clingendael' (Clingendael Institute), *Europe and China's New Silk Roads* (2016).

Before ending this postscript, 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 6, Issue 1 (April/May 2020) of *Contemporary Chinese Political Economy and Strategic Relations: An International Journal* possible. We are also grateful to Miss Wu Chien-yi (吳千宜) for the journal's website construction and maintenance. The responsibility for any errors and inadequacies that remain is of course fully mine.

Dr Emile Kok-Kheng ***Yeoh****

Chief Editor

Contemporary Chinese Political Economy and Strategic Relations: An International Journal

Notes

1. "Chinese Communist Party", or officially the "Communist Party of China" (CPC, 中国共产党).
2. "Why is China resisting an independent inquiry into how the pandemic started?", *South China Morning Post* (Hong Kong), 16th May 2020. <*https://www.scmp.com/news/china/diplomacy/article/3084602/why-china-resisting-independent-inquiry-how-pandemic-started*>
3. " 华侨是讲好中国故事的重要力量 " ; " 周恩来总理曾经有一个比喻，华侨是我们嫁出去的女儿。这个比喻，实际包括两层意思：

一是，是人家的人了；二是，还是我的亲人。女儿回娘家，左手一只鸡，右手一只鸭，这是正常的。” (See the 2016 speech of Qiao Wei, vice-chairman of China’s Overseas Chinese Federation:〈连接中国梦和世界梦的“侨务新主张”〉[“new suggestion in Overseas Chinese work” linking the China Dream and the world dream],《新民周刊》(*Xinmin* weekly), 2017 年 4 期, 18th March 2017 <*http://m.fx361.com/news/2017/0318/1186377.html*>. The article mentions that upon hearing Qiao Wei describe how the PRC motherland takes to heart Overseas Chinese’s welfare, a Southeast Asian Chinese was so overwhelmed by emotion that he almost broke down in tears.

4. Joel Westheimer (2006), “Politics and patriotism in education”, *Phi Delta Kappan* magazine, April 2006, Arlington, VA: Phi Delta Kappa International, pp. 608-620 (see p. 610).
5. Darren Lim and Victor Ferguson (2020), “In beef over barley, Chinese economic coercion cuts against the grain: Beijing has become adept at punishing countries with legally “dressed up” informal economic sanctions”, *The Interpreter* (Lowy Institute, Sydney, Australia), 13th May 2020 <*https://www.lowyinstitute.org/the-interpreter/barney-over-beef-chinese-economic-coercion-cuts-against-grain*>, Stephen R. Nagy (2020), “Mitigating China’s economic coercion”, *The Japan Times*, 21st May 2020 (Opinion/Commentary) <*https://www.japantimes.co.jp/opinion/2020/05/21/commentary/mitigating-chinas-economic-coercion/#.XsiVjGgzY2w*>.
6. Joel Westheimer (2006), “Politics and patriotism in education”, *Phi Delta Kappan* magazine, April 2006, Arlington, VA: Phi Delta Kappa International, pp. 608-620 (see p. 610). That “dissent is patriotic” as a principle of democratic patriotism in Westheimer’s formulation, as opposed to authoritarian patriotism’s demanding allegiance to the government’s cause and therefore opposing dissent, harkens back to the quotation “dissent is the highest form of patriotism”. This is often attributed to Thomas Jefferson, though no evidence has been found

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* Dr Emile Kok-Kheng Yeoh (楊國慶) is the editor of the Scopus-indexed triannual academic journal *Contemporary Chinese Political Economy and Strategic Relations: An International Journal* (*C.C. Pol ec S.R.*) jointly published by the Institute of China and Asia-Pacific Studies of Taiwan's National Sun Yat-sen University and the Department of Administrative Studies and Politics, Faculty of Economics and Administration, University of Malaya, and on the Comité de Arbitraje Internacional, *México y la Cuenca del Pacífico* (*MyCP*) (registro en SciELO Citation Index - WoS, Redalyc, SciELO México, Índice de CONACYT, CLASE, Lat-Am-Studies, LATINDEX, LatinREV, REDIB, Biblat, Catálogo de la Biblioteca Nacional de España, publicación del Departamento de Estudios del Pacífico, Centro Universitario de Ciencias Sociales y Humanidades, Universidad de Guadalajara, México). He holds a Ph.D. on ethnopolitics in socioeconomic development from the University of Bradford, West Yorkshire, England (1998), was an associate professor at the University of Malaya, department head of the Department of Administrative Studies and Politics, Faculty of Economics and Administration, University of Malaya, from 1st August 2016 to 31st July 2018, director of the Institute of China Studies, University of Malaya, from 13th March 2008 to 1st January 2014, and the founder and editor of the institute's then SJR top-tier Scopus-indexed triannual academic journal, *International Journal of China Studies* (Vol. 1, 2010 – Vol. 5, 2014). His latest publications include "Between Scylla and Charybdis? – Emerging *New Malaysia* and its enigmatic relations with China" (book chapter, Wenzao University Press, 2020 *in press*), "Malaysia: Perception of contemporary China and its economic,

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Book Review

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Book Review

Frans-Paul van der Putten, John Seaman, Mikko Huotari, Alice Ekman and Miguel Otero-Iglesias (eds.) (2016), *Europe and China's New Silk Roads*, Wassenaar: Nederlands Instituut voor Internationale Betrekkingen Clingendael (Instituut Clingendael), 73 pp. + iv.

In April 2016, a European Think-tank Network on China (ETNC) roundtable discussion was hosted by the ESSCA School of Management in Budapest, Hungary, to dissect and reassemble Europe–China relations from an EU member state perspective, which was followed by another discussion held at the Institute of International Relations in Prague, Czech Republic, in October 2016. The discussions are in line with ETNC's main aim that is to enhance European expertise, knowledge and networking capacity on China's foreign policy and its relations with the member states of the European Union and the EU as a whole, by focusing on all the different levels of interaction, but with the national sphere taken to be the main analytical point of departure. The report, edited and published by the Netherlands Institute of International Relations 'Clingendael' (Clingendael Institute) is the result of these fruitful discussions.

The volume consists of sixteen chapter, including an opening paper on the role of the Belt and Road Initiative (or "One Belt, One Road" / OBOR) in Europe–China Relations, a closing piece on how BRI is fitting itself into the environment at the EU level, and fourteen other chapters in between on BRI from different EU members' respective perspectives. These countries include the Czech Republic, Denmark, France, Germany, Greece, Hungary, Italy, Netherlands, Poland, Portugal, Slovakia, Spain, Sweden and the United Kingdom of Great Britain and Northern Ireland.

As the individual country chapters do not share a standard structure or format, it is difficult to derive a common focus among these papers. Somehow, reading through these chapters does give the impression of the Belt and Road Initiative may have the potential to continue to receive a more substantive positive response from the members of the European Union that are in Eastern Europe – formerly the Communist bloc members of the Warsaw Pact – than the economically more advanced Western European countries with their more entrenched liberal democratic political system and a traditionally more adverse societal feeling towards human-rights infringing, repressive authoritarian regimes like China. The Czech Republic, however, could be an exception. This impression could be partly due to the way the author of the chapter has paid much attention to "domestic doubts" and "security risks" (pp. 15-16) that have been in general ignored by authors of other chapters on East European countries. However, the recent event in which the Prague mayor Zdeněk Hřib had moved to deviate from the Czech president Miloš Zeman's more pro-China line to cancel sister city agreement with Beijing and switch to sign the agreement with Taipei three months later in January 2020 may be evidence of the strength of the sentiment of the "opposition parties, human rights-supporting NGOs and Tibet groups, backed by academic circles, [who] accused Czech politicians of giving up on human rights criticism and therefore also committing treason" to the ideas of former dissident and former Czech President Václav Havel (p. 15). This could be in contrast to the responses of other East European members of the EU, e.g. Hungary which is a country most positive about BRI in Eastern and Central Europe. While Hungary had become the first European country to sign a MoU on OBOR with China in June 2015 (p. 37), there has always been doubt regarding Hungarian interests *vis-à-vis* China's. An example is the reconstruction of the railway line between the Hungarian and Serbian capitals (Budapest and Belgrade) on which China, Hungary and Serbia first agreed back in 2013 which "would be an important section of OBOR, connecting the port of Piraeus in Greece (run by China COSCO Shipping) to Central and Western Europe via Macedonia, Serbia and Hungary" but observers have speculated that "the interest rate could be at or above 2 per cent, which is not favourable from a Hungarian point of view, especially since the project mostly serves Chinese interests" (p. 35).

However, a paper by Hungarian scholar Tamás Novák published in the April 2018 issue of *Contemporary Chinese Political Economy and Strategic Relations: An International Journal* (Volume 4, Issue 1), pp. 139-154, explains how problems within the European Union have led to the active search for new strategies in Hungary:

> First, Hungarian domestic politics became very complicated; objectives became obscure and difficult to follow. A second problem was apparently related to the lack of strategic vision on how EU membership could be part of a long-term development strategy for the country. Short-term objectives and lack of consent among political parties on long-term development goals made the elaboration of a viable strategy impossible. The third challenge was related to developments in the EU, namely, the strategic problems regarding its future. At the turn of the millennium ambitious plans and strategies were formulated including enlargement or the Lisbon strategy, not to

> mention the introduction of the euro, but by 2004–2005 no further plans were on the table.
>
> (*CCPS* 4(1): 150)

This active search for new strategies on the part of Hungary, coupled with the growing interest of China towards the CEE region, had made "the well-known strategies initiated in recent years by China are logically attractive for Central European countries and Hungary too" (*CCPS* 4(1): 151). This is against the background of scepticism and soul-searching, according to Novák, that "developed regarding the success of economic transformation" with negative perceptions of the EU's role in convergence being strengthened "which made the emergence of very divergent strategies regarding relations with the EU possible":

> When the dynamic phase of eastern enlargement ended, there were clear signs of destabilization in parts of the CEE as a result of unfulfilled expectations concerning mostly living standards. Voices questioning the success and rationale of more than twenty years of transformation and EU accession started to become stronger and questioned the competence and efficiency of the EU. Hungarian convergence was either slow compared to Poland or Slovakia or the absolute level of development lagged substantially in comparison to the Czech Republic … Given this framework, a new narrative emerged in Hungary. Its most important elements were the following. The whole transformation project was based on Western ideologies and principles that did not seem to be in the interest of the Central European countries (e.g., the basic principles of the Washington Consensus, supported by renowned Western, mostly US advisers); international corporations investing in Hungary only extract their "extra" profits and disregard the true interests of the country. The EU

> uses double standards when applying economic and political rules and regulations requiring "new" and weak members to exhibit better performance than older and large members.
>
> (*CCPS* 4(1): 150-151)

However, Hungary's awarding contracts to Chinese builders of a high-speed railway to neighbouring Serbia without competing bids is being looked into by the European Union to see whether it has violated the trade bloc's rules.

In the case of Poland, while China has recast existing Polish-Chinese projects under the BRI/OBOR framework, largely no new projects have really been launched (p. 45), though there are plans for other projects under the BRI/OBOR label, but most that have appeared are largely in the form of MoUs concluded between ministries and state agencies, with the Silk Road as an important framework or slogan, being products of "China's increasingly proactive MoU diplomacy" (pp. 46-47). Notably, "Polish companies are not very active in OBOR" with rather low interest in using the Łódź–Chengdu connection and potential projects under the AIIB, and there has so far been "no specific, publicly-announced strategy or institution within the Polish administration devoted specifically to OBOR" (p. 48). Furthermore, there is not much media coverage on the BRI, and on the contrary, "critical articles have been published that enumerate potential threats, such as exports to Poland from subsided Chinese overproduction, which might be dangerous if China is granted market economy status" (*ibid.*).

Although among the first countries to sign MoU with China on BRI/OBOR, the other East European member of the EU covered in this book, Slovakia, is described as being "disconnected from China's New Silk Road" in the title of the chapter devoted to it, for its involvement in the BRI has been minimal with no major projects to contribute, largely because the country "is located outside the main corridors that China is planning to develop as part of the Silk Road project" (p. 53). BRI has been little discussed in Slovak media, and none of the collaborative projects with China previously suggested by the Slovak government have so far materialised, and "no specific initiatives were planned to connect with China, either as part of the 'Belt and Road' project, or any other initiative" (p. 55).

In the case of Western European and Southern European members of the EU, the response to BRI tends to be one of mixed feeling and cautiousness among the former who are more pronouncedly wary of the geopolitical underpinnings of the BRI, and more concrete involvement among the latter for whom economic and commercial concerns are more overwhelmingly dominant.

As the title of the chapter on France indicates, this G7 member country is lying on the periphery of *Nouvelles routes de la soie* (New Silk Roads), with China's strategy so far being "very low key in France, in contrast to more high-profile lobbying in countries such as Spain, Greece, Poland, or even Germany" and "is generally met with a wary sense of optimism" by French policy-makers, businesses and citizens, as then French foreign minister Laurent Fabius (who had previously served as the country's prime minister, 1984-86, and minister of finance, 2000-02) noted in his June 2015 speech, "China's Silk Road project must be viewed, among other perspectives, through a geopolitical lens" (p. 22) that reflects the growing perception in France of the BRI being an ambitious project of China with potentially significant geoeconomic, geopolitical and geostrategic implications in the long term (p. 23). According to the chapter, while then French foreign minister Laurent Fabius "laid out a clear, official stance that welcomes China's international engagement and 'new forms of cooperation'", apart from the limited communication of the French Ministry of Foreign Affairs, "other French ministries have so far refrained from referring to the Chinese project, and France has no coordinated, trans-ministerial position or strategy on the topic"; hence, in general, "France so far appears mainly reactive on the B&R, and official cooperation in this domain has largely been limited to participation in the AIIB" (*ibid.*). The chapter also takes note of concerns from arms of the French defence establishment regarding "China's development of a blue-water navy and its parallel investments in the growth of deep-water ports throughout the Indian Ocean (such as Colombo in Sri Lanka and Gwadar in Pakistan), around the Horn of Africa (Djibouti) and into the Mediterranean (Cherchell in Algeria) – including the opening of a military logistics facility in Djibouti, alongside the existing French, American and Japanese facilities there" (pp. 22-23), thus bringing expansion of China's interests abroad into conflict with France's more traditional spheres of influence.

Similarly, according to the chapter on Germany, other than a slim line of railway operation projects connecting Germany and China, there "BRI has neither yielded infrastructure investments […] nor has it featured as a driver of Chinese mergers and acquisitions (M&A) and greenfield investment activities" although the this G7 member was an early European prime target of high-level BRI promotion activities from China (p. 24).

In the case of the other two G7 members in the EU, namely Italy and United Kingdom, the respective chapters devoted to them in this book point to the phenomenon of business community's supportive argument in Italy at least at the moment still winning over concerns from local media and environmental NGOs particularly regarding the potential environmental risks posed by the "five-port alliance" project (involving the Italian ports of Venice, Trieste and Ravenna, plus Capodistria/Koper in Slovenia, and Rijeka (Fiume) in Croatia, linked together in the North Adriatic Port Association (NAPA) consortium that aims to attract and service China's huge cargo ships that reach the Mediterranean Sea via the Suez Canal) financed by the Italian government as well as OBOR money from the Chinese government and Chinese state-owned companies (pp. 39-40), and the primacy given to economic and commercial engagement in the geographically peripheral UK's response to both the BRI and the AIIB in contrast to the often suspicious and nervous response to Chinese initiatives from the traditional UK allies and partners such as the United States and Japan (p. 66). While the book was published three years before UK left the European Union, there is no reason for the readers to expect that such positive and economically pragmatic engagement by UK with the Chinese initiative would experience backtracking after the 31st January 2020 Brexit.

In the case of Netherlands and the two Nordic countries Denmark and Sweden covered in the book, engagement by both the Dutch and Danish governments with BRI remains mainly limited to its membership of the Asian Infrastructure Investment Bank (AIIB), and as for Sweden, the impact of BRI there has been very limited and the focus among the country's policy-makers and business community alike has been more of a wait-and-see approach.

Similar to Italy that is located at the centre of the Mediterranean Sea, which is the end-point of China's 21st Century Maritime Silk Road, in the other EU members that are positioned on the southern flank of Europe, i.e. Spain, Portugal, Greece, both their governments and big companies, according to the respective chapters on these countries, have been enthusiastic in supporting the Chinese initiative, largely regarding BRI as an economic opportunity rather than a geostrategic risk (p. 56) with Greece especially becoming "an important actor in the context of China's OBOR strategy" and the Piraeus OBOR project a key driver of

Sino-Greek relations (p. 30, p. 34), though for Spain "many of the potential advantages of OBOR remain theoretical" (p. 56) except for the only one concrete project there under way, namely the train connection between Yiwu and Madrid known as *Yixinou* that represents the world's longest rail link, and in Portugal, which has become the fifth preferred destination for Chinese OFDI in the EU, behind Germany, the United Kingdom, France and Italy, the Chinese interest in promoting BRI there "has hitherto not found significant echo in the Portuguese government's realm" (p. 52).

To take the book as a whole, one of its major strong points is that besides looking at the reach of BRI at the EU level in the opening and closing chapters, this volume has paid valuable attention to the individual country cases over the fourteen chapters in between. Being published just three years after the Chinese leadership officially launched the OBOR framework (later renamed BRI) in autumn 2013, this represents one of the earliest studies on BRI in the international context and in particular that of EU. As stated in the report's introductory chapter, its basic purpose is to take stock of how the OBOR project is playing out in Europe by addressing three basic issues across a selection of EU member states and at the EU level itself, namely: which OBOR-related activities exist in the host countries and at the EU level; what China's approach is towards individual EU member states with regard to OBOR; what perceptions and reactions are in individual European countries and at the EU level. Within that scope, the volume has done a good job to serve as a useful introductory text for readers who interested to gain preliminary knowledge on BRI/OBOR in the European context. While the lack of a standard format of treatment across the many chapters of country cases can pose a limitation to a clearer understanding of the issue, and the obvious insufficient treatment of most of the country cases in terms of critical details is sure to leave the reader begging for more, this pioneering volume still represents a valuable introduction to BRI/OBOR for the academia, the general public as well as other stakeholders.

Emile Kok-Kheng ***Yeoh***
C.C. Pol ec S.R. (ed.), Taiwan & Malaysia /
México y la Cuenca del Pacífico
(comité de arbitraje internacional), México

Dr Emile Kok-Kheng Yeoh (楊國慶) is the editor of the Scopus-indexed triannual academic journal *Contemporary Chinese Political Economy and Strategic Relations: An International Journal* (*C.C. Pol ec S.R.*) jointly published by the Institute of China and Asia-Pacific Studies of Taiwan's National Sun Yat-sen University and the Department of Administrative Studies and Politics, Faculty of Economics and Administration, University of Malaya, and on the Comité de Arbitraje Internacional, *México y la Cuenca del Pacífico* (*MyCP*) (registro en SciELO Citation Index - WoS, Redalyc, SciELO México, Índice de CONACYT, CLASE, Lat-Am-Studies, LATINDEX, LatinREV, REDIB, Biblat, Catálogo de la Biblioteca Nacional de España, publicación del Departamento de Estudios del Pacífico, Centro Universitario de Ciencias Sociales y Humanidades, Universidad de Guadalajara, México). He holds a Ph.D. on ethnopolitics in socioeconomic development from the University of Bradford, West Yorkshire, England (1998), was an associate professor at the University of Malaya, department head of the Department of Administrative Studies and Politics, Faculty of Economics and Administration, University of Malaya, from 1st August 2016 to 31st July 2018, director of the Institute of China Studies, University of Malaya, from 13th March 2008 to 1st January 2014, and the founder and editor of the institute's then SJR top-tier Scopus-indexed triannual academic journal, *International Journal of China Studies* (Vol. 1, 2010 – Vol. 5, 2014). His latest publications include "Between Scylla and Charybdis? – Emerging New Malaysia and its enigmatic relations with China" (book chapter, Wenzao University Press, 2020 *in press*), "Malaysia: Perception of contemporary China and its economic, political and societal determinants" (journal article, *The Pacific Review*, 2019), "China-Malaysia trade, investment, and cooperation in the contexts of China-ASEAN integration and the 21st Century Maritime Silk Road construction" (journal article, *The Chinese Economy*, 2018), "マレーシア —— 親中心理を支える構造" [Malaysia: the fundamental structure of pro-China sentiment] (book chapter, University of Tokyo Press, 2018), "Environmental policy in Malaysia with reference to Taiwan's New Southbound Policy" (book chapter, Wenzao University Press, 2018), "Malaysia-Taiwan relations and Taiwan's New Southbound Policy" (journal article, *Malaysian Journal of International Relations*, 2018). *<Email: emileyeo@gmail.com, yeohkk@um.edu.my / Website: http://emileyeo5.wix.com/emileyeoh>*

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