

DILEMMAS AND CHALLENGES OF THE  
CHINESE ECONOMY IN THE 21<sup>ST</sup> CENTURY:  
ECONOMIC POLICY EFFECTS OF THE BELT  
AND ROAD INITIATIVE

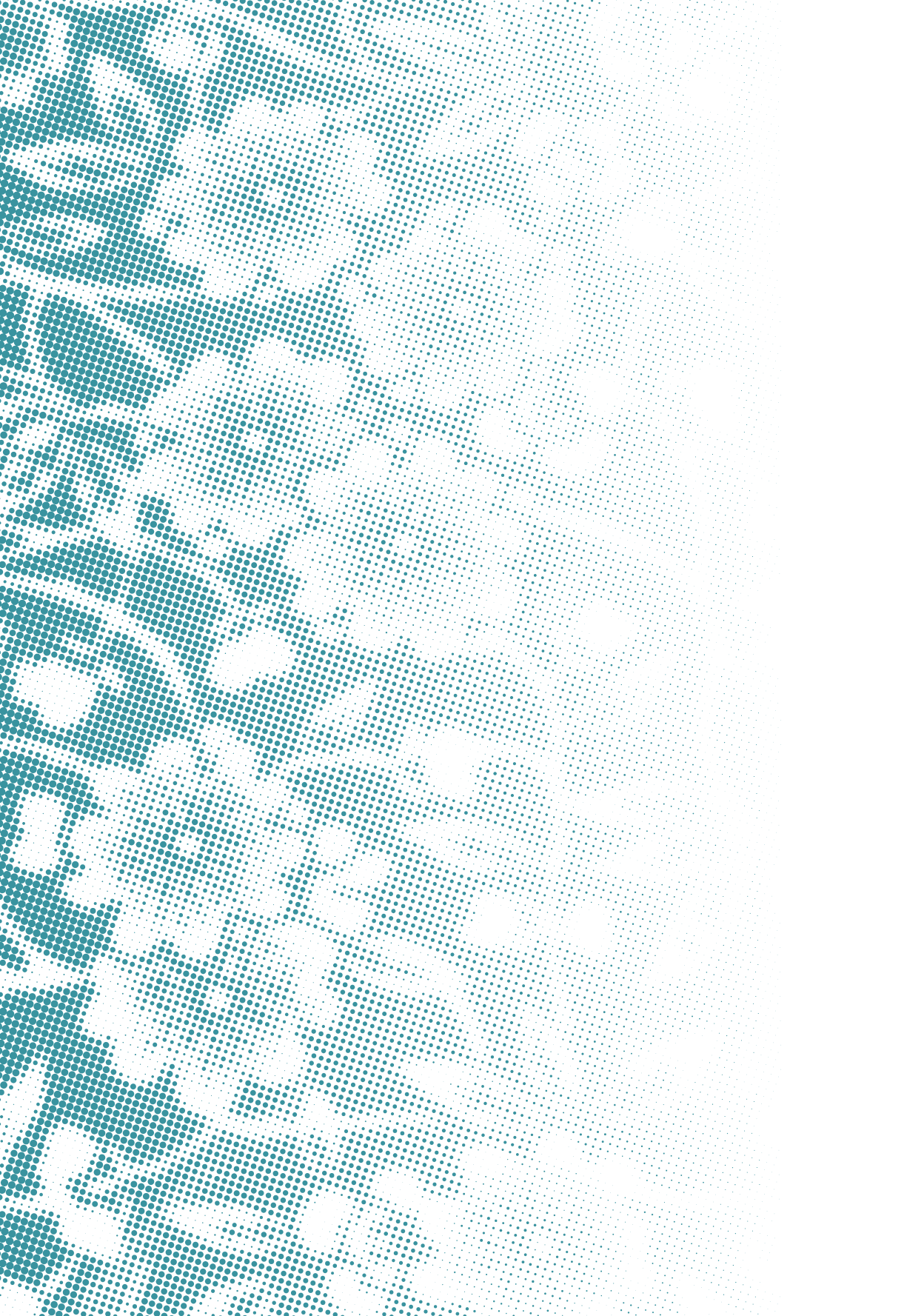
Edited by Csaba Moldicz



BUDAPEST BUSINESS SCHOOL  
UNIVERSITY OF APPLIED SCIENCES  
2018

**Dilemmas and Challenges of the Chinese Economy in the 21<sup>st</sup> Century:  
Economic Policy Effects of the Belt and Road Initiative**

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## Preface

The Oriental Business and Innovation Center (OBIC) was set up by the Budapest Business School, University of Applied Sciences and the Central Bank of Hungary in 2016. One of the main goals of the initiative was to contribute to a better understanding of Asian cultures, economies, and languages in Hungary. OBIC's activities aim to improve the improvement of our students' language skills, enhancing academic mobility towards Asia, and support of Asia-related research. This collection book is the third in the OBIC Book Series and the second in the China-related issues.

In recent years, the question has been fiercely debated whether China is following the path of the Asian developmental states, such as Japan, Korea, Singapore, etc. or China's outstanding economic development is fundamentally different from the success stories of the Asian developmental states. The discussion was becoming more intensive when Chinese economic growth remained stable despite predictions forecasting a slow-down of Chinese economic growth or even the collapse of the economic giant after the financial meltdown of 2008-2009.

Since the Great Recession (2008-2009), the pace of Chinese economic development earned the admiration of many countries trying to catch up with advanced states. It must be also added that not only developing countries, but also middle-income countries in Central Europe are experimenting with alternative economic development models to those suggested by the Washington-consensus in the early 90s.

This volume of the OBIC Book Series attempts to collect papers that focus on a very special aspect of the Chinese economic model with one fundamental question underlying these papers: what role is the Belt and Road Initiative (BRI) playing in Chinese economic policy. The book covers three main topics: the implementation of the BRI, the interpretation of the BRI, and its effects and links to the Chinese economic policy. In her paper, Judit Szilágyi gives a systematic overview on how the BRI is implemented in the Eurasian region, and Ma Junchi focuses on the China-Europe railway connections. These papers look at the implementation, while the interpretation of the BRI is covered by Pickus and Nicolea-Nicolea. David Pickus highlights the educational

elements and lessons from the BRI launch, while Nicolea-Nicolea make attempts to interpret the Belt and Road Initiative in a Romanian context. Szilárd Boros links the BRI to the broader goals of Chinese economic policy, while Karpov's paper investigates the multi-track price systems of China. In his paper, Moldicz makes attempts to identify the elements the Chinese economy model shares with the so-called Asian developmental states. The Oriental Business and Innovation Center prepared this book with the goal to give an overview of the state of Chinese economic policy and how it ties to the Belt and Road Initiative.

We are thankful for the financial assistance of the Central Bank of Hungary, and the leadership of the Budapest Business School and all the people who supported our efforts in the making of this collection book.

The editor of the book:

Csaba Moldicz

# Education 16+1: OBOR, Eastern Europe and the Necessity of a Pedagogical Component

David Pickus

## 1. Introduction: The Educational Dimension

What place does higher education have in the ambitious plans to link China with the countries of Eastern Europe, as well as many other lands, within the framework of a single "Belt and Road"? This question may appear to be the main policy or administrative question, i.e., how can ongoing government sponsored initiatives become the stuff of textbook and lectures? Undoubtedly, different instructors can handle such matters in disparate ways. Some may prefer to outline the Chinese government policy on banking, credits and technology transfer and then discuss possible areas of investment along the Belt and Road corridor. Others, like me, may choose to introduce students to the particular situation of the various countries with the One Belt, One Road umbrella and then ask students to investigate possibilities for realization of the initiative's promise, as well as roadblocks that may hinder success. These are the choices of individual faculty members—ones that in the aggregate will become the concern of higher education administrators and policy advisors. Yet, over and above such particular issues lies a challenge that makes the question of higher education and One Belt, One Road (henceforth OBOR) a matter of much wider concern. It is the fact that because there is no simple way to know what the OBOR initiative is, there is decidedly no straightforward way to demarcate what decisions concern it and what techniques should be used to guide its course.

It stands to reason that much of the success of OBOR will depend of what the stakeholders make of it, but this, in turn, will depend on what OBOR is understood to be. Moreover, the ones doing this understanding will not belong to a confined and easily addressable group of experts. By definition, OBOR will link together a wide range of people and institutions. Hence, it is unlikely that there will be authoritative bodies that can answer substantive questions about OBOR without controversy. In his newly published, passionately-argued defense of scientific rationality, Steven Pinker begins by quoting some of Donald Trump and his one-time crony Stephen Bannon's demagogic claims that things are getting worse and worse, necessitating what outsiders would call a regression to authoritarian populism and what they call "America first." Pinker

responds by saying the factual basis on which this “bleak assessment of the state of the world is wrong. And not just a little wrong—wrong wrong, flat-earth wrong, couldn’t-be-more-wrong” (Pinker, 2018). He then goes on to refer to numerous data bases that supply more accurate information about our current world and the problems it faces.

He is right about that, but here’s the rub. Even if you are—as I am—on the side of “Enlightenment Now,” it is not easy to point to the messy facts of globalization and have what Pinker calls “The Case for Reason, Science, Humanism and Progress” emerge. To what data base can I refer students to in order to glean what they truly need to know about OBOR? Furthermore, once there are robust portals provide high amounts of data on OBOR (which there likely will be soon), how can we direct students to use them? At a time of rising demagogy, I in no sense speak dismissively of those who wish to re-ground discourse in fact and evidence-based reasoning. However, OBOR is a test-case of a diffuse field in which failure to define clear principles and methods will lead to incomplete knowledge, or worse. In short, the question of what students should learn about OBOR spills over into our era’s burning question on how we can retain focused on the subjects that ensure human flourishing. It deserves, therefore, a wide-ranging investigation of what we think students need to know and the methods we feel are the best ways to impart them.

## 2. OBOR as Part of the Curriculum

In this context, the following paper uses the perspective of someone who is neither Chinese nor East European, but who has lived and taught students in both places. The goal is to broach a topic that is not normally at the forefront of scholarly consideration of China’s OBOR initiative. It is the task of thinking about how the idea of OBOR might be transmitted to future generations. Today, it is not unusual to see headlines such as one running on May 14, 2017 on CNBC that “China pledges more than 100 billion USD in Belt and Road projects,” (Yan, 2017) (note that this figure is considerably lower than aggregate expected expenditures) and the anticipation of such investment has not only sparked an acceleration of business activity, but a wider hope that the project will link continents, regions and cultures together. Still, OBOR will not succeed unless the activity of the present perpetuates itself into the future. This entails not only ongoing financial investment, but the continuation of OBOR as a concept and goal in the minds of subsequent generations. Just as the Marshall Plan could not truly succeed until the immediate investments of the post-war years until the idea of an Atlantic Alliance and European Community had established itself in the minds

of a new generation, so too, OBOR must become part of the mental worlds of future generations in order to make a lasting impact. How will it do that? While we cannot know for sure, it seems more than likely that a new generation must be socialized into participation in OBOR. This makes the question of education part of OBOR's scope.

This same question of education is well-examined in relation to what can be called the emerging China-East European boundary. Undoubtedly, there is no literal China-Eastern Europe border, but the sixteen associated states of East Europe (or East-Central Europe) presently serve as a kind of terminal point both of completion and of beginning for OBOR. Hence, pedagogy about OBOR should include specialized treatment of Eastern Europe because it is a consideration of this endpoint that will give some shape to the picture of the whole. In one sense, there is nothing new about Eastern Europe playing this role. Throughout the ages, East Europe has served as a boundary land, but never—even during the time of the Mongols—was East Europe linked with China to the point where we can begin to speak of a common cultural sphere, one that shares demarcating boundaries, albeit not the continuous boundaries of a single, sovereign state. Yet, does this make the concept of a Eurasian sphere spreading between China and Eastern Europe meaningless?

Particularly since 1989, there is a widespread belief that this region should become part of and belong to Europe. However, it is possible to ask what kind of Europe this region should belong to, and what global identity should Europe have as a whole. Here, a comment by senior statesman Henry Kissinger sheds light on some of the difficulty of Eastern Europe finding meaning in an older European community based on the Atlantic Alliance. Kissinger, who helped strengthen and perpetuate this "Europe of NATO" had this to say about its continuance into the future:

"Cooperating to shape strategic affairs globally, the European members of the Atlantic Alliance in many cases have described their policies as those of neutral administrators of rules and distributors of aid. But they have often been uncertain about what to do when this model was rejected, or its implementation went awry. A more specific meaning needs to be given to the often-invoked "Atlantic partnership" by a new generation shaped by a set of experiences other than the Soviet challenge of the Cold War" (Kissinger, 2014).

Indeed, all multi-national partnerships need to be invested with "specific meaning," and this statement is a useful way to start our discussion on the role of education in strengthening OBOR, but to see why we must step back and not ask ourselves what we think of Kissinger, or the Atlantic Alliance, or any other issue of the Cold War, but of



the structural criticism relating to the success and failure of partnerships in general. The general point is that ideological contests and struggles can mask an underlying weakness of a multi-national partnership, weaknesses that emerge when the international organization begins to rely on administrative directives and a regime of (unevenly distributed) subsidies and grants in order to forge bonds between larger and smaller countries. Kissinger's call for a renewed specific meaning to this alliance is, in fact, a politely-worded warning. Its thrust is that an international alliance does not survive by itself, and can fall apart not by external opposition, but by failure to build a community of cooperation commensurate with the spirit of the times. Perhaps, then, the time has come not to think of partnerships solely from the standpoint of Western Europe branching into Eastern Europe, but as Eastern Europe serving as a mediating point between Europe and a swath of nations stretching to China.

It is at this point we can return to the question of China, East Europe and OBOR. Political conflicts and breakdowns found in other places in the past have the potential to alert us to a possible danger in the present. If this new "boundary" between China and the sixteen nations of East and Central Europe is primarily held together by directives and positions papers, combined with the possibilities of subsidies or the redistribution of tax breaks and revenues, then the functioning of OBOR will depend on a kind of inertia that sooner or later will be challenged and disrupted. Instead, for there to be a working OBOR based on "internationalism in the service of a common humanity," (to allude to one of The Chinese regime's oft proclaimed twenty-first century goals) it will be necessary to make these "specific meanings" of OBOR be founded on more than organizational directives. They need to be based on shared sense of commitment to a common future. And, in the end, as it is education that first—and I think most deeply—cultivates this sense of commitment, I want to devote some words to explaining how the linkage of China and Eastern Europe in OBOR can become a viable and useful pedagogical theme.

### 3. OBOR's Interpretation in IR Literature

To turn to the details of the matter at hand, let us look at the way that OBOR is treated in some of the recent scholarly literature. It is noteworthy that although OBOR has received much media attention, there have not been many full expositions of the specific impact of OBOR. This is not only because of the relatively recent launching of OBOR. It also has to do with the spread out and multi-polar nature of the subject matter and the fact that there are obvious ways to connect the economic, governmental, legal and social aspects of the subject. For this reason, it is better to break down the

subject into distinct areas of inquiry. We will begin with the wider prospects of OBOR for China-European relations.

In regards this question of larger goals, analyst Jingnan Zeng has pointed out that initiatives like OBOR have been compared in academic literature to Western Christmas trees in that any number of policy outcomes can be attached to it. He then perceptively adds that this "process of hanging policy goals on it might have to take the risk of overloading the trunk." This metaphor alludes to a non-trivial problem in planning re-alignments multi-lateral alliances and intensifications of global engagement. As Zeng puts it: "When top leaders propose a new concept, they need the academic and policy community to fill this concept with substance and meaning. This process is crucial to transforming the abstract concept into a clearer blueprint in order to put the idea into practice. However, during this process, different actors within and without the political system tend to fill this concept with substance and meanings" (Zeng, 2017).

This "filling in" is not necessarily harmful. In fact, it is necessary for policy implementation. However, it is invariably risky, especially if large number of ambitious policy outcomes are bundled together and "hung" on a single governmental initiative. This is no small matter when it comes to the place of Eastern Europe in the wider unfolding of OBOR. Where exactly does OBOR terminate? Should East or West Europe be such a termination point? In either case does this mean that the sixteen smaller East-Central European countries are in China's "periphery"? If so, does *this* periphery hold the same status as other periphery regions within an expanding reach of OBOR?

We must not only think about this matter from an intellectual perspective, but also from the standpoint of everyday students learning about OBOR in a university seminar. What sources can they use to make arguments of their own? A quick answer might be that they will use the academic literature generated on international organizations. This is a growing field, one capable of generating empirical studies on a wide range of issues. Yet, a brief glance at the literature available shows that apart from some Chinese-generated material on legal issues involving joint ownership, OBOR has not yet generated specific case studies to which students can refer. Perhaps this is because OBOR has not yet had enough time to generate such studies. However, at the same time, we should note that the academic field of international organization studies tends to break into two ends, leaving a "middle" relatively unexplored. That is, it tends to cover large international governmental organizations (IGO's) like the UN and the IMF and (usually more favorably) NGO's. Students can even read in a well-known textbook that:

A continuation of present trends in economic, social and environmental IGOs seems to point to larger bureaucracies, more politicized and less effective organizations, and conferences forever defining problems and setting rules but without the wherewithal to enforce decisions (Archer, 2015).

To be sure, one could claim that various agencies of the UN are getting better and that the political problems are not of the organizations' making, but the approach does not necessarily encourage students to make detailed inquiries, and the fact that OBOR lies in an unclear middle realm between official international organization and a global civil-society makes it even harder for a student to specify what OBOR aims and what it may or may not accomplish in reality.

Here, initiative returns to high officials who claim the prerogative of outlining a founding vision and making sure that its primary values (such as China's win-win principle, etc.) are underscored. However, middle and lower level officials must fill in practical details of application, and here they must rely on ongoing exchange with academic experts to make everyday decisions about policy application on the ground level. In respect to OBOR outreach toward Europe, this is not a contained matter of interest only to a small number of stake-holders. In fact, even a truncated list of policy decisions at stake shows how widely these "second and third order" decisions will be felt. Consider the following problems:

- As OBOR expands toward Eastern Europe who should be the principal negotiating partners in determining a common legal framework? Should it be the EU? If so, what about East European countries not in the EU? Likewise, even if there is a working consensus that EU law and directive are to be primary, what about the specific legal sovereignty of various East European countries in relation to the intensified implementation of OBOR? The pedagogical importance of this goes beyond the laws themselves, encompassing the challenge of teaching the idea and practice of shared sovereignty,
- What about differences between the various sixteen states? What stance should be taken if some of these differences either expand to, or are drawn into, larger conflicts, ones that the EU or an American led coalition cannot contain? Especially in Chinese settings, teaching the difference between the sixteen nations presents a teaching challenge.
- Under the framework of OBOR how visible should China's presence in these countries be? To what extent should the lives of ordinary citizens be impacted? This topic

requires that students expose themselves to perspectives from a wide range of countries and involves considerable pedagogical planning.

- Within the expanding OBOR sphere is this particular borderland region of Eastern Europe to be treated differently than different regions, say, in Central Asia or the Middle East? What about the geographic, religious, cultural and political differences between these regions? This topic requires a strong background in history, something that is not easy to introduce in a brief fashion, and something even harder to persuade “history resistant” students to study.

To be sure, it could be said that that fundamental or underlying questions dog all matters of policy implementation, not only OBOR. However, OBOR is not just another initiative. It is a quite literal redrawing of China’s place in the world. Arguably, not since Zhou En Lai engagement in Bandung in 1955 has the PRC attempted such an ambitious expansion in the ways it tries to draw others into its global vision.<sup>1</sup> For this reason, the questions inherently following in the wake of OBOR’s implementation are more than one-time questions, or questions confined to a certain level of policy maker. Rather, they are questions of self-definition that will fundamentally shape China’s engagement with the world. It is here that we must turn back to the question of education.

#### 4. The Current Challenge for Pedagogy

Let us begin with a glance at some of the ways that current pedagogical theory typically deals with the question of global identities. In Yu Tianlong’s essay (2014) titled “Educating for World Citizens in Chinese Schools: Moral Education in the Cosmopolitan Age,” Here, the author takes as a starting point that “as our moral responsibility becomes globalized and universal,” that “educating for global citizenship becomes an urgent task for schools” (Ibid., p. 85). Thus, he advocates a kind of “education for global citizenship.” This is a somewhat loose concept, but it revolves around the kind of cosmopolitan identity that—quoting philosopher Martha Nussbaum—aims to ensure that “The goal of education should not be separation of one group from another, but respect, tolerance and friendship—both within a nation and among nations” (Ibid., p. 87). Expanding on this notion, Yu writes that “world citizenship does not imply an abandonment of legitimate local loyalties of

<sup>1</sup> For China’s MFA account of some of this outreach. [online] Available form: [http://www.fmprc.gov.cn/mfa\\_eng/ziliao\\_665539/3602\\_665543/3604\\_665547/t18001.shtml](http://www.fmprc.gov.cn/mfa_eng/ziliao_665539/3602_665543/3604_665547/t18001.shtml)

sane patriotism" (Ibid., p. 92). Yet, how to achieve this sanity? Yu looks for ways to heighten students' sense of justice and to lessen the reliance on rote sloganeering. Yet, without downplaying the value of these wider abstract goals, we might want to add that on our interconnected world it is also important that students learn to grasp that world citizenship is an ideal that is best fulfilled with specific knowledge about the kinds of interests humanity has in common; the ways that we have devised to resolve the conflicts that prevent the realization of these common interests, and the limitations of our conflict-resolution skills and the need to devise better solutions for the future.

Curricula that introduce students to OBOR have an opportunity to do this, and to do it in a way delivers substantive learning. Put differently, reflection on OBOR within school curricula, especially higher education, is an opportunity to provide a test run coping with the ambiguities and difficulties of China's ambitious civilizational plans for the coming decades. Likewise, as China's engagement with these countries along the New Silk Road deepens, the increased awareness among China's educated public that this relationship must be cultivated responsibly on all sides will lead to less vague and more reality-centered efforts to teach for contemporary global citizenship.

To show why this link between teaching about OBOR in Chinese high schools and universities and deepening of productive engagement between China and the sixteen countries of East-Central Europe is viable, we must not only consider pedagogical theory, but also look at the ways that China's foreign-policy relationship with the world is conceptualized in the social science literature. Here, we will notice that even very "hard-headed" analysis expresses a conviction that the success of China's outreach and global plans is more than a matter of more effective planning, but also of the wider comprehension and legitimacy of these projects with the public mind—particularly the educated public mind.

To provide some examples, consider first a few comments by Chinese political scientist Zheng Jingnan (2017) in his essay "Borders, Geopolitics and China's International Relations Studies." In it, he acknowledges the difficulties faced by Chinese theorists aiming to outline their own visions of multi-polarity and why to some extent there is a worry of Chinese thought being "colonized" by Western IR thinking (Ibid., p. 126). Still, fundamental questions must be addressed, and he writes: "Then what should the strategic priority of China's foreign policy be? The answer is in China's diplomatic behavior. China's diplomatic priority lies in two aspects: (i) great power diplomacy and (ii) resource diplomacy" (Ibid p. 134). He also says great power diplomacy is "very clear," involving US-China relations. He also says that "China's resources diplomacy

main deals with relations with Africa and Latin America" (Ibid., p. 134). Yet, it is quite possible to agree that such truths were foundations of Chinese IR in the past, while still thinking that the deepening twenty-first century will alter this picture. China's relations with Africa and Latin America already are and will be even more about much more than resource diplomacy—and East European-Chinese relations will be interlinked in a complex nexus that includes regions like both Africa and Latin America, and all these in turn will affect Chinese-EU and Chinese-US relations. Thus, the foundation for an original Chinese IR thinking is also a form a globalism, implying by corollary its spokespeople cannot easily claim to represent unique values, applicable to China alone.

Some of the same "twentieth-century" thinking is found in American thinking on the same subject China and the International Society: Adaption and Self Consciousness two thinkers who are also part of the US foreign policy establishment, James Steinberg and Michael E. O'Hanlon, also took a turn to explain what they called China's "desire to avoid vulnerability," which they said: "...admits of a range of solutions—from a highly defensive "fortress" China to a strategy that would be tantamount to restoring China as the dominant power in the region and beyond. The latter could include a return to the power and influence that China exerted at the height of the Ming Dynasty half a millennium ago when much of East Asia and Southeast Asia formed tributary relationships with China and the Chinese Navy held sway as far away as East Africa" (Steinberg – O'Hanlon, 2014, p. 32).

But these notions of "tributary relations" and "holding sway" even though they are widely repeated are not backed with much specificity, and do not take into account the differences that the twenty-first century brings, particularly in China's efforts to offer what Steinberg and O'Hanlon call China's efforts to link its security with "a more benevolent public goods objective: spreading peace and prosperity throughout the globe" (Ibid, p. 32). Once again, standard ways of thinking, even if somehow honored by time, do not capture the kind of reality that, for instance, is being constructed by the currents now drawing China and Europe closer to each other.

It is here that we go back to consider OBOR. As noted, academic analysis of One Belt, One Road is still in a development stage. Still, more and more studies are emerging and in July 2016 an interesting piece was published in *International Affairs* by political scientist, Peter Ferdinand. In this piece, titled "Westward Ho—the China Dream and 'One Belt, One Road': Chinese Foreign Policy under Xi Jinping," Ferdinand tries to sort out the differences between Chinese and foreign views of initiatives like OBOR, while reflecting on possible difficulties that China may face as it moves forward. In doing

so, he quotes a Chinese scholar's endorsement of China's current globalized version of intellectual outreach:

"China wishes to share its development experience and foreign philosophies with all countries, realizing the China dream and recalling the fine civilizations of other countries in the world; helping Japanese civilization, Indian civilization, Islamic civilization, Western civilization, Eastern Orthodox civilization, Latin American civilization, African civilization and all other civilizations to rejuvenate or retain their splendour, while at the same time studying the valuable parts of them (Liu, 2016)."

Yet, Ferdinand himself, while not opposing Chinese internationalism, seems unsure if such lofty cultural goals could be realized in programs like OBOR. He notes that the structures of OBOR is "somewhat analogous to the functionalist approach that launched the European Coal and Steel Community after the Second World War, in that it envisages the building of a shared cross-border infrastructure that will facilitate foreign policy cooperation and limit the risks of conflict" (Ibid., p. 949). He then voices his concerns this way: "But OBOR also rests upon a hope, indeed an assumption, that all of the many projected partners will respond with corresponding enthusiasm, because without their active cooperation the project will fail to live up to Chinese expectations and, worse, may founder amid a welter of recriminations over responsibility for its failure. In that sense it represents a serious test for Chinese assumptions about how the global community might move, or be induced to move, towards the better global order that it both advocates and expects. For all China's (and Xi Jinping's) self-confidence, the project depends upon active cooperation from others. China cannot realize it on its own" (Ibid., p. 956).

But global engagement by definition is a test of assumptions. There is nothing unusual about governments (and civilizations as a whole) risking a "welter of recriminations." This belongs to the everyday business of outreach and the creation of shared spheres. What is new is the extent of China's need to press forward into globalized engagement and discover through experimentation optimal policies. This is what all vibrant civilizations of our era must do. Thus, Ferdinand notes concerns about "China's lack of experience with the complexity of political issues in the Middle East and South Asia, as well as the lack of people with knowledge of the languages and cultures of the regions" (Ibid., p. 954). However, as the case of Eastern Europe (and other sphere where more experience and knowledge is needed) shows, this is precisely the starting point needed for the inauguration of new, shared communities and joint entrepreneurship. We should want to begin the creation of new border zones with a recognition of the inevitability of misunderstanding to come.

But we should not end here. Rather, we should end with our starting point. This is why OBOR's outreach to Eastern Europe is also an educational venture. What is needed is not abstract discussion about the value of general platforms, whatever their source is, but particulars about likely difficulties and potential opportunities in creating joint spheres of activity. Thus, I wish to propose four areas where an educational initiative about OBOR and East Europe would add value to OBOR in general:

- The question of East European borders. A Chinese audience, from students to policy makers, should have more of a sense of how borders have been drawn and redrawn in this part of the world and why. In particular, the expansion of OBOR will be placed on a firmer foundation if those addressing Eastern Europe from China's perspective grasp the extent that the impact of previous drawing of borders continues to determine behavior in the present day. From a Chinese vantage point, this will not only moderate a tendency to over-generalization in thinking of Eastern Europe as a single unit, it will facilitate the conceptualization of OBOR as a dynamic structure which responded to changing conditions in the past, and which must also respond to changing future conditions if it is to survive.
- The question of "large and small." It is a self-evident point that compared with China these countries are small. But size is relative and Chinese audience, from students to policy makers, should have more of a sense of how these countries have experienced the relative nature of large and small in reference to countries and civilizations. The pedagogy of this issue is more than a matter of the relativity of cultural norms. It is true, but banal that smaller and larger countries often use different standards in measuring size and volume. Rather, what matters is how different countries measure their progress (or regression) through ongoing participation in OBOR. Both qualitatively and quantitatively students can be taught to assess differing scales of size within the workings of OBOR.
- The question of resources. A Chinese audience, from students to policy makers, should have more of a sense of why some commodities, rather than others, are defined as a resource in this part of the world. In economic studies of the East European region there is a tendency to present it as being less diverse in its production and consumption patterns. But this is a presumption or a mood emerging from earlier times before the transformations of globalization, and the linkages between Eastern Europe and China characterized by OBOR. Education that enables students to link the ongoing flow of goods to the increasing sophistication of East European markets in connection to China is also a pedagogy that will sustain OBOR.



- As all these matters require the marshalling of a large array of data, as well as its assemblage into formats accessible to students, it is also worth pointing out the challenge this will impose in identifying indicators truly germane to the world of OBOR. To make this point clear, it is worth looking back at the way data was presented in earlier works on Eastern Europe. Thus, in L.S. Stavrianos' formidably researched classic, "The Balkans since 1453", he identified the main thrust of the region's most recent history as being as consequence of the "impact of the dynamic, industrial Western society upon the static, agrarian Balkan society" (Stavrianos, 1958 p.v). And he added that "The instability and turbulence of Balkan politics in the modern period become meaningful when interpreted as a local manifestation of the world-wide problem of the adjustment of backward areas to the Western industrial civilization that has enveloped the globe" (Ibid., 1958). A distance of six decades has altered habits of speaking of "backwardness," but the problem of accounting for the ways that smaller countries are acted upon by larger ones remains, as well as the concomitant problem of explaining the place of more dependent economies within a global system. In his work, Stavrianos could illustrate his points by collecting development statistics such as this one which speaks of Greece in the years 1918-39, "Only 1,700 tractors were to be found in the entire country on the eve of World War II. This represented 218 agricultural workers per tractor, compared to 122 in Bulgaria, 8 in Denmark, 5 in Sweden, and 3 in Britain" (Ibid., p. 679). I select this not because it needs to be learned in and of itself, but due to the fact that it is one of thousands that this diligent historian found to make his meaning clear. Where are the authors doing the same for OBOR? Do we really have the luxury of waiting?

To be sure, we could say that as the nature and impact OBOR is not yet clear, we have no choice but to wait. Yet, where will this leave the students? This question is not entirely rhetorical. It is most likely that, in the absence of supple and thoughtful curricula on OBOR, students, like other everyday people, will acquire their information haphazardly through the media. And it should be noted that, while there are indeed good journalistic pieces on OBOR, by definition the media is haphazard with emerging phenomena like OBOR. For instance, if a student charted his or her course by articles in the Wall Street Journal, they would read an opinion piece of April 24, 2017 which declares "The Folly of Investing in China's 'One Belt, One Road'; Beijing seeks foreign money for an infrastructure-led growth model just as the initiative begins to fail" (McCabe, 2017). Likewise, if they waited until May 14, 2017 they would learn from a headline that "Western Firms Bet Big on China's Billion-Dollar Infrastructure Project; Honeywell, GE and Caterpillar are set to benefit from international 'One Belt, One

Road' effort" (WSJ, 2017).<sup>2</sup> Which one is it? It is not right to blame media for reporting inconsistently about developing and multi-sided phenomena. They are doing what they should do, and doubtless there are better and worse ways to trim one's sails to OBOR. But an educated and informed imagination is needed to assess complex matters. This is why curriculum development should be a matter of wide concern.

## 5. Concluding Thought: East-Central Europe, OBOR and the Future

Hence, to conclude I believe that reflection on better ways to educate students will only strengthens OBOR, and open a better path for the next generation. From the emergence of independent East European states in the aftermath of World War One, the economy of the region has been bedeviled by local, political and externally imposed barriers to rational economic and legal union. It could be that a turn to another, more distant, East can provide a sense of collectivity that does not undermine necessary independence. Likewise, since 1989 there has been a hope that the region would leap ahead into a better future. Historian Pedraic Kenny gives some sense of this mood when he writes: "There was also the future, of course. *Europa hned!*" (Europe Now!) was the slogan on buttons and posters everywhere in Prague in February 1990. While there have been many detours, East Europeans have been traveling a road that, they believe, has been taking them to Europe ever since 1989. But what is that Europe that East Europeans saw ahead of them? Most of all, it was free of borders, walls, and ceilings, in which one could travel, have access to goods or ideas formerly inaccessible; and where one could see, or believe, what one wished. In that Europe, one could finally be Czech, or Slovene, or Estonian." (Kenny, 2006, p. 11)

Yet, it is not true that Eastern Europeans must always look westward to become themselves. If future generations, in China, and across the world are educated to see why this notion of initiative flows stretching across continents indeed address the deep problems of our globalized modernity, then it could be that those participating in OBOR will have the capacity to address its limitations and realize its larger potential. Who will do that realization? We do not know, but our best hope lies with the students we are educating today.

<sup>2</sup> The article reports Shane Tedjarati, president of Honeywell's high-growth regions business, saying that "OBOR fell in our lap, as a perfect serendipity." He also was quoted saying that "The company generates a "significant amount" of money with OBOR-related projects."

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# The Belt and Road Initiative: China's Grand Strategy to Become a Real Superpower

Judit Szilágyi

## 1. The Belt and Road Initiative as a Grand Strategy

The Belt and Road Initiative<sup>1</sup> (BRI) was announced as an ambitious framework of projects offering infrastructural interconnectivity by Xi Jinping in September 2013. It has been under constant formulation and adjustments ever since, including the involvement of further countries, additional resources, neglecting previous ideas or refining policy goals. The declaration marked the beginning of a new era, when China more assertively and clearly articulated its economic and political interests, and also signaled the beginning of the Xi-era with a more centralized and cemented leadership. The evolving nature of BRI is a clear reflection of the generally pragmatic Chinese policy dating from the reform era, which started in 1978, and it is also a response to the 21<sup>st</sup> century economic realities with Beijing in the position to shape the regional and global environment according to its interests.

At the time of the creation of the New Silk Road strategic goals and economic corridors (2015), the initiative included 65 countries including China itself. Today the Belt and Road portal<sup>2</sup> lists 71 countries participating in the framework, covering approximately 70 percent of the world population. Many of them have signed a Memorandum of Understanding with China, committing themselves to the goals of BRI. Remarkable new partners are Panama, South Africa or New Zealand, while there is no doubt that the list will be further lengthened according to the reach of China as e.g. Latin-American ports are already on the radar of Beijing, and most East African countries, where China has been heavily investing for a long time, are not yet mentioned in the list of the participant countries.

As for the financing perspectives, there is an estimated framework of 4-8 trillion USD, although this is surely not the final bill (Devonshire-Ellis, 2017). Total cost calculation

<sup>1</sup> The Belt and Road Initiative (BRI) is also referred to as the One Belt One Road (OBOR) framework or the Silk Road Economic Belt and the 21st Century Silk Road. This paper will basically use the term BRI.

<sup>2</sup> Named after the Chinese name of One Belt One Road; [online] Available form: <https://eng.yidaiyilu.gov.cn>

is almost impossible at an almost initial phase of such a grand and indefinite strategy. However, an assessment estimated the annual financial demand at 1.5 trillion USD. This is roughly China's one-month total GDP at the moment. Besides the traditional financing element of the Chinese developmental state, a network of national and provincial banks lending money to large state-owned enterprises involved in BRI, Beijing is creating an alternative system to the US and Western-dominated Bretton Woods institutions and development schemes to finance the grandiose investments. The development of this shadow international financing system of the Asian Infrastructure Investment Bank (AIIB), the New Development Bank (previously the BRICS Development Bank), the Shanghai Cooperation Organization Development Bank, the New Silk Road Fund or the Silk Road Gold Fund is an integral element of not only BRI, but also of China's strategy to rise as a global power. In 2018, the first BRI bonds were issued at the Shanghai and Shenzhen stock exchanges, broadening the source of funding for the Silk Road projects. By increased trade connectivity, more countries start to use the renminbi in their transactions, and the internationalization of their currency further enhances China's influence.

Quite many analysts have already pointed out that BRI—rather than being a brand-new initiative—is the new name for projects China had already planned for long. In many cases, it is a new name for constructions that had already been going on for years or decades. Many infrastructural developments, for example the China–Central Asia economic corridor or the Pakistan corridor date back to more than a decade before BRI. It should not be underestimated, however, that Xi Jinping formulated a signature policy out of these fragmented projects and stepped on the global stage to announce the beginning of a new era. The branding was so successful that the Belt and Road developments have been making headlines ever since.

### 1.1. What is BRI?

BRI is more than a collection of infrastructural investments. At the heart there are five cooperation priorities articulated by the Chinese government in its policy document released in March 2015 (National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China, 2015). These priorities—policy coordination, facilities connectivity, unimpeded trade, financial integration, and people to people bonds—indicate the shape and nature of the BRI cooperation, and also set the role for individual partners. Policy coordination calls for intergovernmental cooperation, enhanced political trust, expanding shared interests and coordinating economic development strategies and policies. Facilities

connectivity means the actual infrastructural projects, mainly motorways, railways, ports, bridges, air connections—BRI in the skies, pipelines, dams, mines, power plants but also telecommunications infrastructure, “digital BRI”. Unimpeded trade calls for the removal of trade and investment barriers with the final objective of establishing regional free trade agreements. From this perspective, Beijing is following a clear scheme with partners along the BRI routes: signing strategic partnership agreements, upgrading them to comprehensive strategic partnerships, EPAs (economic partnership arrangements) and, finally, FTAs (free trade agreements). Financial integration calls for developing a common economic system throughout the BRI, in the new financial system under Chinese leadership, discussed above. And finally, people to people bonds are the soft power initiatives of BRI, promoting cultural and educational exchanges, tourism, and media cooperation. These soft power enhancing effects and goals of the New Silk Road should not be underestimated, either.

## 1.2. The Rationale of the Belt and Road Initiative

Both the economic rationale of BRI, as well as its broader political implications enhancing China’s global power can hardly be questioned. Starting from the economic point, by embarking on large-scale infrastructural projects, China can make the best possible use of its overaccumulation of capital and overcapacity in construction and heavy manufacturing industries. Most economic corridors start from underdeveloped western or inner, landlocked areas of China in heavy need of infrastructure investments. Thus, domestic and regional development goals can be simultaneously achieved. The stimulus effect on countries targeted by BRI is also expected to boost economic growth, therefore creating additional demand for Chinese goods. The 2008 crisis has shown Beijing that its export driven growth can be crucially affected by falling global demand.

Consequently, the win-win offer for BRI participants is both sincere and necessary. China extends mainly the already well-developed “infrastructure for natural resources” scheme long tested in Africa, while also facilitates the movement of its own products through the newly built or modernized infrastructure towards third markets. Typical concerns arising in partners being heavily and asymmetrically dependent on China,—including labor market, environmental devastation and further issues—will be assessed at the particular Belt and Road economic corridors’ participants and projects below.

Although dependence can be at least partly mutual—as China also needs to ensure resource security and energy security to maintain its development,—but Beijing also has much more to win on the overall result of the Belt and Road Initiative. To cite an institutionalist theoretical point of view, the Belt and Road Initiative has unique importance as it can be clearly viewed as a geo-functional institutionalization process. China uses this ambitious project as a major tool to become from “agenda abider” to “agenda entrepreneur” in the Western-dominated asymmetrical world system, thus changing the whole system itself on the long run (Kaplan, 2017, p. 8).

BRI is also a tool in the hand of Beijing to turn its relative size advantage through bilateral channels into real leverage. This is in line with Beijing's policy to favor bilateral relations and deals over multilateral arrangements in trade liberalization. China has been largely passive at the Doha Round, maintaining a general position that could be summarized as the 4L: less request, lower obligations, longer transition periods and later liberalization (Zhang, 2012, p. 13), while playing an active role in bilateral trade liberalization, and to some extent, regional liberalization, like initiating a free trade agreement with ASEAN to form the world's largest free trade zone in terms of population. The third priority of BRI itself also envisages unimpeded trade through the creation of free trade agreements but mainly on a bilateral base, at least for now. Through large infrastructural investments based on bilaterally agreed terms, China can further enhance its position.

### 3. New Silk Roads on the Land

The most ambitious and currently most visible part of BRI is its land leg—as it is also often referred to as—the Silk Road Economic Belt. This consists of six economic corridors as announced by vice-premier Zhang Gaoli at an Asia-Europe economic forum in 2015 with the most recent seventh route (China-Myanmar) added in November 2017:

1. New Eurasian Land Bridge,
2. China-Pakistan,
3. Bangladesh-China-India-Myanmar,
4. China-Myanmar,
5. China-Central and West Asia,
6. China-Mongolia-Russia,
7. China-Indochina Peninsula.

Each of these economic corridors serves a different geopolitical and economic objective for China but they are similar from the point of view that they create easier access to key natural resources, while also enable Chinese construction companies to export their overcapacities, and at the same time help Chinese products reach new markets or existing ones via alternative routes. Together they also indicate an ambitious plan to increase China's presence and influence throughout Eurasia and globally. The development stages and perspectives of the particular plans and projects themselves are quite heterogeneous. Some of them are less clearly defined and even less clearly profitable, at least in this current version.

The key part of this paper is devoted to the assessment of the economic, political and geostrategic rationale of each of the economic corridors thus giving an insight into the details of China's strategy, while also showing concerns that might have a general relevance to a number of projects and overshadow the viability of the Belt and Road strategy.

### 3.1. New Eurasian Land Bridge (NELB)

The New Eurasian Land Bridge (NELB) economic corridor is a relatively straightforward route compared to some less clearly defined Belt and Road projects. It is also less problematic regarding the number of participants, as it bypasses only three countries on the way to Europe. The infrastructure already exists, although mostly in serious need of modernization to enhance the speed of transportation. The Chinese government likes to refer to the grandiosity of BRI by citing the example of the NELB, emphasizing that by the 11.870 km railway system, the eastern port city of Lianyungang is connected directly with Rotterdam, Duisburg, or even London or Madrid. The initiative of the NELB, such as in so many other cases of the Belt and Road Initiative, dates back to much earlier than the articulation of the policy. In 1995, the Chinese and Kazakh government signed an agreement, which allows the latter to use Lianyungang as its primary seaport for exports and imports, and the former intends for Lianyungang to serve as the designated starting point for the NELB. If success were measured in PR and media coverage, then the new Eurasian land bridge definitely would overperform, but from the economic point of view this is currently less evident.

According to calculations (Babones, 2017), the land route lacks rationale and profitability from almost all possible perspectives. First of all, the time factor: the land route takes approximately two weeks (18 days to London) including the time (and



expenditure) of physical transfer between the standard and the Russian railway gauge first on the Chinese-Kazakh border, and then again on the Belarus-Polish border.<sup>3</sup> This argument could easily be refuted by the fact that the sea route takes even more time, usually about twice as long. Yet, the maritime road is unsurpassable from the volume aspect: there are no Chinese statistics about the exact number of containers, but according to Russian and German statistics, the NELB ships approximately 100,000 containers a year (Smith, 2017) which is equal to the number of containers the Port of Shanghai handles just in one day. Even with the proposed 10 percent increase in 2018 in terms of volume, the NELB targets 4000 trains this year (and an overall 50 percent increase in five years), the capacity gap is still growing as Shanghai builds more port capacity every year than the total volume of the NELB (Hong, 2017). Moreover, rail freight lacks the climate control facilities that are available on cargo ships.

Another aspect could be the price factor, although on the one hand, rail transportation costs approximately five times more than sea freight, and even though it is more or less half the price of air cargo, it is hardly comparable as a result of the time factor. Again, no reliable information is available about the real ratio of Chinese subsidies to the NELB, although rumors indicate that it can be as high as 50 percent (Smith, 2017), thus making the price advantage even less true. A further aspect could be the enhanced import possibility through this land route, but similarly with other rail cargo out of China, about half of the containers return empty, and there is no realistic demand to fill them.

As Tables 1 illustrates, maritime shipping remains dominant in Europe-China trade, carrying 94 percent of trade by weight and 64 percent by value in 2016. Even compared to air transport, rail freight options pose no real alternatives as twice as much cargo was carried by weight and more than 13 times by value in 2016 by air. These trends highlight the competitiveness of maritime shipping for low-value goods and the competitiveness of air shipping for high-value goods.

<sup>3</sup> Changing the bogies on a rail car takes hours and special, heavy equipment. In many cases (especially containerized freight), freight is transshipped from one train to another instead of changing the bogies. This is most common on the Tran-Siberian line, where due to technological developments containers can be moved from one train to another in as short as 47 minutes. In case of liquids, frozen goods and hazardous materials, however, the bogies are usually changed.

Table 1  
China-Europe trade

	By weight		By value	
	2007	2016	2007	2016
Rail	0.8 %	0.9 %	0.5 %	2.1 %
Air	1.5 %	1.8 %	24 %	28 %
Road	5 %	3 %	9 %	6 %
Sea	92 %	94 %	66 %	64 %

Source of data: Eurostat

It follows that the NELB is an impressive initiative among BRI projects making headlines in Western Europe, although with regard to dry economic calculations, it is currently not in line with its media coverage. Some analysts even argue that if it comes to railway investments, the Central and West Asian economic corridor has much more rationale, although this argument could also be easily refuted in different respects (see later).

It is an important feature of the Belt and Road Initiative, however, China is developing seemingly parallel infrastructural plans and declaring grand strategies, while also adding or abandoning elements pragmatically over time. This is particularly visible in the confusion about what exactly should be called the Eurasian Land Bridge, also referred to as the Iron Silk Road, recalling the memories of the ancient Silk Road. China is in no hurry to clarify the situation, as besides developing the Central Asian infrastructure making it possible to reach Europe via Kazakhstan, Uzbekistan, Turkmenistan, Iran and Turkey, Beijing has also shown interest in the Baku-Tbilisi-Kars railway project, which finally opened in late October 2017 after many years of delay. The railway was proposed by Turkey and Azerbaijan, after Turkey closed the border with Armenia in 1993 as a sign of solidarity with Azerbaijan in the Nagorno-Karabakh conflict. The new route bypasses Armenia, and Erdogan emphasized many times that it could be the Iron Silk Route enabling further trade developments with China. The Caspian Sea crossing, however, constitutes a major bottleneck to this goal and further development of the Kazakh and Uzbek lines would be necessary for this route to become a realistic alternative to the Trans-Siberian. The latter also represents a further alternative, the northern route, passing from northeast China to the classic route of the Trans-Siberian line. This route is also of interest for China, as the northern regions are in similar need for investments and connectivity to European markets as are the Western ones.

This being said, we have arrived at the irrefutable economic argument for the New Eurasian Land Bridge corridor, the development of inland China and particularly western territories. Calculations using sea freight prices, volumes etc. as a basis for comparison, not only forget about the vast inland territories and their distance from any Chinese ports, but also ignore their relative underdevelopment. One of the major objectives of BRI is precisely to enhance this regional development policy goal, even if it involves lots of state subsidies and turns profitable only in the relatively long run.

Trains are loaded with a mixture of consumer goods including high-tech IT products, laptops, mobile phones and also clothing from the Yiwu area. Hewlett-Packard was the pioneer in 2011 to send the first train from Chongqing to Duisburg filled with laptops and LCD monitors, and it is an obvious goal shared by the multinational companies investing in the relatively underdeveloped and therefore cheaper western regions of China to develop rail freight capacities towards their markets. Currently, rail accounts for less than 1 percent of total exports from China, so there is certainly room for development.

A further argument for the economic rationale can be China's impressive development history. Starting from a relatively underdeveloped stage, they have a long record of surpassing their own expectations and plans for development. This should be taken into account for the overall development perspectives for the western regions, as well as the capacity building on the land routes towards Central Asian countries and Europe. Just a decade ago, rail freight service from China to Europe literally did not exist. Today, there are direct connections between 35 Chinese and 34 European cities (Xiang, 2017). By improving tracks and accompanying facilities, faster transportation and longer cargo trains with larger capacities will also make the route more competitive against seaborne and airborne freight options.

### 3.2. China-Pakistan Economic Corridor (CPEC)

Of the six BRI corridors, CPEC is certainly the best developed, and it will certainly change China's geostrategic position. It can be considered as the flagship project for China's Belt and Road Initiative, the only fully developed section of the entire scheme, therefore also an important test for the plan. Formally it was proposed in May 2013, six months before the Belt and Road strategy, and was officially initiated at the third plenary session. CPEC is made up of a formula of a 1+4 cooperation scheme, where 1 represents the economic corridor and 4 represents the pillars that support it: the Gwadar port, energy, infrastructure, and industrial collaboration.

Nevertheless, proposals for a free trade agreement had already been made much earlier, in 2005, at the visit of Premier Wen Jiabao, and it was concluded in a record speed of one year. Sino-Pakistani relations have evolved over time from a primarily Cold War era reliance and response to external threats to a relationship that also envisions domestic stability for both states and includes extensive economic and political ties and geopolitical implications. China's importance could be described as the cornerstone of Pakistan's strategic foreign policy, whereas Pakistan also provides China a strategically important bridge to the Middle East (Small, 2015, p. 118). Pakistan was used for a long time by China as a diplomatic corridor for establishing ties with the USA and Saudi Arabia, and today Pakistan is considered to be a key to China's transition from a regional to a global power. Thus, it came as no surprise that the first of the 51 Memorandums of Understanding, an important legal foundation of cooperation was signed with Pakistan in 2015. The historical records, shared interests together with the common membership in the Shanghai Cooperation Organization—where Pakistan had an observer status since 2005 and has been a full member since 2017—guarantee the highest possible policy coordination, and also show its importance for Beijing as a general background for any economic coordination.

As for the second point of Belt and Road priorities, there is an abundance of infrastructural investments, too. Gwadar as the endpoint of this corridor is, at the same time, a starting point as a deep-water port for the countries of the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) in a strategic position at the Strait of Hormuz. Operations at Gwadar were leased at the end of 2015 for 43 years to the China Overseas Port Holding Company (COPHO), a massive state-owned company, and the special economic zone around the port is also established under favorable circumstances for China. The zone will be exempt from all types of Pakistani taxes (income, sales and federal taxes) for 23 years at least, while contractors and subcontractors of COPHO will be exempt from taxation for 20 years. Imports of equipment, materials, machinery, and other accessories used in the economic zone will have a tax exemption for 40 years (Rana, 2016). Although the LNG terminal construction proposed back in 2015 has stalled since then, at the end of 2017, it seemed that the USD 2.3 billion project would be revived with a larger share financed by the Pakistani government (Bhutta, 2017).

Gwadar, as a pilot project for not only the CPEC but also for the Maritime Silk Road, is the greatest test case for BRI for a number of reasons. Security concerns are high in the region, since both Taliban militia often attack security forces and civilians, and the Baloch nationalist movement has also launched a low-level insurgency in the region since 2004. Pakistan vows to protect the proposed pipeline and the terminal, while

Chinese workers will receive additional protection by a Chinese security firm. The initial test of the project and the whole CPEC back in 2013 was solved clearly in favor of China as the Port of Singapore Authority, which originally owned a 40-year port management and development contract since 2007, was forced to pull out because the Pakistani government denied transferring territories necessary for further development. Consequently, COPHO could easily buy its shares for approx. 25 million USD (Fazl-e-Haider, 2012). A further test follows with the establishment of a Chinese "colony", with current plans to house about 40,000 Chinese workers, but the number can be 10 times higher in the near future (Mustikhan, 2017).

China is committed not only to the development of the port and its associated infrastructure, but also to a wide range of infrastructure investments including the Peshawar-Lahore-Karachi railway, power plants in Tharparkar and Port Qasim, the Gwadar-Nawabshah natural gas pipeline, the Karot hydropower project, the Jhimpir wind farm, Gwadar airport, the Karachi-Thatta expressway, and the M-9 Hyderabad - Karachi motorway (Fulton, 2016, p. 45).

From among China's partners, Pakistan's trade position is typical since the relationship is heavily one-sided. While China has reinforced its position as the most significant import partner for Pakistan since the signature of the free trade agreement in 2006, Pakistan only ranks as China's 33<sup>rd</sup> largest source of imports. The same one-way dependence is also manifested in terms of exports, as China is the 2<sup>nd</sup> largest export market for Pakistan, while Pakistan ranks as 67<sup>th</sup> for China, and Pakistani trade deficit is also significant (Kamal et al., 2017). In 2017, Pakistan also accepted a 1.2 billion USD bailout from China, and at the end of the year announced that it will be using yuan in bilateral trade with China instead of the dollar (The Economic Times, 2017a). The only point where Pakistan can counterbalance this dependence, is its geopolitical importance.

As the fourth point of BRI priorities, financial integration can also be easily analyzed in the case of this economic corridor. The depth of financial coordination and the Chinese involvement in financing indicates a pre-existing cooperative relationship. Pakistan is a founding member of the AIIB and was the recipient of funding one of its three initial projects, a 64-kilometer stretch of highway connecting Khanewal to Shorkot (Mitchell et al., 2016). The AIIB has also announced a 300 USD million loan for the expansion of a hydropower plant, co-financed by the World Bank (Reuters, 2016). Likewise, Pakistan was chosen as the first investment for the Silk Road Fund, with a 1.65 billion USD investment to construct the Kohat dam on the Jhelum River (Shi et al., 2015). Besides, Beijing has also proposed a 46 billion USD loan. The current version

of the CPEC is estimated to cost a total of 57 billion USD, currently the largest sum of all the proposed economic corridors and investments (The Economic Times, 2017b). The most important challenge to this economic corridor (together with the BCIMEC, discussed below) is India. As the China-Pakistan development plans pass through the disputed area of Kashmir occupied by Pakistan, India has not only become lukewarm about cooperation, but has been watching China's plans with growing suspicion.

### 3.3. Bangladesh-China-India-Myanmar Economic Corridor (BCIMEC)

The BCIM economic corridor is an ambitious plan to connect Kolkata with Kunming, the capital of the Yunnan province. As in many other BRI undertakings, the idea emerged long before it was labeled a single grand strategy, Yunnan province leaders raised the rationale of the project back in 1999. It has received high level endorsement at the May 2013 visit of Chinese Premier Li Keqiang in India, while immediately after stalling the whole process with New Delhi feeling that BCIMEC has to be analyzed in the framework of the larger Chinese strategies and as such, is not necessarily coinciding with the interests of India.

The economic and political rationale of the corridor cannot be questioned. First of all, this zone, which Chinese leaders urged to label a sub region back in the 1990s, is the meeting point of the three markets of China, Southeast Asia and South Asia. Second, it is isolated from global markets and suffers from underdevelopment, lack of FDI and poverty, making a comprehensive development policy desirable. Third, even as the sub region suffers from poor infrastructure, its rich natural resources (especially oil and gas in Myanmar and in the northeastern regions of India) offer huge potential and long-term profitability for large-scale investments.

There have been some symbolic steps, like organizing a BCIM car rally in 2013 that followed the ancient southern route of the Silk Road, which the initiative seeks to revive. At the same time, it is equally symbolic that the arrangements took more than 6 years and have received criticism claiming that the route followed political decisions and not economic rationale by not passing some of the most densely populated areas in Bangladesh and India like the populous and industrially developed Brahmaputra valley. As for the land connection, Chinese experts in Yunnan point out that except for a 200-km stretch between Silchar in Assam and Manipur, and a similar length between Kalewa and Monywah in Myanmar, the central artery of the route is nearly functional (Atul, 2015). It is also notable that the BCIM would include the development

of not only the usual infrastructure like railways, highways, telecommunication and oil pipelines but also inland water routes as these are important in the region, too.<sup>4</sup>

The concerns around the BCIMEC are clear and have stalled the development. A wide range of economic, social and political questions have to be addressed. Key to the whole BCIMEC is how to integrate remote areas and people living there in the global supply chain, while also developing the region without further fueling existing ethnic, demographic and political tensions leading to frequent insurgencies and conflicts. Many analysts emphasize the importance of sensitivity, mainly from the Chinese side that has to take into account the interests of stakeholders, as well as concerns about the regional effects of Beijing's grand strategy and its appetite for investments, markets, natural resources etc.

Environmental concerns constitute a major element of the problems. Many observers in India share the view that if China pursues river diversion and dam-building projects at the cost of environmental degradation and economic dislocation of the lower riparian countries, the BCIM corridor prospects will be negatively affected (Yhome, 2017). Impacts on the region's fragile ecological system and rich biodiversity have to be considered, as the investments would involve clearing of forests, land acquisition and possible eviction. Even in the case of Myanmar, a country in great need of Chinese FDI and ranking on the top list for China as a partner (see below), the construction of a 3.6 billion USD dam was halted as a result of local protests against environmental impacts. Further concerns include cultural impacts, demographic profile, environmental pollution, social security, economic exploitation of relatively underdeveloped areas rich in natural resources, etc. All the above-mentioned issues are to some extent relevant in the relation of other corridors and development projects too, therefore it is crucial for China's future development and the proposed win-win strategy for its partners to thoroughly address these problems.

The specific point different from other corridors in the BCIMEC is India. New Delhi has previously declared its interest in developing the BCIMEC based on mutual benefits, and many consider this project as the key to the political stability of the region, yet even the strategic planning and evaluation phase have halted. Meanwhile India has announced its own Hydrocarbon Vision 2030 that aims at not only doubling oil and gas production by 2030 and building pipelines towards southern territories,

<sup>4</sup> As a reference to this feature, sources sometimes label four out of the six economic corridors announced in 2015 as purely land routes, while the BCIMEC and the China-Indochina routes as amphibious.

but also exploring hydrocarbon trade opportunities and investment possibilities in Bangladesh, Myanmar, Nepal and Bhutan (Govt. of India, 2016). Together with the “Make in India” principle and ambitions to generate trade and investment opportunities in the region, this is rather enhancing India’s position as China’s rival in this sub region. The Modi government has made a clear stance on China’s bid to ensure control over the South China Sea and, as discussed later, is in a number of ways actively involved containing the rise of China, thus the perspectives of the BCIM cooperation are meager.

### 3.4. China-Myanmar Economic Corridor (CMEC)

Myanmar has long emphasized its enthusiasm concerning cooperation perspectives with China even pointing out the geostrategic importance of the country as participant not only of the BCIM but also of the Indochina economic corridor. From the Chinese point of view, Myanmar is an ideal partner with whom they can assert their power difference, offer clear development perspectives to a relatively underdeveloped neighbor, gain access to important ports and natural resources, while also finding a solution to India’s obstructions. Their economic offers are also highly complementary. The level of development of Myanmar gives Chinese firms great investment opportunities, not only in terms of infrastructure capacities but also exploiting relatively cheaper labor force while creating new markets for their products. The oil and gas fields of Myanmar as well as its strategic position at the Indian Ocean makes it an attractive target for China. The stalemate of the BCIMEC also naturally turned Beijing towards alternative routes that seem more feasible already in the short run. Although officially not abandoning BCIMEC and even emphasizing its further interest by “tandem development”, in November 2017, China announced the launch of a new economic corridor, the CMEC.

The starting point for the CMEC is exactly the same area, southwestern China’s Yunnan province, from where the corridor proceeds south to Mandalay in Myanmar, eastward to Yangon and then westward to the Kyaukpyu special economic zone (Sidiqqi, 2017). At the heart of the infrastructural development is a proposed 1.5 billion USD oil pipeline through the Bay of Bengal and a 7.3 billion USD deep-water port in Rakhine state, and power generation projects including dams (see above) are also planned.

China’s growing soft power potential and international involvement can also be analyzed on the example of the Rohingya crisis and the way the tense situation was



handled in the region. Unlike the US secretary of state, who called the situation simply ethnic cleansing, thus failing to move forward towards solution, China was cautious in labeling the crisis, rather proposed a three-step plan that both Bangladesh and Myanmar found acceptable, and Myanmar even agreed to the gradual repatriation of the approximately 600,000 refugees (Bequelin, 2017).

The Chinese approach to the issue is simple, pragmatic and effective. The CMEC targets on the first hand exactly the development of the flashpoint of the conflict, Rakhine state. By focusing on the cause of the problems, like economic instability and unemployment, and improving living standards with jobs and development, all parties hope to enhance the long-term stability of the region. China also refused the US proposal of international sanctions against Myanmar, thus further enhancing its positive reception in the neighboring country.

Myanmar, on the other hand, has to take into account the fragile political and economic balance of the broader region when making economic commitments. The government tries to keep good relations with India by participating in joint military exercises and assuring New Delhi of their support concerning the "Act East" policy and the "Neighborhood First" initiatives that promote closer relationship with ASEAN countries. Myanmar also tries to involve Indian investments in rural regions and has made new cooperation plans after finding new offshore oil fields.

### 3.5. China-Central and West Asia Economic Corridor (CCWAEC)

Xi Jinping announced the Belt and Road Initiative in Central Asia, in Astana, Kazakhstan, and the first and foremost stretch included in the policy is towards Central and Western Asia. The reasons are clear: these countries have a relatively underdeveloped infrastructure, therefore they welcome investment plans from China, while they are also able to offer natural resources and—through their geostrategic location—access to further resources and markets.

The CCWA economic corridor requires a more complex coordination by China than in the case of bilateral partnerships with Pakistan or Myanmar. To underline the disparities between the states along this route, Turkey's GDP is almost three times larger than the five Central Asian states (Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan, and Tajikistan) combined, while Iran's GDP is twice as much (CIA World Factbook). China has well-established political relations with all of them at a formal level of either strategic or comprehensive strategic partnerships, and given the

importance of the route, it can be expected that each of the strategic partnerships (currently with three out of the seven countries: Turkey, Tajikistan and Kyrgyzstan, with Turkmenistan expected to sign a strategic partnership agreement in 2018) will be upgraded to comprehensive strategic partnerships in the near future.

The Shanghai Cooperation Organization is also an important multilateral forum for dialogue and foreign policy coordination in the region. Kazakhstan, Uzbekistan, Tajikistan and Kyrgyzstan have been full members since the foundation in 2011, while Iran has an observer status, and the NATO member Turkey is a dialogue partner. Turkmenistan alone has no formal position participating only as a guest, since it is committed to neutrality since a 1995 declaration at the UN. Although both bilateral and multilateral ties seem well-established, there is still a question of mutual trust. One reason can be China's tensions with the Uyghur population in its Xinjiang province, especially becoming a stress factor in Turkish-Sino relations. From China's point of view, the Central Asian states are also seen as vulnerable to terrorism and radical Islam and as a base for Uighur separatists, thus undermining the political stability of the region.

As the key aspect of all economic corridors is mutual interest in developing infrastructure, the future holds large potential. Turkey has had a central geostrategic position, especially after the opening of the Marmaray project's first phase in 2013, with an underground rail tunnel in the Bosphorus Strait offering the first standard gauge connection between Europe and Asia. Given China's COSCO holding company's purchase of 67 percent of the Port of Piraeus in Greece and Turkey's continued infrastructural development, this route is a priority for Beijing. Ankara has announced an over 35 billion USD investment mostly in transportation and logistics projects, and the country is interested in enhancing cooperation in emerging infrastructural developments (Fulton, 2016).

Iran also has significant infrastructure investment needs, and Chinese firms are involved in several transportation and energy investments in the country, including oil and gas fields, the Tehran-Mashhad railway and a high-speed rail connecting Tehran, Qom and Isfahan (Scott, 2016). Iran-China relations are also very special from two aspects: on the one hand, China has well-established relations with Tehran as during the sanctions' years, China was one of a handful of countries to continue trading with Iran. On the other hand, Iran is also one of the handful of countries to always run a trade surplus with China. The reason is simple: the vast majority of Sino-Iranian trade is composed of either petroleum-based products or other natural resources, namely iron ore, the latter being a key element in Tehran's strategy during

the years of stringent international conditions to compensate for the lost revenues of oil, whereas Beijing has also intensified reliance on Iran as an alternative to its traditional suppliers of iron ore like Australia and Brazil.

Iran is also an important element of the North-South transportation corridor proposed by Russia, Iran and India back in 2002, joined by Azerbaijan, Armenia, Kazakhstan and Belarus. The 7,200 kilometer multi-modal network of ship, rail and road transportation routes will considerably enhance trade connectivity in the broad region. The free trade agreement signed in 2017 between the Eurasian Economic Union (EEU) and Tehran also shows both the importance of Iran and the trade generating effects of the Belt and Road Initiative even between countries not integrated under BRI deals but affected by the development and future prospects.

The Central Asian states are especially in need of infrastructural investments, and proposed mega-projects are already under development, including the Central Asia-China gas pipeline, the Kara-Balta oil refinery in Kyrgyzstan and numerous highway construction projects (Fulton, 2016). The gas pipeline system deserves some in-depth analysis, as it shows many of the general features of development projects, as well as some specific issues concerning Central Asia. The majority of Uzbek and Turkmen natural gas is delivered to Russia via the Central Asia-Center gas pipeline system built during the Soviet Union era and controlled by Gazprom. The renovation of this system is also currently ongoing, while China has been developing the Central Asia-China gas pipeline also for more than a decade (since 2006). This pipeline connects the eastern Turkmen gas fields with Xinjiang via the gas and oil rich territories of Uzbekistan and Kazakhstan. The Turkmen section was built by a subsidiary of Gazprom, while the Uzbek and Kazakh sections were constructed by a joint venture of the national gas companies and the China National Petroleum Corporation. By the time of the official declaration of the BRI, two gas lines were already operational and the third almost completed, and since then a fourth line has been under construction. Therefore, criticism concerning the claims of Beijing to label many infrastructural developments as “early harvests” of BRI are true, particularly in the case of the Central Asian pipeline system, as well as in the case of the China-Pakistan economic corridor. Another aspect to point out is the traditionally strong position of Russia in terms of natural gas and oil in Central Asian countries that weakens China’s leverage in the region.

A great concern about infrastructural developments in Central Asian countries is environmental degradation and pollution already mentioned in the BCIMEC chapter. In Kyrgyzstan and Tajikistan for example, new cement plants are notoriously polluting

the environment, while refineries, mines and other industries built or operated by Chinese companies are also met with growing concerns by local administration and residents (Pannier, 2016).

Besides environmental concerns, another question that might have more general implications for countries welcoming Chinese investments are issues of the labor market. While Central Asian partners would be interested in employment opportunities opening up as a result of investments, Chinese firms prefer to bring their own Chinese workers. Rumors that the Chinese are better paid, or just simple language and cultural barriers have already resulted in clashes between local and Chinese workers. China refuses to similarly open its labor market to Central Asian countries, while for Eurasian Economic Union members (Kazakhstan and Kyrgyzstan) the single market offers free movement of the labor force, and there is substantial visa liberalization and mutual recognition of degrees in effect for other members of the Commonwealth of Independent States (CIS) too. Tajikistan is also formally invited as a potential member in the EEU, and in 2014, Uzbekistan joined the CIS free trade area, too, after long hesitation. Russia definitely has not only a strong economic presence but also effective soft power tools for the region. As president Putin has clearly expressed Russia's interest to create a powerful supranational union extended to all post-Soviet states excluding the Baltic countries, China faces a strong rivalry in the Central Asian region.

Chinese migration is not only viewed with suspicion in Central Asian countries out of fear of labor market positions, but land ownership is also a central issue. Chinese farmers are buying farming areas vacated by local people who left to find work in Russia. In 2016, the problem has already aroused public attention, while a proposal in Kazakhstan to lease farmland sparked the largest protests in 20 years, when rumors spread that it would be at least partly Chinese farmers interested in land lease (Pannier, 2016). Land issues constitute a conflict in other partnerships, too, like the China-Mongolia-Russia economic corridor, where the question will be further discussed.

The CCWAEC shows a further typical characteristic of BRI. Although announced as one large economic corridor, its relevance might be better exploited by dividing it into smaller regions and also by developing alternative connections including maritime routes. After the opening of the Marmaray tunnel and with further Turkish development plans, there were optimistic voices about the CCWA countries becoming an alternate route for the Trans-Siberian railway and the New Eurasian Land Bridge. This route, however, takes even longer as a result of numerous border crossings. The

problem of exchanging bogies or transshipping cargo between the standard gauge and the Russian gauge equally exists, and there are further bottlenecks in terms of connectivity and availability in Central Asia, and even in Iran. China is definitely aware of all these challenges including difficulties of coordinating the diverging interests of the many stakeholders, and currently seems willing and able to address the heterogeneous needs of the partners, although this undoubtedly slows down the implementation of plans and diverts the original goals.

### 3.6. China-Mongolia-Russia Economic Corridor (CMREC)

The initiative to create the China-Mongolia-Russia Economic Corridor was put forward by Xi Jinping in September 2014 at the first China-Russia-Mongolia summit, held in the capital of Tajikistan, Dushanbe. This initiative was met with active response both from Russia and Mongolia, also meeting the latter's initiative of the Steppe Road. Even with such positive response and common interests, it has taken almost two years to clarify the program for the construction of the CMREC, which became the first such document signed in June 2016 in the multilateral cooperation framework of the BRI.

Political stability in the region, stable and well-established political relations, very limited opportunities for extra-regional forces to interfere and the lack of hot spots and intertwining interests definitely facilitate cooperation in the region, which makes this BRI corridor much clearer and easier to implement than many others, for example the CCWAEC or the BCIMEC. Even under these circumstances, temporary conflicts might slow down economic processes. When in November 2016, the Dalai Lama visited Mongolia for the ninth time, China suspended all official diplomatic interactions, imposed economic sanctions and raised tariffs on the trade with Mongolia. India quickly assured Mongolia of its support and sympathy, while also offering a 1 billion USD financial assistance to help Ulan Bator tide over the economic sanctions. However, Beijing was also quick to remind Mongolia of its geopolitical position and warned New Delhi to stay out of the region's affairs (Reuters, 2017b).

Russia and China have recently begun to speak a common language as both seek to reassert their global role by challenging the position of the United States. They are also linked by their membership in the BRICS or the Shanghai Cooperation Organization. The shared economic interests in the region are also easy to grasp. For Russia, the infrastructural modernization of the Siberian areas is a crucial point, as the region is struggling to keep its population, and the development gap between

this area and European territories is widening dramatically. The Russian Far East and Baikal Region Economic and Social Development plan, which came into effect in April 2013, are in line with the goals of the BRI. Sino-Russian cooperation already preceded the Belt and Road Initiative in the Far East region, as after the settlement of the last border disputes in 2008, a cooperation agreement was signed in 2009 proposing 94 projects on the Russian side and 111 on the Chinese side (Tselichtchev, 2017). However, the implementation of the Russian financed parts on the Chinese side have mostly stalled because of the lack of financing capacities, while the Chinese are easily creating state-of-the-art infrastructure well beyond the original plans made almost a decade ago.

With growing disproportion in economic performance and increasing Chinese migration, many Russians feel a growing tension against China. Although the 2010 census officially indicates only 29.000 Chinese immigrants in the region, some unofficial calculations put the numbers as high as 1.5 million, but the realistic number must be somewhere between 300.000 and 500.000. (Tselichtchev, 2017).

It is a clear precondition of many Chinese companies undertaking investments that they bring their own laborers. The economic gap is also depressing for Russians and is definitely increasing as China's GDP is almost 10 times that of Russia's and seems to be able to maintain a steady 6.5-7 percent growth rate per year, while Russia has just got over a recession under US and EU sanctions and, even under most optimistic scenarios, is unlikely to grow more than 1.5 percent to 2 percent in the coming years. For further potential risks and future scenarios for this region see sub chapter "China's food security strategy" below.

The Trans-Siberian railway is also important for Beijing's modernization strategy for Chinese north-northeastern regions. In the frame of the Northeast Area Revitalization Plan Beijing wants to rejuvenate industrial bases in northeast China, and this requires conducting technological cooperation, securing natural gas supplies from Russia and Mongolia and also enhancing access to European markets.

The northeastern parts of China are the key regions for major industries including steel, automobile, shipbuilding, aircraft manufacturing, petroleum refining, and the area is the biggest producer of coal (Huang, 2017). However, the socio-economic situation of the region deteriorated over the decades, as a result of the weak investment attractiveness of this region, which in the 2000s resulted in complex regional development strategies. The contribution of the region to the industrial production and to the GDP of China steadily declined over the past decades. As a comparison, its share

of the GDP was 19.2 percent in 1956, 13.86 percent in 1980 and 10.44 percent in 2002 (Minakir, 2009).

The new “Steppe Road” or “Prairie Road”—names already used by Ulan Bator before the BRI—also provides the shortest transportation route to Europe. The infrastructure is not only underdeveloped in Mongolia but also it is in a crucial condition due to extreme weather conditions with temperatures ranging from minus 40 to plus 40 and reaching 45-50 degrees within a month. All the three corridors (Western, Central and Eastern) propose the modernization of existing railways and motorways and the creation of new ones, where besides financial investments Mongolia hopes to get also the relevant know-how and technology from China to create better quality roads, regular road maintenance and improved stops, services and supplies along the roads. Apart from the Mongolian corridors, China is also developing direct routes to the Far Eastern region of Russia to exploit natural resources and agricultural opportunities. The region is also in crucial need for the development of telecommunication infrastructure such as providing internet access to remote areas.

Mongolia is clearly much more dependent on this development strategy than its partners. Being a country with a population of only 3 million and an economy of about 12 billion USD in a landlocked geographical position heavily dependent on foreign capital and markets, it has a long history of dependence on its giant neighbors, recently shifting this dependence towards Beijing. This is also related to the success of China’s “peripheral diplomacy” yielding positive results as Ulan Bator no longer views Beijing as a territorial threat but as a useful and sustainable business partner. With the rise of China, the economic realities have also definitely underlined the necessity for reorientation. China has been Mongolia’s largest trading partner and most important source of foreign investment since the last decade. About 90 percent of Mongolian products are exported to China, and about 30 percent of the products are imported from China (Zhang et al., 2017).

Mongolia has the following products to offer in this cooperation: abundant resources of energy and minerals vital for China such as coal, copper and iron ore and pure organic agricultural products. Mongolia boasts 73 million heads of livestock farmed by about 200,000 herder households in the vast countryside (Xinhua, 2016). The country’s agricultural products lack market access as a result of poor infrastructure and ineffective veterinarian and vaccination services. Furthermore, the country has a vast area, although mostly not arable land but still a potential source of economic development. Renewable energy resources have a realistic future in Mongolia with approximately 270 sunny days and still not polluted clear skies suitable for solar

energy investments, while wind energy can be an even more profitable green investment. Studies have shown that at least 10 percent of the territory is suitable for wind energy (Zhang et al., 2017, p. 165), thus having the perspective of becoming a green energy supplier for the region.

Ecological risks are also shared by the three countries. The northern Chinese region of "Inner Mongolia" struggles with very similar conditions and challenges like most parts of Mongolia where 70 percent of the land is endangered by various levels of desertification. Grassland animal husbandry, providing a traditionally high ratio in Mongolia's GDP (20 percent), is also fragile and largely at risk by climate change processes. Chinese technology and know-how focusing on stopping desertification and even gaining more arable land (once effectively developed) could also be a valuable transfer between the two countries. Russia and China also share an extremely long, 4.300 km border, mostly by the Amur (Heilongjiang) river. The 2013 summer/fall flood was one of the biggest in the history of China and the biggest in a century for Russia, yet the population affected was considerably less on the Russian Far East due to the large disparities between the two territories.<sup>5</sup> The flood reminded the governments of the urgent need for flood control in the Amur basin and the necessity for enhanced ecological cooperation and environmental protection.

The question of agriculture, food supply and land lease or land ownership deserves extra analysis. This subchapter places the topic in a wider perspective while also keeping the major focus on a substantial element: Russia.

Food security has been a high priority for Beijing. In a white paper published by the government in 1996, China stressed the importance for self-sufficiency. This policy declaration can be viewed as a response to growing international concerns about the "appetite" of China as a result of its growing population and economic outreach as well as a communication of domestic importance, as the legitimacy and stability of the system is also largely based on its ability to feed the people. Since 2007, a red line of a minimum of 120 million hectares of arable land<sup>6</sup> and 95 percent of grain self-suf-

<sup>5</sup> In the flood 5.24 million people were affected altogether in the Heilongjiang Province; 2.52 million square kilometers of crops were also affected; 18.300 houses collapsed; and the direct economic losses amounted to about 1.9 billion yuan. Many ports were temporarily closed, a large number of merchants were forced to shut down. For the Russian Far East, the area affected amounts to 1 million square kilometers, more than 60 percent of the cropland had no harvests and more than 140 residential areas were flooded, the affected population exceeded 50 thousand (Zhang et al., 2017, p. 163).

<sup>6</sup> Before the declaration of this minimum arable land goal, China lost 6.2 percent of its arable farmland between 1997 and 2008 according to studies by the FAO and OECD (cited by Majedlie et al., 2017).



ficiency has been maintained, although there are some questions about the definition of "arable land," as local governments are interested in labeling even industrially polluted or marginally productive areas arable, while selling further farmland to more lucrative real estate investments.<sup>7</sup>

As the consumption patterns of China's dynamically growing middle-class have also increased demands for meat, vegetables and those agricultural products that decades ago were largely considered luxurious, the relevance of stressing self-reliance in staple food types like rice, corn and wheat has also faded.<sup>8</sup> Beijing marked this change in its new food security strategy released in 2013, first admitting that imports constitute an integral element of its food security (Zhou, 2016). Since 2004, China has become a net food importer and is the largest importer of agricultural products. With 19 percent of global population on only 7 percent of arable land and freshwater resources, both of them diminishing, this dependence on outside sources seems irreversible. Although the 13<sup>th</sup> Five-Year Plan envisages environmental protection as one of the major priorities, and there have been tremendous efforts to invest in technologies that increase crop yields, while also turning back soil degradation caused mainly by the extensive use of fertilizers over decades<sup>9</sup>, there are physical limitations to the success.

Turning the focus to the Russian-Chinese relations, the disproportion in terms of land and population on the two sides of the Amur river is obvious. On one side of the river, in the border region of Heilongjiang alone, there are 40 million inhabitants. On the other side, the whole Russian Far East with a territory of approx. two third the size of the United States and constituting more than one third of Russia, has merely 6.3 million inhabitants with a distribution of less than 1 inhabitant per square kilometer, making it one of the most sparsely populated area in the world. In the wider area on Chinese side of the border, there are about 109 million, while in the relevant Russian territory merely approx. 4.3 million people (Tirnoveanu, 2016). Decreasing birth rates and migration to western, more developed areas of Russia are a serious concern for Moscow.

<sup>7</sup> About 19.4 percent of arable land in China is contaminated. Besides overuse of pesticides and fertilizers, some areas are polluted with heavy metals such as cadmium (based on FAO data).

<sup>8</sup> There was a shift in the definition of "grains" as, for example, demand for soy beans largely used in animal husbandry and agricultural food processing has risen so sharply that the government silently dropped it from the grain list in 2014.

<sup>9</sup> China has been using about 3-4 times more fertilizers (in kg per hectares) than the US or the EU to boost yields (based on World Bank data, cited by Majedlie et al., 2017).

Under these circumstances Chinese migration to the area, both as workers of Chinese companies and as farmers, is understandably causing social tensions. Land ownership or long-term land lease is a further sensitive issue. In 2017, a new agreement was signed to lease about 150.000 hectares of farm land in the Trans-Baikal region in eastern Siberia to the Chinese for 49 years at a symbolic price of about 5 USD per hectare (Tselichtchev, 2017). Woodlands close to the Chinese border area have also been long leased for timber extraction. Agriculture and land lease is not only symbolic, but raises even more emotions and social tensions worldwide than a green-field investment, a port ownership or an infrastructural project. Moreover, it also has potentially more direct health risks and irreversible environmental consequences. The overuse of pesticides and fertilizers by Chinese farmers is causing wide-spread concerns about soil degradation and water contamination. The future of these territories after 49 years of intensive exploitation also remains unclear.

To finish this subchapter, we can widen both the time and the geographical horizon. China aims to become a global superpower by 2049, as declared by one of the centennial plans. The BRI, along with the creation of a China-centered system of international organizations and a number of well declared and defined visions and objectives that stretch beyond the limitations of this study, are clear and effective tools along this way. However, if China wants to become a real superpower, it has to be prepared not only to feed its own population and achieve food security both in terms of quantity and quality. But with a global population reaching 8.6 billion by 2030, approx. 10 billion by 2050 and more than 11 billion by the end of the century according to most recent (2017) estimations by the UN, food scarcity and water shortage will become a common concern, making agriculture a strategic sector. China has already started to buy up large areas, land lease programs and investments in agriculture globally, including large territories in Africa, Southeast Asia, Australia, Latin-America and even in the United States and Canada. Africa, a traditionally important target for Chinese investments, has the largest potential for agricultural growth as it accounts for about 60 percent of the world's arable land, and most of its countries do not achieve 25 percent of their potential yield (Sy, 2015). Some analysts point out that the scope and relevance of these land grabs are currently overestimated.<sup>10</sup> It might be true for the current situation, however, China is famous for long term planning, patience, pragmatism and assertiveness, keeping its international profile low to avoid attention and conflicts, while building up its influence and only stepping on the stage when the time has come. All this is visible in the case of declaring its signature policies for the century: creating the BRI and restoring the central position for the "Middle Kingdom" by

<sup>10</sup> See for example Brautigam, D. (2010): *The Dragon's Gift: The Real Story of China in Africa*

2049. Agriculture, food policy and security as underlying elements enhancing Beijing's strategic goals should not be underestimated.

### 3.7. China-Indochina Peninsula Economic Corridor (CICPEC)

The China-Indochina Peninsula Economic Corridor (CICPEC) extends from China's Pearl River Delta westward along the Nanchong-Guang'an Expressway and the Nanning-Guangzhou high-speed railway via Nanning and Pingxiang to Hanoi and Singapore. This land bridge is of multiple importance for China, as besides establishing and enforcing economic ties with its neighbors, it also boosts cooperation with the ASEAN countries and ensures Beijing's access to the strategically important South China Sea, which is also the key element of the 21<sup>st</sup> century Maritime Silk Road.

The project shares major characteristics with other initiatives since it aims to strengthen cooperation among states of the Greater Mekong sub region, mainly by developing transportation infrastructure (motorways, railways and air connections, and in the case of this economic corridor it also includes inland waterways). The economic corridor takes advantage of China's roughly 3.900 km border with Myanmar, Laos and Vietnam, continuing overland through Cambodia and Thailand to Malaysia and Singapore. As the countries on the Indochina peninsula vary in terms of their economic and geopolitical importance as well as the size of their economies, the deals that they can secure with Beijing differ greatly. For example, in 2016 Laos, with its small population and nascent manufacturing industrial production, agreed to the construction of a high-speed rail that currently will benefit China rather than its own development. The 6 billion USD budget, nearly half of the country's annual GDP will be financed largely by Chinese loans (Stratfor, 2017). A similar deal with Thailand, a country with a GDP 30 times larger than that of Laos and with much more diversified trade routes, financing opportunities and growing domestic consumption could not be made so easily, as Bangkok insisted on the modification of the route originally planned in 2014 to include more industrially developed and populated areas. Disagreements over financing and technical assistance offered by the Chinese further delayed the project that was finally concluded in December 2017, although additional negotiations will be necessary to clarify all details of the 873 km line. Once operational, it will cut the journey time from Bangkok to Vientiane, the capital of Laos to four hours and travel all the way up to Kunming, China. The strength of Thailand's position is also underlined by the fact that the 5.2 billion USD financing for the first 253 km is fully provided by Bangkok (Linder, 2017).

This economic corridor also offers examples of prestige investments with dubious economic benefits in the near future. In January 2017 two Chinese companies proposed a 2.7 billion USD plan to build the world's tallest twin towers in Phnom Penh, with 133 floors and reaching 560 meters in height, 108 meters taller than the current record-holder, Kuala Lumpur's Petronas Towers, also becoming the world's 5<sup>th</sup> largest building. The towers would be built along the Mekong River and include a luxury hotel, apartments, office space and retail area, an exhibition hall, theater and restaurant (Chinadaily, 2017). After initial enthusiasm, by the end of 2017 critical voices have already questioned the viability of the project, therefore its future is currently uncertain.

#### 4. ASEAN—The Bigger Picture

Although maps of the CICPEC usually show the participants under the narrow definition of the Indochina peninsula, the Chinese interpretation and interests definitely involve the greater ASEAN area. The importance of the wider region, as well as its connection with the Maritime Silk Road project is also underlined by the fact that the latter part of the Belt and Road was announced in October 2013 in the Indonesian Parliament.

China-ASEAN economic relations have dynamically developed especially since the China - ASEAN Free Trade Agreement entered into force in 2010 (similarly to the other members of the ASEAN+6 cooperation), the CMLV countries (Cambodia, Myanmar, Laos, Vietnam, more recent members of ASEAN) are receiving additional 5 years to implement zero tariff rates on virtually all imports. ASEAN imports from China have more than tripled in the last decade to nearly 260 billion USD, while exports to China have more than doubled to 89.5 billion USD (Stratfor, 2017).

The ASEAN members have a combined population of 2.6 billion and a GDP of 2.6 trillion USD. Currently, they would be the 6<sup>th</sup> largest economy in the world but according to projections, they could turn the 4<sup>th</sup> largest by 2050 (Stratfor, 2017). However, there are striking disparities in terms of development. The CMLV countries, with their 20<sup>th</sup> century consumed largely by conflict, are far behind their neighbors. Their combined GDP accounts for only 11.7 percent of ASEAN's total, while Vietnam alone accounts for 8 percent (CIA World Factbook).

Relatively higher development combined with geostrategic importance in the Strait of Malacca and the critical waterways of the South China Sea, and a relative abundance of funds and potential investors create a different position for China in Malaysia, Singapore

and Indonesia. Beijing was competing with Japanese firms for example in building a railway to connect Jakarta with Bandung and managed to take the deal in 2015 with an investment of 6 billion USD (Stratfor, 2017). This case also shows that although it is not clear which of the projects officially fall under BRI, they serve, nevertheless, similar interests and follow similar designs. It is also notable that although ASEAN countries watch China's rise and increasing influence with growing concern and aim to look for alternative partners for counterbalancing, Beijing has so far successfully prevented any unified action by offering mutually beneficial deals for each member.

## 5. The 21<sup>st</sup> Century Maritime Silk Road

As discussed in the New Eurasian Land Bridge chapter, maritime freight continues to be the key in terms of volume and unbeatable in respect of price. Moreover, China is restrained to the continental Asian territories when compared with the naval influence of the US, therefore creating a strong naval presence is vital for the future development of China. This initiative is even less clearly defined than the land routes or investments to give way to organic evolution according to needs, interests and possibilities. ASEAN countries, however, definitely play a key role in the success of securing maritime routes. Besides buying 67 percent ownership in the port of Piraeus, Beijing has shown an interest in a number of ports worldwide. Among these, the ASEAN countries are of highest importance, like Indonesia's Tanjung Sauh Port at a strategic point, the Malacca Strait's eastern entrance. In Malaysia, China is working on the 1.9 billion USD Melaka Gateway port along the strait's northern shore (Stratfor, 2017). There are a number of other plans at different stages of planning, development and construction in the Philippines, Thailand, Cambodia or the already mentioned ports of Myanmar or Pakistan. In Myanmar, a Chinese consortium has agreed to gain 70 percent share in the port of Kyaukpyu (Lee et al., 2017).

China has also long-term investments in Africa, including infrastructure, mines and lands already built mainly in Tanzania, Kenya and Mozambique on the east shore of Africa that will be one of the strategic areas for the maritime road, too. A further strategic point is Sri Lanka, just south of the long-time rival India. In December 2017, Sri Lanka agreed to sell 70 percent of its Hambantota port facilities to China (Panda, 2017) but currently denies any plans to give way for a Chinese military base on the island.

The Sri Lanka port is a typical example of Beijing's strategy that raises fears and public discontent in the partner countries. China usually finds a local partner, who accepts the investment that actually is of questionable use or even detrimental to

the country in the long run. However, even in mutually positive cases, the debt can be used to either acquire (a share of) the project or to gain political leverage in the country. The 1.3 billion USD port was opened 7 years ago with a debt from Chinese state-controlled institutions, but since it has suffered heavy losses, making it impossible for Colombo to repay the debts. Consequently, China could easily use its leverage to get Hambantota on a 99-year lease and gain 70 percent ownership of its facilities.

Naval and air base development and general military build-up are also important elements of BRI and particularly its maritime concept. In July 2017, there was a major turning point in China's international presence, when China opened its first overseas military base in Djibouti. The location is of strategic importance for China at the entrance to the Gulf of Aden, to secure waterways to the Suez Canal, as well as to its Yanbu Aramco Sinopec refinery in Saudi Arabia, a 10 billion USD project (Bloomberg, 2017), and to focus deployable navy around the Horn of Africa that has been a traditionally important point for NATO and the US, too<sup>11</sup>.

The base includes a naval port, a large helicopter base and accommodation for 10,000 troops. China has emphasized that the base is necessary for its growing involvement in peacekeeping missions and in securing the international waterways. China currently runs a UN mandate naval mission to combat piracy in the Gulf of Aden and is overall the largest contributor to peacekeeping missions<sup>12</sup>. As in so many cases when becoming gradually involved and gaining more weight in international bodies or operations, China has a number of motivations. It is a learning process, and also a way to gain operational experience, creating positive reputation and higher status—all of which can be converted to protecting national interests.<sup>13</sup>

So far, China has sent troops abroad only under UN mandate peacekeeping. At the same time, the establishment of the first overseas military port shows a shift in Chinese policy, aiming to more openly protect national interests and trade routes. Africa has been a historic investment target for China, extracting its vast natural

<sup>11</sup> Several NATO and EU missions have been operating at the Horn of Africa to counter piracy and ensure stability and Djibouti is also home for US, Japanese and French military bases, soon to be joined by Saudi Arabia (Brewster, 2018).

<sup>12</sup> In 2015, China committed 8,000 troops for peacekeeping, a fifth of the total offered that year (Jennings, 2017).

<sup>13</sup> China has already used its peacekeeping mission to ensure its national interests in South Sudan, however, some critics argue that Beijing has armed and funded the conflict, then intervened to ensure its control over natural resources and actually undermined international peacekeeping efforts by participation in the peacekeeping mission (Thornhill, 2016). If these accusations are true, we can say that China has grown a real global power by an effective learning process.

resources, mainly minerals, while building infrastructure and selling Chinese products like super cheap smart phones. African ports and additional military bases are therefore a logical follow up in the line of investments. Tanzania, for example, has a longstanding close relationship with China and by recently taking over the port of Bogomayo, China might open a new military base there, too (Brewster, 2018).

The second base on the Indian Ocean, however, will most probably be opened in Pakistan. While commercial shipping has an excellent port in Gwadar, a recent US report (Gertz, 2018) has revealed that Jiwani, some 60 km west from Gwadar, might be the next target. Jiwani is ideal from a number of perspectives: besides its proximity to the Strait of Hormuz and its relative distance from Indian airfields, it already hosts a Pakistani airfield, therefore it could be developed into a major Chinese air base, too. Thus, along with China's facilities in Djibouti and access to Karachi, and with potential new openings in the eastern shore of Africa and the above-mentioned Sri Lanka port, that would be the solid base for a presence in the Indian Ocean securing Chinese interests in an event of a crisis, while making life more difficult for China's adversaries.

Building a network of naval and air facilities across the region is in clear line not only with the Maritime Silk Road goals, but with the long-term strategy of rising as a hegemon. This network will provide China with a range of options to respond to potential crises affecting its interests, like the protection of Chinese nationals, investments and trade routes from local insurgents, evacuating Chinese citizens from failing states or conflict situations, or even supporting military interventions where its interests are threatened.

## **6. India and Pakistan at the Crossroads of Chinese Interests**

India is especially worried about China's presence and ambitions in the Indian Ocean. Analysts have expressed various concerns that China's development plans in Pakistan (and in Myanmar, Sri Lanka, the South China Sea etc.) seriously endangers India's position and interests. In April 2017, Pakistan announced that operations at its Gwadar port have been leased for 40 years to China. A Chinese state-owned company will have 91 percent share of revenue collection from gross revenue of terminal and marine operations and 85 percent share from gross revenue of free economic zone operation (The Economic Times, 2017b) that is also established to follow the example of the cradles of the Chinese success story, the special economic zones.

Indian newspapers regularly release warnings and calculations about the threat. They state that Beijing is actually building accommodation for up to 500,000 Chinese workers in Gwadar (Mustikhan, 2017), with a hospital and additional facilities, accompanied by a large contingent of Chinese commercial ships. The creation of a special economic zone producing revenues mainly for China, while building a military base to accommodate 8 marine ships and substantial air force just within 60 km is perceived a further threat.

The success of the 21<sup>st</sup> Century Maritime Silk Road lies to a great extent on India. China's dominance in the South China Sea has to be founded on its presence on the Indian Ocean, as a blockade of the Strait of Malacca by the US and its allies would cut off Beijing not only from commercial routes but from crucial oil supplies from the Middle East and also from its "second continent", Africa. Nevertheless, India has not (yet) been able to halt China's development plans in Pakistan or in other key points, like Myanmar or Sri Lanka, as discussed above.

An interesting point at the crossroads of the China-Pakistan economic corridor, the Maritime Silk Road and Indian vs. Chinese interests is the question of the Baluch people and their resistance to the Pakistani government plans to exploit their land's rich reserves like gold, copper and natural gas, or to build Chinese "colonies" 6 times larger than their indigenous population in the particular territory. The Baluch Liberation Front have already attacked and executed workers involved in the economic corridor projects, which sparked the central government's and Pakistani intelligence services' outrage and retaliation against the Baluch movement (Mustikhan, 2017). India openly supports the Baluch people, especially if their targets are not Sindhi but Chinese workers or Pakistani government officers, therefore Pakistan condemns New Delhi for openly supporting terrorism. The autonomous Baluchistan idea or any plans to stop the economic corridor development have absolutely no grounds. Islamabad keeps tight control of the total Gwadar area (like of all strategic points in Pakistan) with the army guarding all exit and entry points, but the situation shows how ethnic conflicts in general might be fueled by economic and political plans and also warns Beijing to assess risks and balance interests accordingly.

## **7. United States' Efforts to Contain China**

The United States has been aware of the threats that China's rise poses and has been dealing with them from all possible perspectives for almost two decades. Several councils, committees, agencies, think tanks etc. have devoted tens of thousands



of pages for analyzing trade measures, investment constraints, state subsidies, exchange rate manipulations, intellectual property right violations and all aspects of economic tensions, while also keeping a close eye on security challenges, coining the term “string of pearls”—a potentially enormous set of Chinese naval bases—already during the Bush administration—and these are only the publicly accessible documents. To assess all types of challenges is well beyond the capacity of this paper, so now we will briefly focus on one major point: US-led efforts to contain China’s rise as a maritime power.

The United States’ advantage as a maritime power is clear and remains undoubtable for a long time. China is not able to challenge the US Fifth-Fleet in the Persian Gulf and the Indian Ocean or outnumber the US in overseas military bases, capacities and deployability. Nevertheless, overall Chinese military development along with rapid construction of port facilities, military buildings and airstrips on more than a dozen of islands (rather islets or reefs) in the disputed areas of the South China Sea (mainly Spratly Islands) has long worried Washington. China’s current aim is to fortify territorial claims and ensure its presence in the South China Sea through sustained air and sea patrols and radar facilities rather than to extract natural resources (gas and oil fields as well as fishing) in the area, although this can be also enhanced by the extended islets.

The Obama administration responded basically by stepping back, shifting its major military deployments to the second island chain and urging allies to form a closer cooperation in the wider area by creating an “arrow” from Japan to Australia. The island chain doctrine,<sup>14</sup> a famous cold war strategy against the USSR and China formulated three chains, the first beginning at the Kuril Islands and finishing towards Borneo, and most importantly including Taiwan. The second island chain already lies behind the Philippines, from Japan to the Mariana Islands that are US territory. The third chain refers to the Aleutian Islands (close to Alaska) and stretches towards Oceania, with key parts like Guam. The island chain strategy has also been referred to as the “unsinkable aircraft carrier” as it is built up of landmasses. In December 2016, the Chinese navy deliberately crossed the first island chain for the first time and since then carried out several military exercises beyond this line (Huang, 2017) thus setting these drills as the new norm. It is also remarkable how the Chinese media

<sup>14</sup> Dominance in the Western Pacific has been key to US foreign policy since the end of WWII. The island chain doctrine was first mentioned by American diplomat, later secretary of state under D.D: Eisenhower, John Foster Dulles in 1951 in the context of the Korean war. The doctrine fitted into the containment policy of the US and has been maintained since the end of the Cold War to ensure US naval supremacy and control over Russia and China.

commented on the event, calling the first island chain and the whole island chain concept as a mere psychological barrier that no longer exists.

Duterte's evolving relations with China and his desire to stay away from major power rivalry limits the Philippines' cooperation both with the US and with Japan (Pitlo, 2017). However, the Trump administration has restarted a more than decade long formation: the quadrilateral meetings of China's greatest rivals in the region: the US, Japan, Australia and India. China's ambitions and growing potential to become a global superpower has been cautiously watched by her rivals. This natural alliance has been under formation since 2007 but was officially suspended as a result of China's objection. The process continued, however, in the form of bilateral and trilateral meetings, creating a complex net of cooperation initiatives, mainly as joint military exercises, military technological assistance and political support for Vietnam and the Philippines in the South China Sea disputes. The quadrilateral initiative has gained new impetus recently, when in November 2017, the four countries held a summit in Manila, and in February 2018 a high ranking American official leaked the information about a plan to develop an alternative infrastructural project rivaling the Chinese Silk Road Initiative (Coorey, 2018).

## 8. Conclusions

By announcing the Belt and Road Initiative and clearly stating China's goal to become a global superpower, Xi Jinping abandoned the famous "24 characters"<sup>15</sup> foreign policy doctrine introduced by Deng Xiaoping in 1990 to keep an internationally low profile. The shift away from this policy has been gradual, as China has been heavily investing in Africa for many years, securing access to natural resources by what is termed as "dictatorship diplomacy". Still, Beijing has for long claimed that the key to its foreign policy is undertaking no leadership militarily and not being viewed as running after hegemony (Thornhill, 2016). By underlining respect for sovereignty and non-intervention rather than human rights and values generally promoted by the Western world, China also enhanced its soft power and created a basis for cooperation with a number of countries with heterogeneous (and often confronting) interests.

China is no shyer announcing its bid to become a real superpower and emphasizing BRI as a signature policy to reach the two "centennial goals". First, building a "moderately prosperous society" by doubling its 2010 per capita GDP to 10,000 USD by 2021,

<sup>15</sup> Taoguang yanghui

the 100<sup>th</sup> anniversary of the communist party. Second, to become a “fully developed, rich and powerful” nation by 2049, the 100<sup>th</sup> anniversary of the Peoples’ Republic. The New Silk Road, especially its maritime part, along with heavy military development, peacekeeping presence in Africa with the ability to enhance national interests at the same time, the opening of the first overseas base to be followed by further ones, the formation of an artificial island chain in the South China Sea are all clear indicators that China is ready to protect its trade routes and economic interests in general.

“Trade follows the flag” is an established theory linking economic interests and territorial involvement or clear colonization. While this version might describe some relations with large economic disparities, the 21<sup>st</sup> century (not only) Chinese version might rather be “the flag follows trade and investment”—where even the flag might be symbolic. Beijing has clearly demonstrated its willingness to take on security roles to protect trade interests and energy security, and to establish special economic zones similar to the ones in China to fully exploit its economic possibilities.

By offering a real win-win cooperation of shared interests to partners along the proposed Silk Road, Beijing can ensure their involvement in not only the implementation of the particular projects but also in enhancing China’s position in the long run. So far, China has shown both assertiveness in ensuring its national interests and sensitivity to specific stakeholders’ risks or concerns when approaching different partners from the weakest economies in Africa to the relatively better developed parts of the ASEAN countries. Ethnic tensions, including those against Chinese workers, ecological considerations, conflicting interests in the region, a new economic crisis cutting back demand for Chinese products, and a number of economic and political risks analyzed in this paper may slow down or even prevent the realization of particular investments. Yet BRI as a whole, with pragmatically changing projects and financing, seems fully viable. However, besides developing “hard” infrastructure at home and in partner countries, China also has to pay attention to “soft” infrastructure, like reducing bureaucracy, barriers to starting businesses, time lost for cargo stopped on borders, etc. and the most crucial issue: corruption. Heavy indebtedness of partners along the grandiose projects of the Silk Road might also have negative consequences on their domestic stability and their emergence as new markets for Chinese products.

Key to the success of the Belt and Road Initiative as well as to the “Chinese Dream” is how long China can continue its peaceful and relatively undisturbed rise. According to IMF estimates, if China reaches the first centennial goal, its economy (on purchasing power parity) will be 40 percent larger than that of the United States, and if the second objective is fulfilled, China’s economy will triple the size of the US (Allison, 2017).

Washington is obviously the only power that, aligned with countries sharing similar concerns about China, can slow down (and still not fully prevent) the economic and military build-up. Still, given the complex interdependencies between the two countries and heavy involvement of US companies in lucrative investments in China, the United States has been hesitant to take an open confrontation.

The Trump administration's introduction of steel and aluminum tariffs in March was quickly followed by a Chinese declaration of retaliatory measures concerning 128 US products. Although not yet a trade war, this definitely indicates a major turning point not only in US-Chinese relations, but in trade liberalization in general. Emerging protectionism and even de-globalization might be the effects of a future trade war. It is no surprise that, Beijing is interested in neither of them—as the largest economy and largest trading nation of the world, China has for quite long been the largest beneficiary of globalization. Since the first economic reforms in 1978, the whole modernization strategy has been built upon the forces of globalization, by slowly, selectively and pragmatically opening up the economy and creating an export-driven growth, while also keeping the very Chinese characteristics of capitalism, like the extensive role of the state-owned enterprises and state-owned financial system. The realization of the Belt and Road Initiative itself, along with China's strategic goals, depends on and, at the same time enhances future globalization. The interaction of these forces will be one of the most important processes shaping the 21<sup>st</sup> century.

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## The Challenges and Future of the Belt and Road – From China-Europe International Railway Perspective

Junchi Ma

The China-Europe International Railway connecting Europe and Asia is one of the important plans of the Belt and Road Initiative (hereinafter: BRI). During the plan and construction of these railways, many challenges and opportunities occurred, also leading to a learning process of China and its partners. This article argues that while creating a well-connected China-Europe International Railway, China needs to definite countries for vital supporting and countries (cities) for connections. At the same time, China should make full use of multi-layer approach in its international co-operations, initiate a more mature way of investment overseas and improve the allocation of resources.

Nowadays, the BRI is developing very fast, pushed and supported by the Chinese government and society. One of the achievements of this initiative is that several China-Europe International Railways starting from Chinese inland to European cities have begun operating in recent years, such as Yu-Xin-Ou, Yi-Xin-Ou, Shaan-Xin-Ou etc.<sup>1</sup> On the 29<sup>th</sup> November of 2013, Li Keqiang, the Chinese Prime minister, for the first time, appealed to other countries to participate in the construction of the international trade channel and the new Eurasian Continental Bridge during the 12<sup>th</sup> Summit of the Shanghai Cooperation Organization (Xinhuanet, 2013). Xi Jinping, the Chinese President also paid a visit to the Duisburg railway station and stressed that China and Germany being the two big economic entities in the Eurasian continent are the two ends of the New Silk Road Economic Belt. He stressed, the two countries could strengthen the cooperation in the New Silk Road Economic Belt (Xinhuanet, 2014). Thus, it can be seen that China places a high value on the strategic position of the international trade channel.

The paper analyzes the Yu-Xin-Ou international railway as an example in the following context, since it is among the first China-Europe international railways<sup>2</sup>. In the

<sup>1</sup> According to the latest report of NDRC, there are 23 international railways from China to Europe (NDRC, 2016).

<sup>2</sup> Chongqing-Xinjiang-Europe International Railway is called Yu-Xin-Ou in China, since Chongqing is "Yu" for short in Chinese language, Xinjiang is "Xin" and Europe is "Ou". For this reason, the author will use "Yu-Xin-Ou" in the following article.

beginning, Chongqing city of China attached great importance to the construction of the Yu-Xin-Ou rail. At the same time, on the local level, Chongqing city itself also combined the local characteristics, strengthened its own position in China and tried to highlight the exemplary role to improve the interconnection of the countries along the Belt and Road. However, the initial plan and construction of Yu-Xin-Ou faced many challenges, from which one can learn and adapt the lessons during the implementation of the Belt and Road around the Eurasian continent (Xinhuanet, 2017; Xinhuanet, 2016; People's Daily, 2017).

Therefore, the paper will focus on two related topics:

- Topic one is the evolving process of China-Europe International Railway, especially the Yu-Xin-Ou international railway. The author analyzes the challenges and lists some advantages and disadvantages of this railway and points out the reasons for them, such as that they put more focus on exchange and coordination than the construction of railway itself, etc.
- Topic two is an evaluation of challenges of the Belt and Road. The author argues that since one of the ultimate goals of the BRI is the inter-connection of the Eurasian continent and China-Europe International Railway is a key element here, the lessons can and must be drawn from such issues as for instance; how is the situation of destination market, or how to get support of the related countries, etc.

## **1. The Construction of China-Europe International Railway – A Good Example of Connectivity**

### **1.1. The Background of China-Europe International Railway**

Although there is a traditional Eurasian Continental Bridge, it is impeded. The so-called North line, which is a direct railway to Europe, starts from Manzhouli in Inner Mongolia and it goes through the Northeast of China to Europe. The most important problem is that 75 percent of this line is in the territory of Russia. The Russian federal government supports this line by lowering price, since it is Russia who benefits the most from this line. The second one, the middle line goes from Erenhot in Inner Mongolia through North China to Europe. The third one, the southern line starts from the Eastern China, and it goes through the Alafaw or Khorgas in Xinjiang, then from Kazakhstan and Russia to Europe (NDRC, 2016). These three China-Europe lines have been existed for years, but the southern and middle lines are not fully exploited for

several reasons. "Exist" means that there are no technical obstacles with the railway itself. Theoretically, goods can be transported through these two lines to anywhere in Europe. However, goods must be reloaded two times and there are customs checks for several times in some countries during the transportation. There are also long delays in the dry-ports, resulting that the whole transportation time is almost the same as the shipping-time on sea, while the price of it is much higher than the price of shipping. There were many multinational corporations and local governments along the railway line, who tried to transfer goods to Europe by using the middle and southern line, but they rarely succeeded. In May and November of 2007, China Railway Group Limited and Maersk line together transferred goods from Shenzhen through Inner Mongolia, Russia, Belarus and Poland, finally to Pardubice of Czech Republic (Middle line). By a total distance of 12,134 kilometers, the entire transport time was 20 days. The result shows that it is really a time-consuming and high-cost way of transportation. Foxconn also tried to use the southern line for 7 times, but it also decided not to use it regularly. So, these railways are connected but they are not as efficient as many people imagined. This is the first problem with the traditional Eurasian Continental Bridge.

The second problem is a logistical bottleneck in the western inland of China, which restricts exports from Chinese western provinces. China plans to implement the West Development Strategy to tap the potential of Western China thereby creating more balanced income level throughout the country, however, Western China is limited by geographical and logistical conditions, and the quality of infrastructure is poor. At the same time, the western export-oriented economy relies heavily on Eastern China due to the domestic industrial structure. Given this backdrop, Western China needs some efficient and fast logistics channels to link to Eastern China and to Central Asia or Europe. How to improve this situation and build a channel with proper infrastructure from Western China to Europe will be the essential factor in the catching up process with Eastern China and it will boost the whole Chinese economy, since there is a clear linkage between the roads themselves and economic growth (Li – Jin – Qi – Shi – Ng, 2017). This is the second problem of traditional Eurasian Continental Bridge.

## **2. How to Benefit from the China-Europe International Railway?**

Firstly, the operation of these international railways has been regular and has become a brand in the area of international logistics. All the railways are utilized by the so-called "Five-Fixed" mode, which means fixed station, fixed line, fixed train, fixed time and fixed price. For example, Yu-Xin-Ou created a rapid logistics channel between the Yangtze area, Central Asia and Europe. Today the commuting frequency

of this railway is three times a week. Up to 8<sup>th</sup> of April, 2018, there have been 1778 trains on this line since its establishment and there are plans to increase this figure to 1000 trains in this year.

Secondly, the time is shorter than the sea transportation and the cost is lower than the air transportation. For instance, Yu-Xin-Ou only takes 16 days from Tuanjiecun of Chongqing to Duisburg. If goods are transported from Chongqing to Shanghai over the Yangtze River and then to Europe by shipping, it takes more than 30-40 days. The price of Yu-Xin-Ou transportation is only the one-fifth or one-sixth of air transportation. That means that this railway will be the first choice for the regular transportation of high value-added goods. In the meantime, Yu-Xin-Ou adopted the electrification of railway with low-carbon and environment-friendly devices, especially considering that EU is planning to introduce a new tax on the highway and shipping transportation due to SO<sub>2</sub> emission control. Yu-Xin-Ou is a relatively safe, stable and efficient strategic logistics channel.

Thirdly, the China-Europe International Railway has a wide scope of radiation. "1+N" collection and distribution mode has been used, in which "1" represents Duisburg, "N" represents the countries and cities (like Antwerp, Frankfurt, Cherkessk, Alma-Ata or Kostanay) along the railway that can be taken as collection and distribution points. In Chinese inland, the extension of Yu-Xin-Ou can connect to Shenzhen, so goods from Zhu River Delta (Pearl River Delta) or Hongkong can be transported by Yu-Xin-Ou to Europe. It is equipped with great flexibility since goods can be distributed to other cities, which will meet the needs of clients with small goods volume.

Fourthly, China-Europe International Railway provides a platform for the Belt and Road, however it not only enriches the international cooperation, but the regional cooperation of Chinese provinces as well. More than 90 percent of goods come from cities like Shanghai, Jiangxi, Zhejiang and Shenzhen. The domestic part of China-Europe International Railway line, in the future, could be the distribution center of Chinese western inland and it could play a central role in the connection of China and the related countries.

### **3. Implementation and Promotion of Connectivity: The Real Reason for Success**

Firstly, the China-Europe International Railway not only focuses on railways but also on the cooperation with other countries. For instance, since the planning phase of Yu-Xin-Ou, the city Chongqing has stressed cooperation with the countries along

Yu-Xin-Ou route to promote exchanges. The governmental representatives of Chongqing visited these countries several times and held negotiations to promote the railway. Chongqing signed a friendship agreement with Alma-Ata, which also established stable friendships and high-level contacts with cities in the Russian Volga Federal District, Warsaw and Duisburg, in order to seek for the support of governments. Through the high-level contacts, Chongqing improved the efficiency and lowered the costs, for instance, the city negotiated with railway enterprises along the line about the price, and it also has negotiations with Germany about a bonded warehouse and distribution points.

The city Chongqing started to initiate concrete steps to handle security issues that might emerge while operating the line. As a first step, a joint logistics enterprise was established by Chinese Railway Group, Deutsche Bahn AG, Russian Railway and Kazakhstan Temir Zholy to increase efficiency and decrease the pressure for subsidies. The Commission for Economy and Information Technology of Chongqing also cooperated with Chinese Ministry of Foreign Affairs (hereinafter: MFA) and the related countries' embassies to solve problems during the transportation. For example, MFA mediated to receive the assistance of the Belarus Interior Ministry that finally agreed to send more security forces to protect the line due to frequent cargo thefts. Besides, Chongqing introduced the testing of China-EU safety and intelligence trade mode, under which the containers and the goods were monitored by digital means during the whole transportation. What is more, Chongqing government, Chinese Railway Group and Russian Railway signed a Memorandum of Cooperation, which linked the price, volume of goods, the coordinating mechanism of international railway and customs. Chongqing also set the segmented contractor mechanism using the principle of "regulation of mutual recognition, law enforcement of mutual assistance, information sharing" (The Diplomacy Press, 2015). The above mechanism and steps are the reason for the unimpeded southern Eurasian Continental Bridge.

Chongqing actively participated in many multilateral and bilateral cooperation mechanisms and enlarged the influence of Yu-Xin-Ou. In recent years, with support from MFA, Chongqing successfully participated in the cooperation of China-CEE countries and the Yangtze-Volga river basin cooperation. In 2013 and 2014, Chongqing hosted a leaders' summit of China-CEE countries and a Yangtze-Volga cooperation conference. By these platforms, Chongqing tried to internationally brand the Yu-Xin-Ou to attract more foreign support. September 2013, Chongqing arranged a media tour titled "Cross the New Silk Road – Yu-Xin-Ou Cultural Tour" and other large media activities to enlarge the cooperation between Chongqing, China and the EU. These activities had remarkable effects and they were highly affirmed by Chinese and



other countries' governments. Especially during Yangtze-Volga cooperation conference, the Russian MFA and Ministry of Economic Development showed great interest and gave actual support to Chongqing city. Chongqing not only stresses the importance of Yu-Xin-Ou in multilateral or bilateral cooperation, but it also actively invites foreign partners, or the representatives of the city to visit these countries, contributing to a deeper understanding of Yu-Xin-Ou. Moreover, local government also supported the construction of European products exhibition and trade center in Liangjiang New Area. March 2014, the Chinese president, Xi Jinping visited Duisburg and Dusseldorf, which are Chongqing's twin cities. He also presented the inauguration ceremony of Yu-Xin-Ou. Above all, the city of Chongqing not only attached importance to the high-level exchange but also to the local level. This approach turned out to be very successful during the implementation of the railway (Liu – Tian – Ou, et al., 2017).

Secondly, China-Europe International Railway helps culture exchanges as well. Before the launch of Yu-Xin-Ou line, Chongqing tapped the local minority's culture to organize a series of Chongqing culture weeks in the related countries and also actively participated in the China-Russia Language year. In the field of science exchange, Chongqing constructed a technology trade center in the Yangtze upriver area, which is open to the related countries and organized "Chongqing Action" to attract more high-tech enterprises to invest in the region. In addition, through the platform of Alliance of Science and Technology Cooperation with Russia, it also strengthened the cooperation on new material research, information technology, photoelectric technology, precise machining technology, biotechnology and medical technology. When it comes to education, there was also a summer camp called "Learn Chinese, See Chongqing", which was to promote youth exchange. In medical cooperation, Chongqing emphasized the establishment of international cooperation, the traditional "Chinese Medicine Go Out" project, and the exchange of medical personnel and the introduction of innovative technology. In tourism, Chongqing and the related countries set up the "Alliance of New Silk Road Tourism" and opened special direct flights or bus lines.

Thirdly, based on the above two steps, the China-Europe International Railway started to focus on the infrastructure itself, i.e. it enhanced the construction of this trade channel and promoted connectivity. On the international level, Chongqing successfully solved major technical problems. It pioneered:

- the use of a unified bill and document system;
- the satellite positioning system in containers to monitor them during the transportation;

- the use of advanced technology to solve the problem of electronic product transportation in winter;
- the application of efficient reloading procedure at the Polish, Belarusian and Kazakhstani border between the standard gauge and wide gauge;
- the opening of many branches which can distribute from Moscow, Cherkessk, Frankfurt, Duisburg, Antwerp, Malaszwicze, Dostyk, Alma-Ata and Brest.

On domestic level, Chongqing built and improved the main railway, flanking airports, highways and roads to form a shipping-air-freight integrated transportation center, which is linked to an international transportation channel. For example, Chongqing strived to build the Lanyu railway shortening the distance of Yu-Xin-Ou domestic section. In the southwest, Chongqing connected the Yunnan railway and would build a highway to connect to maritime Silk Road. In the air, Chongqing opened flight routes directly to South, Middle and West Asia, as well as to CEE countries.

## 4. Lessons from China-Europe International Railway as for the BRI

### 4. 1. Challenges

The experiences and challenges faced while implementing the China-Europe International Railway, help us understand the possible problems of the BRI, since the Yu-Xin-Ou is part of the BRI.

The first challenge is how to connect several roads or channels leading to Europe. The connection of three impeded Eurasian Continental Bridge is the basic precondition of the Belt and Road. Although the middle and southern lines are connected, they still have the difficulties as follow:

- Firstly, in the beginnings, the lack of digital tracking system resulted in serious cargo thefts; containers were opened, and goods were stolen, especially in Kazakhstan, Russia, and Belarus, in particular high value-added goods were unsafe.
- Secondly, its price is higher than the price of the shipping. It is difficult to calculate the final cost since there are different charge rates and the potential cost of the railway construction.
- Thirdly, there is a shortage of the international coordination mechanisms. The difference in culture, language, shipping methods and charge rate brings about a

real obstacle. For example, both standard and wider gauges exist, and that makes goods to be reloaded two times. Without a coordination mechanism, the retention time is long, so goods might stay in one place even for a week. Another obvious difference is the standards of customs. The customs' inspection is time-consuming and complicated, especially when they open the containers. In this case, it not only takes long time, but the goods can also get stolen easily. Moreover, the railway goes through regions with very low temperature. In winter, the temperature can reach  $-50^{\circ}\text{C}$ . Besides, many cities along the Belt and Road don't want to export too much to Europe (Li, 2015).

The second challenge is how to get support of the countries along the Belt and Road. This is the basic guarantee of the Belt and Road's success. During the early stage of the construction of China-Europe International Railway, many countries had not been supporting, since locals didn't benefit from the project too much. Only after the first successes in transporting goods to Europe and back to China, these countries began to react and participate more enthusiastically. For example, Slovakia now prefers using China-Europe International Railway to export their cars to China and they are planning to enlarge their dry-ports' capacities in order to store more goods and absorb more China-Europe International Railways to Slovakia.

As for the Belt and Road, many countries still don't comprehend the different components and goals of the Belt and Road and China hasn't clearly defined it either. Under these circumstances, it is hard to get the needed support of the participating countries. This situation brings two results:

- Firstly, China puts everything into this initiative, which makes its partners more and more confused. Nowadays, the Chinese government and society try to make this initiative multi-functional in every possible occasion. At the same time, foreign partners don't know what is under the umbrella and what is not, so they hardly find an effective way to connect to this initiative (Xu, 2015).
- Secondly, since there is no clear definition of the Belt and Road. China's partners try to understand and explain the term according to their own definition. A multi-layered and not crystal-clear understanding of the term doesn't help China's partners to understand and accept the concept.

The third challenge is that competition between domestic provinces becomes fiercer and it results in an over-consumption of resources, especially taking the local governmental subsidies into consideration. As for the China-Europe International Railways,

there were 31 cities until 2016 who established the “X-X-Ou” international railways and many cities or provinces are planning to initiate a new route. The starting cities are mainly in central or Western China, such as Chengdu, Chongqing, Xi’an, Wuhan, Zhengzhou, Suzhou, Changsha, Yiwu, Ha’erbin, Wuwei and so on, but there are several eastern coastal cities too. Some of these railways lack higher-level coordination and most of their routes to Europe are overlapping. The newly opened ones are almost totally overlapping each other (Chen, 2016). It results in having too many trains on the routes to use resources efficiently. Although the competition helps to improve the quality of the services and goods, but only markets work properly. Nowadays, the operators have negotiated separately with the foreign operators of railways or dry-ports. For example, the JSC Russian Railways has different prices for the Chinese goods from Alafaw Gate and Manzhouli Gate, the price of the former one is almost twice than of the latter one. To improve this situation in the short term, a better coordination from the central government is needed, since it would allocate the resources efficiently and avoid over-consumption. But in the long term, the only solution is to cut subsidies and allow these international railways to compete in a more market-oriented way.

#### 4.2. Suggestions as for the Belt and Road

Firstly, it is important to better connect the existing channels. A significant support of the related countries will help China to implement this initiative on both economic and political fields. For example, in Southeastern Europe, Serbia is an important country, linking China through from Southeast Asia with Central and Western Europe. The importance of the country significantly increased after renting the Piraeus Ports and raking over 51 percent of the Greek state-owned Piraeus Port Authority. Before this, a large part of the goods from Asia or other continents to Europe, would have gone from southern Europe through the Adriatic Sea into the port of Kopel in Slovenia then to Europe. This situation changed after the Chinese invested in the Greek port of Piraeus. When using the Greek port, which is closer to the Mediterranean Sea, freighters don’t need to sail to the North of the Adriatic Sea, but just unload their cargo directly in Greece then can reach Europe by faster rail transport. It can effectively shorten the cargo time. These factors determine and increase the role of Serbia and Hungary in China’s entry channel into Europe, which is the most salient purpose of the China-Europe land sea express, including the Hungary-Serbia railway (Farkas – Pap – Reményi, 2016).

From the perspective of China-EU relations, Serbia’s geopolitical status also determines that it is an important country for deepening bilateral relations and even

China-EU relations. As an official candidate country of the EU, the EU funds can still help Serbia to carry out a series of social and economic reforms, as well as improvements in the infrastructure. The current Serbian domestic roads, railways depend on the funds from the European Union. For China, this is a logical field of cooperation, where China and the EU could cooperate in order to improve infrastructure in Serbia. Common projects of China and the EU could lay the foundation for a better communication between enterprises from the EU and China. In addition, China can also use the opportunity to adapt European technology and standards, which are useful when Chinese firms enter the Single Market.

Secondly, to motivate countries along the Belt and Road, China should choose appropriate countries (cities) for connection. These connecting points (countries, cities) are to strengthen the interconnection of the Belt and Road and strengthen the central role played by the countries for vital support. With the help of connecting points, these targeted countries could be linked closer to China and they could improve the interconnectivity between the regions.

For example, by now China has fully understood the various characteristics and economic values of Central and Eastern European countries and it has implemented measures according to these characteristics. Therefore, while coordinating with these countries, China put more emphasis on several countries than others. At the same time, China strongly encourage their neighbor countries to actively participate in these cooperation frameworks in order to enlarge the effect and make longer-term profits for the region. A road cannot be called connected, unless it is linked to the roads of neighboring countries.

Thirdly, China should make full use of multi-level international cooperation. Chongqing actively participates in the cooperation of China-CEE countries and China-Russia Yangtze-Volga River basin cooperation, which is an effective exchange platform and a chance to promote their own products. Mechanisms of international cooperation provide the cooperating countries with a cooperative framework and opportunities. By using it, China and its partners can exchange and discuss the main concerns. It can push the cooperation between China and several regions, which will help the formation of unimpeded Eurasian Continental Bridge. However, there is also a phenomenon that China tries to put many other contexts into the BRI. This needs to be reconsidered, since the Belt and Road concept itself is not very clear in the eyes of China's partners yet. If China still keeps adding new things into the BRI, it will not help its partners' understanding. The more confusion means more wait-and-see or opposing attitudes in these countries.

Fourthly, China needs a more mature way of investment. Nowadays, China invests a lot overseas, but if we examine the industry sectors, there is no clear direction, and the normal mode is merge and acquisition, while building joint venture enterprises with local partners would benefit more Chinese firms. These joint ventures could share risks and take advantage of local experiences to develop more steadily, at the same time, connecting these economies can bring about profit to local people, which will make them accept and understand the Chinese way of living and making business. Besides, up to now, there are mainly state-owned enterprises that invest abroad. They should pave the way for private ones. The essential part is that there should be industrial clusters when a leading Chinese enterprise goes out, like German car-makers in CEE region. This industrial cluster will not only help more Chinese enterprises to internationalize, but it also will create a network of local suppliers. All of them will produce a sound market in the given countries, which will have more motivation to enlarge cooperation with China this way.

Fifthly, China and its partners need to realize that the transportation volume by these railways is still limited considering the volume of global transportation. Although the price of each container went down from 9000 USD to 6000 USD on these railways, the traditional sea transportation mode is still dominant between China and Europe (Tong – Wen – Fan – Kummer, 2010), which almost accounts for 97 percent. Domestically, the eastern coastal cities have their own natural advantages in the ports and the connecting railways and highways, so they should focus on and make full use of the existing advantages, rather than explore the areas where the western provinces have advantages.

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# A New Chinese Model of Economic Development or the Renewal of the Asian Developmental State Model?

Csaba Moldicz

This paper investigates the question whether the contemporary Chinese economic policy has renewed policies of the former Asian developmental state model (once typical in Japan, South Korea and Taiwan) or the Chinese economy model has only borrowed a few elements of the developmental states and offers a new economic development model to the world. It also raises the question: what are the main similarities and differences between the characteristics of Chinese economy and the basic elements of the original developmental state model? In order to find appropriate answers to this question, the paper first needs to describe the main findings of the literature of the developmental state. In this paper, these basic features of the original developmental state model will be compared to the contemporary Chinese characteristics of economic planning and development, thus the paper puts a strong emphasis on the institutional elements of the Chinese economic policy. It must be underlined, that in this paper, the original features of the developmental state serve as basis for our comparison, and the author is aware of the fact, that due to the increasing internationalization of economies, the original model cannot be simply emulated.

## 1. The Question of the Economic Model

Finding 'all-size fits' recipe to the economic problems of developing countries is similar to squaring a circle, and maybe the biggest challenge to economists. Over the last decades, one of the few countries that has managed to break out of the vicious cycle of poverty, has been China. For many decades, after the Communist party took over Mainland China, and the Kuomintang fled to Taiwan, economic disaster, growing poverty and famine characterized the development of the Chinese economy. China's economic experiments began right after 1979, and after the collapse of the Soviet Union and Eastern European communist regimes, China managed to jump-start its sluggish economy. However, the price to pay was abandoning plans to reform 'real socialism'. In the 1990s, China set off on a path leading towards liberalization and the opening up of the economy, while building a huge domestic market. Due to these reforms and successes, China is the second largest economy in the world, and it has grown into a middle-income country.

The Chinese success and example is extraordinary, but not only because of the pace and sustainability of economic growth, but also because of the size of the experiment. Burleigh draws our attention to this problem: “Hopes of the CCP evolving into Singapore’s authoritarian People’s Action Party—as Deng Xiaoping and Lee Kuan Yew mused—ignore the problems of scaling up what works in a tightly controlled city-state of 5 million people to a complex society of 1.4 billion people in thirty-three provinces (some much bigger than the biggest European states) in a vast country” (2017, p.198). At the same time, the term model must be interpreted cautiously, it suffices to refer to Deng’s often cited sentence, “groped for the stepping stones as crossed the river” to see that Chinese leaders have always been aware of the constraints on the implication of other countries’ best practices. As Vogel puts it: “But Deng realized he could not simply import an entire system from abroad, for no alien system could fit the unique needs of China—which had a rich cultural heritage but was also huge, diverse, and poor. He realized what some free-market economists did not, that one could not solve problems simply by opening markets; one had to build institutions gradually”.

Burleigh’s emphasis is only put on the size, and, indeed, scale of the economic experiment matters, however, sceptic voices do not realize the potential offered by new technologies that can help the Chinese Communist party to build a controlled and a well-functioning economy and society. Notwithstanding, the strong rule of law can be highlighted as different from the Singaporean one, as its theoretical and practical application must be weaker in a society ruled by one party. It must be emphasized that there is a lot of feedback in the contemporary Chinese political system unlike in the former Soviet political system, but ultimately, the Chinese Communist Party can overwrite the basic rules as often as it wants. The other crucial difference is that a large part of officials are not recruited based on merits as in developmental states, but many are still chosen from the party nomenclature. However, before solving this dilemma, we first must understand the model provided by the state developmental state, and we must revisit the literature as well.

## **2. Characteristics of the Developmental State and Its Application in the Case of China**

Focusing rather on microeconomics, classic economists of the 18<sup>th</sup> and 19<sup>th</sup> century did not concentrated on macroeconomic issues, economic development questions and the state’s role in the economy. Neoclassical economists of the 20<sup>th</sup> century, however, emphasized ‘one size fits all’ solutions to problems of both advanced and

developing countries, not distinguishing between the needs of developing countries and those of advanced countries.

The Great Depression of the 1930s can be viewed as a turning point in economics since John Maynard Keynes and the Neo-Keynesian economists highlighted the importance of state policies in general, and in times of economic crises in particular. However, only after WWII did economists start to address economic development issues by searching for the reasons for backwardness, and policies to jump-start the economic growth of the poorest nations. Thus, after 1945, development economics became one of the emerging subfields in the study of economics. Since then, its main goal has been to define the basic preconditions of rapid economic development, offering pragmatic answers to problems of underdevelopment. These schools of thought—popular in the 1950s and 1960s, in the era of decolonization—differed widely from each other in their origins, methodology and conclusions.

In the 1980s and 1990s, mainstream thinking was dominated by neoliberalism, which offered one-sided and one-size fits all solutions. One of the most popular recipes was the Washington Consensus, which stemmed from 1989 and dominated the 1990s and the period up to 2008-2009. This paradigm that lost much of its popularity after the Great Recession, rested on two main pillars: more competition and smaller state (Ostry – Loungani – Furceri, 2016, pp. 38-41), whereas the opening up of the economy often led to externally financed economic growth in many countries. This sort of growth was fueled in good times by foreign direct investments and in troubled times by foreign credits creating financial bubbles. The prescription provided by the Washington Consensus also included privatization, open trade policies and deregulation. After the crisis, this approach has fallen from its pedestal. One of the main consequences has been the end of the foreign finance reliant growth model, as in Iceland and the Eastern European countries. Moreover, another element which has changed the economic policies of the post-Great Recession period, is the renaissance of industrial policies, bolstering the notion that competent bureaucrats are able to manage state involvement in productive sectors.

No surprise, attention has turned to the economic development policies of China, which has been successful over the last decades. However, China's experiences may influence other countries, though clearly they are unrepeatable by any other nation. Moreover, the outcome of the Chinese experiment is more obscure than ever. The 'developmental states' of the Far East deliver more relevant lessons to other developing or middle-income countries.

The developmental state paradigm is not the only attempt to frame and interpret the Chinese model. The concept of the 'Beijing Consensus'—a clear hint at the Washington Consensus—was coined by Ramo, who stressed three crucial elements of the Chinese success: the value of innovation, the rejection of GDP per capita approach and self-determination (Ramo, 2004, pp. 11-12).<sup>1</sup> Although the term was frequently used for a shorter period, it failed to reflect many other characteristics of the Chinese economic development and contrast Chinese experiences with the example of Japan and the Four Tigers (South-Korea, Taiwan, Singapore and Hong Kong).

First the paper examines how the original characteristics of developmental states can be utilized in the context of contemporary China, and this compilation of distinguishing features (see below) is based on the consensus of the literature.

Chalmers Johnson was the first conceptualizing the term 'developmental state'. He emphasized the competent and far-sighted bureaucracy as the defining feature of the Japanese economic miracle. The purpose in making a distinction between capitalist and socialist economies, was to draw attention to differences, not to similarities in these economic systems. As he put it: "One of my purposes in introducing the "capitalist developmental state" into a history of modern Japanese industrial policy, was to go beyond the contrast between the American and Soviet economies" (Johnson, 1999, p. 32).

<sup>1</sup> The dilemma in the Washington/Beijing consensus, or developmental states, is whether a convergence or divergence of economic institutions is to be observed. While different national needs require diverse policies, pointing to divergence in the models, economic globalization confronts these countries with the same problems, forcing them to use similar approaches leading to convergence. Wan points out that there are essential differences in the literature with regard to the convergence/divergence question: "Modernization theorists argue that developing nations should converge with developed nations if they want to achieve development. Neoclassical economists also believe that national economies will eventually converge as a result of market forces or harmonization through political negotiations. An opposing school sees a persistent divergence among nations" (Wan, 2007, p. 22). Rostow's five stages growth model can still be viewed as a neoclassical approach to economic development, since he develops a theory of uniform pattern economic development (Rostow, 1960). Gerschenkron goes one step further in his 'Economic Backwardness in Historical Perspective' emphasizing the role of the state. The more backward the country is, the more interventionist an approach is needed from the state in channeling the capital to newborn industries. He clearly opposes the idea of uniform development, but he still believes in convergence (Gerschenkron, 1964). Wan's reference to the 'opposing school' includes very diverse schools of developmental economics, which, in contrast to the neoclassical free-market counterrevolution, do not take convergence for granted. Moreover, one of these schools, the international dependence school, advises a delinking strategy to developing countries based on the assumption that the coexistence of poor and rich countries is being dominated by such unequal power relationships that it makes it impossible for poor countries to catch up with the most developed ones (e.g. W. Arthur Lewis, Hollis B. Chenery, Gynnar Myrdal, Celso Furtado, Raul Prebisch etc.).

Later, the concept of 'developmental state' became popular, and major contributions were made by Alice Amsden (*Asia's Next Giant*), Robert Wade (*Governing the Market*), and others. However, the emphasis was shifted in some cases, some analysts highlighted infrastructure investment, and several policy tools (saving and credit giving schemes, foreign investments, export zones, government interventions to spread technology etc.), history, culture. Only Hong Kong adopted a free market approach among the Asian Tigers. In South Korea and Taiwan, where governments were not democratic, economic performance was needed to legitimize the political regimes. One of the often-recurring arguments is that a strong state is needed to mobilize resources for public goods, since only a strong state is able to convince people and firms about the necessity of painful political adjustments. At the same time, politicians must be credible in the strategy to convince the private sector.

Macroeconomic and political stability are crucial, let us say, they are preconditions of economic success. In each of the cases, the import-substituting policy was part of the history, however short-lived. Another common element in the economic development of these countries was the importance of agriculture, which was not heavily-taxed and agricultural workers were not impoverished. A strong social infrastructure of family, local communities supported by the culture, as well as a modern physical infrastructure financed by governments and donors are to be found in Japan, South Korea and Taiwan. In each case, the 'benevolent' external supporter—the United States, pursuing its own political and economic interests—is also there to aid the countries and advise the elites of these societies.

When it comes to the peculiarities of the industrialization process; the structure of firms, the way how domestic firms are linked to the world economy and the role domestic firms have in the supply chains tends to differ, but they do not matter, when it comes to success. In our understanding, these are the most important elements of the developmental state concept:

- economic development planning with far-sighted bureaucracy,
- huge reservoirs of cheap labor,
- foreign influence on economic policies,
- the link between long-term economic success and democratic institutions,
- and export-orientation.

In the 1990s, globalization and the opening up of national markets made the debate on the developmental state paradigm less heated, and Japan's economic struggles and the ongoing internationalization of economic activities seemed to make the model

obsolete and unattractive. However, China's economic success, along with its interventionist approach to economy reignited the debate on the developmental state.

## 2.1. Economic Development Planning and Far-Sighted Bureaucracy

Planning and efficient bureaucracy are key elements in ensuring a long-term vision of the economic policy. In Japan, the MITI (Ministry of International Trade and Industry) guided the firms in the targeted industries, which were supposed to be the future growth engines of the economy. In the initial phase, they subsidized firms and supported their export-drive. In South Korea, an Economic Planning Board was established in 1961, aiming at formulating and implementing long-term economic plans. Banks under the government of Park Chung Hee assumed a role of guidance and effective control of South Korean firms, while the key means of control were access to credit and capital. Today, the Ministry of Strategy and Finance is responsible for economic planning. In Taiwan, the predecessor of the Council for Economic Planning and Development was established in 1948 and was emerged with Research, Development and Evaluation Commission to form the National Development Council. In Singapore, the so-called Singaporean Economic Development Board formulates strategies that are supposed to enhance the competitiveness of the economy. The board functions under the Ministry of Trade and Industry, and even today around one third of the country's GDP is in the purview of the board that promotes investment and developed industry in the manufacturing and internationally tradeable services sectors.

In China, although economic planning has been practiced since 1953, its nature changed after the economic reforms started in 1978 (Chow, 2011, p. 1). After several institutional metamorphoses, today the National Development and Reforms Commission must "formulate and implement strategies of national economic and social development, annual plans, medium and long-term development plans; to coordinate economic and social development; to carry out research and analysis of domestic and international economic situation; to put forward targets and policies concerning the development of the national economy, the regulation of the overall price level and the optimization of major economic structures, and to make recommendations on the employment of various economic instruments and policies; to submit the plan for national economic and social development to the National People's Congress on behalf of the State Council" (NDRC, 2017). As it can be seen, the functions of the NDRC are comprehensive from the formulation to the implementation of the five-year plans. Although we cannot see the term planning in the name of the NDRC, the Commission continues to prepare these plans, and the National People's Congress

has to approve the plans, which vividly shows the importance of planning. Indicators of the economic development are formulated in target numbers. The 12<sup>th</sup> Five-Year Plan contains 24 target numbers, which the 13<sup>th</sup> Five-Year Plan evaluates, which is not difficult since the targets are formulated in numbers.

Table 1

## Fulfillment of the Main Targets of the 13th Five-Year Plan in 2015

	Target	Fulfillment
Economic development		
1. GDP growth (trillions of yuan)	7%*	7.8%*
2. Value added of the service sector (as of GDP)	47%	50.5%
3. Permanent urban residents	51.5%	56.1%
Science, technology, and education		
4. 9-year compulsory education completion rate	93%	93%
5. Senior secondary education gross enrollment rate	87%	87%
6. Research and development expenditure rate (as of GDP)	2.2%	2.1%
7. Patents per 10,000 people	3.3	6.3
Resources and environment		
8. Arable land (millions of hectares)	121.2	124.3
9. Water use reduction per unit of industrial value added (%)	30%*	35%*
10. Agricultural irrigation efficiency	0.53	0.532
11. Non-fossil energy (% of primary energy consumption)	11.4%	12%
12. Energy consumption reduction per unit of GDP	16%*	18.2%*
13. CO <sub>2</sub> emissions reduction per unit of GDP (%)	17%	20%
14. Aggregate major pollutant emissions reduction (%)		
Chemical oxygen demand	8%*	12.9%*
Sulfur dioxide	8%*	18%*
Ammonia nitrogen	10%*	13%*
Nitrogen oxide	10%*	18.6%*
15. Forest growth		
Forest coverage (%)	21.66%	21.66%
Forest growing stock (billions of m <sup>3</sup> )	14.3	15.1
Living standards		
16. Urban disposable income per capita (yuan)	>7%	7.7%
17. Rural net income per capita (yuan)	>7%	9.6%
18. Registered urban unemployment rate (%)	<5	4.05%
19. New urban employment (millions of people)	45*	64.3*
20. Urban participants in the basic pension plan (millions of people)	357	377
21. Basic state health insurance coverage (%)	3*	>3*
22. Government subsidized urban housing (millions of units)	36*	40.13*
23. Total population (billions of people)	<1.390	1.375
24. Average life expectancy (years)	74.5	76.34

Source: The 13th Five-Year Plan for Economic and Social Development of the People's Republic of China (2016–2020) pp. 8–9.

Note: figures with asterisk show 5-year average.



Looking at this table, it is clear, that the Chinese planning bureaucracy was careful of choosing measurable targets and indicators by which it was easy to reach the goals. To our understanding, the more powerful the state is, and the more direct access the state gains to influence economic processes, the easier it is to reach these goals. Therefore, the share of state-owned enterprises (SOEs) is measured in several aspects. Unfortunately, the latest data we have access to are from 2011. Based on the China Statistical Yearbook 2012, the number of SOEs shrank from 39.2 percent in 1998 to 5.2 percent in 2011. However, during the same time, the gross industrial output only fell to 26.2 percent (1998: 49.2 percent), while the share of total industrial assets dropped to 41.7 percent (1998: 68.8 percent). This shows that the concentration process has been going on over these years, and the productivity has been rising among these enterprises. It is worth noticing sectors like textiles, rubber, general machinery, where SOEs no longer are dominant forces. These branches are usually labor-intensive and contestable sectors.

In international competition, complaints of other countries address the question of the preferential treatment of SOEs in form of licenses, contracts and bank-financing. Karpov maintains: "The second dimension is a very specific "market-oriented" price reform, which Chinese experts usually call "double-track", meaning the parallel existence of "plan" and "market" pricing in the national economy. In fact, instead of "double-tracking", what emerged from this gradual reform was rather a "multiple-track" price setting. ...Each "track" is, in fact, a sum of conditions on which different units-players of the system participate in the domestic "market". This sum of conditions for a certain unit is achieved through non-transparent bargaining between this unit and the related level of party-state authorities or between mutually depending units under control and patronage of the related party-state organs. By such bargain economic players in the given setting define the scale of quotas of raw materials and processed produce to be procured or sold on "plan" and "non-plan" prices" (Karpov, 2018, p. 193).

The report of the U.S.—China Economic and Security Review Commission corroborates Karpov's general assessment when analyzing data from the Chinese economic stimulus packages in 2008-2009. The percentage of state-owned enterprises in loans (SOEs) rose from 35 percent (2008) to 45 percent (2009) (China-United States Exchange Foundation, 2012, p. 11). At the same time, even later declining ratios over-represent their diminishing share in the economy.

Besides economic planning, there is an often-overlooked element, which is essential in the implementation of plans. Far-sighted and independent bureaucracy is the key

in the implementation part. In the 1950s, 1960s and 1970s, the selection of bureaucrats was rarely based on merit. Even enrolling in academic programmes was deeply influenced by party-loyalty. Only at the end of 1970s, requirements to enter university were raised. As Vogel (2011) observes in relation to the upper education system: "The system Deng introduced in 1977 has continued ever since, creating a cascade of positive results for China. As in Japan, South Korea, Taiwan, and Singapore, Chinese university entrance examinations raised the quality of both university applicants and recruits entering the workforce."

To sum up, traditions of economic planning are stronger in China than in other advanced Asian countries, thus despite the declining shares of SOEs, the Chinese economy heavily intervenes in economic processes, and the main tools of interventions remain the SOEs. If the government really would privatize and move these firms to market reforms, it would mean abandoning control over the economy. Western observers often maintain that the Chinese Communist Party does not want to reform this sector wholeheartedly, but the experiences of the four Asian Tigers, in particular, those of Japan and South Korea demonstrate that close controls of the economy might be maintained over banking loans and other economic policy tools as well. At the same time, it must be underlined, that the independence of bureaucrats is more restricted currently, mainly based on the Communist Party's direct influence.

## 2.2. Huge Reservoirs of Cheap Labor

In the initial stages of development, both Japan and the four Asian Tigers had undergone a period, when emphasis on cheap, hardworking labor provided international competitiveness and significant external revenues to the economy. Based on net exports and current account surpluses, financial stability and reliance on internal financing of the economy could be ensured. Export products came from sectors, where capital ratio was low, skilled workers were less in demand. The export-orientation was maintained later, however, it was complemented by the export of high technology products and growing domestic consumption. In the mature stage of economic development, the currency exchange rate became a crucial element, since in each case, these advanced Asian countries were attacked for maintaining artificially low exchange rates. Nevertheless, later Japan, South Korea and Taiwan switched to freely floating exchange rates and let their currencies appreciate. By focusing on high added value segments of production and services, these countries were able to avoid the so-called 'middle-income country trap', which refers to the problem of countries that kickstarted their economic growth by relying on cheap labor. The successes of this

strategy made the continuation of the very strategy impossible, since rising incomes made cheap labor not cheap anymore.

It can be argued that China has already reached the so-called Lewis-turning point. This point is reached, when a country runs out of surplus rural labor, and labor shortages (at least on this wage level) can be observed until a rise in agricultural and unskilled wages generates labor surplus again. Between 2008 and 2016, the Chinese average wages doubled. In 2008, the average yearly wage was 29.229 RMB, the same figure was 65.569 RMB in 2016.<sup>2</sup> The rise in incomes adversely affects the competitiveness and new competitive advantages must be found. That is the point, where the Four Asian Tigers managed the breakthrough and the Eastern European countries failed to transform their economy and stuck in a limbo where they are not cheap anymore, and not advanced yet.

However, it is apparent that wage costs have significantly soared in China over the last decade, though urban population share certainly has not reached the level typical for advanced countries. This ratio in China was only 58 percent in 2017, which is a very low figure compared to Japan (94 percent), Germany (76 percent), United Kingdom (83 percent), United States (82 percent) and South Korea (83 percent). In other words, it is more than possible that there is plenty of surplus rural labor capable to migrate and work on low wages in the decade to come. The menace threatening this model might not come from surplus shortages, but the ever-growing inequality within the society. Until that point, similarities between China's economic development and Japan's, the Four Asian Tigers' path were clear and striking. However, Japan and the other advanced economies implemented policies aimed at improving wealth distribution in the society. For example, a special characteristic of Taiwan's development was—regardless of huge foreign capital inflows and high growth rates—that the income inequality decreased permanently: the Taiwan Gini index was 0.56 in 1953, 0.32-33 in 1963 and 1968, and decreased to 0.29 in 1973 (Barrett-Whyte, 1982, p. 1069). Bourguignon – Fournier – Gurgand (2001) state that this tendency of low income inequality lasted until the mid-1990s and the globalizing world economy reversed this trend. But still, we compare Gini indexes of Japan (2008: 0.33), South Korea (2012: 0.32), and other advanced countries' indicators (Germany 2011: 0.30; United Kingdom 2014: 0.34; United States 2013: 0.41) to China's Gini index, the difference is significant (China 2015: 0.44).<sup>3</sup>

<sup>2</sup> Data are from [www.tradingeconomics.com](http://www.tradingeconomics.com)

<sup>3</sup> Data are from World Bank's database. In each case, the latest available data was given.

A growing gap between the haves and have nots is an inherent feature of the Chinese economic development path, standing in sharp contrast to the Asian developmental states. It is not absolute given that this situation cannot be changed. In the Asian developmental states, the rural land reforms implemented the land to the tiller principle, which contributed to a relatively equal distribution between the urban and rural population. The success of the land reform after WWII was another shared element with South Korea and Japan. In each case, the reform was considered as an initial condition, which significantly contributed to later industrial successes. As Ranis contends, "A second, related and substantial initial advantage, shared in the region only by South Korea, was that of a three-step land reform, implemented between 1949 and 1953" (Ranis, 2007, p. 37). In the case of Taiwan, it provided savings, the necessary initial step, in order to build up a broad industrial base. At the same time, the land reform meant a shift in the structure of agricultural products as well; the new products required more labor, but they could be sold in international markets.

In Japan, Takada stresses the salience of the agricultural reform as well. According to Takada, America's reform efforts targeted the break-up of the zaibatsu system, the speed up of the land reform and the democratization of the labor market. The land reform meant that "landlords were forced to sell their holdings of land. These lands were bought up by the government for redistribution to tenant farmers" (Takada, 1999, p. 8).

In China, the land reform was initiated in 2014, aiming to grant farmers more rights to benefit from collective land in villages. The reform did not allow for the farmers to purchase the collectively owned land, but they could gain a share in the collective assets. The pilot programme, which started with 129 counties was extended to include 300 counties in 2017. According to plans, the reform will be implemented by the end of 2021.

### 2.3. Foreign Influence on Economic Policies

The first advances in infrastructure in Japan, South Korea and Taiwan are easily traceable to the same kind of foreign influence, and their general positive impact can be viewed as essential element of their economic development. Although Singapore was colonized by the British, it is obvious that the country's rapid economic development cannot be linked to positive British influences on the economy. The free trade approach, which stands in contrast with Japan, South Korea and Taiwan, particularly in the first decades of the afterwar-period, is rather a necessity than choice of the economic policy planners in Singapore.

As for Taiwan, Ranis (2007), Booth (2007), and Thorbecke – Wan (2007) also highlight the overall positive effects of Japanese colonization between 1895 and 1945. Ranis put it this way: "Taiwan's colonial heritage undoubtedly made an important contribution to subsequent economic growth. The Japanese colonial administration—if for its own selfish reasons, such as its need for sugar and rice—expended substantial resources and attention on Taiwan's rural sector, in the form of road, drainage, irrigation and power construction projects. It also improved the rural institutional infrastructure through promotion of agricultural research, creation of experimental stations and, most importantly, the establishment of farmers' associations" (Ranis, 2007, p. 37). When it comes to the effects of Japanese colonization, Taiwan stands out, since colonization rarely generated positive effects in other colonized countries. Referring to an unpublished paper by Matsuzaki, Fukuyama states that the success of state-building in this case depended mostly on the autonomy of the agents on the ground (Fukuyama, 2015, pp. 313-322). That was a good start for economic development, however, the benefits were clearly restricted to improvements in the island's infrastructure. The Americans had a similarly strong influence on the Taiwanese economic policy through economic aid and assistance in the 1950s and 1960s. Japan's economic reforms were forced or led by the Americans after the WWII. Takada summarizes the power relations leading to America-influenced economic institutions as follows: "The Occupation of Japan took the form of indirect rule due to the existence of the Japanese government, but the reform policies set forth by the Allied Powers was more of a direct rule to Japan. General Douglas MacArthur as the Supreme Commander for the Allied Powers (SCAP) led the Occupation and the first step MacArthur took before implementing the reform policies were to establish economic demilitarization and to ensure that all production of military materials had stopped and closed down" (Takada, 1999, pp. 6-7). The three initial reforms: the breakup of zaibatsu, the land reform and the democratization of the labor market enabling the formation of trade unions, were followed by the so-called Dodge-plan, which had three reform elements: the creation of balanced budget, the suspension of new loans and the abolition of subsidies. The Dodge-plan was aimed at curtailing inflation.

The South Korean land reform also shows the importance of foreign influence. Kang emphasized political motivations behind the American push: "The U.S. State Department recommended land reform in South Korea in 1947 to show a strong commitment to keep ROK safe from the Soviet influence. Land reform was one of the necessary safeguards that needed to be placed before leaving, in association with financial assistance and supervision through the World Bank. The United States forced the Rhee government to implement land reform that the National Assembly had passed in 1949" (Kang, 2011, p. 134). It was very clear to the Americans that strong state and

robust economic growth complement each other, and the economic aid was substantial in the Korean case as well. In average, around 200 million USD was granted to South Korea, which reached 70 percent of the state's revenues in 1958. In other words, American aid was the only available financial source for South Korea in the 1950s.

As for China, it is clear that the humiliating treaties with the colonizing European powers, and the separated economic and political development of Hong Kong until 1997 deeply influenced Chinese decision-makers in the afterwar-period, Mao Zedong's and Deng Xiaoping's decisions in particular, which aimed to create a political and economic environment in which none of the external powers (including the Soviet Union) could influence the way the Chinese have been organizing their economy. Vogel maintains in his book (Vogel, 2011) that Singapore served as model for Deng, however, it soon became clear to him that only a few elements could be borrowed from the model countries.

China's remarkable economic progress has shaped and altered the attitude of Chinese leaders to the question of economic (political) model profoundly because Deng Xiaoping's 'keep a low profile' advice has been replaced by a more assertive approach claiming the superiority of the Chinese model over Western systems (Bardan, 2017). However, this step leads us to the next feature of developmental states, namely, democratic institutions.

## 2.4. The Link between Long-Term Economic Success and Democratic Institutions

Although there are still many different approaches to economic development problems, there has been a growing consensus among development economists over the last decades that the nature of economic and political institutions is crucial in explaining success or failure, as they are key elements in creating and maintaining a favorable environment for businesses and innovations, as long they are able to include broad layers of society. See these three examples of typical approaches:

- Acemoglu – Robinson argue that the way institutions within society are organized is decisive in the outcome, in the productivity of the economy and the well-being of citizens (Acemoglu – Robinson, 2012).
- This very old argument was first used by Lipset (1959), who connected economic success with democratic pluralism, thus provoking debate.

- A modern version of this argument is to be found in Ferguson, who summarizes all these crucial elements of success under six headings: competition, science, property rights, medicine, the consumer society, and the work ethic (Ferguson, 2011, p. 12). These “killer apps” not only characterize Western European countries, but Taiwan as well. However, these explanations put more emphasis on similarities existing between Western and Asian success stories, while the ‘developmental state’ paradigm underlines discrepancies between Western and Asian free market models.

However, the paper argues for the exclusion of this element from the basic features of the developmental states. Why? Because among the Four Tigers, Hong Kong and Singapore not only differ from South Korea or Taiwan in terms of size, but also in terms of their position on democratic values. In addition to Taiwan and South Korea, Japan no doubt has inclusive democratic institutions, while Hong Kong’s special status and Singapore have been featured as partly free countries in the latest Freedom House Report (2018).

Another aspect at this stage is that all three; Japan, South Korea and Taiwan were already embarking on a path leading to economic success, when they were not democratic countries yet. Ley and Fukuyama are keen to point out that democracy is not a necessary element of the catch-up process. They argue that the success of a political order can be measured by different indicators. However, theoretically, there are five important elements which matter in the long run:

- the rule of law;
- rapid economic growth;
- democratic institutions;
- a competent and efficient state bureaucracy; and
- a vibrant, strong civil society.

Levy and Fukuyama (2001, p. 3) compiled this list of components that are crucial to implementing a successful development strategy. There is a broad consensus on the essential elements of a successful political order, however, there is disagreement over whether the sequencing among these elements matters or not. While Mansfield and Snyder are cautious about democratization without having an efficient (impartial), relatively competent state-mechanism<sup>4</sup>, Carothers and Berman doubt whether get-

<sup>4</sup> “Based on these findings, we argued that it is dangerous to push states to democratize before the necessary preconditions are in place and that prudent democracy-promotion efforts should pay special attention to fostering those preconditions” (Mansfield – Synfeld, 2010, p. 159).

ting the sequence just right (first state-building before holding democratic elections) is necessary to reduce the risk of violence during the transition (Carothers, 2007, pp. 17-27; Berman, 2007, pp. 14-47).

Along with Fukuyama, they argue that, aside from the East-Asian examples, it is difficult—almost impossible—to break the self-reinforcing cycle between autocratic political institutions and extractive economic institutions exploiting most of the population. Fukuyama put it thus: “The problem, as Carothers points out, is that the number of cases where one can find genuine development-minded autocrats is extremely small. Carothers is also right that outside powers greatly overestimate their influence if they think that they can somehow determine the sequencing of reforms. I would simply add that virtually all the real cases of this kind of sequencing have occurred in East Asia, where Japan, South Korea, Taiwan, and Thailand (at least until the September 2006 military coup in Bangkok), which countries have made democratic transitions. Moreover, the authoritarian governments in China and Singapore have built impressive economic growth records. It is no accident that these cases are grouped in East Asia. Many countries in that region had long traditions of strong states with merit-based bureaucracies well before they began modernizing. Confucianism is in part a doctrine about the state, and it prescribes clear rules for bureaucratic authority and recruitment that have provided a cultural foundation for the region’s so-called developmental states” (Fukuyama, 2007, p. 10). One feels tempted to accept Fukuyama’s argument linking Confucianism to the developmental state, however, one might also raise the following questions:

- Why did not the developmental states emerge much earlier, since Confucianism was there well before the 1950s and 1960s?
- How can one explain the case of Vietnam, where though Confucianism is practiced, the developmental state was not formed?
- How can one explain Japan’s developmental state, where though Confucianism is being practiced, the main religions are Shinto and Buddhism?

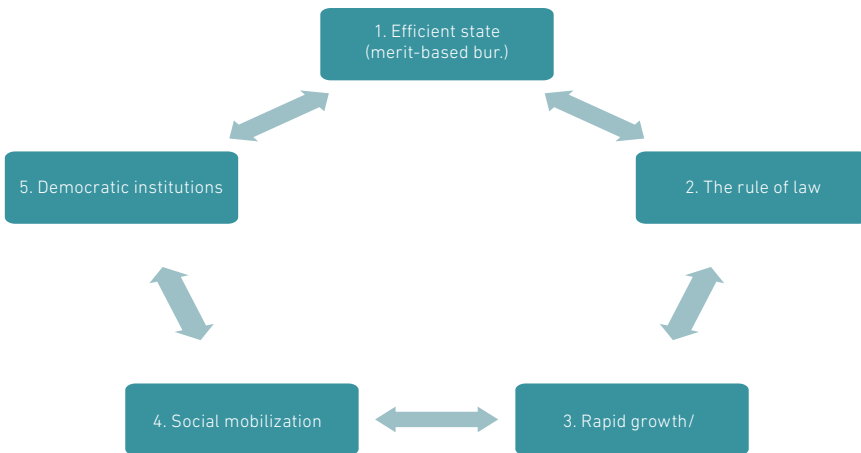
Clearly the idea goes back to Max Weber, who explained the economic success of England and the Netherlands with Protestantism and its work ethic. However, we face the same problem with this argument, since it does not explain the very late emergence of the developmental state.



Based on the idea of sequencing, the crucial question that remains is: what are the possible scenarios countries may face in their development? Fukuyama delineates three basic models<sup>5</sup>, from which the Prussian/German or Japanese sequencing is the most akin to the Chinese development path, at least until now. He maintains that in the German/Japanese model, the first step was to build an efficient state (step 1), which required bureaucrats, who could rely on rules, and thus the implementation of a system based on the rule of law followed (step 2). The two elements prepared the stage for an economic take-off (step 3) around the end of 19<sup>th</sup> century. This might explain why in this example the state has had a much larger role in economic development than in England. In the decades of the economic boom, a new social class—that of the workers—emerged (step 4), demanding more participation in the political system (step 5). As we know, it was only after WWII that liberal democratic institutions could be stabilized in Germany and Japan.

Diagram 1.

#### The German/Japanese Path



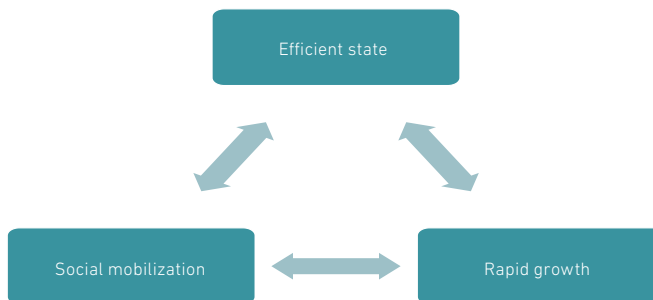
Source: own diagram based on Fukuyama 2014

<sup>5</sup> Besides the German, he finds the models in the US and Greece/Italy. He maintains that the American society took a different path from the German, since the first element was rule of law (step 1), which along with the early democratization of the country (step 2) laid the foundation for fast economic growth (step 3). The economic growth created strong social mobilization (step 4), which supported state-building (step 4). As we can see, state-building, which was the first stage in Prussia, came last in the United States. At the same time, Fukuyama demonstrates that, in the cases of Greece and Italy, social mobilization and democratization preceded state-building and economic growth. This sequencing is detrimental to stability, if the rule of law is not implemented properly (Fukuyama, 2014, pp. 198-216).

In the Chinese model, the formation of more or less efficient state/bureaucracy is the first element (step 1) followed by robust economic growth (step 2), and the emerging middle-classes (step 3). However, the rule of law and the democratic procedures based on consultation are weak if only measured in Western terms. There is a clear modernization process, since the Chinese model is more democratic than it had ever been. It tries to function more democratically, albeit only selectively: on local level, and within the Communist Party itself. Goralczyk refers to Zheng Yongnian's works in Chinese, who maintains that China is in a phase of strengthening its society. And as in the case of Taiwan and South Korea, after this phase, he argues, the country will be ready to conclude the democratization process (Goralczyk, 2017, p. 45). However, there is the example of Singapore, where in addition to the former element, the rule of law is firmly implemented, and there are also democratic institutions, albeit not resembling the Westminster model of democracy. The question, which cannot be answered at this stage, is whether the Chinese elite can find ways to use some elements of the Singaporean experience and thus make the Chinese economic growth rate sustainable and self-supporting.

Diagram 2.

#### The Chinese Path



Source: own compilation

#### 2.4. Export-Orientation

Export-orientation and the policy for an open economy are not the same, since export-led economic policy can be pursued even though the domestic market is not easily accessible to foreign firms. The best indicator of pursuing a successful export-orientation is the state of the current balance. Looking at the advanced East-Asian economies' indicators, like those of Japan, South Korea and Taiwan, this strategy is easily

detectable in figures. The Taiwanese economy was very successful in this aspect, since between 2000 and 2017 the average current account balance surplus (as of GDP) was 8.99 percent. Over the same period, South Korea's surplus reached 3.13 percent, while Japan had a 2.84 percent surplus on average. Comparing China's performance to the model countries, it is not difficult to see that China's economic policy can also be characterized by export-orientation. The current account balance was 3.73 between 2000 and 2017.

The same ranking can be compiled if using the GDP export ratios. Table 2 shows the merchandise and services export data as of GDP in 2016. Taiwan is followed by South Korea and China, and at the end of the list Japan can be found again, although Japan was the first Asian country to switch to an export-led growth path in the 1950s, while the government heavily protected domestic market players by implementing non-tariff barriers. Special vehicles of external trade were set up such as the "general trading companies" that attempted to identify market niches of the world market that could be targeted. Among scholars, there is a general agreement that the Ministry of International Trade and Industry (MITI) had a very strong role in directing the economy and in giving the right export incentives.

Table 2

**Openness in trade (2016)**

	Export as of GDP	Merchandise export as of GDP	Services export of GDP
China	20.55	18.70	1.85
Japan	16.48	13.06	3.42
South Korea	45.66	35.11	6.50
Taiwan	60.82	53.04	7.78

Source: WTO database and own calculations

South Korea was the first country in the Asian region to follow Japan's example. It introduced export-oriented policies after 1961. In contrast to Taiwan, which at first operated with state-owned enterprises, the South Korean government did not establish them to lead the export boom. Instead, it promoted the establishment of the so-called national champions, which as flagships of the country's economy, could lead the modernization of the economy. However, the government control of the economy was stronger than in Taiwan, due to subsidized long-term loans, and other measures of export promotion, which enabled the government to set strict export targets. Taiwan also followed the example of Japan very early on. Along with export-promotion measures, the first export processing area of the country was set

up in Kaohsiung in 1966, so the country's comparative advantages could be utilized in textiles and other industrial sectors. In the area, three zones—a free trade zone, a duty-free zone, and an industrial park—were integrated, thus providing a new economic model for the world (See more details in: Karalekas, 2016; Csáki, 2016).

Before continuing with the example of China, it is worth looking at the theoretical background of export-promotion, and the competing idea of the import-substitution policy. The idea behind import substitution was to build up an own broad industrial base and to only import goods and services that the domestic companies were not able to produce or provide. Based on this policy, many countries attempted to catch up with the West (Former socialist countries, Latin American countries). However, only countries like Japan, Taiwan, and South Korea could complete this process, which changed from import substitution to an export-led strategy relatively early. For the failure of the import substitution policy, there are plenty of examples to be found in the former socialist countries of Eastern Europe. These failures cannot only be explained by the inherent problems of centrally planned economies, since Latin American countries using the same recipe had a more or less free market system. On the other hand, China has a centrally planned economy and indeed, the country has so far managed its catching-up process. While Wu argues that only structural reforms implemented by a strong state can provide a reason for the success of the East Asian countries (Wu, 2005, p. 251), these examples show that the 'state' factor alone cannot explain the success or failure of the import-substitution policy.

What is more critical is whether an adequate size of domestic market can be secured. The question of optimal size can only be defined if we specify the used technology first. In other words, while the import-substitution policy could provide appropriate growth impulses in Germany, Japan and the US at the end of 19<sup>th</sup> century and at the beginning of the 20<sup>th</sup> century, the same approach to economic development could prove unsuccessful since the used technology and thus the minimum size of optimal market has changed. Therefore, China is a special case, since it is one of the last few countries, that can secure the optimal size of the market in the 21<sup>st</sup> century.

Besides the large market, economic incentives to invest, to modernize and upgrade technology, to maintain or increase employment and to find green solutions, are often provided by the state. In Europe, there are plenty of development banks, which significantly contribute to investment and economic development. Among the advanced Asian economies, South Korea (Korea Development Bank), Singapore (Development Bank of Singapore), Taiwan (Bank of China) and Japan (Development Bank of Japan) could be mentioned as examples, where development banks are important elements

of economic development. In China, the mono-banking system was abolished in 1984, when four entities were carved out of the People's Bank of China. In 1994, a decade later, three policy banks were created: the Chinese Development Bank (CDB), the Agricultural Development Bank of China, and the Export-Import Bank of China. This division of labor is not unusual. In Germany the Agricultural Bank (die Rentenbank), and the KfW (die Kreditanstalt für Wiederaufbau) share responsibilities, while the export-import functions are delegated to a subsidiary of the KfW (KfW IPEX-Bank).

In the late nineties, the importance of China's Development Bank increased since the banking system was burdened by the substantial share of non-performing loans. Later in the following restructuring process, the Development Bank of China took on substantial role, and it became a key player in writing off the bad loans. (The different estimates vary between 30 and 40 percent of the outstanding loans.) It is no surprise that the CDB focused on the financing of large infrastructural projects (airports in Shanghai, Beijing, the Three Gorges Dam, subway system and the high-speed railway network etc.), while the Agricultural Development Bank of China targeted agricultural production, and the Export-Import Bank of China's loans were directed towards export. Looking at the 2016 report of the CDB, it is clear that the infrastructure-focus is strong and most of the loans were directed towards medium (30.6 percent) and long-term projects (48.7 percent) in 2016. As data suggest, CDB's role is to provide loans to infrastructure projects, which gestation is longer than that of the commercial loans. Due to the classical functions of development banking, the CDB does not take deposits, but the bank borrows the needed financial resources by issuing long-term bonds in the domestic market, which are being purchased by Chinese commercial banks.

Table 3

#### Outstanding Loans Balance in 2016 by Industry

Urban renewal	21.87
Highways	16.23
Public infrastructure	11.30
Strategic Emerging Industries	8.46
Electric Power	8.46
Railways	7.51
Petroleum and Petrochemical	6.14
Others	20.03

Source: Chinese Development Bank, Annual Report, 2016, p. 7.

The total assets of the CDB were 1.904 billion USD in 2016, while the Agricultural Development Bank of China had 2.817, and the Export-Import Bank of China 427 billion

USD. It is worth comparing these banks with the Korea Development Bank (268 billion USD), the Development Bank of Japan (141 Billion USD) and the KfW Group (536 billion USD).

### 3. Conclusions

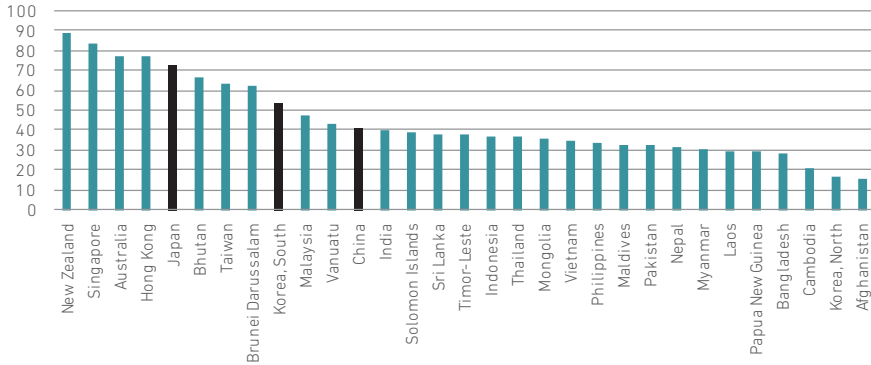
Based on the former analysis, the following divergent and common features can be underlined when comparing the Chinese economic model to the developmental states of Asia.

- Economic planning tools are stronger in China than it had been in the original development states. Not only the state-owned enterprises have larger role in the economy, but China still has a multi-track price setting system, which distorts market prices, but at the same time helps guiding the enterprises into new sectors. (Similar systems could be found in the 1950s and 1960s in Japan, South Korea and Taiwan.)
- The role of developmental banks is much stronger in China than in Japan and South Korea. It suffices to look at the total assets/GDP ratios, where China ranks first with 45 percent, while the assets of the South Korean development bank reach 15.41 percent of the country's GDP (Based on 2016 data).
- Cheap labor still characterizes the Chinese economy. Although it is true that wages are rising, there are still backups of cheap labor in the rural sector of China. As a result, inequality is on the rise in China. In our understanding, growing inequality is a key feature of the Chinese development, but it is not typical for development states.
- Land reform was crucial in each case: Japan, Taiwan and South Korea started their industrialization process with the land reforms that were finished in the 1950s, and 1960s. Although the Chinese have taken steps to modernize the agricultural sector over the course of the last years, that process is far from being finished.
- The link between democratic institutions and growth rate is absent in the case of China, however, in our understanding, this link is not a crucial element of the developmental state model. The rule of law and the relative independence of state bureaucracy, and the merit-based selection are more important and inherent elements of the developmental state model, however, China's performance is weak in these features, in particular corruption is a widespread problem. According to the corruption perceptions index 2017, compiled by Transparency International, China had 41 points and was ranked the 77<sup>th</sup> in the world, while Japan ranked the 20<sup>th</sup>

(73 points) Taiwan the 29<sup>th</sup> (63 points) and South Korea the 51<sup>st</sup> place (54 points) in 2017 (See Diagram 3). However, cozy capitalism is a not new feature in the analyzed Asian economies, and China is not an exception.

Diagram 3

### Corruption Perception Index in the Asia and Pacific Region (2017)



Source: based on data of Transparency International. [https://www.transparency.org/news/feature/corruption\\_perceptions\\_index\\_2017#table](https://www.transparency.org/news/feature/corruption_perceptions_index_2017#table)

Export-orientation is strong in each case, however, the Chinese market is more closed than other Asian markets. Given the size and the different historical development path of China, this is not too much of a surprise. That is probably one of the reasons why China did not share the feature of strong foreign influence on economic policies in the initial years. And learning from the bad experiences of the 1930s, China was cautious not to open its economy too fast to the foreign capital, while implementing the first special economic zones in Guangdong and Fujian and, later, while expanding this model to other areas of China.

To sum up, it can be argued that the Chinese economic model is unique because of its size, the country's historical development, however, it 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, when we consider how much the world economy has changed over the decades. Therefore, in our understanding, the Chinese economy can be considered as a special case of the developmental state in the 21<sup>st</sup> century. The differences between China and the three analyzed Asian economies would not be outstanding if one did not consider the freedom of maneuvering room for economic policy, which follows from the size of the economy.

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# China's Institutional "Miracle"— Party-State in the Transition to Market Economy: Potential and Limits of Systemic Sustainability

Mikhail Karpov

"The biggest myth about China...was that the country ceased to be socialist"  
(J. Studwell, "The China Dream", 2002).

The concept of "Chinese Miracle" comprises two dimensions. The first one is obvious and purely economic in nature: 9 percent annual GDP growth rate over quarter of a century. The second one is less obvious, but no less important and is institutional: the ruling Leninist one-party state not only survived apparently successful transition to the market economy, but even consolidated its institutional grip in the wake of this transition. This fact looks indeed extraordinary and even paradoxical in the light of the catastrophic fate of all other communist party-states in the former USSR and its East-Central European satellites, which—in different times and to different degrees - also initiated market reforms. The explanation of this paradox lies in the specific constellation of social, demographic and historic factors in China. The practical embodiment of this constellation was the unparalleled price reform, carried out in the 1980-90s. This reform transformed decentralized directive pricing, which existed between the 1950s and the 1980s, into a system of agreed pricing. However, party-state institutions remained the key players in defining the conditions of pricing agreements. Their positions of the biggest financial monopolist, lender of last resort as well as that of the sole macroeconomic controller also remained basically intact. The potential of the Chinese party-state to exhibit institutional resilience in the process of "market transition" turned out to be unexpectedly significant. However, the basic limitation of such resilience is that the principle of soft-budget constraint still dominates the behavior of key economic and administrative players, constantly invoking the specter of macroeconomic chaos with unpredictable institutional consequences.

## 1. Two Dimensions of the "China Miracle"

The term "China Miracle" was coined by Chinese economists; Lin Yifu, Cai Fang and Li Zhou in their famous book "The China Miracle: Development Strategy and Economic Reform", first published in 1996 (Lin – Cai – Li, 1996). In the boundless ocean of

subsequent academic and popular literature on the Chinese post-Mao transition, this term appears to have two meanings. The first one—widely known and acknowledged—implies 9 percent annual GDP growth that China could generate and support for more than a quarter of a century. This growth coupled with market reforms greatly helped once economically backward and socio-politically exhausted country to facilitate industrialization, infrastructural development, urbanization and rise in the standards of living.

The second meaning of the “China Miracle” is noticeably less articulated in historiography of the Chinese post-Mao reforms. However, it is present—implicitly or explicitly—both in the heads and in the texts of many Western sinologists and China watchers. This second dimension of the “China miracle” deals with the fact that such impressive rate of GDP growth and feasible expansion of the market “space” in the national economy have been taking place all these years in the country, which ideologically sticks to Marxism-Leninism and—what is even more important—saves institutions of the Leninist one-party state basically intact. Moreover, there are reasonable grounds to conclude that economic growth and market reforms in China today consolidate institutional positions of the Chinese Communist Party (hereinafter CCP).

This second dimension seems indeed a systemic institutional miracle. East-European and Soviet stories of attempts to start up an engine of market economy under Leninist socialism proved to be—without any exception—not only abortive but undermining the party-state institutions, ultimately leading them to systemic collapse and political revolution. More than that, it turned out that the experience of “market socialism” in Eastern Europe had not eased social and economic pains of post-communist transitions for these countries. In other words, there is no clear positive correlation between the existence of such experience in the given country and the country’s relative sustainability and success in post-communist socio-economic transformation (Lorentzen – Widmaier – Laki, 1999).

Regarding the case of China, there may be two logical explanations for what this growth seems to be an “institutional miracle”. The first, one may recognize that China—due to several intrinsic features (be they historic, cultural, institutional or all at the same time) of the “Chinese communism”—succeeded in peaceful and gradual dismantling and reforming the bounding properties of the Leninist institutional model. These properties turned out to be not yielding to change in all other state socialist systems, making “Leninist socialism” to look fundamentally incompatible with the principles and practices of the market economy. If this is the case, then the Chinese

experience of market transition has a world-historical significance and is indeed a miracle without the quotes.

The second explanation may be that the Chinese reforms, though dynamic and successful, have not touched, so far, these systemic bounding properties and therefore the main challenges are still ahead. Important to mention, however, that already by now the depth and width of the Chinese economic and social transition from the common knowledge "Marxist-Leninist socialism" have far surpassed those of used to be "paragons" of "market socialism" in Eastern Europe in 1960-80s, namely Hungary and former Yugoslavia.

Both logically possible explanations need thorough verifications, which are very difficult to undertake because of the enormous bulk of empirical material and—no less—methodological discrepancies. World sinology is unable so far to fold the puzzle of the China "institutional miracle". Proponents of each approach can produce such arguments in their respective favor, which can convincingly disprove the statements of the opponents.

This is, by the way, one of the hidden but fundamental causes, why the second dimension of the "China miracle" remains somewhat less articulated in the literature on today's China. Dealing openly with this issue inevitably brings a researcher or publicist back to rather inglorious attempts of the former Soviet studies or "Sovietology" to define and explain both impressive socio-economic achievements and final institutional collapse of the Soviet-type party-state led modernization. Soviet studies' methodological and practical dilemmas seem long forgotten or even non-existent for today's generation of Western China watchers. It is indeed remarkable that there are almost literally libraries of literature written on China's reforms and transition, which either remain simply silent about institutions of the ruling party-state or, at best, interpret them as ethically annoying, but inevitable and presumably resilient institutional technicality (Kelly – Rajan – Goh, 2006; Guthrie, 2009; Laiberte – Lantaigne, 2008, etc.).

However, the main questions which are fundamental for folding the puzzles of Chinese transition in general and its apparent "institutional miracle", must do primarily with defining of these "bounding property lines" of the Leninist party-state and its economic model as well as with its adaptive capacities, or, in other words, with the limits on its ability to reform. And there is no other bulk of research except for former Soviet studies, which, with all its drawbacks or even failures, still can be instructive and helpful in the search of explanations.

## 2. Soviet Studies Are Dead—Long Live China Studies!

Even a partial acquaintance with the ocean of literature on reforms in China creates a feeling of *déjà vu* for those readers who are familiar with the historiography of Sovietology. The fact that former Soviet studies turned out unable to foresee and predict the implosion and collapse of the USSR and the “Eastern Block” became, according to Robert Conquest, “whole intellectual disaster in Western Academe” and substantially reduced the credibility of practical and theoretical experience of Sovietology. In my view, however, this is not a good reason to downplay or even to neglect the legacy of the former Soviet studies, especially in the context of systemic dynamics of Chinese party-state in the recent three decades. The mentioned *déjà vu* effect testifies not only to typological similarity of the research objects of the former Soviet studies and current China studies but also to the systemically similar dynamic trends within these objects.

The former Soviet studies generally consisted of two basic methodological approaches. The first one—group “A” theories—developed along the lines of “state-centered” explanations with the party-state being the key factor of the system’s establishment, existence and evolution (Amman, 1986; Brzezinski, 1962; Brzezinski - Huntington, 1964).

The second approach—group “B” theories—elaborated the “society-centered” explanations, proceeding from the assumption that it is the dynamics of socio-economic development and modernization in the “socialist systems”, which is of primary importance for understanding the present and the future of the “Soviet socialism” (Kautsky, 1973; Rostow, 1960). Eventually it turned out that both were wrong, however, for different reasons and with different practical and theoretical implications.

The proponents of the “state-centered” approaches—those, who adhered to the theories of “totalitarianism” and “neo-traditionalism”—failed to explain robust dynamics and undeniable socio-economic and cultural impacts of the Soviet-style non-market “conservative modernizations” under Stalin and after Stalin. The partisans of “society-centered” approaches (“social science”, “modernization”, “convergence”, “stages of economic growth” etc.) in their turn were utterly incapable of putting together feasible impacts of socio-economic modernization and the fact that until the very end of the Soviet socialism the political edifice of the communist party-state remained structurally untouched, staying the key systemic integrator (Fleron - Hoffmann, 1993). Mikhail Gorbachev’s good faith attempts to make the political system more pluralistic and transparent, it seems, only deepened the crisis and speeded up implosion, initially unanticipated by many observers.

So, both were wrong, but somewhat not equally. German political scientist, Klaus Mueller had to admit in the 1990s: "In contrast to functional theories which claim a positive correlation between industrialization and democratization, the incontestable merit of (neo)-totalitarianism theory consists of emphasizing the independent weight and the specific irrationality of domination" (Mueller, 1997: p. 29). In other words, the "state-centered" explanations ultimately turned out to be at least "less wrong".

Anyway, both "schools" were in trouble trying to explain empirical compatibility of high socio-economic and cultural dynamics and profound institutional continuity in the Soviet systems. Subsequent calls to study Soviet systems, using the "whole battery" of theories, sounded generally convincing, but abstract (Fleron - Hoffmann, 1993, p. 361).

Sovietology collapsed due to seeming methodological failure and the physical disappearance of its research object. US political scientist Alexander Motyl, most likely, was right when pointing to largely applied character of the former Soviet studies (Motyl, 1993, p. 252).

Since the start of the 1990s, China studies in the West resolutely broke their "umbilical cord" with the Soviet studies, which existed from the early 1950s, and started their, so to say, autonomous navigation. Moreover, "Russia's fall" and "China's rise" from the 1990s and after gave serious additional incentive not to look back to disgraced, "conservative" and "outdated" Sovietology. Realized "cultural uniqueness" of China as well as some institutional arrangements of China studies in the West seem to conduce to such divorce.

However, it is seemingly a paradox that in the bulk of Western China studies literature of the recent two and half decades one can easily detect almost all main methodological approaches and paradigms of the former Soviet studies—from "totalitarianism" (McCormick, 1990, 1994, pp. 94-115) and "neo-traditionalism" (Zheng Yongming, 2010) to "modernization" (White, 1993, 1994, pp. 73-93), "social science theories" (Gilley, 2004) and even the elements of "convergence" theory. Indeed, several seasoned China watchers seriously anticipate the People's Republic systemically drifting towards capitalist and culturally close Taiwan, Singapore or even Japan (Walder, 2006, p. 216).

To be sure, there are obvious differences, rooted primarily in the fact that today's China watchers deal with very much different concrete empirical material than their counterparts in the former Soviet studies. Besides, the prophecies of Chinese party-state eventual collapse are somewhat more vocal (although, far from dominant),



than it was regarding the USSR in the West of the 1960-80s (Chang, 2001, p. 234). Clear, today's China watchers have the Soviet—Eastern Bloc example at their disposal, while four or five decades ago, it was indeed mentally difficult to imagine the Soviet Union imploding and disintegrating. However, with given differences, it is even more thrilling to discover so many similarities in both argumentation and methodologies.

Upon close examination, one can also reveal another, even more fundamental commonality between the former Soviet studies and current China studies. Just the way it happened to the Soviet Studies' experts, today's China watchers—be they state- or society-oriented—seem to be in trouble explaining the compatibility of dynamic socio-economic modernization, market reform and fundamental institutional continuity during the recent three decades in the People's Republic. Neither concepts of "authoritarian resilience" or "Beijing consensus", nor "doomsday" prophecies, refuting them, can answer the basic question of "how it [party-state institutions and socio-economic entities under their rule] can change so much without changing and remain sustainable" convincingly enough (Nathan, 2003, p. 66; Pei, 2012, p. 99).

Regarding post-Soviet Russian China studies, intellectual and institutional effects of the Soviet collapse were so shocking, that Russian sinologists largely stayed out of this discussion. Bearing in mind that China studies in the Soviet Union were under very strong ideological limitations it should not be a surprise that "methodological failure" remains an important characteristic of today's Russian sinology.

Anyway, the discussion, epitomized above, raises a fundamental methodological problem of finding and describing the limits on the party-state adaptive capacities. In other words, detecting those "bounding property lines" of the system, which make it the way it is and can reintegrate it in case of partial disintegration. It is also plausible to assume, that the abandonment (erasing) of these "bounding property lines" as well as their probable modification—because of different reasons—may mean nothing less, but transition to another systemic structure and reality.

Quite paradoxically, for a long time this issue remained on the periphery of the Soviet studies. Earlier protagonists of "totalitarian" theory could not answer it convincingly enough (Friedrich - Brzezinski, 1956), while for the "society-centered" researchers of the later decades it generally seemed not to be a methodological puzzle, worth penetrating. To be sure, the concept of "post-totalitarian" stage of "totalitarian" system, elaborated by Juan Linz, may be helpful in this respect (Linz, 2000, p. 435). The works of Janos Kornai—especially those of early 1990s—also shed a considerable light on the issue (Kornai, 1995). However, with regard to the Chinese case, his assumption

that it is the ruling network of ideologically legitimized party-state, which constitutes the main limit on change, obviously needs further empirical proofs and clarifications.

In mid-1990s, I have suggested that “bounding property lines” of the “socialist systems” may lay in the field of symbiotic institutional networking between the party-state and industrial state sector in the economy, created in the wake of party-state led non-market industrial import-substitution (“socialist industrialization”) (Karpov, 1996, pp. 18-21). Clearly, for the case of China, this suggestion of mine from that time also needs additional elaboration.

Between mid-1990s and the end of the 2000s, the fact of market transition in China, which should have been able to confuse China watchers completely, seemed to come to their rescue. Perhaps, under certain influence of the Chinese economists’ theoretical calculations regarding the implementation of “double-track” pricing and “political economy of gradual reforms”, based on it, some Western economists and political scientists have put forward the concepts of “market growing out of the plan” and “systemic self-withdrawal” (Naughton, 1994, pp. 234-273; Csanadi, 1998, 2006, pp. 69-72). Briefly, these concepts have assumed that incremental expansion of the “market space” and respective shrinkage of the “plan space” in the Chinese economy would allow the party-state system to evolve gradually into a “political entity”, regulating market economy, without transformational recession and socio-political collapse. To a certain extent, these approaches indeed seemed to explain the combination of systemic changes and continuities in the reforming China. However, already at the end of 1990s, some experts began pointing at the limits of “double-track” transition (Heilmann, 2000, p. 374), while the concept of “system’s self-withdrawal”, on closer examination, lacked enough empirical proofs (Karpov, 2014, pp. 159-185).

Once, in 2003, Lowell Dittmer and William Hurst in their well-founded article claimed that American analysis of the Chinese development is in limbo (Dittmer – Hurst, 2002-2003, pp. 21-42). Ten years later, in 2013, meeting Lowell Dittmer at the conference in Taiwan, I asked him, if this conclusion is still valid. His answer was: “In a way, now it’s even worse...”

To my mind, the fundamentals of this “limbo” in contemporary China studies (not only American) are in principle very close to those of the “limbo” in the former Soviet studies. Both turned out to be incapable of giving theoretical and practical explanation of the combination of dynamic socio-economic changes and “the independent weight and the specific irrationality of domination” in the process of evolution of the Leninist party-states in Europe and Asia.

Despite profound uncertainties, mentioned above, I tend to think that the state-centered approach with special regard to A. Motyl's definition of "totalitarianism" and J. Linz's concept of "post-totalitarianism" may be very much helpful in dealing with explanations of systemic changes and continuities in today's China. Motyl wrote that "totalitarianism" is not a frozen model, but a typological construction within the framework of comparative political science approach. According to him, "totalitarianism" is the sum of specific features of certain state systems, which characterize the structure, the forms and the degree of their penetration into society (Motyl, 1993, p. 255).

Linz believes that in "post-totalitarianism"—a concluding stage of "totalitarianism"—the cruciality for both ruling party-state and opposition is the fact that the point of departure resides in the previous stage of revolutionary transformation and consolidation, when the party-state annihilated all forms of socio-economic and political pluralism by means of force in the name of proclaimed "bright future". In other words, the party-state has shaped the given systemic setting well before and thus there is no direct and easy-going way from "post-totalitarianism" to authoritarian (or democratic) political and socio-economic arrangement. He presumes that such transformation inevitably means a sort of rupture with "totalitarian" structures and practices of power monopoly (Linz, 1975, p. 156).

### **3. Price Reform as a Key Variable for Understanding the "Chinese Characteristics" of "Transition to Market"—"Multiple-Track" Price Setting Model**

In my view, the key explanation of the Chinese "institutional miracle" as well as of its limits is in proper analysis of the Chinese "market-oriented" price reform. This reform in China was as a priority step from "above" in 1979-80 that forestalled many other measures of market transformation, such as property, bank, tax or administrative reforms. Leading scholars of state socialism have more than once stressed the importance of market-oriented price reform for shaping "market socialist" models in Marxist-Leninist regimes (Kornai, 1995). Chinese economists believed "the reform in price-setting to be the key and most complicated issue among other market-oriented transformations. Most of experts came to a consensus that market pricing must substitute plan pricing. However, the price-setting model is not only the informational guide to distribute resources, but also a certain model of the interests' distribution. While implementing price reform, the main difficulty was how to minimize the damage to the existing balance of interests [within the system]. That is why the theories of

market transition in China we tend to concentrate around the debate on price reform" (Sheng, 1996, p. 72).

Chinese economist, Chen Xu was the first to coin the term "double-track price reform" in June 1985, meaning that in the new pricing mechanism "plan" and "market" prices exit in parallel (Chen, 1985, p. 36).

Logic and principles of "double-track" pricing was well familiar to the Chinese managers, economists and politicians. The elements of "double-track" pricing in agriculture existed in the early years of the People's Republic and in the first half of the 1960s, when Chinese leadership had to deal with the disastrous consequences of the "Great Leap Forward". Throughout the 1980s, when "double-track" price reform was being introduced in Chinese industry, the managers of SOE were called on to "follow the way of grain and oil", which meant copying the peasants' practices of selling the product above the plan on a "free market" (Zhang, 2002, pp. 87-88).

Implementation of "double-track" price reform in China in the 1980s essentially was the quantitative expansion of mechanisms known from the past, with which communist leadership effectively got over the shortages on the domestic market.

Decentralized decision-making and resource allocation made radical price "liberalization" technically impossible. Almost every political or economic "unit" of the "net" both vertically and horizontally was able to lobby for some sort of "special status" and "more feedback".

Chinese experts usually allude to "sectional" and "proportional" variants of the "double-track" price model (Yang – Li, 1993, pp. 28-29; pp. 108-109).

The "sectional variant", sometimes described as "double-track" in broad sense", meant the division of national economy into two unequal spaces, in one of which there is "planned" pricing and in another one, "market" pricing prevails. "Plan space" includes natural monopolies, infrastructure, defense industry, transport and communications. The rest belongs to "market space". Theoretically, "ideal" ratio is 20-30 percent "plan" to 70-80 percent "market".

The "proportional" variant presupposes "implementation of market mechanisms at each enterprise. At the beginning, market [pricing] mechanisms are to be working [while selling and buying] only produce which is above the plan. And then [they will] gradually penetrate the part of the produce which is within the plan, thus expanding

the share of market prices and narrowing the share of planned prices" (Yang – Li, 1993, p. 29).

However, in practical terms "double-track" price model was a queer and multi-dimensional combination of these two variants.

To understand how the "double-track" pricing functioned in practice and to estimate adequately its role in Chinese transition to market economy, one must answer three interrelated questions.

- First, what is criteria for defining the border between the "planned" and "market" spaces?
- Second, what is the ratio of the volume between the two spaces?
- Third, who has the right to define the border between the two spaces?

Regarding the first question, empirical facts testify that this border was always very mobile, moving periodically both into directions of "plan" and "non-plan", depending on concrete political, administrative, economic and social conditions. It was usually being a kind of a "grey zone". I suggest using the term "plan-market frontier" to describe this border, meaning its fuzziness and conditionality.

Still, there is a clear regularity in one aspect. Both producers and sellers were eager to get raw materials and equipment on "planned" prices and sell their produce on "market" prices. Fundamentally, it was the same logic, which inspired robust flexibility of the producers and sellers in the "market socialist" systems in Eastern Europe. The purpose and actual result of this flexibility were the practices of privatizing profits and nationalizing the costs, starting to spread in China to no lesser (perhaps, even bigger degree) than in East European "market socialism".

The best answer to the second question is the following citation from the Chinese experts of the mid-90s: "So far as currently market prices are considerably higher than planned prices, the produces want to sell their produce on market prices but to buy raw staff on planned prices. Volume proportions of used planned and market prices for the most part are subject to bargain between enterprises and the government. Thus, it is extremely difficult to say, what these proportions are" (Yang – Li, 1993, p. 111).

The answer to the third question is that party-state institutions had the final say in defining the design of the "plan-market frontier". If it was not their vigilant eye, "plan"

and “market” spaces would simply mix up in chaos and the question about their proportionate ratio would lose any sense. Looking a bit ahead in my story, this is where lies the key for understanding the institutional dimension of the “China miracle”.

However, the role of local authorities in defining the parameters of this “frontier” was gradually but steadily growing. There also was a profound confusion in central and local organs’ responsibility over price decision-making. Different “centers of price information”, “centers for training experts in price setting”, “price departments”, mushroomed under the auspices of local administrations (Li, 1998, pp. 161-170).

Covert but harsh bargaining developed all along horizontal and vertical lines of party-state bureaucracy and enterprises’ management. First, lower levels of party-state hierarchy lobbied for getting more powers in price setting from the center. Second, corresponding economic organs fought for more powers on the horizontal levels. Third, enterprises of both central and local subordination lobbied party-state organs for more price-setting rights as well as for “optimal” (in the enterprises’ own understanding) ratio of “plan” and “market” spaces.

In early 1989, Chinese economist, Diao Xinshen made the following comment: “The biggest problem of the “double-track economy” is that one cannot clearly separate “plan” components from “market” components. Traditional plan invades the “market” components, and such invasion has no clear rules or principles. It is probably even more important, that within the “market” components [of the “double-track” model] there cannot be established systemic support for the market economy and formation of institutions [fully] corresponding to it”. On the other hand, “traditional [administrative] methods of management also lose their previous efficiency. Thus, much unregulated meddling into market gains utmost importance. In the end both “plan” and “market” become inadequate” (Diao, 1989, p. 24).

As a matter of fact, the Chinese “double-track” pricing model was such a symbiosis of “plan” and “market” that badly yielded to central management and simply couldn’t yield to any targeted dismantle, neither in the name of the “plan”, nor in the name of the “market”.

Official division into periods of economic reform in China declares, however, that by 1992 “double-track” model in price setting seized to exist while “tracks” merged. How did they merge? Although the most part of the subsequent Chinese literature on the subject proceeds from the assumption that “market track” eventually prevailed, concrete mechanisms and dimensions of this “merger” remain unclear. As late

as in 2001, Chinese expert on price reform Zhang Guangyuan remarked that, “even now, when most of the prices are already deregulated, we still face the obstacles of government’s monopoly [in price-setting] and chaos on the market” (Zhang, 2001, p. 273). Such a statement apparently means that the design of “plan-market frontier” throughout the 1990s was still in the hands of the party-state organs.

#### 4. So, How Did the Price “Tracks” Merge in Early 1990s, If They Merged at All?

The point about the forthcoming merger of the price “tracks” appeared in the agenda of the CCP Central Committee Plenary Session in November 1989. However, the documents of this Session did not give unequivocal answer to the question, based on which “track”—“plan” or “market”—should the merger take place. This was obviously a political compromise. By the end of 1989, “staunch planners” were on the rise and Beijing’s efforts to “merge the tracks” turned into an attempt to recentralize price setting in a number of heavy industry branches. The actual consequences of this attempt were indeed far-reaching. State Council directives about restoration of united planned prices for rubber, cement, rolled metal and some sorts of mineral fertilizers caused something opposite—further decentralization and fragmentation of the price setting procedures in different economic sectors and country’s regions (Yang – Li, 1993, p. 217).

“Double-track” price model as internally coherent system with a clear ratio of “plan” and “market” prices for each commodity, enterprise, branch or province, perhaps, never existed in the People’s Republic of China. The volumes of “plan” and “non-plan” sections differed greatly from one unit to another, defined by more and more decentralized price-setting powers of party-state organs and productive units. The blurred and opaque “symbiosis of plan and market” began to take shape. By the second half of the 1980s, wide groups of interest, inherently connected with this “symbiosis”, appeared at different levels of the party-state and production units.

Overall, Beijing’s mission to find optimal solution for administering “double-track” pricing from the center proved to be extremely complicated and—eventually—impossible. Acute socio-political and macro-economic crisis at the turn of 1988-1989 was the climax of this fruitless quest. Beijing’s “counter reform” line to recentralize pricing ran into covert resistance and overt sabotage of different groups of interest, vitally connected with the already decentralized powers of price setting. Institutionally these lobbies grouped around local party-state authorities.

Fragmentation and regionalization of price setting practices did not lead to fundamental deregulation of prices. What happened, looks like a big multilateral, multilevel and multichannel “transaction” between central government, local authorities and enterprises regarding “purchase and sale” of “planned rights” and “planned duties” in price setting. Local authorities were “buying out” price setting rights from the bodies of the central government, while enterprises lobbied to “buy out” such rights from the corresponding superior instances (Sheng, 2003, pp. 164-258). Locally based private businesses, which may seem to be free in price setting but depending on the favors from the regional authorities, had to play according to the price rules, introduced by the latter.

At the beginning of the most active stage of the “transaction” in the early 1990s central government seemed to be on the defensive. However, Beijing efficiently concentrated efforts on retaining key positions in such spheres as price setting of capital and natural monopolies, as well as on improving its tax revenue share. Tax and banking reforms implemented in the People’s Republic throughout the 1990s under the auspices of Zhu Rongji were an attempt to guarantee Beijing’s upper hand in these sensitive fields.

Such state of affairs where central government retains the rights to set the prices of natural monopolies, capital and national currency, while local authorities retain the rights to design “plan-market frontier”, using tremendous variety of bargained “tracks”, I propose to call “multiple-track price setting model”.

More and more signs appeared from the mid-1990s that “market-oriented transformations” in all important socio-economic sectors—SOE joint-stocking, interest and currency rates, taxation, real estate etc.—proceeded according to the logic of “multiple-tracking” (Chen, 2006, pp. 127-269; Guo, 2008, pp. 125-247; Xin, 2007, pp. 25-54; pp. 130-241). It seems to be also true even for some parts of political and administrative fields. By the end of the 1990s “multiple-track” transactions, originally rooted in price-setting practices, became a sort of “genetic code” of the Chinese “transition to market”.

Each “track” is, in fact, a sum of conditions on which different units of the system participate in the Chinese domestic “market”. This sum of conditions for the concrete “track” takes shape through non-transparent bargaining between this unit and corresponding level of party-state authorities or between mutually depending units under control and patronage of the corresponding party-state organs. Thus the “tracks” are bargained between party-state organs of different levels, between enterprises (social units) and party-state organs and between enterprises (social units) themselves but under the party-state’s auspices.



In economic sphere, such bargain has its monetary terms, tied to the difference between “plan” and “non-plan” prices. In political and administrative fields, the results of such bargain (or the “agreed track” of a certain social unit) must stay within the limits of “politically rational behavior”, i.e. not questioning Communist party’s political and ideological monopoly.

Since the main source of the rent in China is investment and low labor costs, which also drive GDP growth, the final sum of redemption must take into account the potential ability of the “rights” purchaser to generate such growth. If the sum is so big that purchaser goes bankrupt being unable to guarantee GDP growth, the upper “seller” may stay without redemption, while the ruined unit can produce unpredictable social complications. “Agreed” sum of redemption paid by the lower units is “privatized” by the upper units. There are various forms of redemption, depending on economic sector or region: difference between officially announced and privately bargained interest rate and stock price, coefficients in price-setting etc.

Such redemption is not one-time payment. In most cases, it is a price of terminal contract for creating and extracting the rent from the resource base, which is at the disposal of a certain unit. Periodical renewal of this contract with the revision of previously bargained conditions constitutes the key political and economic mechanism of the system’s self-reproduction. Superior bodies of the system try to monitor and control the amount of rent extracted by their subordinates through “fighting corruption”.

Supporting frame of the “multiple-track” model is still the political monopoly of the Leninist party-state, which penetrates the whole society and guarantees the norms of politically “rational behavior”, reproducing the principles of “soft-budget constraint” in both economic and political fields. To be able to do so, the party-state firmly and monopolistically controls and regulates the whole complex of national finance—banking and monetary policy, interest and exchange rates, taxation, stock market as well as price setting (“plan-market frontier”) in key sectors. It deeply penetrates all these fields both institutionally and practically. The party-state acts in fact as the political and financial lender of last resort for the whole of institutional framework of the People’s Republic of China.

Chinese experts admit that finance and investment until now remain the “last bastion of the planned economy” in the country. Hence, it is party’s power monopoly intertwined with party’s financial monopoly at the central and local levels of the party-state (“party-money symbiosis”), which secures internal cohesion of the whole “multiple-track” edifice from the danger of different “tracks” tearing apart. In my view,

this “party-money symbiosis” is exactly the key systemic “bounding property line” of “socialism with Chinese characteristics”.

The most important structural characteristic of the “multiple-track model” is non-transparent and indissoluble “symbiosis” of “plan” and “market”. Described mechanism of non-transparent bargain under control and with mediation of the party’s political and financial monopoly in each concrete case designates to the “contracting parties” quite clear limits of the “market space”. “Market” here is not a “system” but a “practice” of speculative nature, used unevenly and with no clear regulations at different “floors” of the party-state, which still constitutes the core of the “system”.

Deepening “market reforms” in such a setting means nothing else but the multiplication of “contracting parties” and their “bargained tracks”. “Party-money” symbiosis constantly strives to reproduce itself, while the “contracting parties” aspire to bargain the best possible “track” conditions. Some “parties” may even intend to flee the setting completely. Hence comes the key dynamic feature of the “multiple-track” setting, namely the ability of both sides to maximize their ultimate goals (in given conditions) and the choice, made by the party-state of how to deal with the potential renegades—to negotiate with them, to annihilate them or to let them free. This choice depends decisively on the importance of the “contracting party” in question for the overall systemic stability and institutional survival of the Chinese Leninist party-state. Those “contracting parties” of vital systemic importance would never enjoy the right to flee the setting and their “bargained tracks” would remain under special direct supervision of the party-state. Empirical evidence shows that those annihilated are usually small and medium non-state enterprises, political units and personalities who broke the rules of “politically rational behavior”. Setting the “renegades” free happens mostly in halfway and shadow manner. Party-state tries to retain at least a section of the renegade under control and is extremely reluctant to admit openly that some other sections of the concerned unit are set free. Certainly, much depends on the unit’s informal potential and its subjective will to be set free (Cao, 2005, pp. 1-43; Lang, 2006, pp. 55-99). This will, however, also should not be overestimated. Cutting for good the “leash”, which connects party-state and the given unit, may mean for the latter immediate qualitative hardening of its budget constraint with automatic evaporation of tracks, through which one could privatize the profits and nationalize the costs.

In most of the cases, however, party-state prefers the renewal of bargain, using both carrot and stick.

The main methodological “drawback” of the Chinese and Western concepts of “incremental reform” and “systemic self-withdrawal”, was that they implicitly tried to separate the “plan space” from the “market space”, while on the ground of the “multiple-track” reality these two dimensions are deeply intertwined. This “drawback” may be rooted in a widespread perception, characteristic for reformers in the 1990s, according to which “market transition” in post-socialist countries, despite all its visible pitfalls, still is a “linear process”, which leads from the “state of plan” to the “state of market”. This perception might be not completely erroneous. However, instead of looking for the signs that “market” is on the rise and “plan” shrinks, it is perhaps more important to clarify, which parts (institutions, units etc.) of the “plan space” must go through transition first to avoid “multiple-track” lingering. If these parts are transformed (reformed, dismantled etc.) than the transition from the “state of plan” to the “state of market” becomes feasible. If not, then “incremental reform” becomes stuck in “transition trap” and what may look like “systemic self-withdrawal” at the beginning turns into “systemic self-disintegration” at the end.

Without dismantling this “party-money” monopolistic edifice all other “market reforms”, like those in the fields of price-setting, planning, banking, credit, currency, stock market, property etc. end up as further multiplication of the “tracks” within the “multiple-track” systemic setting under the “post-totalitarian” (Linz) monopolistic leadership of the Leninist party-state.

In the process of implementation and consolidation of the “multiple-track” setting, Chinese party-state institutions indeed have shown very high potential for both sustainability and resilience. Allowing limited, regulated and speculative by nature resource turnover within the system, party-state retained its political, financial, ideological and coercive power monopoly. In my view, totalitarian (post-totalitarian, according to Linz) nature of the system remained untouched. This, at least to a considerable degree, explains socio-economic transformation and institutional continuity in China since 1978.

### **5. Macro-Economic Regulation as the Main Means of Systemic Self-Reproduction and Achilles’s Heel of the “Multiple-Track” Setting**

It is very characteristic, that in financial sector and in macro-economic regulation (certainly, as well as in political and ideological fields) Chinese party-state is the least inclined to bargain with its economic and social counterparts. To be sure, some “bargain space” exists in these spheres also. In political and ideological fields, however, this “space” finds its limits within the Procrustean bed of “rational behavior”.

In national finance and macro-economic regulation, the story looks more complicated. Such deals as, for example, setting quotas for currency exchange or credit, are clearly subject to bargain. Cyclical struggle with macro-economic "overheating", at least since the mid-1990s, each time begins with implementation of the so-called "indirect" or "market" methods of regulation that means raising interest rates and increasing the flexibility of taxation. Beijing government and many experts each time stress that "Chinese economy is already market-oriented enough to yield to indirect methods of macro control" and "contrary to previous cycles, now there is no need to use direct administrative pressure". However, with given Chinese "multiple-track" credit and investment mechanisms as well as interest rates and taxation subject to bargain, "overheating" repeats itself. Thus, central financial bodies of the party-state must drop the bargain and go for inevitable administrative limitations of credit, price regulations and other prohibitive non-market practices (Fan – Zhang, 2005, pp. 56-71). In other words, each macro-economic cycle in China starts with bargain and ends up with administrative repression that is an important mechanism of the system's self-reproduction.

Important to mention, that in the given systemic setting, politically it is much easier to fight with deflation, than with "overheating". In the case of deflation, it is simply enough to relaunch the "investment spiral" by easing monetary and credit supply. "Contracting parties" in the new tide of political loyalty would line up in a long queue, worrying only about how to get the bigger portion of financial doping. In the case of "overheating", it is much harder to find a consensus, since the decreasing credit and monetary stimulus would clearly bypass quite a few "contracting parties" leaving them disconnected from the doping.

It is interesting that after thirty years of market reform in China, many country's experts are still at a loss defining the borderline between macro and micro regulation in the national economy. They point at the evident lack of efficiency of the so-called "indirect" (or "market") methods of macro regulation, like increase in interest rates on loans, and stress the need to use the measures of "direct" administrative intervention to prevent the national economy from falling into inflationary spiral. It should not be a surprise, however. Just the way the "market" and "plan" spaces are opaquely but inseparably intertwined, so are the fields and measures of macro and micro regulation in the "multiple-track" party-state systemic setting. At the same time, since each macro cycle of inflation ends up in administrative credit repression, those "spaces" and measures of "plan", not "market", still prevail in this dichotomy and constitute the key instrumental framework for the systemic self-reproduction.

Here is indeed a sort of a vicious circle. Party-state political and financial monopoly shapes the framework for half-reformed “multiple-track” setting with persisting soft-budget constraints for important economic and political units, thus laying the foundations for macroeconomic imbalances. On the other hand, it is the same party-state monopoly, which saves the setting from structural disintegration, preventing it from inflationary or deflationary spirals by means of “repressive” or “generous” “bailouts”. However, these “bailouts”—be they “directly repressive” or “directly generous”—reproduce the system with her genetic predisposition to irrational hunger for investment and subsequently deepening macroeconomic disproportions.

What has been happening to the Chinese economy since early 2013 is indeed very much instructive in this respect. New Premier Li Keqiang’s good faith attempts to upgrade financial discipline and clamp “shadow banking”<sup>1</sup> by means of vigorously disconnecting state “commercial” banks from the state budget on the eve of the announced interest rate deregulation provoked “liquidity crisis”, which—according to some experts—was in fact the crisis of accumulated domestic indebtedness. The “shortage of liquidity” (with M2 up to 200 percent to GDP) threw national finance into semi paralysis and derailed interest rate deregulation. Since summer 2013, monetary authorities in Beijing had to resume pointwise financial stimulus, without, however, bringing it to its pre-2013 size. This helped, but not that much. Dramatic events on the Chinese stock market in summer 2015 and still controversial prospects for robust economic growth testify to the fact, that financial “withdrawal syndrome” in the Chinese economy is still under way.

Even if the definition of the Chinese “liquidity crisis” in 2013 as the “debt crisis” is technically correct, it is still far from the terms of “normal” debt crisis in capitalist market economy. The key problem is neither the debt itself, even if it is very large, nor methods of its restructuring. In the half-reformed socialist economy with the ruling party’s monopolistic grip on finance and investment the “contracting parties” may expect relative easy debt forgiveness and refinancing. The key challenge is that these “contracting parties” seem to be incapable of operating adequately without constant inflow of financial doping, thus in fact perpetuating the existing model of costly investment-led growth, which in turn creates new socio-economic imbalances. To try to alter the “parties” modus operandi in the given systemic setting—exactly what Premier Li Keqiang attempted to do in early months of 2013 with all this discourse of

<sup>1</sup> The so called “shadow banking” in China operate predominantly with the state money, which they receive through legal, semi-legal and illegal channels from the big state-owned banks (Zhu, 2016, pp. 3-102).

“financial market” and “credit deregulation”—may mean erasing the setting’s “bounding property lines”, which indeed can lead to unintended consequences.

In the light of the foregoing, the Chinese methods of “direct” macroeconomic regulation look not only as a systemic redeemer, but also as the Achilles’s Heel of the whole “multiple-track” setting. “Transition to market economy” in such a setting means multiplication of “tracks” and “contracting parties”, thus gradually but relentlessly complicating the overall structure of the arrangement. Central and local principal political and financial regulators—the Chinese communist party—must deal with increasing number of “clients” inside and outside itself with different backgrounds and aspirations. It becomes more and more difficult to find “regulative consensus”, especially in the process of generating and distributing financial doping. Paradoxically, it is exactly the “expansion of the market space”, that makes direct administrative macroeconomic intervention pivotal for maintaining overall systemic stability. However, the methods of such intervention, even properly implemented, may be inadequate to the complexity of the issues, the national economy is facing. In my view, something like that happened to Premier Li Keqiang’s “liberal” intentions in the spring of 2013 and continues to happen until the most recent time regarding Chinese real estate and stock markets. Premier Li and his leading advisers, perhaps, seriously underestimated the very political economy of the Chinese domestic debt accumulation and overestimated the maturity and efficiency of the market institutions in the country’s economy. Subsequent attempts to cool down real estate and stock markets seem to underplay the potential of small investors’ panic.

Hypothetically, we can assume that sometime in the future such inadequacy of the Chinese party-state financial regulators’ “direct” intervention, albeit properly orchestrated and performed, may lead to a large scale deviant behavior of the “contracting parties”, causing fundamental systemic chaos and even collapse of the whole “multiple-track” setting.

In my view, the fundamental limit of the Chinese “institutional miracle” is that the party-state, although very much resilient in arranging, regulating and controlling the new principles and mechanisms of resource turnover, proved utterly unable to harden systemically the units’ soft-budget constraint. This leads to tremendous and to great an extent hidden macroeconomic misbalances creating eternal shadow of systemic collapse overhanging Chinese “market socialism” for decades (Shih, 2008, pp. 1-15; Walter – Howie, 2012, pp. 91-145). Any attempts to solve this issue and to drive away the ghost of macroeconomic and institutional implosion—under unquestionable power and financial monopoly of the ruling party-state—inevitably turn into

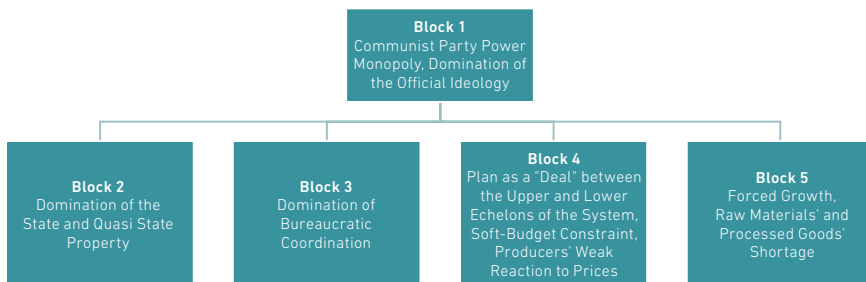
a bulk of command-administrative measures, which, while saving the setting in the given moment, perpetuate and deepen its fundamental ailments.

## 6. Janos Kornai's "Genetical Code" of the Socialist System and China's "Institutional Miracle"

In his classic work "The Socialist System: The Political Economy of Communism" world-famous Hungarian economist, Janos Kornai presented the pattern of "genetical code" of the Marxist-Leninist socialist system (Kornai, 1995, pp. 408-426). According to him, ideologically motivated and forcibly implemented abolishment of market institutions and practices in Marxist-Leninist party-state regimes leads to systemic domination of bureaucratic coordination and shapes the phenomenon of the so called "socialist planned economy". This in turn determines the setting for forced growth, soft-budget constraint, harsh bargain over state-set plan targets between upper and lower levels of the system, producers' and customers' non-sensitivity regarding price indicators, persistent shortage of resources, increase in overall costs etc. He draws logically conditioned and intertwined scheme, where the key fundamental "genetical program" of the system is encapsulated in the first block—Communist party power monopoly and domination of official ideology (See Diagram 1). In other words, any substantial systemic shift in any of the blocks from the second one to the fifth one is impossible without fundamental change in the block number one, which shapes operational genetics of socialist political economy.

Diagram 1

### The Original Model of Kornai



Source: own compilation

It may seem that the Chinese experience of "transition to market" overrules Kornai's iron logic at least in three respects. First, the Chinese, having retained party-state

institutions and the dominant position of ideology intact, virtually abolished practices and institutions of central planning. In 1998, the State Council (government) structure of the People's Republic of China underwent fundamental reform. State Planning Commission, which existed since 1952, was abolished and turned at first into State Development Commission. In 2003, the latter was also transformed and renamed National Development and Reform Commission of the PRC. Indeed, central planning in the strict sense known from pre-reform China and all other Marxist-Leninist socialist countries does not exist in today's version of "market socialism with Chinese characteristics".

Second, implementation of "double-track" price reform (in fact, as it was shown above, the shaping of "multiple-track" setting) made Chinese producers and customers much more sensitive to price indicators with the respective impacts on supply and demand sides.

Third, there is no obvious commodity shortage in today's China. Proceeding partly from these alterations, some Western China watchers even hypothesized that China simply ceased to be a socialist country (Heilmann, 1998, p. 253).

In my view, the basics of Kornai's socialist "genetical code" remain relevant and those, who started to elaborate on the "end of socialism" in China, are fundamentally wrong. However, in the light of the Chinese "market socialist" empirics, the contents and structural logic of Kornai's scheme need some important corrections and updating.

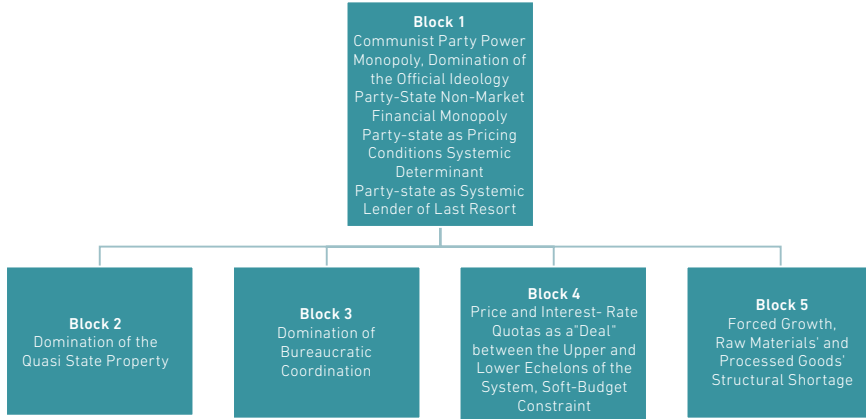
The key amendment to the Marxist-Leninist socialist "genetical pattern" of political economy should be that of adding the clauses of "party-state non-market financial monopoly", "party-state as pricing conditions systemic determinant" and "party-state as systemic lender of last resort" to the first block of Kornai's scheme. This will allow to strike out state planning as a deal between the upper and lower echelons of the system and weak reaction to pricing from the fourth block. (Diagram 2)

Indeed, the fact, that "double-track" (de-facto "multiple-track") price reform forestalled most of other transformations in the fields of economic management institutions and property structure allowed the Chinese party-state to diminish considerably the scope of central planning at quite an early stage of "transition". On the other hand, and at the same time, this reform made producers and sellers more sensitive to price indicators. However, this sensitivity was defined by the party-state's remaining financial monopoly (party-money symbiosis) and its role as pricing conditions determinant and systemic lender of last resort.



Diagram 2

## The amended model by Karpov



Source: own compilation

In other words, the bargained deals began being applied not to redefining directive state-set planning targets, but to seeking most favorable conditions for privatizing profits and nationalizing costs within the "multiple-track" pricing setting.

Conditionally, it also may permit to extricate the clause about "domination of state property" from the second block with, however, definite retaining of "domination of quasi-state property".

All this may conduce to a better perception of respective impacts on the scale and structure of the phenomena of "forced growth" and "shortage" in the fifth block. The "forced growth" in today's China means specific investment-led growth model, where the more party-state money is shoveled into economy, the higher is the "profit" from the bargained pricing deal in both banking and real sector and the higher is the redemption, privatized by the party-state and its clientele. The phenomenon of "shortage" becomes of a more structural character. Perhaps, in the given setting, money (in predominantly cash form) has become one of the most important commodities in shortage. Since in the "multiple track" political-economic sense all money belongs ultimately to the party-state, money shortage is a new institutional leash, which makes the "contracting parties" in their respective "tracks" still pivotally dependent on the party-state. Reproduction of this shortage is an important mechanism of the overall party-state systemic reproduction.

Anyway, party-state coercive power monopoly and the systemic units' soft-budget constraint, inseparably intertwined with this monopoly, remain intact, making it utterly irrelevant to hypothesize that China by means of gradual market-oriented transformation managed successfully to cure intrinsic institutional, socio-political and macroeconomic ailments of the state socialist system, which turned incurable in the former USSR and its East-Central European socialist satellites.

On the other hand, this updated "genetical pattern" of Marxist-Leninist party-state socialism may better explain Chinese "institutional miracle", i.e. sustainable compatibility of the ideologically legitimized ruling party-state institutions with the abolishment of central planning, high rate of economic growth and the spread of non-directive resource turnover in considerable portion of Chinese economy.

## 7. Conclusions

Systemic miracle did not happen in the People's Republic of China, at least, so far. Ideologically legitimized Leninist party-state deeply penetrating national financial system and investment mechanisms—"the last bastions of planned economy"—shaped "party-money symbiosis" with very specific practices of macroeconomic regulation, which constitutes the key "bounding property lines" of the "market socialism with Chinese characteristics." Abandonment or erasing of these "bounding lines" may cause systemic collapse, rather than successful transformation. At the same time, these "lines" seem not yielding to incremental reforms, possessing very low adaptive capacities.

However, technical design of the Chinese "market socialism" looks indeed unique, compared to its East-European predecessors, mainly due to a peculiar market-oriented price reform, which has been developing in China in fact for the whole period of economic transition. This design was by no means anybody's "sudden revelation" or the reformers' original purpose. It took shape gradually in the process of the quest to reduce the transformational damage to the balance of interests within the concrete Chinese post-Mao socio-economic and political systemic setting. Initially planned as "double-track" pricing model, it just from the beginning started to evolve into what I tend to call a "multiple-track" arrangement, based on opaque, but inseparable "symbiosis" of "plan" and "market" price setting. The right to define the "frontier" between the two remains firmly in the hands of the party-state institutions of different levels, which also act as "patrons" for their "clientele" ("contracting parties") in the process of bargaining about the concrete "track" conditions. Sometime by mid-1990s, such

arrangement, originated in the price setting practices, expanded into other socio-economic fields in transition and thus became a systemic pattern of the "market socialism with Chinese characteristics".

In other words, in the wake of transition to market, the Chinese communist party allowed the "clientele" inside and outside itself to put the accumulated administrative and economic resources into "market" circulation. However, it retained the pivotal right to define the rules and scale of this circulation. To reproduce the ability to retain this right, the ruling communist party constantly must resort to "non-market" administrative means and methods of direct meddling into socio-economic practice. This means that unregulated, albeit, perhaps, not total political intervention is still far more important for the systemic self-reproduction, than the rule of law and indirect macroeconomic management.

Just the way the "plan" and the "market" being inseparably intertwined, so are the macro and micro management in the "multiple-track" arrangement. This fact causes a considerable confusion in Chinese and partly foreign literature on the present and future of economic reforms in the PRC. Indeed, it may be quite difficult to grasp the cyclical resort to administrative macroeconomic repression in the economy, which seemingly lacks central planning. It should not be a surprise, however, since it is exactly this repression, which turns to be inevitable systemic savior in the "chaos" of opaquely bargained "plan-market frontiers" and soft-budget constraints. Moreover, the looser these frontiers (constraints) are, the more there is the need for command meddling as the most efficient and time-tested instrument not only of macroeconomic management, but also of systemic self-reproduction.

Here, however, resides the key Achilles's Heel of the "China miracle". "Market transition" within "multiple-track" setting means primarily the multiplication of "tracks" and "contracting parties". The whole arrangement is gradually becoming more structurally cumbersome and complicated. Macroeconomic administrative repression, albeit forced and seemingly efficient, may turn out inadequate to the socio-economic problems, which China is facing. Already now, there are some important signs, that it is exactly what is happening. Hypothetically, it is plausible to imagine, that eventually the inadequacy of the party-state's "direct management" may lead to systemically disruptive deviant actions of its "multiple-track" clientele.

The hypothesis of "multiple-track" setting as a systemic pattern for "post-totalitarian" China may better explain the compatibility of high socio-economic dynamic with the "irrational pattern of political domination" in this country. In other words, it gives

feasible methodological framework to comprehend potential as well as limits of the Chinese “institutional miracle”.

The “multiple-track” hypothesis also allows delineating the systemic “bounding property lines” of the Chinese “market socialism”, which until now seem to be the least modifiable. Theoretically, no one, of course, can exclude the possibility of the Chinese party-state’s eventual gradual evolution. However, in my view, so far there are not enough empirical proofs to support such assumption.

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# The Role of the BRI in the Chinese Economic Model and the Main Risks of its International Implementation

Szilárd Boros

## 1. Introduction

Unveiled by Xi Jinping in 2013, one of the fundamental development strategies in the global economy and trade nowadays is the New Silk Road Initiative, or as it is currently called, the Belt and Road Initiative (hereafter BRI). The BRI encompasses countries from three continents that generate 40 percent of the global GDP. This study has a two-pronged aim: first, it attempts to position the initiative in China's development strategy and trade policies, pointing out that the BRI is the next logical move in a 40-year long economic growth. Second, it examines the international and global economic and political viability of the implementation of BRI. In the first part, I will compare the Chinese economic development with the western model and define its main phases. Furthermore, drawing the conclusions from these investigations, I will define the role of BRI in the China's development strategy. As BRI extends beyond national borders, the second part will focus on the international viability of BRI. In addition, the foregoing discussions will highlight the financial risks and the risks of return on BRI's financial implementation, as well as the economic and political relations between the major countries affected by the implementation of BRI.

## 2. The Belt and Road Initiative (BRI) and China's 40-Year Economic Development Policy

### 2.1. The Beijing Consensus—The Chinese Economic Philosophy and Management Model Compared to the Anglo-Saxon Model

Chinese politicians and economic experts coming to the West often begin negotiations of Chinese economic and political questions by declaring that China is a special country, which cannot be compared to others. This perception appears also in the preamble of the Chinese constitution in the following formulation: "The country's fundamental mission is to tread the path of socialism specific to China and by concentrating its efforts, realize socialist modernization and construction."

Since in China the Communist Party is the Party-state, negotiations on the economic system and policies cannot ignore the political system's influences on the economy. In 40 years, China has achieved an enormous economic growth. Based on the experiences of this period, the major characteristics of the Chinese economic policy are as follows: the economic policy is results-oriented and long-term, placing the main emphasis on production instead of reallocation and social systems; the country has long traditions of meritocratic management; from the beginning of the communist period, the systems of economic planning have significantly strengthened; and finally, the population has little say in the governance (Yao, 2015).

After Mao's pioneering economic ideas which placed self-sufficiency at its center, and from the beginning of the reform and opening-up policy (1978), China has followed a gradual and continuous process of learning and adaptation in the development of its economic system and structure. Chinese economic experts and researchers have thoroughly scrutinized both the western models of development and the examples of successful East Asian countries. In the beginning, the elements of economic policy, deemed useful for the entire country, were tested in certain regions, and, following the necessary fine-tuning, introduced more extensively (Coase – Wang, 2013; Chapters 3-4). As a result, China is in many respects considered a market economy, although it still maintains numerous elements of an economic policy characteristic only of this country.

Nowadays researchers tend to call China's economic policy the Beijing consensus, or the Chinese model. The basis of the model is that it stands on two feet: the political and the economical. The political management of the economy is characterized by tight centralization, the regulation is autocratic, and all information related to the economy are strongly controlled. The economic policy is fundamentally pro-cyclical, boosting economic growth, while the social and welfare systems are supported only to the extent necessary for the maintenance of political stability and economic growth.

The economic foot of the model contains several elements that are constitutive of the western liberal models, which shows that China is willing to learn continuously, and effectively integrate useful elements and methods into its own model. For instance, they place great emphasis on tight budget management, keeping reallocation at a low level, on trade integration into the international economy, and the boosting of foreign investments, as well as on the maintenance of a flexible labor market, and the development of infrastructure to bolster production (Hu, 2015).

From the perspective of economic management there is a significant difference from the western liberal economic models in that the central government plays an important role in every sector of the economy through state-owned corporations. The strong central management encompasses the monetary policy beside the fiscal and development policy, which is shown by the fact that, in case of factors of economic policy cardinal important for the maintenance of economic growth, as eg. the RMB currency rate and interest rates, the central government often imposes barriers on the free market mechanism. In this respect China continues to face international criticism. On the level of provinces, counties and enterprises, the meeting of central requirements often depends on the resourcefulness of local leaders, which means that on these levels, traditional market mechanisms are more operational, and the system of central planning is accompanied by a local *laissez-faire* type of system. All in all, we see that through strong government control and central planning, the government is capable of influencing the distribution of resources and the commercial and innovational processes (Pillsbury, 2015; Chapter 9).

To better understand the Chinese model of economic development, let us compare it with the other major economic model, the Anglo-Saxon model, which is based on the principles of liberal economic philosophy. It is a crucial difference of civilization, that while the basis of the Anglo-Saxon model is the individual, the fundamental unit in Chinese thinking is the community (family, clan, nation). According to the Anglo-Saxon approach, economic development is automatic, determined by free market mechanisms, public institutions and frameworks, while in the Chinese model, development is the result of an intentional process in which the state spurs the economic operators by various means to generate the greatest profit in the domestic and the international market.

In the Anglo-Saxon model, the focus of economic development is the consumer, which is tellingly reflected in the concept of consumer society. In China, however, the focus of economic development is production, that is to realize a production capacity that is as great and developed as possible. In their approach, there is a correspondence between the power of the nation and the size of production capacity. China's attitude is clearly shown by the fact that in the middle of the 2000s, China was believed to be the world's factory. In the Anglo-Saxon model emphasis is on the processes leading to economic development, while China emphasizes results. There is a significant difference between the two models also in the way they approach the position and the role of national economy in the international environment. While in the Anglo-Saxon model international trade is the token of peace, trade for China is an activity undertaken with an anarchic and unpredictable external world, therefore more like a war.

In the Anglo-Saxon model moral principles are important in business transactions, since they ensure a predictable environment. In Chinese business etiquette the major factors are power and the ability to exercise pressure (Hu, 2015).

The above comparison with the globally better-known Anglo-Saxon model sheds more light on the main characteristics of the Chinese model. In the following section I will demonstrate how these characteristics took shape in the past 40 years and describe the major periods of economic development together with their main features.

## 2.2. The Major Periods and Characteristics of China's Economic Development since 1978

After the announcement of the Reform and Opening Up in 1978, China embarked on an unparalleled growth path with a performance similar only to that of the U.S., which, however, spanned a longer period (end of 18<sup>th</sup> century—middle of 20<sup>th</sup>) (Cameron, 1989). In 1978, China's GDP in current prices was approximately USD 150 bn, which is around USD 156 per capita. The country's total GDP in 2016, however, was almost USD 11.120 thousand bn, which equals to USD 8,230 per capita.<sup>1</sup> These numbers speak for themselves, although the leaders of the Chinese Communist Party (CCP) were fully aware that in the future, a country's economic and social growth path can remain sustainable only if in accordance with the 40-year experience the means and the systems are continuously harmonized and revamped in the light of the changed domestic and global environment.

There are four major periods in China's growth path dating from 1978. The first may be called the period of preparation, which began with Deng's economic reforms and lasted until the application for joining the WTO (1994). In this period the central government gradually dismantled the total government control of the economy. In certain sectors of the economy, beginning with agriculture, the lower operators gained more freedom in decision-making, and several elements of market economy were introduced in the mechanisms of management and resource allocation. Learning from and cooperating with the West in general, and from the U.S. in particular, the CCP centrally supported the country's technological catching up, the primary scenes of which were the special free trade and later industrial zones of the eastern coast. The first results of the economic reforms were visible from the second half of the 1980s,

<sup>1</sup> Based on the database of World Banks.

both in the growth of economic performance and in the slow improvement of living conditions. Spurred by the positive experience, the central government extended the initial reforms to greater territories (Coase – Wang, 2013; Chapter 5).

The second great period was the preparation for joining the WTO (2001), when emphasis was placed on international investments and the necessary removal of barriers on trade. China's economy became more open, and international corporations could more easily enter the Chinese market in several sectors. On the other hand, the development of the national economy continued by the restructuring and modernizing of the state-owned corporations. In this period the basis of Chinese national economy was provided by the inflow of an almost unlimited magnitude of labor, flexible labor market regulations and low wages, not to mention the factor that this period saw the developed economies place more emphasis on the development of the service and financial sectors under the aegis of globalization, while slashing and outsourcing the production sector. These processes, together with the deregulations of international trade propelled the multinational companies to globally optimize their production, development and sales networks, from which China—due mainly to its cheap labor force—could realize a significant magnitude of foreign investments in the production sector. The appearance of multinational companies boosted the competitiveness of the state-owned firms, thus in this period the restructuring of state-owned companies gave birth to the first national champions (eg. Huawei, ZTE, China National Petroleum Corporation) (Pillsbury, 2015).

The third period dated from the joining of the WTO in 2001 and lasted until the economic crisis of 2008-09. This was the time when China's economy enjoyed a rocketing growth thanks to the easier access to global markets, and the increasing international investments. The period may be called the heyday of the production-based, export-driven economic model. China's average GDP growth exceeded 10 percent, and its position in the global trade rapidly improved, which is clearly shown by the fact that although in 2000 the country provided 3.9 percent of the global export, in 2010 this figure grew to 10.36 percent. By 2008, the country's export exposure rose to 31.6 percent of the GDP, which is significant given the size of the economy. The success of the Chinese economic strategy is confirmed by the tenfold increase in foreign exchange reserves in the period leading to USD 2000 bn by 2008 (Tradingeconomics database).

The fourth period, between 2008 and nowadays, has been dominated by economic responses to the global crisis, and the political maintenance of economic growth. In the beginning, the economic crisis brought about a decline in demand in the country's export markets (the U.S. and the EU) which generated a significant trade surplus. This

caused a recession and stagnation in China's export for many years, allowing only a moderate growth after 2014 (Ibid.).

These tendencies described above strengthened the Chinese political and economic leaders' conviction—growing from the middle of the 2000s—that the country has reached the limits of an export-driven economic performance, which was also called the middle-income trap. Accordingly, the country's model of economic development faces pressure from two sides, both of which can hinder its further economic catching up with developed countries. On the one hand, the country is beginning to lose its competitiveness at the low-end of the global supply chain, since as a result of economic development wages begin to increase dynamically. On the other hand, the country's economic structure is yet unable to compete with developed economies, as it lacks developed, high value-adding production and service sectors.

Further challenges the Chinese model has to face are the country's territorial and income differences, which have significantly grown as the result of the 40-year economic development. The country's Gini coefficient, that show the distribution of wealth within the society, rose from 0.3 in 1980 to 0.44 by the mid-2000s and has remained around 0.4 ever since. The increase of differences is a sensitive issue not only economically, but also politically, as the country's ruling ideology and principles are of a socialist-communist nature, aiming at equality and well-being accessible to all (Gutpintér, 2017). The danger of significant differences in income is that it may spur movements of social discontent, which is unacceptable with respect to the legitimacy of the Party.

In recent years the Chinese state has found two solutions for the middle-income trap and the territorial and income differences in its economic development and management. First, the central government initiated a significant infrastructural development programme in the middle and western parts of the country and laid down several directives to move as many low value-adding manufacturers as possible into these regions. Second, corporations operating in the country's more developed east coast are expected to increase their value-adding production and to create products which are globally competitive.

The boosting of the structural change of the country's economy has long been part of the Chinese economic policy. The development of the institutions of higher education and the extension of their research capacities began as early as the mid-80s. Research and development expenses showed a continuous increase: while in 2001 R&D expenditure was 0.96 percent of GDP, in 2006 it exceeded 2 percent. The global

intensification of the production structure and the boosting of research and development were both included in the objectives of the 10th Five-year Plan (2001-2005). The streamlining of economic structure and the territorial reorganization of the economy play an emphatic role in the Five-year Plans and are elaborated in several sublevel industrial and territorial development plans and directives. (Plans for the development of West China, Inner China and North-East Region were developed in 2001, 2005, and 2010.)

The economic guidelines of the various plans are best summarized by the policy of three directions. The Upward Direction includes the increasing of industrial added value and the highest level of compliance of the production with social and environmental requirements. The Westward Direction supports the geographical and organizational restructuring of corporations by encouraging the relocation of lower value adding production units from the overcrowded East Coast cities and industrial zones of the country to less developed areas. The Outward Direction Policy advocates two major directions. The first calls for the relocation of lower value adding production units that have lost competitiveness due to rising wages to countries where low wages are conducive to competitive production. The second advocates that the state-owned enterprises become shareholders in foreign companies and enterprises which can satisfy China's demand for raw materials and energy carriers, and which enable certain industries to generate higher added value (Zhu – Pikles – He, 2017).

However, the global crisis beginning in 2008 put the gradual modification of China's economic model at risk, since the decrease of international demand brought about the curtailing of internal production capacities, which in turn meant the imminent danger of a radical setback in economic growth. In order to prevent this process, the CCP launched an infrastructural development programme in 2008, supported by significant central sources. The primary goal of this was the partial replacement of external demand with internal, and the consistent integration of the central and western parts of the country into the economic circulation. Apart from bringing dangers, however, the crisis also provided opportunities. Due to the 2008-09 crisis, numerous highly developed European, American and Asian enterprises found themselves in difficult financial situation. Taking advantage of the opportunity, the Chinese state-owned companies launched a series of aggressive acquisitions at various parts of the world in order to access the most highly developed technology and to acquire the greatest possible part of the production and supply chains of certain industries.

On the positive side, as the result of the programmes, the country's transport infrastructure network, especially the rail and road transport infrastructure saw



significant qualitative and quantitative development (Eszterhai, 2016). Furthermore, China obtained strategic assets in several high value-adding industries. On the negative side, the country's total debt to GDP ratio increased, mostly through the provincial, local governmental and business spheres, and significant excess capacities were experienced mainly by the building industry. (Li, 2010) One of the most significant questions of the Chinese economic strategy today is how to deal with negative externalities.

The table below summarizes the major periods, objectives and characteristics of the above-mentioned economic processes.

Table 1

### Majors stages of Chinese economic development

Period	Main objective	Characteristics
Reform and Opening up (1978-1994)	The reform of the communist-type, self-sufficient economic system, and the foundations of economic development	Experimental and comprehensive introduction of market mechanisms Application of new instruments of economic development. Building international relations for economic purposes and to acquire new technology.
Preparation for joining WTO (1994-2001)	Preparation for the international economic integration and maintenance processes of economic development	Improvement of market mechanisms in economic Compliance with international trade regulations.
China: the world's factory (2002-2008)	Elaboration of production based, export-driven economic model	Boosting production-based export-driven economic model Becoming the world's center of production and trade Maintenance of economic growth and avoiding the middle-income trap by increasing the added value of production and optimizing systems of production, and by gradually developing the supportive economic subsystems and the financial system.
China: the global economic player (2009-)	Shaping international politics and the economy in accordance with the global economic power	Launching world class production chains and products. Internationally optimized Chinese investments. Ensuring further economic development through global economic integration(BRI, G20, RCEP).

Source: Author's own compilation

### 2.3. The Major Political and Economic Factors Influencing China's Foreign and Domestic Trade Policy

To better understand the aims of BRI as a global concept of development, it is worth examining how China's foreign and domestic trade policy fits the Chinese model, especially its political pillar, and what main goals it serves. The five basic principles of China's foreign policy are enshrined in the Constitution. The first of these is the independence of foreign politics; the second is sovereignty and the mutual respect of territorial unity; the third is mutual abstention from aggression and peaceful coexistence; the fourth is non-interference with domestic affairs; and the fifth is the principle of equality and mutual benefit. The ideology of China's foreign policy was most concisely expressed after the Tiananmen square protests by the 11 characters of Deng Xiaoping, "Hide your strength and bide your time".

Since its accession to power, the comprehensive aim of CCP has been to maintain its leading role and authority, together with its legitimacy accounting for both. To achieve this goal, the consecutive leaders make use of the instruments of both internal and foreign politics. Three great periods crystallize in the formation of China's foreign politics. There had been aspirations under the reign of Mao to make China an independent center in the sphere of international politics (Szunomár, 2012). However, these initiatives failed one by one, since the country lacked the necessary economic strength. It is to Deng Xiaoping's credit, that he discovered that without economic strength the country cannot play an important role in international politics. Taking a pragmatic measure, he therefore started to modernize his country in cooperation with the world's strongest economy (U.S.). However, the events in Beijing in 1989 gradually loosened the otherwise tight bonds of bilateral cooperation, as the leaders of the CCP were convinced that the U.S. played an influential role in the background of the protests.

After 1989-1992, the communist-socialist ideology gradually lost its power of legitimation due to the collapse of the Soviet bloc and the Chinese pragmatic thinking. However, the maintenance of the legitimacy of CCP remained a priority, and as the ideological backdrop faded, the military, information control, and last but not least, the continuous economic development and the increase of general well-being became major sources of power (Pillsbury, 2015; Chapters 5-6). Accordingly, in the latest period one of the key factors that drive foreign policy has become the subordination to economic growth.

Following from the above, in the case of the Chinese model, the foreign and domestic trade policy primarily serves domestic economic purposes, and its main mission is to support the country's economic development within the prevailing global economic systems. Since the Chinese model grounds itself on a production-based economic system, the country's foreign policy on the one hand has to ensure the raw materials for production through trade, and because of the high national savings and low willingness to consume, make sure that the finished products enter the market, on the other (Forman, 2017). Over the past ten years, as the third economy-related pillar of foreign policy, investments also increased. China has allocated an increasing volume of resources to the acquisition of companies and enterprises, including the buying of shares, which may promote the quality development of its own production systems, and the cheap access to raw material and resources (Kolstad – Wiig, 2009).

China's foreign and domestic trade policy has received a great deal of criticism from both the developing and the developed countries for its above-mentioned narrow-mindedness. The most severe criticism from developing countries is that China's positive trade balance is based on the cheap procuring of raw materials from underdeveloped and developing countries, and on selling the products manufactured in the country to developed countries. Developed countries identify this aspect of the Chinese commercial-economic model as a newfangled colonialism, since developing countries are economically exposed to foreign investments, which is excessively exploited by China. In the course of trading with developing countries the state-owned Chinese enterprises purchase energy, raw material and mineral extraction points and firms for low costs with significant political and financial government subsidies, and subsequently ship the mined products to China. According to developing countries the problem with this is that the Chinese owned enterprises do not become organic parts of the economy of the developing countries but operate as an enclave and thus do not contribute to the economic development. On the other hand, the export yield of mined products and raw materials become crucially important for developing countries, and this renders them economically dependent, they are forced to maintain the unsound export structure, which freezes their country's economic performance at a low level (Hu, 2016).

According to criticism put forward by developed countries, the foreign policy interests of the Chinese government focus mainly on the realization of economic interests, more specifically on their self-interest. In their view, as a result China does not deal with global issues and crises with an emphasis equal to its economic power. Regarding the pursuit of self-interest, China has also been criticized for not fully complying with international trade regulations, although it has modified its trade policy in many respects after joining the WTO.

The views above are most succinctly articulated by the criticisms formulated by the WTO. The Organization's negative statements can be summarized as follows: China is still extensively imposing barriers on trade apart from customs, and it is very slow in opening its service sector to foreign investors. Moreover, the protection of intellectual property rights is weak, and last but not least, the government has a much too great influence on the distribution of resources and the internal innovation policies, due to which Chinese enterprises are capable of dumping below market prices also in the case of high value-adding products, thereby causing confusion in the global trade. Since today China is the world's second greatest economy, it cannot ignore international criticism. At the same time, it must be said that although China during the past 40 years has concentrated its resources on the development of its national economy together with the closely related policy of self-interest and invested only the Deng-type of necessary and minimal energy in the strengthening of its position in international politics, China's ability to enforce its global political and economic interests nowadays is not in proportion to its economic power in terms of GDP. Recognizing the situation, the leaders of the Chinese state embarked on a gradual transformation after the economic crisis and the inauguration of Xi Jinping in 2012, in order to strengthen the country's international acceptance and capacity to enforce its interests. China began to represent its interests towards its global negotiating partners with increasing determination and self-confidence and began to play key roles in a number of international, mainly economic and global political initiatives (Zeng – Breslin, 2016). One of these is the outstanding BRI.

On the basis of arguments formulated in this section, the BRI constitutes the following pillar of development of the Chinese economic model, which simultaneously supports the Three Directions. In accordance with Chinese mentality, however, the BRI has to cater for several areas and goals at the same time. As far as the economy is concerned, it has to contribute to the maintenance and further development of the Chinese economic model, while with respect to politics it has to facilitate China's rise to a global power worthy of its economic strength.

### **3. The Global and Chinese Economic Objectives of the Belt and Road Initiative (BRI)**

After having mapped the characteristics and development of the Chinese model, as well as those of the Chinese foreign policy that are related to the model, and thus positioning BRI in the process of Chinese economic development, this present section looks at the BRI objectives. As we saw in the previous section, the Chinese economic

strategy is characterized by an inclination toward prudent and gradual transformation and a high-level adaptability. Therefore, the present section describes the internal and external objectives of BRI deducible from the economic development model, and the expected effects.

### 3.1. The Global Economic Objectives of BRI

President Xi Jinping and the new Chinese political leadership came to power in 2012. The new president was familiar with the challenges the country's development model had to face, since in the previous presidential cycle he had been a member of the supreme executive committee. Therefore, in the beginning of his mandate, he designated a number of objectives supporting and further developing previous directions of economic development (Naughton, 2014), the concrete realization of which is an ongoing process. One of these was the concept of the New Silk Road announced by Xi in September 2013, and the Maritime Silk Road announced in October 2013, on an APEC forum organized in Indonesia (Blanchard – Flint, 2017). Within the framework of the two conceptions, the president initiated the development of a complex system of pipelines capable of carrying raw materials and of continental and maritime routes connecting three continents (Asia, Africa and Europe) from the coast of the Pacific to the Baltic Sea and the Atlantic coast of Europe. According to Xi, the developments were to be realized in the framework of bilateral negotiations leading to common policies and projects. These projects of investment and development were fundamentally supposed to boost trade, while the common policies were to target the removal of trade barriers (tariffs, administrative barriers), the development of financial cooperation (agreements for foreign exchange transactions), the reduction of trade costs and the strengthening of relationships.

In 2015, the National Development and Reform Commission, China's supreme management agency responsible for the implementation of BRI, released a document stating that the BRI is compatible with the UN's Five Principles of Peaceful Coexistence, and stipulating the main objectives of BRI. The first objective is a higher-level coordination of international development policy, including emphasis on a multilayered governmental cooperation. The second objective is the connection of the various establishments and infrastructure networks, which has to be realized also on the level of technical plans and standards. The third objective is the creation of a reliable and stable business environment, which ensures the smooth realization of commercial and financial transactions. The fourth objective is indirectly related to the third, namely the development of financial integration with the harmonization

of the bank and financial systems. The fifth objective is the strengthening of human relations, which is expected to reduce the distance between cultures and the human factors hindering business transactions. According to Chinese intentions, the development objectives of BRI will make the participants victorious, and thereby become interested in participation. The Chinese government anticipates the following positive effects in the participating countries as a result of these projects:

1. Market stimulating effect: the BRI projects create a market not only for Chinese products, but also for all participating countries. Once the project is realized, it will create a market for 4 million people.
2. Knowledge boosting effect: During the BRI projects, great emphasis is placed on the application of developed technologies and the unhindered exchange of information, as well as on the intensification of professional relations as a result of strengthened human relationships.
3. Efficiency improving effect: During the implementation of BRI projects, there is an emphasis on the optimization of the interconnectedness of capital, labor force and technology, which in turn may lead to the optimization of production and financial systems.
4. Cooperation promoting effect: During the preparation and implementation of BRI projects, both a multilayered conciliation of interests involving participants, and a preliminary analysis are necessary, which make the establishment of BRI-related conciliatory forums and institutions indispensable (Csizmadia, 2016; p. 171).

### 3.2. Objectives Arising from the Chinese Model

As described by Xi, the BRI serves several strategic goals in the plans of Beijing. According to China's expectations, in the sphere of trade the new and renovated routes will promote the easier access of the traditional export markets and will grant access to new Central Asian export markets. Furthermore, an increasing number of the continental routes will guarantee the meeting of the fundamental part of the country's raw material demand by avoiding maritime routes dangerous in terms of supply security.

The development of continental routes is able to help in overcoming bottlenecks induced by geopolitically threatened maritime routes which represent the Achilles'

heel of the operation of the Chinese economic and trade model. In case of potential conflicts in security policy, the maritime routes can easily be closed down or blocked at the straits, and thereby the whole Chinese economy can be paralyzed. The primary goal of the maritime route plans is to promote the sustainability and further development of the Chinese economic model described in the first section (Csizmadia, 2016; Chapter 12). The destination of the routes is Europe, however, there are significant branches and junctions in Asia and Africa. Through the African and Asian trade routes, China is able to acquire the raw materials and energy resources necessary for the operation of its economy and sell its low value-adding products. At the same time, through the routes to Europe China can export its middle and high value-adding products.

Besides selling products abroad, a real global economic power must be capable of influencing the development of the cooperating countries' economy. In this regard, the BRI can help the Chinese leadership to attain their goals. Since the objective of BRI is to boost trade, countries need to remove trade barriers and standardize pertaining regulations. China, as the initiator of BRI can play the initiator's role in the standardization of regulations and norms, which may yield significant economic benefits for the country in the long run. Countries under the standardized regulations and norms have to apply the technologies of countries that developed the norms and adjust their technologies to those. Owing to the fact that China plays a central role in the BRI-related processes, these measures will indirectly promote the export of technology and high value-adding products. Today China boasts world class technology in several industries, including telecommunication and the Bullet Train Network, in which China will probably insist on its own technology and norms during the implementation of BRI.

For a global economic power its position in the world's financial system is even more important than the mentioned regulations and norms. Up to the mid-2000s and the global economic crisis, China played only a marginal role in the formation of the global financial system, which was mainly due to the fact that the economic model at that time focused on the development of the national economy. However, since the crisis there has been a significant advancement in the international role of the RMB. In 2016, the RMB was the fifth to be included in the IMF's basket of currencies, and China signed a number of bilateral trade framework agreements with its partners, where the national currencies replaced the USD in the statements of account. Furthermore, the country has been playing a leading role in the process of the digitalization of finance. On the basis of these tendencies it is clear that the role of the RMB compared to the USD, in the international financial markets and transactions, judging by the international solvency ratio of foreign currencies, is not yet decisive (RMB Tracker,

2018). Nevertheless, the acceptance of the RMB is continuously on the rise. In relation to the BRI, the Chinese government aims to further boost these processes through trade and global investments.

Last but not least, as a result of the development of continental routes, China's political leaders and economic policy makers expect a decrease in territorial and income inequalities in medium and long term, since the majority of infrastructure developments related to the BRI's continental routes in China affects also the less developed central and western regions. According to plans, new development and logistic centers will be established together with the relocation of lower value-adding industries along the infrastructure networks in the western part of the country. This will increase the production capacity and economic development of the less developed parts of the country, and consequently raise incomes. The Chinese political and economic leadership expects from the BRI-related new global and domestic infrastructure projects to absorb part of the capacities of the construction industry, which proved useless after their creation in 2008.

As far as the objectives of the Chinese economic policy of BRI are concerned, it may be concluded that they affect a number of areas from the balanced internal economic development through to the supply security and global financial affairs. However, it is also clear that China's major goal with BRI is to become an internationally renowned economic superpower, which is not merely a part of global economic processes and environment, but which also actively participates in their development.

#### **4. The Major Economic and Global Political Risk Factors of the Implementation of the Belt and Road Initiative (BRI)**

##### **4.1. Questions of Finance and the Risks Factors of Financial Return**

Regarding the long term economic risks and the implementation of BRI, I examine two financial factors which constitute the basis of every investment project. The first question concerns the estimated source demand and the financing of necessary investments, or in other words, the costs of the implementation of the conception and the allocation of the necessary resources. Closely related to the first question, the second concerns the financial risks of investments and their expected return. This entails identifying the players that can finance the investments and determining the extent to which the completed infrastructure will be used.



In the period beginning from the announcement of BRI in 2013, China has been engaged in bilateral and multilateral negotiations with countries involved in the initiative, as a result of which a number of implementation plans (e.g. China-Pakistan economic corridor) and concrete project initiatives (e.g. the Moscow-Kazan high-speed railway, the modernization of the Budapest-Belgrade railway) have been formulated. Since the planned routes of BRI and the deadline of implementation are only approximately stipulated, there are diverse estimations as to their need for development, however, international development organizations estimate the costs of investments related to the necessary development of infrastructure and services for the next 20-30 years at USD 2-4000 bn (Luft, 2016).

The Chinese government is also aware of the significant need for resources for development, therefore to underscore the seriousness of its objectives, it has established several financial institutions in recent years to finance the projects. The internationally, although mainly Chinese funded Asian Infrastructure Investment Bank (AIIB), and the exclusively Chinese funded Silk Road Fund aim to unearth and allocate part of the necessary development resources. Established by the BRICS states for financing the development of commercial and economic relations between the participating countries, the New Development Bank (NDB) can be a further provider of resources. The total joint stock of the three institutions is around USD 340 bn, which can be increased to USD 600-800 bn with the inclusion of further market resources. Information is scarce on the financing practice of these institutions, since they were established not very long ago. However, on the basis of information accessible on the websites of AIIB and NDB, less than 40 percent of the few ongoing projects include developments directly related to BRI transport and logistics infrastructure.

The Chinese government's allocated funding of BRI-related projects at the Bank of China and the China Development Bank amounting to USD 900-1000 bn, can constitute a complementary source. Information is scarce regarding the possible uses of this sum and the conditions, since this is a state-owned bank. Nevertheless, it will probably provide the resources for the Chinese partners of the necessary investments.

Further significant resources regarding the BRI development are the project-oriented infrastructure development aids and loans provided within the framework of bilateral agreements (e.g. Pakistan, Myanmar, Sri Lanka, Djibouti). Since the bilateral government agreements are not public, there are only speculations in these questions. However, on the basis of information aired by the press, the developments included in the agreements will contribute around USD 100-200 bn to the infrastructure development of BRI.

It follows from the above that a significant part of the development in the short and medium term can be financed by the currently available, primarily government or state-guaranteed resources. Nevertheless, in the long-term China will have to include market resources to finance these developments, and this can only be realized with international cooperation. To stimulate the leverage of international financial resources, the Chinese government designated Hongkong as one of the Asian financial hubs. In the plans an important role is assigned to the city state both in raising capital through the market and in the BRI-related other financial and insurance businesses. Yet leveraging market resources can only be a realistic option if the proposed investments yield return in the market.

It is worthwhile to examine the return on BRI investments both on sea and on land. In the case of the maritime pillar of BRI, as international transportation trends and the principles of the economies of scale of transportation show (Forman, 2017), the return on investments in most of the projects is already granted on a competitive level. At the same time, in the case of the continental pillar, a number of risk factors present themselves. Since more than 85 percent of China's international trade takes place on the maritime route, the majority of the necessary infrastructure is ready to use. Development plans related to the maritime routes mainly involve the extension of port infrastructure and the creation of new ones. Most of the investments serve to increase the capacities of existing ports, while the new deep-sea investments, a number of which are taking place on the eastern coast of Africa, serve a double purpose. First, in connection with the Chinese model they play an important role in the spurring of bilateral trade relations. Second, they provide naval bases for the global power China seeks to become. Due to the double purpose, the maritime investments yield market return and benefit state actors making it easier to find investors.

However, in the case of the continental pillar, a number of risks present themselves questioning the return on certain projects and consequently, the feasibility of BRI's continental pillar. Although in Eurasia transportation on continental routes is faster, economies of scale and related expenses cannot yet provide a realistic alternative to the maritime transport. Today expenses of transport and development are significantly increased by the fact that there are four operating rail-gauges in Asia<sup>2</sup>, the connection of which necessitate special resource-intensive logistic hubs. Moreover, the transport development conditions primarily along the western borders of China

<sup>2</sup> In rail transport, track gauges are different: in the former Soviet Union 1520 mm), in Europe and the Middle East (Turkey, and Iran) 1435 mm; in most part of South East Asia 1000 mm, in former British colonies of Asia (India, Bangladesh, Myanmar) 1676 mm.

are rather problematic, making the necessary rail and logistics development really costly. Apart from the hindrances of infrastructure development, the continental routes are characterized by security risks. In a number of central Asian countries, the government cannot ensure control over the entire country (e.g. Afghanistan, Pakistan, Kyrgyzstan) (Erdősi, 2013). In addition, there have been centuries of historical and political conflicts between certain countries (e.g. Iran-Turkey, Georgia-Azerbaijan) (Jeney – Varga, 2017). This has to do with the fact that the financial status of the majority of Central Asian countries is not reassuring, their credit rating has been downgraded to sub investment grade due to the weak economic and financial position of certain countries and their unstable political and security situation. The combination of these factors makes it rather difficult to attract market investors to invest in the development of BRI's continental pillar, which induces the increasing role of the states in financing. The problem with this is that due to their low credit rating score, they can get credit only with high interest rates, which makes it necessary that the utilization of infrastructures created as the result of investments remain high even after the inauguration.<sup>3</sup> This, however, can only be ensured when all the networks are ready, and the delivery of consignments is guaranteed by the security.

To conclude, while the projects of BRI's maritime pillar are already feasible, and the development plans in most cases are guaranteed by the market, as far as the continental pillar is concerned, a number of financial risk factors presented themselves in the economic and political environment, which renders the return on implementation questionable both in the short and the long term.

#### 4.2. International Economic and Political Factors

The examination of BRI's feasibility must be complemented by the mapping of international economic and political factors and processes, since the BRI is a project to be realized in an international environment spanning three continents. Indeed, one of the indirect objectives of BRI is the transformation of the Asian and partly the global geopolitical balance of power. First and foremost, it is necessary to examine the economic and political attitude of the main actors of international politics toward BRI.

<sup>3</sup> In 2015, only 0.34 percent of China-EU trade was conducted on land routes.

#### 4.2.1. US. attitude toward BRI

Although the U.S. is not directly involved in the BRI, its role and attitude cannot be ignored, since China's spectacular economic growth has already transformed the world's economic balance of power, not to mention the geopolitical power shift which is currently taking place.

In the bilateral relations between the U.S. and China, we can differentiate three distinct periods. In the first period dating from the beginning of their contact and lasting until around 1989, the bilateral relations were strengthened, and proved mutually advantageous. Due to the Tiananmen protests in 1989, China's political leadership decided to edge away from the U.S. politically while keeping economic relations tight (Pillsbury, 2017; Chapter 5). In the second great period, which lasted until the aftermath of the 2008 crisis, Chinese foreign policy prioritized economic development together with minimizing the country's activity in international politics. In this period there were political expectations entertained by the U.S., that simultaneously with its economic growth and catching up, China will convert its political system into a more democratic one. As these expectations were not met, the political relations between the two countries became less stable, which is shown by the growing undulations (rapprochement and distancing) in the bilateral relations (Xuetong, 2010). After events of utmost importance, as e. g. China's naval exercise in the Taiwan strait in 1996, there was considerable distancing in the bilateral relations, which in turn was followed by an improvement propelled by the economy. In this period the economic relations between the two countries strengthened, and the bilateral Strategic Economic Dialogue was initiated. However, the political relations between the two countries did not surpass mutual respect.

In this period, year 2001 proved to be of cardinal importance in East and Southeast Asian politics for different reasons. After the events of September 11, the primary focus of the U.S. became the war against terror. As a result, a significant part of its foreign policy and economic resources were transferred to the Middle East and Central Asia. With joining the WTO in 2001, and with the weakening U.S. presence in the Pacific, China increased its influence over the East and Southeast Asian economy to challenge American dominance by the beginning of the 2010s.<sup>4</sup> Recognizing the long term dynamics of the situation, that is the decreasing power of U.S. influence, the Obama administration tried to slash the further increase of China's dynamic economic

<sup>4</sup> China's trade relations underwent a fundamental change between 2001 and 2013. In 2013, China's trade with the region surpassed that of the United States which was unconceivable in 2001.

and political influence over the region by the Pivot to Asia strategy and the Trans-Pacific Partnership initiative.

From foreign policy perspective, the New Silk Road announced by Xi Jinping in 2013 can be considered as China's response to the measures taken by the American government. Beyond the objectives mentioned above, the aim of the Chinese reaction was to compensate for the narrowing economic influence over eastern, Pacific regions by a shift toward the West and South Asia and toward Europe. Since China is not interested in an open conflict with the U.S., it invited the country several times to join the BRI. However, in the bilateral relations Washington ignored the proposal. The BRI was never on the Congress' agenda, and neither was it discussed by the U.S.-China Economic and Security Review Commission, nor by the Strategic Economic Dialogue. Washington not just ignored the conception, but occasionally even proved hostile towards it, as for example, in its attempt to dissuade its allies from joining the Asian Infrastructure and Investment Bank (AIIB) (Luft, 2016).

The presidential inauguration of Trump in 2017 slightly modified the American strategy, since the new president entertained different ideas on trade. One of his initial steps was to cancel the role of the U.S. in the TPP initiative, since according to his philosophy, bilateral trade agreements better serve U.S. interests. Trump's relation to China is greatly influenced by the fact that he intends to redress the longstanding American deficit in the bilateral trade. In 2018, the verbal threats of the U.S. government were followed by punitive trade measures like customs tariffs, in the case of numerous industrial products. In response, China introduced similar measures on American products.

All in all, the U.S. is not interested in the successful implementation of BRI, since it would contribute to the further weakening of the American regional power. Nevertheless, the bilateral trade war in the Pacific region will indirectly spur China to accelerate the implementation of BRI, because it has to compensate for the trade surplus lost with the growing distance from the U.S. in order to sustain the Chinese model.

#### **4.2.2. The General Attitude toward BRI In the Different Regions of Asia**

In connection with BRI it is worthwhile to look at Asian countries like Russia, Iran and India, since apart from China, these countries are the major players. During the past decades China established the closest relations with Russia, which—focusing on the raw material and economic cooperation characteristic of the 90s—developed

at a slow but steady pace. Today this cooperation encompasses strategic sectors like military technology and space exploration. The accelerated development in bilateral relations in the past years is mainly the consequence of the fact that the worsened Russia-U.S. and Russia-EU relations have steered the Russians toward China. The long term strategic union between China and Russia is considered unfeasible by many western researchers, as in their view several factors in the two countries' relations may hinder the deepening of ties (Kuschins, 2010). One of these controversial issues is none other but the BRI, since China's economic invasion into the Central Asian region, which traditionally belongs to the Russian sphere of interest, is significantly weakening Russia's economic and power positions (Szentesi, 2015). Another factor is the fact that the Russian ruling elite fundamentally lacks confidence in the Chinese, due to the conflicts dating from communist times. Furthermore, the great number of Chinese ethnic groups migrating to East Siberia also constitute a problem, since this may cause territorial tensions between the two countries in the long run. However, recent events and processes show that the tightening of the relations between the two countries is more determined by Russia's estrangement from the West than by the estrangement from each other. Moscow is currently open to BRI expecting the development of bilateral economic and political relations. At the same time, if its relations with the West became more moderate, its openness would diminish, because Moscow does not intend to fully commit itself to Beijing due to historical and other hindering factors.

The India-China relations are complex given that they are the two most populated Asian countries shortly to boast the two greatest economies. Their economic and trade relations developed parallel to global trends, yet notwithstanding the size of these countries the bilateral economic relations have been moderate. India provided 0.4 percent of China's import in 2010, while China supplied 4.2 percent of that of India. The political relations can best be characterized by cold distance and undulations. Although both countries are members of the BRICS international forum, and India has shown interest in joining the Shanghai Cooperation Organization (SCO), there are also significant tensions arising from the China-India border dispute still unresolved. Moreover, Tibet's exiled spiritual and political leader is currently based in India. Economically, India is not China's strategic ally, therefore the direct developments of BRI do not concern India. However, the country is significantly influenced indirectly. In recent years, China has initiated a number of developments close to the Indian border (e.g. the development of Hambantota Port in Sri Lanka and of Gwadar Port in Pakistan), which jeopardizes India's economic and, first of all, security policy interests. Since economically India is hardly interested in BRI and considers it a threat to the country's security policy, it is counter-interested in the success of the initiative.

The historical relations between Iran and China date from times before the common era, although their modern diplomatic relations are relatively new. The bilateral relations were established in 1979, following the Iranian revolution. In the beginning, trade relations developed slowly, but in the 2000s there was an acceleration. Nowadays China is Iran's second biggest importer, while Iran exports mainly raw materials and products of the oil and gas industry to China. The rapid growth in bilateral trade was partly the result of the unstable and tense relations between Iran and the U.S. on the one hand, and with Israel and Saudi Arabia on the other. This brought about Iran's economic isolation in the past decade. The tense relations have been caused by Iran's medium power ambitions in the region and by its being the Shiite leader of Islam, which is a significant source of confrontation with countries following the Sunni and Jewish traditions. Although concerning BRI's continental pillar, Iran is a key region for China, because the major part of the transport route running parallel to the Russian Trans-Siberian railway crosses the country.<sup>5</sup> At the same time, Tehran poses a significant economic and security threat. Due to its limited international room, Iran is open to the BRI, expecting new investments and modernization.

The situation of the Central Asian countries is very similar to that of Iran given their hermetic isolation during the last centuries. This disadvantage was further exacerbated by their underdeveloped economies and stark exposure to Russia. For these countries the BRI provides an opportunity for release from their isolation, and therefore they fully support the initiative. It needs to be said, however, that in the countries of the region there are significant security risks stemming from minority conflicts and religious fanaticism, both of which exacerbate the conditions of implementation (Szentesi, 2015).

In the implementation of BRI's Southeast Asian plans, China has to face the difficulty that the historical and economic experiences of the countries in the region regarding China are not altogether positive. Although China emphasizes that it is interested in situations advantageous for both parties (win-win situation), historical experience does not always confirm this attitude (Grygiel, 2006; Chapter 6). Throughout history, China often used its economic dominance and lobbying skills in a way that led to the dependence, or in worse case scenarios, to the subordination of neighboring countries. In recent years, a growing concern cast its shadow over the relations between China and the Southeast Asian countries: the South China Sea disputes. This conflict met with resistance in the countries of the region. The measures taken by China

<sup>5</sup> As for the feasibility the optimal land route of the BRI is either China-Kazakhstan-Uzbekistan-Turkmenistan-Iran-Turkey or China-Kazakhstan-Turkmenistan-Iran-Turkey and the EU.

confirm that Beijing intends to extend its security zone and wishes to ensure the safety of regional maritime routes indispensable for the raw material supply. In the Chinese claims in connection with the South China Sea disputes there is a repeated provision, no doubt addressed to the U.S., that it does no good for the settlement of the conflict if external powers intervene in the regional processes (Zhao, 2015). Although China strives to deal with the security and economic problems separately in connection with the South China Sea disputes, the tense security conditions have had a significant impact on the attitude of the region's countries toward the BRI. Historical-economic and current security policy experiences caution the Southeast Asian countries to keep distance from the neighboring giant, and to maintain economic and political relations with other countries like the U.S. and India, since only this way can they counterbalance China's economic and political insurgence.

To conclude, looking at the most important powers of Asia, India's attitude toward BRI is hostile, while Russia supports the initiative for the time being. However, if Russia experiences detente in its other relations, it will probably back away from BRI due to the latter's economic and political effects that Russia considers detrimental. Iran is open to BRI, although the country constitutes a significant economic and security threat. Southeast Asian countries have mixed feelings about the initiative. On the one hand, they are in need of investments, but on the other hand, they fear becoming economically exposed to China and consider China's power demonstration in the South China Sea disputes dangerous.

#### **4.2.3. European Attitudes toward BRI**

It is precarious to speak about bilateral relations in the case of Europe and China, since Europe is not unified from a foreign political point of view. Although there is an independent chief representative post for foreign and security policy, member states determine their foreign policies themselves. Accordingly, on the basis of the experiences in the last decades, relationship building between European countries and China can be classified under three types. Self-confident countries with developed industries (Germany, the Czech Republic, Poland) have been willing to formulate piercing criticism against China in terms of ideological and economic questions, because their economic relations were of low intensity. At the same time, adaptive free trade countries (the United Kingdom, Sweden, Denmark and the Netherlands), formulated only political criticisms, and in the economic sphere they concentrated on the benefits of free trade in these relations. The greatest group of countries was constituted by the adaptive mercantilists. According to the states fitting this category, sound political relations lead to sound economic and trade relations. In their trade,



they tried to take protectionist measures against China, but on the political plane they chose not to criticize the country. The last category is constituted by those countries which follow the EU guidelines on the establishment and maintenance of relations with China (Rózsás, 2017).

For European countries the most important element of the relations with China is trade, which is shown by the fact that the annual value of the EU-China trade ranks first or second in the world. However, the assessment of BRI in European countries is diverse. While western countries would endorse the development of traditional maritime trade, Central and East European countries, lacking big ports, show greater interest in BRI's continental pillar. As the development of BRI's maritime pillar concern mainly Southern European ports (e. g. Piraeus), Western European states have little interest in supporting the development of BRI's maritime routes. After the crisis in 2008, Central and Eastern European countries launched the policy of Eastern Opening in the fields of trade and foreign policy, although its results can only be seen today in the tightened political and cultural relations (e. g. China+16). Although today there is an indirect railway connection between the EU and China, so far it plays a minimal role in the bilateral trade, remaining below 1 percent of the total bilateral trade.

Europe's attitude toward BRI can best be characterized by slackening interest and moderate passivity. Although the volume and perceptions of BRI do inspire the leaders of European countries, however, it is clear to them that before reaching the European borders, China has to overcome a series of difficulties. Western European leaders tend to be sceptic with respect to the continental routes, despite the fact that one already exists between China and Europe. China and the 16 Central and Eastern European countries are, in contrast, more open toward the continental pillar of BRI, since it aligns with their conception of the Eastern Opening, and because they expect the possible diversification of their export. At the same time, experience in recent years shows that cooperation with China is far from smooth, and the implementation of concrete infrastructural projects is problematic (e.g. the highway construction project in Poland, the Budapest-Belgrade railway). Furthermore, Western European countries are increasingly concerned about the fact that China, taking advantage of the crisis in 2008, has acquired a number of strategic assets on the continent over the past decades. Therefore, they consider the BRI as a further extension of Chinese influence. All in all, nowadays the initially great European enthusiasm for BRI has slackened.

#### 4. Conclusions

As the first section has shown, the Chinese model is an economic-political model based on a different civilization. In this model China has incorporated a number of western economic elements and patterns, although it has features that are characteristic only of China's economy. Apart from the 40 years of enormous success, the model also boasts a high-level capacity of learning and adaptation, which answers for its continuous innovation and development in various internal and external circumstances. At the same time, over the past years a number of questions have been raised that question the model's sustainability. The two most important of these dilemmas concern the middle-income trap and the significant territorial and income differences. The leaders of the country have indicated several directions and introduced measures in order to avoid potential negative aftereffects of the 2008 crisis, and further, to improve the country's international competitiveness and strengthen its position in the global production chain.

The second section identified the public and internal objectives of BRI, and argued that on this basis, the BRI is the following logical step in the natural development of the Chinese economic model, since it is capable of both supporting economic development and strengthening China's global economic and political position.

The feasibility of BRI's two different pillars, the maritime and the continental were examined by the third section on the basis of financial-economic and international political-economic factors. While the financial and economic feasibility of the maritime pillar is ensured in the case of most of the necessary projects, it has to face several challenges in the global political environment in general, and in security in particular, due to the South China Sea disputes and India's increasing concerns.

Currently, the economic feasibility of BRI's continental pillar is highly questionable both for financial reasons and in terms of return, since the financial and security situation of the majority of countries involved in the implementation is weak or unstable. The BRI is not supported by international political players, either. Russia considers it as an initiative that will curb its Central Asian sphere of influence, and a potential rival for its Trans-Siberian railway. The U.S. supports neither the maritime, nor the continental pillar of BRI, because it fears the slackening of its global influence. Europe has mixed feelings about the initiative. Its attitude toward BRI can be characterized by sitting on the fence.

To conclude, although the BRI seems to be the next logical step in the development of the Chinese model, both the financial- economic and the global political-economic factors are unfavorable for its implementation. If China wants to carry it through, it will no doubt need to make the most of the high-level learning capacity and adaptability of the Chinese model in the international environment.

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# Values in Shifting Times and Fuzzy Geographies—(Where) Do They Meet?

Mariana Nicolae – Elena E. Nicolae

## 1. Introduction

That major economic themes are derived from or causing major cultural shifts, has not been a favorite topic for economic and business research probably because, among others, of difficulties in relevant data gathering and, therefore, quantitative analysis which is so much en vogue nowadays. In spite of those difficulties a growing body of research has started to amass highlighting the importance of values as reflected in various cultures and their influence on business and economics.

China has been a rising presence in today's world for a while now and for most educated and even less educated people that is no longer news. Nevertheless, the reactions to China's positioning in the 'global village' represent a stimulating discussion to which the same people contribute depending on their level of education, personal or group interests. The same holds true for organizations or larger entities who view China either as a threat or as a model of development, with very few shades in between. For some, China is an illiberal state trying to establish itself as a leader in a liberal world order (Economy, 2018, p. 60). For others (Ang, 2018, p. 40), China's public administration managed to quietly transform a fossilized communist bureaucracy into an agile capitalist machine, though the pundits say that political reforms cannot be avoided in the long run. Both sides usually refer to the same facts: China has increased its influence through the Belt and Road Initiative, while the Chinese economy has continued to expand, unevenly indeed, in spite of the line of thinking that presumably started in 1998 with Thomas Friedman who predicted an eventual slowing down of the Chinese economic growth. In 2017, the Chinese GDP grew by 6.9 percent, that was the first time when the growth rate had gone up in seven years, in spite of rumors of data falsification by regional officials which however, in the view of China's statistics bureau, did not affect national figures. No matter which interpretation of reality we take into account, the Chinese leadership face changes that were set by president Xi Jinping in his speech to the party congress in 2017 announcing a "new era" in which China will look at growth quality over quantity, including more attention to environmental protection and industrial upgrading (Wildau – Hornby, 2018).



China has a paradoxical presence in today's world: though it has all the ingredients to be a much appreciated and even loved country, it is considered very "uncool" in the view of a Chinese student who lived and studied both in China and the US. Gao (2017) tries to explain that Chinese music, films and fashion are not so popular internationally in comparison with those of the US. Gao considers that it is relevant to discuss this soft power deficiency that China displays, as China is now in the situation in which its political discourse is not appreciated in Europe or the US while its economic model, of command and control, is admired by most of the developing world. Gao underlines that "China needs to rethink some of its soft power strategies and political values, and in the process rebrand itself — if not for its image abroad, then for its own people at home. China, Gao says, has the world's largest middle class, as well as the world's largest population of billionaires. Those facts suggest that Chinese consumers should be the world's new tastemakers. But their current tastes in entertainment and fashion are largely sourced from outside the country."

Things are more complex than Gao tries to discuss in his article. China and its position in today's world are continuously evaluated by political pundits stressing the sides that benefit their own arguments and their more or less hidden or visible agendas. Campbell – Ratner (2018, p. 70) show that because the US has been busy with the Middle East, China had the opportunity to follow its advantages and let itself be led by the view that the United States as well as, in general, the West are in inevitable and fast decline. President Xi has asked China to become "a global leader in terms of comprehensive national strength and international influence" by the middle of the century. He strongly promotes China's development model as a possible "new option for other countries." Campbell and Ratner consider that the US meet at present their most dynamic and redoubtable competitor in modern history. And their experience indicates that they should know what they write: Campbell is Chairman of the Asia Group and from 2009 to 2013 was U.S. Assistant Secretary of State for East Asian and Pacific Affairs, while Ratner was between 2015-2017 Deputy National Security Adviser to U.S. Vice President Joe Biden and is Maurice R. Greenberg Senior Fellow for China Studies at the Council on Foreign Relations. They consider that a correct approach to this challenge will require the US to adjust its way of thinking about its ability to determine China's course.

The world today is in tremendous and, some scholars fear, even fatal transformations if humans do not find the strength to shift direction. The 2018 World Economic Forum chose as its overall theme "Creating a Shared Future in a Fractured World" and discussed important issues related to education, artificial intelligence, gender and Central and Eastern Europe. Business people, politicians and academics seemed

to agree that the values and cultural aspects related to those issues are important to understand for everybody in the global economy if we want to prepare to make sense of our already deeply fractured world and to create a (common) future. We are therefore looking at a very complex picture made even more complicated by the incredible fabric of powerful groups and individual interests. That raises important cultural challenges related to language, values, education and technology. It is the strong belief of the authors of the present paper that part of the problem is the level of education or rather the degrees of knowledge that most people acquire from various sources which have become less and less reliable nowadays in the age of “fake news” or “post-truth”. Our study is based on a small scale empirical research that aims at clarifying some of those issues and based on those clarifications answering the question in the title.

## 2. Shifting Times and Fuzzy Geographies—A Clarification of Terms

We would like to start with a brief and very simplified discussion of what the concepts of shifting times and fuzzy geographies mean for us in the present research. In our interpretation, the term shifting times means simply “changing times”. Our use does not intend to explore the philosophical connotations that psychologists or artists may give the phrase when exploring how a person’s sense of time changes depending on our perceptions of who and where we are at various moments. Nor do we take a technical view as in the media or the automotive industries or even in literature.

We use the term fuzzy geographies well aware of the connotations of the word “fuzzy” particularly in the fields of mathematics and computer science. However, our use of the term here refers to a long and rich literature on borders, boundaries and geopolitics that is an interdisciplinary area where academics and politicians alike meet. From the very beginning in the history of mankind various human constructed entities under the form of empires or states and later on nation states have set up arbitrary demarcation lines to monitor and control the movement of people. As Houtum (2005, p. 672) explains in his article in which he takes stock of the evolution of border studies, being “children of our time” we have now come to consider borders as “human practices that constitute and represent differences in space” and anthropologically as “the socio-spatially constructed differences between cultures/ categories” which underline from our point of view the different values that exist on the various sides of the different borders. There has been a complex discussion on those issues as seen in Balibar (2004), Spruce (2007) or Rumford (2012) as well as, from cultural perspectives, by Bhabha (1994) or Brah (1996).

What is relevant for our present research is that social scientists and fiction writers consider borders as fertile meeting places for cultures and societies and their values and mobility across borders is a sign of various types of powers (political, social, cultural). Trade is a good example from very early times of crossing borders both in the literal sense and in terms of culture and character as well. The ancient Silk Road was a road which traded not only merchandise but also culture and cultural values. And so is the One Belt, One Road which is promoted by the Chinese government as a win-win situation for the local, usually less developed beneficiaries of the project, while most of the rest of the world is wondering what the ulterior reason is while others clearly think it is a state-directed effort to reinforce China's political influence and military power in the regions that the Belt and Road are being developed.

Both concepts of shifting times and fuzzy geographies presume if not a dramatic "clash of civilizations", at least a continuous, uneasy but significant negotiation of values, both personal and organizational. One of the important causes or explanations for the difficulties of the European Union's existence and cumbersome governance is culture and values and their role in creating a clearly recognizable and relatable identity, that of a European, much in the same way that the US has a unifying identity, being American, or the Chinese have their Chinese identity in spite of the multi ethnic and multicultural aspects of the two countries. Not to mention the language issue that also comes loaded with cultural and axiological elements. As Szentesi says in Moldicz (2017, p. 86) the European Union "finds it increasingly difficult to hold on its own principles" in relations to China exactly because of the so different values that shaped historically the two entities. The case of the Dalai Lama is offered as an example of the values-based difficulties that make the EU-China relations uneven.

In the next section we are going to highlight briefly some of the literature that considers values and mentalities responsible for the more or less rapid economic development in the regions where those values have been alive. The fast pace and diversity of change today prompts for the need to explore those changing cultural values and patterns from various perspectives including Central and Eastern European ones.

### **3. European Exceptionalism—Where Does It Stop?**

Starting with Max Weber (2005) there has long been a line of thinking that has considered values and mentalities responsible for the more or less rapid economic development in the regions where those values have been alive. Weber's thesis is well-known in its very broad terms namely that market-driven capitalism in the Western world

is mainly due to Protestantism which has among its main principles the religious values which promote capitalism. This is only the surface of Weber's theory and it is usually forgotten that Weber believed in multiple causality and was a very thorough scholar himself with an extraordinary academic work ethic, which meant a genuine, in-depth understanding of his subject. His second work on the sociology of religion is "The Religion of China: Confucianism and Taoism" written in 1915 in which Weber looked at specific elements of Chinese society through which it differed from the West and Puritanism raising the question of why capitalism did not develop in China. Swedberg underlines several important issues connected with the understanding of Weber's work: starting from it being notoriously difficult to understand, academics and lay people usually think of him as a sociologist forgetting that his first specialization was law, then economics, and that only late in his life did he develop a full sociological perspective (Swedberg, 2014, p. 3). Weber's China study was intended as part of a massive project originating in "The Protestant Ethic and the Spirit of Capitalism". He intended to develop "The Economic Ethics of the World Religions" with the general aim to answer the question: why did rational capitalism only emerge in the West, under the influence of ascetic Protestantism, and why not also elsewhere in the world, under the influence of other religions? However, specialists contend that the China study is inaccurate due to Weber's lack of knowledge of Chinese and the fact that he was not a sinologist which he frequently acknowledges in "The Religion of China: Confucianism and Taoism" (Swedberg, 2014, pp. 13-18).

European exceptionalism, be it called the European miracle or the Great Divergence, is a fertile line of thinking and attempts to explain how and why the Europeans, in other words the inhabitants of Europe in around the 18<sup>th</sup> and 19<sup>th</sup> centuries, built the highly successful Western Civilization that in some views overtook the rest of the world and in other views is in its retreating stage in front of the Asian forward marching forces. David S. Landes (1998) and Niall Ferguson (2011) are just two of the historians from the Anglo-Saxon world who approached the subject. For Landes, the Europeans had become the traders of the world carrying gold, spices and other types of merchandise including slaves from and among Africa and South America to Asia and wherever the demand was created while cruelly fighting among themselves in terrible wars that scarred the whole world. The Europeans were also innovators in science, arts and philosophy, not to mention agriculture and the industrial revolution. Though Landes is praised for his great work, for the large amount of data used and an impressive scholarly apparatus applied to his research, there is also criticism towards his oversimplification of historical development, or the leaving out of parts that do not fit in his larger picture. Thus, Sutherland (1999) reproaches Landes a too triumphalist picture of a Europe in which people had been rationally and responsibly

working hard for their goals which they knew, set and followed while the reality, as we know it from other various sources, is so different.

On the other hand, Ferguson considers that the economic, scientific, cultural or military superiority of the West has not been predestined. He acknowledges the Chinese, Aztec and Ottoman civilizations that had been at various moments in history the most advanced civilizations of their epochs. Ferguson's proposition is that Europe's success happened because it was able to put together and promote the right mix of political, legal and social institutions that helped it overcome the misfortunes brought about by plagues, natural disasters, unsuccessful leaders or simply bad luck. He uses the modern digital jargon to call the respective mix "apps", but they are in fact institutions and/or values that helped Europe, and with it the Western World, to take the lead: competition, the scientific revolution, property rights, medicine, consumerism and the work ethic trigger with them and have behind them a large complexity of social constructs.

Tabellini (2010) demonstrates that culture has a causal effect on economic development based on data from European regions. In his study, culture is measured by indicators of individual values and beliefs: for example, trust and respect for others, and confidence in individual self-determination. He concludes that two sets of cultural traits seem to favor economic development: what may be called "social capital" *avant la lettre* and confidence in the individual. The first set is represented by the variables trust (in other people) and respect (tolerance and respect for others in children). The second trait is represented by the variable control (of one's life) and, in a negative sense, by the variable obedience (appreciating obedience in one's own children). Tabellini considers that these cultural values can influence the development of the economy directly, or indirectly through the functioning of current institutions.

Discussions in Asia about cultural values are more difficult to review due to obvious reasons mainly of language. However, with English as a lingua franca in the globalized world it is not impossible. The Jesuit educator and researcher Hezel (2009) discusses the role culture plays in economic development and, based on a long and complex experience in Micronesia, warns about the dangers of assuming Western values have the same meanings in Asia or in other parts of the world except where they have been constructed. Referring to Amy Chua's book *World on Fire*, Hezel quotes from her work and points out how successful ethnic Chinese have been across Asia: in the Philippines, they represent less than 2 percent of the population and control 60 percent of the nation's private economy (four major airlines and almost all the country's banks, hotels and shopping malls); they also dominate business in Indonesia,

Thailand, Burma and Malaysia. The Chinese are not the only group to achieve success in their diasporas. Chua points out in her book (Hezel, 2009) that there are what she calls “dominant minorities”—ethnic groups that have demonstrated a remarkable ability to succeed in business wherever they may live. The values that both Hezel and Chua endorse for this success are: belief in the importance of individual effort, trust, generalized morality, autonomy and ethic of hard work. And Hezel underlines that Micronesia and its native ethnic groups do not share those values except, in the best case, as discourse. The same happens in many parts of the world where the various mentalities and values do not meet except in discourse. As Confucius seems to have said—the most important ingredient for admirable leadership is language, in other words sharing the same understanding of concepts.

Pleșu (1998) explains the apparent difficulties of Romanians to adapt to some of the EU values and Romania’s incapacity to integrate effectively in the EU through the same Weberian explanation of religion, the majority of Romanians being Greek orthodox. Pleșu considers that this incapacity is based on the faulty line of thinking which attributes it to religion. He argues that cultural stereotypes should not be demotivating and offers reasons for optimism. Speculations are often made about a certain religious “border line” quietly imposed upon Europe so that the countries of the Catholic East are absorbed while those of the Orthodox East are rejected. This line of thinking is, in Pleșu’s opinion, false and harmful for both sides. It builds on a discrimination more imaginary than real. Orthodoxy did not lead to the exclusion of Greece from the European Community and on the other side, non-Orthodox countries like Slovenia, Slovakia and the Baltic countries have been accepted, like Romania, later.

Naumescu (2017) underlines the fuzziness of our geographies by pointing out that concepts like Eastern Europe have gone through various interpretations. Naumescu (2017) underlines the fuzziness of our geographies by pointing out that concepts like “Eastern Europe” have gone through various understandings: from an ideological, political, strategical or even cultural definition, in which pure geography was not very relevant, to today’s geopolitical idea. Naumescu says Eastern Europe had at least three meanings: a) the former “socialist bloc”, b) “East Central European post-communist countries” and c) the present member states of the “EU’s Eastern Neighborhood” or Eastern Partnership (EaP). The countries that used to be called before 1989 Eastern European have been “transferred” to Central Europe while the “new Eastern Europe” currently consists of six post-Soviet republics, from Belarus in the north to Azerbaijan in the south.

So where does European exceptionalism end if it is so difficult sometimes to define clearly its geopolitical areas?

One of the relatively few<sup>1</sup> books about China published in the last decade in Romania is Tomozei's "The State in the 21<sup>st</sup> century. The Chinese Model". The author is very much aware of the challenging ideas that he floats to a Romanian public who, to a large extent, is assaulted by a mass media which is relaying mainstream Western topics and ideas, mainly in black and white (democracy vs. communism, allies vs. enemies), without offering an alternative view as well. Tomozei is convinced by China's present and long-term success which turns into the Chinese Dream. He explains that part of this success is objectively analyzing social, cultural, political phenomena and errors, both national and international, and trying to look for opportunities, to build, evolve and adapt everything to the Chinese model and specificity. The important point being that China does not apply anything without analysis, modelling and adaptation to its own culture and history.

#### 4. Romanian Students of International Business on China and Its Values

We conducted a simple, general survey on a convenience sample of 121 students of international business and applied modern languages in the Faculty of International Business and Economics in the Bucharest University of Economic Studies in order to identify how they perceive China and what they actually know about the country and its culture. The survey (presented in the Annex) was given in Romanian to Romanian students and in English to international students. It was applied face-to-face, on paper, and the students had been instructed not to attempt to find their answers on Google or to discuss among themselves.

The authors are very much aware of the limitations of this brief study both in terms of content and of the size of the sample. However, considering that the respondents are students of one of the most prestigious business universities in Romania, it is

<sup>1</sup> Chu Qunli, a Chinese researcher and journalist, has identified about 35 travel books written by Romanians after their visits in China. Starting with Nicolae Mănescu in the 18<sup>th</sup> century Chu Qunli mentions seminal names of the modern Romanian culture such as George Călinescu with his "Am fost în China Nouă" (1955) and Eugen Barbu with "Jurnal în China" (1970). And yet we have identified only four original books about China written by Romanians during the last decade which are listed in the references. This situation is relatively disappointing as book publishing represents a more advanced level of cultural interest of a society than articles and blogging. It also may represent a lack of sufficient institutional support without which it is difficult to develop and maintain relations among countries.

relatively safe to assume that, beyond obvious individual differences, the large majority of educated young people in Romania have similar perceptions of the subject.

We will briefly discuss the results of the answers given to this survey from the point of view of our current research. A more detailed discussion of the results was done in Nicolae (2017). Generally, the knowledge about China and its culture is superficial among students of international trade and, as expected, relates to items of trade and technology. From the 121 respondents only 81 answered the questions referring to Chinese personalities and/or celebrities giving examples of well-known people from various fields mainly politics, business and movie actors. However, only 6 mentioned Confucius, with one even saying "the famous philosopher", and 2 mentioned Sun Tzu. In answer to a question about values, 96 respondents said they thought Chinese specific values existed, while 18 said they did not think there are specific Chinese values. The values mentioned are presented in Table 1. Even if some of the concepts may not be usually described as values they are presented in Table 1 as indicated by the respondents.

Table 1.

**Specific Chinese values as perceived by Romanian business students**

Values	Number of occurrences
Respect for tradition / elderly	8
Family	8
Discipline, seriousness and self-control	6
Honesty and correctness	6
Respect for culture	5
Food	5
Feng-shui	3
Punctuality and politeness	3
Hierarchy and respect for authority	2
Collectivism	1
Common sense	1
Financial equality	1
Meditation	1
Modesty	1
Patience	1
Patriotism	1
Perseverance	1
Taoism/ Buddhism	1

Source: own compilation



In terms of material culture, the overall majority of the respondents use or have used a Chinese product. Only seven respondents say they have never used one. Most of the products used are phones/technology, clothing/textiles, cosmetics, toys, stationery, household goods and food or food ingredients, spices. None of the respondents have visited China so far, but 92 expressed their wish to do so as compared with 24 who do not intend to visit it in the future. As regards their availability to do business with Chinese business people, 65 answered they would like to, 20 were against the idea, while 8 answered maybe and the rest (28) have not answered this question.

As a general description of China almost half of the respondents, 58 (47.9 percent) consider China a communist state, 28 think of it as a developing country, 45 (37.1 percent) consider it a developed country, 23 say it has a market economy, 20 say it has a centralized economy while 29 consider China's economy to be mixed. As regards the type of society China is, 11 respondents describe it as a civilization state, 8 as a nation state and 6 as a pluralist society.

Such a diversity of views reflect several things—one is clearly the difficulty of labelling China at present. For students of international business this also reflects, to a certain extent, the general state of knowledge on China in one of the best Romanian business universities. It may also reflect a lack of individual understanding of the respective concepts.

Only 30 respondents answered the question about the Confucius Institute: 21 said it was the cultural institute of China with the mission to promote Chinese language and culture, 6 people did not know what it was, but heard about it, 1 person said it was a research center, 1 a non-profit, 1 a university. The fact remains that out of the sample surveyed only approximately 17.3 percent knew about the Confucius Institute. Nevertheless, although 86 respondents considered Chinese a useful language to learn in the future, only 34 said they knew several words like greetings or thank you in Chinese.

The following statements have been used in order to identify whether students of international business have a genuine interest in studying China beyond the general discourse offered in the mainstream Romanian media and whether their economics and business education points to specific knowledge not easily available for a general public. The statements have been answered as shown in Table 2.

Table 2.

## Respondents' answers requiring more in-depth knowledge on China

Statement	Total disagreement + disagreement	Total agreement + agreement	Indifferent
14.1 China has been and is a danger to Europe/ Romania and, therefore, it is best to keep economic relations with it to a minimum.	35 + 57 = 92	10	16
14.2 China's imperial or communist ideology has been and continues to be influenced by the desire for domination—it therefore poses a threat to Europe/ Romania or any other state in the world.	16 + 51 = 67	19	30
14.3 In the relations with China ideology is, obviously, an influencing factor, but it should not influence Romania's economic pragmatism.	1 + 7 = 8	7 + 60 = 67	41
14.4 China is a huge consumer market with relatively low-quality standards. Romania needs to take advantage of that fact and businesspeople need to focus on this area.	8 + 22 = 30	11 + 49 = 60	26
14.5 The Romanian state does not encourage economic relations with China, but Romanian businesspeople know their economic priorities and invest in the relationship with the Chinese.	4 + 12 = 16	4 + 47 = 51	47
14.6 China is the symbol of communism, but the Chinese, as individuals, are generally very hardworking people, respectful, good employees and colleagues.	2 + 5 = 7	27 + 57 = 84	24
14.7 China is aware of its imperial heritage and its present statute, and acts as any great power—widening its sphere of influence, without any sentimentality towards its partners or opponents.	2 + 11 = 13	9 + 55 = 64	38
14.8 China is the symbol of arrogant power and of communism, and the Chinese, as individuals, are generally a miniature image of China—arrogant, aggressive, taking advantage of any kind of situation.	27 + 54 = 81	1 + 12 = 13	21
14.9 China has managed to bring more people out of poverty than any other country in the world.	24 + 4 = 28	3 + 23 = 26	60
14.10 China is the second largest country in the world generating foreign direct investments (FDI) and the first beneficiary country of this type of investments (FDI).	0 + 7 = 7	10 + 58 = 68	38

As already stated the limitations of this small-scale survey of Romanian business and economics students are obvious in terms of size and possibility of generalization. However, from a qualitative point of view this sample is relevant in comparative terms. The Bucharest University of Economic Studies is one of the most prestigious, and certainly largest, business and economic universities in Romania. This makes both the study programmes and the students' responses in this survey somewhat characteristic of the general positions towards China in Romania. In other words, there is a genuine interest at personal level towards one of the most dynamic economies in the world, backed by the inevitable temptation of small prices and an ever increasing and improving quality. On the other hand, students in business have a

pragmatic attitude. Even if the answers to what type of state China is reflect a large diversity of views, from almost half of the respondents (47.9 percent) considering China a communist state, which in present day Romania is considered almost anathema, and 37.1 percent considering it a developed country, the position of the respondents is that from practical and business points of views ideology should not matter. The responses to Q 14.1 (China has been and is a danger to Europe/ Romania and, therefore, it is best to keep economic relations with it to a minimum) are clear: 92 disagree and 16 are indifferent to the statement which means an almost unanimous answer in favor of business relations with China. This is reinforced by the answers to Q 14.3 (In the relations with China ideology is, obviously, an influencing factor, but it should not influence Romania's economic pragmatism) to which 67 respondents agree and 41 are indifferent, leaving only 8 to disagree. This attitude exists in spite of a strong ideological discourse in Romania against communism and anything connected with it induced and maintained by a massively pro-western media (Fota, 2017).

#### 4. Conclusions

The present paper has explored issues related to values and culture and their influence on the economy. Shifting times create turbulence in the world. However, this is a permanent condition that we have to learn to live with and manage. Geopolitical instability, the increase of populism, the impact technology, the education divide, are important factors that have to be taken into account by decision makers.

Economic themes and results are derived from or causing major cultural shifts. The literature that we looked at agrees on the importance of values and culture for economic success. A Romanian perspective may add value to the understanding of changes in Asia in general and China in particular. Romania is part of a larger and historically complex region that may have a clear impact on business and society at a larger scale than Central and Eastern Europe. The values and culture of Central and Eastern Europe are important to understand for everybody in the glocal economy if we want to prepare to make sense of our already deeply fractured world and to create a (common) future. These issues are even more important in relation to China and the way China is positioning itself in the world. That raises important cultural challenges related to language, values, education and technology as well as important opportunities for all the stakeholders in the process in order to make values meet and become understandable even if not acceptable.

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