

# Power Shifts in East Asia

and Their Implications  
for Asia–Europe Relations

edited by  
Karol Żakowski, Bartosz Kowalski



Contemporary Asian Studies Series

**WYDAWNICTWO  
UNIWERSYTETU  
ŁÓDZKIEGO**

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## **Introduction**

The aim of this monograph is to analyze the changes in the distribution of power in East Asia at the beginning of the 21<sup>st</sup> century, as well as their implications for the development of relations between Asian and European countries. In addition, power shifts in selected East Asian economies and societies are examined to provide background for the changes at the international level. East Asia has attracted interest from politicians, business people and scholars not only due to its economic, demographic and cultural potential, but also thanks to its rapidly rising international position. While in the past it was Japan that could be considered as a forerunner of economic and societal changes on the Asian continent, at present it is the People's Republic of China (PRC) that holds a dominant position in terms of economic, political and military power. China's rapid rise has led both to an increase in tensions in East Asia and to intensification of the efforts to institutionalize multilateral dialogue in the region.

These new developments have not been unnoticed by the European Union (EU), which has declared concerns regarding China's relations with Central and Eastern Europe (CEE), institutionalized in the "16+1" initiative in Warsaw, 2012. Yet, six years of this Sino-CEE multilateral initiative led many to perceive it rather as 16 bilateral relations of each respective country with the PRC. Moreover, with growing US-China economic tensions in the background, official statements of the majority of EU countries demanding more reciprocity with China have become more resolute than they have ever been before. To this end, the pan-European investment screening mechanism is likely to be implemented in the coming months, thus adding to the growing tide of protectionism worldwide. European leaders on the one hand want to reap the benefits of China's crucial role on international markets, but, on the other hand, they remain concerned

by the fact that the PRC might become a regional hegemon with growing global ambitions. Therefore, the EU have not by far granted China market economy status under the World Trade Organization, which is a result of mainly political considerations, and not economic per se.

The book is composed of three thematic blocks. The first part analyzes changes in the balance of power in East Asia. David A. Jones and Hanzhen Liu examine a range of international tensions on the Asian continent, such as the North Korean nuclear armaments issue or the territorial disputes in Kashmir and in the South China Sea. They come to a conclusion that while these problems can function as obstacles to stronger relations between the East and the West in the short term, in the long run they can provide opportunities for national actors in the region to come together. Paweł Behrendt analyzes in more detail the dispute over the South China Sea, indicating that Beijing is taking full advantage of political divisions among ASEAN countries to weaken their solidarity on maritime issues. Kamer Kasim, in turn, focuses on the impact of alternation of power in Taiwan in 2016 on cross-strait relations. Based on a comparison of the previous Democratic Progressive Party (DPP) administration (2000–2008) and the current Republic of China government, as well as on analysis of the US approach to the Taiwan problem, he finds it unlikely that the Tsai Ing-wen administration will escalate the dispute with the PRC to dangerous levels.

The second part examines the evolution of the economies of three selected countries neighboring China: Vietnam, North Korea and India. Mirosław Jurdeczka analyzes free-market oriented reforms in Vietnam through the lens of the model of a transitional economy. He comes to the conclusion that the process of transformation in Vietnam could be further enhanced by bridging together academia and the private sector in order to enable a more innovative economy. Eunwon Yi analyzes the state of human rights in North Korea. She argues that the notion of justice is used by the Pyongyang regime to dehumanize and discriminate against the “enemies of the people” based on post-colonialism and socialism. Natalia Zajączkowska, in turn, examines the relationship between the caste system and democracy in contemporary India. She describes the transformation of castes into competitive, corporate and substantialized bodies that, to a certain extent, pose a challenge to democratic values.

In light of the previous parts, the third thematic block analyzes various dimensions of the current developments in Asia–Europe relations. Marsela Musabelliu, by analyzing PRC’s leadership discourse, interprets the Belt and Road Initiative as an extension of the “Chinese Dream”

concept. Jeremy Garlick finds it most likely that in terms of energy security China and the EU would collaborate in the sphere of renewables. Mateusz Smolaga analyzes both the fields of potential competition and cooperation between the multilateral development banks established by the EU (European Bank for Reconstruction and Development) and the PRC (Asian Infrastructure Investment Bank). Hongfei Gu, by drawing from the perspective of asymmetry in international relations, shows that the deepening economic interdependence between China and CEE countries creates a good environment for the promotion of not only economic, but also political contacts. Karol Żakowski, in turn, discovers a discrepancy in the slogans used in Japan's diplomacy towards EU states, which are based on the values of democracy, human rights, the rule of law, and free-market economy, as well as towards non-democratic European countries, which are founded on national interests. This mosaic of contacts between Asia and Europe attests to the growing interest of China and Japan in the EU and vice versa.

The authors hope that this multi-dimensional analysis of political, economic, and societal changes in East Asia will contribute to a better understanding of the complex factors influencing Asia–Europe relations. Despite being mutually remote, Asian and European states are aware of the growing importance of intercontinental exchange in the era of globalization. China and Japan have already started competition over strengthening economic and political ties with the EU, and we can also expect other Asian countries to intensify their diplomacy towards Europe in the near future.



# **Changes in Balance of Power in East Asia**



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<http://dx.doi.org/10.18778/8142-287-1.01>

# **Tensions Along the Western Pacific Rim of East Asia: Obstacles or Opportunities?**

## **Abstract**

*Tensions have erupted then lingered along the Western Pacific rim, widened across East Asia, expanded into South Asia. They range from the most threatening, the erratic and belligerent behavior of North Korea, to the mystifying posture of China across the East and South China Seas, to the transparent build-up of “flat top” warships by India and Japan, to a myriad of other indicators of conflict. Each of these problems is solvable, some more easily than others. Each requires cooperation among the nations along the Western Pacific, notably China, frequently absent. Each must involve the United States of America. These tensions, each individually and all collectively, may be viewed pessimistically as obstacles; they are better viewed optimistically as one grand opportunity. Emerging is an opportunity for the United States and China to join forces with their allies as partners leading the way toward global peace, a reinvigoration of what was known as the “Peace of 1945” or “Pax Americana” that can become at once a “Pax Serica” [“China Peace”] as well as what could become known as the “Pax Americana Secunda” [“Second American Peace”]. Allies in the region will have to join forces, they have little choice. This paper will address some internal Strengths and Weaknesses alongside some external Opportunities and Threats that befall each of the participants and all of them collectively. It will focus primarily on the opportunities that will burgeon if China and the United States can work together, as they began to do, seriatim, from the middle of 2017 before each country imposed tariffs on the other as a strategy.*

**Keywords:** Asia, China, India, Japan, Pax Americana, Pax Americana Secunda, Pax Serica, CEEC, UNCLOS

## 1. Introduction

Harvard University's Weatherhead Professor, Graham T. Allison, Jr., has inundated the academic media with warnings to the United States over a possible "Thucydides trap" because, in his view, China is a rising power bent on replacing America as a hegemon or existing power globally but in Asia especially (2017a; 2017b; 2017c). According to Allison, what China's President Xi Jinping wants above everything else is "the rejuvenation of the Chinese nation" (Allison & Goldberg 2017) or, succinctly, to "make China great again" as Donald J. Trump pledged to "make America great again" as a 2016 Presidential candidate. In his *Foreign Affairs* article, Allison reaches back to Samuel Huntington, much as he did in his book (Allison 2017a, xix):

The United States embodies what Huntington considered Western civilization. And tensions between American and Chinese values, traditions, and philosophies will aggravate the fundamental structural stresses that occur whenever a rising power, such as China, threatens to displace an established power, such as the United States.

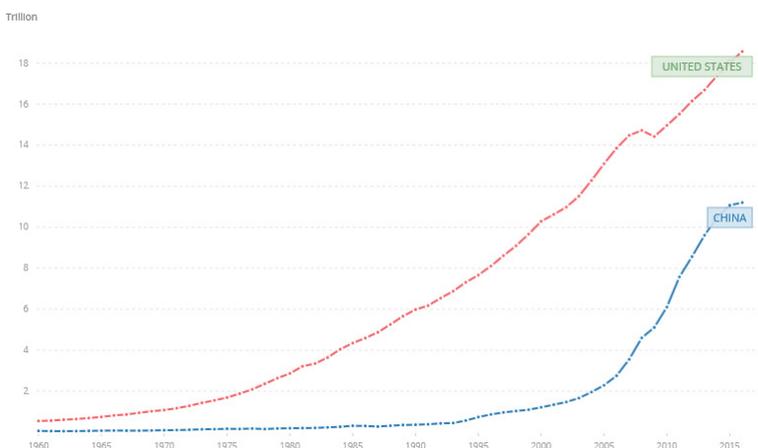
The reason such shifts so often lead to conflict is Thucydides' trap, named after the ancient Greek historian [and general] who observed a dangerous dynamic between a rising Athens and ruling Sparta (Allison 2017c).

Some elements of this forecast come from Allison's book, in which he urges America and China to "avoid the Thucydides trap" (Allison 2017a). Very little doubt exists but that they will do so, as Allison acknowledges (xvii), one reason being that neither the United States nor China is an "empire" at heart, and another reason being that China is far from overtaking the United States economically, militarily, or otherwise.

Figure 1 reflects their comparative economic strength and growth, 1960 to 2016, with the United States always ahead in both strength and growth, according to World Bank statistics. As half a century came and went, the United States' economic strength and growth widened in relation to China, dipping only very recently, reflecting the West's Strength, and China's Weakness; facts China must recognize and does recognize quietly, if not publicly. Evidently, China projects its rise militarily and expects a continuation of that rise, in reliance upon the late 19<sup>th</sup> and early 20<sup>th</sup> century American naval strategist American Rear Admiral Alfred Thayer Mahan, USN, upon whom both Imperial Germany and Imperial Japan relied to their detriments in World Wars I and II respectively by following Mahan's

strategy of heavily fortifying home waters (Asada 2006). On the other hand, British Fleet Admiral Sir John Arbuthnot (“Jacky”) Fisher, RN, OM, GCB, GCVO, 1<sup>st</sup> Baron Fisher, argued for the use of submarines to defend home ports, and mobile battle cruisers to gain and maintain positions in distant seas (Sumida 2006), the path Britain and the United States have followed in contrast to China’s fortification of the South China Seaways, gaining Opportunity for the West, posing Threats to China. Advice to China: American strategists are not correct all of the time, it is a weakness to rely entirely upon Mahan or any of them. Allison cautions that America and China both must acknowledge that war between them is more likely than has been recognized, and that war is avoidable but in their hands to avoid (Allison 2017a, p. xvii). Others have argued that a new “clash of civilizations” is emerging, with a “quad” of nations that includes America, Australia, India, and Japan, spearheading a challenge to China’s rising power ambitions, working together and separately to challenge China, to construct a new “clash of civilizations” (“Quad’ of democracies 2017”) reminiscent of Huntington’s in a different region.

**Figure 1. Comparative Economic Strength and Growth, U.S. and China, 1960–2016**



Source: World Bank, through Allison 2017a, p. 6.

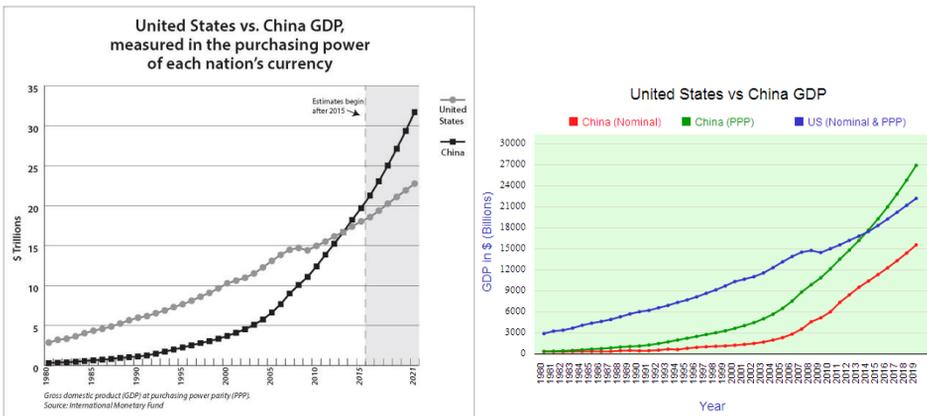
Allison has presented competing International Monetary Fund data that suggests also that China is surpassing the United States in terms of its rising Gross Domestic Product (GDP) as measured by Purchasing Power Parity (PPP) (Allison 2017a, p. 11), depicted in Figure 2. Note

that the IMF data includes China's "nominal GDP" that is significantly lower than its PPP. If Chinese consumers become able to buy more goods than American consumers, this should be to America's advantage at least in the foreseeable future, provided that the Chinese buy American or Allied Western (European) goods that American businesses manufacture, preferably doing this manufacturing at home to increase United States GDP, or if abroad, that it is done in factories owned by American companies or individuals such that it becomes part of United States Gross National Product (GNP). That said, both authors made research trips to China for nearly a month in the summers of 2017 and 2018, interviewed Chinese consumers and shopped themselves. Consumer reports corroborate the authors' findings that prices of Chinese-made consumer goods have risen, and quality has fallen. Comparing prices and quality of goods sold in China with similar goods sold in Europe and North America, the Price to Performance Ratio (PPR) is lower in China than in Europe or North America. Chinese consumers tend to purchase American or European products when this option is available to them. This fact is evident at least anecdotally from the authors' observation of Chinese shoppers who tend to frequent American stores or Chinese stores that display and sell American brands across the spectrum of products. It is confirmed by observing automobiles driven by the rising Chinese middle class, frequently Cadillac, Buick, GMC sports utility vehicles (SUVs) and Ford Thunderbirds. It is reinforced by observing what younger Chinese are wearing, American brands, for sure, but also any brand that displays writing or slogans in English, sometimes with an American flag displayed prominently, with this clothing seeming to be newer in 2018 than in 2017. What may be perplexing to Chinese leaders is that America seems to have remained as popular as ever among upwardly mobile Chinese consumers, even more so in 2018 after the tariffs were announced by President Trump compared with 2017, before talk of tariffs.

Political scientists including Allison assume facts not in evidence, predicating forecasts on assumptions that are far from being accurate at the present moment, even further away from being provably sustainable across the foreseeable future. This causes alarm and exacerbates tensions along the Western Pacific rim of Asia and in the West. Many grounds exist to justify a rise in tensions between East and West. Rarely do solid grounds for alarm involve China directly as much as they tend to involve

the United States, its European Allies and the Russian Federation. To be sure, China should be able to perform better in the rising role that it seems to be courting, that of an international peace keeper. In this role, China and the United States should be capable of joint policing around the world, most notably in Asia, making Chinese displacement of American or Western influence unnecessary. In this role, China and the European Community, China and its neighbors in Asia including India, Japan, and South Korea plus the ASEAN block, all should be capable of joining forces to maintain a prosperous and tranquil community of nations globally. The highest risk of this paradigm becoming derailed is the potential of financial default along OBOR, including but not limited to Eurasian nations defaulting on their obligations to service Chinese loans, to repay debt to China, and their implicit obligation to maintain friendly ties, both to China and to each other as co-participants in a common venture. This is a “bubble,” partially economic, the rest political. If one seam in this figurative garment bursts, potentially the rest will become damaged beyond repair, leading to a global recession, akin to the stock market implosion of 29 October 1929.

**Figure 2. Chinese and American Gross Domestic Product (GDP) Growth Based on Purchasing Power Parity, 1980–2021 (2017–2021 is estimated)**



Source: [Left] International Monetary Fund, through Allison, G. 2017a, p. 11. [Right] Statistics Times 2015.

If China's PPP is rising to the point where it is surpassing the PPP of the United States, this does not mean at all that a “Thucydides Trap” awaits the United States. Just as easily, probably more so, it can be an

indicator of a rising Chinese middle class that will become a threat to the survival of the Chinese Communist Party, as people of China strive to “make China great again” on their own without party leadership. Accordingly, the headache for President Xi Jinping is less on the international front than on the domestic front, and the rise of unspoken domestic tensions inside China is affecting the Chinese government’s ability and willingness to act proactively to subdue international tensions. This is a reason why President Xi has displayed reluctance to intervene forcefully or rapidly in conflicts with India on China’s western border or to intervene forcefully or rapidly against the “Democratic” People’s Republic of Korea (DPRK) on China’s northeastern border. In each example, Chinese leaders are afraid to unleash thousands of troops because these troops could turn inward against China’s current leadership. Stated differently, Chinese leaders fear internal tensions more than they fear external tensions (Annual Report 2016, pp. 48–49). What does this signify in an international context? It means that if the United States should attack North Korea, China will do absolutely nothing about it for multiple reasons: deployment of many divisions of the People’s Liberation Army (PLA) is to mobilize an armed component of the Chinese citizenry, dangerous in itself to ongoing party control of governance, and any major conflict with the United States or the West generally will stunt China’s PPP growth, even more dangerous to sustainable continuation of party control of governance. That would become an example of China’s internal Weakness.

At least three theaters of potential conflict exist across Asia: the Korean Peninsula, Kashmir and South Asia generally, and the South China Sea region. Each may be considered to be a dynamite stick waiting to be ignited, but the Korean Peninsula is the area with the most external Threat because the DPRK is playing with fire in the form of nuclear testing and missile launching. If those two military assets are commingled as matters stand at the moment, the Korean Peninsula and Japan await possible devastation, the former more than the latter. Much of this problem arose, then accelerated almost out of control, because Western leaders, particularly liberals, opted to stand by idly as three generations of the dictatorial family Kim constructed an albatross from a weasel, instead of striking North Korea down as they should have done long ago and as inevitably they will have to do very soon, using the massive firepower the West possesses before North Korea possesses the same.

## 2. One Country, Two Belts

Chinese leaders are marketing China's "One Belt, One Road" initiative across up to 65 countries from Eurasia to Europe and across the Indian Ocean to Africa (Phillips 2017). Less attention is directed toward China's domestic "rust belt," an area of Northeast China situated close to its border with North Korea that displays high unemployment, and antiquated infrastructure. Here, workers who eek out their livelihood trading goods to buyers in North Korea admit United Nations sanctions are appropriate, but they report their cottage industries run the risk of closure in the face of the same sanctions (Martin & Chen 2017). The impact on China's domestic stability appears to be an important reason why President Xi Jinping is reluctant to enforce sanctions against North Korea more robustly, according to Lyu Chao at the Liaoning Academy of Social Sciences in Shenyang:

A loss in border trade could potentially destabilize China's strategic plan to revive the industrial economy in the northeast, a plan the central government won't allow to be disturbed by international affairs. ... Maintaining stability in northeast China is very important to the government (Martin & Chen 2017).

So whilst China is exporting what it portrays to be an outward Foreign Direct Investment (OFDI) initiative which it labels "One Belt, One Road" or "OBOR", an initiative that will bring prosperity abroad, the same China is trying desperately to avoid political instability at home by maintaining economic growth across its other "belt", sometimes termed China's "rust belt" in its Northeastern region. Said differently, although China's OBOR appears to be an economic boost to recipient nations that are China's neighbors across Eurasia and Central and Eastern European Countries (CEEC), this prosperity may come at a cost to China's domestic economic growth. It is unlikely to stem the rise of China's educated middle class, and so equally unlikely to delay or stop desire by Chinese consumers to purchase goods from the West. It may frustrate the ability of China's under-educated population to become competitively educated and thereby join China's rising middle class in the near future. An inevitable consequence of this economic disparity could be a domestic "clash of civilizations" by education level, by region (urban contrasted with rural), or by occupation (manager vs. worker). An example of this dichotomy is the presence of at least one, frequently multiple, picture(s) of former Chinese

Chairman Mao Zedong as a centerpiece in poorer Chinese homes, with such an icon being absent almost entirely from the homes of 21<sup>st</sup> century educated Chinese.

If China pursues its OBOR initiative all the way to the European Community, building a planned deep water cargo port at Piraeus near Athens, Greece, as the senior author of this article recommended in 2015 (Jones 2015b) and that China announced in 2017 it plans to turn into reality, as *The New York Times* reported (Horowitz & Alderman 2017), China's investment in Greece stands to alter European Community architecture by moving its "core" to the East, raising the affluence of Europe's Eastern periphery significantly. Over numerous decades, CEEC have been growing poorer relatively as many East Asian and Western European countries have improved their prosperity, because of a lower increase in manufacturing as a percentage of their GNP (Tanoos 2014, p. 453), as Figure 3 below reflects. Arguably, this comes at the expense of the CEEC block:

The hierarchical relationship at global level with a 'Core' consisting of the US, the EU and Japan (the Triad) and a Periphery consisting of so-called 'developing' countries is reproduced within the 27 member states [currently 28] of the EU. The Core consists here of the most powerful countries among which Germany and France, but also the UK, Italy and the former Benelux (the Netherlands, Belgium and Luxembourg). The Periphery is subjected to decisions made by this hegemonic Core and mainly consists of countries lying to the south and east of the EU, not forgetting Ireland to the West. At the more limited level of the euro zone (16 countries), the same distinction resulted in the acronym PIGS (Portugal, Ireland, Greece and Spain), that has prompted outrageously racist puns (Toussaint 2011).

Arguably, Chinese FDI into the CEEC bloc will add to the enormous economic rise of the CEEC region. Consider Figure 3 below, and its relative implications.

With the projected exit of the United Kingdom from the European Union (EU), known as "Brexit", the Western periphery of Europe will become less prosperous, *ceteris paribus*. With the opening of a deep water cargo port at Piraeus as the gateway to Europe for goods produced in Asia, the Eastern periphery of Europe will become more prosperous. This fact should be evident without figuring into the equation another reality, that a deep water cargo port at Piraeus will divert many billions of euro annually away from existing deep water ports in Western Europe such as Amsterdam, Hamburg and Rotterdam (not to mention Gibraltar that may exit the EU with Brexit), reducing some Western European prosperity, in that process leveling the playing field between East and West Europe considerably.

**Figure 3. Economic Growth Attributed to Industry, by country and by region**

Eastern Europe	Change since 1991 or earliest entry	Manufacturing value added (% of GDP, 2010)	Calculator	East Asia	Change since 1991 or earliest entry	Manufacturing value added (% of GDP, 2010)	Calculator
Albania	9.2085	16	1.4734	China	12.0430	30	3.6129
Belarus	3.1548	30	0.9464	Indonesia	4.1927	25	1.0482
Bosnia / Herzegovina	6.1560	14	0.8618	South Korea	3.1985	30	0.9596
Bulgaria	3.2870	16	0.5259	Malaysia	4.2559	25	1.0640
Croatia	4.3323	16	0.6932	Philippines	3.5768	21	0.7511
Czech Republic	6.0670	24	1.4561	Singapore	4.4327	22	0.9752
Estonia	3.9396	17	0.6697	Thailand	2.6789	36	0.9644
Greece	3.3551	N/A	N/A	Vietnam	11.5813	20	2.3163
Hungary	4.5172	23	1.0390				
Latvia	4.1356	12	0.4963				
Lithuania	4.4404	16	0.7105				
Poland	6.3768	18	1.1478				
Romania	5.3894	15	0.8084				
Russia	2.6073	15	0.3911				
Serbia	2.6564	16	0.4250				
Slovakia	8.3361	21	1.7506				
Slovenia	3.5453	21	0.7445				
Ukraine	1.6308	18	0.2935				
<b>Average</b>	<b>4.62</b>	<b>18.12</b>	<b>0.849</b>	<b>Average</b>	<b>5.74</b>	<b>26.13</b>	<b>1.46</b>

Source: World Bank Group through Tanoos 2014, pp. 444–456, 453, Table 9.

This condition will “move Europe East” by making the “core” move more Eastward, then with that process the periphery will follow also. Chinese officials portray OBOR as a new model of “global governance” involving innovative projection of Chinese influence beyond its borders (He 2017) to fill a global vacuum (Lu 2017), at least since the 27<sup>th</sup> workshop of

China's Political Bureau held on 12 October 2015 (Sanwal 2016). In this respect, clearly OBOR functions as an internal Strength to China, as an external Opportunity for host nations. It may be regarded as an external Threat by some Western European competitor nations, particularly in the light of profit declines for Chinese Overseas Shipping Company (COSCO) ports in 2017 ("Cosco Shipping Ports' Profit Down as Volumes Rise" 2017) followed by an even steeper decline in COSCO profit margins generally in 2018 (Keefe 2018).

Both authors of this article have criticized aspects of OBOR recently, although both support OBOR in principle: (1) some or even many of the Eurasian countries that once were provinces of the Soviet Union may be unable or unwilling to service OBOR loans, defaulting on the same and harming the Chinese people's sovereign wealth; (2) OBOR already appears to have agitated the Russian Federation in its self-image as the rightful successor to the former Soviet Union; (3) OBOR already appears to have annoyed Turkey, which aims to enlarge its domain with China's Western Xinjiang Province and much of the Moslem territory in between, considering itself to be the rightful successor to the former Ottoman Empire; (4) politicians and some scholars from Western Europe challenge OBOR at least rhetorically ("China's Project of the Century" 2017), seeming to resent China's decision to pour much of its investment in Europe into the CEEC region in the beginning (Jones & Liu 2017). Perhaps Western European resentment is on account of its wish, actually or subliminally, to keep Eastern Europe backwards, as Toussaint contends (2011). At least arguably, more good than harm will come from the OBOR initiative, largely because of the OBOR "dragon head" port at Piraeus, Greece (Horowitz & Alderman, 2017). Once that port becomes operational, goods unloaded from ships will then be distributed across Europe by highway or railway, either way passing through Poland and spawning new industries in Poland and elsewhere across CEEC, rapidly increasing the prosperity of CEEC nations generally, particularly Poland and other flexible and forward searching countries.

### **3. From Weasel to Albatross to Extinction**

Global attention is focused on North Korea because of the weapons of mass destruction the regime that controls that country has threatened to use against the United States mainland, against American assets abroad, and against Allies of the United States, including not only South Korea

but also Japan, and possibly others. Almost no attention is focused on the North Korean threat to China, its next-door neighbor, notwithstanding the obvious fact and nearly unspoken reality that a nuclear-armed Korean Peninsula would pose a massive threat to China including both the Chinese Mainland and Taiwan. Western recalcitrance to “annihilate” North Korea has been grounded for decades on an excuse: that China would enter the conflict. It would be very unlikely to do so, because Chinese interests would be strengthened not weakened by the demise of North Korea, long an economic drain on the Chinese population, provided that hordes of North Koreans will not stampede across the Yalu River into China without consideration of their accommodation.

It has been said that “[t]he only way forward to avert a full-blown North Korean nuclear arsenal is by radically modifying the constants and variables that are holding the current trajectory in place” (Soesanto 2017). Exactly correct, but what are the “constants,” what are the “variables,” and how can either or both be “modified” with an ending satisfactory to everyone else? Only one constant is relevant here: North Korea under the Kim administration is a grave danger. Another constant, that China is its protector, is vanishing fast. Variables germane to this equation are led by the fluctuating gravity of North Korea’s dangerousness. Recently, that gravity clearly has escalated. Some perceive Kim’s professed desire for negotiation to be another variable. It is a constant: Kim is a dictator unaccustomed to conversation over anything. What game plan is viable? Soesanto has proposed the following as alternative courses of action:

Currently there are four strategic approaches vying for public attention: (1) A preventive war or decapitating strike, (2) strengthening deterrence and implementing tougher sanctions with the aim of achieving diplomatic progress vis-à-vis Pyongyang, (3) negotiating a grand bargain between the United States and Beijing on the denuclearization and future of the peninsula, and (4) simply doing nothing, e.g. embracing the reality of a nuclear-tipped North Korean missile arsenal.

All four approaches have one thing in common: They have a grain of strategic logic embedded in them, but make for terrible policy advice (2017, p. 1).

Do they, really? Does each alternative “have a grain of strategic logic,” do they all “make for terrible policy advice”? Strengthening deterrence will not achieve greater diplomatic progress, nor will implementation of tougher sanctions. Dictators of Kim’s ilk will not negotiate (Bershidsky 2017), and sanctions seldom work anyway. China’s foreign ministry raised the question: “After so many rounds and vicious cycles, do [the

United States and its allies] feel they are nearer to peaceful settlement of the issue?" (Soesanto, p. 1). President Donald J. Trump declared in September 2017 that "talking is not the answer" (2). If the two most important parties to past and prospective diplomatic talks agree that more conversation will be fruitless, then discussion is not a viable option. Former United States secretary of state Dr. Henry A. Kissinger proposed a "grand bargain" with China (2), but this presupposes that China controls North Korea when, clearly, it wields no control and its eroding influence is waning rapidly. Rejecting preemptive air strikes, Soesanto has proposed to "let deterrence fail":

Overall the strategy of letting deterrence fail would be aimed at: (1) building strong public support inside South Korea for U.S. military strikes against the North, and (2) rallying the international community behind a last goodwill effort to make Pyongyang comply with its obligations to denuclearize (Ibid.).

It is the Western Alliance led by the United States that has the responsibility to protect Japan as an Ally together with the United States homeland itself and other Allies. "Public support inside South Korea" is not required, and far too many "goodwill" efforts have been proffered and failed. Probably the only option, clearly the best option, is a preemptive strike. As United States Senator Lindsey Graham has said, "if there's going to be a war to stop [DPRK], it will be over there. If thousands die, they're going to die over there. They're not going to die here" (Soesanto 2017, p. 3). That is entirely correct, but only if North Korea is annihilated before its missile capabilities increase. Time is running out very swiftly. As Soesanto reminds us: "For far too long has Washington carried a big stick without ever wielding it, and for far too long has tough talk been cheap on the peninsula. It is time to change both" (Ibid.). Correct, but with military attacks. President Trump has displayed the "killer instinct" in his business dealings. It is high time for him to display the same in the United States' international relations.

If military strikes on North Korea are the best option, even if not the only option as seems to be the case at present, what should be the targets? What might be termed the Soesanto Plan is:

U.S. Department of Defense ought to compile a list of thirty high-value military and political targets inside North Korea. For every missile Pyongyang puts into the air, the U.S. military will strike two listed targets; and for every nuclear test conducted, a North Korean city will be indiscriminately bombed (Ibid.).

At least two glaring flaws can be seen in this option. Divulging target assets in advance of bombing would pose unreasonably high risk to pilots and presumably stealthy aircraft. To bomb cities indiscriminately would violate the law of warfare.

It is correct that any operation against North Korea should not be undertaken solely by the United States, but by an alliance of interested stakeholders within or outside of the Pacific rim neighborhood. Strikes should not be directed *seriatim*, but as part of a single massive strategy to annihilate every military capability of North Korea on its territory and everywhere else such as on or under the ocean. The Alliance cannot target civilians indiscriminately, although collateral damage with incidental casualties can be expected to be high. Striking aircraft should be deployed from aircraft carriers Northeast of North Korea or from far away, and should commence endless striking (“carpet bombing”) along the border with South Korea and northward thereafter in an effort to minimize retaliation against South Korea. American personnel stationed in South Korea will be in harm’s way, they should not be withdrawn. If “boots on the ground” are required, they should be Asian troops not American. Ordnance utilized in this operation cannot all be from manned aircraft. Drones and missiles from littoral surface warships and submarines, possibly also from space, should be considered as well. Although any attack on North Korea should not deliberately attack civilians, this operation cannot deliberately avoid the civilian population, either. It must be remembered that, just as the Holocaust in Germany, 1933 to 1945, was not limited to dozens of clowns from Munich, the Holocaust North Korea threatens to its neighbors and beyond is caused by the North Korean population having failed to rein in the Kim family years back. The German population paid a steep price for electing Adolf Hitler as their chancellor, the North Korean population will pay a steep price for the Kim Family’s antics. Chinese, Japanese, and South Korean neighbors as well as Americans beyond the seas should not have to absorb this cost, so their governments must meet their obligations to neutralize the North Korean threat immediately.

Following President Trump’s address before the United Nations General Assembly on 19 September 2016, the North Korean ambassador to the United Nations announced that his country possesses the right to “shoot down” United States warplanes flying outside of its sovereign air space, because it contends President Trump’s speech amounted to a “declaration of war” on North Korea, justifying it in “shooting down” Amer-

ican warplanes even if flying outside of its sovereign airspace (Gladstone & Sanger 2017). Only the United States Congress is empowered under the United States Constitution to declare war on any nation. In his aggressive speech, President Trump referred to North Korean dictator Kim Jong-Un as “Rocket Man” (Blake 2017). By claiming a right to shoot down American warplanes flying over or near the Korean Peninsula outside of North Korea’s airspace, apparently North Korea is asserting its sovereignty over all of the Korean Peninsula, much as China contends the South China Sea is its sovereign area. An important difference is axiomatic between China and the DPRK, however. In asserting its own historical “sovereignty” over the South China Sea region, China is willing to permit all nations to continue to traverse that maritime vicinity. What the DPRK will permit remains ambiguous.

#### 4. “Dragon-Elephant” Tensions in Kashmir: China’s “New Silk Road”

Kashmir is a territory high in the Himalayas mountain range that is located between China and what was once greater India, on the one hand, and that is located between India and Pakistan at the present time, on the other hand. Much of Kashmir is divided between India and Pakistan, and China aims to extend its “New Silk Road” across Pakistani Kashmir in order to reach Pakistan’s port of Gwadar on the Arabian Sea that is about 500 kilometers across the Indian Ocean from Dubai in the Middle East, much to the chagrin and consternation of India, Pakistan’s nemesis, harboring a fear that Gwadar could eventually become a Chinese naval base on the Indian Ocean (Mangi 2016). At the first meeting of the “Raisina Dialogue,” India’s Foreign Secretary Subrahmanyam Jaishankar asserted that “connectivity” has “emerged as a theater of present day geopolitics”, referring to the OBOR initiative without naming it or China (Mangi 2016). Western journalists have explained OBOR as being China’s unspoken effort to deal with emerging industrial overcapacity in its steel and manufacturing sectors, requiring it to increase its exports geometrically, labeling this as being a “New Great Game” with the “Silk Road” really functioning as “the road to a new empire” (Clover & Hornby 2015).

Next door to Kashmir is Xinjiang, China’s largely Muslim northwest province, beneath which crisscross pipelines that have been built already

or that are planned to be constructed, soon to be joined by overland highways and railways that will form China's "New Silk Road" network:

Through pipeline networks Xin Jiang connects China with the oil of Kazakhstan and the natural gas of Turkmenistan. Moreover the Russo-Chinese Altai pipeline will cross Xin Jiang if ever constructed. The Altai and the Power of Siberia pipelines are two natural gas pipelines that China and Russia agreed to build in the summer of 2014. The New Silk Roads promoted by China will also have to cross Xin Jiang. The New Silk Roads are a network of railways, highways and ports, which will bring to China resources from around the globe, and which will allow China to export her products to the rest of the world much faster (Alhadeff 2015).

As a new network of overland highways and railways, together with maritime seaways, China's "new" Silk Road and Silk Route will join its myriad of pipelines, both underground and surface, that traverse its Western frontier. The motives of the "One Belt, One Road" initiative are in dispute, much as these corridors aim to pass through Kashmir, a disputed territory claimed by both India and Pakistan as well as by China itself. According to Yale Global, "The West views this as a Chinese bilateral project being touted a multilateral venture," noting that Jörg Wuttke, outgoing president of the EU Chamber of Commerce in China, contended that the OBOR initiative has been "hijacked by Chinese companies, which have used it as an excuse to evade capital controls, smuggling money out of the country by disguising it as international investments and partnerships ("Hidden Motives" 2017). If true, this means OBOR is simply a gargantuan form of corruption by money laundering within the administration of President Xi Jinping, contrary to his hallmark stance of investigating then prosecuting Chinese corruption, another example of tensions, this time internal. Half a decade ago Chinese officials were accusing each other of "round tripping" with Chinese foreign "investments" by purporting to return those investments to China when in reality what they were repatriating were *profits* generated from overseas investments, the aim being to avoid legitimate taxation on those profits by laundering their status as profits, making profits seem to be investments recalled then repatriated tax free (Jones 2013). Corruption takes many forms, with FDI having the potential to become a national headache, in this context China as a nation funding other countries across a long distance that is far from the Chinese homeland. Many of those countries, distant from China, have economies that are tottering, face their own corruption challenges domestically, are under immense pressure from Russian Federation officials, both overtly and covertly to

remain distant from China, and quite frankly lack any visible means of servicing, much less repaying, new debt to China or any other lender. In this respect, OBOR debt may cause concern to European and other powers, much as Cuban debt in 1903 provoked the United States Congress to include the “Platt Amendment” (1903) in the Treaty Between the United States and the Republic of Cuba, forbidding Cuba from contracting large debt with foreign countries, particularly European lenders, fearing those lenders might occupy Cuba in the event of its default on debt to them, inviting European creditors to violate the independence of Cuba and the principles of the Monroe Doctrine (1823).

Figure 4. Overland and Maritime “One Belt, One Road” Connections



Source: “The Hidden Motives of the Chinese Silk Road” 2017.

According to Andrew Small at the German Marshall Fund, author of *The China-Pakistan Axis: Asia’s New Geopolitics*, “[t]he China-Pakistan corridor is the flagship for China’s Belt and Road initiative, essentially the only fully-developed section of the entire scheme, and hence an important test case for Xi Jinping’s ambitious plans” (Mangi 2016). Be that as it may, China is endeavoring to “dominate sunshine industries” such as high-speed rail lines planned to operate across China’s “OBOR” and elsewhere (“China sets its sights” 2017). Leading the way into “new technologies” is fabulous. Tensions increase across Asia and the world if China’s “OBOR” or any of its FDI initiatives precipitate friction with states that neighbor China or Europe or each other along the “New” Silk Road across Eurasia

or the “New” Maritime Silk Route to Africa. Chinese officials deny vehemently that OBOR is a pretext for Chinese military expansion abroad:

OBOR cooperation does not carry the military attempt and geographical strategy. China neither seeks the dominance of the affair in the region, nor the sphere influence, nor the intervention of internal affair to other states (Xin 2017a).

If true, and it is very difficult to document, OBOR is an example of China’s global philanthropy. That posture is difficult for the West to believe, also, much as President Ronald Reagan’s promise to Soviet Union General Secretary Mikhail Gorbachev that United States Strategic Defense Initiative (SDI or “Star Wars”) was either entirely defensive or to be shared with other countries including the Soviet Union, which the Soviets rejected out of hand (Savranskaya & Blanton 2006). Presumably, Reagan’s offer was genuine, just as the Chinese OBOR initiative may be entirely philanthropic. In some Western mindsets, an inference arises that OBOR is or will become an avenue for Westerly expansion of China’s military; but that costs money, and China has not earmarked any part of its military budget for this purpose, and its ministry of defense has denied categorically that invisible military expenses have been authorized (Xin 2017b).

## 5. Sovereignty of the Oceans? Does “Serica” Rule the Waves?

International law clarifies that open oceanic areas belong to the international community to use, to traverse without restriction. In question is whether, a given maritime space or land mass emerging therefrom is open ocean or part of an abutting nation’s sovereign territory to regulate, known as “territorial waters” or a “territorial sea” as prescribed by the 1982 United Nations Convention on the Law of the Sea (UNCLOS or “Law of the Sea Convention”). Thereunder, the territorial waters of any given state extend no more than 12 nautical miles (13.8 miles, 22.2 km) from the mean low water mark, called the “baseline”, of each coastal state as recognized by the United Nations and by other states. Across a bay, this baseline can be no more than double the primary territorial waters rule, or no more than 24 nautical miles (28 miles, 44 km) long. Each sovereign state exercises jurisdiction over its territorial waters, except that foreign ships may sail through territorial waterways on “innocent passage” and sail through straits

on “transit passage,” with the sovereign state allowed to regulate shipping lanes in the latter. Landward of a baseline, including lakes and rivers, a sovereign state may regulate completely, “innocent passage” is not allowed generally. An exception pertains to “archipelagos” such as waters inside of outermost islands in the case of Indonesia and the Philippines, considered to be internal waters, although innocent passage is allowed. Foreign ships are permitted to exercise “Freedom of Navigation” or “FON” across territorial waterways pursuant to “customary” international law, recently codified as article 87(1)a of the 1982 United Nations Convention on the Law of the Sea (UNCLOS), signed as well as ratified by 162 nations including China, signed but not yet ratified by the United States. When all is said and done, however, the “politics” of the law of the sea remain much as Cheever witnessed them 35 years ago in the formative stages of UNCLOS, rather fragile: “Nowhere is the indissoluble relationship between politics and law demonstrated more cogently than in the law of the sea. This symbiosis is illustrated by the birth of the UN Convention on the Law of the Sea, its growth at the Third UN Conference on the Law of the Sea (UNCLOS III) and by its widely predicted demise” (Cheever, 1984, 247).

Having signed the UNCLOS, China has not strictly obeyed it, to say the least, and skirted it at almost every opportunity within the South China Sea area particularly, also at times and in places across the East China Sea region. It defies continuously the unanimous ruling by the United Nations Permanent Court of Arbitration in *The Philippines vs. China*, decided on July 12, 2016, holding that China has “no historical rights” based on the “nine-dash line” map it advanced as authority for its claim to sovereignty across much of the South China Sea region. No appeal is permitted under prevailing international laws. By some appearances, to say the least, China is acting as a maritime hegemon. Does “Serica” rule the waves, a sequel to 19<sup>th</sup> century “Britannia”?

Many factors evidence the West losing the “battle” over the South China Sea as China continues to fortify its “nine dash line” that it contends demarks its historical “sovereignty” over that area (Bray 2017). More than other elements of this equation, the fact that neither China’s neighbors nor the United States nor other global maritime nations seem willing to stand up to China’s increasingly belligerent posture, and the North Korean missile “testing” across the Yellow Sea is a convenient distraction to mask Chinese aggression (Mollman 2017). In his speech to the United States Congress delivered on January 18, 1918, President (Thomas) Woodrow Wilson articulated “Fourteen Points” he deemed essential to

global peace in the tottering aftermath of World War I, several of which related to maritime rights and obligations.

In Point Two, Wilson asserted nations must enjoy an "Absolute freedom of navigation upon the seas, outside territorial waters, alike in peace and in war, except as the seas may be closed in whole or in part by international action for the enforcement of international covenants" (Wilson 1918). This is directly applicable to the South China Sea in at least two respects: (1) seafaring routes across the South China Sea or any maritime area that are outside of territorial waters convey "absolute freedom of navigation," and if this covenant needs to be enforced, the international community can close the region wholly or partially. In Point Three, Wilson tied any country's entitlement to trade protection to its behavior on the high seas, arguing "The removal, so far as possible, of all economic barriers and the establishment of an equality of trade conditions among all the nations consenting to the peace and associating themselves for its maintenance," sending a clear signal that countries enjoy trade protection by meeting a two-pronged test: (a) "consenting to the peace" and also "associating themselves for its maintenance." If China fails either prong or both, trade protections could be abated. Senator Henry Cabot Lodge's "Fourteen Reservations" are interesting and applicable hereto as well, Reservation Six especially: "The United States reserves the right to take either side if China and Japan start a war against each other." Each of these points or reservations is as pertinent today as it was a century past. Unless tensions in the South China Sea region are abated soon, trade protections will have to be reconsidered, unless they fall between the cracks.

## 6. Strengths and Weaknesses, Opportunities and Threats

Internal Strengths. China's internal Strengths are many, undoubtedly led by its prowess in the manufacture and/or the assembly of goods in high volume that has rendered it "factory to the world" during the 21<sup>st</sup> century. That status continues, but stands to diminish progressively unless the trade war with the United States over tariffs can be ended soon. Additional Strengths include China's GNP growth, slowing recently; its burgeoning middle class and the proclivity of Bourgeois Chinese to purchase luxury goods from abroad. Much of this is dependent upon continuity of international trade with the West, meaning Europe and North America.

Internal Weaknesses. Chinese fortification of the South China Sea region reflects China's internal Weakness in following Alfred Thayer Mahan's discredited theory of arming brown waterways near to a nation's homeland (Asada 2006), creating an external opportunity for adversarial navies to traverse blue waterways to demolish the batteries unrealistically believed to be invincible by the country that constructed them, as Imperial Germany and Imperial Japan proved in the 20<sup>th</sup> century (Sumida 2006). "Serica" does not rule the waves, it may never do so, or if it does sometime that time is longer than a century away. That China seems willing to risk warfare with its neighbors to the South and West over artificial islands constructed across international waterways in violation of international laws is a gargantuan Weakness.

External Opportunities. OBOR is an external opportunity for host countries across Eurasia and CEEC, particularly the latter that will benefit from Chinese FDI that, in turn, should move the center of Europe eastward. As Europe moves Eastward economically, probably to be followed by moving Eastward politically, this should result in an external Opportunity for China in the form of greater and closer trade, not to mention China's inching out the Russian Federation for influence across Eurasia. *Primus inter pares* is the deep water cargo port the Chinese Overseas Shipping Company (COSCO) is enlarging at Piraeus, Greece, because this alone will divert from Western Europe to CEEC over USD One Trillion annually in goods arriving in Europe from Asia. Almost certainly, as the "dragon's head" of OBOR (Horowitz & Alderman 2017) control of the port at Piraeus is a huge and a sustainable external Opportunity for China's rising global imagery. It is unclear at the present time, and likely to remain unclear for longer than a decade, whether OBOR will become an internal Strength or an internal Weakness to China's domestic economy itself, depending upon whether host countries service debt and grant to China the largesse it seems to expect as it endeavors to project a new "global governance" upon OBOR host countries.

External Threats. If OBOR creates an economic "bubble" that becomes pierced, OBOR will be proven to be an internal Weakness on China's domestic economy. Should that happen, OBOR will pose an external Threat to China, each OBOR host country may pose an external Threat to its neighbors, as OBOR host nations individually or collectively blame China and each other for their emerging economic woes. Some of the largest external Threats to China loom from its neighbors. DPRK appears to be bent on challenging the United States and Western Allies such as Japan and South Korea, conduct that could drag China into rapidly escalating warfare.

Countries such as India and Japan, as well as ASEAN bloc member states are likely to respond negatively toward Chinese fortifications of international waterways. Chinese acquisition of ports along the Indian Ocean will be likely to antagonize India, much as OBOR will be likely to antagonize the Russian Federation once it becomes fully operational, and, as mentioned, if OBOR does become an economic “bubble” that will saddle China with an obligation to absorb the debt it has extended to OBOR host states that those nations will refuse to repay, and probably discontinue servicing, because the debt will seem to be, or even actually become, insurmountable.

## 7. Conclusion

Rising tensions along the Western Pacific rim can function as both obstacles and opportunities: obstacles to stronger East and West relations in the short term, opportunities for national actors in the neighborhood to come together in the longer term. Some tensions are unlikely to subside without intervention by Asian neighbors themselves alongside of Western partners, an example being North Korea and its erratic testing of missiles seemingly intended to make tensions rise irrationally. Western Allies including Japan and South Korea expect intervention from the United States, and the European Community, but unilateral action taken by the West without strong Asian support will be likely to increase rather than to decrease tensions. Despite rising tensions in Asia, some of them interfacing with each other, China’s determination to construct its OBOR “dragon head” deep water cargo port at Piraeus, Greece, will alter the architecture of the European Community and its neighborhood for the better. In the ultimate analysis, China’s OBOR is very risky across Eurasia, potentially lifesaving to Greece and a boost to growing prosperity in other countries of the CEEC block, particularly Poland. Because risks are abundant, trust is everything, and trust will be the Key Success Factor (KSF) if OBOR is to succeed. If all goes well and as China has planned, mutual trust among OBOR host nations themselves as well as between OBOR host nations, both individually and collectively, and China, fashioning an enormous external Opportunity for China and all the other participants. Tensions in Asia will be likely to wane, ultimately disappear, if OBOR is successful. In that case, OBOR will have facilitated a “quixotic encirclement” of Eurasia as a useful tool in Chinese foreign policy as envisioned by the senior author in *Four Eagles and a Dragon* (Jones 2015a).

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## **South China Sea – A Multifaceted Conflict**

“When China becomes China, it becomes expansionist”

Jawaharlal Nehru

### **Abstract**

*Forming the maritime heart of SE Asia, the South China Sea has grown in recent years into one of the most important geopolitical areas in the world. The conflict over seemingly insignificant archipelagos has many aspects, and, like a lens, focuses the rivalry of modern powers. The territorial dispute over the Spratly and Paracel Islands is the primary level of conflict, with prestigious and economic meaning. Another aspect is the striving for control over the regional Sea Lanes of Communication. The point here is not only the transport of goods from east Asia to Europe and Africa, but also of oil and natural gas supply from the Persian Gulf. The next aspect is related to Sino-American relations and rivalry. An equally important facet is the internal politics of the PRC, which is one of the causes of an assertive foreign policy. The CPC has become hostage to its own nationalist rhetoric. There is also a broader international level of the dispute. Countries such as Australia, India and Japan have to a greater or lesser extent joined the conflict as an element of their China policy. The South China Sea unexpectedly found its place in Russian-Chinese relations, and interest in the situation in the region is also expressed by France and the United Kingdom. All these aspects form an image of a very complex and dynamic conflict of growing importance.*

**Keywords:** *South China Sea, international relations, China, Philippines, Vietnam, UNCLOS*

## 1. Outline

The South China Sea (SCS), the heart of Southeast Asia, has in recent years risen to be one of the most important areas in the world in geopolitical terms. However, the conflict revolving around seemingly insignificant archipelagos of islands, rocks, reefs and banks is multifaceted and like a focusing lens, it brings into spotlight the rivalry between today's global powers.

Besides that, the South China Sea is a very important area from the economic point of view. The shipping route connecting China and other East Asian countries with Europe, Africa and Middle East passes through the SCS (estimated US\$ 3.37 trillion worth of trade), as well as nearly 80% of crude oil and natural gas supplied to China and Japan. The seabed contains, most probably, large deposits of hydrocarbons which, according to the most optimistic estimates, may be as large as the deposits in the Persian Gulf. The abundance of fish and seafood, which is a major diet component for the people of the region, is also a significant factor.

In formal terms, the main subject of the dispute are the Paracel Islands (in Chinese: Xisha) and Spratly Islands (in Chinese: Nansha). The Paracel Islands are claimed by the People's Republic of China (PRC), Republic of China (Taiwan) and Vietnam, whereas the Spratly Islands are claimed by the three aforementioned claimants plus the Philippines, Malaysia and Brunei. According to the latest estimates, Vietnam controls 48 features, China and the Philippines 8 each, Malaysia 5 and Taiwan 1.

The Paracel and Spratly Islands lie at the centre of the conflict because of their size and the number of claimant countries. Due to the strategically vital location of both archipelagos they first became a subject of dispute between Japan and France in the late 1930s. It is worth noting that until this very day Vietnam supports its territorial claims over the Islands by reference to the French occupation thereof. China could not take an active part in the dispute at that time, yet after the Second World War, Chiang Kai-Shek's government drew the so-called "eleven-dash line" (later "nine-dash-line") demarcating China's claims. The line was revised over the years, at certain points being a ten-dash and eleven-dash line, and claiming as much as 80% to 90% of the South China Sea inside the line for China. The "nine-dash line" still constitutes the basis for claims to the SCS made both by the People's Republic of China and Taiwan (Franckx & Benatar 2013, pp. 173–207).

The neighboring countries paid more attention to the islands in the 1960s, and since then the conflict has been alternately gaining or losing momentum. Some of the most heated moments came in 1974 and 1988 when Vietnamese and Chinese naval forces clashed (both battles won by China). For a variety of reasons, China was not able to benefit fully from its military successes back then. This created a favorable situation for the other countries who constructed outposts and small fortifications in the 1980s and '90s on almost all buildable islands, and Malaysia even constructed a civil-military airport accommodating C-130 Hercules aircraft.

Such a situation forced China to resort to unconventional measures, though more decisive steps were taken in 2012. The first step on the way to sanctioning Chinese claims was the granting of city rights and prefecture-status to the village of Sansha located on Yongxing Island in the Paracels on 21 June 2012. In this way the smallest city of China, by land area and population, was established – with only 13 km<sup>2</sup> area and 450 inhabitants – and the largest prefecture by total area comprising of 2 mln km<sup>2</sup>, and covering the Paracel and Spratly Islands. A month later a military base was created in Sansha, its “garrison command,” that is division-level command placed under the Hainan provincial command.

The next move was to “paramilitarize” the conflict. Chinese coast guards, acting in strict collaboration with the so-called “fishing protection forces” (or fishing militias or “little blue men”) intensified their activities in the disputed waters. These paramilitary formations were established by fishing enterprises and cooperatives. The crews are trained by the navy, and fishing vessels are equipped with advanced communication and satellite navigation systems (Ericsson & Kennedy 2016). The coast guard and the protection forces support one another in their actions which consist mainly in impeding the work of fishermen and security forces hailing from other countries, or even rendering it impossible. Another task of the “fishing protection forces” is to monitor the disputed waters and the activities of the other claimants.

Yet more steps were taken in May 2014 when only 18 sea miles south of the Paracels, in waters contested by Vietnam, a Chinese oil rig, HYSY 981, was deployed. The drilling rig was guarded round the clock by Chinese coast guards and other government agencies. This provoked frequent confrontations with the Vietnamese coast guard in which water cannons were fired and ramming was reported. During these incidents Hanoi used the media skillfully and broadcast lots of film footage documenting vio-

lence on the Chinese side. The propaganda failure might have been one of the reasons for a sooner than planned withdrawal of the drilling platform by China.

As it turned out, apart from its research and pressure-instrument function, HYSY 981 was also a smoke screen. While the world's public opinion was focused on the drilling platform, China embarked on the construction of 6 artificial islands in the Spratly archipelago (AMTI 2015). At the same time, the infrastructure on Woody Island in the Paracels was expanded. China outfitted its outposts with 3 airstrips of about 3 thousand meters length, deep-water harbors, stores, lighthouses, maritime rescue facilities, and recently, also tourist infrastructure. In spite of reassurances from Beijing, most of the facilities are military facilities per se, though definitely the deployment of HQ-9 surface-to-air missiles (taken off in July 2016) and YJ-62 anti-ship cruise missile on Woody Island raised most concern (IHS Jane's 2016). J-11 fighters have already been spotted on the aforementioned airfields, and on many islands signs of setting up a radio location network have been seen (AMTI 2016a). These actions are perceived as China's preparations to declare an Air Defense Identification Zone (ADIZ) over the South China Sea and establish an anti-access/area-denial zone (A2/AD), and in result, to enforce its territorial claims and limit access to the disputed waters to potential rivals. Also, Vietnam has embarked on construction of man-made islets, though these works are conducted on a much smaller scale (AMTI 2016b). Concern regarding China's declaration of an ADIZ may not necessarily be substantiated. The existence of a potential zone evokes enough of a fear response and it may be as effective without being formalized, whilst declaration of an ADIZ may push other claimants to take similar action and provoke the even bigger involvement of the USA.

An important turnaround in the history of the dispute was the ruling of the Permanent Court of Arbitration in the Hague, announced on July 12, 2016. The case was initiated in January 2013 by the Philippines against Chinese claims over the Philippine exclusive economic zone. From its very announcement, the PRC refused to recognize the ruling and so the Tribunal decided that it will concern itself only with the matters involving the interpretation and application of the United Nations Convention on the Law of the Sea (UNCLOS), and thus lying within its authority. Nonetheless, the ruling was devastating for China. The tribunal ruled that Beijing's claims are unsubstantiated and undermined the legitimacy

of the nine-dash line. The ruling also condemned the harm to the natural environment caused by China's construction of artificial islets and uncontrolled fishing practices. Although Beijing undermined the legitimacy of the ruling and the authority of the Tribunal (Carnegie 2016), it soon announced the setting up of a South China Sea environment protection fund, and works on establishing a code of conduct in contested waters seem to be nearing a finale. Nonetheless, China is still engaging large funds in the creation of its own, alternative system of marine tribunals and in the training of lawyers specializing in maritime law.

## 2. Dimensions of the Conflict

The conflict has many dimensions which influence one another. Conflicting interests of individual actors (including internal conflicts) complicate the situation even more and only escalate the chaos.

### *2.1. Politics and economy*

a) Territorial dispute: this is the original layer of the conflict, which revolves around economy and prestige. China, continually growing in power, felt strong enough to apply the method of accomplished facts. Since the very beginning, Beijing has supported a solution in the form of bilateral agreements which would enable it to put weaker partners under increasing pressure. So far, such a proposal has been accepted only by Brunei. It is not publicly-known what was offered to the sultanate of Brunei in exchange for releasing its claims, though it can be speculated that Hassanal Bolkiah, the Sultan, must have struck a good deal. The area claimed by Brunei is relatively small and the oil reserves are located at about 5 thousand meters below the sea bed, whose average depth is 1.5 thousand meters, thus making its exploitation – with current technology and at current prices – unviable. A counter-proposal, put forward by the Philippines, Taiwan, and Vietnam, and supported by Singapore, consisted in a systemic solution in the form of a multilateral agreement reached through conference negotiations or with the help of ASEAN. This, in turn, provoked China to embark on actions intended to break the united front of ASEAN, which backfired at a certain moment. Beijing's arrogance did a lot of harm in this case, pushing its rivals into the arms of powers from outside the region.

Among the estranged states, Laos, with its new government wanting to diversify sources of foreign aid and investment capital, was even labeled a vassal of China. Another and more important country that was pushed to join the informal anti-China camp is Indonesia.

Chinese leaders quickly realized the severity of the situation and in early 2017 adopted a “stick and carrot” policy. The situation was facilitated by the pro-Chinese and anti-American course of Rodrigo Duterte, president of the Philippines. China thus proceeded to lure Manila with promises of big investment. The matter is still open; Chinese declarations have not as yet been translated into concrete action, and most of the agreements signed are mere letters of intent. In general, the countries of the region are tempted by a vision of investment in infrastructure worth over US\$ 140 billion. Most of the projects relate to the Maritime Silk Road described herein below. Concurrently, when China’s interests are violated in any way, Beijing does not hesitate to use the “stick.” According to some still unconfirmed reports, when Vietnam and the Philippines wanted to start searching for oil and natural gas in the disputed area, they were threatened with such countermeasures as retorsion, including military action by the PRC (Thayer 2016).

b) New Silk Road: the South China Sea is the starting point of a land route (the “Belt”) and maritime route (the “Road”). The strategic significance of the One Belt, One Road project to China suffices to justify an approach dubbed in Beijing “passive assertiveness” and the ruthless assertion of its territorial claims. This aspect of the dispute is related to China’s broader aspiration of acquiring free access to the open waters of the Pacific Ocean, and therefore it is inextricably linked to the issue of the East China Sea. The two conflicts overlap, in both areas Beijing applies similar methods, and most certainly, the resolution of one dispute will affect the outcome of the other.

## 2.2. *Great powers rivalry*

a) Chinese-American rivalry: China’s ambition to challenge American domination (a classic example of a power rising against a hegemon) is increasingly evident. Its large-scale and far-reaching plan encompasses assertion of military power (intensive modernization of entire armed forces, expansion of fleet, establishment of aerospace and cyber forces), economic power (Silk Road 2.0, AIIB) and power of propaganda (although its policy

on the South China Sea has effectively destroyed the image of a “peaceful power” cherished for long years). This aspect of the dispute is particularly emphasized in the US where the dominant narrative is that realization of China’s claims will lead to its domination over Southeast Asia, and that would be a stepping stone to gaining the status of a global superpower. A parallel is often drawn here with the history of the US which, before becoming the world’s hegemon, ensured its domination of the Greater Caribbean. Another issue is that Hainan Island houses a major Chinese nuclear submarine base with ballistic missiles. The southern coast has long been considered China’s “soft underbelly,” and control even over the Paracel Islands will definitely change this situation. Until today Washington has not been able to work out any effective counter-measures. The Freedom of Navigation Operations performed hitherto (FONOP, navy ship and aircraft patrols), and military aid provided to the countries of the region have not yielded the desired effects.

b) Other great and regional powers: countries involved in the dispute from outside the region can be categorized into four groups. The first one consists of countries pulled into the conflict directly by the US, that is Australia and to some extent, Great Britain; they condemn China’s activities in the South China Sea, and limit their participation to FONOP and military maneuvers in the region.

The second group consists of Japan and India. The former acts as an ally of the US, but since it is engaged in its own territorial dispute with the PRC in the East China Sea (Senkaku/Diaoyu Islands, concerning the border of exclusive economic zones) it is politically active in the region, and provides economic and military support (supply of military equipment) to the Philippines and Vietnam. Washington seeks to pull India into its alliance, yet New Delhi – despite its readiness to accept help – prefers to compete with China on its own terms. Recently, India and Vietnam have tightened their strategic partnership; India is supposed to supply 4 high-speed patrol vessels to Vietnam, and it has been reported that India signed an agreement for sale of BrahMos, supersonic anti-cruise missiles, and that in early 2016 India set up a satellite tracking station in Vietnam to jointly monitor Chinese satellites. India and Japan are also slowly tightening their cooperation, which is manifest in the Asia-Africa Growth Corridor (AAGC) project seen as a counter to the sea stretch of the Chinese Belt and Road initiative (CSIS 2017). At the same time, Japan is becoming more involved in the SCS, and recently it dispatched its largest warship to

the SCS. Japanese expansion of its naval operations in the SCS involves drills with the countries of the region and the US Navy, and also promotion of Japanese military equipment. During a joint press conference on August 18 in Washington held by the heads of the American and Japanese Foreign Affairs and Defense ministries: Kōno Tarō, Onodera Itsunori, Rex Tillerson and James Mattis, the Japanese side announced having set up a US\$ 500 million security fund dedicated to the provision of military and security aid to countries of Southeast Asia in the three years to 2019. Most of the funding will be aimed at boosting maritime security. The Philippines and Vietnam are enumerated as the main beneficiaries. It can also not be ruled out that the funding will be used to buy secondhand equipment from the Japanese Self-Defense Forces (HIS Jane's 2017).

The two last groups are formed by two states. The first one is Russia which uses the term "semi-alliance" to describe its relations with China, a term which aptly captures the complicated Russian-Chinese relations. Russia also feels threatened by the increasingly stronger position of China, and the cooperation definitely has an anti-American streak. At the same time, Moscow declares its readiness to act as an "honest broker" between the PRC and other Asian countries, with the additional aim of strengthening its position in the power battle against Beijing. Russia's position is ambiguous, as on the one hand it supports China's proposal to resolve the dispute through bilateral agreements, and on the other hand, it emphasizes that the solution should comply with international law, including UNCLOS, and has adopted the "not to side with any party" approach. Moreover, the latter approach seems to be in stark contradiction to the joint naval drills carried out with Chinese forces in the South China Sea (September 12–19, 2016) during which island seizing was practiced. Yet, it must be noted that the drills were carried out relatively far from the disputed territory. The outcome of Russia's pivot to Asia is, as yet, not apparent, and it is hard to make any forecasts for the future.

Just as enigmatic, not to use the word "ephemeral," are the results of the French comeback to Asia. Paris signed a series of collaboration agreements with the Philippines and Vietnam. France has also announced its intention for a "regular and visible" presence in the South China Sea through coordinating the navies of fellow European Union (EU) states to conduct patrols in the area. French Defense Minister Le Drian suggested that if other EU member states do not agree to such measures, France will proceed on its own. Until today Brussels has limited its interference

to just calling upon the contesting parties to seek peaceful diplomatic solutions, and to assure complete freedom of navigation on the contested waters. The French initiative was perceived as putting pressure on the EU to support the Tribunal's ruling. Yet, it seems rather unlikely that France, challenged with many internal issues, is capable of getting seriously engaged in Southeast Asia.

### *2.3. China's internal policy*

Since the reforms in the 1980s, the Communist Party of China (CPC) has been using the idea of nationalism to legitimize its power on an increasing scale. This has led to a situation in which any concessions on prestigious matters, hyped up and exploited for the purposes of propaganda, may trigger internal turmoil. As far back as in 2010, and in 2012 again, anti-Japan demonstrations turned into anti-government protests. One of the reasons behind China's aggressive expansionism, as experts claim, might be an attempt to control its "military hawks." At the time of taking power, President Xi Jinping did not enjoy too much esteem from the Chinese People's Liberation Army. In order to appease the military forces a two-course approach was adopted: on the one hand, a far-reaching campaign against corruption used as a drive to remove the opposition and reinstall the institution of political officers, and on the other hand, to increase funding, and public consent to paramilitary conflicts in the South and East China Seas (Nakazawa 2016).

## **3. Conclusions and Forecasts**

China's policy has placed it on a potentially dangerous collision course with the US and other aforementioned countries. However, outbreak of a full-scale armed conflict is not yet certain. The so-called "Thucydides trap" constitutes a much bigger threat, as well as the spreading conviction that war is imminent. Equally dangerous is the emphasis on perceived past and current victimization fostered by Chinese internal propaganda and the depiction of rivalry with other superpowers as revenge for humiliations suffered in the 19<sup>th</sup> and 20<sup>th</sup> centuries. A society shaped by such a nationalistic discourse may react to failure in a hysterical way and put pressure on the government to take decisions guided by emotions instead

of cold calculations. Leadership that promotes and identifies with such self-righteousness may easily succumb to such pressure.

The PRC's main problem in its relations with the neighboring countries is replacing the "carrot" with the "stick." At present, the pressure related to the dispute is much more perceptible than any potential benefits that may arise from it. After Beijing disclosed the construction of artificial islands, it also declared its readiness to make joint use of the newly-constructed civil facilities. All actual and potential allies of the USA are well-aware of the economic benefits that come from collaboration with China, hence they are rather critical of the more confrontational plans and conclude multi-million dollar deals with the PRC. It is clear that Beijing decided to use this opportunity. At the G20 summit in Hangzhou, President Xi Jinping invited other states to strengthen the mutually beneficial cooperation in order to advance their shared prosperity, whereas President Obama was only able to propose American leadership and deployment of an anti-missile system. This reflects Beijing's efforts to strike a balance between two contradictory goals: assertion of claims to the South China Sea which requires force, and on the other hand, the easier goal of getting rid of the USA's presence in the region by pulling its allies to its own side. The politics exercised by the countries of the region suggests that allying with the US may be treated as a way to strengthen one's position in relation to Beijing and get a more attractive "carrot" in return.

Since the 1980s there is serious concern in Washington about its Southeast Asian allies changing loyalties and forging alliances with China. Japan comes up most frequently in this context, although it was South Korea that got pulled into China's arms. In recent weeks President Rodrigo Duterte has made a surprise pivot towards China. The PRC has previously lured the controversial politician with promises of economic profits in exchange for releasing the Philippine's territorial claims. Duterte even voiced his readiness to "forget" about the Tribunal's ruling if the reward offered were to be satisfactory. The diplomatic dance goes on, whilst the President's will to end joint patrols with the US Navy in the contested waters and call for US special forces to withdraw from the Philippines suggest that Beijing and Manila may strike some kind of agreement very soon. It is especially interesting in the light of the fact that the Scarborough Shoal, located in the Philippine's exclusive economic zone, where increased activity of the Chinese coastal guard has recently been reported, will most probably be the nearest target of China's expansion.

Following interviews with Chinese diplomats, politicians, scientists and ordinary people Feng Zhang (2016), political scientist, put forward a thesis that the Chinese vision of cohesive foreign policy has not crystallized yet. As the case of the South China Sea shows, three fractions can be distinguished:

- 1) radicals seeking to assert territorial claims at any cost, even if that would entail entering into a full-scale conflict with the US;
- 2) realists, the fraction responsible for China's current policy, aware of the strong and weak points of the PRC and testing how far the boundaries can be pushed;
- 3) moderates who realize what will be the implications of current claims and actions, and who believe that China should adopt a more conciliatory approach and give up on the "9-dash line" that stands in the way of consensus.

Recapitulating his thoughts on this issue Zhang stated that Chinese diplomacy is "coming of age," though in light of China's increasingly important global role, it should mature as quickly as possible.

Irrespective of how one evaluates China's policy, we have to admit that Beijing skillfully uses to its advantage all of its assets, as well as the weaknesses of its opponents and a conducive international situation. After the congress of the CPC in the autumn of 2017, new initiatives may be launched. Ultimate victory of the PRC, although it is already almost certain, may not necessarily meet China's expectations. A lot depends on what kind of actions will be taken, not by the claimant countries, but by the big players: India, Japan and the US. Vietnamese leaders are well-aware of that fact, and openly encourage "internalization" of the dispute. While Japan, entangled in a territorial dispute with China, is beginning to take more decisive actions, India's stance, on the other hand, is rather hesitant. Ultimately, the country with the biggest say is the US and most depends on whether Donald Trump's administration will succeed in formulating a cohesive and efficient policy toward China.

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## **Power Shift in Taiwan and Its Implications on Cross-Strait Relations**

### **Abstract**

*Tsai Ing-wen of the DPP won the presidential elections on 16<sup>th</sup> January 2016 and was sworn in as Taiwan's President on 20 May 2016. The discussions about the future of cross-strait relations started with reference to the previous DPP administration's policy of 2000–2008. The tense cross-strait relations of the DPP era were replaced with more harmonious ones with Ma Ying-jeou of KMT from 2008 to 2016. KMT acted on the basis of the 1992 consensus. The change of power with the election of Tsai Ing-wen raised questions about the basis and continuation of the cross-strait dialogue. Tsai-Ing-wen in her inauguration speech pledged to maintain the existing mechanisms for dialogue and communication across the Taiwan Strait. She also emphasized that Taiwan would conduct cross-strait affairs in accordance with the Republic of China Constitution, the Act Governing Relations between the People of Taiwan Area and the Mainland Area, and other relevant legislation. The important question with regards to cross-strait relations is: how does China evaluate Tsai Ing-wen's intentions about cross-strait relations and conduct its policies?*

*In this paper the cross-strait policy of the new administration in Taiwan will be analyzed through DPP's foreign policy. Since cross-strait relations cannot be analyzed just as a relation between Taiwan and China due to Taiwan's ties with the US, the paper will also evaluate the new US administrations' Taiwan policy. The cross-strait relations and the US regional role also have international implications due to the South and East China Sea dispute, which creates major security concerns.*

**Keywords:** *Taiwan, China, US, Tsai-Ing wen, Democratic Progressive Party, Cross-Strait*

## 1. Introduction

A power shift happened in Taiwan through presidential and legislative elections on January 16, 2016, when the Democratic Progressive Party (DPP) won both elections. The DPP candidate Tsai Ing-wen won presidential elections with 56.1 percent of the vote and was sworn in as Taiwan's President on May 20, 2016. DPP's victory put a question mark on the future of the cross-strait dialogue and discussions started about the future of cross-strait relations. These discussions considered the previous DPP administration's policy of 2000–2008. After Kuomintang (KMT) lost power, it is being discussed whether the new DPP administration will complicate relations between Taiwan and China, and Taiwan and the US.

In this paper the cross-strait policy of the new administration in Taiwan will be analyzed through DPP's foreign policy. Since other regional states are also interested in cross-strait relations, it has also become a regional issue and the US position towards cross-strait relations is particularly important due to the US-Taiwan ties. Cross-strait relations are also important since they have implications on the South and East China Sea dispute, which has become a major security concern of the region.

Taiwan's President Tsai Ing-wen indicated her view about cross-strait relations and Taiwan's foreign policy in general in her inauguration speech. To analyze it and to look at Taiwan-China relations since Tsai Ing-wen was sworn in on May 20, 2016, will provide some clues about the future of cross-strait relations. She stated that:

The new government will conduct cross-Strait affairs in accordance with the Republic of China Constitution, the Act Governing Relations between the People of Taiwan Area and the Mainland Area, and other relevant legislation. The two governing parties across the Strait must set aside the baggage of history, and engage in positive dialogue, for the benefit of the people on both sides. (Focus Taiwan News Channel 2016).

As well as the Taiwanese President's view about cross-strait relations and DPP's foreign policy towards them, the conditions that put DPP in power and the new US administration's policy towards Taiwan will determine the future of cross-strait relations.

## 2. How DPP Came to Power? The DPP's View on Cross Strait Relations

Taiwan's presidential and legislative elections on January 16, 2016, resulted in the victory of DPP and a power shift happened from KMT to DPP. The DPP candidate Tsai Ing-wen received 56.1 percent of the popular vote. KMT candidate Eric Chu received 31 percent. In the legislative elections DPP won 68 seats out of 113, while KMT won just 35 seats. KMT's President Ma's economic performance caused dissatisfaction among young voters. The public were also concerned by KMT's engagement with Mainland China. President Ma liberalized cross-strait trade and investment. Business persons in some sectors, who had strong ties with Mainland China, benefited from the new engagement with China. However, young people were particularly worried about losing their jobs due to the Cross-Strait Agreement on Service Trade. KMT's promised great economic benefits from cross-strait dialogue also were not seen in Taiwan. Young people's resentment on cross-strait agreement resulted in the formation of the Sunflower Movement in 2014. They considered President Ma's cross-strait policy detrimental not just for Taiwan's economy, but also Taiwan's security, sovereignty and democracy. Sunflower Movement showed dissatisfaction with the Cross-Strait Trade Agreement on Service Trade with an occupation of parliament. The New Power Party, which won five seats in 2016 legislative elections, emerged from the Sunflower Movement. The DPP won presidential and legislative elections due to dissatisfaction with KMT's foreign and domestic policies. There is also an argument that the growing strength of Taiwanese identity and weakening of Chinese identity changed the political landscape favorably to DPP (Bush 2016, pp. 6–9).

The DPP and Tsai Ing-wen came to power after KMT's new cross-strait dialogue policy, which changed the character of mainland China-Taiwan relations. KMT's President Ma followed "No Unification, No Independence and No Use of Force" strategy, which reassured China regarding independence. Intensive cross-strait dialogue increased trade volume between Taiwan and Mainland China, which was 179.6 billion US Dollars in 2016. Taiwan's exports to Mainland China were worth 139.2 billion US dollars and imports from China 40.4 billion US dollars in 2016. There are a total of 98,815 Taiwan-invested projects in China and Taiwan's capital in China hit 64.7 billion US dollars. Taiwan became

China's seventh largest trade partner and sixth biggest source of imports (Xinhuanet 2017). 3.335 million Tourists from China visited Taiwan in 2015, despite a fall of about 30 percent in 2016, tourism has continued its importance since the first independent tourists' arrival from mainland China to Taiwan (Jennings April 29, 2017).

Tsai Ing-wen came to power in this atmosphere, and the legacy of DPP rule in 2000–2008 regarding cross-strait relations raised questions about the future of the cross-strait dialogue which was started during the previous KMT administration. The DPP administration in 2000–2008 questioned the "One China" principle. Deputy Secretary General of the Presidential Office of Taiwan during Chen's Presidency, Joseph Wu argued that independence is the real status quo. He stated that Taiwan's independence is a reality that China cannot change (Wu 2004). Tsai Ing-wen's inauguration speech and DPP's foreign policy statements became an important indicator of how the power shift in Taiwan will affect cross-strait relations. She described existing political foundations in cross strait relations with four elements. The first element is the fact of the 1992 talks between the two institutions representing each side across the Strait (the Strait Exchange Foundation-SEF- & the Association for Relations Across the Taiwan Strait-ARATS-). The second element is the existing Republic of China constitutional order. The third element pertains to the outcomes of over twenty years of negotiations and interactions across the Strait. She also mentioned the democratic principle and prevalent will of the people of Taiwan as the fourth element in the cross-straits relations (Focus Taiwan News Channel 2016). The new President of Taiwan put the maintaining of the status quo across the Taiwan Strait as the fundamental principle and foreign policy goal of DPP. Although Tsa Ing-wen also emphasized the 1992 talks and consensus and did not reject it, she does not keen to embrace the 1992 consensus, which is understood differently on both sides of the Strait (Wei 2017). For Taiwan, the 1992 consensus ensures One China, different interpretations. For Mainland China, One China is the main aim of the 1992 consensus. DPP and Tsa Ing-wen knew the fact that the Taiwanese people have been unsatisfied with KMT President Ma's mainland policy and overemphasis on the 1992 consensus. According to Joseph Wu, "Rather than agreeing with the 1992 Consensus as defined by KMT and Beijing, she advocates a return of the original spirit of setting aside differences to seek common ground that formed the basis of the 1992 cross-strait meetings" (Tiezzi 2016).

It is a fact that Taiwanese people in general are in favor of maintaining the status quo in cross-strait relations. Taiwan wants political talks to continue without pre-commitment to unification and to protect its sovereignty. On the other hand, however, China wants to continue political talks to advance unification and avoid Taiwan's de jure independence. Tsai Ing-wen emphasized the will of the Taiwanese people as the basis for relations with Mainland China. She argued that both sides of the Taiwanese Strait have a responsibility to find mutually acceptable means of interaction that are based on dignity and reciprocity and said "we must ensure that no provocations or accidents take place. Any forms of suppression will harm the stability of cross-strait relations" (Focus Taiwan News Channel 2016).

Since the inauguration of Tsai Ing-wen it is obvious that Taiwan has followed a different policy to KMT regarding cross-strait relations. However, the tone and implementation of this policy have not been similar to the policy of the DPP administration in 2000–2008. Tsai Ing-wen is aware of previous DPP President Chen Shui-bian's policies' complications in foreign relations including relations with its close partner the US (Singh 2016). Tsai Ing-wen's view of maintaining the status quo across the Taiwan Strait and to establish consistent, predictable and sustainable cross-strait policy will meet the expectations of the Taiwanese people (Tung 2016, p. 2).

### **3. China's View on the Power Shift in Taiwan**

#### *3.1. Short History of Cross-Strait Relations before Tsai Ing-Wen's presidency*

In 1949 the nationalist forces led by Chiang Kai-shek lost the Civil War and the government of the Republic of China (ROC) relocated to Taiwan. The Nationalists, together with soldiers, moved from the mainland to Taiwan. Chiang Kai-shek aimed to return to mainland China to restore his authority there, but died in 1975. The People's Republic of China (PRC) under the rule of the Chinese Communist Party was founded in 1949. While ROC claims to represent the whole of China, PRC considers Taiwan as its own province. Despite the disagreements and physical separation, contacts continued between Taiwan and Mainland China defined

as cross-strait relations, which also have an institutional basis. At the official level, the Mainland Affairs Council operates in Taiwan and Taiwan Affairs Office operates in China. SEF and ARATS also functioned at “private” level. SEF and ARATS played an important role in the relations between Taiwan and Mainland China. Taiwanese President Lee Teng-huei initiated negotiations through the heads of these organizations, who met in Singapore. The meeting produced a document called the 1992 Consensus, which was a milestone in cross-strait relations (Romberg 2016). They agreed that there is only one Chinese nation comprising all of mainland China, Taiwan, Penghu and the offshore islands. While both sides agreed that Taiwan belonged to China, they continue to disagree on which China. Both sides accepted the other side’s existence (Denlinger 2014). However, Taiwan and China interpreted the 1992 consensus quite differently. For mainland China the 1992 consensus is a way towards Taiwan’s integration with China, while Taiwan considered the 1992 consensus as mainland China’s acceptance of one China with different interpretations.

Taiwan first held direct presidential elections in 1996 and just after the elections China conducted military exercises in the Taiwan Strait and sent missiles towards Taiwan. Negotiations conducted between SEF and ARATS were suspended from time to time. After resuming the talks in 1998, they were suspended again by China in 1999 when President of Taiwan Lee Teng-hui argued that cross-strait relations are state to state relations. One important change occurred in cross-strait relations in 2000 when DPP candidate Chen Shui-bian won presidential elections. The first time KMT had lost power. Since the perception of DPP in mainland China was the party which supports the independence of Taiwan, a crisis in cross-strait relations was inevitable. Despite the fact that Chen Shui-bian took some measures such as relaxing restrictions on imports from mainland China, allowing journalists from mainland China to visit Taiwan, and suggesting resuming cross-strait dialogue, China was suspicious of his moves. In fact, China rejected resuming cross-strait dialogue until Taiwan affirmed that Taiwan and mainland China are part of one China and they must be united. Chen Shui-bian was elected for a second term in 2004 and cross-strait relations worsened (Executive Yuan 2016).

KMT candidate Ma Ying-jeou won presidential elections in 2008. He declared improving cross-strait relations as one of the main aims of his foreign policy. President Ma formulated his cross-strait policy with three no’s: no unification, no independence and no use of force. President Ma era Taiwan concentrated on improving cross-strait economic relations and

people to people contacts. The Economic Cooperation Framework Agreement was signed by the representatives of ARATS and SEF. This agreement eliminated tariffs on 539 goods from Taiwan to mainland China and 267 goods from China to Taiwan (see Lin 2013, p. 37; Harrison 2012). He won his second term in 2012. In February 2014, Mainland Affairs Council Minister of Taiwan Wang Yu-chi met with director of Taiwan Affairs Office Zhang Zhijun in mainland China. President Ma met with President Xi Jinping of China in Singapore on November 7, 2015 (Executive Yuan 2016). This meeting was an historic event between the leaders of the two sides of the Strait. However, increasing contacts with mainland China, particularly the Cross Strait Trade Agreement on Service Trade caused resentment among the young population in Taiwan. They feared losing their jobs and that increasing dependency on mainland China would put democracy in Taiwan at risk (Kasim and Eren Kasim 2017, pp. 558–559).

Taiwan's Presidential and Legislative elections on January 16, 2016 opened a new era in cross-strait relations. DPP rule with its approach towards cross-strait relations raised questions about mainland China's reactions to the election results.

### *3.2. How China Evaluated Cross-Strait Relations in the DPP Era in Taiwan*

The electoral victory of Tsai Ing-wen and DPP received a cautious response from China. The Taiwan Affairs Office of China emphasized the 1992 consensus and its opposition to "any form of secessionist activities seeking Taiwan independence." China also stressed the determination to protect its territory and sovereignty. China's President Xi considered Taiwan's independence as the greatest threat to cross-strait stability (Glaser 2016). China started to implement policies that indicated changes to cross-strait relations after the inauguration of Tsai Ing-wen in May 2016. China unilaterally suspended major official/semi-official communication mechanisms. As a result, the Taiwan Affairs Office cut its ties with the Mainland Affairs Council in Taiwan. Mainland China's ARATS also cut its ties with Taiwan's SEF. China also targeted trade relations and tourism in cross-strait relations. Mainland China's policy caused a 30% drop in the number of tourist visits to Taiwan from mainland China in 2016. Trade volume between mainland China and Taiwan was also affected and dropped by 9.8% in the first six months of 2016 (Zeng 2016).

China conducted diplomatic efforts towards the countries which recognized Taiwan to persuade them to change their diplomatic recognition of Taiwan. China restored diplomatic relations with Gambia in March 2016. Gambia shifted its recognition from Taiwan to China in 1971. Gambia switched back its recognition to Taiwan in 1995. Gambia cut its ties with Taiwan again in 2013. The reason was the result of Taiwan's refusal to increase its foreign aid to Gambia. At that time mainland China did not resume relations with Gambia, since cross-strait relations were improving then with President Ma in Taiwan. Mainland China's restoration of its relations with Gambia was a message to DPP (Ramzy 2016). São Tomé and Príncipe reestablished diplomatic ties with Mainland China on December 26, 2016. Taiwan's authorities expressed strong disappointment and in an official statement Taiwan argued that "the government of São Tomé and Príncipe has been lured by the dollar diplomacy campaign of mainland China and ignored the years of major contributions the Republic of China (Taiwan) has made to the improvement of the health and welfare of the people of São Tomé and Príncipe" (Foreign Press Liaison Office, Ministry of Foreign Affairs, Republic of China, 2016). Taiwan ended all bilateral projects with São Tomé and Príncipe. In June 2017 Panama also cut its ties with Taiwan and switched its diplomatic relations from Taiwan to mainland China (Jennings June 13, 2017).

China also tried to constrain Taiwan's participation in the World Health Assembly (WHA) and International Civil Aviation Organization. Taiwan has been participating in WHA as "Chinese Taipei" since 2009. Mainland China objected to Taiwan's participation at the 70<sup>th</sup> WHA in 2017. The General Committee of the WHA stated that a proposal on inviting Taiwan to participate in the WHA as an observer will not be included on the conference's provisional agenda due to China's strong opposition (Tang and E, K 2017). Taiwan stated that:

Taiwan's participation in the WHA from 2009 to 2016 was the result of Taiwan's urgent need for involvement, the support extended by the international community, as well as mutual expressions of goodwill by the two sides of the Taiwan Strait. Mainland China's claim that Taiwan's participation was based on the "one China principle" constitutes a unilateral claim that is completely at odds with the facts." (Foreign Press Liaison Office, Ministry of Foreign Affairs, Republic of China 2017)

As a result of Mainland China's policy to isolate Taiwan, in 2016 Taiwan was also rejected by the International Civil Aviation Organization to participate in its annual meeting, despite the fact that Taiwan participated

as a guest in the International Civil Aviation Organization's meeting in 2013 (Jennings 2016).

It was obvious that the Xi Jinping administration of mainland China put pressure on the DPP government and President Tsai Ing-wen. Xi Jinping did not want to be seen as soft on Taiwan. In fact, the election victory of the DPP provided negative perceptions of Xi Jinping's cross-strait policy. In this strategy China has been using all available tools to make life difficult for the DPP administration in Taiwan. However, the parameters of cross-strait relations have changed since 2008. Therefore, China's excessive pressure on Taiwan may cause complications in mainland China and China's position in the world. As will be discussed below regarding the US role in cross-strait relations and South and East China Sea disputes, cross-strait relations cannot be defined just as relations between mainland China and Taiwan.

#### 4. The US Role in Cross-Strait Relations

The US policy towards the region has changed the character of cross-strait relations throughout history. Taiwan's international position and its policy towards mainland China were affected and even shaped especially during the Cold War era by the US strategy. The US rapprochement process with mainland China started with ping pong diplomacy and resulted in the US recognition of PRC in 1979. The US did not recognize PRC's claim over Taiwan and US relations with Taiwan are based on the Taiwan Relations Act of 1979 and Public Law 96-8 (see Griffin 2014). The Taiwan Relations Act stated that:

to consider any effort to determine the future of Taiwan by other than peaceful means, including by boycotts or embargoes, a threat to the peace and security of the Western Pacific area and of grave concern to the United States." The US also stated that with this act the US will "provide Taiwan with arms of a defensive character" and the US will "maintain the capacity of the US to resist any resort to force or other forms of coercion that would jeopardize the security, or the social or economic system, of the people on Taiwan (American Institute in Taiwan 1979).

The US also gave Six Assurances to Taiwan in 1982 in which the US would not agree to set a date for termination of arms sales to Taiwan. The US would not alter the terms of the Taiwan Relations Act. The US would not consult with China in advance before making decisions about

US arms sales to Taiwan. The US would not mediate between Taiwan and China. The US would not alter its position about the sovereignty of Taiwan, that the question was one to be decided peacefully by the Chinese themselves, and would not put pressure on Taiwan to enter into negotiations with China. The United States would not formally recognize Chinese sovereignty over Taiwan (Lofther 2012). The US was against any changes in cross-strait relations with force and supported the dispute's being solved by negotiations.

US policy continued to support the existence of Taiwan after the Cold War era. US interest in cross-strait relations increased during the time of active US policy towards Asia-Pacific. The US policy focused on Asia-Pacific during the Obama era as Barack Obama declared the US policy a “strategic pivot” or “rebalancing.” Obama’s strategy had economic, political and military dimensions. Obama aimed to strengthen the US ties with regional allies, he supported the Trans-Pacific Partnership (TPP) as an economic dimension of the strategy. The US also signed military agreements with its allies to strengthen its military presence. This policy was difficult to implement while continuing engagement with China. Obama’s policy of emphasizing Asia-Pacific was also criticized by the US’s European allies as neglecting Europe (Campbell and Andrews 2013, p. 2; Kasim 2015, pp. 90–91. See Kasim 2017, pp. 180–181). Regarding cross-strait relations, the Obama era was the time of developing relations between mainland China and Taiwan at least until the elections in Taiwan in 2016.

#### *4.1. How the US Views the Power Shift in Taiwan and Trump’s Policy towards Cross-Strait Relations*

The initial response of the US was to congratulate Tsai Ing-wen and the DPP on their victory. The statement emphasized a shared interest with the people of Taiwan in the continuation of cross-strait peace and stability. The US stated that Taiwan was “once again demonstrating the strength of their robust democratic system, which will now undergo another peaceful transition of power” (Taiwan Today 2016). Just after the elections in Taiwan, Bill Burns, former Deputy Secretary of State, visited Taiwan together with Raymond Burghard, Chairman of the American Institute in Taiwan. US Deputy Secretary of State Antony Blinken visited China on January 21, 2016, and he met with the mainland’s Taiwan Affairs Office Minister, Zhang Zhijun. Blinken stated an abiding interest in

continuing cross-strait peace and stability (Glaser 2016; The China Post 2016). After the major change in Taiwan, the US also changed President, and Republican candidate Donald Trump won the presidential election. The change in the US administration has raised questions about the US commitment to the rebalancing policy. The rebalancing policy has military, political and economic aspects and requires US commitment for each stages of the strategy. The rebalancing has been considered very important for the US regional allies. The rebalancing policy is viewed by Taiwan as an important tool vis-à-vis its relations with mainland China. However, President Trump's view, expressed during his election campaign about regional security, created suspicion about the US commitment to regional allies, since Trump argued that regional countries should take responsibility on security issues. Besides, Trump's strong opposition to TPP indicated a major change in US regional policy (Kasım and Eren Kasım 2017, p. 560).

Despite Trump's position during the election campaign regarding regional issues, he had a telephone conversation with Tsai Ing-wen. Trump's team stated that Tsai Ing-wen had congratulated Trump on his electoral victory. They noted the close economic, political and security ties between the US and Taiwan, and Trump also congratulated Tsai Ing-wen for her electoral victory. This was the first phone conversation since 1979. This might have caused a crisis in US–China relations. However, China chose to play down the importance of the phone call considering the event as just a small trick by Taiwan (The Guardian 2016). Trump's adviser Peter Navarro in his article, written together with Alexander Gray, argued that the Obama Administration's treatment of Taiwan has been egregious and commented that:

This beacon of democracy in Asia is perhaps the most militarily vulnerable U.S. partner anywhere in the world.....the balance of power in the skies above the Taiwan Strait was shifting toward Beijing. Yet Taiwan has been repeatedly denied the type of comprehensive arms deal it needs to deter China's covetous gaze, despite the fact that such assistance is guaranteed by the legally binding Taiwan Relations Act. (Gray and Navarro 2016)

There are questions and uncertainty about the continuity of Trump's policy on Asia-Pacific. However, at least Obama's policy parameters have not been continued in Trump's era. Trump's statements about the economy might be considered quite protectionist. As he promised to bring back manufacturing jobs to the US, and China, in Trump's view, is the main

country to “steal” US jobs. This may indicate a kind of economic war between the US and China. However, Trump’s opinion that allies in the region should provide their own security and claim he will withdraw the US troops from Japan and South Korea would open space to China to increase its regional influence. At least the US lack of commitment to its allies would make the US allies rethink their position regarding China’s action in the South and East China Sea disputes. For Taiwan, strong security ties with the US are important to protect its position against China. The US lack of military commitment and Trump’s lack of interest to intervene in order to protect democracies will be against Taiwan. This means that Taiwan should strengthen its ties with other regional countries for its security. In any circumstances, the reliance on one country would not be the best option for Taiwan to protect its interest in cross-strait relations (Hioe 2016).

Despite Trump’s unpredictability and the perception of his objection to the US military commitment in regional disputes, the US administration at least showed its decisiveness to protect the US and its allies’ interests in the South and East China Sea disputes. The US commitment to Taiwan is important to keep the status quo in cross-strait relations. Tsai Ing-wen and the DPP administration may find the desired US support in cross-strait relations as long as Taiwan’s policies regarding the South and East China Sea disputes are compatible with the US. However, in the case of the South and East China Sea problems, Taiwan and mainland China have similar claims, and disagreements between Taiwan and the US allies in the region have weakened the US position in the disputes.

Dispute in the China Seas takes place over the Spratly (Nansha) and Paracel (Shisha) islands as well as the Pratas (Tungsha), Natuna and Scarborough Shoal. These areas are the subjects of overlapping claims by regional countries. Mainland China and Taiwan’s argument is based on a dash line map, published in 1947 by the KMT government of China. First, it consisted of the eleven-dash line. After Chinese Communists took power of the mainland, they cancelled the two intermittent lines and mainland China started to use the nine-dash line to support its sovereignty claims. China’s building of artificial islands and drilling operations creates tensions especially between China and the Philippines, and China and Vietnam. Conflicts occurred between China and Vietnam and more than 70 Vietnamese soldiers were killed in 1974. 60 Vietnamese soldiers died in 1988 (Chubb 2014). Although China and Taiwan have similar

arguments regarding the disputes, Taiwan does not support territorial sovereignty through the man-made islands and promotes cooperation among regional countries to solve the dispute and does not support unilateral extraction of sand from the seabed or the reclamation of land from underwater reefs (for Taiwan's view: Ministry of Foreign Affairs, Republic of China 2015).

Taiwan and mainland China did not recognize the decision of the Permanent Court of Arbitration, which decided that the Philippines has exclusive sovereign rights over the West Philippine Sea in the South China Sea, and that China's nine-dash line is invalid (Santos 2016). Taiwan argued that the Philippines did not extend an invitation to Taiwan to participate in its arbitration with mainland China, since the arbitral tribunal did not solicit Taiwan's views. Therefore, Taiwan refuses to recognize the arbitration or any agreements since it will not affect Taiwan (Tiezzi 2015).

The DPP administration of Taiwan stepped up military activities in the South China Sea. Taiwan's Defense Minister Feng Shih-kuan stated that "the navy will use its increased, regular South China Sea patrols to do humanitarian rescue drills and protect Taiwanese boats trawling for fish or ferrying supplies. A 1,000-ton coast guard frigate has already been sent to the sea to protect Taiwanese fishing boats" (Jennings March 6, 2017). China's response to the increasing military activities of Taiwan will create a risk of instability in the cross-strait relations. Taiwan holds the biggest island in the South China Sea, Taiping (Itu Aba). However the Philippines argued that Taiping is not an island because of its lack of water supply and fertile soil making it inconvenient for inhabitants. Taiwan stated that Taiping Island is the only island in the Spratly (Nansha) Islands to have its own sources of potable water and Taiping Island can sustain human habitation and economic life of its own (Song 2016; Kasim 2017, p. 186). Taiwan has no interest in recognizing the decision of the Permanent Court of Arbitration, just like mainland China. However, Taiwan needs to protect its own interest against claims of other regional states and also against mainland China (Brosnan 2016). The problem is that in the case of tension in cross-strait relations, Taiwan needs the support of the US. This requires some kind of compromise with other US allies in the region. In fact, Taiwan has an advantageous position with its strong economy in the region.

China tried to put pressure on the DPP administration of Taiwan and this changed the parameters of cross-strait relations. Tsai Ing-wen increased Taiwan's security to strengthen its hand against China in cross-

strait relations. When the US deployed the Terminal High-Altitude Area Defense (THAAD) system in South Korea, it is argued that Taiwan may get THAAD from the US. China warned Taiwan about the consequences of the deployment of the THAAD system. Taiwan's annual defense budget is usually around 10.1 billion USD and each THAAD system costs about 800 million USD. It would be an expensive system and some questioned the necessity of it for Taiwan (Yeh 2017). A US troop relocation from Okinawa to Taiwan has also been mentioned by John Bolton, former US ambassador to the United Nations and adviser of President Trump. He suggested an increase in military sales to Taiwan and redeployment of part of the US military personnel from Okinawa/Japan to Taiwan (The China Post 2017). This suggestion from Trump's adviser came in the same month that President Trump said in an interview with *The Wall Street Journal* "he would not honor the US commitment that Taiwan was not to be recognized diplomatically, unless he saw what he considered progress from Beijing in its currency and trade practices. "Everything is under negotiation, including 'one China'" (Zhen 2017). However, this type of statement from President Trump did not reflect the policy of the US. The US continues to follow a One China policy and continues to support negotiations between China and Taiwan. The current US policy may not desire to see cross-strait relations reach dangerous levels for stability, like during the DPP era of 2000–2008.

## 5. Conclusion

Tsai Ing-wen's DPP administration represents a major power shift in Taiwan. However, Tsai Ing-wen will not follow the same line as the first DPP rule in 2000–2008. She considers the 1992 consensus a vehicle to set aside differences to seek common ground. Conditions and stages of relations between the two sides of the Strait have had major changes since 2012. Whatever Taiwan does, China's commitment to unification will not change and Beijing will not renounce the right to use force to realize unification. China will continue to exert pressure on Taiwan, the degree of which depends on the policies of the DPP administrations and perceptions of this policy in China. The situation in cross-strait relations is rather tense since the presidency of Tsai Ing-wen in Taiwan. China is implementing economic measures to pressure Taiwan and this will result in the continuation of the drop in the number of tourist visits to Taiwan. The development of eco-

conomic relations in 2008–2016 may also change, and further obstacles for Taiwanese business in China may reduce trade volume.

Cross-strait relations and contacts between China and Taiwan are important for both sides. Therefore, China will also use soft power elements besides using the threat of use of force. For China, keeping in touch with the Taiwanese population will also help its strategy of integration. The question is whether China will shift its policy and offer different carrots to win the hearts and minds of the people of Taiwan, or China will continue a reliance on sticks in cross-strait relations as it has done during tense cross-strait relations in history.

The cross-strait relations have been affected by the US policy and relations among other regional states. The South and East China Sea disputes are also factors to evaluate in the future of cross-strait relations. The status quo of cross-strait relations also requires a continuation of Taiwan–US ties. However, after the Obama administration, questions have been raised about the US policy in the region. The Trump administration has given contradictory signals regarding the US commitment in the region. The lack of a US security guarantee and its leaving security issues to the regional countries will strengthen the hand of China. However, the US economic competition with China will force it to continue military commitment particularly regarding the South and East China Sea disputes. However, Taiwan and China put forward similar claims and their positions regarding the International Court of Arbitration’s decision about the Philippines’ application are the same. This makes the US job difficult since there are differences of approach among the regional states regarding the South and East China Sea dispute. Tsai Ing-wen’s “New Southwards Policy” aimed at cementing political and economic ties with Southeast Asian countries to reduce Taiwan’s economic dependence on China may force Taiwan to have a new approach regarding the China Sea disputes. The US wants Taiwan to follow a harmonious policy with other regional states which have close ties with the US regarding the China Sea dispute. However, this does not mean that the US wants tense cross-strait relations and an escalation of tension between Taiwan and China. The power shift in Taiwan is expected to cause tension with China, but this should not change the path of cross-strait relations, which have reached a certain level through official/semiofficial mechanisms. Basically, the US and other regional countries may not desire escalation of tension in cross-strait relations in a way to threaten the regional stability. Counter claims in the China Sea dispute require multi-party negotiations and diplomatic efforts to prevent conflict.

The power shift in Taiwan impacted on cross-strait relations and the initial response from China was not very promising regarding continuation of negotiations. However, at least both sides accept the 1992 consensus, although interpretation of it are quite different on the two sides of the Strait. In fact both sides' interests require contacts to be continued, and tourism and investments have changed the character of cross-strait relations. A reversal of the stages in relations would be detrimental for both sides.

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# **Evolution of East Asian Economies and Societies**



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# **Transition Economy of Vietnam: A New Horizon of Opportunities**

## **Abstract**

*The aim of this article is to present the possibilities for future development of Vietnam's economy, as it currently represents the model of a transitional economy. In the first section of the chapter the history of economic reforms is presented, as well as the current economic situation.*

*The second part of the article focuses on the National Innovation System as a catalyst for stimulating growth and cooperation enabling a more innovative type of economy. This chapter presents the theoretical role of government-based institutions in bridging between academia and business actors to create a more innovative environment. In the third part of this paper a number of selected threads to the general development of Vietnam's economy are presented. The final findings highlight the utmost importance of government institutions in developing the right environment within the country for the development of an innovative economy, but also in creating vital connections at international level that are needed for technology and know-how transfer.*

**Keywords:** *national innovation system; Vietnam; entrepreneurship; transition economy*

## **1. Introduction**

The aim of this chapter is to analyze the economic situation of Vietnam since the Đổi Mới reforms took place, as well as to hypothesize about the possibilities for further economic development by evolving towards a knowledge economy.

Vietnam's economy is categorized as a transition economy; such economies are moving from closed-market command structures to open-market capitalistic systems. Vietnam's history of transition is a successful one: currently the country's population is better educated and has a higher life expectancy than most countries at a similar per capita income. The present horizon of Vietnam's development seems to be full of possibilities, but, nevertheless, there is a price to pay for the current fast growth. Environmental pollution and a lack of innovative enterprises are the most discernible problems. Another issue lies in the underdeveloped network of institutions that could bridge together business and academia, crucial for empowering an innovative industry. This could be the most important piece in putting together a comprehensive plan for the future development of Vietnam, especially if one considers the possibility of further disruptions from climate change, which Vietnam should prepare for, due to its geographical location and natural predisposition.

Despite the fact that Vietnam, in comparison to other fast-growing countries, managed to avoid a large increase in inequality, the differences between the rich and the poor are still significant.

To maintain the current fast growth of the economy as well as to guarantee further social inclusion, Vietnam has to invest in innovative solutions. One of those may involve the creation of a National Innovation System (NIS) which in turn can allow further technology transition through international agreements. This paper also aims to provide some theoretical proposals for developing a more innovative economy of Vietnam that can guarantee sustainable growth and social inclusion.

In the first section, the current economic situation of Vietnam is analyzed, as well as the historical aspect of Vietnam's economy growth since the crucial *Đổi Mới* reforms. Both statistical data and theoretical aspects of applied policies are presented.

The second section emphasizes the importance of implementing the National Innovation System in a developing country with the aim of building an innovative economy, with special remarks about Vietnam's possible future.

The last part of this paper discusses the possible threats to the development process of Vietnam, in order to highlight the gravity of the current situation Vietnam has found itself in, as well as the urgency for development of the National Innovation System as a counter measure to those threats.

## 2. Vietnam – A Powerhouse in the Making

Vietnam's geopolitical situation has not been an easy one ever since it gained independence from the French government. The subsequent events of civil war, instability in the region and border disputes further affected the development of Vietnam. Furthermore, there is the issue of the Vietnamese political system, whose socialistic character resulted in isolation on the international political and economic scene. This in turn resulted in an internal situation that required a drastic change, and that change came in the form of the *Đổi Mới* reforms, which opened Vietnam to the international market and helped to develop a robust catching-up economy. Those reforms were drastic, but at the same time subtle enough to gain the acceptance of the political elites. The most crucial aspect was patience, as the reforms required time to bring the desired effect of increased wealth and prosperity.

### 2.1. *Transition economy characteristics*

Transition economies are economies that are moving from strictly closed-market structures to open-market capitalistic systems. During this process of transition, domestic companies are forced to compete with not just new local entrants, but also with well-developed international companies. This puts further pressure on restructuring the internal model of enterprises along with their ownership structure. Furthermore, customers in transition economies are increasingly sophisticated and demanding, thereby putting additional pressure on the local market to provide more innovative products. In such conditions, most of the local companies fail to compete with new entrants due to the lack of technological, managerial, and marketing abilities, which are crucial to meet customers' growing requirements, not to mention gaining competitive advantage on the international market (Wendy, Schaffer and Seabright 2004, pp. 5–10).

As a response to the growing competition and high costs of obtaining technology and knowledge, local companies resort to international joint ventures (IJVs). This cooperation can help with rapidly acquiring such capabilities from foreign partners. Foreign companies perceive IJVs as a viable and fast way of new market entry: in some cases IJVs are the only possibility of entry into transition economies. Usually that is because of high trade barriers which make exporting difficult, institutional weak-

nesses (e.g. lack of proper law, numerous permits, bureaucracy); additionally, ownership restrictions often disallow the possibility of wholly owned subsidiaries. On the positive side, IJVs may help international companies gain the first mover advantage in the local market by quickly gaining local market knowledge, position and contacts with the host government (Tsang, Nguyen and Erramilli 2004, pp. 82–85).

On the other hand, countries with quasi-capitalistic structures, which just recently have begun their transition to an open market economy, tend to restrict the access to their domestic market. This is due to the fact that local companies cannot compete with foreign investors in terms of knowledge, technology and human resources. Thus, joint ventures are being forced upon companies as the only option to gain market entry. This policy has been very popular in the People's Republic of China, since this allows local companies to catch up with the world leaders in terms of technology and gain relatively cheap access to knowledge. Unfortunately, this kind of behavior has nothing to do with transparent open market competitiveness and several IJVs have been plagued by IP theft and local government meddling in to the IJV's code of conduct (Shen, Wu and Ng 2001, p. 17).

Similarly to other transition economies, Vietnamese companies are increasingly resorting to joint ventures with foreign companies in the hope of finding a shortcut for higher development. As previously mentioned, foreign investors may perceive a joint venture as a positive solution to balance the risks related to cultural distance, regulatory requirements, and political instability. Additionally, this provides relatively quick and easy access to new markets with high requirements for quality goods. One has to admit that the general motives for forming IJVs are relatively well-established. What still needs attention from scholars are the key factors that actually contribute to a successful implementation of IJV's in a long-term relation (Shen, Wu and Ng 2001, p. 17).

## *2.2. The Đổi Mới reforms – a new horizon of opportunities*

The now famous reform, launched in 1989, amounted to a bold attempt to rearrange the economic situation, to turn a closed market economy into an open one by economic shock therapy, at a time when this theory was still being tested on the former socialist countries in Central Europe.

The general reform package was focused on increasing real interest rates which made both borrowing and lending rates positive in real terms. The practice of covering the government expenditure deficit by increasing the money supply had been curtailed, which made the government budget more realistic to handle. Those decisions had a significant effect on local authorities, as well as the state-owned enterprises (SOEs). The SOE's situation was further dealt with by a specific form of privatization efforts along with using joint ventures with foreign companies in order to restructure the economy (Ronnås and Ramamurthy 2001, pp. 1–3).

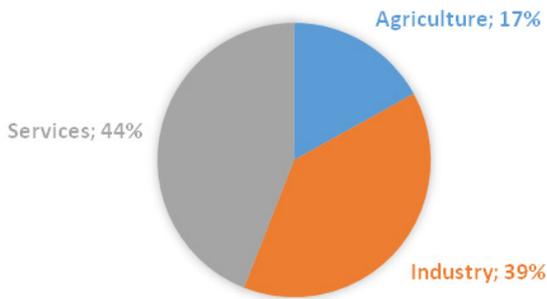
As mentioned above, the reforms took the form of shock therapy, which included one of the most extreme devaluations of the Vietnamese currency, the dong, i.e. from 425 to 4,500 dong per US dollar. This approach was also aimed at curbing the currency black market and bringing competitive labor costs to compete with the neighboring countries. This was also connected with reducing trade barriers. Those reforms had an immediate effect on the state of the economy, as well as the budget of the country. The hyperinflation that was crippling the economy was brought to a halt, the trade barriers reduction allowed citizens to access basic goods that were missing before, additionally small businesses thrived mainly in fast moving consumer goods. This in turn propelled the economy with an additional influx of wealth and helped indirectly to curb poverty (Ronnås and Ramamurthy 2001, pp. 1–3).

The effects of those reforms were very noticeable to the outside world, and this allowed Vietnam to easily attract foreign investments. As Vietnam started adopting a more open market solution, its isolation on the international scene was gradually being lifted. Examples of that include the lifting of the 1994 US embargo, and the granting of ASEAN and AFTA membership in 1995. In the long run, this allowed Vietnam to open its first stock exchange market in 2000, and – after several negotiation meetings – be granted membership of the World Trade Organization (WTO) as early as in 2007 (World Bank Group 2016).

The reforms were no doubt a success for the development of Vietnam's economy. The issue that is most troubling came not from the economic performance, but from the psychological impact those reforms created. Vietnamese officials came to the conclusion that the groundwork for development had been laid out through those reforms and the only thing that was left was to fine tune them for continuous performance. As the current situation shows, further extreme reforms are needed to ensure

the next decades of growth and development (Ronnås and Ramamurthy 2001, pp. 1–3).

Additional evidence showing how much of a shock these reforms were, is the fast pace at which inflation was brought to a halt: within 5 years from the period of 1990–1991 the inflation rate fell from 67% to just 5% during 1996–1997. What is more, there has been a significant shift from the agriculture role in the economy. The reforms had a small impact initially on the share of agriculture in Vietnam’s GDP as in 1991 it contributed about 39% and in 1996 it was still slightly above 32%. There was a more significant problem in that period. The employment rate in agriculture outpaced any other sector of the economy (Ronnås and Ramamurthy 2001, pp. 1–3). But with time, as investment in manufacturing rose, the role of agriculture fell to the current 17%.



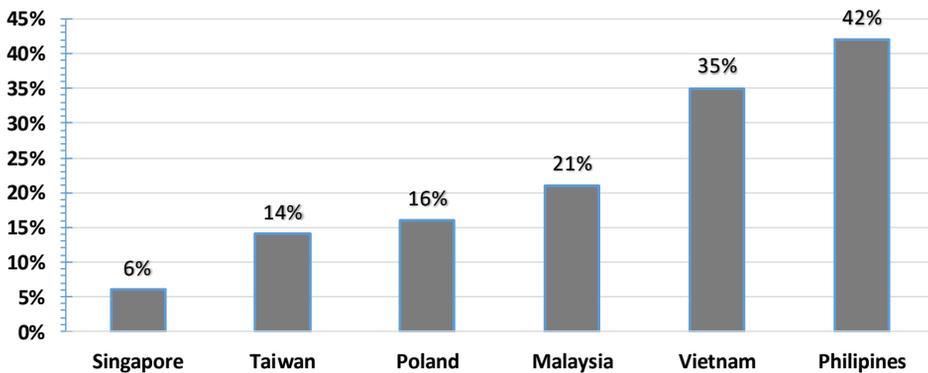
**Graph 1. Gross Domestic Product (GDP) composition, by sector of origin**

Source: Central Intelligence Agency, USA.

As illustrated in Graph 1, Vietnam has moved away significantly from agriculture as the main provider of wealth for the nation. The large percentage taken by industry also implies that the country is facing a rapid growth period in its typical style, as demonstrated by many other Southeast Asian countries. The manufacturing sector along with heavy industry will have to make room for more specialized production that will require a highly-skilled workforce, that is if Vietnam’s transition towards a knowledge-based economy proves successful.

Despite the fact that those shock reforms enabled Vietnam to thrive and generate very strong growth annually, there were areas in which the reforms failed. As noted by others, the increase in foreign direct invest-

ments had relatively low impact on employment and income generation. Furthermore, small and medium enterprises (SMEs) had a relatively small impact on new employment generation. This, coupled with bureaucratic problems in obtaining grants for entrepreneurial activities, curbed the local opportunities for self-employment. This reflects the central government policy towards SOEs and the IJVs. As the government is still trying to restructure its ownership of many companies, it can also be observed that it favors the growth of its own SOEs instead of supporting independent SMEs. What is interesting though, is the fact that those state-owned enterprises account for a significant portion of the industrial production, but generate little employment. This could be seen as a very efficient restructuring of highly inefficient and overstaffed SOEs, in itself this is a very positive development. Nevertheless, the central government has to rethink its strategy for the future as SMEs are the driving force of employment, and it is crucial to create a business environment that enables them to thrive. This can come at the cost of some SOEs (Ronnås and Ramamurthy, 2001, p. 31).



**Graph 2. Percentage of total consumer expenditure spent on food in 2015**

Source: United States Department of Agriculture, Economic Research Service, Food Expenditures 2015.

Graph 2 presents the other side of the Vietnamese success story: despite a fast-developing economy, the citizens of Vietnam spend about 35% of their general income on food and basic products. This in turn limits the possibility of coming out of poverty, and investment in education. What is more, if this trend continues, Vietnamese society will be locked into

this problematic situation. In countries that do move from a labor-intensive economy toward a capital-intensive economy, the population not only spends less on food and basic needs, but also can begin to invest. This in turn can be connected to the feasibility of the SMEs in Vietnam: if more citizens are able to save funds for future investments, the economy of the country can continue its fast-paced development. This is a typical problem for a country whose economy is nearing a crucial intersection. If the central government decide put further effort into connecting the country's economy with the general trend of pursuing knowledge-based industries, along with conducting research and development, its development-oriented efforts will prevail; if not, the economy will further be dependent on labor-intensive production, which will stop in the long run the ability to compete and develop, especially as the automation revolution is becoming a reality.

One of the possibilities for enabling the knowledge-intensive and capital-intensive economy in a developing country is by connecting with international actors. Looking at the examples from other Asian countries, like South Korea, Taiwan or mainland China, one can perceive similar patterns. This connection can be established by two main factors. One is attracting foreign direct investments (FDI), which bring not just the needed capital, but also new technology. The other factor by which countries can establish a linking bridge with international actors is international joint ventures (IJVs). This is a very useful solution for the local companies to gain new capital, transfer technology, and, what is more important, to learn know-how. Thanks to IJVs the local labor force can further develop its skills.

**Table 1. Foreign direct investment projects in Vietnam licensed in the period of 1988–2015 by year and terms**

Years	Number of projects	Total registered capital (Mill. USD)	Implementation capital (Mill. USD)
<b>1991</b>	152	1284.4	428.5
<b>1995</b>	415	7925.2	2792
<b>2000</b>	391	2762.8	2398.7
<b>2005</b>	970	6840	3300.5
<b>2010</b>	1237	19886.8	11000.3
<b>2014</b>	1843	21921.7	12500

Source: Adapted from UNESCO Institute for Statistics 2017.

The challenge to Vietnam lies in overcoming the apparent stagnation of FDI investments. As Table 1, shows after a period of fast growth in FDI, recent years have shown a disturbing trend of slowdown. While FDI funds are still being allocated in Vietnam, the pace at which this is happening is slowing down, which should in turn be a wakeup call for the central government to react. The central government has the possibility to clear up bureaucracy and join a number of international alliances related to new technology proliferation.

### **3. National Innovation System – A Bridge for an Innovative Economy**

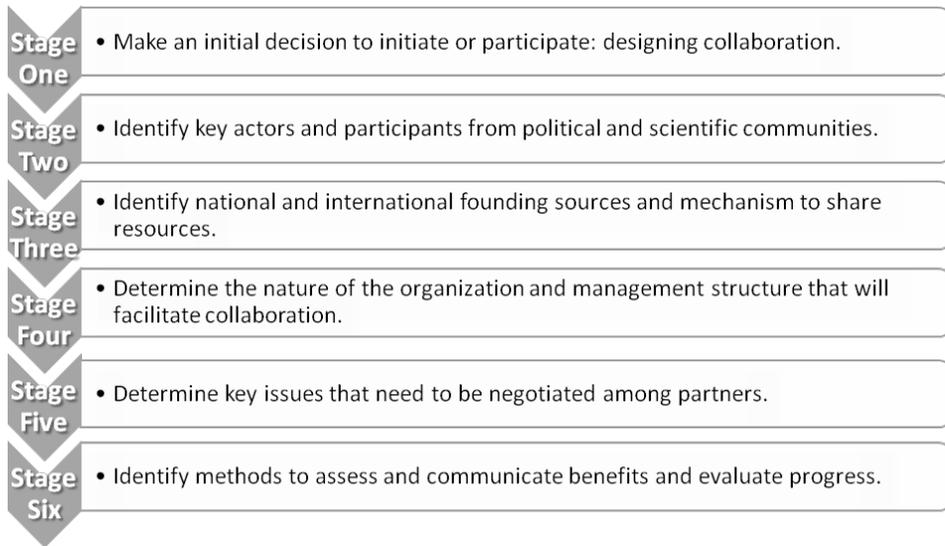
The focal point of innovation and knowledge diffusion that leads to economic growth relies on several aspects. The OECD stresses that one of the most important facts is that, more and more, innovations and progress rely on the interaction and cooperation between the business sector and academia. The OECD also makes mention of an additional fact regarding innovation that might seem rather obvious to some scholars, yet it is of crucial value to the whole national innovation system, that is the value of human resources, quality personnel is what drives innovation. In the present economic situation, most labor is allocated to the service industry within which manufacturers of different kinds do form bonds because of their interest in – as the OECD expressed – the knowledge-intensive services (OECD 1999, p. 9).

The National Innovation System, according to the OECD, is the most relevant because of the largely complex country-specific interactions which provide a suitable innovation climate and enable sub-regional and international technology and workforce flow with significantly growing attention to collaboration between different actors inside NIS (OECD 1997a, pp. 7–8).

There is no clear definition – the idea of NIS implemented in practice may differ significantly between countries as well as regions (both at local and at sub-regional levels) as well as between industries. It is clear that scholars also present varying approaches to NIS. Freeman gives his core definition of NIS as a network of institutions of both public and private sectors interacting with one another, thereby allowing for innovation to prosper and enrich the economy by technological and process diffusion. To this view, Lundvall – another prominent proponent in relation to NIS studies

– would add a distinction between a narrow and a broad definition of NIS. The narrow part would be related to R&D performers, such as universities, and science parks. Whereas his broad definition of NIS would include all aspects and actors that take part in searching for new knowledge, enhanced learning and innovative development, it would implement the whole socio-political system (Archibugi, Howells and Michie 1999, p. 3).

Innovation is usually an effect of complex interactions between numerous, different actors and institutions – as mentioned earlier in this section as well as in the OECD report, change does not occur in a linear fashion, but through interaction and feedback loops within the system. Those actors and institutions may take the form of links between research institutions, science parks, universities and private-sector companies; personal exchanges; co-publications; cross-patenting; or just by purchases of technology or know-how (OECD 1997b, pp. 9–12).



**Graph 3. Steps in planning a cohesive innovation system**

Source: RAND Corporation 2002.

As presented in Graph 3, RAND suggests the governmental institution’s focus on facilitating innovation and enhancing networking among the private sector and academia ought to be planned in order to reflect the needs of the whole nation, the science community, entrepreneurs and the market organizations.

To better highlight the importance of the National Innovation System, the below quote emphasizes the need for, and urgency in, building such network of connections, which seems particularly important for all newly developed and developing countries that are heavily focused on gaining their competitive advantage in the knowledge-based economy.

"[...] countries that fail to build capabilities enabling them to participate in the evolving global networks of knowledge creation risk falling further behind in terms of competitiveness as well as economic and social development." (UNCTAD 2005, p. 99)

The NIS in this example model is shaped by a system of organizations and institutions that distribute resources, knowledge and capabilities, enabling the creation of new knowledge and additional capabilities aimed at enabling the process of new value creation in the economy. In a way, this may be described as an institutional mechanism of economic growth and change (Kastele, Potts and Dodgson 2012, pp. 1–4).

One of the most important factors in general social development is the empowerment of women. This can be observed by lifting many barriers both related to education and professional development. The exact extent of barriers is related not just to the current level of development of a country, but also to cultural factors. Vietnam in this case presents a rather positive image, as barriers in obtaining higher education for women are virtually non-existent.

**Table 2. University and college education by items, university and college in Vietnam (selected years)**

Variables (in thousands)	Years			
	1995	2000	2005	2015
Students	..	899.5	1387.1	2118.5
Students – Public	297.9	795.6	1226.7	1847.1
Students – Non-public	..	103.9	160.4	271.4
Students – Male	..	..	714.5	1033.9
Students – Female	..	..	672.6	1084.6
Graduates	..	162.5	210.9	353.6
Graduates – Public	58.5	149.9	195	308.7
Graduates – Non-Public	..	12.6	15.9	44.9

Source: Adapted from UNESCO Institute for Statistics 2017.

As illustrated in Table 2, the government started further monitoring of student enrolment over the years. As the numbers show, there is an equal possibility for both sexes to obtain higher education. This is crucial in enabling the possibility for further development of human resources which are crucial for the knowledge-based economy.

What is more, the government of Vietnam has been raising the budget allocation for educational purposes steadily over the past several years. The central government is also trying to boost education by a series of programs; one in particular *National Education for All* in 2003 resulted in a 20% increase in the government's education budget – one of the highest in Asia according to the Oxfam report.

### *3.1. Developing education capabilities to enable the knowledge-based economy*

Vietnam is taking advantage of the recent trend in increased mobility of students in general in the region of Asia. This can be particularly seen at the doctorate level of students, which also implies the increased mobility of scientists. This was also presented in the UNESCO study in which students from Central Asia along with their peers from Arab nations and Western Europe were far more likely to study abroad than students from other regions of the world. Furthermore, the UNESCO Institute for Statistics noted that Central Asian students were especially more likely to study abroad during their tertiary education, thereby surpassing the African nations. Those trends are being used by developing nations in Asia to further advance their human resource level by helping doctoral students to study abroad. The Vietnamese government is actively sponsoring the doctoral training of its citizens overseas. This is a very important issue for the central government as it is aiming to achieve a goal of growing the faculty of Vietnamese universities by 20,000 new PhD holders by 2020 (UNESCO 2015, p. 34).

This has to be connected with efforts at keeping and advancing knowledge from foreign firms which invest in Vietnam. If Vietnam is aiming at competing with its neighbors in the region in terms of highly skilled workforce, the spill-over effects from transnational corporations have to be boosted, by doing so the local companies partake in this general trend of growing professional staff (UNESCO 2015, p. 52).

The proportion of doctoral students pursuing a degree abroad varies from country to country. To illustrate this, a country like Saudi Arabia has

more doctoral students enrolled abroad than domestically. The outbound mobility ratio of tertiary students in Saudi Arabia sits at a record high of 109%. Vietnam takes second place in this ranking with the ratio of 78.1% in 2012, which corresponds to about 4 900 students enrolled abroad and 6 200 domestically (UNESCO 2015, p. 77).

**Table 3. Share of female tertiary graduates in four specified fields in selected developing countries in 2013**

Country	Science	Engineering	Agriculture	Health & welfare
Nepal	28.4	14.0	33.3	57.0
Philippines	52.1	29.5	50.7	72.1
South Korea	39.0	24.0	41.1	71.4
United Arab Emirates	60.2	31.1	54.1	84.6
Vietnam	n/a	31.0	36.7	42.3

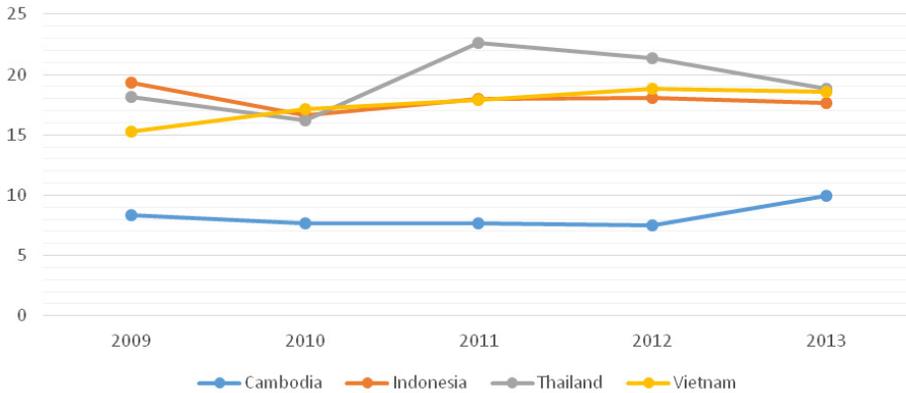
Source: Adapted from UNESCO 2015.

As shown in Table 3, only 31% of those pursuing a PhD in engineering are women, but there is a steady pattern of growth of interest in this field (UNESCO 2015, p. 93).

Furthermore, the percentage of women being employed as researchers in the business sector is at about 38% while it is still gradually growing. This is a higher percentage than for instance a more mature economy like Poland represented with its score of about 20% (UNESCO 2015, pp. 96–97).

Collaborative projects are also being carried out in the field of renewable energy, biotechnology, atomic energy and education. The Vietnamese government's efforts in obtaining more advanced technology included a series of meetings with Russian Federation officials. This resulted in a series of concrete agreements to initiate projects in the field of navigation technologies, agricultural biotechnology, energy and pharmaceuticals. An agreement was also reached in 2011 on the development of nuclear energy in Vietnam using Russian technologies and equipment (UNESCO 2015, p. 361).

As Graph 4 shows, in the recent years for which data is available, Vietnam has been keeping up its pace of investment in education. It should be, however, emphasized that more investment is needed in order to further capitalize on its human resource capabilities. Those investments should be mainly focused on building an external network for academia to obtain knowledge and experience from more developed countries, especially those with extended NIS networks.



**Graph 4. Expenditure on education as a percentage of total government expenditure across all sectors in the period 2009–2014**

Source: Adapted from UNESCO Institute for Statistics 2017.

### 3.2. Accessibility of credit and advisors for SMEs

As is typical of most South-east Asian countries, Vietnam's economy mainly consists of small and medium-sized enterprises (SMEs). To be precise, about 98% of all companies in Vietnam are SMEs, the other 2% consist of state-owned enterprises and foreign TNCs with an additional small number of IJVs. The SMEs' role in the economy is crucial as they contribute about 48% of Vietnam's GDP, and employ about 77% of the total labor force available (Nguyen, Gan and Hu 2015, pp. 34–36).

This proves further that SMEs have a crucial role in social and economic development. The issue for Vietnam's further development of SMEs is that most of those entities are micro companies. This is due to poor credit availability and lack of institutional support that could enable SMEs to engage in more capital-intensive production, further development of technology or, what is more important, to focus on R&D related investments. One can easily observe that the shortage of supporting institutions is the most urgent problem to address. This is related to the fact that most of the surveyed SMEs are run by managers lacking knowledge and education, which further results in the company lacking a strategy for future growth. The management quality of a company has crucial implications for the possibilities of further growth and low risk aversion.

Moreover, this also implies that the employees of such companies have limited possibilities to enhance their skill sets (Nguyen, Gan and Hu, 2015, pp. 34–36).

Such problems could be easily dealt with by establishing institutions dedicated to assisting SMEs in building their human resource capital, along with upgrading the managerial skill sets. Furthermore, this could also address the second issue that is crippling the development of SMEs in to more powerful players, which is the lack of capital. This is a core concept of developing the Vietnam's National Innovation System by spawning a range of institutions and connecting the whole network of academia, business and advisor institutions.

This problem consists of two major factors, one being the state of accounting requirements in Vietnam. Because of this, a significant number of Vietnamese SMEs are not properly conducting their financial documents. This in turn results in banks withholding credit availability for them as they cannot conduct a throughout check of the financial stability of such enterprises (Nguyen, Gan and Hu 2015, pp. 38–43).

As studies suggest, the mere presence of banking institutions in more rural areas does not help directly in credit accessibility. The key factor is the risk aversion and heavy reliance on an informal network of lenders. The informal system of relations known as *guanxi* (in Chinese) or *quan he* (in Vietnamese) could work out positively, especially in harnessing long-term mutual benefits, and cultivating trust and personal relationships (Yeung and Tung, 1996). This informal system may be even more important to urban low wage employees than rural ones, as the rural low wage earners may reduce purchasing by using self-produced products to mitigate the effect of negative market shocks. Furthermore, if such low credit accessibility represents the average level for all SMEs in Vietnam, the credit accessibility must be far lower in more rural parts of Vietnam, or simply outside of Ho Chi Minh City and Hanoi.

The credit availability for households has implications for formal self-employment and further strengthening of SMEs in Vietnam. The informal network of lenders is more popular in the rural areas where the probability of borrowing has been recorded as higher than their counterparts in cities, as social relationships tend to be stronger in smaller rural communities. What is more, citizens in urban areas have greater access to government subsidized credit funds, which in turn affects the need for using informal lenders. What has been proven is that the distance be-

tween households and a banking institution has a serious impact on the borrowing possibilities, which in turn allows for further informal lending growth. This affects the type of credit that is being pursued by households. Those loans are used mainly for current consumption not for future investments. This in turn affects the overall possibilities for improving social welfare (Doan and Tuyen 2015, pp. 175–198).

The government of Vietnam's most urgent issue to attend to lies in improving the rule of law that would improve more than just credit availability, as this issue is related to inefficient links between households and the registration system itself. It is estimated that about 5 million Vietnamese citizens do not possess a permanent registration in their place of residence, which in turn limits their access to such services like health, education and the above-mentioned credit. This further highlights the issue of social inclusion, especially in more rural areas (World Bank Group 2016, pp. 282–283).

#### **4. Discussion of Selected Risks for Innovative Development**

The main risk for the NIS creation lies in the political sphere, since Vietnam's ruling party only adopted the *Đ i M i* reforms due to a critical situation within Vietnam's economy. It was a bold chance to reconnect the country with international markets in order to improve the quality of life for its citizens. This may imply that the political establishment could opt for prolonging the current status quo, as it serves the short-term goal of creating wealth for the general population. Out of this may arise issues with social inequality and a social divide which is rising rapidly. On the other hand, such a hesitant approach could put Vietnam in a very unfavorable situation in the future as a latecomer to the general innovative economy; thus, its local businesses would face some heavy barriers and enormous challenges to become competitive internationally.

In general, latecomers are affected by three major disadvantages:

- first movers have an advantage in the market in the form of early captures of consumers and developing brand recognition;
- first movers have a competitive advantage in the form of pre-emption, for instance the capture of key resources;
- first movers possess the advantage of the learning curve effect.

Additionally, latecomers face a bigger problem with attracting a highly-skilled workforce as well as the higher costs of adopting new technology, which, for instance, can take place through licensing deals with market leaders in more well-established markets.

It is crucial to remember that the ruling party has been trying to change this problematic situation. The Communist Party of Vietnam's (CVP) solution relied on the fact that by possessing such immense power in establishing a new rule and enacting it, there was a possibility to quickly reshape the internal situation. However, using vast governmental power to deliver strategic decisions at the enterprise level, this strategy had one major drawback: it undermined the possibility of a bottom-up movement towards rearranging the status quo by local authorities (Witt and Redding 2014, pp. 284–285). Despite that, the CVP managed to integrate Vietnam into the international market by joining the World Trade Organization (WTO) in 2007 as a member. The central government tried to further quicken the pace of adjusting the national economy, this was marked by the launching of Public Administration Reform (PAR) in the years 2001–2010. The main aim was to cut red tape and streamline the framework by putting further emphasis on decentralization. This, along with ambitious plans of further SOEs reforms, could develop more effective and accountable state administration. Unfortunately, not only did the SOE's reform lag behind the party's scheduled goals, but also the general goals of the reforms were beyond reach. The problem with streamlining decision-making by using decentralization is related to the fact that in order to achieve any compromise on important issues, local authorities required a lengthy process of negotiations. This was highlighted by an additional factor – the central and local institutions do not cooperate extensively enough, coordination of their agendas seem largely undeveloped, a typical problem while taking such decentralization efforts. This has been addressed by the central government's further insistence on decentralization, which led to localism (Witt and Redding 2014, pp. 284–285).

This led to an ever-growing problem of favoritism and corruption, which seems to be the problem gripping many developing nations. If not addressed properly, this could spiral completely out of control. This has already taken its toll as Transparency International indicates in its yearly ranking: in 2016 Vietnam scored 33 out of 100 points placing it at 113<sup>th</sup> out of 176 countries that were measured. It is a significant problem for Vietnam because in the period of 2008–2010 it scored 27 points and in

the period 2012–2015 Vietnam scored 31 points (Transparency International 2016), proving that efforts aimed at restructuring the Vietnamese economy take a significant amount of time. Still, some progress is being made, but unfortunately such a slow pace may not be enough to enable a bright future for Vietnam.

The repercussions related to climate change may still be the most damaging for Vietnam if it does not seize the new economic opportunity that lies in innovative sectors of the economy. The manufacturing revolution that still seems to be prevalent in Vietnam may in fact bring this nation even closer to its own peril. The labor costs do provide an incentive for foreign multinationals to locate low skilled manufacturing in the country, but this brings additional risks of pollution.

Vietnam's last two decades of fast transformation showed the nation managed to curb poverty and social exclusion significantly. This growth, however, resulted in completely new and highly complex challenges for both government and society. As the fast development continues, the central government is struggling to keep tabs on all the important issues within the country. As the Non-Government Organizations (NGOs) enter the country, further streamlining policy towards them is necessary, both in order to allow them to succeed in helping the society, and, additionally, in creating further trust in government institutions dedicated to serving its citizens (Taylor et al. 2012, pp. 6–8).

The main problem that NGOs are facing in Vietnam is their appeal to citizens. Some do perceive them as quasi-government institutions with unclear motivations. In case of research institutions this seems particularly interesting as they receive vast amounts of funding from the government itself. This situation blurs the line of what exactly NGOs stand for and who has influence over them. A more transparent approach is needed in order to further strengthen the image of NGOs the vast majority of which are focused on mainly charitable work in remote parts of the country, without which many citizens would suffer (Taylor et al. 2012, p. 7). For instance, due to the geographical location of Vietnam, the country's southern regions are the most exposed to the effects of climate change. This issue has been one of the most crucial for civil society organizations in Vietnam. The only major agents in addressing climate change mitigation and adaptation are NGOs. The additional issue being that NGOs are mostly clustered in two major cities in Vietnam: Hanoi and Ho Chi Minh City (HCMC). The intriguing part is in the fact that despite the central government lacking

abilities in creating a wide network of agents related to NIS, the NGOs have a strong networking focus. As resources, both financial and human, are scarce, the level of cooperation between NGOs is a powerful message showing that there is a cultural understanding towards a more connected institutionalized society. About 92% of NGOs in Hanoi and 90% of NGOs in HCMC declared that they frequently meet with similar organizations to strengthen cooperation (Taylor et al. 2012, pp. 17–22).

It is imperative to remember the results of a recent study on the potential impacts of sea level rise on 84 coastal developing countries. The study shows that sea level rise as high as 1-metre would affect approximately 5% of Vietnam's land area, at the same time affecting the lives of 11% of the population. This would have an additional disruptive impact on Vietnam's situation, as the study suggests that it would affect 7% of agriculture and furthermore reduce the country's GDP by 10%. The projections for 3 and 5-metre sea level rise scenarios for Vietnam are described as "catastrophic." The study suggests that out of the 84 coastal developing countries it had analyzed, Vietnam would rank among the top 5 most affected countries (Dasgupta et al. 2007).

Vietnam's government did adopt a policy framework for disaster management, i.e. the Second National Strategy and Action Plan for Disaster Mitigation and Management 2001–2020. This Strategy is aimed at increasing awareness and participation and minimizing loss of life and assets. However, despite its general preventative aim, The Second National Strategy is devised principally to address the short-term scenarios of climate change rather than respond to the future. Moreover, the strategy also focuses on emergency response and reconstruction rather than risk prevention and adaptation. There is also a marked lack of integration between disaster risk reduction policies and wider policies for rural development and poverty reduction. This connects the climate change issue with the still undeveloped ties between the government and civil society. NGOs have a great opportunity to help Vietnam's population with the general attempt at preparing itself for the challenging future of climate change, as well as addressing some crucial poverty related issues (Government of Vietnam 2001).

The undeveloped tie between the central government and NGOs is troubling as it both stagnates the grass roots movement and additionally stops innovative and entrepreneurial actions taken by individuals. Most troubling is the continuing lack of a clear legal framework for NGOs

which creates an uncertain environment and reinforces the importance of personal networks. Laws on association registration practices have been debated, but no significant act has been passed to resolve the issue and construct a transparent legal framework to conduct such actions, which further curbs grassroots movements (Taylor et al. 2012, p. 21).

## 5. Conclusion

The economic future of Vietnam presents a multitude of opportunities. From a historical perspective, the image of Vietnam is of a nation capable of fast transformation from a closed market economy to an open market economy.

The most impressive observations derived from that process of transformation are the rapid pace at which extreme poverty is being eradicated as well as the overall access to basic education and the equal opportunities for obtaining higher education for both sexes. The empowering of women is a crucial factor that can highly contribute to the future growth of Vietnam.

Moreover, as the paper presents, there is a significant gap in bridging together academia, and the private sector to enable a more knowledge-based economy, which in turn could help in creating a sustainable, competitive and innovative economy in the years to come.

It is suggested by the author that the best possibility to enhance the speed and efficiency of transition from a typical manufacturing economy towards a knowledge-based innovative economy lies in establishing network of agents connected by mutual interest. This is best described by the National Innovation System theory, and its implementation within Vietnam's currently existing institutions could strongly support this vision. This is especially vital as the other countries of South-east Asia have implemented this solution with great effects, thereby creating robust economies and lifting the general wellbeing of their citizens. Vietnam's situation is similar, not only based on the current development status of its economy dominated by SMEs, but also on the similarities in culture and network creation behavior.

The type of development Vietnam is going to follow is in the hands of the main social and political forces. Development is a political process, and in that process decision-making rationality is often derived primarily from considerations of political power, not from the information generated by assessment studies (Henry 1990, pp. 91–101).

Despite this, Vietnam's performance so far has been an interesting case which requires further study as its status continues to develop. Additionally, there are a number of issues that need better understanding – for instance: the general availability of capital in rural areas, the entrepreneurial traits of culture, and the effects of clustering TNCs in the two main cities on network development with academia.

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# **“Enemies of the People” in the Democratic People’s Republic of Korea: The Political Meaning of Human Rights Violations Against Them**

## **Abstract**

*Over the last several decades, the Democratic People’s Republic of Korea (DPRK)’s government has repeatedly produced a number of “enemies of the people.” This article contends that the “enemies” in the DPRK have been produced by political decisions in the name of popular sovereignty, based on post-colonialism and socialism. The principal goal of this article is to identify the political meaning of violations against the “enemies of the people” and to shed light on the problems of “politicized human rights.”*

**Keywords:** North Korea, human rights, friend/enemy, politicization, popular sovereignty

## **1. Introduction**

This paper focuses on human beings who are just kept alive at the mercy of politics by becoming mere political instruments by fiat. Over the last several decades, the government of the Democratic People’s Republic of Korea (DPRK) has again and again produced a number of “enemies of the people.” Those who are labeled “anti-Party, counterrevolutionary factionalists,” “enemies of the people,” “class enemies,” “impure factionalists,” “human scum,” and so on have been persecuted, marginalized, executed, eliminated, or disappeared. Fighting against them has been defined,

as well as authorized, by various laws, including the Constitution of the DPRK. They have undoubtedly been there, still exist, and will continue to do so.

Who are they? And what is the distinction between friend and enemy in the DPRK? In this context, this paper deals with the issues of the exclusion and the dehumanization of human beings who had been called "citizens." While these issues are understood as human rights issues today, the paper seeks to politically analyze them through two theoretical perspectives focusing on "sovereign power": the "friend/enemy" antagonism argued by Carl Schmitt (1932) and the concept of the "homo sacer" developed by Giorgio Agamben (2002). The paper contends that political decisions have produced "enemies" in the name of popular sovereignty, protecting politicized human rights of the citizens in the DPRK by dehumanizing the "enemies." The principal goal of this article, then, is to identify what constitutes the "enemies of the people."

In this regard, the present article claims that the discourse that has produced the "enemies" was already inherent in a political slogan that the DPRK's government and politicians continuously asserted around 1948 when the country was established, while the revolutionary arguments, i.e., post-colonialism and socialism, were widely supported by the people. As discussed further in the following chapters, this argument is not intended to follow the previous studies on the DPRK, but aims to put forward my own theory on the DPRK's human rights situation toward a new theoretical framework in order to understand human rights and the sociopolitical environment in the DPRK by re-examining the meaning of "popular sovereignty."

This phenomenon, whereby individuals, excluded from the population, turn into "enemies", suggests that the history of exclusion confirmed in the name of popular sovereignty has been unavoidably destined to strengthen the extrajudicial authority of State sovereignty. Simultaneously, this indicates that the "human rights" discourse that has been used in order to justify the exclusion and the dehumanization of the "enemies" is based on "politicized human rights" created by arbitrarily reinterpreting and conveniently reselecting human rights. Therefore, it can be said that the notion of human rights is universally accepted to the extent that countries that have taken actions to support "human rights" consider their own politicized human rights as human rights. Consequently, this chronic situation has constituted a basis of human rights criticism, both theoretically and empirically.

Given that such extrajudicial dehumanization of “enemies” is not contrary to law and not limited to cases of the DPRK, an important point to remember is that the abuses of human rights by “human rights,” which means politicized human rights created by sovereign power, are contemporary political issues in the era of human rights.

## 2. Popular Sovereignty and Disenfranchisement: Human Rights Situation in the DPRK

Sanctions against harmful traitors who violate human rights and betray the country as well as the people are the sacred, legitimate exercise of the people’s own rights to enjoy the very human rights. A country tolerant to the human scum is nothing but the anti-people State that disobeys the human rights of the people. History and reality show that if the country shows mercy toward enemies of the people, a flock of villains will be rampant, and then the dignity and the rights of people will be seriously violated. [...] Human rights can be guaranteed only when sovereignty is protected. (Rodong Sinmun, December 9, 2015)

The above is an editorial column published in the *Rodong Sinmun*, the newspaper of the Workers’ Party of Korea. The main purpose of this chapter is to clarify the urgency of the problem caused by political exclusion by providing some specific examples about how much the “enemies,” the so-called “human scum,” were suffering under “sanctions.” It is also more helpful to understand a process whereby “enemization,” or “disenfranchisement,” leads to dehumanization by “legal” constraints of human rights.

In March 1974, Amnesty International adopted as a prisoner of conscience Ali Lameda, a Venezuelan communist, who had been arrested as an “enemy” of the DPRK and an “imperialist spy,” and campaigned widely for his release (Lameda 1979, pp. 5–15). Lameda testified as follows about his arrest in September 1967.

Nine people came to my apartment to arrest me. Two of them were in the uniform of the police, the others were agents of what is called Public Security. I was told I was being arrested as an enemy of the Democratic People’s Republic of Korea, having violated Korean law. Nothing more specific was said to me, and they were not willing to discuss the laws or charges related to my arrest. [...] Hunger was used as a control. No more than 300 grams of food per day was given to each prisoner. [...] The food provided in the prison was fit only for animals. For months a prisoner is deprived of adequate food. In my opinion, it is preferable to be beaten, as it is possible to grit one’s teeth and withstand physical beating. (Lameda 1979, pp. 12–13)

Under house arrest in Pyongyang, Lameda was sentenced to punishment of 20 years forced labor on suspicion of spying. Fortunately, however, he was released in May 1975 through Amnesty International campaigns and political arbitration by the Venezuelan government and the Romanian president.

On the other hand, testimony given by Chol-hwan Kang, a former political prisoner, offers a crucial clue for application of the principle of “guilt by association” (*yeonjwaje*).<sup>1</sup> From his case, we can also confirm a series of processes that transform ordinary citizens into enemies.

[W]hen I was young, [...] compared to other North Korean residents, I think I was a very happy child. And then in 1977, my grandfather went to work and then he didn't come back for one month. So we went to his workplace to find out why, and we were told that he went on a business [trip]. And then [someone] from the *Bowibu*, that is the State Security Department of North Korea, came to us and said that our grandfather committed treason to the State as well as the people, that he deserved to die, but that instead of giving him the death penalty, that he was taken somewhere else. Our properties were confiscated. On the 4<sup>th</sup> of August in 1977, our families were brought into the Yodok political prisoner camp. I was 9 years old. It was [the] 8<sup>th</sup> of August 1977, that's when we were taken to the political prison camp. (A/HRC/25/CRP.1, para. 283)

Kang's family members were ethnic Koreans living in Japan. They migrated to the DPRK from Japan during the “Paradise on Earth Movement” from 1959. By 1984 when the movement officially ended, 93,340 ethnic Korean and Japanese “returnees” had moved to the country, even though “[m]any of these people were not originally from north of the 38<sup>th</sup> parallel” (A/HRC/25/CRP.1, paras. 916-7). There was no doubt that they were unable to speak freely even about life in Japan. By doing so, they might be exposed to danger that instantly turned them into “enemies.”

Other defectors testified that especially during the great famine of the 1990s, people who moved across the Chinese border in search of food for themselves and their families were sent to the concentration camps only for having contact with South Koreans or Christians. Norbert Vollertsen, a German doctor who spent 18 months in the DPRK until he was expelled in December 2000, also witnessed some people who had been in concentration camps (Vollertsen 2001, p. 149).

1 On the basis of the principle, “the entire family of those purged frequently also ended up in the political prison camps including the parents, spouses, siblings and children (regardless of age). Only female relatives who were already married outside the family at the time of the purge were usually spared. Because of the strict patriarchal system, they were considered to belong to another family.” (A/HRC/25/CRP.1, para. 745).

[P]eople who fled from camps are abnormally thin and weak. I had examined the five people. They had [...] terrible injur[ies] and all of them smelled terrible because of the poor sanitary conditions of the camps. There was no longer a [human-like] smell [...]. Their heads were scarred [...]. Most of them had chipped [teeth], and some of them had broken [...] their lower jaw[s].

In this respect, it is unnecessary to say that each “enemy” is subject to inhumane treatments, such as hunger, forced labor, and torture, until he or she is “corrected,” is wiped out, or dies. Imprisoned in concentration camps, they are not only deprived of their basic rights as citizens, from the right to vote and to be elected to the right to marry and to start a family, but are also excluded from general public welfare coverage in education, medical services, and food distribution, and, of course, their civil ID cards are to be invalid. This is because they or their relatives were/are “sub-human enemies.” For a “citizen” to be reclassified as an “enemy” for any reason means that s/he is not a human being anymore.<sup>2</sup>

### 3. Political Discourse on Enemies

In the past, we have often witnessed actual examples of expulsion, assassination, and purges. We might be resigned to violations of human rights of the “enemies.” However, at least in history, it is not the heart of the issue to explore answers to the following questions: who are enemies; what were they doing; and why did they commit the “crimes”? In history, of primary importance, especially relating to political issues, is the fact that the “enemies” existed or still exist, because their existence strengthens our political identity as well as political unity to ally in a fight against them. Therefore, “we” can gain a strong sense of safety and belonging by joining “our” side. In this context, it is important to note that “democratic logics always entail drawing a frontier between ‘us’ and ‘them’, those who belong to the ‘demos’ and those who are outside it,” as Chantal Mouffe

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2 On this, the COI pointed out the following. “Guards and security agents serving in the political prison camps are taught to consider inmates to be sub-human enemies, who no longer enjoy citizen’s rights. Accordingly, they are instructed to treat inmates without pity. This message is reinforced by the activities of the Propaganda Department of the Workers’ Party of Korea and other state institutions, which create hostility toward so-called ‘enemies of the people’. The combination of indoctrination by specific training and general propaganda creates a psychological environment that eradicates human inhibitions that might otherwise prevent guards from subjecting prisoners to such inhumane acts.” (A/HRC/25/CRP.1, para. 1063)

pointed out (2000, p. 4). Given this perspective, what was indicated in the presence of the “enemies” in the DPRK is that the country is a republic of the people’s “democracy” that makes “ostensible” liberal democracy much more “real,” as seen from the formal name of the country. Mouffe (2000, p. 4) writes:

It necessarily creates a tension with the liberal emphasis on the respect of “human rights,” since there is no guarantee that a decision made through democratic procedures will not jeopardize some existing rights. In a liberal democracy limits are always put on the exercise of the sovereignty of the people.

This argument may be logically valid. However, it is partly wrong in practice – in other words, whether liberal democracy exists or not does not matter in this case. This is because the exercise of sovereignty by the people in both liberal democracy and absolutist democracy may individually restrict their human rights. In fact, human rights have always been restricted by the public order or the public interest, even though the protection of human rights is a political slogan of governments around the world today. This situation, i.e., the suspension of human rights in the name of democracy, is a problematic contemporary issue not limited to past and current socialist countries rejecting liberalism as mere bourgeois ideology.

Judith Butler points out “the suspension of law” in operation of sovereign power, citing the situation of a number of detainees detained indefinitely at Guantanamo Bay, not even called “prisoners.” She argues as follows:

My own view is that a contemporary version of sovereignty, animated by an aggressive nostalgia that seeks to do away with the separation of powers, is produced at the moment of this withdrawal (Butler 2004, p. 61) [...] It is not, literally speaking, that a sovereign power suspends the rule of law, but that the rule of law, in the act of being suspended, produces sovereignty *in its action and as its effect* (emphasis in original). (Butler 2004, p. 66)

Describing how the suspension of law revives a powerful sovereignty, she gives an insight into the events at Guantanamo. Put differently, she clarifies that the exclusion of human beings and their dehumanization are carried out by the practice of sovereignty, i.e., exercise of State power, indicating that political decisions to isolate those who should be excluded from the human community, that is to say, the deprivation of all rights, “are determined by discretionary judgments that function within a man-

ufactured law or that manufacture law as they are performed" (Butler 2004, p. 58). Her sharp analysis helps us to recall that today we are forced to bear the risk that justification for "human rights" restrictions supported by the people is secretly replaced with the legitimacy of extrajudicial authority of State sovereignty – in other words, a willingness shown by a majority of people becomes a collective will and is then assimilated into a national policy as if all people desire it.

On the phenomenon of the politicization of human beings' biological lives, Giorgio Agamben suggests a new perspective. By using the term "inclusive exclusion," he explains the phenomenon from the perspective of "bare life/political existence, *zoē/bios*, exclusion/inclusion." On this binary distinction, Agamben asserts that "[t]he fundamental categorical [*sic*] pair of Western politics is not that of friend/enemy but that of bare life/political existence, *zoē/bios*, exclusion/inclusion" (Agamben 1998, p. 8). First of all, however, this kind of politics is not limited to the Western world. Rather, it may be said that the binarism is a universal, "fundamental categorical pair" of politics. In the Eastern world, there were many various types of *zoē*, e.g., the "Dalit" of India, "Baekjung" of Korea, "Burakumin" of Japan, and so forth. Second, *zoē's* situation is in essence not so different from the life of "enemy." As far as scapegoating is an important tool to mobilize and unite people, both *zoē* and "enemy" are political scapegoats. Therefore, it can be said that *bios* in a normal situation is "friend" as a member of a political community, and *zoē* in the state of exception is nothing but an internal "enemy." In this sense, Agamben (1998, p. 9) writes:

At once excluding bare life from and capturing it within the political order, the state of exception actually constituted, in its very separateness, the hidden foundation on which the entire political system rested.

This sentence provides an important clue for clarifying the political foundations from the fact that the "enemies" exist in the DPRK. This is because, as will be described later, they are "exclud[ed] from and captur[ed] within the political order," and "the entire political system" has rested on their existence. On the other hand, he argues:

A humanitarianism separated from politics cannot fail to reproduce the isolation of sacred life at the basis of sovereignty, and the camp – which is to say, the pure space of exception – is the biopolitical paradigm that it cannot master. (Agamben 1998, p. 134)

From this point of view, he boldly proclaims that even in today's era of human rights, "the state of exception" would continue to be a blind spot for human rights. Especially on "bare life" of refugees,<sup>3</sup> he asserts that "the separation between humanitarianism and politics that we are experiencing today is the extreme phase of the separation of the rights of man from the rights of the citizen" (Agamben 1998, p. 133). Agamben's insight about the aporias of human rights is apparently gained by scrutinizing Hannah Arendt's critique of universal human rights. Indeed, it may seem that the aporias of human rights have been impeccably demonstrated by a well-established fact that a number of "homo sacer," who "should have embodied human rights more than any other" (Agamben 2008, p. 92), are neglected with no human rights in practice, and, furthermore, that the "bare lives" are "ultimately to be recodified into a new national identity" (Agamben 1998, p. 133).

Ironically, their "realistic" criticism over human rights is consistent with a part of Carl Schmitt's argument that "a tendency toward a meaningful universality" is "an ideal postulate only" (Schmitt 2007, p. 56). Schmitt (2007, pp. 54–55) says:

The concept of humanity is an especially useful ideological instrument of imperialist expansion, and in its ethical-humanitarian form it is a specific vehicle of economic imperialism. [...] To confiscate the word humanity, to invoke and monopolize such a term probably has certain incalculable effects, such as denying the enemy the quality of being human and declaring him to be an outlaw of humanity [...]

The political meaning of "universality," according to Schmitt, lies in monopolizing the "universal" concept. It makes "the real possibility of physical killing" possible by simultaneously referring to the concept of the "enemy" against humanity. Considering the distinction between "friend" and "enemy" as a source of political action and motives, Schmitt figures the "political" out from the real possibility of the existence of the "enemy." In his view, "people" is a political, decisive entity "for the friend-or-enemy grouping." On this political entity, Schmitt (2007, p. 38) writes:

If such an entity exists at all, it is always the decisive entity, and it is sovereign in the sense that the decision about the critical situation, even if it is the exception, must always necessarily reside there.

.....  
3 They have "bare life," because they are non-citizens who cannot be protected by any governments.

On the one hand, “the exception” means a state of war “to demand from its own members the readiness to die and unhesitatingly to kill enemies” by exercising the right of belligerence (Schmitt 2007, p. 46). On the other hand, “the critical situation” is a moment to decide who our enemies are. Therefore,

For as long as a people exists in the political sphere, this people must [...] determine by itself the distinction of friend and enemy. Therein resides the essence of its political existence. When it no longer possesses the capacity or the will to make this distinction, it ceases to exist politically. (Schmitt 2007, p. 49)

In his view, as an inevitable corollary, the formal distinction between “enemy” and “friend” in socialist countries, e.g., proletarian dictatorship, is a political phenomenon performed by the State with a strong central authority, but done in the name of the people. However, as Schmitt indicates, the distinction, exclusion as a final corollary, is hardly limited to socialist countries. Now, what we need to recall is the following:

Every [S]tate provides, therefore, some kind of formula for the declaration of an *internal enemy*. [...] Whether the form is sharper or milder, explicit or implicit, whether ostracism, expulsion, proscription, or outlawry are provided for in special laws or in explicit or general descriptions, the aim is always the same, namely to *declare an enemy* (emphasis added). (Schmitt 2007, pp. 46–47)

From this perspective, it is important to note that while a State identifies enemies, people unite politically – i.e., as citizens – isolate themselves, enemize themselves, and justify their human rights violations in the name of the people. As a result, it will be possible to confirm “friends,” integrate the people as obedient as well as dependent citizens, and politically mobilize them. In turn, the “enemy/friend” is, even if the distinction involves human rights abuses in the universal sense, *a relatively inherent, legitimate concept, as well as a highly political concept*, to the extent that a State as a power apparatus has frequently used the term in order to maintain public order.

At the same time, it should be noted that citizens’ fundamental rights used as a means to exclude enemies have been politicized as equivalent to universal human rights, which means human rights are violated by human rights (politicized human rights). From the perspective of the legality of enemization and the “human rights/politicized human rights,” the next section analyses the case of the DPRK, indeed like a live-action version of Schmitt’s concept of “the political” in the post-Cold War era.

#### 4. “Crimes Against the State and the Nation”

This section focuses on the following question: what is the criterion that separates non-citizens from the citizens? As the constitutional basis for determining the “enemies,” the DPRK sets out the provision to identify the class nature of the State.

The State shall adhere to the class line and strengthen the dictatorship of the people's democracy so as to firmly defend the people's power and socialist system *against all subversive acts of hostile elements* at home and abroad (emphasis added).

This is prescribed in Article 12 of the Socialist Constitution of the DPRK. In the *Political Encyclopedia* published by the [North] Korea Social Science Publishing House (*Sahoekwahak Chulpansa*), “dictatorship of the people's democracy” is defined as

a form of political domination implemented in a society that was allowed to overthrow the old governance mechanism of class exploitation by the revolutionary violence, mobilizing a wide range of democratic competencies possessed by the working class and its allies, farmers in the stage of the anti-imperialist, anti-feudal democratic revolution.

The encyclopedia states that “imperialism and its minions including landlords and comprador capitalists” are the target of the dictatorship of the people's democracy, and, furthermore, it is necessary “to vigorously sweep pro-Japanese elements, traitors to the nation, landlords and comprador capitalists” to achieve the dictatorship. In the DPRK, this “suppression against the anti-socialist forces and legal sanctions against non-socialist phenomenon” is regarded as a precondition to enable the “people's democracy dictatorship” (Sim 1996, p. 164). For this reason, it has been thought that “executing dictatorship over the enemies of the people” leads to “thoroughly defending the rights and interests of the working masses” (Sim 1996, p. 23). In this sense, it is important to accurately distinguish “criminals” in terms of class. Indeed, it seems that the government also operates an “inclusive exclusion,” as noted by Agamben. The significance of the political exclusion is also indicated in existing laws in the DPRK.

*The State shall strictly identify friends and enemies* in its struggle against anti-State and anti-People crimes, and subdue the small minority of enemy leaders and embrace the majority of followers (emphasis added). (DPRK Code of Criminal Procedure 2012, article 2)

The article above states the “principle of adherence to the class line.” The DPRK’s laws and judicial system are built on the initial legal system enacted by borrowing that of the Soviet Union under Stalin’s regime (Song 2011, p. 82). Through several amendments, a large number of expressions related to the ideological class struggle have been deleted, but its essence has not changed.<sup>4</sup> In addition, article 162 of the Constitution stipulates that one of the main functions of the Court is to “ensure that all institutions, enterprises, organizations and citizens [...] staunchly combat class enemies and all law-breakers.” Indeed, the DPRK is “trying to make clear distinctions between the ‘friend–enemy contradiction’ and the ‘contradiction within the people’” (Kim 2006, p. 14). A basis for distinguishing the “enemy” from the people is whether they are involved in “crimes against the State and the nation,” as referred to in the “principle of adherence to the class line” above. The “crimes against the State and the nation” (called “anti-revolutionary crimes” in the past) include the following 14 “crimes” defined in the Criminal Code.

**Table 1. Types of Crimes against the State and the Nation**

Types of crimes	Maximum penalties
Crimes against the state (Art. 60–67)	
(Conspiracy to Subvert the State)	death penalty and confiscation of property
(Terrorism)	death penalty and confiscation of property
(Anti-State Propaganda and Agitation)	reform through labor for less than 10 years
(Treason against the Fatherland)	death penalty and confiscation of property
(Espionage)	reform through labor for more than 10 years
(Sabotage)	death penalty and confiscation of property
(Inducement of Armed Intervention and Severance of Diplomatic Relationship)	reform through labor for more than 10 years
(Aggression against Foreigners)	reform through labor for more than 10 years
Crimes against the nation (Art. 68–70)	
(Treason against the Nation)	death penalty and confiscation of property
(Suppression of the National Liberation Struggle of the Korean Nation)	reform through labor for more than 10 years
(Aggression against the Korean Nation)	reform through labor for more than 10 years

.....  
 4 In my view, this is because the DPRK is not a real socialist country, but socialism is still, officially at least, a form of social justice for the country.

Types of crimes	Maximum penalties
Crimes of Harboring, failing to report, and neglecting of a crime against the state and the nation (Art. 71–73)	
(Harboring an Individual who Committed a Crime against the State or the Nation)	reform through labor for less than 4 years
(Criminal Failure to Report a Crime against the State or the Nation)	reform through labor for less than 3 years
(Failure to Prevent a Crime against the State)	reform through labor for less than 3 years

Source: The DPRK Criminal Code, which was amended on 22 July 2015. South Korean Ministry of Unification, Ministry of Justice, and Ministry of Government Legislation.

The “crimes against the State and the nation” are punishments toward those who engaged in hostile acts contrary to the struggle to realize the socialist construction and the national sovereignty, against the nation and the socialist system. During the term of the sentence, some parts of the citizen’s rights are stopped, according to article 30 of the DPRK’s Criminal Code. In addition, it can be said that its “broad and vague terms” connote the possibility of arbitrarily over-interpreting the scope of “rebellion” against the State and the nation (A/HRC/25/CPR.1, para. 122). In the following, we discuss the historical background and the basis of the justification of the “crimes against the State and the nation,” which provide a legal basis for the presence of official “enemies,” and also make it possible to deprive enemies even of the right to life.

## 5. History of Making Enemies: Post-colonialism and Socialism

As indicated earlier, the binary distinction between “friends” and “enemies” in the DPRK is a phenomenon that could be seen before the country was established. Korea was “liberated” from the “Empire of Japan” on August 15, 1945, which led to Japan’s surrender. However, the liberation was not the result of an “anti-Japanese struggle.” Therefore, the claim that the “historical accomplishment of Fatherland liberation was achieved,” as heard over and over again in South and North Korea, is not accurate, strictly speaking. After the “liberation” from Japanese colonial rule, the Korean Peninsula was governed by the Soviet Union in the North and

by the United States in the South. Unlike the South, in the North, “liquidation” of all legal provisions that had been carried out in Korea under Japanese rule – including the treatment of the original Korean bureaucracies – was required as much as anything else. This is because it was considered that “[a]bolition of these evil laws that served to systematize servile submission and deprivation of rights was the first priority for the establishment of the human rights protection system that provides genuine democratic freedom and rights to Koreans” (A/69/383-S/2014/668, p. 16). The “genuine democratic freedom and rights” are apparently based on the two communisms that can be said to be the origins of the political system of the regime. The communisms are, as Gregory Henderson (1973, pp. 320–340) argued, one communism that opposed Japanese colonial rule in Korea, and the other, an official communism, that has been imported from the Soviet Union, which provided the occupation force in the DPRK. In other words, the former is “socialist patriotism,” and the latter is “socialist democracy.”

According to the report of the DPRK Association for Human Rights Studies, the foundation for human rights mechanisms in the DPRK was “established right after its liberation from Japanese colonial rule” (A/69/383-S/2014/668, p. 16). The foundation consists of three historical “feats”: abolition of colonial anti-human rights law, establishment of organizations for human rights legislation, and democracy in the judicial system. Such attempts to guarantee the freedom and rights of the people have been inevitably designed to justify strengthening the function of popular democratic dictatorship and purging of pro-Japanese elements and national traitors.

To be sure, it is believed that the process of dictatorship of the proletariat, which was naturally carried out as *a very political demand of the people*, formed a pre-history to produce and to exterminate a number of “enemies” in the country. In this sense, the historical and ideological backgrounds that have justified violations against the “enemies” have consisted of post-colonialism and socialism, which are highly relevant to the legitimacy of the DPRK. They are also closely related to the above-mentioned “two communisms,” as far as post-colonialism focused on “the recovery of national identity” (Chowdhry 2011, p. 2088), and socialism means a “process of the self-realization of man in freedom and equality” (Pfahlberg 1972, p. 60). It is nonetheless difficult to say that the “enemies” originated from its “communist” regime or the dictatorship itself. As indicated above, any kind of political regime excludes people in

order to establish/maintain order, as a first step to distinguishing the “enemy” from the citizen through the “democratic” process – setting aside the question of the definition of the “democratic.” The same is true in the case of the DPRK.

This point of view, indeed, may be different from the main trends of the previous research on the DPRK’s regime or human rights issues. Previous studies stress that human rights abuses in the DPRK have been caused by “non-democracy,” regarding political terror, purges in communist countries, for example, as “a part of the proletarian revolution” (Lee 1985, p. 319). However, It seems obvious that the research failed to elucidate the structure of the human rights violations in the DPRK. From such a perspective based on the theory of totalitarianism or anti-socialism, it remains to be shown that “the regime is undemocratic,” as anybody knows. The ideological controversy remains, not only theoretically but also practically, especially with respect to the DPRK’s human rights issue. In addition, it is easy to conclude that the human rights situation in the DPRK is the “worst” and to illustrate that the political system is “non-democratic,” citing testimonies of the defectors.<sup>5</sup> Besides, an argument that the root cause of the human rights violations is non-democratic often degenerates into the justification of the so-called “humanitarian intervention” allowing the use of force in order to put an end to human rights violations.<sup>6</sup>

It is worth noting again that the distinction between the “friend” and the “enemy” in the country started to rely on the fitness for political purpose in line with the people’s request. In the related laws enacted during the initial stages, including the 1948 Constitution, it was confirmed that farmers and workers were superior to landlords, and the Korean people

5 I would have to say that based on testimonies of defectors from the DPRK, research is limited in respect of “reliability, validity and objectivity” of the information, even though they could pull off a valuable achievement to clear the human rights situation in the country (Oh 2011, p. 99).

6 With regard to issues concerning the principle of non-interference in the internal affairs and universal human rights, a wide range of arguments have been discussed. To describe this matter in detail is not the primary purpose of this article. However, as you can see from examples of the Universal Periodic Review (UPR) process and country mandates in the United Nations, a human rights situation in a given country is taken up as an international agenda; it is also true that the need to improve the situation has been stressed for a long time. This trend can be considered as a way of taking the “responsibility to protect” by the international community, but, from a conservative point of view, there is also an aspect to be backed by the argument that “If human rights violations are based on the dictatorship, the non-interference is then nothing but assistance to the violations and support to the dictatorship” (Kang 2011, p. 33).

were also superior to “pro-Japanese elements” who had been associated with the Japanese colonial administration.<sup>7</sup> We can also easily guess that elimination of the “Japanese colonial legacy” in the DPRK was widely supported as a “revolutionary work” for establishing a “democratic, independent State” among other things. As shown in the following example, it is possible to trace the origin of the “enemies,” in the “platform of 20 political principles” for promoting the people’s democratic dictatorship, which was announced on March 23, 1946:

- (1) purge all of the Japanese colonial legacy in the political and economic life of Korea;
- (2) expand the ruthless struggle against domestic reactionaries and anti-democratic elements, and strictly prohibit activity of the fascist, anti-democratic political parties, the organizations and individuals; [...]
- (7) abolish the laws enacted during the period of Japanese colonial rule and the judicial institutions affected by Japanese imperialism. And ensure the equal rights under the law; [...]
- (11) confiscate the land owned by Japanese, State of Japan, the traitor and the landlord and eliminate the agricultural sharecropping system. By freely distributing the confiscated land to farmers, let them take the ownership. (Kim 1978, pp. 145–147)

These were carried out as “basic requirements” in order for the Korean people to have political rights and real freedom. In addition, the confiscation of land belonging to landlords, the deprivation of the right of suffrage of “pro-Japanese elements,” and their expulsion measures were an antecedent event to adopting the *songbun* system.<sup>8</sup> Through the *songbun* system, the State placed its citizens into three broad classes (*kyechung*) of core, wavering, and hostile – but these classes were later turned into core, basic, and complex (wavering and hostile). “Decisions about residency, occupation, access to food, health care, education and other services are contingent on *songbun*” (A/HRC/25/CPR.1, para. 117). While the authorities have denied the existence of the system,<sup>9</sup> we can draw a specific image of people who are “enemies” based on the *songbun* of the people who have been classified in the lowest class. Its *songbun* is as shown below (A/HRC/25/CPR.1, no. 292).

7 This Constitution adopted on September 8, 1948, was not the “Socialist” Constitution.

8 *Songbun* translates literally as ingredient but practically means socio-political family background.

9 In the second cycle of the Universal Periodic Review in 2014, Kyunghun Ri of the Supreme People’s Assembly of the DPRK stated that “alleged discrimination based on social classification of people was unimaginable [...] and noted that equality was guaranteed by the Constitution and in practice.” (A/HRC/27/10, para. 59).

Wealthy farmers, merchants, industrialists, landowners or those whose private assets have been completely confiscated, pro-Japan and pro-US people, reactionary bureaucrats, defectors from the South, members of the Chondoist Chongu Party [which literally translates as 'Party of the Young Friends of the Heavenly Way'], Buddhists, Catholics, expelled party members, expelled public officials, those who helped South Korea during the Korean War, family members of anyone arrested or imprisoned, spies, anti-party and counter-revolutionary sectarians, families of people who were executed, anyone released from prison, and political prisoners, members of the Democratic Party, capitalists whose private assets have been completed [*sic*] confiscated.<sup>10</sup>

On the exact proportions of different *songbun* classes, the COI, on the one hand, states that it is difficult to verify the "proportions" and to know "how much these have changed over time," and on the other hand, estimates "the core class to be about 28 percent of the population, while the basic class constitutes 45 percent, and the complex class constitutes the remaining 27 percent" (A/HRC/25/CPR.1, para. 281). However, it is impracticable to conclude that, above all, people are the "enemies" whom the DPRK's citizens must fight against or crack down on. This is because, even if the people of the "complex class" were involved in "crimes against the State and the nation," most of them will be "embraced" according to the "principle of adhering to the class line." Therefore, it can be said that at least the following citizens of the DPRK fall into the category of "enemies," as targets to be isolated and eliminated:

- 1) current and former "political prisoners" used in a very inclusive sense and innocent "prisoners" who are being sent to concentration camps on grounds of guilt by association,
- 2) the DPRK's defectors and the refugees living in a foreign country whose acts of border-crossing are likely to be considered treason,
- 3) people who have been executed in summary executions by exercising basic human rights, such as dissidents, and
- 4) the others considered to be a potential "enemy."

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10 It has been previously known that the DPRK had three classes of core, wavering, and hostile. According to In-ae Hyun's thesis, however, it uses the three classes of the basic masses, the complex masses, and remnants of the hostile class. Under these three classes, there are 56 *Songbun*. Landowners, wealthy farmers, comprador capitalists, pro-Japan and pro-US people, malignant religious personnel, factionalists, those complicit with factionalists, spies, agricultural foremen, entrepreneurs, merchants are categorized into remnants of the hostile class. Her study is based on the *Book for Citizen Registration Projects* (Strictly Confidential) published in 1993 by the press of the Ministry of Social Security in the DPRK (Hyun 2008, pp. 34–35).

It should be also noted that people who have been classified into (4) are citizens of the DPRK under the conditions that they can be “enemies” and dehumanized at any time. As soon as they have been classified as politically suspect, their State-guaranteed “human rights” will disappear, since their human rights are merely politicized human rights based on post-colonialism and socialism in the DPRK. Thus, if they turn out to be no more desirable as citizens, they are deprived of even the politicized human rights and, furthermore, forced to descend to being sub-human. Understood in this way, the deprivation of civil rights always causes the dehumanization of the “former” citizen. One needs to stress that the dehumanization has been either indirectly or directly carried out by the citizen himself.

## 6. Justification for Exclusion: Collectivism and Politicized Human Rights

In the previous section, we focused on the enemies who have been excluded from the definition of “people” united under post-colonialism and socialism. Indeed, post-colonialism and socialism function as major catalysts for mass production of “enemies” on the one hand, and also form the foundation for “human rights,” i.e., the citizen’s rights, on the other hand.

Today, as many countries have legally protected the basic human rights of the people by stipulating these in their constitutions, the Socialist Constitution in the DPRK regulates the right to elect and be elected (article 66); the right to freedom of speech, of the press, of assembly, demonstration, and association (article 67); the freedom of religious beliefs (article 68); and so forth, as the citizen’s basic rights. As for whether or not these rights should be regarded as human rights, many researchers conclusively say that the notion of North Korean human rights is certainly far from that of universal human rights (Choi 1998, p. 323; Ogawa 2014, pp. 85–88). Although the human rights situation is incomparably worse, it cannot be said that the DPRK’s view on human rights that focused on elimination of inequality or discrimination, in other words, a collective approach to human rights, is contrary to the objectives of human rights. The “human rights” the DPRK’s authorities assert have been redefined, being historically fitted into the political system. In this sense, the “human rights” *are politicized*.

As much as anything else, in the early days of the DPRK, the authorities tried to liberate the people who faced both ethnic discrimination and poverty from the twofold inequality by pushing for socialist and post-colonialist justice. It seems that this attempt actually got some sympathy from the people. It has been also portrayed as a part of “patriotism” or “democracy.” Moreover, the Korean War added a new enemy, American imperialism, to Japanese imperialism and capitalism, which had been considered as external enemies in the DPRK. The population of the country could strengthen unity by eliminating the internal “enemies,” including the persecution of political and ideological opponents. Through a variety of propaganda tactics inflaming hostility against the two imperialisms, they can also be politically mobilized. This could be a force for building “collectivism” of the DPRK, reproducing “enemies.” The principle of “collectivism” first appeared in 1972 when the Socialist Constitution was adopted: “In the DPRK the rights and duties of citizens are based on the collectivist principle: ‘One for all and all for one.’” In the 1948 Constitution, there was no provision on collectivism. As shown in the following table, it seems that incorporated into the principle of collectivism have been not only the post-colonialist or socialist elements, but also a cultural element of communitarianism. While the former is in contrast to individualism or egoism, the latter is associated with cultural tradition that emphasizes a sense of the family community and the rigid hierarchy. Incidentally, it may be said that the communitarian cultural element was the basis for the “theory of the immortal socio-political body,” which means that the Supreme Leader (*Suryung*) is the apex of the socio-political system, which is also a living organism of socio-political beings, in the DPRK, and the individual’s life belonging to him should be used as a means of “revolution.” Because of the emotional intimacy among the Korean people to the historically molded collectivism, it can turn the individuals who deviate from a centralized society into “enemies.”

As the exclusion based on justice for the collective, “democratic” justice, in other words, has shown, the fact that the rights of the citizen are guaranteed on the basis of “collectivism” means that those rights are merely conditional. Briefly put, it is no better than if there were human rights for none, since the rights can be always limited by “collectivism.” On the other hand, collectivism is deeply linked to the right to self-determination or social rights, which are defined as not rights “against” the government, but “to,” in terms of human rights. These elements of human rights,

**Table 2. Collectivism and Politicized Human Rights in the DPRK**

	Historical	Cultural	
		Ideological	
	Post-colonialism	Socialism	Communitarianism
	"Socialist Patriotism"	"Socialist Democracy"	
		"Theory of the Immortal Socio-political Body"	
Universal	Right to Self-determination of People	Socio-economic rights Socio-cultural rights	
Politicized	<b>Rights based on "Collectivism"</b>		
	State Sovereignty	Popular Sovereignty	
Particular	<b>"Independent Rights of the State and the People"</b>		

as shown in the sentence below, back up the DPRK's view on human rights that "independent rights of the State and the people" are the very human rights.

In case a State loses its sovereign right, then human rights of the people and its promotion will remain a paper argument. [...] Korean people were subject to a miserable life worse than a dog of a family having funeral due to the deprivation of the country by the Japanese Imperialists. [...] Sovereignty of each country is equal; it is the absolute and inalienable right for all countries. Human rights and State sovereignty are not the matter of theory. These are the serious political and legal matters which are directly connected with the destiny of sovereign country. (A/69/383-S/2014/668, p. 11)

Behind these views, as described above, are the Korean trauma of the "invasion" and an obsession with post-colonialism. A patriotic feeling for "our country" resolves itself into a sense of security, such as "homeland defense," based on loyalty to the people, socialism, and the party, by resuscitating the people's independence that had been lost to "ethnic oppression" and "class exploitation" under the imperial Japanese rule, in parallel with providing status as a citizen of a "democratic independent country" (Go 1989, p. 25). Here, the "politicized human rights" turn into duties. This has been basically understood as an extension of the right of people to self-determination predicated upon popular sovereignty. Likewise, there are a variety of views on the collectivist aspects of human rights. For example, in the meeting for consideration of the initial report on the implementation of the International Covenant on Civil and Political Rights submitted by the DPRK's government, a member of the Human Rights Committee, Mr. Bernhard Graefrath, said as follows:

Bearing in mind that the country had attained independence following a long struggle against colonialism and occupation by foreign armed forces, it was understandable that the issues of sovereignty, independence and security should have high priority in the Constitution; those issues were closely related to the right of the Korean people to self-determination. (CCPR/C/SR.510, para. 46)

One needs to stress that the aspect of the principle of self-determination ended up making an assertion that “human rights is State sovereignty,” a pillar of the DPRK’s arguments against international human rights. In this regard, it is shown that the discourse of “politicized human rights” in the DPRK, which is based on “collectivism,” expresses not only an intention to defend the human rights of “friends” but also a justification for violation against the “enemy.” “Human rights” are being used more and more frequently today as a tool to enhance the people’s sense of crisis and to strengthen unity by justifying “dictatorship” against the inside “enemy” and indoctrinating them into the presence of the outside “enemy.” In other words, it can be said that the DPRK’s regime has been supported by the “enemies” who may exist only by keeping hostilities both at home and abroad.

## 7. Conclusion

Indeed, it is argued in this paper that the notion of “human rights” asserted by the DPRK is not contrary to human rights universally recognized insofar as it is not based on the exclusive collectivist principle. This is meant neither to defend the DPRK’s policy nor to relativize the human rights situation. To put it another way, this article has tried to clarify that the DPRK’s notion of human rights rests on a political and social foundation that has justified a series of human rights violations in the country, and, furthermore, the process of justification is not based on absolute evil or injustice, while it suggests the possibility of improving the human rights situation. By establishing the “justice” to discriminate between “friend” and “enemy,” based on post-colonialism and socialism, it made it possible to both dehumanize the population and to eliminate “enemies of the people.” The elimination of “enemies of the people” has been legalized as a punishment for “crimes against the State and the nation,” without any proper legal process in some cases, and justified by the politicized human rights based on “collectivism.” Therefore, it is especially important to note that this mechanism leads to strengthened extrajudicial authority of State sovereignty.

As indicated earlier, Schmitt asserted that the concept of the political derived simply from the distinction between “friend” and “enemy,” and Agamben (1998, pp. 177–188) pointed out that the concept “the people” means “a *bios* that is only its own *zoē*,” which must go through “bare life.” Their analysis of sovereign power shows that the DPRK’s political mechanism based on the “enemies of the people” without any rights, who are excluded from the community by the sovereign power, is not a distinctive phenomenon in the world today. Now that a human being’s “natural life begins to be included in the mechanisms and calculations of State power,” do we have to live as objects of politics, but as subjects of sovereign power?

Indeed, politicized human rights shed light only on “people” as the subject of the sovereign power. From Schmitt’s point of view, the current situation is that human rights *politicized* might connote the presence of a distinction between “friend” and “enemy” in the field of human rights. However, even if confrontational discourse has been observed at this moment, especially between liberal rights and social rights, between individual rights and collectivist rights, and between universal human rights and politicized human rights, it is hard to say that they are hostile toward each other. Rather, the politicized human rights are not the enemy of universal human rights, but concomitant problems that have been accompanied by a political decision putting an end to the era in which the expression “human rights” had been avoided – Agamben did not take into consideration that point. Since human rights are universally declared, there are many cases in which a lot of people (the DPRK’s defectors and the people may also be included) have been saved by human rights, although most of the cases were less than perfect. The question of whether or not it is possible to shed light on the “enemies of the people” might be involved in how to deal with the issue of “politicized human rights” in the international community.

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# **The Caste System in Contemporary Indian Democracy**

## **Abstract**

*It is widely acknowledged that Indian society is still significantly plagued, not only by jāti itself, but also omnipresent caste-ridden politics. The aim of this essay is to analyze this social structure in terms of contemporary Indian democracy and explore how it is perceived and evaluated inside of India. I address questions of whether the word democracy is suitable for a country whose society is hierarchically organized, in which the egalitarian tradition remains very limited. This article contributes to the understanding of the coexistence of these seemingly contradicting concepts – Indian caste and democracy. In this article, I elaborate highly influential Dumont's theory of caste along with two different research studies of Indian scholars. My interpretation is also based on two months of field research during my voluntary work in north-western India in 2016/2017.*

**Keywords:** *Caste system, India, Democracy*

## **1. Introduction**

This article offers an analysis in the field of not only political and social science but also cultural anthropology. It focuses on casteism providing illuminating insights into social aspects of contemporary Indian democracy. What makes it even more unique is the field of research which still seems to be distant, unexplored and exotic for Polish scholars. India's

*caste system* is among the world's oldest forms of surviving social stratification. This essay explains also its complexities in the view of consolidating a democratic system. As India marks its seventy-second year of independence, it has become an even more important object of study for scholars of comparative democracy.

Also, the Indian paradox of the seemingly archaic caste system is taken into consideration. I address the questions of whether the word democracy is suitable for a country whose society is hierarchically organized by the caste system, in which the egalitarian tradition is technically still very limited in scope. Indeed, there is a distinct lack of equalitarian background when it comes to democracy throughout Indian history. How is it possible to establish democracy in a country with long-standing inequality tradition in which the practice of ostracizing particular social groups by segregating them from the mainstream due to social customs, occurs to the present day<sup>1</sup>?

Although untouchability has been made illegal in post-independence India, much prejudice against them still continues (Berger & Heidemann 2013, p. 164). Can we reconcile and balance centuries-old Hindu tradition with modern democracy following the example of western democratic systems? What is the actual impact of caste on Indian democracy? While studying such a multi-faceted issue we should also consider a question whether ancient philosophy is to be treated as a brake on development, a symbol of social backwardness or quite the reverse – it can be a fount of wisdom and universal values prevalent in Indian society. It is essential to analyze this issue thoroughly, including history of *jāti*<sup>2</sup> and the socio-political model of India.

This article provides information on different perceptions of Indian caste and its relevance in light of Indian democracy. There is no general comprehensive or concerted approach when speaking of caste today. This study argues that caste is an institution which has both positive and negative, traditional and modern aspects. This article raises the important question of a reliable evaluation of the caste system today and its survival

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1 About 300 million Indian citizens continue to remain victims of grave oppression and injustice because of low social status.

2 The term *jāti* literally means “a birth.” Often mistaken with the word “caste” (por. *casta*) it is a group of clans, tribes, communities and sub-communities in India. The caste system, as it actually works in India is called *jāti*. Each *jāti* typically has an association with a traditional job function or tribe. Nowadays there are perhaps more than 3000 *jātis* in Indian society.

as a deeply ingrained social institution in India – *Is the caste system still understandable or necessary from the true Hindu perspective?* Once we ask such a question, it turns out that there are no easy answers here. Being original cultural heritage of India, it does not have to be fully discarded and forgotten.

The dominant description of the caste system that we have today is, to a great extent, a result of a Eurocentric point of view and fully western patterns. They reflect European experiences of, and thinking about, Indian culture and society much more than the real state of society or its domestic understanding in India. I firmly believe the caste system in India still exists in everyday social life even though national law provides otherwise. My intention is to examine how deeply these cultural influences reach and what kind of values they bring. My aim is to focus on modern Indian democracy which remains strongly influenced by casteism. Much of my undergraduate coursework centered on aspects of Indian democracy. My previous bachelor's research concerned contemporary Indian democracy's condition and the process of democratization. However, I intend to take a step further and include the cultural anthropological context (such as influence of Hinduism on Indian perception of democracy).

To strive for an ideal form of government is to seek utopia, but nowadays, it is democracy which is considered the closest to perfection. It is said to be the best form of government, at least an already known one. Being distributed and well-known among western countries, it has been settled in India. "Democracy in India is only a top dressing in an Indian soil which is essentially undemocratic" So said dr Ambedkar, the Dalit leader who partook in creating India's republican constitution over 70 years ago. Can India be with certainty called a consolidating democracy? Is it legitimate in a hierarchic country where the caste system is essential for the culture and religion? How is it possible for India to reconcile the ideas of democracy and caste in theory and in practice? This political paradox is worth keeping a very close eye on to finally answer a crucial question: What is the political future of Indian democracy? My objective is to recognize this non-traditional type of democracy emerging in India today. There is an undeniable phenomenon of the influence of culture and Hinduism on the political system of India. This essay is an attempt to resolve and settle those issues.

## 2. Dumont's Theory of Caste

In this paragraph I highlight the theory of caste proposed in 1966 by a notable French sociologist Louis Dumont. Next, I elaborate two different research cases which provide a reliable baseline for the following caste studies. A comprehensive insight should be gained to understand how much the approaches to casteism can differ one from another (e.g. Hindu vis-à-vis non-Hindu perspective) and what are actually the most crucial scholarly perceptions of caste today. Nevertheless, within a broader topic of inquiry, I was obliged to narrow the field into a few outlooks on casteism that are of greater specificity and detail. A literature review brings clarity and focus to the research problem and broadens knowledge base in the research area. In addition, it is always worth being familiar with past studies which have been conducted before mine. What they do is to illuminate the vast research area, so that I could contribute new knowledge to what is already known from previous studies. In that case, it thoroughly improved the methodology and also helped me to contextualize my findings.

Louis Dumont's contribution has had a great impact on the study of casteism. Varnas and jatis are typically understood to make up the Indian caste system, which determines the social hierarchy in India. However, changes are taking place in India concerning how people view the caste system and how it shapes their lives. According to Dumont caste divides the whole Indian society into a larger number of hereditary groups distinguished from one another and connected together by three characteristics:

1) Caste system determines the matters of marriage and contact whether direct or indirect (for instance a Brahmin cannot consume food prepared by Shudra or any lower caste – *joo hā* means already-tasted, ritually unclean, contaminated)<sup>3</sup>.

2) Division of labor (mostly hereditary), a profession from which their members can depart only within certain limits

3) Hierarchy of status which ranks the groups as relatively superior or inferior to each other (Bougle 1971, p. 21).

The author of *Homo Hierarchicus* distinguishes between traditional and modern types of society. Of course, India is presented as an ideal example of a traditional society. Against this background the question arises whether “one society can validly make sense of another society? Can any-

.....  
 3 Anything (including food) ritually unclean or contaminated (by one's touch or saliva) is called *jūthā* (hindi जूठा) – already-tasted, ritually unclean, defiled.

one of one particular society completely delineate himself from within the cultural and conceptual framework that he understands and legitimately study another entirely different society?" (Viner, n.d.). In a nutshell, Dumont's theory is based on a division: traditional society is marked by an holistic attitude, whereas modern society is highly individualistic. The first one attaches particular importance to the *idea of society* whereas the second one accords the highest moral value to *the individual*. In modern society, traditional values give way to concepts of individualism, equality, for instance equality of status. Nowadays, hierarchy is usually perceived in terms of inequality. Consequently, any hierarchy or inequality would be viewed as exploitation and discrimination. According to Dumont, it is highly inappropriate to analyze this phenomenon selectively. To understand caste ideology properly, it needs to be viewed as a whole, including all the aspects and contexts. It is argued that traditional societies like India do not pay attention to equality. The holistic attitude gives new insight into the theory of caste. The major virtue of such an approach is the preservation of the society itself. As a matter of fact, as for the traditional society concept, hierarchy seems to be even a virtue. It is criticized by Dumont to impose a foreign value system of individualism while studying traditional societies. He claims quite ruthlessly that the modern mind is frequently closed-minded as it is caught within its own system of values, making it at any cost universal for everyone (Dumont 1980). Therefore, it is necessary to escape this medium of thought to analyze this complicated phenomenon effectively.

### 3. Selected Field Study on Caste

The study conducted by the Indian scholar Santokh Singh Anant in 1978 and published in his book *Caste Attitudes of College Students in India* sheds light on Indian college students' ways of thinking in terms of the caste system. It turns out their attitudes are more and more liberal. Basing on the research, the significance of the caste system has undoubtedly fallen. A study carried out among college students of Delhi, Bangalore and Calcutta clearly indicates that caste distinctions among townspeople are slowly coming to an end giving way more to the liberal views (Heninger 2006). As this study has revealed, pressures regarding caste, expectations for marrying within one's caste, and social rules for interacting with Untouchables have been largely disregarded. For instance, 67.5 percent of college students surveyed believe one's occupation, not caste, determines one's status (Anant

1978, p. 194). The study also indicates that 69.7 percent alienate themselves from the philosophy of karma, which says that deeds from a previous life can determine one's caste (Anant 1978, p. 196). It is also worth mentioning that 64.4 percent believe that not only the malpractice but also the whole caste system should be finally abolished. About 69 percent claim there is no problem with marrying someone from a different caste and 86 percent do not mind eating food that was touched by a Dalit (Anant 1978, p. 199). An interesting point from this research is a female trend which shows that women are generally more liberal in their attitudes than men (Anant 1978, p. 196). The results of the study suggest that even thirty-nine years ago, religion and the caste system were playing a less significant role in the lives of Indians, who instead stood for more liberal views. Data from college students in North and South India tend to support the earlier findings of a substantial impact of the educational level on the degree of liberalism among society (Anant 1972). With only a few exceptions, most of the respondents gave liberal responses to most of the questioned issues. A higher percentage of North and South Indian respondents showed quite liberal points of view toward the caste system and interaction with lower castes. Nevertheless, "the differences were reversed in the responses to items dealing with special privileges for the depressed castes" (Heninger 2008).

Next I analyze a field research conducted in 2004 by Smita Mathur and Gowri Parameswaram. One hundred and eighty – one Indian youths between the ages of 18 and 26 and middle – aged adults between the ages of 46 and 62 were interviewed about their consumption patterns, values and attitudes about dating and marriage, and their sense of pride in being Indian. All of the participants lived in New Delhi, the capital of India. Results revealed that though there were inter-cohort differences in consumption patterns, most participants reported using cultural products of both Indian and non-Indian origins. Attitudes towards romance and dating revealed a larger gulf. Cohort 1 subscribed to more traditional goals in marriage as compared to cohort 2. Cohort 2 did not profess to value many of the traditional traits considered important in the mate-selection process in Hindu society. However, both cohorts identified strongly with being Indian and taking pride in being Indian. When participants were asked if they would migrate to the West, the younger cohort indicated a greater willingness to do so (Mathur & Parameswaran 2004, p. 161). Implications of these findings on the discussion regarding the effects of globalization and nationalism are elaborated upon. The study shows how the effects

of globalization have changed the mindsets of youth in upper-class New Delhi, causing a drastic departure from the views of the older generation concerning issues such as marriage and religion.

A study, which was conducted more recently, also suggests that this trend is taking place among upper-middle class youths in the city of New Delhi. This particular study suggests the effects of globalization are causing western influences to manifest themselves among India's elite (Mathur & Parameswaran 2004, p. 161). The research presents views of young people from Delhi aged 18–26 and the middle-aged cohort (between 46–62 years old). "For example, 62 percent of the older group believed parents should choose their children's spouse, whereas 73 percent of the youth believed the children should decide" (Mathur & Parameswaran 2004, p. 167). The study also indicates that 64 percent of the older cohort is profoundly convinced that love is not a vital factor in getting married. Nevertheless, 57 percent of the younger cohort truly believe that love should be an essential condition while getting married. What is more, while 70 percent of the older cohort reckon one should marry within one's religion, only 25 percent of the young respondents agree with it. "An interesting finding in the study indicates that while 83 percent of the older generation are proud to be Indian, 95 percent of the youth feel the same way" (Heninger 2008). It is surprising that 59 percent of the younger cohort admit they would migrate to a more advanced, developed country than India if given the opportunity, whereas only 30 percent of the older generation would do the same (Mathur & Parameswaran 2004, p. 169). The author makes the argument that "increasing nationalism could be one of many responses to the erosion of one's cultural identity" (Mathur & Parameswaran 2004, p. 170). "The youth are not rejecting India, but what they consider outmoded in their culture" (Mathur & Parameswaran 2004, p. 177). From this study a conclusion may be drawn that "many of the elite youths surveyed here would have more in common with youths in advanced, developed countries than with their own parents" (Mathur & Parameswaran 2004, p. 170). That statement concludes the selected past caste studies section.

#### 4. Research Report

In the following section I introduce my research report. The purpose of this study is to examine the caste system perceptions and approaches prevailing among contemporary Indian society. Attitudes to caste system

today, and the scope of modernism and liberalism in Indian points of view are the exact subjects of the investigation. The research seems to be even more relevant because of numerous past studies which are a tremendous baseline and should be brushed up and extended to new findings. In this context my research is an attempt at continuation powered by previous caste studies.

#### *4.1. Methodology*

The research was carried out for two months during my voluntary work in India in 2016/2017. Thirty respondents from five Indian states (Jammu and Kashmir, Karnataka, Madhya Pradesh, Maharashtra and Uttar Pradesh) between the ages of 18 and 64, both men and women were tested in their houses, workplace or office in several sessions. I used the snowball sampling technique, where participants recruit other participants for a test or study. Qualitative methods such as observation, particularly participant observation, interviewing and questionnaires have been employed in this research as a tool for collecting data about people and their opinions. Respondents were mixed with respect to caste. Only two of them refused to indicate their caste category. The questionnaires and interviews were conducted both in English and Hindi. The great majority of participants completed a questionnaire. To minimize the reading and writing demands, older respondents were read the questions as an interview and I was authorized to fill out the answer sheet for them. The rest of the participants read and responded on their own. Because of language difficulties some interviews were conducted in Hindi.

#### *4.2. Results*

Questions assessed explicit attitudes toward the caste system. The role of the caste system in Indian respondents' everyday lives was a major concern during the research. Interviewees were asked about the provenance of this social institution and how they understand and evaluate the system today. The central question was if they tend to see any advantage to that system and find it valuable to a certain extent. To end with, they were asked about the future of the caste system – if it is able to disappear from Indian soil soon. Even though we operate within the Indian cultural circle with its ancient traditions, I believe western patterns are of utmost importance

when we talk about phenomenon of caste system today. In fact, the research reveals the high scope of its relevance especially among young individuals. This trend among young people is quite visible. The great majority rejected the idea of casteism; for instance 24-year-old A. Karani from Maharashtra describing it this way: "Certainly, the caste system causes a lot of problems in the country and gives rise to some unforgivable actions by those ranked higher up in the system" or 37-year-old Dilip CG from Bangalore, Karnataka who claimed that "it's a discriminatory system promoting fractures in the social fabric of the society, oppression of the underprivileged and a crime against fundamental right to equality and dignity of human beings". Do you think that caste/varna system is still present in India? None of my respondents doubts that the caste system is still very present in India. Apart from that, more than 90% of them are convinced that it is a big difficulty to eradicate it from rural areas. My thirty-four-year old male interviewee, farmer and businessman P. Hanumant from a small village expressed it in the following way: "Yes, the caste system is present all over the India, it's like blood – in each and every vein and tissue". On the other hand, a considerable majority of participants admitted that the caste system could have made sense in the past and at that time was absolutely justified. 26-year-old P. Kabra from Indore, Madhya Pradesh acknowledged that in fact it was fruitful in the past and at that time it was required and according to 38-year-old S. S. Sharma there were also advantages of the caste system in India – "it maintained peaceful coexistence of people and nurturing growth in occupation. With times, where everyone has the right to openly compete, it has become meaningless". Therefore, a conclusion may be drawn that the cohort with higher education understands the caste system far better and is able to point to its assets too. What is more, the research indicates that regardless of the level of education, almost all participants do not have any idea where the caste system derived from. While interviewing, I also asked about the ancient holy scripture Manusmriti ("The Remembered Tradition of Manu") which is believed to have laid the foundations for the caste system. Among respondents this question was considered to be archaic and so was the caste system. The most exciting exception was the cohort of older people. 64-year-old housewife T. Jadhav (belonging to Brahmin Hindu Maratha caste) tried to convince me that there is no other world than caste- or hierarchy-oriented. In her opinion people belonging to particular *jatis* have different social roles and mentality. She also emphasized the role of the caste as a part of Indian identity. Finally, she admitted that we all are equal but at the same time she would not let her daughter have a Dalit husband.

It should be noted that conclusions drawn from this research study cannot be representative for the whole society of India. Although the research study is underpowered by a limited sample, it succeeded in reflecting the diversity of the selected rural population which was researched. In fact, the subjects belonged to different major caste groups and represented various socio-economic levels. Backward classes individuals (former Untouchables) were also included in this research. Despite being statistically insufficient to represent the whole, this research study still offers a better insight into small-scale society groups. Both participant observation and in-depth interviews allowed me to gain a rich understanding of social practices and attitudes towards the caste system among rural communities.

## 5. Caste and Democracy

Also worthy of note is the fascinating interface between caste and contemporary Indian democracy. To start with, I will quote a distinguished social anthropologist and ethnographer Gerard Toffin who said “the encounter of democracy with caste is a historical process accommodating two sets of opposed values” (Toffin 2014). It can be easily seen that caste and democracy are based on thoroughly different values. Throughout the years, Indian society was divided into unequal, hierarchic groups called castes based on purity and impurity rules. Certainly, *homo hierarchicus* seems to be a determined antithesis of *homo aequalis*. There is a lot of inconsistency when it comes to bringing together both institutions. The caste system is often depicted as an illness haunting each Hindu country, a clear cause of the weakening of the democratization process. Despite a lack of infrastructure and flagrant disparities between geographical regions and sectors of the economy, India, however, has succeeded in improving the standard of living of a large part of its citizens and in competing economically with Western capitalist countries. India has moved into the path to become a world economic superpower. The largest caste society in the world has successfully transformed itself, though all the while following its own models and upholding its cultural traditions. India has shown that high-growth-rate development can be compatible with caste. In fact, Indian democracy has absorbed the caste system which can also give rise to serious threats. Thanks to affirmative action policies that have been implemented on the subcontinent since the end of the nineteenth century, Dalits and “low” castes have benefited from numerous quotas and

are much more integrated today in the mainstream social structure. Reservations have conferred social privileges on Dalits and *Other Backward Castes* (OBCs) who have thereby reached high positions in the political sphere, including within the federal state structure. Narendra Modi, the new Indian prime minister, himself comes from an OBC caste (Gorringe & Jeffery & Waghmore 2015).

“In actual fact, positive discrimination has induced a complete change of the political elite, especially in the northern Hindu belt. Low- and middle-caste associations have become extremely powerful and play an important role at regional state levels, especially in the North. On the one hand, caste appears to be a positive instrument for democratising India” (Toffin, 2014).

It should be recalled that even if caste has changed over time, it has its roots in ancient India. Democracy as a political concept is also quite new among South Asian countries. “Democracy has been vernacularised and integrated in the caste language” (Toffin, 2014). However, we should note with concern that Indian politicians are often trying to hijack the caste and transform it into a corporate affirmative group. In a nutshell, caste seems to be in the process of being adapted to the new political game.

## 6. Conclusion

Lastly, there is a big political campaign against so called “jāti system” in India. The most active are young men and those related to left-wing politics (Samājavādī / Socialist Party). But it is even present in orthodox Hindu people. Also intellectuals and human rights activists fight to protect those poor people who are so cruelly ill-treated by some more affluent groups and deprived of the opportunity to rise. *Jātivād* (Eng. *caste system*) is blamed for that. It is a very negative notion nowadays and it would be unlikely to find somebody, who supports *jātivād*. Nowadays, it is a synonym of uncontrolled by law social discrimination, exclusion and nepotism. It is not something that can organize society in a positive way. Everybody knows that nepotism is all pervading, but how can anybody fight with it? It is because caring about one’s family is in India the most important value and main motivation for work.

But in the turmoil of this politics *brāhmaṇas* have been made the sacrifice goats. Behind that it is an attack on Indian traditional intellectual and spiritual heritage, because *brāhmaṇas* are traditionally the deposi-

tories of learning. Hundreds of thousands of Sanskrit valuable texts are not taught at public schools only because they belonged to the class of *brāhmaṇas* and are proclaimed as only religious (in fact they are mainly spiritual and many are masterpieces of arts and literature).

Original *varṇa-vyavasthā* (Eng. *varna system*) in practice is not absent in Indian political consciousness. Just recently there was a public demonstration against *jāti-s-vāda* and burning up *Manusmṛti* by the Delhi University's students. It only reflects that it is young people who are against the so-called caste system.

I will paraphrase some parts of *Manusmṛti* here:

When a student who just completed his education goes along the road, even a king should get aside to let him go first.

One should step aside when a student, king, woman or *brāhmaṇa* is going along the way.

Very old śūdra should be respected even by *brāhmaṇas*. (Byrski, 1985)

This indicates how important were education, woman and elders according to *Manusmṛti*. So it can be also considered as a codex of good behavior. *Manusmṛti* is taken selectively in a negative way, it can be taken selectively in a positive way if one wishes. Like it is said in India: *ardhavidyā bhayankarī* – “partial knowledge leads to a disaster”. Looking down to others on the ground that they belong to a lower cast, it does not depend on age or place. It depends on his human feelings and sensitivity, as no rational system supports that. People are just politically manipulated and young people are most vulnerable to this manipulation.

At the beginning of this article a vital research question was asked if nowadays the caste system is to be treated only as a brake on development or if it should be considered as a valuable heritage of Indian culture and philosophy, also crucial for today's democratic system. A substantial amount of textual data and research findings suggest that although there are no easy answers to this problem, the caste system may be interpreted in a positive way. Education should be (and in fact nowadays is) for everyone without discrimination. Positive understanding of *jāti* and de-politicizing it can solve the debate. We should admit that people in India better understand their social problems than outsiders and can find better solutions by themselves, due to their rich cultural and intellectual heritage. But unfortunately they are already deprived to much extent of their intellectual heritage and follow Western trends and their own politics.

At the end of my research questionnaire I have formulated a question if the caste system will soon fully disappear from Indian soil. It looks like it will keep changing and will keep taking new forms. It has already changed. It often takes the form of a political instrument. Politics has transformed castes into competitive, corporate, substantialized bodies to the detriment of former links in the past. Likewise, reservation legitimizes caste and it poses a threat to Indian democracy. "Politics in these affairs is grounded in extremely parochial concerns. In order to cumulate advantages, groups can even compete for backwardness, which is obviously not the essence of democracy" (Toffin, 2014).

But this campaign against *brāhmaṇas* destroys the authority also of those who are the custodians of Indian rich, beautiful, diverse culture and of high universal moral values. Abrupt disappearance of this system may well have seriously detrimental consequences for Indian society.

In India it is believed that learning always has been open to all three *varṇas* – *kṣatriyas* and *vaiśyas* as well, as they all are *dvijas* (twice-born). So the rich heritage was never the domain of only *brāhmaṇas*, who are the main target of the *anti-jāti* movement. Of course, it is necessary to punish by law those who misuse their position and harm others, but at the same time any general campaign against *brāhmaṇas* is another kind of social discrimination. Until it stops totally, this *jāti* problem will not end. But it will not stop, because it is only a political play. When education and spirituality are given the highest focus – the *jāti* will still exist as an identification division, but it would no longer be a problem in the form of discrimination. As the motto of the Indian Constitution and the best social system is "unity in diversity".

In this article I argue that, apart from its major contribution to understanding the caste system and its interpretations, the phenomenon of coexistence of the caste system and democracy is an interesting case for exploring possible relations between them, a topic that is particularly prevalent in contemporary political anthropology and sociology.

To end with, I quote dr Bhimrao Ambedkar, the Dalit leader who wrote India's republican constitution over 60 years ago who said once: "Caste is not a physical object like a wall of bricks or a line on barbed wire which prevents the Hindus from co-mingling and which has, therefore, to be pulled down. Caste is a notion. It is a state of the mind" (Ambedkar 2008, p. 46).

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## **Shift in Asia–Europe Relations**



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## **The Man with a Dream and a Plan: Xi Jinping, the “Chinese Dream” and the Belt and Road Initiative**

### **Abstract**

*The purpose of this paper is to seek the organizing principle of China’s Belt and Road Initiative in terms of the People’s Republic of China’s overall foreign policy objectives, and, in order to do this, an understanding of the leadership of the Middle Kingdom becomes imperative. There are five generations of Chinese leaders since the proclamation of the PRC and obviously each of them has had distinct attitudes when it comes to foreign policy and the decision making process, since their actions have been the outcome of specific historical, social and geopolitical conditions.*

*Notwithstanding, we see a continuity of grand strategies and application of the same principles of Socialism with Chinese Characteristics, inherited from one establishment by the other. The current leader Xi Jinping, soon after getting to be General Secretary of the Communist Party in late 2012, expressed what might turn into the hallmark of his administration: “The Chinese Dream – the great rejuvenation of the Chinese nation.” Some months later the New Silk Road Strategy was proclaimed; the proposed revival of a great trade route which, two thousand years ago, bridged Eastern and Western cultures across the Eurasian continent, becomes in the 21<sup>st</sup> century the fulcrum of the Belt and Road Initiative and the blueprint of the actual Chinese foreign policy.*

**Keywords:** “Chinese Dream,” Xi Jinping, reforms, Belt and Road Initiative

# 1. Introduction

Fukuyama (2013) believes that the first modern state is unambiguously the Qin dynasty founded in 221 BC, with elements such as merit-based military leadership, combined with mass conscription, a sophisticated taxation system and a bureaucracy selected on the basis of ability rather than family connections. These traits went on through, to a greater or lesser extent depending on the establishment, all 19 Chinese dynasties up to the last emperor. In modern China, there have been five generations of Chinese leaders and we see a continuity of grand strategies and application of the same principles of Socialism with Chinese Characteristics, inherited from one establishment by the other. But how are leaders made in the People’s Republic of China? There are more than 85 million Party members in the Chinese Communist Party (CCP) and in order to qualify for leadership, one has to go through decades of selections which challenge leadership and personal skills.

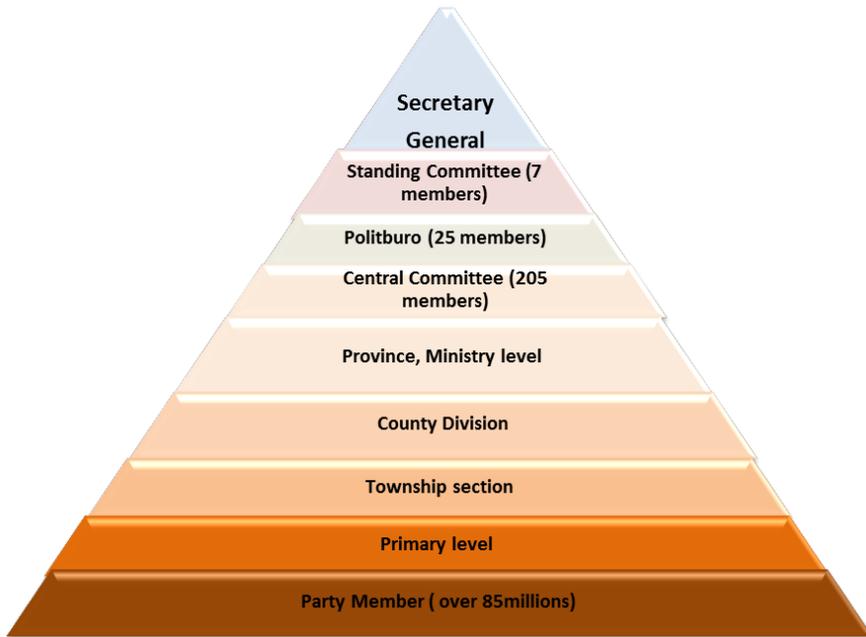


Figure 1. CCP hierarchy, 2017

Starting from the second generation of Chinese leadership (post- Mao era), before the party member could take over the helm of China, he/

she would have participated in the deliberation and formulation of many major strategies and policies. That is why over the last decades, through several leadership transitions, China has managed to keep her policies generally consistent and worked along one national development strategy. The current president of China started at a primary-level office, one similar to community councils in the West, later he was promoted to run a county, then a city, and then different provinces like Fujian, Zhejiang and Shanghai, he went on to become the Vice President (VP) and finally the Party General Secretary and the President. He experienced 16 major job-transfers and governed an accumulative population of over 150,000,000 people over 40 years.

Dean et al. (2013, p. 87) wonder how the CCP regime has managed to remain so unshakeable. And they come to the conclusion that: “[...] the most important aspect of this resilience is the Party’s ability to learn, a capacity which allows the regime to adapt to new economic and social conditions...rather than simply borrowing and imitating concepts from abroad, the Party draws out relevant ideas and incorporates its own influences, often creating new concepts which are akin to their Western counterparts in name alone.” The CCP’s adoption and modification of outside concepts can be seen as a form of “reflexive modernization,” in which, after analysis and interpretation of foreign experiences, it is able to pick and choose those concepts which are most useful to its own modernizing aims.

Sorace (2017, p. 8) thought it also crucial to understand the CCP composition, he states:

According to the Communist Party’s political anatomy, each individual Party member 党员[Dǎngyuán] is a ‘cell’ 细胞[Xìbào] in the ‘Party organism’ 党的肌体[Dǎng de jīti].

In 2016, Xi Jinping’s phrase of ‘cellular engineering’ 细胞工程[Xìbào gōngchéng] entered official parlance as an integral component of ‘Party Construction’ 党的建设[Dǎng de jiànshè] — the idea that the Party is never a completed or static entity but a work-in-progress.

## 2. A Smooth Transition to the “Opening up” Stage

Perhaps one of the least understood economies in the world today is China. For the last 30 years it has grown at an average higher than 10% per year, has lifted hundreds of millions of people out of poverty and has become the world’s second largest economy. However, we must not ap-

proach China as a typical case of a developing country, of course it has adopted conventional development strategies: urbanization, industrialization, globalization... and these have been instrumental in jump starting China's economic growth. Naughton (2017, p. 3) believes that it is important to gain a fresh perspective on the current reality of the Chinese economy. He believes that we should analyze it on the following criteria: "capacity, intention, redistribution, and responsiveness. The objective of China's state intervention has clearly shifted from growth at any price to a more complex set of goals that includes redistribution and social and economic security."

One of the most powerful policy tools that China has, and it will continue to have, is precisely, reform. Reform is China's second revolution said Deng Xiaoping. We should not forget the economic context when China began its economic development in the late 1970s. It was a centrally planned economy and, by definition, distortion ridden. So the process of reform entailed gradual removal of distortions, because unlike the ex-Soviet bloc, China chose to adopt a gradualist reform process towards the market economy, and there are still many distortions left. The gradualistic approach started with the 1980s, when the government decided to try it out. The experimentation started with special economic zones, where only four of which received special industrial policies, welcomed foreign capital, foreign trade and by the mid-1980s these four became fourteen and by the 1990s the coastal cities, which were the first free economic zones, had expanded inland, and studies have shown that introducing Special Economic Zones (SEZ) in a city has increased GDP per capita in 20% over time.

The 1990 reform was characterized by mass privatization, in particular the privation of State-Owned Enterprises (SOE). So, inefficient entities of SOEs were driven to restructure or completely shut down, they were privatized or formed joint-ventures with foreign companies. In 1992, the Shanghai Stock Exchange reopened for the first time as a test and experimentation, and with the success they had they continued and deepened. In the mid-90s the GDP growth had a slowdown and stagnation, and the answer to that was again, reform. In 1994 China announced a comprehensive economic reform program covering the fiscal and taxation system, central and commercial banking, foreign exchange, trade, investment and enterprise management. The initiative was an important step taken by the government in striving towards a more market-oriented economy with effective macroeconomic control (Shu-Ki

& Yuk-Shing 2004, p. 769). The next wave of reforms in 2000 was increasing globalization, and trade liberalization; in 2001 China joined the World Trade Organization (WTO), at the same time we saw growth pick up and rekindle, it led to a massive amount of foreign currency surplus, trade surplus, and FDIs. So, reform in China is a very powerful tool for the stimulus of growth, unlike any other developing countries. Overholt (2005, p. 2) believes that “[...] all of China’s economic successes are associated with liberalization and globalization, and each aspect of globalization has brought China further successes. Never in world history have so many workers improved their standards of living so rapidly. China’s success is one of the most important developments of modern history. Reformist China does not seek to change the way we organize ourselves or the world, but rather to join the world system we (the west) have created.”

Wei et al. (2017, p. 49) argue that China’s economic growth of the previous three and a half decades was based on several key factors:

a sequence of market-oriented institutional reforms, including openness to international trade and direct investment, combined with low wages and a favorable demographic structure. ... China’s rapid growth in the past several decades has been driven by a combination of two sets of factors: a) market-oriented policy reforms to let market – determined output prices and factor prices replace administrative prices, to introduce and strengthen property rights, and to reduce barriers to international trade and investment; and b) economic fundamentals, including in particular a favorable demographic structure and a low initial level of labor cost.

But it does not stop here; in 2014, President Xi Jinping put his legitimacy on the line as to whether he can successfully implement these reforms. Reforms have been long delayed and they are at the forefront of all polices and it is very important to realize that there is a political undertone to his announcement of a new reform package.

### **3. Xi Jinping, The Man With a Dream and Plan**

#### *3.1. The Dream*

Soon after getting to be General Secretary of the Communist Party of China in late 2012, Xi expressed what might turn into the hallmark of his administration. “The Chinese Dream,” he said, is “the great rejuvenation of the Chinese nation.” Xi’s “Chinese Dream” is portrayed as accomplish-

ing the “Two 100s.”<sup>1</sup> President Xi’s main idea is to restore China’s pre-nineteenth century grandeur and influence in order to make it a “prosperous, strong, culturally advanced and harmonious country.” Penny (2015, p. 6) highlights that Xi’s respect, even reverence, for traditional Chinese cultural traditions (and their usefulness in the present) extends to Chinese literature and philosophy: “he leavens his political essays, speeches and commentaries on contemporary society with quotations in literary Chinese from both pre-modern and ancient texts.” Kissinger (2014, p. 221) argues that the rise of China into eminence in the 21<sup>st</sup> century is not new but it reestablishes historic patterns. What is distinct about it is that China is returned as both the inheritor of an ancient civilization and as a contemporary great power on the Westphalian model. It combines the legacies of all under heaven, technocratic modernization and an unusually turbulent 20<sup>th</sup> century quest for a synthesis between the two.

In Wang (2014, p. 11) we see that the concept of national rejuvenation is deeply rooted in China’s national experience and collective memory. Rejuvenation represents the shared desire of Chinese who want their country to be strong, prosperous, and free of foreign invasions, as was previously discussed.

Even though Xi is the first Chinese leader to promote the “Chinese Dream,” the concept of national rejuvenation has been used by many Chinese leaders. Actually, almost every generation of Chinese leaders, from Sun Yet-Sen to Jiang Zemin, to Hu Jintao, has used the national humiliation discourse and the goal of rejuvenation to mobilize the Chinese populace to support their revolution or reform. With Mao Zedong it was lighter since the emphasis for driving the masses was the victory of the Revolution. With Deng in power we saw the phrase “invigorating China” from the early 1980s. In the early 1990s, the Party used the new phrase “the great rejuvenation of the Chinese nation” as the new mission of the party. With Hu Jintao we see in many of his public speeches a desire to “strive harder for the great rejuvenation of the Chinese nation.” The economic growth and fast paced development has made the Chinese leadership under Xi Jinping more confident obviously and the Dream of 2013 focuses on hope and glory, making it more positive and more suitable for Chinese people today.

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1 The material objective of China turning into a “respectably well-off society” by 2021, the 100<sup>th</sup> commemoration of the Chinese Communist Party, and the modernization objective of China turning into a fully developed country by around 2049, the 100<sup>th</sup> commemoration of the establishing of the People’s Republic of China.

How is this Dream Perceived Internationally? According to Davies (2015, p. 162) Xi Jinping has used a Community of Shared Destiny in two ways. Initially, he evoked the image of a strong and prosperous nation living happily under party rule — the “China Dream.” Later, he extended it to describe China’s foreign policy.

In his speech of October 25, 2013, in Beijing at the Workshop on Diplomatic Work with Neighboring Countries, Xi highlighted the importance of reassuring the world that “the China Dream will combine with the aspirations of the peoples of neighboring countries for a good life and the hopes of all for regional prosperity so that the idea of a Community of Shared Destiny can take root among our neighbors” (Davies 2015, p. 163).

Sorensen (2015, p. 61) analyzes the “Chinese Dream” from an international relations point of view, through a fold of official releases and concludes that in speeches and statements mentioning the “Chinese Dream,” Xi and other Chinese foreign policy leaders highlight China’s peaceful intentions, stronger Chinese international contributions and Chinese aspirations to be a responsible and constructive power in the international system. The main points to take away from Xi’s and other Chinese foreign policy leaders’ speeches and statements on the “Chinese Dream” as they relate it to developments in China’s international role and foreign policy strategy are, firstly, that China under Xi aims to take on more international responsibilities, but also to “shape” the international system to a higher degree and increasingly present Chinese ideas and solutions to international conflicts and crises. Secondly, that China wants respect and to be treated on an equal footing, and, thirdly, that China will never compromise on China’s sovereignty and core interests.

### 3.2. *The Plan – Belt and Road Initiative (BRI)*

The first time the world heard about this initiative was in Kazakhstan, 2013, during a visit of President Xi to the country. He stated:

Shaanxi, my home province is the starting point of the Silk Road. As I stand here I reflect on history, I can almost hear the camel bells echoing among the mountains and see the wisp of smoke rising from the desert. It all reminds me of home... throughout the millennia, the peoples of various countries along the Silk Road have jointly reached a chapter of friendship that has been passed on this very day...<sup>2</sup>

.....  
2 President Xi chose a foreign neighbor country to launch his idea of the new initiative in the most exclusive academic environment of Kazakhstan: Nazarbayev University, in Astana.

From the above we can see that this initiative is a tool of a foreign policy master plan as much as it is a personal involvement and challenge for the Chinese number one policy maker. It starts with evoking the past, while tracing the guidelines for the future cooperation of the countries involved in the initiative. From that year on, with the shift of power in Chinese leadership we see a very proactive attitude in foreign affairs.

The Belt and Road Initiative proclaimed by President Xi in 2013, is a strategy developed by the Chinese government, it has a Chinese content to it, it is very important to China but it should not be confined to China. In order for it to be successful it needs to be embraced by the countries on the terrestrial and maritime route indicated in the plan. This Initiative is trying to revitalize the ancient Silk Road trading routes by connecting East and West over land and sea. For over 1600 years the Silk Road promoted the exchange of Western and Eastern civilizations, bringing together Chinese, Indians, Persians, Arabs, Greeks and Romans. The proposed revival of a great trade route which two thousand years ago bridged Eastern and Western cultures across the Eurasian continent might well help realize that objective. It is President Xi's vital arrangement to associate Asia and Europe by putting resources into framework activities to improve exchange and social relations, upheld by unfathomable money related assets, including a US\$40 billion Silk Road Fund, the US\$100 billion AIIB fund, and the US\$50 billion New Development Bank (NDB). What is happening today with Chinese foreign policy is that Beijing functionaries are trying to inject new vitality into the ancient trading routes through a new economic master plan that could connect Asia, Europe and Africa with one single development policy, financially supported by the Chinese Government. It promotes practical cooperation in all fields and works to build a community of shared interests, destiny and responsibility featuring mutual political trust, economic integration and cultural inclusiveness.

Ferdinand (2016, p. 75) argues:

[...] the hopes for the impact of the 'one belt, one road' initiative are grandiose, and if it is realized in full, it will indeed fundamentally transform the geography of global affairs, though the time-scale over which this is envisaged as taking place is a long one. ... But the Belt and Road Initiative 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.

The latest significant event promoting the Initiative was the Belt and Road Forum held in May 2017; one of the major announcements from the BRF was Xi’s pledge to further boost funding for the project. In his keynote, Xi promised China will funnel an additional RMB 100 billion (\$14.5 billion) into the Silk Road Fund, while the China Development Bank and Export-Import Bank will set up new lending schemes of 250 billion (\$36.2 billion) and RMB 130 billion (\$18.8 billion), respectively, for Belt and Road projects. In addition, China will provide RMB 60 billion (\$8.7 billion) for humanitarian efforts focused on food, housing, health care, and poverty alleviation.

### *3.3. How the BRI could affect the current and future state of international affairs*

In order for the Belt and Road Initiative to unfold its potential, an estimation of at least 35–40 years will be required (Li, 2014), hence, it is very early to have any kind assessment of the advantages and disadvantages. Nonetheless, we see in academia and in practitioners many predictions on how and when this initiative will “fully” reveal itself. This diversity of views about the implications of China’s rise in global politics is testimony to the uncertainty associated with that rise. But one aspect is abiding: As Shambaugh (2013, p. 317) states:

[...] China going global will undoubtedly be the most significant development in international relations in the years ahead. Since China’s opening to the world in 1978, the world has changed China – and now China is beginning to change the world.

The BRI is the most recent blueprint of China going global. Regarding Europe, with EU countries the final destination of the modern Silk Road, European interests, involvement and perceptions are crucial to how the BRI is projected outside China. Beijing has had to adjust its European policies to take into account both Union and country-level decision-making procedures, further complicated by the lack of single cohesive EU foreign and often economic policy (Lanteigne 2013, p. 144).

From one side of the spectrum, we see concern and suspicious attitudes towards the BRI (Mohan, 2018; Prasad, 2018; Chi, 2015; Sárvári & Szeidovitz, 2018; Callahan, 2016; de Jong et al. 2017; Casarini, 2015) with possible threats involving the national security of EU countries, the

possible undermining of internal cohesion, dumping or exporting goods priced below production costs, thus risking destroying entire industrial lines across Europe; for this and more there is a need for Europe to increase its resilience.

On the other side, the arguments displayed are more optimistic with no alarmist notes (Wang, 2016; Fasslabend, 2015; Yilmaz, & Changing, 2016; Godement, 2017; Overholt, 2015; Liu, 2017; Huang, 2017); these experts emphasize that China's BRI should not be viewed as a threat but as an opportunity, that the EU should be enthusiastic about the project and not hesitant since it is designed to connect China and Europe through inclusive development of all participating nations; since BRI is focused on infrastructure projects and connectivity it should be in line with conventional wisdom that a deeper network of road, railroads, maritime routes and corridors will bring prosperity to all parties involved.

Many seem concerned about what is not proclaimed in the plan; which is the final aim of this terrestrial expansion throughout the Belt and Road countries. What the skeptics fail to admit is that securing economic growth is at the core of national security policy proclaimed from Beijing and to further ease worries President Xi has emphasized the "Three No's" policy within the BRI.<sup>3</sup>

China with the BRI wants to join the world system with the rules that western powers have created and enhance cycles of development and wealth along the route for the benefit of all.

## 4. Conclusion

In his book "The Governance of China", President Xi uses the word Dream 528 times; this alone can provide an explanation of the major attention and the importance associated with the "Chinese Dream" proclaimed by the number one policymaker in the People's Republic of China. He is not the first to speak out about the "Chinese Dream" but differently from his predecessors, Xi is ruling at a time when China's position in the international arena is stronger than ever, coming to be the second largest economy in the world. In his own words: "Why are we so confident? Be-

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3 China will not interfere in the internal affairs of the nations along the BRI route; will not try to increase its influence on these nations; PRC is not striving for hegemony or dominance.

cause we have developed and become stronger. China has won worldwide respect with its century-long efforts. Its prestige keeps rising, and its influence keeps expanding.”<sup>4</sup>

Over the last decades, through several leadership transitions, China has managed to keep her policies generally consistent and worked along one national development strategy. The “Chinese Dream” might have had different labels in the past but it was always present in concept and intentions throughout every establishment. This Dream has two major implications: inwards and outwards; the inward, meaning inside the PRC, the Dream evokes the glorious past of the Middle Kingdom while trying to implement it in the 21<sup>st</sup> century, and calls for the achievement of personal dreams of Chinese people throughout the realization of the nation’s dream.<sup>5</sup> It becomes attractive to its citizens since in these years there is the general feeling of achieving that goal, as Yan Xuetong puts it: “In 1978, China dream was set into motion. Xi Jinping is not the first one to talk about ‘The national rejuvenation’ but is talking about the possibility to achieve it within our lives.” The outward intentions of the “Chinese Dream” are better crystallised with the Belt and Road Initiative. So, it’s not a Dream any longer, it’s a plan! China going global will undoubtedly be the most significant development in international relations in the years ahead. Since China’s opening to the world in 1978, the world has changed China – and now China is beginning to change the world! The proposed revival of the ancient Silk route which two thousand years ago bridged Eastern and Western cultures across the Eurasian landmark might help realize that objective. Billions of dollars have been targeted toward neighboring countries, Europe and Africa, through means of enormous infrastructure projects and soft loans for developing countries.

And while China stands to reap major benefits from BRI projects, it is also footing a significant proportion of risk entailed with this project, since many countries targeted by the BRI are prone to economic and political instability.

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4 May 4, 2014 – Speech at the seminar with teachers and students of Peking University.

5 Indeed, when Xi (2013, pp. 3–4) introduced his China dream in November 2012, he stressed how the country and the nation have to come first: “History tells us, the destiny of each person is closely connected to the destiny of the country and of the nation. Only when the country does well, and the nation does well, can every person do well.”

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# China–EU Energy Security Cooperation: The Case for Renewables<sup>1</sup>

## Abstract

*The idea of China and the European Union cooperating on energy security is one which may not seem logical or likely at first glance. The two actors are geographically distant from one another and their energy supply needs and routes do not intersect for the most part. Yet careful study of the possibilities reveals that there is not only the potential, but also the need for cooperation on energy security. This is particularly the case in the field of renewables, where there is an opportunity to achieve win-win synergies which can produce enhanced outcomes in terms of local and global energy production and consumption.*

**Keywords:** *energy security, China–EU relations, Belt and Road Initiative, Juncker Plan, renewable energy, fossil fuels, nuclear energy*

## 1. Introduction

In 2012 China and the European Union published a joint declaration on energy security. This suggested that there was a desire on both sides to cooperate on improving access to energy. The impression was deepened

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<sup>1</sup> This article is based on research conducted during the writing of an article entitled “An elusive synergy: the quest for cooperation on energy security between China and the European Union.” This was published in *Issues & Studies*, vol. 53, no. 3. Financial support for this article was provided by the Internal Grant Agency of the Faculty of International Relations, University of Economics, Prague, as part of the research project “The New Silk Road Initiative as a New Stage of Chinese Global Activity,” project no. F2/32/2017.

by the issuing of another joint declaration in 2013. It seemed as if China and the EU were determined to find common ground and take a real step forward on working in tandem towards improved energy security, in both the traditional and non-traditional sense.

However, since the joint declarations were made there has not been much substantive progress towards genuine cooperation. In short, the fine words of the declarations have not been translated into steps towards true collaboration in any real sense. Europeans have become preoccupied with other issues, such as migration and European unity (Brexit), while China has intensified its focus on bilateral relations with individual countries at the expense of developing a relationship of enhanced mutual trust with Brussels.

This paper analyses the potential for cooperation between China and the EU on energy security. The analysis suggests that while, for a range of reasons, there is a relatively low probability of substantive collaboration in the area of fossil fuels such as oil, coal and natural gas, as well as in nuclear energy, there is considerable potential for the two sides to work together on developing sources of renewable energy, such as solar and wind power. However, to do so a range of obstacles need to be overcome. Foremost among these are: (i) a lack of vision concerning the viability of renewables in an economic sense on the European side; (ii) intersubjective issues such as the absence of trust, particularly on the European side; (iii) the failure of Chinese companies to communicate their intentions concerning renewables clearly.

In order to accomplish the analysis, the paper will progress through the following steps. First, the concept of energy security will be examined in order to establish a working conceptualisation and definition for the purposes of this paper. Second, the background to EU–China energy security cooperation will be analysed. Third, the state of the EU’s energy security will be examined, and, after that, China’s energy security. Subsequently, the potential for cooperation on energy security between the two actors will be analysed. At the end, the conclusions concerning the possibilities for collaboration on energy security, particularly in the area of renewables, will be presented.

## 2. Re-examining the Concept of Energy Security

The concept of energy security is a contested one (Kruyt et al. 2009, p. 2166). Chester (2010) calls it “polysemic,” on the basis that it incorporates a range of potential meanings. In the energy security literature, there

seem to be almost as many definitions as papers written on the topic. The lack of consensus about a definition makes it difficult to begin an analysis, so it is necessary here to conduct a brief discussion of the concept before presenting a suitable definition to serve the purposes of the paper.

Standard definitions of the energy security concept tend to refer to the so-called “four As” of “availability, accessibility, affordability and acceptability” (Cherp and Jewell 2014, p. 415), or conceptually similar terms. Yet such definitions are problematic, at least from the perspective of scholars of international relations (IR) and international politics, due to the emphasis on matters of supply, demand and cost, and the omission of (or apparent lack of concern with) geopolitical factors (for instance, Bhagat 2006, p. 95). While a number of scholars in the field of energy tend to focus on sustainability, reliability and cost in their definitions of the concept of energy security (see, for instance, Yergin 1988, p. 112; Barton et al. 2004, p. 5; Proedrou 2012, p. 3; and Wang 2006, p. 89), many IR scholars would see the necessity of including other, potentially less clear-cut factors, such as hard (military) security and the state of diplomatic relations between customer and supplier nations.

There is also a need, as Cudworth and Hobden (2011) point out, to centralise environmental factors in developing what they call “posthuman international relations.” Traditional expositions of energy security tend not to prioritise the health of the planet and the need to encourage cleaner approaches to energy supplies in order to enhance the collective security of all beings living within the biosphere. Attributing excessive weight to economic factors tends to lead to disregard for non-traditional security, resulting in what some economists have called “externalities,” or damage to the environment. It is, therefore, necessary to develop a definition of energy security which takes account of non-traditional, as well as traditional, aspects of the concept in order to frame research in a more complete and theoretically satisfying manner.

For the purposes of this paper it is thus essential to include environmental, geopolitical and geo-economic factors (Li 2015, Zha 2006, Zweig and Bi 2005) into an expanded conceptualisation of energy security. Since the conventional energy security literature has covered issues related to cost and supply in depth, rethinking the traditionally narrow definition of the term permits us to broaden the scope of the analysis to take in factors emerging from non-traditional energy security. For the purposes of this paper, this deepening of the concept allows us to define energy security in terms of cost, supply and sustainability, but with the proviso that geopolitical and environmental factors also have a significant bearing on the problem.

### 3. A Brief History of Progress towards EU–China Energy Security Cooperation

Although formal discussions between the EU and China were initiated as long ago as 1994, substantive progress on energy policy cooperation has been slow in coming. It was not until 2009 that the two actors issued a joint statement in the wake of the 12<sup>th</sup> EU–China Summit which included an expression of will to cooperate on energy security, framed in terms of the goal to promote the use of renewable energy (Council of the European Union 2009). Subsequently, two joint declarations specifically dedicated to energy security were published in 2012 and 2013; but at the time of writing these have not resulted in any substantial progress, due mainly to a lack of political will and the resultant absence of action (EC2 2015, p. 21).

Other connected factors which impede substantive steps towards enhanced cooperation on energy security include “trade friction, ineffective cooperation mechanisms and a lack of mutual trust” (Yu 2016, p. 24). Trade friction, as far as Europeans are concerned, has generally revolved around accusations of Chinese dumping of manufactured goods and lack of access for European companies to Chinese markets. From the Chinese point of view, a major sticking point has been the EU’s refusal to grant China Market Economy Status (MES). After China’s accession to the World Trade Organization (WTO) in 2001, Beijing had understood that there was a deadline for MES to be granted to China by December 2016. However, the EU has refused to grant MES to China on the grounds that the assumed deadline was not legally binding and because China has not yet met the conditions to be considered a genuine market economy (Yu 2016).

In the sphere of energy, the most notable dispute has been the one over the alleged dumping by China of cheap solar panels in the European market, which Brussels claimed was negatively impacting European manufacturers: the dispute was more-or-less resolved (or at least dampened down) in July 2013 (Plasschaert 2016, p. 6). However, tensions over alleged Chinese dumping in the steel sector and other areas continue to simmer, meaning that attempts by the two parties to build a working relationship thus far have been stymied by the inability to generate an atmosphere of mutual trust.

With the advent of China’s Belt and Road Initiative in a pair of speeches by President Xi Jinping in autumn 2013 and the launch in November 2014 of the EU’s European Fund for Strategic Investment (popularly referred to

as the “Juncker Plan,” after European Commission President Jean-Claude Juncker), the potential for cooperation on energy security has increased considerably. Juncker’s aim is to raise 315 billion euros in investment, some of which is to be earmarked for energy infrastructure: energy has been identified as a key strategic area for Europe’s development (European Commission 2014b). China’s Belt and Road Initiative is an ambitious plan to link Asia with Europe, the Middle East and Africa via both land and sea routes, and as such also involves proposed large-scale investment in infrastructure, not least in the field of energy. Already, China is investing in oil and gas pipelines, nuclear plants, hydroelectric dams and other energy infrastructure in Myanmar, Pakistan, Kazakhstan, Turkmenistan, Russia, East Africa and elsewhere. As Verlare and Van Der Putten (2015) point out, the two initiatives are potentially complementary, and work urgently needs to be done to identify ways to create synergies between the two.

From the European perspective, such cooperation should surely involve harnessing Chinese financial clout and economies of scale to enhance European energy infrastructure in a coordinated fashion. Already, Chinese companies are investing in major purchases of shares in selected European energy firms. The Chinese involvement in the construction of a new nuclear reactor at Hinkley Point in the UK (see below) represents another (albeit controversial) area of potential Europe-wide cooperation on energy. Further feasibility studies of possible Chinese involvement in energy infrastructure construction in the EU need to be conducted in order to ascertain which types of projects are realistic and desirable, and to what extent the presence of Chinese companies in Europe either creates synergies or damages local competitors.

On the other hand, given the vast geographical distance separating Europe and China, it may well be the case that opportunities to coordinate logistics regarding supplies and suppliers of oil, natural gas and other fossil fuels are limited. For each, the supply routes are different and, as the following sections will demonstrate, while the basic need to diversify energy supplies as far as possible is the same, the logistics of doing so are somewhat different. However, this paper argues that while the potential for cooperation on supplies of fossil fuels is rather limited, the possibilities regarding renewable energy are essentially limited only by the respective visions of the two putative partners; and therefore, for the sake not only of the energy security of each actor, but also for the well-being of the entire planet, should be vigorously pursued.

## 4. Energy Security in the European Union

Despite only developing a coordinated energy policy relatively recently (the policy was approved by the European Council in 2005 and included in the 2007 Treaty of Lisbon), the EU has made significant progress towards improving its energy security in the last decade, in terms of reducing consumption and decreasing reliance on fossil fuels. According to data obtained from the Eurostat database, total energy consumption in the EU fell from 1.84 billion tonnes of oil equivalent (TOE) in 2006 to 1.61 billion TOE in 2014. Consumption of petroleum products was reduced from the 2004 high of 680 million TOE to 553 million TOE in 2014. Use of renewables increased steadily from just 72 million TOE in 1990 to 201 million TOE in 2014. So, despite one observer's claim that the EU's implementation of energy policy is "frequently too slow, incoherent and uncoordinated" (Umbach 2012, p. 107), there is statistical evidence of steady improvements to the energy mix and levels of consumption.

Breaking down the data further reveals that the EU remains heavily dependent on imports of oil and natural gas. 90 per cent of the EU's crude oil and 66 per cent of its natural gas are imported (European Commission 2014a, p. 2). Furthermore, a large proportion of these imports come from just two suppliers: Russia and Norway. In 2014, 69 per cent of natural gas imports and 43.5 per cent of oil imports came from these two countries (Eurostat). This data suggests that efforts to diversify the EU's energy mix and improve overall energy security have not yet been entirely successful and certainly require more impetus, particularly when one considers that the 2014 percentage of natural gas imports from Norway and Russia is slightly higher than that in 2004. Together, oil and natural gas still make up 59 per cent of the EU's energy mix (BP 2016).

Greater success has been achieved with regards to coal consumption. The EU's consumption of coal almost halved between 1990 and 2015 (Eurostat 2016) and now makes up 16 per cent of the EU's energy mix. Domestic production of coal has declined at an even faster rate, meaning that 74 per cent of coal supplies are now imported. However, since these supplies are highly diversified, sourced from a wide range of supplier countries, there is no significant security issue concerning coal supplies, at least in the traditional sense. On the other hand, in terms of non-traditional energy security, air pollution from coal use is still a concern, particularly in European countries (such as Poland) which remain heavy consumers of coal.

Nuclear energy in the EU is a politically-charged and controversial issue. Germany is phasing nuclear energy out and replacing it with renewables, and France is aiming to halve its nuclear output by 2025 (World Nuclear Association 2016). The UK is alone in seeking to expand its nuclear output, but due to the Brexit referendum in 2016, is scheduled to no longer be a member of the EU by 2020. Thus, the fact that, according to Eurostat, nuclear energy constituted 12 per cent of the EU's 2015 energy mix, is not as significant as it seems because this figure is certain to go down, particularly since almost half of the amount is produced and consumed in France, which is cutting its output.

Renewables made up 13 per cent of the EU's energy mix in 2015 (BP 2016). Of this, five per cent came from hydroelectric power, while wind power constituted 1.4 per cent and solar photovoltaic a mere half of one per cent of the overall mix. Most of the rest, according to Eurostat, came from solid biofuels (excluding charcoal). This means that there is still plenty of work to be done to boost the share of the most environmentally-friendly sources of renewable energy in the EU's overall energy mix, even though significant increases have been reported in all 28 current EU members since 1990, with Germany the leading producer in 2014.

The desirability of finding ways to produce lower cost renewables in larger quantities is obvious, although the scientific feasibility of such a project is less clear. At the present moment in time, the possibility of coordinating energy policy and research on renewables with China and its companies is one that needs to be researched carefully since there is a clear opportunity for the enhancement of energy security at both ends of the Eurasian landmass, as well as worldwide.

## 5. Energy Security in China

The first thing which needs to be noted about China's energy security is the nation's overwhelming dependence on coal. Although there is statistical evidence to suggest that peak coal consumption was reached in 2014, coal still makes up approximately two-thirds of China's energy mix (EIA 2015). The resultant air pollution is sufficiently serious to have necessitated the temporary closure of coal-burning factories in and around Beijing and other cities on several occasions when important international events were being hosted. The vast majority of coal is produced domes-

tically, so there is no threat to energy security in the traditional sense; but both the Chinese government and Chinese citizens are keenly aware of the impacts of air pollution on public health and the subsequent need to reduce coal's share in the energy mix. Thus, the necessity to diversify away from coal has become a significant factor in China's energy security equation.

On the other hand, the picture concerning China's oil consumption looks somewhat different. China's rapidly rising thirst for oil in recent decades, and the fact, despite steadily increasing domestic production (Wu 2014, p. 6), that China has been a net oil importer since 1993, mean that higher oil use brings with it some energy security implications in the traditional sense. However, although oil constitutes 19 per cent of the energy mix (BP 2016), China has been relatively successful in diversifying supplies: in 2014, no single supplier delivered more than 17 per cent of China's imported oil, and 14 different nations supplied at least two per cent of the total (EIA 2015). Thus, China has managed its oil supply issues surprisingly well, particularly since Chinese companies have succeeded in developing new sources of oil such as Angola, which in 2014 was China's second largest supplier after Saudi Arabia.

Most of the imports, however, arrive by sea through the narrow Straits of Malacca and the South China Sea. China thus fears that its oil supplies could be cut off in the event of a major conflict, for example with the US, and is seeking to obtain a larger proportion of imports via pipelines, for instance from Russia and Central Asia. The maritime factor is also likely to be a motivation for China's aggressive island-building programme in the South China Sea, where the construction of new military installations may have the aim of protecting supply lines of oil and other commodities. However, it has been pointed out that it would be extremely difficult, given the existence of alternative maritime routes and the complex marine geography involved in such an enterprise, to totally blockade China's oil supplies (Erickson and Collins 2010). This means that Chinese fears about the energy import lifeline being cut off probably have a less rational basis than might at first appear to be the case. Thus, as with coal, the main energy security headache generated by high oil use is in fact the non-traditional one of air pollution generated by the ever-increasing traffic on the roads of Chinese cities, and the consequent damage not only to the environment, but also to Chinese people's health.

Natural gas is, of course, a cleaner form of energy, and represents an obvious alternative to heavy coal and oil consumption, which together make up more than 80 per cent of China's energy mix. However, China is not well-endowed with gas and is therefore dependent on imports, particularly via pipelines from Central Asia. Liquid natural gas (LNG) can also be transported by sea from suppliers in Southeast Asia, but the amounts available are not unlimited. Due to the finite nature of potential imports, natural gas cannot realistically be a solution to China's coal and oil dependency conundrum.

This is probably the reason why China has elected to invest heavily into nuclear energy. In January 2017, China had 37 nuclear plants operating, with a further 20 being constructed (IAEA PRIS 2017). However, the rapid increase in output of nuclear energy is also unlikely to meet all, or even most, of the nation's growing and massive energy needs. British energy scholar Steve Thomas estimates that, even after completion of the construction programme, nuclear energy will not provide more than ten per cent of China's energy (Thomas 2016). In addition, building so many nuclear plants brings with it concomitant safety issues, implying that the most significant energy security issue connected to nuclear energy is ensuring that there is not a meltdown on the scale of the ones which occurred at Chernobyl and Fukushima.

By a process of logical elimination, this leaves the goal of improving and increasing renewable sources of energy as China's best hope of diversifying its polluting and potentially dangerous energy mix and enhancing its energy security. Already, China has become the world's number one producer of solar photovoltaic energy (Hill 2016), and wind power (Wu 2015, p. 3). However, renewables still made up only ten per cent of China's energy mix in 2015, and 80 per cent of that figure came from hydroelectric power (BP 2016). Since China has already dammed nearly all its major rivers, there is limited potential to increase the output of hydroelectricity, and this means logically that China must look to expand other sources of renewable energy. This it has been doing as rapidly as possible, but clearly much more needs to be done. Since Chinese companies have been quickly acquiring stakes in renewable energy companies in Western Europe and elsewhere in the last two years (Ng 2016), and China and Europe have a similar need to increase the output and affordability of renewables, the time is obviously ripe for cooperation in a sector which has the potential to be a 21<sup>st</sup> century game changer.

## 6. The Potential for Cooperation on Energy Security between the EU and China

The preceding sections suggest that the highest potential for cooperation on energy security between the EU and China exists in the area of renewables, in particular wind power and solar photovoltaic. These two forms of energy currently constitute only a small part of Europe and China's energy mix, but one that is rapidly growing and which is demonstrating signs of becoming more cost effective worldwide as technologies improve and economies of scale kick in: for instance, in 2017 the price of solar power in India for the first time reached a level that was lower than that of fossil fuels, indicating the potential for renewables to outperform traditional energy sources (Safi 2017).

Conventionally, renewables are seen as loss-making, but the huge amount of capital being invested by Chinese companies in renewable energy acquisitions since 2014 suggests that these companies have a vision of renewables becoming increasingly not only profitable, but, in fact, a dominant industry during the course of the 21<sup>st</sup> century (Jiang 2016). Joanna Lewis suggests that "[t]he role Chinese wind and solar industries have played in increasing total manufacturing scale has likely been a key contributor to global technological learning, with benefits for future deployment of these technologies around the world" (2014, p. 27). That this would be a desirable outcome goes without saying; but making it a reality will require a great deal of political will, business acumen and scientific research, not to mention collaboration on multiple levels.

As has already been implied in the preceding sections, the potential for cooperation in the sphere of conventional energy sources such as oil, coal and natural gas appears limited. The EU and China face rather different challenges regarding the sourcing of fossil fuels, with the EU looking to reduce dependency on Norway and Russia, while China tries to reduce its overwhelming dependency on coal and frets about its maritime supply routes. There might be thought to be some potential for cooperation on oil and gas pipelines, particularly those tapping Central Asian reserves; but political sensitivities about spheres of influence (particularly the Russian one) and cooperating with non-democratic regimes (as far as the Europeans are concerned) tend to undermine the notion of substantive collaboration.

Nuclear energy is also problematic as far as Brussels is concerned, with both Germany and France trying to reduce the nuclear component in the European energy mix. There is therefore a lack of will to cooperate with Chinese nuclear companies, despite some overtures on their part and the fact of a Chinese company, China General Nuclear (CGN) being involved in the construction of a nuclear reactor at Hinkley Point in the UK in tandem with the French company EDF. Reports in the Chinese media of a proposed investment in the struggling French nuclear company Aveva (Song 2017) are also unlikely to meet with an enthusiastic response in Brussels. All in all, while the Chinese are constructing nuclear power plants at a fantastic pace, a major new drive towards large-scale use of nuclear energy in the EU is highly unlikely due to German and French resistance.

Renewables thus remain as the most probable arena for Sino-European cooperation in the area of energy security. Plasschaert suggests that China and the EU “have a common interest – as does the rest of the world – to speed up the advent of renewable energies ... cooperation in this vital area of public policy would allow turning the China–EU strategic partnership into a worthwhile reality instead of being tossed around as a loose slogan” (2016, p. 39). In the Chinese domestic market, China has already used economies of scale and technological innovations to lower costs and make renewables competitive with other forms of energy (Buckley and Nicholas 2017, p. 1), which leads one to the conclusion that Europe should aim to take advantage of these advances and build on them in a coordinated fashion with the assistance of Chinese counterparts.

However, it seems that there is a lack of vision on the European side concerning the potential for renewables to become a leading power source in the 21<sup>st</sup> century. There is also an underlying suspicion of the wisdom of letting China in (which could be termed the “Trojan horse syndrome”), which impedes cooperation, although some blame should also be attached to the Chinese for failing to communicate their aims with sufficient clarity and transparency. If the Belt and Road Initiative and the Juncker Plan can be coordinated and synergies between them discovered, there is the possibility of investing capital in research and development which utilizes European scientific and technical know-how and Chinese financial clout and business sense. This could generate a flourishing renewables industry which would be a 21<sup>st</sup> century game-changer, and not just, as tends to be the view in Europe at present, a loss-making side-project.

## 7. Conclusion

This paper contains two main arguments. The first is that energy security should not be viewed as concerned only with questions of cost, availability, sustainability and supply of fossil fuels, but should also take in non-traditional factors (at least as far as many mainstream energy scholars are concerned) such as the environment and the geopolitical context. It is important therefore to view energy security in terms of the whole energy mix, with the aim of achieving a better balance between traditional and non-traditional fuels. This implies that the emphasis should be on increasing the proportion of renewable sources of energy to benefit not only the EU and China, but also the energy security of the whole human race and the entire planet. Attitudes need to change in order that this aim becomes a realistic goal with achievable targets rather than simply being perceived as a rose-tinted vision of an imaginary future.

The second main argument of the paper is that the most likely area in which China and the EU will be able to collaborate on energy security is in the sphere of renewables. Logistical and geopolitical issues mean that establishing substantive cooperation on supplies of oil, natural gas and coal is difficult, while for a variety of reasons nuclear energy has become a non-starter in the corridors of Brussels. Renewables thus present the best opportunity for cooperation.

Ultimately, the major issue impeding cooperation is one of political will. On a scientific level, renewable energy technologies are beginning to achieve economies of scale. On a business level, Chinese companies appear willing to sink vast sums of capital into acquisitions and research. There is also no shortage of funding available via China's Asian Infrastructure Investment Bank and New Silk Road Fund, as well as potentially from the Juncker Plan. The question facing China and Europe is whether their leaders can get their heads together to coordinate the market potential, funds and technologies to create a plan for a future in which renewable energy transforms the energy security of the EU, China and, eventually, the whole world.

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## **Multilateral Development Banks as Instruments of EU–Asian Relations**

### **Abstract**

*In January 2016, the People’s Republic of China became the 65<sup>th</sup> member country of the European Bank for Reconstruction and Development: a multinational financial institution created by the European Union and the European Investment Bank “to promote entrepreneurship and change lives” across the Mediterranean region, Southern, Central and Eastern Europe, the Caucasus and Central Asia. Perhaps Chinese involvement in this European institution could be considered a surprising development, until we realize both the Asian Development Bank and the Asian Infrastructure Investment Bank, which are generally seen as the major players, are constituted of over a dozen EU members. This complexity of relations is also evident throughout the rest of the multilateral development banks active in Asia.*

*The aim of the article is to test the hypothesis that the cooperation between multilateral development banks not only provides the opportunity for the funding of various investment projects crucial to the world economy, but can also facilitate the achievement of the individual political goals of their members.*

*The text offers a brief comparative analysis of the multilateral development banks that operate and interact in Asia, presenting the common ground for their financial cooperation, while attempting to identify ways of avoiding serious conflicts of interest. The real test of this hypothesis must take into account the political context in which these interactions take place.*

**Keywords:** *Multilateral development banks; Asian Development Bank – ADB; Asian Infrastructure Investment Bank – AIIB; European Bank for Reconstruction and Development – EBRD; Asia; financial cooperation; social and economic development; EU–Asian relations*

## 1. Introduction

The second half of the last century witnessed a proliferation of multilateral financial institutions. This trend dates back to 1944, when the international community decided, during the Bretton Woods Conference, to establish the International Bank for Reconstruction and Development (IBRD), more commonly referred to as the World Bank, along with its fellow institution – the International Monetary Fund (IMF). IBRD's central mission was the reconstruction of national economies damaged by the war, and the renewal of global economic relations in such a way as to prevent the recurrence of the economic circumstances that led to the great depression, while at the same time safeguarding its main sponsors' interests. With the passage of time, these aims expanded to include the tackling of social and economic problems, and a strengthening of cooperation between various nations operating in the globalized economy, which led, indirectly, to significant improvements in international peace and security.

For good or ill, the IBRD has become the blueprint for a whole network of regional development banks which has grown around the world.

Investopedia defines a Multilateral Development Bank (MDB) as a type of financial institution “that provides financing for national development. The bank is formed by a group of countries, consisting of both donor and borrowing nations. Furthermore, an MDB offers financial advice regarding development projects.” A more advanced definition from the EIB's webpage states that “MDBs, are supranational institutions set up by sovereign states, which are their shareholders. Their remits reflect the development aid and cooperation policies established by these states. They have the common task of fostering economic and social progress in developing countries by financing projects, supporting investment and generating capital. MDBs also play a major role on the international capital markets by annually raising the large volume of funds required to finance their loans” (European Investment Bank 2017). We could add that MDBs also facilitate intergovernmental negotiations, provide policy advice, and up to date statistical data.

What is the importance of multilateral development banks in the enhancement of Asian-European relations? They play a crucial role for middle income countries, especially those which are becoming less dependent on development assistance. These financial institutions can act as a sort of “bridge,” assisting countries in their journey from relying on financial grants, and other preferential capital transfers offered by official donors

like the EU, to their goal of a fully commercial relationship with private financial institutions. MDB services help to stabilize the macroeconomic situation in a recipient country, while at the same time contributing to improvements in the quality of life of citizens. So, we can see how MDBs' credit supports regional economic relations and, to a certain extent, contributes to finding solutions to global problems.

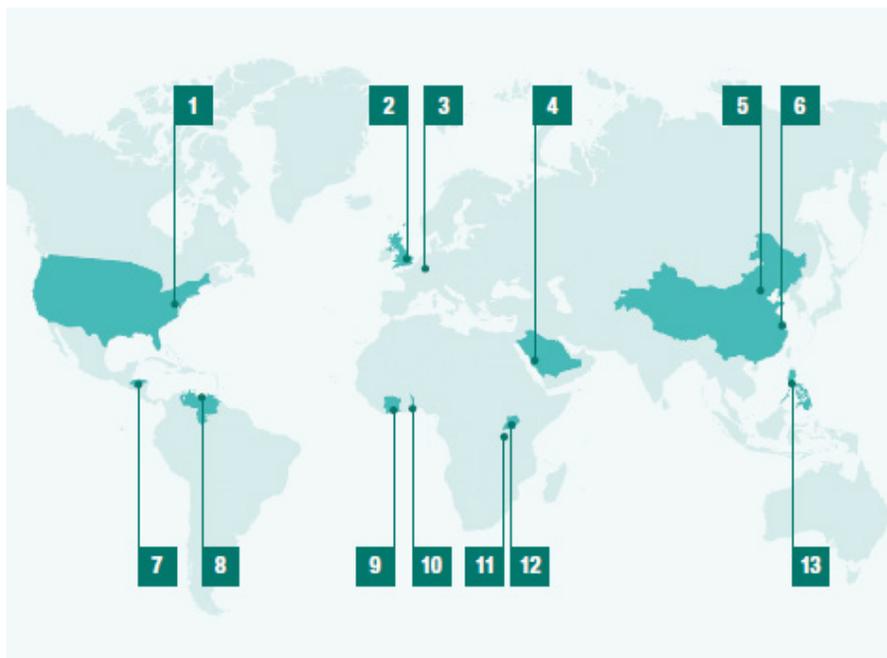


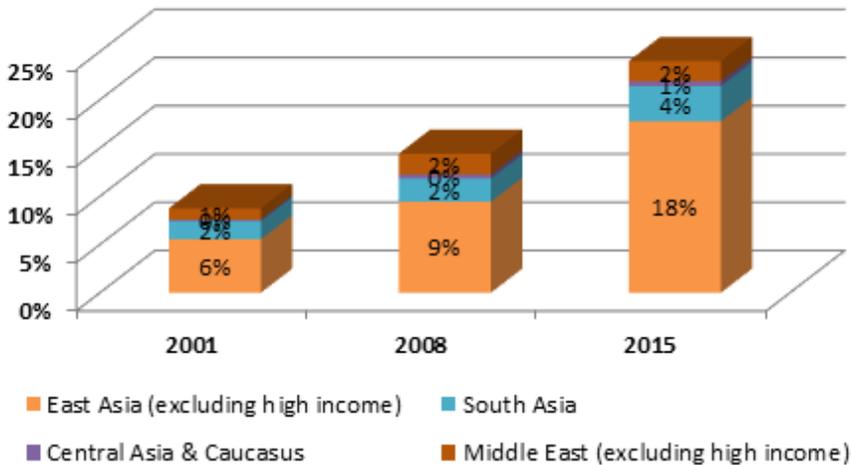
Chart 1. Multilateral Development Bank headquarters

\* 1. International Development Association (IDA), International Bank for Reconstruction and Development (IBRD) and Inter-American Development Bank (IADB); 2. European Bank for Reconstruction and Development (EBRD); 3. European Investment Bank (EIB); 4. Islamic Development Bank (IsDB); 5. Asian Infrastructure Investment Bank (AIIB); 6. New Development Bank (NDB); 7. Central American Bank for Economic Integration (CABEI); 8. Development Bank of Latin America; 9. African Development Bank (AfDB), African Development Fund (AfDF); 10. West Africa Development Bank; 11. Eastern and Southern African Trade and Development Bank, or Preferential Trade Area Bank; 12. East African Development Bank; 13. Asian Development Bank (ADB), Asian Development Fund (ADF).

Source: Faure, Prizzon, Rogerson 2015, p. 4.

Why do development banks matter for Asian economies? Any Asian developing country wanting to increase its share in the world economy

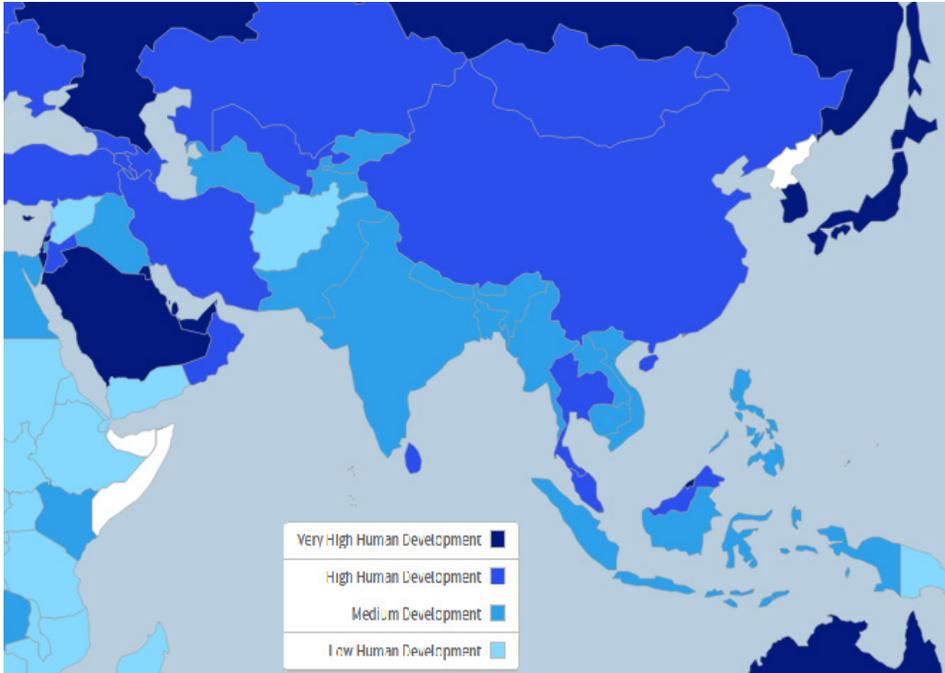
needs to invest heavily in its infrastructure. Development banks provide the necessary capital to fund these hugely expensive construction projects. As can be seen in the chart below (Chart 2), there has been a clear and vast increase in Asian low and medium income countries' share of global GDP: from 8.8% in 2001 to 24% in 2015. This impressive leap was mainly due to the economic success of East Asia. In order to maintain this level of growth, a corresponding level of infrastructure investment needs to be secured.



**Chart 2. Asian low and medium income countries' share in global GDP (gross world product)**

Source: Based on World Bank Group 2017a.

Despite many social and economic successes, the Millennium Development Goals (MDGs), set in 2001, were not achieved – there are still 13 of the Least Developed Countries in the Asia-Pacific region (Afghanistan, Bangladesh, Bhutan, Kiribati, Laos, Maldives, Myanmar, Solomon Islands, Timor-Leste, Tuvalu, Vanuatu, and Yemen), for whom the achievement of the MDGs has remained a distant dream. The regional HDI scores (0.621 for South Asia, 0.687 for Arab States and 0.720 for East Asia and Pacific; where 0.001 is the minimum and 1.000 is the maximum HDI value) make it abundantly clear that there's still plenty of room for improvement among Asian and Pacific nations, with many countries still being categorized as middle (20) or low (5) on the human development index (United Nations Development Programme 2016, pp. 198–201).



**Chart 3. Asian countries and the Human Development Index**

Source: United Nations Development Programme 2017.

Nowadays, there are at least eight multilateral development banks operating in Asia: the Asian Development Bank (ADB), the Asian Infrastructure Investment Bank (AIIB), the New Development Bank (NDB, known under its unofficial name, the BRICS Development Bank), the Islamic Development Bank (IsDB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Eurasian Development Bank, and the World Bank Group (the IBRD and the International Development Association).

I limited the scope of my analysis to those MDBs whose missions allow the financing of projects specifically designed to benefit EU–Asian relations: the Asian Development Bank, the Asian Infrastructure Investment Bank and the European Bank for Reconstruction and Development.

We need to consider such questions as:

1. What are the similarities and/or differences in terms of experience, modus operandi, financial assets, organizational structures and governance of the MDBs under scrutiny?

2. What is the nature and scope of cooperation between the ADB, the AIIB and the EBRD? What are the areas of mutual benefit as a result of this cooperation?

3. What are the possible political agendas behind multilateral financial cooperation?

4. Can multilateral development banks be perceived as typical economic instruments of foreign policy?

5. What further steps could be taken by MDBs and/or their shareholders to advance EU–Asian relations?

The aim of this article is to test the hypothesis that cooperation between multilateral development banks not only provides the opportunity for the funding of various investment projects important to the world economy, but also facilitates the achievement of the individual political goals of their members.

## 2. Comparative Analysis

To determine an individual bank's effectiveness in strengthening EU–Asian relations we need to develop a thorough understanding of its nature and structure.

The Asian Development Bank is clearly the most experienced and the biggest MDB being considered in this analysis. It was established with great financial support from the United States (US) and Japan in the 1960s as a regional equivalent of the International Bank for Reconstruction and Development. Next in terms of experience, the European Bank for Reconstruction and Development was founded in the early 1990s to facilitate pro-market reforms after the collapse of the Eastern bloc. "The new kid on the block," the Asian Infrastructure Investment Bank, only opened for business in 2016 (relevant sources and detailed information relating to these banks can be found in Table 1 below).

Unlike the IBRD or the IMF, none of the above international organizations could be classified as truly global, but in terms of membership they all extend beyond a single region. The ADB constitutes 67 member countries: 48 of them are from Asia-Pacific, including Japan, the People's Republic of China (PRC) and Taiwan, and the Republic of Korea (ROK), while 19 are from outside of the region, including 14 EU members (Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, The Netherlands, Portugal, Spain, Sweden, the United Kingdom). The AIIB consists of 56 coun-

tries: 37 regional members and 19 non-regional, including 14 EU members (Austria, Denmark, Finland, France, Germany, Hungary, Italy, Luxembourg, Malta, Netherlands, Poland, Portugal, Sweden, the United Kingdom). This leads us onto the third bank under consideration, the EBRD. There are 67 members of the EBRD: the EU, as a legal entity, and all 28 EU members, the EIB, 14 other European countries, and 23 non-regional actors, including 17 states from the broader Asia-Pacific region (Armenia, Australia, Azerbaijan, PRC, Georgia, Israel, Japan, Jordan, Kazakhstan, ROK, Kyrgyz Republic, Mongolia, New Zealand, Tajikistan, Turkey, Turkmenistan, and Uzbekistan).

The analysis shows that not all EU shareholders of the ADB (i.e. Belgium, Ireland, and Spain) have decided to extend their Asian engagement into the AIIB, however they are identified by the Bank as prospective members. On the other hand, the AIIB has attracted few EU countries (Hungary, Malta, Poland) that are not ADB stakeholders. Only 11 (Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Greece, Latvia, Lithuania, Romania, Slovakia, Slovenia) out of 28 EU members do not belong to either of these two institutions. This group of relatively small economies could further shrink in the next years as Cyprus, Greece, and Romania are officially considered as prospective members of the AIIB. The general picture is that the majority of EU members have decided it is in their interest to take the options offered by both ADB and AIIB, and thanks to this, continue to strengthen European influence in the Asia-Pacific region. In contrast, neither the US nor Japan have decided to join the AIIB, suggesting the new institution is perceived as a rival to the IBRD and ADB. A more neutral, and accurate analysis might describe this new bank as a counterbalance or even reliable partner for the two other MDBs. It could be argued that Washington and Tokyo's absence leaves a healthy space for improved Sino-European cooperation on further infrastructure, social and economic projects.

As the institutions' names suggest, two of the MDBs under scrutiny have their headquarters in Asia and one in Europe, which could potentially affect staff perspectives on various economic issues, priorities and geographical interests. London and Shanghai, being world financial centres, are obvious choices for important economic institutions, but Manila might seem a less natural location for some readers. The designation of the capital of the Philippines as ADB's main office was a Japanese concession to other Asian nations, designed to demonstrate the Bank's independence from Japanese foreign policy and ADB's proximity to the problems of its borrowers. By "coincidence," this move also strengthened the Philippines relationship with its traditional ally, the US.

The structure of governance, based on the blueprint set out by the IBRD, is shared by all three MDBs. Each bank has a board of governors with representatives of all member countries, and a board of directors, a narrower body to which officials are elected by groups of states – sometimes referred to as constituencies – and/or directly nominated by the bank's most influential shareholders. The next level of each bank's administration consists of senior management (presidents, and a few vice-presidents, supported by other executive figures). This shared structure in decision making processes in our three MDBs makes communication and cooperation between them straightforward and relatively easy to implement.

Unsurprisingly, our three MDBs share more with the IBRD than its structural features. Our three banks and the World Bank also differ from standard international organizations, like the United Nations, in their voting systems. The influence of a particular member country on any decision making process in these MDBs is not based on the one state one vote model, but depends on the number of shares it has. Among the ADB's top ten shareholders we find seven regional states, including Australia, and just one from the EU. In the case of the AIIB, a similar list contains seven regional actors, including Australia and Russia, and three EU stakeholders. This stands in clear contrast with the EBRD, which has only two countries from Asia, including Russia, five EU member states and one European institution constituting its list of top 10 shareholders. The statistical data on voting power shows the clear advantage of the US and Japan in the ADB, while Asian BRICS members (Brazil and South Africa still have not finalized their accessions to the Bank and are categorized as prospective members) dominate the AIIB. The EBRD's voting system favours six of the G7 countries.

The existing disparities in voting power between various groups of countries within the ADB, AIIB and EBRD are worth further elaboration. For this purpose we can divide all countries involved into six categories:

- 1) the EU (member states and institutions),
- 2) BRICS countries present in a particular bank,
- 3) the US and Japan,
- 4) non-EU European countries,
- 5) Australia, Canada, New Zealand, ROK, and Turkey (a group of five relatively large, pro-Western economies capable of tipping the political balance when forming voting coalitions),
- 6) other economies.

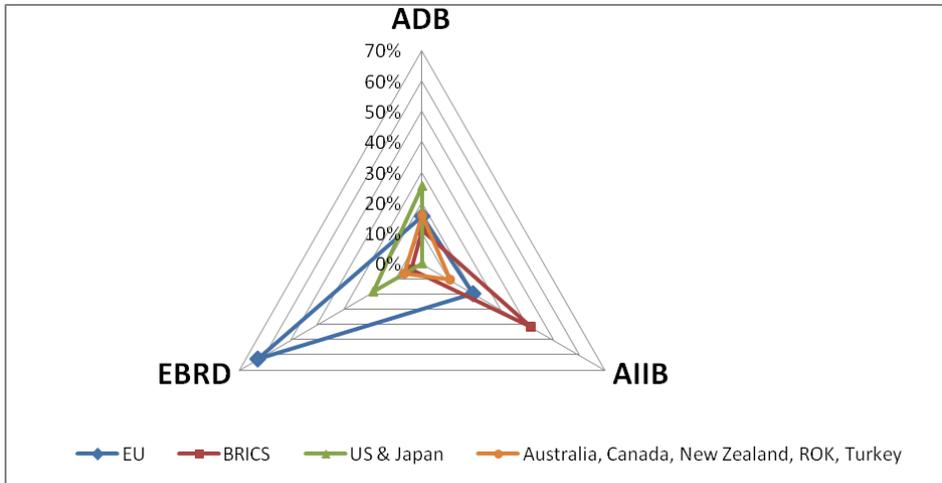
**Table 1. Basic information on the ADB, AIIB, and EBRD**

	ADB	AIIB	EBRD
<b>Established</b>	1966	2016	1991
<b>Headquarters</b>	Manila	Shanghai	London
<b>Membership</b>	67 countries (48 regional and 19 non-regional – including <u>14 EU members</u> , two non-EU European states, two entities from North America, and one country from Western Asia)	56 members (37 regional, 19 non-regional – including <u>14 EU countries</u> , three non-EU European states, two African countries)	65 countries (28 EU members, 14 other European countries, <u>17 from Asia and Pacific region</u> , 3 from North America and 3 from Africa) plus the EU and the EIB
<b>Staff</b>	More than 3000 professionals	More than 3000 professionals	Lean group of 79 professionals (recruitment is still taking place) from 24 countries
<b>Governance structure</b>	Board of Governors (67 seats), Board of Directors (12 officials) and Senior Management (President and 6 Vice-Presidents)	Board of Governors (53 seats), Board of Directors (12 officials) and Senior Management (President, 5 Vice-Presidents and others)	Board of Governors (67 seats), Board of Directors (23 officials) and Executive Committee (President, 6 Vice-Presidents and others)
<b>Top-10 main shareholders (% of voting power)</b>	1. Japan (12.78%), 2. United States (12.78%), 3. PRC (5.45%), 4. India (5.36%), 5. Australia (4.93%), 6. Indonesia (4.66%), 7. Canada (4.48%), 8. ROK (4.33%), 9. Germany (3.76%), 10. Malaysia (2.48%).	1. China (27.52%), 2. India (7.93%), 3. Russia (6.25%), 4. Germany (4.37%), 5. Korea (3.69%), 6. Australia (3.65%), 7. France (3.36%), 8. Indonesia (3.34%), 9. United Kingdom (3.06%), 10. Turkey (2.66%).	1. United States (10.11%), 2. France (8.61%), 3. Germany (8.61%), 4. Italy (8.61%), 5. Japan (8.61%), 6. United Kingdom (8.61%), 7. Russia (4.04%), 8. Canada (3.44%), 9. Spain (3.44%), 10. European Investment Bank (3.03%).
<b>Perception</b>	An instrument of US-Japanese influence over Asia	Dominated by Asian members of the BRICS / initially presented as a rival (counterbalance) to the IBRD and ADB	Western financial institution established to stimulate the transitional processes of the EU's peripheries and/or close environment

Source: based on Asian Development Bank 2017a, p. 44; Asian Development Bank 2017b; Asian Development Bank 2017c; Asian Infrastructure Investment Bank 2017a; Asian Infrastructure Investment Bank 2016a, pp. 8–12; Asian Infrastructure Investment Bank 2017b; European Bank for Reconstruction and Development 2017a; European Bank for Reconstruction and Development 2017b; European Bank for Reconstruction and Development 2017c, p. 53.

As Chart 4 demonstrates, the US & Japan have almost 26% voting power at the **ADB** between them, followed by Australia, Canada, New Zealand, ROK, and Turkey with a combined share of 16%. EU shareholders also share around 16%, BRICS with 11%, non-EU European countries with 1%, the remaining 32% being shared by the other forty two economies involved. Even though the BRICS are the leading shareholder group within the **AIB** with just under 42% of voting power, this is still not enough to allow them to take a decision without forming broader coalitions. The EU members wield around 20% of control over the bank, compared with less than 11% by Australia, Canada, New Zealand, ROK, and Turkey combined, and 2% by non-EU European countries. The remaining 26% of voting power is spread across thirty two other entities (excluding the US and Japan, as stated earlier). When we come to the voting share within the third bank under consideration, the **EBRD**, we see that the EU countries and institutions have managed to secure a 63% share of voting power. It must be understood, however, that this EU voting power is not monolithic in its nature, requiring significant negotiations within the EU group to achieve any sort of common stance on the bank's activities, something that may be easier said than done, in light of the current state of the EU: Brexit, migration issues, etc. Other important, but minor stakeholders, can be divided into four categories: the US and Japan (19% combined), Australia, Canada, ROK, New Zealand, and Turkey (less than 7% combined), non-EU European countries (almost 6%) and other economies, including China (less than 2%).

The consideration of voting powers within MDBs raises the question of balance, or perhaps imbalance to be precise, between regional and non-regional actors, as well as the asymmetry between borrowing and lending members. In its message to investors and rating agencies (Asian Development Bank 2016a, p. 8, 54; Asian Development Bank 2017d, pp. 15–16) the ADB praises the fact that the vast majority (66.8%) of its shares are in the hands of non-borrowing nations. This business-friendly and financially responsible model looks a little less appealing from the perspective of Asian developing countries. ADB's regional borrowing shareholders only have 38.5% of voting power. This should be considered against the 26.6% voting share of regional non-borrowing members and the 34.9% share of ADB's non-regional non-borrowing members (calculations based on Asian Development Bank 2017e, Asian Development Bank 2017c).



**Chart 4. The comparison of voting powers within the ADB, AIIB and EBRD**

Source: own calculations based on Asian Development Bank 2017c; Asian Infrastructure Investment Bank 2017a; European Bank for Reconstruction and Development 2017a.

While the EBRD do not set a formal division between shareholders that can use the bank's credit and those who cannot, in practice the whole mechanism works pretty much the same as in the case of the imbalance seen within the ADB or, perhaps, shows an even deeper disparity in power and rights between its shareholders. EBRD's countries of operations (i.e. borrowing nations) voting power equals just 14.4%. In contrast to the Bank's European sponsors who enjoy 60.5% of voting power, the remaining 25.1% is controlled by EBRD's external actors: non-European countries not eligible for the institution's credit (calculations based on European Bank for Reconstruction and Development 2017d; European Bank for Reconstruction and Development 2017a; European Bank for Reconstruction and Development 2017e, p. 7; European Bank for Reconstruction and Development 2017f, pp. 2–3). The ambition of AIIB's architects was to counter the trend of local borrowers feeling alienated by existing MDBs' style of governance, while at the same time encouraging developed countries and emerging economies from all over the world to join the Bank. This ambition can be clearly seen in Article 11.1.a of AIIB's Articles of Agreement (Asian Infrastructure Investment Bank 2015): "The Bank may provide or facilitate financing to any member,

or any agency, instrumentality or political subdivision thereof, or any entity or enterprise operating in the territory of a member, as well as to international or regional agencies or entities concerned with economic development of the region.” So, at least formally, all members, no matter whether from Asia or elsewhere, are considered potential borrowing nations. Non-regional members have only 22.7% of AIIB’s voting power, with the remaining 77.3% being distributed among regional actors. We can therefore anticipate that the combined voting power of the block of Asian-Pacific countries actively seeking AIIB credit will be around 62%, while the block from outside the region seeking credit constitutes a mere 3% of voting power. It goes without saying that highly developed stakeholders will not be seeking credit from the Bank, but have sought involvement in the Bank’s activities for other political and economic ends. This comparison of the AIIB and the two other financial institutions under consideration shows substantial differences in their governance which allow the AIIB to better represent its member countries of the global South (calculations based on Asian Infrastructure Investment Bank 2017a).

Clear similarities between all three MDBs under analysis can be found in their mission statements, focus areas, and forms of assistance offered (relevant comparative information, statistics and sources can be found in Table 2 below).

Their stated goals do not go beyond the classical “fostering economic and social progress in developing countries” as was stated in the EIB’s definition. However, we can identify some features which characterize the focus of each individual institution:

- ADB – Poverty reduction. A huge problem 50 years ago, and although much reduced, still at unacceptably high levels;
- AIIB – Infrastructure development. Crucial for long term economic growth based on international trade and regional cooperation;
- EBRD – Market reforms. Promoting further economic relations with the West.

While the main focus areas of our three MDBs are not identical, they do overlap in at least four aspects: 1) infrastructure development, 2) environmental protection, 3) stimulation of financial sectors and closer public–private investment cooperation, 4) strengthening of regional economic ties with transport and communication projects playing a crucial role. This provides scope for a wide range of possible joint initiatives, benefi-

cial to the strategic goals of each bank. At the same time, perhaps more importantly, it also enhances the general wellbeing of recipient nations. These existing overlaps are open to further development and extension as projects move forward, allowing each bank to see the virtue of further cooperation and activities of mutual interest.

The classic MDB *modus operandi* is based on offering credit rather than grants (although, banks sometimes set up special funds providing preferential transfers, being classified as development aid). At the time of writing, all of AIIB's services are in the form of loans (other forms of assistance are still to be implemented). While the two older banks under consideration do provide other services, the vast majority of their products are also provided in the form of loans.

Other obvious differences between the ADB, AIIB and EBRD can be identified in terms of capital stock, levels of financial activity and geographical priorities.

While the level of subscribed capital gives a clearer picture of a particular MDB's potential economic power, its actual volume of credit, and other spending, measure the value of its real activity. Clearly, both issues are related, but are not necessarily linked in an absolutely proportional way. For example, one of the ADB's financial rules limits "gross outstanding borrowings to no more than the sum of callable capital of non-borrowing members, paid-in capital, and reserves (including surplus)" (Asian Development Bank 2017d, p. 16).

In 2016 the ADB had a subscribed capital exceeding USD 140 billion. It offered almost USD 32 billion in assistance to its borrowers. Despite having less than 25% of the subscribed capital of its larger counterpart, the EBRD financed projects worth around USD 10.5 billion over the same period. Finally, the AIIB finished its first year of operations with USD 90.33 billion of subscribed capital (it had further increased to USD 92.99 billion, as of July 26, 2017, due to new members subscriptions), but contributed only USD 1.73 billion to 9 approved projects. This should be considered against the backdrop of the ongoing development of business relationships and capacity building within the AIIB. Within the next few years we should expect a dynamic increase in the Bank's financial activity (from the beginning of January to the end of July 2017, the institution contracted 8 projects with total input of around USD 1.1 billion). It is worth noting that more than 50 years of experience has resulted in the ADB accumulating diversified assets and gaining substantial market

trust, which has allowed the Bank to build an impressive portfolio of investments with the ratio of paid in capital to subscribed capital being just around 5%. This should be compared with AIIB and EBRD having this proportion at the level of 20%.

**Table 2. The activities of ADB, AIIB and EBRD**

	ADB	AIIB	EBRD
<b>Mission</b>	“to help developing member countries reduce poverty and improve the quality of life of their people” by providing loans, technical assistance and grants.	“to address the daunting infrastructure needs across Asia” and therefore “help stimulate growth and improve access to basic services.”	“fostering the transition to market economies, whilst promoting innovation, growth and transparency.”
<b>Subscribed capital stock</b> (as of 31 <sup>st</sup> December 2016)	USD 142.70 billion	USD 90.33 billion USD	EUR 29.7 billion (= USD 32.98 billion)
<b>Focus areas</b>	1. Infrastructure (water, energy, transport, urban development, information and communications technology), 2. Environment, 3. Regional cooperation and integration, 4. Finance sector development, 5. Education.	1. Sustainable Infrastructure, 2. Crosscountry Connectivity (ranging from roads and rail, to ports, energy pipelines and telecoms, maritime routes) 3. Private Capital Mobilization (Public-Private Partnership).	1. Green economy (including green transport, municipal infrastructure, agribusiness, power and energy sector), 2. Small firms, 3. Local currency and capital market development (promotion of cross border investment and trade), 4. Growth in economies at an earlier stage of the transition process, 5. Promotion of gender equality and economic inclusion.
<b>Financial activity in 2016</b>	USD 31.7 billion	9 projects approved totaling USD 1.73 billion	EUR 9.39 billion (= USD 10.43 billion)
<b>Forms of assistance</b>	Mainly loans, co-financing, guarantees, grants (USD 527 M) and technical assistance (USD 180 M)	So far only loans, but guarantees and technical assistance are also possible	Loans, equity investments and guarantees, but also policy dialogue and technical assistance

	ADB	AIIB	EBRD
<b>Geographical priorities</b> (based on 2016 disbursements)	Recipients (not including technical assistance & co-financing): India (17%), PRC (12%), <u>Azerbaijan</u> (10%), <u>Indonesia</u> (10%), <u>Pakistan</u> (9%), <u>Bangladesh</u> (6%), Philippines (5%), Vietnam (4%), others (26%).	Projects approved in 2016 (chronological order): 1. Tajikistan (\$27.5 M) 2. <u>Bangladesh</u> (\$165 M) 3. <u>Pakistan</u> (\$100 M), 4. <u>Indonesia</u> (\$216.5 M), 5. <u>Pakistan</u> (\$300 M), 6. Myanmar (\$20 M), 7. Oman (\$36 M), 8. Oman (\$265 M), 9. <u>Azerbaijan</u> (\$600 M).	Various central, eastern and southern European states (€3.49 billion), Central Asia (€1.4 billion), Eastern Europe and the Caucasus (€1.2 billion), Southern and Eastern Mediterranean (€1.4 billion), Turkey (€1.9 billion).

Source: based on Asian Development Bank 2017f; Asian Development Bank 2017a, pp. 2, 6–7, 9–15; Asian Infrastructure Investment Bank 2017c; Asian Infrastructure Investment Bank 2017a; Asian Infrastructure Investment Bank 2016a, p. 30; Asian Infrastructure Investment Bank 2016b; Asian Infrastructure Investment Bank 2017d, pp. 3–4; Asian Infrastructure Investment Bank 2017e; European Bank for Reconstruction and Development 2017g; European Bank for Reconstruction and Development 2017a; European Bank for Reconstruction and Development 2017c, pp. 2–8, 4, 30–41.

The geographical distribution of financial streams shows what the real priorities of our three MDBs are. The main recipients of ADB credit are relatively large emerging economies from East Asia, South Asia and Southeast Asia. Only seven states benefited from the AIIB's projects in 2016. They were located in Central Asia, South Asia, Southeast Asia, and Western Asia (the pattern for early 2017 transfers is the same with a strong presence of India – 3 ventures, and Indonesia – 2 ventures). The EBRD fulfils its mission supporting various projects in an area ranging from Central Europe and the Baltic states in the northeast, to Central Asia and part of the Mediterranean in the southeast, with Turkey currently being the major single recipient (over 20% of 2016 flows).

Central to the thesis of this paper is the fact that in 2016 43% of EBRD's investments went to Asia, with the biggest recipients being: Turkey (EUR 1.93 billion), Kazakhstan (EUR 1.05 billion), Jordan (EUR 0.4 billion), Georgia (EUR 0.25 billion), Mongolia (EUR 0.15 billion), and Kyrgyz Republic (EUR 0.11 billion). Despite noticeable differences in geographical distribution of bank credits, some overlaps, especially between ADB and AIIB, can be seen. Both institutions invest relatively heavily in Bangladesh, India, Indonesia, Pakistan, and, quite surprisingly, Azerbaijan – a country in

close proximity to the EU and its geopolitical interests (member of Eastern Partnership initiative), but somehow neglected by the EBRD. The investment schemes of the ADB and EBRD suggest that both institutions have consciously worked to avoid duplication of each other's efforts designed to meet the needs of their borrowers while at the same time protecting the interests of their investors. From a more critical perspective, we could say both banks have created separate spheres of influence (i.e. areas of great importance to their main shareholders, related to their economic and geopolitical interests). Though not being of central importance, Central Asia and the Caucasus, are where the activities of our MDBs coincide. The AIIB's broadening its region of operations (i.e. the inclusion of Western Asia) could potentially be used to bridge the activities of the other two banks, creating more space for further joint initiatives.

All three MDBs share the same *modus operandi* as well as model of governance and organization. Any differences, in terms of experience, geographical preferences, financial assets, and disbursements which do exist, do not represent systemic stumbling blocks, which would make ADB–AIIB–EBRD cooperation impossible. The geographical interests of these banks converge across broad areas: first, the Indian Ocean basin (ADB and AIIB. Out of operational area for EBRD) and secondly, Central Asia and the Caucasus (operational area of all three institutions). These are important parts of Asian-European trade routes, which explains the strong EU involvement in the described MDBs. The number of stakeholders involved shows how the three named banks are parts of a large and complex (multidimensional) net of international relations system that extends far beyond a single region. The political will of its main stakeholders, and perhaps some additional capital, could invigorate these instruments, allowing them to better support the wellbeing of recipient nations across Asia. Used wisely, the operation of these banks can simultaneously further their main sponsors' interests, both politically and economically.

### **3. Common Interests, Visions and Projects**

A number of formal bilateral agreements already exist between the three MDBs under consideration:

1. ADB–EBRD Memorandum of Understanding of 2011. This agreement relates to cooperation on energy projects across the Caucasus and Central Asia and was an update to the previous agreement signed in 1993;

2. ADB–AIIB Memorandum of Understanding of 2016, involving the financing of joint infrastructure projects (especially roads and water transport), high-level consultations and joint data collection, strengthening efforts to promote sustainable growth, reduction of poverty, and combating climate change;

3. AIIB–EBRD Memorandum of Understanding of 2016, through which parties will actively seek co-financing opportunities, regular senior management dialogue, exchange of information on policies and strategies related to activities in common areas of operation, promotion of secondments and joint staff training.

These already existing legal relationships set the grounds for further joint activities of common interest. Despite the initial skepticism of the US and Japan, the AIIB has proven to be a welcome addition to the sphere of international economic relations. The AIIB's signing of memoranda of understanding in its first months of operation has sent a clear signal of their willingness to adhere to generally accepted environmental and social standards (Rosen 2011; Asian Development Bank 2011; Asian Development Bank 2016b; European Bank for Reconstruction and Development, Asian Infrastructure Investment Bank 2016; Asian Development Bank 2017g, p. 7).

Ongoing projects which put flesh on the bones of these legal frameworks can be seen in the following three categories:

1. ADB–EBRD joint projects

- In 2012 the ADB and EBRD cooperated on the *CAREC Corridor 3 (Shymkent–Tashkent Section)* in Kazakhstan. Their contributions were USD 125 M and USD 196.5 M respectively;

- In 2014 they co-sponsored the *Power Transmission Rehabilitation* project in Armenia – USD 37 M coming from the ADB, and USD 30 M from the EBRD;

- Also, broader, non-concessional cooperation with other financial institutions and the private sector should be included – i.e. loans for Georgia in 2015, when USD 90 M was provided from each bank to finance the Shuakhevi hydropower plant, and Azerbaijan, also in 2015, which received USD 250 M from each bank for their offshore natural gas field project *Shah Deniz stage II*;

2. ADB–AIIB joint projects

- In 2016, the Pakistan *National Motorway M-4 Gojra–Shorkot–Khanewal Section* received funding of USD 100 M from each of these two banks;

- *The Natural Gas Infrastructure and Efficiency Improvement* project in Bangladesh, accepted in 2016 and implemented in 2017, received USD 167 M from the ADB and USD 60 M from the AIIB.

### 3. AIIB–EBRD joint projects

- In 2016 the Tajikistan *Dushanbe–Uzbekistan Border Road Improvement Project* received USD 27.5 M from the AIIB and USD 62.5 M from the EBRD.

- Broader non-concessional cooperation between these two banks (as well as the World Bank, EIB and commercial borrowings) was achieved through loans to fund Azerbaijan's *Trans Anatolian Natural Gas Pipeline Project*. The AIIB's contribution being USD 600 M and USD 2.1 billion coming from the EIB and the EBRD partnership.

AIIB's relatively recent arrival on the scene can be seen as having had a surprisingly significant effect on existing multilateral financial relationships in the region. In the nineteen months after coming into operation, the AIIB has been able to claim a place among the big players in the game. It has had, and will undoubtedly continue to have, a catalytic effect on regional funding activities, breathing new life into what could be seen as having become a rather stagnant status quo (Asian Development Bank 2013, p. 66; Asian Development Bank 2015, Attachment 2, p. 1; European Bank for Reconstruction and Development 2015a; European Bank for Reconstruction and Development 2015b; Asian Development Bank 2017g, pp. 29, 31; Asian Infrastructure Investment Bank 2017f; Asian Infrastructure Investment Bank 2017g; Asian Infrastructure Investment Bank 2017h; Asian Infrastructure Investment Bank 2017i).

The joint ventures described so far in this paper are obviously not the only ways in which funds are committed to various Asian development projects. The multilateral nature of the banks under our lens does not restrict their cooperation to working with other MDBs. Often, an MDB will work together with individual nation states and/or other entities to achieve their mutual objectives. For example, between 2011 and 2016, 98 projects were funded through the cooperation of the ADB and its EU stakeholder nations (with little or no input from the EBRD and AIIB).

The low per project expenditures of Belgium, Finland, and, perhaps more surprisingly, Italy might be considered mere token gestures; important to further political relationships, yet relatively insignificant as a response to the real social and economic problems of the region. As can be seen from the table, the overwhelming majority of contributions to joint ADB – individual EU states projects came from the UK, France, and Germany.

**Table 3. ADB's co-finance with its EU members (2011–2016)**

Country	No of projects	ADB's contribution (USD M)	EU member state contribution (USD M)	Average European contribution over number of projects (USD M)
<b>Austria</b>	2	352.59	84.66	42.33
<b>Belgium</b>	6	1222.12	56.2	9.37
<b>Denmark</b>	3	384.44	231.05	77.02
<b>Finland</b>	3	185.5	35.7	11.9
<b>France</b>	29	5350.66	2902.39	100.08
<b>Germany</b>	14	4975.49	2770.06	197.86
<b>Italy</b>	2	127.51	9.82	4.91
<b>Netherlands</b>	8	1181.51	424.38	53.05
<b>United Kingdom</b>	31	4822.57	3176.23	102.46
	98	X*	9690.49	98.88

\* No total due to the possibility of single ADB contributions being duplicated in accounting for a number of projects.

Source: own calculations based on Asian Development Bank 2017h.

It is worth noting that Germany, France and the UK are also the three EU countries with the highest voting shares in the ADB with a 3.76%, a 2.16%, and a 1.93% share, respectively (fourth largest EU voting nation being Italy 1.74% share).

It is worth considering EU–Asian relations in a broader context than the joint ventures of our three MDBs. To do so, let us consider one of the largest development programs currently ongoing in Asia. The CAREC (Central Asian Regional Economic Cooperation) program, operating since 2001, is co-sponsored by the ADB, the EBRD, the IMF, the IsDB, the UNDP, and the IBRD. CAREC focuses on creating energy networks and transport corridors connecting member countries (Afghanistan, Azerbaijan, PRC, Georgia, Kazakhstan, Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan) and boosting the markets of East and South Asia, Europe, and Russia. While the clear economic importance of such a large multilateral initiative speaks for itself, its geopolitical importance should not be underestimated. The vast geographical area in which the CAREC program is being carried out is often thought of as an arena in which global powers compete for dominance. The expansion of

the program is undoubtedly seen as a huge success by all investors, as can be seen from CAREC's own website: "CAREC is a practical, project-based program that has grown from 6 projects worth \$247 million in 2001, to 166 projects worth \$27.7 billion in 2015." So, as of the time of writing, 261 projects have been completed and another 153 are still ongoing (Central Asia Regional Economic Cooperation Program 2017a). Despite the lack of formal participation of the AIIB in the program, the Bank's co-financing of transport projects (*Tajikistan: Dushanbe-Uzbekistan Border Road Improvement Project* and *National Motorway M-4 Gojra-Shorkot-Khanewal Section Project*) complements the CAREC initiative. Time will tell, whether this was a one-off cooperation, or a kind of feasibility test for all concerned, the success of which may eventually lead to AIIB's accession to the program. The huge sums involved in financing projects of such magnitude would be daunting to even the richest individual nation states, and explain why it has proven necessary to adopt a multilateral approach to such ventures (Rosen 2011; Asian Development Bank 2011; Central Asia Regional Economic Cooperation Program 2017b; Eurasian Business Briefing 2016).

Widening our perspective even further in our consideration of the role of MDBs in the global development landscape, we can take a look at the Third International Conference on Financing for Development, which took place in Addis Ababa in 2015. The conference was set up to establish a framework through which improvements could be made to the existing systems of cooperation by increasing capital flows, promoting further political engagement and working towards a consensus on how to achieve the 17 agreed Sustainable Development Goals. The conference welcomed "efforts by new development banks to develop safeguard systems in open consultation with stakeholders on the basis of established international standards, and encourage all development banks to establish or maintain social and environmental safeguards systems, including on human rights, gender equality and women's empowerment, that are transparent, effective, efficient and time-sensitive" (United Nations 2015, p. 35).

As part of the follow up process of the Addis Ababa conference, the Global Infrastructure Forum was born. The goal of the Forum is to broaden coordination and alignment between various financial institutions working together to close the global gap in infrastructure investment. This platform hopes to improve existing dialogue between the ADB, AIIB, EBRD, other development banks (the AfDB, EIB, IADB, IsDB, NDB, and the World Bank Group), and various United Nations agencies and pro-

grams. It supports “the infrastructure-related agendas of the G20, G-24, G-77 and g7+ by encouraging MDBs to take joint actions to demonstrate their commitment to infrastructure investment” (United Nations 2016; World Bank Group 2017b; European Bank for Reconstruction and Development 2016).

So, we have seen how our three banks continue to play their parts in the broader context of the world economy. Again, we must remind ourselves that these global economic relationships are not acted out in a political vacuum, as we will now move on to consider.

## 4. Political Context

The EU and its member states want to be perceived as global actors. This requires demonstrating individual members’ influence, both regionally, and within the world economy.

European engagement in Asia can also be seen as an attempt to counterbalance US/Japanese economic dominance in this part of the world. Contrary to Hollywood’s version of reality, the Western block should not always be understood as a monolith, and is, in fact, made up of individual nation states, whose competing economic and geopolitical interests sometimes become abundantly apparent. Using its substantial economic resources, the EU can be seen as increasing the competition between the major actors in the region, whilst, at the same time, providing alternative partnership possibilities to Asian countries.

“There is a direct connection between European prosperity and Asian security. In light of the economic weight that Asia represents for the EU – and vice versa – peace and stability in Asia are a prerequisite for our prosperity. We will deepen economic diplomacy and scale up our security role in Asia” (European Union 2016, p. 37).

The EU has shown its willingness to engage, through various means, including the activities of MDBs in which it invests, to gain political and economic influence in the region. As made clear in the quote above, there are several obvious areas in which EU and Asian nations’ interests overlap. These shared interests present good grounds for further fruitful cooperation.

The stated objectives and priorities of the EU Global Strategy (The Security of Our Union; State and Societal Resilience; An Integrated Approach to Conflicts; Cooperative Regional Orders; Global Governance for

the 21<sup>st</sup> Century) will obviously require significant funding. Among the players meeting this financial burden, our three MDBs can, and will, play an important role (European Union 2016, pp. 9, 22–23, 28, 31, 37–38, 40, 43). If we take energy insecurity as an example of potential bank focus, we can see, as in the cases of *Shah Deniz stage II* project, and *Trans Anatolian Natural Gas Pipeline Project*, it will be enormously beneficial to spread the burdens of cost and risk among all stakeholders. Perhaps less attractive, is the necessity of sharing the returns from such investments, but this multilateral approach is designed to yield much more than financial returns. Arguably, the trust and goodwill generated by this cooperative approach will enhance energy security in ways that money cannot buy.

As the EU Global Strategy explicitly states: “A more prosperous Union requires economic priorities to be set in relations with all countries and regions, and integrated into the external dimensions of all internal policies. A more prosperous Union calls for greater coordination between the EU and Member States, the EIB and the private sector. The Sustainable Development Goals also represent an opportunity to catalyze such coherence” (European Union 2016, p. 49). Our three banks will surely be welcomed at the table alongside the EIB to contribute their assets and experience to achieve stated EU objectives.

The relationship between the EU and Asia is not a one way street in which the more dominant partner has its needs met at the expense of its counterpart. It is essential that any MDB involvement contributes, as far as is possible, to the leveling of the playing field. The positive input of MDBs can be seen in four general areas:

- security,
- foreign policy supporting social and economic development,
- global profile,
- governance of international financial institutions.

In terms of security, growing economic interdependence makes international conflict less probable. By investing in infrastructure, physically integrating Asian states, and promoting mutual interests, MDBs facilitate the maintenance of regional peace and stability. Through the creation of decent jobs, export stimulation, and the sharing of new technologies, Asian nations can effect significant improvements to social security.

MDBs are one of the means by which borrowing nations can increase the prosperity of their own people through foreign assistance. Development banks should also be considered for the important role they play as instruments of economic diplomacy – their assets, combined with re-

sources offered by their main shareholders, can be used as leverage during negotiations and/or the decision making processes of other actors. These financial institutions provide an opportunity for additional, less official, diplomatic interactions, especially for those Asian member states who have representation in any particular bank's managerial hierarchy.

The role of any development bank goes beyond its economic function. Any government wishing to send a clear message of its intention to raise its profile on the world stage can achieve this by expressing its willingness to cooperate with local financial institutions on local projects offering additional capital to prove its commitment, not only to the wellbeing of local communities, but also to the ideal of global governance. This can be seen as having been achieved in the cases of PRC, India, Japan, and ROK deciding to join MDBs operating in Europe, Central Asia (EBRD), Africa (AfDB) or Latin America and the Caribbean (IADB).

All developing countries and emerging economies, including BRICS, are aware of the importance of increasing their influence in proportion to their growing economic power. In the context of financial institutions, this is achieved by acquiring additional shares to increase voting power. Quota reforms recently took place in the structure of the IBRD and IMF, the latter being controversially blocked for 5 years by the US Congress. The slow pace of this process is said to be one of the major contributing factors for the creation of the AIIB and the NDF. It is likely that further governance reforms, in favor of emerging economies, are going to be considered necessary in other MDBs, including the ADB and even, perhaps, the EBRD. This clearly political agenda of quota reform, along with the faltering of the WTO Doha Round negotiations, are two of the main political issues which continue to exacerbate the existing tensions between the global North and the South.

## 5. Conclusion

Multilateral Development Banks play an important role in modern international relations. Their financial input helps to enhance the workings of the world economy. This is of great importance, especially after the financial crisis, when emerging economies from Asia were expected to stimulate international trade, not only by sending cheap manufactured products to the global North, but also by becoming global consumers and pillars on which global recovery programs were built.

MDBs also recognize the importance of demonstrating that beneficiaries' prosperity and well-being are an integral part of the international community's goals. This helps to build trust and confidence between nations, allowing each to see that their strategic objectives are not mutually exclusive. Such acts of solidarity should not just be limited to low income countries. They are also important for middle income states that are winding down existing ODA programs giving them a stronger sense of economic security.

It is crucial for the Asian economies to use this momentum to strengthen regional economic infrastructure links and stimulate South–South trade. MDBs funding should involve more projects that increase interconnectivity in different sub-regions of Asia. The EU sponsors need to be convinced that such initiatives further increase regional and global growth, while also potentially decreasing the impact of future economic depressions.

Supported by MDBs, economic cooperation can be a foundation for fruitful political relations. Governance procedures make it impossible to use MDBs in exactly the same way as bilateral instruments of foreign policy. Even the biggest shareholders need to create a coalition to implement a particular bank's decision. This is why MDBs suit multilateral diplomacy and could be used to strengthen the collective position of a whole block of countries in a specific part of the world. The structure and character of MDBs make it rational for the European Commission, as the representative of the whole EU, to consider joining the ADB, and perhaps even the AIIB, especially in light of the potential negative consequences of Brexit. Alternatively, EU institutions could encourage the remaining 11 member states, starting from Czech Republic, Slovakia and Slovenia (countries in transition from emerging donors to traditional donors), to join the ADB and/or the AIIB in an attempt to indirectly coordinate their voting power in these MDBs on the level of common foreign and security policy.

The effectiveness of MDBs as a tool of economic statecraft for any individual country is limited, but should not be underestimated. The bigger the share a country has in a particular financial institution, the greater its influence on a bank's agenda and distribution of resources. This impact is well known to other actors and can therefore be indirectly used as leverage in bilateral negotiations. An influential shareholder will do its best (via elected directors/presidents) to convince other partners to

invest the bank's capital in projects proposed by states relevant for their trade relations or foreign policy. It is no coincidence that the biggest EU shareholders in both the ADB and the AIIB are countries already well known for their engagement in Asia: Germany, France and the United Kingdom.

The fact that the three MDBs being considered have all been built on the IBRD's blueprint has resulted in clear similarities in terms of their *modus operandi* and model of governance, as well as substantial overlapping when it comes to their membership and focus areas. Current differences in terms of capital and financial operations should not be major stumbling blocks for developing more advanced cooperation between them. Two further differences between these international organizations relate to their experience and their distribution of voting power. These differences suggest that furthering ADB–AIIB–EBRD cooperation will require closer political consensus, which will allow their experts to identify more projects of common interest.

The data presented on joint projects involving our three MDBs suggest that their intention is to send a signal to recipient nations and/or the region, showing that relations with EU members are progressing well. The scale of these joint ventures is evidence that they are calculated to cause this political effect, rather than any major economic change on the global, or even regional, level. This does not, however, imply that these projects are without value from the Asian perspective. Although evident only at the micro scale, they have clearly resulted in various gains for recipient societies, their governments and businesses.

The limited cooperation between the ADB and the EBRD could be invigorated by the AIIB, the “new kid on the block,” that actively seeks various co-financing opportunities, including joint ventures with both aforementioned banks. This could happen either by trilateral projects, in which all three banks play a part, or the AIIB using its energies and capital to fund projects, challenging the existing orthodoxy, showing the other two banks that the existing investment landscape is not carved in stone.

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# Can Asymmetric Relationships Work Together? A Quantitative Approach of “16+1” Cooperation Mechanism

## Abstract

*Is there a possibility that there will be cooperation between two sides with a big gap? If so, could this cooperation be sustainable development? This question has always been a hot issue in international cooperation research. The “16+1” framework is a relatively new cooperation format initiated by China with 16 CEE countries in 2012. Since its formation, the “16+1” has made some progress in strengthening dialogue and cooperation between China and CEE countries. The heads of state of the member countries meet annually and each meeting results in a list of agreements. During the 5<sup>th</sup> and most recent summit, held in Riga, Chinese premier Li Keqiang formally launched a 10 billion euro investment fund to finance infrastructure and production capacity projects (“The Riga Guidelines for Cooperation between China and Central and Eastern European Countries,” n.d.). While the above initiatives have been made so far, it is not difficult to trace that in China and the CEE countries, the significant differences in the countries among the CEE made for a complexity of interaction.*

*First of all, the CEE countries are not only a strictly strategic entity, but not a political or economic entity, and the two sides are now facing the problem of “one to sixteen.” Moreover, for the relationship between China and the EU, China cannot be a member state or even a power to arrange the sixteen countries as a political group. Secondly, despite the continuous warming of economic and trade cooperation between the two sides, such as the Czech Republic, Poland, Hungary, Serbia and other countries with China, in terms of bilateral trade, there are still huge differences for both exports and imports, and bilateral ties show an*

*asymmetric pattern from the political and economic perspectives. Thirdly, while the CEE countries are developing economic and trade relations with China, there are big differences regarding foreign policy toward China among the CEE countries: sixteen states are not consistent with their foreign policies toward China, and at the same time, there is still a disagreement between the two sides on political, economic, and human rights; Tibet and Taiwan issues; the arms embargo and other relevant issues.*

*Therefore, the development of China's relations with CEE countries is now facing opportunities and challenges simultaneously. The asymmetry of bilateral cooperation requires China to optimize its policies on CEE countries for further development. This paper will analyze the CEE countries' foreign policy toward China via a 15 language<sup>1</sup> database among all CEE countries since the two sides established diplomatic ties. Using big data, the development of small countries' foreign policies will be analyzed while confronting big powers through game theory, then it will be tested if it is possible for such asymmetric relationships to work.*

**Keywords:** *asymmetric relationship, international cooperation, China-CEE relations*

## 1. Asymmetric Characteristics and International Cooperation Theory

From the perspective of international politics, the contemporary world consists of asymmetric power, therefore, most international cooperation must be asymmetric cooperation as well. The most direct consequence of asymmetric cooperation should be the asymmetry of cooperative benefit distribution, as long as there is no denying the zero-sum status in the competition of international relations. Olson in his *Logic of Collective Action* pointed out that the common interest does not necessarily generate cooperation (Olson 1971). In the context of normal circumstances, as a country develops rapidly, it also forms large interest groups. These large interest groups are gradually transformed into wealth distribution groups rather than wealth producing groups. That is to say, they only consider self-interest and seek to maximize their share of total wealth. Such free-riding would result in ignoring the overall interests of the state.

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<sup>1</sup> In this paper, the metadata of language selection only chooses the official language of China and CEE countries, of course, some countries may have many official languages, or dialects, here, I use only their official language as a statistical sample.

Therefore, in this paper, I will answer the question, is it possible to reach a partnership without the equal power of both parties?

In a broad sense, cooperation is a ubiquitous phenomenon in human society, there is no lack of allies in contemporary international politics, but the ultimate goal of the alliance is balancing of power, the emphasis of which is still the conflict. It can be seen from *Understanding Global Conflict and Cooperation: An Introduction to Theory and History* by Joseph Nye Jr and David Welch (2016). The core concept of international relations theory is power, and the definition of power as the ability to change people's behavior implies potential conflicts. This makes the study of international relations more inclined to discuss power competition. In Keohane and Nye's *Power and Interdependence* (Keohane and Nye 2011), they explain how to generate power in interdependence. On the other hand, they have just seen the possibility of cooperation from their analysis of interdependence, but finally they focus on power and conflict again. In this sense, the incomplete rationality of power makes cooperation divorced from the core field of political science.

The important difference between the theory of international relations and economics from the concept of power and interests is the difference between zero-sum game and positive-sum game. Economics is essentially individualistic, so collectivism is only an option to maximize individual utility. Therefore, in the view of economics, there is no conflict between individual interests, so while in the process of others pursuing their utility maximization, it will not necessarily affect their utility maximization in most cases. Pareto improvement is the typical expression of this explanation (Keohane 2005). The process of China's reform and opening up and globalization is also a clear example: as long as it can gain more benefits and faster development than self-reliance through accession to globalization, or even paying a few costs for it is also worth it. But the theory of international politics is opposite, because the power itself is zero-sum, and growth of one party's power must necessarily mean the weakening of power of the other. Therefore, the positive attitude towards cooperation with economics is different, and the theoretical study of international relations sees more conflicts. This view is expressed in the Mearsheimer's *The Tragedy of the Great Power Politics* (Mearsheimer 2014).

In case of international politics, as long as interaction exists rather than an "Iron Curtain," there is nothing more than conflicts or cooperation. Cooperation depends on rational trade-offs, while conflicts can be opportunistic or limited rational decision outcomes. Conflicts over the

balance of power will result in internecine conflicts, moreover, in this context the asymmetric status is even more obvious. In terms of probability, as long as the outcome of conflict can be expected, the occurrence of the conflict is always opportunistic or limited rationality. In addition, if there is no cooperation, enmity will not stop if the war was caused by military conflict. This is obviously not an ideal end.

It is undeniable that cooperation itself brings conflict, but rational cognition of the consequences of conflict should lead to cooperation. Cooperation can be either explicit or implicit. It can be formal or informal. Even if cooperation is rational, it may be replaced by conflicts at any time, as rationality may be overwhelmed by irrational impulses. Cooperation does not eliminate conflicts. Nevertheless, deepening cooperation may increase the cost of conflict. In this sense, the development of cooperation makes the conflict become the reality of the irrational threshold, so as to reduce the probability of conflict.

Although cooperation is rational, because of the asymmetries in the contemporary world, equal cooperation is doomed to be only an ideal state. So, not only power generation in interdependence, but also power could be generated in cooperation. This means that cooperation and power to some extent is co-existent, even hegemony and compromise, and therefore it is not necessarily equal. The formation of cooperation is often based on the relative benefit or absolute benefit balance, and the win-win cooperation is not common in reality. However, cooperation is only possible due to the asymmetric pursuit of relative benefit and absolute benefit between the two sides. Furthermore, in the case of the coexistence of the finitely versus infinitely repeated games (Kreps et al. 1982), the dynamic results of cooperation will lead to a new situation because of the change of asymmetric power.

Therefore, due to the results of existing research and its shortcomings, the analysis of this paper will start from the characteristics of international cooperation, whether there is an optimization approach in case of the asymmetric status, and take the “16+1” cooperation mechanism as an example for hypothesis testing. This paper aimed at establishing a new interpretative framework.

## 2. “16+1”: An Asymmetric Nexus

Since 2012, the China–CEE cooperation mechanism has become mature gradually. Moreover, during the 2015 Suzhou Summit, participating countries stated their readiness to formulate the Medium-Term Agenda

for Cooperation between China and Central and Eastern European Countries ("The Medium-Term Agenda for Cooperation between China and Central and Eastern European Countries," n.d.). However, CEE countries now have in different status with different demands. For China, the challenges of asymmetric relations and the diversification of interests should not be underestimated. This requires that China, while developing its economic and trade relations, should take into account the different circumstances of the political, economic and social development of each country. Because most of the countries in CEE are small countries with small volumes, it is difficult for China to form a united trade-related cooperation. But if CEE countries are well coordinated in some convergence or similar industries, at the regional level, bilateral investment cooperation will progress smoothly, and it is easier to succeed than for a country alone to cooperate with China. In addition, if there is no coordination, CEE countries may create competition in attracting Chinese investment.

First, the overall scale of both sides: according to the data from World Bank in 2016, China and CEE countries have great differences in terms of population, GDP and surface area. As Table 1 shows, China's territory is 7.12 times the total of 16 countries in CEE, with a population of 11.57 times and GDP of 8.09 times. Secondly, the trade volume between China and CEE-16 is 764.43 billion USD, which accounts for only about 2.04% of China's global trade turnover in the same period (Figure 1). The size of population and territory could directly affect the level of demand for a certain product and the depth of cooperation. More importantly, the partnership is an independent and autonomous cooperation among international actors based on common interests, through joint action and in pursuit of common goals. In order to safeguard national interests and expand its international influence, China has built a partnership strategy based on the "Five Principles of Peaceful Coexistence" and improved the global strategic development through bilateral relations. From the information by the Ministry of Foreign Affairs of PRC, until June 2017, only seven countries in CEE have established "partnership relations" with China (Table 2). In addition, China's outward FDI stock in Central and Eastern European countries grew 35.4 times from 47.88 million USD in 2004 to 1696.51 million USD in 2014. However, at the country level (Figure 2), Hungary (2683.37 million USD) is more than 1118.5 times the size of Montenegro (2.56 million USD). Therefore, the "Belt and Road" initiative and "16+1" cooperation mechanism are very meaningful, but such initiatives must consider the current status of the sides, which could make them more effective.

**Table 1. List of information of China and CEE-16 Countries, 2016**

Country	Population Total, 2016	GDP, current USD, 2016	Surface Area, sq. km, 2016
Albania	2876101.00	11926892452.85	28750
Bosnia and Herzegovina	3516816.00	16559695718.57	51210
Bulgaria	7127822.00	52395164027.15	111000
China	1378665000.00	11199145157649.20	9562911
Croatia	4170600.00	50425333970.03	56590
Czech Republic	10561633.00	192924593987.30	78870
Estonia	1316481.00	23136741984.16	45230
Hungary	9817958.00	124342940194.42	93030
Latvia	1960424.00	27677391316.34	64490
Lithuania	2872298.00	42738875963.37	65286
Macedonia, FYR	2081206.00	10899583154.65	25710
Montenegro	622781.00	4173255530.97	13810
Poland	37948016.00	469508680416.12	312680
Romania	19705301.00	186690595273.12	238390
Serbia	7057412.00	37745114708.31	88360
Slovak Republic	5428704.00	89551834322.58	49035
Slovenia	2064845.00	43990635176.05	20270

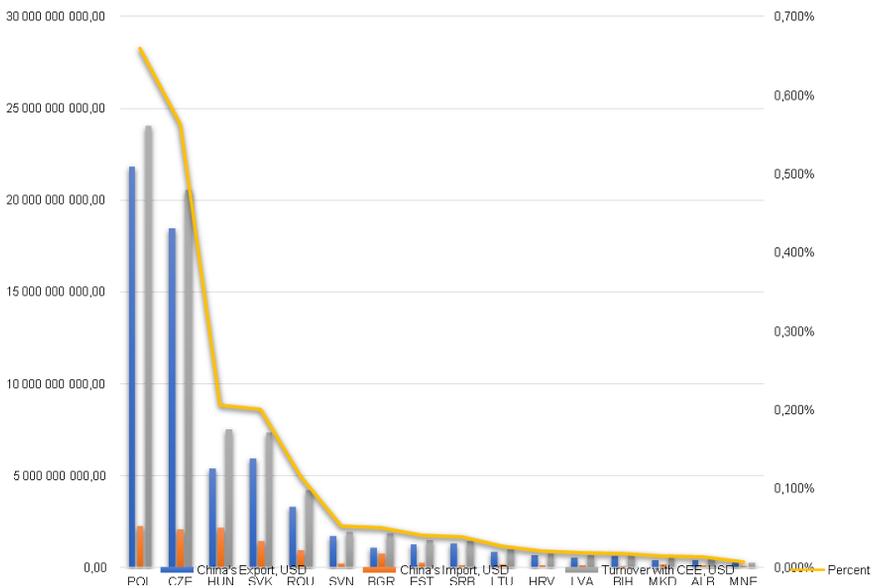
Source: Data collected from DataBank, The World Bank, n.d.

**Table 2. Partnership Relations between China and CEE Countries (Until June 2017)**

Country	Date of Diplomatic Ties	Remarks
Albania	1949.11.23	N/a
Bosnia-Herzegovina	1995.4.3	N/a
Bulgaria	1949.10.4	Comprehensive friendly cooperative partnership (2014)
Croatia	1992.5.13	Comprehensive cooperative partnership (2005)
Czech Republic	1949.10.6	Strategic partnership (2016)
Estonia	1991.9.11	N/a
Hungary	1949.10.6	Friendly cooperative partnership (2004) Comprehensive strategic partnership (2017)

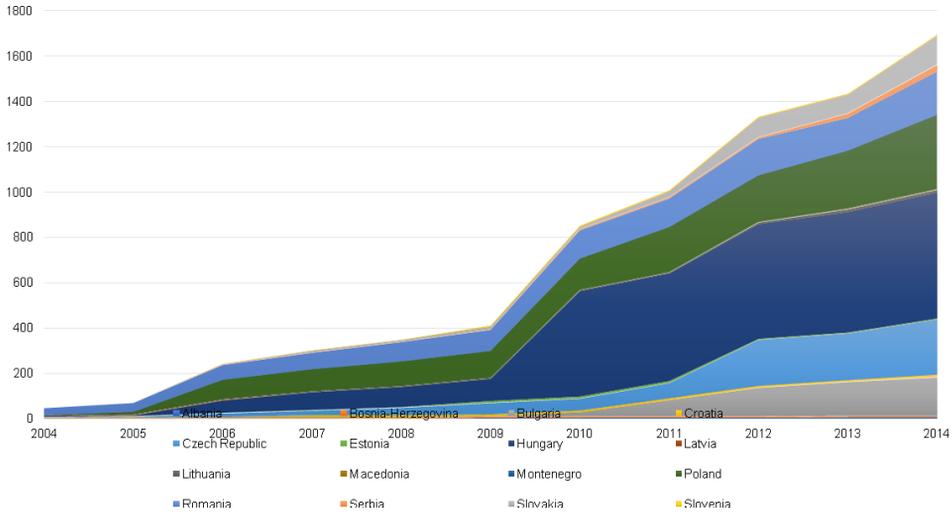
Country	Date of Diplomatic Ties	Remarks
Latvia	1991.9.12	N/a
Lithuania	1991.9.14	N/a
Macedonia	1993.10.12	N/a
Montenegro	2006.7.6	N/a
Poland	1949.10.7	Partnership (2004) Strategic partnership (2011) Comprehensive strategic partnership (2016)
Romania	1949.10.5	Comprehensive friendly cooperative partnership (2004)
Serbia	1955.1.2	Strategic partnership (2009) Comprehensive strategic partnership (2016)
Slovakia	1949.10.6	N/a
Slovenia	1992.5.12	N/a

Source: Data collected from Ministry of Foreign Affairs of the People’s Republic of China.



**Figure 1. China’s Trade with CEE Countries in 2016 (USD, Percent by China to the World in Total)**

Source: Data collected from DataBank, The World Bank, n.d.



**Figure 2. China's Outward FDI Stock by Country in CEE-16, 2004–2014 (millions of USD)**

Source: Data collected from Ministry of Commerce of the PRC.

Secondly, the foreign affairs priorities. After radical social changes, the countries of CEE have completed secession from the Soviet Union and restored ties with the West in all aspects of social development (Youngs 2017). With the end of the Cold War and the collapse of US–Soviet bipolar relations, the international and European landscape is facing a reconfiguration (O’Hanlon 2017). In the context of the new geopolitical environment, the CEE countries began to shift westward after the dissolution of the Soviet Union. Many CEE countries, guided by the beliefs of “Return to Europe” (Keukeleire and Delreux 2014), are actively integrated into the Europe-Atlantic system. The most obvious manifestation is the demand for the NATO and the EU, which has become a landmark event in the changing geopolitical and economic map of Europe. But it is worth noting that the countries of Southeastern Europe did not share the “peace dividends” after the Cold War, but on the contrary, it is “fragmentation” which is contrary to European integration, that is bringing problems to Europe.

Russia has also redefined the status of the CEE countries in its own diplomatic strategy and attempted to return to CEE. As the successor of the Soviet Union, Russia has also turned to the Western models, and

therefore it no longer intervenes in the social transformation of CEE countries. After the collapse of the Soviet Union, Russia implemented drastic and profound socio-economic changes in accordance with the Western model. Therefore, the foreign policy has also synchronized with the political and economic processes facing the West. The Yeltsin regime cooperated with the West without reservations and tried to integrate into the Western world. Objectively, such a “one-sided” strategy was a strategic diplomatic strategy for the Yeltsin regime. The success of any social change depends on the improvement of the efficiency and well-being of social development, which is also the ultimate pursuit of socio-economic and political change in Russia in the 1990s. However, due to the lack of adequate ideological and psychological preparation for such reform, coupled with the huge inertia of the Soviet model that lasted for more than 70 years, as well as the complex structure of interest groups in the social transformation of profit and control, such reform may lead to failure. Therefore, at the early stage of Yeltsin’s administration, the Central and Eastern Europe region was excluded from the priorities of Russia’s foreign policy, and at one time it almost broke contact with Central and Eastern European countries. After Putin came to power, he was soberly aware of the decline in Russia’s strength. As Russia had not been able to fight against the United States and the West, it could better defend its interests only by giving up a fight with the United States in some non-major strategic areas and geopolitical aspects. With the evolution of the world political structure, the change of the geopolitical role of Central and Eastern Europe and the adjustment of Russia’s foreign policy, especially after Putin’s rule, the strategic position of the Central and Eastern European countries and the nature of Russia are redefined. The positive factors in the relations between Russia and Central and Eastern Europe have increased, which opens the way for the establishment of a new type of relations between Russia and Central and Eastern Europe countries (Mankoff 2009). Nevertheless, as a power in Eurasia, Russia is reluctant to accept Western powers in CEE, as it threatens its security and interests. Many of the CEE countries joined NATO and the EU, in this area, Russia is competing with the Western powers led by the United States (Kaplan 2004). From this perspective, the development of external relations in CEE is still restricted by the relations among Russia, the United States, Europe and other major powers.

List 1. Memberships of CEE Countries

Country	AL	BA	BG	CZ	EE	HR	HU	LT
Eurozone	×	×	×	×	√	×	√	√
EU	×	×	√	√	√	√	√	√
NATO	√	×	√	√	√	√	√	√
Country	LV	ME	MK	PL	RO	RS	SI	SK
Eurozone	√	×	×	×	×	×	√	√
EU	√	×	×	√	√	×	√	×
NATO	√	√	×	√	√	×	√	√

Currently, among the 16 countries in CEE, 11 countries are member states of the EU, 5 countries are in the Eurozone, 8 countries are members of NATO. CEE countries have a high degree of market orientation, and the legal supervision system is complicated. Therefore, in light of the above asymmetry status, could China and CEE countries still reach a better cooperation? For the following parts, I will examine the data between China and CEE countries since the establishment of diplomatic ties by a quantitative approach to test both parties.

### 3. Theoretical Model and Hypothesis

#### 3.1. Asymmetric Hawk-Dove Game Model

The Hawk-Dove model as a basic tool in game theory application has been widely used in the research of conflict and cooperation in human society (Broom and Rychtar 2013). The contestants of such a game can be either Hawk or Dove. These are two subtypes or morphs of one species with different strategies. The Hawk first displays aggression, then escalates into a fight until it either wins or is injured (loses). The Dove first displays aggression, but if faced with major escalation runs for safety. If not faced with such escalation, the Dove attempts to share the resource. As shown in the following table, as one party obtains the benefit  $V$ , if both parties choose Hawk (H) as the strategy, the cost of conflict is  $C$ , the pure income of both parties is  $(V-C)/2$ . If the strategy adopted by the parties is different, the pure benefit of HD strategy is  $V$ , and vice versa (DH) is 0. If both parties adopt the Dove (D) strategy, the income of both parties is  $V/2$ .

**Table 3. The Payoff Matrix for the Hawk-Dove Game**

Strategy (S)	Meets Hawk (H)	Meets Dove (D)
If Hawk (H)	$(V-C)/2, (V-C)/2$	$V, 0$
If Dove (D)	$0, V$	$V/2, V/2$

In the classic Hawk-Dove Game model, the premise is that the power of the two parties is equivalent. When the two parties adopt a cooperative strategy, the two sides gain the same income, and while in conflict, the cost of the conflict is equivalent as well. However, there may be a power asymmetry between the two stakeholders (Maschler et al. 2013; Osborne 2003; Smith 1982). For example, the asymmetries between China and the Central and Eastern European countries are described in the preceding paragraphs. If we only use the classical game model of Hawk-Dove to explore the interest distribution, the mechanism of cooperation between the two sides has a great limitation. Therefore, we need to consider the following payoff matrix of the asymmetric Hawk-Dove game model.

In case of asymmetric power between China and CEE countries, the benefit distribution of both sides is affected by power. Here, if we assume that the power ratio between China and CEE countries is  $K:1-K$ , ( $0 < K < 1$ ),  $K$  can be understood as the probability of winning if conflict occurred between the two parties. When the two sides adopt the  $S(HH)$ , the gain by China is  $(V-C)/4K$ , the gain by CEE countries is  $(V-C)/4(1-K)$ . If the two sides adopt the  $S(DD)$ , China's benefit is  $KV$ , CEE countries'  $(1-K)V$ . When the two parties adopt different strategies, the assumed gains are the same as the classic Hawk-Dove model, and the cost of the conflict between the two parties is higher than the gains by both, that is  $C > V$ . According to the above assumptions, the payment matrix can be displayed in the following table (Mesterton-Gibbons 1992; Womack 2016).

**Table 4. The Payoff Matrix for the Asymmetric Hawk-Dove Game**

		CEE Countries	
		Meets Hawk (H)	Meets Dove (D)
China	Strategy (S)		
	If Hawk (H)	$(V-C)/4K, (V-C)/4(1-K)$	$V, 0$
	If Dove (D)	$0, V$	$KV, (1-K)V$

Therefore, according to the above analysis, the hypothesis of this paper assumes that if the economic power of the two sides is not equal, the de-

gree of cooperation between the two sides is closely related to the economic power. That is, the bigger the difference between the economic power of the two sides is, the higher the frequency of cooperation will be. The economic interdependence between China and the countries of Central and Eastern Europe has promoted the improvement of bilateral political relations.

### *3.2. Selection and operation of variables*

In this paper, I will set the bilateral political relations as dependent variables and, based on the degree of economic interdependence as independent variables, aim to examine the above hypotheses. For control variables, I will choose the national democracy index, military expenditure and institutional participation.

#### (1) Bilateral political relations

This paper will use the Global Database of Events, Language and Tone (GDELT) to measure the bilateral relationship as a record. The GDELT Project monitors the world's broadcast, print, and web news from nearly every corner of every country in over 100 languages and identifies the people, locations, organizations, themes, sources, emotions, quotes, images and events driving our global society every second of every day, creating a free open platform for computing for the entire world. This database records what kind of actions have been taken by a Source country to the Target country since 1979 by encoding with Conflict and Mediation Event Observations (CAMEO), which is a framework for coding event data (typically used for events that merit news coverage and generally applied to the study of political news and violence). Then it is used by Goldstein's conflict-cooperation scale to assign the conflict or cooperation (from -10 to 10) to measure the bilateral relationships (see Appendix 1). The GDELT database covers all the interactive issues and time between the relevant countries, so it meets the criteria of comprehensiveness.

#### (2) Economic interdependence

The independent variable will be selected by the degree of economic interdependence (GDP per capita), trade interdependence (Turnover), and investment interdependence (OFDI) as a combination. For OFDI, the data

will select stock as the source. Due to the numerical instability, it will be converted by the formula  $y = \ln(x + \sqrt{x^2 + 1})$ . To a certain extent, the stock as the independent variable can avoid the large fluctuation of flow data in the short term.

### (3) Democracy Index

From the perspective of history, especially in light of the reality of contemporary international relations, countries with democratic institutions are rarely in conflict with each other. Because of the restriction of liberal democracy and normative power, there will be no war among democratic countries generally, but there are still disputes over the above statements. Therefore, the degree of democracy is regarded as a control variable affecting the bilateral relations. Information and data are selected from Freedom House's Country Scores (see Appendix 2).

### (4) Military Expenditure

Military spending is also a control variable that must be considered. High military spending may matter in a hostile environment, where the relationship between countries is easy to change. Because of the high asymmetry between China and Central and Eastern European Countries in military spending, this indicator is measured by the proportion of each country's annual military expenditure as a share of GDP. The data comes from the Stockholm International Peace Research Institute (SIPRI 2017).

### (5) Degree of Fit of Institutional Participation

In recent years, researchers using econometric analysis have made many indicators by the degree of interest similarity between countries, many of which are derived from the General Assembly of the United Nations voting records as a basis for the measurement of bilateral relations. First, all members of the United Nations are eligible to vote in various motions in the General Assembly, while each state has three options for each proposal: yes, no, or abstention. Since the establishment of the United Nations General Assembly, there have been dozens of votes every year, so the similarity of voting between the two countries becomes an

important index to measure the degree of fit of bilateral institutional participation. This paper adopts the similarity between China and Central and Eastern European countries in the United Nations General Assembly as a control variable to examine bilateral institutional participation. The data was selected from United Nations General Assembly Voting Data by Erik Voeten (see Appendix III).

### 3.3. Model Setting

As described earlier, this paper will set the following linear regression model:

$$value_{it} = inteX_{it} + dem_{it} + mili_{it} + alli_{it} + \varepsilon$$

In this model, *i* denotes the Central and Eastern European countries, *t* denotes the year and *value* representing the relationship with China. Here, *inteX* contains three different indices to measure the degree of economic interdependence: GDP, trade and investment. The above equation contains three regression models, these are called model I, model II, and model III respectively. *Dem* refers to the degree of democracy, *mili* refers to military expenditure, *alli* refers to the degree of institutional fit of both parties,  $\varepsilon$  represents random interference.

Due to the lack of some data, Bosnia and Herzegovina, Slovenia, Serbia and Montenegro were not included, and the data selected from 1989 to 2016 contains in total 12 countries, including China. In order to make the data stable, some variables take the natural logarithmic form; variables in percentage, negative or zero will maintain the original. Log is a strictly monotonic recursive increasing function, it does not change the causal relationship between data. The statistical description of variables is shown in the table below.

**Table 5. Statistical Description of Variables<sup>2</sup>**

Variable	Mean	Standard Deviation	Min	Max
Value	5.26	3.39	-10	10
InteGDP	-3.882557	1.893711	-11.51293	-0.6945994
InteTra	-3.229195	1.749534	-11.51293	-0.8067139

.....  
 2 Detailed data in the annex.

Variable	Mean	Standard Deviation	Min	Max
InteFDI	0.000878	0.0040751	0	0.0293
Dem	1.346988	6.501585	-8	10
Mili	3.029033	2.887069	0.3	18
Alli	1.933735	2.117735	0	7

Notes: The range of variables is following, value=Bilateral relationship score, inteGDP=Economic interdependence (logarithmic), inteTra=Trade interdependence (logarithmic form), inteFDI=Investment interdependence, dem=Democratic index, mili=Percentage of military expenditure as a percentage of GDP, alli=Degree of fit of institutional participation.

## 4. Empirical Test and Result Analysis

The above data are used to empirically test the impact of economic interdependence between China and Central and Eastern European countries on bilateral relations, and then to verify whether the prediction of cooperation in the context of the asymmetric relationship could be enhanced. First, it makes a simple model screening of the regression equation. There are three models to deal with the panel data: mixed-effect model, fixed-effect model and random-effect model. The mixed-effect model is to treat panel data as cross-sectional data, directly using OLS estimator. The difference between the fixed effect model and the random effect model is that the random effect model assumes that the individual effect is not related to the explanatory variable, and it is regarded as part of the error term and the regression equation of the random intercept term. The fixed effect model assumes that the individual effect is related to the explanatory variable and treats it as an explanatory variable. For the above three models, I use the Wald test, and I excluded the mixed effect model. The selection of the fixed effect model and the random effect model is usually determined by a Hausman test. When the Hausman test is significant at 10% level, then the fixed effect model is chosen. The results of the Hausman test show that models I, II and III is at 5%, so the results of the fixed effect are reported below.<sup>3</sup>

The results show that both inteGDP and inteTra in model I and II are significant at 1%, and the coefficient is positive. The core explanatory

<sup>3</sup> Made by R, version 3.4.1.

variable of model III, inteFDI cannot pass the saliency test. Models I and II show that economic interdependence can promote bilateral relations. However, we cannot simply accept this conclusion without considering the endogenous variable. From a theoretical perspective, economic interdependence has a very high endogenous expectation in the equation of bilateral relations. For example, when bilateral relations tend to rise, it is highly likely that bilateral trade will be promoted, thereby affecting bilateral interdependence. Also, when the degree of economic interdependence is getting higher and higher, it may force the two sides to avoid the deterioration of relations. In the study of economic interdependence and conflict, some scholars treat economic interdependence as independent variables, while others treat conflict as independent variables, so there is reason to suspect inteGDP, inteTra and inteFDI is an endogenous variable.

**Table 6. Fixed-effect Model Estimation Results<sup>4</sup>**

Variable	Model I	Model II	Model II
InteGDP	0.575*** (8.41)		
InteTra		0.582*** (8.77)	
InteFDI			-31.51 (-0.83)
dem	0.0412* (0.08)	0.0393 (1.93)	-0.00739 (-0.27)
mili	-0.428*** (-7.87)	-0.414*** (-7.63)	-0.0439 (-0.49)
alli	-0.251** (4.11)	0.324*** (5.57)	0.513 (6.55)
CONS	4.311** (3.09)	4.240** (3.07)	1.385 (0.21)
N	36559	36559	36559
Adj-R <sup>2</sup>	0.8541	0.8561	0.7861

Notes: (1) \*\*\*, \*\*, \* means the variables at 1%, 5% and 10% level are significant respectively. The t value is in parentheses.

Moreover, in order to determine whether the existence of endogeneity can be tested or not, we could use the Davidson-MacKinnon method. The

.....  
4 The results are estimated based on the variables in Table 5.

original hypothesis of the Davidson-MacKinnon test method is that if there is no endogeneity, the two estimates are consistent, whether using OLS estimation or tool variable method estimation. In this paper, the three models reject the null hypothesis at the 5% level, which indicates that the model is endogenous. The way to eliminate endogeneity is to find a tool variable that is highly relevant to the endogenous variable, but not related to the disturbance term. Since it is difficult to find a tool variable that meets this condition, one of the measures is to use the endogenous variable as a tool variable. In this paper, *inteGDP*, *inteTra* and *inteFDI* (lag I and II) will be used as tool variables.

**Table 7. Final Estimated results<sup>5</sup>**

Variable	Model I	Model II	Model II
InteGDP	0.745*** (9.48)		
InteTra		0.798*** (9.94)	
InteFDI			-43.09 (-1.01)
dem	0.0486* (2.37)	0.0500* (2.43)	-0.00778 (-0.29)
mili	-0.435*** (-7.39)	-0.421*** (-7.11)	-0.0683 (-0.71)
alli	0.164* (2.55)	0.242*** (4.09)	0.546*** (5.54)
CONS	6.469*** (4.26)	6.641*** (4.35)	3.161 (1.70)
N	36559	36559	36559
Anderson LR-p	0.0000	0.0000	0.0001
Sargan test-p	0.2242	0.1663	0.1127

Notes: (1) \*\*\*, \*\*, \* means the variables at 1%, 5% and 10% level are significant respectively. The t value is in parentheses.

In order to test whether the tool variables are reasonable, I am using an under-identification and over-identification. From the AndersonLR and Sargan tests, the tool variables chosen in this paper are reasonable, there is no under-identification and over-identification. The regression results

5 The results are estimated based on the variables in Table 5.

of the tool variable method show that the model I and II, *inteGDP* and *inteTra* are still significant at 1% level after the endogeneity is mitigated. In model III, *inteFDI* still did not pass the significance test. Since the level of interdependence of investment is negligible compared to the level of economic interdependence and trade interdependence, the main effect of *inteGDP* and *inteTra* on political relations is observed. Therefore, it is believed that if other conditions remain unchanged, the economic relations between China and Central and Eastern European countries have a positive effect on bilateral political relations. For every 1% increase in *inteGDP*, the scores of bilateral political relations correspond to increase by 0.745 points, or *inteTra* 1% increase to 0.798 points in bilateral political relations raised simultaneously.

## 5. Conclusion

Based on the above analysis, I find that in asymmetric cooperation, the enhancement of cooperative efficiency can be realized by the individuals in the system with their corresponding influence. The accepting party of cooperation takes coercive measures to punish the individuals who do not cooperate, and the individual chooses to pay a certain cost to participate in the cooperation, or to take the speculation strategy. Obviously, if the recipient of the cooperation can effectively punish the partners of the cooperative, then the cooperative strategy will be their advantage strategy. However, due to the asymmetric information of the cooperative system, both parties do not know what kind of strategy the two parties actually adopt, that is, the dominant individuals cannot observe the cooperative strategy in real time. Similarly, the recipient of cooperation is not entirely clear when and to what extent the individual will punish non-cooperation actions, and therefore both sides tend to mix the strategy. For partners, the cost of conflict and the ratio of benefit is likely to be higher. It is more credible by the dominant side of the system to punish or suppress the speculative behavior, the more likely the partners are to be forced to cooperate. Therefore, in this sense, the asymmetric system is conducive to the evolution of cooperative behavior.

These results are in accordance with the hypotheses of this chapter. With the end of the Cold War, the economy has become a more important factor. In order to develop economic cooperation, China and the Central and Eastern European countries have realized the importance of opening

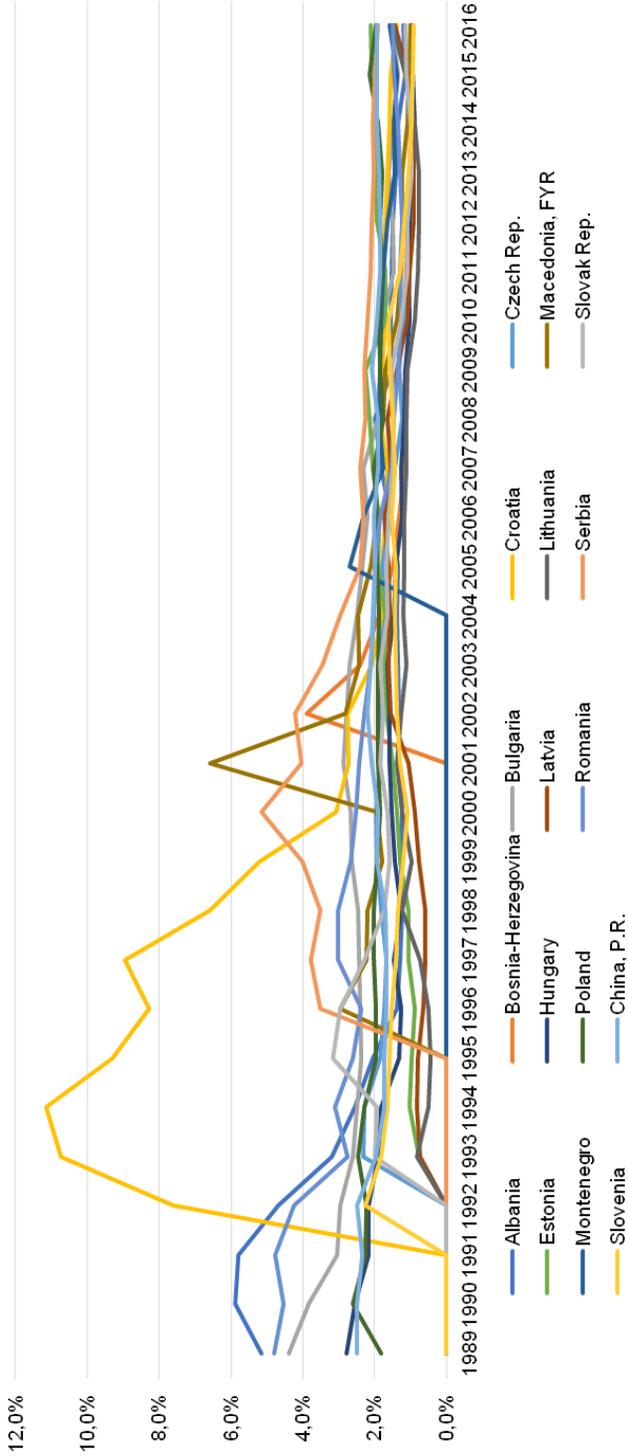
up, they have actively created various conditions and taken the opportunity of economic globalization: the economic contacts between the two sides have become closer. In this process, the economic interdependence between countries is deepening, and this deepening makes the cost of disconnecting the economic link increased, thereby inhibiting the conflict to some extent. When committed to the development of the economy, the countries with economic exchanges have taken the initiative to promote bilateral relations, which creates a good environment for economic exchanges and promotes mutual political and economic contacts.

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Appendix I: Military Expenditure by Country as Percentage of GDP, 1989–2016



Source: SIPRI 2017.

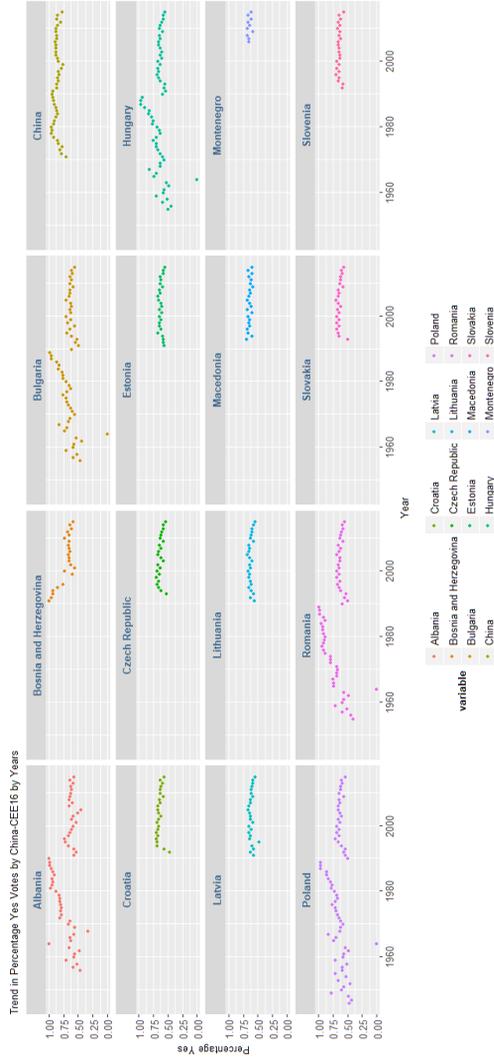
**Appendix II: Freedom Score by Country (China and CEE-16)<sup>6</sup>**

Country	Freedom Status	PR	CL	Freedom	Aggregate Score	Trend Arrow
Albania	Partly Free	3	3	3.00	68	
Bosnia-Herzegovina	Partly Free	4	4	4.00	55	
Bulgaria	Free	2	2	2.00	90	
Croatia	Free	1	2	1.50	87	
Czech Republic	Free	1	1	1.00	94	
Estonia	Free	1	1	1.00	94	
Hungary	Free	3	2	2.50	76	
Latvia	Free	1	2	1.50	87	
Lithuania	Free	1	1	1.00	91	
Macedonia	Partly Free	4	3	3.50	57	
Montenegro	Partly Free	3	3	3.00	69	
Poland	Free	1	2	1.50	89	↓
Romania	Free	2	2	2.00	84	
Serbia	Free	3	2	2.50	76	
Slovakia	Free	1	1	1.00	89	
Slovenia	Free	1	1	1.00	92	
China	Not free	7	6	6.50	15	↓
A					77.23529412	

Source: Data collected from Freedom House.

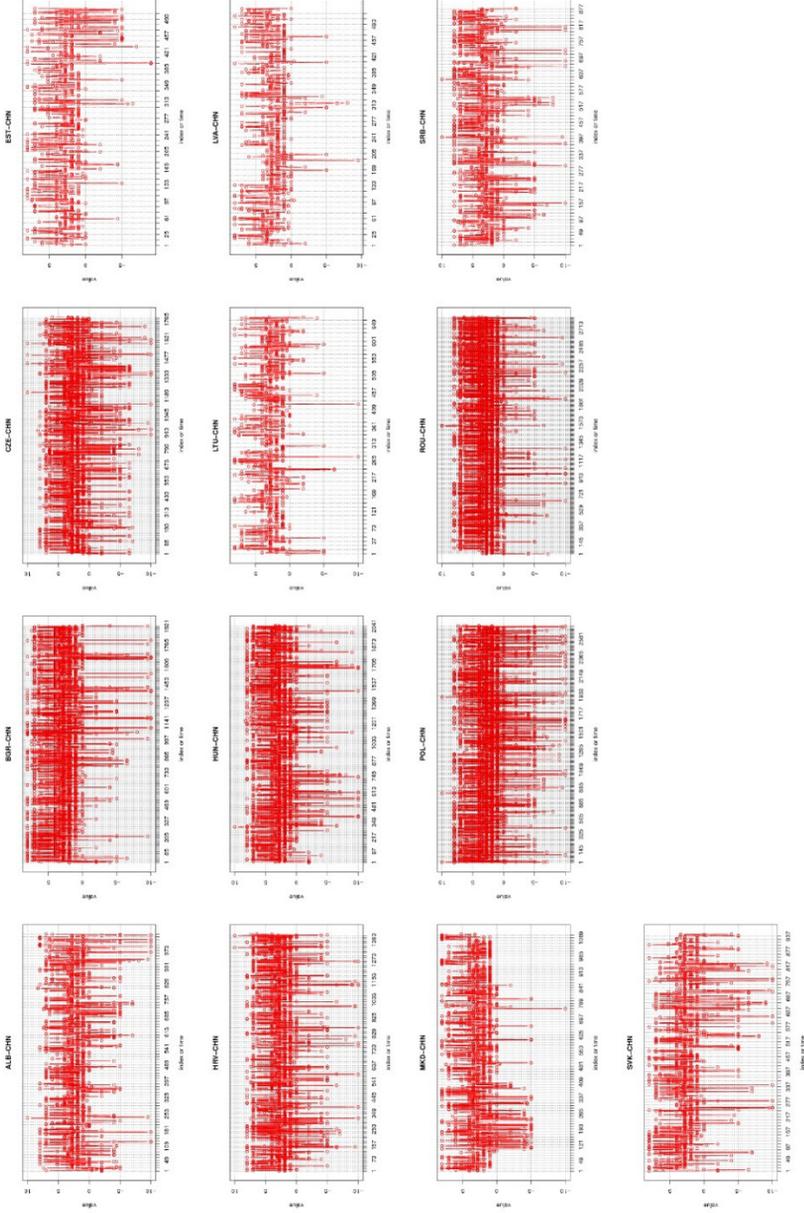
<sup>6</sup> Notes: PR = Political Rights, CL = Civil Liberties, CL, PR, Freedom Rating Explanation: 1=most free and 7=least free, Aggregate Score Explanation: 0=least free, 100=most free.

Appendix III: The Voting Records by China and CEE-16



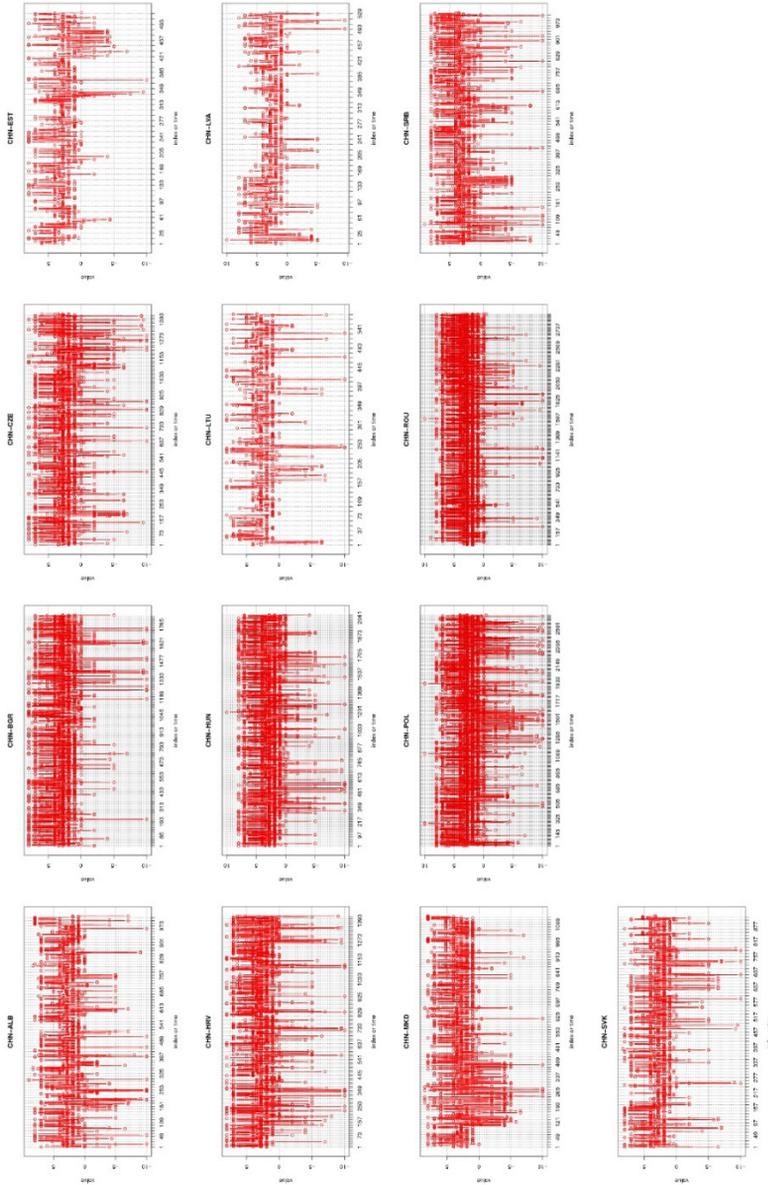
Notes: The Voting Records database provides access to voting information for General Assembly resolutions adopted by a recorded vote beginning in the 1st session (1946), the information provided comes from the voting machine in the General Assembly Hall. If a Member State informs the Secretariat of an error in the vote, the data is not changed and the vote must therefore be researched in the meeting records. Source: United Nations General Assembly Voting Data.

Appendix IV-i: GDELT Data by CEE-16 to China



Source: GDELT Project.

Appendix IV-ii: GDELT Data by China to CEE-16



Source: GDELT Project.

Notes:

IV-i	N	Min	1st Qu.	Median	Mean	3rd Qu.	Max
ALB-CHN	1045	-10.000	1.000	2.500	2.207	4.000	10.000
BGR-CHN	1928	-10.000	1.000	2.800	2.843	4.000	8.000
CZE-CHN	1784	-10.000	1.000	2.800	2.098	4.000	10.000
EST-CHN	516	-9.000	1.000	2.800	2.826	4.000	8.000
HUN-CHN	2043	-10.000	1.000	2.800	2.858	4.000	10.000
HRV-CHN	1428	-10.000	1.000	2.800	2.534	4.000	10.000
LTU-CHN	670	-10.000	1.000	2.800	2.816	4.000	8.000
LVA-CHN	528	-10.000	1.000	2.800	2.787	4.000	8.000
MKD-CHN	1086	-10.000	1.000	2.800	2.871	4.000	8.000
POL-CHN	2732	-10.000	1.000	2.800	2.384	4.000	10.000
ROU-CHN	2843	-10.000	1.900	2.800	2.997	4.000	10.000
SRB-CHN	879	-10.000	1.900	3.400	3.110	5.200	10.000
SVK-CHN	945	-10.000	1.000	2.800	2.281	4.000	8.000
SUM/A	18427				2.662		

IV-ii	N	Min	1st Qu.	Median	Mean	3rd Qu.	Max
CHN-ALB	1017	-10.000	1.000	2.800	2.469	4.000	9.000
CHN-BGR	1847	-10.000	1.000	2.800	2.937	4.000	8.000
CHN-CZE	1428	-10.000	1.000	2.800	2.234	4.000	8.000
CHN-EST	519	-10.000	1.000	2.800	2.790	4.000	8.000
CHN-HUN	2065	-10.000	1.000	2.800	2.871	4.000	10.000
CHN-HRV	1423	-10.000	1.000	2.800	2.611	4.000	8.000
CHN-LTU	579	-10.000	1.000	2.800	2.463	4.000	8.000
CHN-LVA	531	-9.500	1.000	2.800	2.544	4.000	10.000
CHN-MKD	1110	-10.000	1.000	2.800	2.611	4.000	8.000
CHN-POL	2741	-10.000	1.000	2.800	2.459	4.000	10.000
CHN-ROU	2935	-10.000	1.900	2.800	3.003	4.000	10.000
CHN-SRB	1019	-10.000	1.900	3.400	2.930	5.000	9.000
CHN-SVK	918	-10.000	1.000	2.800	2.657	4.000	8.000
SUM/A	18132				2.660		

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## **Values or Interests? Japan's Relations with European Countries under the Abe Administration**

### **Abstract**

*Both during his first (2006–2007) and second administrations (since 2012) Prime Minister Abe Shinzō emphasized the gravity of value-oriented diplomacy based on promotion of democracy, free-market economy, human rights, and rule of law. At the same time, however, his foreign policy has been very pragmatic and focused on hard-power-like measures, such as an increase in the deterrence capacity of the Self-Defense Forces. On the one hand, the Japanese government declared its attachment to universal values on the international scene, but on the other hand there were doubts whether it lived up to those values on domestic ground. For that reason, Tokyo has been accused by neighboring countries of treating value-oriented diplomacy as an empty slogan in order to realize national interests. The aim of this paper is to evaluate the role of this dichotomy in relations with Europe. It is examined to what extent Abe declared his adherence to the universal values, and to what extent he really promoted them in Europe. Special emphasis is placed on the discrepancy between Tokyo's narrative on values in relations with the European Union (EU) on the one side and with Moscow and other un-democratic regimes in Europe on the other.*

**Keywords:** *Japan-EU relations, Abe administration, foreign policy of Japan*

## 1. Abe's Value-Oriented Diplomacy

Value-oriented diplomacy (*kachikan gaikō*) has been one of the foundations of Abe Shinzō's foreign policy ever since his first prime ministership in 2006–2007. At the Japan Institute of International Affairs Seminar in November 2006, Foreign Minister Asō Tarō, who shared the ideological leanings of the prime minister, emphasized that the “universal values” of “democracy, freedom, human rights, the rule of law, and the market economy” were of grave importance in Japan's diplomatic endeavors. Moreover, he declared that Tokyo would support the development of these values in the countries forming an “arc of freedom and prosperity,” that is, “the successfully budding democracies that line the outer rim of the Eurasian continent” (Ministry of Foreign Affairs of Japan 2006). Asō stressed that some of the elements of democratic values, such as the rule of law, observance of contracts or easily accessible education had been inculcated in Japanese culture and civilization long before the Meiji Restoration in 1868. He emphasized that after the Second World War, Japan added to this set of universal principles the rule of pacifism, which made the Self-Defense Forces one of the least aggressive military organizations in the world (Asō 2008, pp. 29–32). In order to promote Western values in the unstable peripheries of Eurasia, Asō promised to cooperate with be-friended democracies, such as the US, Australia, India, or EU and NATO member states. As he emphasized, Japan's role was to assist the developing countries in “the first five kilometers” of “a never-ending marathon” of democratization processes (Ministry of Foreign Affairs of Japan 2006). Asō emphasized that the fact that Japan generally enjoyed a cheerful, warm, and cool image among other nations would help Tokyo in fulfilling this task. After all, according to him, Japan possessed large deposits of soft power, such as rich traditions of *zen*, *bunraku*, *kabuki*, or tea ceremony, but also an attractive popular culture based on *manga*, *anime*, J-pop, and J-fashion (Asō 2008, pp. 283–286).

One day after returning to the post of prime minister in December 2012, Abe announced a concept of “Asia's democratic security diamond” that encompassed Japan, India, Australia, and the US state of Hawaii. Pointing to the China threat, he emphasized that the four states should “safeguard the maritime commons stretching from the Indian Ocean region to the western Pacific” (Abe 2012). In mid-January 2013, the prime minister disclosed “Five New Principles for Japanese Diplomacy” that

were planned to be announced during his visit to Jakarta. They included: 1) "protecting freedom of thought, expression, and speech in this region where two oceans meet;" 2) "ensuring that the seas, which are the most vital commons to us all, are governed by laws and rules, not by might;" 3) "pursuing free, open, interconnected economies as part of Japan's diplomacy;" 4) "bringing about ever more fruitful intercultural ties among the peoples of Japan and" ASEAN; 5) "promoting exchange among the younger generations" (Ministry of Foreign Affairs of Japan 2013a). Reference to common values was equally strongly emphasized in Abe's Policy Speech to the Diet at the end of the same month: "Fundamental to our diplomacy will be for us to develop a strategic diplomacy based on the fundamental values of freedom, democracy, basic human rights, and the rule of law, and we view the world as a whole, as if looking at a globe, rather than look only at bilateral relations with neighboring countries" (Prime Minister of Japan and His Cabinet 2013a).

In subsequent months and years Abe mentioned universal values whenever he visited democratic countries. For example, during his visit to Mongolia in March 2013 he compared Mongolia's successful democratization and adoption of free-market rules with the transformation of the Japanese political system during the Meiji Restoration in the second half of the 19<sup>th</sup> century (Prime Minister of Japan and His Cabinet 2013b). He recalled "the universal values of freedom, democracy, the rule of law, and human rights" during his visit to the Philippines in July 2013 (Prime Minister of Japan and His Cabinet 2013c), and referred to them when visiting the US and Canada in September 2013. During his address to the Australian Parliament in July 2014 he stressed: "Yes, our countries both love peace. We value freedom and democracy. And we hold human rights and the rule of law dear" (Prime Minister of Japan and His Cabinet 2014a). When Abe visited Latin America and the Caribbean Region in August 2014, he added: "I firmly believe that we, who furthermore share universal values, will be able to develop together, and contribute to the world together, and together offer each other mutual enlightenment" (Prime Minister of Japan and His Cabinet 2014b). In his speech to the US Congress in April 2015, in turn, he emphasized that: "we can spread our shared values around the world and have them take root: the rule of law, democracy, and freedom" (Prime Minister of Japan and His Cabinet 2015a).

Moreover, at the "Shared Values and Democracy in Asia" Symposium in Tokyo in January 2016, Abe explained that "Asia's democracy has

a distinct mark engraved in it from ancient times, reflecting the values we have held dear for generations. (...) I have renewed my belief that, within the veins of water that have run continuously since ancient times under the ground upon which we stand, there is endless nourishment fostering democracy and imparting value to freedom and human rights, namely tolerance and loving kindness" (Prime Minister of Japan and His Cabinet 2016).

During his policy speech to the Diet in January 2017, Abe reiterated that Japan would cooperate with ASEAN members, Australia, and India as the countries who "share fundamental values such as freedom, democracy, human rights, and the rule of law" (Prime Minister of Japan and His Cabinet 2017a). Moreover, at a press conference after his visit to the Philippines, Australia, Indonesia, and Vietnam in the same month, he stressed that "All of these nations share the 'open seas' of the Pacific Ocean and are important neighboring countries that share fundamental values," such as, in the case of Vietnam, "the rule of law" (Prime Minister of Japan and His Cabinet 2017b). Also when sending a congratulatory message to US President Donald Trump on the occasion of his inauguration, Abe did not forget to remind him that the Japan–US alliance was "bound in universal values such as freedom, democracy, human rights, and the rule of law" (Prime Minister of Japan and His Cabinet 2017c).

The abovementioned excerpts from the Japanese prime minister's speeches indicate that universal values played an important role in the declarative dimension of his foreign policy vision. Nevertheless, in order to fully understand the concepts of the "arc of freedom and prosperity" and "Asia's democratic security diamond," it is necessary to put them in a broader context of national interests espoused by the Abe administration.

## 2. Abe's Strategic Interests

While constant reference to values by Abe may create an impression that he represented an idealist approach to foreign policy, in fact his activity on the international scene has been very pragmatic. As such, values have been employed by Abe selectively with some countries, while omitted in relations with others. The declaration on adherence to "universal values" has been used in particular to strategically encircle China, strengthen the alliance with the US, and expand cooperation on security issues with India, Australia, and Western Europe.

Taking advantage of “universal values” in diplomacy towards democratic states did not preclude Abe from strengthening ties with authoritarian regimes. Abe did not mention “universal values” in his speeches delivered during visits to Saudi Arabia and Turkey in May 2013. Instead, in Ankara he used three different keywords: “collaboration,” “coexistence and prosperity,” as well as “tolerance and harmony” (Prime Minister of Japan and His Cabinet 2013d). Analogously, during his visit to Qatar in August 2013 he referred to a “comprehensive partnership towards stability and prosperity (...) based on the three pillars of collaboration, coexistence and co-prosperity, and tolerance and harmony” (Prime Minister of Japan and His Cabinet 2013e). It was evident that he did not want to jeopardize relations with strategically important gas and oil exporters in the Middle East, and thus omitted the delicate topics of democracy and human rights.

In his address to the UN General Assembly in New York in September 2013, Abe announced the new concept of Proactive Contribution to Peace. As he explained, “It is now impossible for any one country, no matter which it may be, to safeguard its own peace and security acting entirely by itself. This is why Japan is working to garner trust from the world as a creator of added value and a net contributor for regional and world peace and stability” (Prime Minister of Japan and His Cabinet 2013f). The new policy signified that Japan would intensify its participation in peacekeeping operations and more assertively rely on collective security measures.

Within the framework of Proactive Contribution to Peace, Abe continued the discrepancy regarding emphasis he put on values depending on the political regime of the country he visited. For example, during his trip to Oman, Côte d’Ivoire, Mozambique, and Ethiopia in January 2014, he failed to mention the issues of democracy and human rights. Instead, Abe used the expression of “diplomacy that takes a panoramic perspective of the terrestrial globe based on strategic approaches” (Prime Minister of Japan and His Cabinet 2014c).

The concept of Proactive Contribution to Peace was most strongly reflected in Abe’s desire to legalize Japan’s participation in pacts of collective self-defense. In July 2014, he issued a cabinet decision that changed the interpretation of the Constitution on that matter. The new interpretation, in turn, was included in the guidelines of the US–Japan alliance announced in April 2015. The guidelines significantly broadened the scope of alliance by allowing Self-Defense Forces to “conduct appropriate operations involving the use of force to respond to situations where an armed

attack against a foreign country that is in a close relationship with Japan occurs and as a result, threatens Japan's survival and poses a clear danger to overturn fundamentally its people's right to life, liberty, and pursuit of happiness, to ensure Japan's survival, and to protect its people" (Ministry of Defense 2015).

For Abe, the most crucial interest was strengthening Japan's deterrence capability against China. In 2010 and 2012 Sino-Japanese relations deteriorated severely due to two diplomatic crises caused by incidents in the East China Sea and nationalization by Japan of three of the Senkaku/Diaoyutai Islands that are disputed between both countries. In this light, constant appeal by Abe to the values of the rule of law and respect for maritime commons was a part of a wider strategy of building an anti-Chinese coalition in the region. While the rule of law was mentioned in Abe's contacts with almost all the countries he visited, democracy or human rights were simply added to the list of promoted values if they were shared by the country in question. This tactical flexibility attests to the instrumental approach towards value-oriented diplomacy by Tokyo.

### **3. Mixing Values with Interests: Relations with Europe**

Just as with diplomacy towards East Asian states, Prime Minister Abe's attitude towards European countries may be analyzed through the prism of interests and values. Abe was convinced that it was in Japan's interest to strengthen ties with Europe in all fields, particularly in the spheres of security and economy. However, he diversified his policy depending on the political regime of the country in question. While he brought to the fore "universal values" during meetings with the leaders of Western European states, he used different arguments when negotiating with authoritarian or hybrid regimes at the peripheries of the continent. In 2013 Japan started negotiations on a Free Trade Agreement and a Strategic Partnership Agreement with the EU. In parallel, in the first year of his second term, Abe met as many as four times with President Vladimir Putin and launched Foreign and Defense Ministerial Consultations with Russia. Moreover, he held three meetings with Turkish Prime Minister Recep Tayyip Erdogan. In negotiations with both leaders he focused on economic cooperation and security issues without mentioning human rights.

The head of the Japanese government put emphasis on developing contacts with Central European countries as well. In June 2013, he held his first-ever summit with Visegrad Group leaders: Polish Prime Minister Donald Tusk, Czech Prime Minister Petr Nečas, Hungarian Prime Minister Viktor Orbán, and Slovak Prime Minister Robert Fico. Abe "reaffirmed the importance of universal values and principles such as democracy and the rule of law and, on the basis of this recognition, agreed to work together in order to ensure greater regional stability based on democracy, economic integration and convergence of European Union (EU) policies in Eastern Europe and the Western Balkans" (Ministry of Foreign Affairs of Japan 2013b). The summit was followed by a visit of Maritime Self-Defense Force Training Squadron ships to Poland.

Soon after announcing the concept of Proactive Contribution to Peace in September 2013, Abe attended the Conference on Rejuvenating UK-Japan Relations for the 21<sup>st</sup> Century in Tokyo. He used this opportunity to stress that both countries were "a priori partners" as two maritime powers who uphold the Law of the Sea and cooperate in counter-piracy operations in the Gulf of Aden (Prime Minister of Japan and His Cabinet 2013g). To commemorate the 400<sup>th</sup> anniversary of establishing bilateral contacts, in July 2013 a Maritime Self-Defense Force Training Squadron paid a visit to Portsmouth (Royal Navy 2013). In the same month, Japan and the UK signed agreements on defense equipment cooperation and information security. Moreover, in December 2013 HMS Daring paid a port call to Tokyo where it took part in anniversary festivities. At that time the navies of both countries cooperated in providing humanitarian aid to the Philippines after the destruction caused by Typhoon Haiyan (British Embassy Tokyo 2013).

Abe put much emphasis on developing cooperation with the North Atlantic Treaty Organization (NATO). During Secretary General Anders Fogh Rasmussen's visit to Tokyo in April 2013, the Japanese prime minister signed a Joint Political Declaration between Japan and the North Atlantic Treaty Organization. Japan upgraded its contacts with the alliance by designating its ambassador to Belgium as official representative to NATO. Both sides admitted they were "dedicated to the values of individual liberty, democracy, human rights, and the rule of law" (North Atlantic Treaty Organization 2013).

More progress was observed during Abe's tour of Germany, UK, Portugal, Spain, France, and Belgium in April and May 2014. In London, the head of the Japanese government agreed with Prime Minister David

Cameron to regularly hold Joint Foreign and Defense Ministerial Consultations. Abe expressed his opinion “that world peace and international public goods such as freedom of aviation and navigation are best safeguarded through the efforts of nations that value the rule of law and uphold democracy and freedom” (Prime Minister of Japan and His Cabinet 2014d). At the Organization for Economic Cooperation and Development (OECD)’s Ministerial Council Meeting in Paris, the prime minister appealed for strengthening ties with Europe through an economic partnership agreement based on commonly shared values. He agreed to cooperate with the EU on promoting peace in Mali and the Democratic Republic of the Congo, to hold joint exercises with NATO and the EU on combating piracy in the Gulf of Aden and off the coast of Somalia, as well as to cooperate with the UK and France in the field of defense technology and equipment (Prime Minister of Japan and His Cabinet 2014e). In Brussels, in turn, Abe visited North Atlantic Council Headquarters where he signed the Individual Partnership and Cooperation Programme between Japan and NATO that broadened mutual exchange to a wide range of fields. As stressed by Abe, both sides were “natural partners that share fundamental values” (Prime Minister of Japan and His Cabinet 2014f).

During a special summit of the G7 in the Hague in March 2014, Abe agreed with the policy of expelling Russia from the G8 due to its annexation of Crimea. On the one hand, he confirmed that cooperation of seven nations, four of which were European (UK, France, Germany, Italy), was based on commonly shared democratic values, such as “the principles of the rule of law and of compliance with international law.” On the other hand, he appealed for self-restraint in solving the Ukrainian issue (Prime Minister of Japan and His Cabinet 2014g). During the next summit in German Schloss Elmau in June 2015, Abe noted once more: “We in the G7 have certain words and phrases we share in common—freedom, democracy, fundamental human rights, and the rule of law. Our sharing of these fundamental values forms the foundation of our unity” (Prime Minister of Japan and His Cabinet 2015b). Moreover, when visiting New York to participate in the UN General Assembly in September 2015, the Japanese prime minister remarked that being “a partner that shares fundamental values, Japan declares its solidarity with Europe” regarding the migration problem (Prime Minister of Japan and His Cabinet 2015c). Also after terrorist attacks in Paris in November 2015, Abe did not fail to mention that “Japan, as a nation which shares the same values as France,

stands together with the people of France" (Prime Minister of Japan and His Cabinet 2015d).

Meanwhile, Tokyo attached much importance to developing ties with the EU. In January 2015 Foreign Minister Kishida Fumio met High Representative of the Union for Foreign Affairs and Security Policy and Vice-President of the European Commission Federica Mogherini in Brussels. According to Kishida, bilateral contacts should be based on three pillars: 1) "cooperation for global peace and stability;" 2) "cooperation for contributing to addressing global challenges;" 3) "promotion of economic partnership" (Sabathil 2015, p. 80). In May 2016, Abe paid a visit to Italy, France, Belgium, Germany, UK, and Russia to prepare the ground for the G7 summit in Ise-Shima that was scheduled for the same month. In Brussels he met European Council President Donald Tusk as well as European Commission President Jean-Claude Juncker, to whom he appealed for an early conclusion of the Economic Partnership Agreement and Strategic Partnership Agreement between Japan and the EU. Abe argued that as G7 countries shared common values, they should together strongly respond to the problems of terrorism and refugees (Ministry of Foreign Affairs of Japan 2016a). At the meeting with German Chancellor Angela Merkel, in turn, the Japanese prime minister agreed to continue dialogue between foreign and defense ministries from both countries and start bilateral cyber security talks by the end of 2016. As stressed by Abe, "Japan and Germany are global partners which share fundamental values and have important roles to play in addressing the issues facing the international society as major leaders in Asia and Europe" (Ministry of Foreign Affairs of Japan 2016b). It is symptomatic, however, that Abe ended his European tour in Sochi. Despite the Ukrainian crisis, the Japanese prime minister agreed with President Vladimir Putin to re-launch peace treaty negotiations and bilateral top-level political dialogue (Ministry of Foreign Affairs of Japan 2016c).

In fact, Abe had eagerly promoted relations with Russia from the very beginning of his term in office. When he visited Moscow in April 2013, he agreed with President Putin to expand economic exchange, re-launch bilateral talks on reversion of the Northern Territories (South Kuril Islands) to Japan, as well as commence regular meetings between foreign and defense ministers of both countries in a so-called 2+2 formula. Rapprochement with Russia was also aimed at drawing Russia away from a strategic alliance with Japan's main rival, China. Nevertheless, Abe's

cordial relationship with Putin was exacerbated by economic sanctions introduced by Tokyo on Moscow after the already mentioned annexation of Crimea in March 2014. On the one hand, the Japanese prime minister had to demonstrate his solidarity with the US regarding the Ukrainian crisis, but on the other hand he envisaged using this crisis as a trump card in negotiations on territorial issues with Russia. This is evidenced by frequent unofficial visits by Abe's special emissaries to Moscow, such as National Security Advisor Yachi Shōtarō's in May 2014 or former Prime Minister Mori Yoshirō's in September 2014 (Tōgō 2015, pp. 186–234). It seemed that faced with economic problems and international isolation Russia would become more willing to strike a deal on the Northern Territories in return for a financial contribution from Japan. Due to the election of Donald Trump, who during the electoral campaign had displayed a pro-Russian attitude, as US president in November 2016, however, the significance of Tokyo's accommodating posture towards Moscow waned. As a result, President Putin's visit to Tokyo in December 2016 did not bring any breakthrough in bilateral relations.

Backstage talks with an authoritarian regime who had just violated international law did not discourage the Japanese prime minister from continuing to stress the importance of universal values in relations with Western European countries. For instance, during a meeting with Chancellor Angela Merkel at CeBIT computer expo in Hanover in March 2017, Abe emphasized that both Japan and Germany owed their leading positions in trade and investment to "rules that are fair and can stand up to democratic appraisal." He added that "Japan and Europe, as those who value freedom and human rights and respect democratic rules, must act in cooperation" and appealed for an early adoption of the Japan–EU Economic Partnership Agreement. As pointed out by Abe, strengthening mutual economic ties would enable reinforcement of "the free, open, and rules-based system that has propelled us to where we are today" (Prime Minister of Japan and His Cabinet 2017d).

#### **4. Living Up to the Promoted Values?**

What weakened Abe's credibility in referring to values in relations with Western European countries was the fact that the Japanese prime minister did not seem to live up to these values domestically. Perhaps except for free-market orientation, all "universal values" to which Abe de-

clared attachment, such as freedom of speech, democracy, human rights, and rule of law were actually weakened, not strengthened, during his second term.

According to Press Freedom Index, Japan was ranked 72<sup>nd</sup> in 2017, as many as 50 positions down from its rank in 2012 when the LDP came back to power. As indicated by Reporters Without Borders:

Media freedom in Japan has been declining ever since Shinzo Abe became Prime Minister again in 2012. What with controversial dismissals and resignations, growing self-censorship within the leading media groups and a system of “kisha clubs” (reporters’ clubs) that discriminate against freelancers and foreign reporters, journalists have difficulty serving the public interest and fulfilling their role as democracy’s watchdogs. Many journalists, both local and foreign, are harassed by government officials, who do not hide their hostility towards the media. Members of nationalist groups on social media also intimidate and harass journalists who dare to question the government or tackle “controversial” subjects. (Reporters Without Borders 2017)

The above description illustrates the international community’s opinion on the Japanese government’s real approach towards the value of freedom of speech. Even before assuming their offices in 2012, Prime Minister Abe Shinzō and Chief Cabinet Secretary Suga Yoshihide had been known for their extensive interference in media policy. In 2001 Abe, as deputy chief cabinet secretary in the Mori cabinet, apparently exerted pressure on the main national broadcaster, NHK, to request revision of news contents on “comfort women” – sexual slaves exploited by the Imperial Army until 1945. Despite numerous testimonies by victims from South Korea and other countries invaded by Japan, Abe has been known for his denial that the Japanese military had ever forcefully conscripted women to serve in “comfort stations.” While Chief Cabinet Secretary Suga did not hold convictions as right-wing as the prime minister, when he was minister of internal affairs and communications in the first Abe cabinet in 2006–2007, he stirred controversy by frequently issuing detailed instructions on program contents to media corporations (Mori 2016, pp. 187–220).

The Japanese government took full control over state media. In 2014 conservative businessperson Momii Katsu was appointed as president of NHK. Momii overtly stated that NHK should keep its programming in line with the government’s policy. Moreover, in February 2016 Minister of Internal Affairs and Communications Takaichi Sanae, who was one of many right-wing politicians in Abe’s closest entourage, threatened that broadcasters who aired “biased political reports” should be shut down. The pressure was exerted both on public and private media corporations.

As a result, presenters and journalists who wanted to maintain objectivity, such as Kuniya Hiroko from NHK, Kishii Shigetaka from TBS, or Furu-tachi Ichirō from TV Asahi were dismissed or forced to resign (Reporters Without Borders 2016). Moreover, pressure was applied not only through governmental institutions, but also by the ruling party. For instance, in April 2015 NHK and TV Asahi executives were summoned by the LDP Research Commission on Information and Communications Technology to explain themselves for having staged programs critical of the government (Mulgan 2017, p. 19).

Other “universal values” that were actually weakened under the Abe administration included democracy and the rule of law. According to The Economist Intelligence Unit’s Democracy Index, in 2015 Japan fell from the category of “full democracy” to “flawed democracy” and remained there in 2016 (The Economist Intelligence Unit 2017). One of the reasons was the fact that while Abe declared adherence to some subfields of international law, such as Law of the Sea, he did not pay much respect to the Constitution of his own country. Initially, he planned to revise the Constitution, but he had to postpone this idea due to a lack of sufficient popular support. Instead, Abe chose to circumvent the problem. Despite strong protests by the opposition parties, in 2015 he forced through the Diet security bills that changed the official interpretation of Article 9 that prohibits Japan from possessing any military potential. Until then, the official stance of the government had been that the Constitution banned participation in collective self-defense agreements, though it did not prohibit individual self-defense. Abe revised this interpretation by allowing collective self-defense, despite the fact that a majority of constitutionalists in Japan warned that the new bills violated the law.<sup>1</sup>

In addition, the project of a new Constitution prepared by the LDP in 2012 showed that the ruling party in Japan did not really adhere to the concept of human rights as understood in modern liberal democracies. The draft put greater emphasis on collectivism and citizens’ obligations than their individual rights. In Article 12 (“All the people shall be respected as individuals”) the expression “individuals” (*kojin*) was changed to “persons” (*hito*). Moreover, Article 97 that stresses the inviolability of

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<sup>1</sup> According to an *Asahi Shinbun* opinion poll from July 2015, as many as 104 out of 122 constitutionalists considered acknowledgement of the right to collective self-defense as unconstitutional, while only two of them claimed that the new law did not violate the Constitution. See: Tahara 2016, p. 237.

fundamental human rights was completely deleted (Liberal Democratic Party 2012). According to a booklet issued by the LDP, "big human rights" should be distinguished from "small human rights." In this light, some individual rights might be temporarily restricted in the time of emergency, such as social disorder or domestic turmoil, in order to "protect the people's lives, bodies and properties" (*Mainichi Japan* 2016). This state-centered approach runs counter to democratic values.

Violation of "universal values" in Japan has been noticed abroad, especially in the US and Europe. In November 2014, Tokyo ordered the Japanese New York Consulate General to request from McGraw-Hill revision of the description of "comfort women" in its textbook *Traditions and Encounters: A Global Perspective on the Past*. When the publisher refused, Prime Minister Abe criticized the textbook during Diet session in January 2015. In response to this attempt at censorship, a group of American historians expressed their "dismay at recent attempts by the Japanese government to suppress statements in history textbooks" (Dudden 2015). This initiative was followed by an Open Letter in Support of Historians in Japan, signed by 187 scholars of Japanese studies who condemned political interference in historical research in Japan (Harvard College 2015). The letter was subsequently supported by scholars from other countries than the US, especially Europeans, and the number of signatories rose to 457.

## 5. Conclusion

Japan's policy towards European countries since 2012 has been characterized by the same discrepancy that could be seen in Abe's diplomacy towards other regions in the world. It is the real interests, not intangible values, that lay at the foundation of Tokyo's diplomatic endeavors. Although Europe is a remote continent for Japan, it became instrumental in providing credibility to Abe's concept of Proactive Contribution to Peace. During numerous visits to the western part of the continent, the Japanese prime minister emphasized his commitment to the values of democracy, human rights, the rule of law, and free-market economy. According to this discourse, security cooperation with European powers, such as the UK or France, as well as with NATO, was to enhance Japan's capabilities of participating in rescue and peacekeeping missions.

Nevertheless, it is not in these noble ends that the real interests of the Abe administration lay. Lack of any reference to universal values during

Abe's visits to authoritarian or hybrid regimes at the peripheries of Europe, such as Russia or Turkey, proves the purely instrumental usage of value-oriented diplomacy. Appeals for respecting international law, aimed at containing China, did not discourage Abe from attempting to strike a backstage deal with Russia on the Northern Territories after the annexation of Crimea. An even more evident discrepancy between the slogans of respecting "universal values" and reality appeared on domestic ground. This "ideological flexibility" of Abe did not immediately lead to a deterioration of governmental-level contacts between Tokyo and European democracies, but it started exacerbating Japan's positive image among the cultural and academic elites. If continued, this discrepancy between the promoted values and the real interests may undermine credibility of Japan as a reliable partner of the European Union.

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