

Contemporary Chinese Political Economy and Strategic Relations: An International Journal

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Contemporary Chinese Political Economy and Strategic Relations: An International Journal (CCPS) is a triannual academic journal jointly published by the Institute of China and Asia-Pacific Studies, National Sun Yat-sen University, Taiwan, and the Department of Administrative Studies and Politics, Faculty of Economics and Administration, University of Malaya, Malaysia. The journal is indexed and abstracted in Documentation Politique Internationale / International Political Science Abstracts (IPSA), Directory of Open Access Journals (DOAJ), Ulrich's Periodicals Directory, Ulrichsweb Global Serials Directory, ProQuest Political Science, Research Library and ProQuest Social Science Journals.

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Notes for Contributors

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FOREWORD

From Domestic to Global: Pertinent Issues in Chinese Polity, Economy and Society

This third and final issue of Volume 2 of *Contemporary Chinese Political Economy and Strategic Relations: An International Journal* (2016) represents a collection of research articles covering some of the most pertinent aspects of the state and changes in the political economy and strategic relations of today's People's Republic of China (PRC). The six full-length research articles in this issue consist of Jinghao Zhou's paper that focuses on one of the most attention-grabbing campaign initiated by the Xi Jinping 习近平 administration – the unprecedented intensive and large-scale crackdown on public office corruption among the ranks and files of the Chinese Communist Party (CCP)¹, Guorui Sun and Alex Payette's that looks at the prospects of internationalization of the Chinese currency, renminbi, and explores the model of “impossible trinity” in the Chinese context, Xinxin Bai and Ali Öztüren's comparative study of the successful internationalization models of the three representative, well-known enterprises – Haier, Huawei and Lenovo, Paramitaningrum and Johanes Herlijanto's analysis of Indonesia's economic and diplomatic relations with Taiwan – here conflated by Taiwan's “economic diplomacy” since the turn of the 90s under the Lee Teng-hui administration – today under the looming

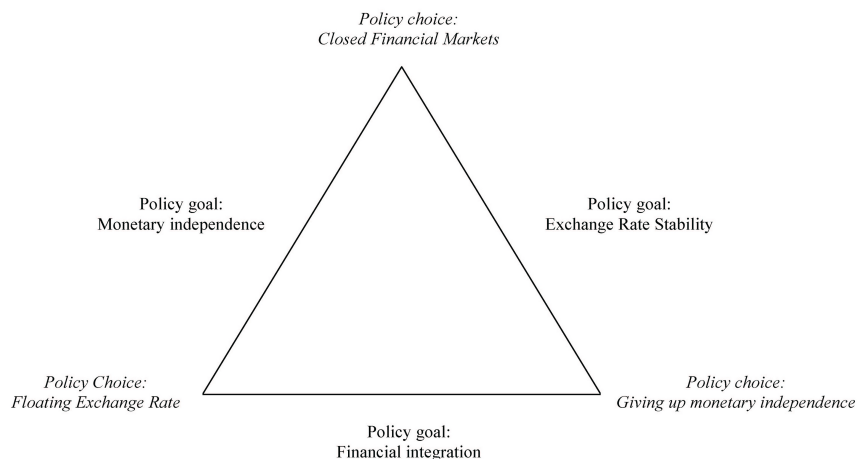
shadow of a China in the ascendant, John H.S. Åberg's paper that attempts to reconceptualize "assertiveness" in the context of China's foreign policy behaviour and her Asian Infrastructure Investment Bank (AIIB) *tour de force*, and Anas Elochukwu's study of the African migrant population and its economy in Guangzhou, Guangdong Province of China, both legitimate traders and the underworld.

In the first paper of this issue, "Will the Communist Party of China Be Able to Win the Anticorruption Battle?", Jinghao Zhou carefully examines the pros and cons of anticorruption campaigns and in China's context today sees these anticorruption campaigns and consolidating the legitimacy of the CCP the "two sides of the same coin", despite acknowledging an argument which exists both inside and outside China that the present, vehement anticorruption campaign could, on the contrary, fundamentally undermine the legitimacy of the CCP. Also mentioned is the view that the present anticorruption campaign represents an attack on political opponents within the Party in order to enhance the personal popularity and consolidate the personal power of President Xi Jinping. As Zhou points out, corruption in the PRC is not a new phenomenon in the post-Mao Zedong 毛澤東 era. In fact, anticorruption measures have continued to constitute a main prong in the Party's political reform notably since the Jiang Zemin 江澤民 administration, as Jiang himself declared in 2002 in his last political report to the National Congress, "If we do not crack down on corruption, the flesh-and-blood ties between the party and the people will suffer a lot and the party will be in danger of losing its ruling position, or possibly heading for self-destruction." That was the time during which Hutton (2006: 127), citing Sun Yan in *Current History* (2005), reminded us that "large-scale corruption is mounting. The average 'take' in the 1980s was \$5000; now it is over \$250,000. The number of arrests of senior cadre members above the county level quadrupled between 1992 and 2001

[...]. In 2005 it was disclosed that a cool \$1 billion had been misappropriated or embezzled in Gansu, one of China's poorest provinces, by a ring of forty or more officials." Hutton cited Hu's (2006) estimate that the annual economic loss due to corruption over the late 1990s alone amounted to between 13.3 and 16.9 per cent of Gross Domestic Product (GDP), while evidence provided by government departments revealed that the annual economic loss between 1999 and 2001 due to corruption averaged 14.5 to 14.9 per cent of GDP.² As Hutton (2006: 127) noted, "Every incident of corruption – smuggling, embezzlement, theft, swindling, bribery – arises in the first place from the unchallengeable power of communist officials and the lack of any reliable, independent system of accountability and scrutiny [...] the evidence of the depth of corruption at the apex of government, business and finance, mean that any paradoxical usefulness [of corruption in the early years of reform in providing flexibility to an otherwise highly bureaucratic system] has long since been surpassed. Corruption to this extent is chronically dysfunctional and even threatens the integrity of the state." However, different from previous campaigns, as Zhou notes, Xi's anticorruption campaign is unprecedentedly ambitious. Both the abovesaid purposes might well be true: to save the rule of the CCP lest the "flesh-and-blood ties between the party and the people will suffer" with the Party heading for self-destruction, as Jiang Zemin once warned, as well as to strengthen Xi's legitimacy which in turn would serve to enhance his leadership position within the Party and authoritarian power over the nation. The latter, which in a backward loop also helps to strengthen his leadership credential within the Party, seems to be evident in, parallel to his anticorruption campaign, the also unprecedentedly intensive crackdowns, first kicked off with the arrests of the "Feminist Five" in March 2015, on domestic civil societal movements, civil rights lawyers, labour activists and even Hong Kong's book publishers and

distributors. Recalling that Xi Jinping's father Xi Zhongxun 習仲勳, Mao's close comrade during the Chinese Soviet period, Long March and the Civil War era, who was publicly abused and humiliated during the Cultural Revolution, in fact advocated in 1983 the enactment of a law that would guarantee everyone in China the right to express differing opinion, New York University's Professor Jerome Cohen, a foremost scholar on China's legal system, told CNN, "I hope Xi follows his father's advice rather than continuing along this path. But I don't have my hopes too high."³ Thus, the unprecedented intensive anticorruption campaign was executed alongside the volatile series of incidents involving a year of relentless crackdowns on domestic civil societal movements, civil rights lawyers, labour activists and Hong Kong's book publishers and distributors, and also notably at the same time which also witnessed the continued rise of China's economic might culminating in the realization of her initiative for the Asian Infrastructure Investment Bank (AIIB) that started operation on 25th December 2015 and the continued progress of her "One Belt, One Road" (OBOR) proposal after the creation of the State-owned Silk Road Fund on 29th December 2014. Such developments on China's domestic and global fronts has to be properly placed in the overall context of China's domestic-foreign policy nexus that has uniquely evolved during from her recent decades of continuous, astounding economic *tour de force* amidst the stagnation of the modernization and democratization of her political structure, which Zhou has also sharply observed, and sociopolitical power configuration, and the rise of her influence in the global system. The three articles that follow by Guorui Sun and Alex Payette, John H.S. Åberg, and Xinxin Bai and Ali Öztüren respectively explore this ascending influence and deeply felt impact of the rise of the PRC in this global system.

Guorui Sun and Alex Payette in their paper, "China and the Impossible Trinity: Economic Transition and the Internationalization of

Figure 1 Impossible Trinity (“Trilemma”)

Source: Aizenman (2011), Figure 1.

the Renminbi”, look at the plausibility and complexity of the issue of internationalization of the Chinese currency, renminbi 人民幣, that has been a subject of heated discussion and debate among policymakers and in the academic circles after the 2008 financial crisis, weighing the policy choices vis-à-vis Mundell-Fleming’s “impossible trinity” or the “trilemma” in which a country is said to be able to choose any two, but not all of the following three policy goals – monetary independence, exchange rate stability and financial integration (unfettered capital movement), as depicted in Figure 1 above. While making analytical recommendation for China to pursue a specific policy basket to tackle the impossible trinity, the authors also highlight the added importance of well managing this “trilemma” triangle as a country with an economy as big as China’s would stand to destabilise not only her own domestic

economy but also the global economy should the policymakers mismanage the impossible trinity.

To explore further the making of China's global economic impact, Xinxin Bai and Ali Öztüren in their paper on China's export brand development delve into such export brand development process of Chinese enterprises by focusing on the different strategies involved in the three success stories of Lenovo (聯想), Haier (海爾) and Huawei (華為). With detailed comparative analysis of the three models of export brand internationalization, the paper unearths strategic advantages and weaknesses in the Chinese enterprises' protean efforts in enhancing brand awareness and reputations in the world. John H.S. Åberg, on the other hand, in his paper "A Struggle for Leadership Recognition: The AIIB, Reactive Chinese Assertiveness, and Regional Order" looks at the rising global influence of China vis-à-vis the United States from an international political economy perspective, by first reconceptualising "assertiveness", that current buzzword in IR circles of China Studies scholars and then zooming in on the creation of the Asian Infrastructure Investment Bank (AIIB) as a manifestation of China's abandoning Deng Xiaoping 鄧小平's strategy of "keeping a low profile" (*tao guang yang hui* 韜光養晦) in favour of a new strategy of "striving for achievement".

It is also within this unfolding international reality with the behemoth Chinese presence that the next article by Paramitaningrum and Johanes Herlijanto, "Economic Diplomacy, Soft Power, and Taiwan's Relations with Indonesia", examines the changing factors that are affecting the evolving relations between Indonesia and the island nation of Taiwan (Republic of China or ROC) which PRC considers a renegade province of her possession. As cited by the authors⁴, Professor Samuel Ku 顧長永, director of the Institute of China and Asia-Pacific Studies (ICAPS) at Taiwan's National Sun Yat-sen University (國立中山大學)

till his retirement by end of July 2016, used to refer to the island state's main thrust of foreign policy as "economic diplomacy", i.e. mobilising her significant economic resources in exchange for political support in the global community, especially continued diplomatic relations with and statehood recognition from just around a score of countries mostly in Central America and Africa that still have not switched recognition to the PRC since the ROC lost her United Nations seat in 1971 to the PRC. However, further to that, Paramitaningrum and Herlijanto also explore Taiwan's investment of "soft power" which, similar to that of China, in its implementation that does not exclude the manipulation of its economic power in the form of foreign direct investments and international aid, which has served to conflate the different notions of "hard" and "soft" power following the original conceptualisation of Joseph Nye. The delicate relationship between Indonesia, the Southeast Asian archipelagic behemoth which is ranked fifth by population and fifteenth by land area globally, with both China and Taiwan inevitably brings to mind Lowell Dittmer's strategic triangle theory though the latter has not been often used where cross-Strait relations were involved.

As Dittmer explained earlier in an article published in the April 2016 issue of this journal:

A strategic triangle may be said to be operational if three conditions obtain: (1) all three participants are sovereign (i.e., free to decide their own national interests and foreign policy preferences), rational actors (i.e., ideology, religion, etc. does not limit linkage options); (2) each actor takes into account the third actor in managing its relationship with the second; and (3) each actor is deemed essential to the game in the sense that its defection from one side to the other would affect the strategic balance. If we assume that relations among actors may be classified as either "positive" or "negative" (a simplification, but

sometimes a necessary one), there are only four possible configurations of the triangle.

(Dittmer, 2016: 118)

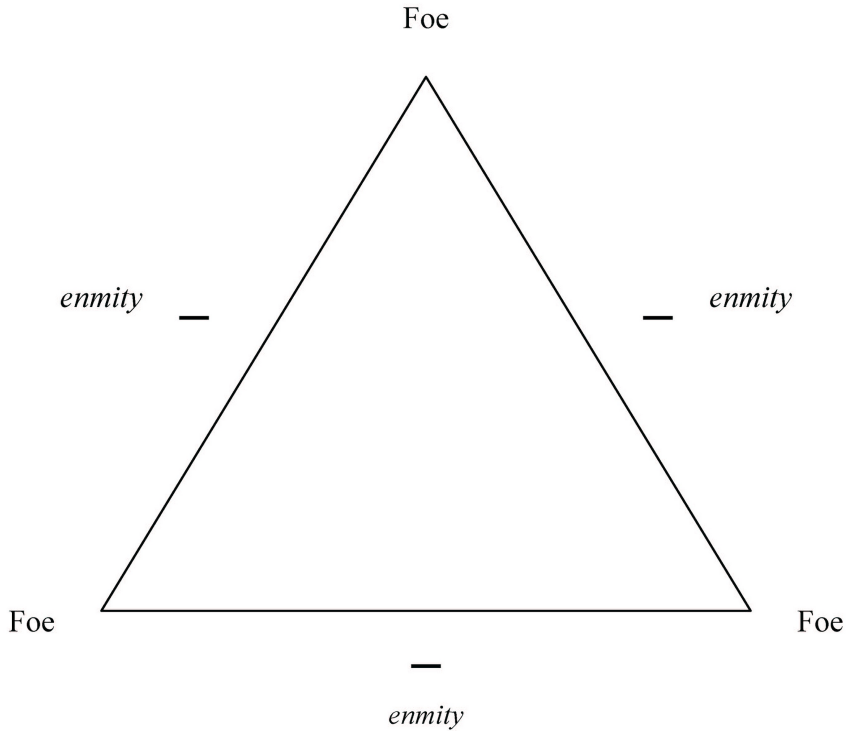
These four configurations can be depicted as in Figure 2 overleaf.

On each player's policy choice Dittmer elucidates further:

The individual actor's logical objective in this triangle is to have as many positive and as few negative relationships as possible. The implications are that first, each actor will prefer to have positive relations with both other actors; second, failing that, each will prefer to have positive relations with at least one other actor; and third, that in any event each actor will try to avoid incurring negative relations with both other actors. This in implies a fairly clear rank order, with the pivot position in a romantic triangle being the optimal choice, followed by an actor in a ménage à trois, followed by wing player in a marriage, followed by any actor in a veto triangle, with the position of pariah in a stable marriage being the least preferred option.

(Dittmer, 2016: 118-119)

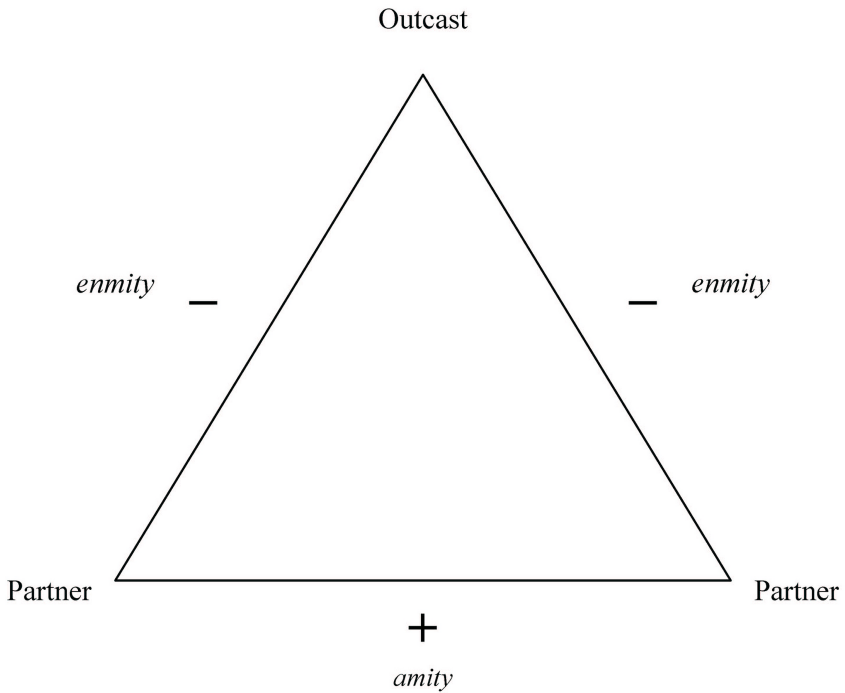
Today, Indonesia's relationships with the two states across the Taiwan Strait can best be depicted with Dittmer's "romantic triangle" (the pivot position in which being the optimal choice), with the United States as a pivot (in most works employing this framework that involve cross-Strait relations) replaced in this case by Indonesia, though imperfectly. Yaeji Hong (2016), in a paper on U.S.-China-Taiwan relations, actually proposes a "dual-romantic triangle" in which both amity and enmity are present between the pivot and each wing by taking into consideration the ambiguity in American foreign policy that depends on Administration-Congress convergence or divergence.

Figure 2 Lowell Dittmer's Strategic Triangle: Four configurations**(a)** Unit veto – enmity among all three actors

Sources: Dittmer (1981), Dittmer (2016), Mao (2003), Hong (2016).

Figure 2 (continued)

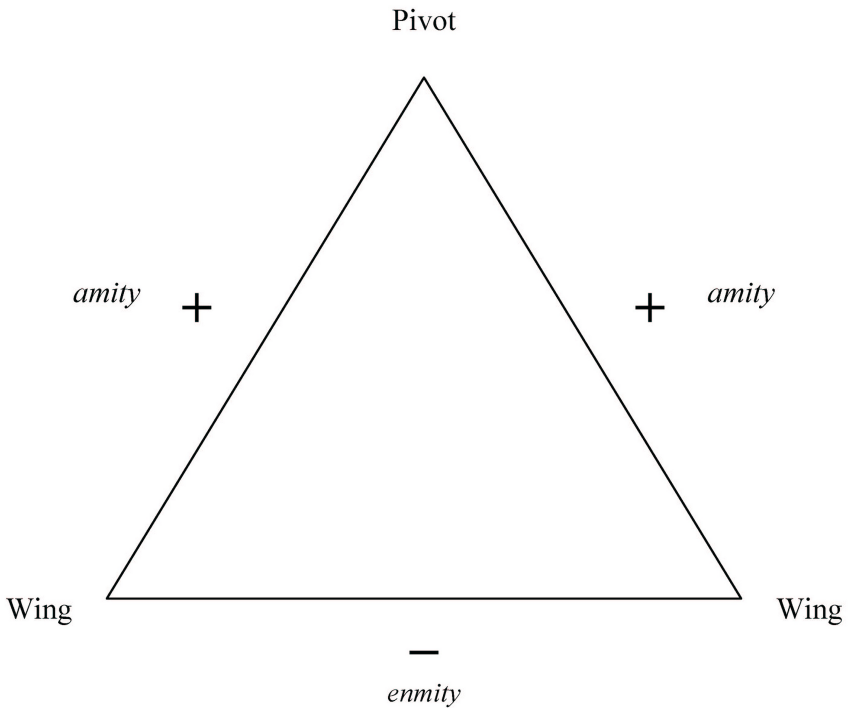
(b) Marriage – a positive relationship between two partners against a third “pariah”



Sources: As of Figure 2 (a).

Figure 2 (continued)

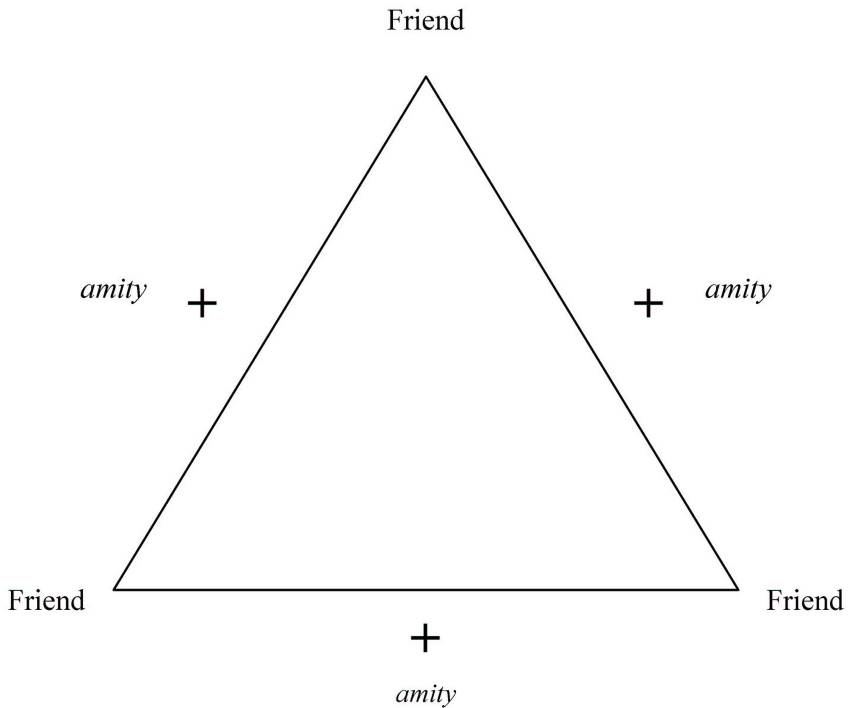
- (c) Romantic triangle – positive relationships between one “pivot” and two “wing” actors, who have better relations with the pivot than they have with each other



Sources: As of Figure 2 (a).

Figure 2 (continued)

(d) *Ménage à trois* – positive relationships among all three actors



Sources: As of Figure 2 (a).

Professor Wen-cheng Lin 林文程, current acting director of ICAPS from August 2016, highlighted in a paper earlier in 2008, as cited by Paramitaningrum and Herlijanto⁵, Taiwan's "Go South" policy gaining further impetus in 2002 when the island state was under

the Democratic Progressive Party (DPP, 民主進步黨 / 民進黨) government. Now with the new president Tsai Ing-wen 蔡英文 from the DPP, after the DPP's landslide electoral win in January 2016, launching the "New Southbound Policy" to further win the hearts and minds of South and Southeast Asians under the looming shadow of the deterioration in cross-Straits relations, further changes, even if only subtle, in this "romantic triangle" or "dual-romantic triangle" of relationships among Indonesia, and ASEAN (Association of Southeast Asian Nations) at large, and the two states across the Taiwan Strait are bound to occur, as Dittmer points out:

Thus the dynamics of change from one triangular configuration to another might thus be conceived to ensue from competition for the limited number of favorable positions, so that as actors maneuver the configuration shifts shape. But changes in configuration might also be viewed as a response to growth in the capabilities or ambitions of one or another actor and the consequent need to adapt to the redistribution of threats.

(Dittmer, 2016: 119)

Nevertheless, unlike in the case of U.S.-China-Taiwan relations, in this case the presence of ethnic Chinese minorities in the ASEAN member countries is also inevitably going to impact upon such "romantic triangle" relationships, either positively or negatively depending upon the variety of majority-minority, dominant group-subordinate group relationship in each of these ASEAN member countries. Such influence of ethnic minorities on international relations in addition to domestic sociopolitical stability, while in a different setting, is the focus of this journal issue's next article, "Guangzhou's African Migrants: Implications for China's Social Stability and China-Africa Relations",

by Anas Elochukwu. Showing much concern for the negative, and deteriorating, impact of the issue of African migrants on China's social fabric – by taking Guangzhou, the Chinese metropolis with the presence of a large community of Africans, as a case in focus – as well as China's image in Africa that would affect China-Africa relations in general, Elochukwu's article presents a riveting study on both the phenomenon and the background factors, the realities and the fallacies, of this African "migrant crisis" in China, increasingly regarded so since the 2008 African migrants' protest over the death of a Nigerian fleeing an immigration raid. Analysing various pertinent issues including the very nature of African migrants' activities in the host country, Chinese State actions, and African-Chinese intermarriage and status of children from such marriages, the paper derives concrete advice for the governments of the African source countries of these migrants and prospective migrants including a better set of "quality control" measures as well as for the host country to more seriously address complaints from the migrant population and abandon her one-size-fits-all approaches in order to adopt better measures to aid the adaptation of migrants with genuine aspirations.

Following these six full-length articles described above is a thought-provoking thinkpiece under the Policy Comments section by Chien-yuan Tseng exploring the reality behind and exposing the fallacy involved in the so-called "1992 consensus" and "one China" principle that have together formed the political and diplomatic cornerstone of cross-Strait relations especially during the Nationalist Party (Kuomintang 中國國民黨)'s Ma Ying-jeou 馬英九 presidency in Taiwan. This thinkpiece is both important and timely after the Taiwanese general elections on 16th January 2016 that ended with the pro-independence DPP for the first time ever winning control of both the presidency and the Legislative Yuan that has thrown this political cornerstone into chaos, subsequently

followed by the globe-shaking November United States presidential election results that produced a president-elect that began talking about reviewing the “one China” policy that have both political leaders and foreign policy analysts on both sides of the Taiwan Strait scratching their heads searching for interpretations.

Finally, this journal issue also contains a piece of empirical Research Notes by Lavanchawee Sujarittanonta, Kittichok Nithisathian, Lin Fan and John C. Walsh on the prospects for the internationalization of Taiwan’s and China’s higher education before it closes with two book reviews – one by Joanne Hoi-Lee Loh on Ivan Tselichtchev’s *China versus the West: The global power shift of the 21st Century* (2012), and the other by Monir Hossain Moni on Claude Meyer’s *China or Japan: Which will lead Asia?* (2012).

The present issue of *Contemporary Chinese Political Economy and Strategic Relations: An International Journal*, the third and final issue (December) of this year thus significantly completes the 2016 volume beginning with the April special issue (Vol. 2, No. 1), *China amidst competing dynamics in the Asia-Pacific: National identity, economic integration and political governance*, and followed by the August/September *Focus* issue (Vol. 2, No. 2), *From Handover to Occupy Campaign: Democracy, identity and the Umbrella Movement of Hong Kong*. The present issue, Vol. 2, No. 3, hence brings the journal’s second volume to a close by directing its focus one more time onto some of the most critical areas of the state and changes in the political economy and strategic relations of today’s mainland China and Taiwan which the journal was exploring in this year’s first issue in April.

Before ending this foreword, we would like to thank all the contributing authors and the anonymous reviewers for their invaluable efforts in making the publication of the three issues of this second volume (2016) possible. For the present issue of Volume 2, Number 3,

we are also grateful to our proof-reader, Miss Amy Kwan Diet Weng 官狄雯, for her crucial assistance in checking the final galley proofs and CRCs, and to Miss Wu Chien-yi 吳千宜 for the journal's website construction and maintenance. The responsibility for any errors and inadequacies that remain is of course fully mine.

*Dr Emile Kok-Kheng Yeoh**

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Notes

1. Or officially the “Communist Party of China” (CPC, 中國共產黨).
2. Hu Angang (2006). *Great transformations in China: Challenges and opportunities*. Oxford University Press. (Cited in Hutton, 2006: 127.)
3. “Trial by media? Confessions go prime time in China” (by Steven Jiang), *CNN (Cable News Network)*, 26th January 2016. <<http://edition.cnn.com/2016/01/26/asia/chinatelevisionconfessions/index.html>>
4. Samuel C.Y. Ku (2002). Indonesia's relations with China and Taiwan: From politics to economics. *Asian Perspective*, Vol. 26, No. 4, pp. 227-256.
5. Wen-cheng Lin (2008). The limits of democratic appeal and economic leverages: Relations with ASEAN countries. In: Steve Tsang (ed.), *Taiwan and the international community*. Bern: Peter Lang AG International Academic Publishers, pp. 189-212.

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Democracy, cross-Strait relations and regional security (edited Focus issue, *IJCS*, 2014, 195 pp. + x), “Evolving agencies amid rapid social change: Political leadership and State-civil society relations in China” (book chapter, Palgrave Macmillan, 2013) and *China: Developmental model, State-civil societal interplay and foreign relations* (edited monograph, 745 pp. + xxi, ICS, 2013). His latest research projects include the Equitable Society Research Cluster UMRG Programme on public administration and governance (2016-2017, principal investigator), Malaysian Ministry of Higher Education/University of Malaya High-Impact Research (HIR) Grant project “The China Model: Implications of the contemporary rise of China” (2013-2016, principal investigator) and Suntory Foundation/University of Tokyo international research grant project “Beyond ‘China threat theory’: Dialogue with China experts on the rise of China” (2014-2015, Malaysian component). <Website: <http://emileyeo5.wix.com/emileyeoh>; email: yeohkk@um.edu.my, emileyeo@gmail.com>

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Articles

Will the Communist Party of China Be Able to Win the Anticorruption Battle?

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Abstract

Since the Eighteenth National Congress of the Communist Party of China (CPC) in 2012, the CPC has made great efforts to implement Xi Jinping's blueprint for achieving the “China Dream”. The on-going anticorruption campaign is part of the road map towards the “China Dream”. There has been impressive progress in fighting corruption, but the CPC recognizes that the anticorruption campaign faces a huge challenge and is at a crucial stage. The anticorruption campaign is a life-and-death battle that the CPC cannot afford to lose. The critical question is: How can the CPC win the battle in the current Chinese political system? The intention of this paper is not to offer specific measures, but to discuss policy implications by elucidating why some existing anticorruption measures do not work through examining the relationship between corruption and Chinese market economy and the political system. The basic assumption of this paper is that corruption is universal, but the characteristics of China's corruption are different from other nations due to the nature of the Chinese economic, political and

cultural systems. The key to anticorruption is to find and deal with the real causes of China's corruption in order to make effective anticorruption measures. There are two opposite perspectives concerning the causes of corruption: While one suggests that the primary source of corruption is the political system, the other contends that corruption has nothing to do with the socialist political system. This paper attempts to argue that either denying or overemphasizing the roles of the current political system in spreading corruption is one-sided.

Keywords: *China, corruption, Chinese politics, Chinese political reform, Communist Party of China*

1. Introduction

Since the Eighteenth National Congress of the Communist Party of China (CPC) in 2012, the CPC has made great efforts to implement Xi Jinping 习近平's blueprint for achieving the "China Dream" (中國夢). The on-going anticorruption campaign is part of the road map towards the "China Dream". There has been impressive progress in fighting corruption, but the CPC recognizes that the anti-corruption campaign faces a huge challenge and now is at a crucial stage (Pei, 2014). The anti-corruption campaign is a life-and-death battle that the CPC cannot afford to lose. In January 2015, Xi Jinping warned that the war on corruption was far from over and the CPC must keep going without "deceleration zone" and "rest area", and believed the CPC will win the protracted war and build a clean Party and government.¹ The critical question is: How can the CPC win the war in the current Chinese political system? The intention of this paper is not to offer specific measures, but to discuss policy implications by elucidating why some existing anticorruption measures do not work through examining the

relationship between corruption and Chinese market economy and the political system. The basic assumption of this paper is that corruption is universal, but the characteristics of China's corruption are different from other nations due to the nature of the Chinese economic, political and cultural systems. Accordingly, the causes of breeding corruption are unique in China. The key to anticorruption is to find and deal with the real causes of China's corruption in order to take effective anticorruption measures. There are two opposite perspectives concerning the causes of corruption: while one suggests that the primary source of corruption is the political system, the other contends that corruption has nothing to do with the socialist political system. This paper attempts to argue that either denying or overemphasizing the roles of the current political system in spreading corruption is one-sided. In the Chinese context, traditional Chinese culture and belief system also contribute to spreading corruption in addition to the market economy and the political system. Thus, the anticorruption campaign should be a comprehensive project.

2. Save the CPC or Ruin It?

Anticorruption campaign and consolidating the legitimacy of the CPC are the two sides of the same coin. In the post-Mao era, the legitimacy of the CPC is heavily relied on the performance of the Chinese economy. Although the majority of scholars no longer argue that corruption lubricates the development of economy, some still believe that anticorruption could “deter private investment, misallocates resources and generates social grievances”². They argue that the anticorruption campaign negatively affects the Chinese economy and predict that China's GDP growth rates will be down to 4-5% during Xi Jinping's period in office. China's corruption was rapidly surging while Chinese economy steadily grew at about 9% annual growth rate between 1978

and 2010. Nevertheless, this does not necessarily suggest that China's corruption has promoted the fast growing economy. Economy rising and corruption surging could co-exist. The question is why they co-exist. American political scientist Andrew Wedeman in his recent book, *Double paradox: Rapid growth and rising corruption in China*, explains why the Chinese economy performed very well despite widespread corruption. According to Wedeman, unlike South Korea, Taiwan, Equatorial Guinea, and other nations in Africa and the Caribbean, China's economy took off before corruption surging. The reason for China's corruption persistently growing along with the economic development is not because corruption promotes economy, but the anticorruption campaign flawed. He points out that rising corruption considerably reduces economic growth and poses a danger to the Chinese economy; and anticorruption efforts are required for further Chinese economic development (Wedeman, 2012).

Studies show that for most developing countries corruption retards economic growth (Huang, 2015). China's corruption undermines rational economic choices, hurts banking system, drives foreign investment away, and directly damages the Chinese economy. Some expert has estimated that corruption in 1999-2001 alone caused economic losses worth 1.3 trillion yuan (Wu, 2006). According to Shanghai-based independent economist Andy Xie Guozhong 謝國忠, corruption, including bribery, smuggling, tax fraud, and embezzlement, has cost about 100 billion yuan every year over the past three decades, making up more than 10% of its GDP. However, some try to argue that anticorruption campaign has weakened consumer confidence and suggest that "the immediate impact is there's a heightened consciousness amid party officials to big spending and being seen entertaining"³. The anticorruption campaign has significantly hurt the business in karaoke parlours, brothels, casinos, five-star hotels, and luxury goods. Thus, this

raises a question about the anticorruption campaign: is the anticorruption campaign against corruption or against economic growth?⁴ This argument is not persuasive because the money the corrupt officials consumed is public fund, and they should not be used for personal purpose (Wei, 2000: 303).

Another argument opposing anticorruption campaign is that the anticorruption campaign fundamentally undermines the legitimacy of the CPC because it seriously damages the CPC's image and helps Western hostile forces to destabilize the Chinese society. Some people views that the campaign is a brutal purge of political opponents in order to enhance personal popularity and consolidate personal power.⁵ The campaign will inevitably harm the interests of Party members and weaken the foundation of the leadership of the CPC. Thus, "the footprint of this anti-corruption campaign cannot get too big" (Keck, 2014). Allegedly, the former CPC leaders urged Xi Jinping to halt the anticorruption campaign (Keck, 2014). Roderick MacFarquhar, a Harvard University professor, in his recent talk at the University of Hong Kong, points out that Xi's campaign is fraught with danger, putting the future of the CPC at risk because a great number of party members are involved in corruption.⁶ American scholar David Shambaugh in his recent article, "The coming Chinese crackup", goes further, noting that the crackdown on corruption strengthens Xi's personal power, and "his despotism is severely stressing China's system and society – and bringing it closer to a breaking point" (Shambaugh, 2015). He believes that the anticorruption campaign is one of five reasons explaining why the CPC's collapse is inevitable. He warns that "I wouldn't rule out the possibility that Mr. Xi will be deposed in a power struggle or coup d'état." (Shambaugh, 2015)

As a matter of fact, corruption undermines the Party's legitimacy, causes the government's inefficiency, widens the disparity between the poor and the rich, and creates serious social discrepancies and conflict

(Warren, 2004: 329). The most serious threat to the Party's legitimacy is the collapse of the Party's credibility (Sun, 2009). According to a survey conducted by an official Chinese magazine, *Xiao Kang* 小康, the CPC is losing its credibility.⁷ The U.N. World Happiness Report 2013 indicates that among 156 countries, the U.S. ranks 17th in happiness, Taiwan 42th, Hong Kong 64th, but China ranks only 93th, though China has a higher GDP and the Chinese people have become richer.⁸ Rory Truexy raised a crucial question: Who believes the *People's Daily*? Although a recent BBC survey revealed that 47% of Chinese citizens still trust the *People's Daily* (人民日報), this appears to be conditional on the political preferences of the respondent with trust in the Party's mouthpiece. The party's credibility has sharply declined in the post-Mao era. The prevailing view is that Chinese people have lost faith in the *People's Daily* and other government mouthpieces (Stockmann and Gallagher, 2011). The sharp increase in distrust shows a significant drain of the Party's credibility (Wu, 2009).

Why is the CPC losing its credibility? Corruption causes the CPC's loss of credibility; and corruption is a major source of discontent among the Chinese people (Nice, 1986: 287). Corruption has become the principal affliction leading to social upheaval (Johnston and Hao, 1995: 80), contributing to wider social unrest and making politics more fragile (Ewing, 2008). Legitimacy is a necessary precondition for every government to maintain authority and social stability. The anticorruption campaign will help the CPC to improve its ability of governance by restoring its credibility. The legitimacy of the CPC would be ruined and the "China Dream" would become indefinite, if the CPC were not committed to the battle against China's corruption (Root, 1996: 749).

Internationally, corruption has been directly shrinking China's influence in the global community in part because corruption has decreased China's military power and weakened China's roles in the

international society. By January 2015, sixteen senior military officers were under investigation for accusations of corruption. These officers are at the corps level or above. They include one general, four lieutenant generals, nine major generals, and one senior colonel. After Xu Caihou 徐才厚, former vice-chairman of the Central Military Commission, was caught in 2014 (Armstrong, 2015),⁹ the CPC began to investigate Guo Boxiong 郭伯雄, the second former top military officer, in 2015 on suspicion of corruption.¹⁰ Military corruption deadly threatens China's security and degrades China's military capability in protecting its nation.

Obviously, it is not anticorruption, but corruption that deadly undermines the leadership of the CPC, although China's corruption "does not yet pose an imminent threat to its ruling status" (Bergsten, Gill, Lardy and Mitchell, 2006). To save the CPC, China must continue the anticorruption battle. Some Western scholars suggest that corruption may play an important role in the transition from one administration to another (Needler, 1961: 310), and help to bridge the gap between the groups based on power and those based on wealth (McMullan, 1961: 196). However, these arguments do not fit in the Chinese politics because the CPC is the sole leadership of China according to the Constitution of China, so the CPC does not need to utilize corruption for gaining its power. Corruption does not help to bridge the gap between different groups within the Party. Instead, it has divided the Party and deviated from the majority of the Chinese people. As a result, corruption has diminished the Party's governmental capacity. The CPC could not survive without the triumph of anticorruption campaign (Keidel, 2006). In the speech at a plenary session of the Communist Party's top disciplinary agency in 2015, Xi Jinping made it clear that there will be no let-up in his "fierce and enduring" battle against corruption, and vowed to maintain "high pressure" and "zero tolerance" on corruption.¹¹ This is the right direction for the CPC to take.

3. Will the CPC Be Able to Win the Battle of Anticorruption?

Corruption has become systematic and rampant in the post-Mao era, but there is no evidence suggesting that China's corruption is out of control. China's corruption is neither appendix, nor cancer. China's corruption is serious, but treatable and manageable, as long as the CPC seriously deals with the real causes of corruption, although there are some uncertainties in the future of the anticorruption battle.

First of all, corruption is not a new phenomenon in the post-Mao era, but has existed from ancient times to present-day China. If one takes a look at the collapse of every dynasty in imperial Chinese history from the first unified dynasty, the Qin 秦 Dynasty, to the last dynasty, the Qing 清 Dynasty, one can find that every dynasty's collapse was accompanied by government corruption, although every dynasty had different failures in addition to corruption. The Revolution of 1911 benefited from the Qing government's corruption, but the nationalist government could not avoid the same mistake. This is one of the most important reasons why the nationalist government lost popular support from the Chinese people and withdrew from mainland China. Under the Mao Zedong 毛澤東 regime, the majority of government officials disciplined themselves, but China was not exempt from corruption though it had a lower incidence of corruption (Kwong, 1996). In 1951, *People's Daily* reported 1,670 cases of corruption in twenty-seven government bodies (Gong, 1994). The economic crime rate was 30 per 100,000 in 1956. The level of corruption remained low in the 1960s and the early 1970s, with the corruption rate on average about 50 per 100,000 in early 1970s (Kwong, 1996). In this period, corruption was generally limited to "senior officials and their relatives" (Hao and Johnston, 2002). The characteristic of corruption was not monetary in nature, but was power-oriented, aiming at obtaining or protecting political and bureaucratic advantage (Pei, 2015).

Second, corruption is not confined to one particular country (Gillespie and Okruhlik, 1991), but exists in every country including developed countries and democratic societies (Levy, 1995: 1). Corruption and politics are twins. No political system is free from corruption. Under the Teddy Roosevelt administration, the United States was a wildly corrupt country.¹² Even in the late 1960s and 1970s, the U.S. was still afflicted by corruption scandals (Wouters, Ryngaert, and Cloots, 2013). According to a comparative study between China and the U.S. conducted by Carlos Ramirez, a professor of economics at George Mason University, when China and the U.S. were at a US\$2,800 per-capita income level (1996 in China and early 1870s in the U.S.), corruption in the U.S. was 7 to 9 times worse than China. When both countries reached US\$7,500 per-capita income (2009 in China and 1928 in the U.S.), corruption in both countries was at about the same level. He concludes that “China’s current corruption level is, at worst, more or less on par with that of the US at similar stages of development suggests that, while it merits attention, China’s current corruption situation is not at a catastrophic level.” (Ramirez, 2014)

Corruption scandals remain serious in democratic societies. In 2015, the UK pharmaceutical company GSK paid US\$489 million fine to China for allegedly bribing doctors to prescribe its drugs.¹³ In May 2015, the New York Senate majority leader Dean G. Skelos and his son, Adam B. Skelos, have been arrested on six charges including corruption and conspiracy charges. Dean G. Skelos is accused of using his position to benefit his son’s business dealings.¹⁴ In order to secure a major real estate deal in Shanghai, Morgan Stanley offered cash and gifts to Chinese officials.¹⁵ The U.S.-based valve manufacturers, Control Components Inc. (CCI), engaged in corruption in 36 foreign countries including China. From 2003 to 2007, the CCI paid approximately US\$4.9 million in bribes to officials of various foreign state-owned

companies and approximately US\$1.95 million in bribes to officers and employees of foreign companies.¹⁶ China National Offshore Oil Corp, along with eight other Chinese firms, accepted bribes from the CCI.¹⁷ China already launched investigations on foreign firms' offices. In 2014 alone, the government reportedly investigated Microsoft, Qualcomm, and Daimler.

Third, China's corruption level is not the highest among democratic and nondemocratic countries. According to the annual survey of the Transparency International Corruption Perceptions Index, China received 36 points in 2014, ranking 100th among 174 countries.¹⁸ China's score is about the same as India, but better than Russia and Ukraine (Manion, 2014). China's corruption level is only one of the highest in Asian countries. Corruption is very prevalent in some South Asian countries, such as Pakistan, Indonesia and India (Myrdal, 2002).

Fourth, although most of the top 20 less corrupt countries are democratic societies, Singapore is included, ranking 7th, receiving 84 points, far above the borderline figure. This suggests that the democratic system is associated with less corruption, but it does not mean that nondemocratic country is unable to manage its corruption. Singapore is a nondemocratic country in terms of the basic criterion of meaningful free and fair elections, but corruption level is low; India and Russia are democratic systems, but their corruption is still severe. Modern democratic system does not guarantee to reduce the scale of corruption. In the other words, modern democratic system is not the only solution for cleaning up government's mess. If the CPC sincerely explores workable anticorruption measures, it will be able to keep corruption at a manageable level.

Fifth, Chinese market economy itself does not produce corruption, but corrupt officials create corruption by using the loopholes of the market economy (Gong, 1994). If poor economic condition provides few

accessible targets for corruption, the prosperous economy creates more opportunities and the sources of wealth for corruption. In the process of the market liberalization and privatization, corruption has become “more widespread than during the Guomindang period” (Kwong, 1996). Under the Mao regime, corruption was discreet, but during the reform movement corruption has taken on more socially and politically disintegrative forms. Under the Mao regime, a 10,000-yuan bribery case deserved the death penalty. By contrast, in the post-Mao era, the average bribe in 2008 was 8.84 million yuan.¹⁹ According to Chinese official report, the Chinese government has seized about 90 billion yuan (about US\$14.5 billion) from Zhou Yongkang 周永康’s associates and family members (Keck, 2014). Evidently, corruption is more prevalent during the transition of modernization (Scott, 1969: 1142).

Why is corruption more common in some societies than in others and more common at some times in the evolution of a society than at other times?²⁰ Specifically, how can we explain that the corruption rate was very low during the first 26 years of the Mao regime, but it becomes epidemic during the post-Mao era? During the transition period, Chinese market economy remains irrational and lacks basic rules and regulations for competition. Unlike Singapore, Hong Kong, and Taiwan, China has failed to draw the distinction between the private and public roles of officials (Root, 1996: 749). One of the reasons that caused corruption is that the Chinese government has failed to regulate the business sector. China’s biggest companies are less transparent than global competitors. Because the party’s power is not outside the Chinese economy, many Chinese officials have simply chosen the easiest but the most profitable way to become rich – they trade their power in exchange for personal gains. When a country buys modernization at the price of the decay of political institutions, corruption “becomes alternative means of making demands upon the system” (Huntington, 2002).

Sixth, stopping market economy is not the way to prevent officials from becoming corrupt. There are some reasons explaining why the government failed to regulate the market during the transition. The main goal of the reform policy is to consolidate the legitimacy of the CPC through generating people's potentials to make the Chinese people richer and the nation stronger. Guided by Deng Xiaoping 鄧小平's pragmatism – "It doesn't matter if a cat is black or white, as long as it can catch mice" – reform policy cannot be perfect. Corrupt officials exploit their power using the loopholes of the reform policy. In a global context, it may take a long time to fix the loopholes. The most corrupt periods of time in England and the United States were respectively the eighteenth century and the nineteenth century because these were the periods of industrialization and modernization in England and the United States. A society could pay the price while making economic progress. Thus, the correlation of China's corruption surge and Chinese economy boom does not justify that the market economy is the primary cause of corruption, but only the opportunity for corruption.

4. The Way of Effectively Battling Corruption

In Chinese wisdom, treating the root of a disease is the best way to treat the disease. By the same token, it must start with diagnosis of the main causes of corruption to effectively battle corruption. Marxism is the guiding principle of political science in China. According to Marxism, politics is the reflection of an economic system, so the deepest roots of corruption derive from the economic system. If corruption is found in socialist societies, Liu Cuiping notes, "it must be a residue of the feudal past or a by-product of the polluting influence of the West." (Liu, 1990) Thus, corruption has nothing to do with the socialist political system (Wang, 2004: 18).

Western scholars suggest, generally speaking, four conditions that facilitate corrupt activities: motivation, opportunity, dysfunctional supervisory system, and the low risk of exposure. The motivation drives someone to conduct corrupt activities; the opportunity invites someone to accept the temptation; the dysfunctional supervisory system makes someone believe his/her corrupt activities can go unpunished; and the low risk of exposure encourages someone to take a risk because the cost of corruption is low.²¹ Among the four conditions, the motivation is the origin of corruption; there is no corruption without motivation. A question raised here is: How can corrupt motivation become true in the market economic system? What kinds of social and political systems make officials able to fulfill their greedy motivation? The economic perspective cannot provide a satisfactory answer for these questions because corruption is essentially the dysfunction of political system (Girling, 2002). In the Chinese context, the highly centralized political system at least is one of main factors which contribute to spreading corruption, even though it is not solely responsible for spreading corruption.

First, every case of corruption is different, but the nature of corruption is the corruption of power. The most relevant question to the relationship between corruption and the political system is: Who conduct corrupt activities? By the definition, corruption refers to the misuse of their power by public officials for private gain.²² Corruption “only involves the behavior of an official in his or her public role” (Gardiner, 2002). Corruption is “behavior of public officials which deviates from accepted norms in order to serve private ends” (Huntington, 2002). The subject of every form of corruption is the officials, including officials in the Party, governments, enterprises, and different kinds of institutions. Where there is power, there is corruption; and absolute power often

results in absolute corruption (Acton, 1887). Since a great percentage of Chinese officials have been involved in corruption, the procedure of promotion within the Party must be re-assessed and reformed.

Second, theoretically, the Party is separated from the government and market economy; Practically, Chinese officials still have the right to interfere with economic activities, and their power still has market value (Yan, 2004: 73). When public officials exploit their power for private gain, they are certainly in violation of the legal codes which regulate public officials. Rich people have penetrated governments, trying to control politicians and direct the development of the economy. Money speaks loudly. Driven by money, some government officials become their puppets, laws and government regulations become empty words, and mass media becomes their voice of propaganda.

Third, a highly centralized system usually produces a higher level of corruption (Husted, 1999: 344). In the post-Mao era, the CPC has liberalized its political system, but the political system remains highly centralized without a workable checking system (Hagan, 1989), in which the individuals are relatively weak (Meier and M. Holbrook, 1992: 138). Power without check tends to corrupt; and “corruption of kingship is tyranny” (Heidenheimer and Johnston, 2002). The Chinese political system is centralized at the national and the grassroots levels and easily produces corruption. The most corrupt industries are the real estate industry, electric power, tobacco, banking and financial services, and infrastructure, because these industries are monopolized by the Party/State. When officials manage market economy by abusing power, they become corrupt.

It is necessary to fix loopholes of the Chinese market by separating the Party from the government and market economy, blocking the way for Chinese officials to exchange their power for profits, and establishing a modern enterprise system to control enterprise’s

corruption. Greater Party/State intervention in the market economy is associated with more corruption; and fair competition through market is associated with less corruption (Manion, 2014). It is important to draw a distinction between private and public domains to redefine codes of conduct for government officials (Hao, 1999), and gradually reduce the size of the government sector while promoting the privatization process (Chow, 2006). Minxin Pei notes that “Without market-oriented reforms that reduce opportunities for the abuse of power, it will be impossible to root out corruption. Similarly, a sustained campaign against corruption is a political precondition for the success of economic reforms.” (Pei, 2014)

Fourth, the gap between the written law and its practice contributes to spreading corruption. There was a lack of written regulations on corruption before the reform movement. Although China has made laws and regulations curbing corruption during the reform movement, this does not necessarily mean that the legal authority is able to enforce officials to obey the regulation because China’s legal system is neither independent, nor free from political influence. In reality, Party policy, and the top leader’s decision usually supersede law in China. The CPC is able to override juridical autonomy and interfere with police, the courts, and legal proceedings. Another factor that contributes to the gap between the written law and practice is that law enforcement officials break the laws when they are in charge of enforcing. For instance, arbitrary arrest and detention for political purposes remain a serious problem. Police continue to hold individuals without granting them access to their family or lawyer, and trials continue to be conducted in secret.

Fifth, China’s anticorruption agencies do not fully function. China’s anticorruption agencies can be divided into three categories: the anticorruption agency within the CPC, the administration, and the legal system. Accordingly, there are three main anticorruption bodies at the

national level: the Central Commission for Discipline Inspection of the CPC (中央紀律檢查委員會), the Ministry of Supervision (國家監察部), and the Supreme People's Procuratorate (最高人民檢察院). Other offices also coordinate with anticorruption campaign, such as National Audit Office (國家審計署) and General Administration of Customs (中國海關總署). They are well financed and play positive roles in combating corruption. China will establish a new anticorruption agency devised by the Supreme People's Procuratorate to deal with unprecedentedly serious cases.²³ It seems that China's anticorruption agencies have been gaining power.²⁴ As a matter of fact, the roles of these organizations are limited mainly because of the Party's interference (Li, 2005: 44). Among all these anticorruption agencies, the Party's anticorruption agency – the Central Commission for Discipline Inspection of the CPC – dominates all other agencies from the national level to local levels. China's anticorruption agencies are not independent. The CPC has the right to dismiss the judge or change the legal process. Whether or not one is punished depends on who that person is. The CPC often replaces legal code with party policy, judiciary action with party power, and legal punishment with party discipline. The Party's judgment is always final. Ling Li points out that such a judicial corruption is an institutionalized activity systemically inherent in the particular decision-making mechanism guided by the Party (Li, 2012). It is necessary to reform the institutional relations of anticorruption agencies with the CPC. The separation of anticorruption organization and the CPC will prevent party members from using these organizations as their protection umbrellas, and increase the work efficiency of those organizations.

Sixth, the highly centralized political system inevitably promotes an inadequate information system that reduces the chances of publicizing corrupt activities. Although the Procuratorates and the Supervision

Ministry established their report centers in 1988 and citizens can report any evidence of corruption by phone, fax, and letter, the achievements of these centers are restricted (Dai, 2010). The Chinese people, including journalists and civil rights activists, are not allowed to exercise their rights to freedom of speech, so some corruption cases are often covered. The process of investigating corruption case usually is in a dark box.²⁵ The absence of public participation is one of reasons for many corrupt officials to go unpunished. Melanie Manion points out that “press freedoms are even more important than political freedoms in their association with less corruption.” (Manion, 2014) The CPC should make the government more transparent, lift unnecessary restrictions for media reporting and online activities, and encourage citizens to participate in the anticorruption campaign. The government should develop more centers and hotlines, make them more convenient for citizens to report corrupt activities, and offer a cash reward to reporters.

5. Policy Implications

From the above analysis it is hard to justify that the Chinese political system has nothing to do with corruption. Instead, the highly centralized political system makes it possible for corrupt officials to fulfill their motivation. As a result, many corruption cases remain covered and unpunished (Rocca, 1992: 402). It should be noted that a highly centralized political system is a weak political institution with less confidence and efficiency. The world history has proven that weakness of political parties is the opportunity for corruption (Huntington, 1968). In the Philippines and Brazil where political parties are very weak, corruption has been widely prevalent (Huntington, 2002). A weak political party creates more opportunities for corruption; in turn, corruption further weakens the political party. The key to China’s

anticorruption is to reform the Chinese political system and develop workable anticorruption measures in the Chinese context.

The process of anticorruption campaign is guided by the anticorruption philosophy of the CPC. In certain aspects, the anticorruption philosophy of the CPC will determine if the CPC will be able to win the anticorruption battle. The previous analysis of this paper indicates that the philosophy of anticorruption campaign should be reevaluated. Every administration from Deng Xiaoping to Xi Jinping launches its own anticorruption campaign, but the reality is that corruption has become more rampant after various anticorruption campaigns. Xi Jinping is a powerful leader (Rudd , 2015). His anticorruption campaign is unprecedented and the most ambitious. However, despite the CPC's determination, China's corruption is getting worse. According to the *Corruption Perceptions Index 2014*, China's scores have decreased from 40 points in 2013 to 36 points in 2014 (Nanayakkara, 2013). Why did some existing anticorruption measures not work well? Why have a lot of the Chinese people lost their confidence in the anticorruption campaign? Can we expect that the victory of anticorruption campaign solely relies on personal power? Has the current anticorruption campaign touched the roots of soil in which corruption is breeding? Is the current anticorruption campaign repeating the history?

Although there is no easy answer to these questions, the stagnation of the current anticorruption campaign indicates that it is necessary to re-evaluate the philosophy of the campaign: What is the purpose of anticorruption campaign – only killing tigers and flies, or increasing public trust and consolidating the legitimacy of the CPC? How to treat China's corruption campaign – only pursuing temporary relieve, or eliminating the roots of corruption? What is the most effect way to fighting corruption – only relying on the CPC to purify itself, or using

multiple independent institutional powers to fight corruption? It might be a dilemma for the CPC to make a choice, but if the CPC cannot get out of this dilemma, the anticorruption campaign will be short-lived. In order to avoid the same failure of the previous anticorruption campaign, an in-depth study of the relationship between corruption and the Chinese political system is required. Without a doubt, it is not a single factor, but multiple factors that contribute to corruption, including the level of the nation's economy, the way income is distributed, the Party/State's role in the economy, the level of freedom, cultural values, social norms, anticorruption mechanism, and the nature of political institutions.²⁶

Specifically, the anticorruption campaign should focus on two aspects: perfecting the legal system and developing a support system. The former includes anticorruption laws and regulations, the procedure of legal process, and international legal cooperation; and the latter includes cultural environment, the prevention mechanism, and anticorruption strategies. A strong China must be ruled by the law because personal power is limited. By the same token, it is the best to rely on law and regulations for curbing corruption instead of relying on personal power. There are three issues that should be addressed in the first aspect:

1. A system of anticorruption laws and regulations is the basic infrastructure of anticorruption campaign. Human beings by nature are social animals; and people's behavior should be regulated by both moral codes and laws. Officials could easily become corrupt without law and regulation. The anticorruption laws and regulations are the basic tool of regulating people's behavior. Because officials mainly include officials in the Party, governments, and enterprises, accordingly, a set of anticorruption laws should be established by China's legislature, and anticorruption regulations should be adopted in the Party, the

government, enterprises, and other institutions. In the post-Mao era, in the Party, the CCP has issued the “Disciplinary Regulations of the Chinese Communist Party” (中國共產黨紀律處分條例). In the government, the Party/State has issued the “Interim Provision on the Implementation of the Party and Government Leaders Accountability” (關於實行黨政領導幹部問責的暫行規定) and the “Inspection Regulations of Communist Party of China” (中國共產黨巡視工作條例). The Party/State has also issued the “Regulations for State-owned Enterprises’ Leaders to Conduct Honest Business” (國有企業領導人員廉潔從業若干規定). However, anticorruption regulation is different from laws. Regulation can neither be above the law nor replace the law. Regulation punishment is a form of ethical discipline, but legal punishment is enforced to implement. The process of disciplinary investigation must be separated from the process of legal investigation; and the legal corruption investigation should be independent based on its own investigation instead of the internal investigation of the Party and enterprise. Chinese anti-corruption laws are basically included in the Anti-Unfair Competition Law and the Criminal Law. This means that the regulations within the Party and the government and State-owned enterprises do not necessarily coordinate with anticorruption law. In addition, the regulations do not clearly set up business codes, address and the responsibility of enterprise leaders, regulate the relationship between enterprise and community and politics, make distinctions between bribe and gifts, entertainment, and hospitality, and specifically define the terms “corruption”, “bribe”, “kickbacks”, “facilitation payments”. As a result, the regulations could be misinterpreted by a single leader, and some corrupt officials could remain in power without punishment. It is urgent for China’s legislature to enact both domestic anticorruption law and foreign corrupt practice act. Anticorruption laws and regulations should be coordinated; domestic anticorruption law and

foreign corrupt practice act should work together. Regulations must cover both governmental and nongovernmental organizations, public and private sectors, and business and non-business-related organizations; and laws must be applied to all the spheres of the Chinese society, including the Party, the government, and enterprises. In this way, the CPC, the central government and local governments, and all other institutions work together to achieve more accomplishments but spend less human and financial capitals. The CPC will not be able to win the anticorruption battle until an integrated system of anticorruption law and regulations are established.

2. Anticorruption measures themselves must be lawful. In the past years, Chinese authorities took some unconventional measures to keep corrupt officials from fleeing abroad, including confiscating passports and stopping promoting “naked officials” (*luoguan* 裸官).²⁷ Such measures may be necessary in a transitional period, but it is questionable whether these measures reflect the CPC’s confidence, and whether they represent violation of the constitutional rights. Another example is *shuanggui* (雙規), which refers to an internal disciplinary process on members of the Party who are suspected of “violations of discipline” conducted by the Central Commission for Discipline Inspection of the CPC based on its own constitutional obligations. Practically, this system is an effective way to curb corruption, so the CPC regularly practice it. However, when a party member is enforced in the process of *shuanggui*, he or she is actually detained without any legal representation until the internal investigation is completed. In this sense, *shuanggui* is essentially a measure outside the legal system and a form of extralegal detention (Young, 1984). According to a *Caixin* 財新 report, more than 50 officials have died unnatural deaths since late 2012.²⁸ The “unnatural death” includes suicide, homicide, industrial accident, natural disaster or

execution.²⁹ These unnatural death cases indicate that *shuanggui* is problematic. When the CPC implements *shuanggui*, it should make sure that the measures and procedures of *shuanggui* are compatible with the laws.

3. International cooperation is required during the globalization era. China's corruption is unique because it is defined by Chinese laws established within the country's legislatures. However, anticorruption is a war beyond its border. China could not win the war without international cooperation. Three basic reasons explain why international cooperation is required.

First, China's corruption has become an international crime during the era of globalization. Globalization is the great transnational integration of the world's economies, social norms, cultures, and political systems. Globalization promotes the world economy and new international norm. Meanwhile, modern transportation, communication tools, and the Internet network make it easier for corrupt activities, such as money laundering.

Second, China has huge overseas assets. According to the State Administration of Foreign Exchange, China has US\$5.94 trillion in external financial assets by the end of the year 2013, more than half of the country's US\$8.3 trillion domestic economy. China has more money in foreign reserves than Brazil, Russia, India and South Africa combined.³⁰ China's overseas assets are not exempt from corruption. Dong Dasheng 董大勝, former deputy director of the National Audit Office, notes that the Chinese government almost never audited the country's financial accounts. Obviously, the area of China's overseas assets is a hotbed of corruption (Chen, 2015).³¹

Third, a considerable number of corrupt officials fled to foreign countries carrying a great amount of money. According to data released

by the Chinese Academy of Social Sciences in 2011, more than 18,000 Chinese officials fled from China to foreign countries, carrying with them over 800 billion yuan (US\$130 billion), accounting for 2% of 2011's total GDP.³² Top destinations for the corrupt officials are the U.S., Canada, Australia, the Netherlands and West European countries. Chinese official media reports that the intercepted money seized from fleeing officials jumped more than four times from 22.48 billion yuan in 2007 to 102.09 billion yuan in 2012.³³ In 2013, the Boston Consulting Group reported that the movement of funds overseas from mainland China each year amounted to 3% of China's GDP.³⁴

Since 2012, the Chinese government expressed that the government would strengthen the measures to recover illicit assets transferred abroad.³⁵ China has launched the "Fox Hunt 2014" (Yang, 2014) and the "Skynet Global Action 2015". These projects show that the CPC has made its efforts towards international cooperation. Although the U.S. supported China's anticorruption proposal at the Asia-Pacific Economic Cooperation (APEC) meeting in Beijing in 2014, and in April 2015 expressed that the U.S. would assist in the repatriation of the so-called economic fugitives,³⁶ it is very difficult for China to bring Chinese fugitives back due to the following reasons: China has not signed extradition treaties with major Western countries including the U.S., Canada and Australia; executive power in democratic societies is not necessarily capable of fulfilling its promise because the judicial system is separated from the executive power; China's death penalty for officials convicted of corruption is an obstacle to reaching agreement between China and Western governments; the issue of how to share the illicit assets with those countries is not resolved yet; Western governments do not necessarily view everyone on China's most wanted list as criminal because they hold a different standard to define "crime"; and democratic societies are ruled by the law, so the Chinese fugitives

have various legal channels to protect themselves in order to avoid to be repatriated.

If China cannot resolve these issues, it will not be able to reach the goal of global mutual legal assistance by “taking evidence of persons at the request of another state, serving documents, freezing assets, examining objects or sites, providing documents – government, bank, financial, corporate or business records amongst others”³⁷. Although China’s political and judiciary system are different from Western countries, the Chinese government should find a common ground between China and Western countries to sign extradition treaties with them by improving human rights and establishing “a legal basis to share the illicit assets with those countries so as to create incentives to help with the recovery” (Sun, 2014). It is urgent for the CPC to reform its political system in order to launch a global campaign against corruption, block the backyard of corrupt officials, and keep China’s legal deterrence in the global community.

The second aspect of anticorruption measures is to develop a social and cultural support system because the legal framework against corruption cannot be separated from changing social and cultural environment. A good government produces less corruption; a good person less likely becomes corrupt, and a healthy social and cultural environment helps to enrich the souls and spirit of the people.

1. The stronger Chinese state is better equipped to enforce discipline to control corruption (Sun, 1992), but harsh punishment does not necessarily deter criminals (Brier and Fienberg, 1980: 147). Harsh punishment is useless without cultural change. Punishment for corruption in China is severe. Since 1978, quite a few of officials have been executed for corruption. But, why does corruption continue to

spread and even become worse? Simply, “the stigma of corruption cannot be washed away by serving a prison sentence” (Quah, 2002). No cleanup measure can be effective unless it is supported by a healthy cultural environment. Contemporary Chinese culture comes from three sources: traditional Chinese culture, Marxism, and Western culture. Marxism and Western culture only have a short history in China and is deeply influenced by traditional culture. Confucianism was the mainstream of traditional Chinese culture and dominated the Chinese society from ancient times to 1949. In the post-Mao era, the Chinese government has promoted the renaissance of Confucianism – so-called state-sponsored Confucianism – to reshape Chinese cultural identity. The basic principles of original Confucius’ teaching are the five constant virtues: *jen* 仁 (benevolence), *yi* 義 (righteousness), *li* 禮 (propriety), *zhi* 智 (knowledge/wisdom), and *xin* 信 (sincerity), and five relationships (ruled is subject to ruler; son is subject to father; wife is subject to husband; younger is subject to elder; and friends must trust each other). These Confucian principles could be an ideological burden for China’s modernization and negatively impact on the current anticorruption campaign.

First, all these Confucian principles tend to advocate unlimited authority and neglect the individual (Chow, 1967), support patriarchal and hierarchical systems, and insist that a good society is maintained by a moral obligation instead of obligatory law (Schwartz, 1993). Confucius’ teaching contradicts the basic principles of modern democracy.

Second, the central idea of the Five Relationships is “loyalty”, being loyal to government authority, family, and friends. The conception of loyalty essentially serves the centralized political system which contributes to corruption. It can easily undermine commitment to the community while practicing loyalty to one’s authority, family and

friends. Chinese officials are usually only loyal to their boss and family members instead of being loyal to the majority of the people because Chinese officials are not selected by the people but appointed by the Party/State. A high percentage of corruption cases show that the corrupt official's spouse and children played a critical role in the corruption scandals. They use their family members and "love affair" to take bribes and allow them to run illegal business; in turn, family members use the officials' influence of their family members or relatives to conduct personal business to acquire illicit gains. Although China has regulations which do not allow senior officials' spouses, children or relatives to hold important posts in their own work units, and not allow them to participate in official business or exercise influence on such activities, obviously, all these regulations do not work. Obviously, traditional Chinese culture remains strong and the checking system remains weak. The government should not only establish the regulations prohibiting officials and their family members from engaging in business activities, but also have an independent monitoring system to enforce them to strictly follow the regulations.

Third, the core of Confucius's teaching is the Five Relationships, in Chinese, *guanxi* 關係, which is associated with corruption because corruption can be viewed as a network of interpersonal interactions dealing with business (Belshaw, 1965). *Guanxi* refers to personalized relationships and networks of influence. It is a common practice for the Chinese people to use *guanxi* to conduct business and get other thing done. Whoever has *guanxi* can easily allocate all kinds of resources to gain personal profits in the poorly regulated market system. In this sense, *guanxi* could be dangerous without checks; and favors could breed corruption. Philip Tose, the chief of a U.S. company, explains that the secret formula for his success is "to sit down over a cup of tea with the top guy; there isn't documentation: the deal is done."³⁸ *Guanxi* with

high rank officials is the most important to secure a business deal in China.³⁹ *Guanxi* is part of Chinese culture, because bribery is not necessarily involved in *guanxi*. However, if someone crossed the line and violated the law while using *guanxi* to conduct business, it can lead to corruption. China's monopolized business is always involved with *guanxi* of powerful officials. *Guanxi* plays a significant role in most corruption cases in China. The Chinese people have already got used to the *guanxi* culture, so they are not so sensitive to the corruption behind *guanxi* network. It is necessary to increase the awareness of anticorruption, promote moral education and public vigilance, and use public opinion to condemn corrupt activities, making everyone realize that corruption is a high-risk activity.

Fourth, Confucianism essentially is not typically religious, but humanistic. The long history of Confucian tradition contributes to the weak belief system in China. Corruption is the result of the crisis of human belief. There is an inner relationship between a corrupt soul and corrupt activities (Friedrich, 2002). China has been a belief vacuum in the post-Mao era. A great number of the Chinese people have been losing political and religious faith, so Chinese moral standards have become blurred. They have paid more attention to their material lives and ignored their spiritual lives. Money has become the most important criterion to judge people's achievements. The motivation of making money drives people crazy and creates serious social problems including corruption. Although it is an ongoing debate on what belief system should be promoted in the Chinese context, a religious belief can help the Chinese people to reconstruct the value system and restrain human political power (Zhou, 1997). Political power without religious condition could be dangerous and produce more corruption.

2. “Prevention” is more important than “punishment”. Since corrupt activities are conducted by officials, a question must be asked: What are the most effective measures to prevent officials from becoming corrupt? Corrupt officials conduct illegal activities in a variety of forms. Although there is no single anticorruption measure that works in dealing with all forms of corruption, there is one basic principle that can be applied for fighting against all forms of corruption – preventive measure. The ultimate goal of the anticorruption campaign is not to crackdown on “tigers” and “flies”, but to prevent officials from becoming tigers and flies. More efforts are needed for “prevention” rather than “punishment”. The prevention policy must be put in place before officials become corrupt. Under the Mao regime, anti-corruption battles largely relied on mass movement, political education, party and administrative disciplinary measures, and severe punishment. All these measures are not sufficient to serve the ultimate goal of anticorruption in present-day China. In the United States, the most effective way to prevent corruption is by identifying corruption prone areas. These areas include: procurement, hiring, retention and promotion of public officials, code of conduct and ethics, construction projects, and system's reviews of public bodies. Anti-corruption authorities must pay careful attention to these areas and put workable anticorruption policies in place. China's anticorruption institutions must also keep their eyes on other areas, such as government monopolistic industries, medical services, and public education.

The official property declaration system is proved to be a workable measure to prevent corruption among officials and guarantee for anticorruption campaign in democratic societies. More than one hundred countries have adopted such a law. Since 1978, the Chinese people have called for establishing the law. In the 1980s, the Chinese government

began to consider requiring officials to disclose their property, and in 1995 introduced a formal proposal. Since then, it has taken more than a decade to revise the proposal. It is still in the stage of experimentation. Theoretically, it is not difficult to implement this law within the highly centralized political system. Why does it take so long to implement it? One of explanations is that there is a strong opposition to the legislation process because the law will hurt the interest of crony-capitalism. Under this circumstance, whether or not the CPC officially implements the law has become a touchstone that tests if the CPC truly wants to win the anticorruption battle. It will increase the CPC's credibility if the CPC makes more efforts in support of enacting "legislation to force officials to disclose their income and assets" (Hu, 2012), and also establish a bank and tax system to verify such property information. It is worth noting that it is also important to develop other preventive measures – to build a transparent and accountable system of governance, and strengthen the capacity of civil society and media.

3. Strategically, it is necessary to differentiate different forms of corruption in order to win popular support from the majority of the Chinese people. Considering that a great number of Chinese officials have engaged in corrupt activities in both legal and moral perspectives, it may be wise to differently treat the corrupt activities conducted in different periods of time. The Party should also make a distinction between black, grey and white corruptions (Heidenheimer, 1989). "Black corruption" refers to officials' activities being obviously illegal because they are simply for their personal wealth. The public generally condemns such activities. "Grey corruption" refers to the institutional activities for improving the welfare of the staff members of their organizations through various legal, semi-legal and illegal ways. The public is divided on whether it is illegal. Some want to see the action

punished while the others do not agree. “White corruption” refers to a kind of “common practice”, including nepotism and favoritism in various areas. The public – the majority of people if not everyone – may not strongly support punishing it.⁴⁰ Influenced by Chinese traditional culture, white corruption is a very popular form of corruption in China. John Girling puts it this way: “corruption is condoned because everybody does it; here is a culture of corruption.” (Girling, 2002) This principle is not an amnesty for corrupt officials or creating a balance between different interest groups, but to stabilize the Chinese society. When practicing it, China should implement alternative measures accordingly to ensure every corrupt official go through the necessary legal and ethical processes.

6. Conclusion

The CPC has clearly realized that corruption threatens the party’s ability to stay in power (Chen, 2004: 72). Xi Jinping has warned that corruption could lead to the collapse of the party and the downfall of the state, and urged the government to remove the soil that produces corruption.⁴¹ Since Xi became the General Secretary of the CPC, he has made the battle against corruption his number 1 mission. In 2014, about 68 provincial or ministerial-level officials and 71,000 lower-level officials were punished (Ramzy, 2015). The CPC also punished diseased corrupt officials, including Ren Runhou 任潤厚, former vice-governor of Shanxi 山西 Province, and Xu Caihou, former vice-chairman of the Central Military Commission, indicating that whoever will be punished as long as she/he is in violation of the law. The CPC has rejected the amnesty proposal for corrupt officials “who have made major contributions to the country under specific circumstances as a means to temporarily alleviate some of the pushback from party and government

officials against the campaign.”⁴² All these have clearly signaled that the CPC has firmly held the determination to fight against corruption.

However, despite the CPC’s determination, the anticorruption campaign has not made fundamental achievements. Why? The possible explanations are: the anticorruption campaign meets a great resistance; there is a gap between the CPC’s talk and action; the personal power of the top leader is not enough for battling the systematic corruption; massive political campaign against corruption may not be the best solution; deepening economic reform is not sufficient to curb corruption; and it is impossible to win the anticorruption war without fundamentally reforming the Chinese political system. It may also suggest that the CPC should rethink its philosophy of anticorruption battle. A senior China expert Willy Wo-Lap Lam in his recent book raised a critical question: Is Chinese politics in the Era of Xi Jinping experiencing renaissance or retrogression (Lam, 2015)? Anticorruption is necessary, but it is an uphill battle. Now it is at the crossroads. While developing concrete anticorruption measures, the CPC should place political reform as the top priority among other reforms, take one step further to introduce institutional checks and balances, allow scrutiny from the media and independent anti-graft agencies (Lam, 2009), and provide an opportunity for a possible change from a traditional society ruled by man into a rational-legal society ruled by law (Hao, 1999). The CPC should also endorse necessary political strategies for fighting against corruption, improving the quality of Chinese officials, separating the party from the government and market, reforming government-sponsored ownership, establishing various independent supervisory institutions to check the party’s power and prevent the leaders from abusing power, expanding the supervisory power, perfecting the legal and judiciary systems to increase the costs and risks of corrupt activities, disclosing Chinese officials’ and their families’ incomes by filing the property declaration

form, and guaranteeing freedom of speech and press. China's anticorruption campaign will only succeed if more is done to address the structural, institutional and cultural changes (Huang, 2015).

Notes

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distance in a country, the higher the level of corruption in a country; 5) the less individualistic a society, the higher the level of corruption in a country; 6) the greater the masculinity of a culture, the higher level of corruption in a country; and 7) the greater the level of uncertainty avoidance in a nation, the higher the level of corruption.

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China and the Impossible Trinity: Economic Transition and the Internationalization of the Renminbi

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Abstract

With the recent formal inclusion of the Renminbi (RMB) into the IMF's Special Drawing Right (SDR) currency basket, prospects for further internationalization of the RMB are improving. However, as China attempts to simultaneously undergo an economic transition into a more balanced growth model, and the internationalization of its currency, pressures are mounting from the impossible trinity. The latter is based on the Mundell-Flemming model. The latter posits a policy-choice problem in which a country cannot simultaneously have unfettered capital movement, an independent monetary policy, and a fixed exchange rate system. Naturally, three baskets of policy combinations are possible. Historical events such as the Asian financial crisis (1997-1998) have demonstrated that countries are strictly bound by the impossible trinity.

The paper posits that China should opt for the policy basket of a fully liberalized capital account, fully liberalized interest rates, and maintain its current basket peg exchange rate regime but eventually allow for a greater spread. The policy sequence should begin with the liberalization of the interest rates while maintaining the current level of capital controls. Once adequate time has been given to allow the domestic financial and economic system to adjust and consolidate itself, the liberalization of the capital account should be the next goal. Finally, the basket peg exchange rate regime should be allowed a greater float. While the interest rates and the capital account are undergoing liberalization, the exchange rate should operate as a policy tool so as to minimize shocks to the domestic economic system. The policy basket and sequence have been chosen because they are conducive to a risk-averse economic transition from the current export-led growth model. The paper visits the cases of Hong Kong, the United States, and the European Union to examine their policy choice vis-à-vis the impossible trinity in order to make a case for why China should opt for the suggested policy basket.

Keywords: *Renminbi (RMB) internationalization, economic transition, impossible trinity*

1. Introduction

The issue of Renminbi 人民幣 (henceforth RMB) internationalization has, in the post-2008 financial crisis era, become increasingly popular both in policy and academic circles. Whether the literature approaches the subject of currency internationalization through a political economy perspective (Helleiner, 2008; Strange, 1971, 1986, 1988), or a more functional analysis (Krugman, 1984; Chinn and Frankel, 2007;

Eichengreen, 2005, 2011; Eichengreen and Flandreau, 2010), it is evident that RMB internationalization is admirably difficult and complex. For the first time in the history of currency internationalizations, the internationalization of the RMB is not being driven by market forces; rather, it is a top-down government-led project (Petkova, 2013). This means that the issues concerning currency internationalization have been and still are being evaluated by the Chinese central government. This leads to the creation of strategies and policy paths *a priori*. Moreover, China is pushing for the internationalization of the RMB in the absence of full convertibility under the capital account, and non-market-based exchange rate and interest rate (He, 2015). While in recent years much progress has been made towards the liberalization of the aforementioned three areas, at the time of this writing, China still has not accomplished full liberalization of either three. Nonetheless, this allows for novel approaches to understanding and analyzing RMB internationalization. It is important to note here that this paper focuses on the functional aspects of currency internationalization; however, it is duly acknowledged that a large corpus of literature is focused on the political economy aspects.

As such, the article approaches RMB internationalization in a specific manner: it seeks to provide and justify a policy path targeted at tackling the “impossible trinity”. The latter is based on the assumption that a country whose currency is internationalized cannot simultaneously have free capital movement (a liberalized capital account), an independent monetary policy (regulated interest rates), and a fixed exchange rate. To this effect, it is only possible to have two of the aforementioned policies. As such, there are only three possible policy baskets. Firstly, a country can opt for a fixed exchange rate regime with a fully liberalized capital account, but forgo the independent monetary policy. Secondly, it can choose a domestically geared monetary policy

with a free capital account, but leave the exchange rate as a free float. Lastly, it can favor a fixed exchange rate regime with an independent monetary policy, but have a control on capital movement. There are, of course, benefits and drawbacks to each basket. That said, it appears that there is a consensus that China should opt for either the first or third basket¹. As such, this paper supplements the current “impossible trinity” literature by providing a justification for pursuing the first policy basket based on RMB internationalization and economic transition into a more consumption-focused economy.

This paper is comprised of three sections. The first one examines literature pertaining to the impossible trinity, both China-focused and how other states have approached the problem. The second looks at the two other policy baskets of the impossible trinity and makes a case as to why they are not ideal for China’s situation. The third section analyzes, in detail, the recommend policy basket, specifically within the context of benefitting the Chinese economy. Fourthly, the article goes over the specific policy sequence that China should aim for with regard to achieving the suggested basket’s policy goals. The final section examines the possible drawbacks of the suggested basket.

The covered issue is of relevance because a mismanagement of the impossible trinity can have devastating economic consequences domestically as demonstrated by the Asian financial crisis whereby those affected countries attempted to disregard the impossible trinity and maintain free capital movement, an independent monetary policy, and a fixed exchange rate only to witness their foreign exchange reserves emptied and their currencies collapsed. However, China’s behemoth economic size means that should it mismanage the impossible trinity, not only will its domestic economy face tremendous turbulence, but it will also send shockwaves throughout the global economy.

The claim that this policy basket suits China's circumstance is based on four assumptions. Firstly, Chinese financial reforms will transform its finance and banking sectors into more lucrative, competitive, and international entities. Secondly, China is transitioning from an export-led economic growth model into a more consumption-driven model. Thirdly, while an economic transition is happening, China still needs to and will need to have a sizeable exporting sector in the near future. Finally, RMB as an international currency will not reach the same extent of internationalization as the U.S. Dollar in the foreseeable future. The first assumption serves as the basis for full capital account liberalization. Without unfettered capital movement, China's finance and banking sectors will not be able to become internationally competitive. The second assumption is the logic behind the full liberalization of the interest rates. The current "financial repression" regime, which is essentially government-regulated interest rates aimed at consolidating government-directed investments, heavily favors state-owned enterprises (henceforth SOEs) while penalizing individual savers and small and medium enterprises (henceforth SMEs). In order for China to move to a more consumption-driven model, its domestic ability to innovate has to improve. This means creating an environment whereby SMEs can thrive, and this requires the lifting of financial repression so as to allow SMEs to acquire better loan rates. At the same time, individual savers need to be encouraged to consume and spend more, and this also requires the lifting of financial repression so as to allow for better deposit rates. Finally, the third and fourth assumptions make a case for a managed floating exchange rate with a greater floor and ceiling. On the one hand, China's exporting sector will still play a significant role in the economy; this means that a free-floating exchange rate is not desired as there is too much risk involved with exchange rate fluctuations which damage the already small profit margins of the exporting sector. On the other hand,

allowing the RMB to appreciate gives impetus to increase domestic consumption and imports by giving individuals a greater purchasing power. Moreover, insofar as the RMB is not a widely accepted reserve currency like the U.S. Dollar, it does not require a free floating exchange rate. Due to these reasons, the policy basket that I am recommending to tackle the impossible trinity is beneficial for China's situation.

2. The Impossible Trinity: A Synoptic Overview

The impossible trinity is based on the Mundell-Flemming model (Mundell, 1961, 1963; Flemming, 1962) that has been further developed by other scholars (Burda and Wyplosz, 2005; Obstfeld, Shambaugh and Taylor, 2004). Essentially, the theory is a policy-choice problem whereby a country cannot have, at the same time, unfettered capital movement (fully liberalized capital accounts), an independent monetary policy (regulated domestic interest rates), and a fixed exchange rate. The central bank can only have two of the three policies. The general theory stipulates that under the conditions of free capital mobility and a fixed exchange rate regime, the country's central bank would be unable to dictate the money supply as a result of unfettered capital movement and consequently, be unable to set the domestic interest rates. The free flowing of capital would push the domestic interest rates towards the international rates; thus the central bank loses its capacity to set a domestic monetary policy. The following example illustrates this in detail:

Suppose a country with an independent monetary policy that allows its central bank to set the domestic interest rates below the market (global) interest rates so as to allow cheaper loans in order to spur economic growth. The difference in interest rates between the domestic and the

market would entice investors to sell the domestic currency due to the lower interest rate and buy foreign currencies. This results in depreciation of the domestic currency. Now, the country also has a fully liberalized capital account which means no capital control tools can be used to prevent capital flows. Likewise, under a fully liberalized capital account, in order for the central bank to prevent a complete collapse of the domestic currency is to decrease the excess circulation of its domestic currency through mass purchases with its foreign exchange reserve. However, no central bank has an unlimited foreign exchange reserve². Once its reserves are dry, the central bank would be unable to maintain the exchange rate, and the domestic currency collapses. This is exactly what happened to the countries affected during the Asian financial crisis.

How have other countries dealt with the impossible trinity? Yip (2011) highlights three examples. Firstly, Hong Kong has opted for a fully liberalized capital account, a non-independent monetary policy whereby the money supply is determined by market forces and the interest rates are linked with the U.S. interest rates, and a fixed exchange rate that uses a currency board system that is pegged to the U.S. Dollar. Singapore, on the other hand, has chosen free capital movement, an independent monetary policy, but made its exchange rate a free floating regime. The United States, like Singapore, uses a free floating exchange rate regime, its monetary policy is independent and set by the Federal Reserve, and free capital movement is allowed. Another example that is not covered by Yip is the European Union, and it has opted for a stable exchange rate, free capital movement, and a non-independent monetary policy whereby its interest rates closely follow the world rates. These examples serve to demonstrate that the impossible trinity is unavoidable and must be dealt with. As Riedel, Jin and Gao (2007: 172) state, “It is therefore

impossible to avoid the force of the impossible trinity indefinitely. The validity of this proposition has been proven time and time again throughout history, as one country after another has been forced to abandon fixed exchange rates in order to preserve monetary policy as a tool of macroeconomic management.”

Lo (2015) argues that prior to the initiation of capital account liberalization in 2005, the impossible trinity did not affect China, nor was it a concern for the central government. The closed capital account meant that China was able to enjoy both an independent monetary policy and a fixed exchange rate. However, since then, China’s capital account has witnessed progressive liberalization with steady capital inflows acting as a catalyst for further liberalization. Lo further explains that due to China’s deep foreign exchange reserves, the People’s Bank of China (henceforth PBoC) has been able to “sterilize” the effects of the impossible trinity with policy tools such as implementing a reserve requirement ratio in order to maintain monetary and exchange rate controls. However, such a method, even with a limited liberalized capital account, is heavily draining on the country’s foreign exchange reserves. As such, Lo argues that, eventually, China will have to forgo interest rates or exchange rate controls.

On the one hand, the Institute of World Economics and Politics (2003) of the Chinese Academy of Social Sciences argues that it is imperative for China to maintain an independent monetary policy due to the size of its economy. In addition, a fixed exchange rate is also needed so as to develop the real economy and maintain price stability. As such, the capital account should not be fully liberalized as free capital movement can disrupt the exchange rate and hamper economic development, especially in the absence of a fully developed foreign exchange market in China. Yip (2011) also argues for this policy basket with two minor revisions. Firstly, he suggests that China maintains its

current level of capital account openness, which means that further liberalization or more capital controls should be held off; and allows the RMB to appreciate incrementally which means a managed floating exchange rate. He argues that an independent monetary policy is important because like the U.S., a large domestic market is necessary for economic output. At the same time, a liberalization of the exchange rate can result in rapid appreciation of the RMB and cause domestic and regional recessions. The latter can have severe economic and even political consequences for China. Of course, if China wants an independent monetary policy, it must maintain current levels of capital controls. Otherwise, more capital account liberalization would endanger exchange rate controls and ultimately disrupt domestic economic activities. Nonetheless, capital controls mean a reduction of monetary efficiency. Yip (2011) warns of the dangers of full capital account liberalization without a complete deleveraging of the financial sector, especially with regard to non-performing loans. Since unfettered capital mobility gives more room for such bad loans to be made, it is advised that China maintains capital controls until these loans are dealt away with.

Huang and Wang (2004) have made a case for moving towards more exchange rate flexibility. They argue that since China's entry into the WTO, China is becoming increasingly integrated with the global economy in a financial sense, and as such, the exchange rate should move towards further liberalization. Moreover, China should not forget the experiences of the Asian financial crisis when hot money devastated domestic economies leading to currency and banking crises due to fully liberalized capital accounts. In essence, the authors concur with the previous authors and argue for a non-liberalized capital account to avoid the dangers of hot money, an independent monetary policy so that China can maintain monetary controls, but opt for a more flexible exchange

rate as further integration with the world economy will necessitate it. In a more general context, Rodrik (2011) argues in his book that more countries should opt for restricting capital movement, an independent monetary policy, and a fixed exchange rate regime. He makes the case that rapid financial integration on the global scale has increased the frequency and volume of capital flows, and as such, the effects of free capital movement have been amplified in this current era. Due to this, he argues, economic crises have become more habitual and more devastating. He points to the fact that global GDP (gross domestic product) growth was the fastest when capital controls were orthodox economic practice during the Bretton Woods era.

Riedel, Jin, and Gao (2007) have however demonstrated that even with capital controls in place, there are still significant levels of capital flows going in and out of China. Moreover, this is not a recent phenomenon. Prior to capital account undergoing liberalization in 2005, between 1997 and 2002, non-FDI capital outflows³ managed to overtake FDI inflows to create a capital account deficit; and after 2002, non-FDI inflows began to increase. As such, it appears that the *de jure* capital controls were and are not able to completely limit the prohibited capital flows. The problem, then, is that given this situation, capital controls are not effective; therefore, capital account liberalization is only natural. At the same time, there have been, since 2001, significant domestic and international pressures on China's exchange rate regime to appreciate the RMB. As such, the authors conclude that China will eventually opt for a free-floating exchange rate regime, but for now, it will try to find the optimal flexibility. Furthermore, they also expect capital account liberalization, and a liberalization of the financial system (interest rates).

Chinese academics have likewise commented on the impossible trinity and offered their takes on what China's approach should be. Zhao (2015) argues that China should strive for an independent monetary

policy, a limited capital account, and a managed floating exchange rate with a ceiling and floor. She argues that stabilizing the exchange rate is the most important mission of the PBoC, and that while depreciation may be bad, expectations of continuous depreciation are even worse. Furthermore, she urges the more prevalent use of the reserve requirement ratio⁴ to manage the exchange rate. At the same time, she argues that a slowing down of the liberalization of the capital account would give more policy flexibility to manage the exchange rate and set the domestic monetary policy. Like many others, she is concerned about the effects of hot money on the domestic financial system under a fully liberalized capital account. While she realizes that RMB internationalization requires capital account liberalization, she urges extreme caution with regard to the liberalization process.

Chen and Yu (2010) make the case that China should pursue an independent monetary policy, unfettered capital movement, and a free-floating exchange rate regime. They argue that the ability for the central bank to dictate the money supply is the basis for many other policy tools. In using these policy tools, the central bank can then effectively lead and direct the economy in order to maintain macroeconomic flexibility. Hence, an independent monetary policy is paramount. With an independent monetary policy, a free-floating exchange rate regime becomes much easier to control. At the same time, a free-floating RMB, in turn, contributes to macroeconomic flexibility as the domestic monetary policy would become more efficient. They do, however, argue that this policy basket is a long-term goal, and that in the absence of a fully developed domestic financial system and a large enough domestic market size to absorb the economic turbulence of unfettered capital flow and a free-floating RMB, this policy basket would be unattainable. The article concurs with these authors on this point. They also make an interesting point concerning the actual extent to which the impossible

trinity is binding. They argue that within the impossible trinity, there is actually quite a lot of flexibility with regard to the extent of capital account liberalization, the range of exchange rate regimes that can work, and the degree to which the monetary policy remains independent.

This rather brief literature review on the impossible trinity has highlighted a preference for an independent monetary policy to be the foundation for a selecting policy basket.

3. The Impossible Trinity: Other Policy Baskets

At this point, it is important to reiterate the original proposition of the article: China should, against the backdrop of RMB internationalization and economic transition into a more balanced model between exports and consumption, opt for the policy basket of free capital movement, a non-independent monetary policy, and a managed floating exchange rate regime with a greater ceiling to floor spread. As such, it is necessary to explain why the other policy baskets are not ideal for accomplishing the aforementioned goals.

Firstly, the policy basket of free capital movement, an independent monetary policy, and a free-floating exchange rate regime. The initial evaluation of this basket is that while it is beneficial for RMB internationalization, it would hamper and make more difficult the economic transition. A non-managed exchange rate would see the RMB appreciate for a period of time until market supply and demand have reached an equilibrium on its value. This appreciation would drastically hurt China's exporting sector and weaken GDP growth as China's economy is still dependent on exports. Moreover, a rapid decline in the exporting sector can lead to mass lay-offs, and in the absence of a well-functioning social welfare system, there is potential for social unrest which would further damage attempts at economic reform. While RMB

appreciation can indeed boost purchasing power to increase domestic consumption, this transition requires time. A free-floating exchange rate would appreciate the RMB too quickly without giving ample time for the exporting sector to adjust. At the same time, unfettered capital movement can always inject risk into the domestic financial system with the flow of hot money. Furthermore, consider the following scenario. Suppose that the RMB is appreciating due to the free-floating exchange rate, and the exporting sector is facing serious problems. Compounded with the flow of hot money making the domestic financial sector increasingly volatile, the ability for the PBoC to regulate domestic interest rates would be seriously questionable. On the other hand, this policy basket is useful in spurring RMB internationalization. Free capital movement would drastically increase the use of RMB for trade settlements, and allow for the development of a proper foreign exchange market. A free-floating exchange rate would make the RMB more attractive to hold for two reasons. Firstly, it would not be subject to central bank intervention to either appreciate or depreciate, rather, market forces would determine its value. Secondly, since the RMB is expected to appreciate, it would increase the purchasing power of importers of Chinese goods. Moreover, an independent monetary policy would mean that the PBoC can expand the money supply as it sees fit in coordination with RMB expansion. As a final note, when the RMB has consolidated its status as an international and reserve currency in the future, and China's economy has shifted to become more consumption-based, this could be an ideal policy basket choice for China in the long-term.

Secondly, the policy basket of limited capital movement, independent monetary policy, and a fixed exchange rate regime. This policy basket would be beneficial for economic transition, but it would hamper efforts at RMB internationalization. Firstly, with regard to the

capital account, only two possible outcomes can occur. Either it keeps moving towards more, if not full, liberalization, or it maintains its current level of control and openness. This is because adding more capital controls is likely to cause investor panic if they suspect that their capital may eventually end up trapped in China which can result in large capital outflows until the controls are set in place. On the other hand, should the capital account move towards more liberalization, the point of this policy basket is defeated. As such, the only plausible situation is maintaining the current level of control and openness. This can shelter China from global economic volatility and domestic volatility as a result of sudden capital flows, which is ideal for a smooth economic transition. Coupled with a fixed exchange rate, the PBoC can allow gradual appreciation of the RMB and make changes when necessary, for example, if the appreciation is taking too much of a toll on the exporting sector and it cannot adjust. At the same time, the smooth economic transition is also predicated on significant interest rate reforms. For example, the issue of non-performing loans would have to be dealt with, and the financial repression regime would have to be lifted carefully. However, with regard to RMB internationalization, its progress would have to slow down and become more incremental due to restricted convertibility under the capital account. China would have to rely on the methods used right now for RMB expansion such as bilateral currency swap agreements, the expansion of RMB clearing banks, and further development of the off-shore RMB markets. On the other hand, the limited capital movement and fixed exchange rate would still see a different exchange rate for on-shore and off-shore RMB markets much like now. The worry here is that due to this difference, arbitrage can occur. All in all, this policy basket can be a good option in the short term for smooth economic transition; however, it comes at the cost of hampering RMB internationalization.

Lastly, Yip's point regarding the need for an independent monetary policy due to China's domestic market size as being similar to the U.S. domestic market size needs to be challenged. He argues that the large domestic market is necessary for output. However, given China's current domestic market size, this point is not valid. Currently, it is too small and underdeveloped vis-à-vis the U.S., hence the need for economic transition into a more consumption-based economy. Therefore at this moment, an independent monetary policy should not be a top concern for China. That being said, the untapped potential of the Chinese domestic market is immense. According to World Bank data, Chinese household final consumption expenditure as a percentage of GDP reached 36.5% in 2014 (World Bank, 2014). This means that the Chinese domestic market only constitutes a little over one third of China's total GDP. Fortunately, household final consumption expenditure annual percentage growth in 2014 grew by 9.1% (*ibid.*). At the same time, the household final consumption expenditure per capita growth was at 8.6% in 2014 (*ibid.*). This goes to show that Chinese domestic consumption, while still small, is indeed on the rise. Furthermore, despite a dip in 2014 at 4.2% Chinese imports of goods and services have been growing at an average of 8.8% per annum between 2011 and 2014 (*ibid.*). As such, there is still a lot of potential for the Chinese economy with regard to becoming more consumption-focused. There is evidence to suggest that a sufficiently large domestic market is needed to field an international currency. For example, the Swiss Franc became a reliable investment during and in the years following the 2008 financial crisis. However, despite pressures to appreciate, the Swiss central bank initiated an exchange rate ceiling on the Franc (Graham, 2015).⁵ This is because the Swiss economy is not sufficiently large enough to back up such a strong currency. The adverse effects on the economy would be significant, such as the damaging of export competitiveness. Insofar as the RMB is not

internationalized to the extent that the U.S. Dollar is with regard to global demand, it is preferable for the market to drive the demand and supply of the RMB. While an independent monetary policy may give the PBoC and central government peace of mind, pragmatically, it should not be a top concern as the domestic and global economic conditions are not yet ripe for an independent monetary policy.

There are, of course, many more potential problems with these policy baskets and only a few problems were highlighted so as to conduct a quick overview in order to demonstrate the extent to which these policy baskets are not beneficial for China.

4. Policy Basket Analysis: Interest Rate Liberalization

The primary goal of interest rate liberalization in this policy basket is to aid in the transition towards a more balanced economy between exports and domestic consumption, and spur RMB internationalization. There are currently two major problems affecting China's domestic financial system. Firstly, the financial market is underdeveloped. One requirement of currency internationalization is that the domestic financial market needs to be open, deep and broad. Secondly, the presence of strong domestic financial regulations; specifically, the financial repression regime which has been put in place to service large SOEs. This regime has distorted the efficient allocation of funds and loans in the economy due to heavy state intervention. These two issues significantly impede China's economic transition and efforts at internationalizing the RMB. As such, through full interest rate liberalization – having the domestic interest rates correspond to the world interest rates – the Chinese economy can reap many benefits.

Currently, the Chinese domestic financial market can be considered deep (Naughton, 2007); that is, the ratio of the M2 money supply – the

broad money supply – to the country's GDP is significantly high. However, the market is not broad, in the sense that the system has little room for market-based financial instruments such as bonds, derivatives, and futures, for example (Dobson and Masson, 2009). Instead, most of the system is banking and related services. The banks, especially the large ones, are state-owned, and the smaller banks are state-controlled. As such, the banking sector faces virtually no competition from other sectors of the financial system. One notable problem is the controls on corporate bonds (*ibid.*). While liberalization of corporate bond issuance has been implemented, corporate bonds still do not compare to the size of government and central bank bonds. Moreover, corporations often forgo bond issuance on the domestic market and opt for foreign markets instead. UBS (2006) argues that this is due to the underdevelopment of the domestic bond market whereby lack of benchmark rates, poor liquidity, and an immature credit market all distort proper risk and reward analysis. Similarly, Zhou (2005) argues that these problems are compounded by institutional weaknesses such as bankruptcy laws still in development, independent default procedures from market norms, lack of developed credit rating system, lack of up-to-date accounting standards and bond issuer transparency, and lack of market discipline. The PBoC is also in need of reform. Its control over the money supply and credit is not done through market operations, but through direct intervention by changing reserve requirements or dictating the inter-bank deposit and lending rates (Naughton, 2007). Furthermore, while China does enjoy an independent monetary policy as of now, the PBoC's ability to implement the latter is severely hampered due to the relatively inflexible exchange rate. These issues are to demonstrate the extent to which the domestic financial system is underdeveloped.

Interest rate controls are a macroeconomic policy tool for developing economies. State-directed funding and loaning give the

government more control over which parts of the economy it wants to develop. However, Li (2014) notes that such controls usually result in inefficient financial resources distribution. Specifically, within the context of China: “Distorted interest rates serve as a hidden tax on savers and a subsidy for borrowers, which encourage leverage and lead to unproductive use of credit. Not surprisingly, interest rate controls are often associated with high levels of non-performing loans and frequent recapitalization of banks.” This leads to the issue of financial repression. A study by McKinsey Global Institute (2006) found that private corporations only received around 25% of bank loans while producing over 50% of China’s economic output. As such, there are significant efficiency improvements to be made through interest rate liberalization. While SMEs have been shown to be instrumental in innovation, they also have been outcompeting with large SOEs in terms of productivity and efficiency. However, Podpiera’s study (2006) demonstrated that the profitability of a private corporation had no effect on loan growth from banks. As a result, the large banks were being outcompeted by other financial institutions that had more profitable customers. This has led to the development of the shadow banking sector⁶ which has, in recent times, become an integral part of China’s domestic financial system (Shevlin and Wu, 2014) that provides risky and high-interest loans for those SMEs that are unable to obtain loans from the banks. Unfortunately, due to the high loan rates, many SMEs often fail. This goes to show that the current domestic financial system does not have the institutional capacity to support SMEs. Moreover, the oversight of the PBoC distorts the efficient allocation of credit through focusing on sectorial restrictions as opposed to the risk and productivity potentials of borrowers and projects, which often contradict market forces (Dobson and Masson, 2009). The authors provide the following example: a productive and profitable corporation in a restricted sector would be

denied credit, while a less productive one in a permitted sector would obtain credit. At the same time, small entrepreneurs are virtually barred from accessing loans due to state regulations requiring banks to obtain disproportionate levels of collateral. Essentially, SMEs are barred from accessing the cheap and elastic loans that SOEs enjoy.

Interest rate liberalization, Li (2014) argues, “generally leads to more efficient allocation of financial resources, widens credit for previously underserved sectors (especially small businesses), and promotes more sustainable growth.” Likewise, diversifying the range of financial instruments and the market at large, which is a necessary step for liberalization, is also conducive to economic growth and stability (Clarida, Gali and Gertler, 2000; Bernanke and Gertler, 2001). However, Mehran and Laurens (1997) warn that the benefits of interest liberalization are predicated upon proper timing, pace, and sequencing. Furthermore, premature and rushed liberalization usually results in interest rate volatility and capital outflows which can lead to bank failures. At the same time, sluggish liberalization can make room for new problems. Nonetheless, Liao and Tapsoba (2014) argue that this process of interest rate liberalization will not be easy for China, and that a period of learning-by-doing is integral to a smooth and successful transition.

How will liberalizing interest rates aid in economic transition? If the goal is to stimulate more domestic consumption, then there are three major benefits. Firstly, SMEs would be able to access loans from the banks as opposed to heavily relying on the shadow banking sector. On the one hand, this decreases the amount of non-performing corporate loans in the system, and reduces the overall risk in the system by flushing the risky instruments that the shadow banking sector offers. On the other hand, SMEs would finally have broad institutional support which can allow them to thrive. Their high levels of productivity and

efficiency vis-à-vis the SOEs not only make them prime employers, but are also conducive of innovation. Domestic innovation is rightfully important for raising domestic consumption, especially in high-tech sectors. Instead of having to rely on increasing imports, domestic consumption can be spurred with domestic commodities. Having a substantial domestic market size is also crucial for fielding an international currency, especially if the RMB becomes a widely accepted reserve currency. Furthermore, as SMEs thrive, they will naturally want to expand abroad once they are capable. This is crucial for RMB internationalization as the expansion of Chinese industry and business would increase RMB-denominated trade and eventually be able to issue RMB-denominated corporate bonds.

Secondly, there would be a complete refurbishment of the domestic financial system whereby market forces, not government guidance, sets the pace of the system's operation. This means the creation of more diverse financial instruments and markets for those instruments which can spur the development of the financial sector towards more trading and high-finance activities, as opposed to being dominated by banking. Moreover, the creation of markets for these financial instruments would, on the one hand, allow more of the population to enter the markets; on the other hand, more corporations can rely on the domestic market for funding instead of going to foreign markets. In short, the domestic financial market would develop to become broader. At the same time, market forces would reorganize the distorted allocation of funding and capital in the system, and properly set the incentives and risks. A refurbishing of the system would also mean the upgrading of the financial system's practices, especially with regard to accounting, risk and reward analysis, credit management, and finally the drafting of a proper bankruptcy law. As a result, the financial market would become increasingly open and more reflective of the market conditions. In

essence, interest rate liberalization would result in a deep clean and reorganization of the underdeveloped domestic financial system.

Thirdly, liberalizing interest rates aids in the financial system's process of deleveraging by cleaning up non-performing loans. Likewise, in conjunction with the previous point, the banking sector would be taken off its training wheels and forced to become more competitive. According to Li (2014), some bankers are worried that liberalization would force changes in existing business models, and increase competition. This is not necessarily a bad thing, as Li (2014) further explains that: "To survive in a market-based interest rate environment, Chinese banks will need to pass the 'market test' of their ability to properly price counterparty risks and manage balance sheets as they embrace new business opportunities and innovative products." As the banks become more competitive, they would acquire the confidence and ability to compete internationally, naturally leading to an outward expansion of the Chinese banking sector. This will be crucial for RMB internationalization as Chinese banks would be able to provide liquidity and convertibility abroad. Of course, there will no doubt be difficulties and problems, but this deep cleaning of the banking sector is beneficial in the long run as the economic distortions of financial repression are becoming increasingly burdensome on the economy. However, this deep cleaning has to be gradual. The dangers of rapid liberalization are too costly, especially for an economy the size of China's.

In sum, interest rate liberalization is becoming an increasingly pressing issue as the underdeveloped and distorted domestic financial system is taking a greater toll on the Chinese economy at large. While interest rate liberalization is key to economic transition and RMB internationalization, its progress must be gradual and cautious in order to avoid major economic disturbances which can result in detrimental consequences.

5. Policy Basket Analysis: Capital Account Liberalization

The present capital account set-up slows down the pace of RMB internationalization. There are still capital controls in place and the RMB is not yet fully convertible⁷. While a limited capital account is good for weathering global economic turbulence⁸, there are major benefits to be reaped with a fully liberalized one, albeit there will be more risk in the domestic financial system. Currently, according to Gao (2013), FDI and bank loans are subject to the least amount of capital controls while the currency market is more restricted, and derivatives and other financial instruments are the most controlled with non-residents being unable to access them. It is, however, important to note that full convertibility has both institutional support and foreign demand. For one, it was included in the 12th five-year plan (Gao, 2013), and according to a report conducted by the PBoC Project Team (2012), capital account convertibility is desired within the next decade. On the international level, the RMB being approved to join the IMF's SDR means that China's capital account will have to continue with further liberalization. Moreover, increasing trade frequencies and volumes with its regional neighbors means that the demand for China to open up its capital account is on the rise.

In general, capital account liberalization has a multitude of context-dependent benefits and costs. Firstly, capital flows subject the domestic financial sector to increased levels of competition (Prasad and Rajan, 2008). Moreover, as more foreign investors enter the domestic financial sector, they will demand the same standards they are attuned to at home, thus this boosts the country's level of corporate governance. The further development of the domestic financial sector as a result of larger volumes and more frequent capital flows can boost overall economic productivity (Rajan and Zingales, 2003; Stulz, 2005). Secondly, free

capital flows induce better financial regulation and supervision. For example, foreign banks in the domestic financial sector require efficient financial intermediation, and they generally raise the overall quality of financial services (Edison et al., 2002). Thirdly, FDI that is aimed at the domestic financial sector from countries with more efficient regulation and supervision has the effect of transferring finance know-how which helps the developing economy understand and master the complexities of the global economy, ultimately helping it integrate further and better (Goldberg, 2004). A final possible benefit is that free capital movement can be used as an indicator for measuring both the effectiveness and quality of macroeconomic policies (Prasad and Rajan, 2008). Since foreign investors will usually pull their money when they sense macroeconomic trouble, or more foreign investors being attracted to the country, the free flow of capital allows such a phenomenon to manifest and acts as an indicator.

The biggest concern, for China, is that a fully liberalized capital account in the absence of a developed domestic financial system can result in strong financial volatility as hot money would enter and leave, especially if the on-shore and off-shore RMB markets display a significant difference in exchange rates which would spur arbitrage. At the same time, the process of liberalization, in China's case, is and has been made relatively smooth due to China's vast foreign exchange reserves (Prasad and Rajan, 2008). However, using the country's foreign exchange reserve to absorb the shocks of capital account liberalization spawns problems of its own making, some of which China is already experiencing. For example, Prasad and Rajan (2008: 12) cite:

Overly rigid exchange rates and repressed financial sectors [...] While policymakers in emerging markets often recognize this point, they are typically under political constraints to restrain rapid currency

appreciation, because this could hurt export competitiveness. Consequently, they are able to allow only modest currency appreciations that, in the short run, generate expectations of further appreciation. This pattern, in turn, tends to fuel speculative inflows and makes domestic macroeconomic management even more complicated.

This raises yet another issue: the problem of China's exchange rate regime and capital account liberalization. Mongrué and Robert (2005) argue that the extent to which a country can benefit from free capital movement depends on the type of exchange rate regime it uses. Consequently, Mouley's study (2012) concludes that the more flexible the exchange rate regime, the smoother the liberalization process of the capital account. On the other hand, a common problem with free capital movement coupled with an open, deep and broad financial market is that speculative market players can always inject instability into the domestic financial system. The broader the financial market, the more choices they can speculate on. Moreover, Prasad and Rajan (2008) demonstrate that capital controls are most effective in a developed financial system where regulation, supervision, and institutional strength are all very strong. In China's case, this suggests that the capital controls in place currently are not effective, especially when Riedel, Jin, and Gao's (2007) empirical results are taken into consideration. Furthermore, Prasad and Rajan (2008) make the point that trade expansion is *de facto* capital account liberalization as trade, which is part of the country's current account⁹, avoids capital account limitations. As such, this calls into question the utility of some of the present capital controls. Another problem of capital controls is economic distortion. Johnson et al. (2006), in surveying Malaysia, conclude that capital controls can give a preference with regard to allocation of capital inflows to corporations

with strong political ties, as well as shielding certain corporations from competition. This can be seen in China with regard to the SOEs. The general warning for China is that capital account liberalization should be supported by a strong and developed domestic financial system.

Despite these challenges, China's transition into a fully liberalized capital account will be relatively smooth. For one, China's large economic size and trade volume mean that it is unlikely that there would be a sudden stop of capital inflows, and that its balance sheets are deep enough to avoid defaulting on debt should massive capital outflows occur. On the other hand, prior to capital account liberalization, China should work towards more economic transparency, especially on the exchange rate front. That means allowing the RMB to appreciate gradually while maintaining capital controls as opposed to liberalizing the capital account then having a drastic appreciation. In essence, it is better for China to appreciate the RMB at its own pace instead of having the market decide overnight. As such, the smaller the appreciation it faces upon capital account liberalization, the less adverse effects it has on China's economy. The PBoC Project Team (2012) report also addresses some specific concerns. Firstly, there is limited currency mismatch risk for Chinese banks as their assets are mostly denominated in RMB; secondly, Chinese foreign exchange reserves are mostly invested in bonds and would not be significantly disrupted by market fluctuations; thirdly, short-term foreign liabilities constitute only a fraction of China's gross foreign debt; finally, property and asset bubbles are under control.

The question is, then, how can free capital movement aid in economic transition and RMB internationalization? Assuming that a smooth interest rate liberalization has already been accomplished, allowing free capital movement would spur the development of the domestic financial markets. At the same time, there would be more

incentives for foreign financial institutions to enter the Chinese market. This would boost competition and raise the overall standards of finance and banking in China. In essence, with regard to further domestic financial system development, free capital movement would help substantially in deepening China's integration with the international economic system. With regard to economic transition, diversifying and making more transparent the Chinese financial markets would allow the domestic population to trade on these markets. At the same time, with more foreign institutions in the domestic system, corporations – both domestic and foreign – would have a broader range of options for issuing bonds and securing loans. Moreover, lifting capital controls is the ultimate market test for China's finance and banking sectors. No longer would the system be sheltered by capital controls. The banks and financial situations would have to compete at the international level. Of course, this process is best done in a gradual process to avoid shocks to the domestic financial system. In the long term, this market test would prove especially useful as the inefficiency of the current domestic financial system would be cleared out.

On the other hand, free capital movement has significant benefits for spurring RMB internationalization. For one, more RMB denominated trade would occur. Instead of only having the RMB convertible in the current account, allowing capital account liberalization would broaden the types of financial transactions that the RMB can be done in. One major roadblock to RMB internationalization is the inability for the on-shore RMB market to be tapped by the global economic system. While trade in goods and services can be cleared in RMB, allowing financial market transactions to do the same would drastically increase the amount of RMB flow. Secondly, lifting capital controls would effectively boost the RMB's level of liquidity, thus making it more appealing as a reserve currency. Having the RMB widely

accepted as a reserve currency significantly raises the RMB's status as an international currency. Thirdly, lifting capital controls would increase the volume of RMB circulation in the world. This allows for China to benefit from collecting seigniorage. The larger the volume of RMB circulation, the more gains can be made from the latter. However, if capital controls remain in place, seigniorage as a potential benefit of issuing an international currency would remain distant. Finally, liberalizing the capital account would allow more foreign institutions, governments, and individuals to hold Chinese government bonds. This is especially useful in expanding the RMB abroad, and this provides a way for the RMB to radiate outwards without necessarily having to rely on trade as a channel for RMB internationalization.

6. Policy Basket Analysis: Basket Peg Exchange Rate Regime

Taking these elements into consideration, the exchange rate should remain a basket peg regime with a band float¹⁰ with the addition that, eventually, the ceiling and floor of the band should be increased. The increase in the width of the band should be based on the economic needs of the time and should not be a certain set-in-stone goal. Moreover, the weights of the currencies in the basket should be constantly adjusted to reflect changing global economic conditions.

First, Frankel (1999) warns that there is no one-size-fits-all exchange rate regime, and that countries must experiment in order to find the right regime that works for their own circumstances. Moreover, as global and domestic economic conditions change, the country should work to update its exchange rate regime as well. Likewise, Frankel (*ibid.*) further argues that without strong institutional backing and a developed domestic financial system, the exchange rate regime will face severe issues.

With regard to a more flexible exchange rate regime that China should aim for, Huang and Wang (2004) offer some insights. Firstly, they argue from historical experience citing that the Asian financial crisis revealed that exchange rate targets were a part of the problem contributing to the financial and monetary collapse of several affected countries. At the same time, increased exchange rate flexibility would have lessened the pressures from speculative attacks to which exchange rate targets fell to. They consider the proposals for a new basket peg; however, they make the case that insofar as the U.S. remains China's largest trading partner, the volatility of the U.S. Dollar versus other currencies, especially regional currencies in Asia, could contribute to exchange rate instability. That said, the article does argue for eventually widening the exchange rate band. To this Huang and Wang (*ibid.*) urge caution with regard to speculation pressures. For example, if the market expects further appreciation of the RMB and further band increases, then hot money is more likely to enter China. The surge of hot money can fuel into domestic market bubbles, and if the bubble bursts or nears bursting, history shows that the hot money will leave causing massive capital flight, further destabilizing the domestic financial system. Nonetheless, with regard to exchange rate reform, the authors urge caution and gradual pacing.

Huang and Wang (*ibid.*) also consider some structural immaturity of the Chinese domestic financial system that can contribute to ineffective exchange rate management. Like many others, they fear that the non-performing bank loans can become increasingly difficult to deal with. Moreover, the state-owned sector is suffering from overall inefficiency and lack of profitability which can worsen if the RMB appreciates. Next, they cite the lack of a properly developed social welfare system as being a significant macroeconomic imbalance. At the same time, the domestic

financial markets are illiquid, and this can cause serious problems if large inflows and outflows of hot money occur (Calvo, 2002), and the damage on the domestic financial system resulting from financial bubbles would be substantially large given the low level of liquidity of domestic financial markets. Finally, Huang and Wang (2004) call into question the ability of the Chinese financial and banking sectors to manage and regulate the domestic financial system, especially with regard to handling risks posed by the exchange rate. One final benefit of maintaining an exchange rate band, from the perspective of domestic economic stability, is that it can be widened or narrowed according to the economic needs of the time. As such, in turbulent global economic times, the Chinese authorities can intervene if need be to mitigate the adverse effects on the domestic economy.

While there are risks in moving towards a more flexible exchange rate regime, there are substantial benefits to be gained for China's economic transition and RMB internationalization. Firstly, allowing the RMB to appreciate gradually with an exchange rate band allows China to simultaneously increase its imports and boost the purchasing power of the citizens. While increasing domestic consumption is not as simple as raising purchasing power, it undoubtedly helps. At the same time, the exchange rate band prevents the RMB from appreciating too much. This is to give the exporting sector time to adjust to the changing value of the RMB. Furthermore, this is conducive to a smooth and risk-averse transition. Too rapid an appreciation would cause significant harm to the exporting sector resulting in sharp declines of profits, and at worst massive layoffs which can lead to social disharmony, especially in the absence of a well-developed social welfare system. Applying shock therapy to the exporting sector would only damage efforts for economic transition. The appreciation of the RMB would also aid in domestic corporations doing mergers and acquisitions by boosting their

purchasing power. Through mergers and acquisitions know-how would be transferred which, in turn, would help domestic firms innovate, and increase efficiency and productivity.

For RMB internationalization, exchange rate reforms towards more flexibility are essentially giving the market forces more weight to dictate the value of the RMB. In this way, the RMB becomes a more appealing currency to hold as its value would be more market-derived as opposed to having the authorities intervene constantly. A more flexible exchange rate reform also sends a positive signal to investors and the global market. On the one hand, it demonstrates that the Chinese authorities are more comfortable and confident in the domestic financial system's ability to manage the RMB. On the other hand, it also shows that the domestic Chinese financial system has developed and matured to the point that market forces can play a bigger role in valuing the RMB. The appreciation of the RMB would likewise make the RMB more attractive as a reserve currency, especially coupled with full capital account liberalization to boost the currency's liquidity. Appreciation of the RMB also has the potential of making the possibility of monetary integration and union in the region more attractive. As the RMB appreciates, neighbor countries would find it increasingly more expensive to import from China. This can build pressure for the RMB to become a regional currency, which would be a watershed event in the internationalization process of the RMB. Finally, given the circumstances of a developed domestic financial system that is open, deep and broad, and a fully liberalized capital account, RMB appreciation – while it would hurt export trade volumes – would spur more RMB trade on the foreign exchange markets. This is conducive to RMB expansion abroad.

7. Policy Sequence Analysis

The specific sequence for realizing the recommended policy basket is as follows. Firstly, the interest rates should be liberalized while maintaining the current level of capital account openness, perhaps even adding some temporary capital controls (for example, a Tobin tax has been suggested¹¹ – a Tobin tax is a tax placed on all foreign exchange transactions, and the goal is to act as a de facto capital control and stave off speculation pressures) if there is too much volatility in the domestic financial system. Once the interest rates have undergone successful liberalization, allow for a period of time for the domestic economy to adjust to the new system, especially with regard to allowing the domestic financial system to mature and develop open, deep and broad financial markets. Next, the focus should turn to full capital account liberalization. If the interest rates were liberalized successfully, and the domestic financial system has strengthened and developed properly, then capital account liberalization should be an easy and relatively smooth process. On the exchange rate front, the width of the band should be adjusted accordingly to suit the economic needs of the time as the interest rates and capital account are undergoing liberalization. Essentially, the exchange rate serves as a policy tool – and not a policy target – while the other two aspects are liberalizing. Once both the interest rates and capital account are successfully liberalized, the exchange rate becomes a policy target. At this point, the band of the exchange rate should be oriented towards fulfilling whatever economic goal that the country perceives as being key.

The interest rates should be the first focus due to three reasons. Firstly, a fully developed and robust domestic financial system is the essential foundation for a strong economy. In the absence of a strong domestic financial system, the structural integrity of the domestic economy would be substantially fragile, and external shocks would

induce a disproportionate amount of damage. In essence, a solid domestic financial system is key to absorbing the shocks and turbulence of the global economy. China cannot always rely on capital controls to brace the domestic economy from external pressures, especially if it wants to internationalize the RMB and further integrate itself with the global economy. Moreover, as previously mentioned, capital controls actually function better in the presence of a strong domestic financial system. Secondly, liberalizing the interest rates while the capital account is not fully open yields two advantages. On the one hand, insofar as some capital controls are in place, it braces the domestic economy – to a certain extent, there will no doubt be volatility, especially with liberalization on such a scale – from external speculation and hot money which can seriously damage liberalization efforts. On the other hand, the capital controls give the domestic authorities more capacity to step in and guide the process of liberalization, and intervene when and where need be. Both of these advantages give interest rate liberalization a better chance at succeeding. Finally, interest rate liberalization would allow the domestic economy to undergo a deep cleaning process whereby the macroeconomic imbalances would be sorted out. For example, the issue of the non-performing loans and commercial bank deleveraging would be dealt with in a less risky manner while capital controls are in place. However, if capital account liberalization were to be accomplished first, attempts at interest rate liberalization would be much more difficult and with significantly more risks.

The full liberalization of the capital account follows the liberalization of the interest rates for three reasons. Firstly, once a robust domestic financial system is set in place, unfettered capital movement would only aid in its further development, especially with regard to broadening financial markets. At the same time, the risks of capital account liberalization are reduced the stronger the domestic financial

system is. As such, at this point in time, opting for capital account liberalization before interest rate liberalization can have drastic negative consequences for the domestic economy in the form of capital flight, massive speculative pressures, and overall instability. Therefore, capital account liberalization at this point in time would only hinder efforts at financial reform and economic transition. Secondly, with the development of the domestic financial markets, more opportunities would be created for the financial sector to become increasingly productive. However, lifting capital controls before the domestic financial markets can absorb external shocks does no good for the economy. On the other hand, once domestic financial markets have developed enough with regard to openness, breadth and depth and passed the market test, allowing a free flow of capital would be the natural next step since if capital controls are still kept in place, they would hinder the further development of financial markets. Finally, it needs to be pointed out that the capital account ought to have a certain degree of liberalization while the interest rates are being liberalized. Too many capital controls would prevent the liberalization of the latter as capital allocation would be distorted and the interest rates would not congregate towards the global rates. As such, it is important to keep a certain degree of capital account openness. However, once the domestic interest rates have matched the global rates, and the domestic financial system and economy have had time to adjust, then full capital account liberalization should be pursued.

Finally, with regard to the exchange rate, the current set-up that is a basket peg regime with a floating band should be kept. Essentially, the band's float should be widened or narrowed at the PBoC's discretion. However, the eventual goal, as the article posits, is to widen the band so as to stimulate RMB internationalization and economic transition through gradual appreciation. In tandem with capital controls, the

exchange rate should be used to aid in the process of interest rate liberalization. Once that liberalization is complete, the removal of all capital controls for capital account liberalization should likewise be guided by the exchange rate to prevent systemic volatility. Aiding and guiding implies adjusting the band. For example, if there are a lot of speculation pressures due to expectations that interest rates will rise, then the PBoC can widen the band's range. While this method of management is not suitable for small economies with shallow foreign exchange reserves, it is not so much a problem for China's economic size and vastly deep reserves which are still increasing annually. It is then expected that the band's ceiling to floor spread can be kept at a relatively liberal range when the interest rates are being liberalized. This is because the presence of capital controls and the possibility of adding additional temporary controls would act as a buffer from speculation and hot money. However, during the process of capital account liberalization, the exchange rate would have to play a bigger role in fending off speculation. Once the capital account has reached full liberalization, the exchange rate can then be used to serve other economic needs and goals. However, insofar as the interest rates and capital account are undergoing liberalization, the function of the exchange rate ought to be tied to the goal of fulfilling successful liberalization. This specific basket peg with a floating band regime was selected because it is the most flexible out of the managed regimes. Furthermore, it gives the central bank more options vis-à-vis setting the rate. For example, it can manipulate the weight of the currencies in the basket, add or remove currencies, or adjust the band itself. Moreover, in the previous section on the exchange rate it was mentioned that a more flexible regime is more conducive to interest rate and capital account liberalization. Finally, the managing of such an exchange rate regime can allow the PBoC to accumulate more experience which is crucial if the

PBoC is to become increasingly independent from the government – which an open, deep and broad domestic financial system with a fully liberalized capital account requires.

This policy sequence is the most risk-averse because it seeks to develop the robustness of the domestic financial system first so as to provide a strong foundation before pursuing unfettered capital movement. The capital controls and the control over the exchange rate make this process of interest rate liberalization more sheltered and less prone to shocks. Once the interest rates have been liberalized and the domestic financial system has developed a good level of robustness, the liberalization of the capital account would likewise be made much easier. On the home front, the domestic financial system would be able to absorb hot money, while on the exchange rate front, its flexibility can ward off speculation pressures. Finally, once the structure of the domestic economy has adjusted and operates comfortably with fully liberalized interest rates and free capital movement, reorienting the exchange rate to service other economic goals would be quite straightforward. Overall, this policy sequence also seeks to maximize protection for the domestic economy by setting up buffers to shield off external shocks from paralyzing the domestic economy. However, above all else, there is a need to operate at a gradual pace and allow time for the economy to adjust to the new structural changes. More than ever, Deng Xiaoping 鄧小平's timeless adage of “crossing the river by feeling the stones” (摸著石頭過河) must be heeded when tackling the impossible trinity.

8. Drawbacks: Comments and Considerations

Nonetheless, it is also important to assess the negative consequences of the recommended policy basket. Firstly, insofar as the exchange rate

regime remains a variation of the fixed regime, foreign exchange reserves will still play a significant role for the Chinese economy. However, as evidence suggests, China's basket peg is moving towards more diversification – although the US Dollar will remain the most important currency for the time being. Nonetheless, more diversification will naturally lead to a better hedging of monetary risk. Yet, this also means that China cannot slowdown the acquisition of foreign exchange reserves, especially if the US Dollar is to remain the anchor currency. On the one hand, as China will still remain a large exporting country, trade surpluses will undoubtedly continue to boost its foreign exchange reserves. On the other hand, the sustained accumulation of US Dollars in the reserves means that US monetary policy will continue to affect China's economy. While diversifying the currency basket can mitigate this risk to an extent, its actual effect may indeed be minimal. Nonetheless, the PBoC will still be expected to play a key role in exchange rate and foreign exchange reserves' management. At the same time, in the absence of capital controls, speculative pressures on the RMB will become more difficult to manage, especially with regard to arbitrage. Hence, under this policy basket, China will still be largely affected by US monetary policy.

Secondly, the fully liberalized interest rate together with unfettered capital movement may pose significant problems. On the one hand, global economic turbulence will have a more pronounced impact on the domestic economic system in the absence of capital controls and a non-independent monetary policy. On the other hand, given the present international economic climate – near-zero and or negative real interest rates – there is the potential for the generation of excessive liquidity and credit. For example, the fear is that low interest rates can fuel economic bubbles as investments flow into the real-estate and stock markets. Of course, the PBoC is not forced to also indulge in quantitative easing.

Nonetheless, cheap and elastic lending as a result of world interest rates means that the PBoC will have to manage the problem of excessive liquidity. Coupled with unfettered capital movement, there is a chance that hot money and risky investment positions can cause domestic economic instability. However, this problem can be mitigated if the PBoC adopts other policy tools to combat excessive borrowing, such as collateral requirements. While liberalizing the domestic interest rates may make the PBoC less powerful on a *de jure* basis, it also allows the PBoC to innovate new policy tools and focus on other aspects of the financial system without always being tied down by interest rate management. A similar problem occurs with regard to the mismatch of economic cycles. Since this policy basket opts for fully liberalized interest rates, the matching of domestic rates with that of the world's poses difficulties for the boom and bust cycles. This problem can be seen in the case of Hong Kong whereby its domestic interest rates follow that of the US Federal Reserve's. If, for example, the US domestic economy is experiencing a slowdown and thus requires a lowering of interest rates in order to stimulate borrowing and investing, the Hong Kong economy could be heating up. However, a cutting of interest rates by the Federal Reserve deems that Hong Kong's domestic rates are lowered as well. This has the potential to stimulate excessive borrowing in Hong Kong which can fuel speculative bubbles and overheat the economy. As such, this requires more prudent monitoring and management on the part of the Hong Kong Central Monetary Authority. This situation can likewise occur in China. However, due to Hong Kong's currency board exchange rate regime, currency speculation pressures are generally not problematic. In China, on the other hand, under this policy basket, a fully liberalized capital account with a basket peg exchange rate regime means that currency speculations will no longer be mitigated by capital controls, and this can become a serious headache for the PBoC.

9. Conclusion

This paper has argued for China to pursue a specific policy basket to tackle the impossible trinity. Against the backdrop of economic transition into a more balanced model between domestic consumption and exports, and maximizing the internationalization of the RMB, China should aim to liberalize its interest rates, liberalize its capital account, and allow a greater exchange rate float but maintain its current currency basket peg regime. This policy basket is the most conducive to the aforementioned goals of economic transition and RMB internationalization. Furthermore, the proposed policy path for achieving the goals of the basket has been selected for its risk-averse nature. Specifically, China should seek to liberalize its interest rates while using the current capital controls in place to prevent any large influx of capital movement in or out of the country. Once the domestic financial system and the economy at large have accustomed themselves to the new interest rates after a period of adjustment, the liberalization of the capital account can begin. In order to ensure a smooth full opening of the capital account, the basket peg exchange rate regime ought to be used as a policy tool to hedge against potential capital flow problems should they arise. Finally, once both the interest rates and the capital account have been liberalized, exchange rate reform towards a higher floor and ceiling can be pursued.

Notes

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1. Please see the literature review section (§2).
2. Once it is suspected that a country's foreign exchange reserve is soon to run dry, speculative attacks against the country's currency will begin to occur on the market.
3. Non-FDI capital flows were, de jure, restricted.
4. The reserve requirement ratio is a policy tool of the central bank to reduce excess liquidity or to inject the financial system with more liquidity. Essentially, it sets the minimum fraction of deposits that each commercial

bank must hold.

5. “Swiss franc jumps 30 percent after Swiss National Bank dumps euro ceiling” (by Patrick Graham). Reuters, 15th January 2015. <<http://mobile.reuters.com/article/idUSKBN0KO16Y20150115>>
6. The goal of the shadow banking sector is to bypass official regulations on interest rates and seek to implement more market-driven rates, and the sector also serves as an alternative for those who are unable to access bank loans. The shadow banking sector has outgrown the traditional banking sector four-fold from 2008 to 2014.
7. A fully liberalized capital account is not decisive with regard to currency internationalization. There are currencies which are fully convertible but are not considered international. However, an open capital account does indeed aid in the process of internationalization.
8. Ostry *et al.* (2010) found that countries with capital controls maintained a better level of economic output during the 2008 financial crisis than those countries that had free capital movement.
9. The RMB is fully convertible under the current account.
10. A modification on the impossible trinity theory that stipulates a fixed exchange rate regime. A basket peg regime is not an intermediate exchange rate regime that is neither completely fixed, nor completely floating.
11. “China Draft Rules for Tobin Tax on Currency Transactions”. *Bloomberg News*, 15th March 2016. <<http://www.bloomberg.com/news/articles/2016-03-15/china-said-to-draft-rules-for-tobin-tax-on-currency-transactions>>

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Export Brand Development of China: Lessons Learned and Implications for the Future

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Abstract

This paper is a study of Chinese enterprises' export brand development process. It describes the measures for dealing with their weaknesses, using case study methodology combined with the comparative method, analyzes the development of key Chinese enterprises' internationalization, and summarizes three typically successful internationalization models currently used: Haier model, Huawei model and Lenovo model. Haier followed the “first easy later hard” approach, that means it went first to developed countries, and then entered the developing countries as the second step. Huawei on the contrary, followed the way of “rural surrounding the urban”, which means that it went to the developing countries first, and then entered the developed countries second. Lenovo realized their enterprise and brand internationalization success by acquiring IBM PC division with its “innovative and entrepreneurial spirit”.

Keywords: *export brand, internationalization, Chinese enterprises' internationalization models, development, strategy*

1. Introduction

As a hot topic in Western countries in the 1980s, brand research is still in the ascendant. Since the 1990s, China has formed a great mass fervor for the introduction and research of brands. On the other hand, there are few researches into China's export brand development at home and abroad; roles of export brands in China do not get enough attention and understanding.

The current world economy has stepped into the era of brand competition and brand internationalization, which will become the mainstream development direction of Chinese enterprises. Chinese enterprises will gradually shift from product marketing to brand marketing. Enterprises which have independent brands are less than 20% of total export of Chinese enterprises and have less than 10% of total export sales (MOFCOM, 2005). From the aspect of export structure, most of the processing trade or general trade is original equipment manufacturer (OEM) business. In terms of regions, the export volume of independent brands in Guangdong province, which is listed as the largest export province of China, is merely 3% of the total export amount. The independent brands of the first three largest export provinces are also less than 10% of the total export amount (*ibid.*).

China is the global leader in manufacturing operations, and globally the second largest economic power (Li, 2013: 4). The Chinese manufacturers understand their potential, and have started to buy the technology that Europeans use. This has allowed them the possibility to start parallel production of their own brands alongside European export brands (Segre Reinach, 2005: 52-53). Predominant status in the

international market, powerful economic strength and considerably high economic development level of economically developed countries like USA, Japan and Europe are greatly attributed to brand awareness formed in the long-term market competition, the gradual establishment of brand concept and effective implementation of brand strategy. Thus, they boast a large group of world-class brand products and brand enterprises.

Export trade, few independent brands and especially insufficient independent brands with core technologies in China result in low added value and low economic benefit of export that greatly affect sustainable growth of core competence and export trade of Chinese enterprises. Therefore, it is necessary to study the developments of Chinese export brands. How Chinese enterprises, in the 21st Century, can change from “Made in China” to “Created in China” is the most urgent task Chinese enterprises face. Chinese enterprises would be unbeaten in global markets when they meet requirements of the era of brand competition and brand marketing to create the Chinese global famous brand.

The basic purpose of this study is to analyze and synthesize internationalization strategies that have been used by Chinese enterprises for entering overseas markets. Mainly, it has been hypothesized that Chinese enterprises’ export brand building process is the process of internationalization of Chinese enterprises. With the improvement in the internationalization process, Chinese enterprises will gradually enhance their brand awareness and reputations in the world.

The competition between enterprises in China is not only at the national level, but also the international level. Faced with this international competitive environment, for sustainable development of enterprises to open up new markets and enhance their competitiveness on a global scale, product quality is important, but only on the basis of competition in the market. The key to victory is the brand. Product’s competitiveness and enterprise competitiveness reflect ultimately into

the brand competitiveness. With China's accession to the World Trade Organization (WTO), both in the Chinese domestic market or in the international market, Chinese enterprises are faced with a number of world-renowned brands and competitive situations. Experts and scholars at home and abroad on Chinese brand internationalization issues are not sufficient and tend to focus on only certain aspects.

2. Internationalization of Enterprises: Theoretical Background

Enterprise internationalization refers to a company's production and business activities that are not confined to one country, and is an objective phenomenon of a company's development within the world economy. Its main purpose is to meet sales targets in international markets, combined with factors of production, to maximize profits. For individual enterprises, this process includes the production, sales and management internationalization of an enterprise.

Based on the business activities, enterprise internationalization can be divided into inward and outward internationalization. Inward internationalization refers to an enterprise that is achieving its internationalization through directly or indirectly imported productive or non-productive elements, such as import trade, joint ventures, merger, purchase technology patents, becoming overseas subsidiaries or branches, etc. Outward internationalization refers to an enterprise achieving its internationalization through directly or indirectly exported productive or non-productive elements, such as export trade, overseas joint ventures, technology transfer, establishing subsidiaries or branches overseas, etc. Enterprises' international development strategy refers to enterprises participating actively in the world division system under economic globalization, which also includes strategies during the development from domestic to global businesses.

From a macro point of view, the goal of international business development strategy is to cultivate the core competitiveness through enterprise system innovation, technological innovation, brand innovation, and nurturing talents to integrate into the international process. From a micro point of view, corporate internationalization strategy refers to the overseas target market selection, market entry model selection, competition model selection, and other specific marketing strategies.

The internationalization of Chinese enterprises is inevitable and would occur within the context of economic globalization. Nowadays, large-scale production networks have been formed worldwide, and the tradition of being dependent on natural resources and product-based division has been broken. The prominent role of international and multinational enterprises in world economic activity is becoming increasingly obvious. A new competitive landscape of “domestic markets internationalization, global competition domestication” has been formed.

The trend of globalization requires enterprises to become international businesses, which is irreversible, but also unavoidable. The best way to challenge multinational corporations is to become a multinational enterprise. As the CEO of the Haier group, Zhang Ruimin 張瑞敏, once said; if one wishes to “Dance with Wolves”, one must become a “wolf”; otherwise the only result is to be eaten (Fan, 2006; Suo and Bardhan, 2013).

The internationalization of Chinese enterprises is the inevitable result of enterprise development. With certain industries and part of the domestic Chinese market becoming saturated, market price weakness has led to fewer market opportunities. Together with the development of larger market capacity, the capital, technology, and products of the

enterprise accumulation need to be updated. After joining WTO, the business environment for Chinese enterprises has changed dramatically. Barriers of entry into overseas markets have been greatly reduced, greatly enhancing the international business environment in which Chinese enterprises operate, providing more room for their development. The era of Chinese enterprises competing within the global business environment has arrived. The enterprise internationalization strategy will be key initiatives of enterprises' survival and development in the future.

3. Case Study Methodologies

Case study analysis methodologies, also known as the Harvard case study method, were developed at Harvard University in the 1880s, and were used by Harvard University for training senior managers. It gradually became an important method for effective employee training by many companies (Eitington, 2002: 341-371).

Case study analysis refers to a study of a single object with a combination of literature sources and summarization of an individual with uncertain outcome (CAPAM, 2010: 1). Case study analysis methodologies for training can significantly increase employees' understanding of the company's business, develop good relationships between employees, and improve employees' ability to solve problems, as well as increase the company's cohesion.

A case study, as a general approach to understand phenomena, can involve many specific methodologies, which could be summarized into the following three approaches:

1. Comparative analysis;
2. External and internal factors evaluation analysis;
3. SWOT analysis.

Comparative analysis is the most commonly used method, representing a comparison between a chaotic management, operating mechanism and a well-managed, well-run company by observing their differences in the organizational structure and resource allocation. These differences will facilitate the discovering of the management essence of the differences behind it.

External and internal factors evaluation method is derived from the environmental analysis of strategic management. Each development would be subject to the surrounding environment. The environment here is the broader aspect and refers not only to the external environment, but also to the internal setting. The company's strategic management control model is determined by two factors: the uncontrollable external factors and internal controllable factors. The company's external uncontrollable factors include: government, partners (such as banks, investors, suppliers), customers, public pressure groups (such as the media, consumer associations, religious groups), competitors, and in addition, social, cultural, political, legal, economic, technical and natural factors that will restrict the company's survival and development. Thus, the external uncontrollable factors for the company are the coexistence of opportunities and threats. How the company benefits or reduces the hedge, to identify opportunities in the external factors, seize the opportunities, take advantage of opportunities, gain insight into the threats, and avoid risks are the matters of life and death for the company. The company's internal controllable factors include the technical, the financial, human resources, information and company culture.

In the ever-changing dynamic market, if a company has the ability of rapid response, the ability to adapt quickly to changes in the market, the ability of innovation and change, it has the potential for a sustainable development. The spirit of the company is an indispensable part of

corporate strategy and strategic development. Internal controllable factors can fully demonstrate the strengths and weaknesses of a company. So when companies can know themselves, they play to their competitive advantages, determine their strategic direction and goals and achieve the best match between goals, resources and strategies.

SWOT analysis is a kind of self-diagnosis method of analysis and research on objectives which are facing a situation of uncertain outcomes. SWOT analysis is a combined analysis of an enterprise's internal and external environment of strengths, weaknesses, opportunities and threats, so as to find suitable business strategies and tactics of projects and the actual situation (Ebers and Wied, 2007: 5-8). As a strategic analysis, SWOT analysis can also be divided into four sub-strategies (CAPAM, 2010: 1):

- SO strategy – to rely on internal strengths, and utilize external opportunities;
- WO strategy – to overcome internal weaknesses, and utilize external opportunities;
- ST strategy – to rely on internal strengths, and avoid or minimize external threats;
- WT strategy – to overcome internal weaknesses, and avoid or minimize external threats.

For enterprises, SWOT analysis can support leaders to know the situation they face, and accurately find out enterprises' weaknesses and strengths, as well as opportunities and threats they face. Through analysis, enterprises can promote their strong factors, avoid advancing of their weaknesses, find problems and identify solutions, in order to take advantage of opportunities and eliminate risks, and draw up their future direction of development. The problems can be classified in priorities:

critical problems, urgent problems, tactical problems, postponed problems, etc. According to these priorities, enterprises can solve problems step by step.

The authors have discussed these strategic points with the managers of selected companies. The findings and the results of this study have been validated by their contributions and recommendations. The authors did not conduct any structured interview with the managers, but the discussions direct the case analyses and the results towards the reality.

4. Discussion

Since the beginning of the 21st century, economic globalization has developed more rapidly. The focus of Chinese enterprises' reform started changing from "export-oriented strategy" to "international business strategy", changing from "products export" to "brand export". Chinese economy and business internationalization have become an irresistible trend, which also birthed companies like Lenovo (聯想), Haier (海爾) and Huawei (華為). However, they still have distinctive features of the primary stage and the whole of international operations are relatively weak, due to Chinese enterprises' internationalization starting relatively late in comparison with other countries. Through analysis of the development of the enterprises of Haier, Huawei and Lenovo, it has been proved that Chinese enterprises' export brand building process represents, in fact, the process of the internationalization of Chinese enterprises.

The 2013 global Fortune 500 ranking list shows that 95 Chinese enterprises have a total revenue growth of 23.8% over the past year (*Fortune* China network, 2013; *Fortune* China network, 2012a). However, the average profit margins of these companies are down from 2012's 5.4% to 3.9%. In addition, among the 95 top enterprises, only 12

enterprises had profit margins of more than 10%, and 11 Chinese enterprises had losses. On the other hand, in the *Fortune* magazine's Fortune Global 500 list of the year 2015, China becomes the second largest country in terms of the number of companies listed in the ranking with a total of 106 companies on it, just behind the United States. The number of Chinese enterprises among the top 500 has increased by 16, 5 and 6 in 2013, 2014 and 2015 respectively. China is expected to catch up with or surpass the U.S. in 2020 if it continues to maintain this momentum.¹ Of the Chinese mainland finalists in the Fortune 500 ranking list, no one, in fact, has a real international brand reputation besides Huawei and Lenovo. Chinese enterprises among the top ten in the ranking list, such as SINOPEC (Sino Petroleum Corporation), CNPC (Chinese National Petroleum), China Power Grid and other companies, had a limited effect only in China, in respect of business distributions, profit sources and brand reputations. Only Huawei and Lenovo are remarkable; the other shortlisted enterprises are basically the real "Chinese national enterprises", because more than 80% of their business incomes came from China. There is still a big gap between those enterprises and the really global enterprises. Therefore, enterprises have to pay attention that they should not take internationalization steps just for the purpose of becoming famous without being well prepared. Opportunities will always belong to the ones who are prepared.

With the continuous growth of the economy, the national economy will gradually saturate. In order to continually keep the market leader position, most of the well-known enterprises started their internationalization steps. Since the last century, gradual emergences of international enterprises have been mostly from the United States, European countries, Japan, Korea, but since the last ten years there have been also some from China. Today, successful Chinese international enterprises initially have their own applicable internationalization

sample models. These can be summarized into three models: Haier model, Huawei model and Lenovo model.

4.1. Models of Internationalization

4.1.1. Haier model

Since the 1999 Haier America Trading Company's unveiling ceremony held at the United Nations building, an overseas marketing network of Southeast Asia Haier, Europe Haier and the Middle East Haier has been formed that marked the start of the Haier internationalization stage. The Haier internationalization process is characterized by "First hard later easy". In the process of internationalization, Haier first entered Europe and America in the international economic arena, the heavy weight of the developed countries and regions. After the brand had been recognized widely in the developed countries' markets, as the second step, Haier started to enter potential developing countries and to use the Haier brand as the most important prerequisite for exports.

Haier continued to improve the global competitiveness of their products through extending to the markets in Europe and America and other developed countries. Meanwhile the corporate image and brand value have been increasing dramatically. In 2002, Haier's competitiveness in the global "consumer electronics and home appliances" rose to No. 5 in the world.² In 2003, Haier had the brand value of 53 billion RMB (8.6 billion US dollars) to become China's first brand. From 2009 onwards Haier has been listed in the 500 Top Chinese Enterprises; in 2014 Haier ranked No. 61 (*Fortune* China network, 2012b). In 2016, Haier Group acquired General Electric (GE) Appliances³:

Haier Group has been recognized as the leading Major Appliances brand in the world for the seventh consecutive year by Euromonitor

International, the world's leading independent provider of business intelligence on industries, countries, companies and consumers. According to data released by Euromonitor International, the brand achieved a 9.8% retail volume market share in 2015.⁴

Haier's international development goal is to become a successful world famous brand, through implementation of design, production and marketing of local-oriented goods and services, as well as to obtain local financing, local financial intelligence and local financial culture.

4.1.2. Huawei model

Huawei Technologies Co., Ltd. started in 1988, mainly engaged in the research, development, production, and sales of communication network technology and products, specializing in optical networks for telecom operators, network solutions fixed network, mobile network and value-added business areas. Huawei is one of the main suppliers of the Chinese telecom market and has successfully entered the global telecommunications market⁵:

UK consulting firm Brand Finance released its 2016 "Global Top 100 Most Valuable Brands," and Huawei ranked 47th on the list. Brand Finance's selection criterion for its "Global Top 100 Most Valuable Brands" include a brand strength index (BSI), brand loyalty and marketing investments. The international enterprises on this list boast outstanding comprehensive capabilities.⁶

Dumping their previous business model of flooding the planet with cheap, unbranded cellphones, China's Huawei has risen to become a globally recognizable brand and a serious contender for Apple and Samsung. Advancing rapidly into new markets worldwide, Huawei is

now the world's number three smartphone brand, with an 8.3 percent market share.⁷

Huawei has four aspects to achieve its internationalization strategy model, respectively, as follows (Yin, 2005: 41-51):

- (1) An international supply chain: Huawei realized internationalization by designing an international supply chain with internationally recognized products, research and development of small civilian switch, research and development of large-scale commercial operations switch, and material purchasing at Chinese oriented markets.
- (2) Internationalization management system: As one of China's first-class enterprises, Huawei's management reorganization should learn from successful management experience of successful international enterprises.
- (3) Marketing internationalization: After 10 years of international market development, Huawei has established a strong market system worldwide. Through strategic cooperation, OEM (original equipment manufacturer), SKD (Semi-Knocked Down), CKD (Completely Knock Down) and other joint ventures, Huawei achieved internationalization of marketing partners and channels, and promoted the company's market internationalization process.
- (4) Research and Development: Huawei emphasized independent research and development by taking a very open strategy for the first-class partner of strategic cooperation, making Huawei able to use their limited R&D team and R&D technology to rapidly catch up to the world advanced level.

4.1.3. *Lenovo model*

Lenovo realized aspirations of the internationalization strategy through acquisition. In 1991, Lenovo set up a German company, which was the first signal of their internationalization steps. In 2004 Lenovo replaced their original English identity name of “Legend” and registered worldwide. “Le” is taken from the original word of “Legend”, inheriting the “Legend” meaning; “Novo” implies innovation. This was undoubtedly its internationalization strategy, a crucial step in the process. Lenovo Group was originally founded in a dusty, two-room Beijing guardhouse in 1984. In 2004 Lenovo became an IOC global partner and since then, Lenovo has been widely recognized and praised internationally. In 2016, it is called “the largest PC maker in the world and a Fortune 500 frontrunner in smart connected devices with employees in more than 60 countries”⁸.

Yang Yuanqing 楊元慶, chairman and CEO of Lenovo, attributed today’s position to Lenovo’s clear internationalization strategy definition, innovative products, efficient business model, diverse teams and corporate culture, etc. Therefore, Lenovo’s ideas and strategies were clear and desirable. Through the acquisition of the IBM PC business, Lenovo took a stable place to massively extend the overseas markets. After the enterprise’s internal reorganization and rapid transition, Lenovo builds up successfully a Chinese export brand in the world.

4.2. *Haier, Huawei and Lenovo: Internationalization Analysis*

General challenges of these three companies can be summarized in the following points.

4.2.1. Lack of international brand awareness

Key and core of modern marketing is the international brand strategy. The current market is increasingly competitive, the commodities increasingly rich and the market competition has developed from price competition, quality competition, technological competition, sales competition to brand competition. At present, Chinese enterprises have still a lack of international brand competition awareness, no vigilante concept and no long-term brand strategic vision. Presence, absence or strength of the brand competition awareness is directly related to the company's future and destiny, but also determines the success or failure of the business.

Strengthening brand awareness is an important strategy of the enterprises' internationalization process. This strategy supports enterprises through markets to establish their own brand image, increase products' visibility and recognition, to create greater markets, increase market share and in the meantime also bring greater corporate profits.

Although Huawei, Haier and Lenovo are in international markets, in fact, internationalization of Chinese enterprises is still in the infancy stage. There are only few Chinese companies really involved in the process of internationalization. Chinese products flooded into the world market very early, but the development of own brands is more recent. In addition, Chinese enterprises' brand protection awareness is relatively weak. Their trademarks were often registered by foreign-funded enterprises in the past, resulting in a lot of trouble. If Chinese companies cannot properly protect their brands, they will lose their competitive advantage in the fierce international competition.

4.2.2. Ignoring corporate culture

Corporate culture is one of the key factors of an enterprise for sustainable development. Nowadays, under the challenging conditions, corporate culture reflects enterprise's aim to increase corporate competitiveness and to enhance the cohesion of the employees. Therefore, culture accumulation is a carrier of market competition. The core competitiveness of enterprises is manifested ultimately at the level of the cultural accumulation competence within their operations.

A lot of Chinese enterprises, both those “already operating overseas” and those which “are going overseas”, have a lack of integration of corporate culture, affecting the competitiveness of enterprises themselves. If enterprise ignores corporate culture building, it is like a person without a soul, having no direction and standards of actions. In fact, the corporate culture is not a slogan, a system, a complete text, but is necessarily top-down for a long period of time, driven by accumulation of time and practice injected into the blood cells of both company and employee, so that staff goals and business goals consciously merge into one. In this regard, Huawei is a good example. A few years ago, Huawei has drawn together basic regulations and values forming a corporate “Constitution”. It not only regulates the conduct of enterprise managers and employees, but also laid the groundwork for future development of Huawei's everlasting foundation.

4.2.3. Lack of high-level international talents

With the development of economic globalization, China has gradually joined the tide of the world economy; going out to the global markets has become an inevitable choice for many Chinese enterprises. Although affected by the financial crisis, “going out” is still the general direction of Chinese enterprises. In the process, the key of the issues to be faced is

the lack of the necessary international talents of international development.

The mistakes in internationalization strategy are often attributed to cultural conflicts and the conflicts in business philosophy. However, many enterprises often do not know what kinds of international talents they really need. Lack of proper understanding of talent demand will lead to lack of clear direction for staff recruitment, selection, training etc. and finally will inevitably lead to a futile situation.

In addition, the majority of Chinese enterprises, with backward management skills, are lacking in international business experience and high-level international talents. Although most enterprises realize that company competitiveness is the talent competition, there are only few Chinese enterprises really putting staff as a source of enterprise strategy. The emphasis on talent of European and American companies, in general, is much more widespread than in Chinese enterprises. Therefore, the current overall quality level of Chinese overseas enterprises' staff has a wide gap as compared with real internationalization business needs. Lenovo has made efforts in this regard. In order to make the management team into a real international team, Lenovo has poached five executives from the most outstanding competitor, Dell, and kept the unity and stability of the team.

Although Lenovo's performance in Europe is still far behind the Asian market performance, its international integration effect has come into play. Lack of senior management personnel resulted in the appointment of senior management personnel, which led to differences in internationalization competitive advantage. However, staff needs to be trained and developed. Relying on high salaries to compete is an expedient measure. The permanent solution will be to develop and train their international talent team to enhance their competitive advantage.

4.3. Chinese Enterprise Internationalization: Status Analysis

Globalization in the 21st century has become an irreversible trend. How Chinese enterprises catch opportunities in the process of global economic integration to compete with other countries has become an important topic of Chinese economic development. Nowadays, the worldwide production of large-scale social network has been basically formed. The role of multinational enterprises has increasingly become evident in the world.

The Chinese international brand development has gone from nothing to today's level, having a place in international markets. Nowadays, the worth of the world's largest manufacturer's, China's, global outward foreign direct investment (OFDI) stock is larger than USD 1 trillion, with OFDI surpassing USD 140 billion that represents nearly 10% of global OFDI flows (Hanemann and Huotari, 2016: 2). Although Chinese international business has achieved certain results, in fact, the international development of Chinese enterprises is still in the start-up and development stage.

Many restrictive factors of Chinese multinational enterprises still exist. Such as, of a total of 27 selected countries from the 2013 "World Top 500 Brands" list, the United States accounted for 232 of the 500 seats and was the first in the ranking list. France and Japan were ranked second and third respectively, while China has only 25 brands selected. But to compare with the 1.3 billion inhabitants, China is clearly still in the third level of world brand. Therefore, the stage of Chinese enterprises' internationalization is an unstoppable trend. In this process, also, emerged influential enterprises like Lenovo, Haier and Huawei, etc. Although they opened and occupied overseas markets and achieved an unbelievable success, it also reflected the weakness of Chinese enterprises in multinational management, finance and technology power and human resource management, technology innovation and

applications, etc. There is still a gap in comparison with enterprises of developed countries.

4.3.1. Existing problems of Chinese enterprises in internationalization process

- *Poor Corporate Brand Image:* Chinese enterprises' brand has, generally, a lack of products' core technology, a lack of independent intellectual property rights and a lack of competitiveness. Chinese export commodities are mainly labor-intensive products, low-end products, low-tech products and lower-brand-value products, which makes it difficult for them to win worldwide recognition.
- *Inadequate Attention to Cultural Differences:* Across companies, countries and regions, there are many cultural differences. The cultural differences cannot be integrated, which is a major challenge encountered in Chinese enterprises' internationalization strategy process. For example, in the case of Haier's unsuccessful acquisition experience with Maytag in 2005, it failed because of cultural differences. Haier redefined overseas acquisitions as a secondary position, making the transformation from a manufacturing to a marketing company.
- *Unclear Strategy:* From a strategic point of view of international development goals, internationalization strategy selection, product planning, brand creation and system management are a complex scientific process, which requires bold exploration and needs much rigorous advance planning. A clear development strategy is needed in the process of Chinese enterprises' internationalization, such as when Haier adopted the distribution strategy; they found a good partner in the United States for their distribution.

Although Chinese enterprises' business strategy has done a lot, it is not common that Chinese enterprises did build up a successful

international brand in accordance with the modern strategic theory, really reaching up to the international level, combining with China's national conditions, having a development strategy target of internationalization and outperforming their competitors.

- *Lack of Qualified Talents*: At present, many Chinese enterprises have foreign managers, mostly in foreign language expertise or administrative affairs departments, who have had relevant work experience, but are lacking in professional knowledge and skills in international trade, investment, finance, senior management and other areas. In fact, lack of qualified talents makes it difficult to effectively implement enterprise internationalization strategy, even though there are increased risks of the enterprises' operations.

4.4. SWOT Analysis of the Chinese Enterprises

With the rapid development of China's economy over the past decade, there have been many enterprises similar to Huawei, Lenovo and Haier. They broke through the highly competitive Chinese market and succeeded in the world market. The surviving firms have their own strengths and weaknesses, as well as opportunities and threats, to compare with developed countries' enterprises, such as those from the United States, European countries, etc.

Table 1 and Table 2 use this approach to find out the advantages and disadvantages of Chinese enterprises, which factors are worth promoting and which are to be avoided, as well as problems and solutions, and look for future development directions (Ebers and Wied, 2007: 1). Overall, SWOT can be divided into two parts: the first part is SW, which is mainly used to analyze the internal conditions; the second part is OT, mainly used to analyze the external conditions. According to this analysis, problems can be classified according to priorities, such as urgent problems, matters that can be delayed and obstacles of the

Table 1 Basic SWOT Analysis of Chinese Enterprises' Internationalization

	Internal Factors	
	<i>Strengths</i>	<i>Weaknesses</i>
	<ul style="list-style-type: none"> • Low overall costs • Strong technological innovation ability • Diverse product lines and products • Sufficient funds • China domestic sales as backing • Supports of Chinese government in terms of policy or funding 	<ul style="list-style-type: none"> • Lack of international management talents • Internal management to be standardized and improved • Lack of core technology • Lack of competitiveness • Brands have no or only limited reputation in international markets
External Factors	<i>Opportunities</i>	<i>Threats</i>
	<ul style="list-style-type: none"> • Rapid development of Chinese markets • Recovery of international markets • International market entry barriers reduced • Globalization makes the global optimal allocation of personnel, finances and resources possible • Increasing influence of the brands 	<ul style="list-style-type: none"> • International quality standards • Competitions are much more intensive in international markets • Competitors' overall costs have also been reduced due to globalization

Source: Authors' own illustration.

Table 2 Strategy-oriented SWOT Analysis of Chinese Enterprises' Internationalization

	<i>Strengths</i>	<i>Weaknesses</i>
	<ul style="list-style-type: none"> • Low overall costs • Strong technological innovation ability • Diverse product lines and products • Sufficient funds • China domestic sales as backing • Supports of Chinese government in term of policy or funding 	<ul style="list-style-type: none"> • Lack of international management talents • Internal management to be standardized and improved • Lack of core technology • Lack of competitiveness • Brands have no or only limited reputation in international markets
<i>Opportunities</i>	<i>Opportunity-Strength Strategy</i>	<i>Opportunity-Weakness Strategy</i>
<ul style="list-style-type: none"> • Rapid development of Chinese markets • Recovery of international markets • International market entry barriers reduced • Globalization makes the global optimal allocation of personnel, finances and resources possible • Increasing influences of the brands 	<ul style="list-style-type: none"> • Use advertisements, lower price and constant innovation to capture overseas markets, achieve target of increasing sales revenues, increasing brand awareness, increasing market shares. 	<ul style="list-style-type: none"> • Improve international talents • Optimization • Improve international reputation of the brand
<i>Threats</i>	<i>Threat-Strength Strategy</i>	<i>Threat-Weakness Strategy</i>
<ul style="list-style-type: none"> • International quality standards • International markets and industry competitions are much more intensive • Competitors' overall costs have also been reduced due to globalization 	<ul style="list-style-type: none"> • Professionalize products line • Positioning customers base 	<ul style="list-style-type: none"> • Acquisition of or merging with the local enterprises • Set up distribution, marketing and service networks • Hire qualified international talents

Source: Authors' own illustration.

strategic objectives. All subjects of the analysis are listed in accordance with the matrix form, systematically analyzed according to various factors matched up with each other and drawn together as a series of corresponding conclusions. The conclusions can help leaders and managers of enterprises to make the right decisions and plans.

Opportunity-Strength strategies refer to using strengths to take advantage of opportunities. This means that Chinese enterprises shall use advertisements, lower price and constant innovations to capture overseas markets, achieve targets of increasing sales revenues, increase brand awareness and increase markets shares.

Opportunity-Weakness strategies refer to overcoming weaknesses by taking advantage of opportunities. This means to improve international talents optimization and to improve brand international reputations.

Threat-Strength strategies refer to using strengths to avoid threats. This directs to the professionalizing of products lines and positioning of customer bases.

Threat-Weakness strategies refer to minimizing weaknesses and avoiding threats. This signifies the acquisition of or merging with the local enterprises, setting up distribution, marketing and service networks, hiring qualified international talents and avoiding barriers and risks.

5. Conclusions and Recommendations

Brand building relies mainly on independent innovation. This means not only to have a spirit of brand creating, but also need the resources of brand creating. The former is a prerequisite; the latter must have an innovative management model as protection. In the Chinese enterprises' internationalization processes, the Chinese brands adhere to continuous

innovation in learning and have gradually formed a unique brand development model in line with Chinese national conditions. Meanwhile, the Chinese brands' need to be further amplified. China wants to become a global brand country. Not only does it need to make their brands and products known throughout the global market, but also needs people worldwide to understand and agree with Chinese brand culture and brand origins. In order to be invincible in the international market, Chinese enterprises should not only be based on Chinese domestic markets, but also need to actively participate in international competition, grow up and develop in competition.

Chinese enterprises' development is a process of comparative advantage to competitive advantage. They can effectively enter the international markets by using the niche strategies with which they shall avoid direct conflict with competitors. They shall choose the markets, where competitors have ignored; the demands have not been met, but there are profit potentials. Niche strategies can also be causes of success for small and medium-sized enterprises.

Niche strategy is a complex strategy and uses specialization strategies as base, and can be an option of gradual competitive improvement of multinational business enterprises. The essence of the strategy is to combine the strengths, find market niches, concentrate on market entry and professional development, become a market leader, achieve market penetration, while setting up a variety of barriers and improving the enterprises' international competitiveness. For example, Haier used niche strategy well in the United States market. Haier did not directly attack GE, Whirlpool and other enterprises which had their advantaged large 200L freezer, but innovatively developed new designs of 60L to 160L small freezers and wine coolers in various types, and then started the full penetration of the U.S. markets. This strategic choice has certain significance for many who are or will be moving forwards to

become market internationalization enterprises.

The general objectives of enterprises' internationalization are reducing costs, overriding tariff barriers, using resources, protecting environment, extending international markets and promoting exports. The targets will be changed and adjusted according to international situations and economic development. The criteria of enterprises' suitable investment location selection are to avoid or reduce enterprises' investment risks, bypassing trade barriers, stimulating and promoting national exports and getting the best investment return. In the process of internationalization, companies should pay high attention to maintenance and development of good relationships with local communities, such as local government, trade unions, dealers, etc. and try to form a common interest entity. Thus, a common interest entity may become the umbrella of Chinese enterprises to help them to work together if they are faced with the threat of political barriers.

Why do a large number of overseas projects have difficulties to make a profit? How to select overseas investments in order to achieve a reasonable capital return? Diverse answers are given by different parties, but one thing is very consistent: if enterprises are not prepared, they should be very careful in using the essentials of internationalization. The level of Chinese enterprises' internationalization is still at a primary stage. On the one hand, Chinese enterprises have a lower proportion of overall investment and investment income, as compared with those of the United States or Japan. More importantly, on the other hand, the brand and investment scales are disproportionate. From an enterprise development point of view, big but not strong is a very serious phenomenon.

Nowadays, many Chinese enterprises spend huge amounts, breaking through developed countries' political barriers, cultural barriers and technical barriers, with strength of strong rivals to compete for

developed countries' markets. They should look behind at the broad developing countries and re-examine the opportunities. Indeed, most Chinese enterprises have been "occupied" on the market in developing countries, before expanding to developed countries. Even if they are at the monopoly position of the market, they still fail to make good profits, because their products in developing countries are often relatively low-end and small value-added in nature. This is one of the reasons why they turned their strategic objectives to developed countries' markets. However, there exists a strategic blind spot that is a huge upgrade space and demand in the developing countries. Chinese enterprises can actively participate in the development of the target markets in these countries and be appropriate allure to their consumers. In any circumstances, it is undeniable that Chinese enterprises have a great advantage in relatively low-end developing countries' markets. When getting access to developed countries' impassable roads, today's leading Chinese enterprises should not forget to look back behind at "rural" (developing countries)! Perhaps, there is a nice view.

Notes

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A Struggle for Leadership Recognition: The AIIB, Reactive Chinese Assertiveness, and Regional Order⁺

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Abstract

The aim of this paper is to contribute to the ongoing debate about “Chinese assertiveness”. The paper dissects the central articles on the topic and evaluates their conceptual and theoretical insights. It ascertains that the concept of assertiveness is poorly substantiated; that proponents of “Chinese assertiveness” largely claim that it derives from structural factors that produced effects in Chinese foreign policy behavior *prior to* the US pivot to Asia; and ultimately, that critical accounts, since they reject the very concept, lack theories that can explain Chinese assertiveness. This article attempts to address these shortcomings. First, the article reconceptualizes assertiveness and connects it to grand strategy change. Second, this change is reactive and occurs *after*, not prior to the US pivot. Third, in order to provide greater theoretical adequacy, this article combines material factors with institutional factors and show how they dialectically interact with status aspiration, as part of the struggle for the positional good of leadership. To show the

conceptual and theoretical plausibility of the argument, the paper outlines the dialectical interplay between positional barriers in the ADB and the US pivot to Asia, on the one hand, and reactive Chinese assertiveness and the AIIB, on the other.

Keywords: *US pivot, rebalancing strategy, TPP, Chinese assertiveness, AIIB, US-China relations, positional competition*

1. Introduction

In 2009-2010, “assertive” became the central signifier in the narrative about China’s rise (Swaine, 2010; Johnston, 2013; Jerdén, 2014). Despite attacks against its analytical usefulness and pleas for other concepts to be used in the analysis of Chinese foreign policy (Chen, Pu and Johnston, 2014: 180-183), the notion of “Chinese assertiveness” is still flourishing. In fact, significant developments in Chinese foreign policy continue to provide a fertile environment for its continued use. Recent studies claim that China indeed is *more* assertive now, but that it started to take shape *after*, not prior to the US pivot to Asia, and especially *after* Xi Jinping 习近平’s assumption of power (Yan, 2014; Deng, 2014: 156-158.). Hence, while Chinese assertiveness is questionable as a new empirical phenomenon from 2009 up until Xi Jinping’s entrance on the central political stage (Johnston, 2013; Jerdén, 2014), the real assertive turn occurred around 2013. Thus, instead of rejecting Chinese assertiveness, we should turn the causal arrow on its head – it was not Chinese assertiveness that prompted the US pivot, as is commonly understood; it was the US pivot that prompted Chinese assertiveness. Moreover, the debate about Chinese assertiveness connects to the question of whether China has abandoned the strategy of “keeping a low profile” (KLP) in favor of the strategy of “striving for achievement” (SFA) (Yan, 2014). I argue that China certainly has done

so, and the clearest empirical example we can see of this new activism and leadership is the creation of the Asian Infrastructure Investment Bank (AIIB).

The concept of assertiveness is poorly defined and is still tossed around by journalists, think-tank experts, and IR-scholars without careful consideration as to its meaning. The theoretical accounts of previous studies that explain either the presence or the absence of Chinese assertiveness offer little relevance when confronted with new empirical facts. There is thus a need to make two argument heuristics: reconceptualization and theoretical reversal (Abbott, 2004). In order to make the concept more precise, I define assertiveness as “standing up for one’s needs, wants, and rights”. In order to provide greater theoretical adequacy, I combine two structural factors – structural-material and structural-institutional factors – and show how they dialectically interact with the teleological cause of status aspiration, and the efficient cause of the US pivot to Asia. This is essentially an account of structural contradiction combined with the domestic intentional driver and the strategic move that prompts Chinese assertiveness.

China’s rise and the institutional underrepresentation in the Asian Development Bank (ADB) engender a disequilibrium or a regional influence deficit that has China’s punching below its weight. Yet reforms are stalled, and faced with fundamental structural change, Washington launches the US pivot to Asia to maintain its sole superpower status and global leadership. The US pivot “locks out” China and challenges its long-standing restorationist status ambition as Washington updates its vision for an Americancentric world order apt for the 21st century. This strategic move prompts China’s reactive assertiveness; it pushes China to “stand up” for its status aspiration by assuming regional leadership and performing the role of a responsible great power, clearly manifested in the creation of the AIIB.

The article is structured as follows. After the introduction follows two sections where I tap into the IR-debate about Chinese assertiveness both conceptually and theoretically. I then further explore the roots of the concept of assertiveness in order to provide a solid ground for my reconceptualization. Then the theoretical section follows. In the subsequent empirical sections, I outline the dialectical interplay between positional barriers in the ADB and the US pivot to Asia, on the one hand, and reactive Chinese assertiveness and the AIIB, on the other.

2. Tapping into the Chinese Assertiveness Debate – The Conceptual Problem

Even though several articles have tried to make sense of assertiveness, significant conceptual problems remain. Alastair Johnston highlights that “there is still no consensus definition of ‘assertive’ in the international relations literature”, neither is there any “international relations theory that employs a typology of state behavior that includes ‘assertive’ as a category”. Johnston proposes his own definition, stating that assertive diplomacy “explicitly threatens to impose costs on another actor that are clearly higher than before.” (Johnston, 2013: 9-10) He justifies this definition by emphasizing that it emerges “from usage” and connects to the standard suppositions among analysts and commentators. The definition is problematic in that it closely resembles coercive diplomacy and the concepts of compellence and deterrence, depending on the active or inactive nature of the threat. These are already accepted IR-concepts, which makes Johnston’s definition superfluous.

Thomas Christensen accentuates the advantages of assertive Chinese foreign policies as he juxtaposes “creative, constructive, and assertive policies” with “reactive, conservative, and aggressive ones”

(Christensen, 2011: 65). Christensen offers conceptual insights by departing from the treatment of assertiveness as synonymous to aggressiveness and territorial revisionism, and shows how assertiveness connects to the multilateral role China plays. However, he only associates assertiveness with system-supportive roles, or roles that does not challenge the incumbent, something the concept does not necessarily have to imply; neither does reactive have to stand in juxtaposition to creative and assertive.

Remarkably, both Johnston and Christensen conclude that China is not more assertive, yet the same conclusion is imbued with diametrically opposed meanings. For Johnston, China is *not* more assertive now than compared to the past, thus *less* aggressive or less coercive than assumed. For Christensen, China is not assertive, or not embracing a more active and constructive role, thus *more* aggressive or more abrasive than before. Such a large span between two definitions of the same concept is untenable.

Walter Lee makes another important contribution by introducing the psychological usage of the concept of assertiveness. Yet his reconceptualization is too broad and he fails to provide a precise definition of assertiveness. The many and multifaceted meanings of assertiveness that Lee brings forth makes the definition ambiguous in how it exactly relates to the term (Lee, 2013: 515-517.). Lee also seems to imply that reactivity is a disqualifier for assertiveness, or at least indicating that reactive assertiveness is not real assertiveness. However, assertiveness often arises in the face of opposition and can indeed make perfect sense as reactive.

Björn Jerdén conceptualizes Chinese assertiveness in terms of foreign policy change and makes a significant contribution to the definitional parameters of assertiveness (Jerdén, 2014). Even so, his scrutiny of various foreign policy issue-areas fails to see the forest for

the trees – he misses the bigger picture. More than just foreign policy change, assertiveness is about *grand strategy change*.

3. Tapping into the Chinese Assertiveness Debate – The Theoretical Problem

Although claims of Chinese assertiveness display a tremendous selection on the dependent variable, with Chinese assertiveness encompassing many different types of foreign policy behavior in various diplomatic stages, the independent variable allegedly explaining Chinese assertiveness is starkly consistent: the redistribution of power in the international system serves as the primary cause behind China's assertive behavior.

Michael Yahuda argues that four related developments account for China's new assertiveness: a sense of a shifting balance of power, expanding national interests, growing military capabilities, and heightening nationalism (Yahuda, 2013). The first factor, the change in the balance of power essentially explains the second factor: "China's emergence as a global and regional player of increasing significance has also had the effect of expanding its interests beyond the narrow confines of the immediate defense of its land mass." (*ibid.*: 449) The third factor, increasing military capabilities, explains China's new maritime assertiveness, whereas the fourth factor, nationalism, albeit standing on a somewhat more independent ground, relates to the other stated developments.

Suisheng Zhao argues that the "narrowing" of the "power gap" and China's successful "weathering the 2009 global financial crisis" lead the Chinese leadership to "see a shift in the world balance of power in China's favor", which caused a "notable turn" in China's foreign policy behavior (Zhao, 2015: 379). Aaron Friedberg argues that as China's

relative power grows so does its rational calculations of how far it can push forward. What explains China's assertive behavior from 2009 and onwards is the "increasingly favorable leadership assessments of the nation's relative power and of the threats and opportunities that it confronts." (Friedberg, 2014: 143) Similarly, He Kai and Feng Huiyun argue that as China's power expands so does its national interests, and it is nothing unusual if China adopts a more assertive posture in the process (He and Feng, 2012).

The redistribution of power thus serves as the primary cause behind Chinese assertiveness, which, in turn, triggered the American response – the US "pivot" to Asia.¹ This scenario fits well with mainstream formulations of rise and decline realism: the rising great power acts to revise, the declining hegemon reacts to preserve. While I do not neglect the importance of fundamental structural change, the standard account of Chinese assertiveness is questionable.

Both Alastair Johnston and Björn Jerdén provide empirically rigorous accounts that, nonetheless, are theoretically Janus-faced. They are theoretically rich in explaining the *presence* of the Chinese assertiveness narrative despite the empirical *absence* of new assertive behavior, yet theoretically thin, for obvious reasons, in explaining China's actual assertive behavior. Since they reject it, or rather could not observe it at the time of their studies, there is no need in developing a theory that explains Chinese assertiveness. Jerdén convincingly argues that "China's new assertiveness existed only as a social fact within the bounds of the intersubjective knowledge of a particular discourse, and not as an objectively true phenomenon external to this discourse" (Jerdén, 2014: 87). Significantly, Jerdén claims that it was not China, but the US pivot, that broke the regional status quo (*ibid.*). As such, if contemporary state of affairs displays such a thing as Chinese assertiveness it was either initiated or exacerbated *after* the United States

launched its grand strategy of rebalancing to Asia. This connects to recent studies that claim that China indeed is *more* assertive now, but that it started to take shape *after* the US pivot to Asia, and in particular *after* Xi Jinping's assumption of power (Deng, 2014: 156-158; Yan, 2014: 128-129).

Walter Lee develops a psychocultural theoretical framework to explain the *absence* of Chinese assertive behavior, despite the *presence* of the Chinese assertiveness narrative. Lee claims that "China is not assertive", but rather an insecure and anxious state. He hints of a possible assertive turn with the inauguration of Xi Jinping, but rejects it for not being a true form of assertiveness as it is merely "reactive" (Lee, 2013: 531-532). However, in contrast to Lee, I disagree that reactive Chinese assertiveness is indicative of an "insecure" or "anxious" China; instead, Chinese assertiveness is part of a goal-driven, cohesive and confident grand strategy that pushes China to "strive for achievement" and affirms that it is ready to assume the responsibilities of a true great power, despite US opposition. Even Barack Obama seems to agree. In an interview with the famous television talk show host Charlie Rose, Obama mentioned that Xi Jinping "is younger and more forceful and more robust and more confident perhaps than some leaders of the past."²

In sum, while Chinese assertiveness is questionable as a new empirical phenomenon from 2009 up until Xi Jinping's entrance on the central political stage, the real assertive turn occurred around 2013. Thus, instead of rejecting Chinese assertiveness, we should turn the causal arrow on its head – it was not Chinese assertiveness that prompted the US pivot; it was the US pivot that prompted Chinese assertiveness.³

Certainly, the primary material cause is fundamental structural change or redistribution of power in the international system. However, in combination with sluggish institutions in a certain domain of the

international order, rapid structural change gives rise to a disequilibrium, or a disjuncture between material and institutional factors. At the same time, faced with the rise and growing influence of China, Washington projected a new blueprint for regional order unto the political stage that largely denies China a leading position and threatens its status identity as a returning power. As the United States seeks to “lock in” the Asia-Pacific to an Americancentric world order, it simultaneously “locks out” states that do not buy into the framework, prompting a Chinese response. I will develop the theoretical framework further below and then apply it empirically, but first we have to dig deeper into the concept of assertiveness.

4. From a Reciprocal Logic to a Dialectical Logic of Assertiveness

The popularity of the concept of assertiveness increased in the 1970s and 1980s as it was disseminated among a wider public in the United States. Through widespread books, “assertiveness training” was launched as a technique by which diffident persons could train to behave more assuredly (Smith, 1975; Galassi, 1977; Alberti, 1986). To adopt an assertive posture is advocated as useful in the workplace (Paterson, 2000) or more generally in standing up for one’s rights, and is promoted by professionals in the field of psychology and psychotherapy as well as by a wide array of personal development coaches, readily available on the Internet in more or less unprofessional forms. According to the Counseling and Mental Health Center of University of Texas (CMHC), assertiveness is communicating needs and wants clearly; expressing your feelings and opinions; and “standing up for your rights when they are threatened”.⁴ Importantly, assertiveness focuses on the pronouncement of these needs, wants, and rights in a way that does not give room for submission, neither for aggressive behavior (Bloom, Coburn and

Pearlman, 1975: 6).

What follows is a tripartite division of behavior into passive, assertive, and aggressive (Lee, 2013). Being passive relates to a conflict-avoidant posture where needs and wants are unspoken, which compels others to decide in your place and take advantage of you; whereas being aggressive is threatening and dominating, with needs and wants articulated in a hostile manner. Conversely, being assertive is expressing your stance while simultaneously respecting the positions of others. It is about drawing clear lines for acceptable conduct, which is deemed necessary, and possible, without infringing on the boundaries of others (Katherine, 2000). In other words, being assertive is to take a *middle ground* position, located between passive and aggressive stances:

Assertive communication of personal opinions, needs, and boundaries has been defined as communication that diminishes none of the individuals involved in the interaction (...) Assertiveness is conceptualized as the behavioral middle ground, lying between ineffective passive and aggressive responses.

(Duckworth, 2003: 16)

In view of this, assertiveness is conceived as positive-sum behavior: needs, wants, and rights are stated clearly without disrespecting those of others. We can connect this view of assertiveness to what Charles Taylor outlines as the egalitarian principle of sociality of the modern ideal of moral order, which takes the form of a society of mutual benefit whose members are fundamentally equal (Taylor, 2004: 19-22). For instance, by standing up for your rights or the “justified demands we make on others”, middle ground assertiveness implies that demands are respected and that the “correlative duties” associated with rights (Lang, 2015: 74-75) are accepted. In other words, it assumes reciprocity. The middle

ground notion thus imbues assertiveness with a benign logic as it implies coexistence with differences.

However, conflicts that ensue because of incompatible stances are not problematized as the middle ground conception overlooks the struggle about “who gets to draw the line”. Problematically, the middle ground notion assumes a contextual setting with clearly drawn lines of needs, wants, and rights that do not infringe on others. It excludes points of disputation where power cannot be transcended.

If we dig a little deeper, we find that the middle ground notion does not reverberate well with the etymological roots of assertive. “Assert” stems from the Latin word *asserere*, which means “to put one’s hand on the head of a slave” – either to free him or to appropriate him for servitude – or “to join to oneself”.⁵ In the 16th and 17th century, “assert” was introduced to the English language and its definition relates to its original dual and relational ontology: to claim and appropriate (for example a slave, a piece of land or property); to maintain the cause of (for example to defend or to protect); or to set free, to ensure liberty (for example from sin or from slavery).⁶ To assert is then to claim some-“thing”, or to insist upon one’s right to or possession of some-“thing”. Being assertive is not merely communicative, it is performative: to insist upon one’s needs, wants, and rights is to “take means to secure them” and “to maintain practically a potentially disputed claim to anything”.⁷ In the case of this article, the thing to be claimed is the “positional good” of regional leadership.⁸

Needs, wants, and rights always stand in relation to someone or something. By asserting something one is simultaneously breathing life into its opposite, into its counterassertion. Hence within the definitional parameters of assertiveness enters a dialectical logic, which opens up a glade for the departure of the middle ground conception.

G.W.F. Hegel views the struggle for recognition as productive and transformational. As put forward by Alexandre Kojève:

Man, to be really, truly “man,” and to know that he is such, must, therefore, *impose* the idea that he has of himself on beings other than himself: he must be recognized by the others (...) he must *transform* the (natural and human) world in which he is not recognized into a world in which this recognition takes place.

(Kojève, 1980: 11, emphasis added)

In Hegel’s classic account, the struggle for recognition involves a “life-and-death struggle” that ends when the Slave, by choosing life, succumbs himself to the domination of the Master. The fear of death sets in motion a “humanizing”, progressive process through which the Slave “overcomes” himself and improves himself, through labor, to the point that universal recognition is finally granted. That is why “History is the history of the working Slave.”⁹ Hegel essentially views the struggle for recognition as part of a process where the productive course of history is steered towards a romantic, universal, and harmonious end. It is questionable if the dialectical process, in which the struggle for recognition assumes its historical linearity, ever reaches its universal telos. In one sense, however, we can argue that it has – today man is institutionally recognized as man no matter if he is, superficially speaking, black, white, yellow or red, or rather, the universal declaration of human rights encompasses all mankind. However, the struggle continues.

Theodor Adorno rejects the positive character of Hegel’s dialectic, instead he views it as repressive, a process whereby the Self is seeking to conquer the Other by negating it, imposing identity by subduing difference (Adorno, 2004). This is a colonial process writ large. The

historical process of internal pacification, national homogenization, and the growth of the administrative power of the nation-state, through which nations and borders became “commensurate” and ethnically “purified”, illustrates this negative dialectical logic well. Externally, the nation-state exercised absolute sovereign rights, while internally, the dominant culture suppressed difference and denied rights to people that “deviated” from the national standard. The concept of internal colonialism emerged to capture this process (Gonzalez Casanova, 1965).

The point here is that negating forces give rise to resistance, as elucidated by Aimé Césaire in his appraisal of Haitian revolutionary leader Toussaint Louverture:

A false universalism has accustomed us to so many excuses and pretexts, the rights of man have so often been reduced to no more than the rights of European man (...) In history and in the domain of the rights of man, [Toussaint Louverture] was for blacks the architect. [He] fought for *the transformation of formal rights into real rights*; his was a combat for the recognition of man.

(Quoted in Nesbitt, 2004: 29, emphasis added)

Simply put, assertiveness arises out of contradictions. We are “called upon” to assert our political claims in the face of opposition, to “stand up” for our needs, wants, and rights when they are negated.

5. Reconceptualizing Assertiveness

In order to make the concept more precise, I define assertiveness as “standing up for one’s needs, wants, and rights”. I define needs as foundational, in that they pertain to necessities such as security, whereas I define wants as aspirational, in that they pertain to ambition and status. Rights relates to both, as well as it stands by itself.

Needs can be understood in relation to the natural right of self-preservation, and by extension sovereign rights and regime survival; wants can be understood in relation to rights and responsibilities associated with a particular status. Standing by itself, rights relate to a struggle for recognition. Yet once entities are recognized as sovereign, the struggle for recognition either ends or takes on a different form. In the first instance, states instead start to assert their *needs* as sovereign entities, primarily the need for security. For example, after the decolonization process, the newly independent states started to struggle to secure their borders and regimes. Here we are dealing with a “*struggle for existence*”. In the second instance, certain states continue to strive for recognition, not for recognition as states *per se*, but as *certain kinds* of states, which relates assertiveness to aspirational *wants*, to positional ambitions, and the specific rights and responsibilities that come with a certain status. Such is the struggle for great power status and regional leadership.¹⁰ Here we are dealing with a “*contest for distinction*”.¹¹ These struggles are not mutually exclusive; a state can be engaged in both struggles simultaneously, and China is a good example of this.

Significantly, in the struggle for recognition as an entity – for manhood or statehood – recognition becomes the end, yet in the struggle for recognition as a certain kind of entity – for great power status and regional leadership – recognition becomes a means to an end; a means to the end of positional attainment and international influence. Certainly, a powerful, wealthy, and advanced nation cannot ride solo – it needs a “circle of recognition” that draws to its leadership (Ringmar, 2002). In this sense, assertiveness is prosocial.¹² Even so, it does not remove the central telos of influence and power.

In terms of standing up for one’s “needs”, China’s “core interests” becomes the object of assertiveness as they “have more to do with China’s regime survival and national security than with its great power

aspirations” (Zhao, 2013: 34). This is not a new phenomenon; it has rather been a longstanding and necessary priority for China. However, in terms of standing up for one’s “wants”, China’s great power aspirations become the object of assertiveness – clearly symbolized by the “Chinese Dream” of “the great rejuvenation of the Chinese nation”; clearly teleological in the two centennial goals and the grand goal of gaining “wealth, strength, and honor” (Schell and Delury, 2013: 8); and clearly empirical in the establishment of the AIIB.

The debate about Chinese assertiveness specifically concerns three things: its meaning, its novelty, and “what China is being assertive about” (Zeng, Xiao and Breslin, 2015: 245). The aforementioned briefly outlined the meaning of Chinese assertiveness, which, however, will be further justified and discussed below. Regarding its novelty, Chinese assertiveness, in terms of pursuing leadership, is new, albeit reactive, and China’s assertive behavior particularly concerns this status aspiration. This connects to another aspect of Chinese assertiveness, namely whether China has abandoned Deng Xiaoping 鄧小平’s famous grand strategic “lying low” dictum and his specific instruction “do not seek leadership”.¹³ The China 2020 Research Team, spearheaded by Zhou Qiren 周其仁 of the National School of Development at Peking University, claims that given the changing global context and the expansion of Chinese interests “China will no longer be able to continue with such a passive policy”, yet argues that it still remains the guiding principle for Chinese foreign conduct (China 2020 Research Team, 2014: 90). Yan Xuetong 閻學通, on the other hand, argues that China has abandoned the strategy of “keeping a low profile” (KLP) and now put emphasis on the strategy of “striving for achievement” (SFA) (Yan, 2014). Yan’s argument is largely supported by interviews I conducted with international relations scholars and think-tank experts from several universities and institutes in Beijing and Shanghai during 2-18 July

2016. For instance, one Chinese international relations scholar at the Chinese Academy of Social Sciences made use of an illustrative analogy to illustrate the point:

You can compare it to a bird in a cage. The cage is the principle of keeping a low profile, and the bird is striving for achievement. Before, although the bird could not flee from the cage, the cage could be enlarged or reduced. Today the cage does not exist anymore, and the bird is free. Before, keeping a low profile was the grand strategic position of China, but now keeping a low profile is only tactical, and striving for achievement is at the core of China's grand strategy. I think this is the mainstream view by now.¹⁴

The clearest empirical example we can see of this new activism and leadership is the creation of the AIIB. The importance of “making friends” (Yan, 2014) and providing international public goods makes it faulty, however, to denote China as a “post-responsible power” (Deng, 2014); neither is China a “responsible stakeholder” that passively accepts the US characterization of responsibility. What is rather at stake is a “clash of responsibilities”, as part of the positional struggle for regional leadership.

6. Assertiveness in the Contemporary International Realm

In one sense, assertiveness could be regarded as a central realist concept: in a self-help world, states struggle to assert their foundational needs. Yet the atomistic realist self overlooks the relational nature of man, and by extension the relational ontology of the state (Ringmar, 1996b, 2002)¹⁵, which is necessary to incorporate in order to make sense of assertiveness as a struggle for aspirational wants. A great power desiring to play a regional leadership role cannot assert its wants in isolation –

it must build its “reputational capital” (Stinchcombe, 1998: 293) through “honorable deeds” (Lebow, 2016: 90-91), in particular by providing public goods, and to do so it needs a “circle of recognition” that defer to its leadership (Ringmar, 2002). At the same time, the logic of positional competition still applies to the struggle between leadership contenders for the acquiescence of secondary states.

In terms of standing up for one’s aspirational wants, assertiveness becomes intertwined with the concepts of status and role. Status is a set of rights and responsibilities integral to a *social position* (Linton, 1936). It is a structural concept manifested as membership in a specific grouping as well as an actor’s relative standing within the grouping (Larson, Paul and Wohlforth, 2014: 7). The institutional hallmark of the present international system turns status into a formal institutional position (Pouliot, 2014). Yet “every status has its ‘dynamic aspect’ – a role” (Linton, 1936; Martin, 2009: 6). While status locates actors hierarchically within social orders, roles specify the expected and appropriate behaviors associated with a particular social position. When actors put the rights and responsibilities that explicitly or implicitly constitute statuses into effect, they perform roles. The role is “what the status calls on one to do” (*ibid.*). In particular, three types of leadership roles stand out: structural, entrepreneurial, and intellectual leadership roles. Structural leadership is a matter of translating material capabilities into leverage in the bargaining process; entrepreneurial leadership is about agenda setting, policy innovation, and institutional brokerage; and intellectual leadership concerns the production of ideas and shared understandings that come to shape the institutions (Young, 1991).

A superpower should play a global leadership role, whereas a great power should play a regional leadership role. A world without superpowers implies a “world of regions” with coexisting great powers (Buzan, 2011), “multiple modernities” and “varieties of capitalism”

(Hobson, 2012; Bobbitt, 2002). Conversely, a world with a sole superpower implies one global security hierarchy (full-spectrum dominance, command of the global commons), one mode of liberal capitalist modernity (global market access), and global intracivilizational relations (the End of History). The *chief issue of contestation* between the superpower and aspiring great powers “is the former’s intervention to limit, counter, or shape the actions of the latter” (Huntington, 1999: 46).

The particular type of contradiction that forms the dialectical foundation of my argument is the discrepancy between *status aspiration* and the institutional environment that prevents the materialization of that aspiration, an institutional condition I term *status disavowal*. Status disavowal either takes the form of a ceiling to positional enhancement that freezes the relative standing or social exclusion that denies membership. The discrepancy between status aspiration and status disavowal gives rise to a sense of *aspiration strain*. The specific type of aspiration strain we are dealing with is the feeling of being unable to reach a desired status goal within the status quo. The relationship between status disavowal, status aspiration, and aspiration strain becomes salient with fundamental structural change. The disjuncture between material and institutional factors must interact with status ambition and a sense of aspiration strain to make empirical sense. Yet what triggers assertiveness?

First of all, status concerns apply to both rising and declining actors (Lipset, 2008: 309). Max Weber accentuates that vested interests “react with special sharpness” when they feel threatened by the rise of new actors.¹⁶ This reaction particularly takes the form of exclusionary social closure. Social closure occurs when “one group of competitors takes some externally identifiable characteristic of another group ... as a pretext for attempting their exclusion.”¹⁷ A specific “quality” is expected

from all those who wish to belong to the circle.¹⁸ When competitors make use of certain characteristics for exclusionary purposes they are essentially engaging in practices of delegitimation and relegitimation (Hurd, 2007; Schweller and Pu, 2011). Social closure is a significant exclusionary mechanism in the struggle for the positional good of leadership.

Fundamental structural change leads the relatively declining superpower to reassess the institutional environment of the regional order most important for future progress – the region of the rising challenger. Realists stress that concerns about relative gains and distributive matters make states more reluctant to cooperate than liberals assume (Grieco, 1988). This becomes particularly evident in times of fundamental structural change when entrenched stakeholders or the dominant powers try to either block institutional change by maintaining a ceiling to positional enhancement, or create new institutions that maintain their special status and “lock out” competitors through exclusionary social closure.

This exclusionary mechanism of positional appropriation through social closure is transformational; it triggers strategic rivalry and positional competition. It brings about a sense of aspiration strain in the rising state who experiences the declining power to be disavowing its status aspiration. Tudor Onea aptly elucidates this aspect:

In relation to the dominant state, rising powers prefer adopting a conciliatory approach, which would allow them to consolidate their position without triggering a clash. When rising powers accept the risk of a rivalry pitting them against the dominant state, they do so only *after* the latter blocks their further advancement.

(Onea, 2014: 127, emphasis in original)

To enhance status, the rising power seeks to relief its frustration by carving out a parallel institutional arrangement that can satisfy its national desire for status. When institutional reality contradicts aspirational wants, assertiveness becomes part of a struggle to release the strain by striving for the realization of one's aspirations. Assertiveness thus involves a relationship between actuality and potentiality. It turns into a matter of becoming something you want to be, and to fulfill your potential you have to assume the role and *insist* on playing it in front of others. The role must be played in a convincing manner in front of a significant audience that recognizes the performance (Ringmar, 1996a; Ringmar, 2012). With the establishment of the AIIB, China successfully performs the role of a responsible great power and assembles a significant circle of recognition that defers to its leadership.

What follows is the empirical section, which roughly outlines the dialectical logic and the interplay between status disavowal (the ceiling to positional enhancement in the ADB and the exclusion from America's blueprint for regional order manifested by the US pivot) and China's status aspiration, which gives rise to China's reactive assertiveness (exemplified by the establishment of the AIIB).

7. The Ceiling to Positional Enhancement in the Asian Development Bank

China is in fact facing a positional barrier or a ceiling to status enhancement in the Asian Development Bank (ADB), led by Japan and the United States. The president of the ADB is by tradition Japanese, and in terms of subscribed capital and voting power, Japan and the United States widely exceed the influence of China. They lead the organization and have no plans on giving up their positions to an ascendant China.

Whereas Japan and the United States account for 15.68% and 15.57% of the subscribed capital and 12.84% and 12.75% of the voting rights respectively, China merely accounts for 6.47 % of the subscribed capital and 5.48 % of the voting rights.¹⁹

In contrast to the metaphor of the “glass ceiling” used to describe the barriers to social mobility women and minorities are facing in the domestic sphere, the ceiling that prevents China’s status enhancement is better compared to a thick titanium wall impossible to shatter in thousand pieces since dominant states do not allow for free international political competition within the organizations they control. This is evidenced by the fact that the ADB has not yet heeded the 2009 G20 declaration stating that the president of an international institution should be appointed through an “open, transparent and merit-based process”.²⁰ Instead, the head position of the ABD is still reserved for Japanese candidates and the selection process is conducted in secrecy.

Moreover, in a study on donor influence in the ADB, Christopher Kilby finds that humanitarian factors do not affect lending decisions; rather donor interests decide the allocation of lending. More specifically, the American influence in the ADB is generally directed toward deciding over issues of access (i.e. denying funding for certain countries, such as China); whereas Japan has had greater say over the level of lending. Kirby concludes that the merits of ADB is questionable on humanitarian and economic grounds, instead the existence of the ADB is political in nature (Kilby, 2006).

In essence, “institutions are fraught with tensions because they inevitably raise resource considerations and invariably have distributional consequences. Any given set of rules or expectations, formal or informal, that patterns action will have unequal implications for resource allocation.” (Mahoney and Thelen, 2010: 8) Institutions are not mere neutral problem-solving arenas, but configurations of privilege

and sites of power and contestation (Hurrell, 2007: 11). Hence, within the ADB the ceiling is unbreakable. To enhance status and influence the direction of development finance, the only option is to erect a parallel structure.

8. The US Pivot and the Trans-Pacific Partnership (TPP): The Dialectics of “Locking In” and “Locking Out”

Against the background of Asia-Pacific emerging as the new world center, and China on its way to becoming the second largest economy in the world,²¹ the material logic of relative decline finally became noticeable through the efficient cause of the 2008 Financial Crisis. Only then did the contradiction between the US sole superpower status and the absence of an American economic leadership role in the world’s most significant strategic space become fully perceptible. Consequently, “the rise of China”, which has “permanently changed the geopolitical landscape”, arose as “the major geostrategic challenge” in the consciousness of American foreign policy elites (Bader, 2013: 2-3). Faced with this challenge, it was necessary for the United States to act.

The representational force of Barack Obama’s famous speech to the Australian parliament in November 2011 vividly outlined America’s vision for regional and world order:

The currents of history may ebb and flow, but over time they move – decidedly, decisively – in a single direction. History is on the side of the free – free societies, free governments, free economies, free people. And the future belongs to those who stand firm for those ideals, in this region and around the world....This is the future we seek in the Asia-Pacific – security, prosperity and dignity for all. That’s what we stand for. That’s who we are. That’s the future we will

pursue, in partnership with allies and friends, and with every element of American power.²²

Therefore, as stressed by Hillary Clinton in her “America’s Pacific Century” article, “one of the most important tasks of American statecraft over the next decade will ... be to *lock in* a substantially increased investment – diplomatic, economic, strategic, and otherwise – in the Asia-Pacific region.”²³ Similarly, Jeffrey Bader stated that the intention behind joining the East Asian Summit (EAS) was to “[beat] back proposals for regional integration that would have excluded the United States” and set “the basis for US leadership in the new emerging regional architecture of the Asia-Pacific region.” (Bader, 2013: 144) Yet the TPP is of far greater importance in the struggle for leadership as there is nothing that guarantees that the EAS does not become another watered-down regional institution that loses relevance subsequent to US efforts to control its trajectory. That is why the pivot will be “on the rocks” if the TPP fails,²⁴ it would leave, as Larry Summers plainly states, “the grand strategy of rebalancing US foreign policy toward Asia with no meaningful nonmilitary component.”²⁵ Instead, competitors would be setting the rules and “undermining” US global leadership.²⁶ The stakes are high; America’s prestige and influence “are on the line”.²⁷ Hence, the rebalancing strategy to Asia “cannot be based on political and military initiatives alone”, it must “be backed by rejuvenated American leadership in trade and investment” (Solís and Vaïsse, 2013).

Through the TPP the United States sets down the civilizational markers for the twenty-first century, counters state capitalism, updates its “Open Door” policy²⁸ by targeting behind-the-border regulatory barriers, and offers to free East Asia from its outdated neo-mercantilist trade rules. Despite East Asia’s impressive economic development, higher standards and new rules for the twenty-first century are necessary

to “create not just more growth, but better growth”.²⁹ Barack Obama’s message is unequivocal: “[Y]ou have to meet higher standards. If you don’t, you’re out.”³⁰ As America “locks in” it simultaneously “locks out”. Yet as much as the TPP is about keeping China out or getting it to accept subordination and a ready-made ruleset, it is about keeping Japan in. For without Japan’s participation in the TPP, as Kurt Campbell makes clear, the US-Japan relationship “is going to wither”,³¹ and the fight for the liberal cause would be utterly weakened. Japan’s decision to join the TPP has rightly been labelled a “game changer”,³² given that it is the most advanced economy in the region and effectively serves as America’s Trojan horse in the fight against an exclusive East Asian bloc.³³

In sum, the TPP is designed to *change* the scope, the rules of the game and the normative underpinnings of the regional economic order; to *counter* the emerging economic centrality of China; and to put the material forces of history under American institutional subduance so as to *steer* economic development, *ensure* American leadership, and *maintain* US sole superpower status. The TPP warns those that neither adjust to US rules and standards nor embrace US values that they will “locked out” from an Americancentric world order.

9. China’s Understanding of the US Pivot to Asia

China’s self-conception, embodied by the political elite, is that of being a returning power, not a rising one; a country preordained to restore its past glory. In view of that, China is pervaded by one predominant state telos: to amass wealth and power and regain global respect so as to restore its former position atop the global hierarchy (Schell and Delury, 2013; Pillsbury, 2015; Liu, 2015; Yan, 2001; Callahan, 2008). Imbued with this self-understanding and sense of mission, the US pivot

was experienced as a hostile move threatening China's grand restorationist aspiration.

The high-profile speeches, declarations, and diplomatic performances of the Obama administration were seen as simulacra of a Cold War mentality still dominating American strategic thinking. The Chinese elite perceived the US pivot to be going against the prevailing regional trend toward peace, stability, and cooperation. The pivot was widely viewed as an antagonistic move that stepped up military encirclement and economic containment of a rising China (Swaine, 2012). In 2014, the views of the Chinese leadership about US strategic intentions were summarized in a five-point consensus, namely that the United States is seeking to contain China; to isolate China; to diminish China; to sabotage China's leadership; and to internally divide China (Rudd, 2015: 14). In other words, the US pivot was experienced as an attempt to "lock out" China.

After three decades of continuous increase in China's power status, the US pivot signposted that China would not be awarded the status and influence it so desires and feels it deserves. In view of this, China is punching below its weight. Yan Xuetong makes this sentiment clear: "China's economic status has risen, but the country has yet to garner commensurate respect from the international community."³⁴ Wang Jisi 王緝思 makes a similar argument: "China deserves more respect as first-class power," which means that the "the United States should take China's interests and aspirations more seriously than before, and should change its international behavior."³⁵ However, the US pivot to Asia indicated the very opposite.

In the American blueprint for regional order, China is sidelined and denied a leadership position, signifying a challenge to China's grand aspirational want. Chinese assertiveness arose out of this contradiction; "lying low" was no longer tenable. As China "stands up" for its

aspiration, it needs to assemble a significant circle of recognition that approves of its leadership. With Xi Jinping in the top position, China started to “strive for achievement”.

10. Standing Up for China’s Grand Aspiration

With the inauguration of Xi Jinping, China adopted a more assertive grand strategic approach. At the 18th National Congress of the Communist Party of China in November 2012, the “two centennial goals” were set: by 2021, China is poised to become a moderately prosperous society, and by 2049, a prosperous, strong, culturally advanced, harmonious, democratic, and modern socialist country. Less than two weeks after Xi’s assumption of power, he issued his first slogan – the China Dream. While visiting the “The Road Toward Renewal” exhibition at the National Museum of China, Xi professed, “to realize the great renewal of the Chinese nation is the greatest dream for the Chinese nation in modern history.”³⁶ This long-standing restorationist ethos was now placed at the very center of China’s official discourse.

The China Dream has an implicit grand strategic element, which is not spelled out directly in official discourses. A distinguished Professor from Shanghai used an amusing analogy to illustrate what is at stake: “Xi Jinping launched the China Dream when China is number two in the world. Do you think when he wakes up from his dream that he wants to be number three? Of course not, he wants to be number one.”³⁷ Another Professor from Beijing made a similar statement: “Internationally, it means that China should eventually become a superpower. China should have decisive influence in Asia and the Western Pacific at American cost.”³⁸ America’s project for regional order stands in direct contradiction to this positional telos.

At the Central Conference on Work Relating to Foreign Affairs, Xi Jinping expressed that China is engaged in a long-drawn-out “contest over the international order”. With a mixture of caution and confidence, Xi outlines a progressive trajectory nonetheless:

While being keenly aware of the protracted nature of contest over the international order, we need to recognize that the direction of reform of the international system will remain unchanged. While fully recognizing the uncertainty in China’s neighboring environment, we should realize that the general trend of prosperity and stability in the Asia-Pacific region will not change.³⁹

Nevertheless, Xi believes that the passive approach of his predecessors is no longer tenable, as it “would eventually back Beijing in a corner.” (You Ji, 2013: 148) According to Xi, the “current circumstances” require China to “be ever more active” and to “be bold in assuming responsibilities.”⁴⁰ Or as stated by a Chinese foreign policy expert, “when the US is closing the door, we have to react.”⁴¹ With the reevaluation of China’s grand strategic outlook, leadership becomes crucial.

When “striving for achievement” is conceptualized as “making friends” (Yan, 2014), it connects to the significance of assembling a “circle of recognition” that approves of Chinese leadership. In fact, “it moves the definition of achievement from the direct attainment of objects of gratification, such as money or socio-economic development, to the intersubjective – achievement becomes measured in terms of recognition. By this definition, previously, if China made money, China achieved; now, if China makes friends, China achieves.” (Åberg, 2016) The most important friends are found in China’s neighborhood, and the

AIIB is an important device to attract long-lasting friends that approves of Chinese leadership.

11. China's Regional Strategy

As Xi Jinping and Li Keqiang assumed office, they quickly took the opportunity to launch a new regional strategy. In Xi's state visit to Indonesia in 3 October 2013, he announced the establishment of the AIIB, a pledge reiterated by Li in his trip to South East Asia a week after. In these trips, Xi and Li simultaneously also unveiled the One Belt, One Road (OBOR) initiative. The same month, in 24-25 October, at the Conference on the Diplomatic Work with Neighboring Countries, intended to "identify the strategic goals, fundamental policies, and general diplomatic work with neighboring countries in the coming 5 to 10 years," Xi reiterated the pledges and expressed his desire of letting a Community of Common Destiny take "deep root" in the neighboring countries.⁴² Xi stressed that "China needs to make neighbouring countries more friendly, stay closer to China, more recognizing and more supportive, and increase China's affinity, magnetism and influence."⁴³ Moreover, Xi urged to "speed up the implementation of the free trade zone strategy, *on the basis of* neighboring countries, to build a *new pattern* of regional economic integration."⁴⁴ Significantly, Xi made clear that "[g]ood diplomacy with neighboring countries is a *requirement* for realizing the Two Centenary Goals, and the Chinese Dream of the rejuvenation of the Chinese nation."⁴⁵

The Community of Common Destiny serves as the overarching vision of regional togetherness, and the OBOR initiative of boosting regional and intercontinental connectivity by reviving the ancient trade routes of the Silk Road, introduces a new tangible dimension to China's leadership aspirations. Moreover, China's desire is that the RCEP will

create a new pattern of regional integration centered on China as it gradually climbs the global value chain. Instead of just being a hub for intermediate goods ready to be assembled and shipped to advanced markets, the aspiration is to become a true regional center, a center of consumption, innovation and services. Even though China's alternative project for the regional economic order covers the AIIB, OBOR, and the RCEP, the establishment of the AIIB is to date the clearest, most successful empirical example of China's new assertive grand strategy.

12. Chinese Leadership and the AIIB

The challenge of the US pivot to Asia called on China to perform a more active and leading role, of which the AIIB is a great example. In terms of infrastructure, China has long been a key player and is the number one investor in the world (Chen, Matzinger and Woetzel, 2013). By "setting status in stone" through "institutional privileges" (Pouliot, 2014), the AIIB now institutionalizes this leading position. China's structural leadership is reflected in the fact that it holds 30.34% of the stakes and 26.06% of the voting rights, which equips China with veto power over major decisions that require a minimum of 75% of the votes.⁴⁶ At the initial stage, AIIB is set to provide 100 billion dollars for infrastructure funding. How much that eventually will be dispersed, and to what good, is still uncertain, yet there is money to be invested, and China will certainly try to translate its large contribution into concrete leverage in the bidding processes.

The AIIB is also a testimony to China's agenda-setting power. China has long been pushing for a development approach that pays greater attention to critical infrastructure provision, which it not only sees as the foundation for growth, but as a core requirement for economic advancement, as modern connectivity facilitates operations and

transactions at all stages of development (Lin, 2011). AIIB also bases its credibility on alleged voice opportunities for developing countries. Chinese Finance Minister Lou Jiwei made it clear that since AIIB is “mainly led by developing countries, the AIIB must consider their appeals.”⁴⁷ The extent and influence of such appeals is uncertain, yet it ties the appraisal of the AIIB to an innovative institutional approach that favors regional countries and where China allegedly intervenes for the sake of developing countries in negotiations with other established multilateral development banks.

China’s disdain for political conditionalities embedded into multilateral development lending, and its approach to economic development without ideological straitjackets, also charms countries in need of investments. Then development capital “makes friends” and contributes to the portrayal of China as a benevolent nation bent on undertaking the onerous task of modernization without intrusive yardsticks. China has long been pushing this idea, yet with the AIIB, it enters the mainstream and testifies to China’s intellectual leadership role. The appeal of the AIIB is significant, with more than 50 countries joining, many of them US allies who the United States unsuccessfully tried to dissuade from joining.⁴⁸ As China successfully performs the role of a responsible great power and assembles a significant circle of recognition, it boosts its international prestige.

The AIIB does not imply a radical change of the rules of the game. This is evident from the fact that four out of AIIB’s first six approved projects are co-financed by the ADB, World Bank, the European Bank for Reconstruction and Development (EBRD), and the International Finance Corporation of the World Bank group (IFC), and out of the other seven proposed projects still pending approval four are proposed to be co-financed by the World Bank.⁴⁹ However, the AIIB unequivocally marks China’s status ascendance and represents a positional change to

the multilateral order. Hence, China's push for global governance reform is essentially about status and representation.

In this light, it is wrongheaded to characterize Washington's refusal to join as "irrational" (Economy, 2015). For a superpower bent on ensuring leadership in the Asia-Pacific it makes perfect sense. A rational decisionmaking process is not necessarily governed by utility calculations based on wealth maximization, in this case by getting access to "bidding opportunities" for US corporations; rather, the goal that determines US rationality is positional. In a China-created organization, the United States would at very best be an equal, yet more likely; it would have to accept the humiliating position of second fiddle. Since regional member-countries are favored over non-regional ones, the United States would perhaps play an even more marginalized role. For instance, the Board of Directors (BoD) is comprised of nine Asian members and only three non-Asian members,⁵⁰ which can be compared with ADB's ratio of eight Asian members and four non-Asian members in the BoD.⁵¹

In a world characterized by competition and struggle for positional goods such as leadership, a subordinate position for the United States in the AIIB would be a thorn too painful to withstand. By extension, the AIIB, the OBOR, and the RCEP all challenge US leadership, and thus America's blueprint for regional order. The AIIB has proven to be complementary to the Bretton Woods institutions, and China's regional project might indeed be good for capitalist development and economic growth. Yet capitalist system maintenance endures irrespective of who is in charge. The refusal of the United States and Japan to join, and Washington's ham-fisted efforts to dissuade its allies from joining, is not about complementarity, but about positional indivisibility; it is not so much about rules, but about leadership. In this sense, China's push for institutional reform is essentially about status and representation. "Best

governance practices” and “bidding opportunities” in all its glory, but joining the AIIB would not be worth it for Washington. The strain would be too painful – unless the United States gives up its desire for sole superpower status and global leadership.

13. Conclusion

China is assertive because it knows exactly what it wants. Its restorationist ambition has been rigid since the time of Sun Yat-sen, yet what has shifted is the means of how to achieve this grand goal, reflecting changes in both ideas and power (Schell and Delury, 2013). Chinese assertiveness pertains to grand strategic change, of not lying low any more, of not renouncing leadership any longer. With Xi Jinping in the top position, China now actively strives to perform a leadership role. The assertiveness we are witnessing relates to a shift from self-restraint towards a more active pursuance of leadership.

China, under Mao Zedong 毛澤東, was after all the self-proclaimed leader of the Third World. Deng Xiaoping’s realization, however, was that without a solid economic base neither China’s rise nor its true leadership would never materialize, and China’s economic “backwardness” would continue to “incur beatings by others”. Now, as China’s capabilities have increased dramatically, it is equipped for leadership. Yet its assertiveness arises in response to the antagonistic nature of the US pivot and the conviction that the United States will never accept Chinese leadership no matter how powerful it becomes. Thus, China’s assertive behavior is indeed reactive; it is a response to changes in its external environment un conducive for the materialization of its grand goal. Remaining passive in the face of the US pivot would mean renouncing its longstanding aspiration.

Whereas China faces severe strategic mistrust in the regional security domain, it might very well continue to be the economic protagonist in the “Tale of Two Asias” (Feigenbaum and Manning, 2012), at least as long as the TPP is stuck in the American Congress. Even so, it remains to be seen if regional security issues will affect China’s economic strategy negatively. Another concern is how China’s recent economic downturn will affect the viability of its regional economic projects. In the meantime, China confidently marches on southwards and westwards (Wang, 2014), economically at least.

At the 2013 Boao Forum, while disseminating his vision for the region coated with a solid veneer of “Asianess”, Xi certainly acknowledged China’s daunting economic challenges, yet still proclaimed: “looking ahead, we are full of confidence in China’s future.”⁵² More than a year later, at the 2014 APEC meeting, Xi assured the audience anew: “As its overall national strength grows, China will be both capable and willing to provide more public goods for the Asia-Pacific and the world, especially new initiatives and visions for enhancing regional cooperation.”⁵³ The AIIB testifies to this new Chinese assertiveness. In other words, China is ready to perform the role of a responsible great power, standing up for its desire to take the lead and provide regional public goods.

Notes

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1. That the US “pivot” was a response to counter an “assertive China” has developed into a truism among China watchers. As described by Robert Ross: “Worried that a newly assertive China was becoming a destabilizing force, the White House moved to counter any perceptions of its own weakness by strengthening the US presence in the region.” According to Kevin Rudd: the pivot was “Washington’s response” to “a more assertive Chinese foreign and security policy”. In addition, as stated by Elizabeth Economy: “For most observers outside China, it was Chinese assertiveness that was the action, while the US pivot was, in large measure, the reaction.” (Ross, 2012; Rudd, 2013; Economy, 2013).
 2. Barrack Obama, Interview by Charlie Rose, 17 June 2013. <<https://charlierose.com/videos/17754>>
 3. One area of potential disagreement with this reversal relates to China’s maritime assertiveness. However, one reason for looking beyond the commonplace employment of Chinese assertiveness even in the maritime domain is that the empirical nuances of the security situation and the competition for maritime rights seem to tell a different story. Taylor Fravel shows that some occurrences (read China’s) are noted more than others are, and that the situation in the South China Sea stems from an increasing readiness among all the littoral states to secure their claims. China becomes part of a game played by sovereigns in dispute where it has to defend its position. Beijing views it “as a logical and necessary response, in order to defend its policies and prevent an adverse change in the status quo.” As

such, China's behavior in the South China Sea is more part of a routinized response, not only in relation to other claimants' actions but also in relation to the requirements of the international regime of UNCLOS, more than it was part of an intentional and assertive game plan. See, Fravel (2012); Swaine and Fravel (2011: 15).

4. CMHC. Learning to be assertive. <<http://cmhc.utexas.edu/assertiveness.html>>
5. John A. Simpson and Edmund S.C. Weiner (eds). *The Oxford English Dictionary*, Vol. I. Oxford: Clarendon Press, 1989, p. 708.
6. *Ibid.*
7. *Ibid.*
8. On positional competition, see Schweller (1999).
9. Kojève (1980: 20, 20-26, 31-70); G.W.F. Hegel. *Phenomenology of spirit*. Oxford: Oxford University Press, 1977, pp. 111-119.
10. Cf. Ringmar (1996a), Ringmar (2002), Ringmar (2014).
11. Jeremy Bentham first made the differentiation between a "struggle for existence" and a "contest for distinction" in reference to elections. See, Jeremy Bentham. *Draught of a New Plan for the Organization of the Judicial Establishment in France: proposed as a Succedaneum to the Draught presented, for the same purpose, by the Committee of Constitution, to the National Assembly, December 21st, 1789*. Printed in London, 1790, p. 131.
12. Cf. Philip C. Saunders who puts "assertive" in juxtaposition to "attractive" (Saunders, 2014).
13. Concerning this debate, see, for instance, Chen and Wang (2011), Zhang (2012), Zhang (2014), China 2020 Research Team (2014), Yan (2014).
14. Interview with international relations scholar at the Chinese Academy of Social Science, 7th July 2016, in Beijing.
15. See also Ringmar (1996b); for more sophisticated realist accounts, see Gilpin (1984) and Williams (2005).

16. Max Weber. *Economy and society*, Vol. II. Berkeley, CA: University of California Press, 1978, p. 936.
17. Max Weber. *Economy and society*, Vol. I. Berkeley, CA: University of California Press, 1978, p. 342. See also Baehr (2015).
18. Max Weber. *Economy and society*, Vol. II. Berkeley, CA: University of California Press, 1978, p. 932.
19. Asian Development Bank. *Annual Report 2014* (accessed 12th August 2016). <<https://www.adb.org/sites/default/files/institutional-document/158032/oi-appendix1.pdf>>
20. G20 Leaders Statement: The Pittsburgh Summit (G20, Pittsburgh, 24th September 2009) (accessed 29th September 2016). <<http://www.g20.utoronto.ca/2009/2009communique0925.html>>
21. That fundamental structural change was ongoing was widely acknowledged and informed Washington's decision to pivot to Asia. See, for instance: Hillary Clinton (10th November 2011). America's Pacific Century. <<http://www.state.gov/secretary/rm/2011/11/176999.htm>>; Bader (2013).
22. Barack Obama (17th November 2011). Remarks by President Obama to the Australian Parliament. <<https://www.whitehouse.gov/the-press-office/2011/11/17/remarks-president-obama-australian-parliament>>
23. Hillary Clinton (2011). America's Pacific Century. Foreign Policy. <<https://foreignpolicy.com/2011/10/11/americas-pacific-century/>>
24. Richard McGregor and Geoff Dyer (31st January 2014). Trade backlash leaves US "pivot" to Asia on the rocks. *Financial Times*. <<http://www.ft.com/intl/cms/s/0/6063f074-8a94-11e3-9c29-00144feab7de.html#axzz36b0cDXJp>>
25. Larry Summers (14th June 2015). Rescuing the free-trade deals. *The Washington Post*. <https://www.washingtonpost.com/opinions/rescuing-the-free-trade-deals/2015/06/14/f10d82c2-1119-11e5-9726-49d6fa26a8c6_story.html>

26. Office of the United States Trade Representative. The Trans-Pacific Partnership. <<https://ustr.gov/tpp/#strategic-importance>>
27. John F. Kerry (28th September 2016). A conversation with US Secretary of State. Webcast, Woodrow Wilson Center. <<https://www.wilsoncenter.org/event/conversation-us-secretary-state-john-f-kerry>>
28. On the American “Open Door” policy, see van Apeldoorn and de Graaff (2015).
29. Hillary Clinton (2011). America’s Pacific Century.
30. Barack Obama (8th May 2015). Remarks by the President on trade. <<https://www.whitehouse.gov/the-press-office/2015/05/08/remarks-president-trade>>
31. Quoted in: Yoichi Kato (9th February 2013). Interview with Kurt Campbell: China should accept U.S. enduring leadership role in Asia. *Asahi Shimbun* 朝日新聞.
32. American Enterprise Institute (15th May 2013). Game changer: Japan and the Trans-Pacific Partnership Agreement (accessed 2nd September 2014). <<https://www.aei.org/events/game-changer-japan-and-the-trans-pacific-partnership-agreement/>>
33. That this is the case is evident from Washington’s view of Yukio Hatoyama 鳩山由紀夫’s proposal for a Japanese foreign policy reversal in 2009. Among the several “disturbing developments” of the Hatoyama cabinet – ranging from the desire to remove all US Marines from Okinawa to a more balanced relationship with China – the support for the East Asian Community was the “most troubling” and “astonishing” proposal to the Obama administration. See, Bader (2013: 42-44).
34. Quoted in: Koichi Furuya (14th May 2014). Interview with Yan Xuetong: “Conflict control” is key to U.S.-China relations in a bipolar world. *Asahi Shimbun*.
35. Quoted in: Yoichi Kato (5th October 2012). Interview with Wang Jisi: China deserves more respect as a first class power. *Asahi Shimbun*.

36. Xi Jinping (29th November 2012). Xi pledges “great renewal of Chinese nation” <http://news.xinhuanet.com/english/china/2012-11/29/c_132008231.htm> (Xinhua News Agency (新華社)).
37. Interview with professor and Chinese foreign policy expert, 15th July 2016, in Shanghai.
38. Interview with professor and Chinese foreign policy expert, 3rd July 2016, in Beijing.
39. Xi Jinping (29th November 2014). The Central Conference on Work Relating to Foreign Affairs was held in Beijing <http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1215680.shtml> (Ministry of Foreign Affairs of the People’s Republic of China).
40. Xi Jinping (2014). *The governance of China*. Beijing: Foreign Languages Press, p. 326, p. 329.
41. Interview with professor and Chinese foreign policy expert, 2nd July 2016, in Beijing.
42. Xi Jinping (25th October 2013). Xi Jinping: Let the sense of community of common destiny take deep root in neighbouring countries <http://www.fmprc.gov.cn/mfa_eng/wjb_663304/wjbz_663308/activities_663312/t1093870.shtml> (Ministry of Foreign Affairs of the People’s Republic of China).
43. *Ibid.*
44. *Ibid.*, emphasis added.
45. Xi Jinping (2014). *The governance of China*. Beijing: Foreign Languages Press, p. 325, emphasis added.
46. AIIB, Articles of agreement <<http://euweb.aiib.org/uploadfile/2016/0202/20160202043950310.pdf>>; AIIB, Asian Infrastructure Investment Bank subscriptions and voting power of member countries <<http://euweb.aiib.org/uploadfile/2016/0715/20160715113539537.pdf>>.
47. Quoted in: *Bloomberg* (29th April 2015). Defector to Communist China revolutionizes development lending. <<http://www.bloomberg.com/news/ar>

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49. AIIB. Projects. <<http://euweb.aiib.org/html/PROJECTS/>>
50. AIIB. Governance. <http://euweb.aiib.org/html/aboutus/governance/Board_of_Governors/?show=1>
51. ADB. Board of directors. <<https://www.adb.org/about/board-directors>>
52. Xi Jinping (7th April 2013). Working together toward a better future for Asia and the world. <<http://english.boaoforum.org/mtzxxwz xen/7379.jhtml>>
53. Xi Jinping (9th November 2014). Seek sustained development and fulfill the Asia-Pacific Dream. <http://www.fmprc.gov.cn/mfa_eng/topics_665678/ytjhzzdrscldrfzshyjxghd/t1210456.shtml>

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Economic Diplomacy, Soft Power, and Taiwan's Relations with Indonesia

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Abstract

This paper seeks to discuss the recent developments of Taiwan-Indonesia relations. It especially aims to identify the diverse efforts that Taiwan has made to secure an improved position in its relation with Indonesia, amid an increasingly cordial relation between Indonesia and China. Among the efforts that Taiwan has conducted is using the attractiveness of its economic resources to achieve a better recognition from Indonesia. However, this practice of “economic diplomacy” has been combined with an attempt to invest soft power through various means. They include, among others, promoting Taiwanese education attraction among middle-class Indonesians, particularly Chinese Indonesians, attracting Indonesian students to pursue a higher degree in Taiwan through various scholarship programs, and establishing a network between the Taiwanese and Indonesian scholars. While the above efforts have arguably enabled Taiwan to have a better recognition among certain segments of the

Indonesian public and government, it still faces a number of challenges.

Keywords: *Taiwanese soft power, economic diplomacy, Indonesia-Taiwan relations, “Go South” policy, Taiwanese educational promotion, Taiwanese popular culture in Indonesia*

1. Introduction

Despite the absence of a diplomatic relation with Indonesia, Taiwan has enjoyed a cordial relationship with this archipelagic country since early 1970s. However, roughly a decade after Indonesia and China normalized their diplomatic ties in 1990, a phenomenon that potentially affects Taiwan’s position in its relation with this largest Southeast Asian country began to emerge. Closer relations between Indonesia and China have emerged again, especially after President Abdurrahman Wahid (Gus Dur) made China the first destination for his formal overseas visit. In the economic aspect, China has become one of the top trading partners of Indonesia. The Chinese money has come to Indonesia not only through investments, but also through development assistance programs, which among others have materialized in the form of infrastructure development projects. Public perception of China has also been cordial. For several consecutive years in the last decade, China has been seen as favorable by a high percentage of Indonesian people. Meanwhile, many aspects of the Chinese state and government have been seen as a source for learning by quite a few among the Indonesian middle class. Furthermore, cultural interactions between people of the two countries are also becoming much more intensive than before.

The emergence of the above situation has evoked several inquiries related to Taiwan. Amid the emergence of the close relations between Indonesia and China, what kind of efforts has Taiwan made to maintain

its cordial relationship, or even to improve its position in its relations with Indonesia? How have these efforts been carried out? What outcomes have Taiwan achieved through these efforts?

This article attempts to provide answers to the above questions. It begins with a historical overview of the relations between Indonesia and Taiwan. Subsequently, it will discuss the economic aspects of Taiwan's relation with Indonesia. Next it will investigate the investment of Taiwan's soft power in Indonesia. Finally, a discussion of some achievements that Taiwan's economic diplomacy and soft power have made, combined with the challenges that Taiwan still needs to address, will be conducted. The article will be closed with a concluding section.

2. Relations between Indonesia and Taiwan: A Historical Overview

The relations between Indonesia and Taiwan might be seen as a continuation of a relationship that had emerged in the late period of the Dutch colonial era, that is, in the first half of the twentieth century. Under the umbrella of a formal diplomatic relation between the Republic of China (ROC) and the Netherlands, several consul general offices of the ROC were established in Indonesia within the above period (Ku, 2002: 233). Later in 1949, when the Indonesian independence was finally recognized by the Dutch and the wider international community,¹ the Chinese Nationalist government – by then has retreated to Taiwan – immediately declared its recognition of the new republic. This quick decision was probably motivated by a hope that Indonesia would establish relations with Taipei (Mozingo, 1976: 88). However, in a wish to receive a recognition from the People's Republic of China, Indonesia decided to recognize the mainland China instead. In that regard, Vice-President Mohammad Hatta informed General Wu Teh-chuan, who was sent by Taipei to negotiate about the future relations between the two

governments, that the Nationalist China's consulates in Indonesia would have to be closed within a few months (Mozingo, 1976: 89).

Despite the closure of its consulates in April 1950, Taipei still enjoyed a support from a certain segments of people in Indonesia, especially among the ethnic Chinese. Such a support became more observable later towards the end of 1960s, after the relationship between Indonesia and China – which had been very close until 1965 – began to erode in the aftermath of a coup attempt conducted by the Indonesian Communist Party (PKI) in September 1965. As described in detail by Benny Setiono (2003: 1000-1001), a group of ethnic Chinese businessmen associated with PT Berdikari, a trading company which was directed by Brigadier General Suhardiman from the Indonesian Army, made some attempts to improve the relationship between Indonesia and Taiwan in 1967. The group consisted of several ethnic Chinese businessmen, such as, Be Sulindro, Suwandi Hamid, and Njoo Han Siang, under the leadership of Amran Zamsani, an Acehnese who served as the operational director of PT Berdikari. In September 1967, this group welcomed a delegation from Taiwan, and made a joint statement with the Taiwanese delegation on the importance of the opening of direct trade relations between Indonesia and Taiwan. During the declaration of the joint statement, Taiwan agreed to provide a US\$20 million loan to Indonesia, which never materialized because the promise was made under a condition that Indonesia should withdraw its support for China's entrance to the United Nations. However, the attempts continued to be conducted, with the help of other prominent figures, such as Suhardiman himself, Colonel Soedjono Hoemardani, and Jusuf Wanandi.

Yet the above group of people could not successfully convince the country's top leaders to give their official recognition to Taiwan. Regarding this issue, the Indonesian foreign minister Adam Malik stated

that Indonesia would recognize the Chiang Kai-shek 蔣介石 government if it could return to Mainland China (Chen, 2002: 62). In fact, despite its frozen diplomatic relation for about 23 years, Indonesia still upheld the “One-China policy” and gave its recognition to the People’s Republic of China. Nevertheless, relations between Indonesia and Taiwan have significantly improved since early 1970s, albeit not on a diplomatic level. The year of 1971 might be considered as a turning point, as it was the year when the Taiwan Chinese Chamber of Commerce was set up in Jakarta, following the establishment of the Indonesian Chamber of Commerce (KADIN) in Taipei a year earlier. Later in 1989, the Taiwan Chinese Chamber of Commerce changed its name into Taipei Economic and Trade Office (TETO) while the Indonesian KADIN in Taipei developed into the Indonesian Trade and Economic Office (KDEI) in 1994.

3. Economic Diplomacy and Taiwan’s Relations with Indonesia

As described in the last section, Taiwan and Indonesia have continued to build economic and interpersonal relations even after the Nationalist China’s consulates had been closed in 1950. These economic and people-to-people relations have been formalized, though not at the diplomatic level, since the establishment of both side’s chamber of commerce in Jakarta and Taipei in 1970s, which two decades after were upgraded into the economic and trade offices based in both cities. For Taiwan, the establishment of the Taipei Economic and Trade Office in 1989 might be seen as a sort of achievement because it arguably enhanced Taipei’s status and thereby was in line with the foreign policy set by Lee Teng-hui 李登輝’s government which was founded a year earlier. Indeed, as discussed by Jie Chen, the key dimension of Taiwan’s foreign policy since Lee Teng-hui is its search for international

recognition of its national sovereignty through broadened and upgraded diplomatic representation, increased international agreements, frequent visits overseas by government officials, as well as the establishment of full diplomatic relations wherever possible (Chen, 2002: 1). As Chen further explained, the profile and dynamism of the business sectors have been one of the key ways through which the aforementioned goal is to be achieved. So to speak, Taiwan, which only has less than thirty diplomatic partners, began to adopt an “economic diplomacy”, making use of its significant economic resources in exchange for political supports in the global community (Ku, 2002: 239).

While the interactions between Taiwan and Indonesia began to be intensified since the implementation of the “economic diplomacy”, a further significant increase of these economic ties has taken place since early 1990s, as a result of the introduction of the “Go South” policy. The policy was adopted by Lee’s administration in March 1994, in the effort to reduce Taiwan’s economic dependence on China (Lin, 2008: 193). Under this policy, Taiwan entrepreneurs were encouraged to invest their money in Southeast Asian countries, as well as to do trades with them. As the adoption of this policy coincided with Indonesia’s need for further economic development, as well as with an economic reform initiated by President Suharto in 1988, Taiwan’s investments in Indonesia has steadily increased in the last decade of the last century (Ku, 2002: 240-241). As Samuel Ku has noted, Taiwan’s investment in Indonesia kept growing even after the financial crisis in 1997.

The “Go South” Policy gained further impetus in 2002, when Taiwan was under the Democratic Progressive Party (DPP)’s government (Lin, 2008: 193). Along with the increased interest among Taiwanese entrepreneurs to invest their money in Indonesia, Taiwan became one among the five largest investors in this Southeast Asian country in 2002.² Taiwan’s position as one among the largest investors in

Indonesia fell to number 15 by 2015. However, the amount of the money invested by Taiwanese businessmen/women in Indonesia was still large, reaching over US\$100 million in 275 projects (BKPM, 2016: 13). One of the most recent significant examples of Taiwan's commitment to invest in this Southeast Asian archipelagic country is the agreement between the Taiwanese government and its Indonesian counterpart to launch a project to develop the Morotai Island, an island located in the North Maluku province of Indonesia. The project aims to develop the island into a new economic hub consisting of a seafood-processing industry, tourist resort, and a new industrial zone.³ Modeled after the special economic zone that Indonesia has established with Singapore in Batam Island, an Indonesian island located just roughly 30 km away from Singapore, the Morotai project would allow Taiwanese business people to invest in this island. Involved in this project is the International Cooperation and Development Fund (ICDF) from Taiwan. Meanwhile, the Indonesian side is represented by the Jababeka Group, an Indonesian conglomerate chaired by a Chinese Indonesian tycoon.

In addition to investment, development aid has also become a means for Taiwan to improve its relations with the Southeast Asian countries. Indeed, as argued by Jie Chen, development assistance has become one of "the three major components in Taiwan's economic profile in the Southeast Asian region" (Chen, 2002: 107). By way of example, Taiwan has maintained a technical mission in Indonesia to help local farmers increase their agricultural productivity (Lin, 2008: 193-194). A more recent example is a fishery assistance program which Taiwan is about to conduct in collaboration with the Hasanuddin University, Makassar.⁴

Taiwan's economic profile in Southeast Asian countries has also depended on its import of foreign workers from the region. In the case of Indonesia, Taiwan has become the second largest destination for the Indonesian migrant workers since 2011. Based on the report released by

the National Body for Placement and Protection of the Indonesian Workers (BNP2TKI), over 78,000 Indonesians workers were migrating to Taiwan in 2011 (BNP2TKI, 2013: 7). The number was increasing to roughly 82,000 in 2014 (BNP2TKI, 2015: 7), but fell to around 63,000 in 2015 and 2016 (BNP2TKI, 2016: 7). By January 2011, the total number of Indonesians working in Taiwan had reached 159,000 or 41.6 per cent of the total foreign workers in Taiwan (Elisabeth and Tu, 2014: 5). In less than five years, the number increased to 238,298 (Tsay, 2015: 74). The majority of them work as housekeepers for Taiwanese families, as well as caregivers, especially for the old people. As an average income of a person working in an informal sector in Taiwan is roughly US\$525, a total amount of remittance that these migrant workers might send to their home country is imaginably high. They arguably contributed significantly to the US\$8.55 billion that Indonesia had received from its overseas migrant workers by 2015.⁵

The above picture of Taiwan-Indonesian economic relations is likely to persist in the near future. The sign of better cooperation has been observable, among others, from the Indonesian decision to allow Taiwanese to enter Indonesia without visa for a limited period, as well as the establishment of a new TETO in Surabaya. Furthermore, after the election of the new president, Tsai Ing-wen 蔡英文, the DPP, with which the new president is affiliated, has launched the “New Southbound Policy” (新南向政策), which would put emphasis on bilateral interaction and cooperation with ASEAN and South Asian nations.⁶ Under this “expanded version” of the previous “Go South” policy, the economic ties and people-to-people interactions between Taiwan and Indonesia is expected to be further enhanced.

4. Taiwan's Soft Power in Indonesia

In the effort to strengthen its position in relation with Indonesia, Taiwan has combined its “economic diplomacy” with an attempt to invest its “soft power” in this archipelagic country. A concept introduced by international relations theorist Joseph Nye in 1990, soft power is distinguished from “hard power” by its reluctance to rest on inducements (“carrots”) and threats (“sticks”). Unlike hard power, the implementation of soft power “rests on the ability to shape the preferences of others” (Nye, 2004: 5). It uses a different type of currency (not force, not money) to engender cooperation – an attraction to shared values and the justness and duty of contributing to the achievement of those values (Nye, 2004: 7). Aestheticized culture is also considered an important source of soft power.

In the East Asian context, as Lee and Melissen has argued, soft power has been executed, particularly by the newly economically rising East Asian countries, such as China and South Korea, to expand their existing economic influence and acquire more sophisticated politico-cultural leverage. Similarly, the established countries whose economy is on the verge of declining, like Japan, are more likely using soft power to compensate for their deficit of available resources (Lee and Melissen, 2011: 5). Taiwan too attempts to invest its soft power to support (and as a part of) its diplomatic efforts in the East and Southeast Asian region. One of the purposes of investing such power is to make Taiwan properly acknowledged.

Before examining the way in which Taiwan has invested its soft power in Indonesia, it is perhaps worthwhile to note that, unlike Nye's concept of soft power, Taiwan's implementation of soft power does not exclude the manipulation of its economic power. In addition to its economic model, Taiwan's sources of soft power include its foreign direct investments and international aid as well (Wang and Lu, 2008:

431). This consequently brings Taiwan's model of soft power closer to the concept of soft power understood by the Chinese leaders. As Joshua Kurlantzick has pointed out:

For the Chinese, soft power means anything outside of the military and security realm, including not only popular culture and public diplomacy but also more coercive economic and diplomatic levers like aid and investment and participation in multilateral organizations – Nye's carrots and sticks.

(Kurlantzick, 2007: 6)

Like China, Taiwan also seems to use its economic resources to support its diplomatic efforts. In its relations with Indonesia, Taiwan has used its economic resources, such as investments and aid, to function as "carrots". While minor tensions might occur, such as an incident that took place in 2002, when Indonesia refused to welcome President Chen Shui-bian 陳水扁's plan to visit Yogyakarta,⁷ such tensions did not have a serious consequence on the economic ties between Indonesia and Taiwan. True, certain members of the Taiwanese elites reacted to the aforementioned 2002 incident by calling on the Taiwanese government to postpone or cancel its investments and aid to this Southeast Asian country. Nevertheless, as indicated in the last section, investments and aid from Taiwan have continued to flow into Indonesia in the aftermath of the above incident.

The inclusion of the economic resources as a means of soft power has made a separate analysis of Taiwan's soft power and economic diplomacy difficult to carry out. However, particularly within the last decade, an investment of Taiwan's soft power through non-economic means has been significantly apparent in Indonesian society. On the one hand, the Taiwanese government wishes to have more Indonesian people aware of Taiwan's presence as an entity completely different from China

in political, social, and cultural aspects. “To reach this end, Taiwan applies and intensifies soft power through interaction with Indonesia and Indonesians,” explained a top TETO official.⁸ On the other hand, Taiwanese “non-state actors” have conducted various activities for their own purpose, which in the end might further enhance Taiwan’s soft power in Indonesia.

In an effort to achieve the above goal, the Taiwanese government has approached various non-state actors to collaborate with them through their representative in Jakarta. This strategy is adopted because a government-to-government cooperation with the Indonesian side cannot be intensively conducted due to Indonesia’s adherence to the “one China” policy. As such, activities that promote the knowledge about Taiwan in Indonesian society are carried out in collaboration with Indonesian business communities and social associations. The events that they have recently organized include the Taiwan travel fair, Taiwan Excellence Happy Run, and Taiwan art performances. Taiwan has also funded the establishment of a Taiwan Education Center (TEC) in April 2011 in Surabaya to help promote Taiwan’s education system in Indonesia. While the TEC has been directly founded and supported financially by Taiwan’s Ministry of Education – despite the fact that it is managed by the Indonesian people – another organization with a similar purpose was established in Jakarta without a direct formal support from the Taiwanese government. The Jakarta Taiwan Education Center (JTEC) was established in March 2015. Together with the Association of Taiwan Alumni in Indonesia (ICATI), the JTEC organized an event called as the Taiwan Higher Education Fair on 29 August 2015. In fact, ICATI has played a much larger role. In addition to Taiwan education fairs, the association has also organized a Mandarin summer camp program and annual visit of Indonesian high school principles to Taiwan.⁹

The fact that Taiwan has encouraged an intensive promotion of its education, including higher education, indicates how the Taiwan government views the educational exchange as an important tool to invest its soft power in Indonesia. Indeed, in addition to the aforementioned events, which mainly targeted middle-class Indonesians, particularly those who have an ethnic Chinese background, the Taiwan government has provided a number of scholarships to specifically enable Indonesians with other ethnic backgrounds to study in Taiwan. In addition to the scholarship program generally provided to international students (generally named as the “Taiwan Scholarship”, the Taiwan government has also established specific programs, in cooperation with the Indonesian government, to allow more Indonesian students to pursue a higher degree in Taiwan. By way of example, in 2013, Taiwan’s Ministry of Education has signed a Memorandum of Understanding (MOU) with the government of Aceh Province to provide 35 scholarships annually to the students originally from this Indonesian province.¹⁰ Taiwan has also provided special scholarships for Indonesian students through several Taiwanese universities or government institutions.

The above efforts have received a positive response from the Indonesian part. A significant number of Indonesian students have studied in Taiwan since the introduction of the aforementioned scholarship programs and educational promotions. In 2015 only, there have been 4,349 Indonesian students actively studying in Taiwan. They include those who focus on learning Mandarin and those who pursue a non-language programme at either undergraduate or graduate level. Among the non-language degree programs that the Indonesian students usually major are engineering, technology, natural sciences, and businesses management. However, a number of these students are enrolled in social science and humanity programs. (Paramitaningrum,

2013: 169).

Taiwan's desire to have an increased number of Indonesian students pursuing their degree in Taiwan is perhaps related to the fact that the university graduates, particularly at higher level, might have a certain influence on the knowledge production process. As such, they might help promote the knowledge about Taiwan in Indonesian society in a significant way. However, Taiwanese diplomats have also made an effort to invest Taiwan's soft power by establishing networks with Indonesian academics, even though they are not necessarily graduates of the Taiwanese universities. Collaborations between the TETO Jakarta and several hubs of Indonesian academics and intellectuals in the city have taken place in the last few years. The institutions with which TETO Jakarta has collaborated in the recent years include Paramadina University, University of Indonesia, President University, the Habibie Center, as well as the Indonesian Institute of Science (LIPI). By way of example, in June 2011, TETO helped coordinate a collaboration between the Faculty of Social and Political Science of the University of Indonesia, Depok, and the College of Social Sciences of National Sun Yat-sen University (國立中山大學), Kaohsiung 高雄, to organize an international symposium entitled as "The Ideology of San Min Chu I and the Foundation of Pancasila: A Shared Vision". The event was held at the main campus of the University of Indonesia in Depok. More than just enhancing cooperation between the two institutions, the symposium had provided an opportunity for the Taiwanese scholars to emphasize the similarity of the two ideologies that have become the basis of the Taiwanese and Indonesian societies: the Three Principles of the People or *San Min Chu I* 三民主義 and the *Pancasila* (Indonesian Five Principles).¹¹ Meanwhile, at least in two different occasions, Mr Liang-jen Chang 張良任, the head of TETO Jakarta, has shared his ideas with groups of Indonesian scholars and researchers. The first occasion took

place on 2 May 2014, when a discussion forum called the “Discussion of Consortium of Indonesia’s Foreign Policies” was organized by the Graduate School of Diplomacy of Paramadina University. The second occasion was on 14 May 2014, in a seminar held by the Habibie Center, which discussed the recent development of the relation between China and Taiwan. Later in April 2015, TETO had also assisted Tamkang University (淡江大學), a leading private university in Taiwan, to organize a joint conference on the security and economic development in East Asia in collaboration with Bina Nusantara University, another private university in Indonesia.

The government of Taiwan has also annually invited Indonesian scholars, including but not only from the aforementioned institutions, to participate in a dialogue forum with their Taiwanese counterparts. In 2012, Taiwan’s Ministry of Foreign Affairs and the Habibie Center had collaboratively organized an “Indonesia-Taiwan Dialogue” held in Taipei. Similar events had been organized in the following years. In 2016, the dialogue has been expanded to include scholars from all ASEAN countries, and was given a name as the “Taiwan-ASEAN Dialogue”.¹² Besides the above activities, the Taiwanese diplomats in Jakarta have also frequently been inviting various groups of Indonesian scholars to the formal as well as informal events that they organize.

In addition to the efforts made by the Taiwanese government, Taiwan’s soft power in Indonesia has been invested through phenomena related to popular culture, such as the appearance of Taiwanese movies. By way of example, early in 1994, the *New Legend of Madame White Snake* (新白娘子傳奇), a 1993 Taiwanese television series, has already been broadcast by the SCTV (Surya Citra Televisi Indonesia), one of the private TV stations beginning to mushroom in the country by early 1990s. However, it was the *Meteor Garden* (流星花園), a 2001 Taiwanese drama starring Barbie Hsu 徐熙媛 and four male Taiwanese

actors popularly known as the F4, which had significantly helped promote the popularity of Taiwan as well as the Chinese language in Indonesia. Screened regularly in 2002 by Indosiar, another private TV station, the series has attracted a wide audience, many of whom were Indonesian teenagers. Unfortunately, no other Taiwanese movies/TV series as well as music artists and bands have received a similar warm welcome from the Indonesian public.

5. Taiwan's Economic Diplomacy and Soft Power in Indonesia: Outcome and Challenges

The efforts that Taiwan has made in order to be better recognized in Indonesia through various strategies discussed in the last two sections have arguably paid off. At government-to-government level, communication between officials at the Indonesian Ministry of Foreign Affairs and their Taiwanese counterparts has taken place more intensively, albeit in informal settings.¹³ Technical collaboration between certain government institutions, such as the Indonesian National Board for Disaster Management (BNPB), with similar bodies in Taiwan has also been conducted. Finally, two significant results have been achieved in the last year, namely, the Indonesian decision to give a visa-free status for Taiwanese who pay a short social visit to Indonesia and for other related activities, as well as the Indonesian decision to allow Taiwan to open another TETO in Surabaya. As a senior Taiwan diplomat commented, "These two achievements are considered significant and worth of celebration by the Taiwanese government."¹⁴ Meanwhile, Indonesia views the opening of the TETO Surabaya as a development beneficial to the Indonesian side because it will enable the prospective migrant workers originally from East Java and Nusa Tenggara to process their working visa application in Surabaya. This practice is considered

more cost efficient than if those prospective migrant workers had to go to Jakarta.¹⁵

Meanwhile, the scholarship programs that the Taiwanese government has offered have made certain achievements as well. A number of Indonesian scholars who receive scholarship from Taiwan have come back and make a contribution to the academic world in Indonesia. By way of example, quite a few of the academics teaching in the prestigious University of Indonesia did their post-graduate training in Taiwan. Two academics who teach in this university's Chinese Study program hold a Ph.D. from two different universities in Taiwan. One of them currently serves as the manager of education in the Faculty of Humanities of the abovementioned public university. Several other Taiwanese university graduates have taught in many different departments in that public university, become researchers at prestigious research institutions (including at LIPI), and lecture in many different private universities.

Nevertheless, there are a number of challenges that the Taiwanese need to address. Firstly, it is observable that Taiwan's effort to outreach various groups within the Indonesian society has overwhelmingly focused on two groups. The first group is the middle-class Chinese Indonesians, who consist of the alumni of Taiwanese universities and business communities. The second group is the Indonesian academics and researchers, the majority of whom are non-Chinese Indonesians. Unfortunately, only a limited number of this kind of people have been embraced by the Taiwanese representative in Indonesia. Taiwan's effort to be better recognized will have an increased effect if it is combined with activities to reach out to more varieties of Indonesian people. Secondly, in Taiwan itself, the number of Taiwanese scholars who have an expertise in Indonesian society and culture is still not adequate. Besides, Indonesia has not been seen as an attractive subject to study by

most Taiwanese students.¹⁶ If Taiwan wishes to invest a soft power which goes beyond the use of economic means such as investments and development aids, a bigger presence of scholars and students focusing on Indonesia will become an important requirement. The recent re-emergence of anti-China sentiments which have been growing despite the incoming flow of the Chinese investment in Indonesia might become a good lesson that demonstrates how the Indonesian people might respond negatively to the arrival of foreign investments.

6. Conclusion

As this article has discussed, amid the increasingly close relationship between Indonesia and China, Taiwan has made diverse efforts to secure an improved position in its relation with Indonesia. To achieve a better recognition from the Indonesian government and public, Taiwan has not only cultivated its economic resources, through a practice which Professor Samuel Ku (2002: 239) called the “economic diplomacy”, but has also attempted to invest its soft power in Indonesia. True, similar to the practice conducted by China, Taiwan has used the attractiveness of its economic resources to invest its soft power in Indonesia. But Taiwan’s soft power has also been manifest in the form of the Taiwanese education attraction among middle-class Indonesians, many of them being Chinese Indonesians. Taiwan has also attempted to reach out to the non-ethnic Chinese Indonesian academics and students through various scholarship programs and other programs that enable Taiwanese and Indonesian scholars to interact and conduct collaborative activities.

The intensive implementation of the above diverse efforts has enabled Taiwan to achieve a certain level of recognition from the Indonesian government, as well as from certain segments among the Indonesian public. However, in terms of public recognition, the outcome

has not been satisfactory yet due to the rather limited scope of the people that the Taiwanese government has managed to reach out to. Meanwhile, the Taiwanese popular culture, which once became popular in the form of the popularity of the *Meteor Garden* series, has not been persistently widespread among the Indonesian public. This is worth a special attention because this kind of movies/TV series might be a significant means to introduce how the everyday life in the Taiwanese contemporary society looks like to the Indonesian people. As such, it will also better inform the Indonesian people of a Taiwanese society, which has characteristics significantly different from the Mainland Chinese society in the cultural, social, and especially political aspects. If fact, being recognized as a society and country different from China is what Taiwan needs to seek, especially at the time when the anti-China discourse is re-emerging again in Indonesian society after slumbering for roughly a decade.

Notes

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Guangzhou's African Migrants: Implications for China's Social Stability and China-Africa Relations

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Abstract

Until recently migration was treated like a footnote in the Africa-China discourse. Previously researchers and the media had focused attention on the “cost-benefit analysis” of China’s economic penetration of the continent. However, since 2008 when over a hundred African migrants blocked a major street in Guangzhou protesting the death of a Nigerian in an immigration raid, researchers and the media have been falling over themselves to unpack the phenomenon of migrant exchange in the relationship. There are now about one million Chinese migrants in Africa as against about two hundred and fifty thousand African migrants in China. Migration is a two-edged sword. On the credit side, migration can be a bridge between peoples as well as a major contributor to economic development. On the debit side, it can be a source of dispute between peoples and a threat to the hosts’ social stability. This paper discusses the implications of Guangzhou’s African migrants for China’s social stability and China’s relationship with Africa.

Keywords: *African migrants, Africa-China relationship, Chinese migrants, Guangzhou, social stability*

1. Introduction

Migration has become one of the recurrent themes in the Africa-China discourse. Until recently, the discourse focused on the pros and cons of the continent's economic relationship with the Chinese. The relationship remained the only "item on the agenda" until a decade ago. On 16 July 2008 over a hundred of African migrants, majority of them Nigerian, blocked the Guangyuanxi Street (廣園西路) in Guangzhou 廣州 protesting the death of a Nigerian due to injuries sustained while fleeing an immigration raid. The protest drew China's attention to "the presence of a large community of Africans in Guangzhou" (Bodomo, 2010: 696). More importantly, it drew the world's attention to one of the concomitant realities of the relationship, i.e. migration. A similar protest occurred in 2012.

The scantiness of the literature on African migrants in China and Chinese migrants in Africa prior to the protest reinforces the assertion that migration was a footnote in the discourse. Before the protest, the literature could only boast works like Li Anshan's *Social history of Chinese Overseas in Africa: selected documents, 1800-2005* (2006, in Chinese) and *A history of Overseas Chinese in Africa to 1911* (2012) as well as Bertoncello and Bredeloup's (2007) "The emergence of new African 'trading posts' in Hong Kong and Guangzhou". In contrast, the literature now teems with reams of academic publications and media reports. Among the works that have been done on Chinese migrants in Africa since the protest are: *The dragon's gift* (Brautigam, 2009), "Chinese migrants in Africa as new agents of development: An analytical framework" (Mohan and Tan-Mullins, 2009), "Are the Chinese in Africa more innovative than the Africans? Comparing Chinese and Nigerian entrepreneurial migrants' cultures of innovation" (Kohnert, 2010), "Living in between: The Chinese in South Africa"

(Park, 2012) and “South-South migration and Sino-African small traders: A comparative study of Chinese in Senegal and Africans in China” (Cissé, 2013). Similarly, some of the works that have been done on African migrants in China are: “The African enclave of Guangzhou: A case study of Xiaobeilu” (Li, Xue, Lyons and Brown, 2008), “In the dragon’s den: African traders in Guangzhou 2005-2008” (Lyons, Brown and Li, 2009), “The African presence in contemporary China” (Bodomo, 2009), “Foreign migrations to China’s city markets: The case of African merchants” (Le Bail, 2009), “The African trading community in Guangzhou: An emerging bridge for Africa-China relations” (Bodomo, 2010), “From Guangzhou to Yiwu: Emerging facets of the African diaspora in China” (Bodomo and Ma, 2010), *Africans in China: A sociocultural study and its implications on Africa-China relations* (Bodomo, 2012), “African trading posts in Guangzhou: Emergent or recurrent commercial form” (Bredeloup, 2012), “African traders in Guangzhou: Routes, reasons, profits, dreams” (Yang, 2012), “‘Agents of translation’: West African entrepreneurs in China as vectors of social change” (Marfang and Thiel, 2014), “Africans in China: The experiences from education and training” (Bodomo, 2014), “The African traveller and the Chinese customs official: Ethnic minority profiling at border check points in Hong Kong and China” (Bodomo, 2015), “Africans in Guangzhou” (Mathews, 2015), “The social construction of Guangzhou as a translocal trading place” (Giles, 2015), “African traders in Yiwu: Their trade networks and their role in the distribution of ‘Made in China’ products in Africa” (Cissé, 2015), “A ‘Wild West’ of trade? African women and men and the gendering of globalization from below in Guangzhou” (Huynh, 2015) and “African diaspora in China: Reality, research and reflection” (Li, 2015). The migrant exchange is being monitored and analysed by research fora such as the Chinese in Africa/Africans in China Research Network (CA/AC).

Migration creates diasporas (Collier, 2013: 40). For example, the trans-Atlantic slave trade created the nucleus of the huge black diaspora in the Americas. Similarly, the voluntary migration of the Chinese during the Ming 明 and Qing 清 dynasties created the huge Chinese diaspora (*huaqiao* 華僑) in the Philippines, Thailand, Malaysia, Indonesia and Singapore. By the instrumentality of inter-racial marriage, it can also create mixed-race populations such as the emergent African Chinese ethnic group in Guangzhou. As a double-edged sword, it can foster or strain relations between origin and host places. In addition, it can impinge upon the hosts' social stability.

This paper discusses the implications of Guangzhou's African migrants for China's social stability and China's relationship with Africa. The objective is to problematize migration in Africa-China relationship.

2. African Migration to China

African migration to China has its origins in Mao Zedong 毛澤東's Cold War diplomacy. The first wave of the migration began with the offer, in 1956, of four scholarships to Egyptians to study in China following the establishment of diplomatic ties between their country and China. Scholarship has been a major instrument of Chinese diplomacy in Africa ever since then. The plan to use scholarships to create the first generation of pro-Chinese Africans was constrained largely by the country's own economic conditions. There is no evidence that any of those Africans who benefitted from the scholarship diplomacy stayed behind after their studies. After all, the country's economy was such as would not have encouraged any thoughts of long-term residency. However, nowadays many African students stay behind to reconfigure themselves into economic migrants. Students have played very

important roles in fostering Africa-China relations. They have not only helped in forming the nucleus of African trader population in the country (Le Bail, 2009: 9), but also have, through proficiency in Mandarin, improved communication between their continent and China at both official and non-official levels.

Until recently, African migration has focused on North America and Western Europe (Wang, 2013: 2). The Cold War, skill-targeted immigration policies as well as colonial ties determined the focus. The focus began to diversify after the end of the Cold War so that Asia has emerged as another major destination. China is a major destination for African migration to Asia. Its African migrant population, the largest in Asia (Atanasov, 2015), has been described by Bodomo and Ma (2010: 283) as “Africa’s newest diaspora”. The population is comprised of students, traders and English-language tutors (Politzer, 2008). Traders, the majority of whom reside in Guangzhou, Yiwu 義烏 and Shanghai 上海, constitute the majority of the population (Bodomo, 2009: 4; Bodomo, 2010: 699; Bertoncello and Bredeloup, 2007: 95). Those students who stayed behind after their studies formed the nucleus of the trader population (Bodomo, 2009: 5; Bork-Huffer and Yuan-Ihle, 2014: 581; Le Bail, 2009: 9). Most of the migrants come from West Africa and the Maghreb (Davies, 2009: 3) and are found in Guangzhou, Yiwu, Shanghai and Beijing 北京.

3. A Glance at Guangzhou’s African Migrants

Guangzhou is not only the best-known Chinese, if not Asian, city in Africa, it is also “the city where the presence of Africans [in Asia] has been most thoroughly studied” (Marfaing and Thiel, 2014: 7). Its African migrants play a very important role in the export end of China’s trade relationship with Africa. The literature on its African migration, which

has grown exponentially during the last decade, is a mosaic of epistemological perspectives, drawing from disciplines such as international relations, sociology, linguistics, economics and gender studies. The migrants are a focus of media attention too. The city is attractive for African migrants because of its generally warm weather, commercial ambience and social networks which can aid adaptation. The migrants, whose number has eluded approximation, have established “enclaves” along colonial language and religious lines. For example, most English-speaking and Christian migrants transact their businesses in the San Yuan Li 三元里 district, while most French-speaking and Muslim migrants transact theirs in the Xiaobei 小北 and Yuexiu 越秀 districts (Lan, 2016: 5).

The presence of a large African migrant population in Guangzhou is a two-edged sword. On the one hand, it can help to further China’s relationship with Africa. On the other hand, it can have grave implications not only for China’s social stability but also for China’s relationship with Africa. The implications are the thesis of this paper.

4. Deviancy and Agitation for Social Inclusion

Marriage into the host community is a strategy for dealing with the challenge of migrant adaptation. Male migrants use the strategy more than female migrants do. The strategy is in wide use by African migrants in Guangzhou.

African-Chinese marriage, whose stock has been on the rise since the 2008 street protest (interview, 2016), is one of the factors that are gradually changing Guangzhou’s ethno-cultural landscape. Typically, an African-Chinese marriage involves a reasonably educated African and a barely educated Han 漢 Chinese from a poor, rural family, who had worked as a *fuwuyuan* 服務員 (shop attendant or waitress) or a rich

unmarried woman derisively called *shengnü* 剩女 (“marriage leftovers”, “glut mistress”). Marriage between the migrants and ethnic minorities or young, reasonably educated Hans is rare because the ethnic minorities, especially the Uighurs, tend towards endogamy, while young, reasonably educated Hans would not want to “marry down”.

African-Chinese marriage is generally a marriage of convenience. Mostly a migrant will want to use it to negotiate immigration obstacles, while the spouse will want to use it to move up the economic ladder (Marsh, 2014), circumvent the country’s one-child policy or bail out of the stigma of late marriage. Inter-marriage does not win a permanent residency, let alone Chinese citizenship; and some women would instigate the deportation of their spouses so they could appropriate their family business.

African Chinese, whose number is estimated at two hundred¹ (CCTV America, 2015), bear African names such as Chioma and Nnenna. Their birthright (Chinese) citizenship makes them eligible for state-subsidized education, healthcare, transport, etc. Only few of them can speak African tongues. They face an uncertain future in the country. Deportation, death, desertion, divorce or voluntary return to Africa usually results in many of them being raised as “technical orphans” by single mothers. In the event of deportation or voluntary return, most wives would be most reluctant to join their husbands in Africa. “Technical widows” – those who have lost their spouses due to any of the aforementioned eventualities, excepting death – who find it difficult to support their children might abandon or traffic them (interview, 2011). Those Chinese who regard spousal loss as a visitation for marrying a “*hei gui*” (黑鬼, “black devil”) would be so reluctant to help any intermarried relative raise her “technical orphans”. A migrant father can lose the chance of re-union with his children if their separation occurred when the children were still too young to know who he was (interview,

2015).

The inability of most single mothers to give their children the good preparation they will need to be able to compete in a country where they are most likely to be treated as an ethnic minority can predispose the children to delinquency and social maladjustment. Most “technical widows” remain in the city, leaving the children in the care of their grandparents in the rural area. They remain in the city in order to earn the money they can remit to the grandparents for the children’s upkeep. Single parenting has grave implications for children’s psychological development. According to Ablow (2012), children from single-parent homes may face not only poverty but also a higher rate of depression and behavioral disturbances.

African Chinese’s exposure to racism is already an issue in China’s ethnicity discourse, as evidenced by the incident involving Lou Jing 婁婧, a TV show star who was raised by a single mother that had been deserted by her black American spouse even before Jing’s birth in 1989. Lou became “a national sensation” following her participation in a Chinese reality television show called “Go! Oriental Angel” (《加油! 東方天使》). As an CNN report commented, it was not necessarily her talent, but her skin colour that propelled her into the limelight.² African Chinese already encounter racial discrimination at school and on the streets (interview, July 2016); and racial discrimination can easily suck its victims into a life of crime.

Agitation by African Chinese for social inclusion in the future is already receiving attention from researchers. For example, Bodomo (2010: 694) posited that “in 100 years’ time an African-Chinese Minority Ethnic Group could be demanding self-identity and full citizenship rights in the heart of Guangzhou and other major cities.” This timeframe, however, is too generous and elastic. A more realistic timeframe would be the next twenty years by which time most of the children would have

attained adulthood and acquired the wherewithal with which they can force attention to any demand for social inclusion.

Agitation by Guangzhou's African Chinese for social inclusion can have two implications for China's social stability. Firstly, it can aggravate the tension that already exists between the Hans and ethnic minorities and create tension between African Chinese and the other ethnicities as well. Minorities might want to make common cause with African Chinese against the Hans – an alliance that can escalate ethnic tension in Xinjiang and Tibet Autonomous Regions. In addition, African Chinese can receive external support from Africans and African Americans against the other ethnicities. If externalized, the agitation can easily degenerate into a protracted rebellion. Secondly, it can redound to political activism on the Mainland and anti-Chinese sentiment in Hong Kong. Political activism has been gaining momentum since the Tiananmen Square (天安門廣場) protests.

5. Xenophobia

Xenophobia is a concomitant of migration. Hosts exhibit territorial behavior, resenting all forms of competition with outsiders for jobs, social amenities, romance, socio-cultural and political space, etc. Such resentment is universal and often shades into xenophobia.

Xenophobic violence against African migrants in Guangzhou is undoubtedly loading. It is likely to be triggered by resentment against the migrants' encroachment on the hosts' romantic and commercial space. According to Marsh (2014), the Chinese generally resent African-Chinese marriage. Interestingly, romantic escapade caused the only openly expressed anti-African sentiment that has occurred in the country – the 1998-99 club brawl involving Chinese and African students at Nanking universities. The brawl nearly ruptured China's diplomatic

relationship with African countries such as Ghana.³

The other factor that could trigger xenophobic violence is the fierce struggle for the control of the commercial space. Until recently, the Chinese controlled the link between Chinese manufacturers and traders coming from Africa. In fact, African traders and African migrants nearly completely relied on local wholesalers to access manufacturers. However, the monopoly is being eroded by the involvement of certain migrants, especially members of migrant sales representatives' associations such as Association of Nigeria Registered Company Operators in China (ANRCOC), in that critical segment of the supply chain. According to IK, a leading member of ANRCOC (interview, December 2016), resentment exists but only subtly. Most Africans going to Guangzhou now rely on migrant intermediaries to buy from manufacturers. Most intermediaries use their Chinese spouses or girlfriends to link with manufacturers. Territorial behavior by resentful hosts can explode into xenophobic violence in the near future. Such violence can spread to other cities with sizable migrant populations such as Yiwu, Beijing and Shanghai.

6. Drug trafficking

Guangzhou's African migrant economy is three-quarters legitimate trade and one-quarter drug trafficking, Internet fraud and prostitution. Legal migrants dominate legitimate trade, illegal migrants the other three economic engagements. Chinese spouses and girlfriends are widely used to retail drugs and to handle Internet fraud receipts and remittances. West Africans dominate drug trafficking and Internet fraud, East Africans prostitution (interview, 2016).

The majority of African migrants involved in China's drug trade operate at the distribution end of the trade. Only a few migrants operate

at the smuggling end. Supply mostly comes from Guangdong's illicit drug factories, Hong Kong, neighbouring countries and South America. Supply from Africa is small and mostly consists of marijuana cultivated on the continent and re-exported imports from South America. Chinese spouses and girlfriends mostly handle distribution, which helps to cover tracks for the migrants. About ninety-five percent of African prison inmates engaged in drug trafficking. Guangzhou prisons have the largest number of inmates, which indicates that the majority of drug-dealing migrants reside in Guangzhou. Drug trafficking is one of the reasons for introducing tougher residency requirements for African migrants in the country.

China's tough attitude towards drug trafficking is a product of history. According to Zhang and Chin (2016: 2), "Illicit drug dealing and consumption are highly stigmatized in China because of its bitter history. All Chinese governments in the past 150 years [since the Opium War], irrespective of their political persuasions, have tried various harsh measures in curtailing drug use and trade, and the society at large holds drug addicts in disrepute and considers it a failure of the family." The Opium War, which led to the partial colonization of the country and the forcible opening up of Guangzhou, Ningbo 寧波, Xiamen 廈門, Fuzhou 福州 and Shanghai to foreign trade, is considered "the beginning not only of modern Chinese history but of national humiliation" (Schurmann and Schell, 1967: 131). It is among the factors that have shaped China's attitude towards foreigners.

African drug gangs operating in Guangzhou are among the drug gangs being targeted under China's massive crackdown on illegal drug trafficking. They operate in collusion with Chinese gangs. For example, the drug gang that was busted at Liuhua Hotel (流花賓館) in Yuexiu district in 2013 consisted of Africans and Chinese.⁴ Gang violence involving both the migrants and their Chinese partners already exists in

the city (interview, 2016). The gangs can jeopardise the municipal economy by scaring away international traders or by demanding protection money from residents. Struggle to control the trade can spawn brutalities like the ones Mexico is grappling with. It can also spawn gangsterism and street violence among non-drug dealers.

7. China-Africa Relationship

Migration has emerged in this age of globalization as one of the factors that define relations among nations. They can foster relationship between receiving and sending countries. For example, the U.S.'s centuries-old friendship with Britain is largely a result of migration. At the same time, they can be a source of misunderstanding between countries. For example, "An international conflict can arise when a government classifies individuals as refugees with a well-founded fear of persecution and has therefore implicitly accused their country of origin of engaging in persecution. In other words, the mere granting of asylum can create an antagonistic relationship." (Weiner, 1995: 137).

African migrants in Guangzhou can strain China's relationship with Africa if their home countries should think that they are victims of unfavourable immigration regulations. Unfavourable immigration regulations by China can influence African countries' attitude towards Chinese migrants. According to Marsh (2014), "African states – home to millions of Chinese, also often undocumented – are watching closely to see how their citizens are treated on mainland soil." African countries will condemn the involvement of their nationals in the drug trade. Still they will protest their detention or execution as well as China's refusal of their proposal for prisoner exchange agreement. Demands by citizens and organisations such as the United Nations that states protect nationals facing execution abroad can harden Africa's attitude towards Chinese

migrants.

African Chinese can become a formidable group in China in the next few decades. Their agitation for social inclusion can be easily transnationalized with support from Africans and the African diaspora in Europe and the Americas. African support can come from both the state and separatist movements such as the Independent People of Biafra (IPOB). Transnationalized agitation can exacerbate China's ethnic tension. It can also test its policy of non-interference in the internal affairs of other countries.

8. Conclusion and Suggestions

Africa and China are beginning to feel the full impact of migration, which had hitherto been treated like a footnote in their relationship's discourse. African migration is mostly self-sponsored. On the contrary, Chinese migration is mostly quasi-state-sponsored. Migration can enrich the relationship. At the same time, it can strain the relationship and, additionally, impinge upon the hosts' social stability. African migrants in Guangzhou are receiving a lot of the attention focused on the migrant exchange because of their adaptation challenges. Their recourse to intermarriage as an adaptation strategy and the engagement of a few migrants in drugs, Internet fraud and prostitution can impinge upon China's social stability and China's relationship with Africa.

Since migration has become a fact of their relationship, Africa and China should consider the following actions. Firstly, they should begin to treat migration as a policy matter at bilateral and multilateral levels of interaction. For example, the phenomenon should become an agenda item at the Forum on China-Africa Cooperation (FOCAC). Secondly, they should begin to fund research on the phenomenon. The West, not Africa or China, have funded most of the research that has been done on

Africans in China and the Chinese in Africa. For example, the Chinese in Africa/Africans in China Research Network (CA/AC) is funded by the Henry Luce Foundation of America. Thirdly, Africa should adopt a set of “quality control” measures to ensure that only people with genuine aspirations are allowed to travel to China. Likewise, China should take steps to address complaints about migrant labour exportation to the continent. In addition, it should slacken its attitude towards African migrants, given the fact that African migrants are very important to its economic relationship with Africa. Its one-size-fits-all approaches to its African “migrant crisis” have made it difficult for it to adopt measures to aid the adaptation of migrants with genuine aspirations. More importantly, it should quickly come to terms with the fact that it is now both a leading migrant-giving and migrant-receiving country. By so doing it can better handle its African “migrant crisis” as well as prepare itself for the eventuality of agitation for social inclusion by its emerging African Chinese population.

Notes

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Policy Comments

Exposing the “One China” Principle⁺

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Abstract

In 1992, when the governments from both sides across the Taiwan Strait began having contacts, both of them, at the People’s Republic of China (PRC)’s request, expressed verbally, and in relation to functional issues, that they advocated the “one China” principle, though what “one China” actually meant was open to different interpretations, and the shift that elevated the 1992 “one China” interpretations from the functional level to the political level did not occur until April 2005. Since President Tsai Ing-wen was sworn in and the Democratic Progressive Party (DPP) became the ruling party of the Republic of China (ROC) on Taiwan in early 2016, the PRC has used Tsai’s rejection of this so-called “1992 consensus” as a pretext to discontinue all intergovernmental communication channels with the ROC on Taiwan, while also cutting down on cross-strait civil exchanges in travel and education. This thinkpiece article aims to scrutinise this “one China” principle, how it has developed over the years, and expose its underlying realities.

Keywords: *“one China” principle, “1992 consensus”, Taiwan, China, ROC, PRC*

Although nothing earth-shaking has happened in relations across the Taiwan Strait since President Tsai Ing-wen 蔡英文 was sworn in and the Democratic Progressive Party (民主進步黨 / 民進黨, DPP) became the ruling party of the Republic of China (中華民國, ROC) on Taiwan 臺灣, there has indeed been a tectonic shift. In order to teach Taiwanese a lesson for the choices they made in the presidential and legislative elections earlier this year, the People's Republic of China (中華人民共和國, PRC) has used Tsai's rejection of the so-called "1992 consensus" (九二共識) as a pretext to discontinue all intergovernmental communication channels with the ROC on Taiwan, while also cutting down on cross-strait civil exchanges in travel and education.

As for exchanges at the local level, they are probably only continuing for the few cities and counties still governed by the Chinese Nationalist Party / Kuomintang (中國國民黨, KMT). There is a cold wind blowing from China, and it keeps pushing Taiwanese people's sentiments further out into the Pacific Ocean.

The PRC felt that Tsai failed to address its idea of the "1992 consensus", namely that both sides of the Taiwan Strait belong to "one China", in her inaugural address and it therefore found her speech unacceptable.

Believing that the political foundation of cross-strait relations – the "1992 consensus" and "one China" – has been demolished, the PRC announced that it is no longer necessary to respect the cross-strait "status quo" and all related deals and arrangements can be overturned.

In 1992, when the governments from both sides began having contacts, both of them, at China's request, expressed verbally, and in relation to functional issues, that they advocated the "one China" principle, though what "one China" actually meant was open to different interpretations. Taiwan maintained that it had the right to interpret what

“one China” meant in its own way, while China refused to elaborate on what “one China” meant in meetings dealing with functional matters.

Although the two sides had different conditions in their interpretations of what “one China” meant, they both also recognized and respected the differences between them. Experience since then shows that seeking common ground and agreeing to differ has been the rule of thumb for maintaining peaceful development in cross-strait relations.

However, what is worth noting is that both sides’ statements in 1992 about conducting cross-strait relations on the basis of “one China” were made at the level of functional matters, as at that time political dialogue and negotiations were not yet part of the cross-strait political agenda.

The shift that elevated the 1992 “one China” interpretations from the functional level to the political level did not occur until April 2005, with the publication of a media release of a meeting between then-general secretary of the Chinese Communist Party (中國共產黨, CCP) Hu Jintao 胡錦濤 and then-chairman of the KMT Lien Chan 連戰 in which they announced their “vision for cross-strait peace”.

In their joint statement, the KMT and CCP declared their adherence to the “1992 consensus”, further calling for it to be taken as the political foundation for resuming cross-strait negotiations on an equal footing and going on to negotiate for the signing of a peace accord, as well as for conducting economic exchanges.

Replacing the unilateral statements about “one China” made by both sides in 1992 with the so-called “1992 consensus” was the brilliant idea of former Mainland Affairs Council (大陸委員會, MAC) chairman Su Chi 蘇起, whose purpose was to use a fictional consensus with ambiguous contents to replace the term “one China”, thereby circumventing the central point of disagreement between the two sides.

The “1992 consensus” was invented with good intentions, but it is very naive to think that it could be used to resolve the “one China” controversy with the PRC.

After former president Ma Ying-jeou 馬英九 came into office in May 2008, he ordered the Straits Exchange Foundation (海峽交流基金會 / 海基會) to send a letter to the PRC’s Association for Relations Across the Taiwan Strait (海峽兩岸關係協會 / 海協會), saying that he was willing to take the “1992 consensus” as the political foundation for the two sides of the Taiwan Strait to resume talks on an equal footing.

His letter was well received, and as a result the “vision for cross-strait peace” was elevated to become the KMT government’s blueprint for its cross-strait policies.

However, if there really was a “1992 consensus”, it gives rise to a problem. In 1992 the two sides held their meeting in Hong Kong only to address the political preconditions for holding talks at the level of functional matters, so the PRC’s unilateral view that the consensus implied that there was only “one China” could be set aside.

However, when the two sides move on to talks involving political dialogue and negotiations, the political implications of “one China” can no longer be left out of the discussion.

The question then is, have the governments on the two sides or the KMT and the CCP reached any consensus since 1992 about what “one China” means? Has the ROC ever given up its right to have its own interpretation? Has the PRC ever recognized the ROC or changed its political interpretation of what “one China” means? If not, how can the historical reality of the meeting held in Hong Kong in 1992 and the so-called “1992 consensus” be applied, and their implications extended, all the way to the level of political discourses and negotiations?

This is especially true of matters that involve sovereignty issues, including economic cooperation, communication mechanisms and all the other aspects of cross-strait governance, up to and including negotiations for a peace treaty.

It is not an overstatement to say the CCP has changed the essence of the so-called “1992 consensus”, but the KMT acquiesced to what the CCP wanted, repeatedly undermining the nation’s status. In so doing, the KMT drew the disdain of the Taiwanese public and was eventually voted out of office.

The DPP has never accepted the imaginary “1992 consensus”, just as the PRC has never accepted that the “1992 consensus” equals “one China” with each side having its own interpretation.

However, despite doggedly rejecting the “1992 consensus”, the DPP does not oppose the idea of “one China, with each side having its own interpretation” (一個中國，各自表述 / 一中各表).

When the PRC and the KMT are observing the DPP, they cannot ignore this fact and define the DPP with a simplistic “Taiwanese independence” label. The DPP has never denied that the PRC and the ROC exist side by side. As to whether this coexistence should be defined as “two Chinas”, “one Taiwan and one China”, “one country, two systems”, “one country, two governments” or “special state-to-state relations”, that is a question of legal definition and nomenclature.

The DPP’s position regarding Taiwan’s constitutional order is very clear. According to the Constitution of the ROC, the national title of this country is the Republic of China.

However, the Constitution was originally designed for the governance of the Chinese mainland. Because of the divided rule of the two sides of the Taiwan Strait, a general characteristic of divided countries arose, namely consistency between the rival constitutions

regarding national territory, but inconsistency as to the actual jurisdiction of the two sides' constitutions.

Based on the principle of popular democracy, the DPP advocates clearly defining the extent of the constitution's jurisdiction, so as to clearly establish the extent of territory over which the state wields governing power. It further advocates reorganizing the ROC's system of constitutional government to meet the needs of Taiwan's governance. Is that not what a constitutionally governed state is supposed to do?

More importantly, based on Taiwanese people's right to take part in international affairs, the DPP wants to uphold the ROC's status in international law and protect its dignity. Is this not precisely the duty of the president and government of a sovereign state?

The PRC is opposed to "one China, with each side having its own interpretation" and insists that "the two sides of the Taiwan Strait both belong to one China", and it uses the "1992 consensus" to lure Taiwan into its trap. In so doing, the PRC is using its advantage in conventional international law of representing the one and only China. If the time comes when the ROC accepts the "one China" principle without any reservations, the PRC will obtain the absolute right to represent China, eradicating the remaining vestiges of the ROC's international status.

How can the president of the ROC be expected to give up so much and sell out Taiwanese sovereignty over something as vague as the "1992 consensus"?

The point on which Tsai is more progressive than Ma is that she responds to Taiwanese's profound expectations by wanting to clarify the implications of "one China" and clearly state Taiwan's standpoints. She rejects the vague "1992 consensus" and wants to reveal the historical truth about the 1992 talks in Hong Kong.

In her inaugural speech she told China in no uncertain terms that the ROC is a sovereign and independent nation. She says that the

Constitution of the ROC and its Additional Articles (增修條文) and the terms of the Act Governing Relations between the People of the Taiwan Area and the Mainland Area (台灣地區與大陸地區人民關係條例), which was drawn up and enacted in accordance with the Constitution, represent the ROC’s standpoints on the definition of cross-strait relations.

As a DPP president of the ROC, she has made it clear that she does not intend to start amending these constitutional laws, write a Taiwanese constitution or change the nation’s official title.

She wants to maintain the “status quo,” which means upholding all existing cross-strait agreements, and she will not challenge the PRC’s status of representing China in the international legal order centered on the United Nations.

Tsai has described Taiwan’s standpoints very precisely and she has clearly expressed what Taiwanese want to say. No matter how China defines Taiwan, with respect to cross-strait relations, the PRC must pay attention to the ROC, even if the ROC’s international status is a shadow of its former self. If it does not, China’s insistence on avoiding the issue of the ROC will make it hard to plan out and implement further developments in cross-strait relations.

The “1992 consensus”, the “one China” principle and the claim that “both sides of the Taiwan Strait belong to one China” are all sugarcoated pills. As far as the PRC is concerned, the political meaning of “one China” does not include the existence of the ROC, but this attitude is not based in reality.

In stating the legal and factual aspects of cross-strait relations, Tsai has exposed China’s intrigue.

Embarrassed and angry at the same time, China has responded by overturning all aspects of the cross-strait “status quo” and, having done so, is shrugging off its own responsibility and putting the blame on Tsai.

Notes

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Research Notes

Prospects for the Internationalization of Taiwanese and Chinese Higher Education

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Abstract

The declining birth rate throughout Asia has serious consequences that require sound strategies in the business of education. This study explores ways in which Taiwanese and Chinese institutions may expand their offer abroad. The analysis of a sample of experiences in Myanmar, Vietnam and Cambodia suggests that successful market entry results from educational regulatory constraints of the host countries, as well as socio-cultural preferences influencing student choices. Taiwanese and Chinese private universities must plan carefully for a successful

expansion of their graduate programs towards Southeast Asian populations.

Keywords: *graduate education, Asia-Pacific, higher education*

1. The Current Market for Education in Asia

Because education entails investments in time and money from students, they carefully choose their university names and degree programs. Over the last decade, the demand for international graduate programs throughout Asia – chiefly of Western, English-speaking countries – has been expanding fast. Equipped with foreign degrees, youngsters aggressively compete for international, sexy-sounding jobs. Rumor has it that they should receive higher pay when they graduate from a foreign university, which somewhat makes sense for the most motivated of these little tigers – they are statistically more likely to land a job in a multinational company.

For academics and businessmen alike, such voracious appetite for degrees translates into incredible business opportunities. In China and Taiwan, successful alumni become models, living testimonials who emphasize the quality and integrity of international degree programs such as the MBA or the PhD. This study looks at the international expansion of graduate education through the experiences of Chinese and Taiwanese institutions. Data is collected through in-depth interviews of educational administrators, as well as the opinions of the students enrolled in the corresponding graduate programs.

2. Origins and Growth of Overseas Satellite Campuses

The declining birth rate in Asia is a matter of concern for the future of education. The resulting decline in undergraduate enrolment has led

educational institutions and the governments to focus on graduate education. With fewer students in the undergraduate age group, Asian universities remain in business by implementing a market development strategy, namely by selling more postgraduate programs.

The success of British and American overseas campuses is largely due to the establishment of English as a global *lingua franca*. These satellite campuses extend long-standing arrangements for recruiting international students and build on existing alliances. Historically, the US model of an overseas campus featured a small centre dedicated to short-stay arrangements for expatriates (CERI, 2004: 121). However, today Asia has become the focus of growth in international branch campuses after more than a decade of rapid expansion in the Middle East. Developing countries have also begun to establish international branch campuses in other developing regions (Sharma, 2012).

However, fewer than 5% of students globally travel abroad to branch campuses for their education, and this figure will probably not increase much. A major issue in building a satellite campus relates to the balance between standardisation and adaptation. How much should be identical across campuses, and how much should differ? You do not joke with education. You take it seriously. Think of your own children – would you rather have them taught by Mickey Mouse, or by Albert Einstein? Better play hard with the former outside campus, and work hard with the latter inside, right? So those institutions that provide education must accept a *responsibility* to ensure consistency in the *quality* and *standards* of their offering. Playing around with Mickey is fine, as long as you get back to work when it is time to.

The first idea is to analyse the forces of globalization that underlie the growth of branch campuses from the 1990s onwards. In fact, educational trade must be seen as a tool for soft power. You read that correctly. The central mission of overseas campuses, first and foremost,

is of cultural colonization. When Pink Floyd sang “we don’t need no education, we don’t need no thought control”, they anticipated the application of market rules to education, whereby students become customers and degrees are bought and sold. Most international branch campuses are located throughout Asia and the Middle East, in regions such as the United Arab Emirates, Qatar, Saudi Arabia, Singapore and Malaysia. These moves are mostly market-driven; approximately two-thirds of new universities in the Arab Middle East are private and nearly half are branches of Western, English-speaking institutions. It is time for Taiwan, Thailand and other Asian countries to reclaim their influence on the educational world and intensify their soft power. It is also time to put an end to the brain drain and lure Asian students to stay by receiving a foreign degree at home at considerably lower cost. We all know we can make it. All we have to do is to want it badly.

3. Methodology

We have combined interviews and data collected from questionnaires circulated over the social media (Facebook and Messenger-type applications, like Line and WhatsApp) to a total of 17 managers, educators, investment advisors, potential investors, lecturers and graduate students of international partner institutions. Content analysis was carried out on most of the data thus obtained. Questionnaires specifically targeted opinions about degrees from Chinese-program universities, including (but not limited to) this kind of issues:

- How strong is a degree in Chinese?
- Do you have reservations about education programs from China or Taiwan?
- Why do you think students will choose this Taiwanese/Chinese university’s MBA in Myanmar, Vietnam, Cambodia, rather than a

degree from another country?

- How good is a Taiwanese university's MBA training for Myanmar, Vietnamese or Cambodian students' future job?
- What part of the experience of this MBA would students remember?

4. Findings

4.1. Potential for Satellites of Taiwanese and Chinese Universities

There are opportunities to export Chinese language and culture abroad, through university education. Taiwan universities are planning to expand in Southeast Asia, particularly to ASEAN (Association of Southeast Asian Nations) and CLMV (Cambodia, Laos, Myanmar and Vietnam) markets. In Taiwan, regular staff visits and meetings help getting the working atmosphere right (Ennew, 2014). To demonstrate the competitiveness and excellence of Taiwan private university's educational quality, the section below introduces I-Shou University (義守大學, ISU) as an illustration of the potential of Taiwanese higher education for setting up overseas satellite campus. The case is based on three formal interviews and personal communication with top managers and senior academic staff.

Established in 1986, ISU is located in the suburban setting of the medium-sized town of Dashu (大樹區, population range: 10,000-49,999 inhabitants) in Kaohsiung 高雄. Officially accredited by the Ministry of Education of the Republic of China and a sort of association of business schools (AACSB), ISU is a large higher education institution. The enrollment range last year was between 10,000 and 15,000 students. ISU offers courses and programs leading to recognized degrees such as bachelor degrees, master degrees, and doctorate degrees in several areas of study. ISU emphasizes its drastic admission policy based on students' past academic record and grades, whereby international applicants are

eligible to apply for enrollment but will only be accepted *if they demonstrate the intellectual power and creativity of the brightest minds* to impress the selection committee. ISU's stated mission is to train future business leaders and artistic geniuses, an objective with which it recruits students from Mongolia, Vietnam, Korea, France, Haiti, Honduras, Japan, China, Thailand, Malaysia, Papua New Guinea and other countries. Unfortunately, since most of these students – save the Chinese and the Malaysian – come along with an extremely poor or even inexistent level of Chinese, they are doomed to follow whatever course is taught in English. Students are said to choose the university because it had early mover advantage and competent local recruitment from a trusted source, but increasing competition is making its position less secure.

The trouble is, the majority of teachers delivering courses in English are not native speakers of English, and students have no choice but struggle to understand the poor grammar and bizarre accent of staff from all over Europe and elsewhere. With teachers who deliver a lot alright, but in poor English and strange accent, and exchange students unable to say “hello” or “thank you” in Chinese, imagine the picture ... *Where are we at here? What is going on? Is there a pedagogical algorithm of some sort to sort out this mess?*

It is quite clear that students take both the program and the school fees in consideration when applying. Experts in student recruitment have over the years refined Taiwan's strategy for attracting local and international students to the Taiwanese IMBA program, rather than alternative offers from the UK or the US. It is constantly stressed that newcomers will feel more comfortable in an English-taught program that still follows Taiwanese administrative regulations, including a denser timetable with a higher number of classes and seminars, full availability of teachers, respect of national holidays such as the Dragon Boat

Festival and the Chinese New Year (when Western institutions tend to celebrate Christmas, Halloween and other pagan events), and better care for students broadly speaking.

Full devotion to helping graduate students find the job that best suits their needs is important. For those who wish to stay in Taiwan, ISU emphasizes its solid connections with industries in the E-United group, of which the university itself is a part, and that students looking for jobs in the steel industry, entertainment business and tourism will find incredible opportunities as soon as they graduate. Those who are seeking international careers can refer to the university's International Office, which in recent years has developed relationships with 134 businesses in over 12 countries, ranging from Mongolia to Haiti and Honduras. The university also emphasizes that its IMBA's reputation transfers management and leadership skills that usually exceeds employers' expectations, whether locally or on a global scale.

Degrees from Chinese universities have been improving in the recent past, but they still cannot compare to what are offered in Taiwan. The main reason is their culture of censorship – when you cannot google information or find people on Facebook and other global networks, you leave a large part of the world in an obscure chaos, and this world will be happy to move on without you. In Taiwan, by contrast, students are encouraged to be curious and willing to learn from the world outside. The students from Myanmar, Vietnam and Cambodia who study in Taiwan's universities are clearly aware of this limitation in China.

From the case study above, it is evident that the road ahead is strewn with some of the toughest challenges, which include attracting and retaining host campus faculty, replicating the diversity and excellence of the student body, and countless issues related to adaptation and the management of soft power. But the opportunities are priceless, in particular for university-industry collaborations. For instance, Yao-Tsung

Chih, the Education Counselor of the Department of International and Cross-strait Education at the Ministry of Education (MOE) in Taiwan, said that the MOE offered many opportunities for overseas Chinese students to work or continue studying in Taiwan after graduation. Yes, here is just one of the benefits of establishing and maintaining branch campuses! Students are able to apply and stay in Taiwan for work as long as they pass the assessment. Su-Zhen Lu, Deputy Director of the Overseas Community Affairs Council (中華民國僑務委員會, OCAC), provided a Facebook account for the students to access event information relevant to the OCAC. Heng-Li Ho, a student from Macau, said that overseas Chinese students received great care from Asia University while they were studying in Taiwan. He regards Taiwan and Asia University as his second home and thanks Asia University for everything it did for overseas Chinese students (Chang, 2015). Now imagine this sort of feeling becomes the rule rather than the exception! The Taiwanese initiatives show that the provision of graduate education for foreign students always represents a sound strategy for consolidating university-industry collaborations independently of any ethical considerations.

4.2. Southeast Asian Students' Experience of Chinese and Taiwanese Higher Education

4.2.1. Myanmar

Sadly, Myanmar graduate students associate Chinese universities with poor English, and feel somewhat daunted by the prospect of Chinese language requirements. One of them confides:

Chinese universities [...] opened schools in Mandalay. But teaching is in Chinese, it's not for me. I'm not good enough.

Another agrees:

I'd like to study in a Chinese university, but I'm not very good at languages. Chinese is the greatest barrier for Myanmar students like me.

From another perspective however, a Chinese degree is highly desirable for Myanmar students, given the power of Chinese investments in their country. A famous British professor whose name we cannot reveal suggests that

... many students have thought about the possibility of going to China. Mandalay is flooded with Chinese people now, who control shopping centers, hotels, hospitals and many other things.

When university ranking comes into consideration, students prefer to go to China rather than attend a satellite campus at home. They usually emphasize the outstanding character of the experience:

Regarding Chinese universities, I would like to choose an MBA program from a highly ranked institution, because they are internationally recognized and are taught in English. But I am in doubt regarding the quality of other Chinese universities ... Overall, I'd rather study in China.

Unfortunately, this perception of Chinese products can also extend to Chinese education services:

Chinese universities are not as popular in Myanmar as Thai universities. Don't ask me why.

4.2.2. Cambodia

An investor in Taiwanese universities believes that MBA programs are similar across the world, and that only teachers can make a difference:

The only real difference is in the quality of the faculty delivering the courses. We have mixed levels of ability in this case, in part because of low budget for hiring faulty members where we do not have in-house capacity.

He also argues that the Thai language is still a requirement, because Cambodians focus on working for Thai companies. And even though competence in Chinese is useful when communicating with Chinese business partners and clients,

Chinese universities should also teach Thai, and use Chinese to represent Thai companies when dealing with Chinese business partners. From my experience, Cambodians are interested in learning Chinese: even my maid can speak some Chinese. But the emphasis on Thai is because Thai people do not use English. So if Cambodians can speak Chinese to Thai people, they will have more job opportunities!

4.2.3. Vietnam

Because Vietnam is historically and culturally closely linked with China, and continues to have high trade volumes with China, a Vietnamese would normally prefer a Chinese degree over a Thai degree:

Chinese Universities may be a better option than Thai ones; putting politics aside, the Chinese and the Vietnamese have excellent trade relationships. Many Vietnamese people are now learning Chinese.

5. Conclusion

In this paper, we have highlighted economic and geographical factors that have an impact on youngsters' decisions related to their education. While Myanmar and Cambodian students still have a preference for Thai degree programs, Vietnamese students tends to favor Chinese and Taiwanese degrees.

Notes

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Book Reviews

Book Review

Ivan Tselichtchev, *China versus the West: The Global Power Shift of the 21st Century*, Singapore: John Wiley & Sons Singapore Pte. Ltd., 2012, 227 pp. + xxviii.

This is a very interesting book regarding the relationship between China and the West focussing on several different aspects: economy, society and politics. This book is made up of 19 chapters and divided into 3 parts. Part 1 covers chapter 1 to chapter 8 which are mainly about the current status and future development of China as the world's leading producing, exporting and financial power. In Part 2, from Chapter 9 to Chapter 14, Western capitalism and Chinese capitalism are discussed in depth especially during the global downturn and beyond. The author summarizes a very thought-provoking conclusion about who is the winner in the China-West Economic Wars in Part 3, from Chapter 15 and Chapter 19.

In the first part, the author predicts that the non-Western countries will become the world's largest economies by 2030. The gross domestic product (GDP) at current prices is compared between United States and China as the index increased by 1.7 fold for the former and 8.6 fold for the latter between 2001 and 2015 (Chapter 1). The incredible rise in GDP is closely linked to the rapid development of China's exports and financial power. China not only turns herself into the world's largest producer of a wide variety of manufacturing goods which are mostly

labour-intensive and low-end such as clothing, textiles, footwear and toys (Chapter 2), she also becomes the largest exporter in merchandise exports. China is now transformed from the world's leading exporter towards the dominant exporter and she also upgrades the quality of her exports aggressively (Chapter 3). However, a sharp contrast can be noticed as the Western exports shrank dramatically in recent years.

Nevertheless, China has a comparative advantage in the light industries especially those from the first segment in market such as a wide range of T-shirts, toys, kitchenware and so on. Moreover, this segment guarantees a huge trade surplus, mostly contributed by the private domestic enterprises to the country (Chapter 4). The gradual increase in labour and production costs of China have prompted the low-cost production to be shifted to the next row, but China is an extraordinary case because the different development levels between the eastern coastal provinces and the inland provinces enable China to still dominate the first-segment products while gradually moving towards the second-segment products as the labour cost in the inland provinces is considered still low and the market size easily beats the other next-row countries (Chapter 5). Even so China has not been retarded at this stage, but eagerly expands the differentiated goods through purchasing the internationally famous Western companies such as IBM PCs, TCL TVs and so on during the 2000s. Since the 2000s, the Chinese firms have moved towards the high-end products which require product upgrading, technology innovation and highly educated talents, and the two most significant examples are Huawei 華為 and Haier 海爾 (Chapter 5). The emergence of the vibrant Chinese economy has benefited not only the Chinese domestic companies, but also the Western multinationals which use the Chinese production platform and the Western non-multinationals which make differentiated high-end products and export to the emerging markets. Instead of grumbling about the strong competitions from

Chinese firms, the Western non-multinationals who manufacture the low-competitive mass products should take aggressive actions to differentiate their products or become multinational and relocate their production base in China. The Western non-multinationals will need appropriate aid from the government such as the export promotion policy and not just the punitive import policies to succeed.

On the other hand, the rise of the Chinese households' incomes and the mushrooming of the Chinese middle class have led to an increase of aggregate imports. Japan, South Korea and Taiwan currently become the largest exporters of capital goods to China. However, the purchasing power of the Chinese middle class is much lower than the international standard and their major market is still dominated by domestic companies (Chapter 6). Although the Chinese service exports increased from 11th position to 5th between 2000 and 2009, the West still has a significant competitive edge over China. The Western service providers may expand to the Chinese market for three main reasons: the backward development of the Chinese service sector, the growing of consumers' awareness among the Chinese and the weak Chinese domestic service companies (Chapter 7). Nevertheless, China is not considered as a financial superpower according to the author because the wealth of the nation does not represent the wealth of the citizens. China currently has the world's largest foreign reserves in which 71 percent of overseas gross financial assets is made up of foreign exchange reserves (Chapter 8). The high foreign reserves not only bring stress on the Western countries, but may also threaten the Chinese economy as the high foreign reserves may lead to the rising of inflationary pressures. The author criticizes that instead of owning the high foreign reserves, the Chinese government should spend the foreign reserves in the domestic development projects as many of the Chinese regions are still underdeveloped. The outbound foreign direct investment (FDI) is

considered low in China as almost two thirds of it flows into Hong Kong. Besides that, a different pattern is observed in the acquisitions because the Chinese authority mostly invests in the mining industry and high-technology manufacturing firms while the Chinese private firms invest in different countries in seeking lower production costs and better access to local markets, technologies and high-skilled human resources.

Ironically, the crisis in 2009 mainly hit the West especially the American economy while the China-led large emerging economies such as India, Indonesia, Vietnam and the Philippines continued to grow. America, Europe and Japan have begun to keep their eyes open on the strengthening of government intervention because the 2009 crisis revealed the structural weaknesses of the American and European economies in consumption and government expenditure trend (Chapter 9). In short, the Western crisis is caused by three main reasons: the unaffordable consumption pattern in Western economies (household savings are tiny but the accumulated debts are too big; high lending by the financial organizations to the low credit borrowers may lead to non-performance loans), a dramatic rise in the volume of transactions with structured financial product, and lastly, the failure of state regulation, corporate governance and business morality (Chapter 10).

Although capitalism is still the core economic strategy played by the Western economies, with private companies as dominant players, market-based resource allocation, profit maximization and free market policy, the mode of behavior for Western financial capitalism becomes more cautious and risk-conscious in the post-crisis period. For instance, the US government has put the transactions with structured products into a regulatory framework to avoid financial gambling. However, the biggest threat to the Western countries is the high public debts and a heavy welfare state burden. To overcome these problems, most of the Western countries practice fiscal policy with cutting down public

spending (especially on public welfare) and imposing new taxes (Chapter 11).

If one looks at China, the Chinese authority began to reduce funding to the enterprises, especially the state-owned enterprises, since 1980s. Even the main policy banks (China Development Bank, Export-Import Bank and Agricultural Development Bank of China) have to increasingly rely on self-initiated commercial loans rather than government-directed lending (Chapter 12). In addition, the Chinese government utilizes a range of monetary policy including setting the lending limits and increasing the mandatory bank reserves in central bank to prevent overheating and financial bubble. Besides that, China also increases spending on social security and welfare to increase national security level but the scale is considered small as compared to the Western countries.

Compared to typical capitalism, China implements the “state-private capitalism” in which the government will intervene in the market with pro-market and pragmatic policy with the role of private enterprises getting important. The success of the Chinese economic reform depends on several factors: a large-scale shift from state to private property due to the privatization policy implemented between 1990s and 2000s, an increase in the degree of competition especially among the state-owned enterprises and the reinforcing of self-responsibility culture among the households. In terms of political reform, China has shifted from an outdated Communist dictatorship to a more sophisticated political system with a democratic façade, but in fact it is still tightly controlled by the Communist Party of China (CPC) (Chapter 13)

After the 2009 crisis, the United States has urged for global trade balance in which the West should save more and the East should spend more. Yet, Chinese consumption in absolute terms has increased rapidly but the decline of private consumption share in GDP is due to the rapid

growth of capital formation and net exports. Indeed, the important engine in boosting the Chinese economy is the domestic capital formation and this indicator is largely depending on the Western-bound exports of consumer goods. Although the savings rate of the Western countries is rising, it is still lower than the other Asian economies (including China) after the crisis. Indeed, the most important fact is that the 2008-2009 crisis is mainly a Western economic crisis due to the failure of the Western model of capitalism and not a world crisis (Chapter 14).

For the environment issues, China has taken some pro-environmental drive to cut down pollution by boosting a range of green industries such as wind energy, solar energy and the production of electric vehicles. However the West should articulate environment policies to the developing countries while simultaneously the policies would not impede their growth. In reality, China has taken an effort by collaborating with United States on the energy and environment issues and an agreement was signed in 2008 (Chapter 16). As we are aware of, natural resources such as fuel and mineral resources are the primitive elements to boost a nation's economy. Currently, China mainly dominates the Third World economies by participating in resource development projects. China provides resource-backed loans to Africa in which the loans are paid back not in cash but with oil, cocoa beans or metal ores (Chapter 17). Moreover, China's assistance is more straightforward and simple as compared to other donors'. China is a major source of development aid by providing concessional loans and government-backed subsidized investments.

Besides acquiring natural resources, China also welcomes outbound technology and knowledge through indigenous innovation policy. According to the US Chamber of Commerce (2010), indigenous innovation policy is defined as "enhancing original innovation through

co-innovation and re-innovation based on the assimilation of the imported technologies” (Chapter 18). Most of the latest investment projects in China are related to production upgrading, the transfer of advanced technologies and the creation of research and development (R&D) facilities.

Overall, China has a greater potential than the West in two ways. Firstly, China has much potential to grow in terms of larger input (labour and capital), higher productivity and higher demand. Secondly, China has created a condition that is favourable for herself and not favourable for the competitors such as the undervaluing of the yuan 元 (renminbi 人民幣, RMB) and heavy state support for Chinese firms. On the other hand, the West should take different efforts to enhance its competency, for instance by promoting export-push policy vis-à-vis China, emphasizing on the environmental issues in the midst of China-West economic relationship, promoting further economic upgrading to enhance global competitiveness and being more active in counterbalancing China’s growing influence in the Third World and her demand for natural resources.

In conclusion, there is no single country that can be dominant in the 21st century because multipolarization is the current trend of the world. In the author’s view, China will not be the world’s ruler or the only world leader, and the West will retain and may increase its advantages. This is because the West has more military power and a bigger say on international security issues. The author summarizes that the West-China economic power shift will not happen and the shift is more at the core of the process of the world’s multipolarization.

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Book Review

Claude Meyer, *China or Japan: Which Will Lead Asia?* London and New York: Hurst, with Columbia University Press and Oxford University Press, 2012, 195 pp. + xxi.

As my long knack of academic speciality and sincere passion for scholarly research inherently encircle Japan as a single nation and great power (from all settings including local, bilateral, regional, multilateral and global) neighbored by a “dynamic Korea” in the Korean Peninsula and an “emerging China” geographically located in the Northeast Asian region interacting grippingly with both economic dynamics and political realisms, I am indubitably enjoying a right frame of circumstances (capacity, time and venue) to give my straight and logical comments on this book. Produced from Hurst in collaboration with the New York-based Columbia University Press and Oxford University Press as its co-publishers, the original version of this book (in the French language) is *Chine ou Japon: Quel Leader pour l’Asie?* (Paris: Presses de Sciences Po, 2010, 232 pp), which was subsequently translated into English, Chinese and Japanese. Anyway, I have tracked down a number of faults and deficits at variance with a few merits and surfeits of this volume. I yearn to pinpoint all of them.

In the first place, I was actually mesmerized by the book’s main title (*China or Japan: Which Will Lead Asia?*). But I became dispirited after I

had finished reading it from A to Z. To be exhaustive, the title itself sounds quite misleading, because this deficient heading without reflecting all the core parts of the volume provides me with a deceptive impression different from the true one. For “*Which*” as a question sign used in the title, the answer will simply be a word (i.e., China or Japan). But any reader might ask “which”, “why” and “how” led Asia in the past, is doing it at present and “when” one will overtake another in future. In this connection, it is regrettable but verifiable that many authors and publishers nowadays select and use the most captivating captions for their books not only to engage many audiences but also to persuade more customers of their products’ qualities and thus best sell them commercially. To be frank, the same can be said about this book, understanding that the title probably places “China and Japan” in alphabetical order, not in terms of their leadership capabilities. Likewise, it has recently been a common undercurrent among numerous scholars from Asia (including Japanese and Chinese), besides non-Asian (especially American and European) researchers, to explore the international relations of both Japan and China and the bilateral Sino-Japanese relationship from their shallow-minded attitudes. That is, they view these relations utterly from East Asia, not from the other sub-regions of Asia, let alone the world as a whole. Incontestably, this research covers only East Asia and even without giving any definition of this region. In short, while “*Asia*” in the book’s title is used in a general sense, it is coincidentally an expression of grief that this term is loosely and repeatedly exercised by many more “so-called” established academics interested in Asian studies.

When it comes to the methodical approach, a rudimentary conceptual analysis neither on “leader”, “true leader” or “leadership” nor on “political economy of leadership capacity” is essentially developed at all as a matter of course to carry out this research, given that the term

“Leader” is applied in this book’s title and the entire volume is on leadership competition between China and Japan concerned with Asia. Instead, the researcher insists that the key issues of leadership in Asia assume both desire and legitimacy to take on that role in not only economic but also political and strategic terms. In any case, he has not made it clear why he just wanted to give his emphasis on Asia, when recognizing the truths that Japan has been a longstanding global role player and China has been striving for its leadership position on the world governance in the most recent years as well as the Sino-Japanese struggles for power are currently transcending the regional border of Asia. I am wondering to see how the book’s creator has completely disregarded all other five sub-regions of Asia, probably because of his lack of an in-depth mastery on these other sub-regions (apart from Northeast Asia) of the world’s biggest continent. Also, he should have incorporated the concurrent happenings with contrastive viewpoints on Japan and China from all angles (local, bilateral, regional, multilateral and global), by testing or substantiating the leadership-impelled theories in addition to his personally provoked notions.

Seemingly, a half of the book (the “first part” including Chapters 1 and 2) gives an explanation on a 30-year historically crossed path (primarily economic) taken respectively by China and Japan. For more details on Chapter 1, coming across that he describes Japan’s economic resilience, there already exist a lot of publications accomplished by the world’s most senior Japan experts on this nation’s miraculous industrialization and modernization in the post-war period as well as the international business amid globalization of post-bubble Japan. At the same time, countless available volumes written by the well-versed China specialists investigate China’s astonishing awakening associated with economic growth and development during the post-Mao reform era. So, it is nothing new or it does not seem intellectually stimulating. In

Chapter 2, the author identifies a number of levers of both China and Japan as economic powers. According to him, China, which has already eclipsed Japan as the world's second-biggest economy, has immense "growth potential" delineated as its future ability to generate larger profits, expand its workforce and increase production. Accordingly, this ascending financial power considerably possesses an irresistible commercial expansion. As regards Japan, he finds that this country holds both steadiness and adroitness, e.g., Japan as not only an industrial and technological heavyweight but also the globe's topmost creditor nation delights in the process of dynamic internationalization and competitive advantage for commercial attributions. Contrary to their strengths, about China, the writer makes a list of its domestic sustainable (social, economic and environmental) development threats that might hinder the pace of energy-hungry Chinese blooming overseas. For Japan's case, he enumerates several vulnerabilities (principally including political immobility, government debt, population decline, etc., coupled with the adverse psychological effect of the triple disaster on the population of post-tsunami Japan) that are seriously showcasing a gloomy symbol against this resource-poor and decades-long lethargic economy's future prosperity.

Only the book's "second half" (Chapters 3 and 4) considers its theme, i.e., the rival ambitions of China and Japan in the quest for supremacy in Asia. In a similar way as its "first half", it suffers from multiple predicaments. More categorically, the author prioritizes the "economic process" through which cooperation and integration in the Asian state-of-the-art regionalism crop up. As he believes, it is the central framework by which a "buoyant Japan", based on the nation's effectiveness of productive operation, comparative prowess to perform a certain economic activity as well as its technological ingenuity and excellence, unflinchingly upholds its leadership till now. But he does not

intend to overlook the “strategic paradigm”, which he sees as a beneficial consideration for China in order to topple a basically trade-dependent Japan. As stated by him, a rapidly booming China owing to its central place by now on the economic spheres of global trade and manufacturing will be able to accelerate its pathway of catching up with Japan and thereby to consolidate its strategic influence as both regional leader and global power. Anyhow, conceding that this research endeavors to concentrate upon the intersection between “economic” pursuits and “strategic” actions by taking a “political economy” approach, the “cultural” aspects have largely been ignored. In particular, admiring that a little discussion is offered on soft power, it would have been worthwhile if the study had more irrevocably presented an astuteness about the exemplary mantle of cultural soft power diplomacy as an integral element of foreign policy to address the fearful future of East Asia in today’s complex world. To be more critical and complete, it is evidently alleged that both China and Japan exploited their notable and available resources of “soft power” as the attractive cultural values and ideological principles. Contrarily and unfortunately, they were (and still are) more interested in their venturesome but feckless trends for deploying their “hard power” as not only military muscles and coercive strategies but also economic incentives and financial sanctions. In evaluating his self-defined parameters, the author likes to be guided by the “dialectical relationship” between economic resourcefulness and strategic command. But it can be asked whether such a rationalistic mechanism of persuasively resolving or merging the Sino-Japanese contradictions in character is possible in view of the fact that there are increasingly self-centered audacities of political leaders of both China and Japan for their respective nation’s self-seeking motives over the economic institutions in Asia and beyond.

In this respect, the author typically perceives that China's search of power with Beijing's "peaceful rise" mantra remains the pivotal driver behind Tokyo's vigorous strategic revision and thereby Japan's remilitarization or military normalization. But he should have unfolded China's military camouflage, which is an objective to deceive its enemy (Japan) as to the presence, position and intention of armed forces' formations. Rather, he mistakenly suggests Japan, which has a unique culture of military restraint and non-nuclear policy due to the pacifist constitution of this civilian power of the globe, to safeguard its economic leadership through technological superiority while simultaneously "normalizing" its strategic positioning in Asia and the world to make it commensurate with its economic and financial weight. As he interrogates: "Economic partners by force of circumstance but still strategic rivals, China and Japan are kept at odds not only by a burdensome past but also, and above all, by their conflicting ambitions. For the time being, neither of these two dominant powers can lay claim to overall supremacy in the region; is it illusory or premature to imagine that leadership might be shared in a genuine partnership that would greatly contribute to the prosperity and stability of the whole region?" (p. 7). But it goes against his following opinion: "That shared leadership is bound to be conflictual because mistrust between the co-leaders runs deep and their aims are incompatible" (p. 149). Anyway, I do not think that Japan or China could represent itself as a visionary leader above suspicion even in their own sub-region, unless they settle down their heavy historical baggage and steadily lessen their widespread reciprocal misgivings.

Aside from that, it appears confusing on which basis the author draws on such an imprecise comment as follow: "The formation of an Asian Community along European lines is the main thrust of the new Japanese government's foreign policy" (p. 7). Rather, he should have

painstakingly observed how Japan as a submissive ally of America faces tremendous compulsions from Washington in the setup of the US-Japan security alliance when Tokyo always unquestionably demonstrates its instant readiness to keep its demands. Indeed, I was curious to know how the United States not only discourages Japan-China ties from working for Asia's fortune but also makes full use of and derives benefit from several economic upstarts of this region to destabilize Asian peace and stability as a consequence of Washington's balance-of-power politics. Alas, the writer turns a blind eye to this paramount concern. In this interrelation, as he tells in advance "In a nutshell, Japan would become a kind of Asian Switzerland, prosperous and pacifist. Rather than becoming a satellite, Japan would leave China's orbit and spin off on its own path" (p. 151), it can be inquired whether it might practically be possible for Japan to go without China as its nearest and most dependent neighbor in a realist Northeast Asia.

The author also foresees: "As can be seen, neither of the two dominant powers fulfils the economic and strategic conditions for undisputed hegemony in the region, because China will take at least another fifteen years to catch up with Japan in terms of industrial efficiency and technological innovation. Until then, leadership is bound to be shared between the two regional powers, albeit in a conflictual way." (p. 148) For the first sentence, his forecast seems vague in how he can make such a prediction about this timeframe (i.e., exactly "fifteen years"), as he holds his positivism about an "unstoppable" Japan. But it is still unclear which one will keep the hold of the leadership position after 15 years. Regarding the author's phrase "conflictual way" in the second sentence, I conversely expected him to propose a "harmonious way" for these two powers with their surging hostilities and tensions. As he also claims, the current leadership configuration of both countries (i.e., Japan's economic predominance and China's strategic prowess)

will take place for the “first stage” before around 2030. A “second stage” will then begin around 2030 with the emergence of a new regional order whose equilibrium will depend on the scope and extent of integration of a hypothetical Asian Community. For that reason, he concludes: “The prospects for an Asian Community are distant, given the disparities in the region and the reluctance of former colonies to cede any of their sovereignty. Asia’s future in the next two decades will therefore provisionally be dominated by Sino-Japanese co-leadership, accepted pragmatically, but subject to the strong pressures of intense competition.” (p. 151) For this probable scenario, it is also ill-conceived on which basis he predicts “the next two decades”, while he at the same time contradictorily hesitates that this distant prospect is fraught with uncertainty. In actuality, although there are so many predictions about the superpower postures of many countries in and outside Asia for 2025, 2050 and 2100, the disapproving question is whether these popular forecasts will hilariously be accurate. More to the point, the author thinks that the scenario “*Pax Sinica*” (Latin for “Chinese peace”), a historiographical term applied to the period of peace in East Asia maintained by Chinese hegemony in the “Chinese century” replacing “*Pax Americana*” (“American peace”) in the “American century”, seems very remote. For the writer’s well information, there is a prevailing prognostication by the American Enterprise Institute (AEI), a US think-tank, that the 21st century will well be the “Indian century”, if China heads toward a long-time sluggishness apart from the country’s unfavorable demographic future as well as a business-friendly India with its more than one billion people and the nations of Southeast Asia successfully enact pro-market reforms.

Reading the following last sentence of this publication “The ‘helmsmen’ who have succeeded Mao are well aware of the price of time, but they harbour the same dream as he did: to outstrip the United

States and make China the new centre of the world” (p. 153), it is seen that the author has indeed made a number of prognoses of the likely outcome of China that is so dead set against Japan. But it might have been useful if he had answered whether, why, how and when an “autocratic and militarily fueled China” could come near to a “democratic and strongly pacifist Japan”, especially because: (1) Japan has internationally renowned and large-scale multinational corporations (MNCs), and it is really difficult to name any Chinese firm or brand as such; (2) Japan has earned worldwide reputation for its highly valued contribution to promoting global public goods in the form of official development assistance (ODA) in which China itself has for several decades been the largest (but reportedly the most hazardous) beneficiary; as well as (3) Japan can surely take pride in its evolving and already many more vibrant transnational human security-focused non-governmental organizations (NGOs), when China still lags far behind in this sector. Very succinctly, any well reasoned reader might ask the author what the valid sense to compare Japan as a “traditional and established” power with China as an “emerging and immature” power is.

To a great degree, I do not pensively consider the question whether China or Japan will lead Asia in the years to come, seeing that the writer has not directly and ultimately answered the focal and only question he has set out for this book’s main title. Rather, I would have earnestly valued his response to my question in place of an excessive coverage in Chapters 1 and 2: how China and Japan (also a “flourishing India” as a potential power) can nurture a joint but “true” leadership (considering that any leader’s power comes with accountability and responsibility) needed vitally for constructively taking up the torch of first Asian Nobel laureate Rabindranath Tagore’s Pan-Asian dream or the realization of an united “Asia for Asians” envisioned by Sun Yat-sen and Mahathir Mohamad, as the author rightly claims. Needless to say, since he

acknowledges “India’s rise”, it is also a rational question why he did not propose the prospect of “China-Japan-India” triangle toward a regional cooperative grouping for the future of entire Asia.

While I have put forward my set of reasons to oppose the author’s idea developed in this book, the publication is without a central argument. He appraises both economies as giants that are shaken by so many crises and there are substantial challenges in the line of their forward motion. If this is the state of affairs, it can be asked how China or Japan will be able to lead Asia. Strictly speaking, he did not relate any of these nations’ prospects of implication and problems of ramification to its strides for enhancing leadership position in Asia or beyond this region, regardless of his belief that the wealth-power link is growingly recognized for the leading states in the international system who attempt to enhance their wealth and power to become or to remain both rich and strong. In other expressions, it has become clear from this project that both Japan and China strive to gain power by engaging themselves in clash to control Asia and the world by winning a war between them or by defeating one’s predomination over another in the race for political and economic leadership. But rather than making the effort to merely identify the key features of the battle between China and Japan for primacy in Asia, the author should have rationalized leadership competition of these two Asian titans for the “better” (hunger-free, prosperity-driven and peace-centered) tomorrow of Asia. Once again, I would aver that the first half of the volume, which has reiterated what is already discovered in the existing related literary works, reads ridiculous. In addition, I say yes to the author that some encouraging signs of progress are manifested in the friendly and benign partnerships between Japan and China and particularly their amazingly boosted trade bonds in regional cooperation bodies, in spite of the reality that their political relations have profoundly deteriorated since the turn of this

current century. However, I envisage that the Sino-Japanese co-leadership for the “East Asian Community” building (let alone the creation of an alternative setting such as one which is “Pan-Asia”) is a pipe dream or fanciful hope. There are many hypothetical assumptions apart from “ifs, ands or buts” throughout the book. In other words, the writer’s theoretical hypotheses or oversimplified conjectures are not assisted by catalyst synthesis as a support-base for logically proving his methodical arguments. In essence, the readers would naturally expect to get a clear-cut answer as to which nation will be a “genuine” (imperturbable and purposeful) leader with necessary skills and attributes as both “change doer” and “difference maker” for Asia.

There are some other drawbacks in the meanwhile. Contrary to a review of this book published as a producer’s puff in *The Japan Times* (Japan’s largest English-language newspaper) that ill-advisedly advertises “Busy readers who want to quickly get up to speed on East Asia will learn much from this slim volume, one brimming with a veteran observer’s insights and knowledge”, there are too many sub-titles under titles and a multitude of topics for sub-titles in each and every chapter, which appear so slipshod and easily make this bulky book a generalized guide. Hence, it helped distract the author from his attention on his actual purpose, forbid him to articulate his coordinated argument and thus respond to the book’s quintessential question. While there are also many reiterations, several important points have been left out in this puzzlingly titled book on Asia. Furthermore, although the book includes a number of references in the French language (but without their English translations), it does not add any reference in either Chinese or Japanese. Undeniably also, the author informs us beforehand of an impending danger or unpleasant situation to both China and Japan. But he does not give us any cautionary advice or authoritative recommendation about their actions or conducts for the days ahead.

Maybe, all these above-mentioned problematic matters prevented the writer from doing so. To put it simply, this single-authored volume reads “more informative, less imaginative”, “more speculative, less provocative”, “more unreliable, less debatable”, “more drudging, less exciting” and “more Northeast Asia-encompassed, less Asia-embraced”. Very concisely, it is not a research that has been done with great care and inclusive thoroughness.

Notwithstanding all of my strident criticisms in such a systematic and comprehensive review of this book, I was able to allot time from my so hectic and precious schedule to evaluate it not only because of its pertinence and piquancy but also due to the following three specifically sound reasons. First, it is obvious that the phrase of mightily “China’s rise” (also called “rising China”) has been a buzzword in the literatures on international relations, global governance, international political economy, sustainable world development in addition to Chinese studies and Asian studies over the past several years. In contrast, this study is one in which the author has tried to forthrightly challenge the existing common comprehension about an automatically “diminishing Japan” as an ambiguous and isolated nation, and probe why a “resilient Japan” is still single-mindedly maintaining its status as a regional leader in Asia. That is, one cannot comfortably relinquish Japan’s power as inferior to China’s. Second, while there is availability of innumerable publications (complete books, journal articles, research monographs, etc.) on the multifaceted and complicated relationships between China and Japan traditionally written by the involved people in the contemporary publishing world, many more are increasingly produced on this subject. But this research, which is based on political economy approach and qualitative data, seeks to highlight some deficiencies and threats (as against potencies and chances) amid the upshots of the global financial crisis these two Northeast Asian ever protagonists would have to

confront in their neck-and-neck contests for leadership in such too unstable but decisively impactful region as greater East Asia. Third, this European fellow at a Paris-based research institution, who has academic expertise on Northeast Asia as well as experience as a professional at a bank in Japan, anticipates that the 21st century would undoubtedly be the century for Asia, a thriving region which is destined to be a home of three (China, Japan and India) of the earth's four most gigantic economies by 2030. By this, he perhaps intends to mean that Asia would place itself in the "Number 1" position among all the world regions. Even though this optimistic prophecy contradicts an augury of some American scholars who are still imperfectly enthusiastic about the foreseeable "American century", he has definitely every confidence in the dramatic shift of global power from West to East.

Last but not least, this book provides us with a different way to look at Japan and China in an Asia with an epochal change today. According to the author himself, this publication has in fact been made possible with supports from many of his colleagues who encouraged him to open up an outlook for the future in Asia. In any case, I give the author, Claude Meyer, my good wishes, because his piece is something special that has happened to us. Owing to all the above-explained merits, this interdisciplinary and unprecedented volume effectuated by Meyer will hopefully harmonize with the highly and growingly demanding Northeast Asian studies and thereby contribute to this cutting-edge field of research.

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