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100 Years of World Wars and Post-War Regional Collaboration

How to Create 'New World Order'?

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ISBN 978-981-16-9969-6

ISBN 978-981-16-9970-2 (eBook)

<https://doi.org/10.1007/978-981-16-9970-2>

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The registered company address is: 152 Beach Road, #21-01/04 Gateway East, Singapore 189721, Singapore

Foreword by Juichi Yamagiwa

This book presents what we consider to be the fruitful results of the symposium on “100 Years of World Wars and Post-War Regional Collaboration and Good Governance”. It was very timely, and I am grateful to the Science Council of Japan (SCJ) for co-sponsoring this symposium. The SCJ was established in 1949 from reflection on the role of Japanese scientists involved in World War II. The following year, the SCJ adopted a statement on its commitment to never become engaged in scientific research for war purposes and reissued the statement in 1967. Behind these statements was a deep remorse for the scientific community’s past cooperation with war efforts and a concern for a possible resurgence of similar situations. In recent years, however, the distance between scientific research and military endeavors has been narrowing again. In 2015, the Acquisition, Technology and Logistics Agency (ATLA) of the Ministry of Defense started a research funding program called National Security Technology Research Promotion, in which research proposals are invited and reviewed with a clear objective of awarding prospective projects which are likely to produce results useful to the future development of defense equipment. By recognizing the tension between the two sides, SCJ affirmed the previous two statements in 2017, and requested academic societies and other communities to develop guidelines depending on the characteristics of their respective disciplines and fields. As to the appropriateness of the research, a shared understanding should be formed within the scientific community based on cumulative academic deliberations and judgments. Sincere discussions should be ongoing among not only respective scientists, but also universities, research institutions, academic societies, and scientific communities as a whole, and should be open to the rest of society.

At that time, I was serving as the president of Kyoto University. Our University’s Mission Statement expresses the university’s aim to sustain and develop its historical commitment to academic freedom and pursue harmonious coexistence within the world’s human and ecological community by generating world-class knowledge through freedom and autonomy in research that conforms with high ethical standards. The university’s research activities are undertaken with the aims of increasing the safety of society and contributing to human well-being and peace. Therefore, we decided that no one at the university is permitted to be involved in military research

that threatens those aims. If concerns arise that any research activities do not comply with the policy, a standing committee established by the president will investigate each case individually. Many universities have made the same decision since then.

These efforts are also based on the reflection that Japan is the only country that has suffered great casualties from nuclear bombs. The use of nuclear weapons in war now runs the risk of destroying the planet. As a primatologist and an anthropologist, I am worried about the traditional idea used by many politicians that war is deeply rooted in human nature. For example, Barack Obama, the former president of the USA, who was awarded the Nobel Peace Prize in 2009, misunderstood warfare in relation to human nature. He gave the acceptance speech in Oslo. “War, in one form or another, appeared with the first man.” Since the dawn of history, humans have continuously experienced wars. War has been used to bring and maintain peace and order. War is like a drought or a disease. Even Obama, who contributed to the reduction of nuclear weapons, also thought that war was embedded in human nature. He apparently followed the statement by Thomas Hobbes, a philosopher in the seventeenth century, that humans by nature were to constantly compete with each other. Moreover, just after World War II, Raymond Dart, a paleoanthropologist, insisted from his findings on fossil evidence that human ancestors had already begun fighting with weapons 2 million years ago. He hypothesized that the ape-men first used animal bones as a hunting tool and then as a weapon with which to fight. The film “2001: A Space Odyssey” faithfully reproduced this hunting hypothesis. Humans started to wage war. According to the movie, the original nature of humans was converted into a weapon to kill, which was the true original sin, and it has been judged.

But this scenario is misguided, and recent fossil evidence and socio-ecological theory on primate social evolution have not supported the “hunting hypothesis”. In 7 million years of human evolutionary history, distinct hunting tools, such as spears, first appeared at 0.5 Ma, and the evidence of violence with weapons among humans appeared very recently around the emergence of agriculture. Primates form a group, not for hunting, but to avoid being preyed on by carnivorous animals. It is probably the same with humans. Humans have not evolved as hunters, but as prey. Phylogenetical analysis on the incidence of lethal violence estimated that the violence of humans is deeply rooted in great ape ancestry (Gómez et al., 2016). The rate for paleolithic people is kept as before, but it rises about 8–15 times in 3,000 and 500 years ago. Therefore, the theory that humans are innately violent, and war-loving is completely wrong.

Why and how did violence emerge and increase in the evolution of humans? Now we should consider the evolutionary pathway to violence, which has not been accompanied by hunting or weapons until recently. Strong empathy and identity with community enabled human ancestors to expand their habitats into risky environments. But the emergence of language and production of foods (agriculture and domestication of animals) led such emotional abilities to the protection of their community and land tenure. Investment and stock of production promoted a strong coalition among people within a community and increased hostility between communities, and finally resulted in violent interactions (Yamagiwa, 2018).

The modern legal system and technology may prevent the occurrence of violence. However, empathy and sympathy, which we have developed in our evolutionary history, have yet been applied to outside communities across cultural or religious borders. Violence has still great negative effects on human relationships at various levels of human societies. In today's rapidly computerized and informatized society, social relations that people have relied on for centuries are collapsing, and there are increasing numbers of people who feel a deep sense of isolation. We may be stepping into a period of understanding what comprises the essential happiness of people.

I would like to thank Professor Kumiko Haba for organizing the symposium and editing this book. It was really hard work, especially under the difficult conditions of Covid-19. I hope this book will help us to widen our scope on warfare and to construct harmonious relationships between people on this planet.

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Foreword by Takayuki Kajita

Distinguished Participants, Ladies and Gentlemen, good morning, good afternoon and good evening,

It is my great pleasure to welcome all of you to the second day of the symposium; “100 years of World Wars and Post-War Regional Collaboration and Good Governance”, which is organized by the Science Council of Japan, Committee of Area Studies, Subcommittee of Asia Regional Cooperation and Academic Network Construction, and Committee of Economics. I would like to give my sincere gratitude for the cooperation and collaboration from co-sponsors, Aoyama Gakuin University, Kyoto University and Asahi Shimbun.

My name is Takaaki Kajita, President of the Science Council of Japan. To open the second day of the symposium, I would like to extend my brief remarks on behalf of SCJ.

SCJ was established in January 1949 as the representative of the Japan’s science community. It aims to promote and enhance the field of science, and have science reflected in and permeated into administration, industries and people’s lives. It ranges over all fields of sciences including humanities, social sciences, life sciences, natural sciences, and engineering. It represents Japan’s scientists both domestically and internationally with the firm belief that science is the foundation upon which a civilized nation is built.

SCJ’s function is to deliberate and realize important science matters and to promote communication of scientific research. Under these functions, it has engaged in various scientific activities so far. The major activities include “recommendations to the government and public”, “establishment of networks among scientists”, “promotion of scientific literacy”, and “international scientific activities”. In particular, it has deepened the partnership with academic societies across the world and promoted communication of international academic research in order to contribute the development of academia. As a part of such activities, it advocated the necessity of an international academy in the Asian region and contributed to establish the Science Council of Asia in 2000. Now, Science Council of Asia consists of 32 academic organizations from 18 Asian countries and regions.

In addition, with regard to the activities related to the promotion of scientific literacy, SCJ has organized academic forums, symposiums and science cafes in order to give back scientific and academic research results to citizens. They have contributed to deepen mutual understanding of science, and exchange opinions with citizens and other stakeholders.

The theme of this 3 days' symposium is "100 years of World Wars and Post-War Regional Collaboration and Good Governance—How to Make a New World Order?", which is important for all the people around the world, including scientists and citizens.

I am very delighted that we have a large number of participants for the symposium. Since discussions among many people based on investigations of the past experiences are necessary for making new world order, I believe that discussions at today's symposium will be an important occasion towards further regional collaboration and good governance.

To conclude, I sincerely hope that this symposium will be fruitful for all the participants. Thank you very much for your attention.

Takayuki Kajita
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Prospectus

COVID-19 has brought the world to a major turning point.

Since 2020, this once-in-a-hundred-year pandemic has encircled the earth. Six hundred million people are confirmed to have been infected and nearly six million five hundred people deaths have been reported in August 2022. According to the WHO, already in October 2020, the number of infected people was actually more than ten times higher: 8 00 million cases, which was 10% of the world's population (BBC 06/10/2020).

A century earlier the fatalities stemming from Spanish flu were estimated to have been significantly higher. Today, in 2022 it is clear that the vaccines and medical institutions have saved many lives especially in the rich and emerging economies. But people continue to suffer and the impact of long COVID has yet to be properly documented. The situation for poorer and developing countries without adequate access to the vaccine or medical care remains grave. COVAX facility will be very important for developing countries.

***The 20th century was a century of two devastating world wars and the proxy conflicts tied to the Cold War. Though the Cold War never saw a direct confrontation between the USA and USSR there were times when the world was on the brink of destruction.

From the ashes of 1945 the European project began its gradual evolution. Today, the European Union can be shown to have built a peaceful governance regime underpinned by economic collaboration, common institutions, democracy and the rule of law. In Asia, ASEAN has also pursued varying degrees of regional governance. However, in the last decade, a new nationalism that has manifested itself in the spread of right-wing (nativist) populism across parts of Europe, the US, Latin America and Asia has come to the fore.

Unfortunately, the analysis of the Russian-Ukraine war was not in time. The study will need to be analyzed again in a longer context.

Nevertheless, we are convinced that regional cooperation, and peace networks rather than war and conflicts with neighbouring countries, will shape our future, development and prosperity.

There is a wave of rapid economic growth in the emerging economies especially China and India and political instability in parts of East Asia, Southeast Asia, South Asia, the Middle East, North Africa, and Central Africa as people (particularly the young) go in search of democratization.

In this field, based on the three wars in the 20th century (WWI, WWII, and the Cold War), what kind of regional institutionalization and regional good governance have been built up to avoid endless war and conflicts? We will examine and consider what kind of order is needed to stabilize the conflict regions, among Europe, Asia, Latin America and Africa.

The theme of the Tokyo and Kyoto Conferences organized by the SCJ (Science Council of Japan), Aoyama Gakuin University, and Kyoto University, and honorably funded by Erasmus Mundus of the European Union is to investigate and clarify how the countries that experienced the World Wars subsequently embarked upon a process of region building underpinned by a desire for peace, stability and prosperity under an institutional framework built upon the institutions and rule of law. We would like to organize the Tokyo and Kyoto Conference and discuss post-war regional cooperation and good governance in this transition period. We were honored that many scholars and young researchers decided to join us and discuss how to begin building 'New World Orders' in the wake of the instability brought about by COVID-19, and the rise of nationalism and populism. The chance to investigate, analyze and discuss together proved invaluable!

In this common research in the world, international symposium and book publication, we have received academic cooperation from the Science Council of Japan, funding from Erasmus Mundus of the EU, funding from the Ministry of Education, Culture, Sports, Science and Technology (MEXT) and the Japan Society for the Promotion of Science (JSPS), financial support from Kyoto University and Aoyama University. We are grateful to appreciate to all.

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Alfredo Canavero was born in Milan in 1948 and took a degree in Political Sciences at Milan Catholic University of Sacred Heart in 1970. He was Assistant professor of History of International Relations (1974–1980). Afterwards he has been teaching Contemporary History since 1977 at Milan State University, as Associate professor (1980) and then as full professor (2001). He is interested in Contemporary Italian History, History of Church and of Catholic movement, History of European Integration and History of Italian Foreign Policy. He was a member of the Scientific Committee of Historical Dictionary of Italian Catholic Movement (Marietti) and coordinator, with Jean-Dominique Durand (University of Lyon III), of an international research program on the role of Churches in political, social and economic life of Europe (“The Europe of Religious Spaces), in the frame of a larger group (“Spaces and Times of Europe”) directed by Robert Frank (University of Paris I, Sorbonne). He was also Director of the Centre for the Studies of Foreign Policy and Public Opinion (Milan State University) and is General Secretary of the Commission of History of International Relations, affiliated to the World Congress of Historical Sciences. He gave papers during World Congresses of Historical Sciences from 1995 to 2015.

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Part I
**Keynote Speech: Who Constructs New
World Orders?**

Chapter 1

“The United Nations’ Contributions to Order: Treaties, Development, Human Rights, and Humanitarian Aid”



David Malone

Abstract The opening remarks of the conference focus on international order and the UN’s role therein.

Keywords United Nations · World order · Development · International law · Decolonization · Human rights

Speech at the International Conference by SCJ, Aoyama Gakuin University, and Kyoto University on 3rd December 2020

Thank you very much, Professor Haba; it is lovely to be partnering with you for this event. For those of you viewing online who do not know United Nations University headquarters building complex, at its center is a well-known pyramidal structure opposite Professor Haba’s historic Aoyama Gakuin University on Tokyo’s fairly kinetic Aoyama Avenue in Tokyo.

And warm thanks to my friend, Glenn Fukushima. His presentation just now was terrific, and my fond hope is that the new administration will recruit him into one of its top jobs dealing with Asia—particularly with Japan—because we all so much enjoy when we get to catch up with him in Japan and learn about what is going on in Washington.

I agree with everything Dr. Fukushima said about the United States so I will not speak too much about it, except that it is with great regret that I must say the United States must now contend with a diminished image on the world stage. President Biden’s election reassures the world, but he cannot start where President Obama left off. President Trump has created a great deal of international wreckage. He has alienated many of America’s closest allies. This is unfortunate not just for the US, but also for countries like Japan and my own country, Canada, very close allies and warm friends of the United States.

I should mention that I do not speak for the United Nations at this event. I am not a spokesperson for the United Nations. UNU’s Charter was negotiated by the General

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Assembly of the United Nations, and it grants UNU absolute academic freedom. I use that academic freedom to express myself freely in academic meetings such as this.

That having been said, on to the main subject of our meeting: order. It is quite important to think about order in different ways. People often think about a form of order imposed by parliaments or by the United Nations Security Council. But most order is promoted in much more voluntary ways, both internationally and domestically. So, order is not primarily about the use of force.

The use of force is quite often necessary and justified, but it is not the norm in promoting order internationally or within countries. It is mostly the exception. In the case of the United Nations, there was a collective negotiation of many independent countries at the end of the Second World War. Japan and the Allies were still at war, but the European countries were already at peace. It was an agreement amongst those countries participating, over 50 of them, that created the United Nations. It was not established through coercion of the victorious powers, although the shadow of President Roosevelt loomed largely.

So, order is often created by voluntary lawful processes or law-making processes. In the United Nations, one form of order-promoting activity is the negotiation of internationally authoritative treaties, which are legally binding on the countries that sign and whose parliaments ratify them. This is not a coercive process about imposing order. It is about creating order without the use of force. The United Nations Security Council can indeed authorize the use of force, but it very rarely does. And it is right not to authorize it very often. For example, in several cases recently where it authorized the use of force, a number of countries exceeded that mandate, and the results were bad. Think of Libya today, a country that is still at war these many years later, in some part because of the excesses and misjudgments of foreign interveners. The involvement of a NATO aircraft in the death of former President Ghaddafi was most unfortunate in retrospect.

It helps to think of the United Nations' activities in several different fields. Regarding peace and security, the UN Security Council does have a unique power in international law to authorize coercive measures. This includes the use of military force or the imposition of economic or other sanctions on countries. But it uses these powers rarely, and is right to use them rarely. The UN is at its best when it creates a consensus amongst countries rather than when it provides a platform for serious divisions among them. I think this is more widely understood at the UN today than it was when the cold war ended 30 years ago, when it was thought that the Security Council could direct the world.

That turned out badly when attempted in the early 1990s. I think the limitations of the United Nations need to be flagged here, and its power to coerce should be used very, very sparingly; this would be my conclusion as a student of UN activity.

But there are many other things the UN has done successfully in the peace and security sphere, notably treaty-making regarding arms control, disarmament, and other topics. These are activities that member states participate in voluntarily: they are free to accept or do not accept the outcome of negotiations and integrate (or not) the treaties into their domestic law. These measures are less dramatic than the use of

force or the imposition of sanctions, but often equally effective, if not more effective over time. That is as much as I am going to say about peace and security.

The next area of UN endeavor I want to mention is economic development. When the United Nation was created, it included relatively few developing countries in South America, Central America, and some of the few countries in Asia which had maintained their independence throughout the era of colonization, like Thailand. China was also a case in point, but there were very few.

In Africa, there was only South Africa, as a racist apartheid state, Ethiopia (after an attempt by Italy to colonize it), a few Arab states of Africa and the Black African state of Liberia, a country that had been created by slaves who were able to return from the United States or other countries to Africa. Because there were few developing countries in the UN at the outset, economic development of colonized countries was not very high on the agenda. Of course, Mexico, Argentina, Chile, and similar countries did advocate for it, but it did not emerge as a central purpose of the UN. Rather, what emerged as a central purpose was the more general economic and social progress of mankind; all countries, not particularly developing countries.

The UN’s creation led to a great deal of treaty-making by the 1960s and 1970s, which continues today, notably in the human rights sphere, but in many other spheres as well. Some of these treaties have not been widely subscribed to by Member States, but others have been nearly universally signed and ratified, and turned out to be central to our daily lives, in countries like Japan, the United States, or Canada, as well as developing countries.

So, a project like the Sustainable Development Goals—which responds primarily to the aspirations of developing countries, while applying to all countries—only became possible after the process of decolonization, the process of granting absolute freedom to the colonized countries. This process was largely completed between 1957 and 1965. In only eight years, about 90 countries became independent. This is one of humanity’s great achievements, which is too often forgotten.

Decolonization, championed by President Roosevelt, was promoted above all within the United Nations system, as Roosevelt hoped would be the case. Roosevelt also was the primary force behind the creation of the UN. Churchill on his own would not have created the UN. He would have created something in the narrow interests of the United Kingdom. But Roosevelt, who was a man of extraordinarily ambitious imagination and generous disposition, was the man who really willed the United Nations to exist. And his widow, Eleanor Roosevelt, was behind the Universal Declaration of Human Rights, the foundation for the human rights regimes recognize today. We can talk more about development in the question-and-answer period, but I do want to touch on two other areas that are important in the UN.

The first is human rights which I had already mentioned in passing. What the UN contributed to the field of human rights—which individual countries had been struggling with since the French Revolution in 1789—was that human rights came to be analyzed and codified through treaties. Individual treaties and umbrella treaties, on, for example, the rights of women, the right to development, the right to health, any right we think of as a right as citizens of the world, largely has been codified within the UN. And that is a huge achievement of the United Nations System.

Now whether countries actually respect the human rights they agreed to respect is a different matter. Some countries do. Japan does not sign treaties that it does not intend to implement, but other countries sign and ratify every available agreement without really thinking through whether they are going to implement them. That is a problem in human rights application, rather than the creation of human rights at the normative level.

Finally, I want to mention humanitarian action. Many people in the world are not just poor. Many people in the world are hungry and sick because they are poor. They are distressed in a variety of ways; they lose their homes because of wars. They become refugees, other forms of forced migrants, because of instability or war. And the number of people in acute distress of this sort in the world today, beyond simply being very poor, is probably around 250 million.

The UN counts around 175 million of these people, but there are doubtless many more that the UN has not been able to count, in dire distress, hungry, without health care or shelter. The United Nations over the years has become increasingly active in addressing these needs, but generally not as the primary actor. In many countries including Japan, NGOs (non-governmental organizations) do a great deal of the work. What the UN does is raise a great deal of money for this work: probably around 30 billion this year. And the UN coordinates internationally in the field to help those in the deepest distress.

The best humanitarian entities include UN organizations, like the World Food Program, which won the Nobel Peace Prize this year. But they also include hybrid international efforts such as those of the International Red Cross system, and those various health NGOs that make a huge difference around the world, of which the most famous is probably Doctors Without Borders.

Finally, I want to say that for humanity the most urgent issue, whether we are rich or poor, is climate change, and the UN is the forum within which this issue is negotiated. I sense this is an issue the Japanese public cares about a great deal, not least as their country is increasingly impacted by this phenomenon.

I hope everyone understands how urgent it is.

Chapter 2

America's Role in The New Global Order



Glen S. Fukushima

Abstract The topic I have been asked to address, “America’s Role in the New Global Order,” is a difficult one, for several reasons. First, we in the United States had a hotly contested presidential election just one month ago, on November 3, which will result in a change of political leadership on January 20, 2021.

Keywords America’s role · New global order · Presidential election

Thank you for inviting me to speak at this important conference and to share my views with this distinguished audience. I am honored to be invited to join the podium with many prominent speakers, including my good friend Ambassador David Malone, a highly distinguished and experienced diplomat.

Let me say at the outset that I am an American with a long-standing interest in American foreign policy and America’s role in the world, but I am speaking today purely in my personal capacity as a concerned American citizen, not representing any government, organization, or political party.

1 Introduction

The topic I have been asked to address, “America’s Role in the New Global Order,” is a difficult one, for several reasons.

First, we in the United States had a hotly contested presidential election just one month ago, on November 3, which will result in a change of political leadership on January 20, 2021. I can say with certainty that our president-elect, former Vice President Joe Biden, will pursue a significantly different foreign policy than that pursued over the past four years by President Donald Trump, but it is difficult at this early stage, seven weeks before the presidential inauguration on January 20, to predict exactly how different it will be.

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Second, President-elect Biden and his cabinet may have ambitious aspirations regarding which policies to pursue and which direction to lead the country, but they are likely to face serious domestic constraints.

Third, President-elect Biden will face a world that has changed significantly since he stepped down as President Barack Obama's vice president on January 20, 2017, so any attempt to return to the pre-Trump world would be unrealistic.

I would like to discuss each of these topics—aspirations, domestic constraints, and international environment—in turn.

2 Aspirations

On November 24, President-elect Biden held a press conference to announce his senior foreign policy team. At the press conference, Susan Thomas-Greenfield, who will be nominated as the next U.S. Ambassador to the United Nations, proclaimed, "America is back, multilateralism is back, and diplomacy is back!"

Ms. Thomas-Greenfield's nomination represents three traits Biden values: expertise, experience, and diversity. Ms. Thomas-Greenfield, who is African American, joined the U.S. State Department as a career foreign service officer in 1982 and served with distinction as a diplomat for 35 years before being terminated in 2017 by the Trump administration. Her recent nomination is seen as reflecting President-elect Biden's desire to show that women of color with expertise and experience should be provided the same opportunities as that provided to white males, that professionalism is to be rewarded, and that America's government officials should demonstrate diversity and "look like America."

The nomination of Alejandro Mayorkas as the Secretary of Homeland Security is another indication of Biden's emphasis on expertise, experience, and diversity. Mr. Mayorkas emigrated to the U.S. from Cuba as a child, earned a law degree, worked on immigration issues in the Obama administration when he headed the U.S. Citizenship and Information Services, and was one of the principal architects of the DACA (Deferred Action for Childhood Arrivals) program. This program, which Trump has tried to eliminate throughout his presidency, gives unauthorized immigrants who came to the U.S. as minors temporary relief from deportation and the right to work.

President-elect Biden's choice of Tony Blinken as Secretary of State and of Jake Sullivan as Director of the National Security Council shows that the Biden administration's foreign policy will be led by professionals with deep expertise, extensive experience, and personal relationships around the world. The fact that both of them have worked in previous administrations in the NSC and the State Department is important, since both institutions have been severely weakened over the past four years. The number of senior career officials who have left the State Department during the Trump administration is the largest in any administration in recent history, and the fact that we have had four NSC Directors in four years is unprecedented and symptomatic of the turmoil in Trump's foreign policy.

Many of you are familiar with President-elect Biden's article entitled "Why America Must Lead Again: Rescuing U.S. Foreign Policy After Trump," published in the March/April 2020 issue of *Foreign Affairs* (a publication of the Council on Foreign Relations), so I will not dwell on it at length. However, for the benefit of those of you who have not read it, let me quickly summarize the main points because it should provide you a preview of things to come.

The article begins, "By nearly every measure, the credibility and influence of the United States in the world have diminished since President Barack Obama and I left office on January 20, 2017." Biden goes on to write, "The next U.S. president will have to address the world as it is in January 2021 and picking up the pieces will be an enormous task. He or she will have to salvage our reputation, rebuild confidence in our leadership, and mobilize our country and our allies to rapidly meet new challenges...As president, I will take immediate steps to renew U.S. democracy and alliances, protect the United States' economic future, and once more have America lead the world."

Biden goes on to argue that first, "we must repair and reinvigorate our own democracy." His famous formulation is "the United States is prepared to lead again—not just with the example of our power but also with the power of our example." He writes that in his first year in office, the United States will "organize and host a global Summit for Democracy to renew the spirit and shared purpose of the nations of the free world. It will bring together the world's democracies to strengthen our democratic institutions, honestly confront nations that are backsliding, and forge a common agenda."

Second, Biden asserts that "my administration will equip Americans to succeed in the global economy—with a foreign policy for the middle class... Economic security is national security. Our trade policy has to start at home, by strengthening our greatest asset—our middle class—and making sure that everyone can share in the success of the country, no matter one's race, gender, zip code, religion, sexual orientation, or disability."

Third, Biden discusses countries and issues he views as high priorities—including restoring partnerships with allies and partners, competing with China and Russia, and addressing issues including climate change, nonproliferation and nuclear security, and technologies of the future.

He concludes his article with the following paragraph: "We must once more harness that power and rally the free world to meet the challenges facing the world today. It falls to the United States to lead the way. No other nation has that capacity. No other nation is built on that idea. We have to champion liberty and democracy, reclaim our credibility, and look with unrelenting optimism and determination toward our future."

Now, especially for a non-U.S. audience, it is important to put this article in context, since it may sound overly American-centric, naively optimistic, and even arrogant.

First, the article was most likely written in late 2019, during the U.S. presidential election campaign, when the Democratic Party had a total of 28 candidates running for the presidency. This means it was important for candidate Biden to distinguish

himself from the other candidates by emphasizing his expertise and long involvement in foreign policy, including serving as chairman of the Foreign Relations Committee of the United States Senate.

Second, the article exuded such optimism in part because it was written before the coronavirus pandemic emerged as a crisis in the United States in the spring of this year, before the pandemic devastated the American economy, and before the murder of George Floyd in Minneapolis on May 25 sparked nationwide protest against the American criminal justice system and systemic racism, expressed in the Black Lives Matters movement.

So, the optimism of late 2019 of restoring America's role in the world had by the fall of this year become necessarily tempered because more urgent crises intervened. Since this fall, candidate Biden has clearly stated that, if elected president, his first priority would be to control the pandemic. His second priority would be to revitalize the economy, based on the comprehensive economic plan announced in July with the name "Build Back Better." A third priority would be to address the issues of structural inequality and systemic racism. Another priority, which remains constant from his *Foreign Affairs* article, is combatting climate change.

As you can see, President-elect Biden and his administration-to-be have ambitious aspirations to conquer the coronavirus, revitalize the American economy, reduce structural inequalities and systemic racism, combat climate change, and restore America's role in the world. However, as I mentioned earlier, they will face significant challenges in achieving these goals, as I will now explain.

3 Domestic Constraints

The U.S. presidential election of November 3 produced a clear victory for former Vice President Biden, who won 306 electoral votes to 232 for President Trump. In the popular vote, Biden won more than 81 million votes, a margin of over 7 million votes more than Trump. However, contrary to the optimistic forecasts based on public opinion polls, Democrats did not realize a "Blue Wave," where Democrats were hopeful of winning not only the White House but gaining seats in the House and flipping the Senate to a Democratic majority.

Instead, Democrats on Nov. 3 lost seats in the House of Representatives—although keeping their majority—and failed to gain a majority in the Senate. The final outcome of the Senate elections will not be known until the run-off elections in Georgia, set for January 5, 2021. But which party wins a majority in the Senate will have important implications for the Biden administration, on two counts.

First, Democrats winning a majority in the Senate will be vital for Biden to get legislation he wants passed by Congress. Obama and Trump used executive orders to achieve what they could not get passed in Congress, but there are limits to what can be done by executive orders rather than legislation passed by both houses of Congress.

Second, having a Democratic majority in the Senate will be important for Biden to get confirmed the senior officials he wants in his administration—the cabinet secretaries, deputy secretaries, undersecretaries, assistant secretaries, and ambassadors, as well as federal judges to the Supreme Court, 13 circuit courts of appeal, and 94 federal district courts.

So, the first domestic constraint President-elect Biden will face is the Republican Party, especially if it retains its majority in the Senate. In October 2010, Senator Mitch McConnell, then and now the Senate Majority Leader, declared in an interview, “The single most important thing we want to achieve is for President Obama to be a one-term president.” And Senator McConnell, true to his word, did everything he could to prevent President Obama from realizing his agenda.

Many Americans are hopeful that because Biden has so much experience in Washington, D.C., having served as Senator for 36 years and as vice president for 8 years, and because of his personality, decency, and empathy, he will be able to work with Republicans to arrive at compromises and to get things done. Some also point to Biden’s personal relationships with prominent Republicans, including Mitch McConnell. But it will not be easy, given the polarization that has increasingly divided Democrats and Republicans over the past 30 years.

The second domestic constraint Biden will face is the American electorate, given the fact that although he won more than 81 million votes, more than 74 million Americans voted to keep President Trump in power for a second term. Biden has repeatedly said, “I am a proud Democrat, but as president I will govern America, not only those who voted for me.”

But the reality is that America remains a deeply divided country. As a generalization, the West Coast, East Coast, and large cities favor the Democrats, while the Midwest, South, and rural areas favor the Republicans. When we examine in more detail the voting behavior of the electorate, we see that in addition to geographic region and urban/rural differences, there are also clear differences based on race, gender, generation, religion, income, and education.

These differences have in recent years been exacerbated by cable television and social media. Whereas 30 years ago the main sources of television news in the United States were the three major networks of ABC, CBS, and NBC—which by and large agreed on what the facts were—we now see a proliferation of cable and other networks, many of which have a completely different narrative or view of the world from the others. It is indeed a world of “alternative facts.” And social media adds to the polarization, since the algorithms employed to keep users glued to the screen to see advertisements ensure that the users are fed the political viewpoint that he or she favors. So SNS users who support Democrats are fed news and features from the left, whereas those who support Republicans are fed news and features from the right—further creating alternative worlds and intensifying polarization.

The third domestic constraint Biden will face is Donald Trump himself, assuming he is able to fend off the numerous lawsuits he is certain to face upon leaving the White House on January 20, 2021. At this point, no one knows what role Trump will play after he leaves office. He may decide that he’s had enough of politics, in which case he may focus his energies on his business, including paying off the more

than \$400 million of debts he reportedly has. On the other hand, he may decide to keep actively involved in politics, not only by continuing his daily Tweets but also perhaps by starting or acquiring a media network, since he appears to feel alienated recently from Fox News. If this last scenario comes to pass, and if Trump is serious about running again for the presidency in 2024, this could impose another constraint on President Biden, both on domestic and foreign policy.

4 The New Global Environment

The world that President Biden will inherit in January 2021 will be significantly different from that he left as VP four years before. America's two major rivals, China and Russia, are in comparatively stronger positions than they were in January 2017. For the United States, the situation in Iran, Iraq, Syria, Afghanistan, North Korea, and the Middle East have not improved, and in some cases, have deteriorated. America's alliances and partnerships, including with NATO, have become frayed. And Trump has withdrawn the United States from the Paris Climate Accord, Iran nuclear deal (JCPOA), World Health Organization, Trans-Pacific Partnership, and other international organizations, arrangements, and commitments.

Although the Biden administration may declare that "America is back," how will America's allies and partners respond? Some may welcome America re-engaging with the world and with multilateralism and international organizations. But others will understandably be skeptical whether the United States has the consistency and staying power to keep its engagement with the world. If Donald Trump won in 2016, what assurance is there that he—or someone like him who touts his "America First" policies—will not be elected president in 2024 or 2028?

Here, I find several recent developments encouraging. First, regarding the world's reception of the Biden administration, I was encouraged that in the *Washington Post* of November 16, French Foreign Minister Jean-Yves Le Drian and German Foreign Minister Heiko Maas co-authored an op-ed piece entitled "Joe Biden Can Make Trans-Atlantic Unity Possible." They wrote:

Europe and America need a transatlantic "New Deal" to adapt our partnership to global upheavals and in line with the depth of our bonds, common values and shared interests. Our two countries will be working toward that goal with President-elect Joe Biden and Vice-President-elect Kamala D. Harris, who believe in the value of international partnerships and in the friendship between the United States and Europe... There won't be any better, closer and more natural partners for this than America and Europe.

Four days later, on November 20, European Commission President Ursula von der Leyen gave a speech to the U.S. Council on Foreign Relations in which she presented her vision of a new transatlantic agenda:

At this point in history, no country or entity can change the world through unilateral action, so countries must work together. In particular, if Europe and the United States work together, we can leverage extraordinary global resources and influence. We represent the world's two

largest blocks of advanced democracies and we have the reach to set global regulations and standards...Using this joint influence to get things done is more important than ever.

President von der Leyen went on to propose four concrete areas for cooperation between the United States and the European Union: overcoming the pandemic, protecting climate and the environment, governing digital and technology, and upholding and upgrading global institutions and governance.

Clearly, the global challenges confronting the new administration are daunting, as are the tasks requiring immediate attention at home. The optimists in America say, "We can walk and chew gum at the same time"—meaning, America can devote the necessary time, attention, and resources to both the domestic and global issues. The pessimists are prone to say that we lack the bandwidth to do both well, and that rather than spread ourselves too thin and doing both badly, we should first devote ourselves to fixing our domestic problems and doing that well.

5 Prospects

I myself come in somewhere between the optimists and the pessimists. Perhaps I would call myself an optimistic realist. This may stem from the fact that I grew up in California: I attended elementary school in the San Francisco Bay Area, high school in Los Angeles, and college at Stanford University, in the heart of Silicon Valley.

As some of you may know, California, which is the largest American state by population, has almost 40 million people (15% of the population of the United States) and is now the world's fifth largest economy as measured by GDP, larger than Britain and India and only after the United States, China, Japan, and Germany. It is also considered the harbinger of the future of the United States, generally 20–25 years ahead of the rest of the country.

California's policies on such issues as international trade, immigration, environment, climate change, gun control, civil rights, human rights, inclusion, criminal justice, and engagement with the world are diametrically opposed to what the Trump administration has tried to pursue in its four years in office.

It is an America that is open, tolerant, diverse, dynamic, innovative, green, and actively engaged with the world—in trade, investment, capital flows, immigration, tourism, education, etc. It is an America represented by our vice president-elect, Kamala Harris. Her mother immigrated to the United States from India and her father immigrated to the United States from Jamaica, and they met when they were both graduate students pursuing their Ph.D.'s at the University of California at Berkeley, one of the world's premier institutions of higher learning.

To me, Kamala Harris represents the future of the United States. So, although in the short term, America will be confronted with many challenges, both domestic and foreign, in the longer term, I am optimistic about the future of America and the positive and constructive role it can play in the world. I therefore hope that the participants in this conference will join me and view the United States from this

longer-term perspective, as we strive, as written in the preamble to the Constitution of the United States, “to form a more perfect Union.”

Thank you for your kind attention.

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Chapter 3

Afterimage of the British Empire? A Background of Brexit



Yoichi Kibata

Abstract One important factor which lay behind the results of the Brexit referendum in June 2016 is what can be called ‘an imperial nostalgia’: the feeling that Britain should not be content with being only a part of integrated Europe and should again seek a more important position on the world stage which it once enjoyed. It is an outdated sentiment and the future direction of Britain which it entails is unrealistic, but in order to say so we should look back on the history of the world in the twentieth century and Britain’s position in that world. This chapter is an attempt to trace the historical background of that mindset.

Keywords Brexit · The British Empire · European integration · Imperial mindset · Imperial nostalgia

1 Brexit and the Afterimage of a ‘Global Britain’: Hopes for Empire 2.0

The outcome of the Brexit referendum in June 2016, which finally led to Britain’s departure from the European Union in January 2020, was shocking. Like many other people I was under the impression that, even if the pro-Brexit side were to gather sizable support, those against leaving the European Union would ultimately win. Therefore, I was very surprised by the results of the vote.

My career as a historian spans roughly the same period as that of Britain’s membership in the EC/EU. I first stayed in Britain between 1968 and 1969, when Britain was not yet a member of the EC, but, during my second stint in the country between 1975 and 1976, Britain had already become a member country, having entered the EC in 1973. It was in 1975 in London that I watched the first referendum concerning Britain’s EC membership.

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Since then, I have been engaged in research about various phases and aspects of the British Empire's break-up and have always emphasised the importance of the transformation of Britain's position in the world from an imperial power to a European country. In arguing that Britain should accelerate that transformation and favour greater integration with the European Union, I always thought that Japan had a similar problem in its relations with neighbouring Asian countries, although, in the case of East Asia, regional integration had not yet materialised. In short, my argument was that Britain should become a part of Europe, just as Japan should become a part of Asia.

Hence my great disappointment with the result of the June 2016 referendum.

The reasons for the victory of the pro-Brexit vote were multifarious and the issue of the EU was not necessarily the decisive factor in the outcome of the referendum, but this is not the place to discuss it. Here, I would like to point out that one important factor that can be called 'an imperial nostalgia': the feeling that Britain should not be content with being only a part of integrated Europe and should again seek a more important position on the world stage which it once enjoyed.

During the period leading up to the referendum, there were voices expressing this kind of imperial nostalgia. For example, in 2015, the Institute of Economic Affairs, a pro-Brexit organisation, published a report, *Directions for Britain outside the EU*, which contained a proposal that Britain should pursue free trade through the route of Commonwealth and the Anglosphere.¹ Such an idea that the future of Britain outside the EU would be guaranteed by the close relations with countries that had historical ties with Britain from the days of the British Empire was not at all new. This view was held by many people who had a negative attitude toward Britain's position in an integrated Europe.

Of course, it is impossible to decide how important this kind of sentiment was for the victory of those who voted to leave the EU in the referendum. But it was, and is, easy to refute the validity of such a proposal. At the time when this proposal was made, the biggest trade partner of Britain was the EU, whose shares of the British exports and imports were 43 and 53% respectively. The key country in the so-called Anglosphere, that is, the USA, was the second partner, but its shares were only 20 and 10% respectively. The viewpoint that Britain should seek future prospects outside the EU, in the renewed close relationship with the USA and the Commonwealth countries, was nothing but imperial nostalgia.

A few days after the referendum, Prof. Philippa Levine, a prominent historian of the British Empire, contributed a short essay to an internet site titled 'Brexit succeeded by playing to Britons' imperial nostalgia', starting with the following sentence: 'Shortly after the result of Britain's referendum on the European Union was declared last week, an academic colleague remarked to me, "The final curse of the empire is that the imperial dream is destroying the imperial heartland"', and

¹Rulph Buckle et al., *Directions for Britain Outside the EU*, London: The Institute of Economic Affairs, 2015. <http://www.iea.org.uk/sites/default/files/publications/files/Brexit-interactive.pdf> (lastly accessed 24 February 2021).

stressed that ‘Britain’s long association with imperialism was a major undercurrent in the campaign to leave the EU.’²

After the referendum, the persistence of imperial nostalgia became more evident, and words like CANZUK, Anglosphere, or Empire 2.0 began to be heard in the public discourse. These are, of course, terms that strongly remind us of the British Empire. In the case of Anglosphere and Empire 2.0, no explanation may be necessary. CANZUK is an acronym that combines Canada’s C with ANZUK, which stood for military collaboration between Australia, New Zealand, and the United Kingdom during the days of the British Empire. People who used these words to forecast Britain’s international connections after Brexit hoped that Britain, once the centre of a great empire and the hub of the English-speaking sphere, would regain its preeminent position outside the EU.

A vociferous protagonist of this line of thought is Andrew Roberts, a conservative historian, who said, immediately after the referendum, that, after Brexit, CANZUK could unite as a pillar of Western civilisation.³ Boris Johnson, the current British Prime Minister, is himself one of the ardent supporters of such an idea. In September 2017, Johnson, the then Foreign Minister, wrote an article suggesting that, after leaving the EU, the UK ‘will be able to get on and do free trade deals... not least with the fastest growing Commonwealth economies, and build truly global Britain.’⁴ It should be pointed out that this term ‘global Britain’ has been widely used in various quarters since the referendum, and, in the context of Brexit, it is nothing but an expression of imperial nostalgia.

2 ‘The Long Twentieth Century’

Imperial nostalgia is an outdated sentiment and the future direction of Britain which it entails is completely unrealistic, but in order to say so we should look back on the history of the world in the twentieth century and Britain’s position in that world.

In 2014, I published a short book titled *History of the Twentieth Century*, and the following is the gist of my argument in that book.⁵

In that book, I put forward the idea of ‘the long twentieth century’ which lasted from the 1870s to the early 1990s. Needless to say, in reaching that idea, Eric Hobsbawm’s famous and influential view about the twentieth century, ‘the short twentieth

² Philippa Levine, ‘Brexit Succeeded by Playing to Britons’ Imperial Nostalgia’. <https://www.zoc.alopublicsquare.org/2016/06/28/brexit-succeeded-playing-britons-imperial-nostalgia/ideas/nexus/> (lastly accessed 24 February 2021).

³ Andrew Roberts, ‘CANZUK: After Brexit, Canada, Australia, New Zealand and Britain Can Unite as a Pillar of Western Civilization’, *The Telegraph*, 13 September 2016. <https://www.telegraph.co.uk/news/2016/09/13/canzuk-after-brexit-canada-australia-new-zealand-and-britain-can/> (lastly accessed 24 February 2021)

⁴ Danny Doring & Sally Tomlinson, *Rule Britannia: Brexit and the End of Empire*, London: Biteback Publishing, 2019, p. 142.

⁵ Yoichi Kibata, *History of the Twentieth Century* (in Japanese), Iwanami Shoten, 2014.

century', was always in my mind. Hobsbawm's short twentieth century covered the period from the First World War and the Russian Revolution to the end of the Cold War—that is, from 1914 to 1991—, and, when we look at the history of Europe, it certainly provides a meaningful picture of the recent history. However, I doubted whether this rather Eurocentric view could be applied to other parts of the world, especially to those areas that were subjugated in the age of imperialism. The First World War had a crucial impact on Europe, but, if we look at the wider world, its importance becomes smaller, and it cannot be said to signify the beginning of a new era. The colonial situation into which many areas outside Europe had been thrown during the preceding years did not radically change.

This brings us back to the 1870s, when the age of imperialism began. After the 1870s colonisation in Africa, Asia and the Pacific gained momentum. The world became roughly divided into those countries that ruled colonies, and those areas that were ruled, and 'the imperialist world system' took shape. It should be added that such a division of the world was regarded as natural and normal in those days.

The theme of this symposium is '100 years of world wars and post-war regional collaboration and good governance'. Regarding regional collaboration, regional frameworks in this imperialist world system were mostly defined by the ruling imperial powers and the scope of regional collaboration was limited. In addition, colonial governance, which was based on asymmetrical and unequal colonial rule, was prevalent.

This imperialist world system was transformed by two world wars. It is true that, as I mentioned above, the First World War did not change this system radically, but the process of its break-up started as a result of the war. That process—that is, the progression of decolonisation—was accelerated by the Second World War, and finally led to the collapse of the imperialist world system.

The early 1990s, which saw the end of the Cold War and was regarded by Hobsbawm as the terminal point of the short twentieth century, was the final phase of this process. In this view the break-up of the east European socialist bloc and of the Soviet Union itself meant at the same time the collapse of the Soviet imperial system that had succeeded the Russian empire.

In this process regional collaboration began to be propelled by the newly independent countries. In Southeast Asia the Association of Southeast Asia (ASA) was formed in 1961 and then the Association of Southeast Asian Nations (ASEAN) was created in 1967 by five countries, Indonesia, Malaysia, the Philippines, Singapore and Thailand, of which only Thailand had not experienced colonial rule. In Africa the Organization of African Unity (OAU) was launched in 1963 by 32 African countries, most of which had become independent only shortly before.

In this process outright colonial governance faded away, and various forms of international governance, which were based on the exercise of sovereignty acquired by former colonies, came to dominate the world stage, however incomplete and porous that sovereignty might be.

3 Britain's Position in 'The Long Twentieth Century'

Needless to say, Britain occupied a very important position in the world of 'the long twentieth century', especially during its early phase. It is said that by colonising many territories, the British Empire ruled one-fourth of the world's land and as much as of the world's population. As a hegemonic power, Britain could lay down various international standards and norms. It was regarded as the front-runner of 'the world of civilization', and, when the Anglo-Japanese Alliance was concluded in 1902, it was said in Japan that, as a partner of Britain, Japan was finally admitted into that civilised world.

Having what I call 'imperial mindset/mentality' ('teikoku ishiki' in Japanese), British people regarded Britain's ruling position as natural, and, even if their concrete knowledge about the British Empire was poor or hazy, harboured little doubt about the imperial structure that surrounded their daily life. The strength of such a mindset has become the subject of heated controversy. For example, Bernard Porter, a leading imperial historian, repeatedly maintained that the working-class people of Britain were free from imperialism and there was no 'general feeling of support for and even mild pride in this entity [the British Empire] which was not very important to them.'⁶ On the other hand, John M. MacKenzie, another doyen of imperial historians and the general editor of numerous books on the British Empire published by the Manchester University Press, continuously pointed out the importance of the ubiquity of things and information related to the empire in people's daily lives and emphasised the strength of imperial mindset.⁷ I have put this imperial mindset at the centre of my study of the British Empire since I published my first book more than thirty years ago.⁸

In fighting both world wars Britain depended very much on material and human resources from various parts of its empire. I have been calling this situation figuratively 'the total war of the empire'. As the result of these 'total wars' Britain did become one of the victorious powers, but at the same time these 'total wars' paved the way for decolonisation and finally the collapse of the empire.

For this reason, there were people who thought Britain should not have fought these world wars in order to keep the British Empire going and preserving its power. For example, Niall Ferguson, who later became well known for his advocacy of the merit of the British Empire, argued in a book published in 1998 as follows:

Had Britain stood aside – even for a matter of weeks – continental Europe could have been transformed into something not wholly unlike the European Union we know today – but

⁶ Bernard Porter, *The Absent-Minded Imperialists: What the British Really Thought About Empire*, Oxford: Oxford University Press, 2004, p. 226.

⁷ MacKenzie's first and very influential work along this line was: John M. MacKenzie, *Propaganda and Empire: The manipulation of British public opinion 1880-1960*, Manchester: Manchester University Press, 1984.

⁸ Yoichi Kibata, *The Price of Imperial Rule: 'Imperial Mindset' and the Collapse of the British Empire* (in Japanese), Tokyo University Press, 1987.

without the massive contraction in British overseas power entailed by the fighting of two world wars.⁹

However, Britain did fight these wars and, despite the effort to stem the tide of decolonisation, the process of the breaking up of the empire became inevitable.

In 1962 Dean Acheson, the former United States Secretary of State, made a famous statement: 'Great Britain had lost an empire, but not yet found a role'. One year earlier, in 1961, the British government had applied for membership in the EEC, which had been founded three years before in 1958. This application and the second one made in 1967 were rejected, but Britain finally became a member in 1973. As Acheson suggested, Britain's international behaviour around this period was largely defined by the process of decolonisation, and it was hoped that Britain, which had lost an empire, could and would find a new role as a European country in an integrated Europe.

It should be noted here that European integration itself took place against the background of decolonisation. As mentioned above, in the wake of decolonisation regional collaboration started to be undertaken by newly independent countries, but in the case of Western Europe, regional collaboration and integration were propelled by countries, which were ruling powers in the imperialist world system. Among the six countries that were founding members of the EEC, four countries, excluding Germany and Luxemburg, possessed colonies at the time of its foundation. The relationship between these countries and their colonies emerged as a contentious issue, and, as a result of France's strong insistence, the Treaty of Rome, signed on 25 March 1957, provided for the commercial and financial association of the overseas territories (colonies) of France, Belgium, Italy, and the Netherlands with the EEC.

Therefore, in the structure of the EEC and the EC, which was launched in 1967, certain continuity from the imperialist world system could be detected. Still Britain's entry into the EC meant a great leap from the situation in which Britain played a significant international role as the centre of a huge empire.

4 Lingering Imperialist Mindset

Since it joined the EC, Britain has often been called 'an awkward partner' in an integrated Europe,¹⁰ and it continued to keep distance from any initiative to deepen integration. That attitude was epitomised in Margaret Thatcher's crying out, 'No, no, no', in the Parliament in 1990 against the European Commission's attempt to increase its powers. I was in Britain at that time and was much impressed by seeing that scene on TV.

⁹ Niall Ferguson, *The Pity of War*, London: Allen Lane the Penguin Press, 1998, p. 460.

¹⁰ Stephen George, *An Awkward Partner: Britain in the European Community*, Oxford: Oxford University Press, 1990.

Thatcher had to resign from the premiership immediately after that.¹¹ The period of her premiership that lasted from 1979 to 1990—that is, the last decade of the long twentieth century—also saw the lingering of the imperial mindset. That mindset clearly surfaced during the Falklands war in 1982, when the Thatcher government launched a large-scale war against Argentina, which tried to take back possession of the Falkland (Malvinas) islands. These islands lay offshore of Argentina, and, though the Argentine government’s claim itself was valid in the context of decolonisation, the method adopted by Argentina could not be justified. However, Britain’s military reaction was excessive and reminded us of imperialist powers’ behaviour in the early phase of the long twentieth century. What was important was that many people in Britain supported this war without holding any doubt about the continuing British rule of small islands in the South Atlantic far away from their country.

This kind of lingering imperial mindset has been carried over into the twenty-first century and has taken the shape of imperial nostalgia and influenced the outcome of the referendum of 2016.

In 2017 a book titled *Inglorious Empire: What the British Did to India*, written by Shashi Tharoor, an Indian politician and author, was published in Britain. That book, which originally came out in India a year before with the title *An Era of Darkness: the British Empire in India*, was a critical historical examination of British rule in India. The author argued: ‘Britain is no longer “Thatcherite”, though in the aftermath of “Brexit”, it may even be worse. The need to temper British imperial nostalgia with postcolonial responsibility has never been greater.’¹²

Certainly, imperial nostalgia and the lingering imperial mindset that resurfaced long after the collapse of the imperialist world system should be erased in looking for a balanced position of Britain in the world. However, it is a big question whether Britain, which is now led by a pursuer of imperial afterimage like Boris Johnson, can find a correct way or not in a multi-polarized world. As a historian who has been completely disappointed with Britain, I shall continue to watch where Britain is heading.

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¹¹ A more important reason for her resignation was the problem of the poll tax, which Thatcher tried to impose upon British people.

¹² Shashi Tharoor, *Inglorious Empire: What the British Did to India*, London: Penguin Books, 2017, p. xxv. The review in *The Guardian* took notice of this part and noted that it was a timely book which addressed the need to temper imperial nostalgia. <https://www.theguardian.com/books/2018/feb/23/inglorious-empire-what-british-did-to-india-shashi-tharoor-review> (lastly accessed 24 February 2021).

Chapter 4

Post-Trump Challenges for US and Japan



Wataru Sawamura

Abstract Thank you very much for your warm introduction. I am very much honored to join the international symposium of the Science Council of Japan. This is a valuable opportunity with many internationally respected experts. I have been involved in the work of international reporting at the Asahi Shimbun for nearly 30 years. With six years in the UK and four years in France, I had been working mainly in Europe, but I have been in Washington as the Bureau Chief since July 2017. For the past three and a half years, I have covered the domestic politics, foreign policy, and security policy of the Trump administration. As you all know, what has changed significantly in the last three and a half years is the U.S. policy toward China. Keywords often heard in the Washington area have also changed. The first was the “Revisionist”. It meant to be vigilant as China and Russia are seeking to change the global status quo as revisionist powers.

Keywords Post-Trump · United States · Japan · Media’s role

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As you all know, what has changed significantly in the last three and a half years is the U.S. policy toward China. Keywords often heard in the Washington area have also changed. The first was the “Revisionist”. It meant to be vigilant as China and Russia are seeking to change the global status quo as revisionist powers.

And then the term “Pushback China” was heard quite often. China may soon overtake the United States not only in the military and economy, but also in science

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and technology. It is a voice that therefore we need to push back against China now. The next buzzword was “Punish China”. The idea is that China should be deterred by punishment. The idea has grown with unfair practices such as market barriers against foreign investment and theft of intellectual property.

And then since last year people are more and more mentioning the term “Decoupling” which implies a China-free supply chain and an economy not influenced by China’s dominant market power and politics. Was this escalation a strategy that the Trump administration had carefully crafted? My answer is No.

I would like to make three points:

First point. The biggest political goal for Mr. Trump was to use his personal relationships with the leaders of superpowers and strong men leaders to make a big deal that previous administrations have failed to do. For Mr. Trump it is not a matter of good deal or bad deal, it’s a matter of big deal.

The rise of China is an unquestionable fact in everyone’s eyes. However, there is no evidence that Mr. Trump made any efforts to architect a comprehensive and coherent strategy on how the US would manage the world order and rising China. In other words, Mr. Trump’s policy decisions were based on his intuition, his re-election strategy, and his ego: he wanted to be considered a great president. I met some administration officials who were concerned that direct negotiations with Xi Jinping would result in an easy compromise deal.

The second point. Regardless of Mr. Trump’s thoughts, there was already growing dissatisfaction with China in various sectors in the US such as its administration, congress, industry and academia. Mr. Trump decided that it would be difficult to make a big deal with Mr. Xi Jinping, and that it would be more politically positive to put strong pressure on China through sanctions, tariffs and other trade issues. The frustration that had been building up in the United States erupted at once. The view of China in U.S. public opinion has deteriorated to a record low in the past two years, and Mr. Trump has come to the conclusion that it is politically advantageous to beat the hardline drum against China in response to this change in the will of the people.

Third point. The American public’s deteriorating view and sentiments toward China really comes from the pessimistic self-portrait of the decline of the US. While I was covering the US presidential election campaign, I heard the American public asking many times for the US to stop being a so-called world policeman, saying instead it should focus more on domestic issues such as infrastructure, healthcare, and inequality.

The reason for this is that US society is undergoing major changes caused by the widening economic disparities associated with globalization. These include the disparities between urban and rural areas, the disparities associated with educational backgrounds, and the dismal projection that younger generations cannot be richer than their parents. Distrust of the elite and government institutions have paved the way for populists to gain political influence. In the presidential election, the biggest indicators of whether one supports Trump or Biden were urban or rural (of course, urban for Biden, rural for Trump) and educational background (college graduates for Biden, non-college graduates for Trump).

According to an opinion poll, Americans have lost trust in institutions such as Congress, the executive branch and the media, which had long been considered a cornerstone of democratic governance. Some surveys show especially the younger generations are increasingly wanting military rules rather than democratic processes.

Disillusion with liberal democratic values and the rise of an undemocratic China have invoked skepticism of the US model and its traditional leadership role in the world. In other words, this sense of decline of the US and the loss of self-confidence among the American public are major factors of the growing uneasiness with China. All of this has been accelerated by the Covid-19 pandemic.

This symposium is a forum to look back on the wars in the world over the past 100 years and explore a new image of the international order. Would this hardening relation between the US and China be leading to the next “Cold War”? At the Asahi Shimbun we discussed whether it is appropriate or not to call US-China relations an early stage of the New Cold War.

It certainly does look like the “Cold War” if you look only at the current situation where two superpowers who have completely different views on democratic values are fiercely competitive in military, economy and technology. But the reality is quite different from the original cold war between the US and the USSR. The US and China are closely tied to each other at various levels, and they are interdependent. Neither country is conducting proxy wars in the world although there is competition in the sphere of influence.

In addition, I would like to point out that the US and China share an identical risk: the growing discontent and frustration among the middle class. I was staying in Beijing as a visiting fellow at Tsinghua University from 2013 to 2014 where I had a lot of chances to interact with Chinese young scholars and graduate students. I was so surprised that many of them did not hesitate to show me their frustration and worries about their future even though they were already part of the promising Chinese elite.

It was not because China’s economic developments were weak. But they were worrying about an excessively competition-oriented society, materialism and greed of capitalism which created serious social inequality. They were also irritated that China was not respected enough by other countries internationally in spite of economic success. They were really frustrated by China’s lack of soft power. Since China does not have a democratic electoral system, such voices are difficult to manifest. On Social Networking Services, only voices biased in favor of nationalism stand out. It was surprising for me to learn that there are objective and critical views to their country and government.

Now we have a new US administration. What we should keep in mind is that Mr. Biden will not go straight back to a soft engagement policy with China. The hardline policies toward China had already been formed with bi-partisan consensus. In particular, people who have already been nominated or are going to be nominated to the new administration tend to be far more critical of China on issues like human rights violations, state-led Chinese industrial policies, and aggressive military activities. We should remember as well that Biden won the election by flipping some rust belt states like Pennsylvania, Wisconsin and Michigan where traditional manufacturing

industries had gone to China. Although Biden will never use “America First,” I think he will not completely abandon protectionism.

Mr. Biden has already declared that he would heal this polarized country and eliminate division. However, the impact of the Trumpism era will remain strong for a long time and the divisions will not fade away immediately.

Although I am personally against using the term “new cold war”, the situation is very volatile and unstable considering current competition. Rivalry does not come from the strength of the US or China but comes from the weaknesses of both superpowers. It could be far more dangerous than a real cold war as there is no effective deterrent between the US and China.

That is why I think it is essential for the new US administration to carefully architect a comprehensive strategy for China policy and manage bilateral relations.

Mixed responses have been heard from Japan since Biden’s electoral victory. Some worry that US policy would return to Obama’s engagement policy towards China. Others are hopeful that the US would go back to institution-based foreign policy, internationalism, multilateral frameworks, and respect for alliances. It is also true there are common natures between Mr. Biden and Prime Minister Suga of Japan. Both are from commonality, not from political celebrity families, they both spent a long time as number two, and nobody expected them to be number one. Both are focusing on practical actions rather than flashy things.

But I think that Japan should not be satisfied. Unless Japan is willing to be on the same page with the US regarding global agendas, Japan will not be treated as a partner and be left behind.

Based on those contexts, I would like to point out three keywords which I think are crucial concepts for the future of US-Japan relations and their contributions to global order.

The first keyword is capability.

The Trump era really showed us that even free and open democratic power countries like the US might be not immune to populism with authoritarian touches. And it was already proven that this populism is ineffective and incapable of tackling global crises such as the pandemic. Of course, we should not follow the same approach as in other authoritarian states. Needless to say, the top priority for Biden’s administration is ending the Covid-19 crisis and rebuilding the US economy.

It is essential for countries like Japan, South Korea, Germany, Australia, and Canada, which were able to manage the pandemic fairly well through their democratic systems, secure democratic norms and transparency. They should help develop capabilities and well-functioning governments with other like-minded democracies such as the United States.

We need recovery but moreover we need a good model of recovery.

The second keyword is Big Picture. I think Japan should address its willingness to commit to global issues by looking at the big picture such as public health, climate change, nuclear proliferation, inequality, and mass migration issues.

I think it is expected that these democratic middle powers will unite to support the United States if necessary and should pull the US back if it is going in the wrong direction.

To do so, Japan itself must show its position of respecting free and democratic values both inside and outside the country. Mr. Suga's signature policies include issues such as lowering mobile phone fees and establishing the Digital Agency. It is good to promote political agendas which are close to Japanese peoples' everyday life and show the efficiency of government. But I would like Suga to be vocal on the global agenda as well.

He announced that Japan would achieve zero carbon emissions by 2050. I think it is a very good start. I believe that what is expected of the Suga administration is not ideology or nationalism, but rather a practical approach to effectively tackle the big pictures.

The third keyword is diversity. I am sure that Biden's cabinet and White House will be very diverse with lots of women, people of color and younger generations. It is already announced that the next UN ambassador would be an African American woman, and there would be the first Hispanic Homeland Security Secretary. The US will have its first female Treasury Secretary and female director of national intelligence.

I am feeling a little bit nervous when I imagine a US-Japan ministerial meeting full of old men with dark suits on the Japanese side and very diverse counterparts on the US side. Of course, demographics are not the same between the two countries. But it's time for Japan to change our mindset and to highly value diversity by making intensive efforts to have more women and younger generations in our politics.

Lastly, it should be pointed out that Japan is in a good position to play an important role as a free-democratic power in Asia. Therefore, it's essential for Japan to maintain and improve relationships with neighboring countries including South Korea to demonstrate Japan's regional leadership.



Chapter 5

Power Transition and 100 Years of World Wars: Reconstruction of the New World Order as the Great Powers Decline



Kumiko Haba

Abstract It is more than 100 years since the end of World War I, and in a world in which conflicts occur and nationalism rises frequently, we need to investigate and re-learn from the past 100 years through our sharpened, objective and fair intellectual spirits.

The author's first concern about the power shift was that China overtook Japan's GDP in 2010, and that the territorial dispute spread around Japan's territory and Taiwan, coupled with the signs of a power shift.

On the one hand, it was the period of 2012–2022 when the attempts of regional cooperation and integration expanded, especially in Economic field.

However, amid intensifying competition, attempts at regional cooperation were unsuccessful. On the other hand, since 2014–2022, tensions between the United States and China or the United States and Russia, had increased, leading to the current conflicts and tensions. In the midst of such tension, we all, scholars of more than eleven countries, UN, UK, USA, China, Italy, India, Japan, Korea, Romania, Russia, Spain, Thailand, tried to attempt to investigate and analyze under the network with the Science Council of Japan, and discuss about what will be the New World Order should be. We can learn from European Resilience and the Normative power. This is our fruits of our investigation and analysis.

Toffler, Alvin, *Power Shift; Knowledge, Wealth, and Violence at the Edge of the 21st century*, 1990.

Haba, Kumiko, "Power Shift—National Anxiety, Territorial Dispute and Xenophobia", *Academic Tendency*, Science Council of Japan, 2014, January. Haba, Kumiko, *Asian Regional Integration in the Global Era*, Iwanami Publisher, 2012. Chinese Translation: *Asian Regional Integration in the Global Era*, 中央編峰出版社、China, 2014. Amid intensifying competition, attempts at regional cooperation were unsuccessful. On the other hand, since 2014, tensions between the United States and China have increased, leading to the current conflict and tension. Kumiko Haba (Ed), *Considering Asian Regional Integration—How to avoid war*, Akashi Publisher, 2017. In the midst of such tension, it was the Science Council's attempt and this book that tried to think about what the new world order should be.

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Keywords Power Transition · 100 years of World Wars · New World Order

1 Introduction

It is more than 100 years since the end of World War I, and in a world in which conflicts occur and nationalism rises frequently, we need to investigate and re-learn from the past 100 years through our sharpened, objective and fair intellectual spirits.

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2 Symptoms of War and Power Transition After the COVID-19 Era

The UK's BREXIT and the USA's President Trump, who touted a "Strong America", emphasized the era of "post truth" and "anti-intellectualism" of Europe, especially the UK and the US, the Anglo-Saxon Great Powers of the twentieth century.

The spread of populism and antagonism in Europe and the USA, and the trends of exclusion has a strong parallel with the start of World War I.

The biggest and most terrible commonality is that a "relative long peace" has continued and "generations who do not know war" have become the majority in their populations.

When World War I broke out, it was written that young people went to the war joyfully waving their hands with laugh and joy, as if they were going on a field trip. But what awaited them was a prolonged war and death.

On the eve of the First World War, the rise of nationalism, conflicts and collisions at boundaries led to the inevitable result of war.

As the war dragged on, many young civilians were sacrificed as a result of a war where science and technology had developed.

On the other hand, with the Bosnian independent movement that became the direct trigger of the war, an ethnic and Social Revolution broke out, four Great Empires collapsed—the Russian Empire, German Empire, Habsburg Empire and Turkish Empire,¹—and many independent countries were born.

In Russia, the Democratic Revolution and the Socialist Revolution had happened in turn, and Russia continuously grew in power. However, the Soviet Union only lasted 70 years. It couldn't stand 100 years of history and collapsed.

The socialist revolutions which occurred in Central and Eastern Europe were crushed, but the Nationalist Revolution had survived. Looking on the inside of history, four Empires collapsed, and new “sovereign states” as successors of the Habsburg monarchy established in the twentieth century became integral to the New World. The independence of Central and Eastern Europe was supported by Allied countries.

However, the formation of the “nation-states” and subsequent destabilization soon gave rise to “irredentism (the territorial recovery principle)” in the defeated countries, and as a result, new wars were started to correct borders again after 20 years. Europe was again devastated by wars and battles. More than 50 million people died in Europe and Asia.

“War is a zero-sum game”. With one win comes one loss. Those who lost their territory continued their antagonism and strengthened military power to prepare and restore territory in the next war for hundreds of years. There is no end to territorial wars.

After the Second World War, under the devastation and scorched earth, European people swore that they will never wage war for territory and national interests again. Beyond the nation-state, European integration history had begun.

However, in the twenty-first century, nationalism and populism rose again both in Europe and the world. Both the US and the UK declared “Us first!” The UK decided to leave the EU. Interestingly, developed countries such as the UK and the US, who had led the free trade system in the twentieth century, turned inward to protecting their own country first. On the other hand, the emerging countries such as China, and ASEAN advocated regional collaboration.

“One Belt and One Road Initiative (BRI: Belt and Road Initiative)” and the South Asian Association for Regional Cooperation (SAARC), BIMSTEC, and AU (African Union) are working together in the twenty-first century, even though their population is huge, but furthermore they wish to collaborate together. They are embarking on cooperation with other countries like BRICS, as well as developing regions like Africa, Central Asia, Latin America and others.

Angus Maddison's analysis of long-term economic statistics using mega-computers (AD1-2030) shows that India and China dominated the world economy

¹ Shin-ichi Yamamuro, *First World War*, Vol. 1. Iwanami Publisher, 2014. Kumiko Haba, “War, Declining Great Power and Reorganization of the World Order-100 years of Russian Revolution”, *Arena*, 2017, Vol. 20. Yoichi Kibata, “First World War as a Total War”, *War in 20th Century*, Yushisha, 2012. Noam Chomsky, *9.11.—Not Eligible to Retribute to America!* (Japanese) Bunshun paperback, Tokyo, 2002. *Brill's Encyclopedia of the First World War*, 2 Vols, Leiden & Boston, Brill, 2012.

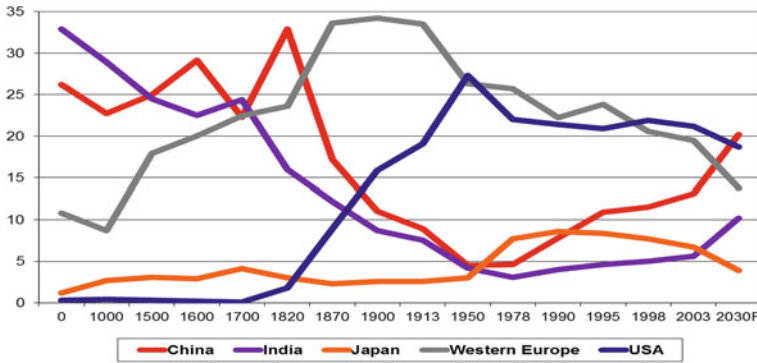


Fig. 1 Long term power shift—historical GDP in world by Angus Maddison: India/China era continued more than 1800 years! The US is only 100 years.³

between 1 and 1800 AD, and Europe is constantly Although the United States maintained a certain level of power, the United States only jumped to the top for 200 years from 1800, and the so-called modern Europe and America colonized Asian countries such as China, India and others. It was clearly shown that it was the result of the deprivation of wealth by western countries. And as a result of the colonial newsletter, emerging Asian nations are regaining power. With this, Angus Maddison showed in statistics that the United States developed just after the nineteenth century. Therefore, the growth of China and India was not a miracle, but just a return to the past² (Fig. 1).

History can be compared to “Saio’s horse”, Chinese narrative—Alternating between good and bad and unpredictable. Fortune and misfortune alternate like a rope waving in turns. So is a History.

Historically, federation, nation-states, and regional integration (union) emerged repeatedly. Politically, there is no conclusion whether nation-state or federation, protectionism or regional collaboration is better. However, it is obvious that nationalism, populism and protectionism bring destabilization of the region, and the expansion of nationalism easily bring various traps of conflict and war crises.

The collapse of the Hapsburg Empire brought the independence of Poland, Czech-Slovakia, Hungary and Yugoslavia, but after independence of these countries, instability continued in Central and Eastern Europe between the menace of the Soviet Union’s Socialist System and the irredentism of Germany, Italy and Hungary. These situations snowball so that they need to make stronger and more stable states, so at

² Angus Maddison, *Contours of the World Economy, 1–2030 AD: Essays in Macroeconomic History*, Oxford University Press, September 2007. Angus Maddison, *Chinese Economic Performance in the Long Run, 960–2030*, OECD, Paris, October 2007.

³ Source: Angus Maddison, *The World Economy: A Millennial Perspective*, 2001; and Angus Maddison, “*The West and the Rest in the World Economy: 1500–2030*”, 2005; Masahiro Kawai, *New Asian Economy*, Bunchindo, 2016. Masahiro Kawai, “Economic Relations Between Japan, the United States and China: East Asian Community and the United States”, *Press Club Meeting*, 2009.11.25.

first regional cooperation, secondly autocracy and military government, and finally conflicts and wars. Therefore, these situations brought inevitably the next conflict, the Second World War. The subsequence of history gives us many lessons.

It is a historical turning point in the contemporary world: it is 104 years since the end of the First World War, 77 years since the end of the Second World War, and 33 years since the end of the Cold War. It can be said that people of all ages have a responsibility to construct new international norms with a view to the future, how to make stability and prosperity in the twenty-first century.

When it seems that the war crisis and destabilization are approaching again with populism and protectionism today, we are facing a difficult steering of how to avoid war and conflicts and create a new era without destroying mutual interests at this turning point.

As a researcher of regional integration, the author investigates the incidents of the past 100 years from the perspective of how to reconstruct peace and stability in an instable period.

3 Modernization and War

“Democratic countries do not cause war with each other”.⁴ This is Bruce Russett’s definition based on the analysis of war statistics over several hundred years; this is the “democratic peace” theory which was used in a long history of the Democratization (“Pax Democratia”).

However, the famous linguist Noam Chomsky wrote on 9.11, criticizing that the country which has caused the wars most is a democratic country—the USA, which is the profound thinking (Noam Chomsky, 9.11).⁵

Without waiting for the analysis of Bruce Russett, it has been believed generally that under modernization and democratization states have achieved peace and prosperity, after “barbaric” dictatorship disappeared. Historically, it was thought that modernization and civilization has certainly made people richer and happier.

But on the other hand, as a result of recent post-colonialism research and criticism of post-science and technology, discovery of new continents and colonization is the study of “brutality” that had harmed the natives, by using modern heavy weapons; modern war’s brutality is beyond comparison with the Middle Ages. The expansion of brutality of wars is becoming evident in the new research.

The invention of “matchlock, navigation, and compass” by modernization, contributed that the modern nation discovered, pioneered, and developed around

⁴ For more information on Democratic Peace Theory, see Bruce Russett, translated by Takehiko Kamo, *Pax Democratia, Principles for the World After the Cold War*, University of Tokyo Press, 1996.

⁵ Noam Chomsky, 9.11.— *Not Eligible to Retribute to America!* (Japanese) Bunshun Paperback, Tokyo, 2002.

all over the world, but also brought invasion, wars, conflicts, and colonization as well. (Diamond, *Guns, Germs and Steal*).⁶

In the First World War, the invention of technology of flight and fighter aircraft expanded war more brutally from the two-dimensional framework to a three-dimensional one and caused widening of the war not only to the front but also to the private sectors.

The development of technology, like tanks and heavy weapons in WWII, the nuclear weapons at the end of the WWII, and the chemical weapons in the Vietnam war—all these technologies were able to harm and killed human beings dramatically and sustain and expand their damage, inviting the fear of the earth's destruction.

Modernization has developed states and societies, but weapons and war technology in the early stages, cruelizing war, which has also caused tremendous sacrifice to the civilians beyond necessity (Toshihide Maskawa “What Scientists did in the War?”, Ryo Ikeuchi “Scientists and War”).⁷

The cruelty of the “totalitarian state” is enormous. However, it is also a product of modernization. The power of nuclear intercontinental ballistic missiles and remote-controlled drones is enormous and global, even suggesting the possibility of destroying the earth, anticipation from the front need. With modern technology that destroys the earth and humanity, we can no longer have a world war.

Even after the end of the Cold War, people did not stop producing war and weapons in the wake of the expansion of regional conflicts. Instead of destroying weapons with all advanced technologies that create a “clean war” by remote control of war, such as carbon bacteria, cyber, and drones. It has come to be incorporated into daily life.

It is even repeatedly reported at News Week, etc., that the spirit of American soldiers cannot bear killing and it has created mental disorders and an increase in suicides.⁸ However, people do not stop inventions that simplify and enlarge the killing of people, calling that “defense” against the threat of terrorism and war.

The fact that scientific inventions in democratic countries are increasing slaughtering skills is enormous.⁹ Emerging countries and “barbaric nations” are not the only ones that cruelize and refine wars. We should look directly at the state-of-the-art science and technology through modernization.

⁶ Jared Diamond, Translated by Akira Kurone, *Guns, Germs and Steal; The Fates of Human Societies*, Norton, New York, 2005.

⁷ Toshihide Maskawa, *What Scientists Do in War*, Shueisha New Book, 2015. Ryo Ikeuchi *Scientists and War*, Iwanami Publisher, 2016.

⁸ “The Cry of a Young American Soldier who Commits Suicide After Returning”, *News Week*, 2012.8.7. Yukari Watanabe, “Why Soldiers Who Survived the Battlefield Collapse in the US”, *News Week*, 2016.8.31.

⁹ Ryo Ikeuchi and Takayuki Kodera, *Weapons and University: Why Should We Not Conduct Military Research*, Iwanami Publisher, 2016.

3.1 *Anti-Intellectualism, “Post Truth” and Conflicts*

With the widening gap due to globalization and the influx of migrant refugees, the UK and the United States, the two victorious powers that have pulled modern democracy, self-priority like “We are the First!”, protectionism, etc. has begun to take action that overturns the common sense of modern liberalism and democracy, hiding them without concealing them. European countries are no exception, and exclusionism is sweeping Europe, the USA and the world.

As symbolized by the atmosphere “post-truth” and “anti-intellectualism” were widening in the middle-class people,¹⁰ who have traditionally supported the two-party system’s “common sense” in modern nation-states. The era of overturning common sense is born by the economic crest of two major powers symbolizing modernization and “home-country first!”

What is the cause of nationalism?

In the 1930s, the late-capitalist countries like Germany and Italy that pursued developed countries created populism and dictatorship with the help of enthusiastic youth.

In the modern world, why have advanced countries such as Britain and the United States, which had led modernization, introduced anti-intellectualism and aggressive “post truth” with the help of populism in the sense of crisis being driven by emerging countries?

In Europe, especially among elderly and rural people who had experienced the devastation of war, the claim to defend the welfare state from immigrants and the voice to exclude migrants and refugees from their countries became stronger than ever.

So-called “welfare nationalism” and xenophobia (dislike of foreigners) emerged along with the hidden discrimination.

The background is economic pressure and fear of decline. Contemporary economic crisis in developed countries is obvious.

Seeing the world economic growth rate of 2016, published in 2017 (table), China and India, with 6.7–6.8% growth, are at the top of the economic growth rate with small and medium-sized countries.

On the other hand, most of developed countries have the lowest growth rates: US, UK, Germany, France and Japan (Table 1).

This is the current economic situation in the world and developed countries. And this is the cause of social instability and “post truth”. Where are developed countries going? How can we solve these situations?

¹⁰ For Post Truth and Counter-intellectualism, Evan Davis, *Post-Truth: Peak Bullshit—and What We Can Do About It*, Abacus, Paperback, 2018. Matthew d’Ancona, *Post-Truth: The New War on Truth and How to Fight Back*, Ebury Press, Paperback, 2017.

Anri Morimoto, *Counter-Intellectualism; The True Identity of “Fever Disease” Born in America*, Shincho Paperback, 2015. Kiyoshi Uchida, Mari Akasaka, Takashi Odajima, *Japanese Counter-Intellectualism*, Shobunsha, 2015.

Table 1 World economic growth rate in the world 2016

| Developing power | | | Developed power | | |
|------------------|-------------|-------|-----------------|---------------|-----------|
| 1 | Knaul | 10.3% | (190 countries) | | |
| 2 | Iraq | 10.0% | 128 | UK | 1.8% ↓ |
| 3 | Ethiopia | 8.0% | 129 | Germany | 1.8% |
| 4 | Uzbekistan | 7.8% | 131 | United States | 1.6% ↓ |
| 5 | Courtjevoir | 7.5% | | / | |
| 6 | Iceland | 7.2% | 148 | France | 1.23% ↓ |
| 7 | Cambodia | 7.0% | | / | |
| 8 | Laos | 6.9% | | / | |
| 9 | Bangladesh | 6.9% | 155 | Japan ★ | 0.999% ↓ |
| 10 | Tajikistan | 6.9% | | / | |
| 11 | Philippine | 6.8% | 169 | Russia | -0.225% ↑ |
| 12 | India | 6.8% | 189 | South Sudan | -13.8% |
| 13 | China | 6.7% | 190 | Venezuela | -18.0% |

Source: IMF World Economic Outlook Databases 2017.4

4 World War-Collapse of a Great Power and Formation of a New World Order—“Thucydides’ Trap”

American political scientist A.F.K. Organski’s book, *World Politics* and Harvard University’s Professor, Graham Alison’s book *Destined for war*¹¹ showed that the changes in international power relations will create anxiety, jealousy and tension in developed nations, and which is often settled by war, this is the “Thucydides’ Trap” in the world, and as a result of war, emerging nations won historically and preaches a new international order will start.¹² This is similar to the contemporary situation.

World War I began exactly under such circumstances. That is, the Serb nationalist group, “The Black Hand” youth of Bosnia and Herzegovina, Gavrilo Princip, 19 years old, “accidentally” assassinated Franz Ferdinand, the Duke and successor of Habsburg Empire, and that incident became the start of World War I.

Franz Joseph I, Emperor and King of Austria-Hungarian Monarchy, Habsburg Empire declared war against Serbia, posing an unacceptable ultimatum. As a result, in a short time, most of the European great powers joined the war in a chain reaction in which the power balance had been formed beforehand. Thus, a small accidental assassination that took place in a frontier border area triggered a major war.

Nobody considered the Empire would collapse starting from such a tiny conflict. The emperor and government of the Habsburg Empire rather considered it would end

¹¹ A.F.K. Organski, *World Politics*, Alfred A. Knopf, 1968. Graham Allison, *Destined for War: Can America and China Escape Thucydides’ Trap?* Houghton Mifflin Harcourt, 2017.

¹² This is an example that is often cited as “Thucydides’ Trap” in international Politics. Thucydides, Translated by Haruo Konishi *Thucydides’ History*, Chikuma Gakugei Paperback I-II, 2013.

in only several weeks or at least by Christmas that year, but war continued almost four and a half years, and the loser was not Serbia, but the Habsburg Monarchy, and it collapsed not by war, but by itself, by inside revolution and independence of nations.

All four Empires which ruled Europe collapsed during World War I. Starting with the collapse of the Russian Empire by the outbreak of the Russian Revolution,¹³ German Empire by revolution, the Habsburg Empire by the independent movement and declaration of independence by minority nations, and finally the Ottoman Empire by the revolution of the Young Turkish party.

They collapsed not because of war, but from the inside, one after another. Nation-states were born and established as “successor states” through the effects of nationalism movement and leaders’ endeavor.

Four large Empires collapsed, and new sovereign nation-states were born. However, the independence of new nation-states caused a new territorial anxiety and conflicts among each nation; before long, “irredentism” occurred especially by the claim by Germany and Italy, and after 20 years of a short crisis, again a new World War began in 1939, 80 years ago.

In defeated Germany, the democratic Weimar Republic established after World War I, Germany suffered from high compensation payments and a worsening economy. As a result of that, the Nazi Party was elected as the first party in the general election, formed government, and before long the Nazi army marched east, to get the “right to live”. At first the German Nazi Army occupied the Sudeten German area, and after that it invaded and occupied the Polish area as well. Then the German Nazi army established notorious concentration camps in Auschwitz and Birkenau. Under the Nazis German occupation, the following people were accommodated one after another: Jews, Poles, Roma, Slavic nations, communists and socialists and disabled people. Several millions of people had been executed to a cruel, ghastly department “Holocaust” in Auschwitz and Birkenau.

Eventually, the Nazism and fascism of Nazi Germany and the Italian Fascist Party were defeated by the Allied nations, especially the Soviet Union’s Red Army, and the partisan movements in various parts of East European nations.

4.1 The Cold War After World War II

The Cold War started under the Soviet Army in Eastern Europe on one side, and NATO (from 1949) in Western Europe, especially West Germany in the other side. Under such occupation of Soviet Army and Warsaw Treaty Organization (from 1955), East European movement for independent and sovereignty movement continued; in

¹³ Many literary figures portrayed a society of poverty and inequality at the time, hoping for a revolution in workers and farmers. It was an illusion, but it created an atmosphere full of expectations for change from the bottom of society at the time. Kumiko Haba eds., *Russian Revolution and Eastern Europe*, Sairyu-sha, 1991.

Eastern Germany in 1953, Polish sovereignty movement, and Hungarian Revulsion for independence in 1956, and Solidarity movement from 1980–89.

Finally, Perestroika and democratization of the Soviet Union started in 1985, collaborating with East European “Central European” literature and cultural movement in the 1980s, Eastern European revolutions happened one after another starting to open the Iron Curtain; the Solidarity Movement, “Pan European Picnic”, Velvet Revolution in Czech Slovakia, Fall of Berlin Wall and Ceausescu resignation in the Christmas days.

Because of the “twin deficits” of the United States, it also compromised with the Soviet Union, and both US and USSR met and signed the end of the Cold War in December, 1989. Before that, the “Revolutionary Dominoes” occurred where East European countries became independent from the Soviet Union one after another, the Soviet-Eastern European socialist system collapsed at the end of 1989, and started the withdrawal of the Soviet Army of Warsaw Treaty Organization in 1991, and at last the collapse of the Soviet Union was complete in December 1991. The communist-socialist system from Russian Revolution to Soviet-Eastern European System didn’t continue and collapsed after only 70 years or so. It could not withstand a 100-year historical referee.

Human beings never learn from history, they have only managed to change the international order, through war and revolution.

Now nuclear missiles are scattered all over the world, even in North Korea. Under such a situation, mankind has to use the opportunity to peacefully carry out not only official diplomacy, but also public diplomacy and discussions; we need to consider and learn the world and regional stability and prosperity through economic development and mutual discussion, and to learn power relations without going through wars and conflicts.

Learning from our history, the author believes that human beings are not stupid enough to go on the path of anger and collapse countries and the world.

Though two thousand years of repeated territorial conflicts and wars, Europe learned many lessons, the scene of two world wars, beyond the post-wars after Rome Treaty, 1957 by establishing the regional integration, created a system that does not cause war and conflicts, at least in the European region.

Can we adapt these lessons to the Asian region or a global system?

Isn’t it possible to create an order change through reconciliation, economic cooperation, and institution building, rather than through war and military power?

That is my fundamental research point to make institution in the conflict regions.

5 The Collapse of Empires and Nationalism

100 years ago, four European empires collapsed in World War I, and a new order and new nation-states were established. Central and Eastern European countries were established, such as Poland, Czechoslovakia, Hungary, Yugoslavia, Romania and Bulgaria.

After the collapse under the war of modern empires that symbolizes the Europe of the Middle Ages and the modern age—the Russian Empire, German Empire, Habsburg Empire and Turkish Empire, leaders of ethnic groups of each country formed nation-states.

In history there are no “ifs”; conjunction with the subsequent history has important implications. That is, the things that happened were inevitable. In 1918 the socialist revolutions in Eastern Europe failed; on the other hand, the national independent revolution succeeded in Eastern Europe. Only in Russia, not only democratic but also a socialist revolution succeeded, and it lasted 70 years, but it also collapsed.¹⁴

After the Second World War, why did the socialist system in Eastern Europe and the Soviet Union collapse rapidly after half a century?

Why did people of Central and Eastern Europe, especially Polish people, happily and hurriedly escaped from the rule of the Soviet Union, and before the strengthening again of the military influence of Russia, they wish to join NATO as early as possible? Why are Polish youth volunteering and training as anti-Russian volunteers even now in the Polish eastern border?

When thinking about the hundred years of Polish history and East European History, we could learn very important lessons, how the two world wars and the Cold War affected the Polish people and East European people, how they think about the history of their country and the world during these hundred years.

We could write the next pages of history only after these suffering experiences, even in Japan and East Asia.

6 The End of World War and the Formation of a New World Order

In the course of the outbreak and the demise of World War I, the way of nation building, and regional constructing follow three points: federation, nation-state, and regional collaboration.

6.1 *Attempt to Reorganize Federal Institutions, Such as the Danube Federation*

One is a federal reorganization.

In the latter half of the nineteenth century, the concept of reorganizing the declining powers into various federal systems with the growth of nationalism and the growth of influence of regionalism.

The reorganization of federal efforts had repeatedly appeared as a federalist concept in the Hapsburg Empire from 1848 to the early twentieth century.

¹⁴ Eric Hobsbawm, *The Age of Extremes: 1914–1991*, Abacus, 1995.

After the failure of the 1848 revolutions, the Danube Federation or Confederation concept was conceived by Kossuth Ferenc and Krapka György, to widen collaboration in Central and Eastern Europe. It ceased shortly after the compromise between Austria and Hungary, against the Pan-Slavism movement. In the early twentieth century, the reorganized Federal Initiative was planned, and linked to the Greater Austrian United States, Balkan Federation, and the Central European Union, and has created a major trend in the history of reorganization of the Hapsburg Empire in the beginning of the twentieth century and the theory of “Central Europe”.

From the 1890s to the early twentieth century, there were attempts to reorganize ethnic regions into multi-ethnic federal institutes, promoting multi-national coexistence.¹⁵

However, as a result of the rise of the national movement, the Empire was dismantled, as the federal attempt could not withstand historical trials, and instead a modern nation-state was formed.

6.2 Modern Nation-State Formation

The second is an attempt to form a modern nation-state.

Shortly after the war, the countries of Central and Eastern Europe that appeared between Germany and Russia were politically and economically unstable and a collection of small countries that could not be united.¹⁶ As a result, they were dismantled one after another in the 30 s, or shifted to a dictatorship system and incorporated under the influence of neighboring powers such as Germany and Russia.

New nation-states and the influence of the great powers in the “between area” were so fragile that they gradually moved to an authoritarian dictatorship (Anthony Polonsky’s *Little Dictators*),¹⁷ and easily merged to neighbor great powers. Then, the former empire nations were merged to Germany and the Soviet Union during World War II.

Which is more preferable for people living in Central and Eastern Europe: a federal state or a nation-state? This is also a big dilemma for state reorganization of the multi-ethnic region, but during these days, nationalism is stronger in each region than federalism.

¹⁵ Kumiko Haba, *Nationality Question of Integrated Europe*, Kodansha, Paperbacks, 1994 (first ed.) – 2004 (seventh ed.). Miodrag Jovanović and Slobodan Samardžić, *Federalism and Decentralisation in Eastern Europe: Between Transition and Secession* (Publications of the Institute of Federalism Fribourg Switzerland), Lit Verlag, 2007.

¹⁶ Arno J. Mayer, *Wilson vs. Lenin: Political Origins of the New Diplomacy 1917–1918*, Meridian Books, 1969. (Translated by Yoichi Kibata and Takashi Saito, *Wilson vs. Lenin—Political Origin 1917–1918*, Iwanami Publisher, 1983.)

¹⁷ Antony Polonsky, *Little Dictators: History of Eastern Europe Since 1918*, Routledge & Kegan Paul Books, 1975. (Translated by Kumiko Haba et al. *Little Dictators*, Liburaria Selection, Hosei University Press, 1993.)

After the end of the Cold War, federal republics, like Yugoslavia, Czechoslovakia, and the Soviet Union dismantled and most areas introduced democracy, and conflict continued, especially in Yugoslavia from 1991 to 1999. Their massacre only ceased due to the bombing by NATO in Bosnia in 1995, and Kosovo in 1999.

Most of the peoples who live in these regions considers that they wish to make independent as nation- states, and after that, join the EU and NATO, and the four-country cooperation Visegrád.

6.3 Regional Collaboration and Regional Integration

After two world wars and the end of the Cold War, people understood that “independence 100 years and sovereignty” is the most valuable and important point in history for the people and government, even though it is a little instable and weak. Only after that can regional cooperation work together for stability and development of the region.

After the Holocaust and the end of WWII in Europe, through the German division between West and East, and German integration into the new western systems like EC and NATO, Franco-German Reconciliation aiming for a non-war community kicked off European integration.

However, regional integration after the war did not intend to contain Germany, which had the biggest responsibility for the war in Europe in WWII because of the Holocaust, but it was intended to exclude the Soviet Union that led the victory of Allied countries by the Great Patriotic War. Post-war regional integration was formed including Germany, which caused the war, and excluded the Soviet Union, which won the war. The situation was the same in the Far East. The new world order was formed by incorporating the defeated former Axis country Japan and excluding communist China.

Ideological hostility and exclusion of Russia and China has continued until the present day.

7 Epilogue: What Will Be the New World Order Considering 100 years of World Wars and Regional Collaboration?

The new era in which emerging Asian countries like China and India surpass developed powers like the United States, Europe and Japan in economic terms and technological terms has already begun. However, the move to build a new order in terms of international order and value has not yet started. That is why we must avoid the

danger of wars and think about what the new international order in the future should be.¹⁸

As a subject of international politics, in the turning point of a great historical era, we need to consider and investigate, how peacefully and stably to make transformation and how to establish a new world order to achieve these goals? The important thing is to avoid war and conflict between the emerging powers and the developed powers for changing order, which Organski and Graham Allison warned against.

How to reconstitute a New World Order is the biggest subject for us, not through new war, but on the basis of peace, prosperity, sovereignty, regional collaboration, and world collaboration, together with different nations' joint wisdom!

Based on the 100 years of the "era of world wars; World War I, World War II, Cold War, and the COVID-19 Pandemic, we should aim for (1) global scale analysis and consideration in international politics, objectively analyzing each situation for various problems in the world, (2) Discuss the themes of economics, politics, common securities, climate change, and pandemics with experts, scholars, governments, companies concerned in each country, deepening mutual understanding while considering the sovereignty of each country, to find new solutions based on the wisdom of various countries and the joint efforts of the region, in response to the crisis and tension of war.

In particular, in response to the widening disparities under globalization after the cold war, post-colonialism, and the global south, It will be important that we put the protection of human rights first, and construct a new era collaborating with emerging countries rather than against them, and building a new world order, practicing global issues while respecting each other, aiming for a world where "no one is left behind" based on SDGs.

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¹⁸ Kumiko Haba, *Division and Integration in Europe; Nationalism and Borders in Enlarged EU—Inclusion or Exclusion—*, Chuokoron-Shinsha, Tokyo, 2016.

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Part II
After World War I and the Inter-war
Period

Chapter 6

Disarmament and Equilibrium between the Two World Wars (1919–1939)



Valdo Ferretti

Abstract The paper attempts to discuss how the ideology of disarmament interacted with the dynamics of the balance of power and the equilibrium among the great powers in the period between the First and the Second World Wars. It deals with the principles of the League of Nations and the Washington treaties of 1922 and the failure of the so-called British appeasement and the ultimate failure of the system of collective security system which ensued from the treaty of Versailles of 1919.

Keywords Equilibrium · World wars · Disarmament

The Covenant of the League of Nations, attached to the Treaty of Versailles of June 28, 1919, established at art. 8 that “The Members of the League recognise that the maintenance of peace requires the reduction of national armaments to the lowest point consistent with national safety and the enforcement by common action of international obligations.”¹

Such principles reflected an ideology which had developed in pacifist thought since the late 19th century and was tentatively endorsed at the Hague conferences of 1899 and again in 2007. The idea that was largely gaining traction in the public opinion of several countries at that time was that the reduction of armaments and the adoption of judicial procedures would be able to resolve international disputes and avoid wars in the future.² The diplomacy of arbitration had achieved important

¹ https://avalon.law.yale.edu/20th_century/leagcov.asp.

² See Maartje Abbenhuis, *The Hague Conferences and International Politics, 1898–1915*, London, Bloomsbury, 2019.

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results and made important steps forward before the First World War,³ especially in English-speaking countries and the Far East. In that connection the peace programme implemented by the Conference of Versailles of 1918–1919 was largely inspired by the so-called “14 points” enunciated by the U.S. President Woodrow Wilson. Moreover such a programme played a special role in the political settlement following the First World War,⁴ as it aimed to consolidate the existing balance of power by setting up a new institutional structure. In a sense, it also provided a model by which the “federative” schemes of international organizations, aiming to “guarantee to [...] to all parties concerned the peaceful enjoyment of their respective rights” have been portrayed somewhat negatively, as if they had ushered an “oligarchic” rule over international society, one cloaked in “pacifist rhetoric”.⁵

The whole construction started to creak soon. It was done no favours by the American Senate’s refusal to ratify the Treaty of Paris and the advent of an isolationist administration in the United States. In the background, however, one should also point out that several powers took the League of Nations only for a new diplomatic mechanism, largely overlooking the intellectual premises of the American President.⁶ In a nutshell, from the beginning, the two sides of the programme of the League of Nations (*Société des Nations*, SdN) looked as if they might collide with each other.

In the Pacific area, the Washington Conference⁷ was inaugurated in 1921, to be followed by the Five-Power Treaty of 1922. As a consequence, a rift occurred, to which only a handful of historians have paid attention. On the one hand, there was the “system” of disarmament put in place in Washington, which regarded naval armaments and included only the five signatory powers; on the other hand, there was the League of Nations with its founding principles and its statute. Some countries, including few potentially great powers as of yet, remained outside both entities, because they had been on the losing side in the war, like Germany, or because, in spite of their size, they still had not obtained full recognition by international society, as was the case for Soviet Russia. The SdN programme in its turn featured

³ See, for instance, E. James Hindman, “The General Arbitration Treaties of William Howard Taft”, *The Historian*, 1973, 36:1, pp. 52–65.

⁴ Martin Ceadel, “Enforced Pacific Settlement or Guaranteed Mutual Defence? British and US Approaches to Collective Security in the Eclectic Covenant of the League of Nations”, *The International History Review*, 2013, 35:5, pp. 993–1008.

⁵ Stella Ghervas, “Balance of Power vs. Perpetual Peace: Paradigms of European Order from Utrecht to Vienna, 1713–1815”, *The International History Review*, 2017, 39:3, p. 415.

⁶ See for instance the case of Italy, (cf. Italo Garzia, “Italy Faces the Birth of the League of Nations”, in, Antonio Varsori and Benedetto Zaccaria (eds.), *Italy in the New International Order, 1917–1922*, Palgrave Macmillan, 2020, pp. 281–308), and of Japan, (Rustin B. Gates, “Out with the New and in with the Old: Uchida Yasuya and the Great War as a Turning Point in Japanese Foreign Affairs”, in, Tosh Minohara, Tze-ki and Ewan Dawley (eds.), *The Decade of the Great War. Japan and the Wider World in the 1910s*, Brill, London 2014, pp. 64–82).

⁷ Needless to say, there is a vast literature on the Washington conference and on the issue of the naval disarmament between the First and the Second World War, cf. Erik Goldstein and John Maurer (eds.), *The Washington Conference, 1921–22. Naval Stability and the Road to Pearl Harbor*, London, Cass, 1995, and Sadao Asada, *From Mahan to Pearl Harbor. The Imperial Japanese Navy and the United States*, Naval Institute Press, Annapolis, 2006.

disarmament, both land and naval, independently of the system in Washington, but did not apply to the United States.

At this stage, the partisans of a general disarmament to be extended to as many countries as possible realised that a bridge must be devised between the two systems, but political obstacles promptly materialised. Aside from the concerns of several minor countries, the Five-Power Treaty was the result of a difficult compromise that took into account the strategic competition between the U.S.A. and Japan, in the Pacific Ocean, and at the same time, between France, Italy, and England in Europe. In addition, its regulations, based as they were on the different standards assigned to the tonnage of the fleets of each country, followed the model suggested by the U.S.A., but were prone to further difficulties, as they did not solve fundamental issues like the limitations on cruisers under 10,000 tons and submarines, absent from the Treaty of Washington. Hence any observer could have easily realised that major problems were in store, as arguments over additional limitations were expected to increase in the future, and certain powers would certainly raise particular objections.

Therefore, the experts at the League of Nations went to work on the objective of extending the agreements on disarmament beyond the five partners that had signed the Washington Treaty, also including countries which were outside the League, or even adopting criteria different from the proportions in the standard concerning the fleets. A preparatory conference was convened in Rome in 1924,⁸ at which the problem of enlarging the number of states joining disarmament was dealt with, and the issue of Soviet participation played a significant role, albeit unsuccessfully. Later a League of Nations committee dealing with the naval disarmament issue addressed the matter of alternative rulings to substitute for the tonnage of the types of ships, which had been omitted in Washington. This matter became the focus of discussions between 1925 and 1928, just when the measure to extend the limitations to all kinds of vessels was taken at the diplomatic level. It is important to note that in spite of the generally pacific atmosphere of the 1920s such an issue took a political turn once again. Rivalries between Italy and France lasted up to the First London Conference of 1930 and were not settled at that stage either, while the rivalry between the U.S.A and Japan was settled, but only on the surface, and for a short time; moreover, at the Geneva Conference of 1927 disagreements between the United States and Britain seriously undermined the negotiations. In the League of Nations, the option of a mechanism of regulations not based on tonnage but on previous declaration of vessel construction from each country, which in principle maintained the right to full equality in a country's armaments, was examined, especially on the initiative of the French,⁹ but attracted the attention of Japan and Italy as well. Hence, by the tail end

⁸ Stephen Roskill, *Naval Policy Between the Wars, 1, The Period of Anglo-American Antagonism, 1919–1929*, Seaforth Publishing, Barnsley, 1968, pp. 426–427; Gerard Silverlock, “British Disarmament Policy and the Rome Naval Conference, 1924”, *War in History*, 2003, 10:2, pp. 184–205.

⁹ Gaynor Johnson, *Lord Robert Cecil: Politician and Internationalist*, Abingdon, Routledge, 2013, p. 280. On Japan, see Koike Seiichi, “Kaigun gushhoku wo meguru futatsu no kokusai kankeikan no sōkoku-genebu kara rondon no aida de-”, in, Itō Takashi (hen/ ed.) *Nihon kindaiishi no saikōchiku*, Yamakawa Shuppansha, Tokyo, 1993, pp. 284–285.

of the 1920s two general avenues of discussion were open, one focusing on possible new principles for disarmament and another on the prospect of inviting additional countries to join the Washington Five Powers Treaty. Moreover, the global political framework changed pretty quickly, as the League and the Washington system were challenged by certain powers committed to shaking up the existing international order. In 1933 Japan left the League of Nations and between 1933 and 1935, Germany followed suit, disowned disarmament and inaugurated a revisionist course in foreign policy. The disarmament conference called by the League, which largely pivoted on land factors, also failed in 1933.

The imminent threat of a new war was now perceived, and the issue of naval disarmament took on a greater significance. Disarmament no longer seemed like a largely academic debate; it began to be seen as a way to avert actual dangers to peace in the framework of the deterrent strategies of certain powers that meant to curb the revisionist aims of others.

In addition, other issues gained force alongside the discussions over naval parity in the Pacific area. Italy and France gradually realised that if this dispute were settled, their collaboration on curbing German revisionism would be far more effective. Therefore, they overcame their differences over the standards in the preparatory talks for the third Conference on Naval Disarmament which took place in 1934, by outlining a general formula that echoed the conclusions of the League of Nations committee over the previous decade and succeeded in bringing the United Kingdom on board.¹⁰ The latter, whose imperial defence was certainly overstretched on several fronts and whose finances were drying up, worked out a sophisticated strategy. On the one hand, Britain tried to appease Germany, by agreeing to Berlin's building a fleet 35% larger than its own, a choice often criticized by historians and contemporary observers of the day; on the other, Berlin was persuaded to conform ultimately to the qualitative limitations stipulated by the London Conference of 1935–1936, which forbade the newest and most powerful types of cruisers. In this way the British hoped to contain the overall menace engendered not only by Hitler, but by Japan as well,¹¹ as once the German naval force was checked, more resources would become available for the United Kingdom in the Far East.

One very revealing case of how the issue of disarmament was combined with deterrence by the naval powers, was that of the Soviet Union. Since Stalin thought of building a military fleet both in the western hemisphere and in East Asia after the USSR joined the League in 1934/1935, he began to fear a clash with Tokyo in Asia and with Germany in Europe. Paradoxically, that put the USSR in an uncomfortable situation. Russia demanded the same standard of armaments as Germany yet was in need of technological assistance from the United Kingdom, which laid down

¹⁰ On this point, see Valdo Ferretti, *Il Giappone E La Politica Estera Italiana (1935–41)* (ristampa integrata), Milano, Giuffrè Francis Lefèbvre, 2020, pp. 82ff.

¹¹ For a fuller discussion of the Anglo-German Naval Agreement of June 10, 1935, cf. Joseph A. Majolo, "The Admiralty and the Anglo-German agreement of 18 June 1935", *Diplomacy and Statecraft*, 1999, 10:1, pp. 87–126, and Clare M. Scammell, "The Royal Navy and the Strategic Origins of the Anglo-German Naval Agreement of 1935", *Journal of Strategic Studies*, 1997, 90:2, pp. 92–118.

the condition that Moscow adopt the rules established by the naval disarmament conference of 1935–1936. Russia, however, expressed reservations, claiming that full parity with Germany would make it difficult or impossible to face the menace looming in the Pacific. Stalin was on the verge of rejecting an agreement and risking an arms race, but ultimately a final deal was reached and a treaty made,¹² in 1937.

In the above framework, the cases of Japan and Italy should be considered parallel, in my opinion, as both nations, although generally considered revisionist, did not wholly reject disarmament, and Mussolini even hoped to be rewarded as a champion for peace after the Munich Conference of 1938.¹³

The former's attitude at the London conference of 1935–1936 was swayed by the influence of a faction of the Imperial Japanese Navy (*IJN*), which opposed the “standardization of the fleets”, demanding a “common upper limit” for all partners of the treaty. It is important to note, however, that even that radical group indicated a scheme for disarmament only after lengthy discussions that lasted several months, of which we do not know all the details even now. Besides, the Japanese delegates conceded, on meeting their Italian counterparts, that in principle they would not have rejected a formula based on the equality of the standards and a previous declaration of the tonnage of the ships to be built. Only because of the time required to make the adjustments based on this mechanism and its financial costs, they claimed, had the Japanese Navy decided for the Common Upper Limit formula.¹⁴ At the same time, the *IJN* promised the Japanese government and the Japanese Army that they did not intend to demand an increase in armaments and did not want an arms race. Japanese scholars have insisted that this squabble between moderates and radicals was, to a large extent, of a more domestic than international nature and was influenced by financial considerations.¹⁵ It is interesting to note that both the Americans and the British took the promise of the Japanese Navy to abstain from an arms race at face value, and that for this reason the international impact of the failure of naval disarmament in 1936 was perceived as less important than is frequently claimed.¹⁶

The case of Italy prompts similar observations. It was hardly coincidental, it seems to me, that in the so-called Easter Agreement (or Easter Accord) between Britain and Italy of April 16, 1938, the government in Rome, which had not signed the naval treaty of London following the Ethiopian crisis and Italy's break with the League of Nations, recommitted to naval disarmament once again. This signified, only a few

¹² Joseph A. Majolo, “Anglo-Soviet Naval Armaments Diplomacy before the Second World War”, *The English Historical Review*, 2008, 123:501, pp. 351–378; Keith Neilson, *Britain, Soviet Russia and the Collapse of the Versailles Order, 1919–1939*, Cambridge Univ. Press, 2006, p. 204.

¹³ William C. Mills, “Sir Joseph Ball, Adrian Dingli, and Neville Chamberlain's ‘Secret Channel’ to Italy, 1937–1940”, *The International History Review*, 2002, 24:2, pp. 278–317, especially pp. 307–308.

¹⁴ Valdo Ferretti, *op. cit.*, pp. 96–98.

¹⁵ See for instance, Oka Kuniko, “1935nen Rondon kaigun kaigi to nihon seifu- gaikō seisaku kettei katei wo chūsin ni-”, *Nihon Rekishi*, 2004, 7, pp. 71–88, and Imamura Kanako, “Washinton jōyaku hōki to Nihon Kaigun”, *Nihon Kenkyū*, 2003, 16, pp. 59–66, and Fujii Takashi, “Washinton jōyaku hōki mondai to tōsuibu”, *Nihon Rekishi*, 2016, 8, pp. 40–56.

¹⁶ Keith Neilson, *op. cit.*, p. 171.

weeks after the German annexation of Austria, that the *Duce* probably intended to balance the success of Hitler with a pro-British gesture easing the British position in the Far East, given that Mussolini still wanted to bandwagon between the democratic powers and Germany. In the background, Italy continued to use disarmament as a tool of power politics, largely in the framework created by the appeasement strategy which the United Kingdom was pursuing with regards to Germany. This was not designed only to mend rifts, and even less to ward off war in principle, but mainly to control the swings in international equilibrium at a time when tensions were increasing. Ironically enough, in the spring of 1938 such policies could even inspire a degree of optimism, given that they implied curbing the imminent threat to a stable balance of power. On the one hand, the agreement between Italy and Britain made the menace coming from Japan¹⁷ less dangerous for the latter, while Prime Minister Chamberlain imaged that, with the German pressure on the northeast border of Italy growing stronger, Mussolini would value a collaboration with the United Kingdom¹⁸ more highly, and for this reason London quickly proceeded to ratify the Anglo-Italian agreement in November.¹⁹

Clearly, disarmament still belonged to the repertoire of the powers as a hedging tool in the political competition among them. It showed that the issues of the Mediterranean and the Pacific were connected, as proved by the fact that in Japan revisionist diplomats were worried by the *entente* between Britain and Italy, and explanations were politely asked of the government of Rome.²⁰

This leads to one final question, i.e., why this ultimately positive factor did not help to avoid the war which exploded roughly one year later. The obvious answer is that stronger forces were working in the opposite direction, yet the fact remains that limited results were achieved. In spite of the end of the Washington system, the Japanese Navy continued to exert a restraining role on the radical section of the military class for two years longer. As for Italy, throughout the tortuous development of the negotiations of the Tripartite Alliance and the Pact of Steel in 1938–1939, Mussolini, as contradictory as his policy was, did ultimately attempt a mediation between Germany and the Anglo-French group on the eve of the Czechoslovakian and Polish crisis between 1938 and 1939. Moreover, in the overall atmosphere of the late 1930s, the principles of pacifism embodied in the Covenant of the League of

¹⁷ *Idem*, p. 237.

¹⁸ There is a vast literature on this point as well. For one recent assessment in English, Brian J. C. McKercher, “Anschluss. The Chamberlain Government and the First Test of Appeasement, February–March 1938”, *International History Review*, 2017, 39:2, pp. 274–294.

¹⁹ Keith Neilson, *op. cit.*, p. 258.

²⁰ Valdo Ferretti, *op. cit.*, p. 212. *Nichidokui Teikei ni kan suru ken*, in, Tsunoda Jun (ed.), *Gendaishi Shiryō*, vol. X/3, Tokyo, Misuzu Shōbō, 1962, pp.89ss.

Nations were losing force, even in the public opinion of the democratic countries.²¹ The advent of a ‘world’ war between 1940 and 1941, involving both Europe and the Asian-Pacific area, showed that disarmament had failed. The reason seems to be that as a basic technical instrument designed by intellectuals, legal experts and strategists, disarmament could not resist the wave of powerful political forces at a historical time marred by marked aggressiveness. In any case, it did produce the effect of slowing down the descent into a global crisis, only confirming the validity of its original premise.

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²¹ Andrew D. Stedman, *Alternatives to Appeasement. Neville Chamberlain and Hitler's Germany*, London, Tauris, 2015, pp. 177–179.

Chapter 7

The Security of South-East Europe in the First Inter-War Decade: “Greater Romania” Between Conflicting Neighbourhoods and Regional Alliances



Claudiu-Lucian Topor

Abstract At the end of the Paris Peace Conference (1919), Romania reached its objectives as a nation, speculating the disagreements among the Allies, who were unable to impose their decisions in Central and Eastern Europe (as they had not occupied the region with their troops) after the armistices were signed. The Conference could only ratify border modifications that had already been applied by Romania and by other states located at the periphery of Austria-Hungary. The disappearance of Austria-Hungary meant that the structural problems of Central and South-East European stability were worsened instead of being solved. With their attention focused entirely on the national project, many Romanians, governmental decision-makers and party leaders alike, did little to combat the risks of border insecurity. Together with Austria-Hungary had also fallen the system of German alliances (forged before the Great War), which had provided Romania with security for 30 years. In the absence of a viable protective umbrella, in the power vacuum created in Central and South-East Europe after 1918, Romania ended up, 25 years later, being incorporated into the Russian sphere of influence. In search of security guarantees for defending its new borders in the first years after the war, the Romanian governments looked to the solution of regional alliances. Romania became a member of the Little Entente in 1921. This paper explains why the regional alliances in South-East Europe could not provide Romania the guarantee of territorial integrity within the Versailles system.

Keywords South–East Europe · Defense system · Interwar period · Romania · Regional alliances

At the end of the Great War (1914–1918), the territorial order in South-East Europe was profoundly changed and only apparently strengthened by the peace treaties signed in Paris. The states in Central and Eastern Europe, newly appearing or reappearing on the map or significantly changing the configuration of their territories, were facing great difficulties; they were in search of protectors and funding, and had important divergences between them, with crucial effects on the course of events in

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Europe.¹ The empires that had ruled the Balkans and a great part of Eastern Europe for centuries collapsed at the end of a decade of constant local wars. Nevertheless, their collapse did not bring about the peace expected by the Western liberals. The successor states used the principle of nationality in order to claim territories from their neighbours: irredentism was alive and well and only a few of the borders in the Balkans remained unchallenged.²

The disappearance of Austria-Hungary meant that the structural problems of Central and South-East European stability were worsened instead of being solved. At the same time with Austria-Hungary had also fallen the system of German alliances (forged before the Great War), which had provided Romania with security for 30 years. Romania's alliances with the Central Empires, joined by Italy on 9 May 1888, remained the foundation of its foreign policy until the start of World War One. The political agreement with Austria-Hungary was signed in 1883 and renewed for the first time in 1897. It was never matched by a military convention, despite the fact that the issue of military cooperation between the contracting parties had become one of general interest as early as the winter of 1887–1888, in the context of tensions between the Central Empires and Russia. The situation of Romanians living in Hungary was one of the original flaws of the alliance, but it was not a major impediment for maintaining the agreement. The Romanian national question, despite being activated in the decades preceding the war, did not produce tensions in the relationship with the main ally (Germany). It never overshadowed the relationship between Romania and the Habsburg Monarchy, and it did not change the course of Romania's security policy before 1914. The guiding principles remained the same: maintain the existing borders and have no territorial expansion. Aware of the fragility of Romania's borders, the politicians in Bucharest tacitly focused on the necessity to preserve the shield that protected the country against the aggression of its neighbours. A summary of this prudent policy is reflected in a speech made by the minister of foreign affairs in winter 1894. Alexandru N. Lahovary assessed the political situation in the following terms: "(...) Before taking Transylvania, we should think about preserving Moldavia and Dobrudja, which such a policy would certainly expose to going the way of Bessarabia (i.e., ending up in the hands of the more powerful neighbours, our note, CLT)".³ The death of king Carol I, shortly after the outbreak of war in Europe (27 September/10 October 1914), caused a fundamental paradigm shift in Romanian politics. Decision-making moved into the hands of the government, and the prime-minister, Ion I. C. Brătianu, undertook to re-orient the Romanian foreign policy towards entering the war on the side of the Entente powers. The national question returned firmly to the agenda and became the watchword in all

¹ Lucian Leuștean, *O istorie internațională a Europei în secolul XX [An International History of Europe in the Twentieth Century]*, volume I (1919–1945), Iași, Alexandru Ioan Cuza University Press, 2015, p. 136.

² Mark Mazower, *Balkanii. De la sfârșitul Bizanțului până azi [The Balkans. From the End of Byzantium to the present Day]*. Translation from English by Tudor Calin Zarojanu, București, Humanitas, 2019, p. 146.

³ Rudolf Dinu, *Diplomatia Vechiului Regat 1878–1915. Studii [The Diplomacy of the Old Kingdom, 1878–1915. Studies]*, Presa Universitara Clujeana, 2014, pp. 70–71.

the government's actions. The new king, Ferdinand I, a nephew of Carol I, married to Maria of Romania, the daughter of the duke of Edinburgh, had tacitly approved the change in course of Romania's foreign policy and had approved the shift of the gravity centre in terms of decision-making.⁴ Romania's intervention in World War One (1916) was decisive for the nation's fate. Romania had to face a difficult war, endured military occupation and signed a separate peace with the Central Powers (Bucharest, 7 May 1918). In the end, Romania was among the victors, as the Entente powers had won the war.

After the war, Romania changed its features. It became "Greater Romania", one of the national states resulting from the collapse of the old empires in nineteenth century Europe. Taking advantage of the power vacuum created in Central and Eastern Europe, the Romanian delegates approached the negotiations with the winning Great Powers with the purpose of creating a safer and more prosperous future for the reunited nation. At the end of the Paris Peace Conference (1919), Romania reached its objectives as a nation, speculating the disagreements among the Allies, who were unable to impose their decisions in Central and Eastern Europe (as they had not occupied the region with their troops) after the armistices were signed. The Conference could only ratify border modifications that had already been applied by Romania and by other states located at the periphery of Austria-Hungary.⁵ The fiercest of Romania's neighbours were part of the vanquished states (Hungary and Bulgaria) or of the outlaw states (Bolshevik Russia). Following the Paris Conference, Hungary had lost two thirds of its pre-war territory and over 73% of its population. Ruined by four years of war, revolution and counter-revolution, as well as by the foreign invasion of 1919, the country was falling apart even before it accepted the treaty. The treaty itself was signed on 4 June 1920 in the Trianon Palace, on the outskirts of Paris, at a time when Hungary's envoys protested and showed that their country had been punished more harshly than any of the other Central Powers. In Budapest, the national flags were lowered at half-mast on all public buildings, and they stayed that way for two decades, until Northern Transylvania re-entered the composition of Hungary following the second arbitration in Vienna, in August 1940. One year later, the Hungarian soldiers ventured deep into the territory of the Soviet Union, together with the Wehrmacht troops, in what was viewed as a "just war" for revising the Trianon Treaty and the world-wide defeat of Bolshevism. Until that day (and again after 1990) in Hungary "Trianon" was shorthand for the injustice

⁴ Idem, *Security vs. National Question. Continuity and Discontinuity in Romanian Foreign and Alliance Policy Before and During the Great War (1900–1916)*, in volume, *La lunga Guerra. I Balcani e il Caucaso tra conflitto mondiale e conflitti locali (1912–1923)*, a cura di Lucio Valent, Milano, Franco Agnelli, 2020, pp. 129–151.

⁵ Lucian Leuştean, *România și marile Puteri la Conferința de Pace de la Paris (1919–1920)* [*Romania and the Great Powers at the Paris Peace Conference (1919–1920)*], in the volume *România, Marile Puteri și ordinea europeană (1918–2018)* [*Romania, the Great Powers and the European order (1919–1920)*], coordinated by Valentin Naumescu, Iași, Polirom, 2018, pp. 49–69.

committed by the Allies, wrapping in it the almost universal desire to annul its provisions.⁶ For the Bulgarians (not without cause), the Treaty of Neuilly (27 November 1919) symbolized the lowest point of their national existence as an independent state. The redrawing of Bulgaria's borders had left it without fertile agricultural land (such as Dobruja and Thracia) and with no access to the Aegean Sea—a major problem, since maritime commerce was a crucial factor for the entire Bulgarian economy. Bulgaria struggled to manage the human and financial costs of the war throughout the inter-war period. It faced international isolation, deep internal rifts and violent clashes between the supporters of various political parties.⁷ Unlike Hungary and Bulgaria, countries that had been defeated in the war, Russia had a more complicated situation. As an allied state in 1941, it had most likely saved France from defeat by attacking Germany on the Eastern front. Russia had fought three years in a row against the Central Powers, inflicting heavy losses, but suffering, in its turn, even heavier losses. In 1917 it broke under pressure and transitioned, in the space of eight months, from autocracy to liberal democracy and then to the revolutionary dictatorship imposed by the extremist faction of the Russian socialists, the Bolsheviks, a party that few people at the time (including the Russians) had ever heard anything. While the Tsars' Russia was unravelling, new states emerged from the ruins of the former empire: the Baltic countries, Ukraine, Armenia, Georgia, Azerbaijan, Dagestan. In a futile attempt to support its ally—now in complete disarray—against Germany, the Entente sent reinforcement troops to Russia, but in early 1918 the Bolsheviks made peace with Germany.⁸ By the Treaty of Brest-Litovsk, Russia was obliged to give up almost all its land possessions on the European continent. Poland, Finland, Estonia and Lithuania gained independence under German protectorate. The Soviet troops were evacuated from Ukraine. In the final confrontation, Soviet Russia had lost 34% of its population (55 million people), 32% of its farming land, 54% of its industrial companies and 89% of its coal mines. It had returned to international status it had had in the seventeenth century, but Lenin's revolution had survived.⁹ The wartime collapse was profound and lasted longer in the case of Russia than of any other country in Europe. However, despite its internal weaknesses, the Soviet Union (USSR) was the strongest of Romania's neighbours. The Bessarabia question remained contentious until the start of World War II. At the end of 1918, the international recognition of the unification of Bessarabia with Romania was exclusively related to the dynamics of Bucharest's relations with the victorious powers. The decision of the Council of Ambassadors (following the Paris Peace Conference) came relatively late and only at the end of a gruelling diplomatic dispute. After the

⁶ Robert Gerwarth, *Cei învingși. De ce nu s-a putut încheia Primul Război Mondial, 1917–1923* [*The Vanquished: Why the First World War Failed to End, 1917–1923*], translation from English by Alexandru Țirdea, Bucharest, Litera, 2017, pp.245–246.

⁷ *Ibid.*, pp. 248–249.

⁸ Margaret Macmillan, *Făuritorii păcii. Șase luni care au schimbat lumea* [*Paris 1919: Six Months That Changed the World*], translation from English by Smaranda Câmpeanu, Bucharest, Trei Publishing, 2018, pp. 101–102.

⁹ Orlando Figes, *Rusia revoluționară (1891–1991)* [*Revolutionary Russia 1891–1991. A History*], translation from English by Alina Popescu, Bucharest, Corint, 2014, p. 150.

withdrawal of the Romanian troops from Hungary and the recognition of the borders with Yugoslavia, Czechoslovakia and Poland, the Romanian delegate Take Ionescu received, on October 28, 1920, the text of a treaty recognizing *de jure* the annexation of Bessarabia. The document, signed by the main allied powers (the British Empire, France, Italy, Japan), recognized Romania's sovereignty over Bessarabia and invited Russia to join the treaty as soon as it was led by a government recognized by the Allies. In the hope that the United States would also sign it, the document provided that Romania would grant rights to non-Romanian residents of Bessarabia and would respect the delimitation of the border with the Soviet Union. But the Americans interpreted everything as an attempt by the Allies to force them to legalize a biased judgment on the merits and validity of Romania's claim to Bessarabia. As a result, delegate Bainbridge Colby, the successor to Secretary of State Robert Lansing, refused to participate in what he called a "dismemberment of Russia" without the consent of the Russian people.¹⁰ In the interwar years, the Romanian destiny of Bessarabia depended on an ambiguous diplomatic approach, as Soviet Russia had not yet had its last word on the issue. Among the neighbouring empires, whose dismemberment Romania had taken advantage of in order to complete its national territory, Russia continued to be a constant lethal threat. As far as the Soviets were concerned, the legacy left by the war to the Romanians did not appear more comfortable than the former threat of the boundless Tsarist Empire had been.

The inclusion of historically Romanian provinces (Bessarabia, Bukovina, Transylvania and Banat) within the Kingdom's borders had more than doubled both the country's territory and its population, compared to the era before the war (from 137,000 sq. km to 295,000 sq. km, and from 7.235 million inhabitants in 1912, to 18 million recorded in 1930). Almost all the Romanians in Europe were now living within the boundaries of one state. Living next to them in this country were minorities of race, language and religion, much more numerous than in the past, when Romania came before Europe as an ethnically homogenous state. According to the 1930 census, Romanian ethnics made up 71.9% of the country's population. The rest, up to 100%, consisted of ethnic minorities, spread in an uneven manner across the national territory. In Greater Romania, Romanians were the majority ethnicity everywhere (with the exception of the North and South of Bessarabia, the North of Bukovina and the "Szeklerland" in Transylvania). The minorities were limited to parts of the country and the connecting social tissue was made up of Romanian ethnic population. On the other hand, the provinces included in the territory after 1918 were less Romanian than the reunited Romania taken as a whole. The constitution adopted in 1923, however, defined by the phrase "unitary nation state" the country that was the outcome of the Great War. Its borders were greatly extended and this made the relations with the neighbours more complicated. The security threats in this new country between the two World Wars did not originate, as they had in the past, solely in the expansionist ambitions of neighbouring empires (as it had been the case with

¹⁰ Sherman David Spector, *România la Conferința de Pace de la Paris. Diplomația lui Ion I. C. Brătianu* [Romania at the Paris Peace Conference: Study of the Diplomacy of Ioan I. C. Brătianu], translation from English by Sorina Părvu, Iași, Institutul European, 1995, pp. 282–283.

Russia in the nineteenth century, when the territory of the Romanian Principalities had been occupied on three consecutive occasions by the Tsarist armies). This time the threats were based on the vulnerabilities of the Versailles system, reflected in the significant growth of the revisionist threats across Europe.

For this reason, the objective of Romania's foreign policy between the world wars was to secure its borders. This attitude influenced the choice of its new allies and reflected in the relationship with the neighbouring states. Romania had become a member of the League of Nations and had been integrated into the French security system for Eastern Europe through the Treaty of Friendship with France signed in 1926. The Romanian governments sought to contribute through various means to the defence of the Versailles system. They advocated collective security and supported all efforts meant to turn the League of Nations in a warrantor of global peace and stability. The Romanian delegates adhered to the 1924 Geneva Protocol, which deemed any war of aggression to be an international crime, and established procedures for identifying the aggressor and for imposing the arbitration of the Permanent Court of International Justice. Bucharest was also party to other international agreements, such as the 1928 Kellogg-Briand Pact, which outlawed war as a means of solving disputes between nations; the Convention for defining aggression, signed in London (1933), which the Romanian officials interpreted as strengthening the territorial integrity of their country; the Anti-war Treaty of Non-aggression and Conciliation signed in Rio de Janeiro in 1933, which condemned wars of aggression and the annexation of territories as an outcome. At the World Disarmament Conference organised by the League of Nations place in Geneva between 1932 and 1934, Romania upheld the general principle of disarmament, insisting that any formula of reducing armies and weaponry be applied equally to all nations, or that the League of Nations impose strictly the compliance with its decisions. In all the critical circumstances that challenged the system of collective security, Romania invariably sided with the Western powers. In 1935, the Romanian delegates supported the economic sanctions adopted against Italy (following the invasion of Ethiopia). One year later, in 1936, when Germany denounced the agreements made in Locarno and re-occupied Rhineland, the Romanian governments expressed their indignation and concern towards France's and Great Britain's hesitant reaction.

When the security guarantees insistently pursued in London and Paris proved to be an ineffective and diluted substitute for the former treaties that were placing pre-war Romania on the orbit of the German alliances, the Romanian governments sought out the solution of regional alliances. Romania became actively involved in the establishment of the Little Entente and of the Balkan Pact, political instruments through which it sought to forge alliances with Poland, Czechoslovakia, Yugoslavia and Greece. The aim of these agreements was to counteract revisionism in South-East Europe. They oriented the national security policy towards providing a joint response from the regional actors that were vulnerable to the threats coming from

Bulgaria and Hungary.¹¹ The Little Entente was created based on the need felt by Romania, Czechoslovakia, and Yugoslavia to defend their security, as their confidence in the effectiveness of the guarantees included in the treaties of Trianon and Neuilly had decreased. Three bilateral agreements existed (between Yugoslavia and Czechoslovakia, Romania and Czechoslovakia, Romania and Yugoslavia), each of them obliging its signatories to support the defence of its ally in the case of an unprovoked attack from the part of Hungary. The Romanian-Yugoslav treaty was also aimed at Bulgaria. The Balkan Pact meant the extension towards South-East Europe of the principles of regional security that formed the foundation of the Little Entente. It originated in the Balkan conferences organised starting with 1929 in order to study issues of common interest. The Pact was signed in Athens in February 1934 by the representatives of Romania, Yugoslavia, Greece, and Turkey, and it asserted the defensive character of the proposition of November 1933, which had tuned the fourth conference of the Balkan states (Greece, Romania, Yugoslavia) into a permanent regional organisation. The Romanian foreign minister, Nicolae Titulescu, outlined a system that would include all Balkan states as members. He meant it to be a regional pact against all forms of territorial revisionism and as a support for the efforts to stigmatize war as a means of solving international disputes. In the end, the member states did not manage to create a united front for solving vital international problems. The General Staffs of the armies involved in these alliances did not draw up consistent projects, studies, memoranda and reports aimed at planning joint interventions in situations of regional conflict. There was a lack of coordination of actions, which could have been achieved through the creation of integral commands and groups of inter-Allied forces. Discussions and agreements remained only at the stage of hypotheses frequently invalidated by the changes in regional politics.¹²

Due to the fact that the mission of the treaty was to maintain the existing borders in the Balkans, Bulgaria refused to sign it until its claims were recognized (1938). Most of the participating states began pursuing their own interests without consulting the other partners. Greece and Turkey, for example, did not want to damage their relationship with Russia on account of Romania's interests, or those with Italy because of Yugoslavia's interests. The Balkan Pact survived the Munich agreement, which stipulated the breaking apart of Czechoslovakia and heralded the demise of the Little Entente. The effectiveness of the alliance was no longer a match for the new challenges. The Romanian foreign ministry had been too optimistic in appreciating that both regional agreements had created a swathe of states with identical political interests stretching from Czechoslovakia to the border with Persia. They did agree on

¹¹ Keith Hitchins, *România 1866–1947* [*Romania 1866–1947*], third edition, revised and amended. Translation from English by George G. Potra and Delia Răzdolescu, Bucharest, Humanitas, 2013, pp. 497–521.

¹² Teofil Oroian, Gheorghe Nicolescu (coordinators), *Şefii Statului Major General Român (1859–2000)* [*The Chiefs of the Romanian General Staff (1859–2000)*], Bucharest, Europa Nova, 2001, pp. XIX.

keeping Hungary's and Bulgaria's revisionism at bay, but they were not prepared to hold their ground in front of the great powers.¹³

The fact that inter-war Romania was engaged in regional alliance projects separated it from the security policy pursued before the outbreak of war in 1914. Until then, Romania had shown detachment and neutrality in relation to the arrangements made by the Balkan states, despite the fact that in the Balkan Peninsula (in Macedonia and in the Pindus Mountains) lived an important community of Aromanians (a population related to the prevalent Romanian ethnic element living in the kingdom). Invited in 1912 to adhere to the Balkan Alliance (an alliance built for war purposes), Romania rejected any active involvement and proclaimed itself neutral in the Balkan nations' war against the Ottoman Empire. Even the military intervention during the second Balkan War (1913) did not occur as a consequence of any preliminary alliance. Although acting against the same regional enemy (Bulgaria), the Balkan belligerents (Serbia, Montenegro and Greece) did not sign political conventions, nor did they make any military commitments in their relations with Romania. The project of a closer Balkan connection, one that would include Romania, appeared only later (after the signing of the Bucharest Peace Treaty in 1913). Its purpose was security (maintaining the Balkan status-quo) rather than war policy. Safeguarding the provisions of the Bucharest Peace Treaty (1913) did not depend exclusively on the agreements between Romania and its Balkan partners, as Romania's defensive policy still enjoyed the protection of the Triple Alliance. After the Great War, Romania resorted to the solution of regional security arrangements precisely because its Western allies hesitated in offering any military commitments in guaranteeing the integrity of the new national borders. Greater Romania looked like a multi-ethnic state located at the meeting point between the Balkans and Eastern Europe, in the proximity of both old and new conflicting neighbourhoods, with borders that were difficult to protect through a coherent overlapping of national policies with the strategic agenda of the main European actors.

Regional alliances, despite occasional successes, did not provide the security support required by Romania's governments. Both the Little Entente, and the Balkan Pact had the same harmful shortcoming: they were strong alliances against weak states, and weak alliances against strong states.¹⁴

Firstly, they did not acquire over time the necessary cohesion, both in terms of coordinating political interests and in the complementarity of business interests. The efforts to ensure the inviolability of the country's new borders remained fruitless. Both Hungary and the Soviet Union speculated the Romanian state's security crisis and the limited options of Bucharest's diplomats. Historically Romanian provinces such as Transylvania and Bessarabia were dealt with as litigious issues at regional politics level. Hence, new tensions and threats for the peace. Over time, the old regional

¹³ Stevan K. Pavlowitch, *Istoria Balcanilor 1804–1945* [A History of the Balkans, 1804–1945], Iași, Polirom, 2002, pp. 257–258.

¹⁴ Misha Glenny, *Balcanii. Naționalism, război și Marile Puteri 1804–2012* [The Balkans. Nationalism, War and the Great Powers, 1804–2012], translation from English by Iulia Szász, Bucharest, Trei Publishing, 2020, p. 478.

tensions escalated, emboldened by the changes in the international political hierarchy. With the 1938 Sudeten crisis, the system of the Little Entente collapsed. The political crisis was marked by Romania's attempt to eschew the obligations undertaken by signing the alliance treaty with Czechoslovakia in order to avoid finding itself entering a war against Germany. The Munich agreement meant the end of the collective security system in South-East Europe. It established the German Reich's political and economic hegemony in the region. By absorbing the Czechoslovak commerce and the foreign investments, Germany had become the main commercial partner of the states in Central and South-East Europe.¹⁵ The Munich agreement changed the direction of Romania's foreign policy. King Carol II had hoped in vain that Great Britain would be able to counterbalance the German influence in South-East Europe. In mid-November 1938 he travelled to Paris and London, but returned to Bucharest with disappointing results. Not only had Great Britain avoided to provide any political guarantees regarding Romania's borders, but prime minister Chamberlain was reluctant to promise at least a more substantial British economic presence. The significance of the moment should not be overlooked. After his fruitless visits to France and Great Britain, Carol II was forced to accept the opportunity of another visit, this time to Germany. The talks with Hitler were held at Berghof, but their effect was not very comforting. Asked about his prospective position in the case of a conflict between Romania and Hungary, Hitler replied that such a conflict would not be of direct interest for Germany. As a consequence, there was no hope that Germany would intervene.

In the months that followed the meeting in Germany, the security crisis that Romania faced became acute, and the Balkan Pact did not provide security solutions. As a result, it was the German influence that was strengthened in the Romanian economy. However, the Bucharest diplomats' liberty room for manoeuvre had narrowed considerably. The government led by Grigore Gafencu (the pro-West leader of the National Peasant Party) had trouble moving within the constraints of an impossible neutrality. Any additional attention given to the Western Powers with the purpose of obtaining security guarantees was feeding Nazi Germany's suspicions regarding Romania's duplicitous politics, the same way the strengthened German position in the economy indicated a possible weakening (if not complete abandonment) of Romania's pro-Western foreign policy position. Romania sought, as it had done before, to protect the integrity of its territory through the strategy of rebuilding its alliance with Germany. The roots of this orientation went deep into the past before the Great War. The position appeared to be a reconstruction of the old friendship that had connected Romania under Carol I to the Reich under Wilhelm II. But historical tradition had nothing to say in the new international context. It was only geopolitical resort that played the decisive role, and this time it was especially different. Greater Romania did not correspond to Nazi Germany's vision of Eastern Europe. Whereas before World War One Romania had been for Wilhelm's Germany a factor or regional stability, during the years between the world wars Greater Romania

¹⁵ Rebecca Haynes, *Politica României față de Germania între 1936–1940 [Romanian Policy Towards Germany, 1936–1940]*, translation by Cristina Aboboae, Iași, Polirom, 2003, pp. 57–61.

had become a source of potential conflicts in Eastern Europe. Obviously, reopened regional conflicts clashed with Nazi Germany's projects. Despite differences in principles, after the signing of the Munich agreement (29 September 1938), Romania's policy—practised consistently by king Carol II and by the heads of the main political parties, Iuliu Maniu and Constantin Brătianu—was still pursuing close relations with Germany in order to defend its borders against revisionism. Nevertheless, concessions needed to be made. The German influence in Romania was growing through the economic treaty signed on 23 March 1939. The treaty ensured a close relationship between the economies of the two countries through coordinated planning and through the creation of joint-venture companies for the extraction of natural resources.¹⁶ Romanian hopes in this case were to gain something at political level as well. However, it was coming in the context of the Ribbentrop-Molotov non-aggression pact being signed in Moscow. In the secret annex of the document, the two European powers made an agreement regarding the annexation of Bessarabia and of Northern Bukovina. Thus, the last of Romania's inter-war foreign policy foundations was lost. Justified by the antagonism between Nazi Germany and the USSR, the policy of balance between the great powers, that poor substitute for the failed regional alliances, had come to an end after concluding Hitler-Stalin Pact in August 1939, leaving Romania stranded in South-East Europe. The Romanian government's options became dramatically limited, and thus maintaining the integrity of the state borders was no longer possible in the geopolitical context of the moment. On 29 August 1939, Hermann Göring reassured the foreign minister, Grigore Gafencu, that Germany considered it had made a commitment to Romania as a whole when it had signed the economic treaty of 23 March 1939, and that Berlin had no interest for part of Romania (Bessarabia) to be taken out of this economic cooperation.¹⁷ This surprising piece of news appeared indeed to be satisfactory for the security of Romania's borders.

Map in Annex

Titre: La Roumanie et les provinces roumaines. Les principales frontières historiques des provinces roumaines et l'administration politique, chemin de fer, navigation, en 1919 / par le Prof. A.-D. Atanasiu

Auteur: Atanasiu, A. D. (18..-19..). Auteur du texte

Auteur: E. Dufrenoy (Paris). Auteur du texte

Editeur: (Paris)

Date d'édition: 1919

¹⁶ Keith Hitchins, *Scurtă istorie a României* [A Concise History of Romania], translation by Lucia Popovici, Iași, Polirom, 2015, p. 221.

¹⁷ Ottmar Trașcă, *Relațiile politice și militare româno-germane septembrie 1940-august 1944* [Romanian-German Political and Military Relations, September 1940 August 1944], Cluj-Napoca, Argonaut, 2013, p. 23.

Sujet: Roumanie

Type: carte, image fixe

Langue: Français

Langue: Français

Format: 1 file: en coul.; 95 × 69 cm

Format: image/jpeg

Format: Nombre total de vues: 1

Droits: domaine public

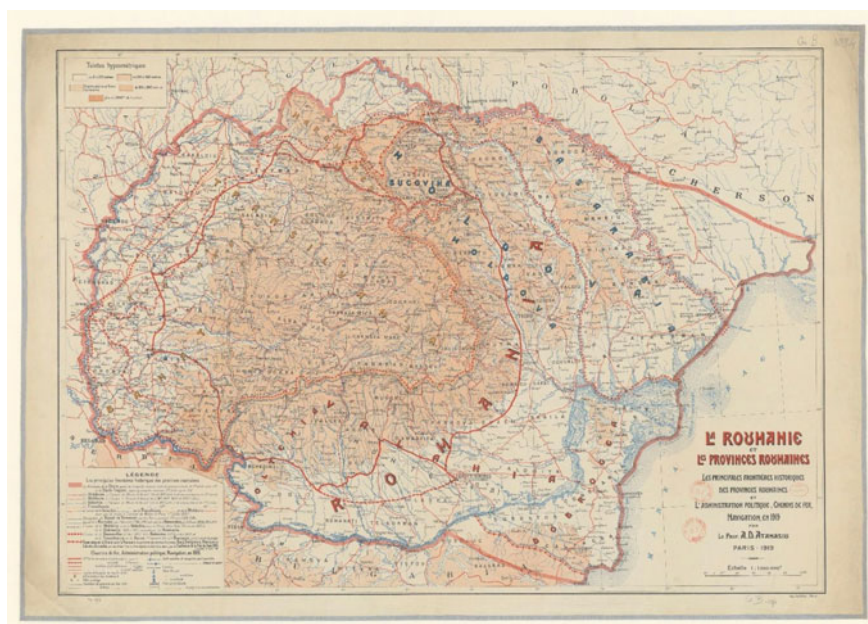
Identifier: <https://gallica.bnf.fr/ark:/12148/btv1b53209903m>

Source: Bibliothèque nationale de France, département Cartes et plans, GE B-1094

Relation: Notice du catalogue: <http://catalogue.bnf.fr/ark:/12148/cb40756359n>

Couverture: Roumanie

Description: Échelle(s): 1:1,000,000



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Chapter 8

The Inevitable Revolution



Miguel Ángel Vecino

Abstract Years ago, when a bipolar world came to an end, an immense number of articles and statements were published declaring the final victory of capitalism. Thus, beyond all controversy, Marxist ideas and forecasts were denied, identifying the Soviet system which Marxism, even though, since 1917, it had been insistently demonstrating that the Soviet system was an aberration of Marxis. The supposed new World Order based on U.S. hegemony lasted very few years and at the beginning of the new century, no order existed. The so called multilateralism vanished into the turmoil of a world without international scenario. The confusion spread over all aspects of society with a feeling of helpless. Globalism has not made poorness disappear, and economic crisis with its tragic human consequences have not been erased from the capitalist system. Societies are lost among a desert of contradictories tendencies under unreal promises. If a solution is not found in shor period of time, putting an end to poverty, dissatisfaction, frustration and the sensation that the future will be worst than the present, human beings will have no solution but revolution.

Keywords Capitalism · Democracy · Wold order · Confussion · Social dissatisfaction · Fear of the future · Revolution

1 Introduction

Years ago, when a bipolar world came to an end, an immense number of articles and statements were published declaring the final victory of capitalism. Thus, beyond all controversy, Marxist ideas and forecasts were denied, identifying the Soviet system which Marxism, even though, since 1917, it had been insistently demonstrating that the Soviet system was an aberration of Marxism.

M. Á. Vecino (✉)
Madrid, Spain

In those past times, which today seem so distant, the apologists of capitalism promised a paradise, much like the Bolsheviks had promised another one.¹ In both cases, the promises made did not become reality: today, the world is not that “*global village*”, where wealth is distributed and growth continuously raises the standard of living of the vast majority of the population, allowing Western civilization to extend its benefits to all corners of the planet, ruling out armed conflicts and imposing a pacifism based on universal multilateralism. Francis Fukuyama’s² predictions, among others, were not fulfilled, and today, the international panorama with the broken equilibrium of the bipolar era and the demonstrated impossibility of a hegemon, hangs in a serious imbalance, which will last until a new scenario reflects the relation of strength in the world. B. Badia could not be righter when he wrote: “*The commonly used qualifier of ‘post-bipolar’ oddly enough tells us more about the system’s past without informing us about what it has become or what direction it is likely to take*”.³ Today, we know what the world is not, but no one is capable of defining what it is: the very same point of defining it “*post*” demonstrates the intellectual desarray of the present.

The pages that follow are a summary of some of the ideas contained in the thesis that I defend in my essay, on the inevitability of a social revolution in the short / medium term and that I have named “*The Inevitable Revolution*”. My thesis is that capitalism is returning to its origins, that is, before the movements of the left appeared and the masses became part of politics. Consequently, the conditions of the labour market are intensifying, which, as Marx well said, is a “market” like any other, regardless of whether, in this case, the “merchandise” is a human being. This reification of human beings has been reflected in the capitalist vocabulary, by changing the name with which the “personnel management” was known by the management of “*human resources*”: the human being is a resource, a material like any other, to achieve the ends that a capitalist entity pursues.

The recovery of absolute power by the capitalist forces is assuming a return to the panorama of the mid-nineteenth century. From there, Marxism will once again impose itself as an ideology of solution to the struggle, not between bourgeois and proletarians, but between those who have plenty and those who do not have enough to survive with dignity, which will be the overwhelming majority of human beings that will not even have the privilege of being a “*resource*”.

¹ Branko Milanovic, still defending today capitalism as the solution in his article “The Clash of Capitalisms”. *Foreign Affairs*, January/February 2020, pg. 10.

² “*The End of History and the Last Man*”. Penguin Books London 1993. Many reprints.

³ Bertrand Badie “*Diplomacy of Connivance*”. Palgrave Macmillan New York 2012. Original in French. 2011. 200 pg. Pg. 1.

2 Parameters

The essential reason for the difficulty in interpreting events and devising an international scenario is that we lack parameters, benchmarks to be able to correctly analyse situations that, in addition, constantly change by converting the forecast into speculation. We follow a map in constant variation, ignoring if we move forward, backward or walk in a circle. What we do know is that the route is out of control, at the mercy of any unpredictable leader of an unforeseen event: “*in this landscape, blunders could set off escalatory spiral and mutual suspicion could engender hostilities*”.⁴

The danger increases because we live in a world that aims to invent reality simply by changing its name: In this verbal restructuring, the adjective “*global*” has been added to today’s capitalism, thereby pretending to make it be a new system, a “*different capitalism*”; nevertheless, capitalism has been “*global*” by definition. Obviously, its radius of action was much smaller in the fifteenth and sixteenth centuries, but it did not cease to have a globalizing claim: “*Certes,- wrote Fernand Braudelle capitalisme d’aujourd’hui a changé de taille et de proportions, fantastiquement. Il s’est mis à la mesure des échanges de base et de moyens, eux aussi fantastiquement agrandis. Mais, mutatis mutandis, je doute que la nature du capitalisme ait changé de fond en comble*”.⁵

The triumph of capitalism has meant the imposition of its ideology: the only principle that inspires and guides the world today is the exorbitant exaltation of the triumph of profit at the expense of any other consideration. This situation on the international scene reflects what happens at the social level in the western world: the old values reflected in the behaviours in society, product of social or religious norms, are being overwhelmed by the obsession of profit, and a society without principles ceases to exist as such because, as Karl Mannheim pointed out, it is values that hold together the members of a society.⁶ Economic pressures, hindering a reasonable standard of living, as it developed after World War II, are blowing up all the columns that were sustained society: decent wages, social mobility, access to education at its different levels, access to satisfactory public health, working hours which are compatible with private life, job security etc. When this has been disappearing, when the citizen has found himself abandoned to his fate, populism has appeared as the solution in some States, and nationalism, even racist nationalism have recover to a certain extent the role it had at the beginning of the last century: a Catalan leader Oriol Jonqueras wrote about the *genetic superiority* of the Catalans in relation with Spanish or Portugues people (newspaper “*Avui*” August 27 2008).

Against the identification of democracy-capitalism, a capitalism without democracy has been imposed in certain countries, calling it, within the verbal recreation of reality, ‘*political capitalism*’, when it is nothing more than an adaption of the old ‘*state capitalism*’. The improvement of the standard of living in these societies has

⁴ Idem, pg. 74.

⁵ F. Braudel «*La Dynamic du capitalisme*». Champs histoire, pg. 102.

⁶ K. Mannheim “*Ideology and Utopia*”. Harcourt, Brace and Co. Inco. New York 1954, pg. 318. Various earlier editions.

been achieved by renouncing democracy and private life under the strict control of the Police.

This leads us to mention another point of reference: technology does not necessarily mean an instantaneous improvement in existence. On the contrary, it can be a mode of manipulation, loss of privacy, control of people, in short, a Big Brother come true. The right to “private life” has lost much of its meaning: it is currently necessary to be exhibited, it is necessary to be on the networks, have followers, be a follower of someone.

Capitalism wants to reform society to put it entirely at the service of economic interests, and in order to do so, nothing can interrupt the search for profitability, the past must be erased. George de Santayana said that people who do not know their history are condemned to repeat it.

3 The Essence of Capitalism

Capitalism emerged in the fourteenth and fifteenth centuries in Italy as a result of the confluence of a number of factors, such as the development of banking and the increase which greatly facilitated the development of trade through new, more secure and easy payment methods, such as bills of exchange, for example. Trade certainly increased wealth rapidly, but the risk was equally greater, since this wealth was volatile and even (as seen today) could be purely speculative. Faced with the security of territorial property, trade and financial speculation catapulted the possibilities of profits, but also the insecurity, by greatly increasing the risk arising from long trips, economic investments in distant lands or highly unsecure and unknown markets. The stalking of commerce and banking increased and extended in the old society: the land was wealth, product of immovable security; trade, greater wealth product insecurity in perpetual movement.

Three decades after the end of bipolarity, of the “*victory*” of capitalism, in the West, the gap between rich and poor widens in plain sight, while governments say they are ‘worried’, although they do little to avoid it, except promise improvements that are like curing a haemorrhage with a plaster: the rich are getting richer and every time there are more poor people whose situation doesn’t seem to stop getting worse because, “*economists, policymakers and ordinary people have increasingly come to see that neoliberalism... has reached its limits*”.⁷ The government being tied to the power of financial means, they do not dare attack the origin of a reality that has disastrous human consequences for the exploitation of the majority of the population. Klaus Schwab writes in his recent report for the Davos Forum: “The social and economic consequences of inequality are profound and far reaching: a growing sense of unfairness, precarity, perceived loss of identity and dignity, weakening

⁷ M. Fahnbulleh “The Neoliberal Collapse”. *Foreign Affairs*, January/February 2020, pg. 38.

social fabric, eroding trust in institutions, disenchantment with political processes and erosion of the social contract.”⁸

The pauperisation of society brings us back to the social situation of the mid-nineteenth century. It is unimaginable that there can be any change in capitalism, taking into account its evolution over the past 30 years. An editorial in “*The Guardian*” from January 21, 2020 stated that, “The figure of Davos Man... has become synonymous with a certain kind of deracinated corporate executive, whose only loyalties and obligations are to the balance sheet”. The inevitable consequence is that there is a change of fidelity: what was once the nation, towards the State and consequently towards society, has lost all meaning and whoever wants to succeed, must renounce the ‘state nationality’ to acquire the ‘corporate nationality’—the country that is the object of devotion is not the place where one was born or where one has lived all his life, but the company for which one works. It is to take or leave, but it is not negotiable.

There is no other objective in the foreign policy of the economic superpowers: the network of capitalist dependence is such, that those who yesterday were leading economic powers (Germany, France, United Kingdom, Japan ...) are caught in the networks of the economic superpowers (United States, China, Russia ...) which in turn are equally dependent on each other because they are driven by their dependence on financial powers, which they cannot control. The failure of the European Union to create a united political and economic power had banished the EU and its member states from the first row of international actors.

4 Democracy

The very essence of democracy is freedom, the right to dissent,⁹ equality before the law, respect for the dignity of the human being, the possibility to participate in the government, and all other rights included from the Declaration of Law of the Good People of Virginia on June 12, 1776¹⁰ while they are inherent rights to the human condition, until the Universal Declaration of Human Rights adopted on December 10, 1948. However, all these statements were drafted by Westerners and even the fact that in 1948 there were representatives of non-Western States they really were a minority.

Now, liberty does not mean, and has never meant economical ‘equality’. The end of World War II initiated the peak of the confrontation between liberal democracy and capitalism, on the one hand, and Soviet democracy and Soviet planned economy, on the other. The very existence of the Soviet Union was the best instrument of the European left-wing social democratic parties and unions to obtain continuous life

⁸ “*Global Social Mobility. Report 2020*”. January 2020. World Economic Forum. Davos, pg. 4.

⁹ In Voltaire’s words «*Je ne suis pas d’accord avec ce que vous dites, mais je défendrai avec ma vie votre droit de le dire*».

¹⁰ Three weeks prior to the Declaration of Independence.

improvements for the working class. With this, bourgeois democracy was also gaining the support of the working classes. Given the evidence of the facts, even the Western communist parties were evolving towards what was called the Eurocommunism,¹¹ the need for total revolution, the dictatorship of the proletariat, Soviet style, and especially the lack of internal democracy in the communist parties were questioned. But the welfare state system was already running out in the 1980s and the disappearance of the Soviet Union, as a superpower and as a point of reference, was the final culmination of an evolution of capitalism that had given rise to the welfare state.¹² The fear of the guided revolution from Moscow disappeared and the capitalist class wanted and felt that it could return to the original capitalism.

On the other hand, in many democracies, political parties and unions had suffered the loss of trust from citizens, and this happened especially in the case of left-wing parties and unions, which had been considered, since the end of the nineteenth century, reference points for morals in favour of social equality and justice, defending the unquestionable dignity of human beings. Social democracy developed the idea of creating non-socialist states without the liberal interpretation of democracy, and at the same time rejecting democratic states that ignored the importance of the social aspect. They wished to create a new type of political society that encompassed both: a 'social and democratic state.' On the one hand Social democratic parties did not renounce to its socialist ideas, but they admitted on the other hand the need for a true democratic expression of popular will. But, confronted to the new savage capitalism and the promises which lures a great part of society, the battle was lost in advance. In fact, in the old-new capitalism, democracy had to reflect richness.

Other factors also facilitated the questioning of the democratic system and especially the September 11 attacks in New York. From then on and under the justification of protection against terrorism, a cut in rights and freedoms began. As an example, police forces have more rights and less responsibilities than ever: democracy is in danger because the rights it protected are threatened and because citizens no longer trust states as instruments to channel and solve social problems. If the state is unable to protect citizens as it has been conceived in the West, if the states are the first to bow down to the economic forces, it becomes obvious that the axiom according to which capitalism entails a democratic political system does not correspond to the present: autocracies more or less disguised as democracies, or single party regimes have been able to develop a capitalist system that has enriched millions of people who, however, live with few or no rights recognised as essential in a democratic system. We are at the beginning of the dismantling of the Welfare State and democracy. If the capitalist system imposes itself with its logic, with no enemy to force it to renounce to its monopoly of power, as in the past, to yield in its rights, it is obvious

¹¹ Also "*neocomunism*" and "*democratic communism*". According to some authors, the root of this movement is in Antonio Gramsci's works.

¹² It deserves to be noted that in English and Spanish the sense of Welfare State (Estado del Bienestar) is different from the French terminology "L'État Providence", in Italian "Stato Sociale", o alemán "Wohlfahrtsstaat" (Benefactor State), having all those three a sense of help, charity that in Spanish and English.

that capitalism will opposes a democratic system that acts in the opposite direction to its own interests.

5 Capitalist Democracy and the New International Scenario

On these parameters the new international scenario will be built. Foreign policy will be subject to the imperative of immediate profitability, which capitalism has imposed on it, contrary to the very essence of international relations: “Beyond the risk of conflict, if stakeholders concentrate on immediate geostrategic advantage and fail to re-imagine or adapt mechanisms for coordination during this unsettled period, opportunities for action on key priorities will slip away”.¹³ At present, and after everything that has happened since 1989, it would be pure speculation to maintain that while there is democracy there will be peace (the theory of “democratic peace” very much followed in the 80’s that proved to be far from real international state behaviour).

Neither capitalism nor democratic principles suddenly emerged with the French Revolution: the eighteenth century was the eighth month of a gestation that began with the Renaissance. From the fifteenth and seventeenth centuries, an international order based on the modern state emerged, which has been its only and then its main protagonist until the twenty-first century. But neither democracy nor capitalism were bases of that order, because the logic of international relations is much more complex than that of the states themselves. Now, given the need to reflect an emerging reality on the new international order, gradually created, it is necessary to use different parameters unknown until now: The state has ceased to be the centre of the international scene and the inevitable confrontation between rich and poor nationally and internationally, in a few years the economic and social differences among people in the same societies will be the essential element to decide the contour and content of the new scenario of international relations. Because human beings can bear everything if they retains the hope of improving his life, but what has been taken from them now is precisely that hope, and as it happened with the communist system, lost of hope is the end of any political or economic ideology and the only road ahead of any society without hope is revolution, simply because they know that they have nothing to lost.

Miguel Ángel Vecino
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Miguel Ángel Vecino (Madrid, Spain, 1954). At 17 years, he passed the exams (calification “very good”) for the Faculty of Law (Complutense University). He studied Law 5 years and after he

¹³ “*The Global Risks Report 2020*”. World Economic Forum, pg. 10.

obtained two masters in the Centre for Constitutional Studies (Spanish Parliament) in Constitutional Theory and in Constitutional history, both with the mention "excellent". After, he studied 5 years in the Ecole Pratique d'Hautes Études, IV section, Sorbonne-Pantheon Paris, on History of International Relations avec professor Bruno Neveu. He worked as a lawyer in Paris until he passed the first exams for Spaniards to become civil servant in the Secretariat of the Council of Ministers of the EU when Spain joined it, obtaining one of the 3 posts among 3.500 candidates. At the same time, he passed the exams for the Diplomatic School in Madrid and become diplomat of career in 1989. In 1991 he passed the exams to direct programme of the EU for Eastern European countries in 1990, obtaining one of the 10 posts, among several hundred European candidates. He has participated in many international congresses, round tables, and lectures. He has published more than 300 articles in the Spanish Press and specialized reviews, about Europe and the Communist system. He has made research since 2000 for a book on the Balance of Power; he is finishing another one on the evolution of democracy and capitalism (*The inevitable Revolution*). He has written essays on "*The Intellectual Origins of Nationalism*", and "*Origins of the Soviet Foreign Policy*".

Chapter 9

Eiichi Shibusawa's Support for International Society Through the League of Nations Association of Japan



Akiko Iimori

Abstract The Japanese entrepreneur Eiichi Shibusawa (1840–1931) is so well known as the “Father of Modern Japanese Capitalism”. This article seeks to discuss another aspect of his life: His role as promoter of internationalism in the 1920s period of Japanese globalization along European countries concept. Shibusawa’s role at the League of Nations Association of Japan (LNAJ) showed his efforts to develop peace with humanitarianism after his retirement from business as an early example in Japanese modern society.

Keywords Japanese entrepreneur Eiichi Shibusawa · The League of Nations Association of Japan · Internationalism of 1920s · Humanitarianism

The Japanese entrepreneur Eiichi Shibusawa (1840–1931) is so well known as the “Father of Modern Japanese Capitalism,” that his portrait will be printed on the new Japanese ¥10,000 banknote in 2024. Many books about him have been published which either evaluate his business management from his young days in Paris till his retirement, or concentrate his work “Analects of Confucius and the Abacus” from the standpoint of Japanese ethics and business.

The former researches Shibusawa’s activities in the interwar period mainly focused on the US-Japan relationship, such as the businessmen exchanges by Masato Kimura, or the Institute of Pacific Relations (IPR) by Nobuo Katagiri. Regarding Shibusawa’s attitude toward European countries in the same period, there are few studies. However, this article seeks to discuss another aspect of his life: His role as promoter of internationalism in the 1920s period of Japanese globalization along European countries concept.

The German philosopher Immanuel Kant’s famous “Zum ewigen Frieden = Perpetual Peace; a Philosophical Sketch (1795)” was first translated into Japanese as a booklet published by the League of Nations Association of Japan (LNAJ) in 1924. While there is no certain evidence that Shibusawa directly ordered this translation, he was nonetheless the LNAJ’s first Chair (1919–1931) and, obviously, willingly

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supported its activities. Here I would like to talk about Eiichi Shibusawa and to introduce his engagement with the LNAJ where he strove toward the building of a harmonious international society. That is, the aim of this paper is to discuss Shibusawa's role at the LNAJ in the 1920s and his efforts to develop peace after his retirement from business. To this end, what follows is divided into four sections.

Section 1 shows how Japanese diplomats were rather reluctant participants in the establishment of the League of Nations, demonstrating Japanese perceptions of international society and the difficulties the government experienced in organizing Japanese people. Section 2 introduces Shibusawa's participation in a variety of non-governmental associations. He worked to develop mutual understanding through an exchange of people and ideas in many organizations, because he believed that the more people developed a mutual understanding of international society, the better they could achieve economic development through free trade. In Sect. 3, his support of LNAJ activities and his approach to engagement for international peace are illustrated and analyzed through his speeches. He spoke out on topics such as disarmament, humanitarian support for refugees, and disaster relief in Japan. Thus, in the final section, the LNAJ and Shibusawa's important role as its chair in the inter war period of Japanese globalization will be evaluated.

1 The Japanese Attitude Toward the League of Nations

After the ceasefire ending the first World War, the Japanese government and people were delighted to be recognized as belonging to the winning alliance and were conscious of themselves as one of the five great powers or "the Top-Ranking Countries in the World." However, even immediately upon its foundation, Japanese government was reluctant to participate in the League Nations. For example, the diplomat Nobuaki Makino wrote in his memoirs, "The League of Nations shall be layered and utilized politically by the European Countries. But if Japan did not participate in it, we would lose opportunities to negotiate about international politics among the member nations. Thus, we must join in the League of Nations."¹ That is, there was not a widespread idea that it might be necessary to pursue any enlightenment of the Japanese people about international society, even from the standpoint of Japanese diplomatic advantage.

Just after the establishment of the League of Nations, the core countries recognized the importance of informing their populations about the ideas behind the League of Nations and to rally their state and people behind slogan "Publicity and Education

¹ Makino Nobuaki, "Kaikoroku, vol. 2" [The Memoires], 174–175, Tokyo, 1978.

about the League of Nations is necessary according to each country's cultural situation."² The core European countries soon each organized their own non-political League of Nations Association.

However, the league was quite a political issue for the Japanese government. Japan had been involved in a dispute with the USA about the exclusion of Japanese immigrants since around 1900 and might have been able to exert diplomatic influence on the United States through the Union of the related Associations. Moreover, China had already established its own League of Nations Association and might take advantage at the League of Nations on issues regarding East Asia. How could Japanese people be best informed about the League of Nations?

2 Shibusawa's Activities for Mutual Understandings

Before Shibusawa's retirement from business around 1910, he recognized that an exchange of people and mutual understanding activities could develop free trade and further mutual prosperity. As a leading businessman he had already participated in several bilateral private associations designed to support mutual understanding, such as the Japan-Anglo Association, the America-Japan Society, a meeting later called *La Maison Franco-Japonaise*, and the Sino-Japan Businessmen's Association.

For him the issue of peace was an ethical priority. In 1912 he established and became the main supporter of the Association Concordia, which aimed to integrate the world ethically. Many members of the Association Concordia, for example, Masaharu Anesaki, a professor of religion, Juichi Soeda and Yoshiro Sakatani, who often collaborated with Shibusawa, along with internationalists from other societies, all cooperated to enlighten the Japanese people about the spirit of the League of Nations in order to produce a more harmonious world.

Anesaki, Soeda, Sakatani, and others from the Association Concordia, Tsunejiro Miyaoka from the Peace Association of the Empire, members of the Japan and US-Japan Relationship Committee (also supported by Shibusawa), and Christian Daikichiro Tagawa from the Society of the International Japan, together decided to make a new organization in Japan in order to participate in the Union of the League of Associations. These enthusiasts held meetings with younger diplomats to draft new publicity and decided to recommend Shibusawa as the first chairman.³

Thus, in April 1919 the LNAJ was founded declaring its aim to be the realization of the spirit of the League of Nations in Japan. In 1923 just before the Great Earthquake, about 2,000 people⁴; businessmen, students, and even some women were registered in cities across the country as members of the LNAJ.

² 'Nihon Kokusai Renmei Kyoukai Kankei Ikken; Sankou Shorui no 2, Vol. 2' [Document File Regarding the League of Nations Association of Japan; Reference 2, Vol. 2. Stored in the Diplomatic Archives of the Ministry of Foreign Affairs of Japan].

³ Ibid.

⁴ 'List', LNAJ ed. "Kokusai Chishiki", December 1923.

3 Shibusawa's Speeches

Shibusawa played an important role in encouraging the LNAJ through his speeches at its meetings and through articles he wrote for the organization.

3.1 *Disarmament*

Just after the end of the war, the Japanese military budget was ¥800,000,000, amounting to almost half the government's 1921 budget of ¥1,570,000,000. In these circumstances, the comments of Shibusawa's as the ex-businessman, made in a speech were remarkable:

We, as living and wise human beings, need a means to survive in peace without war. In order to succeed in this aim, I believe, we need to build the League of Nations, rather than build warships, coastal batteries, combat planes, submarines. ... In order to construct a successful League of Nations, it is not sufficient just to hope for international peace. We must keep seeking a way of making a harmonious international society. Thus, I believe that the LNAJ is one of the most suitable organizations for discussing disarmament.⁵

3.2 *Refugees*

Neither the Japanese Foreign Ministry nor diplomats could pursue any formal humanitarian action for the defeated Germany and they were equally unable to assist Armenian refugees. In the absence of this lead, Shibusawa demonstrated his sympathy and action non-politically. As the chair of the Armenian Refugee Society, located in the same office as the LNAJ, he gathered donations totaling approx. ¥20,000 in 1922–1923 while the LNAJ spread the news about Armenia and information about this Society through their periodicals.

Thus, on May 19, 1922, Shibusawa stated: "It is very proper that the Japanese feel compassion for international issues, after Japan achieved a position of international status. We feel dreadful pity for those starving and homeless Armenian children obliged to eat grass. There is no difference of sympathy. I appeal to the humanitarian sympathy of the Japanese people."⁶

⁵ Shibusawa Eiichi, 'Gumbi Shukusho to Nihon no Shorai' [Disarmament and the Future of Japan], LNAJ ed. "Kokusai Renmei", November 1921.

⁶ "Yomiuri Shimbun", 20 May 1922.

3.3 *The Great Earthquake and International Relief*

Just after the Great Earthquake of 1923 many countries immediately sent large donations and large amounts of relief supplies. As the Japanese government did not express its formal gratitude for these, Shibusawa undertook the necessary steps. Additionally, he helped to restore the daily life of foreigners who had lost their homes in the disaster. Moreover, he was greatly appreciative of the relief and humanitarian activities from China, especially since the two states had been involved in economic disputes, with the Chinese imposing a heavy boycott on Japanese products.

Thus, he wrote in his articles in the brochure of the LNAJ that: "After hearing of the Earthquake in Japan, China immediately changed from a policy of boycotting Japan to one of helping Japan. ... We cannot enjoy complete peace in the world. International issues often arise everywhere, in these circumstances and even through there are differences between human races and nationalities, I think, humanitarian sympathy is evidence of a great mercy. The Great Earthquake and the international relief showed us this wisdom."⁷

His belief in the role of the League of Nations and the LNAJ can be seen in his address on the radio on the 10th anniversary of the ceasefire, where he stated:

"I am very pleased that the League of Nations makes efforts for international harmony from the economic standpoint, too. ... In order to have hope for a real prosperity of a nation, I believe that it is necessary to have concord in politics, economics and ethics. If international economics proceeds in accordance with the spirit of the League of Nations, it will be impossible to insist on defending the interests of one nation. ... After the achievement of economic peace, then, each person will be content with their life, that is, the peace of economics is based on the peace of people. After the achievement of sympathy for others and peace in heart, harmony in economic development shall be successful."⁸ He evaluated the League of Nations based on the economic international cooperation, and criticized "a nation first" policy.

4 Conclusion

The Japanese Foreign Ministry was rather reluctant to participate in League of Nations despite the organization's political significance. In these circumstances the LNAJ, fully supported by Shibusawa, attempted to fill the political space left by the government and tried to spread the idea of the League of Nations and to help Japanese people to understand international society.

⁷ Shibusawa Eiichi, 'Kokusai Kyojo Seisin no Kengen', "Wagakuni no Sinsaini taisuru Sho Gaikoku no Dojo; Sinsai ni kansuru Sho Meishi no Shokan" ['The Appearance of the Spirit of International Mutual Help', "The International Relief Toward Our Great Earthquake, Remarks of the Earthquake"], LNAJ Pamphlet No. 38, December 1923.

⁸ Shibusawa Eiichi's Radio Address, 'Go-Taiei ni saishite mukauru Kyusen Kinenbi ni tsuite', "Shibusawa Eiichi Denki Shiryo" ['The Anniversary of the Ceasefire and the Enthronement of the Emperor Hirohito', "The Shibusawa Eiichi Biographical Documents"], 265 vol. 48.

Thus, in the early 1920s they published translations of many introductory articles on the ideas of peace by, for example, Immanuel Kant, R. Coudenhove-Kalergi, Anatole France, and other internationalists, even spreading knowledge of the philosophies and way of life of Islam.

It is clear that these were neither the propaganda activities of the Japanese Government nor a form of short-sighted nationalism; they were not attempts to promote bilateral relations but rather efforts to further multi-lateral understanding.

However, after the Great Earthquake of 1923, Japanese economics slid into a slump and in 1927 a bankruptcy suddenly tipped the country into a deeper domestic depression. Simultaneously so-called expansionists, who were also interested in East Asia and international relations, became increasingly vociferous and began to participate in the LNAJ. Indeed, even the Foreign Ministry recognized the importance of publicity and shaping public opinion and a young ex-diplomat began to work at the office acting on the instructions from the Ministry.

During the period of international harmonious relations in the 1920's, though there was a dilemma between humanitarianism and Japanese diplomacy, Shibusawa's activities might be described as an early example of so-called "Human Securities" in Japan, based on his engagement to encouraging peaceful prosperity. The internationalism of LNAJ spread widely, even in the local cities and students, until the Manchurian Incident occurred in September 1931, and old Shibusawa aged 91 passed away in November 11 of the same year.

In addition, he tried to spread an idealistic perspective of the western concept of 1920s through LNAJ. On the contrary, Japan, the government, and Shibusawa, faced the various difficulties at the negotiation with Asia countries, especially with China, where the people had been developing their modern nationalism independently.

Shibusawa believed that mutual understanding between Asian people could be achieved easily, for he often said "we are the same race with yellow skin color and share the same Confucian culture" based on his motto, while the Chinese people actually considered Confucianism as useless and out of date.

In the crisis of 1920s, once even not only small economic discrepancy but also natural disasters, such as the flu pandemic without the remedies and the great earthquakes of 1923 in Japan, happened, it turned to the serious and wide depression easily. These reasons sprouted chauvinism in Japan. For example, just after the great earthquake the international emergency relief from U.S. and European countries made some jingoistic Japanese Army officers skeptical, whether western way of life would prevail over the whole society in Japan. Then the Japanese people also understood the true situation of Japanese nationalism, especially after the Manchurian Incident.

In conclusion, Shibusawa's activities as one of the leading internationalists after the First World War teaches us that we must reconsider the significance of keeping multi-lateral civil networks based on humanitarian activities, mutual understanding, with promoting free trade and mutual prosperity, even in the present mature globalization.

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Professional Experience

- NITSUKO Ltd. Kawasaki, Sales operative for telephone equipment to European Countries, Overseas Department Apr.1980–May 1986
- Part-time Lecturer, Tokiwa University, 2000–2018
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Part III
Post-colonization in Europe and Asia

Chapter 10

European Integration and Decolonization: From the Beginning to the Yaoundé, I Convention



Alfredo Canavero

Abstract How is the process of European integration linked to decolonization? What influence had the events of decolonization on European integration?

European integration · Decolonization · Yaoundé treaty

1 The Dream of Euro-Africa

How is the process of European integration linked to decolonization? What influence had the events of decolonization on European integration?

Colonial territories' desire for independence that was accentuated during the Second World War induced the colonial powers, especially Britain and France, to seek new ways to keep their empires. The aspirations of the colonized peoples, the weakening of the colonizing States and the hostility of the USA and USSR to ancient colonialism had to be considered. Many things had to be changed so that the substance of colonial rule remain unchanged. New ideas were necessary.

Already at the beginning of 1944, at the Conference of French colonial governors in Brazzaville (then capital of French Equatorial Africa), General De Gaulle seemed to abandon the traditional French tendency to assimilate colonial populations in favour of a policy of association with a federative character. This, however, was not to lead to independence of the African peoples, but to a sort of autonomy with strong ties to the French motherland.¹ As it was said in the Preamble of the Conference recommendations:

¹ Frederic Turpin, 1958, *la Communauté franco-africain : un projet de puissance entre héritage de la IVe République et conceptions gaulliennes*, in «Outre-Mers. Revue d'histoire», n. 358–359, 2008, pp. 46–47.

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Les fins de l'œuvre de civilisation accomplie par la France dans les colonies écartent toute idée d'autonomie, toute possibilité d'évolution hors du bloc français de l'Empire ; la constitution éventuelle, même lointaine, de self-governments dans les colonies est à écarter.²

In other words, the authority of France was not to be questioned, as it was well expressed in the Title VIII of the Constitution of the Fourth Republic, about the French Union³: "It's one central feature -it was noted- stands out clearly enough, however: the authority of France over the Union was beyond dispute".⁴

Also, Great Britain wanted to maintain control of Africa. The African continent was considered essential for the access to raw materials and for strategic bases. In this perspective, a partnership with France was necessary, despite bad bilateral relations between London and Paris in 1945. Africa could be a good starting point to improve their relations. As Bevin said to the Cabinet on January 4th, 1948, not to be dependent from the United States,

it would be necessary to mobilize the resources of Africa in support of a Western European union; and if some such union could be created, including not only the countries of Western Europe but also their colonial possession in Africa and the East, this would form a bloc which, both in populations and productive capacity, could stand on an equality with the western hemisphere and the Soviet blocs.⁵

Afterwards, some British and French officials started speaking about Euro-Africa, as a sort of economic sphere far from US and URSS, even if the expectations of London and Paris were very different: for Great Britain it meant to maintain a sort of leadership of Western Europe, whilst for France it was a means to block nationalist movements in Africa and international anti-colonial thought.

President Truman's Point Four Program, launched in the Message to the Congress of June 24, 1949, aroused the concerns of France and Great Britain. Speaking of the economically underdeveloped territories, Truman had said:

We look forward to the time when these countries will be stronger and more independent than they are now, and yet more closely bound to us and to other nations by ties of friendship and commerce, and by kindred ideals.⁶

² *La Conférence africaine française : Brazzaville 30 janvier-8 février 1944*, Ministère des colonies, Paris 1945, p. 32. "The ends of civilising work accomplished by France in the colonies excludes any idea of autonomy, all possibility of evolution outside the French bloc of the Empire; the eventual constitution even in the future of self-government of the colonies is denied". See also Tony Smith, *A Comparative Study of French and British Decolonization*, in "Comparative Studies in Society and History", Vol. 20, January 1978, n. 1, p. 73.

³ See Stefane Rials (editor), *Textes constitutionnels Français*, Presses Universitaires de France, Paris 2005, pp. 88–90.

⁴ Tony Smith, *A Comparative Study of French and British Decolonization*, cit., p. 74.

⁵ Quoted by Anne Deighton, *Ernest Bevin and the Idea of Euro-Africa from the Interwar to the Postwar Period*, in *L'Europe Unie et l'Afrique. De l'Idée d'Eurafrrique à la Convention de Lomé I*, Bruylant, Bruxelles; LGDJ, Paris; and Nomos Verlag, Baden Baden 2005, pp. 111–112.

⁶ Harry Truman: The Point Four Program. See http://usinfo.org/PUBS/LivingDoc_e/pointfour.htm. See Thomas G. Paterson, *Foreign Aid Under Wraps: The Point Four Program*, in "The Wisconsin Magazine of History", vol. 56 (1972–1973), n. 2, pp. 119–126.

Truman was above all concerned about a possible Soviet Union interference in underdeveloped territories, but for France and Britain the words “more independent” were worrying and they feared they could jeopardize their control of their African colonies. To contrast the United States and the anti-colonialist lobbies in the United Nations, where the Latin Arab bloc was strong, a colonial co-operation between France and Great Britain was essential.⁷ Ernest Bevin, in a well-known speech at the House of Commons about the possibility of a Western Union, January 22nd, 1948, said:

I would emphasise that I am not concerned only with Europe as a geographical conception. Europe has extended its influence throughout the world, and we have to look further afield. In the first place, we turn our eyes to Africa, where great responsibilities are shared by us with South Africa, France, Belgium and Portugal, and equally to all overseas territories, especially of South-East Asia, with which the Dutch are closely concerned. The organisation of Western Europe must be economically supported. That involves the closest possible collaboration with the Commonwealth and with overseas territories, not only British but French, Dutch, Belgian and Portuguese.

These overseas territories are large primary producers, and their standard of life is evolving rapidly and is capable of great development. They have raw materials, food and resources which can be turned to very great common advantage, both to the people of the territories themselves, to Europe, and to the world as a whole.⁸

Even the European movements were not ready to abandon the colonial links. At the Hague Congress of Europe (7–10 May 1948), for instance, it was affirmed that “The European Union must, of course, include in its orbit the extensions, dependencies and associated territories of the European Powers in Africa and elsewhere, and must preserve the existing constitutional ties which unite them”.⁹

In Spring 1948 the foreign office announced a plan for an African Development Council, with the participation of all European Powers.¹⁰ Even if Bevin stated that the co-operation had “the object of making the whole world richer and safer”,¹¹ it was obvious that the plan had more to do with British interests than with development of European co-operation or with welfare of African people. As Ann Deighton put it:

Cooperation with European powers over Africa was, in Britain, more to do with British economic, strategic and political interests than with any notion of either “European-ness”, or the liberation of the region from imperialism.¹²

⁷ Anthony Adamthwaite, *Britain, France the United States and Euro-Africa, 1945–1949*, in *L'Europe Unie et l'Afrique*, cit., pp. 124–125.

⁸ *Hansard Parliamentary Debates*, 22 January 1948, vol. 446, col. 398.

⁹ Quoted by Alan Hick, *The “European Movement”*, in Walter Liggins (ed.), *Documents on the History of European Integration*, vol. 4, Walter de Gruyter, Berlin New York 1991, pp. 335–336.

¹⁰ Peo Hanson and Stefan Jonsson, *Eurafrica: The Untold History of European Integration and Colonialism*, Bloomsbury, London and New York 2013, p. 89.

¹¹ *Hansard Parliamentary Debates*, 22 January 1948, vol. 446, col.399.

¹² Anne Deighton, *Ernest Bevin and the Idea of Euro-Africa*, cit., p. 117. See also Ann Deighton, *Entente neo-coloniale? Ernest Bevin and the proposals for Anglo-French Third World power, 1945–1949*, in “Diplomacy and Statecraft”, 2006, n. 17, pp. 835–852.

The change of the international situation during 1948 caused the idea of an Anglo-French Eurafrica to end up. The crisis of the Council of Foreign Ministries foreshadowed the Cold War. Prague coup, Communist rising in Malaysia and Berlin blockade showed the impossibility to follow the way of a third force between US and URSS. Great Britain realized Europe was increasingly dependent on the US, either from a political, or economic, or military point of view. The beautiful words of Bevin of a richer and safer world were soon forgotten, as well as the idea of a third force. United Kingdom put his trust in the United States, while France took the lead in the European integration process, beginning with the Schuman plan.

In his famous declaration of 9th May 1950 which led to the foundation of European Coal and Steel Community (ECSC), Robert Schuman did not forget Africa and said: “With increased resources Europe will be able to pursue the achievement of one of its essential tasks, namely, the development of the African continent”.¹³ According to some observers, this could have been the first step for a European common exploitation of Africa’s resources, but, on the contrary, in the text of the treaty establishing the ECSC there is no trace of the task indicated by Schuman.

2 The Strasbourg Plan

We should note that at that at the end of the war only four African states were independent (Ethiopia, Liberia, South Africa and Egypt). France and Great Britain had the lion’s share of colonial territories, but also Belgium and Portugal controlled great areas. Italy and Spain had a minor role. It is not surprising that the issue of a common European intervention in Africa re-emerged thanks to a German, namely a representative of a country that no longer had colonies. Johannes Semler (1898–1973), one of the founders of CSU and an economist, raised the question at the Council of Europe at the beginning of the Fifties. Semler’s proposal was transformed into Recommendation n. 26, approved by the Assembly of the Council of Europe on September 25, 1952. Actually, the Strasbourg Plan, as it was named, was a reaction to the US development plan for Africa and an attempt to free Western European countries from economic ties with Washington. Europe—it was said- imported “from the dollar area a large part of its raw materials and had been able to pay for them since the end of the war only because of the generous assistance afforded by the United States”.¹⁴ This state of affair should change. For these considerations, the Assembly recommended:

- a. Increased production of raw materials in the area under consideration and, in particular, increased production of such materials as are at present imported by Europe from the dollar area or are likely to be exported to that area;

¹³ See <https://www.robert-schuman.eu/en/declaration-of-9-may-1950>.

¹⁴ Co-ordination between the economies of the Member States of the Council of Europe and those of the overseas countries having constitutional links with them (Recommendation 26), Parliamentary Assembly Session 1952—4th Session—Second part.

- b. The adoption to this end of a policy of economic expansion;
- c. The utilization of the resources of all Member States in equipping and developing overseas countries;
- d. The provision of facilities in the overseas countries for the settlement of nationals having economic, scientific and technical qualifications, and for the introduction of enterprises, from countries having no dependent overseas territories;
- e. The co-ordination of investment projects, region by region and product by product;
- f. The creation of openings in the European countries for overseas products.
- g. The establishment in the dependent territories having constitutional links with certain Member States, of industries for the processing of the raw materials produced by them, as well as industries producing goods for local consumption.¹⁵

The establishment of a European Bank for the development of overseas territories was also recommended, the conclusion of long-term contracts and the introduction of a preferential system “between the Commonwealth, on the one hand, and the other countries of the area under consideration, on the other.”¹⁶ The Parliamentary Assembly adopted the Recommendation on September 25th, 1952.

As everybody could understand, it was a plan useful for the European countries, but much less for African countries. The fundamental purpose was to subtract Western Europe from economic dependency of US. According to former French prime minister Paul Reynaud

We must also, if free Europe is to be made viable, jointly exploit the riches of the African continent, and try to find there those raw materials which we are getting from the dollar area, and for which we are unable to pay.¹⁷

The Committee of Ministers of the Council of Europe approved the Recommendation and transmitted it to the Governments (May 6th, 1953),¹⁸ but the Recommendation was never applied. The failure of the European Defense Community (EDC) and the consequent crisis of the European integration process blocked afterward any possibility of establishing a common European intervention in Africa.

3 The Problem of French TOM

When the process of European integration kept again the stage, France had to solve the problem of conciliating its European interests with the maintenance of the *Union Française*, the political entity created in 1946 to replace the old French Empire. Through the *Union Française* France controlled the Overseas Territories (*Territories*

¹⁵ Ibidem.

¹⁶ Ibidem.

¹⁷ *The Strasbourg Plan: Proposals for Improving the Economic Relations Between Member States of the Council of Europe and the Overseas Countries with Which They Have Constitutional Links*, Secretariat-General, Council of Europe, Strasbourg, 1952, p. 135.

¹⁸ Twelfth Session of the Committee of Ministers, Minutes of the first meeting, 6th May 1953 at the Seat of the Council of Europe, p. 16.

d'outremer, TOM). They were divided in two great federations, French West Africa and French Equatorial Africa. The first one included Mauritania, Senegal, French Sudan (now Mali), French Guinea, Côte d'Ivoire (Ivory Coast), Upper Volta (now Burkina Faso), Dahomey (now Benin) and Niger. The second one included French Congo, Gabon, Oubangui-Chari (now Central African Republic), Chad, and French Cameroon.

The *Union Française* had a common currency, high tariffs and guaranteed internal prices. It was well living in the middle of Fifties: in 1958, it accounted for 37.5% of French exports and 27.6% of French imports. It is also estimated that 7% of the French population was involved in colonial trade.¹⁹ As the director of Economic Affairs of Ministry of Overseas France put it:

The common market France - Africa was, in many respects, beyond the one it was creating in Europe. As there was no question for France to abandon Africa, it was necessary to reconcile these two appartenances, it was necessary that Europe accepted Africa.²⁰

At the eve of Venice Conference of Foreign Ministries of ECSC to discuss the Spaak report for the European *relance* (which, it should be noted, did not made any mention to Africa), Gaston Defferre, Ministry of Overseas France, on 17th May sent a letter to Guy Mollet, President of the Council in which he urged to make TOM's participation in the Common Market a preliminary issue.²¹ Defferre proposed that European countries participate in investments in TOM's, but without endangering the nascent local industries and agricultural production.

En contre-partie, il va de soi -Defferre wrote- que le marché des TOM cesserait complètement d'être réservé à l'industrie française et serait partagé entre les industries européennes.²²

Mollet agreed and during the Conference (May 29–30, 1956) France asked European partners to take into consideration the participation of its overseas territories to European projects. French Foreign affairs minister, Christiane Pineau, said that France could not join a common market without TOM countries.²³

The inclusion of colonies was very important for France. Firstly, it protected its economic relations with African territories and guaranteed the supply of raw materials; then, it was a mean to preserve French influence in Africa and lastly it

¹⁹ See Lorand Bartels, *The Trade and Development Policy of the European Union*, in "The European Journal of International Law", Vol. 18 (2007), n. 4, p. 717.

²⁰ Pierre Moussa, *La roue de la fortune. Souvenirs d'un financier*, Fayard, Paris 1989, p. 72.

²¹ Guia Migani, *L'association des TOM au Marché Commun : histoire d'un accord Européen entre cultures économiques différentes et idéaux politiques communes, 1955–1957*, in *L'Europe unie et l'Afrique*, cit., p. 234.

²² Letter by G. Defferre to G. Mollet, May 17th, 1956, quoted by Gerard Bossuat, *Les fondateurs de l'Europe*, Belin, Paris 1994, p. 206.

²³ See Marie-Therese Bitsch, *Histoire de la construction européenne. De 1945 à nos jours*, Edition Complexe, Paris 2008, pp. 116–117.

spread the cost of assistance of its colonies to the other members of EEC.²⁴ It was a great advantage for France, and, to a lesser extent, for Belgium.

The European partners were hardly enthusiastic about the French position. With the exception of Belgium, they did not have important colonies: for Italy Somalia was only a trusteeship, bound to end in 1960, and its economic interests were oriented towards Latin America; The Netherlands and West Germany were more interested in Asia or Latin America. In any case, they did not want to be linked with French colonial policy, which especially in Algeria was severely contested.

France, as we said, had only the support of Belgium. The two countries presented a project of association of African territories to the Common market (November 1956). The proposal foresaw only an association and not a true participation and was based on the development of commercial exchanges and a distribution of investment costs among the Six. If, on the one hand, the opening of TOM markets to the other European partners was guaranteed, on the other, a preferential outlet for African products and long-term commercial agreements were required.²⁵

Luxemburg, The Netherlands, West Germany and Italy did not object to the principle of the association, but to the conditions of the association. Actually, they did not want to have a direct political responsibility in countries they had neither the possibility nor the willingness to control.²⁶

On 29 November 1956, at the Castle of Val Duchesse, near Bruxelles, the Committee of Heads of Delegation of the Intergovernmental Conference on the Common Market and Euratom proposed the creation of a working group to examine the technical issues raised by the Franco-Belgian proposals. On 20th December the working group presented its final report which approved the association of TOMs to EEC. Paul-Henri Spaak, who was the chairman of the Committee of Heads of Delegation, tried to overcome the resistance of The Netherlands and West Germany, arguing that national interests had to be forgotten in front of the political and economic benefits deriving from the Common Market, but without great success.

It was only the international crisis of the end of 1956 which opened the possibility of a compromise. The humiliating end of the Suez *affaire* made France understand the weak position of a single European country against the superpowers and gave new impetus to the integration of Europe.²⁷ French Government used the Suez choc to speed up a change of public opinion, until then not very favourable to the Common Market.²⁸ At the beginning of 1957, French Assembly approved the project

²⁴ Anjali Banthia, *Success or Failure? An Evaluation of Fifty Years (1957–2007) of European Union Development Policy in Africa, Caribbean, and the Pacific*, in “Political Perspectives”, 2007, n. 2, p. 4.

²⁵ Guia Migani, *L’association des TOM au Marché Commun*, cit., pp. 238–239.

²⁶ Ibidem, pp. 240–241.

²⁷ See Gerard Bossuat, *L’Europe des français 1943–1959 : La IVe république aux sources de l’Europe communautaire*, Publications de la Sorbonne, Paris 1996, pp. 334–337.

²⁸ Gerard Bossuat, *Messine, une méthode pour l’unité de l’Europe ? Ou comment le gouvernement français a été convaincu d’avancer vers l’unité*, in Luigi Vittorio Majocchi (ed.), *Messina quarant’anni dopo. L’attualità del metodo in vista della Conferenza intergovernativa del 1996*, Cacucci editore, Bari 1996, p. 129.

of Common Market, provided that it ensured the association of overseas countries. Only after other meetings of the Six, discussions and several proposals, in Paris, on February 19–20, 1957, just a month before the signature of the treaties of Rome, the heads of government found a compromise.²⁹

4 From Rome to Yaoundé

On March 25, 1957, the Treaty establishing the European Economic Community was signed in Rome. The Preamble said that the Six intended “to confirm the solidarity which binds Europe and the overseas countries and [desired] to ensure the development of their prosperity, in accordance with the principles of the Charter of the United Nations”. Beyond these general affirmations, fourth part of the Treaty (articles 131–136) was devoted to the “Association of the overseas countries and territories”. Article 131 said:

The Member States agree to associate with the Community the non-European countries and territories which have special relations with Belgium, France, Italy and the Netherlands. These countries and territories (hereinafter called the “countries and territories”) are listed in Annex IV to this Treaty.³⁰

The purpose of association shall be to promote the economic and social development of the countries and territories and to establish close economic relations between them and the Community as a whole.

In accordance with the principles set out in the Preamble to this Treaty, association shall serve primarily to further the interests and prosperity of the inhabitants of these countries and territories in order to lead them to the economic, social and cultural development to which they aspire.

The then colonies of the six founder countries were granted access in the customs union. A sum of 581 million dollars was deliberated to help economic and social development of those territories. An Implementing Convention should determine the details and procedure for the association of the countries and territories with the Community.

The Six realized that it was impossible for them to lose interest in territories which they had had linked to in the past, especially when they were soon to attain independence. Moreover, after the Conference of Bandung (1955) the developing countries had become a real force between the West and East. Finally, the US had urged the Europeans to take charge of the development of African countries, fearing

²⁹ Guia Migani, *L’association des TOM au Marché Commun*, cit., pp. 243–247.

³⁰ The countries were: the territories of French West and Equatorial Africa, Saint Pierre et Miquelon, the Comoro Archipelago, Madagascar and dependencies, French Somaliland, New Caledonia and dependencies, French settlements in Oceania, Southern and Antarctic Territories, the Autonomous Republic of Togoland, the trust territory of Cameroon under French Administration, the Belgian Congo and Ruanda-Urundi, the trust territory of Somaliland under Italian administration, Netherlands New Guinea. French Overseas Department and Algeria were not included, as integral part of French metropolitan territory.

that these would fall under Communist rule.³¹ This was particularly true after 1960, when seventeen African States, fourteen of which already associated to EEC, became independent.

The position of EEC towards African territories was criticized from various parts. Certain Associated States complained that the agreements had been conceded (*octroyée*) (or imposed) and not negotiated (*negociée*). On the contrary, other African states not associated wanted to join the association. Finally, in some circles of the Six the agreements with Africa were considered hardly profitable.

The first All-African Peoples Conference (Accra, December 8–13, 1958) denounced the European imperialism and its pacts, citing not only NATO, but also EEC and EFTA.³² Ghana President Kwame Nkrumah spoke of “neo-colonialism”, comparing the Treaty of Rome to the African conference of Berlin (1885).³³

It was necessary for Europe to change and to have a relation with African countries on an equal footing. The European Parliamentary Assembly took the initiative. At the end of March 1960, it proposed a Eurafrikan Parliamentary conference. The Council of Ministers was very concerned, but it had to accept.³⁴ In April, the Commission submitted some proposals for a new Association Convention to the Council of Ministers, to the European Parliament and to the African and Malagasy governments. After some preparatory meetings (Rome, January and Bonn, May 1961), in June 1961, from 19 to 24, 103 deputies from 16 African countries and 142 European deputies met in Strasbourg to deal with future Eurafrikan relations.³⁵ The conference showed a remarkable convergence of views between European and African MPs. The new rules of association were to enjoy equality in negotiations and parity in controlling the Common Development Fund (already European Fund of Development). The words “cooperation”, “equality of rights”, “partnership” meant a new way of setting up relations between Europe and Africa. An Italian MP, Mario Pedini, observed that an era of cooperation was to replace definitively the colonial era.³⁶ African countries were determined to replace the ties with the former colonial powers with a multinational partner, the EEC. And the EEC wanted to enlarge the association beyond the “little Eurafrikan”, so to include other African States. The idea was to associate African countries of Commonwealth, considering the opening of negotiations for the entry of United Kingdom into EEC.

³¹ Philippe Decraene, *Les Etats-Unis manifestent un intérêt croissant pour les territoires de l'Afrique noire*, in «Le Monde Diplomatique», Décembre 1958, p. 3: «Et si toute mesure de libéralisation outre-mer est bien accueillie outre-Atlantique, ce n'est pas tant pour les avantages qu'elle apporte aux Africains eux-mêmes que pour les inconvénients qu'elle évite au bloc occidental».

³² See Ira William Zartman, *Politics of Trade Negotiations Between Africa and European Economic Community. The Weak confront the Strong*, Princeton University Press, Princeton 1971, p. 20.

³³ Kwame Nkrumah, *Neocolonialism*, International Publishers, New York 1966. See also *All-African People's Conferences*, in “International Organization”, vol. 16, n. 2, pp. 429–434.

³⁴ See Ira William Zartman, *Politics of Trade Negotiations*, cit., p. 31.

³⁵ See Urban Vahsen, *La Conférence parlementaire eurafrikanne de Strasbourg (19–24 Juin 1961)*, in *L'Europe Unie et l'Afrique*, cit., pp. 375–391.

³⁶ *Ibidem*, p. 382.

The association should be more than a simple commercial accord, but it had to become the base of a tight and lasting economic link between Africa and EEC. A representative of the Ivory Coast said that the association was the best form of co-operation between developed and underdeveloped countries.³⁷ The Conference foresaw also financial and technique aids and cultural co-operation.

Following the Parliamentary conference, the Six and the new African States met twice in 1961 (1–3 June and 10–11 November), in order to prepare an Intergovernmental Conference among the African associated States, the Council of Ministries and the European Commission (Paris, December 6–7, 1961). Forgetting that they had considered the Treaty of Rome as imposed, African countries demanded now that the Convention of Association be kept unchanged, to favor their economic and social development. The EEC expressed only general remarks, underlining the principle of parity between the partners, promoting co-operation, exchanges and industrialization.

As a matter of fact, exports from the Associated countries to EEC increased and made it possible to carry out economic and social projects to improve life conditions of African peoples. In view of the expiry of the association, the African states, now become independent, asked to renew it. One more time, the main problem among the Six was the position of Paris. The decolonization process was a big concern because it threatened to jeopardize France world power status. France had already lost Indochina in 1954, Morocco and Tunisia in 1956, whilst Algeria was in turmoil. Maintaining strong economic links with its former colonies was vital for France.

It should be noted that France wanted to maintain the role of privileged interface between Europe and the African territories, even after their access to independence. Paris opposed the direct representation of the African associated States in the EEC to remain an obliged intermediary. In addition, France held the office of commissioner for African affairs, under different denominations, until 1985.³⁸ Paris played a pivotal role in the management of the European Development Fund (EDF), often arousing criticism from the other five European partners.³⁹

The situation was even more complicated by the British application for accession to the EEC. For reasons like those of France, United Kingdom wanted the association of Commonwealth countries and was contrary to a position of greater favor for earlier associates. Germany and The Netherlands declared in favor of the suspension of negotiations with the associated, pending the conclusion of negotiations with Great Britain. France was completely against. Only in March 1962 the Council of Ministries could come to an agreement and the meeting with the African States could be resumed. On 9–10 April 1962, a second Intergovernmental conference decided to regulate trade on the provisions of the Treaty of Rome. From January 1963 customs duties on certain tropical products would be abolished and replaced by a common

³⁷ Ibidem, p. 385.

³⁸ See Frederic Turpin, *L'association Europe-Afrique : une «bonne affaire» pour la France dans les relations avec l'Afrique (1957–1975) ?*, in *L'Europe Unie et l'Afrique*, cit., pp. 353–354.

³⁹ Ibidem, pp. 355–357.

external tariff. Resources for the implementation of the new agreement could not be specified. It was said only that they would be increased compared to the past.

In July a third Intergovernmental conference (Bruxelles, July 4–5, 1962) defined in 780 million dollars the resources of the Fund of development. A fourth (Bruxelles, October 23–24) and a fifth (Bruxelles, December 19, 1962) Conference allowed to arrive to a compromise text, valid for a period of five years. As we have seen, negotiations were held on three levels. The first one was the conversation among the Six in order to present a common proposal. The second was among the Eighteen African and Malagasy states and the third one among the Six and the Eighteen.

5 The Yaoundé Convention

On these bases on July 20th, 1963 EEC and 18 African and Malagasy States signed in Yaoundé (Cameroon) a Convention.⁴⁰ The agreement has four main parts: (1) Trade (2) Financial and technical cooperation (3) Freedom of establishment, services, payments and capital movements (4) Institutions of the Association.

The Convention foresaw the continuation of the Rome Treaty with the main goals to expand trade between the two partners. EEC agreed to lower and finally to eliminate its custom duties on tropical products of associated states, but only the ones not covered by the Common Agricultural Policy (CAP). For a limited period, a Common External Tariff (CET) should prevent import of similar goods (for instance cocoa, coffee, tea, cloves, nutmegs and pineapples) from other developing countries.

France agreed to eliminate progressively “Surprix”, an export subsidy to maintain the prices of some export goods of its former colonies above market prices. At the same time African and Malagasy states agreed to progressively abolish custom duties on EEC exports, except those generating revenue for “its development needs or its industrialization requirements or which are intended to contribute to its budget” (article 3). European goods, in other words, could not jeopardize the young African industry. The African member states, however, establishing custom duties were not allowed to discriminate between one Community country and another. Within a period of four years “all quantitative restrictions on imports of goods originating in Member States and all measures having equivalent effect” should be abolished (article 6). Convention would have led to the establishment of a free trade area between the contracting partners.

The Yaoundé Convention foresaw also financial and technical aids. A sum of 730 million units of account (more or less 800 million dollars)⁴¹ in grants and loans, part from the European Development Fund and part from the European Investment

⁴⁰ See Ira William Zartman, *Politics of Trade Negotiations Between Africa and the European Economic Community. The Weak Confronts the Strong*, Princeton University Press, Princeton 1971, in particular chapter 2: *Negotiating the Yaounde Convention*.

⁴¹ As defined by article 1 of the protocol n.7 of the Convention “The value of the unit of account used to express sums in the Convention of Association or in the provisions adopted in implementation of this Convention shall be 0.88867088 grams of fine gold”.

Bank, would finance projects, especially devoted to the “rationalization of cropping and sales methods” and diversification of products (article 17). It was one of the main concerns of the Convention to eliminate the dependence of African States on a single commodity and in this way to protect them from the fluctuation of the market.

Last, a real organization was set up in order to give stability to the Convention: the Association Council, composed of the members of the Community Council of Ministers, the members of the Common Market Commission and one member of the government of each associated state, for a total of 33, assisted by the Association Committee; the Parliamentary Conference of the Association, composed by 54 MPs from European States and 54 from African States; the Court of Arbitration of the Association, composed by 5 members (articles 39–53).⁴²

6 Conclusions

The way to the Convention of Yaoundé had been long and not easy. Serious disagreements in the policy of intervention in Africa in 1957 were overcome only by the need to conclude the Treaties of Rome. The independence of many African states in 1960 led many European states to modify their approach towards the African continent. The Netherlands and Germany wanted a regime of liberal economy with an important role for private initiative. France preferred maintaining a protectionist and interventionist regime. Belgium, Luxemburg and Italy tried to favor a compromise. Unlike the Six, African countries were able to present a united front and, even with the support of the Commission and the European Assembly, less tied to national interests, they got some result.

No doubt, European interests were well guaranteed, but the new agreement had some interesting innovations. Yaoundé Convention was not a unilateral act, but a real treaty, based on international law. The link was mainly economic, but there was also a significant political component and an institutional framework, with bodies with real powers. With the Convention, the EEC was turning a relationship of colonial dependency into a model of cooperation for development, which, while not flawless, would contribute to the improvement of the living conditions of African populations.

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⁴² See *Partnership in Africa: The Yaoundé Association*, European Community Information Service, in aei.pitt.edu/34505/1/a674.pdf.

the frame of a larger group (“Spaces and Times of Europe”) directed by Robert Frank (University of Paris I, Sorbonne). He was also Director of the Centre for the Studies of Foreign Policy and Public Opinion (Milan State University) and is General Secretary of the Commission of History of International Relations, affiliated to the World Congress of Historical Sciences. He gave papers during World Congresses of Historical Sciences from 1995 to 2015.

Chapter 11

Political Europe: The Cold War and the Great Decolonisation—From the Yaoundé Convention to Lomé Conventions



Giulia Lami

Abstract The Treaty of Rome (1957) founding the European Economic Community (EEC) created a sort of special relationship between the Europe of Six and Africa, involving privileged aids and prioritized markets. This special relationship led to the Yaoundé Convention of 20 July 1963, when 18 African and Malgache countries that had recently gained independence (14 former French colonies, 3 former Belgian and 1 former Italian), were associated to EEC in a form of reinforced economic cooperation. After 1963, however, the original European political nucleus was about to become a thing of the past, in the midst of the many and well-known difficulties involved in the first EC enlargement and the many challenges this was to bring with it, not least in terms of relations with the Third World. Economic and political relationship between the Six and their former colonies firstly required some adjustments and then, from the 1970s onwards, a more thoroughgoing and qualitative reorganisation which culminated in the drawing up of the first two Lomé conventions in 1975 and 1980. This essay will attempt to shed light on the key phases in this process of regional and international cooperation, a still under-studied subject despite the great expansion of academic literature on European integration.

Keywords Treaty of Rome · EEC · Yaoundé convention · Third world

The period from the mid-1960s through the 1980s was one in which the European Community was faced with the most critical phase in a decolonisation process which had been one of the contemporary era's longest and most complex challenges.¹ Whilst the issue of European relations with what were soon to be called Developing Countries were of the utmost importance right from the inception of the European Economic Community in 1957–1958, it was, however, only once the Yaoundé Convention came into force as the first treaty regulating relations between the European Six and the African and Malagasy Union that a tangible dialogue began

¹ The first part of this essay, up to the *Lomé and the Apex of detente in the Third World* section, is the work of Giulia Lami and the second part that of Lorenzo Meli.

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to take shape between at least one part of the Old Continent and its more-or-less recent colonial past.

In this same time spectrum, however, the original European political nucleus was about to become a thing of the past, in the midst of the many and well-known difficulties involved in the first attempts at enlargement and the many challenges this was to bring with it, not least in terms of relations with the Third World. This first required adjustment and then, from the 1970s onwards, a more thoroughgoing reorganisation which culminated in the drawing up of the first two Lomé conventions in 1975 and 1980. All this took place against the backdrop of a deeply rooted crisis in the whole European integration project which was to last well over a decade and succeed, to a considerable extent, in thwarting the hopes raised by detente between the two dominant geopolitical blocks.

This essay will attempt to shed light on the key phases in this process, a still understudied subject about which little is known, the great expansion in the academic literature on European integration notwithstanding.

1 The ‘New’ Europe and the New ‘Third World’

On the cusp of the 1960s the fledgling European Community saw the decolonisation under way in the African continent as one of its thorniest issues and one which was still at a challenging definition phase.²

It is well known that what made European relations with the colonial world especially thorny was, first and foremost, the intentions of de Gaulle’s France to establish relationships of a strictly economic and trading nature with the majority of its former colonies whose independence was then underway. It was, however, an approach which accorded with those of many of the policies of the EEC’s founding states, such as the Kingdom of Belgium and Italy itself, then grappling with the end of its Trusteeship in Somaliland. The approach of West Germany and the Netherlands, on the other hand, differed, aiming to insert European-Third World relations into the wider legal framework of the United Nations in order to thwart French ambitions.³

In this same period, and by no means accidentally, a parallel but distinct policy was developing in what was to become the other great direction in early EEC foreign policy, expressed by the launching of association negotiations with a range of Mediterranean countries and first and foremost those most firmly integrated into the

² The subject’s bibliography is an especially vast one. For a definition of ‘Great Decolonisation’ a first reference point must be W. Reinhard, *A Short History of Colonialism*, Manchester University Press, Manchester 2011. On the specific subject of relations between the European Community and the Third World in the era examined here, see Anna Bedeschi Magrini’s fundamentally important summary, *Dalla Convenzione di Yaoundé ai Trattati di Lomé*, in R.H. Rainero (ed.), *Storia dell’Integrazione europea*, vol. II, Marzorati, Milan 1998, pp. 261–283.

³ *Ibidem*, p. 263.

Western Bloc, such as Greece and Turkey.⁴ This same European Community Mediterranean policy, after its first phase, underwent various attempts at reorganisation, above all from the 1970s onwards.⁵

The year 1960 can, to all intents and purposes, be considered not simply ‘Africa’s year’ but correspondingly, the year in which the Old Continent truly took stock of what the existence of these new states actually meant and how they were to fit into the new bipolar system. In fact, that spring the European Parliament decided to call the first meeting preparatory to the joint inter parliamentary conference of the six members of the EEC and the new-born African states, which were soon to join into the African and Malagasy Union for Economic Cooperation (S.A.M.A.).⁶

This policy, adopted primarily at the behest of France and implemented by the Hallstein Commission, was clearly designed to maintain pre-established bonds with the new states and ensure—or at least foster—their insertion into the Western geopolitical sphere of influence. Negotiations then continued on an inter-ministerial level for over two years in the face of a multiplicity of problems.⁷ Initially planned for early 1963, in a historical period which was anything but thriving for the European Community, the signing of the Convention culminating from these intense debates was then postponed to 20 July that year in the capital of the young Republic of Cameroon before being ratified by the various parliaments involved.

2 The Rise of Development Cooperation

The Yaoundé Convention came into force on 1 July 1964 for a five-year term on the legal basis of Article 310 of the Treaty of Rome. The historical importance of the agreement signed in Yaoundé consisted, first and foremost, in its laying the foundations for a model which, whilst much criticised by contemporaries and over the decades that followed in the academic literature,⁸ ultimately left a profound mark

⁴ On the first policies culminating in Association Agreements with Greece (1961) and Turkey (1963) see Elena Calandri, *L’eterna incompiuta: la politica mediterranea tra sviluppo e sicurezza*, in Id (ed.), *Il primato sfuggente. La Comunità Europea e i Paesi in via di sviluppo*, FrancoAngeli, Milan 2009, pp. 89–93.

⁵ On this subject see the introduction to the essay by Guia Migani, *La politique globale méditerranéenne de la CEE, 1970–1972*, in A. Varsori and G. Migani (eds.), *Europe in the International Arena During the 1970’s: Entering a Different World*, Peter Lang, Brussels 2011, pp. 193–195.

⁶ These countries were Mauritania, Mali, Niger, Chad, Sudan, Guinea, Ivory Coast, Senegal, Dahomey/Benin, Upper Volta/Burkina Faso, Togo, Cameroon, Gabon, the Central African Republic, Congo Brazzaville, Congo, Somalia, Madagascar.

⁷ The first Commission chaired by former West German Foreign Minister Walter Hallstein took over management of the technical aspects of these negotiations and had to extricate itself from heated debates over the abolition of general external tariffs on SAMA imports, its renewal in 1962, the advent of the PAC and the first rejection of UK membership of the EEC by France. See Bedeschi Magrini, *op. cit.*, p. 267.

⁸ In actual fact, the bitterest criticism of this first form of co-operation came from the emerging leaders of the new-born African states, with the President of Guinea, Sékou Touré, in the forefront.

on the whole history of relations between Europe and the Developing World. As has frequently been underlined, this agreement consisted of a framework divided up primarily into an institutional part, a commercial section and a technical-financial part.

Taking the methods now customary with the first Mediterranean partners as a benchmark,⁹ the Convention involved setting up a Council and a joint Association Committee made up of ministers and diplomats from signatory states, flanked by an Inter-parliamentary Conference and a Court of Arbitration.¹⁰ The linchpin around which all the other agreements revolved was commerce. The customs agreement involved the creation of a large free exchange area between the Common European Market and the agreement's signatory nations, with certain exceptions relating to specific agricultural products which were protected by the Common Market.¹¹ Coming to what we might call the more technical aspects of the agreement, namely financial matters, these consisted in the setting up of a second European Development Fund,¹² managed by the Commission, which was to be complemented by resources made available by the European Investment Bank (EIB).¹³

3 Towards a First Challenge to French Leadership

The agreement so painstakingly arrived at had a great many detractors even before it was officially launched. We have already seen that the near total predominance of the Francophone countries had been the first main cause of disagreement between the Six and this was especially true of new tensions between Paris and Bonn. From this perspective we cannot avoid highlighting the presence of a French politician, Henry

The latter did sign Yaoundé I, and then effectively broke off all diplomatic relations with de Gaulle's France for years. The Marxist school publications of the era thus reiterated their historic diatribes. The above did not fail to generate an echo in the historiographical world. Of these see Gerard Bossuat's conclusion in Marie-Thérèse Bitsch, Id (eds.), *L'Europe unie et l'Afrique. De l'idée d'Eurafrique à la convention de Lomé 1*, Actes du colloque international de Paris, 1 and 2 April 2004, Bruylant, Brussels 2005, *passim*.

⁹ At the time the Convention was signed only Greece and Turkey were in association with the EEC. Israel followed in 1964 and Lebanon in 1965. New agreements with other key players on the Mediterranean chessboard did not take place until the following decade. See G. Migani, *La politique globale méditerranéenne*, *op. cit.*, *passim*.

¹⁰ For the whole of this part, see Bedeschi Magrini, *op. cit.*, pp. 268–273.

¹¹ A first reference to this is to be found in G. Vedovato, La politica agricola nei rapporti di associazione tra CEE e SAMA, in *Rivista di studi politici internazionali*, n° 3 (1966), pp. 399–420.

¹² The first EDF, as is well-known, was decided on by the Treaty of Rome as one of the first structural funds and set up with the creation of the European Economic Community itself in 1958. See G. Bossuat, *Conclusion*, in M.T. Bitsch, *op. cit.*, p. 465.

¹³ A. Bedeschi Magrini, *op. cit.*, p. 268.

Rochereau,¹⁴ in his capacity as Overseas Development Commissioner¹⁵ within the second Hallstein Commission. Attempts were made to correct the imbalance in power between the French Republic and the other member states from 1965 onwards. It was at this point those tough negotiations between the Community and the new Republic of Nigeria, which had been initiated and pursued by the Commission separately from its SAMA negotiations, came to fruition. This agreement was a twofold novelty in the European Community policy in Africa context and, more generally, in Brussels's incipient foreign relations policy. In geopolitical terms it was, first of all, a clear attempt to bring within the European diplomatic fold a state within the British sphere of influence, and a member of the Commonwealth, to balance out persistent French hegemony.

The most significant innovation, however, consisted in the Abuja government's desire to exclude any sort of financial and technical agreement, which had, by contrast, been one of the cornerstones of Yaoundé.¹⁶ There is nothing accidental about the fact that the Lagos agreement was entirely commercial in nature which brought Nigeria into line with SAMA in this respect. When the time came to finalise the agreement politically, however, all the incongruences inherent in this came fully to the fore. De Gaulle's France opposed it on the EEC Council, where the well-known Empty Chair Crisis occurred in these same months. An even greater hurdle than the predictable opposition and protests by the SAMA members against Paris was the growing tensions between France and Nigeria triggered by the complex situation in Biafra.¹⁷ In such a climate, the negative outcome to the whole business was no surprise and the Lagos agreement never came to fruition.¹⁸

If, in the middle of the decade, a phase of profound and troubled internal renewal was tangibly under way in Europe, Africa was projecting an image of a continent with a bright and prosperous future before it. The principal signs of this ideal political ferment were the initiatives under way to generate great regional common markets. The SAMA model was, in fact, emulated by former British East African states such as Kenya, Tanzania and Uganda, forming the East African Community, as early as the beginning of the 1960s.¹⁹

¹⁴ Henry Rochereau (Chantonnay 1908-Paris 1999), lawyer, member of parliament and Minister of Agriculture in the Debré government from 1959 to 1961, he was appointed European Commissioner at the end of the first Hallstein Commission the following year, a role he also performed in the Rey Commission.

¹⁵ It is significant that, in this EEC phase, French influence extended even to the words used for the names of the various offices. This Overseas Development title only disappeared in the early 1970s at the beginning of the Malfatti Commission.

¹⁶ See G. Migani, *Strategie nazionali ed istituzionali alle origini dell'assistenza comunitaria allo sviluppo*, in (ed.) E. Calandri, *Il primato sfuggente. La Comunità europea e i Paesi in via di Sviluppo*, FrancoAngeli, Milan 2009, pp. 28–30.

¹⁷ *Ivi*.

¹⁸ Nigeria's accession to the more general European Co-operation for Development System was thus postponed for around ten years when it joined the ACP and the Lomé Convention.

¹⁹ On the regional cooperation initiatives in general and specifically the East African Community, see A. Adedeji, *The Travails of Regional Integration in Africa*, in A. Adebajo, K. Whiteman (eds.), *The EU and Africa. From Eurafrique to Afro-Europa*, Hurst & Company, London 2012, pp. 83–105.

The new single European Commission led by Belgian politician Jean Rey from 1967 to 1970 was determined to continue in the, by no means easy to manage, wake of its predecessors. On the strength of the contribution of newly reappointed Rochereau, and, to an even greater extent, those of other representatives of the Commission, with Italian Edoardo Martino in the forefront,²⁰ Brussels once again reached agreements of a commercial nature in the African Great Lakes area, culminating in the Arusha Agreement of 1968.²¹ Once again French opposition, together with the imminent end of the first Yaoundé Convention the following year, postponed the signing of the agreement, however. The Convention came up against even greater obstacles on the wider international stage. Its trajectory intersected with the contemporary emergence of UNCTAD within the UN, which held its first working session in Geneva precisely from March to June 1964 and launched the so-called Kennedy Round for GATT signatories at the same time.

The UN institutions were clearly the primary venue for debates on the economic and social development of backward countries in this period, with the Non-Aligned Movement now gaining considerable weight and setting up the so-called Group of 77 precisely in the wake of the 1st UNCTAD conference.²² European power imbalances aside, the greatest criticisms levelled at the Yaoundé Convention and its successors right from the start related to an approach which many Third World political leaders saw as suffused with a still colonial or 'neo-colonial' logic.²³ It was precisely the 'reciprocity' principle which was the main target, the linchpin to the whole commercial part of the treaty and the most significant because, in the eyes of its many detractors, it perpetuated the minority status to which SAMA's members were relegated. The new African states were thus left incapable of freeing their economies from an exclusive reliance on agriculture and achieving definitive industrial development and risked triggering competition with other underdeveloped

²⁰ Edoardo Martino (Alessandria 1910–1999), professor of history and philosophy at the Scuola Normale Superiore and veteran of the ARMIR Alpini, was an eminent exponent of the Catholic Resistance in Piedmont in 1944–1945. Having joined the Christian Democrat party before the end of the war he occupied second rank posts in the first De Gasperi cabinets before being appointed Secretary of the Supreme Defence Council where he remained at length. From 1958 he was nominated to the European Parliament, chairing its Political Commission from 1964–1967. From 1967 to 1970 he was Commissioner for External Relations at the EC under Jean Rey, during the delicate Merger Treaty phase and Britain's second application for admission. See Historical Archives of the European Union (HAEU), *Fondo Edoardo Martino* (EM), biographical profile. For a first overview of his role in the European institutions see L. Meli, Un "altro" Martino in Europa. Il percorso di Edoardo Martino tra Roma e Bruxelles (1967–1970), in M. Mascia-D. Preda-F. Velo (eds.), *A sessant'anni dai Trattati di Roma: dal Mercato comune all'Unione economica e monetaria*, t. I. *I trattati di Roma: una prospettiva storica*, Cacucci, Bari 2018, pp. 119–132.

²¹ On the Arusha Treaty, see HAEU, *Edoardo Martino Fond* (EM), Subfond C. *Commission Executive*, Subsubfond C.O1 *Etats africains et malgache associés (EAMA)*, file EM 182, *Rapport de la Commission au Conseil sur le résultat de la deuxième phase des négociations avec une délégation conjointe du Kenya, de l'Ouganda et de la Tanzanie*, 1968.

²² For a general overview of the formation of the Group of 77, see the still valid K. P. Sauvart, *The Group of 77*, Oceana Publications, New York 1981.

²³ Kaye Whiteman, *The Rise and the Fall of Eurafrique*. From the Berlin Conference of 1884–5 to the Tripoli EU-Africa Summit of 2010, in Adebayo-Whiteman (eds.), *op. cit.*, pp. 29–31.

countries which were not even in a position to reap the limited fruits of such policies. In actual fact this approach did not differ from the geopolitical ideology and context permeating the international relations of the day, which were still a world away from the full detente which characterised the subsequent decade.

It was precisely at the first UNCTAD session and the Kennedy Round that one of the issues around this matter emerged. The legal and technical cornerstone of the commercial agreements consisted in the adoption of the Reverse Preferences system²⁴ between the EEC and SAMA, pursuant to the regulations up to then in force in the GATT context. In actual fact, an entirely different orientation had already emerged from the Commission's own preparatory meetings in 1962–1963 and those of its counterparts, one designed to extend import tariff concessions for the largest number of goods and semi-worked products from developing countries, freeing them of the classic compensatory measures applicable in other sectors and thus referred to as 'Generalised preferences'.²⁵

Clearly such an innovation could not avoid encountering the opposite sparking resistance marked by predictably firm opposition from the United States and, conversely, the support of the majority of the emerging Group of 77. Heated debate over the nature of the trading exchange regime to be established between developing countries and advanced economies was a constant feature of the relations in this field between the two sides of the Atlantic in the Kennedy Round dominated years which followed and returned to the fore on the occasion of the second UNCTAD session held in New Delhi in 1968.²⁶

If, at the time of the signing of the first agreement, the European Community did not ultimately seem yet to be capable of freeing itself from the logics and mechanisms characterising the context it was to work in, and perhaps it's very *raison d'être*, the developments of the last decade and the early 1970s had witnessed the advent of a new era in international relations.

4 The Last 'Eurafrique': Yaoundé II

The second decade of the European integration process was coming to an end in a by no means easy climate for European Community institutions. On one hand, it was the single Commission's authority and role as against the Council of Six ministers and its offshoots, first and foremost the COREPER, which was increasingly questioned.²⁷ This dynamic had arisen in previous years and was destined to become a constant in

²⁴ On these issues see P. Gramatica, *Economia e tecnica degli scambi internazionali*, Vita e Pensiero, Milan 2002, pp. 475–480.

²⁵ *Ibidem*, *ivi*.

²⁶ UNCTAD II was held in February and March of that year in New Delhi after the GATT negotiations came to an end.

²⁷ Having been set up in 1958, the Committee of Permanent Representatives (COREPER) was made up of diplomats and functionaries from the Six and had always constituted a governmental voice in the preparatory stages to the periodic meetings of the Council of European Community ministers.

the history of European integration. On the other hand, the turbulent stage exits in spring 1969 of the man who had dominated recent European Community events and the arrival of his successor Georges Pompidou as president of France raised hopes of progress.

In a context marked by the first negative economic signals following on from two decades of rapid growth and great social upheaval across the continent, European politics could certainly not claim to have the needs of its Third World partners at heart. A clear sign of the fact that the focus of attention was elsewhere—and more specifically preparations for the Hague ‘relaunch’ summit—was the fact that the Yaoundé Convention was allowed to expire, having come to an end on 1 June 1969.

A renewal agreement was not actually long in coming,²⁸ but some time passed before it came into force on 1 January 1971, in conjunction with the previously cited Arusha agreement. One of the main reasons for this slowdown in work would seem clearly to have been the fact that it overlapped with crucial negotiations relating to the United Kingdom, Ireland, Norway and Denmark joining the European Community in 1970, under the new Commission led by Italian Franco Maria Malfatti.²⁹ From this perspective the decision to implement the second Yaoundé Convention and the Arusha Agreements simultaneously would seem to have been the outcome of a very specific policy by the Commission and the members of the European Community Council designed to weaken France’s lengthy hegemony in this field in order to remove all cause for new conflict with the United Kingdom over the course of negotiations as far as possible.

Similar balancing attempts notwithstanding, the essential power balance could not be said to have changed, however. In the early 1970s France still dominated the European Community’s world image. Clear confirmation of this was the appointment of yet another French politician, Jean François Deniau (1970–1973), at the apex of this sector. Much more significant changes took place in certain technical aspects of the second Convention, however. To some extent leaving behind the, in some ways, still paternalistic framework of the 1963 agreement, now the European Community nations were accorded greater autonomy in decision making and Development assistance programme proposals to present to the EIB which, it should be noted, were still subject to final scrutiny by the Commission.³⁰

In the meantime, the debate over the international trading rules had moved on, with divergent positions between the United States and Switzerland, on one hand, and the members of the European Community and developing countries, on the other, coming

In various forms it was retained after the treaty setting up the European Union and the Treaty of Lisbon and still exists.

²⁸ A new agreement with the African and Malagasy Union was, in fact, reached on 29 July 1969, once again in the capital of Cameroon. See Marie-Thérèse Bitsch, Gérard Bossuat (eds.), *L’Europe unie et l’Afrique. De l’idée d’Eurafrique à la convention de Lomé I*, Actes du colloque international de Paris, 1 and 2 April 2004, Bruylant, Brussels 2005.

²⁹ On President Malfatti’s Commission (1970–1972), and the various judgements of his work historiographically, a key work is that of Antonio VARSORI, *Malfatti. Una presidenza interrotta*, in *La Commissione. Storia e memoria di un’istituzione, 1958–1972*, cit., pp. 153–170.

³⁰ Bedeschi Magrini, *op. cit.*, p. 268.

increasingly to the fore. In view of its third working session, planned for Santiago de Chile in April and May 1972, UNCTAD ultimately succeeded in winning the agreement of the General Assembly of the United Nations to the new Generalized System of Preferences, as an exception to the previous GATT rules.³¹ Via President Malfatti, the European Commission undertook to be the first in the developed world to apply these new customs rules from 1 July 1971,³² underlining a growing desire for independence from United States control shown in what, at the time and perhaps also later, seemed essentially to be the only field of action in which some freedom of manoeuvre from the geopolitical control of the blocs was still possible: trade. This was a considerable step forward, precursor of the great changes which were to take place in the European Community's Cooperation for Development approach in the decade which had just begun.

5 Lomé and the Apex of détente in the Third World

It has frequently been noted that three new states joining the European Community on 1 January 1973 ushered in a profound transformation in European politics which cannot simply be explained away as the result of its enlargement. Upheavals in the European Community's framework predictably could not be confined to the continental plane. This is testified to by the fact that an ad hoc protocol extending the laws applicable to the European Community's members to twenty members of the Commonwealth had existed since the Treaty of Brussels dating to 22 January 1972. New general orientations towards a more incisive European presence in the world were also expressed at the Paris Summit's debates the following October.³³

The period following immediately on from the first extension was, in actual fact, marked by a general stagnation in the reorganisation of the European Community's external matters. The most significant innovations in these months came from Africa, where the SAMA partners gathered in Kinshasa were obliged, on 31 March 1973, to definitively approve the new Generalized System of Preferences norms on a global level, in compliance with the recent decisions of the United Nations on the subject. In exchange, however, they succeeded in wresting from it guarantees that the prices of many goods included in previous reciprocal agreements would remain the same.³⁴

³¹ *Ibidem*, p. 269.

³² The years of the brief Malfatti presidency were marked by a growing awareness of the European Community's international role, with its external trading policies no longer being seen as marginal. The available archive evidence makes this very clear. See Historical Archives of European Union (HAEU), *Fondo Franco Maria Malfatti (FMM)*, subfond A-*Commission Exécutive*, file 11/1 "La Communauté élargie", pp. 1–44, and subfond C-*Discours*, file 33/3, "Discours prononcés par le Président Malfatti en 1971" (juin-septembre), pp. 26–40.

³³ Bedeschi Magrini, *ibidem*, p. 270.

³⁴ On this subject, see Jean-Marie Palayret, *Da Lomé I a Cotonou: morte e trasfigurazione della Convenzione CEE/ACP*, in Calandri, *Il primato sfuggente*, cit., p. 37.

Once this first readjustment phase in the new Nine member Europe had passed, the Commission chaired by Francois Xavier Ortoli was faced with the urgent need for a thoroughgoing reorganisation of its development aid policy as a whole. In its policies in this sector Brussels thus decided to group together into the new category of African, Caribbean and Pacific nations (ACP) both the old SAMA members and the recent Commonwealth arrivals.³⁵ Negotiations with this group of nations began in October 1973 in Brussels and the impact of the outbreak of the Yom Kippur war and the first oil crisis made itself felt right away.³⁶ The consequent raw material supply difficulties in late 1973 and early 1974 strengthened the ACP's hand in its attempts to wrest more favourable conditions from the European states. Negotiations thus stalled in the midst of simultaneous renewed debate on the terms of the UK's joining the European Community after Harold Wilson won the recent Labour election victory and returned to power.

In these circumstances it was, paradoxically, decided French intervention under the aegis of the new French President Giscard d'Estaing which averted complete shipwreck. On the strength of its rotating presidency of the European Council in the second semester of the year, Paris promised support for the majority of the demands put forward by the ACP gathered at the Kingston Interministerial Conference in Jamaica on 25 and 26 July 1974.³⁷ Via the customary intermediation with the other exponents of the European scene, Federal Germany and the United Kingdom, negotiations were thus fast-tracked to a successful conclusion in a further African episode, this time in Lomé (Togo) on 28 February 1975. As was customary, the implementation of the treaty was postponed to 1 January 1976, keeping the usual five-year duration formula unchanged.

The just twelve years separating the signing of the two main conferences examined here were long coming-of-age years for the European Community which fitted into the more generalised reorganisation of the international order which was such a feature of these years.³⁸ In such a framework the new policies applied to relations with the Third World ended up being the fully fledged linchpin in a then unheard-of Brussels assertiveness on the global stage.

The new treaties undoubtedly ushered in changes in this field which could justifiably be described as revolutionary. It was a revolution which was evidently not

³⁵ As well as the 18 SAMA countries and the three East African Community states cited previously these thus included Liberia, Ghana, Gambia, Nigeria, Ethiopia, Rwanda, Burundi, Malawi, Lesotho, Swaziland, Zambia, Mauritius, Bahamas and Barbados, Jamaica, Grenada, Trinidad and Tobago, Guyana, Fiji, Samoa and Tonga.

³⁶ Palayret, *Da Lomé I a Cotonou*, cit., p. 36.

³⁷ *Ibidem*, p. 38.

³⁸ Studies designed to correct the excessively negative reading long made of the 1970s in the history of integration have recently proliferated. In this context mention must be made of the previously cited test edited by A. Varsori and G. Migani, *Europe in the International Arena during the 1970's*, and, in particular the essays within it by Varsori, *The European Construction in the 1970's: The Great Divide*, pp. 27–40, and Federico ROMERO, *Europe between the Superpowers, 1968–1980*, pp. 85–98. A recent article by Alessandra BITUMI, *Integrazione europea e relazione transatlantiche, 1969–1975: alcune note sul dibattito storiografico*, in *Ricerche di Storia politica*, XXVII (2014), n° 1 (January–April), pp. 41–53 is also of interest.

simply quantitative, however significant it was on this plane, with a sudden twofold increase in the area affected by the agreements, passing from twenty-two to a grand total of forty-six states, mainly geographically distributed over an area which covered three continents for the first time.

First and foremost, it was the principles underlying the whole structure which had radically changed. The principle of equality which had previously remained in the background was fully applied for the first time. Even the ‘association’ terminology was abandoned, underlining the full autonomy of those involved in it, on an equal plane with the European Nine. The application of the Generalised System of Preferences to so many new markets was unprecedented in recent global trading history. Even the Common Agricultural Policy, long a sticking point in European Community politics, was affected, with the arrival en masse of products traditionally competing with European goods being allowed.³⁹ Further underlining the differences with the past a novel financial tool was launched, Stabex, which was designed to use its own resources to safeguard producer countries from a potential fall in exports in a long list of agricultural products and, significantly for the first time, iron minerals.⁴⁰

Its funding apparatus was impressive, too. The financial resources set aside for it tripled to 3.15 billion E.C.U.s under the Lomé II agreement, divided up between the European Development Fund, an EIB allocation, and the share set aside for the STABEX itself. The greatest financial burden was shared out between France and West Germany, followed by Great Britain.⁴¹ All this was supplemented by a further 500 million dollars to be used as an exceptional aid fund for the other Third World states not encompassed by the ACP and hit by the oil crisis.⁴²

The great exponents of these years were the VIII Commission’s Director General and the linked European Community Development Commissioner, which remained firmly in French hands, first with Claude Cheysson (from 1974 to 1981), and then with Edgar Pisani (1981–1985). Whilst the former was one of the primary exponents of the two Lomé Conventions, the task of the latter was to lead the renewal negotiations, coinciding symbolically with the centenary of the 1884–1885 Berlin Conference which had signalled the beginning of the so-called Scramble for Africa.

This is the phase at which an initially marginal, but not entirely absent, ideological element is tangible in the context of the relations between developing economies and the European states, the latter’s desire for atonement and reparation for the crimes they felt they had committed in the imperialist era. To cite just one of the more emblematic instances, Claude Cheysson went as far as to argue that the Commission’s development funds were actually to be seen as their recipients’ property, an argument

³⁹ If tropical products which cannot be grown in Europe are excluded, the greatest source of competition was the complex laws applying to sugar cane imports into the European Single Market which encroached on the prerogatives of European sugar beet farmers, primarily in France.

⁴⁰ J. M. Palayret, *Mondialisme contre régionalisme: Cee e Acp dans les négociations de la Convention de Lomé 1970–1975*, in A. Varsori (eds.), *Inside the European community: Actors and Policies in the European Integration (1957–1972)*, Bruylant, Brussels 2006, pp. 369–398.

⁴¹ The first covered the costs of 25.95% of the total, the second 18.7%. See Palayret, *Da Lomé I a Cotonou*, cit., p. 40.

⁴² This was the so-called Cheysson fund. Ivi.

which had subsequently to be denied by his successors, not without considerable difficulty.⁴³

In the external context, Lomé was undoubtedly the culmination of the European Community's third way and neutralist approach which had, until then, been restrained within the rigid framework of the Cold War which had governed international politics in the three previous decades but which was, right then, believed to be on the point of giving way to an entirely different future. Much of its initial success and enthusiasm is thus to be attributed to the general atmosphere of detente which was, in 1975, destined to culminate in the final phase of the Conference on Security and Co-operation in Europe, sealed by the Helsinki Agreement and the birth of OCSE.

From an internal European Community perspective, the new framework agreements with the ACP members can perhaps be seen as one of the most successful of the compromises reached between the needs of the two greatest former colonial powers, which cannot be reduced to a straightforward alternation between the earlier French and later British leadership. It is a success which becomes even more meaningful if we take the difficulties Europe was experiencing in the second half of the 1970s into account, which were to culminate in a profoundly different European Community from that which its founders had envisaged.

The agreements reached in the Togo capital are thus to be fitted into an unusual period for Africa, whose direct domination by European states was coming to an end precisely in these months, with the Portuguese declaration of independence for Angola and Mozambique, soon to be followed, however, by its infamous civil wars. The achievements of the second half of the decade were thus significant but doubt was soon cast on them.

6 New Developments in the 'Donor Fatigue' Decade

The Jenkins Commission, at the helm from 1977 to 1981, with Claude Cheysson confirmed at the Development department, was called on to manage the newly signed agreements. Progress in this period is justly considered to include the launching of the European Monetary System (EMS), heir to the first projects developed in view of Economic and Monetary Union which had already been drafted at the beginning of the decade, and the beginning of the European Community's southward expansion, with the 1981 inclusion of the young Greek republic accompanied by recent applications from Portugal and Spain. The radical changes in the European Community representation system which were under way in those years, culminating in the first European elections in June 1979, also need to be taken into account.

Less attention was thus paid to the renewal of the Lomé Treaty in 1980, which came into force the following year. Effectively, after the high impact changes which the first treaty had ushered in, the second Lomé Convention was limited to certain amendments. The most important of these consisted in extending the mechanisms

⁴³ K. Whiteman, *The Rise and the Fall of Eurafrique*, in Adebayo, Id (eds.), *op. cit.*, p. 35.

designed to shore up export revenues to eight new types of minerals with the introduction of SYSMIN, in the wake of the earlier STABEX (whose revenues were also increased).⁴⁴ As 1982 wore on, however, the new European Community Gaston Thorn cabinet was obliged to take stock of the fact that the agreement had lost a great deal of its initial momentum for various reasons, many of which had just been set out in the famous Brandt Commission report on disparities between the global north and south.⁴⁵ In purely trading terms the fallout from the rises in raw material prices caused by the Iranian Revolution of a few years previously, and the oil crisis which had followed on from it, were beginning to be felt by Third World exporters. The economies of the Ten were also a long way away from having recovered the growth rates of the not-too-distant past. But the problems could certainly not be said to be purely economic.

Even in this sector, what shored up the whole European Community construct was, as always, the classic supranational dynamic previously reinforced by the Council of Europe which left very little room for manoeuvre, and policy making and co-ordination powers, to the Community's institutions, especially the Commission. The initiative was thus left to the decisions and vetoes of the European Community's 'leading' nations, namely West Germany and France, initially dominated by Helmut Kohl and Francois Mitterrand respectively. British PM Margaret Thatcher also hijacked the debate over the European Community as a whole, casting doubt on the effective value of aid to underdeveloped countries and, above all, their national and European Community budget costs.

This was exacerbated by a by now objective difficulty in coordinating the various demands of the ACP group which had also adopted common institutions immediately after Lomé I and whose members were also increasing in number. If the beginning of the first Reagan government in the US in what has historically been called 'the second Cold War' is added to the equation, it is easier to explain how the cooperation system launched in Lomé was already in crisis so soon after its launch. A fatal blow, at least to the spirit of the agreement, was then dealt at the same time by the Cancun International Meeting on Cooperation and Development, at which the United States brought to bear a regionalistic approach to this theme, in juxtaposition to the globalist logic followed by the European Community and the United Nations in recent times, which were labelled unrealistic.⁴⁶

Via Edgar Pisani the Commission's intention was to take on these issues with the great changes planned for the third Lomé Conference in 1983–1984 in mind. Once it began this was managed by Pisani's successor, Lorenzo Natali⁴⁷—to date the only

⁴⁴ For the whole of this part see Palayret, *Da Lomé I a Cotonou*, cit., pp. 41–44.

⁴⁵ On the Brandt report see *Politica internazionale*, 1980, pp. 177–190.

⁴⁶ On these issues see, in the first place, E. Di Nolfo, *La politica estera di Reagan*, in *Nuove questioni di Storia contemporanea*, III (1985), pp. 338–339.

⁴⁷ Lorenzo Natali (Florence 1922–Rome 1989), a native of Aquila, was elected as an MP for the Christian Democrats in the first six republican parliamentary terms. After a few under-secretarial roles he was first appointed Minister for Public Works and then Minister of Agriculture in the various 1970–1973 governments. Part of the Fanfani faction, at the end of 1976 he was chosen by his party to replace Carlo Scarascia Mugnozza as European Commissioner, thus beginning a long

Italian to have acted as Development Commissioner – a member of the Brussels's Commission presided over by Jacques Delors (1985–1995).

7 The Epilogue: Lomé III and IV

Midway through the 1980s Spain and Portugal joined the European Community, creating further cohesion problems within the now 12-member-strong organisation, primarily as a result of the rivalry which the opening up of new markets had triggered between its Mediterranean area members in the agricultural field.⁴⁸ This climate did not prevent the extra-European co-operation programmes from continuing. Heir to a now prevalent European Community political and diplomatic climate,⁴⁹ on the occasion of the 1985 renewal the principle according to which everything had to be formulated on the agricultural development and local industry scale, abandoning the still surviving logic which had until then tended to prioritise foreign trade and exports, was asserted. The pre-existing financial tools were further strengthened but this time greater participation from the highest-level institutions, such as the International Monetary Fund and the World Bank, was planned. For the first time the potential for shared public–private investment, in accordance with co-funding procedures, was mooted.

A further great element of novelty was the birth in Brussels in 1986 of the EEC-CP Cultural Foundation (now with 63 members) which set itself the task of the fostering North–South dialogue in the name of the socio-cultural co-operation whose absence had become tangible in previous years.⁵⁰ Within this debate an especially important role was played by an exceptional programme of Aid in the Struggle Against World Hunger and Malnutrition launched by the Council as a Recovery and Relaunch Plan, later called the Natali Plan after the Italian Development Commissioner whose brainchild it primarily was. This was now a theme of widespread public interest, especially in the wake of the terrible famines in Ethiopia in 1984–1985.

Negotiations for the fourth Convention began in October 1988 in Luxembourg, around a year after the end of the previous Convention, a practice which was then so well established as to have become the norm. Whilst the Single European Act, in force since July 1987, had ushered in new stricter norms for extra-MEC imports, above all

and fertile career at the apex of the European Community under the Jenkins Commission which lasted a grand total of twelve years, with responsibility first for the Environment, then Enlargement and Mediterranean Policies and lastly Cooperation for Development under Jacques Delors, under whom he was also appointed vice president. HAEU, *Fondo Lorenzo Natali (LN), profilo biografico*.

⁴⁸ Precisely with a view to preparing the agricultural economies of Greece and the Italian South for the entry of the new states, Natali and the Thorn Commission drew up a vast producer support package called Integrated Mediterranean Programmes before the middle of the decade. On this issue consult the following web resource: http://cordis.europa.eu/programme/rcn/311_it.htm (last access: February 2020).

⁴⁹ Memorandum Pisani, in Bedeschi Magrini, *op. cit.*, p. 276.

⁵⁰ *Ibidem*, pp. 278–281.

in technical-health terms, and thus potentially penalised Third World producers, other aspects of the work fostered a greater sense of optimism. The economic recovery then under way in the West, and even the Gorbachev era which had just begun in the Soviet Union with its fallout across the Eastern bloc, seemed to foreshadow a new detente and thus unprecedented room for manoeuvre in a new North–South relationship.

In actual fact, initial enthusiasm was soon tempered as an objective fact was taken stock of: despite all the efforts made it became clear that the gap between underdeveloped and advanced economies had actually increased in the decade now nearing its close. It was Third World public debt which seemed most frightening, with exponential growth resulting, for the most part, from ill-considered business investments made by incompetent and corrupt local managerial classes and leaders. The last treaty between the European Community and the ACP signed between the fall of the Berlin Wall and the final collapse of the Soviet Union, attempted to curb the problem in a series of articles designed to abolish STABEX and SYSMIN mechanism renewal. In accordance with a now prevalent sensibility, new priority was also accorded to environmental protection in a challenging equilibrium with more strictly economic goals.

Once again, in the new ‘post bi-polar’ era which had just begun, Brussels remained the Third World’s primary partner, managing 13% of global aid to the Developing Countries. Whilst the five-year review custom was not abandoned in the 1990s either, it was 2000 before a further, thoroughgoing review of the matter took place, and this was brought to an end by the signing of the Cotonou Convention (Benin).⁵¹

8 Conclusions

An event of epoch-making scope such as the end of the Cold War inevitably left its mark on the geopolitical framework. Whilst this is not the place for a consideration of the merits of the Cotonou Convention, which still governs the relations between today’s European Union and the ACP countries, certain of its salient features can be mentioned, such as its further extension to new states, its fundamental simplification, which reduced Lomé IV’s by-then 369 articles by a third, and greater attention to the role played by new private entities such as the NGOs, both Western and otherwise, active in the scenarios affected by the agreement.

The 1989–1991 revolution certainly did not bring European cooperation for development policies to an end. It is, however, equally certain that it radically changed

⁵¹ The Cotonou, Convention of 23 June 2000 significantly modified the framework of relations between the advanced economies and the Third World, subjecting the matter to thoroughgoing legal review. Its twenty-year validity expired in 2020. The time frame of this work means we can only make a brief reference to this here but the complete text can be accessed online on the European Commission website: <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=LEGISSUM:r12101> (last consulted January 2021).

these, first and foremost because it set in motion processes which led to unprecedented changes in Europe itself. The birth of the European Union in Maastricht and, to an even greater extent, the parallel affirmation of democratic-type political systems in former 'iron curtain' countries, shifted the continent's main interests' eastwards, and not solely from an economic and trading point of view. Enlargements over the last twenty years, including within NATO, have clearly demonstrated this.

In the decade which followed the fall of the Berlin Wall many of the dynamics already embryonic in the 1980s, and whose full expression had been blocked by the survival of bipolar logics both critical and otherwise, came to fruition. The financial and industrial support given to developing countries, finally freed of the need to maintain anti-communist-based relationships, could thus be bound to the achievement of specific civil and political standards in Africa, which had been on the drawing board before but never applied with any degree of strictness. And once again, in this very unusual juncture, the role of the United Nations in planning development aid increased and it thus tended to absorb and encompass the policies enacted by the European Union in this sphere.⁵²

The events we have attempted to retrace here could be described as the story of great hopes ending in what would, at the present time, seem to be equally great failure. And in this sense, it is of paradigmatic value for the history of integration itself. Sandwiched between frequently much-resented US safeguards, the 'red peril' at the gates and a growing desire to take its place on the international stage, debate in the European Community on the future of its historic colonies was intense right from its inception.

The non-feasibility of pursuing a fully-fledged foreign and military policy of its own, which struggled to assert itself even after the Lisbon Treaty, Brussels made relations with the Third World the principal tool of a foreign outlook which was renewed over the decades. An initial free trade approach following in the footsteps of historic logics had been replaced, by the early 1960s, with a more successful approach, a policy based on higher ambitions and ideals which, at least at the outset, seemed to be truly capable of making an impact on Third World development.

This long process was, perhaps, the first battlefield in what, in more distant periods, would have been called 'power politics between the main European nations with African colonial pasts, first France and Belgium and later the United Kingdom. It was a rivalry within the European Community which also took the form of struggles over the nationality of the various development commissioners and, to an even greater extent, the members of the Commission officers working under them. This was a battle which the French would appear to have won for many years, well beyond the 1970s.

This raises a fundamental point in this debate. As in all other European Community policies, what worked primarily to the detriment of their effectiveness was essentially the supranational approach which Europe embarked upon, both in the de Gaulle era and in the 1970s with Giscard and Schmidt and, once again, in the Margaret Thatcher decade. It might be held that a Commission with full decision-making powers, and

⁵² Bedeschi Magrini, *op. cit.*, p. 282.

with its own resources to count on, even prior to 1971, should undoubtedly have been capable of reducing the crossfire and scaling down French dominance more decisively. What is clear is that the positive outcomes of these policies gradually lessened over the space of a half century. Its achievements should not, all the same, be belittled, despite the evident differences and rivalries. It should be remembered that growth levels, at least in the 1960s and 1970s, increased significantly in many countries, and with them the average life expectancies of many of their peoples.⁵³ All this notwithstanding, it should be remembered that if all this was a failure—and the current state of affairs not only in North–South relations but also between the northern and southern shores of the Mediterranean would seem to bear this out—the greatest responsibility for this is certainly not to be laid at the door of European policy. A multitude of opportunities were undeniably wasted in the obtuse policies pursued by many of the leaders of the developing countries involved. In fact, from Lomé II onwards attempts were made to step up control mechanisms over the aid given and monitor its practical implementation.⁵⁴

In conclusion, if the newly self-aware Third World was given if not certainty then at least hope of future prosperity and progress, beyond East–West divisions, much of the credit for this lies with the continent which once dominated it and the model it had created. How this hope might still find a way of coming fully to fruition will be the subject of new challenges and new research in future.

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⁵³ See, amongst others, Palayret, *Da Lomé I a Cotonou*, cit., pp. 42–43.

⁵⁴ *Ibidem*, *ivi*.

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Chapter 12

France, Decolonisation, and the Global South: France's Struggle for a New World Order



Tomoya Kuroda

Abstract In the time of the COVID-19 pandemic, while the North–South divide seemingly lingers, more frequent criticism has been directed at the South–South divide (internal divide in the Global South) in recent years. In fact, people in the Global South face a rather limited possibility of vaccination. Industrialised countries are in a better position to benefit from vaccination plans. Thus, the paper's aim to relate the North–South issue to the world order also has a certain relevance to the current situation. Focusing on French role in UNCTAD (including Generalised System of Preferences) and the Conference on International Economic Cooperation (CIEC), this paper analyses the relationship between French diplomacy, decolonisation, the Global South and finally, the world order.

Keywords Covid-19 · Global South · South–South divide · UNCTAD · CIEC

1 Introduction

In the time of the COVID-19 pandemic, while the North–South divide seemingly lingers, more frequent criticism has been directed at the South–South divide (internal divide in the Global South) in recent years. In fact, it is known that mainly because of very rushed production of anti-corona vaccines and the insufficient quantity of such vaccines, people in the Global South face a rather limited possibility of vaccination, despite international supply cooperation schemes such as COVAX. Industrialised countries are in a better position to benefit from vaccination plans. Thus, the paper's aim to relate the North–South issue to the world order also has a certain relevance to the world situation in 2021.

First, let us revisit the goal of this common project and examine the relationship between France and the world order. In general, the world order is mainly created by the hegemon of the time. Therefore, it is quite natural to focus on the behaviour and idea of a hegemon when we think about the essence of world order. In the case

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of the Cold War, it is evident that analysis should be directed toward the United States, which contributed to the creation of a 'liberal international order'.¹ One might wonder, therefore, whether the analysis of medium (middle) power states such as France is relevant for this theme.² In fact, the case of France shows that even middle powers can influence the status of the world order. By creating a concept that transcended the bipolar world of the Cold War, France played a certain role in remaking the world order after the Second World War.

What kind of relationships can we discern between French decolonisation and the Global South? The first question may be whether French decolonisation had an impact on the ascension of the Global South. At first glance, this question may appear controversial. First, the Global South, long referred to as the 'Third World', was, at least in the 1960s and the 1970s, headed by prominent leaders, such as the Argentine economist Raúl Prebisch or the Algerian leader Houari Boumedienne. In addition, some recent studies have argued that the Vatican influenced the creation of the G-77 (a group of developing countries) since UNCTAD (United Nations Conference on Trade and Development) began its activities.³ However, France conceptually contributed to their emergence, as the phrase *tiers-monde* (Third World) was coined in 1952 by the French economist Alfred Sauvy.⁴ France's influence can be recognised at least slightly. After answering this difficult question, we shall analyse how and why France took the initiative to react to the Global South, from the 1960s to the end of the 1970s. France did this through pursuing negotiations in frameworks such as UNCTAD, the Generalised System of Preferences (GSP), and the Conference on International Economic Cooperation (CIEC).⁵

¹ G. John Ikenberry, 'The End of Liberal International Order?' in *International Affairs*, Vol. 94, no. 1 (2018), pp. 7–23.

² Frédéric Bozo, *La Politique étrangère de la France depuis 1945*, Paris: Flammarion, 2012.

³ Giuliano Garavini, *After Empires; European Integration, Decolonization, and the Challenge from the Global South 1957–1986*, translated by Richard R. Nybakken, Oxford: Oxford University Press, 2012, p. 82; Saho Matsumoto, *The Vatican in International Politics, 1914 to the Present* (in Japanese), Tokyo: Chikura Shobou, 2019, pp. 102–104.

⁴ Some general explanations cite Oliver Franks, an English civil servant and philosopher, as the inventor of this phrase. However, this phrase was coined in 1959. So it is more appropriate to say that Sauvy, rather than Franks, coined this term. Alfred Sauvy, 'Trois mondes', in *L'Observateur* (<http://www.homme-moderne.org/societe/demo/sauvy/3mondes.html>, accessed 17 March 2022); Vijay Prashad, *The Darker Nations*, New York: The New Press, 2007; Garavini, *After Empires*.

⁵ For a comprehensive synthesis of European development policy, see Elena Calandri, 'L'aide au développement. Entre économie, culture, et relations internationales', in *Relations internationales*, no. 157 (2014), pp. 71–95.

2 UNCTAD and the Institutionalisation of the Third World

2.1 *The Third World as Created by Sauvy and Its Meaning*

According to the Indian-born historian Vijay Prashad, the concept of the Third World had a certain effect on the consolidation of developing countries. Prashad maintained that Sauvy's perception was not directly adopted by Nehru, who was a prominent leader of this Non-Aligned Movement, but it was de facto adopted by him. Given that the experience of colonial rule was common to all Third World participants, they were able to unite into a group. Sauvy's idea was very French, considering that he took inspiration for the expression 'Third World' from the phrase 'Third State' (*tiers état*), which was coined by Abbé Sièyes at the time of the French Revolution.⁶

Regarding French development aid, one important element of its policy towards the Global South, Africa, especially North Africa, remained the main target of this aid (almost 80%) from 1963 to 1971, with Algeria initially accounting for a large share of this aid to Africa.⁷ Therefore, we can discern a regional approach, rather than a global approach, to French aid policy during the 1960s.

2.2 *Who Created UNCTAD?*

There is widespread agreement that UNCTAD was established at the initiative of the Third World. Its origin may go back, of course, to the formulation of the concept of self-determination, for example, in the fourteen points promulgated by Woodrow Wilson.⁸ In addition, France's defeat in the First Indochina War at Dien Bien Phu and the Bandung Conference in 1955 were also important factors.⁹ Some leaders played significant roles, such as Kwame Nkrumah, a pan-Africanist; Gamal Abdel Nasser, who gained prestige after the victory in the Suez War; and Léopold Sédar Senghor, through his *négritude* movement with Aimé Césaire.¹⁰ Therefore, if we take a longer

⁶ Prashad, *op.cit.*, pp. 30–32.

⁷ Gérard Bossuat, 'French Development Aid and Co-operation Under de Gaulle', in *Contemporary European History*, Vol. 12, no. 4 (2003), p. 443.

⁸ Erez Manela, *The Wilsonian Moment: Self-Determination and the International Origins of Anticolonial Nationalism*, Oxford: Oxford University Press, 2007.

⁹ Regarding the impact of Dien Bien Phu towards the wave of decolonization, see Pierre Journoud (avec la collaboration de Dao Thanh Huyen), *Dien Bien Phu: la fin d'un monde*, Paris: Vendémiaire, 2019, p. 382. Concerning the impact of the Bandung Conference in 1955, see Odd Arne Westad, *The Global Cold War: Third World Interventions and the Making of Our Times*, Cambridge: Cambridge University Press, 2004, p. 103. Westad claims that the Bandung Conference produced 'a new sense of closeness among African and Asian countries'.

¹⁰ Garavini, *After Empires*, p. 33. Concerning the Africanness, see Nakao, 'Définir l'« Afrique » entre Panafricanisme et Nationalisme en Afrique de l'Ouest. Analyses à travers les transformations sociales au Sénégal, au Ghana et en Haute-Volta au temps de la décolonisation (1945 - 1962)', PhD dissertation submitted to EHESS, 2017.

perspective, its origin can be discerned earlier than in the 1960s. However, its immediate origin was identified in the Cairo Declaration in 1962. Here, 36 nations from three major regions were gathered and supported by Raúl Prebisch. They presented a resolution in support of a new UN conference on ‘all vital questions relating to international trade, primary commodity trade, and economic relations between developing and developed countries.’¹¹

2.3 What Were the Reactions of Western Countries, Including France?

Interestingly, among EEC countries, only the Netherlands was in favour of this new conference. Even France, which had created the concept of the Third World, was reluctant. A French diplomat who had requested that France’s African allies refrain from participating in the Cairo Conference, found that France had become the target of heavy criticism from these ‘rebels’.¹²

The United States was also reluctant.¹³ Therefore, almost all Western countries were reacting to the efforts made by the Global South. According to Garavini, the dysfunction of another UN agency, the Economic and Social Council (ECOSOC), and other international organisations, such as the World Bank and the International Monetary Fund (IMF), contributed to the emergence of UNCTAD.¹⁴ Interestingly, the EEC was willing to set up a preparatory committee to ensure enough time to secure the ratification of the Yaoundé Convention with the Association of African States and Madagascar (AASM).¹⁵ Therefore, a regional approach focusing on Africa and Mediterranean countries triumphed, at least at the beginning, over the global approach. Finally, the French acceptance to the establishment of UNCTAD occurred because of a mixture of regional and global approaches.

In this way, France took a regional approach in the first half of the 1960s. French development aid was mostly directed to Africa, where France had a ‘colonial inheritance (*héritage colonial*)’. Regarding the formation of UNCTAD, France was reactive, rather than being an initiator, because of this regional approach, and because of the perception of threat as described by the French diplomat cited above. This was true even though France had articulated the concept and vision of a multipolar world order, consisting of three worlds: the First World, the Second World, and the Third World.

¹¹ Garavini, *After Empires*, p. 35.

¹² Ibid.

¹³ Prashad, *op.cit.*

¹⁴ Garavini, *After Empires*, p. 36.

¹⁵ Ibid. Regarding the making of Yaoundé Convention, see Guia Migani, *La France et l’Afrique sub-saharienne, 1957–1963 Histoire d’une décolonisation entre idéaux eurafricains et politique de puissance*, Bruxelles: Peter Lang, 2008.

3 GSP

The EEC introduced the GSP to the G77 (which then comprised 91 countries) in July 1971, based on the proposal of UNCTAD.¹⁶ The GSP is an ongoing mechanism that reduces or exempts duties to developing countries for certain finished products or semi-finished products. This was non-reciprocal, which means that the preferences would be accorded only from industrialised countries to developing countries, but not from developing countries to industrialised countries.

In this process, what kind of position did France take? Further, why did France adopt this attitude? On the basis of the multi-archival approach (French, German, and European Community archives), this section seeks to answer these questions by clarifying the French idea and position towards this ostensibly global policy.

First, an initial formal move was made by the G77 in the framework of the Alger Charter in 1967. In addition, setting the target rate of development aid at one percent of gross national product (GNP) and abolishing 'special preferences', the Alger Charter demanded that 'all developed countries should grant such preferences [a general system of tariff preferences on a non-discriminatory and non-reciprocal basis] to all developing countries'.¹⁷ On the EEC side, West Germany (i.e. the Federal Republic of Germany (FRG)) and the Netherlands, which could be categorised as 'globalist' countries, were initiators.¹⁸ In particular, West Germany's position was very close to that of UNCTAD, and it recognised the 'importance' of UNCTAD, as can be seen in the notes of Karl Schiller, the then German Economic Minister.¹⁹ France, however, which was normally categorised as a 'regionalist' country, was rather reluctant because the existence of 'reverse preferences' guaranteed the interests of European countries under the Yaoundé Convention, with 18 associated countries (AASM). In general, these preferences were to be accorded to the exports of developing countries, considering the underdeveloped status of developing countries and those countries that were dependent on their exports for their revenues. However, Yaoundé Convention I, which was signed in 1963, also had reverse preferences for the export of products from European countries to associated countries in return.

Finally, the AASM's privileged status was assured because West Germany and the Netherlands shifted their stance to a more conciliatory position than France and because of the support of the other member states of the EEC and the European

¹⁶ On this subject, historical research is quite rare. See Garavini, Garavini, *After Empires*; Tomoya Kuroda, 'Instauration du système de préférences généralisées de la Communauté européenne, 1968–1971', in *Bulletin de l'Institut Pierre Renouvin*, no. 34 (2011), pp. 137–148.

¹⁷ <https://www.g77.org/doc/algier-1.htm> (accessed 17 March 2022).

¹⁸ As for the dichotomy of globalism and regionalism, see Jean-Marie Palayret, '*Mondialisme contre régionalisme*: CEE et ACP dans les négociations de la Convention de Lomé 1970–75', in Antonio VARSORI (ed.), *Inside the European Community: Actors and Policies in the European Integration*, Baden-Baden: Nomos, 2006, pp. 369–398.

¹⁹ BAK (Bundesarchiv Koblenz), B 136, 8394, Aufzeichnung des Bundesministers für Wirtschaft, Bonn, den 19. Januar 1968, in Kuroda, op.cit., p. 143.

Commission.²⁰ Therefore, the renewal of the Yaoundé Convention (autumn 1970) was guaranteed before the introduction of the GSP in July 1971.

France and the EEC finally succeeded in cooperating with the United Kingdom and Japan to a certain extent. Japan's GSP entered into force on 1 August 1971, almost at the same time as that of the EEC. Regarding the United Kingdom, albeit with a short time delay, the GSP of this future member of the European Community entered into force in January 1972. The United States later joined this mechanism in 1976. In this way, the GSP was a symbol of Western cooperation with the Global South.

In summary, the GSP was, to a certain extent, a successful instrument vis-à-vis the Global South, in that it had an effect on the economic growth of developing countries by attracting more investments.²¹ It was a product of Western cooperation. However, it is important to note that in the context of France's initial reluctance and gradual adjustments to its approach to the Global South, France had a regional approach that focused on Africa and Mediterranean countries. Thus, we can identify a mixture of altruism and national self-interest at work.

4 CIEC

The final case is the CIEC, which was convened from 1975 to 1977 in Paris. This was also called the North–South dialogue.²² Why is this conference important for this study? Even though this conference was limited to 27 countries, it collected delegations from both industrialised and developing countries. Therefore, despite the criticism that it might cause the G77 to split, it would have been almost impossible to have a conference of all nations of the world. UNCTAD, which gathered industrialised countries (List B) and 91 developing countries in 1971 (List A), was another forum; it included almost all developing countries at that time. Therefore, French global policy pursued another, more distinct framework than the more universal institution, UNCTAD. In this way, this North–South dialogue can be considered to have been a French and European policy vis-à-vis the Global South.

As can be indicated by the venue, France initiated this dialogue. Even in those days, this dialogue was widely conducted among diplomats and politicians, recognised as

²⁰ The change in the Dutch position didn't materialise until after the Community adjusted its policy to include its dependent territories, such as Surinam and Antilles, in GSP territories, as the Netherlands demanded for six months. BAK, B 102, 113764, aide-mémoire du Conseil, Bruxelles, le 15 mars 1971. Cited in Kuroda, op.cit.

²¹ Richard N. Cooper, 'Economic aspects of the Cold War, 1962–1975', in Melvyn P. Leffler and Odd Arne Westad (eds.), *The Cambridge History of the Cold War*, Vol. II, Cambridge: Cambridge University Press, 2010, p. 63.

²² On this topic, Garavini's contribution was exceptional. Garavini, *After Empires*, especially Chapter 6.

the initiative of French President Valéry Giscard d'Estaing.²³ This is because Giscard proposed a conference between industrialised and developing countries in a press conference directed toward the Organisation of the Petroleum Exporting Countries (OPEC) in October 1974, after the first oil shock. It was also related to the New International Economic Order (NIEO), declared at the UN General Assembly in April 1974. It was initiated by the Algerian President, Houari Boumedienne. The creation of the North–South dialogue can be considered Giscard's reaction to the demands of NIEO. Therefore, it is necessary to focus on Giscard d'Estaing and his ideas and attitudes vis-à-vis developing countries.

What were Giscard's ideas behind this initiative? It is easy to discern his overall energy security policy, which includes economic, political, and strategic interests. His initial idea at the time of the proposal was to hold a conference between energy consumers and producer countries, including OPEC members, not to hold a conference on international economic cooperation. Giscard did not clearly articulate the interest of the consumer countries; he only mentioned realistic solutions such as the adjustment of the world order, the potential limits of assistance by industrialised countries to developing countries, and the protection of the interests of petrol-producing countries: the indexation and guarantee of revenue (*garantie de revenu*). As Jean de Lipkowski, the Minister of Cooperation under the government of then Prime Minister Jacques Chirac recalled, Giscard's idea was to 'reduce the gap between industrialised countries and deprived countries.'²⁴ In this sense, Giscard's idea was benevolent to developing countries. However, if the majority of industrialised countries were in favour of enacting energy committees, it can be deduced that securing energy supply at a moderate price (the oil shock caused an upheaval of price and supply) was also a principal objective of Giscard and his partner countries. Furthermore, the name 'CIEC' was only coined around October or November 1975, after various French contacts with future participating countries, including the United States, Japan, and Saudi Arabia. Additionally, during negotiations of the first Lomé Convention, Giscard and France faced enormous pressure from African, Caribbean, and Pacific (ACP) countries to increase French development aid.²⁵ Therefore, it was important for him to ease this pressure. Thus, initially, Giscard and France were motivated not only by humanitarianism but also by a clear national interest after the

²³ For example, this document cites the words of the initiative of Giscard d'Estaing. AG/5(3)/889, Réunion préparatoire à la conférence proposées par le président de la République française, le 15 avril 1975. We could find at least 11 citations in this carton. As for Giscard d'Estaing's biography, see the representative work of Roussel. Eric Roussel, *Valéry Giscard d'Estaing*, Paris: Editions de l'Observatoire, 2018.

²⁴ AG/5(3)/1478, Note de Jean de Lipkowski, 'Le dialogue Nord-Sud- échec ou partie remise? Pour l'instant, l'impasse', no date. Apparently, this note was written in 1976.

²⁵ Regarding the EEC's development policy, see Bossuat, Calandri, and Garavini.

Gérard Bossuat (dir.), *La France, l'Europe et l'aide au développement: des traités de Rome à nos jours*, Paris: CHEFF, 2013. Elena Calandri, 'EEC and Mediterranean: Hitting the Glass Ceiling', in Ulrich Kroz, Kiran Klaus Patel, and Federico Romero (eds.), *Europe's Cold War Relations: The EC Towards a Global Role*, Bloomsbury, 2020; Giuliano Garavini, 'The EC's Development Policy: Eurafrika Factor', in Ulrich Kroz, Kiran Klaus Patel, and Federico Romero (eds.), *Europe's Cold War Relations: The EC Towards a Global Role*, Bloomsbury, 2020.

first oil shock. Henceforth, he pursued this interest around this global conference, although he was flexible enough to enlarge this conference to other fields, such as development and primary products, as desired by developing countries.

Diplomats, including Louis de Guirangaud, the then Foreign Minister, were largely in favour of Giscard's initiative, meaning that Giscard succeeded in holding a conference in the autumn of 1975. Initially, a minority of diplomats opposed Giscard's initiative. For example, Jean-Pierre Dutet, an economic advisor to Giscard, was exceptionally reluctant.²⁶ Giscard's idea was the 'organisation of the market'. This idea represented a shift from the liberal Bretton Woods order to an organised market, based on the collective management of great global mechanisms.²⁷ The Foreign Ministry had already initiated lengthy contact with its West German counterpart in June 1975, only two months after the meeting of the Conference on Energy and Economic Issues (*réunion à la Conférence sur l'Énergie et les problèmes économiques*).²⁸ In addition, Francis Huré, France's Ambassador to Belgium, regarded the CIEC as a tool to react to the demands of NIEO.²⁹

Therefore, the French initiative for 'global' North–South dialogue was not only altruistic but also based on French perception of national interests. However, from the 1970s to the early 1980s, French policy remained regionalist if we consider inter-regionalism between the EEC and ASEAN in the latter half of the 1970s. West Germany and the United Kingdom were rather favourable towards the institutionalisation of these two regional organisations, while France only ultimately changed its position on the holding of the Ministerial Conference in 1978, based on its own Cold War diplomacy.³⁰ Regarding India, the same phenomenon occurred in that the United Kingdom rather than France promoted the construction of a relationship, in the case of a commercial agreement signed in 1973. Finally, France was reluctant for the Commission and the People's Republic of China (PRC) to have official relations because 'they did not want the Chinese to think that the French foreign policy was bound by Community decision-making.' West Germany was initially in favour of empowering the European Commission to speak in the name of the Community.³¹ Therefore, the French formal bilateral relationship with the PRC after diplomatic

²⁶ AG/5(3)/889.

²⁷ Giuliano Garavini, *The Rise and Fall of OPEC in the Twentieth Century*, Oxford: Oxford University Press, 2019, p. 256.

²⁸ MAEF, DE-CE, 1705, Télégramme à l'arrivée de Bonn, le 18 juin 1975. Objet: échange de vus franco-allemandes sur l'énergie, signé Wormser.

²⁹ MAEF, DE-CE, 1706, Télégramme à l'arrivée de Bruxelles, le 10 décembre 1975.

³⁰ Tomoya Kuroda, 'Institutionalisation of Inter-Regionalism: European Community–ASEAN Relations in the Late 1970s', in *Asia–Pacific Journal of EU Studies*, Vol.13, no. 1 (2015), pp. 27–44. However, if we consider informal commercial agreement between France, West Germany, Italy, the United Kingdom, Canada, the United States, and Japan in July 1976 (credit for the export), we can discern the globalist element of France at that time. See Laurence Badel, *Diplomatie et grands contrats*, Paris: Publications de la Sorbonne, 2010, p. 412.

³¹ Marie Julie Chenard, 'The European Community's Opening to the People's Republic of China, 1969–1979: Internal Decision-Making on External Relations', PhD dissertation submitted to LSE, 2012, p. 70.

recognition in 1964 precluded the EEC's multilateral approach towards the PRC.³² Accordingly, the French global approach was superseded by its regional approach, so that French external policy sometimes emerged as a mixture of global and regional approaches.

5 Conclusion

What were France's relations vis-à-vis the Global South from the 1950s to the end of the 1970s? First, French attitudes were rather reactive, with some exceptions. It is true that France created the phrase 'Third World' and contributed to a world order composed of three groups. However, French governments did not necessarily pursue this attitude later. Exceptionally, France under Giscard was a forerunner, but in many cases, French actions were rather reactive.

Even under President Giscard d'Estaing, the initiator of the international conference on energy and development, France's motives for holding the CIEC in Paris just after the first oil shock were a mixture of altruism and national self-interest. France wanted to secure a supply of oil and ease pressures for a more equitable international economic order from the Global South and to be benevolent in contributing to a more equitable international order.

In addition, France was reactive in other cases because France was rather favourable to the regional approach, which focused on nearby regions such as Africa and the Mediterranean, rather than the global approach. This was because of France's historical ties with Africa and the Mediterranean, and because of its strategy to continue its influence. This is obvious in the GSP negotiations. France finally accepted the EEC's introduction of GSP to the G77 in July 1971 because France could assure itself that the renewal of the Yaoundé Convention had already been decided in 1970, before the introduction of the GSP.

After the advent of neoliberalism, benevolence withered into a more equal but somewhat merciless relationship, and different stories should be written. The time might have already arrived when the *Zeitgeist* has shifted gradually to populism, which is now widespread in the world, including in Asian countries such as the Philippines, retaining its influence even in the midst of the COVID-19 pandemic.

Acknowledgements This paper is an upgraded version of an article as part of conference proceedings, edited by Kumiko Haba, *100 Years of World Wars and Post-War Regional Collaboration and Good Governance*, Kyoto: Nakanishi Printing, 2020. The author thanks Prof. Asahiko Hanzawa and Prof. Giulia Rami for their helpful comments. It should be noted that this research was supported by JSPS KAKENHI Grant Number 18K01737.

³² Human rights issues may be an exception. Lorenzo Ferrari, *Sometimes Speaking with a Single Voice: The European Community as an International Actor, 1969–1979*, Brussels: Peter Lang, 2016. Actually, Archives of Giscard d'Estaing in French National Archives sometimes shows the 'humanitarian' as an index.

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Chapter 13

North Korea and Wars in Africa and Asia



Satoru Miyamoto

Abstract Historically, North Korea has participated in many wars in Asia and Africa. The question is “why?” Some people may say that North Korea is “exporting revolution”, however, North Korea dispatched its troops and sent weapons not only to communist countries but also to non-communist countries. North Korea has participated in many wars because it has become more friendly with other countries. North Korea has participated in wars in Asia and Africa according to two objectives—exporting revolution, as a member of the Communist bloc, and anti-imperialism, as a member of the Third World. North Korea is a member of the Third World. It is one of the reasons that the North Korean regime survived after the Cold War. Thus, North Korea is not an isolated country; it has unexpectedly developed friendships with countries that oppose the US. Therefore, North Korea, as a member of the Third World, will continue to struggle against the US for anti-imperialism.

Keywords North Korea · Communist bloc · Third world · Anti-imperialism

1 Introduction

North Korea has participated in many wars in Asia and Africa. Not only did North Korea start the Korean War in 1950, but it also dispatched its troops to the Chinese Civil War (second phase), Vietnam War, October War (Yom Kippur War), Gukurahundi (aftermath of the Rhodesian Bush War), Ogaden War, the Iran-Iraq War, the Angolan Civil War, and so forth. Recently, it has been reported that North Korea dispatched two military units to the Syrian Civil War.

Historically, North Korea has participated in many wars. The question is why. Some people may say that North Korea is “exporting revolution” (like Cuba) as a socialist country. Cuba dispatched its troops to many countries, thereby exporting revolution. It is not strange that North Korea also participated in wars, effectively doing the same thing.

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However, North Korea dispatched its troops and sent weapons not only to communist countries but also to non-communist countries. North Korea would have different reasons than Cuba for participating in wars. Exporting revolution is inexplicable as a motive of North Korea because some refugees from North Korea confessed that the country has exported weapons and dispatched troops to countries that have friendships with the US, like Zaire (presently, Democratic Republic of the Congo), Zimbabwe, the United Arab Emirates, and Saudi Arabia.

North Korea has friendships with former and current communist countries, as well as non-communist countries. It is said that North Korea is an isolated country, but this is not true. We need to reconsider North Korea's image. Currently, the country maintains diplomatic relations with 160 countries that are members of the United Nations. During the Cold War, North Korea concluded its alliance treaties with not only the Soviet Union and China, but also with Libya and Cuba. North Korea is friendly with many countries throughout the world, contrary to many people's beliefs.

I think that North Korea has participated in many wars because it has become more friendly with other countries. Herein, I would like to explain North Korea's participation in numerous wars by the changes in its foreign policies.

2 Changes in North Korea's Foreign Policies

First, I should emphasize that North Korea currently has diplomatic relations with many members of the United Nations (UN). At the end of 2019, North Korea had diplomatic relations with 160 of the 193 UN members. In addition, North Korea has diplomatic relations with three non-members of the UN: Palestine, the Sahrawi Arab Democratic Republic (Western Sahara), and the European Union (EU). In total, North Korea has diplomatic relations with 163 countries.

However, North Korea did not intend to increase its diplomatic relations, except for relations with communist countries upon its founding. When North Korea was founded, it had diplomatic relations with only 11 communist countries. Its foreign policy prioritized the Communist bloc until the Sino-Soviet split in the 1960s.

The number of foreign countries with which North Korea has established diplomatic relations is shown in Table 1. North Korea had diplomatic relations with only communist countries in the 1940s and 1950s. However, it has enjoyed an increase in the number of countries with whom it has diplomatic relations since the aforementioned Sino-Soviet split.

North Korea established diplomatic relations with 66 countries in the 1970s because of the Sino-Soviet split, and the Sino-American rapprochement changed North Korea's foreign policy from Communist bloc diplomacy to Third World diplomacy.

Therefore, North Korea's participation in war aligns with two objectives. One is exporting revolution, as a member of the Communist bloc, and another is "anti-imperialism," as a member of the Third World. I realize that it is difficult to distinguish

Table 1 The number of foreign countries with which North Korea has established diplomatic relations¹

| | |
|-------|----|
| 1940s | 11 |
| 1950s | 3 |
| 1960s | 21 |
| 1970s | 66 |
| 1980s | 15 |
| 1990s | 32 |
| 2000s | 24 |
| 2010s | 1 |

clearly between the two objectives. Herein, I will attempt to explain several cases of North Korea's participation in wars in Africa and Asia that were based on these two objectives.

3 Wars for the Communist Bloc

North Korea was founded as a member of the Communist bloc; therefore, it could send weapons and dispatch troops only to foreign communist parties (i.e., exporting revolution). Until the end of the 1960s, North Korea's foreign activities were—in most every case—cases of exporting revolution as a communist country. I will present two cases, as follows:

3.1 *Chinese Civil War (Second Phase)*

Almost half of the early leaders in North Korea were members of the Chinese Communist Party (CCP) before the liberation of the Korean Peninsula from the Empire of Japan in 1945. Naturally, they assisted the CCP when the Chinese Civil War began in 1945 in Manchuria (later called Northeast China).

In general, it is said that the Chinese Civil War broke out in 1946. However, soldier units of the Chinese Nationalist Party (KMT) clashed with soldier units of the CCP in November 1945 at Shanhai Pass, an entrance to Manchuria from mainland China.

The CCP organized the Northeast People's Self-Governing Army—led by Lin Biao—in Manchuria in November 1945. While Lin Biao brought many Korean communists to Manchuria from Yan'an, the home base of the CCP, he regimented many Korean partisans backed by the Soviet Union. It is estimated that his actions reflected Stalin's will. Korean leaders backed by the Soviet Union had two choices:

¹ Satoru Miyamoto, "North Korea's Foreign Policy: A Non-isolated Country with Expanding Relations," *The SAGE Handbook of Asian Foreign Policy* (Los Angeles: Sage Publishing, 2020), pp. 636–656

to back North Korea in building a new country or fight against the KMT for the CCP and the Soviet Union. Kim Il-sung was a member of the group that chose to return to North Korea.

Therefore, early leaders in North Korea, including Kim Il-sung, assisted Lin Biao and his army because they thought it was their duty as communists and Koreans under the control of the Soviet Union. When Lin Biao's army lost the field at the end of 1945, his army was harbored in North Korea. In addition, North Korea's leaders provided weapons to Lin Biao that they had confiscated from the defeated Japanese army.

North Korea's leaders sent not only weapons but also soldiers for Lin Biao's army. It is said that several thousand soldiers in North Pyongan Province (Northwest Korea) participated in the Chinese Civil War.²

Korean soldiers in the CCP fought against the KMT in Manchuria; however, some of them continued to pursue the KMT to Hainan (the southernmost area of China). The soldiers backed North Korea after the Chinese Civil War and participated in the Korean War. Therefore, I can safely say that the Korean War was an extra contest of the Chinese Civil War for Korean communists.

3.2 *Vietnam War*

North Korea dispatched its air force to North Vietnam to fight against US and South Korean forces in Vietnam during the Vietnam War. One of North Korea's objectives for participating in the Vietnam War was, reportedly, to assist North Vietnam in exporting revolution as a member of the Communist bloc. However, this was not the case. North Korea, in conflict with the US, needed military assistance from the Communist bloc, which was about to collapse because of the Sino-Soviet split. A united Communist bloc was desirable for North Korea in its conflict with the US.

In the Vietnam War, both China and the Soviet Union dispatched auxiliary troops and sent considerable aid to North Vietnam. The Supreme Leader of North Korea, Kim Il-sung, thought that aligning with North Vietnam to participate in the Vietnam War was symbolic of a solid Communist bloc. Therefore, North Korea decided to dispatch auxiliary troops to North Vietnam as a member of the Communist bloc.

First, North Korea dispatched tunnel workers and other non-combatants to North Vietnam in 1965. Subsequently, on October 5, 1966, at the Workers' Party of Korea (WPK) conference, Kim Il-Sung declared the need to dispatch North Korean troops to North Vietnam. He thought that forming a united front against "American imperialism" would make the Communist bloc solid. North Korea tried to fight against American imperialism and its South Korean "puppet" in Vietnam.

² Satoru Miyamoto, "The Influence on the Process in the Foundation of the Korean People's Army by China-North Korea Relations," *Modern Korean History*, Volume 1, Number 1 (March 2013) [in Korean], pp. 7–29.

North Korea dispatched the air force's 203rd Unit in October 1966 to North Vietnam. The 203rd Unit consisted of approximately 150 members, including 24 pilots; 14 (12 pilots and two grand staff) of them died during the war. The unit then changed its name to the 923rd Regiment under the North Vietnamese Air Force commander and shot down 26 US Air Force planes during the war. It was estimated that they would withdraw from North Vietnam in 1969.³

North Korea fought against American imperialism and its puppet in a vain effort to solidify the Communist bloc. Despite Kim Il-Sung's wish, the Communist bloc could not renew its past ties. In March 1969, the Soviet Union and China clashed militarily on Damansky Island (on the border between the Soviet Union and China). The leaders in North Korea were shaken; we can see from the facts that this incident was not reported in North Korea. Therefore, North Korea abandoned its Communist bloc diplomacy.

4 Wars for the Third World

North Korea had to change its foreign policies from Communist bloc diplomacy to Third World diplomacy in the 1970s because of the Sino-Soviet split and Sino-American rapprochement. After the clash at Damansky Island, North Korea succeeded in healing its relationship with China; however, China approached the US, which North Korea had expressed hate for because of its imperialism. North Korea had to find other friendly countries to oppose the US. Friendly countries that North Korea found were members of the Third World. Therefore, North Korea began to participate in wars for anti-imperialism as a member of the Third World. I will present two cases, as follows:

4.1 *October War (Yom Kippur War)*

Egyptian President Muhammad Anwar el-Sadat, who had been preparing to battle Israel with support from the Soviet Union, suddenly disclosed that the Soviet military assistance advisory group was pulling out on July 18, 1972, in accordance with a request from the Egyptian government. It certainly prevented Egyptian forces from pushing ahead with their preparations for war. Saad el-Shazly, the general chief of staff of the Egyptian forces, remarked that the shortage of MIG pilots remained unresolved.

Shazly asked CHANG Jung-hwan, a North Korean government representative of Egypt in March 1973, to dispatch North Korean troops to train Egyptian pilots. After repeated negotiations, Shazly visited North Korea for a week, from April 6 to April

³ Satoru Miyamoto, *Why doesn't Coup d'Etat Happen in North Korea?: Civil-military Relations and Foreign Military Assistance* (Tokyo: Ushiosyobo Kojinsha, 2013) [in Japanese], pp. 121–125.

13, and had a meeting with Kim Il-sung. In the end, his visit seemed to be decisive in ensuring the dispatch of North Korean troops to Egypt.

North Korea's objective was clearly friendship with Egypt, the big power of the Middle East and Third World. Supporting Egypt coincided with North Korea's anti-imperialism thoughts because Egypt was fighting against Israel, the country that North Korea regarded as the puppet of American imperialism.

The North Korean Air Force units—consisting of 30 pilots, eight flight controllers, five interpreters, three administrators, a doctor, and a cook—arrived in Egypt in June and were assigned in July.⁴

The October War broke out immediately, led by the allied forces of Egypt. Syria struck the Israeli military on October 6 but suffered defeat early on. After Israel launched a counterattack, Kim Il-sung announced that he would support all Arab countries on October 17. He seemed to be hoping to strengthen relations between Arab countries as a whole and North Korea by touting military support. The US government announced that Israel had fought against the North Korean Air Force on the same day. The entire world knew that North Korean pilots were fighting the Israeli Air Force in the skies of the Middle East.⁵ North Korean pilots shot down four Israeli combat airplanes at the beginning of the war.⁶

Additionally, North Korea dispatched air force personnel to Syria in response to a request from the Syrian government during the latter half of the war. North Korea succeeded in earning the friendship of Egypt and Syria. As a result, North Korea received many advocates in the UN General Assembly and became a member of the Non-Aligned Movement in 1975. Therefore, I can say that participation in the October War made North Korea a member of the Third World.

4.2 *Angolan Civil War*

It has been reported that North Korea was engaged in the Angolan Civil War (1975–2002) between the People's Movement for the Liberation of Angola (MPLA), the National Union for the Total Independence of Angola (UNITA), and the National Liberation Front of Angola (FNLA). The MPLA has been a ruler of capital since 1975, when Angola gained independence from Portugal. While the Soviet Union and Cuba supported the MPLA, China and South Africa supported the UNITA and the US supported the FNLA.

It has been reported several times—primarily by South African presses—that North Korea dispatched troops to the Angolan Civil War in 1984. According to

⁴ Satoru Miyamoto and Satoshi Ikeuchi, "The Origin of North Korea's Ballistic Missile Development: From the Memoirs of Egyptian Army General Staff Saad el-Shazly", *The Monthly Journal Toa (East Asia)*, Number 553 (July 2013) [in Japanese], pp. 82–86.

⁵ Satoru Miyamoto, "DPRK Troop Dispatches and Military Support in the Middle East: Change from Military Support to Arms Trade in the 1970s," *East Asia*, Volume 27, Number 4 (November 2010), pp. 349–352.

⁶ *Rodong Sinmun*, February 12, 2012.

these reports, North Korea dispatched several thousand troops to fight against the UNITA.⁷ W. Martin James, a professor at Henderson State University, estimated that North Korea dispatched 1,500–3,000 troops to Angola.⁸ It has also been reported that North Korea dispatched twenty-five thousand troops to Angola.⁹ North Korea denied these reports on December 3, 1984¹⁰; however, South African press reports would be considered correct to some degree by contemporary circumstantial evidence.

Information in foreign countries about North Korea during the Angolan Civil War is confusing. John Stockwell, a former CIA officer during the Angolan Civil War, reported that North Korea supported the UNITA.¹¹ Humio Nakagawa, a former professor at Tsukuba University, reported that North Korea supported the FNLA and UNITA.¹²

What I can say with certainty is that North Korea consistently supported the MPLA according to contemporary news in North Korea. Angolan's first president, Agostinho Neto, the chairman of the MPLA, visited North Korea in 1968 and 1971 before Angola's independence. When he died in 1979, North Korea sent a telegram of sympathy to the Angolan government and MPLA. I cannot imagine that North Korea assisted the FNLA and UNITA.

Of course, I do not yet know the details of North Korea's participation in the Angolan Civil War as it has not been made public. North Korea announced that it assisted in the liberation of Zimbabwe, Mozambique, Namibia, Madagascar, and Angola.¹³ Therefore, if that is true, participation in the Angolan Civil War was part of North Korea's anti-imperialism activities in Africa. In addition, North Korea did not cooperate with China, but with the Soviet Union, as a member of the Communist bloc in the Angolan Civil War. I can say that North Korea's participation in the war reflected two objectives: exporting revolution and anti-imperialism.

As a result, the MPLA still maintains its power in Angola and good friendships with North Korea. Namibia gained independence in the Angolan Civil War and also maintains its friendship with North Korea. North Korea built many artistic buildings and works of art in Angola and Namibia after the war. I do not know the details yet; however, it seems fairly certain that North Korea participated in the Angolan Civil War.

⁷ *Asahi Shimbun*, September 15, 1984 (quoted from the article of the Star, a newspaper in South Africa).

⁸ W. Martin James III, *A Political History of the Civil War in Angola, 1974–1990* (London and New York: Routledge, 2011), pp. 212–218.

⁹ *Mainichi Shimbun*, November 30, 1984.

¹⁰ *Rodong Sinmun*, December 3, 1984.

¹¹ John Stockwell, *In Search of Enemies* (London: André Deutsch Limited, 1978), p. 52.

¹² Humio Nakagawa, "Cuba and the Angolan Civil War," Humio Nakagawa ed., *Modern Latin America's Relations with Asia and Africa* (Tokyo: Institute of Developing Economies, 1980) [in Japanese], p. 43.

¹³ KIM Hyok-Mo and LEE Gwang Sam, *Comrade Kim Il-Sung, Great Leader of the Cause of Independent 8* (Pyongyang: Korea Social Science Publishing House, 2011) [in Korean], p. 266.

5 Conclusion

North Korea has participated in numerous wars in Asia and Africa according to two objectives—exporting revolution, as a member of the Communist bloc, and anti-imperialism, as a member of the Third World.

North Korea participated in wars for exporting revolution as a member of the Communist bloc until the Sino-Soviet split in the 1960s. North Korea participated in the Chinese Civil War and Vietnam War, with the objective of exporting revolution.

However, North Korea began to participate in wars for anti-imperialism as a member of the Third World after the Damansky Island incident and Sino-American rapprochement. North Korea began to find friendly countries in the Third World that clashed with the US instead of the Communist bloc. North Korea participated in the October War and Angolan Civil War owing to its anti-imperialist objective.

The two objectives sometimes coexisted if North Korea assisted pro-communist parties or countries. While North Korea assisted the MPLA, which was supported by the Soviet Union, it was in conflict with the UNITA and FNLA, which were supported by China and the US in the Angolan Civil War. Supporting the MPLA for North Korea fulfilled the objectives of exporting revolution and anti-imperialism.

North Korea has increased its friendships with other countries by participating in many wars in Africa and Asia. I think it is one of the reasons that the North Korean regime survived after the Cold War, even though many scholars expected it to collapse like regimes in East European countries. I would like to emphasize that East European countries were members of the Communist bloc; however, North Korea is a member of the Third World. Thus, North Korea is not an isolated country; it has unexpectedly developed friendships with countries that oppose the US. Therefore, North Korea, as a member of the Third World, will continue to struggle against the US for anti-imperialism.

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Part IV
After 100 Years of Wars: How to Make
New World Order – Politics

Chapter 14

The United States' Differing Strategies of “New World Order” Between Europe and Asia in the Post-War Period



Kumiko Haba

Abstract In this article, the author wishes to investigate and analyze what were the underlying reasons for the United States to adopt a completely different strategy towards Europe and Asia as part of its search for a New World Order during a period defined by Toffler as a ‘Power Shift era’. While promoting the integration of Europe, the US simultaneously accepted and encouraged division across East Asia.

Here, the author investigates and pays attention to why “the new world order” of the United States or of the United States-Britain and the Soviet Union had been different between Europe and Asia after WWII, and considers merits, demerits, and limits of post-war new world order, analyzing forecast on European regional integration, and Asian disintegration, or the aim and limits of new world order and the “Divide and Rule” strategy of the United States. In connection with that, the author wishes to consider and investigate the contemporary “new world order” from the US-China trade war in 2018–2020; how we could reconstruct that phenomenon.

Keywords New World Order · The United States’ Strategy · European Integration · Asian “Divide and Rule” Strategy

1 Introduction

In this article, I intend to investigate and analyze what were the underlying reasons for the United States to adopt a completely different strategy towards Europe and Asia as part of its search for a New World Order during a period defined by Toffler as a

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‘Power Shift era’.¹ While promoting the integration of Europe, the US simultaneously accepted and encouraged division across East Asia.²

Here, the author investigates and pays attention to why “the new world order” of the United States or of the United States-Britain and the Soviet Union had been different between Europe and Asia after WWII, and considers merits, demerits, and limits of post-war new world order, analyzing forecast on European regional integration, and Asian disintegration, or the aim and limits of new world order and the “Divide and Rule” strategy of the United States. In connection with that, the author wishes to consider and investigate the contemporary “new world order” from the US-China trade war in 2018–2020; how we could reconstruct that phenomenon.

1.1 Democracy and War

In terms of values, US participation in World War I and World War II was very much connected with the pursuit of democracy. In World War I, President Wilson changed the US position from one of neutrality to one spearheaded by the slogan, “the war to end all wars”. In its wake, President Wilson, issued the “Fourteen Points” that envisaged a post-war world order built on democracy and establishment of the League of Nations. In World War II, President Roosevelt entered the war, following the Japanese attack on Pearl Harbor in December 1941, with a philosophy built upon the “four freedoms”, freedom of speech, freedom of worship, freedom from want, and freedom from fear.³ That he laid out during his January 1941 State of the Union speech. It was a speech that also proposed a nascent United Nations and envisaged a more effective post-war order than in 1918.

¹ Fukuyama, Francis, *State Building: Governance and World Order in the 21st Century*, Profile Books Ltd, 2004. Toffler, Alvin, *Power Shift; Knowledge, Wealth, and Violence at the Edge of the Twenty-First Century*, 1990. Haba Kumiko (Ed.), *Twenty-First Century, International Society in the Great Transition Era*, Publisher of Law and Culture, Japan, 2019.

² Haba, Kumiko, *Division and Integration in Europe—Borders and Nationalism in Enlarged EU, Inclusion or Exclusion*, Chuo-Koron Shinsya, 2016. Haba, Kumiko, Yoshinobu Yamamoto and Takashi Oshimura (Eds.), *East Asian Community Considering the International Politics*, Minerva Publishers, 2012. Haba, Kumiko (Ed.), *Great Power Politics and the Future of Asian Regionalism, at Harvard University*, Aoyama Gakuin University, Tokyo, 2013. Fukuyama, Francis, *State Building: Governance and World Order in the 21st Century*, Profile Books Ltd, 2004. Haba, Kumiko, *Asian Regional Cooperation in the Global Era*, Iwanami Publisher, 2012 (Translated to Chinese, 2013).

³ The Four Freedoms speech was given on January 6, 1941, in State of the Union. John V. Denson, *A Century of War (Large Print Edition): Lincoln, Wilson, and Roosevelt*, CreateSpace Independent Publishing Platform, 2006. Julia Hargrove, *Franklin D. Roosevelt’s Four Freedoms Speech: History Speaks*, Teaching and Learning Company, 2018.

The "four freedoms" would be protected by the "Four Policemen", that is, the USA, the UK, the Soviet Union, and the Republic of China. The inclusion of the USSR and China stemmed from Roosevelt's belief that future stability depended on the inclusion of all the Great Powers. Such a 'New World Order' also addressed skepticism that U.S. liberal leaders had towards what they saw as the colonial and imperialistic tendencies of many European nations, including the United Kingdom.

In addition, it was hoped that the future would be based upon 'the rule of law' rather than the 'the rule of force'. However, this wish had been repeatedly shattered post-1945. After World War II, the battle against Nazism, fascism, and militarism of Germany, Italy and Japan, soon turned into a "fight to protect freedom" against the Soviet Union and communism as the world witnessed the start of "the Cold War". Because of this, "the four freedoms" underwent a major transformation in forming the post-war World Order. No longer would they have a common global intent. The strategy of the "New World Order" would take on a divergent hue i.e., would be completely different in the European and Asian theatres. Was that difference originally designed as such, or did historical or regional circumstances force this difference? This is the question that I will address in the rest of this chapter.

1.2 Change of "Enemy"

In Europe after World War II, a "no-war community" was realized through integration. It did so by incorporating the former Axis powers of Germany and Italy while excluding the Soviet Union, which had experienced the highest human cost as a member of the Allies.⁴

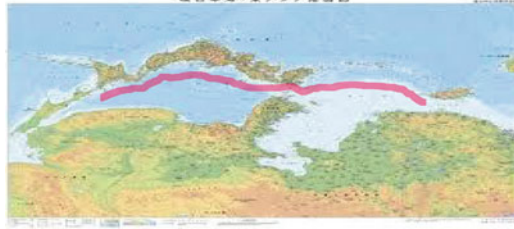
As the security strategy, for energy collaboration the 1951 ECSC (European Coal and Steel Community), followed by the 1975 CSCE (Conference on Security and Cooperation in Europe), which was organized, discussed and institutionalized, by not only states but also by NGOs and NPOs, for regional safety and problem management. On the other hand, in Asia, especially in East Asia, as is well known, a "Divide and Rule" strategy was introduced.⁵

In Asia as well, a "network of containment"—against countries which had been on the Allied side in World War II, like the Soviet Union and communist China, established in 1949—, was formed to counter the communist threat. That network would include Japan—the former "enemy".

⁴ *Documents: Germany/Holocaust, North Korea, and New Documents in East Asia/Korea*, Wilson Center, 2019.

⁵ Robert S. Ross, "The Geography of the Peace: East Asia in the Twenty-first Century", *International Security*, Volume 23, Issue 4, Spring, 1999, pp. 81–118.

Geopolitical Importance of Japan: Japan's archipelago looks 3000 km geopolitical fortress against Soviet Union(Russia), China, Korean Peninsula with Taiwan: it is the **best fortress for the USA**
 Or we could make Regional Collaboration like UK and European Continent
 Source ; Map is East Asian countries by Toyama Prefecture, Japan: Fortress line is drawn by Haba



Japan is in a very specific position on the map when viewing the Earth from the North Pole. As a natural fortress it closes the Asian Continent toward the Pacific Ocean, against the Soviet Union, China, or against North Korea and South Korea; it contains the Asian continent over a length of 3000 km in the Pacific Ocean. Not surprisingly, it functions as a very important fortress/base for the United States. At the same time, as a result of the Korean War, the Korean Peninsula was divided between North Korea and South Korea at the 38th parallel: geography encapsulated the socialist sphere of the USSR, China and North Korea on the one hand, and the capitalist sphere of South Korea and Japan on the other. This meant that a post-war peaceful collaboration and regional reconciliation across East Asia was not realized and was, in fact, hampered by the US's world strategy by Truman Doctrine, which completely changed from Roosevelt 'Four Freedoms' policy. The USSR also changed their strategy by Stalin against so to call "Western World". It wished to divide Western World using that the 'Stalin note',⁶ the plan of neutralization of West- and East Germany, but it was in vain.

1.3 Regional Collaboration Efforts and Their Obstruction

It has been 75 years since WWII, and 30 years since the end of the Cold War, but regional collaboration has remained so difficult in East Asia. During the first 22 years of the twenty-first century, we have witnessed many issues/problems that have impacted upon regional dynamics—relations between Japan and China; the democratization movement in Hong Kong, elections in Taiwan, and the expansion of COVID-19.

⁶ Soh, Shimizu, "Stalin's Note" and the Cold War, *Journal of Western History*, Volume 37, 2008, pp. 58–68.

Unlike in Europe, in East Asia regional co-operation and "non-war communities" through integration have yet to materialize. Under such circumstances, the US unilateral leadership from the end of twentieth century, and especially during 4 years of Trump Government from 2016–2020, had harmed so much the system of Liberal Democracy.

Regardless of whether the US prefers it or not, the USA had always constructed the New World Order after major conflicts. But the Trump administration amplified fears that that traditional approach was in crisis. President Biden tried to change that but showed how difficult it would be to radically change diplomacy and domestic affairs in a Republican-dominated parliament.

After four years of the Trump administration, Biden won the presidential election in November 2020. But even in 2022, Trump and the Republicans have strong enough influence in the United States and in the diplomatic field, still thinking "we are the first and brightest" and trying to prevent China from overtaking the United States in the future.

There is a pressing need to consider a more multidimensional world order that is different from "they are the first and American-led democracy". And to consider that, we need to think about Asia from the postwar period to the present day, why the United States did not allow integration and collaboration unlike Europe, and why it does not allow it until now.

Therefore, again, the main question of the author is, How could create the United States a "post-war world order" during and after the war, what were they aiming for, and why was it changed or different between Europe and East Asia?

2 The United States' World Strategy After WWII

2.1 Three Focal Points of "Reconciliation" Between Europe and East Asia After World War II

When considering the US strategy for Europe and Asia after World War II, there are a few very important focal points. The first one is the massive number of casualties in World War II, the "German–French reconciliation" after the war and the start of the Cold War. The second one is that the United States' "post-war world order" strategy was different in Europe and in East Asia. The third one concerns the changing status (conversion) of certain countries from ally to "enemy", or from enemy to 'ally' after World War II.

1. First, the number of dead in World War II and “German–French Reconciliation”⁷

In Europe during World War II, about 32 million to 37 million people died. In World War I, this figure was about 9 million people; the number of dead had quadrupled during only 20 years due to improved armaments. Among them, the dead of the Soviet Union were between 18 and 20 million people, accounting for half of all casualties.⁸

Number of Deaths in the World War II

Source: there are difference numbers and not exact; several sources: *World War II Historical Maps*, Times-Atlas, UK, 2001. *Tokyo Shinbun*, August 15, 2006 (Ministry of Health, Labor and Welfare data)/*Asahi Shimbun*, 1995.8.15. *Japanese Invasion and Expansion*, Yoshinori Yoshioka, New Japan Publisher, 1996. and others.

| Europe | Asia |
|-----------------------------|---------------------------|
| • Dead in Europe (thousand) | • Dead in Asia (thousand) |
| Soviet Union 21500 | • China 11324 |
| Poland 6628 | • Indonesia 4000 |
| Germany 5150 | • Vietnam 2000 |
| Yugoslavia 1710 | • Japan 3100 |
| Italy 373 | • Korea 200 |
| USA 292 | • Myanmar 150 |
| France 384-600 | • Philippine 111 |
| Romania 985 | • Others |
| Hungary 490 | |
| UK 332 | |
| Others | |
| Sum 32,151-37,057- | Sum 18,433- |

On the other hand, the dead in Asia totaled over 18 million, with China accounting for more than half with over ten million. That means about 50–57 million people died in World War II in Europe and Asia, more than 60 million people died world-wide. The responsibility for the war was assigned to the Tripartite Axis League—Germany, Italy, and Japan—who were compelled to pay reparations to the Allies; the United Kingdom, the United States, the Soviet Union and China. Therefore, under such circumstances, why was a German–French reconciliation achieved, but not a German-Soviet reconciliation? If the losing (defeated) nation is responsible for paying the cost of the war for the most damaged nation, it requires a “German-Soviet reconciliation” and “Japanese-Chinese reconciliation”. So why a “German–French reconciliation”?

In Japan, it is sometimes said that Europe is a homogeneous society as a Christian world; on the other hand, East Asia is so diverse due to the presence of so many religions, cultures and nationalities; that is why it is not only difficult, but also impossible to make regional collaboration like in Europe. However, this comparison is not correct. A recognition of a long history of national rivalries and conflict is a more accurate picture.

⁷ John V. Denson, *A Century of War (Large Print Edition): Lincoln, Wilson, and Roosevelt*, CreateSpace Independent Publishing Platform, 2006. Alice Ackermann, “Reconciliation as a Peace-building Process in Postwar Europe, The Franco-German Case”, *Peace and Change, A Journal of Peace Research*, July, 1994.

⁸ *Times Atlas World War II Historical Map Compact Edition*, Hara Shobo, 2001, 96, August 15, 1995, Asahi Shimbun, 1995.

Krzysztof Pomian, a Polish historian, and Professor at the Nicolaus Copernicus University in Toruń, wrote in his book, Europe has been facing a confrontation over Christian religions, cultures and nations, since before the birth of Christ until the contemporary world.⁹ The high number of dead during World War II also tells the history of the conflict. Conflicts of nations were profound ones; European history is a history of conflicts, and WWI and WWII were the peak of these confrontations.

2. Second, the Concept of the United States New World Order in the post war.

From the Tehran meeting to the Yalta Conference, unlike the more solitary role played by Woodrow Wilson towards the end of World War I, Roosevelt would be joined by Winston Churchill and Josef Stalin to make the postwar "new world order."

After World War II, the postwar world order vision should have been based on territorial inviolability and respect for sovereignty. However, at the end of the war, in the Moscow Conference of October 10, 1944, Churchill and Stalin talked about the influence of the great powers, sharing of key areas, and divided the sphere of influence, as a "percentage agreement".¹⁰ President Roosevelt was trying to mediate the three countries, but ultimately lost out to illness and his ultimate death in April 1945. Vice President Truman's inauguration would result in a sea change in the emphasis of US policy. It brought the Truman Doctrine (March 1947); military assistance toward Greece and Turkey following a request of the United Kingdom brought the start of the Cold War, but it was already started a matter of controversy among the UK, the US and the Soviet Union in the process of envisioning the postwar international order.

3. Third, The Decisive Transformation of the "Enemy" in the Post-War Period.

As is well known, in the second World War, three Axis countries, Germany, Italy and Japan, requested territorial modification on the one hand, and Allied countries, like the US, the UK, Soviet Union, France and China, against the infringement of the territory and sovereignty and respected "territorial integrity and sovereignty" on the other. That is, immediately after World War II, the "enemy" of victorious powers was Germany, Italy, and Japan—Axis countries. The German army was ruined completely by the Battle of Stalingrad, later by the march to the west of the Soviet Army, and the United States indiscriminate carpet bombing caused surrender. (May 1945). After that, America also dropped atomic bombs on Hiroshima and Nagasaki in Japan (August 1945).

In the final stages of the war, the Soviet Union advanced until just before the German border (January 1945), and on the eve of the German surrender, in February 1945, the leaders of the US, the UK, and the USSR gathered in

⁹ Krzysztof Pomian, *L'Europe et ses nations*, Paris, Gallimard, 1990. Krzysztof Pomian (Translation), *What Is Europe?*, Heibonsha, 1993.

¹⁰ "Percentage Agreement", Charles Gati, *Hungary and the Soviet Bloc*, p. 31. Kumiko Haba, *Division and Integration in Europe*, Chuo-Koron Shinsha, 2016, pp. 44–47. Gair Lundestad, *The American Non Policy Towards Eastern Europe, 1943–1947*, Tromsø-Oslo-Bergen, 1978.

Yalta.¹¹ Here, Roosevelt accepted Stalin's request concerning Soviet interests in Manchuria, the Kuril Islands and southern Sakhalin. As Roosevelt believed that Soviet cooperation was essential for Japan's surrender, he called for the annulment of the Japan-Soviet treaty of neutrality as he simultaneously asked the Soviet army to enter Japanese territory. As a result, the three parties drew-up a in Yalta, by the three parties of the United States, the United Kingdom and the Soviet Union, a secret agreement.¹² The Soviet Union participated in the war against Japan and invaded the northern Japanese islands the promised territory at the request of the United States on August 9, 1945, in the wake of the atomic attack. Five days later, Japan accepted the Potsdam Declaration on August 14 and sent a letter of surrender to the Allies on September 2, 1945. As a result, the Soviet Union kept its promises to the United States, occupying the Kuril and Northern Islands. At this time, apparently Roosevelt respected the Soviet Union and China as an Allied power and considered Germany and Japan as enemies.¹³

As a result of three points, namely (1) "Franco-German reconciliation", (2) A difference of Europe and Asia strategy as "post-war world order" of the US, (3) Conversion of "enemy" after the world war. In Europe, European integration was under the US support. The Soviet Union containment policy started, on the other hand, in East Asia. Then the underlying strategy of the East Asian "Divide and Rule" was introduced, and as a result of that, the Asian region continued to be hostile each other, until the twenty-first century. The question is why European strategy could not be taken in East Asian international politics of the US world order? Both were closely linked.

Four months before in Europe, the Soviet troops had already destroyed the German army in the Soviet territory and were marching west at breakneck speed. The US and the UK Army quickly landed on the banks of the Elbe in April 1945 and joined with the Soviet forces at the end of the month. Germany surrendered on May 6, 1945. Pivotal to subsequent events, however, was the death of Roosevelt, who had a deep understanding of the Soviet Union and China, without seeing the formal surrender of Germany or Japan.

¹¹ Diana Preston, *Eight Days at Yalta: How Churchill, Roosevelt and Stalin Shaped the Post-War World*, PIsador, 2019.

¹² This secret agreement, called the "Yalta Agreement," was agreed between Roosevelt, Stalin, and Churchill to encourage the Soviet Union to enter the war against Japan. Contents are following; Maintaining the status quo of outer Mongolia (People's Republic of Mongolia) under the strong influence of the Soviet Union, returning southern Sakhalin to the Soviet Union, handing over the Chishima Islands to the Soviet Union, the Soviet Union's ports in Manchuria and the South Manchuria Railway. It was agreed that the Soviet Union would participate in the war against Japan on the condition that it would secure its interests. It is said that the Soviet Union have resisted the abolition of the Neutral Treaty with Japan.

¹³ At the Cairo Conference and the Tehran Conference in November 1943, Roosevelt emphasized adding China to the three major powers (US, UK and Soviet Union) by advocating the concept of 'Four Policemen'. It was also to advance the post-war initiative against Germany and Japan in an advantageous manner.

4. Containment policy toward the Soviet Union.

After the Second World War, both Truman and Churchill of the United Kingdom both were wary of the Soviet Union, due to their overwhelming force in the eastern half of Europe. The two leaders introduced the containment policy against the Soviet Union in Europe and the far East.

In particular, Churchill had already delivered his famous Fulton speech in March 1946 in Fulton, Missouri, USA, saying "From Stettin in the Baltic to Trieste in the Adriatic, an iron curtain has descended across the Continent."¹⁴ In addition, NATO (North Atlantic Treaty Association) was founded in April 1949. The organizations' first General Secretary Hastings Ismay (from the UK) famously quipped, "Keep the American's in, the Russian's out, and the German's down".

On the other hand, Stalin, in what is referred to as the "Stalin Notes" in March 1952, offered German integration between east and west on a proposed neutrality, German unity and in the center of the European buffer zone the safety of the Soviet Union. However, at that time, this was refused by Adenauer's West German government. After that, Germany joined NATO and pursued rearmament.¹⁵ Through this process, the "enemies" in Europe were completely transformed from Germany to the Soviet Union.

In the Far East, Roosevelt had always pinned his hopes on a Chinese administration under the leadership of Chiang Kai-shek. As we know, however, the Chinese Communist Party secured power in October 1949 and the Chiang Kai-shek's Kuomintang administration fled to Taiwan. The following year the Korean War broke out over the 38th parallel. When the outbreak occurred, the United States found itself up against a coalition of the Soviet Union and the socialist regimes of China and North Korea.

Thus, the newly emerging Cold War order began to crystalize around the following three focal points, (1) Reconciliation between Germany and France, (2) The "new world order" of the United States and the changes of strategy between the administrations of Roosevelt and Truman, (3) The fundamental transformation of former 'enemies' and 'allies'. The postwar world order, which was supposed to be carried out by the United States, the UK, the Soviet Union and China, was drastically rearranged by the transformation of the "enemy." But the "new world order" would also take quite different forms between Europe and East Asia.

¹⁴ Winston Churchill, *Fulton speech on Iron Curtain*. <https://winstonchurchill.org/resources/speeches/1946-1963-elder-statesman/the-sinews-of-peace/>.

¹⁵ Yoko Iwama, *German Re-armament*, Chuokoron-sha, 1993.

3 Conciliation with the Enemy and the New World Order—Divide and Rule in Asia

Considering why East Asia was not organized as a region, we must realize that the main reasons were driven by international rather than domestic factors. For the United States, immediately after the war, there was no reliable ally in East Asia.

Contrast this with the situation in Europe where almost every country in Europe was in favor of restraining Germany, and few refused to form an alliance with the United States, except for French President De Gaulle. Therefore the “American in, German down, and Russian out” policy was very much welcomed. The United States had, therefore, formed an alliance with Europe as a “region.” On the other hand, in East Asia, both the Soviet Union and China, which extend far into the far East of the continent, had become socialist countries, and the leaders of the Republic of China had fled to Taiwan. Therefore, in order to hold back the USSR and China, the only remaining countries for the US to ally with were South Korea and Japan.

Few countries in East Asia could be trusted to organize the region. As a consequence of an accident of history, post-1945 Japan (a country that had experienced one of the greatest human tragedies in history at Hiroshima and Nagasaki) became a fortress of the capitalist world against the Soviet Union, China and North Korea after the San Francisco Treaty in 1950. Initial signs for this envisioned role could already be seen in McArthur’s direction of the GHQ. He considered using the Showa Emperor as the center of new the constitutional monarchy in an attempt to bring the nation together and as an ally of the western world.

3.1 *Leadership of Politicians Who Led the Reconciliation. European Success*

The reconciliation and joint leadership of European post-war enemies helped to frame the new era in post-war Europe. The success of this European settlement largely depended on the following three examples of agency:

One is “Reconciliation between Germany and France” which was centered around the central role Robert Schuman.¹⁶ Schuman was born in Luxembourg, studied in Germany, joined the resistance movement against the Vichy regime and was part of the liberation of France. He also held the office of French Prime Minister before later becoming the Foreign Minister. He was a person who symbolized the German–French Reconciliation, and the German–French Youth Exchange Program (used by eight million young people during the 70 years since the war) that has made the

¹⁶ Takahiro Kondo, “Robert Schumann’s German-French Collaboration”, Noriko Yasue, “Great Men of the EU Integration; Schumann, Adenauer, Churchill”, both are in *63 Chapters to know the European Union*, Ed. By Kumiko Haba, Akashi Publisher, 2017, 5th edition, pp. 76–79, 80–82.

likelihood of a war between Germany and France unthinkable. As a result of that, the EU took the Nobel Peace Prize in 2012.¹⁷

The second is energy collaboration, which was the realization of the coal and steel community and the Euratom (nuclear community) as laid out in the "Schuman Declaration" which was written by Jean Monnet. Having been the first of the Secretary-General of the League of Nations, special chairman of the Joint Committee on the management of military supplies during WWII he was familiar with the relationship between energy and war.

The third is the freezing of geographical borders across Europe after WWII. Europeans argued that changing borders would lead to conflict and war, therefore, it would not allow border changes after the Soviet Union's remarkable change like the annexation of the Baltic states and the amendment of Poland's eastern border during and after World War II.¹⁸ This played itself out in the "Helsinki Agreement" and the creation of CSCE (the Conference on Security and Cooperation in Europe) in 1975, which was trying to solve the security questions all over Europe, including the Soviet Union and Eastern Europe. Although Germany had been divided into East and West at that time, both German Prime Minister, Willy Brandt, who negotiated the agreement, and Helmut Schmidt who signed it, accepted the freezing borders sincerely "but with humiliation",¹⁹ for the sake of European stability and peace. Because of that, after the fall of the Berlin Wall in 1990, Europeans no longer felt a threat from the German unification, and accepted the unified Germany, as "the country walking with Europe". That is why both Chancellor Kohl and Chancellor Merkel repeatedly emphasized henceforth that "Germany lives with Europe."

4 The United States' World Strategy and International Relations After 1950—Why Asia is Irreconcilable?²⁰

As in Europe, East Asia too had a number of capable politicians who, preached the integration of East Asia. In Japan, we can point to Tenshin Okakura and Hirofumi Ito for example, who was assassinated because of the Japanese annexation of Korea,

¹⁷ It was highly estimated and praised following: Europe, especially Germany and France, overcame nationalism after WWII, and realized an economic community, spread respect for the democratic system and basic human rights to the European continent, and as a result, peace, stability and economic prosperity in Europe and in the world. European Nobel Peace Prize, 2012. The Nobel Peace Prize, 2012.

¹⁸ Annexation of the Soviet Union in eastern Poland after the conclusion of the German-Soviet Non-Aggression Treaty and the annexation of the three Baltic states of the Soviet Union in 1940.

¹⁹ Professor Karl Kaiser informed that word when we discussed about the Helsinki agreement in 2012.

²⁰ *Sharing the Burden of the Past: Legacies of War in Europe, America, and Asia*, The Asia Foundation, Friederichs Ebert Stiftung, 2003.

and Jungun An, who assassinated Hirofumi Ito.²¹ We can also mention Chiang Kai-shek, leader of National Party, and Mao Zedong, leader of Chinese Communist Party. However, their philosophies were obviously poling apart. In comparison with European visionaries such as Schuman and Monnet, East Asian leaders, with national unity as their primary goal, could not reconcile and work with each other Under such circumstances the prospects of mutual reconciliation and prosperity were lost.

As well as regional political dynamics, US opposition to East Asian nationalism and region-building would also prove crucial. U.S. leaders regarded the ideas of those who aspired to Asian integration as dangerous. Because of that, after WWII, the United States relied on politicians who could execute US strategies and concentrate on domestic development, rather than leaders who held a strong nationalist and regionalist outlook. In the case of Japan, Shigeru Yoshida and Hayato Ikeda, who tried to suppress the increase in security and military power and aim for the prosperity and development of the country, played such a role. After the war, Japanese leaders specialized in its postwar recovery and growth, focusing on the economy, rather than engaging in international politics. Politicians who sought nationalism, independence and collaboration with neighbors different from the United States tended to be ostracized.

The US approach to East Asia became one of “Divide and Rule” especially after the seizure of government of the Communist Party in North Korea in September 1948 and China in October 1949. The breakout of the Korean War in 1950, further strengthened the US strategy, resulting in Japan becoming a buffer against communist countries as laid out in the Treaty of Peace with Japan in San Francisco in 1950, and the Treaty of Mutual Cooperation and Security between the United States and Japan.²²

4.1 The Establishment of a Strong Socialist Regime in the East Asian Continent

With the establishment of Mao’s Communist Party system and Chiang Kai-shek fleeing to Taiwan, a powerful Communist Party troika was established on the East Sea coast of Japan, by the Soviet Union, North Korea, and China. In addition, North Korea’s rich seams of uranium ore proved crucial for the Soviet Union’s nuclear capability which would extent to both China and North Korea. The three represented a powerful socialist and communist system that was deemed a threat by the United States. In such a geopolitical atmosphere, Japan’s importance as an anti-communist buffer was enhanced. From a Japanese perspective it could be argue that it lacked the

²¹ Interestingly, both Hirobumi Ito and Jungun An have been highly regarded as nationalists and East Asian integrationists as well, in both countries.

²² Full text and translation of the Treaty of Peace with Japan in San Francisco: <http://www.chukai.ne.jp/~masago/sanfran.html>, <http://worldjpn.grips.ac.jp/documents/texts/docs/19510908.T1J.html>.

sorts of reliable neighbors like Germany and Italy had in Europe, in order to engage in processes of region-building.

4.2 Regional Integration Was Realized in Southeast Asia Even Under the Cold War

This was not the difference between Europe and Asia. Because, as everyone knows, "divide and rule policy" was a peculiarity of East Asia and it brought antagonism and instability. That is why the regional collaboration in Northeast Asia is so important for to make peace and stability. In ASEAN, although Vietnam divided between north and south, both sides of the region pulled in, therefore South Vietnam was included in ASEAN, and North Vietnam, established under Ho Chi Minh in cooperation with the Soviet Union. Although the Cold War has divided all territories by border lines, it is interesting to note that in Southeast Asia, of course, different from Europe, but regional collaboration had managed to establish and taken the direction of combating communism together.

5 The US Intervention in East Asia—Perception of East Asian Threat: Comparing ASEAN

Why did the United States intervene in East Asia with a 'divide and rule' governance approach? It seems that at the heart of this policy were lingering perceptions of an East Asian threat that centered around three scenarios:

1. If Russia, China and North Korea collaborate as a socialist system, it will become a strong competitor to US hegemony.
2. The United States' desire to build a new world order necessitated a foothold in East Asia in order to restrain the Soviet Union and China. It was MacArthur's strategy as well.
3. The US impact on the emerging post-war Japan. Unlike in Europe, MacArthur's post-war determination to intervene in politics, carefully sidelined politicians that held anti-American, nationalist, and pro-independent views.

Not only the Japanese Communist Party or Socialist Party, but also nationalists and independent fractions were also ousted from the government or leading positions. In light of that the remaining political elite could hardly refuse the US strategy.

5.1 ASEAN—*Successful Integration in Asia*²³

As we could see, the US strategy was very different in Europe and East Asia, yet at the same time Europe and ASEAN had many similarities.

For example, like the EC/EU, ASEAN was able to compete with the Soviet Union, China, and North Vietnam by integrating its regional system, including South Vietnam. On the other hand, in East Asia, the United States has implemented a “divide and rule” policy, and Japan, China and South Korea have always been in conflict and have continued to politically blame the “enemy” as neighboring countries. Although Japan and South Korea both allied with the United States, that could not dispel their own bi-lateral difficulties over, for example, numerous historical issues including the issue of the comfort women.

However, South-East Asia escaped from the suspicions of neighboring countries and formed an EU-type network, therefore it became the center of ASEM (Asia and Europe Meeting). We could learn from ASEAN several countries as “good governance” as an Asian case of regional collaboration, although some of them are.

In Europe, post-war regional integration and the US strategy did not contradict. “German–French reconciliation” started after WWII. By reconciliation, Germany was included into Europe and got the Marshall Fund. On the other hand, German-Polish reconciliation, or German-Russian reconciliation didn’t exist until the end of Cold War for Poland, and never for Russia.

6 Thaw of the Cold War and the Limits of Independence (from the 1960s to the 1970s)

In the 1960s–1970s, in the thaw of the Cold War, high growth of Japanese economy started after the war; the national restoration of diplomatic relations carried out that had been suspended during the Cold War.

That is, the thaw of the Cold War and the restoration of diplomatic relations between Japan and the Soviet Union, and Japan and China brought about friendship with neighboring countries and the development of Japan and Northeast Asia. This is the greatest achievement of regional collaboration.

The first moves in the normalization of relations between The Soviet Union and Japan came with the October 1956 Soviet-Japanese Joint Declaration that was co-signed by Nikita Khrushchev and Ichiro Hatoyama in October 1956.²⁴ At that time, it was recognized that when the peace treaty was concluded, the two islands of Habomai and Shikotan could be returned to Japan. It was confirmed and ratified two months later. Then, in June 1965, the Japan-Korea Normalization and The Treaty on Basic

²³ R. Stubbs, “ASEAN Plus Three: Emerging East Asian Regionalism?”, *Asian Survey*, 2002.

²⁴ Full text of Soviet-Japanese joint declaration: <https://www.mofa.go.jp/mofaj/gaiko/bluebook/1957/s32-shiryu-001.htm>.

Relations between Japan and the Republic of Korea were concluded.²⁵ It had US support and encompassed a wide-range of political, economic, security, and cultural issues.

In September 1972, Tanaka Kakuei and Zhou Enlai signed The Joint Communiqué of the Government of Japan and the Government of the People's Republic of China. This was the basis of the historical and diplomatic reproachment between Japan and China.²⁶ However, Nixon and Tanaka who were involved in the normalization of diplomatic relations with China, were overtaken by Watergate and the Lockheed case. With the coming to power of Deng Xiaoping, in China, he would go on to pursue economic reform and economic cooperation and development. He pushed 韜光養晦 (hiding one's own fame and talent) and put China on a path of rapid and realistic economic development and cooperation with neighboring countries. There is no doubt that the post-War development of Japan, China and Korea has been remarkable. If these three nations were able to put aside historical antagonisms, East Asia would stand alongside the EU and the US as one of the dominant economic players in the world economy. However, there has been little progress in contrast to Europe.

6.1 *Chinese Independent Development*

As for the Communist bloc, China has taken a different path from the Soviet Union. After Gorbachev's Soviet Union gained acceptance in the western world, with the introduction of glasnost and perestroika, the Soviet sphere of influence across Eastern Europe began to collapse in the autumn of 1989. This was followed by the dissolution of the Soviet Union itself in 1991. In China, 1989 also saw the emergence of a democratic movement, led by students, which culminated in its crushing in Tiananmen Square on June 4, 1989. It raised considerable international criticism at that time. Ironically, however, since the Tiananmen Incident, China has strengthened its global significance in economic, military, and even science and technology fields – even overtaking the United States in some of these areas. Simultaneously, though, it continues to maintain a political dictatorship, not to collapse like the Soviet Union....

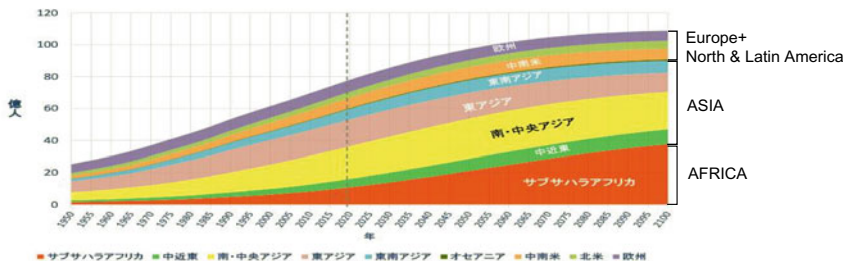
²⁵ Full text of the Treaty on Basic Relations between Japan and the Republic of Korea, 2006. <https://www.mofa.go.jp/mofaj/gaiko/treaty/pdfs/A-S40-237.pdf>.

²⁶ Full text of The Joint Communiqué of the Government of Japan and the Government of the People's Republic of China. https://www.cn.emb-japan.go.jp/itpr_ja/bunken_1972seimei.html.

7 Conclusion: Predicting the Decline of the Postwar “World Order” Due to Economic Development

Who makes the “new world order” in the twenty-first century? The transformation of economic power relations has begun in the second quarter of the century. Look at the figures.²⁷

Changes in World Population by Region
 Europe, North America, Latin America, and Oceania=1.8 billion
 Asia=4.8 billion, and Africa=4.3 billion, Total=10.9 billion in 2100.
 Under the Covid-19, 3 million Deaths in Europe and America, half of World population
 Source: United Nations, Department of Economic and Social Affairs, Population Division, 2019, World Population Prospects 2019, Online Edition



出典：United Nations, Department of Economic and Social Affairs, Population Division (2019). World Population Prospects 2019, Online Edition.

Covid-19 continuously spread widely, especially in the USA and in Europe, therefore, how to develop after Covid-19 is the most important trial for the USA, Europe, Asia and the rest of the world. It might change drastically the world order in the future.

Between 2010 and 2030, China will have overtaken Japan and the United States. In 2060, the OECD forecasts that China will be the first, and India or the USA will be the second and third most powerful economy. However, a single country cannot create a “New World Order”. The US leadership collaborated with the EU, the UK, Japan and most of the Asian countries, Canada, Australia, and others; most of the countries supported the USA leadership. If Asia is to take the reins of leadership in the latter half of the twenty-first century, it must strengthen regional co-operation, development and collaboration. Without such developments, it is impossible to make an Asian era.

The unanswered question though is ‘how to establish economic basement, political collaboration and mutual trust in Asia’?

²⁷ Maddison, Angus, *Contours of the world Economy, 1–2030 AD; Essays in Macroeconomic History*, Oxford University Press, September 2007. Maddison, Angus, *Chinese Economic Performance in the Long Run, 960–2030*, OECD, Paris, October 2007. Kawai, Masahiro, “Economic Relations between Japan, the United States and China: East Asian Community and the United States”, *Press Club Meeting*, 2009.11.25. Kawai, Masahiro, *New Asian Economy*, Bunchindo, 2016.

1. Democracy is not the goal. Stability, peace and prosperity are fundamental to the world order.
2. How to build stable relations with neighbors and the world? Economic collaboration, interests, development and mutual communication of youth, citizens, companies, and professors are very important.
3. How to dispel US suspicion. Asia should not cut off the good relationship with the USA but should call for the US to respect the sovereignty of Asian nations and seek to build mutual trust.

With the future economic decline of the United States, the increased likelihood of global instability appears unavoidable. Add to this flashpoints and unexpected events like Hong Kong demonstrations, Middle East and Syria destabilization, COVID-19 pandemic spread, disaster, etc. It, therefore, becomes necessary to ask what the best way is to create regional stability built on foundations of responsibility and trust.

Again, learning from historical European attempts could provide a potential roadmap for building a regional security system. Rather than increasing military strength why not draw upon the examples of the CSCE and OSCE. Why not draw upon civil society initiatives that promote cultural-, citizen's- and youth exchange, energy-, science- and technology exchange, expert- intellectual- and military personnel exchange. Such developments could be the basis upon which to promote regional, inter-regional, and trans-regional collaboration appropriate for the global era. Asia's joint development has just started. There will be many trials and errors in the future, but we will not successfully deal with them on our own. The need for mutual respect and trust; the need for diligence etc. will be the sort of values necessary to take us towards a new era. In order to ensure the prosperity of the region and the world, we should reorganize Asia in collaboration with the EU and the United States to create a "New World Order" appropriate for the latter half of the twenty-first century.

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Chapter 15

‘I’m a Nationalist’: American Nationalism and Grand Strategy in the Age of Trump



J. Patrick Boyd

Abstract This essay addresses three key questions. First, what is the difference between nationalism and populism? Second, is Donald Trump really a nationalist? Third, what are the implications of the answer to this second question for American grand strategy? The essay concludes that (1) nationalism and populism are distinct analytical concepts; (2) Trump qualifies as a nationalist in this understanding; and (3) his nationalism can be linked to efforts to revise American grand strategy in ways that should trouble allies and trade partners alike.

Keywords Donald Trump · Nationalism · Populism · American grand strategy

But radical Democrats want to turn back the clock for the rule of corrupt power-hungry globalists. You know what a globalist is, right? You know what a globalist is? A globalist is a person that wants the globe to do well, frankly, not caring about our country so much. And you know what? We can’t have that. You know, they have a word. It sort of became old-fashioned. It’s called a nationalist. And I say, really, we’re not supposed to use that word. You know what I am? I’m a nationalist, OK? I’m a nationalist. Nationalist. Nothing -- use that word. Use that word.¹

Donald Trump, October 22, 2018.

This essay addresses three key questions. First, what is the difference between nationalism and populism? Second, is Donald Trump really a nationalist? Third, what are the implications of the answer to this second question for American grand strategy? Having focused in previous work on how nationalism works in Japanese politics and security policy, the author here seeks to understand how related phenomena may shape American politics in an area of vital importance to Japan, American grand strategy. The essay concludes that (1) nationalism and populism are distinct analytical concepts that sometimes intertwine in practice, especially in the context of radical right-wing politics; (2) Donald Trump, both as a candidate

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¹ Factbase, “Speech: Donald Trump Holds a Political Rally in Houston, Texas - October 22, 2018”: <https://factba.se/transcript/donald-trump-speech-maga-rally-houston-tx-october-22-2018> (accessed March 14, 2020).

and as U.S. president, practiced a persistent nationalism, albeit framed as right-wing populism; and (3) this nationalism can be linked to a number of his efforts to revise American grand strategy, generating outcomes such as the failure to unambiguously support traditional alliances and relationships with trade partners, two developments of particular concern for Japan.

The essay begins by distinguishing the key concept of nationalism from a related concept often associated with Donald Trump's politics, populism. These concepts are then applied to the case of Donald Trump's 2016 presidential campaign, and findings from the existing literature on both his rhetoric and its reception by voters are summarized. The next section reviews the literature on the Trump administration's grand strategy, first defining the term and then assessing whether American grand strategy actually changed under Trump and whether those changes can be attributed to nationalism. The final section considers what these findings mean in the post-Trump era for American allies, such as Japan, that depend on the U.S. for security and trade.

1 Nationalism or Populism?

Part of the confusion regarding whether and how Trump's politics incorporate nationalism involves disagreements about the definitions of nationalism and populism. Distinguishing between these concepts can be tricky, and the existing literature on the question is divided. This section will first define nationalism in order to clarify its relationship with populism.

Scholarly inquiry into nationalism is over a hundred years old and has produced many definitions and approaches to understanding nationalism.² Based on previous work in the contemporary liberal democratic context, nationalism is defined here as a discourse that constructs and reconstructs points of identification and differentiation that define a distinct political community (i.e. "the nation") and assert the form of its dominion over a modern territorial state across time.³ In practice, this discourse takes the form of a series of reoccurring and sometimes changing "nation-state narratives" that tell the story of how the nation's (i.e. the people's) putative qualities or past experiences should define the present nature and actions of its territorial state. For example, in the American context, Lieven argues that "the American Creed" thesis, a narrative that asserts Americans share an ethos valuing "liberty, democracy, the law, individualism, and cultural and political egalitarianism," plays a unique role in defining Americans as a distinct political community, irrespective of their birthplace, religion, class, ethnicity/race or other affiliations.⁴ It consequently also places

² For summaries of this voluminous literature, see Snyder (1997), Ozkirimli (2010).

³ Boyd (2012).

⁴ Lieven (2016, p. 9).

demands on the American state, both to embody these values in its structure and governing practices and to spread these values to other parts of the world.⁵

Three features of this approach to nationalism should be noted. First, the discourse approach allows space for multiple such understandings or nation-state narratives to co-exist and compete at any given time within a single polity, as Lieven asserts is the case in the U.S.⁶ Second, the focus on discourse requires analysis of rhetoric and the reaction to it by targeted audiences. Finally, in the context of established nation-states such as the contemporary U.S., nationalist discourse is often deployed as a remedy to an asserted state of affairs in which the sacred links between the nation and the state are said to have eroded. In this situation, Brubaker argues, "Nationalist discourse claims to restore 'ownership' of the polity to the nation."⁷

The proper definition of populism is a matter of dispute among scholars.⁸ This essay adopts the definition most widely used in the study of American nationalism: Populism is a form of discourse that asserts a "corrupt elite" is undermining the interests of the "virtuous people," who, in a democratic society, are the source of political legitimacy.⁹ In making this argument, populists assert that they will remedy the situation and seek to mobilize the people to help them gain the power to do so. Populism is thus a political claim, one for which the definition of its key term, the people, is often vague and changeable. To realize popular mobilization, populists often define the people through reference to available ideological resources, such as liberalism, socialism, authoritarianism or nationalism. In this way, populism need not involve nationalism and vice versa. For example, in the U.S., mainstream politicians often assume populist stances by claiming the ruling party is serving its own corrupt interests rather than those of the citizenry and demanding that voters "throw the bums out" in the next election.¹⁰ Here, the conception of the people as citizen-voters is drawn from political liberalism and thus can serve to reinforce liberal democratic norms. In another example, left-wing populists, following socialist ideas, often define the people as "the working class" and identify the offending elites as the economic and political powers who exploit them without reference to concepts of nationhood (i.e., "a distinct political community").¹¹

Of more relevance to the discussion here, right-wing populism tends to define the people using concepts of nationhood in ways that not only place elites in opposition but also identify unworthy out-groups inside the polity said to benefit from the elite's corruption. These out-groups, even though living within the polity, are argued to be outside the nation, a treatment often given to ethnic or cultural minorities and immigrants. In these forms of populism, the clean "up-down axis" of the people

⁵ *Ibid.*, p. 10.

⁶ Lieven (2016), Lieven (2004), Bonikowski and DiMaggio (2016).

⁷ Brubaker (2020, p. 51).

⁸ For a thorough account of this dispute, see Brubaker (2020).

⁹ Bonikowski (2019, p. 111), Bonikowski et al. (2019).

¹⁰ Bonikowski et al. (2019, p. 63).

¹¹ In American politics, the populism practiced by Senator Bernie Sanders can be seen as an example of this form of left-wing populism.

versus the elites in a single polity is complicated through the addition of an “in–out axis” that also pits the people, defined as a nation, against both domestic out-groups and groups outside the polity, such as external elites (e.g., “globalists”) and other nations.¹²

2 Nationalism or Not?

For the purposes of this essay, Trump is understood to be a populist. His extensive use of anti-elite rhetoric (which even sometimes includes elites in his own political party) and appeals to redress the grievances of the “forgotten” people are well documented and beyond dispute.¹³ But is he also a nationalist? He is so often referred to as a populist that it seems worth exploring what type of populist he is and what relationship his populism may have to nationalism.¹⁴ This section reviews the academic literature on Trump’s 2016 presidential campaign, with special attention paid to analyses of both his rhetoric and its reception by voters. Key questions to be addressed include: How did Trump define “the people”? Did he identify any domestic out-groups to be scorned? What demands did he make on the state in the name of “the people”? How did voters react to Trump’s rhetoric?

Analyses of Trump’s campaign rhetoric establish a consensus view that Trump practices a clearly distinguishable variant of right-wing populism (often referred to as “ethno-national populism”) that defines the people in ethno-national terms largely consistent with one of the enduring traditions of American nationalism: a xenophobic narrative that defines the nation as native-born, white, and Christian.¹⁵ In content analysis of Trump’s Twitter account during the election period, Shertzer and Woods find that more than a third of his tweets present “ethnic conceptions” of the American people and their history and religion and that overall, he “engaged with ethno-nationalist themes more than any other topic.”¹⁶ By way of comparison, anti-elite populist content attacking the “establishment” and his opponent Hillary Clinton appeared in nearly twenty percent of his tweets, while references to key issues areas, including healthcare, taxes, education, and the Supreme Court, combined for only two percent.¹⁷ With regard to ethnicity and religion, Gorski and Whitehead, et al. note examples of Trump’s rhetoric appealing to what they call white Christian

¹² Brubaker (2020, p. 45), Bonikowski (2019).

¹³ Schertzer and Woods (2020, p. 2), Oliver and Rahn (2016), Bonikowski (2019).

¹⁴ For example, a key word search of *The New York Times* between June 16, 2015 (the day Trump announced his candidacy) and November 8, 2016 (Election Day) reveals that articles containing the words “Trump” and “populism” (136) outnumber those containing the words “Trump” and “nationalism” (105).

¹⁵ Schertzer and Woods (2020), Oliver and Rahn (2016), Bonikowski (2019), Lieven (2016), Gorski (2017).

¹⁶ Schertzer and Woods (2020, p. 10).

¹⁷ Ibid.

nationalism, a strain of nationalism that defines the nation as whites from European ethnic backgrounds practicing the Christian religion.¹⁸

The definition of the nation described above is reinforced by Trump's references to domestic out-groups and groups outside the polity. Analysis of his Twitter account reveals that Trump "focused on creating a moral binary between a virtuous in-group and several immoral out-groups," in which the in-group of the native-born, white, Christian majority (sometimes referred to as the "silent majority," or the "forgotten men and women") is threatened by dangerous, criminal and foreign out-groups such as undocumented immigrants alleged to be involved in violent crimes and Muslims portrayed as terrorists.¹⁹ In addition, African-Americans are treated somewhat ambiguously, sometimes presented as a criminal "other" and sometimes as a group to be helped. The valence attributed to each group in these tweets reveals a spectrum from overwhelmingly positive framing for the ethnic majority group (95% positive for core ethnic group, 95% positive for Christians, etc.), to a mixed framing for African-Americans (53% positive) to overwhelmingly negative framings for Hispanics (including undocumented immigrants) (92% negative) and the external out-group Muslims (100% negative).²⁰ As Bonikowski concludes, Trump appealed to an exclusionary, ethno-national American identity in part by criticizing domestic out-groups such as immigrants, ethnic minorities and Muslims, efforts that occurred after years of Trump "fanning the flames of Islamophobia and racial conspiracy theories concerning President Obama's place of birth."²¹

Existing research on Trump's campaign rhetoric highlights a number of demands made on the state in the name of Trump's defined nation. First and foremost, he argued the dominant ethnic group was under threat of losing their power in favor of immigrants, who he portrayed as dangerous "others" pouring across the southern border. A central argument of his campaign was to urge this "silent majority" to recapture control of the state, with Trump as their leader and protector.²² He thus offered proposals such as to build a wall on the southern border and generally to crack down on immigrants, while accusing his opponent Clinton of being in league with foreign elements and likely to increase immigration if elected.²³ In his appeals to Christian nationalism, he directly called for unity among Christians in the face of the threat of Islam, and proposed a ban on the entry of Muslims into the United States.²⁴

Trump's ethno-nationalist rhetoric also appeared in his foreign policy proposals. Trump repeatedly railed against past U.S. trade and environmental deals, which he argued elites profited from at the cost of good jobs for his favored majority ethnic

¹⁸ Gorski (2017), Whitehead et al. (2018).

¹⁹ Schertzer and Woods (2020, p. 10).

²⁰ *Ibid.*, p. 11.

²¹ Bonikowski (2019, p. 113).

²² Schertzer and Woods (2020, p. 12).

²³ *Ibid.*, p. 14.

²⁴ Gorski (2017, p. 343).

group. He promised to renegotiate or discontinue such deals in order to return high-paying manufacturing jobs for the benefit of this group.²⁵ In security policy, he criticized the U.S. alliance system, arguing again that foreigners were taking advantage of Americans, and threatened to dissolve these arrangements if they could not be refashioned in America's favor.²⁶ Finally, he argued for improving relations with Russia, a country long seen as an adversary by Americans and led by a man, Vladimir Putin, who actively practices ethno-nationalist politics at home while seeking to spread it abroad. Trump's glowing references to Russia created a stark contrast to his questioning of traditional allies in Europe and Asia.²⁷ In this way, Trump's appeal to an exclusionary ethno-national American identity prompted him to frame a number of policy demands, some of which might have been justifiable using other rationales, as the means by which this ethnic majority could recapture their state.

There is strong evidence that Trump's ethno-nationalist rhetoric resonated with a sub-set of voters, contributed to his election victory, and connected with existing traditions and resources of American nationalism. First, scholars studying Christian nationalism argue Trump's rhetoric resonated with a sub-set of evangelical voters (perhaps more than two-thirds), and can be linked in statistically significant ways with support for Trump in the election.²⁸ Exit polls also show Trump winning by large majorities with voters concerned about immigration, trade, and terrorism as well as those unconcerned about racial justice.²⁹ Finally, Lieven and Gorski argue Trump's ethno-nationalism largely conforms to traditional patterns of nationalism in America, including white nationalism and Christian nationalism, while Bonikowski and DiMaggio show that about a third of the population should have been particularly receptive to Trump's ethno-national appeals because they have medium levels of national pride (and thus desire for redress) but define American identity in especially exclusionary ways.³⁰

Trump is a thus clearly a nationalist, albeit one of the right-wing populist variety. He defines "the people" in ethno-national, exclusionary terms as native-born, white and Christian, an identity he reinforces by scapegoating domestic and external out-groups as immoral and undeservingly benefiting from "corrupt" elites. The major policy proposals of his campaign were all framed as demands on the state to better reflect the nature and interests of this understanding of the American nation. Finally, voters responded to these ethno-national appeals, which were themselves largely in line with preexisting but not hegemonic strains of American nationalism.

²⁵ Schertzer and Woods (2020), pp. 14–15).

²⁶ Lieven (2016), pp. 18–19).

²⁷ *Ibid.*, p. 19.

²⁸ Gorski (2017), Whitehead et al. (2018).

²⁹ CNN, Election 2016 Exit Polls: <http://edition.cnn.com/election/results/exit-polls/national/president> (accessed March 13, 2020).

³⁰ Lieven (2016), Gorski (2017), Bonikowski and DiMaggio (2016). It is important to note that both Lieven and Gorski identify some elements of innovation in Trump's use of these existing strains of American nationalism.

3 Whither America's Grand Strategy?

Although populism can have implications for foreign policy, it's up-down axis tends to direct its influence more toward domestic policy and political fights. However, scholars generally agree nationalism, with its in-out axis, can often exert significant influence on foreign policy, sometimes with devastating effects.³¹ Has Trump's nationalism had a major impact on U.S. foreign policy? This section considers this question by evaluating the state of American grand strategy while Trump was in office.

There are numerous definitions of grand strategy.³² Here, it is understood as "general theories of how states create security for themselves" that consist of four elements³³: (1) basic assumptions about the international environment; (2) the country's prioritized goals in its international relations; (3) an understanding of the most important threats to these goals; and (4) a set of preferred actions to address these threats and achieve security.³⁴

The grand strategy followed by the U.S. from before the end of the Cold War until Trump took office is known as "primacy" or "liberal hegemony."³⁵ It first assumes the world has one essential power (i.e., superpower), the U.S., along with other powers of various strengths. The major goals of the U.S. in this environment are peace among the great powers, an open international trade regime and continued cooperation within U.S.-led international organizations. Threats to these goals include the proliferation of weapons of mass destruction, especially nuclear weapons, regional challenges presented by failed and "rogue" states, international terrorism and the rise of authoritarian adversaries. The set of preferred actions involves the U.S. maintaining military preponderance and asserting leadership mainly through military commitments, including alliances, a network of overseas bases, constant naval patrols of international waters and military engagements where necessary. Primacy requires significant military spending, places great value on maintaining allies, and has received bipartisan support from both major parties in the U.S. for decades.³⁶

What are the implications of Trump's nationalism for this well-established grand strategy? Answering this main question requires consideration of three sub-questions. First, did Trump persist in his nationalism after taking office? It is not uncommon for ethno-national populist parties and politicians to adopt more moderate politics after achieving office.³⁷ Second, did Trump have an alternative grand strategy based, at least in part, on his nationalism? Finally, was he able to use this new grand strategy to guide U.S. security and foreign policy?

³¹ Lieven (2004), Bonikowski and DiMaggio (2016).

³² Posen (1986), Christensen (1996), Kirss (2018).

³³ Friedman and Logan (2016, p. 17).

³⁴ Kahl and Brands (2017).

³⁵ Friedman and Logan (2016, pp. 17–18), Porter (2018, p. 9).

³⁶ There are some disagreements about partisan supporters of primacy. See Friedman and Logan (2016, p. 18).

³⁷ Taggart and Szczerbiak (2013).

By most accounts, Trump persisted with his ethno-national populism after becoming president. Content analysis of his rhetoric reveals his “pattern of nationalism and populism persisted during his first couple of years in office.”³⁸ In particular, scholars who are concerned with the impact of Trump’s ethno-nationalism on American democratic norms and institutions agree that he maintained his ethno-national populism while in office.³⁹ Further, even some scholars who argue Trump’s ethno-national populist rhetoric had little impact on policy acknowledge it nonetheless continued while he was president.⁴⁰

But did Trump have a nationalist alternative grand strategy to replace primacy? Although there is disagreement over this question, a number of scholars have identified a Trumpian “America First” grand strategy.⁴¹ In this grand strategy, the international environment is a dangerous place from which powerful forces threaten U.S. national security, thus favoring more conflict than cooperation. Ensuring the country’s physical security, economic well-being and way of life are America’s top goals in international relations. The major threats to these goals are “radical Islam,” unfair international trade deals (especially with China) and illegal immigration. The set of preferred actions are (1) to embrace “economic nationalism” in trade policy, (2) to implement “extreme” homeland security, (3) to follow “amoral transnationalism” in dealings with other countries; and (4) to massively expand the U.S. military to deter external threats while avoiding extensive military engagements overseas.⁴² It should be noted that the same scholars who identify this grand strategy are also critical of it, pointing out internal contradictions and the problems it can cause for the international system.⁴³

The links between this “America First” grand strategy and the ethno-nationalist demands on the state raised by candidate Trump are readily apparent. First, the specified threats are all either scapegoated domestic or external out-groups (undocumented immigrants, potential immigrants, and Muslims) or foreigners taking advantage of the white ethnic majority through unfair trade practices and alliance free riding. Second, the first three preferred actions all address demands Trump made of the state in the name of the nation during the 2016 campaign. In order to bring back manufacturing jobs for his core ethnic majority, Trump promised to engage in “protectionist and mercantilist foreign policy.”⁴⁴ In order to restore the power and status of this white, Christian majority, he proposed a wall on the southern border and a harsh crackdown on immigrants more generally. “Amoral transactionalism” refers to Trump’s view that the U.S. should be open to making deals (on a transaction-by-transaction basis) with any international actors that share U.S. interests, even if

³⁸ Hawkins and Hawkins (2018, p. 49).

³⁹ Bonikowski (2019, pp. 123–130), Hawkins and Hawkins (2018).

⁴⁰ Dombrowski and Reich (2018, pp. 56–57), Pierson (2017, p. S106).

⁴¹ For those who disagree, see Sestanovich (2017), Zenko and Lissner (2017); Scholars who see an emerging Trumpian grand strategy include Kahl and Brands (2017), Carpenter (2017, pp. 36–37).

⁴² Kahl and Brands (2017).

⁴³ Kahl and Brands (2017), Carpenter (2017, p. 43).

⁴⁴ Kahl and Brands (2017).

they reject or routinely violate American values.⁴⁵ Actions in this category included outreach to authoritarian Russia to cooperate in fighting Islamic extremists as well as demands that liberal democratic alliance partners pay for the cost of American efforts in their defense or prepare to be abandoned by the U.S. It is important to note that this reduction in the valuation of U.S. alliances (external balancing) is also linked through realist logic with the fourth preferred action, a U.S. military build-up (internal balancing).⁴⁶

Was Trump able to use his “America First” grand strategy to guide U.S. foreign policy? Not surprisingly for a new doctrine, evaluations are mixed. Some studies of Trump’s first years in office minimize accomplishments in this regard. Analyzing the conduct of military operations in the administration’s first year, Dombrowski and Reich conclude there was more continuity than change. Despite Trump’s rhetoric, they argue that U.S. military operations during this period remained constrained by operational circumstances and bureaucratic and leadership limitations and were thus carried out much as they had been under the previous administration.⁴⁷ Also reviewing the Trump administration’s first year, Porter concludes “there was more continuity than change regarding grand strategic issues.”⁴⁸ Pointing out Trump’s reversals on promises to question U.S. alliances and soften policies toward Russia, Porter argues Trump’s 2017 *National Security Strategy* and military budget increases simply reinforced primacy as America’s grand strategy.⁴⁹ He concludes this was likely due to the stability in American power capabilities and the effective pushback from the American foreign policy establishment (referred to as “the Blob”).⁵⁰

Others note success in one or more areas of the preferred actions. Evaluating policy in Trump’s first two years in office, Hawkins and Hawkins argue that, when it comes to keeping his nationalist populist campaign promises, “most of his successes have come in the area of foreign policy.”⁵¹ Specifically, they point to Trump’s withdrawal from the Trans-Pacific Partnership (TPP) trade deal and the Paris agreement on climate change, as well as his efforts to renegotiate the North American Free Trade Agreement (NAFTA) and to impose tariffs on steel and aluminum products, moves that largely targeted Asian, European and North American allies and trading partners and did not require the approval of the legislative branch.⁵² Still further, the Trump administration launched a trade war with China over persistent trade imbalances, theft

⁴⁵ Ibid.

⁴⁶ Although militarism is often associated with nationalism, and Trump sometimes refers to veterans as a valued in-group in ethno-nationalist rhetoric, since the call for increased military spending in the face of reduced dependence on alliances also follows realist logic, it is not asserted here that the fourth preferred action stems directly from Trump’s ethno-nationalism.

⁴⁷ Dombrowski and Reich (2018).

⁴⁸ Porter (2018, pp. 39–40).

⁴⁹ Office of the President (2017).

⁵⁰ Ibid., pp. 45–46.

⁵¹ Hawkins and Hawkins (2018, p. 60).

⁵² Ibid., pp. 60–61.

of intellectual property and the issue of forced technology transfers from American firms, a lingering trade dispute that continued to the end of Trump's term in office.⁵³

Even scholars who downplay the influence of Trump's populism on his administration's domestic policies admit that his nationalism had major impacts in policy areas such as immigration.⁵⁴ Although some faced court challenges, actions implemented in this area included efforts to divert funds to the building of the border wall, the rescinding of the Deferred Action for Childhood Arrivals (DACA) program for undocumented migrants who arrived in the U.S. as children, draconian enforcement of immigrations laws (separating migrant children from their families, deporting undocumented immigrants, strict policing of immigrant communities, etc.), and the imposition of a travel ban on people coming from Muslim-majority countries.⁵⁵ Even though immigration is often viewed as a domestic policy area, the "America First" grand strategy elevates it to a strategic priority in foreign policy, and it is difficult to avoid seeing the above actions as anything but the result of this grand strategic guidance.

The last two years of Trump's presidency provided additional indicators that the "America First" grand strategy was more than just rhetorical bluster. By declaring China a currency manipulator in 2019, Trump fulfilled a campaign promise even as the trade war with China continued, although a "phase one" deal, which left many difficult issues to future negotiations, was signed in early 2020.⁵⁶ Trump's government also negotiated two trade agreements with Japan, although this too was presented as a "stage one" achievement, with difficult issues left for later.⁵⁷ In addition, his administration demanded steep increases in host nation support from South Korea and indicated it would do the same to Japan in future negotiations.⁵⁸ In the last year of his presidency, Trump began the process of withdrawing the U.S. from the World Health Organization (WHO), which he accused of misleading the world regarding the severity of the coronavirus pandemic in order to protect China, and announced a drawdown of U.S. troops from Germany, which he said was a response to the long-time U.S. ally's failure to meet its financial commitments to the North Atlantic Treaty Organization (NATO).⁵⁹ Although his presidency ended after a single term, Trump's effort to establish a new grand strategy clearly generated policy changes, changes which will complicate the U.S. government's relationships with its immigrant community, traditional allies and trading partners moving forward.

⁵³ Swanson (2018).

⁵⁴ Pierson (2017, p. S114), Hawkins and Hawkins (2018, pp. 61–62).

⁵⁵ Bonikowski (2019, p. 125).

⁵⁶ Lawder (2020).

⁵⁷ CRS (2020).

⁵⁸ Tatsumi (2020).

⁵⁹ Council on Foreign Relations (2021).

4 Conclusion

This essay has considered the difference between populism and nationalism, the nature of Donald Trump's populism and nationalism, and the impact of his version of nationalism on American grand strategy and immigration, foreign and security policy. There are three major conclusions. First, nationalism and populism are different but can sometimes be intertwine in practice, especially in the context of radical right-wing politics. Second, Donald Trump, both as a candidate and as U.S. president, practiced a persistent nationalism, albeit framed as right-wing populism. Third, this nationalism can be linked to a number of areas in his reworking of American grand strategy, including the failure to unambiguously support traditional alliances and relationships with trade partners, and should thus be of particular concern to policymakers in allied countries like Japan.

Trump's defeat in the 2020 presidential election and the inauguration of President Joe Biden obviously calls the future of the "America First" grand strategy into question, but the following seems abundantly clear. First, advocates of primacy as America's grand strategy should reconsider efforts to restore it without significant revision. Although it seems likely that voters in 2016 did not elect Trump primarily because of his positions on foreign policy, "[t]hey did, however, respond to his assaults on free trade, failed wars, free-riding allies, and the negative consequences of globalization for American workers."⁶⁰ The critique of primacy and the foreign policy establishment is thus capable of gaining considerable support from the electorate. Second, although Trump did not win reelection, he continues to wield influence in the Republican Party, and it seems likely that his vision of grand strategy will continue to be upheld in some quarters of that party, which will likely impede bipartisan cooperation in relevant policy areas even with Trump out of office. This will complicate the efforts of the Biden administration to pivot away from "America First" grand strategy priorities in immigration, foreign and security policy. Third, allies and trading partners alike should take the elements of this new grand strategy seriously, as most are linked to ethno-national claims that resonate with an historically stable sub-set of Americans and will thus be there as a resource for future politicians seeking to following in Trump's footsteps.⁶¹ In this sense, Trump's grand strategy should be seen less as an aberration and more as an indicator of a possible though certainly not inevitable future for America's vision of its place in the world.

⁶⁰ Porter (2018, p. 39).

⁶¹ It should be noted that Donald Trump's margin of victory with his white working class base (measured as whites without a college degree) fell only 2 percentage points between his winning effort in 2016 (+37) and his losing effort in 2020 (+35). CNN, Election 2016 Exit Polls: <https://edition.cnn.com/election/2016/results/exit-polls> (accessed December 4, 2020) and CNN, Election 2020 Exit Polls: <https://edition.cnn.com/election/2020/exit-polls/president/national-results> (accessed December 4, 2020).

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Chapter 16

Do SAARC and BIMSTEC Lead the World?—Regional Collaboration in South Asia



Pradeep Singh Chauhan

Abstract South Asia is among the world's least economically integrated regions, despite the advantages of proximity, structural and cultural familiarities, and shared developmental priorities. Constrained by disagreements stemming from past history, national pride, territorial disputes, ethnic and religious disturbances, mutual mistrust and cross-border migration issues, the region has been unable to leverage the benefits of regional cooperation to bolster its common future interest. Deeper regional integration could, however, turn the sub-region into an important land bridge and trade hub between Europe, Central Asia and South-East Asia. The inception of multiple institutional frameworks for advancing regional cooperation, such as the South Asian Association for Regional Cooperation (SAARC), the Bangladesh-Bhutan-India-Nepal (BBIN) initiative and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) indicates consensus on the importance of enhanced South Asian cooperation, but these organisations have only had limited success in overcoming hurdles to regional collaboration. With a vision to gradually transition towards a South Asian Economic Union characterised by a Common Market and Customs and an Economic and Monetary Union, SAARC facilitated the inception of a South Asian Free Trade Area (SAFTA), which was operationalized in 2006. After more than a decade since its initiation and despite multiple bilateral Free Trade Agreements (FTAs), if the progress is satisfactory or not. This analysis was made in this paper that if this region of South Asia grows faster it can play a very significant role in the global scenario.

Keywords South Asia · Regional cooperation · Trade agreements

South Asia is one of the world's most dynamic and diverse regions. A shared regional leitmotif along with cultural, linguistic, topographical and economic diversity lends the region a distinct identity. Its economies have demonstrated remarkable strength and resilience amid global slowdowns, establishing their significance for global economic growth.

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Yet aside from a collective experience of economic progress, the region also shares developmental challenges. Continuing to close the poverty gap, improving infrastructure, strengthening institutions, harnessing the potential of its large youth population and ensuring equitable growth are some of the most critical overarching priorities facing regional economies.

South Asia is among the world's least economically integrated regions, despite the advantages of proximity, structural and cultural familiarities, and shared developmental priorities. Constrained by disagreements stemming from past history, national pride, territorial disputes, ethnic and religious disturbances, mutual mistrust and cross-border migration issues, the region has been unable to leverage the benefits of regional cooperation to bolster its common future interest. Deeper regional integration could, however, turn the sub-region into an important land bridge and trade hub between Europe, Central Asia and South-East Asia.

The inception of multiple institutional frameworks for advancing regional cooperation, such as the South Asian Association for Regional Cooperation (SAARC), the Bangladesh-Bhutan-India-Nepal (BBIN) initiative and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) indicates consensus on the importance of enhanced South Asian cooperation, but these organisations have only had limited success in overcoming hurdles to regional collaboration.

With a vision to gradually transition towards a South Asian Economic Union characterised by a Common Market and Customs and an Economic and Monetary Union, SAARC facilitated the inception of a South Asian Free Trade Area (SAFTA), which was operationalized in 2006. But after more than a decade since its initiation and despite multiple bilateral Free Trade Agreements (FTAs), intraregional trade accounts for barely 5% of South Asia's total trade compared to approximately 25% for the Association of Southeast Asian Nations (ASEAN).

One of the biggest factors undermining intraregional trade is the long sensitive list of products exempted by South Asian countries from the tariff liberalization programme in the region. The average trade costs within South Asia are 20% higher than the corresponding costs within ASEAN. Persisting high trade costs, the proliferation of multiple non-tariff and para-tariff barriers, poor trade facilitation at borders, lengthy sensitive lists and high connectivity costs continue to offset the positive impact of geography and proximity.

1 Challenges of Integration in the Region

The challenges related to diversity and integration are complex, but not exclusive to the region. Although European integration comes from the Second World War, cooperation in Southeast Asia arose from the polarized atmosphere of the cold war. With a very different geopolitical context, the European Union has managed to overcome regional disputes, particularly between France and Germany.

The creation of ASEAN has been a milestone in promoting regional integration in Southeast Asia, which it has done through multiple tools such as ASEAN, ASEAN+3 and ASEAN+6, as well as ALS bilateral between ASEAN and neighboring countries., among others. The Regional Comprehensive Economic Association (RCEP) was the last of the major additions, although India has so far remained on the margins of this agreement.

In these cases, the most important contribution of regional cooperation was the facilitation of the restructuring of the sector which seeks efficiency across the region to promote economies of scale, specialization and competitiveness. The key success factor for ASEAN and the EU in promoting regional integration has been the ability of their nation-states to prioritize economic prosperity over their political differences and focus on a shared long-term growth agenda.

Whether market-oriented as in Asia or rooted in a solid institutional framework such as in Europe, strengthening regional integration will be a strong lever to hone South Asia's collective and individual competitive advantage, attract investors and address shared regional vulnerabilities such as food and energy security, poverty reduction and job creation. South Asian nations have been able to make significant economic progress through greater global integration and South Asian regionalism will certainly drive sustained economic development for these economies.

Resuscitation of organizations and agreements promoting regional cooperation, such as SAARC recommendations to accelerate progress towards a South Asian Economic Union, strengthen regional trade through full and complete implementation of the SAFTA and BIMSTEC FTA and launch agreements for trade in services, investment promotion, regional connectivity and energy cooperation will contribute significantly to promoting deeper economic collaboration in the region. Likewise, a greater commitment to consistency in diplomatic dialogue between regional and interregional organizations, as well as rigorous and timely adherence to the resulting agreements and resolutions are essential to achieve the objectives set.

BIMSTEC vs SAARC: At a Glance

| SAARC | BIMSTEC |
|---|--|
| 1. A regional organisation looking into South Asia | 1. Interregional organisation connecting South Asia and South East Asia |
| 2. Established in 1985; a product of the Cold War era | 2. Established in 1997 in the post-Cold War |
| 3. Member countries suffer for mistrust and suspicion | 3. Members maintain reasonably friendly relations |
| 4. Suffers from regional politics | 4. Core objective is the improvement of economic cooperation among countries |
| 5. Asymmetric power balance | 5. Balancing of power with the presence of Thailand and India on the bloc |
| 6. Intra-regional trade only 5% | 6. Intra-regional trade has increased around 6% in a decade |

2 How South Asia Can Lead the World?

The sub-region's shared colonial past and popular cultural preferences, including prolific culinary undertones, vibrant entertainment industries and common sports, reinforce a South Asian identity and offer compelling cross-border drivers for better connectivity. Exploiting them by promoting intra-regional tourism and direct interaction between people can help counteract confidence deficits and negative stereotypes, as well as create a bulwark for lasting regional peace, reconciliation and collaboration.

Above all, shared political will and incremental but tangible measures to anchor deeper integration have the potential to significantly strengthen cooperation in South Asia. As the region moves forward with an altered and more external economic orientation, greater economic integration and collaboration, fueled by increased intra-regional trade and investment, promises that South Asia will realize its true growth potential.

In light of global events around Brexit, the Trans-Pacific Partnership and NAFTA that reflect the erosion of trust in existing multilateral collaborative frameworks, South Asia can provide the world with a new context for regional collaboration and revive the hope for a coherent and sustainable world order. As the region's largest economy, South Asia particularly India has the opportunity to pave the way for regional multilateralism through mutual interest.

3 India: The Bridge Between South Asia and Southeast Asia

Geographically, "India is strategically positioned in South Asia. It is the only state that enjoys direct physical contact with all states in the region. Its central position within the region allows it to be the bridge between SA economies such as Bangladesh, Pakistan and Sri Lanka and the SEA economies. Nepal and Bhutan, the two landlocked states, can also access the SEA region through India.

Over the years, there have been several sub-regional initiatives linking the two regions. Sub-regional economic cooperation of South Asia (SASEC), the Gulf of Bengal initiative for multi-sectoral technical and economic cooperation (BIMSTEC), ASEAN+1 and the Bangladesh-China-India-Myanmar (BCIM) initiative have India as a common factor. Not only India, but other SA states have also increased their ties to the SEA region. Indeed, as has been stated, commercial integration with the ASEAN+ India FTA and bilateral FTAs such as India-Singapore, India-Malaysia, Pakistan-Malaysia will include the service sector and, finally, the agricultural sector. The free movement of goods, services, labor, knowledge and capital within ASEAN and South Asia will pave the way for a common Asian market. The development of economic ties and connectivity between South and Southeast Asia appears to be a natural and progressive movement towards growth and prosperity. Trade connections

and connectivity between regions are carried out across land borders, sea routes and air connections.

4 Bilateral to Multilateral Connectivity

The changing political landscape in both of India's eastern neighbours has led to positive bilateral relations and also opened up the scope of increasing the connectivity linkages to include sub-regional levels. Thus, possibility of a similar agreement amongst India, Myanmar and Thailand is now being discussed. The 1360 km long road between Moreh-Mae Sot will pass through Mandalay and link Northeast India and Southeast Asia. This route could then easily connect with the Kaladan Multi-modal transit project that would link Kolkata port with landlocked Mizoram via Myanmar into economic highways with special economic zones.

None of the three sub-regional initiatives undertaken to enhance road connectivity between India and the Southeast Asia region, namely the Mekong-India Economic Corridor, Bangladesh-China-India-Myanmar (BCIM) Economic Corridor, and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) has as yet resulted in any tangible progress.

5 Maritime Link

India's maritime connectivity with Southeast and East Asia, although presently limited, can be the facilitator of pan-Asian integration. The report also notes that despite having one of the largest merchant fleets in the developing world, Indian ports have a limited number of direct calls with ASEAN ports.

6 The Greater Mekong Sub Region or GMS

India's Northeast region, although a critical connecting link between South and Southeast Asia, is clearly beleaguered with security issues, economic stagnation, and poor infrastructure. While India's Look East Policy has made tremendous progress, it has bypassed the Northeast region. The Act East policy was meant to perhaps redeem that. Plans and proposals are in place and the possibilities of building a cobweb of connectivity networks through India and its Northeast region is high". But given India's implementation track record, how soon it can be the real bridge between South and Southeast Asia is still an open-ended issue.

7 The Need for Regional Cooperation

Before delving into the functioning of BIMSTEC, “it is necessary to understand the need for regional cooperation in South Asia. Trends in world affairs suggest an increasing resistance to regional cooperation, which was once considered a preferred means of fostering economic prosperity among participating countries. Events such as Brexit and the U.S. demolition of the Trans-Pacific Partnership in 2017 reflect the global climate. However, unlike global models, South Asian countries have shown a growing interest in regional cooperation. The creation of BBIN sub-regional cooperation (Bangladesh, Bhutan, India, Nepal) after the 2014 Kathmandu summit is a good example.

The South Asia region covers about three percent of the world’s total land area and is home to around 21% of the population. The region has a different socio-economic configuration, which includes important economic powers such as India, as well as a large number of poor people living on less than a dollar a day. It also has a large young population looking for work.

South Asia extends over a vast land area between the mighty Himalaya in the north and the Indian Ocean in the south. Of the countries in the region, only the island nations of Sri Lanka and the Maldives are separated by waters; The rest are connected by ground. Before 1947, India, Pakistan and Bangladesh were an integral nation and the countries of the region had close socio-cultural linguistic ties. Countries are therefore closely linked in their socio-political state, as they face similar threats and challenges. For example, most countries in the region face terrorism. To meet these challenges, South Asian countries need to cooperate”. The European and ASEAN experience is testimony to the contribution of regional cooperation to the economic growth of the countries.

8 BIMSTEC as Vehicle for Regional Cooperation

BIMSTEC includes the countries of the Gulf of Bengal region: five countries in southern Asia and two in ASEAN. The organization is a bridge between South Asia and Southeast Asia. It includes all the main countries of South Asia except the Maldives, Afghanistan and Pakistan. Given this composition, BIMSTEC has become a natural platform for testing regional cooperation in the South Asia region.

BIMSTEC was originally called BIST-EC, “or economic cooperation from Bangladesh, India, Sri Lanka and Thailand. When Myanmar joined the cooperation, the organization was renamed Economic Cooperation of Bangladesh, India, Myanmar, Sri Lanka and Thailand (BIMST-EC). After the inclusion of Nepal and Bhutan, the organization was called BIMSTEC, or Economic Cooperation of Bangladesh, India, Sri Lanka and Thailand.

As a commercial block, BIMSTEC offers many opportunities. The region has countries with the fastest growing economies in the world. The combined GDP in

the region is around \$ 2 trillion dollars and is likely to grow even more. Trade between BIMSTEC member countries has reached six percent in just a decade, while SAARC has remained about five percent since its inception. Compared to SAARC, BIMSTEC also has greater commercial potential. Among member countries, Myanmar's intra-BIMSTEC trade accounts for approximately 36.14% of total trade. The share of Nepal and Sri Lanka in intra-regional trade is approximately 59.13% and approximately 18.42% respectively. For Bangladesh, the intra-BIMSTEC trade share is 11.55%, while for India and Thailand it is around three percent.

Despite the numerous successes of BIMSTEC, however, some concerns remain. One is the rarity of the BIMSTEC top management, the organization's highest decision-making body. In its 23 years of existence, the BIMSTEC summit took place only three times. The first BIMSTEC summit was held in Bangkok, Thailand in 2004. An important milestone for BIMSTEC was the establishment of a permanent secretariat in Dhaka. However, the secretariat faces a serious shortage of resources, both in terms of money and work, which has adversely affected its performance.

BIMSTEC observers see lack of leadership as the main disadvantage. In recent years, this concern has been addressed as India has shown growing interest in grouping. India's initiatives have led to some important developments, including the creation of the BIMSTEC Energy Center in Bangalore and the BIMSTEC Business Council, a forum for business organizations to promote regional trade. Numerous committees have been set up to oversee developments in various sectors, e.g., the transport connectivity working group BIMSTEC, which held its initial meeting in Bangkok in 2016. The developments conducted so far within BIMSTEC have been encouraging". To maintain momentum and strengthen BIMSTEC as a sustainable platform for regional cooperation, the following steps need to be considered:

1. Consistency in the frequency of the top management to ensure regularity in the decision-making process;
2. Improve the capacity of the secretariat, both in terms of staff and funding;
3. Ensure tangible results / benefits, which will increase countries' motivation to focus on BIMSTEC (projects in the sectors of tourism, digital connectivity, energy connectivity and humanitarian assistance in the event of disasters should be considered); is
4. Authorize BIMSTEC to be a platform for dispute resolution between member countries. This will require a debate and discussion between the BIMSTEC countries to reach a consensus.

BIMSTEC offers many opportunities to its member countries. For India, "it helps in its Look East policy and South-South cooperation efforts. The development of the north-eastern region, opening up to Bangladesh and Myanmar, is another incentive. For Thailand, BIMSTEC helps with its Look West policy. Under BIMSTEC, even the smallest nations can benefit from the markets of India and Thailand. BIMSTEC offers the nations of the Gulf of Bengal the opportunity to work together to create a common space for peace and development". Given the fairly friendly relationship between BIMSTEC member states, the implementation of the suggestions listed

above to increase BIMSTEC's performance is an achievable goal if countries show sufficient political will and mutual respect.

9 Conclusion

The South Asia can play a leading role in the world because of its special characteristics. The two organisations—SAARC and BIMSTEC—focus on geographically overlapping regions. However, “this does not make them equal alternatives. SAARC is a purely regional organisation, whereas BIMSTEC is interregional and connects both South Asia and ASEAN. Insofar as their regions of interest overlap, SAARC and BIMSTEC complement each other in terms of functions and goals. BIMSTEC provides SAARC countries a unique opportunity to connect with ASEAN. Since the SAARC summit has only been postponed, not cancelled, the possibility of revival remains. The success of BIMSTEC does not render SAARC pointless; it only adds a new chapter in regional cooperation in South Asia. This cooperation can be a bridge between the South Asia and East Asia. Furthermore, with the agreement of RCEP, which is a group of 15 Asia–pacific countries 10 ASEAN nations and five if its major trading partner: Australia, China, Japan, New Zealand and South Korea. The Mega deal started with 16 countries but India decided not to join the trade pact over concern that it would hurt its domestic producers. Together, the 15 countries make up close to one-third of the world population and global gross domestic product, according to Reuters report. That's larger than other regional trading blocs such as the EU and the US-Mexico-Canada Agreement, or USMCA. In contrast agreements such as the Trans-Pacific Partnership (TPP) pose a greater challenge, therefore after taking into consideration the India's concerns, it would be significant for the RCEP to keep India along”. Therefore, the importance of South Asia's presence at world partnerships signifies its role in the affairs.

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Chapter 17

Transition of Economic and Political Leadership in East Asia Since the Second World War



Sang-Chul Park

Abstract After the Second World War, most East Asian countries were devastated as in Europe. Compared with Western Europe, there was no comprehensive reconstruction plan such the Marshall Plan in East Asia. Despite the fact, Japan achieved a remarkable economic growth based on a trade-oriented economic growth strategy that has been followed by other East Asian countries such as South Korea, ASEAN member nations, and later China. Japan's economic success made Japan the second largest economy in the world in 1968 until 2010, when they were taken over by China. As such, the Japanese economy dominated in the region till the 2000s. However, its share has declined continuously because other major economies such as ASEAN, China, and South Korea have generated higher economic growth rates than Japan. Japan's role in the unilateral leadership thus faced severe competition in the 1990s and the 2000s in terms of investments and trade partners for FTAs. As a result, the unilateral leadership in the region started to transform into the multilateral leadership shared by other major economies such as ASEAN, China, and South Korea. At present, the Chinese economy gains more attention than ever to strengthen her leadership based on Mega FTA such as RCEP, while Japan struggles to restore her leadership with CPTPP in the region. At the same time, ASEAN and South Korea are also keen to expand their roles in influencing in the region continuously. Overall, the transition of economic and political leadership in the region has been processed by playing their roles that are linked to their national and regional interests focused on regional economic integration known as regionalization or regionalism.

Keywords Transition of leadership · Major economies · East Asia · Regional economic integration · Regionalism

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1 Introduction

Since the Second World War, the global economy has grown rapidly based on strong trade growth across the world that has accelerated globalization processes. As a result, these have formed the triad economic and trade system in terms of GDP and trade volume. Namely, the European Union (EU), North America Free Trade Association (NAFTA), and East Asia are the major actors in the global economic system and trade since the 1980s. However, the global financial crisis in 2008 created a new global economic order and governance that consists of existing global economic power such as Group 7 and new emerging economic powers such as Group 20 and BRICS. Additionally, China has tried to build a new form of cooperative platform in world politics and global economy by creating Group 2 in 2013. Since Brexit in 2016 and the Trump Administration in 2017, the global governance and economic system have faced a de-globalization process represented by protectionism. Additionally, the world has been under the COVID-19 Pandemic since 2020 and suffering from it in all areas around the corner of the world (Dicken 2015; Kirton 2013; Looney 2014; Park 2020).

Along with globalization processes, regional economic integration is a process which is taking place all over the world. The East Asian region is not an exception. However, in this area, it can be described rather as bottom-up integration, i.e., market-driven (*de facto*) integration rather than institutional integration driven by intergovernmental cooperation in Europe and North America. The institutional integration in East Asia has been much less advanced than in Europe. Nevertheless, processes of economic integration have also been taking place in East Asia since the 1970s. Dependent on the stage of process development, individual countries' roles have varied much in the East Asian context.

Japan, as one of the most developed economies in East Asia throughout the post-war period, showed a relatively diversified approach towards this process. By changing its position from firmly reluctant to favorable, it played a discernable role in the process of East Asian economic regionalization. This role has evolved over time along with the transition to the next stages of *de jure* integration. This study aims for presenting the Japanese economic activity at various stages of development of East Asian regionalism and an assessment of the specific role played at a given juncture. Additionally, it indicates possibilities of the Japanese economy to contribute to further regional economic integration and create economic regionalism. Last, but not least, it analyzes how economic and political leadership in the region has shifted from Japan to China as well as which roles South Korea, as one of the major economies, plays in the region.

In order to meet the research goals, various research methods will be used. These are a method of critical analysis of the literature, an inference method, and to a limited extent, a method of statistical data analysis. These methods will be focused on the research period covered from the mid-1980s to the mid-2010s.

2 Participation of Japan in East Asian Regionalism Since the Mid-1980s

After the Second World War, East Asia had also struggled to recover their national economies along with West Europe. However, the economic condition between the two regions were fundamentally different. The U.S. government initiated the Marshall Plan, investing a large amount of capital in order to restore the economy of Western Europe, but no direct U.S. capital investment in East Asia for rebuilding the economy although the two regions faced severe threats from communism from the Soviet Union and People's Republic China (hereafter China). Under such circumstances, the economic recovery in East Asia was slower than in Western Europe in the 1940s and 1950s. The Korean War (1950–1953) contributed to generating high economic growth in Japan, the Philippines, and even many countries in Western Europe such as Germany, France, Sweden, the UK, etc. As a result, Japan became the second largest economy in 1968 (Hamada and Kasuya 1992).

The East Asian countries preferred a multilateral order in the global economy. The International Monetary Fund (IMF) and the General Agreement on Tariffs and Trade (GATT) determined the framework for external economic policies of these countries. However, the situation changed in the early 1990s, when some countries began to show more interest in regional economic integration. There were four reasons for this. First, external pressure, like the integration in Europe and North America, triggered a kind of defensive reaction. Second, East Asian countries began to realize that institutional links create a more predictable framework for development of advanced economic interdependence than ever. Third, the creation of larger geographic areas with less internal barriers could encourage foreign companies to increase their direct investments. Lastly, deepening economic relations with other countries in the region had a positive impact on the structural changes in integrating countries (Rana 2006; Zhai 2006; Baldwin 2007; Munakata 2004).

Economic regionalism in East Asia has a relatively short history. The most important regional organization, the Association of Southeast Asian Nations (ASEAN) was founded in 1967. However, by the beginning of the 1990s ASEAN's objectives were predominantly political and defensive in character while economic cooperation did not develop intensively. In the 2000s it became economic-cooperation oriented and created the common market in 2015 (Jetschke 2012; ASEAN 2019).

The first pulses of economic integration in East Asia were initiated by the U.S. government. ASEAN became the object of the United States' economic interest in the 1980s, which was unofficially proposed in opening talks on a free trade area. However, ASEAN was not ready to take the U.S. proposal at that time. Later, East Asian countries began to endeavor to cooperate in order to strengthen their influence in international affairs (Maswood 2001; Munakata 2004).

The first initiative of ASEAN was formulated in December 1990 by the Prime Minister Mahathir in Malaysia proposing to establish the East Asian Economic Grouping (EAEG). According to the plan, the EAEG did not include North East Asian countries and represents only ASEAN's interests on the world stage. This

initiative was unacceptable to the U.S. government and their key allies, Japan and South Korea, facilitating its abandonment. The proposal was reformulated and in October 1991 Malaysia reported another initiative, the East Asian Economic Caucus (EAEC). However, the U.S. government and its North East Asian allies opposed it so that this initiative was not implemented. At the beginning of the 1990s, a largescale economic integration in ASEAN began. In 1992, the ASEAN Free Trade Agreement was established, a step forward in the process of the East Asian economic integration (Dent 2010).

Many scholars claim that Japan was a pioneer of regionalism in the Asia and Pacific in the years 1985–1992. In reality, however, Japanese foreign economic policy did not treat regionalism in East Asia as a priority at all. Japan's activities were limited rather to increasing its economic presence in the region and supporting East Asian regionalization because most Japanese companies had significant advantages over rivals in the region (Naya 2004; Yoshida 2004; Baldwin 2011; Sakakibara and Yamakawa 2005).

Emerging initiatives for the integration of exclusively North East Asian nations not including countries such as the USA or Australia, gained Japanese support. Even assigning Japan to a leading role in these initiatives did not influence them to greater involvement. At that time, Japan was under strong influence of the USA and interested in weakening rather than strengthening East Asian regionalism. In fact, Japan supported the participation of the USA in East Asian regionalism resulted in creating Asia Pacific Economic Cooperation (APEC) (Maswood 2001).

APEC was established in 1989 as an initiative of Australia and Japan. Nevertheless, until 1993 this forum did not generate any significant achievement. It functioned according to the interregional cooperation formula, where, apart from East Asian countries, also members in the Pacific area were included. The growing activity of APEC in the early 1990s can be considered as a response of the USA to the East Asian initiatives. According to the USA, independent initiatives taken by the East Asian countries such as EAEG, EAEC or ASEAN FTA were regarded as unfavorable. Moreover, the USA did not want to lose their leading position in the region and adopted a strategy of undermining a preferential trade agreement by proposing a larger one. Consequently, major East Asian economies reduced their interest towards solely East Asian initiatives (Dent 2010; Baldwin 2007).

Under such a circumstance, the European Union (EU) contributed to building a regional community in East Asia with increasingly converging internal targets. In 1996, the first Asia Europe Meeting (ASEM) was held. It was an initiative of ASEAN, which wanted to develop economic cooperation with the EU, but the participation of China, Japan and South Korea was welcomed. The ASEM created an opportunity for East Asian countries to talk and agree on common positions on different issues even before the meetings with the EU. In 1997, the representatives of ASEAN, China, Japan and South Korea met in Kuala Lumpur to discuss issues important for the region. It was the first meeting of the group, which has been described as the informal East Asia Summit named as ASEAN Plus Three (APT). Despite skepticism of the ASEAN proposal because of the exclusion of Australia and New Zealand, Japan

eventually decided to participate in the APT summit. It was the starting point of Japan's participation in East Asian regionalism (Naya 2004; Yoshida 2004).

3 Institution Building After the Asian Financial Crisis (AFC)

The Asian Financial Crisis (AFC) in 1997 is regarded as the beginning of true regionalism in East Asia. The AFC certainly accelerated the processes of East Asian regional economic integration. Various factors stem directly from the AFC influenced regionalism in East Asia, including the contagion relationship between Asian countries, major disappointment regarding the USA and IMF reactions to the crisis, some progress of the APEC in achieving closer trade and financial cooperation, Japan's changing perception of its role in the Asian Monetary Fund (AMF), the PRC's decision not to devalue RMB during this period, New Miyazawa Initiative launched in 1998, and the policies promulgated by the IMF to solve the crisis. They were deemed inappropriate and gave greater credibility to the East Asian approach (Pomfret 2006; Plummer 2006).

The AFC started in Thailand in July 1997, and quickly spread to other countries, including South Korea, Malaysia and Indonesia. To a lesser extent, the crisis affected the Philippines, Hong Kong and Singapore. Owing to the rapidly spreading crisis, East Asian countries realized that they were subject to close economic interdependence. In addition, they realized that international financial institutes were not fully reliable during the crisis, and even APEC was not a proper platform for resolving the problems of East Asia. (Munakata 2004; Naya 2004; Yusuf 2001).

Moreover, the desire to avoid problems in financial markets in the future, as well as a high surplus of foreign exchange reserves in China and Japan have caused a number of proposals for institutional financial cooperation. As a result, AMF and the Chiang Mai Initiative (CMI) were proposed and the concept of a single Asian currency was formulated. While the previously proposed agreements on trade were not met with great interest, the idea of financial cooperation was supported by East Asian countries in order to create a safety network for their financial markets. East Asian countries expected that Japan would play the key role in overcoming the economic problems in the region (Pomfret 2006; Munakata 2004).

Japan proposed the creation of AMF during the ASEM Finance Ministers Conference in 1997. It was the first Japanese initiative known as the original Miyazawa plan. However, it was severely criticized by the U.S. government and the IMF so that Japan could not lead AMF creation. Nevertheless, Japan was able to create a currency swap arrangement, Chiang Mai Initiative (CMI) among ASEAN+3 countries in 2000, which was established in 2009 and came into effect with USD 120 billion in March 2010 (ADB 2021a).

In 1998, when the crisis persisted, Japan announced the New Miyazawa Initiative with a USD 30 billion capital support package for the East Asian countries. It was an

expression of empowerment in Japanese policy towards the countries of the region for the first time. It turned out that Japan was able to pursue a policy independent from the USA. Engaging in solving problems arising from the Asian Financial Crisis (AFC), Japan strengthened its role in the East Asian region along with China, investing the same share of 32%, with South Korea and ASEAN each investing a share of 18%. As a result, Japan became more involved in the action at the ASEAN+3 Forum that confirmed the growing interest in East Asian integration. At the same time, Chinese involvement in East Asia started, and South Korea strengthened its influence in the region. However, the APT had no support for free trade agreements covering the entirety of East Asia; it was only interested in the development of financial cooperation. As a result, many bilateral and multilateral FTAs arose in East Asia, which constitutes the next stage of East Asian economic integration.

4 FTA's' Proliferation in East Asia

A new stage of East Asian regionalism, involving the creation of preferential free trade agreements (FTA), began in 1999. South Korea started negotiations with Chile, and Singapore with New Zealand. Additionally, Singapore proposed to hold FTA talks with Japan. The following year, China expressed its interest in FTA with ASEAN, triggering similar actions in other countries, including Japan. In East Asia, a domino effect spread out, and a number of agreements increased rapidly after 2000 (Baldwin 2011; ADB 2021b) (See Fig. 1).

Until the FTA between Japan and Singapore in 2002, there was only one important agreement, the ASEAN Free Trade Agreement of 1992. Later, a rapid increase in the number of agreements started. Given the data of ADB in 2020, 16 East Asian countries completed 268 FTAs, and the largest number of them was signed by Singapore, South Korea, China, Japan and Malaysia. The dynamic growth in the number of bilateral and multilateral agreements in East Asia has created a complex web of relationships and generated negative effects of FTAs, called the spaghetti bowl effect. Overlapping agreements are economically inefficient and create new divisions but also hinder the emergence of a leader who would be able to manage so many economic links in the region. Therefore, ASEAN+3 need to create mega FTAs in order to mitigate negative effects (Zhai 2006; Park 2020; ADB 2021b).

Integration processes involving countries in East Asia are not only intra-regional, but also interregional in nature. In addition, currently a worldwide trend towards so-called mega FTAs is observable, and this also applies to East Asia. Since 2012, 16 countries (ASEAN+6) have been negotiating the Regional Comprehensive Economic Partnership (RCEP) and completed in 2020. On the other hand, the Trans-Pacific Partnership (TPP) was signed in February 2016. The agreement covers 12 countries, including the United States, Canada, Japan and Australia, but not China. However, in January, 2017 the Trump government declared that it would not participate in the TPP so that Japan and other 10 countries created Comprehensive Progressive Transpacific

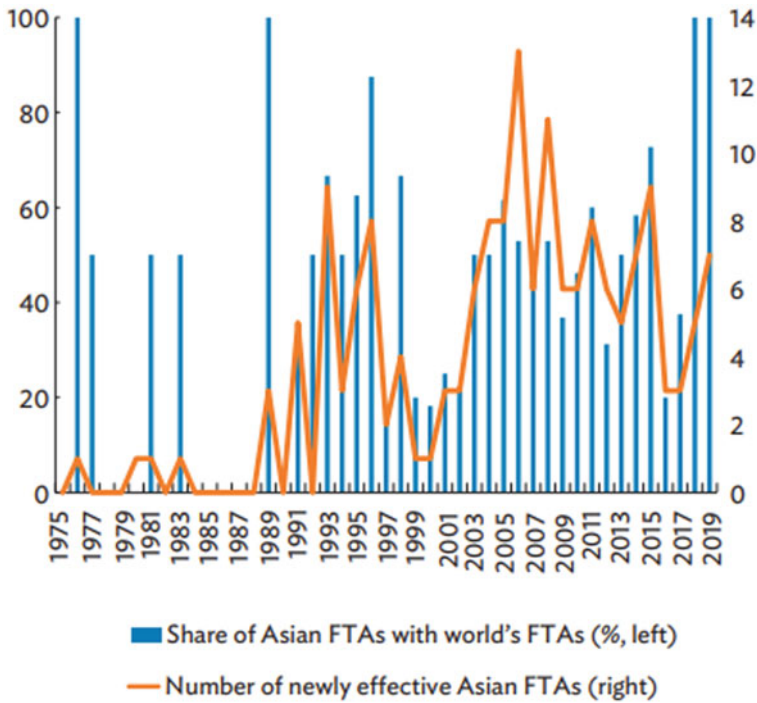


Fig. 1 Number of newly effective trade agreements in Asia (As of 1975–2019) (Source ADB [2021b])

Partnership (CPTPP) that came into effect under the Japanese leadership in Dec. 2018 (Park 2021).

China was particularly active in developing bilateral and multilateral frameworks of economic cooperation in the region. The Chinese economy did not suffer significantly during the AFC and the global financial crisis (GFC) in 2008 so that it was able to attract new productive investment, create jobs and develop production chains in Asia. Moreover, the credibility of China grew along with its responsible behavior during the crisis, when it did not devalue the RMB, as well as with the entry into the World Trade Organization in 2001. These factors, along with long-lasting dynamic economic growth, contributed to strengthening China's position in the region (Baldwin 2007).

China's policy and rivalry with Japan for influence over the region were agents of change in Japanese trade policy toward FTAs. In fact, the beginning of China's negotiations with ASEAN triggered the need to negotiate a similar agreement by Japan. Changes in Japanese trade policy were also caused by the AFC which resulted in a significant increase in interest of agreements within the solely East Asian region but also by the continuous development of Japan's economic relations with East Asian countries (Baldwin 2007, 2011).

Until 2005, there was only one agreement in effect made by Japan whereas in subsequent years they proliferated. In 2008, already nine agreements were in force and in 2016 that number increased to 15. Apart from bilateral agreements negotiated by Japan, the country participates actively in multilateral agreements involving a wider group of countries in the Pacific basin. Japan is among the countries negotiating RCEP and it was the first country which formally ratified TPP. This indicates the continuous and growing interest of the country in talks on economic cooperation not only in East Asia but also in the Pacific region. Japan, therefore, pursues policy at many levels from the multilateral, through inter-regional to a regional one.

5 Chinese, Japanese and South Korean Roles in East Asian Economic Integration

The unprecedented and long-lasting economic growth after World War II led first to Japan and later south Korea and China achieving a strong position in the global economy. In the second half of the 1980s the Japanese prosperity was widely acknowledged. Growing importance in the world economy was confirmed by increasing shares in global trade and investment flows, as well as by rising share in global GDP. The adoption of a global perspective and a strong concentration on cooperation with developed countries gave the country benefits of an increasing economic position in the world. As a result, Japan became the second largest world economy from 1968 to 2009, till China took over its position in 2010.

Paradoxically, economic successes did not make Japan think about involvement in regional economic integration as the Japanese authorities mainly adopted a global rather than regional perspective. This was one of the reasons why Japan was so reluctant to the proposal of Prime Minister Mahathir to lead the regional economic integration in the beginning of the 1990s when EAEG and EAEC were established. During the entire post-WWII period, Japan was pursuing the policy based on principles of multilateralism, so at the turn of the 1980s and 1990s with great economic prosperity, no one was thinking about changing the successful strategy of Japanese foreign economic policy.

According to data from the World Bank in 2017, Japan's share of global GDP was growing up to 1991. Since then, when real estate values and stock markets deteriorated dramatically, the internal economic problems resulted in declining shares of Japan not only in East Asia but also in the world economy, while the Chinese shares of global GDP increased rapidly since the 1990s (World Bank 2017).

It is clear that the total share of East Asia in the world economy was increasing due to the dynamic growth of China at the expense of Japan from the beginning of the 1990s. In addition, the two major economies exchanged their positions as main GDP contributors to the world economy as well as for East Asia since the 2010s. These changes resulted from fluctuations in the GDP growth between the two countries. Moreover, it is visible that Japanese economic growth rate became lower than the

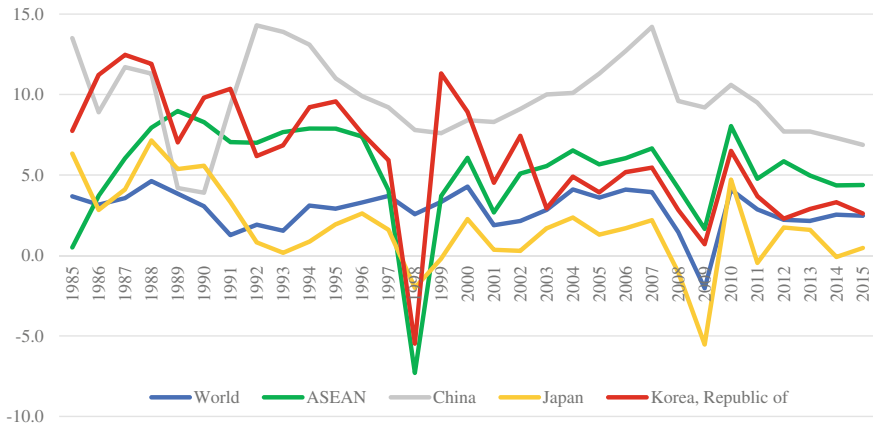


Fig. 2 East Asian and World GDP Growth (As of 1985–2015 and %) (Source World Bank [2017])

average of world economic growth from 1992 to 2015, while ASEAN, Chinese, and South Korean economic growth rates were still higher than the average of world economic growth rate from 1986 to 2015. (World Bank 2017) (See Fig. 2).

There was significant fluctuation of GDP growth in the countries analyzed. The most striking fact is the Japanese performance. Since 1985, the situation had been deteriorated and from 1992 onwards Japan was the worst performing country of East Asia. In 1993, the GDP growth of Japan was at the level of 0.2% with the blast of the bubble economy, while that of China stood at 13.9%, South Korea at 6.8% and ASEAN at 7.7%.

After the AFC in 1997, the economic situation slightly improved in 1999, and up to the outbreak of the GFC in 2008 economic growth of the countries was positive. It seems that after the outbreak of the AFC, the Japanese economic position was still relatively strong, despite its negative growth, so that Japan could become the leader of East Asian economic integration. The consistent pursuit of the creation of the AMF and the allocation of significant financial support to this initiative would convince East Asian neighbors about the credibility of the Japanese economic policy in the region. Japan, however, missed this opportunity, unfortunately, because of the conservative policies subordinated to the interests of the USA. Moreover, Japan was less able to serve as an economic leader in the region with conditions of declining economic growth since 2000.

Compared to other East Asian countries, Japanese economic performance was the weakest because the GDP growth was at the lowest level for the entire period regardless of its economic level. The GFC triggered by the US in 2008 strongly hit East Asian countries. In 2009, Japanese GDP fell by as much as 5.5%, while South Korea maintained a positive albeit modest growth of 0.7%, and ASEAN of 1.7%. Similar to the AFC, the Chinese economy remained in relatively good shape with 8.9% of economic growth even in 2009. After 2010, the situation improved in all analyzed economies, but the Japanese economy retained the lowest growth rate. In

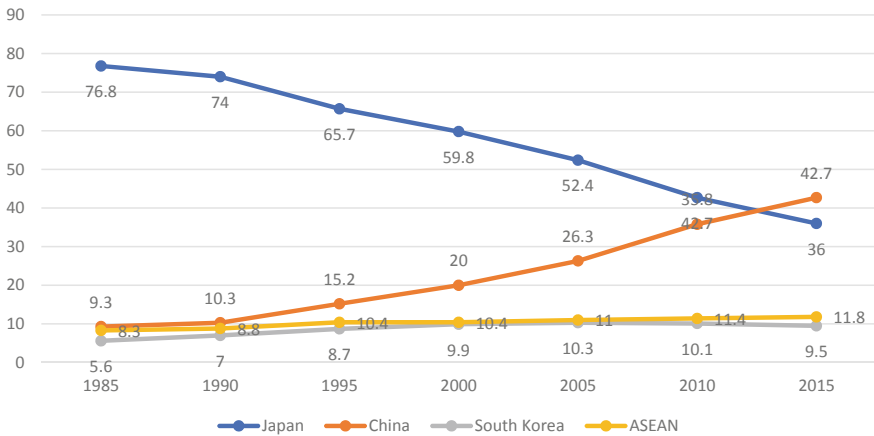


Fig. 3 GDP share of major economies in East Asia (As of 1985–2015, %) (Source World Bank [2017])

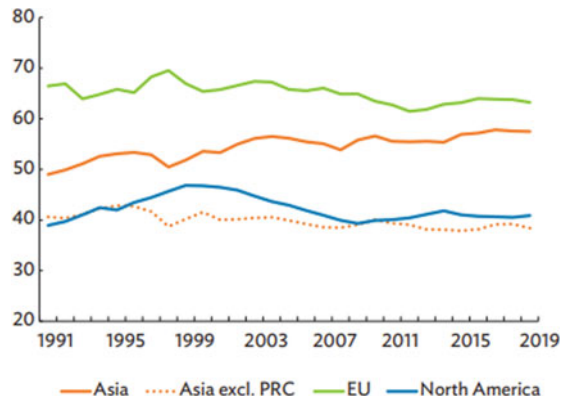
2011 and 2014 Japanese GDP growth went into negative territory in -0.5% and -0.1% , respectively.

Such changes in economic growth resulted in the evolution of the economic position of countries in East Asia, measured by a participation in the creation of regional GDP, but also by participation in East Asian trade and investment flows. In this regard, the analysis of the data clearly shows the decline of the importance of Japan as the main source of East Asian GDP from 76.8% in 1985 to 36% in 2015, while Chinese share of the regional GDP increased from 9.3% to 42.7% during the same period substantially. South Korea also increased its share from 5.6% in 1985 to 10.5% in 2002 and to 9.5% in 2015, while ASEAN's share grew from 8.3% in 1985 to 11.8% in 2015. It means that China, Japan, and South Korea became the major economies in East Asia since the 2000s (World Bank 2017) (See Fig. 3).

Even in trade, China has played the core role in generating the Asian intraregional trade from around 50% in 1991 to nearly 60% in 2019, which is lower than in the EU, but much higher than in North America. The Asian intraregional trade share excluding China is around 40% from 1991 to 2019 constantly. It means that Chinese contribution to the Asian intraregional trade share accounts for maximum 20% in the region (ADB 2021b) (See Fig. 4).

Such changes in the economic balance of power in East Asia and the whole of Asia lead to a clear conclusion that Japan did not become a leader of the regional economic integration not only because of the traditional aversion to institutionalized initiatives, but also the weakening economic position of the country in East Asia comparably during the period. In the 1990s, Japan could be perceived as the strongest economy of the region and play a leadership role in the integration processes. However, in the next two decades, such a role became weakened while newcomers such as ASEAN, China and South Korea expanded their roles as major competitors and investors in the region along with Japan in terms of trade volumes and FDI inflows.

Fig. 4 Intraregional trade shares in Asia, the European Union, and North America (As of 1991–2019, %) (Source ADB [2021b])



6 Shift of Economic and Political Leadership in East Asia

The evolution of the East Asian regionalism shows a *de jure* regional integration. At the same time, roles of individual countries in the process evolve and change the economic balance of power in the region. The regional integration is also subject to reshape their foreign economic policy.

The unprecedented economic growth after World War II has provided Japan a strong and dominant position in the global economy and she decided to conduct foreign economic policy based on the principles of multilateralism. This was due in part to a conviction of the society about the necessity of reintegration with the international community and the restoration of normalcy after being defeated in the war. The conviction about the primacy of multilateralism over regionalism was present in Japan until the end of the 1990s. Japan claimed that the regionalism could bring more harm than good, and also constitute a flagrant violation of the principles of GATT and WTO (Chiavacci and Ziltener 2008).

At the same time, however, conscious actions toward regionalism existed in Japanese politics since the end of the war. The Japanese approach toward regionalism was largely the result of external factors such as the strength of the political and economic relationships with the USA, the economic situation in the world, and the regional and the domestic economic situation. Consequently, the Japanese role in East Asian economic regionalism evolved accordingly, which is rather passive than active.

In fact, Japan was keener to develop economic relations with the developed nations such as the USA and Western European countries than East Asian countries after the war. The latter were regarded mainly as important markets, sources of raw materials, but not as reliable partners in regional cooperation. By contrary, the adoption of a global perspective and a strong concentration on trade with developed countries provided Japan the benefits of an increasing economic role in the world till the end of 1980s. Therefore, the East Asian region was only the main area for Japan to develop

its trade and investment ties, but she was not interested in the development of East Asian regionalism. As a result, Japan's role in the process was negligible.

Countries like Malaysia and Singapore even tried to make Japan more interested in the East Asian region. However, even after assigning Japan a leading role in such activities as EAEG and EAEC, Japan did not change her approach to the process. Due to the strong influence and pressure from the USA, Japan rejected the model of solely East Asian cooperation and instead proposed cooperation within the Asia-Pacific (Low 1991; Maswood 2001; Yoshida 2004).

Later, Japan participated in the initiative of ASEAN+3 (ASEAN, China, Japan and South Korea) in 1997 because the USA supported concept of Early Voluntary Sectoral Liberalization under the APEC regime that made Japan disappointed. For the first time, Japan began to engage in the processes of exclusively East Asian regionalism. Since then, an increasing engagement of Japan in East Asian regionalism took place. The currency and economic crises in the region allowed Japan to realize that it belongs to this geographical area and shares its common interests. In addition, the disappointment with the USA and IMF's policies made the country more independent in its decisions. Japan started becoming a real leader of regional initiatives. An immediate financial assistance to countries affected by the AFC, the proposal to establish the Asian Monetary Fund, the Chiang Mai Initiative and the New Miyazawa Plan all are initiatives for strengthening its activity in the region (Yoshida 2004).

At that time, Japan was the most significant country in promoting intra-regional cooperation in East Asia. Unfortunately, this activity has weakened due to the lack of support from China and the sharp opposition of the USA to the creation of the AMF. In addition, the late 1990s was the beginning of the growing interest of countries in developing their bilateral preferential economic arrangements. Small and medium-sized economies in East Asia have recognized that their bargaining power is dependent on the attractiveness of the region to which they belong. Therefore, these countries began increasingly to negotiate bilateral FTAs.

Japan has also joined this process, and policy makers started to consider regionalism as a complementary policy to the multilateral one. This was reflected in the strategy of free trade agreements published by the White Paper on International Trade 1999. Japan stressed here its commitment to multilateral trade rules, but pointed to the possibility of concluding bilateral agreements with South Korea and Mexico. In October 2002 Japan announced its FTA strategy and acknowledged that FTAs would bring economic and political benefits. In November 2010 the Ministerial Committee on Comprehensive Economic Partnership announced a Basic Policy on Comprehensive Economic Partnership, where it was decided that the country's economic development would depend on deepening economic relations with Asian countries, emerging economies, Western countries and those rich in raw materials. At the same time, it stressed the importance of the Asia-Pacific region for Japan and its desire to create a single economically integrated area (JETRO 1999; MOFA 2002; MOFA 2010).

Unfortunately, however, the period of rapid growth in the number of FTAs is not necessarily good for Japan in East Asian regionalism because not only Japan but also China, South Korea, and ASEAN do seek to conclude such agreements even earlier

than Japan. Each of them is fighting for the position as a regional FTAs hub, because it could give them various advantages in attracting investment and marginalize other spoke countries in the region. As a result, the high level of competition between countries for FTAs is not conducive to the East Asian regionalism.

Under such a circumstance, Japan is just one of many countries participating in the process and faces high competition with other major economic powers such as China, South Korea, and ASEAN in the region. Furthermore, Japan is a latecomer in the competition for the leader of the FTAs creation. Its activity was the reaction and the result of a greater interest of other competitors particularly such as China and South Korea in the region. Therefore, it is not fully right that Japan currently possesses a leading role in East Asian regionalism. On the contrary, her role is weaker than in the previous period. This is also a result of an Asian-wide tendency to negotiate agreements not only within but also outside the region of East Asia. Overall, Japan shares the economic and political leadership with China, South Korea and ASEAN in the region. At the same time, it is visible that Chinese expansion and role gain more attention in the region than ever (Zhai 2006; Obe 2016).

7 Conclusions

Regional economic integrations have become common in the world since the EU started in 1957. Particularly economic regionalism can generate mutual benefits in various aspects so that many regions have tried to create it. East Asia is no exception. The analysis presented in the paper forms a basis for the verification of the hypothesis about the significance of Japan in the development of East Asian regionalism as well as how her leadership has been transformed from the unilateral to the multilateral positions in the leadership along with China, South Korea, and ASEAN.

Japanese economic growth in the 1950s and 1960s was remarkable, and Japan became the second largest economy in the world right after the USA in 1968. Since then, she was able to hold her position till 2009 and handed over China its position in 2010. Japan has suffered from low economic growth longer than two decades long since its bubble economy burst in the beginning of the 1990s. In fact, Japan's economic position was very strong not only in East Asia but also in the world till the end of the 1980s, which made it adopt mainly a global perspective. The country's involvement in East Asia consisted primarily of capital and trade expansion, and her economy was mostly linked to the developed world such as the USA and the EU. It means that Japan clearly preferred globalism over regionalism. In addition, the special and beneficial relations particularly with the USA caused regional initiatives by Japan to always consider the role of the USA in the region. As a result, Japan favored broader agreements involving not only East Asia but also Asia-Pacific's countries creating the APEC.

However, this broader approach resulted in disappointing speed and scope of work within the APEC, which prompted Japan to become more involved in the East Asian region. Finally, Japan decided to participate in the APT Forum, invited by ASEAN. It

was the beginning of true regionalism in East Asia and at the same time the beginning of Japan's involvement in East Asian regionalism. Unfortunately, however, Japan was not able to maintain its leadership for creating the AMF due to the strong opposition from the USA and IMF. As a negotiation, Japan enabled to create the CMI in order to set up the financial safety net for East Asian financial stability right after the AFC in 2000. At that time, Japan was not the single dominant actor on this issue, but one of the major contributors along with China, South Korea, and ASEAN.

In line with the CMI, Japan missed her opportunity to engage with East Asian countries to develop bilateral FTAs because Japan strongly intended to continue her multilateral perspectives in terms of the trade in the 1990s and the early 2000s. On the contrary, China, South Korea, and ASEAN changed their trade strategies toward the bilateral FTAs in the end of the 1990s and completed several bilateral FTAs in the region. As a result, Japan became a latecomer in terms of bilateral FTAs in the region and faced a strong competition with the early comers in order to attract other countries to become trade partners.

Additionally, Japanese economic capacity based on GDP has not grown since the mid of the 1990s, while other East Asian countries, particularly China and South Korea grew rapidly and substantially. Therefore, Japanese GDP share in East Asia declined from 76.8% in 1985 to 36% in 2015, while Chinese and South Korean shares increased from 9.3% and 5.6% to 42.7% and 9.5% respectively during the same period. It means that Japan plays a role in regional leadership not unilaterally, but multilaterally with other major countries in the region. It also shows how the transition of economic and political leadership has been emerged since the Second World War that will be accelerated in and after the COVID-19 Pandemic era in the region.

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Chapter 18

Chinese Economic Growth and Prospects of a New International Monetary Regime



Chris G. Pope

Abstract The chapter focuses on the rapid growth of China's economy and assesses the likelihood of China ending the US dollar standard. In doing so, it raises key issues at the heart of the Chinese economy, particularly following the Great Financial Recession of 2008, whilst evaluating the Chinese states' capacity to address them. Overall it argues that while the Chinese economy is dependent on US dollars, its mid-to-long term goals are surely to significantly reduce this dependency so that the economy can transition to one primarily driven by consumption and thus avoid the so-called "middle-income trap". Given this, the chapter argues that an end to the dollar system is, in fact, in sight.

Keywords China · United States · Dollar System · Great Financial Crisis

1 Introduction

In the aftermath of the 2008 Great Financial Recession (GFC), the United Nations (UN) hosted a conference which sought to lay out the brief schematics of how the international monetary system should be reformed. Coming from the central global governing framework thought to be a foundation towards realizing the Kantian ideal of a perpetual peace and evoking the idea of peaceful, orderly multilateral governance across the world, the report was surprisingly caustic. The UN blamed the "ideas and ideologies underlying key aspects of what has previously been called neo-liberalism, market fundamentalism, or the Washington consensus," and highlighted the need to overcome the "fiduciary dollar standard" (United Nations 2009, 39, 92, 97–98). While the US dollar had long since severed its tie to gold, it remains the de facto global currency for two reasons. First, the increase of the Federal Funds Rate by the US Federal Reserve in the 1970s and early 1980s made the US dollar an attractive reserve asset because it attracted global capital to the US while the high dollar policy pursued by the Reagan administration led to a debt crisis across the third world which

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further accelerated the process. Second, the pricing of primary commodities such as oil in dollars by exporters such as Saudi Arabia artificially increased demand for the dollar, which encouraged central bankers from export-intensive countries to invest in US treasuries (debt) to keep export prices low. This is what is called the ‘Dollar Standard’ at the heart of the current international political economy.

The dollar standard relies on a constant demand for US treasuries and other forms of debt because most of the world’s trade is carried out in US dollars, meaning that there is always demand for it. In return, central banks across the world bought US debt and stored them as forex reserves as their economies were dependent on trade surpluses with the US given the high purchasing capacity of its citizens. As a consequence, the US lost much of its manufacturing capacity and relied on financialization to maintain its status as the world’s dominant power. However, the pressures of finance caused instability in the economy and owing to the decline and eventual repeal of the 1933 Glass-Steagall Act in the 1990s which had separated commercial and investment banking, and the Federal Reserve’s decision to cut interest rates in the early 2000s, credit was expanded to parties simply unable to pay off their debts in the form of sub-prime loans, causing a housing bubble. This triggered the Great Financial Recession (GFC) in 2008, and newly developed financial tools thought to insulate the economy from default risks were proven to be ineffective. In response, governments across the world began implementing Quantitative Easing (QE) measures aimed at refloating the economy. However, the financial collapse has resulted in a ‘balance sheet recession,’ where because private debt levels are too high so corporate executives consider using their existing cashflows to minimize existing debt a preferable option to investing in consumers with diminished spending capacity (Koo 2019). Furthermore, the need to protect creditors and investors in order to restore market confidence in a high globalized and financial market of rapid transborder capital flows has caused governments across the world to offer backstopping guarantees to the repo markets in order to avoid another collapse, which conversely has encouraged financial institutions to operate in these high-risk markets (Baker and Murphy 2018). The vast majority of the world’s governments are dependent on a US market with increasingly diminished spending power and which is increasingly reliant on the forms of speculative finance that triggered the GFC in the first place. This has caused many to speculate that the Dollar Standard is coming to an unceremonious end. And in a climate of ‘trade wars’ between the fading US and an emergent China (Klein and Pettis 2020), many have speculated that it is China that will deal the final blow.

Indeed, international monetary reform is a topic that Chinese officials have not shied away from discussing and, it seems, trying to implement. For example, Zhou Xiaochuan, governor of the People’s Bank of China (PBoC) attributed the structural problems which led to the GFC to the Triffin Dilemma which states that when a global reserve currency dovetails as a national currency, such as the US dollar, the issuer inevitably must place international economic objectives over domestic ones (Zhou, March 23, 2009). In other words, the Triffin Dilemma would contend that the world needed dollars to finance trade and so the US ran a trade deficit and a current account deficit to provide global liquidity and meet demand for reserve assets. Zhou

also championed Special Drawing Rights (SDRs) as a potential avenue that could lead to a new international monetary regime (Zhou, March 23, 2009). SDRs are a type of interest-bearing international reserve asset created in 1969 and managed by the International Monetary Fund (IMF) whose value and yield are defined using a basket of major currencies selected due to their perceived strength and importance in the global economy and whose allocations are based on the economic might of each member-state respectively. Member-states are permitted to exchange SDRs for currencies included in the SDR basket through voluntary trade arrangements and they may be instructed to do so by the IMF if there are not enough SDR buyers. Crucially, the supply of SDRs increased rapidly in 2009 in response to the GFC and in 2015, at the request of Chinese Premier Li Keqiang, the IMF decided to include the Chinese Yuan, otherwise known as the Renminbi (RMB), in the SDR basket (*Reuters*, March 24, 2015). To the IMF, this increases the credibility of SDRs as a means to manage global liquidity and to Chinese officials, no doubt, the inclusion increases China's credibility on the international stage and potentially signifies the end of export-led growth in China and the internationalization of the RMB.

Will China end the dollar standard? And if the dollar standard ends, what kind of system should emerge as a result? In order to answer these questions the article evaluates the prospects of a new monetary regime led by China (The People's Republic of China) by examining recent developments in the Chinese economy, and assessing the challenges the Chinese economy faces. This is carried out in two sections: the first section explains how China emerged from a low-income country with a GDP per capita on a par with sub-Saharan countries in 1990 to the world's factory; the second section summarizes the challenges that beset the economy after the GFC and how the Chinese authorities aim to carry out the next phase of economic development so that the country becomes an advanced economy on a par with the US in its pomp. Following this, the article assesses the likelihood of China ending the dollar standard by examining recent developments in US and Chinese monetary policy. Finally, the article concludes by answering the two questions above.

2 China 'Opening Up': From People's Communes to the Dollar Standard

China has achieved tremendous economic growth in the past decades owing to its transition to a market-based society. The case for market-oriented reform was no doubt strengthened by the hardship and traumas of the Great Leap Forward (1958–1962) and the Cultural Revolution (1966–1976), a breakdown in Sino-Soviet relations and China's gradual normalization of relations with the US after US President Nixon's tour of China in 1972. However, the opportunity to actually implement such reform arose following the death of Supreme Leader Mao Zedong and Premier Zhou Enlai in 1976 as it led to a power struggle within the Communist Party of China (CCP) and the ultimate arrest of the Gang of Four—Jiang Qing (Mao Zedong's last wife),

Zhang Chunqiao, Yao Wenyuan, and Wang Hongwen—who had dominated Chinese politics particularly in the latter stages of the Cultural Revolution. The reformist Deng Xiaoping was ultimately named as Premier in 1978 and China began to turn towards a market economy.

While China's incorporation of capitalist tenets into its sociopolitical system is well-documented, its success was not due to a blind allegiance to neoliberal doctrine but rather a more complicated process of reform based on disagreements among policymakers over how to construct a 'Communist utopia'. In other words, reform was ostensibly not about ditching Marxist-Stalinist ideology and embracing capitalism. Rather, it was based on practical discussions over how to limit the shortcomings of the first stage of communist construction with managed markets. This point is reflected well in two of Deng Xiaoping's most notorious quotes:

"No matter if it is a white cat or a black cat; as long as it can catch mice, it is a good cat"

"Cross the river by feeling for stones under one's feet"

(Sohu, July 23, 2012).

Though Deng himself acknowledged that he did not create either expression, Both allegories were used as powerful metaphors to support the argument for economic liberalisation measures in China, particularly from the late 1970s. The former quote is a Chinese proverb which Deng Xiaoping often used as a means to negotiate a practical compromise between communist ideology or communitarian egalitarianism and economic liberalisation, or between social work and economic development. One can presume that the mice in the way Deng would use the metaphor refer to material wealth that can improve the lives of the people of China (*Zhongguo Renmin*), and the cats denote the means to obtain them. In a similar way, the latter is an expression used by Deng allegorically to emphasize the need for China to progress its own development and that the best way to proceed is on a step-by-step practical and empirical basis because there is no clear methodology that guarantees success (crossing the river safely). In other words, both quotes are used to address the apparent contradiction within communism "entailed by prosperity-seeking where acquaintances have diverse needs" and to advocate for a transition from a Maoist economy based on centralized planning to one where the engineering of markets through trial and error serve the peoples' needs (Rosefielde and Leightner 2018: 20). The result was a centralized economy with government control of money flow alongside market self-organization.

This shift would eventually lead to China's utilization of the floating exchange system and the de facto dollar standard. However, transitioning to an export-intensive model of growth was not simple. For example, while market reform did benefit a large number of Chinese citizens, the distribution of those benefits was by no means equal across society and has led to a large division of wealth, the migration of labour and the exploitation of workers leading to social movements across the country which questioned the legitimacy of CCP leadership (Bieler and Lee 2017). The process of opening up the Chinese economy to overseas investment was tightly controlled, diversified and multi-layered. From the late 1970s into the early 1990s, a number of Special Economic Zones (*jingji tequ*) were created for cities such as Shenzhen, close

to Hong Kong, whose population dramatically increased as a result, and provinces such as Hainan, as well as “Open Coastal Cities” (*yanhai kaifang chengshi*), including the financial centre of Shanghai, which also were expanded over time to include entire provinces and coastal belts. While many of these areas have prospered with the influx of foreign capital, China’s growth strategy was not simply about ‘opening the doors’ and letting the free market work its magic. Far from it, while exploiting its wage differential with developed countries similar to many other East Asian and South-east Asian countries, China also utilized its state-owned enterprises (SOEs; *guoyou qiye*), particularly during Hu Jintao’s presidency (2003–2013), which during the Mao era (1943–1976) had been established to facilitate import substitution industrialization based on heavy chemicals manufacturing (Yamamoto and Toritani 2019, 197). Additionally, it relied on joint ventures between foreign firms and Chinese partners in free-trade zones where 50% of the ownership of the business is transferred to the Chinese partner within five years in order to rapidly develop a domestic capitalist class which could compete with foreign businesses in both domestic and international markets and hence protect Chinese autonomy (Keen 2017, 99). Thus, while the high growth rates (between 7 to 15%) every year for decades until 2016 following the 2015 stock market turbulence in Shanghai is indeed remarkable, it is all the more noteworthy because it was not limited to a narrow range of commodity sectors but through the industrial upgrading of production and the development and training of Chinese personnel, it extended across a broad range of sectors which allowed China to undergo an industrial revolution (Bishop 2018).

Reforms from 1976 until the 1989 Tiananmen Square Protests had focused on gradually reversing the three pillars of the Maoist economy which were rooted in Marxist-Stalinist ideology, namely: the criminalization of (1) private property, (2) private business and (3) entrepreneurship. In this way, market forces would gradually begin to play a more prominent role in the Chinese economy as various localities were opened up to foreign investment, import tariffs were reduced, and market mechanisms were incorporated in certain sectors (Rosefelde and Leightner 2018, 21–24). However, the events of the 1989 student-led protest and their suppression by the CCP had an important role in weakening the ideological friction within the party as it was rightly understood to signify that the CCP’s legitimacy was far from guaranteed (Gruin 2019, 82). Amidst debate over whether the market economy was primarily capitalist or socialist (*shichang xingzhi haishi xingshe*) and a conservative base concerned with the destabilizing effects of rapid growth and the deviation from Marxist tradition, Deng Xiaoping embarked on a tour of southern China (*Deng Xiaoping nanxun*) in early 1992 to affirm and reinforce the vision of “Reform and Opening Up” (*gaige kaifang*). In the same year, an ordinance was promulgated which began the set of reforms that would be carried out on SOEs. This particular ordinance (*quanmin suoyou zhi gongye qiye jingying zhuanhuan jingji jizhi tiaoli*) granted SOE managers a host of control rights over key aspects of economic management including foreign trade, production, pricing, sales, investment, labour and so on, while SOEs would also later be turned into stock companies, albeit with the state as the dominant stakeholder (Rosefelde and Leightner 2018, 24; Yamamoto and Toritani 2019, 200; Toritani 2020, 40). With the apparent receptiveness of the public

to the market economy and the widely held belief within the CCP over the need to promote economic growth to protect its own legitimacy, Deng Xiaoping announced the launch of the “Socialist Market Economy” (*shehui zhuyi shichang jingji*) in the 14th National Congress that same year.

At the outset, there was a tension between socialist ideals and the nature of modernizing reform. For example, many local officials made personal gains from the downsizing of the public sector, while the number of jobs among the state-employed workforce was cut by approximately 45%. Similarly, many privatized SOEs were asset stripped. Further, many Town and Village Enterprises (*xiangzhen qiye*), which are market-oriented rural collective economic organizations under the purview of local governments that emerged in the 1980s following the de-collectivization of Chinese agriculture and the abolishment of People’s Communes (*Renmin gongshe*), were privatized. This left approximately 20 million rural workers without employment or a means of income and increased the “floating population” (*liudong renkou*) of workers illegally migrating to the cities for employment and whose exploitation generated a substantial surplus that was used to invest in physical capital (Zweig 2019, 287–288; Klein and Pettis 2020, 101). Alongside the rapidity of privatization, high-ranking officials within the CCP were also concerned over how to rein in the power of finance in order to direct growth but, crucially, not compromise it. For instance, all privately owned firms in China are leaseholds without freehold property rights and the state is often a minority shareholder, while SOEs are technically freehold state property leased to CEOs who are permitted to sell their company’s leasehold on to domestic partners or even the stock exchange. Control by the state is maintained as they are the majority shareholder of SOEs, while the lack of freehold property rights for private companies means that all onshore production is, in a technical sense at least, state-owned (Rosefelde and Leightner 2018, 25).

Similarly, Chinese banking had been reformed through the late seventies and eighties before the official launch of China’s socialist market economy. Four major-state owned commercial banks were created—the Bank of China, China Construction Bank, Agricultural Bank of China, and Industrial and Commercial Bank of China—while the PBoC’s role was limited to that of a central bank, albeit still a part of the State Council and closely connected to China’s four main commercial banks. As a result of these changes, by the 1990s the Chinese economy already had a wide variety of banks, including stock-based commercial banks, as well as non-banking financial institutions such as trust companies, insurance firms, securities brokerage companies and so on, all to varying degrees monitored and supervised by the state (Toritani 2020, 41–42). While this, as well as the subsequent opening of stock markets in Shanghai and Shenzhen, had the effect of decentralizing credit allocation to an extent, the closely integrated nature of China’s developmental economic model meant that the country’s rapidly growing spending power could be taken from Chinese citizens through monetary and fiscal policy in order to generate surpluses that can subsidize domestic investment and foreign consumption (Klein and Pettis 2020, 108). The establishment of three policy banks (*zhengcexing yinhang*) in 1994—the Agricultural Development Bank of China, China Development Bank and the Export–Import Bank of China—to direct state investments and changes to China’s taxation system played

an important role in this (Toritani 2020). At the same time, monetary policy during the 1990s and 2000s was crucial in determining the course the Chinese economy would chart. For instance, in 1994, China's two exchange rates—a market-based exchange rate for voluntary trade and an official exchange rate for planned trade and foreign visitors—were unified and the PBoC under the stewardship of then vice-premier Zhu Rongji, pegged the RMB to the US dollar. This brought about an increase in exports and foreign exchange (forex) reserves which helped to stabilize China's financial system, arrest inflation, redirect China's economy towards the utilization of the dollar standard system through exports, and even weather the 1997 Asian Financial Crisis despite the devaluation of currencies across Southeast Asia.

The new model of Chinese economic growth would take off, however, after mainland China became a member of the World Trade Organization (WTO)¹ in 2001 following a series of economic concessions made by President Jiang Zemin and Zhu Rongji who had since become Premier of China (Pearson 2001). As a result, China's trade balance increased from a deficit of US\$13.5 billion in 2000 to a surplus of USD\$359.9 billion by 2005 (Yamamoto and Toritani 2019, 203). Following this, China was accused of unfair trade practices and contravening WTO rules which has limited the attendant costs of opening up its domestic market to foreign competitors. Examples of this include making technology transfer a condition for market access, failing to prosecute Chinese firms for violating intellectual property rights, and closing certain sectors of the economy to Foreign Direct Investment (FDI), which have allowed the state to create national alternatives to compete with transnational corporate giants seeking to do business on the mainland (Zweig 2019, 297).² Ultimately, whether owing to widespread criticism of Chinese trade practices, particularly from the US, or whether in order to implement a more flexible exchange rate system in the aftermath of currency crises in Mexico (1994), Brazil (1999), Argentina (2001) and across Southeast Asia and beyond (1997), China ended its dollar-peg policy and replaced it with the “managed float system” (*you guanli de fudong huilǚ zhidu*) against a basket of currencies including the US dollar (PBoC, July 15, 2010; Yamamoto and Toritani 2019, 203–204). Nonetheless, the Chinese economy was highly dependent on the dollar standard, to the benefit of large US corporations, with the PBoC intervening in the market to control the rise of the RMB. This led to an expansion of the monetary base (currency in circulation and bank deposits) and the accumulation of US forex reserves (Yamamoto and Toritani 2019, 204).

China's transition to the dollar standard was long and complicated. However, the change to Chinese society has been profound. Nonetheless, the period of rapid economic growth in China is over and the CCP is faced with enormous economic challenges that must be addressed. Much of this stems from the growth of the real estate sector due to rising valuation of land and the ever growing influence of the finance sector on China's political economy. Such is the magnitude of China's economic strength that a collapse of the Chinese economy would push the world into another

¹ Hong Kong was already admitted to the WTO in 1995 and formally handed over to China in 1997.

² Of course, earlier economic powers such as the United Kingdom were accused of similar practices during the industrial revolution (Chang 2012).

GFC or even Great Depression, and widespread economic turmoil would clearly challenge the legitimacy of the CCP as it would any other political entity. In the following section, we explore the vulnerabilities within the Chinese economy that have surfaced since the Chinese stock market crisis in 2015 and how the CCP has attempted to respond to these issues by championing free-trade abroad and promoting what appears to be a ‘globalization with Chinese characteristics’ through the internationalization of the RMB and the construction of various institutions and frameworks to promote Chinese-funded international development.

3 China Post-GFC: From the World’s Factory to a Consumption-Based Economy

Due to the switch to the managed float system, the PBoC was forced to allow a controlled appreciation of the RMB as an anti-inflationary measure as China’s trade balance and growth rate both hit the stratosphere. In addition to this, the PBoC invoked a number of temporary price-controls, raised interest rates and increased reserve ratios on bank deposits throughout 2007 and began monetary tightening by the end of the year (Naughton 2008). This changed, however, five months after the start of the GFC when in November 2008, the CCP launched a stimulus program of approximately RMB4 trillion, equivalent to 17% of GDP, which entailed an enormous expansion of credit aimed at infrastructure projects, predominantly in energy and transport, but also for environmental projects, housing, as well as technological upgrading, health, education, and reconstruction from the May 2008 Sichuan earthquake (Naughton 2015, 120). The stimulus programme offset the shortfall in demand for Chinese exports and limited the effects of the GFC across the world. The cost, however, was the a real estate bubble and surge in private and public debt in a country already attempting to reduce the risks of excess-liquidity, which posed new challenges to China’s management of credit. This led to the rise of shadow banking and increased China’s private debt to GDP ratio, where it overtook the level of private debt (corporate and household debt) in the US just before the US housing bubble burst, triggering the GFC³ (Keen 2017; Wu and Trading Economics 2020). It must be noted that without the CCP’s stimulus programme, the GFC would have been much worse. Nonetheless, because of the shortfall in global demand, China began transitioning from an export-driven economy to one that is debt-driven. In the aftermath of the GFC, China has taken acts that would seem to spell the end of the dollar standard such as the internationalization of the RMB and the ramping up of Foreign Direct Investment (FDI) and trade in markets outside of the US, as well as buying up precious metals, foodstocks and rare earth minerals. However, its response to the GFC and steady internationalization have exposed a number of vulnerabilities in the economy. To explain this, this section focusses on China’s response to the GFC and

³ Although household debt to GDP is lower in China (approximately 60%) now than the US (approximately 98%) at the onset of the GFC (Trading Economics 2020).

its effects, the internationalization of the RMB and international investments that suggest the rise of new geopolitical strategy.

Much of the GFC stimulus programme was channeled through the banking system. While the state-owned banks tended to focus its lending on SOEs, stringent liquidity requirements, particularly among smaller banks, accelerated the rapid growth of shadow banking in China which took the role of indirectly financing a large portion of new development projects. This is not to suggest that shadow banking emerged because of the GFC, far from it. Financial liberalization in the early 2000s and the transition to the managed float system led to the oversupply of liquidity in the financial system causing households and businesses to hedge against inflation risk by investing in products which offered higher yields. These pressures augmented as a result of the CCP's stimulus programme in 2008, which caused shadow banking to grow further. What is noteworthy here is that the bulk of Chinese shadow banking resulted from regulated banks conjuring up new methods to circumvent normal banking regulations, rather than breaking the law (although there are illegal shadow banking activities). This includes interlinking with non-banking financial institutions such as trust companies and securities brokerage firms to remove loans from the banks' balance sheets and offer wealthy clients and investors a series of wealth management and trust products, not limited by normal regulations (Lindgren 2018). The rising valuation of land, no doubt, will have added to the number of these wealthy clients looking for such financial institutions to build up their wealth. While there is disagreement over what actually comprises 'shadow banking' in general as well as in China itself, it was these kinds of products that individuals and institutions gambled on to the point that shadow banking is now estimated to account for approximately one third of total liquidity in China (Howell 2020, 177).

While funds procured through trust companies on the whole are increasingly being invested into the financial sector and not the real economy⁴ (Toritani 2020, 105–107), a large proportion of the debt taken on by local governments is believed to be from shadow banking activities owing to the utilization of Local Government Financing Vehicles (LGFV; *difang zhengfu rongzi pingtai*) in order for local governments to qualify for loans and sell municipal investment bonds (*chengshi touzi zhaiquan*). LGFVs are state-owned companies used by local governments to procure funds for infrastructure projects because local governments were banned from direct bank lending and access to the bond market in order to prevent overproduction. However, following the GFC, the central government sought to adapt existing institutions to the effects of its stimulus programme and demanded that LGFVs be utilized to procure funds in order to finance infrastructure and real estate development given the centralized control the state maintains over land and real estate (Naughton 2015, 123; Toritani 2020, 106). Local government officials, after years of underfunding following the 1994 tax reform in which financial resources were transferred to the central government, were presented with a golden opportunity to procure funds in

⁴ This is also true for wealth management products over half of which are issued by regulated banks but channelled into short-term loans and securities through partners and subsidiaries with a different legal status to the bank (Toritani 2020, 105–107).

order to raise the economic growth rate of their area. Not only would this benefit the local economy, but it was also a means by which these officials could secure promotion.

The main means of funding however was from securitized products with variable interest rates, or, in other words, shadow banking activities (Yamamoto and Toritani 2019, 208). Shadow bank funding to LGFVs remains a particular point of concern for the Chinese authorities given that the high yields offered to bank clients through wealth management products are turned over to (often comparatively high risk) lenders with a profitable rate of interest for the financial intermediaries with little to no coverage or guarantees given the absence of liquidity requirements. Put simply, the LGFVs ratcheted up a high level of unsecured debt and there are concerns it cannot be repaid. Added to this and the fact that shadow banking is on the rise, is that China's declining population is very likely to negatively impact on the demand for property after thirty-six years of China's infamous 'one child policy' from 1979 to 2015 in a country where many middle-class and upper-class households, particularly in the big cities, have purchased numerous properties. Demand may fall faster than population decline also given that these households will likely sign one of their properties over to their child, and hence reduce the number of buyers on the market. What is key here is the fact that the CCP's directive to the banks following the GFC to lend as much as possible was carried out in response to fears that approximately 60 million labourers could lose their jobs and the threat that economic turmoil poses to the legitimacy of the government (Koo 2015, 267–272). Indeed, the ramifications for economic turmoil during and following the GFC are considerable. The problem for the Chinese economy was made clear by the GFC—China needs foreign markets and hence needs a stable international monetary system. This laid bare the incentive for the Chinese state to decouple from the US market and seek to strategically manage the internationalization of the RMB and turn China into a consumption-led economy.

Even before the GFC, Chinese authorities had taken steps to internationalize the RMB. For example, in 2007, China Development Bank issued RMB-denominated bonds in Hong Kong called 'dim sum bonds' (*dianxin zhaiquan*), though a market only developed after the GFC when the right to issue them was extended to all banks in Hong Kong (Li, November 19, 2011). However, several months after the passing of the central government's stimulus programme, Zhou Xiaochuan, as the Governor of the PBoC, seemed to acknowledge not only the unsustainability of the dollar standard but also the urgent need for a new model of economic growth in China based on domestic consumption. Indeed, real wages in China have been increasing since 2003 and had almost doubled by the time of Zhou's statement, signalling that the Chinese economy would soon reach the 'Lewis turning point,' if it had not already done so, where through industrialization, urban factories absorb all the surplus rural labour, causing labour shortages and rising wages (Zhang et al. 2010; Koo 2015, 278; Yamamoto and Toritani 2019, 207). For obvious reasons, export-driven growth based on labour-intensive production is not feasible in such a scenario. Therefore, while the mechanization of the Chinese economy, particularly agriculture, may alleviate these pressures, China is transitioning to an economic model based on capital-intensive production, technologically advanced industries,

domestic consumption and a demand for skilled labour (Zhang et al. 2010, 21). This is demonstrated by China's shift from the production of cheap goods to cutting-edge, high-value technologies (such as high-speed rail) which has lessened its reliance on the US market to absorb its output and hence the need for China to rely on purchasing US debt, whether public or private.

Key to China transitioning to a new economic model and avoiding the "middle income trap" in which emerging economies can neither compete with advanced economies for high-value products nor rely on the export of cheap goods as a growth model, means increasing domestic innovation to raise productivity and dealing with industrial overcapacity (Koo 2015). In terms of innovation, Premier Li Keqiang issued the "Made in China 2025" plan in May 2015 which focuses not only on increasing the productivity of China's manufacturing sector, the base of its export-led growth, by improving innovation capacity, resource utilization, and implementing new streamlined and technologically-advanced methods of production, but also laying the groundwork for China to become a leader in producing high-value goods and sustainable development beyond 2025 (State Council, May 8, 2015). In order to deal with industrial overcapacity, China announced a new strategy of economic expansion across the world in November 2013 named the Belt and Road Initiative (*yidai yilu*; formerly, One Belt One Road). The BRI is considered to be President Xi Jinping's global strategy to realize the "Chinese Dream" (*Zhongguo meng*) of national glory and prosperity, in which all elements of the state and even parts of China's civil society have been mobilized to pioneer a global infrastructure project across Eurasia and beyond (Zweig 2019, 300). The BRI comprises a "Silk Road Economic Belt" (*sichou zhi lu jingji dai*) between East Asia and Europe, the largest economic corridor on the planet, and the "twenty-first century Maritime Silk Road" (*21 shiji haishang sichou zhi lu*) which connects east China to southern Europe via the South China Sea, the Indian Ocean, Somalia and the Red Sea, and east China to northern Europe via the Arctic Ocean. While the BRI has been touted as the "Chinese Marshall Plan," rhetorically implying the end of the US-led post-World War II global order (Shen and Chan 2018), the US still remains China's top trading partner (Hamilton, February 19, 2021). Nonetheless, by strengthening alliances with resource rich countries in central Asia as well as Russia, China seeks secure the means by which it can shift towards a consumption-based economy.

However, there are concerns that the BRI cannot achieve its goal of regional integration, particularly in the Asia-Pacific. While political and historical issues between East Asian countries are well-documented and certainly a factor in this argument, a more practical issue involves the limits of economic space. For example, the Asian Infrastructure Investment Bank (*yazhou jichu sheshi touzi yinhang*), a regional investment bank, was launched by China in 2014 in order to foster economic connectivity and the establishment of an Asia-Pacific free-trade zone (Ministry of Foreign Affairs PRC, March 29, 2015). However, even with concerns over national security and politico-historical disputes notwithstanding, Chinese companies are spatially limited when it comes to constructing an integrated network of supply chains and intra-company division of labour given the fact that these networks have already been

built by Japanese, Korean and Taiwanese companies (Toritani 2020, 167). Competition in the area will remain high unless there is a major change in the world economy. Nonetheless, there can be little doubt that the CCP will be cognizant of how the recycling of US surpluses in the post-war facilitated the rise of the Asian Tigers (Singapore, South Korea, Taiwan, and Thailand) and helped the Asia–Pacific become the growth centre of the world. For this reason, China’s multilateral efforts to finance infrastructure projects in Central and Eastern European (CEE) countries is a key point of focus which is often overlooked. China now participates in a cooperative initiative with, from north to south, Estonia, Latvia, Lithuania, Poland,⁵ Czech Republic, Slovakia, Hungary, Slovenia, Croatia, Romania, Serbia, Bosnia and Herzegovina, Montenegro, Bulgaria, Kosovo, Albania, and Greece.⁶ Most of these countries were once part of the Socialist Federal Republic of Yugoslavia, the Soviet Union or otherwise former members of the Eastern European Bloc, and hence are thought to be more open to state-centric forms of investment. Geographically these nations comprise the gateway to the Western European market. Moreover, China’s National Development and Reform Commission directly led by the State Council, whose remit is national economic development, has played a prominent role in key infrastructure projects within CEE countries, which connects China to Europe via the underdeveloped economies of Central Asia. This reflects the high priority the CCP places on the BRI to the Chinese economy as, for one, it allows China to move investment expenditure to underdeveloped regions of China as well as abroad (Du 2020; Dallago 2020, 158). The last point to consider regarding how the BRI may offer China a means to transition to a consumption-led economy is that labour-intensive industries may relocate abroad to BRI member-states, particularly those neighboring China, and, supposing the “Made in China 2025” plan is successful, China can attract foreign capital to the Chinese mainland.

Nonetheless, this transition is fraught with difficulties. The stock market turbulence in Shanghai in 2015 is a case in point. After the GFC, efforts to transition China into a consumption-led economy were ramped up. Three months after Zhou’s advocacy for an SDR international monetary system, the PBoC announced the RMB trade settlement rules (*renminbi kuajing maoyi jiesuan shishi xize*) which allowed Chinese companies in designated cities in China to settle cross-border transactions with companies in member-states of the Association of Southeast Asian Nations (ASEAN), Hong Kong and Macau (as Special Administrative Regions of China),

⁵ In 2016, Poland also became the first European government to issue panda bonds (*xionghao zhai-guan*), RMB-denominated bonds from non-Chinese issuers sold in China, following an agreement between the PBoC and Poland’s Ministry of Finance (Zhang, June 22, 2016).

⁶ Greece’s decision to join this partnership, despite the fact that it was never a member of the Eastern bloc (despite its civil war) is likely a key point of focus for other EU member-states. While the European Union bailed out Greece after the Eurozone Debt Crisis, repayment is scheduled to last until 2060, and because the state cannot print its own currency, it will be forced to impose austerity for over four decades in order to deleverage (Maza, August 20, 2018; Varoufakis, August 26, 2018). Were Chinese investment to help Greece pay off these debts earlier or at least ease the burden of austerity on Greek citizens (including those still unborn), other member-states would surely be interested in joining the 17 + 1 framework which would expedite and broaden China’s access to the European market.

in RMB.⁷ Since then, the PBoC signed bilateral local currency swap agreements with over forty different central banks/monetary authorities, including the European Central Bank, the Bank of Canada, the Bank of England, the Bank of Japan, and other countries closely allied to the US⁸. It also established RMB clearing arrangements in countries all over the world including the US and even authorized J.P. Morgan Chase & Co to serve as the RMB clearing bank in the US (PBoC 2020). In addition, as RMB-denominated trade grew in Hong Kong, China further developed its financial infrastructure to expand the free flow of capital in and out of mainland China. In 2010, it established a free exchange market between the RMB and US dollar in Hong Kong (CNH), separating it from the Shanghai market (CNY) which is directly managed by the PBoC, in order to use Hong Kong as an offshore market for RMB trading whilst protecting the mainland economy (Toritani 2019, 6). Following this, the Chinese authorities established a number of frameworks to allow the free flow of capital in and out of China via Hong Kong, notably the Shanghai-Hong Kong Stock Connect (*hu gang tong*), the Shenzhen-Hong Kong Stock Connect (*shen gang tong*) and the Bond Connect (*zhaiquan tong*) which allows offshore (in Hong Kong) investors to access to China's onshore bond market (Yamamoto and Toritani 2019, 216–217; PBoC 2020).

While many of these developments took place after the 2015 stock market turbulence in Shanghai, China is nonetheless vulnerable to capital flight. First, it is noteworthy that approximately 80% of investors on the Shanghai Stock Exchange are small retail investors which means that in the event of a stock market crash, the CCP can expect political discontent and potentially protests (Duggan, July 8, 2015). Secondly, the collapse and trading suspension resulted from the economic imbalances in the Chinese economy particularly as a result of injection of liquidity into the economy after the GFC. For example, SOEs had relied on debt-equity swaps in order to remove interest-bearing debt from their balance sheets while for the state-owned banks financing them, it was a means to dispose of bad debt. This increase in the number of shares on the Shanghai Stock Exchange played a large role in driving down prices, as did the refinancing of LGFV debt that year as it sparked fears that it could not be repaid (Toritani 2019, 11). The stock market turbulence sent reverberations around the world, and, as a countermeasure, the PBoC devalued the RMB. However, this had the effect of causing capital flight out of China and curbing its efforts to internationalize its currency. Therefore, the Chinese economy, having passed the Lewis turning point, is now caught between the Scylla of the “middle income trap” and the Charybdis of managing credit for public welfare amidst financialization. More to the point, its focus on SOEs through the BRI is an important means by which the CCP

⁷ This had been planned before the GFC, however.

⁸ China has signed bilateral local currency swap agreements with the central banks/monetary authorities of the following countries, regions, or unions: Albania, Argentina, Armenia, Australia, Belarus, Brazil, Canada, Chile, Egypt, European Union, Georgia, Hong Kong, Hungary, Iceland, Indonesia, Japan, Kazakhstan, Macao, Malaysia, Mongolia, Morocco, New Zealand, Pakistan, Qatar, Russia, Serbia, Singapore, Sri Lanka, South Africa, South Korea, Suriname, Switzerland, Tajikistan, Thailand, Turkey, Ukraine, United Arab Emirates, United Kingdom, Uzbekistan (PBoC 2020).

can direct the flows of investment in ways that benefit the Chinese economy and people, and allow this transition to a consumption-led economy that is no longer tied to the dollar standard. However, as the Shanghai stock market turbulence demonstrates, managing this process of marketization whilst maintaining the key resources for its centralized control over the economy is to chart a fine course on perilously treacherous waters.

4 Will China Put an End to the Dollar Standard?

The dollar standard will come to an end, and there are two ways that it may take place: with consensus or without. From the assessment above, we can conclude that it is unlikely that China plans to unilaterally replace the US dollar with its own currency as the global reserve. The internationalization of its currency is hampered by the imbalances in its own economy and it is still dependent on the US market up to a point to offset some of its own economic frailties. The dollar standard has allowed the US to remain the global superpower in the current world order but at a cost to its own workforce whose livelihoods have been threatened, if not destroyed, by financial instability and the enormous political influence of the creditor class brought about by the enormous growth of the US financial sector, and the hollowing out of US industries. Undoubtedly, the pain has been palliated by the lower cost of goods, but this too is now being challenged by China's transition to a consumption-led economy and the global rise of food prices as a result of structural inflation (Tan, September 9, 2020). Furthermore, there is increasing evidence to suggest that QE, whether in response to the GFC or the Corona Virus, has pushed up asset prices and exacerbated the wealth divide and devalued people's savings (the Cantillon effect), while citizens and local businesses across the world have taken out loans simply to cover existing debts in order to deal with the conditions of lockdown or being furloughed without sufficient financial support.

It should be no surprise then that we have seen investors hedge against inflation risk by investing in digital assets, gold bullion, silver, or securities (Garber, February 19, 2021; Tully, February 24, 2021). While the suggestion that these assets, particularly cryptocurrencies like Bitcoin, will ever be considered to be safer investments than US treasury bonds may to some seem, at present, outlandish, it is important to consider what would happen if China were to sell large portions of their US treasury bonds. If this were to happen, we would expect the dollar to collapse. This, in turn, would affect all economies whose chief strategy of growth is exporting goods to the US and it is likely that they would look for other export markets. With Morgan Stanley, for example, predicting that China's private consumption will more than double by 2030 to approximately the same amount that US consumers currently spend (and not as much on debt), one market that may stand to benefit from such a scenario is China, provided it is able to decouple from the US market (Cheng, January 29, 2021). Further, while the risk of a rapid depreciation of the US dollar seems low to some given that primary commodities are predominantly sold in US dollars, US unilateralism, if too

heavy-handed, may convince countries to sell goods in other internationally-reputed hard currencies. Also, the Federal Reserve's loose monetary policy in response to the Corona Virus is likely to increase the wealth divide in the US in the same way that it did after the GFC. If financial institutions and companies refrained from investing in the US economy due to doubts over the spending capacity of US citizens after the GFC, this problem will only be magnified after the Corona Virus pandemic unless there is a major change in how newly created money is distributed.

The question, then, is how long can QE continue? Can the Federal Reserve print money without consequence provided that inflation is managed by building in the extra capacity in the economy to absorb deficits? The current outlook with respect to inflation should raise significant doubts over this. Even if the Federal Reserve has the capacity to act as a de facto global central bank as printing money both leads to full employment at home and protects the trade flows of foreign countries (Kelton 2020, 151), this is simply not an act that would be welcomed across the globe. Thus, at some point the financial sector will lose faith that the US government can repay its debt, or enough foreign governments will decide to decouple from the US market over time as consumer spending capacity declines and the dollar standard will end. In the meantime, the rise of decentralized digital currencies and digital payment platforms have pushed governments to begin laying out the general framework for digital currencies issued by central banks. Although it is by no means the first to create digital currencies, China initiated trials of its own digital currency issued by the PBoC, called the digital RMB (*shuzi renminbi*) or "Digital Currency Electronic Payment". While this is likely a response to the threat digital currencies pose to China's monetary sovereignty and the duopolization of e-payment systems in China by the tech-giants Alibaba and Tencent (Sina-Finance, October 14, 2020), it is built with Blockchain technology which significantly reduces the cost and time of cross-border transfers. With a large population of Chinese speakers living abroad, particularly in the Asia-Pacific, it is not difficult to imagine how a digital currency backed by the PBoC would facilitate the internationalization of the RMB (Vincent, September 25, 2020). Furthermore, cross-border transactions using China's digital currency will likely be carried out by their own clearing and settlement system, Cross-border Interbank Payment System (*renminbi kuajing zhifu xitong*; CIPS), and not the Society for Worldwide Interbank Financial Telecommunication (SWIFT). Given that SWIFT has banned foreign countries from its system in compliance with US-imposed sanctions (Coppola, June 30, 2019; Sina-Finance, October 4, 2020), it is conceivable that countries might turn to CIPS as a replacement to SWIFT to avoid trade sanctions and hence integrate their economy in a different economic network with the Chinese economy as its consumptive heartland.

5 Conclusion

From the analysis above it seems unlikely that China alone has the capacity to end the dollar standard, and, even if it did, such an act at present would inflict serious

damage to the Chinese economy. However, global events of this magnitude cannot be predicted so accurately as they depend on a number of unknowable variables. Nonetheless, whether China could weather to such a scenario depends on how it is able to adapt its economy. If China is successfully able to utilize the BRI to access new markets and reduce its reliance on US consumption and create an economic bloc less reliant on US forex reserves and SWIFT, then it would be all but immune to US economic sanctions given the abundance of resources across the new Silk Road. Further, China could relocate its labour-intensive industries to other countries in the BRI, whilst substantially increasing labour productivity and incorporating a transparent legal structure that will attract foreign capital to the mainland, and so it is conceivable that it can successfully avoid the middle-income trap and become the center of a new international economic order. In such a scenario, the RMB and other currencies, if backed by gold or other precious metals, could replace the dollar standard and fiat money out-right.

Despite this, RMB-denominated trade up to the present day has been limited to approximately 1% of international settlements (Yamamoto and Toritani 2019: 215–219) and while RMB-denominated trade has been launched in the crude oil futures market (Saefong, 26 March, 2018), indicating its rise as a major currency, the future of the dollar standard is more likely going to be determined by whether the US foreign policy and if it can overcome its own economic malaise, as China's role is such a dynamic is likely to be reactive. The dollar standard system, particularly after the 1971 Nixon shocks and the reduction of capital controls had led to the so-called "Impossible Trinity" in international economics, which states that it is impossible to maintain a fixed foreign exchange rate, free capital movement and an independent monetary policy at the same time (Aizenman et al. 2012). If recent developments in the Chinese economy demonstrate anything, it is of the necessity that the CCP an independent monetary policy without completely abandoning capital controls in the current international monetary system. To this end it is likely that Zhou Xiaochuan's statement on replacing the dollar standard with an SDR system reflected an earnest desire that an upgrade of the current SDR system is negotiated among the world's countries so that a new Bretton Woods can be established where the IMF can act as the lender of last resort in a truly multipolar world order. This prevents the current scenario in which the Federal Reserve along with other major central banks such as the ECB and Bank of Japan, and now even the PBoC, purchase enormous amounts of government bonds in a constant attempt to inject liquidity into the economy while essentially attenuating its imbalances in order to offset a financial avalanche by allowing it to snowball a little longer (Streeck 2016).

However, without a framework of sustainable economic growth in the US and with other governments and private investors seeking ways to decouple from the US market as US power wanes and the spending capacity of US citizens weaken and their liabilities grow amidst rising asset prices, a collapse of the dollar standard is another scenario that must be taken seriously for there to be a future that is sustainable. It is likely that if the US does not do so, at some point, other countries will. Governments therefore should begin negotiations over how the international monetary system can be reformed, whether with SDRs or otherwise, with the obvious the goals of achieving

economic sustainability, international peace and increasing public welfare. Failure to do so would be to all but guarantee the exact opposite.

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Part V
After 100 Years of Wars: How to Make
New World Order – Economics

Chapter 19

Fundamental EU Reform: Impact of the COVID Crisis



Bruno Dallago and Steven Rosefelde

Abstract We propose the construction of a multi-speed, multi-track and multi-level (MSTL) European Union to replace the present one-speed, one-track and one-level union as a way to increase the flexibility of the process of integration and avoid inter-country conflicts. The paper shows that this general approach is superior, applicable even in the presence of negative spillovers where some refinements may be in order for dealing with fundamental issues like monetary union and immigration. The EU answer to the emergency caused by the pandemic goes in the direction of an MSTL union, but some of its aspects and the temporary nature raise doubts on the long-term perspective.

JEL classification E02 · E61 · F15 · G01 · 052

Keywords Crisis · Eurozone · European Union · Institutions · Policies · Reforms

The Treaty of Rome, which created the European Economic Community (EEC) in 1958 among the six founding countries and established the European Commission (EC), was the first comprehensive move in the process of European integration. The Treaty foresaw the creation of a single market for goods, labor, services and capital through the reduction of customs duties and the establishment of a customs union. It also provided for the creation of common policies for agriculture and transport and established a European Social Fund for supporting employment and promoting economic and social cohesion. Although the Treaty aimed mainly to create a common market and coordinate the action of sovereign member countries, it also was a waystation on the road to a fully integrated European Union.

The Treaty reflected the view that a progressive one-track approach would resolve potential conflicts in trade issues through pragmatic, cooperative long-term

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bargaining and compromise. Although in the Treaty this was limited mostly to markets and trade, a series of interpretative judgments by the European Court of Justice established the EEC's legal supremacy in selected fields. The prevailing view became that member countries should adopt a single track and travel together at the same speed by consecutively negotiating treaties in lieu of an EU constitution (Scicluna 2018). Following subsequent waves of enlargement, this principle was relaxed for less developed new member countries and former socialist countries, granting them breathing room to successfully adapt to common standards and modernize. This accommodation preserved national pluralism as an important aspect of the integration process.

Things changed when the Maastricht Treaty put monetary integration on the agenda in 1992, requiring all member countries to join the monetary union as soon as they were ready, with the exceptions of Great Britain and in part Denmark. Monetary integration imposes stringent rules and requires more member country coordination than a common trade regime—a challenge that galvanized partisans of “more Europe” to push for a federal system. In the years preceding the global financial crisis of 2008 “more Europe” supporters dominated, but the spirit of unity frayed after the crisis. EU leaders expect the union to weather the financial crisis and make strategic adjustments to the grand design on a learning-by-doing basis, and find it difficult to contemplate the union's fragility.

Their optimism may be misplaced because EU institutions are coping poorly with external distress and internal contemporary dissensions. Pre-Maastricht arrangements worked well enough because the core goal was the creation of the common market in a fundamentally stable international context. Conflicts could be resolved relatively easily because they were about apportioning benefits, not winning and losing. Once the monetary union raised the specter that some members might lose, while others won, the nature of European integration changed fundamentally. Consensus yielded to dissent. The failure to redesign the EU system to meet the needs of a more contentious era created fundamental institutional and political problems with negative economic and social consequences. The EU can stay the single-track course without crumbling under the Lisbon treaty, but better outcomes are likely with a fresh approach that does a better job of managing conflicting interests.

This requires returning to basics. The essential point to grasp is that the common market (now the single market) no longer provides a strong enough bond to sustain EU solidarity because the EU is triple-minded. Members invoke the win-win logic of Pareto competition in embracing the single market but shift their ground twice on other matters. First, they prefer socially managed markets to laissez-faire hoping to reconcile efficiency with equity. This gives rise to inter-member disputes over regulatory power. Pareto bargaining is always win-win when market failures are absent. Socially managed markets are not, unless they can avoid state failures and re-establish the conditions of perfect competition. When these conditions are missing, socially managed markets may create winners and losers of various sorts depending on who holds the reins of power. Regulators try to allay fears with promises of roundabout synergies, but as Greece discovered, assurances that austerity's benefits will outweigh its costs may be invalid.

Second, strong EU members may decide to impose their “superior” values on weaker states on political, social, military and foreign policy issues, claiming to act as good parents disciplining wayward children. Powerful common instruments and procedures requiring strict obedience support this paternalistic approach and preclude joint autonomous utility enhancement or direct loser compensation.

Regulatory conflicts and brow beating occur in all political systems. They come with the territory and in good times are manageable with a commitment to solidarity, commonsense and supportive institutions. These conditions were satisfied before the Maastricht Treaty. The shared fruits of trade liberalization and healthy competition lubricated cooperation. The EU’s halcyon days however now are behind it. Potential future gains from the single market seem modest, pressure for “more Europe” is generating stiff resistance, and a clash of rival social and political demands is testing EU pragmatism.

The problem is resolvable by adopting a more accommodative EU mindset, supported by flexible institutions. All member countries, stronger and weaker alike should implement European rules equally. Policy coordination should be effectively implemented by all countries so that national business cycles are either coordinated or compensate each other. Powerful member countries should exercise judicious self-restraint in influencing common organs on consequentialist, rational choice grounds. If they value the European Union, and are considerate of others, then they should bridle their power seeking, accommodate diversity and rationalize the EU’s institutional structure whenever costs exceed benefits. This requires that weaker countries restrain their opportunism. Once power seekers and paternalists adjust their mindsets and soften their attitudes, the EU’s architecture can accommodate diversity and stabilize the system.

The refugee crisis exemplifies the clash of attitudes toward social change roiling the waters of consensus. One faction demands unrestricted refugee immigration for all those who qualify, the other opposes it maintaining that most of them are economic migrants. There is little or no room here for negotiating mutual utility improving, joint value-adding solutions. The refugee problem from the perspective of both parties is a win or lose proposition. The strong want to vanquish the opposition, and their opponents to minimize losses. Poland and Hungary operating with weak hands want to accept as few refugees as possible, even though their leaders acknowledge the need for some refugee assistance, accept the concept of the “single market” and otherwise endorse the Schengen agreement.

Poland, Hungary and others feel that “more Europe” arguments for EU wide regimentation in selected issues such as immigration mean more lopsided losses, not mutually beneficial Pareto improving gains. They prefer selective “less Europe” to recover some lost ground and expand their degrees of freedom to pursue diverse utility improving ends. Proponents of “less Europe” could switch sides in which case there is no need to scuttle the current one-track, multi-speed approach, but this seems unlikely. A multi-speed, multi-track, and multi-level (MSTL) (jurisdictional redistribution of powers to supranational, national and shared domains) option for the moment is wiser. It will eliminate unnecessary compulsion; diminish polarization,

foster local adaptation, and tailor speed to circumstances, creating a space for all EU members to flourish in the ways they consider best.

Can leaders reformulate an institutional framework for the European Union that dampens conflict, expands Pareto improving ventures, curbs power seeking, and promotes mutual accommodation, solidarity and consensus? Yes. It need only pragmatically return to its original flexible supranational vision (Scipioni 2018). However, there may be an important caveat: is this perspective valid across-the-board or should there be exceptions, especially for the monetary union?

The economic emergency caused by the COVID-19 pandemic erupted in the EU in early March 2020. After few weeks of uncertainty, due to the unclear seriousness and spread of the disease and resistances by various resilient countries, the EU acted unusually swiftly. The debate was intertwined with the new 2021–2027 EU budget, the proposals of common bonds (Eurobonds or, as they were soon called, recovery bonds) and Brexit. While the ECB, after initial contradictory moves, acted massively and boldly, the European Commission and the European Council lost precious time in debates that moved not only around the best way of supporting EU economies and fighting the disease, but also and initially primarily around the distribution of costs and benefits among member countries. The ECB acted rapidly by introducing new instruments to support economies, providing credit on a massive scale and keeping interest rates on sovereign bonds close to zero. The European Commission swiftly suspended balanced budgets requirements as foreseen in the Stability and Growth Pact (SGP) and allowed member countries to spend as much as they consider proper to fight the pandemic and support the economy, including state support to ailing companies. Although initial moves were uncertain, ultimately, they reached unprecedented levels with the use of completely novel instruments. Does this mean that the EU is finally moving in the direction of a MSTL union?

The next section sketches the fundamental features of the European problem that require innovative solutions. Sections 3 and 4 explain why and in which sense a multi-speed, multi-track and multi-level (MSTL) solution may offer a superior alternative to the present EU institutional architecture. The fundamental features of the MSTL solution are reconsidered in Sect. 5, especially the critical importance of negative spillovers. Section 6 investigates whether the EU is becoming *de facto*, but not *de jure* an MSTL union. Finally, Sect. 7 considers the nature of the EU pandemic strategy and Sect. 7 concludes.

1 Setting the Stage

Europeans for the moment are afraid to consider fundamental changes because they dread revising EU treaties. An increasing number of member countries are critical of the EU and disrespect its rules. Yet despite prolonged turmoil following the eruption of the 2008 international financial crisis, the European Union appears more resilient than some expected. Rules and decisions of European organs are predictable and consistent, in spite of occasional flaws and however vociferous political parties and

occasionally governments may be; Europeans are prudent when confronted with hard choices on their future. Greece back in 2015 considered leaving the euro, but chose to remain and undergo painful austerity policies and reforms. A previous Italian government tried to resist Brussel's "dictates", although more in words than deeds and the government failed. Opinion polls report an improving confidence in the euro and the EU (EU 2019b). The 26 May 2019 European elections show a fragmented electoral landscape, yet anti-European parties have not fared well. There continues to be a solid pro-integration electoral majority of voters, in spite of occasional disappointments and complaints.

EU resilience reflects economic interests and the fear of exorbitant exit costs as idealism wanes. An integration that discourages citizen participation and copes poorly with prolonged economic difficulties is vulnerable to conflict. It is evident that the EU has to change to deter defections. Europeans' resilience provides time for change, but is not a viable long run solution.

This is an important moment for reconsidering the integration process in the wake of the UK's exit and the important, yet temporary EU pragmatism to stand the pandemic crisis, understanding what went sour, and searching for practical solutions. This paper deals with an issue that has traditionally only received token consideration.¹ The issue is simple, but solutions require attitude adjustment and determination. Why should member countries deepen their integration along pre-crisis lines once the pandemic crisis is over? It is self-evident that identical rules and rigid convergence parameters generate different outcomes for different countries and no longer facilitate integration. Most Europeans do not object to the EU in principle. Many, nonetheless, find residual strictures perturbing. They seek to understand the underlying sources of rigidity and some are offering ad hoc solutions.

The present pandemic deal is exceptional in both the solutions enacted and their boldness and flexibility. Yet changes follow an ad hoc pragmatic perspective that avoided changes in the institutional architecture of the EU. In a sense, these changes may even represent a retreat from the set of proposals that were debated and included in official documents, such as the idea of appointing a common economic and financial minister. So far, the EU prefers to give countries grants and cheap loans guaranteed by the common budget, rather than changing the institutional architecture. The EU is moving prudently towards a MSTL union in practice, at least until the health and economic emergency exists, but not in the institutional architecture. Informal institutions conform to the MSTL perspective, while formal institutions remain traditional. Which ones will prevail in the unavoidable future clash of views and interests?

Recent contributions in the literature like Andreozzi and Tamborini (2019) show that technocratic regimes are dominated by non-cooperation, suggesting that EU leaders may be conditioned to favor hard choices between the union and non-cooperation. Richard Bellamy and Sandra Kröger (2017) argue that non-cooperation

¹ The Rome Declaration on the occasions of the 60th anniversary of the foundation of the European Union discretely expresses the need for pragmatism. "We will act together, at different paces and intensity where necessary, while moving in the same direction, as we have done in the past, in line with the Treaties and keeping the door open to those who want to join later" (Rome declaration 2017).

can be softened if leaders can be persuaded to accept differentiated integration on democratic grounds of fairness, impartiality and equity. Peter Wahl (2017) sees the possibility of finding common ground through selective integration in certain areas and selective disintegration in others, based on variable coalitions of the willing. De Witte (2018) maps the recent surge of interest within the EU in pursuing new projects of differentiated integration, and discusses their legal and political feasibility in light of the characteristics of the main forms of differentiated integration currently offered by the European Treaties. Telò (2017) and Ling (2017) propose further analyses in a similar vein. Fabbrini (2019) proposes the decoupling and reforming of the EU. The Union can decouple into the economic community of the single market (consisting of the current member states of the EU and of others interested in joining or re-joining it), and a separate political union (largely based on the Eurozone reformed according to an original model of the federal union). We counter-propose a general theoretic solution.

2 Implicit MSTL Union

Multi-speed integration means that member countries go in the same direction and pursue common goals, but do so at different speeds. Some countries are faster and reach the goal sooner. Others are slower and need longer time. This may create asymmetric situations with faster member countries in a stronger position and slower ones in a weaker situation. Consequently, this kind of integration may cause imbalances incompatible with spirit of the EU by generating permanent first and second-class member countries. The advantages are that multi-speed, multi-track and multi-level (MSTL) facilitates monitoring and reduces moral hazard.

The integration process also may be multi-track, where some countries pursue more integration, others less. For instance, a group of countries may enter the monetary union sharing the same currency, monetary institutions and policies, while other countries are content with being partners in a single market. Although this arrangement is easy to implement because it respects national preferences, it raises serious issues. It is alien to the spirit of the EU, which foresees a united future for all member countries. A multi-level structure would create a heterogeneous confederation. Great Britain is a prime example. Its opt-out from the euro created a dual union with asymmetric properties.

Multi-level integration adds a third element. The term refers to the endpoints of the integration process, which are open to discussion as members proceed along different paths.

The EU today, despite the official rhetoric and by force of circumstance is actually a multi-speed, multi-track and multi-level union. Some member countries are unwilling to comply with the one track, one speed, one-level ideal to which they formally agreed. Their resistance is natural to the extent that national benefits and costs of compliance vary. Although the EU established a budget, and programs to

help countries converge in the real economy, these measures proved inadequate, and fraught with moral hazard.

The EU was de facto a MSTL project from the outset. The founding member countries of the Treaty of Rome were dissimilar in all dimensions: economic, political and social institutions, economic and social structures, geographical features, historical and cultural aspects, language, and development levels. Since the Treaty of Rome integration blueprint was identical for each country, each had to solve different problems at different costs to reach the same point. These differences seemed transitory in the first decades, but proved persistent.

Enlargement and the monetary union exacerbated these asymmetries. While on paper European integration remained mono-track, mono-speed and mono-level, reality was different. Exceptions accumulated, following hard bargaining and appeals to special circumstances. This made sense, but led to growing difficulties culminating in Brexit, the Greek nightmare and may continue in other countries, such as Italy, the Czech Republic, Hungary, and Poland. The paper explores promising alternative institutional solutions to today problematic EU architecture and policymaking that should complement national efforts.

The solution proposed reinterprets the spirit of the European integration in the Saint-Simonian tradition as a cooperative club with membership levels (supranational, national, joint) designed to suit different tastes and needs (Saint-Simon 1814). The concept allows members to maximize utility without jointly optimizing well-being according to a single Bergsonian social welfare standard (Bergson 1938, 1954, 1976). Paretian and Bergsonian metrics are identical if members have common preferences and values. If everyone agrees then whatever EU institutional order all select will be best. If members do not agree, some will necessarily be displeased and may try to harm others deliberately or inadvertently by exerting de facto regulatory power and imposing their “superior” values. EU leaders doubtlessly are aware that Paretian and Bergsonian utility optimization never are the same; that conflict is endemic in all systems, and that they therefore must choose between a one-class membership club and a MSTL confederation, but for decades, they have pretended that the benefits of a unitary order outweigh the costs.

The pretense is misguided. It not only has been detrimental for some members, it tarnished transnationality’s appeal. Switching to a MSTL confederation may relieve fears and facilitate cooperation, including acceptance of mutually amendable “more Europe” policies. Finally, the cooperative club proposal may help avoid the backlash from endless economic and social crises and the revival of forms of disruptive nationalism and localism, and guarantee respect for the fundamental EU principles (basic freedoms and subsidiarity). The proposed solution starts by taking stock of the inter-country differences and the disruptive effect of imposing unitary parameters and criteria: if countries are different, a MSTL solution is the one that promises to move the countries towards common goals along different sustainable paths.²

² A possible solution is that countries in different situations receive different kinds and levels of common management to converge to a mono-track path in the same conditions as the most advantaged countries. See Casagrande and Dallago (2021).

In short, it is better to have an explicit and orderly MSTL union than a disorderly and inconsistent unitary federal integration. This would contribute to make the European integration system more inclusive vis-à-vis all member countries. A system works well when it is inclusive, pragmatic and adaptive thanks to stronger incentives, superior production of institutional knowledge and lower transaction costs (Acemoglu and Robinson 2012; Rosefielde and Pfouts 2014). The present EU hardly shares these features, caught as it is between the illusion of self-adjusting markets and the power of ordoliberal discipline. A rationalized and explicit MSTL EU would help the EU move towards flexible inclusive integration.

In a MSTL union, member countries pursue similar goals, but do this in different ways at different speeds, along different tracks and at different levels in due consideration of their situations. Members may also seek objectives other partners dislike, but are willing to tolerate. Unanimity is inessential in most cases, but clear definitions of benchmarks and the countries' position is paramount. When the political union is missing even in the agenda, the rationale behind the multi-track solution is that member countries are different: they have different resources and capabilities, different institutions and structures and need to solve different problems. If they want to achieve common goals, they may have to go at different speeds, along different tracks and at different levels in solving different problems in different ways and using different economic and financial approaches. The main problem of MSTL integration, with acceptable diversity, concerns how to manage spillovers and the danger of moral hazard. There is a pressing need for proper measurement, assessment and enforcement to cope effectively with spillovers and moral hazard. MSTL's primary virtue is empowering cooperative member countries to use their own resources, constrained by shared responsibilities to minimize negative spillovers from particular decisions and avoidance of moral hazard. In short, MSTL integration requires three transparent categories of sovereignty (supranational, national and joint) and pre-established transparent rules and procedures to assess the spillovers of different national tracks. More national and joint responsibility and freedom promise superior results also in the integration process, and political stability.

3 EU Architecture and National Institutional Idiosyncrasies

European integration sought: (a) peace and democracy in war-torn Europe, (b) production and trade integration to deter armed conflicts, (c) reduced transaction costs and strengthened scale and scope economies to improve enterprise competitiveness; (d) increased size to make the integrated economy more resilient to crises and improve the Europe's standing in international markets. The monetary union subsequently sought additional transactionary and macroeconomic management efficiencies.

These aims were politically ambitious, yet technically feasible. All countries shared important characteristics: dynamic growth thanks to the post-war reconstruction period, rapidly expanding openness of economies in a globalizing international context and strong willingness to cooperate. Member countries were confident that cooperating to achieve these lofty purposes was the best way for former colonial powers to regain a central place and role in the international arena.

The original intention was one-speed, one track and one level (OSTL): all countries had to proceed in the same way at the same time towards the same goals. This trajectory became particularly clear with the implementation of the Economic and Monetary Union (EMU).³ Original intents notwithstanding, the EU quickly became a disorderly MSTL process through a series of enlargements, particularly evident since Maastricht 1993 and epitomized by the British opt-out from the monetary union.⁴

The approach yielded high initial dividends because it focused on Pareto superior market building, allowing everyone to gain without compelling any member to lose. Widened rational utilitarian choice outweighed conflicts over monetary and fiscal policy and social values. The financial crisis of 2008 shattered the euphoria. The game ceased being unambiguously Pareto superior, morphing into an asymmetric power and social order game.

The epochal moment in this de facto MSTL evolution was the 1973 accession of Great Britain. The UK was different: it had political, military, economic and financial power other founding members lacked. London used this power to acquire a special status that allowed it to obstruct EU efforts at building a common fiscal system and capital market, but also to build up EU banking regulation. Fiscal competition came to epitomize the MSTL nature of the European Union. Britain's refusal to join the monetary union compounded the problem. It left the monetary union incomplete. Although, this handicap might not have been decisive in an optimal currency area (OCA), it caused serious disparities and conflicts in the suboptimal European space.

The EU became a multi-speed process in different senses. First, the convergence to Maastricht parameters was never iron clad. Italy and Belgium acceded to the Euro-zone in 1997 despite public debts exceeding 60% of GDP. New members from Central and East Europe likewise postponed land ownership liberalization for several years. Some countries have refused to accept and implement commonly agreed refugee quotas.

³ The Economic and Monetary Union (EMU) was launched in 1992, advanced and is foreseen to advance further through different stages. It involves the coordination of economic and fiscal policies, a common monetary policy, and the common currency, the euro. All 27 EU member countries take part in the economic union, only 19 of them adopted the euro.

⁴ This is not the only case. Although the law of the European Union is valid in all the member countries, there are exceptions. Some member countries negotiated particular opt-outs from legislation or treaties of the European Union. When so, these countries do not have to participate in certain policy areas or comply with European decisions. There are currently five opt-out areas involving four countries: Ireland and the United Kingdom from the Schengen agreement. The UK opted out of the monetary union while Denmark reserved the right to decide whether and when to join the euro. Poland and the UK have partial opt-outs regarding how the Charter of Fundamental Rights of the European Union interacts with national law. Denmark, Ireland and the UK have opt-outs from the area of freedom, security and justice.

The Eurozone consequently is de facto a MSTL monetary union.⁵ Countries pursue the same goal (the same currency with the same monetary policy and macroeconomic and fiscal equilibrium in order not to jeopardize the stability of the currency). They do so at different speeds, through different tracks (some countries have to stabilize and others not, some grow and others stagnate, some decrease their debt and others increase it), at different levels, without this situation being recognized institutionally and in policies. National economic and financial outcomes are diverse, and the Eurozone has entered a danger zone: fading common goals replaced by strengthened national goals with divergent tracks and outcomes.

The EU has chosen to distort its de facto institutions rather than revise treaties. Ultimate economic sovereignty still reposes in national governments, with the exceptions of the monetary domain, which is under an incomplete common organ (the ECB) with a strict monetary mandate (price stability) and Schengen mobility requirements. While this dual sovereignty encourages cooperation, it disregards the growing disparity among member countries. Pressed by a prolonged economic and financial crisis and growing domestic social and political pressure, some governments are increasingly resisting common rules and their enforcement. This enlarges intra-EU conflicts, increases the costs and problems of adaptation and compliance and worsens outcomes. We believe that an explicitly MSTL EU based on orderly and transparent institutions and processes will improve the situation by riveting attention on the need for cooperation and solidarity.

4 Immigration: An Important Case of Superior MSTL Solution

The MSTL approach is particularly well suited to resolving the EU refugee immigration problem. In the EU a refugee is a foreigner who does not have the protection of the home country or a stateless person who, being outside the home country, has well-founded fear for her or his own safety if returned to that country.⁶ Members need only

⁵ The Eurozone or euro area is the monetary union of 19 out of the 27 EU member countries using the euro as their common currency and sole legal tender. The monetary authority of the Eurozone is the Eurosystem, whose primary objective is price stability. The Eurosystem consists of the European Central Bank (ECB) and the 19 national central banks (NCB). The ECB sets the monetary policy of the zone and has the exclusive right to authorize the issuance of euro banknotes. National central banks apply the monetary policy of the ECB. The Eurozone member countries are: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.

⁶ The EU defines a refugee “either as a **third-country national** who, owing to a **well-founded fear of persecution** for reasons of race, religion, nationality, political opinion or membership of a particular social group, is outside the **country of nationality** and is unable or, owing to such fear, is unwilling to avail themselves of the protection of that country, or a **stateless person**, who, being outside of the country of former habitual residence for the same reasons as mentioned above, is

agree to share responsibility for refugees between supranational and national authorities explicitly. Supranational authorities do not need to brow beat national authorities and vice versa. Co-sovereignty is an established aspect of the EU's transnational architecture.⁷ On paper, the management and inter-country distribution of refugees and immigrants is clear. In the case of regular immigration, the EU defines the conditions governing entry into a member country, including the norms on legal residence. Member countries determine the number of regular immigrants admitted. The EU also may provide incentives and assistance to member countries in settling legal immigrants, even though it does not try to harmonize national laws and regulations. The EU takes an active role in combating irregular immigration, including repatriation. This requires the EU to conclude readmission agreements with refugees' country of origin. These agreements are extremely difficult to implement, especially in the case of illegal immigration, a fact that is at the root of various conflicts between member countries and the EU.

Other problems and areas remain uncharted. The EU does not have formal competence over the admission of immigrants to member countries. The Dublin Convention governs the actions of EU member country dealing with refugees at the port of entry. Its protocols often overburden some, and under-burden other members, generating antagonism and conflict. Problems became evident following the summer 2015 dramatic unauthorized immigrant surge. The spark exploded in June 2015, when the Hungarian government decided to allow immigrants to leave the country unregistered, an action tantamount to withdrawing from the Dublin Convention. In the case of refugees, protected under international conventions, the EU tries to standardize the definition of country quotas, based on transparent parameters that ease the burden on first port of entry countries.⁸

EU leaders have chosen not to share responsibility on refugee matters formally, but nothing prevents them from revising their position. They can formally authorize national governments to co-establish limits on refugee mobility among EU countries (which could have consequences for being in the Schengen Agreement unless equally applied in all Schengen countries), social support and the requirements for EU citizenship. Members can negotiate amendments to the Schengen agreement concerning intra-EU refugee mobility, without altering the treaty's core. They can employ the same tactic to modify aspects of other EU treaties bearing on citizenship and EU-wide social support. Advocates of "more Europe" are sure to object because they view co-sovereignty on the refugee issue as a step backward from their goal of a federal EU. They are right, but a bird in the hand in this instance, is better than two in the bush. Enhancing solidarity now is more important than taking a step backward. If the community agrees, two steps forward are always possible later.

unable or, owing to such fear, unwilling to return to it, and to whom Art. 12 (Exclusion) of Directive 2011/95/EU (Recast Qualification Directive) does not apply." (https://ec.europa.eu/home-affairs/what-we-do/networks/european_migration_network/glossary_search/refugee_en retrieved on 27 October 2019).

⁷ <https://www.europarl.europa.eu/factsheets/en/sheet/152/immigration-policy>.

⁸ The EU immigration system is undergoing repeated changes and the fourth reform of the Dublin Convention is presently under discussion.

Opponents may also correctly caution that co-shared responsibility for refugees might cause substantial negative spillovers and raise serious moral hazard issues. If Hungary and Poland refuse to accept their “fair share” of refugees, then the burden will fall disproportionately on others. These dangers could be significant, but not necessarily fatal, if co-sharing embeds appropriate rules and policies to mitigate collateral losses.⁹ Competently designed rules and policies permit the benefits of stabilization and EU reinvigoration to outweigh the costs, especially if EU leaders set sensible national quotas on refugee distribution.

5 MSTL Framework

There have been many proposals for improving the EU. Perhaps, as some supporters of the varieties of capitalism (VoC) literature suggests, the EU should abandon the monetary union. Perhaps, adopting expansionary policies will save the day. Perhaps, inclusionary economics will cure the EU’s malaise. However, the success of any of these recommendations is problematic because fixing one problem will not fix many other defects. The same reductionist fallacy mars the arguments of “more Europe” and “less Europe” advocates. There is no magic bullet capable of making the European Union simultaneously Pareto efficient, politically potent and socially just. Markets cannot be Pareto efficient. They are constrained by bounded rationality (Rosefielde and Pfouts 2014). Economic and political power are endemic, and social justice is in the eyes of the beholder, leaving ample room for intra-EU conflict.

The EU’s founders from the start were evasive about whether supranationalism was practical or ideal. If the EU were merely a framework for cooperation, it could take diverse forms. If it were more, then it was the politicians’ duty to choose the best arrangement. EU leaders punted on the issue, assuming that the Treaty of Rome was practical enough and that whatever form the union took ultimately, it would be unique and best. The ensuing tug of war between advocates of “more Europe” and “less Europe” provided a forum for debating the EU’s endgame. The arguments for and against “more Europe” twisted and turned variously stressing efficiency, equity, ideals and political power.

The pretense was not threatening until the centripetal forces unleashed by the 2008 crisis started unhinging the entire project. The tug of war between advocates of “more Europe” and “less Europe” became an obstacle to progress because it diverted attention from the practical task of preventing the EU’s internal degeneration. In the end the debate is moving in the direction of the fundamental distinction between Eurozone countries, where more Europe is necessary and inevitable, and those countries among the others which want to remain outside and may be happier with less Europe. The new imperative is to re-conceptualize the EU as an adaptive socially and politically inclusive, Pareto improving satisficing project with a flexible internal

⁹ Moraga and Rapoport (2014) advance an interesting proposal on tradable refugee admission quotas.

structure. For non-Eurozone countries, this is a two steps process. First, members must make a political judgment about the division of sovereignty; how the balance of authority between nations and supranational entities should be altered, and portfolios reallocated. Formal joint authority (shared sovereignty) should expand to facilitate the resolution of contentious issues.

The fundamental distinction should be between the existence or absence of negative spillovers for other countries. For instance, if a country participates in the single market and uses fiscal competition to the disadvantage of other countries it should pay compensation. In other cases, when no negative spillovers exist, each country should be free to take its preferred choice. This principle could be applied to immigration. Some refugee cases are handled in accordance with international agreements, but there were exceptions. Violators may have valid reasons, but a default mechanism fining non-compliant countries, and assisting those shouldering the burden could mitigate needless rancor. Under prevailing EU rules, some countries are net contributors to the EU budget, while others are consistently net recipients. If a country refuses to accept its refugee or immigrant quota, burdening others, it should lose part of the transfer it receives from the federal budget. Clear *ex ante* rules and supranational enforcement protocols should be established.¹⁰ This would increase bureaucratization but would have the advantage of less bargaining and conflict. The most important case of generalized spillovers is the common currency. A jurisdictional reconfiguration that nips conflict in the bud will strengthen EU solidarity, even if it fails to promote efficiency, by decreasing conflict and foot-dragging, improving political competence and furthering the cause of social justice to most participants satisfaction.

MSTL should be addressed after jurisdictional matters are settled. The supranational jurisdiction should set common standards and rules, leaving it to nations and joint authorities to decide issues of speed, track and level, if this does not harm other countries. In matters free of spillovers, if countries want to move at the same speed, on the same track attempting to converge at the same level, they should do so. If they prefer, they should move along divergent trajectories. Pre-established general rules should be fixed to deal with negative spillovers on important issues like refugee quotas. For example, if complying countries receive transfers (a pre-established amount of euro per refugee) from the EU budget non-complying countries might be required to fund the expenditure.

Unbundling efficiency from equity and politics should also be beneficial because maximizing efficiency, equity or political power invariably has side effects (spillovers). The best policy choices must take account of the costs and benefits

¹⁰ The debate related to the 2021–2027 EU budget included proposals to link the budget contributions to the respect of the rule of law by member countries. See EC (2018b). The European Parliament adopted a new regulation on 16 December 2020 and in force since 1 January 2021. According to the new regulation, governments recognized to be in breach of the rule of law risk losing access to EU funds (<https://www.europarl.europa.eu/news/en/press-room/20201211IPR93622/parliament-approves-the-rule-of-law-conditionality-for-access-to-eu-funds#:~:text=On%20Wednesday%2C%20MEPs%20approved%20the,management%20of%20the%20EU%20funds>).

of tradeoffs among these objectives in all jurisdictions. Unanimity is unachievable, but giving interested parties an expanded voice in deciding priorities should mute discord.

6 Is the EU becoming a MSTL union?

Lately the EU policy approach has begun moving in the direction of greater policy flexibility through the European Semester, a series of regularly scheduled fora discussing national fiscal policies, structural reforms and macroeconomic imbalances, based on commonly agreed treaties and standards. Coordination rounds take place twice a year with the aim of aligning national fiscal and economic policies with the objectives and rules agreed at the EU supranational level. Each Semester includes three main phases: (a) EU member states submit their budgetary strategies and reform plans to the European Commission; (b) the European Commission analyses them and issues recommendations for each member state; the Council adopts these recommendations; and (c) the member states are expected to implement them in their national policy-making. This consultation process is not joint sovereignty and may be inappropriate for some purpose, but is a step in the right direction.

The key objectives of the European Semester are of ensuring sound public finances and convergence and stability in the EU and thus preventing excessive macroeconomic imbalances in the EU. Additionally, the Semester supports the implementation of the Europe 2020 strategy¹¹ and tries to foster economic growth. Following the international crisis, the EU decided in the “more Europe” spirit to implement stronger economic governance and better policy coordination, synchronization and monitoring among member states to improve convergence, stability and other EU objectives. With this, the growth agenda unfortunately slipped into the background.

The EU took another small step toward an adaptive consensus building, socially and politically inclusive, Pareto improving, satisficing EU project with a flexible internal structure in November 2018. The European Commission prepared an analysis of the Eurozone economy clarifying the EU’s economic and financial philosophy and related instruments and areas of intervention for promoting the convergence and coordination of the Eurozone member countries (EC 2018a). The document reflects the EC’s standard “more Europe” outlook, but also stresses the need for MSTL accommodations including an EU Reform Support Programme, a European Investment Stabilisation Function and a European Monetary Fund. These instruments, if implemented, may become important for allowing institutionally and structurally different member countries to cohabit without having to become identical. They can serve to improve the efficiency and effectiveness of different economies, so that they can share the same currency without the excessive divergence. This also means that

¹¹ Approved in 2010, the Europe 2020 strategy was the EU’s agenda for growth and job creation covering the 2010–2020 decade (EC 2010).

these countries follow the same goals, although along different tracks at different speed and perhaps at similar level.

A subsequent document by the Council of the European Union concerning the Eurozone (CEU 2019) addresses the same issues. It states that: “The strengthening of fiscal sustainability of the euro area and its Member States requires differentiated national policies in full respect of the Stability and Growth Pact, taking into account fiscal space and spillovers across countries.” Although the document gives priority to fiscal stability overgrowth, it foreshadows acceptance of an MSTL Eurozone. More recently released documents concerning monetary and non-monetary matters support the inference.¹² A Commission document on the 2019 European Semester (EC 2019a) stresses that “While not all investment needs can be addressed by EU funds, these provide considerable opportunities for addressing concrete investment gaps identified in country-specific recommendations.” And further on: “The strengthening of fiscal sustainability of the euro area and its Member States requires differentiated national fiscal policies.” The reports and recommendations for each member state present highly differentiated landscapes of problems, critical issues and policy and reform suggestions and requests that clearly go in the direction of a MSTL Union.

7 Stress Test: The EU and the COVID-19 Pandemic

The pandemic hit the EU aware of the failure of its crisis management policies, but not ready yet to change fully its policy stance and even less to change its institutional architecture. After years of restrictive stance, the ECB monetary policy became definitely expansionary since approximately 2012. Yet fiscal policies continued to be based on austerity for a while. They started to change in 2014, but not enough to sustain growth and employment. The need to change was increasingly accepted by EU organs, but not by resilient countries, which caused the prolonged stagnation of the vulnerable countries’ economy, together with the latter inability to implement reforms. The pandemic apparently changed everything and dramatically transformed the Eurozone trilemma.

Due to its construction, the Eurozone suffers from a peculiar impossibility trinity or trilemma (Pisani-Ferry 2012) involving: (a) the lack of joint responsibility over public debts, (b) the strict no-monetary financing rule, and (c) the national character of banking systems and bank-sovereign interdependence.¹³ The stubborn pursuit of orthodox fiscal and monetary policies under (a) and (b), given (c) caused a double dip post-crisis recession and the inability of vulnerable countries to re-balance their public finances, let alone support growth. The slow appreciation of the impossibility

¹² The modest EU budget, corresponding to 1% of the EU GDP, has been traditionally used to support the growth and real convergence of branches and regions.

¹³ Beck and Prinz (2012) present the new trilemma in a somewhat different form and involving: (a) a no-bailout clause, (b) independent monetary policy, and (c) national fiscal sovereignty.

led first to abandon (b) and then orthodox fiscal policies. While monetary policies changed dramatically and suddenly in 2012 (Draghi's celebrated "whatever it takes"), the softening of fiscal policies was slow and never uncontroversial.

The pandemic hit the EU hard. Costs in terms of lost lives and forgone production due to repeated lockdowns grew fast and reached threatening levels, particularly in some vulnerable countries (Spain, Italy, Portugal, Greece, Central-Eastern European member countries), but also in some resilient countries, particularly France and later also Germany and various others. The pandemic made clear that a much higher value than policy orthodoxy was at stake: the very survival of EMU integration. Thus, a new, pandemic-forged trilemma prevailed, in which EMU survival was at stake and received nearly exclusive priority leading to abandon monetary and fiscal orthodoxy.

Alarmed in early 2020 by the perspective of ailing economies, the gloomy perspectives of economic recovery in the next years, the dramatic increase of interest rates in Italy, Spain and Greece, and a politically and socially turbulent continent, EU authorities acted swiftly. Policy orthodoxy was totally abandoned in early 2020, starting from the suspension of the Stability and Growth Pact and consequently the convergence criteria and the request for fiscal stability. The European Commission invited member countries to spend as much as needed to combat the pandemic, strengthen health care and revitalize the economy, in line with similar messages coming from the IMF. Public debts abruptly disappeared from the black book of policy beds and EU authorities started to stress the strategic difference between good debt for supporting long term revival and growth and bad debt with a prevailing short-term perspective. Added to this, both the ECB and the European Commission created new funds and pursued new policies.

More important, particularly from the MSTL perspective, countries in different conditions started to be managed in different ways and enjoy different policy requests and support. Both the ECB and the European Commission assumed an apparently MSTL approach and perspective. The ECB acted swiftly by introducing new monetary instruments and further and dramatically expanding its strongly expansionary stance. Among the most important new instruments for fighting the economic effects of the pandemic were the implementation of PEPP (Pandemic Emergency Purchasing Programme), the regular APP (Asset Purchasing Programme) and the extended APP for 2020. These three measures are foreseen as injecting nearly 2€ trillion in 2020–2021, corresponding to 18.2% of 2019 EU GDP.¹⁴ More importantly, the previous system of buying sovereign bond in the secondary market (by statute the ECB can only operate in secondary markets through open market operations) based on the bonds rating (thus favoring resilient countries) was abandoned. In the new approach, the ECB privileged countries according to needs, thus buying mainly bonds of Italy and Spain. The goal became the stability of interest rates of sovereign bonds to ease the financial situation of member countries and avoid jeopardizing the stability of the Euro. These measures were remarkably effective in keeping monetary stability and easing financial stability in the EU.

¹⁴ <https://www.ecb.europa.eu/home/search/coronavirus/html/index.en.html>.

Changes in the fiscal domain were even more remarkable. Fiscal policies abruptly became extremely expansionary with the direct and indirect support of the European Commission and ECB monetary easing. Government net lending in 2020–2021 is foreseen to reach approximately 1.7€ trillion, corresponding to 15.6% of EU 2019 GDP. The goal is reviving European societies and economies overwhelmed by the Coronavirus crisis and avoiding a prolonged COVID generated economic depression. The danger is increased by the fact that some vulnerable countries, including Greece and Italy, had a GDP level in 2019 lower than in 2007, before the international crisis erupted. The most important EU fiscal novelty is the establishment of a European Recovery Fund, complemented by the Sure program.¹⁵ To access these resources, member countries have to prepare National Recovery and Resilience Plans and present them to the European Commission for approval. Plans should address major structural reforms and critical development projects.

After months of hot debates, it was decided to anchor the strategy in the EU's long-term budget (2021–2027). The overall resources of the budget amount to €1,074.3, corresponding to 1.1% of the EU GDP on a yearly basis. The budget is coupled with €750.0 billion of the NextGenerationEU. These two sources together form the largest stimulus package ever financed through the EU budget. NextGenerationEU is a **temporary recovery instrument** aimed at helping member countries to repair “the immediate economic and social damage brought about by the coronavirus pandemic”.¹⁶

The long-term budget will continue to be financed in the usual way: (a) customs duties, (b) contributions from the Member States based on value added tax (VAT), (c) contributions based on gross national income (GNI), and, since 1 January 2021, (d) a new national contribution based on non-recycled plastic packaging waste. The real novelty is represented by the Recovery and Resilience Facility (RRF). This is the core and bulk of NextGenerationEU and is aimed at supporting reforms and investments undertaken by EU countries by means of EU loans and grants for a total amount of €672.5 billion, nearly 90% of the total NextGenerationEU budget.

The nature and financing of RRF includes various important novelties. First, RRF not only comprises loans, but also of grants in the amount of €360 billion and €312,5 billion respectively. Second, to finance the fund, the EU will borrow on the market at more favorable rates than many countries could obtain and use the EU budget as a guarantor. Third, resources are allocated to countries according to their needs. Worse hit countries benefit disproportionately. The most important beneficiary countries are Italy (€85.9 billion in grants corresponding to 5.2% of the estimated

¹⁵ The temporary Support to mitigate Unemployment Risks in an Emergency (SURE) is a new EU program which can provide financial assistance up to €100 billion in the form of loans from the EU to affected member countries to address sudden increases in public expenditure for the preservation of employment (https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/financial-assistance-eu/funding-mechanisms-and-facilities/sure_en). The Council has approved so far (February 2021) a total of €90.3 billion in financial support to 18 countries. Of these, €53.5 billion has been disbursed to 15 countries, primarily to Italy (€27.4 billion) and Spain (€21.3 billion).

¹⁶ https://ec.europa.eu/info/strategy/recovery-plan-europe_en#nextgenerationeu.

2021 GNI), Spain (€80.9 billion and 7.0% of GNI), France (€43.2.9 billion and 1.8%), Poland (€38.2 billion and 8.1% of GNI). The largest beneficiaries judged in terms of estimated 2021 GNI are Bulgaria (16.0%), followed by Croatia (15.4%), Greece (13.5), Latvia (9.9%), Romania (9.6%).

Worse hit countries get most support despite disregarding their compliance with convergence parameters. Nonetheless, the question of whether the EU became an MSTL union should be answered with caution for at least four reasons. First, all support programs, both monetary and financial are temporary. They will continue until the worst economic consequences of the pandemic are over. It is not clear what will happen thereafter. For the time being the presumption is a return to orthodoxy, but this may remain just a desire of some countries. Second, there is no clear relation between negative growth forecasts and the amount of grants and guarantees obtained via the EU. In general, lower-income countries in Central-Eastern EU get more than harder-hit countries compared to their GDP (Darvas 2020). Pandemic funds are thus clearly instruments to support growth. Third, the abundance of financial sources will predictably put under stress countries prone to misuse them for sundry institutional reasons. Fourth, no one really knows how the EU will repay the loans to markets.

8 Conclusions

EU leaders are reluctant to rethink the European supranational project. While they fiddle, Rome burns. Growth is stagnant, the gap between rich and poor members is widening, and social and political tensions are intensifying with few signs of recovery in sight. EU leaders know this, but have chosen to combat the projects numerous problems by pressing “more Europe” solutions, while relaxing “austerity”, increasing the monetary union’s flexibility, closing competitive divergences and listening to member grievances. These reforms have not saved the day. The time looks ripe for bolder steps forward. The tinkering will persist on a treadmill of reform. Results perhaps will be positive, but a more fundamental adjustment of the EU’s supranational architecture would be more prudent. The EU needs an “all weather” redesign to cope better with its divisions and challenges, especially in times of adversity and social turmoil. Pretending that this or that policy fix or cosmetic reform is a panacea may buy time, but is unlikely to reinvigorate economic growth, given the constraints imposed by European politics and social activism or solve other fundamental problems.

The best course at this historical juncture is to focus the EU leadership’s attention on developing an adaptive consensus building, socially and politically inclusive, Pareto improving, satisficing EU project with a flexible internal structure. This framework should be participatory and inclusive across supranational, national and jointly sovereign jurisdictions. It should address all issues on a rational choice basis that permit both one-speed, one-track and one-level (OSTL) and multi-speed, multi-track and multi-level (MSTL) options.

Such a new EU project with a flexible internal structure cannot guarantee ideal results from diverse perspectives. Inclusive, participatory, consensus building is

fallible. The goal is to facilitate best practice satisficing in ambiguous and contentious environments and encourage learning by doing with results that are good enough to strengthen the European project.

These pragmatic matters offer a constructive path forward, but do not guarantee success because of institutional and structural differences, moral hazard, other conflicts, selfishness, willfulness and a fixation on winning. EU leaders therefore should learn the virtues of satisficing, and consensus building where concern for the wellbeing of others enables groups to forge agreements that still meet difficulties in Europe. The pandemic emergency offered a stress test to the EU that the EU managed with determination, in spite of some initial foot dragging caused by different national positions and interests. Apparently, the new measures and policies go in the direction of an MSTL union. However, so far, the EU forcefully stressed that changes and related resources are temporary and will be withdrawn as soon as the pandemic emergency eases up. True, there always is the possibility that what starts as temporary becomes permanent along the way. Much will depend on the attitude and accomplishments of supported countries and their willingness and ability to make proper use of the extraordinary support.

Nothing prevents EU leaders from studying the MSTL concept, other than the danger of rocking the boat.

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Chapter 20

Connecting the EU and China Along the Belt and Road Initiative



Bruno Dallago

Abstract The European Union and China share both similar and dissimilar economic situations and problems. Similarities call for cooperation in solving problems and strengthening advantages, differences call for exploring compatibilities, synergies in the use of instruments and actions for finding possibilities to diffuse and appropriate positive spillovers. The Belt and Road Initiative promises to invest Chinese surplus abroad and give a strong impetus to the development of infrastructure and connectivity, and lately to health and virtual connectivity, which is good for both China and the European Union. However, the role of the EU remains rather passive and shows relatively weak opportunities for EU investment and job creation. Problems remain in the geostrategic and political domains, but also in economic terms. Prominent among these are the need to streamline economic advantages of China with opportunities for the EU, the compatibility of rules and standards and their enforcement, the difficulties for the European Union to manage jointly relations with China and the need for China's approach to be in line with European integration aims, sharing the control over strategies and projects.

Keywords Belt and road initiative · China · European union · Growth · Infrastructure · Trade

JEL classification F02 · F15 · F21 · F43 · F53 · O47 · O52 · O53

1 Introduction

The European Union (EU) and China share some similarities and complementarities in their economic situation that may provide a common interest to deepen their cooperation. Their long-term development meets similar problems, although at different levels and for different causes: slowing growth rates, financial unbalances, demographic crisis, sustainability of welfare systems, importance of innovation strategies,

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low competitiveness of part of enterprises, inequalities, regional differences. In both areas, exports have an outstanding role in growth strategies and current account balances are in surplus. Other problems and situations are different, in particular the growth rate and working time of China are high, albeit slowing down, while well-being in Europe is among the highest in the world, but waning in part of the Union and difficult to finance elsewhere. Further differences are in the role of foreign direct investment (FDI) and in economic specialization.

With the eruption of the COVID-19 pandemic, China was able to produce an impressive achievement in both healthcare and economic performance. While the pandemic allegedly started from Wuhan, and thus put China first under stress, the country has by now an impressive 3.46 people per million inhabitants who died from the pandemic. Countries in the European Union had more time to prepare before the pandemic reached them, yet they ended up for being hit much harder, with death at 1.135 per million inhabitants (data from [statista.com](https://www.statista.com) updated to March 3, 2021). Also, economic performance was strikingly different. China was the only large economy in the world reaching progressive growth of GDP in 2020. Conversely, the European Union had the worst performance among highly developed countries, with GDP estimated to have fallen by 6.8% in the euro area and 6.4% in the EU (EP 2021). Growth was negative for all member countries. In most of its large member countries GDP fall was particularly significant, at -11.0% (Spain) and between -9 and -8% in Italy and France, according to Eurostat (<https://ec.europa.eu/eurostat/databrowser/view/tec00115/default/table?lang=en>).

Conversely, China was the only economy with a positive growth rate of 2.3% in 2020 (*Wall Street Journal*, 18 January 2021). The pandemic also showed that China is the largest producer and exporter of medical devices necessary to combat the pandemic—from face masks to machines easing breathing to vaccines obtained quite soon, earlier than in the West—the European Union found itself totally dependent from imports, particularly from China and, for vaccines, the United States and Great Britain.

Some similarities, such as identical production or trade specialization, may lead to clash of interests. Other features with positive spillovers, network externalities or complementarities, such as those caused by infrastructure connectivity or the contrast to the pandemic, call for cooperation in solving problems, exploring synergies in the use of instruments and strengthening advantages. China has a surplus of savings and capital and economic and political need to depend less on the United States for the use of its surplus and on foreign trade and more on domestic and other markets. The EU needs projects to upgrade its economy and restart to grow, needs to strengthen internal demand and foster external demand and opportunities to use the present high liquidity existing in its economy after years of significant monetary expansion and to depend less on an increasingly self-sufficient United States in both financial issues and trade. One problem is that both China and the EU have significant current account surpluses. More recently, the fight to pandemic added important reasons to the need for international cooperation.

The Belt and Road Initiative (BRI) promises to invest a massive part of Chinese surplus abroad. It also aims at building far reaching, modern and high-quality infrastructure (including roads, railroads, energy grids, ports and airports, and lately also health devices) connecting China and the EU, including many parts of Asia and Eastern Europe, and further connecting EU member countries. Moreover, BRI creates jobs and business opportunities and increases existing capacity use. This should decrease phenomena of congestion in Eastern coastal areas.

These initiatives are good for both China and the European Union. However, the initiative still neglects offering significant opportunities for the use of the EU monetary surplus and production capacity and stimulating the EU economy. Both actually require a change in the EU approach both *visa-a-vis* BRI and EU internal policies also after the health emergency will be over. Problems remain in the geostrategic and political issues, but also in economic terms. These depend in part on the EU, but in part they depend on the Chinese approach. Prominent among these are the need to streamline economic advantages of China with opportunities for the EU, the compatibility of rules and standards and their enforcement, the complexity for the European Union to manage jointly relations with China and the need for China's approach to be in line with European integration aims, sharing the control over strategies and projects. Also, the EU should look favorably at the need of China to rely more on its domestic market, since this can go to the EU advantage. Further, the problem of indebtedness for implementing infrastructural investments should be carefully considered, particularly for economically weaker countries.

The next section introduces the main features of the EU and highlights how it is trapped in the trade-off between the goal of stabilization and the need to grow. The following Sect. 3 shows that China has to change growth strategy to avoid falling in the middle-income trap. Section 4 looks at BRI and concludes that China and the EU have both common interests to cooperate and important diversities that call for prudence and negotiations. Section 5 considers the changes that the COVID-19 pandemic caused to the BRI structure and strategy and considers their consequences for the relation between the EU and China. Section 6 concludes.

2 Stabilization and Development Traps: The European Union

The main problem of the EU economies has been a wide and persistent trade-off between fiscal stabilization and economic development and growth. While the former slightly improved in later years, overall, the EU was unable to solve the trade-off and failed on both accounts and particularly in economic growth and technical progress (Dallago 2016). Before the crisis, the EU economies were growing and monetary and fiscal stability were good. However, following the crisis considerable disadvantages and costs appeared in terms of lost output, unemployment, growing public and private debt, and recurring risks of countries' liquidity crises and default. Although

these disadvantages were dissimilar in the different member countries, the overall performance of the Eurozone following the crisis was modest even in the case of the most successful Eurozone countries. This held on absolute level and in comparison, to other countries, including the EU member countries which continued to keep their national currency. The comparison with China's performance is staggering.

The monetary union is based on fiscal convergence through the discipline of convergence parameters and the Stability and Growth Pact (SGP), to avoid those national finances jeopardize the common currency. At the same time, it was believed that efficient markets would solve the problem of financing directly investments and growth through the inter-country flow of private capital. Following the crisis, the flow of resources had a sudden stop and reversal, from countries in need to balanced countries in search of a guarantee against the risk of redenomination into national currencies. This produced dispersed interest rates within the EU to the disadvantage of vulnerable countries. The “troika”—the EU, the European Central Bank (ECB) and the IMF—required countries in distress to stabilize their public finances by means of austerity policies and internal devaluation before securing rescue packages. This was curing the effects and overlooking the deep causes of financial distress, including ineffective economic structures and institutions, growing inequalities and lack of investment. While a degree of financial stabilization was necessary, the particular policy measures and priorities sponsored by the “troika” and the inability of distressed countries to reform their economies jeopardized the long-run sustainability of distressed economies, their development and in the end the very success of stabilization policies. As a consequence, debt service and public debts increased significantly compared to GDP, adding additional fuel to distrust. Companies in distressed countries had to compete at higher financing costs.

On the positive side, these policies aimed at decreasing labor costs and thus increasing the competitiveness of enterprises and economies. Yet this happened in a time of slowing world market expansion (although not in the EU, except in 2009, according to World Bank data). Current accounts of vulnerable countries improved significantly after stabilization measures. However, the positive effect of growing exports could not compensate the negative effect over GDP of shrinking domestic demand, particularly in large and closer economies. This led to stable divergence of GDP between resilient and vulnerable countries.

Since 2014, the Eurozone moved to consider exceptional circumstances to make the application of convergence parameters softer and more flexible, defining the budget deficit in structural terms, and adopting a moderately expansionary fiscal stance (EC 2016; ECB 2016). More important, the ECB continued its expansionary monetary policy and took on an increasingly resolute role to ease tensions and gain time for reforms. The ECB determination to do “whatever it takes” to support the euro since 2012 helped easing financial and monetary distress (Pisani-Ferry and Wolff 2012). However, these measures could not solve the deep reasons for instability, nor could they complete the institutional setup of the Eurozone, as the ECB repeatedly warned (Draghi 2015, 2019a, 2019b). Incomplete Eurozone institutions—starting from the lack of a common government of fiscal issues—and hard national budget constrains have deprived the Eurozone of powerful countercyclical policies

and de-aligned national business cycles, thus jeopardizing the effectiveness of the common monetary policy. This created a dramatic need to promote investment and growth policies and to both change national policies and complete the institutional architecture of the Eurozone.

The need for unconventional monetary policies led to bank-sovereign interdependence: large stocks of undiversified national public debt securities held by national banks. The vulnerability of Eurozone countries increased, because adverse shocks to sovereign solvency could interact with adverse shocks to bank solvency. The ECB quantitative easing program, started in March 2015, ended at the end of 2018 and resumed in late 2019, eased but not solved the problem by transferring public debt bonds from private banks to national central banks. At the same time, the ongoing construction of a European banking union aims at strengthening large, systemic banks and ease the burden of non-performing loans (NPL).

This problematic evolution prompted EU organs to start using more flexible approaches to countries' problems and pay more attention to broader economic, social and political stability, along with fiscal stability. Lately, the European Commission initiated a broad discussion on fiscal governance of the EU. Topic moments in this new institutional and policy stance were so far the report by the European Fiscal Board (EFB 2019) and the February 2020 launch of the EU-wide consultation and debate on fiscal governance in the EU (EC 2020). These documents include important statements and possibly foresee an important revision of policy making followed so far, justified by an important set of structural and policy events and the goal of proceeding towards a new growth strategy (EC 2019a) based on the European Green Deal (EC 2019b). These documents are to be considered on the background of the persisting goal of fiscal sustainability (EC 2020). However, the eruption of the COVID-19 pandemic in early 2020 radically changed the economic, social and policy landscape of the EU.

3 Development and Stabilization Controversy: China

China has a clearly better economic situation, although not free of problems. China has an effective economic government capable to define long-term strategies and reallocate resources, although not streamline the attitude and action of consumers to government aims. In order to keep a high rate of growth and employment, China has to change its growth strategy from export-led to domestic demand-led. To foster domestic consumers' demand China should develop its welfare system and expand the pension system to induce people to consume their precautionary savings (Dai 2019; Gao et al. 2018). Moreover, it is important to further shorten the working time to allow more free time, a fundamental precondition for increasing consumers' demand.

The remarkably long and sustained growth and development of the Chinese economy was based on various factors (Morrison 2018; Yao 2014). Political decisions to open up and liberalize the economy were at the origin of the spectacular

growth that lifted tens of millions of Chinese people out of poverty and led China to become a global economic power. Moreover, technically skilled reforms, reallocation of workers from agriculture to industry and services, foreign direct investments (FDI) and domestic (mostly state) investments and innovation also played important roles (Chen 2018).

In recent years, China has become a highly innovative economy (Haour and von Zedtwitz 2016). Nearly one third of its manufacturing exports are high technology exports, according to the World Bank's World Economic Indicators, the largest share among the large countries. However, most of this innovation is based in large state-owned companies and laboratories. China still lacks dispersed innovation activity typical of competitive SMEs (Baumol 1993). The Chinese economy is also unbalanced, with remarkable current account surpluses, high savings, elevated investments, inflated real estate market, increasing debts of banks, enterprises and regional governments (Guillén and Ontiveros 2016; IMF 2019).

The traditional export-led growth strategy met growing obstacles in recent years due to the turbulence of international markets and growing opposition that the weak currency policy met. Chinese exports as a share of world exports started to decrease in 2015 and was 13.45% in 2018 according to China Power (<https://chinapower.csis.org/trade-partner/>). Exports are bound to increase less than Chinese GDP in the years to 2023. China's share of exports in GDP is estimated at 17.7% in 2020, compared to 17.4% in 2019. The share was at 36% in 2006 (World Bank database and statista.com). Current account surpluses decreased as a consequence (from 9.9% of GDP in 2007 to 0.2% in 2018 and 1.0% in 2019) (IMF and World Bank data bases). The alternative of replacing slowing external demand with higher internal demand was successful only in part, mainly for the slow expansion of private consumption.

Private consumption growth meets two problems. First, although wages have expanded during the last years remarkably (on average at 8% per year in real terms), their growth has been significantly lower than productivity (at 16% per year in the manufacturing sector). The economy thus continues to produce more than the Chinese people consume; the gap being necessarily filled by exports together with investment. Second, high precautionary saving and low private consumption are mainly due the insufficiently developed welfare system. The delay is particularly serious in the countryside, where hundreds of millions of people are still virtually without health care and pension.

As a consequence, growth rates have slowed down. This is in good part an inevitable statistical phenomenon, but some scholars maintain that China may be on the brink of a middle-income trap (Aiyar et al. 2013; Eichengreen 2016; Kharas and Kohli 2011; Yao 2014. See also Han and Wei 2017). This danger is due to exhaustion of the factors supporting the traditional growth strategy, including depleting human resources, ageing population, environmental problems and natural resources limits. It is also due to rapid growth of inequalities.¹

¹ The Gini coefficient of per-capita income was 0.29 in 1981. It increased to 0.48 by early 2010s (Yao 2014, p. 1014). However, China has experienced a modest decline in inequality since 2008 (Jain-Chandra et al. 2018).

4 The EU, China and BRI: Common Interests and Diversities

Launched by President Xi Jinping on 7 September 2013, BRI was presented as an ambitious and complex project to connect China, the rest of Asia, Europe and Africa through infrastructural, economic and cultural corridors, largely financed by China. Two years later, in 2015, Prime Minister Li Keqiang launched the new 10-year domestic economic strategy “Made in China 2025”. The strategy identified 10 strategic industrial sectors and focused on the extensive use of intelligent manufacturing with the aim of strengthening China’s position in high-tech industries, foster growth and competitiveness and replacing China’s dependence on imported foreign technology with nationally developed solutions. The two strategies—BRI and Made in China 2025 pursue China’s economy aim at strengthening its domestic basis and further opening up its economy, thus transforming China into one of the leading economic powers and promoter of globalization.

Overall, 138 countries—some 70% of the world’s countries—and 30 international organizations adhere to the initiative (early 2020), mostly through bilateral agreements (EP 2020a). Of these, seventeen member countries of the EU out of 17 adhere to BRI, eleven of them being in Central-Eastern Europe. The remaining six countries adhering officially to BRI are Austria, Cyprus, Greece, Italy, Luxembourg and Portugal. So many countries have different needs and different advantages to gain. Their common interest lies in that improved infrastructure and connectivity, the strong core of BRI, makes much sense in economic terms (Di Stefano et al. 2021). Given the different needs and aims of countries, the dominating bilateral approach of BRI has some advantages, although runs the risk—evident in the EU stance to BRI—that the Chinese approach can be seen as an attempt to divide countries and EU member countries from the EU and thus disrupt the EU. The EU initiative is therefore paramount to avoid risks and suspicions.

The situation of the EU and the new stance towards reforms and new policies should offer a favourable ground to BRI and the latter could contribute to strengthen the former. Cooperation with BRI may be important to revitalize the EU economy through higher productivity, lower transaction costs, innovation, developed infrastructure, international cooperation, connectivity and networking. This promises to be particularly important for vulnerable countries. As a consequence, the EU has an interest to be more open to cooperate with BRI and support member countries’ initiatives. However, a critical issue are different standards and goals between the EU and China, which make complex finding a common level playing field.

From China’s perspective, BRI promises to help the country move to a new growth strategy. BRI is important to bring development to the Central and Western part of China, create jobs and develop an efficient international infrastructure that could support international trade and investment. If managed as a two-way belt and road, from and towards China and coupled with the consumers’-based growth strategy, it may help China to avoid the middle-income trap and support the transition to a new sustainable growth. By moving investment expenditure to the underdeveloped middle

and west of China and abroad, BRI could help mitigating the domestic infrastructure bubble. BRI aims at adding a growth strategy led by domestic and international infrastructural investments which should help exports of high-technology products and the acquisition of technology.

The EU and China share selected reasons for supporting cooperation and others calling for prudence and flexibility. In both the EU and China population density and concentration of economic activities are both cradles of social cohesion and economic strength and sources of congestion and environmental problems. BRI offers advantages in terms of infrastructure development, connecting new regions and countries and decreasing regional disparities, sharing experiences and solutions to mounting problems, enlarging markets and better allocating resources, thus promoting efficiency and creating further opportunities for development. Although such reallocation may diffuse congestion and environmental problems to new regions, it may help softening such problems in older population and industrialization regions and give time to implement proper environmental sustainability policies. The mutual interest for cooperation of Central-Eastern member countries of the EU and China may contribute to decrease further development imbalances in the EU. The proper coordinated management of these problems can go to the advantage of both China and the EU.

Natural resources are a particularly important issue. Both areas need external sources of energy and raw material and have an interest in developing renewable resources. The development of infrastructural connections through resource-rich Central Asia and Russia may benefit both China and the EU, the construction of transcontinental energy grids may favor better and cheaper distribution of energy and help avoid energy shocks and shortage, efficient transcontinental connectivity may promote economic and social interaction among countries.

Macroeconomic imbalances are perhaps the most pressing issue to cooperation. Moreover, both areas are meeting serious disadvantages from the creeping retreat of globalization. BRI may provide significant opportunities to foster a new wave of globalization, based in good part on common investments and strategic developments, and to find effective ways to promote domestic demand, invest liquidity and manage imbalances. If the strategy helps China to keep a dynamic growth and the EU to revive growth, beneficial consequences may derive for debts. However, the management of initiatives and strategies is of the utmost importance.

In all these cases, coordination and the exploitation of complementarities and synergies between the two parties are fundamental for strategic sustainability. Yet there are significant differences in the nature and position of the EU and China which make cooperation complex and sometimes problematic, coordination and adaptation challenging, and require caution in managing BRI.

The main difficulties come from the different economic and political systems and governance, the different dynamism of the economies, the differences existing in social and political norms and the different geopolitical integration and strategies. Moreover, there are significant differences also in the decision-making process. The EU is a group of countries that keep national sovereignty in many issues, including foreign policy and bilateral trade, while multilateral trade issues belong in the EU

competences. This framework makes decision-making processes sometimes cumbersome and long, due to the necessity of finding compromises among different governmental agendas and priorities. In the past this opened the possibility for China to promote the implementation of BRI projects in the EU through bilateral agreements with national governments, which caused the EU Commission's protests and reaction. Clearly this attitude by China, although understandable, will hamper the achievement of an EU-China deal and the implementation of BRI projects in the EU countries.

Confronted with the EU slow and contradictory definition of its strategy to BRI and action, some member countries acted faster and in more determined ways. China's strategic approach towards **EU member countries is apparently differentiated** (Di Donato 2020). Relations with Central and Eastern European (CEE) countries are under the umbrella of the 17 + 1 framework and led by considerations of their strategic position to access the EU market through large-scale infrastructure projects and the privatization of strategic assets.² An apparently important appeal of this framework is that Chinese loans and investments do not have normative strings and conditionalities attached (Popescu and Brînză 2018). In the case of Western EU member countries China aims at investing in strategic assets, research and development networks, particularly in Central and Northern Europe. A partial exception is Italy, which signed a Memorandum of Understanding (MoU) in the frame of BRI in March 2019, a step without noticeable consequences so far. The most powerful member countries, Germany and France, repeatedly stated that they will not enter any bilateral agreements with China concerning their participation in the BRI. This lack of coordination and common perspectives of member countries is a fundamental reason for the lack of a common EU strategy and action and the fragility of the EU in the international arena, which in turn fuels the moves of individual member countries.

The direct relations between the EU and China have been uneasy and slow, particularly due to the EU prudent and uneasy approach. The "Comprehensive Strategic Partnership" that the EU and China launched in 2003, its translation into deeper relations and economic cooperation failed so far, mainly on grounds of different political values, geopolitical interests and priorities. Ten year later, in 2013, the EU and China adopted the "EU-China 2020 Strategic Agenda for Cooperation", a broader and more ambitious initiative. This was followed in 2015 by the "EU-China Connectivity Platform", aimed at improving transparency, reciprocity in market access and a level playing field in transport infrastructure. The platform foresaw also to enhance synergies between the EU's **Trans-European Transport Network (TEN-T)** and BRI, however with little practical success. The China-EU Co-Investment Fund was established in 2017. The Fund is jointly backed by the European Investment Fund and the Silk Road Fund and is meant to create synergies between China's BRI and the Investment Plan for Europe (the so-called Juncker Plan) by **supporting the implementation of BRI-related projects and ease investments in infrastructures and connectivity**.

² A "16 + 1" Cooperation Framework was launched in 2012 to increase trade, investments and transportation networks between China and 16 countries in Central, Eastern, and Southeastern Europe through bilateral and multilateral initiatives. Greece was officially admitted in 2019.

Parallel to these initiatives involving China, the EU also run a parallel diplomacy and trying to unite all EU countries in one approach based on full unity: “In cooperating with China, **all Member States, individually and within sub-regional cooperation frameworks**, such as the 16 + 1 format, have a responsibility to ensure consistency with EU law, rules and policies” (EC 2019a). The statement followed the EU definition of its own EU *Connecting Europe and Asia—Building blocks for an EU Strategy* in September 2018 (EC 2018c), an alternative strategic initiative to improve trade, economic and political ties between Europe and Asia. This EU initiative is apparently at odds with BRI also in its approach, since the EU stresses the goal of establishing a rule-based international system for connectivity projects that has commonly agreed upon international standards and debt sustainability as a pivot. Similar effects have the belonging to two different and apparently increasingly antagonist geopolitical areas.

In spite of potentially divergent moves, the Chinese government responded pragmatically by stressing the need to pursue mutual economic advantages on equal footing (FMPRC 2018). Moreover, bilateral statements at EU-China Summit meetings, agreements (EU-China Comprehensive Investment Agreement)³ and structures to enhance technical cooperation (EU-China Connectivity Platform) may be important steps to enhance cooperation on single initiatives.

The EU is careful in stressing that it pursues connectivity and does so “the EU’s way” (EC 2018b). This means that the approach must be “sustainable, comprehensive and rules-based”, although with due flexibility in approach due to the “very diverse countries in terms of economic models and level of development” that Asia comprises. Actions promoted as part of the EU strategy include (a) creating transport links, energy and digital networks and human connections; (b) offering connectivity partnerships to countries in Asia and to organizations; and (c) promoting sustainable finance through utilizing diverse financial tools.

In short, the EU attitude towards BRI seems to be one of cooperation and limited integration, but not one of the EU participates in BRI. This is in a sense understandable in a relation between equal partners. Yet it may also be the EU reaction to China’s initiative towards selected EU member countries. This is a delicate political problem that may have undesirable economic consequences. Clearly the EU aims at connecting partner countries, such as Japan, that BRI disregards. At the same time, it is interesting that the EU Strategy for connecting Europe and Asia does not consider BRI and mentions China only in bilateral relations (EC 2018a). This may be read as a negotiating strategy to progressively streamline the two strategies. However, the danger exists that two strategies with similar aims and content fail to meet on an efficient compromise, leading to duplications and useless costs.

³ See <https://trade.ec.europa.eu/doclib/press/index.cfm?id=2115> for documents. On 30 December 2020, the EU and China reached an agreement in principle on investment (<https://trade.ec.europa.eu/doclib/press/index.cfm?id=2233>). An important pressure to reach an agreement under discussion since 2013 came from the entrance into force of the EU foreign investment screening regulation on 10 April 2019. The regulation is “instrumental in safeguarding Europe’s security and public order in relation to foreign direct investments into the Union” (https://ec.europa.eu/commission/presscorner/detail/en/IP_19_2088).

5 The COVID-19 Pandemic and BRI

The COVID-19 pandemic came at a time when BRI was meeting difficulties. These comprised the critical and sometimes opposed attitude of many Western countries, including various EU member countries; accusations of lack of transparency of Chinese initiatives and contracts; prejudice to civil rights in China; prevailing bilateralism. Moreover, a number of poor countries started to meet difficulties in repaying Chinese loans, which led to apparently numerous re-negotiations.

The pandemic had both direct and indirect consequences for BRI, some of which will also be felt in the long-term (Buckley 2020; Mouritz 2020). Many governments implemented lockdowns of different kind, duration and stringency to combat the pandemic. First among them was the Chinese government that locked down completely the Wuhan area, a major city and province playing a fundamental role in various global value chains. This in turn disrupted the smooth working of those value chains, with important consequences for many countries. As a consequence, countries and industries started to consider repatriating production or shorting the geographical spread of delocalization and outsourcing. These effects were particularly prominent in the health industry, and even more so in the production of such devices as face masks and ventilators necessary for curing people infected with COVID-19. In fact, China is the most important producer in the world of these devices and also of other medical products.

Considering the direct effects for BRI, the spread of the lockdown in China and around the world made difficult for Chinese workers and technicians to reach the location of investments abroad. They also caused the slowdown of production and investments, which made difficult for Chinese and local producers to supply BRI implementations. Moreover, lockdowns and production disruptions resulted in the fall of GDP in host countries, which is causing their difficulties in repaying Chinese loans on time and further exacerbates Chinese excess capacity in the building industry. The potential negative direct effect of the pandemic on the Chinese economy and its ability to continue financing BRI is apparently less significant than initially forecasted, thanks to the prompt recovery of the economy, capable of reaching a positive growth also in 2020.

As a consequence, China's FDIs around the world decreased and so happened in the EU, a continent where China plays anyway a modest role (Poitiers and Domínguez-Jiménez 2020). As a matter of facts, Chinese FDIs in the EU started to decrease since 2016 and characterized the entire second half of the decade. However, their structure remained fundamentally unchanged, the bulk being made of mergers and acquisitions and only a marginal share going into greenfield investments (RHG & MERICS 2020). The main reasons for the decrease of China's FDIs to the EU is the EU prudent and at times adverse attitude, with particular reference to the new screening of Chinese acquisitions of EU companies and administrative controls and financial constraints in China, and China's inability to enlarge the pool of activities in the EU.

According to RHG & MERICS (2020), China's FDI in the EU continued to decline in 2019 and their stock level went back to 2013 level. The drop in 2019 was equal to 33%, from €18 billion in 2018 to €12 billion in 2019. In the second part of the past decade there were other significant changes: in sectoral and geographic distribution, the role of state-owned companies (SOE) and entry strategy. Chinese FDIs are now concentrated primarily in consumer products and services at 40% of investment volume; automotive investments come now second. Moreover, Northern Europe overtook the traditional dominance of the three largest EU economies (UK, Germany and France) among recipient countries. However, the UK, now out of the EU, continues to be the most important recipient country, with 29.8% of the total of China's EU FDIs, up from 24.1% a year before. These data show that China's FDIs are only in part linked to BRI and privilege countries having an uneasy relation to BRI. The same refers to the structure by country of FDI stock. Finally, the share of Chinese SOEs dropped to a bare 11% of aggregate investment. Beyond these quantitative drawbacks, interesting and important developments are taking place in the interaction between EU companies and Chinese companies, particularly in R&D collaborations and the involvement of other players, such as universities and local governments.

The drop of Chinese FDIs is caused also by the EU dismal economic performance, particularly during the pandemic time. China was fast and effective in recovering: the economy grew by 2.3% even in 2020. Conversely, GDP decreased substantially in any EU country. The difficulties caused by the pandemic slowed down the implementation of projects, although apparently no full stop was recorded. Chinese exports grew and China honored its production in global value chains, after short initial disruption.

BRI strategy and performance adapted remarkably fast and in effective ways, also thanks to the variegated and flexible nature of BRI. Although physical interconnections and connectivity—the fundamental components of BRI—became more difficult, China adapted by accelerating the implementation of virtual connectivity and interaction in the health sector through two pre-existing but previously secondary components of BRI: the digital silk road and the health silk road. Although both were under way since 2015, their implementation accelerated and their structure and content were adapted to needs. Both are apparently taking advantage of synergies with other components of BRI and China's reputation gained in combatting effectively the virus and implementing broad-based health diplomacy, particularly in Asia and Africa (Cao 2020; Mouritz 2020; Tambo 2019).

These “side” silk roads were present in the 2015 BRI action plan, in that they considered the aim of strengthening cooperation on epidemic information sharing and providing medical assistance and emergency medical aid. In January 2017 the WHO (World Health Organization) signed a memorandum of understanding on BRI health cooperation. Since the end of 2020 China has promoted rather successfully the use of its inexpensive anti-COVID-19 vaccines and concluded contracts for vaccines deliveries with 26 countries, including Hungary in the EU (Moritz 2021). However, the Chinese health diplomacy is meeting two serious obstacles. The first is the growing opposition by Western countries, the second is that it is at odds with the prevailing bilateral approach of BRI.

Neither one of the two silk roads is free of frictions, conflicts and dangers though. The digital silk road goes to the core of the control of internet: if China wants to promote it, it needs to develop an alternative internet system (El Kadi 2019; Wheeler 2020). The health silk road activated a great deal of China's medical diplomacy during the pandemic which not all recipient governments accepted benignly. Moreover, China took actively part in the ongoing rationalization of global value chains to make them more resilient in front of the danger of lockdowns and disruption caused by unforeseen events (Miroudot 2020). These developments also served EU countries.

6 Conclusions

EU enterprises and member countries have a clear interest in cooperating with China and be connected to BRI, an initiative expected to involve over US\$1 trillion in investments and covering the 70% of the world countries, compared to much lower EU resources for its own strategy.⁴ This difference is only in part due to the peculiar nature of the EU, which relies mostly on member countries to finance investments. BRI offers EU enterprises and countries evident opportunities for business and job creation. Moreover, BRI opens new markets, promotes international cooperation, develops efficient and harmonized infrastructure.

Concerns lie primarily in the prevailing bilateral approach that China took with selected EU member countries and that the EU replicated later in its EU Strategy for connecting Europe and Asia. Among the most critical issues that the EU sees in BRI it is worth mentioning: (a) limited involvement of local labor and contractor; (b) non-transparent procurement procedures; (c) materials and equipment mostly imported from China; (d) weakness of standards and smooth playing field; and (e) other issues, including environmental concerns, indebtedness of some weak economies for implementing BRI investments, social and minority displacement for implementing large investments, security issues.

Finally, problems also come from differences in the EU's and China's approaches and within the EU among different member countries and between some countries and the EU. There are clear differences between the EU approach to the EU Strategy for connecting Europe and Asia and China's BRI approach, as much as there are differences in the nature and working of the two areas. Political and decision-making systems are different as much as economic governance. Important differences exist in economic systems, the nature and working of enterprise and the role of governments. Differences in labor markets, rights of workers, working time and labor norms are among the most pressing problems in cooperation. These differences require lengthy negotiations and implementations, detailed controls and possibly political problems.

Overall, it appears that the EU is the fragile partner. Most of its member countries are interested in BRI and adhered formally to it. The EU is trying to coordinate a

⁴ The overall EU budget for financing international projects—including with Asia—is foreseen to amount to €123 billion in current prices in the budget period 2021–2027.

common position among all 27 member countries, but clearly lacks initiative and convincing alternative ideas and resources. The overlapping of economic interest, Chinese dynamism, cumbersome EU management and geopolitical strains weaken the EU position and action. A study prepared for the European Parliament summarizes well the EU uneasy relation to China: "...China is seen as being at once a partner for cooperation and negotiation, an economic competitor and a systemic rival. ... The coronavirus pandemic has amplified pre-existing political and economic challenges in EU-China relations. ... It has also clearly demonstrated the need for a 'more robust' EU policy on China" (EP 2020b). These high-sounding geopolitical statements aside, a more concrete study of the Policy Department for External Relations of the European Parliament concludes that "...China is, and will continue to be, a major trade and investment partner for EU countries. ... regardless of the direction of the United States-China relationship, the EU needs to explore options for fruitful co-existence with China" (EP 2020a). As to BRI, the same study concludes that "The BRI offers potential trade gains for Europe by improving physical connectivity with countries along the route to China, but it also poses challenges for the EU. The main challenge is China's increasing soft power, which is being felt in the EU's neighbourhood and even in a growing number of EU countries. A more united approach to managing the EU-China economic relationship is required to improve the bargaining power of EU countries when dealing with China."

Concerns and differences make difficult to coordinate the strategies and exploit synergies. Moreover, it is not easy to coordinate BRI initiatives undertaken by EU member countries with the EU approach, priorities, policies and standards, as the conflicts over the Budapest-Athens high speed railroad construction shows. A BRI project initiated in 2014, the railroad met delays and obstacles in the implementation of the Hungarian segment because of the EU investigation into possible violations of its public tendering requirements. Moreover, opposition to the implementation of the project came from the accusation of being uncoordinated, if not in collision with the EU Trans-European Transport Networks (TEN-T). Moreover, the Chinese government had to sign two separate bilateral agreements with Hungary and Serbia—a non-EU country—to implement the Budapest-Belgrade railroad, each segment being under different rules (Rencs 2019).

Issues of coordination of projects with EU policies and standards, uncoordinated approach of EU member countries, and uneven distribution of gains among countries abound. Only part of these problems has to do with China's approach. Other parts have to do with the EU approach and governance, its composite nature and the differences among its member countries. Obstacles to BRI are testing China's endurance and determination and defy the EU. Clearly the latter is not ready to take on such a challenge, due to its cumbersome and incomplete governance and the limited amount of resources it can mobilize. Yet BRI offers important opportunities to EU economic growth and challenges to improving its governance system.

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Chapter 21

Internationalization of Multinational Enterprises from North-East Asia



Victor Gorshkov and Zoia Podoba

Abstract Using the statistical data of international databases, this paper investigates evolution and structural changes in the current rankings of multinational enterprises from North-East Asia in 2000–2020. The authors aim to identify differences and similarities in the internationalization strategies and core competences of multinational enterprises from the region. The research outcomes clearly demonstrate that the role of North-East Asia in global outward foreign direct investment is expanding and multinational enterprises from this region, particularly from China, become more mature. While rapid increase in the number of Chinese multinational enterprises and their foreign expansion are causing major structural changes in international rankings, comparisons on transnationalism explicitly show that Japanese multinational enterprises and territories with small domestic markets, such as Hong Kong and Taiwan, have significantly higher levels of internationalization. The specific features of multinationals are pronounced in their original set of core competences, stages, methods and global context of internationalization. Nevertheless, there are similarities among these multinationals, such as their reliance on country-specific advantages comprised of comparative advantages and government-created advantages; centralized corporate structures built on strong connections with the government and personal and social informal networks; and relatively strong regional supply chains reflecting the high level of complementarity among almost all countries of the region. The research findings also highlight the fact that many emerging multinationals from the region have successfully nurtured their original firm-specific advantages. Further success of MNEs from NEA shall depend on their capabilities to cope with new challenges of the global context of their internationalization, namely, post-pandemic recovery, raising economic nationalism that gradually causing the disruption of conventional global value chains and the sustainability agenda of the world economy.

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Keywords Multinational enterprises · FDI · North-East Asia · Dragon multinationals · Internationalization

JEL codes F200 · F210 · F230 · M160

1 Introduction

North-East Asia (NEA) is a sub-region of Asia, which in a broader sense includes China, Japan, North Korea, Republic of Korea (South Korea), and the eastern regions of Russian Federation. NEA accounted for 23% of the world population (excl. Russia) and 26% of the world GDP (current USD) in 2019 and currently it is one of the most dynamically developing regions in the world. The region possesses high level of complementarity as participating countries have built intra-regional complementary supply chains; thus, there is mutual interconnectedness between Japan, Republic of Korea, and China, the “*Big Three*” of NEA. China is abundant in labor resources and has a large market potential. Japan has long been serving as a supplier of technology and capital to the region. The Republic of Korea is gradually catching-up with Japan via the application of the export-driven model. Russia is rich in natural resources which have the potential to significantly contribute to further development of the region. Taiwan and Hong Kong are one of the most liberalized markets.

One peculiar feature of this region is that it includes a developed country, developing economies and a transition economy. Conventionally, Japanese multinational enterprises (MNEs) were the first ones to implement internationalization and their positions within the region and worldwide remain significantly high. However, recently NEA is also in the center of attention of both academic and business societies because of the phenomenon of the so-called *emerging multinationals*. Emerging MNEs entered as latecomers but have rapidly become global leaders. They are actively involved in international trade and foreign investment activity (Gorshkov 2018); thus, emerging MNEs from China, Taiwan, Hong Kong, and the Republic of Korea are likely to cause structural changes in the regional and international division of labor.

By using *Global 500* and *UNCTAD TOP 100* statistical data of the world’s largest MNEs, this paper aims to investigate the evolution and structural changes in the current rankings of the largest MNEs from NEA in 2000–2020. The authors summarize some of their specific and common features, particularly focusing on internationalization patterns and core competences. The primary assumption of this paper is that MNEs from NEA pursue many internationalization strategies; in case of emerging MNEs these strategies are sometimes not observed in developed MNEs. The second assumption of the paper is that emerging MNEs are in fact evolving from the stage of infant MNEs towards adolescent MNEs and mature MNEs (Ramamurti and Singh 2009).

The structure of the paper is as follows. In Sect. 2, we provide a quantitative assessment of MNEs from NEA by outlining major trends in outward FDI from the

region. We also highlight high rankings of these MNEs in *Fortune Global 500*, and analyze their ownership and industry structure. In Sect. 3, by using UNCTAD *TOP 100* statistical data of the world largest MNEs, we conduct international comparison of these MNEs by their level of internationalization. In Sect. 4, we summarize some specific and common features of these MNEs. Conclusion presents major findings of this paper.

2 The Role of North-East Asia in Global Outward FDI: Emerging Multinational Enterprises

According to the *World Investment Report 2020* published by UNCTAD, almost all NEA countries were in the top-20 list of home economies in terms of FDI outflows; Japan (1st place), China (4), Hong Kong (7), Republic of Korea (9), and Russia (15). Taiwan frequently joined the top-20 ranking in the 2000s.

The growing presence of NEA in global outward FDI is pronounced and can be confirmed by the related statistics in Fig. 1. Since the 1980s, Japan has become the world's most prominent home country for FDI. The export of capital, associated with the active transfer of production capacities from Japan to foreign countries, led to an intensification of the deindustrialization process, often referred to as the 'hollowing-out' of the domestic manufacturing. It caused an increase in negative trends in Japan's economy: slowdown in the industrial production growth rate and manufacturing employment, as well as declining competitiveness in tradables. Nevertheless, the scale of overseas business of Japanese MNEs in the early twenty-first century expanded and in 2018–2019 Japan managed to become the leading overseas investor in the world (Podoba 2021). Large-scale repatriations of the US MNEs' accumulated foreign earnings due to trade disputes with China resulted in negative FDI outflows and contributed to Japan's leapfrogging to the 1st place of global investors. Japanese FDI growth in 2015–2019 can also be attributed to the effect of Japan's *Global Outreach Strategy* proclaimed by the Prime Minister Abe's Cabinet. The policy of stimulation of Japanese outward FDI abroad has been succeeded by the new prime minister Yoshihide Suga.

The case of China is rather specific due to the round-tripping FDI via Hong Kong; thus, for statistical purposes we provide data for Hong Kong and Taiwan separately from the mainland China. In 2000, Hong Kong and Japan were the major investors from the region, however, China has been gradually catching-up and eventually it outperformed Japan in 2010. The rise of China is attributable to the *China Go Global* policy of the government which extensively supports Chinese MNEs. However, Chinese outward global direct investment declined substantially since 2017 due to tighter capital controls in China and to the growing regulatory scrutiny in host economies.

As for the Russian outward FDI, they have been growing in the beginning of 2000s, but there was a remarkable decline in their volume due to the repercussions

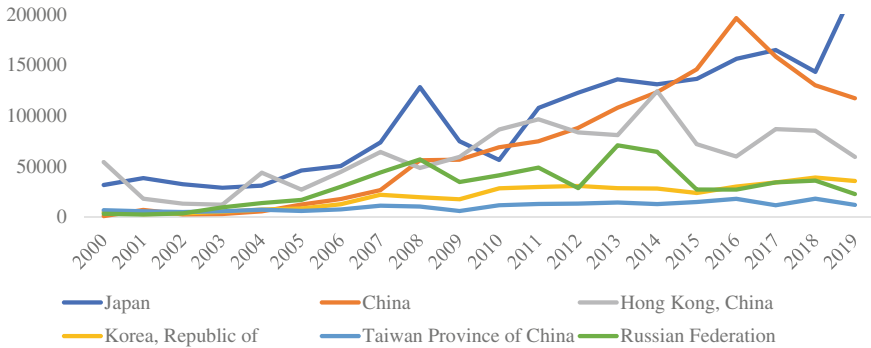


Fig. 1 Outward FDI flows in 2000–19, USD million (Source UNCTAD, *World Investment Report*, various years)

of the global financial crisis 2008–2009 and sanctions imposed by the United States and some European countries over the Ukrainian crisis. FDI from South Korea and Taiwan have been growing at a moderate pace.

Outward FDI stock accumulation for NEA has been impressive: In 2000–2019, Japan’s outward FDI increased by 7, China—76, Taiwan—13, Hong Kong—5, Republic of Korea—20, Russia—20 times (Fig. 2). The share of NEA in global outward FDI stock in 2019 amounted to 20%.

Hence, it is interesting to analyze MNEs from the region in international rankings. Figure 3 demonstrates remarkable growth in the number of Chinese MNEs, from 10 companies back in 2000 to already 124 in 2020 in *Fortune’s* ranking by revenue. In 2020, China surpassed the United States in *Global 500* (the United States—121, China—124 companies, respectively); consequently, Chinese MNEs are obviously reshaping the global business. As for Japan, despite the growing amount of its outward FDI in 2000–2020, the number of Japanese MNEs in *Global 500* has declined from

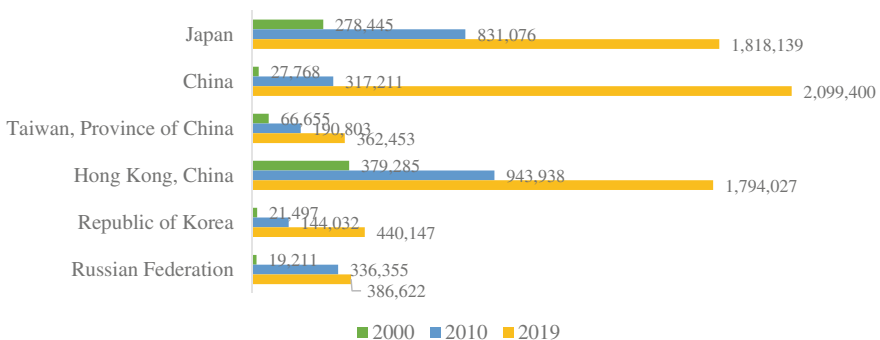


Fig. 2 Outward FDI Stock, USD million (Source UNCTAD, *World Investment Report*, various years)

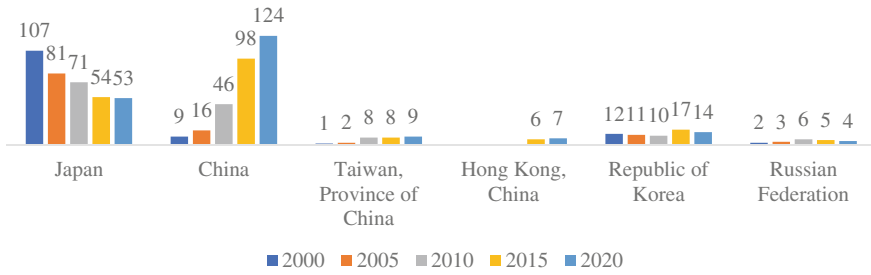


Fig. 3 Number of MNEs from NEA, 2000–2020 (Source Fortune Global 500 Statistics)

107 to 53 in the respected period. Taiwan (9), Hong Kong (7), Republic of Korea (14), and Russia (4) have a smaller number of MNEs.

The average number of years on *Global 500* list for MNEs from NEA in 2020 was as follows: Japan—9, China—9, Taiwan—11, Hong Kong—12, Republic of Korea—7, and Russia—18 years. Consequently, Chinese, Taiwanese, Hongkongese, and Korean MNEs have only recently joined the ranking and represent the new emerging force of NEA. In case of Japan, there has been only one recent entry from Takeda Pharmaceutical that joined *Global 500* in 2020 (414th place). It is important to note that the global context for internationalization of Japanese MNEs and other emerging MNEs from the region was different. In the 2000s, it was much easier to internationalize due to the rising of outsourcing, development of global supply chains, fluidity of international labor and other factors (Williamson and Zeng 2009).

The top-5 list of MNEs by home country in the NEA region is presented in Tab 1. Japanese MNEs have maintained their strong positions in the automobile industry as many automobile companies (Toyota Motors [10th], Honda Motors [39th]) have been stably present in the *Global 500*. Other industries include telecommunications (NTT [62]) and commercial trade (Mitsubishi [42nd], Itochu [72nd]). Most of Japanese MNEs are owned by private capital, however, there are public companies with mixed type of ownership.

China is leading the *Global 500* as 3 out of 5 of its companies (Sinopec Group [2nd], State Grid [3rd], China National Petroleum [4th]) are present in the global top 5. Chinese MNEs are predominantly state-owned and operate in the power-supply, oil and gas, and construction sectors. China also leading in metal, automotive, and real estate industries. There is growing number of Chinese MNEs in banking and finance (Gorshkov 2019). On the other hand, there is a shortage of MNEs oriented for consumer business, however, that proves the fact that Chinese domestic market still has plenty of opportunities to grow. High-tech and digital MNEs such as Alibaba and Tencent are leading in innovation, and have high chances to catch up and even surpass Western MNEs through the process of the so-called *reverse innovation* (Ramamurti 2020).

Taiwanese MNEs are primarily owned by private capital and operate in such industries as electronics, computers, insurance and semiconductors. Global rankings of Taiwanese MNEs are rather moderate: Pegatron (269th), Taiwan Semiconductor

Table 1 Top-5 Multinational enterprises from North East Asia by home country in *Fortune Global 500*, ranking in 2020

| | | | | | | |
|---|---|--|----------------------------|---|--|--|
| Japan [53] | F | <i>Toyota Motors (10)</i> | <i>Honda Motor (39)</i> | <i>Mitsubishi (42)</i> | <i>Japan Post Holdings (60)</i> | <i>NTT (Nippon Telegraph & Telephone (62))</i> |
| | I | automobile | automobile | trading | finance&insurance &post | telecommunications |
| | O | private | private | private | mixed (56.87% state) | private with government participation |
| China [119] | F | <i>Sinopec Group (2)</i> | <i>State Grid (3)</i> | <i>China National Petroleum (4)</i> | <i>China State Construction Engineering (18)</i> | <i>Ping An Insurance (21)</i> |
| | I | oil and gas | energy | power-supply | energy & construction | finance & banking |
| | O | state | state | state | state | private with state participation |
| Taiwan Province of China [10] | F | <i>Hon Hai Precision Industry (26)</i> | <i>Pegatron (269)</i> | <i>Taiwan Semiconductor Manufacturing (362)</i> | <i>Cathay Financial Holding (374)</i> | <i>Quanta Computer (377)</i> |
| | I | electronics | electronics | semiconductors | insurance | computers |
| | O | private | private | private | private | private with government participation |
| Hong Kong [7] | F | <i>China Resources (79)</i> | <i>Lenovo Group (224)</i> | <i>China Merchants Group (235)</i> | <i>AIA Group (250)</i> | <i>Jardine Matheson (301)</i> |
| | I | health care, pharmaceuticals | computer, office equipment | transport | insurance | motor and vehicles |
| | O | state | private | private | private | private |
| Republic of Korea (South Korea) [16] | F | <i>Samsung Electronics (19)</i> | <i>Hyundai Motor (84)</i> | <i>SK Holdings (97)</i> | <i>POSCO (194)</i> | <i>LG Electronics (207)</i> |
| | | | | | | (continued) |

Table 1 (continued)

| | | | | | |
|---|------------------------------------|--------------------------------|-------------------------|-----------------------|-------------|
| I | electronics | motor vehicles & parts | diversified industries | metallurgy | electronics |
| O | private (foreigners more than 50%) | private | private | private (foreigners) | private |
| F | <i>Gazprom</i> (55) | <i>Lukoil</i> (57) | <i>Rosneft Oil</i> (76) | <i>Sberbank</i> (240) | |
| I | Energy (oil&gas) | Energy (oil) | Energy (oil) | finance & banking | |
| O | state | private with govern. influence | state | state | |

Note The number in [] for countries shows the total number of MNEs from that country in *Global 500* ranking; the number in () shows the ranking of a particular firm in the *Global 500*; F stands for Firm, I—industry, and O—ownership

Source compiled by authors from *Fortune Global 500* Statistics

Manufacturing (362nd), Cathay Financial Holdings (374th) and Quanta Computer (377th). The only exception is Hon Hai Precision Industry, which is currently on the 26th place.

MNEs from Hong Kong also demonstrate rather moderate global rankings and operate in such industries as pharmaceuticals, computers, office equipment, transport, insurance and motor vehicles.

The majority of MNEs from the Republic of Korea are formally private businesses, operating in electronics, motor vehicles, energy, and metallurgy sector. The catching-up policy of Korea’s government aiming to adopt the Japanese growth model is presumably accountable for fostering MNEs in these industries. The number of South Korean MNEs is somewhat stable in the respected period.

As for Russia, it has only a few MNEs in the ranking: they operate in the natural resource and banking sectors and have strong economic and political ties with Russia’s government. Many of these MNEs are inherited from the transition period.

3 Internationalization of MNEs from North-East Asia

In order to identify the level of internationalization of MNEs from NEA, we analyzed the ranking of non-financial MNEs published by UNCTAD which ranks MNEs by the amount of foreign assets. Historically, the majority of top 100 MNEs are headquartered in the triad (the United States, the European Union, and Japan), and these major centers of global economic activities still host a large number of MNEs. Total sales of top 100 MNEs in 2019 were equivalent to about 12% of the world GDP. The ranking is important as it helps gauge globalization trends.

According to Fig. 4, Japan and China had nine MNEs each in 2019. The number of Japanese MNEs in the ranking has been declining despite the *Global Outreach Strategy* aiming to promote international competitiveness of Japanese business. Other countries and territories have rather moderate results, while Russian MNEs haven’t made it to the list.

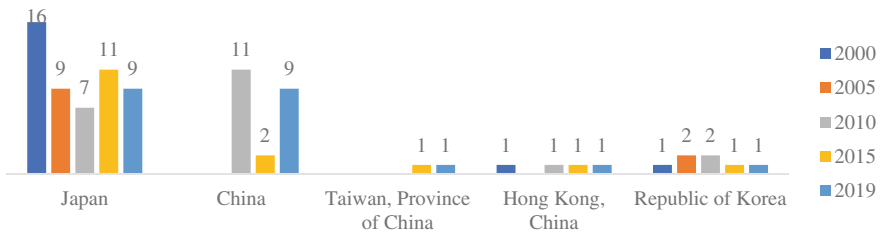


Fig. 4 Number of multinational enterprises from North East Asia, 2000–2019 (Source The world’s top 100 non-financial MNEs ranked by foreign assets, UNCTAD)

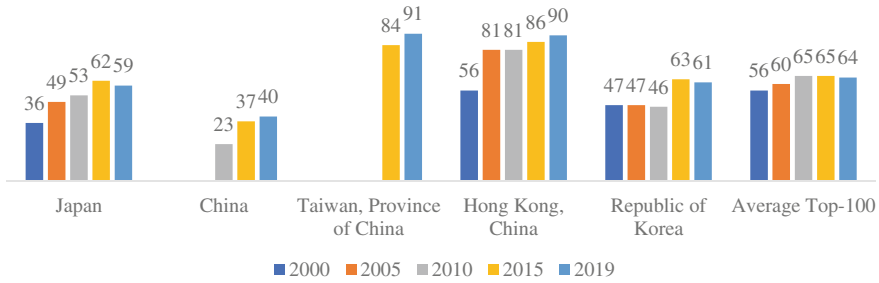


Fig. 5 Average TNI for MNE from NEA (the world's top 100 non-financial MNEs) (Source UNCTAD)

To measure the scope of transnationalization, UNCTAD applies the *Transnationality Index* (TNI), which is calculated as the average of foreign assets to total assets, foreign sales to total sales, and foreign employment to total employment, and allows to measure the foreign dimension of the overall activities of a firm. In 2019, the average TNI for top 100 MNEs was 64; among the NEA countries, the highest TNI was for MNEs from Taiwan (91) and Hong Kong (90), followed by Republic of Korea (61), Japan (59), and China (40). Thus, countries with small domestic markets and lack of natural resources could internationalize through benefits of globalization.

Japan's most internationalized MNEs are operating in automobile, telecommunications, electronics, wholesale and pharmaceuticals. Japan has been maintaining its leading positions in the automobile sector; however, this industry is subject to further significant global impacts, particularly due to the gradual shift towards the production of electric vehicles following stricter emission requirements in the European Union and other developed economies. There are also several large trading intermediary companies, *sogo shoshas*, in Japan that have unique business models. They have played a significant role in Japan's modern economic success. After the World War II, *sogo shoshas* optimized the supply chains of Japanese industries by providing raw materials, energy and technological needs of upstream and mid-stream manufacturers in Japan, while also rationalizing distribution between the manufacturing sector and the downstream retail sector. At the same time, they marketed the Japanese products overseas and expanded global networks of trade. *Sogo shoshas* also serve as drivers of innovation by investing capital into developing new industries. *Sogo shoshas* have steadily been in international rankings. In fact, in 1996, they were in the top 5 of *Fortune Global 500*.

Currently, there are 7 *sogo shoshas*: Marubeni, Mitsubishi, Mitsui, Itochu, Sumitomo, Sojitz, and Toyota Tsusho. IT revolution has posed significant threat to *sogo shoshas*, however they survived and proactively expanded into resource, energy, bio-, nano-technology, eco-technology sectors as well as launched business activities in emerging economies such as China. *Sogo shoshas* prefer long-term strategic investment by engaging in long-term relationship to foster businesses by expanding trade or finding synergies with other businesses under their own ownership. A typical

sogo shosha has on average from 400 to 600 subsidiaries (more than 50% of ownership) and affiliate companies (20–50% of shares), with a total of 400,000 employees. *Sogo shoshas* have business locations in 226 cities of the world, which is equal to the number of Japanese Embassies, Consulates and Permanent Missions, most of which are concentrated in Asia and North America (Japan Foreign Trade Council 2019).

As for Chinese MNEs, despite their high rankings in terms of revenues, their level of TNI is one of the lowest. Chinese firms are less internationalized as their foreign assets shares are significantly lower than that of the average top 100 MNEs. However, the speed of their internationalization has increased in recent years. In addition, internalization strategies of Chinese MNEs differ from the triad's enterprises. According to Mathews (2017), *linkage*, *leverage* and *learning* (*LLL*) strategic framework can better explain the behavioral patterns of Chinese MNEs. The so-called *dragon multinationals* (a term coined by Mathews to describe a new species in the 'jungle' of international business, equipped with specific strategies to enable such MNEs to rapidly catch-up with incumbents) often do not have distinct firm-specific advantages and their internationalization strategy aims to establish links with existing players (Western MNEs) and constantly leveraging resources (technologies, assets, market positions) from them. Learning is the process of internationalization as training and the gradual accumulation of practical experience by increasing its presence in the global market. *LLL* strategies allow MNEs to catch up with existing players by becoming active players in the world market (Mathews 2017). Thus, Chinese MNEs possess fewer firm-specific advantages than Japanese or Western MNEs, however, they significantly benefit from the so-called government-created advantages which are established to improve a country's international competitiveness. These government-created advantages together with comparative advantages (natural resource endowments) constitute the roots of country-specific advantages in the emerging markets (Ramamutri 2020).

Interestingly, among the largest Chinese MNEs there are not only state-owned companies from basic industries, therefore, confirming that a few Chinese companies in fact also possess a certain level of firm-specific advantages. In 2017, Tencent entered the top 100 global MNE ranking for the first time. It is a multinational investment holding founded in 1998, whose subsidiaries specialize in various internet-related services and products, entertainment, artificial intelligence (AI) and technology both in China and globally. It has transformed into a very active investment conglomerate with a recent special focus on financing tech start-ups in Asia. The firm's overall international expansion started since its public offering in 2004 and featured a full-scale strategy that incorporated various forms of inter-capital relations. Tencent is an example of the so-called *born-globals*; it has been transnationalized by the joint efforts of the state and domestic and transnational capital (Tang 2019). Other examples of Chinese digital global players, for instance, include ByteDance, the developer of the video-sharing social networking service TikTok, Alibaba and Didi Chuxing.

High TNI for Hong Kong and Taiwan can be explained by their relatively small domestic markets, consequently, MNEs from these territories have to globally expand in order to overcome domestic market constraints and to realize economies of scale.

The sole MNE in the ranking from Hong Kong is CK Hutchison Holdings Limited, which has five core businesses such as ports and related services, retail, infrastructure, energy and telecommunications. The world's largest port operators and retailers, reliable infrastructure firms, energy firms and mobile multimedia telecommunication networks are part of the holding. CK Hutchison is a multinational conglomerate with a truly global focus, operating diverse businesses in over 50 regions and countries across the world.

Hon Hai (Foxconn Technology Group), representing Taiwan, is a multinational contract manufacturing firm, which is the world's largest provider of electronics manufacturing services and the fourth-largest information technology firm. Taiwan has managed to overcome the problem of small-domestic market by targeting the global market through export-oriented industrialization and specializing in original equipment manufacturing (OEM) and original design manufacturing (ODM) of ICT products, however, in the twenty-first century Taiwanese MNEs are facing difficulties, such as raising labor costs in China and the China-US trade dispute, and aim to relocate their investment to the domestic market and other international markets in the United States, India, Southeast Asia, and Europe (Nakahara 2020). Taiwanese MNEs, for instance Acer, despite relying on country-specific advantages in the beginning of their internationalization, have succeeded in nurturing their firm-specific advantages (strong brand name) at a later stage. In that sense, they have matured in the process of their internationalization utilizing different internationalization strategies (Ramamurti 2020).

Samsung has been the sole MNE representing South Korea. It is the largest *chaebol* (business conglomerate) comprised of numerous affiliated businesses under the complete control of the founder's family. Samsung Group accounts for more than 20% of the country's GDP (Podoba and Titova 2018). It was originally founded as a trading firm, however, since 1990, it has increasingly globalized its international activities and its electronics, mobile phones, and semiconductors industries have become the primary source of income.

As for Russian MNEs, their level of internationalization measured by TNI remains rather low and they are not currently present in the UNCTAD's top 100 list however, there are a few of them in the similar ranking for developing and transition economies.

4 How Different or Similar are MNEs from North-East Asia?

There are specific and common features in internationalization strategies and core competences of MNEs from NEA. First, let's summarize some of the distinctive features of MNEs from this region.

Japanese MNEs were the first regional-movers and together with the United States and European Union they have established the leading triad of most successful MNEs

in the world. The success of Japanese MNEs was attributable to their unique business models and competitiveness based on superior technology and best management practices. In literature, it is highlighted that their core competences are comprised of leadership in management, technology, production methods, and product quality (Fitzgerald and Rowley 2016). Japanese MNEs prefer organic growth internationalization strategies and value gradual market entries. Initially, Japanese MNEs followed the regional nature of internationalization which is to some extent preserved even nowadays (Iwashita 2020). However, their global positions have declined in the beginning of the twenty-first century due to rather centralized and closed nature of Japanese firms. Since 1990s, their typically domestically established management practices sometimes complicate or inhibit adaptation to the demands of global competition (Fitzgerald and Rowley 2015). Their innovation and R&D systems are solely built within the firms; thus, they are poorly integrated into the global innovation networks and are relatively closed.

In addition, Japanese MNEs lack deep collaborative relationships and organizational learning processes in host economies and rely on home country capabilities and strong parent firm control. Manufacturing of Japanese MNEs in Asian countries was in fact the production of components by Japan-owned plants for the necessity of parent companies (this explains high ratio of inter-industry trade within the region). Another feature of Japanese business—*keiretsu*—a group of companies having mutual business relationships and cross-shareholding and usually connected to a *main bank*, is also gradually dissolving under globalization and gradual convergence of the Japanese market towards the Anglo-Saxon model. The data on global MNEs demonstrates that there is no change in the industrial structure of leading Japanese MNEs. They avoid the risk of developing new industries and prefer short-term profits rather than long-term investment in R&D. While the level of internationalization of Japanese automobile and trading firms is relatively high, their domestic revenues are rather small due to a limited domestic market that is shrinking because of declining birthrates and ageing population. Despite the government initiatives, moving towards the digitalization remains a challenge for many Japanese firms, as controls by government and regulatory entities are deeply embedded in industries, which delay changes and hinder digitalization. In such conditions, Japanese firms should find ways to maximize their ‘late starter advantage’ by learning from a more successful digital leaders such as the United States and China (McKinsey & Company 2020). In addition, prospects of digitalization in Japan are blurred by the scarcity of necessary resources.

Chinese MNEs demonstrate a more opportunistic behavior in their internationalization as they generally lack core competencies and effective management systems (Fitzgerald and Rowley 2016). However, they are rapidly expanding benefiting from the government-created advantages, which allow them to develop flexible learning capabilities. *LLL* strategies provide state-owned MNEs and state-owned MNBs with rapid opportunities of catch-up growth and internationalization. Chinese MNEs still rely on cost advantage internationalization in some sectors and largely benefit from strong domestic markets and rather responsive supply chains that allow speed adaptation to the changes in the market environment.

South Korean MNEs, on the contrary to the Japanese MNEs, are more flexible and risk-taking (Fitzgerald and Rowley 2016). This explains why Samsung successfully entered into the mobile phone market and enhanced competition with the United States' Apple, Inc. A capacity of mass-production and low costs, together with relatively strong reputation for R&D, product quality and brands may be regarded as their core competences. In addition, South Korean MNEs started internationalization directly from operating in foreign markets and did not possess firm-specific advantages at home, which distinguishes them from both Western and Japanese MNEs. Korean MNEs effectively combine synergies of their capabilities, such as improvement of quality, brands' reliability, design, which lead to a more diversified product lines and more stylish features, and consistent marketing. In contrast to Japanese MNEs, Korean MNEs, representing family-owned structures with reliance on government support and centralized management systems, succeed in keeping *chaebol* relationships and encourage robust competition among group and non-group suppliers, avoiding business relationship with internal suppliers with the low level of global standards.

Russian MNEs are state champions backed by the government and are generally smaller in size and inferior in terms of internationalization. The level of state control and state interest is different depending on the strategic importance of that industry for the government and for Russia's economy. For instance, there are significant differences in internationalization patterns of natural-resource based and technology-oriented companies (Panibratov 2017).

As for the common features, it is possible to identify the following. First, the analysis by industry showed that the most successful MNEs from each country in fact represent comparative advantages of their home countries. This explains why leading Japanese MNEs are from automobiles, telecommunications, and electric equipment sectors, Chinese MNEs specialize in natural resources and manufacturing, Taiwanese specialize in electronics, Hongkongese in finance, insurance, and logistics, South Korean in electronics and semi-conductors, and Russian MNEs in natural resources (Podoba and Lobareva 2017). Comparative advantages in the form of basic natural endowments such as land, labor, natural resources, climate and geographical location in combination with advanced natural endowments such as technology and knowledge provide the initial basis for MNEs' internationalization.

Second, all MNEs from NEA rely on state-support which in fact represents government-created advantages. The phenomenon of state-owned enterprises is typical not only for emerging multinationals but also for multinationals from developed countries (Kalotay 2018). In contrast to China and Russia, leading MNEs from Japan, South Korea, Hong Kong, and Taiwan remain privately-owned; however, the government has always exercised a guiding role. In fact, as, MNEs have always been applied by many Asian governments as instruments of conducting catch-up policy agendas (Ozawa 2014). Japanese and other dragon MNEs evolved in the process of policies of development states; in China the nurturing of both state and private MNEs is implemented under state capitalism. Strong government-business relationship is vividly expressed by the international business terminology, such as 'Japan Inc.' and

'Korea Inc.' Thus, these government-created advantages have played a significant role in internationalization of MNEs from NEA.

Third, MNEs from NEA conventionally have centralized corporate structures that had been established as a natural outcome of business practices based on personal and social networking. These relationship networks are essential informal mechanisms having influential power in shaping business operations and include relationship among businesses and with the government and sometimes represent cases of state-business collusion. For Japanese MNEs this centralization and networking is organized in the form of *keiretsu* and *yūchaku* (collusion), Chinese MNEs take advantage of *guanxi* in building their networks, while many South Korean *chaebols* rely on *yuchak* (Rowley et al. 2019); in Russia, this informal personal and social networking is known as *blat* (Michailova and Worm 2003) and is recently also observed in the form of *oligarchy capitalism*. Centralized management enables MNEs from NEA to rely on the managerial or technological resources of the parent firm or global networks, which is particularly typical for Japanese and Korean MNEs. *Yuuchaku*, *quanxi*, *yuchak*, and *blat* are cultural features that determine the nature of personal, social, and business relationship in the respected countries. The nature of such social networks is, however, radically different when measured by such dimensions as factor ownership, products, finance, market and source of technology, and thus, 'one size fits all' approach in investigating internationalization strategies of MNEs from different countries must be avoided (Buckley 2018).

Fourth, global value chains of MNEs from NEA to a large extent are constructed within the respected region as it possesses high level of complementarity. Consequently, to some extent MNEs from NEA (except Russia) have built intra-regional complementary supply chains which can be confirmed by relatively high shares of inter-industry trade. However, this trend is gradually changing as for instance Chinese MNEs are expanding their international business operations into other emerging countries and European markets. In addition, trade and political disputes between member-countries both outside and within the region as well as COVID-19 pandemic shall significantly impact further expansion of MNEs from NEA. Conventional global value chains may be disrupted as there is a growing trend of reshoring that can potentially lead to the creation of shorter and less fragmented value chains and higher concentration of value-added. This is particularly true in case of Japanese and Taiwanese MNEs in China that already started searching for new locations for their manufacturing FDI. For Japan, having 33,000 firms established in China as of 2020, these transformations of global value chains are highly likely to be a difficult task.

5 Conclusion

Using the statistical data of international databases, this paper investigated the evolution and structural changes in the current rankings of MNEs from North-East Asia in 2000–2020. The authors identified differences and similarities in the internationalization strategies and core competences of MNEs from the region.

The role of North-East Asia in global outward foreign direct investment is expanding and MNEs from this region, particularly from China, become more mature. More than a tenfold increase in the number of Chinese MNEs and their foreign expansion are causing major structural changes in international rankings. The competition has become intense, and Chinese MNEs are actively expanding to other emerging and developed markets. Japan, on the opposite is gradually surrendering its positions in *Global 500*, due to a slow adaptation to the changing market conditions. Nevertheless, when it comes to the level of internationalization, comparisons explicitly show that Japanese MNEs together with Taiwanese and Hong Kongese firms have significantly higher levels of transnationalization as measured by TNI.

The specific features of multinationals are pronounced in their original set of core competences, stages, methods and global context of internationalization. Nevertheless, there are similarities among these multinationals, such as their reliance on country-specific advantages comprised of comparative advantages and government-created advantages; centralized corporate structures built on strong connections with the government and personal and social informal networks; and relatively strong regional supply chains reflecting the high level of complementarity among almost all countries of the region.

Overall, the research outcomes highlight the importance of developing adaptability of MNEs to fast-changing unpredictable global environment. Possessing high firm-specific advantages in conventional industries, as in the case of Japanese MNEs, might be beneficial in the short-term; however, MNEs should always anticipate possible structural changes in the world economy and aim at open-type innovation systems, as in the case of China, Taiwan, and Hong Kong. In addition, the role of the government and other home-country specific factors in fostering successful development and internationalization of MNEs should not be underestimated.

Further success of MNEs from NEA shall depend on their capabilities to cope with new challenges of the global context of their internationalization, namely, post-pandemic recovery, raising economic nationalism gradually causing the disruption of conventional global value chains and the sustainability agenda of the world economy.

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Chapter 22

Small Government in the State Capitalism? The Role of Public Finance in Russia



Kazuho Yokogawa

Abstract This chapter focuses on the role of Russian government from a viewpoint of public finance and explains the paradox of small government of a state capitalist country, Russia. We analyzed the size and the structural characteristics of revenue and expenditure of Russian government and explained its relatively sound fiscal balance. Also, we show that the gap between small government expenditure and the active state intervention to the economy can be explained by the finance via state-owned enterprises as “shadow budget”.

Keywords Russia · State capitalism · Public finance · Small government

1 Introduction

Public finance is a state domain. There is no difference between a state-led economy like Russia and a liberal market economy (LME) like the United States (US) in this respect. Then, what is the difference between the state of public finance in a state-led economy and the same in a liberal market economy in terms of the role that public finance plays in the economy? How does the state-led nature of the Russian economy manifest itself in the field of public finance?

In Russia, new taxes and fiscal systems, which are appropriate to the capitalist economic system, were introduced during the transition to the market economy in the 1990s. However, in the 1990s, the government did not function well as a tax state, and the macroeconomic situation in Russia remained unstable. Both the government’s inability to collect taxes and the spread of tax evasion have attracted much attention from researchers, and many studies have been conducted on this topic.¹ Regarding the public finance of Russia during this period, it has been pointed out that tax collection

¹ In addition to studies of taxation by Western specialists of public finance such as Tanzi (2001) and Alm and Martinez-Vazquez (2003), there have been a number of studies in Russia that have focused on government-business relations and corporate behavior with regard to tax evasion.

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became a tool for soft budget constraints and to bail out corporations (Turley, 2006), while Shleifer and Vishny (1999) depicted the image of a government plundering corporations through tax collection (grabbing hand). Although these studies seemed contradictory, both cases show the legacy of the Soviet era of non-market economic coordination between government and business. In the twenty-first century, Russia's economic growth has been accompanied by an increase in tax revenues from the natural resources sector, and the state has achieved fiscal consolidation and budget surplus. However, although there are many analyses of individual issues of Russian public finance, the overall picture of the function of public finance as a tool for state intervention in the economy, which is described as a state-capitalist or state-led economy, remains unclear.

In this chapter, we attempt to clarify the role of public finance in the state-led Russian economy and how state leadership is demonstrated in this domain. Section 1 provides an overview of fiscal trends in advanced democratic countries, which suffer from huge government debt, and post-communist countries. Section 2 analyzes the government size and the fiscal revenue structure in Russia, pointing out its small-government size. Section 3 analyzes the Russian government expenditure and clarifies its characteristics through an international comparison. Finally, in Sect. 4, we consider the state-led nature of the Russian economy, focusing on the finances of state-owned enterprises as a "shadow budget" that supplements the official budget.

2 State and Public Finance

2.1 *Public Finance in Democratic Countries*

One of the most important issues that must be considered is the role the state or government should play in a country's economy, or what the optimal level of state intervention is. Musgrave (1959) formulated the role of the state in the economy in three fiscal functions: resource allocation, stabilization, and income redistribution. As for the resource allocation function, the normative theory was developed mainly in Britain and the US in the twentieth century; it was rationalized that the government should intervene in resource allocation to correct so-called market failures such as the insufficient supply of public and quasi-public goods, natural monopolies, and the existence of externalities. In addition, with the rise of Keynesian economics in the postwar period, countercyclical measures and stabilization policies were included as reasons for government intervention and became established as a function of economic stabilization. Furthermore, income redistribution policies to address income inequality and poverty have also been added to the government's role, although efforts vary from country to country.

The size of the government has grown significantly in the twentieth century, along with the expansion of its economic role. The average size of government spending in developed countries was about 10% of their GDP in the 1870s but has exceeded

40% since the 1980s (Tanzi, 2011, pp. 8–9). A major contributor to this expansion is the spending on pensions, health care, and other social security schemes, education, and housing. In developed countries, the welfare state has developed with particular emphasis on these areas, and income inequality has decreased. However, from around the 1980s, criticism of so-called “government failure” began to be leveled at overly large governments, and the neoliberal movement toward smaller government and deregulation became more prominent. In other words, the inefficiency of public spending, the selfish pursuit of profit by some bureaucrats and politicians, and the heavy tax burden that hinders economic growth are now recognized as problems.

However, despite the advocacy of reducing the size of public finance, in the real world, the increase in debt in major countries has become more serious. Wolfgang Streeck warns that the major democratic countries are now facing the crisis of “tax states” turning into “debt states” (2014). In a debt state, a large part of the total expenditure is covered not by taxation but by the issuance of government bonds, resulting in the accumulation of huge national debt and devoting an increasingly large part of revenues to repay that debt. As shown in Fig. 1, the government debt of major advanced countries has increased significantly over the past half-century.² Taking Japan as an example, whose outstanding debt is equivalent to about 250% of its GDP in 2021, the need for fiscal rehabilitation has been pointed out for many years, but reforms for that purpose have not been realized for political reasons.³ In addition, development of arguments such as the Modern Monetary Theory (MMT) in recent years⁴ has made it more difficult to reduce the government debt. During the COVID-19 pandemic in 2020, governments have been forced to take on historically huge debt through a massive fiscal stimulus to the economy, raising the risk of a potential crisis.

2.2 *Public Finances in Transition Economies*

What is the state of Russia’s public finance? When discussing Russian public finances, it is necessary to recall the public finances of the Soviet era as an initial condition. The role of the government in the Soviet Union differed greatly from that of the governments of capitalist countries in that the Soviet economy was, in principle, run by a planned economy that eschewed the market, and almost all economic activities were the state domain. Almost all enterprises and organizations were state-owned or publicly owned, and most of the economic activity was under state control,

² However, some advanced democracies have succeeded in fiscal consolidation, and there are variations in government initiatives and fiscal performance (Ide and Park, 2016).

³ The reason why Japan cannot overcome its fiscal deficit has been studied, for example, at the main symposium of the Japan Institute for Public Finance in 2012; there, the problem was attributed to the strong resistance of politicians to tax hikes and spending cuts as well as their avoidance to strengthen the fiscal discipline. See Japan Institute for Public Finance (2013) pp. 4–62.

⁴ MMT believes that countries with the ability to issue their own currency do not need to worry about increasing government debt as long as inflation does not occur.

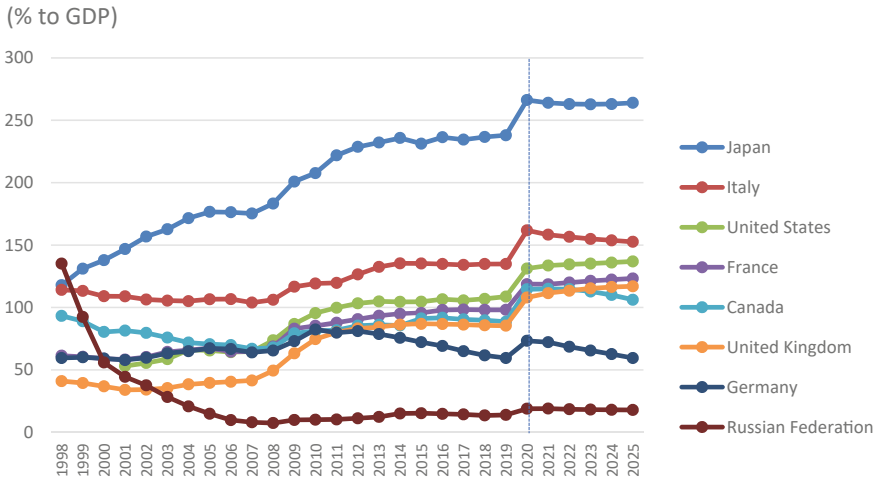


Fig. 1 General government gross debt of G7 countries and Russia (*Note* Data after 2020 are a projection. *Source* IMF, *World Economic Outlook*, October 2020)

except for a few areas such as household consumption. As a result, Soviet finances included not only the state budget in the narrow sense but also the finances of state enterprises and other economic organizations; they were characterized by the fact that state finances covered an extremely wide range of areas.⁵ The size of the state budget in the narrow sense was estimated to be about 50% of national income in the 1960s and 50% of GNP in 1985 (Sato, 1965, p. 156). In addition, it is said that the state budget in the narrow sense accounted for nearly 80% of the total state finances (Sato, 1965, p. 111); thus, it is estimated that the size of the Soviet finances in the broad sense, including the state enterprise sector, reached at least 60% of the gross national income. Therefore, the size of public finances during the Soviet era can be considered to have surpassed that of the Nordic countries, where large governments act as welfare states.

In 1991, the Soviet Union collapsed, and things changed dramatically. At the beginning of the transition in the 1990s, Russia and Eastern European countries pursued neoliberal transition policies based on the Washington Consensus. These policies emphasized shrinking the excessive state in the former communist countries and focused on destroying the state inherited from the old regime and replacing it with a “self-regulating” market. It also demanded the austerity of fiscal and monetary policies from the government to stabilize the macroeconomy. As a result, the size of government spending in many ex-communist countries was halved within a few years. In Russia, general government spending shrank sharply from 58.4% of GDP in 1992, just after the regime change, to 45.3% in 1996.⁶

⁵ Sato (1965, pp.109–110).

⁶ These figures are based on Myant and Drahokoupil (2011, p.129), but the numbers vary slightly from statistic to statistic.

However, the weakening of government functions was a more serious issue than the contraction of government spending (Mizobata, 2002). In a capitalist country, the government needs to develop and maintain a variety of institutions for the sound functioning of the market economy. However, although the transition to a market economy proceeded rapidly, the governments of the former communist countries had no time to acquire new functions. As a result, in the new economic system that emerged, the legal systems that support the protection of private property rights and the enforcement of contracts did not function well, and crime and corruption were rampant. In addition, tax collection was not sufficient to raise financial resources to support government activities. Instead, in the 1990s, the Russian government continued to provide indirect subsidies in the form of tax breaks to companies to bail out those on the verge of bankruptcy due to the abandonment of the planned economy. As a result, tax revenues were insufficient. In addition, as a result of decentralization in the 1990s, local governments began to withhold taxes that should have been paid to the federal government, making it difficult for the latter to secure sufficient tax revenue to carry out its functions.

Facing such a crisis in the Russian economy, the importance of the state's role in the economy and its transition was reaffirmed by the end of the 1990s. The experience of countries in transition, such as Russia, has made it clear that the institutions that support the market economy, which had been considered self-evident until then, would not exist without the efforts of the state to maintain them. Thus, functions such as the protection of property rights, enforcement of contracts, tax collection, social security, education, research and development, infrastructure investment, and industrial policy have been reaffirmed as roles to be played by the state. China's rapid economic growth, in contrast to that of Russia, has also had an impact on these discussions, as Stiglitz (2002) explained the contrastive performance of the Chinese and Russian economies by the differences in the government's abilities.

However, it should be noted that the role of the state reviewed here is only related to the maintenance and construction of various institutions to support the market economy. Russian society had transformed from the Yeltsin regime, where the state was disintegrated, to the Putin regime, where the state was consolidated (Myant and Drahokoupil, 2011, p. 149). Today, the "return" of the state can be seen in all aspects of the Russian economy, and the Russian system has come to be known as "state capitalism" with a strong degree of state intervention in the economy (Bremmer, 2010). However, the degree of state penetration we see in the Russian economy in recent years has completely transcended the government's role, which was once expected as a complementary player in the market economy. This difference must be distinguished. What functions does the government perform in contemporary Russia? How do these characteristics manifest themselves in terms of public finances?

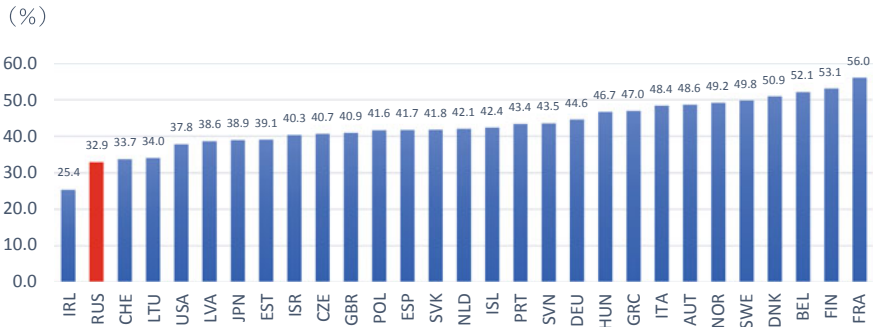


Fig. 2 General government expenditure in OECD countries and Russia (2018, % to GDP) (Source OECD; Russian Ministry of Finance)

3 Small Government and State-led Economy

3.1 *Small Government in Big Russia*

First, we would like to start with the size of the Russian government. How has the size of Russia's government changed from the Soviet period through the transition period to the present? During the Soviet era, government size was so large that it surpassed that of the Scandinavian countries; however, it privatized state-owned enterprises in the 1990s, and the separation of the private sector from the public sector progressed. As a result, the size of government spending, which was nearly 60% of the GDP in 1992, shrunk sharply. Figure 2 compares the size of general government spending in Russia and OECD countries in 2018 and shows that Russia's government spending amounts to 32.9% of its GDP, the second smallest after Ireland. This figure is even lower than that of the US, which is classified as an LME, not to mention European countries. In terms of the national burden ratio, that is, the ratio of taxes and social insurance premiums to national income, Russia's burden is just over 30%, which is extremely light compared to OECD countries.⁷ In other words, as far as the size of government expenditure is concerned, Russia can be positioned as a country of small government, even smaller than countries such as Japan and the US.

Then, where can we find Russia's state leadership in terms of public finances? The next section will take a closer look at Russia's fiscal structure.

⁷ Calculated by the author from the Russian Statistical Yearbook and the Russian Ministry of Finance website.

3.2 Trends in Russia's Fiscal Balance

Russia's public finance consists of the federal budget, regional budget,⁸ and three off-budget funds (pension funds, social insurance funds, and compulsory medical insurance funds). On an expenditure basis, the federal budget accounts for about 40% of the total, while the regional budget and off-budget funds account for about 30%. Among the off-budget funds, the pension fund is by far the largest, accounting for approximately three-quarters of the total off-budget funds.⁹

Figure 3 shows the trends in Russia's general government revenues and expenditures, including federal and regional budgets, as well as off-budget funds. Russia's relatively small government spending was not historically rooted; it shrank sharply only in the 1990s when the government tried austerity measures, and it fell to 26% of the GDP by 1999. However, the drop in tax revenue was more severe than the drop in spending, and the 1990s saw consistently large budget deficits and continued inflation. In the 2000s, however, Russian economic growth turned positive, and Russia's tax revenues increased due to the surge in global oil prices, as discussed in a later section. The Russian government was able to post a large budget surplus in the 2000s, despite its expenditure gradually expanding along with an increase in tax revenues. However, the economic boom had crashed down in the global financial crisis, and in 2009, Russia's GDP growth rate became negative. The federal government created a temporary fiscal stimulus to support the economy, and as a result, the budget once again had a deficit in 2009 and 2010. Although the Russian economy has managed to crawl out of the crisis, its growth rate has slowed down, and tax increases have also been sluggish. In particular, the annexation of Crimea by Russia in 2014 intensified the conflict with Ukraine and negatively affected the economy. Imposed economic sanctions by Western countries caused the Russian economy to once again experience significant negative growth in 2015, with recurring budget deficits. However, the Putin administration, after getting re-elected in the 2018 presidential election, has worked on fiscal reconstruction and recovered the budget surpluses again in 2018 and 2019.

3.3 Dependency of Russian Public Finance on Oil and Gas Revenues

As mentioned above, Russia's public finance is marked by great fluctuations in balance; this is related to its extremely high dependence on tax revenues from the oil and gas sector, which is highly volatile and vulnerable to market conditions. The oil and natural gas industry form the backbone of the Russian economy, accounting for

⁸ Regional budget here means the sum of the budgets of the subnational level, such as oblast and republics, and the budgets of local governments, such as cities, districts, and townships. It is also called "consolidated regional budget."

⁹ According to the data of Russian Ministry of Finance.

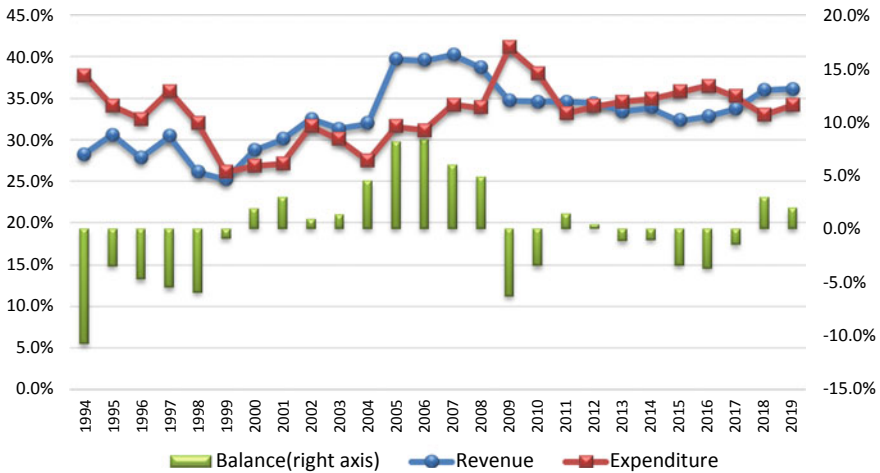


Fig. 3 General government revenue and expenditure in Russia (% to GDP) (Source Russian Ministry of Finance; Russian Statistical Agency)

almost 30% of the GDP and 60–70% of total exports. The tax revenues generated by these sectors are incorporated into the federal budget in the form of mineral extraction taxes and export duties, which account for approximately 40% of the federal budget revenues (Fig. 4). These taxes are levied on an ad valorem basis, linked to the price of crude oil. As a result, the soaring oil prices of the 2000s provided the Russian government with ample tax revenue; however, the tax revenue fell when oil prices plummeted, as they did in 2009 and 2015–2016, causing a deficit in the federal budget. Therefore, tax revenues from the oil and gas sector can be a double-edged sword for the Russian government.

There was a severe battle between the government and the oligarchs concerning taxing on oil and gas revenue¹⁰ since Vladimir Putin took office in 2000. The oil and gas industry, which has sustained the national economy since the Soviet period, was privatized in the 1990s and handed over to newly emerged oligarchs. The new conglomerates were cozy with the Yeltsin family and enjoyed private benefits in the 1990s. However, their relationship with the government changed dramatically after Putin took office in 2000. The new government drastically strengthened taxation in the oil and gas industry and tightened state control for them. Companies that did not comply with the government's tax reforms found themselves in a crisis of survival, just as the oil company Yukos was dismantled by the government. Thus, in the 2000s, the Russian government succeeded in recovering much of the huge profits made by the oil and gas industry in the national treasury. We can observe one aspect of the

¹⁰ The oil and gas tax revenue of the federal government consists of (1) extraction taxes on mineral resources in the form of hydrocarbon fuels (oil, natural gas, and gas condensate), (2) petroleum export duties, (3) natural gas export duties, and (4) petroleum product export duties. The amount to be transferred to the federal budget in a given year is determined by the budget law of that year, and the rest is set aside in a fund called the Reserve Fund (currently the National Welfare Fund).

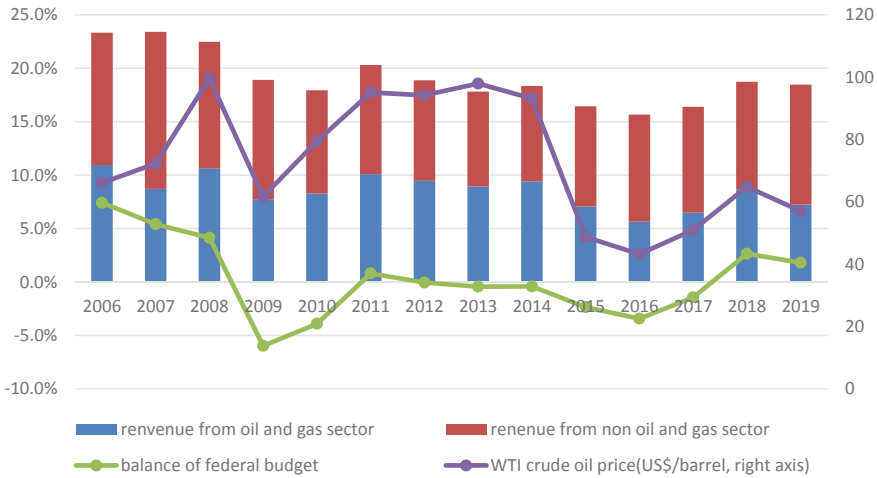


Fig. 4 Revenue structure and balance of the federal budget (% to GDP) (Source Russian Ministry of Finance)

authoritative Russian government in its heavy-handed taxation on the resource sector and pressure on the oligarchs that control these sectors.

What about other tax sources? The dependence of Russia’s economy on oil and gas has been a problem for some time, and this leads to the issue of how to overcome this fiscal dependence on resource revenues; in other words, how to diversify tax bases? Fig. 5 shows the tax revenues of the general government of Russia. The second-largest source of government revenue is the social insurance premiums for pension funds and compulsory medical insurance funds, which even exceeds oil and gas revenue in some recent years. In addition, the value-added tax (VAT) is also large, partly due to the increase in the tax rate from 18 to 20% in 2019.

As for corporate profit tax and personal income tax, the burden is relatively light, as tax cuts were implemented in contrast to the tightening of taxation on the resource sector under the Putin administration. The general rate of corporate profit tax is 20%, and the rate can be reduced to 16.5% in special economic zones. Compared to countries such as Japan, where the effective corporate tax rate is just under 30%,¹¹ the tax burden on corporations, excluding those in the oil and gas sector, is light. As for the personal income tax, the 2001 tax reform changed the previous progressive tax of 45% at the highest to a flat tax rate of 13%, which is an extremely light burden, especially for the wealthy, compared to other major countries in the world.

To reduce the dependence of public finances on the oil and gas sector, it is necessary to strengthen the tax base outside the resource sector. However, this is not an easy task because taxes such as corporate profit tax and personal income tax are

¹¹ According to the Ministry of Finance of Japan, Japan’s effective corporate tax rate is 29.74%, France’s is 31.0%, Germany’s is 29.89%, and the US’ is 27.98%, respectively (as of January 2019). Source: Japanese Ministry of Finance, https://www.mof.go.jp/tax_policy/summary/itm_com_parison/j03.htm (accessed on March 27, 2020).

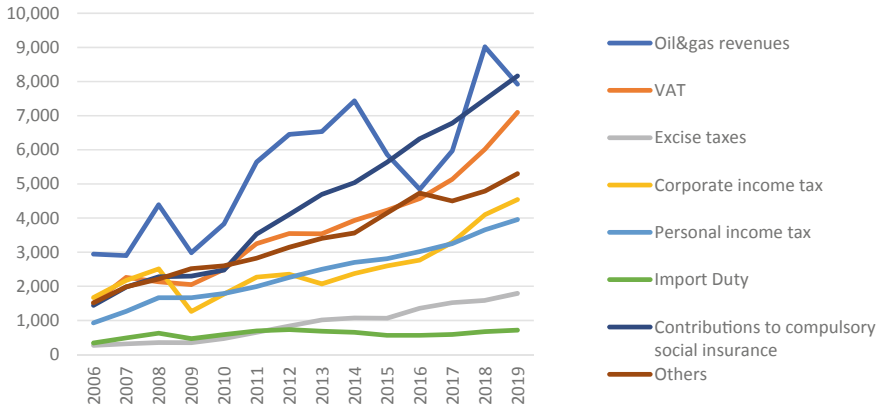


Fig. 5 General government revenue of Russia (in billion Rubles) (Source Russian Ministry of Finance)

also likely to decrease when the oil price falls, as Russia’s economic structure itself depends on the resource sector. However, as seen in Fig. 5, it is noteworthy that tax revenues other than oil and gas revenues continued to grow during the oil price decline in 2015–2016, although a decline in VAT and corporate profit tax, as well as oil and gas revenues, was seen in 2009. This can be attributed to the recent efforts of Russia’s tax authorities to increase tax collection rates, such as closing tax loopholes and preventing tax evasion. These are desirable reforms, although it has also been pointed out that the burden on companies, especially small companies that cannot escape tax collection, has become heavier, and their business has been squeezed (Dolzhenkov and Obukhova, 2020). Therefore, it is necessary to avoid diminishing the tax base. In any case, fostering economic diversity and increasing the capacity of tax administration will contribute to the creation of a more stable fiscal base for Russia.

3.4 Fiscal Discipline and State Initiative

Another characteristic of Russian public finance that needs to be pointed out is that of fiscal discipline. Figure 1 shows the general government debt of Russia and the G7 countries, indicating that the increase in government debt in advanced democratic countries has become increasingly serious in recent years. Government debts in Japan, Italy, and the US exceed 100% of their GDPs, and debts of other countries are also increasing, except for Germany. In contrast to these trends, the Russian government has significantly reduced its outstanding debt since the end of the 1990s, maintaining a remarkably low level of debt at 13.9% of GDP by the end of 2019. Russia’s success in reducing its government debt is noteworthy in terms of fiscal health.

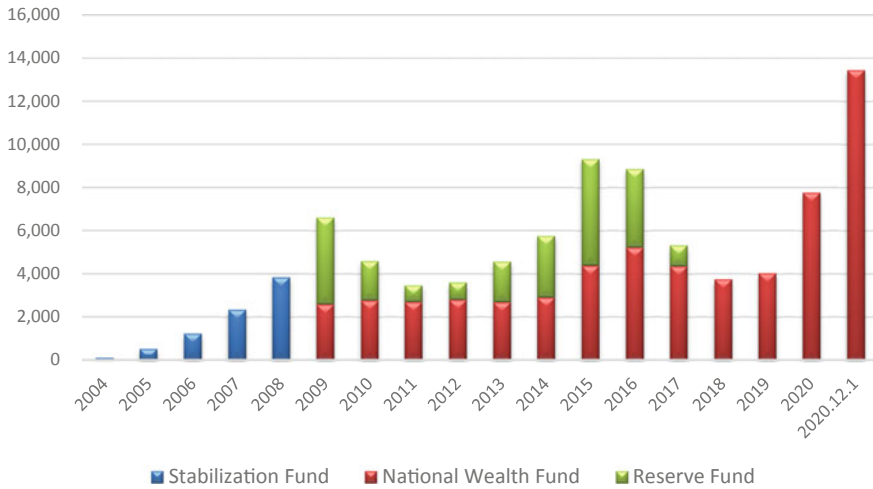


Fig. 6 Russian sovereign fund (at the beginning of the year; billion Rubles) (Source Russian Ministry of Finance; Russian Statistical Agency)

During the surge in international crude oil prices in the 2000s, the Russian government succeeded in increasing oil and gas revenues and set aside a certain portion of the increased revenues in a fund, avoiding expanding expenditures.¹² This fund, initially called the Stabilization Fund, which was divided into the National Welfare Fund and the Reserve Fund in 2009, has been managed in such a way that it accumulates during periods of high oil prices and is used to supplement revenue when oil prices fall (Fig. 6). In recent years, the fall in oil prices from around 2015 caused a budget deficit, which was financed by the reserve fund (the reserve fund was dissolved in 2018 with a zero balance), but the reserve amount has since increased again. In addition, the Russian government expanded its foreign exchange reserves. As of the end of 2019, it held the fourth largest foreign exchange reserve in the world at \$554.5 billion.¹³ In this way, Russia has been coping relatively well with the risks that resource-exporting countries face, such as a sharp fall in resource prices as well as the exchange rate.

In terms of fiscal balance, it is noteworthy that Russia had a budget surplus in 2018 after it experienced a deficit in 2015–2016. The direct cause of this is the government’s shift toward policies that emphasize fiscal discipline, such as raising the pension payment age and increasing the VAT tax rate, after President Putin’s reelection in 2018. In contrast to advanced democratic countries, which cannot stop

¹² The portion of tax revenue from the oil and gas sector that will be set aside for the fund is defined as the portion that exceeds \$20/bbl oil price in 2004, \$27/bbl in 2007, \$45/bbl in 2008, \$91/bbl in 2012, and \$40/bbl in 2018, respectively. The portion below that threshold becomes the federal budget revenue for the year.

¹³ It includes gold holdings (Source: Global Note).

the growth of government debt, Russia's policy management is characterized by a strong fiscal discipline to maintain budget balance.

Why is it possible for Russia to restore its fiscal health? This is not because the mentality of the Russian people is oriented toward small government; rather, they tend to remember the Soviet era when the state took care of all their lives and expect the state to play an active role in protecting the welfare of its citizens (Lezhnina, 2019). Therefore, resistance to reforms that force pain on the people should be strong, as the ruling party and the president's approval ratings plummeted as soon as the government announced raising the pension payment age in 2018. However, compared to democratic states, people's demand is not reflected in the Russian fiscal policy. As President Putin has been very authoritative and the ruling party, United Russia, holds a three-fourth majority in the Federal Assembly, there are few obstacles for the government to implement their policies. Currently, the time devoted to budget deliberations has become half of what it was in the early 2000s, and there are fewer amendments in the readings (Kluge, 2019, p. 31). Thus, there is little momentum for fiscal democracy in Russia, and public finances have become the domain of the "state," rather than the domain of the "public."¹⁴ In addition, the Russian government places great importance on maintaining fiscal discipline due to the bitter memory of hyperinflation in the 1990s. The fiscal soundness of Russia has been achieved because of its authoritarian state, which demonstrates a characteristic of the state-led Russian economy.

4 The Character of the Russian Government from the Analysis of Its Public Spending

4.1 *The Expenditure Structure of the Russian Government*

What are the characteristics of Russia's public finance in terms of its functions? A Japanese famous researcher on public finance, Kenichi Miyamoto, once argued that public finances are the face of the state, and three vectors can be identified as the direction of development of the modern capitalist state: the welfare state, the corporate state, and the military state (1981). In this section, we clarify the characteristics of the Russian government based on its expenditure.

Figure 7 shows the breakdown of general government expenditure in Russia. The growth in social policy spending is particularly conspicuous, which now accounts for more than one-third of total expenditure. About 80% of this is for pensions, and the burden of social security in Russia is becoming heavier every year as the population ages. In Russia, pensions are paid to citizens through a pension fund, but because social insurance premiums alone are not sufficient to cover the total cost of

¹⁴ In Russian, public finances are called "gosdarstvennyi financ," which in English translation means "state finance," not public finance. It seems to symbolize this matter.

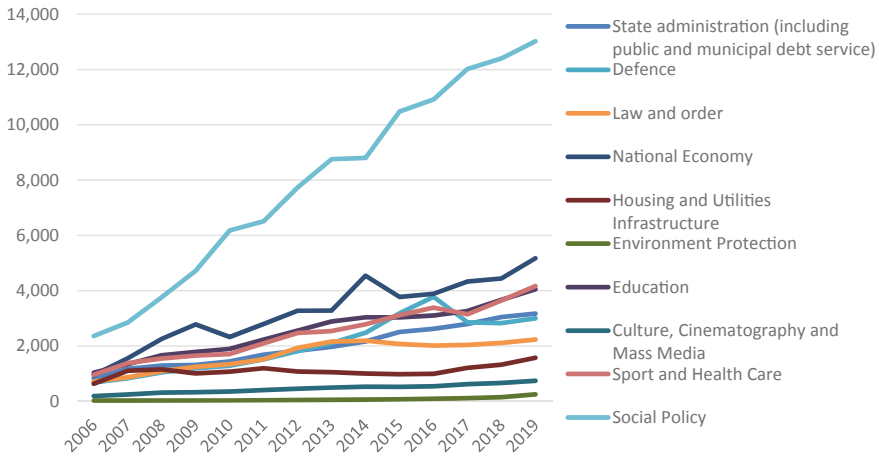


Fig. 7 Russian general government spending (in billion Rubles) (Source Russian Ministry of Finance)

pension, about 40% of the pension payments currently depend on transfers from the federal budget. The second-largest category is national economy expenditure (expenditure on fuel and energy, agriculture and fisheries, transportation, roads, information and communication industries, and basic research related to the national economy), which accounted for 13% of the total expenditure as of 2018. This includes subsidies to companies and public works projects, suggesting that the government increased spending in this category to stimulate the economy during the economic crisis of 2009 and 2014–2015. The next largest categories are education and health (medical care), each accounting for approximately 11–12% of the total. Defense spending accounted for 8% of the total spending in FY2018. According to the timeline, defense spending temporarily increased during 2014–2016 in response to the conflict in Ukraine and deteriorating relations with the NATO members; however, it has been reduced and returned to the normal level since 2017, although we have the impression that Putin’s administration has continuously increased its military budget. Defense spending in 2016 was 4.4% of the GDP, although it dropped to 2.7% in 2019.

In the next section, we consider the characteristics of the Russian government through an international comparison of spending structures.

4.2 Comparison of Expenditure Structure with OECD Countries

According to Akindinova et al. (2018), who compared the Russian government’s expenditure structure for the period 2007–2015 with that of OECD countries, Russia spends more on defense, security, and justice, and the national economy than the

average OECD country, while the spending on health and education is lower. In addition, social security expenditures have increased significantly in recent years compared to the average level of OECD countries. However, fiscal structures differ considerably, even among OECD countries. Therefore, we extract the expenditure composition of several major OECD countries and compare them with Russia.

Table 1 compares the general government expenditure of Russia with that of the US, Japan, Germany, France, and Sweden in 2018. Social security spending, is a heavy burden for Russia, but it is by no means excessive when compared to major developed countries. Except for the US, Japan, Germany, France, and Sweden spend more on social security than Russia, both as a share in the total expenditure and as a percentage of GDP. The expansion of social security spending has become a common problem worldwide in line with the aging society, and Russia is also not free from this trend, although it is not currently spending as much as developed countries.

Regarding national economic expenditure (economic activities), Russia surpasses other developed countries, which suggests that Russia is relatively focused on this item. This seems to confirm the large state intervention in the Russian economy.

What about education and healthcare? In Russia, 10% of expenditure is allocated to each item, but the weight of these items is relatively small compared to other developed countries. In particular, health care spending is conspicuously low at 3.5%

Table 1 Structure of government expenditure (2018, % to GDP)

| | Russia | USA | Japan | Germany | Sweden | France |
|----------------------------------|-------------|------------|-------------|-------------|-------------|-------------|
| Total | 33.0 (100) | 37.8 (100) | 38.9 (100) | 44.6 (100) | 49.8 (100) | 56.0 (100) |
| General public services | 2.9 (8.8) | 5.7 (15.1) | 3.8 (9.7) | 5.7 (12.7) | 7.1 (14.2) | 6.2 (11.0) |
| Defense | 2.7 (8.2) | 3.2 (8.5) | 0.9 (2.4) | 1.1 (2.4) | 1.2 (2.4) | 1.8 (3.1) |
| Public order and safety | 2.0 (6.1) | 2.0 (5.3) | 1.2 (3.2) | 1.6 (3.5) | 1.3 (2.6) | 1.7 (3.0) |
| Economic affairs | 4.3 (13.0) | 3.4 (8.9) | 3.7 (9.5) | 3.4 (7.6) | 4.3 (8.6) | 5.8 (10.3) |
| Environmental protection | 0.1 (0.3) | 0.0 (0.0) | 1.1 (2.9) | 0.6 (1.3) | 0.5 (1.0) | 1.0 (1.8) |
| Housing and community amenities | 1.3 (3.9) | 0.5 (1.3) | 0.7 (1.7) | 0.4 (0.9) | 0.7 (1.4) | 1.1 (2.0) |
| Health | 3.5 (10.6) | 9.3 (24.6) | 7.7 (19.7) | 7.2 (16.2) | 7.0 (14.0) | 8.1 (14.5) |
| Recreation, culture and religion | 0.6 (1.8) | 0.3 (0.7) | 0.4 (1.0) | 1.1 (2.4) | 1.3 (2.6) | 1.4 (2.5) |
| Education | 3.5 (10.6) | 5.9 (15.7) | 3.3 (8.5) | 4.2 (9.4) | 6.9 (13.8) | 5.1 (9.1) |
| Social protection | 11.9 (36.1) | 7.5 (19.9) | 16.1 (41.4) | 19.4 (43.6) | 19.5 (39.2) | 23.9 (42.6) |

Note Numbers in parenthesis represent the share in the total expenditure. *Source* OECD; Russian Ministry of Finance

of the GDP, which is less than half of other countries' spending. During the Soviet era, free medical care and education were guaranteed to all citizens, and even today, the number of staffs working in educational institutions and the medical sector is quite large compared to international standards.¹⁵ However, the lack of financial resources has led to problems such as low wages for teachers and medical staff, which in turn leads to a low quality of services (especially health care).

Defense spending accounts for 8.2% of the total expenditure or 2.7% of the GDP, which is considerably higher than that of other countries, following the US. Furthermore, according to the Stockholm International Peace Research Institute (SIPRI), Russia's defense spending as shown in the budget is only three-quarters of the actual amount; when expenditures that should be included in the defense spending, such as social security, health care, and education for military servants, are included, it increases by about 1% of the GDP (Kluge, 2019, p. 23). Considering these points, Russia's defense spending is still relatively high, although it is much lower than that of the US and China in absolute terms. Expenditures related to the security and judiciary sectors, the home of Siloviki who support the Putin administration, are also relatively higher than in other countries, at 6% of the total expenditure.

How can we describe the nature of public finance in Russia? From the fiscal structure of the Russian government, we can see that the government focuses on three areas: national defense, the national economy, and social security. Judging from the large defense spending, Russia may be a military nation on par with the US. However, Russia's defense spending is not only significant from the perspective of national security but also as an industrial policy. As a legacy of the Cold War in the Soviet era, Russia had a large defense industry. Besides, many of them are town-building companies in remote areas such as Siberia, therefore defense spending cannot be reduced for fear that cutting state orders will destabilize the socio-economic situation in many cities (Kluge, 2019, p. 28).

The rapidly increasing social security expenditures, while not yet at the level of developed countries, is undoubtedly the most serious domestic problem. Pensioners demand paternalistic social policies from the government, and the government is forced to respond to them to retain their political support. The existence of a "social contract" between the state and its citizens has been pointed out as the foundation of Russia's political and social stability. Citizens give up their political freedom in exchange for certain economic benefits guaranteed by the government (Cook and Dmitrov, 2017; Feldmann and Mazepus, 2018; Hayashi, 2018; Busygina and Filippov, 2016). Therefore, it is difficult for the government to reduce such expenditures because if the social contract relationship is broken, it could shake the support base of the current government. Figure 8 shows the relationship between the size of social security expenditures and GDP per capita in OECD countries and Russia. Roughly speaking, the higher the economic level, the higher the share of social

¹⁵ Most teachers and hospital staff in Russia are civil servants. According to Gruvich and Khazanov (2016), who conducted an analysis based on ILO statistics, the number of civil servants per 100 people in Russia is 2.4 people in state administration, 4.0 in education, and 2.9 in health care, which adds up to 9.4. This figure is about 1.5 times higher than the average for Western European countries and other transition countries in Eastern Europe.

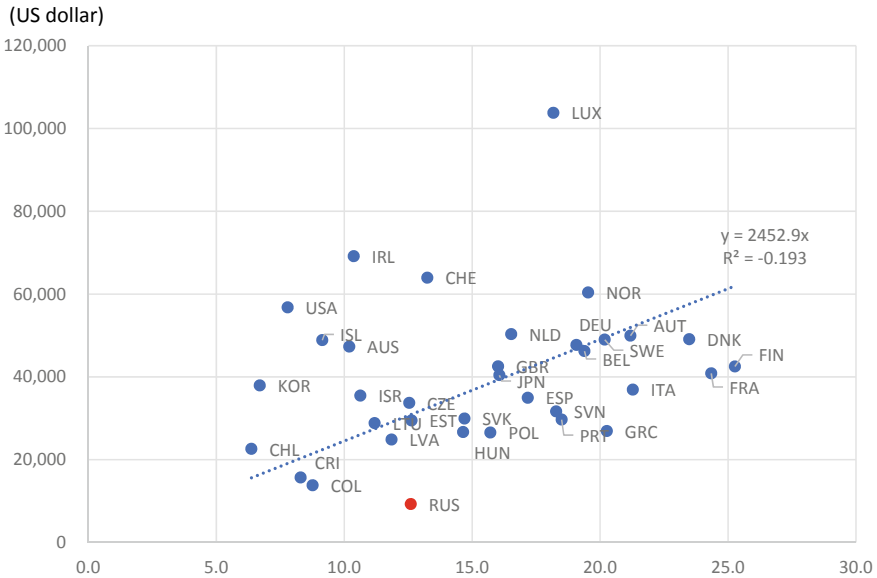


Fig. 8 Expenditure to social protection (% of GDP) and GDP per capita in Russia and OECD countries, 2015 (Note The vertical axis represents the nominal GDP per capita, and the horizontal axis represents the size of social security spending as % of GDP. Source OECD; Russian Ministry of Finance)

security they tend to spend. In this context, Russia, with a GDP per capita of less than \$10,000, has a social security expenditure on the same scale as countries with that of \$30,000. Therefore, Russia has an excessive social security burden, given its level of economic development. This may be understood as a legacy of the socialist “premature welfare state.”

The large amount of national economic expenditure, which includes subsidies and investments to companies shows an aspect of a corporate state where the state actively supports economic activity.

Summarizing the above-mentioned characteristics, Russia has a small government in terms of the size of public expenditure and is maintaining a stricter fiscal discipline than advanced democratic countries. In addition, the burden of social security is increasing every year, while defense and national economy spending are also given relatively huge emphasis, compared with other major countries. On the other hand, areas related to human capital formation, such as education and health care, have been less funded.

5 Shadow Budget and the State-led Economy

The analysis of the Russian state budget, as seen in this chapter, has only widened the gap between the picture of “small government” and the reality, which is described as state capitalism. To examine the state’s leadership in the Russian economy, it is not enough to understand the formal state budget. This is because the Russian government controls a considerable amount of resource allocation without going through the budget, that is, resource allocation through the corporate sector. In this section, we would like to focus on the role of the so-called “shadow budget” that takes place beyond the framework of the formal budget.

It has already been mentioned that the core revenue source of the Russian government is taxes from the oil and gas sector. However, the official tax revenue from the natural resources sector is only a part of the resources collected from the sector. American economists Gaddy and Ickes calculated the amount of “rent,” which is the difference between the revenues earned by the oil and gas sector and the real production costs. The rent naturally increases as the price of oil exports soars and the authoritative Russian government collects this in formal and informal forms, redistributing to other sectors as subsidies, especially to support companies that are inefficient and cannot survive in a market economy. Gaddy and Ickes call this system the “rent management system,” which portrays the economic regime under the Putin administration (Gaddy and Ickes, 2015).

In Russia, energy producers, including those in the oil and gas sector, supply resources to energy consumers, such as electricity and manufacturing companies, at lower-than-market prices. This means indirect subsidies. They also subsidize, in the form of overpayments, those who support oil and gas production, such as manufacturers of production equipment and transportation infrastructure providers, for example, railroads and pipelines. Most of the “rents” are distributed to various sectors (rent-dependent sectors) through these price mechanisms. All of this is done through informal mechanisms that do not involve formal budgets (Gaddy and Ickes, 2015, p. 19). Oligarchs who hold oil and gas companies are put under Putin’s control and are forced to participate in this system (*ibid.*, p. 25).

This kind of redistribution through the corporate sector reminds us of the Soviet era. Although it is difficult to ascertain the size of such redistribution, the IMF and Russian researchers estimated that the expenditures of state-owned enterprises, which are considered to be the public sector in the broad sense, amounted to 29–30% of the GDP (Kluge, 2019, p. 7).¹⁶ Although state-owned enterprises pay official taxes, many funds remain in their hands without being incorporated into the budget. As state-owned enterprises are used for political goals, the spending of these enterprises has an aspect of national projects. Therefore, it can be positioned as part of public finance in a broader sense.

¹⁶ According to the Russian Academy of National Economy and Public Service, the weight of the Russian state sector in GDP is 13% for the state administration sector, 38.7% for state enterprises, and 1.7% for unitary enterprises, respectively, totaling 53.4% of the GDP in 2018 data. (Source: РАНХиГС, <https://ipei.ranepa.ru/ru/kgu/indexsy>).

Let us explain the allocation of funds through state-owned enterprises based on the discussion in Kluge (2019), which points out the existence of such shadow budgets. Among the state-owned companies, which Kluge defines, the majority are “unitary enterprises,” which are directly controlled by federal and local governments. Well-known examples include the Russian Postal Service, film studio Mosfilm, and Moscow Metro Corporation. The second group consists of joint ventures (JVs) that are partly owned by private capital and listed on foreign stock markets. These include Russia’s two largest energy companies, Gazprom and Rosneft, Russia’s pipeline monopoly Transneft, state-owned banks Sberbank and VTB Bank, and service companies such as Aeroflot and Rostelecom. The third group is the “state corporation,” a unique form of a state-owned enterprise in Russia. State corporations include Rostec, a military-industrial complex holding company, VEB Bank, a development bank, and so on, which hold their own shares.

Of these state-owned enterprises, unitary enterprises cannot make decisions without the consent of the federal and local governments that own them, while JVs and state corporations have much greater independence. However, as we will see later, JVs are strongly influenced by the government. In the case of state corporations, the president has the power to appoint and dismiss the management team, and President Putin currently maintains influence by appointing people with personal ties to the management team.

Unitary companies and JVs are required to pay a certain portion of their profits to the state treasury. However, the dividends paid by JVs to the government are considered small by international standards,¹⁷ and after the fall in oil prices in 2015, Prime Minister Medvedev issued a directive in 2016 requiring state-owned JVs to pay more dividends. Precisely, these JVs are obliged to pay 50% of the previous year’s net profit to the treasury in accordance with the International Financial Reporting Standards (IFRS). As a result, small JVs have complied with the directive, while large energy companies could make exceptions with government support. Companies such as Gazprom, Rosneft, and Transneft have not paid as much,¹⁸ while cooperating with government projects in exchange for reduced payments to the treasury. These projects include building oil and gas pipelines and other infrastructure, managing resource exports, and cooperating with media nationalization. Thus, the Russian government can control the funds in corporations directly or indirectly, which means it no longer needs to make this money go through the state treasury (Kluge, 2019, pp. 34–37).

As for state corporations, they are legally not owned by the government; thus, their profits are not put into the treasury as dividends. Therefore, more funds can be used internally than in the case of JVs. State corporations, such as Ross Technology,

¹⁷ The number of dividends that should have been paid, but were not, amounted to 386 billion rubles in 2015 and 346 billion rubles in 2016, according to some figures (Kluge, 2019, p.36).

¹⁸ For example, according to IFRS standards, Gazprom paid only 20% of its previous year’s profits into the treasury instead of 50%. This was justified by a major investment project by Gazprom, an investment in a gas pipeline. Rosneft paid 35%, which was justified on the grounds that the company’s state ownership is not direct (it is through Rosneftegaz) and therefore, Medvedev’s mandate does not apply for it. Transneft also paid only 13% of its 2017 profits for various reasons (Kluge, 2019, p.37).

include many manufacturing companies, some of which are in the military-industrial complex. Many of them are in too difficult situations to survive in a market economy; thus, the government is supporting these companies financially, protecting them under the umbrella of state corporations.

Thus, in Russia, the government's direct control over corporations makes it possible to use the funds reserved within corporations for political purposes without involving public finances. Such shadow budgets are neither debated in the Diet nor subject to the Budget Law and public scrutiny. However, these funds make it possible to support the stability of the Russian economy by enabling the construction of infrastructure and subsidizing companies out of the official budget. Here, we can find an aspect of Russia's active intervention in the economy as a corporate state.

6 Conclusion

In this chapter, we examine the role of public finances in Russia, which is often referred to as a state-led economy or state capitalism, and how state initiative is manifested in it. In terms of the size of the national budget, Russia is surprisingly placed in the category of "small government," and it maintains fairly sound fiscal management compared to developed countries, keeping the balance of budget and the low level of the national debt. In addition, Russia, which is dependent on resource exports, has built up a sovereign fund and sufficient foreign currency reserves to cope with a drop in oil prices and the resulting rapid depreciation of the ruble. Russia can achieve fiscal discipline, which democratic countries are struggling with, due to its authoritarian nature and methods, as discussed in this chapter. In contrast to countries that practice democracy but have been unable to halt the growth of budget deficits and government debt, Russia can maintain fiscal discipline because the voices of the people are silenced.

The role played by Russia's public finances is characterized through international comparisons, the first of which is the higher share of defense spending. This is due to Russia's emphasis on national security in the face of deteriorating relations with NATO countries and at the same time, the need to support the large defense industry that it inherited from the Soviet Union. Another major feature is that social security expenditures, particularly pensions, are growing year by year as Russia's population ages. This is a necessary expense to retain the support of the people who demand a paternalistic social policy, but this has become the biggest factor putting pressure on Russian finances. As a result, expenses related to the formation of human capital, such as education and medical care, are sacrificed.

From the above analysis of state finances alone, it is not clear why Russia was positioned as a state capitalist country. In this chapter, however, I have argued that a major source of the Russian government's state initiative is the allocation of resources through the state-owned enterprise sector, which bypasses the formal budget. This resource allocation, which can be described as a shadow budget, plays an extremely important role in supporting the Russian economy and maintaining social stability.

The real picture of Russia's "big government" cannot emerge without including this shadow budget.

The challenges for the Russian economy are how to confront the slump in oil prices and the decline in "rents" from the resource sector. The decline in rents means that there will be less room for fiscal maneuvering, both formal and informal. If they fail to make effective use of limited resources in this context, there is a risk that political stability, which is the premise for state capitalism, will be undermined.

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Chapter 23

Why is State-Led Capitalism Stable? Reconsidering Comfortable Authoritarianism



Satoshi Mizobata

Abstract In contrast to the liberal orientation in the 1990s, the 2000s saw a strong trend towards the ‘state-led’ system of governance. Emerging market economies such as China and Russia have achieved high economic growth on the basis of state-led capitalist systems, and political and economic frictions with developed countries have become apparent. These economic frictions have intensified the politicisation of economies worldwide. This study provides empirical evidence of the effectiveness of the state-led system and its stability.

Keywords state-led capitalism · emerging economy · penetration · governmentalisation · security · authoritarian

1 Introduction

The transformation of the socialist economic system caused unprecedented changes in the world economy. However, it did not mark the end of the contest between systems; it marked its beginning. Thirty years ago, the euphoria of Europeanisation had disappeared; the difficulties of political and economic integration became more apparent; and China—a country with a small economy until 1990—was on the verge of surpassing Japan as an economic rival to the United States. Today, the situation is serious, as China is seen as a catalyst of a new Cold War.

Concerning the market transition of former socialist countries, one scholar notes the following:

[N]ormalcy and convergence are two different things. The transition countries – hardly a homogenous group – are normal in the sense that the challenges that they face are not specific to or caused by their transition status. There is a myriad of political and economic reasons why convergence is a slow and slowing process. (Wachel 2021: 408–409)

However, this assessment is not conclusive. Insofar as the literature does not define normalcy, examination of the economic system where transition countries have

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landed remains an open-ended question. The problem is situated in the transformation of the world economy beyond the framework of system change, in the rise of emerging market economies within the context of remarkable globalisation, the digital revolution, and the fourth industrial revolution. Emerging economies—that is, China and Russia—appear to engage in state-led capitalism, which seems more effective than *laissez-faire* or self-adjusting societies in addressing the series of crises faced by the world in the 2000s.

A strong hand does not prove the superiority of the authoritarian states. Rather, authoritarianism cannot be used as an excuse for the pandemic response if COVID-19 has been caused and exacerbated by the secrecy of authoritarian regimes. It is reasonable to state that a strong hand depends not on the nature of politics/politicisation/governmentalisation but on the high-quality institutional infrastructure of the state. Moreover, market quality, measured by the maturity of market infrastructure, institutions, norms, values, and other factors (Yano 2009, 2010), is inseparable from state quality. Therefore, emerging market economies may adopt the authoritarianism front and centre, but they have not succeeded in introducing new innovations in the quality of the market and the state.

The growth of emerging market economies, their institutional weaknesses, and politicised nature, as well as the constraints that stand in the way of sustained growth, appear to be ‘social experiments’ for normalisation of state-led capitalism. This chapter examines politicisation/governmentalisation through state-led-type capitalism, focussing on state–society relations in Russia and considers the reasons why state-led capitalist society becomes stable.

2 Significance of State-Led Capitalist Economies

In emerging economies, the state plays a leading role, and its influence has penetrated deep into the economy. Particularly for countries in transition, the 2000s saw the return of state-led capitalism in response to international openness and neoliberal market economisation. In Russia, the state significantly amplified its influence during the emergence of the economic crisis of 1998 and the growth period of the 2000s. Djankov (2015) considers Russia to be on the course of crony capitalism to state capitalism and regards the state control of strategic industries and sanctions from the West as an indicator of the same. However, in the case of Chinese capitalism (Kato 2013), in parallel with severe market competition and the expansion of the private sector, the large presence of the state-owned sector, fierce market competition among local governments, and bureaucratic and party ruling classes functioning as interest groups has given rise to a literal state-led economic system. The state can be regarded as ‘an economic entity that pursues commercial interests as well as state interests, with the ultimate aim of increasing state assets’ (Kato 2013: 13).

In contrast to the free-market economy, ‘state capitalism’ has enjoyed a resurgence in comparative economics in the 2000s. Bremmer (2010) defines it as ‘a form

of bureaucratically engineered capitalism particular to each government that practices it [and] a system in which the state dominates markets primarily for political gain' (Bremmer 2010: 23) and focusses on the following tools as indispensable for state capitalism: a variety of intermediary institutions such as 'national oil (and gas) corporations, other state-owned enterprises (SOEs), privately owned national champions, and sovereign wealth funds (SWFs)' (Bremmer 2010: 54) and the linkage of government rulers and managers. 'There is no precise tipping point that separates state capitalism from free marketers' (Bremmer 2010: 46). Any country, including those that have elements of both models, is located on the market spectrum between two extremes: utopian communism and utopian libertarianism.

Further, Wood and Wright (2015) identify new statistics based on government funds, military-industrial complexes, and public-private partnerships. They consider the contemporary market in the context of the relationship between new statist players and politics. Hu et al. (2019) characterise varieties of state capitalism with influence from business groups, and Musacchio et al. (2014) comment on the strategic behaviour and governance of SOEs. Nee and Oppen (2007, 2010) highlight the existence of politicised capitalism in China, where political capital is linked to economic institutions. However, this view is not limited to China. For Russia, Oxenstierna (2015) describes a rent-dependent and redistributive economy in a politicised economic system. The state, not the market, is at the centre of rent formation and redistribution.

Even though the state takes the lead in state capitalism, the institutional arrangements and the relationship (cooperation and conflict) between the state and business (corporations) differ across countries. Nölke et al. (2015, 2020) regard 'state-permeated capitalism' as a model by expanding the approaches of varieties of capitalism and comparative capitalist systems.¹ Here, the state does not become omnipotent, but there is close cooperation and competition based on loyalty and trust between individuals in a state-business alliance. The institutional basis is a strong state penetration of corporate governance and corporate finance, a low-cost, well-educated workforce, and a growing capacity for innovation.

3 Measuring State-Led Characteristics

How can state-led characteristics be measured in terms of the form, function, and quality of the state? We focus on three criteria for measuring state-led characteristics: size, strength, and depth.

First, the state is large. On the one hand, it is measured by the size of the national budget and of the national civil service. On the one hand, it is measured by the size of public ownership and the size of state (related) enterprises, which are the economic activities of the state. Second, the state is strong. Strength refers to the intensity of

¹ The institutional foundations of comparative capitalism include corporate governance, corporate finance, industrial relations, education and training, and the transfer of innovation.

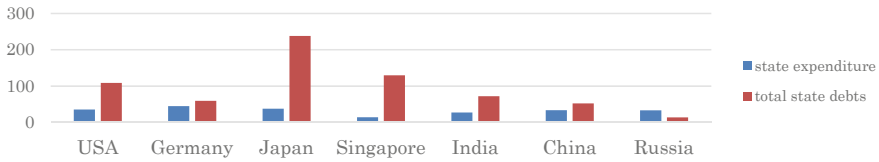


Fig. 1 State expenditure and state debts (2019, % of the annual GDP) (Source IMF, Database, <https://www.imf.org/en/Publications/WEO/weo-database/2020/October>, 10 October 2020 accessed)

the state's penetration into society, which is indicated by the frequency and intensity of state intervention, strength of the legal system and regulations, enforcement of intervention, and strength of credibility. Third, state intervention reaches deep into the socioeconomic fabric. This indicator is shown in the degree of penetration and the size of the penetration area of state intervention. The state expands its area of intervention not only through its public nature, education, labour, and industrial policies but also through the expectations of businesses and citizens during the crisis, increasing the redistributive role of the state to achieve fairness.

A state-led capitalist economy satisfies all three of these criteria to a relatively high degree. In this section, I measure the magnitude of these three criteria using Russia as a representative case.

First, the state is not abnormally large in Russia, and both the size of the budget (expenditure) as a percentage of GDP and the size of the civil service per capita are relatively close to the average levels for developed countries. Figure 1 shows the scale of government spending and debt as a percentage of GDP, and these are no larger in the case of Russia—as well as China and India—than in the case of advanced economies, especially liberal representative states: the United States and Singapore. In terms of the scale of government bond issuance, Russia is not far behind Japan.

However, the state was large in Russia. As the share of employment in the public sector averages approximately 20% in the Organisation for Economic Co-operation and Development (OECD) countries and 25% in Eastern European countries, the state sector's impact on the economy is relatively large, even though it has been declining (becoming more privately owned) over time. Moreover, the weight of the public sector in GDP terms in Russia is also significant: the private sector has been steadily shrinking since the 2000s, whereas the state sector has been increasing, but the position occupied by the state can be assessed in different ways. For example, the International Monetary Fund estimates the size of the state sector at 33% of GDP in 2016, which is detrimental to competition, and it corresponds to approximately 50% of official employment (Bella et al. 2019). In contrast, the Anti-Monopoly Agency has found that the state sector is more important and has a similarly negative effect on competition, rising from 35 to 70% of GDP between 2005 and 2016, particularly in sectors such as transport, energy, and resource extraction (Federal Anti-monopoly Agency 2020: 14). Figure 2 shows the composition of the state sector in relation to GDP, and although the size of the state-controlled sector has gradually increased

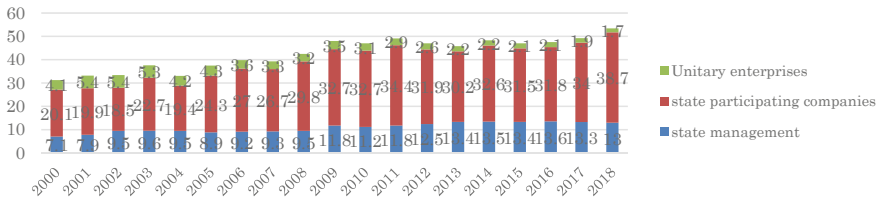


Fig. 2 State sector structure in Russia (% of GDP) (Source Russian Presidential Academy of National Economy and Public Administration, Institute of Applied Economic Investigation, Index of state ownership, 2000–2018 гг., <https://ipei.ranepa.ru/ru/kgu/indeksy>, 15 September 2020 accessed)

throughout the 2000s, the greatest weight is probably given to the size of state-participation companies. At the very least, the state has taken control, and the scale of its intervention in the economy is large.²

Is the state strong? Generally speaking, the frequency and intensity of state intervention (at various levels of government and state-related organisations) is high, and this can be clearly seen in the development of the legal system. State intervention in the economy in Russia has become the norm, and many interventions have been legalised. The intensity in the security sphere was particularly strong, and in response to Western economic sanctions in 2014, a wide variety of industrial policies were legislated. However, its strength cannot be overestimated: ‘Once you are in the orbit of the Despot Leviathan, the state and elites controlling state institutions become stronger and society and the norms meant to keep the state in check become even weaker’ (Acemoglu and Robinson 2019: 67). In practice, law enforcement in Russia is miserable, and infringements of the law occur. Raids, meaning illegal takeovers of companies, and widespread corruption are sufficient to discredit the state (bureaucracy). The political intervention of economic elites and businessmen also plays a role in weakening the strength of the state. They have access to political decision-making and work with the system to help companies maximise their profits. Paradoxically, the Russian state is not as strong as it seems.³

As size and strength do not explicitly characterise state-led capitalism, we concentrate on its depth. First, the state constitutes a diverse set of stakeholders. The state is one of the players in the market; it is both a producer and a consumer and constitutes inter-state transactions (G2G). State purchases are used to support development institutions and correspond to the orders placed by governments and municipalities.⁴

² This trend has also been observed in China, where the debate is over whether the country should be state-owned or privately-owned, see Nakaya (2019), who clarifies the control high ground.

³ Taylor (2018) argues for the paradox that aiming for a strong state creates a weak state.

⁴ The Presidential Decree of 21 December 2017 ‘Basic Direction of the State Policy on the Development of Competition’ stipulates the maintenance and development of competition. However, 5% of suppliers were awarded 82.84% of the contracts in 2018. Additionally, the number of cases of no competition in tenders conducted in the framework of the 44-FZ exceeds 50% (Volkov et al. 2020: 4).

In 2019, the total value of contracts awarded in Russia was ₪8.2 trillion, equivalent to 7.5% of total GDP, and construction accounted for approximately half of these contracts (42%; Volkov et al. 2020). The scale of tenders by state agencies and companies is increasing, but the focus is on the centralisation of tenders and on cases in which the supplier is a state company (state agency contracts). With regard to the latter, the state plays the role of both consumer and producer (service provider), as well as being an auxiliary entity that supports economic activity, and G2G is thought to account for at least a quarter of all contracts.

Additionally, the redistribution of resources by the state not only supports enterprises but also contributes to social stability, and Russia's centralised system cannot exist without this stability. Traditionally, a variety of social benefits and material perks were provided to the population, and as of 2019, social benefits accounted for 19% of the monetary income. After the market transition, the State Social Assistance Law was passed in July 1999, but the law has been repeatedly amended ever since. Above all, residents' great concerns about social assistance can be observed in the sensible nature of the response to the Federal Law on the payment of in-kind privileges on 12 August 2004 (122-FZ). This law clarified the division of powers between the federal and regional governments, made benefits payable to the population at the expense of the regions and municipalities (increasing the number of beneficiaries from eight in 2006 to 21 in 2015), replaced in-kind benefits with monetary compensation, and systematised social assistance for the population. Consequently, the number of beneficiaries of monetary benefits has increased from 6.6 million in 2006 to 25.4 million in 2015, because of the global economic crisis and the inclusion of those who are not necessarily in need, resulting in inadequate benefits and disparities due to local financial constraints (Trubin et al. 2016). Therefore, the new law caused a backlash among existing beneficiaries, did not succeed in ending poverty, and was criticised for its bias towards benefits for the elderly (Takeda 2019: 60).

The state's social integration is based on financial backing. It is public finance, with its emphasis on oil and gas revenues, that bears the cost of this integration.⁵ Table 1 shows that the main state expenditure and compulsory expenditure items, in particular, social policy-related expenditure, have risen sharply since the global economic crisis compared to the early 2000s and have remained stable. Notably, the share of mandatory expenditure on defence and security has declined since 2016. The penetration of the state in society has been prioritised over defence. However, this has not necessarily freed defence from budgetary constraints.

The effect of mandatory burdens on social stability is also problematic. If poverty and inequality are causes of social instability, then their reduction would imply the effectiveness of policies for stabilisation.⁶ Econometric surveys based on the Russian Longitudinal Monitoring Survey (RLMS-HSE) and RUSMOD (a microsimulation

⁵ The following literature focusses on the transfer of rent to the service sector: Connolly (2018) and Miller (2018).

⁶ The income redistribution effect in Japan has risen from 20% to over 30% in the 2000s (Ministry of Health, Labour and Welfare, Income Redistribution Survey, <https://www.mhlw.go.jp/toukei/list/dl/96-1/h29hou.pdf>).

Table 1 Expenditure structure of integrated Finance in Russia (% of annual GDP)

| | 2002 | 2004 | 2006 | 2008 | 2009 | 2011 | 2013 | 2015 | 2017 | 2019 |
|------------------|------|------|------|------|------|------|------|------|------|------|
| Total | 31.6 | 27.8 | 31.1 | 34.3 | 41.4 | 33.3 | 34.7 | 35.8 | 35.3 | 34.0 |
| Defense | 2.7 | 2.6 | 2.6 | 2.5 | 3.0 | 2.5 | 2.9 | 3.8 | 3.1 | 2.7 |
| Law and security | 2.2 | 2.3 | 2.7 | 2.6 | 3.2 | 2.5 | 3.0 | 2.5 | 2.2 | 2.0 |
| Social, total | 13.9 | 9.8 | 17.0 | 17.1 | 21.7 | 20.7 | 21.4 | 21.9 | 22.3 | 21.6 |
| Education | 3.8 | 3.5 | 3.9 | 4.0 | 4.6 | 3.7 | 4.0 | 3.7 | 3.6 | 3.7 |
| Health | 2.4 | 2.2 | 4.0 | 3.7 | 4.2 | 3.2 | 3.2 | 3.4 | 3.1 | 3.4 |
| Social policy | 5.7 | 2.4 | 8.4 | 8.7 | 12.2 | 10.8 | 12.0 | 12.6 | 13.1 | 11.8 |
| Debts service | 2.2 | 1.1 | 0.8 | 0.5 | 0.6 | 0.5 | 0.6 | 0.8 | 0.9 | 0.8 |

Source Rosstat, <https://rosstat.gov.ru>, 20 September 2020 accessed

model for fiscal incidence analysis in Russia) (Matytsin et al. 2019; World Bank Group 2016) clarify the performance of the Russian tax-benefit system (Table 2).⁷ Above all, direct taxes and pensions have the greatest poverty-reducing effect, doubling the poverty rate if pensions are deducted from income. Social insurance contributions also contribute to poverty reduction, followed by social assistance, albeit to a lesser extent than pensions. Regarding changes in the Gini coefficient, pensions are also the most effective means, followed by social assistance and indirect taxes, while social security contributions increase inequality. The World Bank Group (2016) also gave us the same results, while stressing the effects of in-kind transfers. Pension households (the older generation) have become the biggest beneficiaries of tax redistribution, whereas other household types play the role of donors (Matytsin et al. 2019: 9–10). In Russia, the flat income tax system means that the tax system has little effect on reducing inequality and poverty, but income transfer through pensions and in-kind transfers has a significant effect.

The state penetrates society in the form of wages through employment, and through redistribution channels. Effective social policy encompasses only a limited class of citizens, and the effect of the mandatory burden should not be over-estimated, given the measures taken to raise the pension age (from 60 for men and 55 for women to 65 and 60, respectively). Nevertheless, given that everyone will be a pensioner and has the possibility of accessing benefits in kind, the penetration of the state into society and households cannot be ignored.

The sphere of state penetration has deepened during each crisis. In Russia, after the market transition, measures were taken to maintain employment. The economic crisis of 1998 was characterised by a total intervention in economic life, including the declaration of a state of emergency; the contagion of the global economic crisis in 2008–2009 was also accompanied by large-scale economic intervention. In response

⁷ Despite being official Russian statistics, they are inaccurate because of under-reporting and under-declaration of income and the existence of unofficial sectors. Not all measures are included in the model. In-kind measures, although effective in reducing inequalities, are not considered because of the difficulty of tracking them (Matytsin et al. 2019: 8–9).

Table 2 The overall redistribution effect of the tax-benefit system in Russia (2017)

| | Original income | Disposable income (DPI) | DPI minus pensions | DPI plus social insurance contributions | DPI minus non-means-test social assistance benefits | Consumable income | Disposal income effect (%) |
|------------------|-----------------|-------------------------|--------------------|---|---|-------------------|----------------------------|
| Gini index | 0.496 | 0.348 | 0.476 | 0.352 | 0.356 | 0.355 | 29.8 |
| Poverty rate (%) | 34.0 | 14.7 | 39.3 | 11.0 | 16.8 | 21.1 | 56.8 |

Note disposal income = original income – direct taxes (direct benefits), before indirect taxes/benefits. consumable income = disposal income – indirect taxes (benefits) *Source* Matytsin et al. 2019: 9–10

to the economic sanctions imposed on Russia following the annexation of Crimea and the crisis in Ukraine, industrial policies have been implemented to substitute imports, and in the case of COVID-19, there has been widespread intervention in people’s lives, the economy, industry, and healthcare. The more capitalist the country becomes, the deeper is the penetration.

Despite its inadequacies in size and strength, Russia has shown a degree of penetration sufficient to qualify it as ‘state-led capitalism’. The process of consolidating authoritarian regimes can be seen more clearly in China than in Russia. In China, too, the state-led characteristic is evident in the tacit compromise between the promise of sustained improvements in the living standards of the population in exchange for recognition of the exclusive political power of the Communist Party and in the decentralisation of decision-making and initiative under central control, devolution of local corporatism, and acquisition of cutting-edge technology through the introduction of global value chains (GVCs) (Boyer 2021: 171).

4 Cycle of Politicisation and Governmentalisation

The growth of emerging economies in the 2000s and the formation of state-led capitalism, symbolised by emerging economies, point to the emergence of economic agents linked to the state in the global market and the governmentalisation of economic agents themselves. The penetration of the state into corporate management has been both direct and indirect. In Russia, symbolised by the 2003 *Yukos* affair, we find a strong state hand in the oil and gas sector, which is at the centre of national interest. State intervention can also be observed in China, such as the antitrust fine against e-commerce giant *Alibaba* in May 2021.

According to the OECD (2016), SOEs have become the main competitors in the global marketplace⁸, and they are motivated not only by commercial gains but also

⁸ Twenty-two of the world’s 100 largest companies are effectively under state control.

by public policy and political objects. When SOEs receive cheap state financing, fair competition is damaged. The following may be included as privileged preferential treatments: preferential financing from SOEs and other state institutions, privileged access to information, outright subsidies/tax concessions, in-kind subsidies, grants and other direct payments for R&D and environmental and green programmes, privileged position in the domestic market, explicit or implicit guarantees, exemptions from bankruptcy rules, preferential regulatory treatment, preferential treatment in public procurement, price supports, support in the form of commercial diplomacy, and other measures (OECD 2016: 28–30). The OECD (2016) lists 326 companies as the largest state-invested firms, based on the 2015 Forbes 2000 Global ranking of companies; among them, the majority belong to China (128), India (34), the UAE (11), and Russia (10). Even though most OECD countries have a lower share of SOEs, their impact in the utilities sector; network industries; and, in some cases, the financial sector is larger and augments their power (OECD 2016: 20–21). In short, state-led economies enhance their politicisation/state intervention, and developed economies also strengthen politicisation in response to global competition. Moreover, politicisation/governmentalisation in the global marketplace is promoted by an environment marked by a global inclination towards political populism, the development of new industrial revolutions and innovations, and an emphasis on global risks and global issues, as exemplified by global warming and climate change (Endo ed. 2015).

The confrontation between the United States and China has far-reaching consequences, including not only trade, but also technology and cyberspace, and cannot be limited to friction over tariffs. On the Chinese side, economic frictions have become even more heated, as developed countries have imposed economic sanctions against China in response to the current one-country-two-systems situation over Hong Kong's National Security Maintenance Law and the human rights of the Xinjiang Uyghurs, and China's counter-sanctions have also worsened the confrontation. The same situation can be observed on the Russian side. Triggered by the Ukraine crisis, the West has imposed economic sanctions against Russia, and Russia's counter-sanctions have been prolonged indefinitely, prompting politicians to compare the situation to a trade and economic war:

Economic sanctions have become an increasingly popular international policy tool in recent years and even the preferred foreign policy tools of the US and EU in some cases. Globally, the number of sanctions in force almost doubled between 2006 and 2014. (Davydov et al. 2021: 31)

In this environment, insofar as sanctions amount to war, all economic policies are tilted towards security; politicisation and governmentalisation are increasing in the emerging countries concerned as well as in the developed countries complementarily. The security debate is even seen as a safeguard to secure national interests, increasing the degree of state interference and protectionist trade (UNCTAD 2020). In particular, the concept of economic security, which in the neoliberal view of policy tended to focus on employment stability because of limited state intervention, has expanded to include areas specific to the country in question owing to the emphasis on international economic competitiveness (Nakamura 2020). A series of global economic

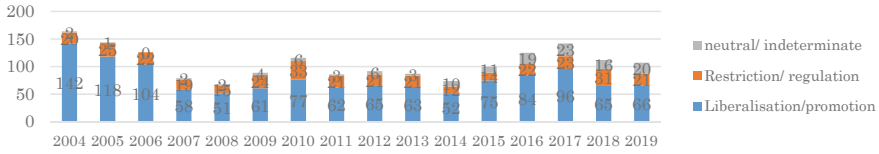


Fig. 3 Changes in national investment policies: 2004–2019 (Number of measures) (Source UNCTAD 2020: 97)

crises, the United States–China economic frictions, and the COVID-19 pandemic have further bolstered its significance.

Foreign investment restrictions have been tightened on security grounds; investment-screening schemes have been introduced; and the number of countries with such schemes (30 at the end of 2019) and their share of inward FDI balances is steadily rising. Figure 3 illustrates the changes in foreign investment policy, with an increase in the number of negative-change cases in 2010 and 2018.

The OECD has stated that emerging countries pose a security risk because of geopolitical changes and has accepted investment restrictions on security-related industries such as arms, aircraft, nuclear power, space exploration, telecommunications and broadcasting, and transport. In particular, both the expansion of investments and acquisitions by SOEs pose a security problem as they presuppose strategic acquisitions and non-market behaviour, such as in the case of advanced technologies.⁹

The United States has tightened the review of inward capital acquisitions through the Foreign Investment Board. In 2018, the Trump administration restricted dominant and non-dominant investments and land transactions by foreigners through the Export Administration Reform Act and the Foreign Investment Risk Review Modernisation Act, as well as imposed strict controls on the outflow of technology. The restrictions cover emerging and fundamental technologies, as well as aviation, telecommunications, shipping, power generation, banking, insurance, real estate, underground resources, and national defence. Next, the 2019 Defence Powers Act banned the use of products and technologies from Chinese companies such as *Huawei* and *ZTE* on security grounds and included them in a trade blacklist. The European Commission has also imposed restrictions under the Common Foreign and Security Policy, including an arms embargo, asset freeze, and more than 40 other sanctions against Russia, Belarus, Iraq, and other countries.

Japan has adopted security-related legislation since the December 2013 Act on the Protection of Specific Secrets and has drawn up a list of companies to be pre-screened in 2019 to tighten the rules for foreign capital share acquisition. This includes key industries such as arms, aircraft, and mackerel security; the main Japanese companies involved in these industries; and medical equipment and vaccines because of COVID-19.

⁹ See Wehrlé and Christiansen 2017; ‘Acquisition- and ownership-related policies to safeguard essential security interests: Current and emerging trends, observed designs, and policy practice in 62 economies’, May 2020 (<https://www.oecd.org/Investment/OECD-Acquisition-ownership-policies-security-May2020.pdf>, accessed on 25 May 2021).

China has also established a list of prohibited areas for foreign investment in the areas of safety, public interest, environmental pollution, and protection of land resources, and the examination of foreign investment has also been tightened.¹⁰ In September 2020, transactions by foreign companies deemed to have unfairly harmed Chinese companies were restricted or banned. Additionally, on 10 June 2021, China adopted an anti-foreign sanctions law that retaliates against foreign countries if they re-invade China, further heightening frictions. At the very least, it is difficult to see how the parties involved in the United States–China ‘war’ can ease the conflict.

The rise of opposition among emerging and developing economies to mergers and acquisitions (<https://www.jetro.go.jp/biz/areareports/special/2020/1001/9b54201607380739.html>, accessed on 25 May 2021) points to one aspect of linking security to the economy: thirteen objections were made in 2019, three of which are security-related and two of which target Chinese investors (UNCTAD 2020: 103).

Politicisation is observed not only in the international trade and investment fields but also—and more clearly—in innovation. In terms of the digital transformation and the Fourth Industrial Revolution, state leadership is strong, and underlying this is a crisis consciousness around labour productivity due to the depletion of the labour force. Ito (2020) discusses the benefits digitalisation can bring to emerging economies, and the growth of major IT companies is, in fact, tied to government strategy. ‘Made in China 2025’ (2015), which aims to make China the world’s largest manufacturing nation by identifying priority areas such as information technology, has been proposed, and industrial policies have been implemented for the semiconductor industry. China adopted the ‘China Standard 2035’ in 2017 to establish an international standard for high technology. In March 2021, the National People’s Congress adopted the ‘Fourteenth Five-Year Plan for National Economic and Social Development and the Outline of Long-Term Goals to 2035’, which includes the development of a national innovation system and human resource development as goals, including the strengthening of security.

The inclination of the state towards strategy and industrial policy has also been observed in Russia (Mizobata 2020). In December 2014, the Presidential Message identified the creation of a national technology initiative as a priority national policy and called for the formation of conditions for Russia to become a global technology leader by 2035. In 2015, the Agency for Strategic Initiatives was established, and in 2016, an initiative was underway to create a new market worth \$100 billion in 2035, using China, Germany, and other countries as models. This initiative is a ‘long-term comprehensive programme aimed at preserving the leadership of Russian companies in the high-tech market on the basis of joint public–private projects’ (Idrisov et al. 2018: 12) and serves as a new industrial policy.

Russia’s policy to develop science and technology based on national projects has been implemented with the goal of creating a world-class science centre in 2019, in which seven priority development directions for 2020 have been arranged, including digital technology, ecology and energy conservation, and medicine and health. The development of digitalisation, science, and education is at the centre of

¹⁰ See JETRO (2020).

the programme. In other words, Russia under Putin's regime has consistently pursued a state-led policy of science and technology development, and by 2014, it had placed an innovation policy centred on digitalisation at the core of its growth strategy.

This inclination towards national strategy, innovation, and industrial policy is also observed in developed countries. It is particularly typical in the construction of supply chains for key components such as semiconductors and batteries. At least 110 countries have issued industrial policies or policy frameworks for industrial development, all led by a 'targeted industrial policy' to create jobs and ensure long-term economic growth and national security (UNCTAD 2020: 147).

5 Cosy Authoritarianism versus Depressing Democracy

Politicisation and governmentalisation are not phenomena confined to emerging economies but are occurring on a global scale. Moreover, the deepening of globalisation has strengthened governmentalisation, and it is even possible to observe complementarities between emerging and developed countries, which mutually strengthen governmentalisation. Economic activity is politicised under these circumstances, and economic agents are forced to adapt their business strategies to government sanctions or security-oriented policies.

Globally (V-Dem Institute 2021), an increasing number of people are living under authoritarian regimes, especially under electoral authoritarian regimes, and the degree of liberal democracy has decreased from 2010 to 2020, even if the world has become more democratic since the 1970s. The most remarkable declines are in Poland, Hungary, Turkey, Brazil, other emerging economies, and the United States. In the V-Dem Institute's Liberal Democracy Index, Denmark is the highest-performing country, with the European Union (EU) mainly in the top 10%, while Japan and the United States are in the second-highest decile. Conversely, China is in the bottom 10%, while Russia, Vietnam, and Turkey are in the second-lowest decile. In many countries, the COVID-19 pandemic is also used as an excuse for authoritarianisation (V-Dem Institute 2021: 36). Based on the above trend, governmentalisation can be seen as a 'normal' responses to the global crisis of the 2000s, when developed countries and markets failed to prevent the outbreak of the 2008 global economic crisis, and a 'perfect storm' (UNCTAD 2020: 120) of the COVID-19 with unprecedented intervention, and protective measures. Consequently, governmentalisation reduces the dividends of democracy, and there is a segment of the population that supports governmentalisation regardless of the political regime.

The degree of state penetration was measured using Russia as a case study, where pensions have helped to reduce economic disparity and poverty, and the state has contributed to providing a safety net through jobs, benefits, in-kind services, and other measures. When we consider that political support is attributable to stability in daily life, the support level for President Putin is remarkably high, despite the authoritarian regime. Insofar as this support is because democratisation has not necessarily brought social equality and has caused disparities to widen, and because the state fulfils the

function of a social safety net, then Russia can be described as a ‘cosy authoritarian regime’. An increase in the size of the ‘civil service’, which depends on the state, allows it to enjoy stability as well as the fear of redundancy, and the middle classes expect better economic conditions under authoritarian regimes (Rosenfeld 2021: 19). In fact, real wages and consumption levels have continued to rise regardless of changes in oil prices, and the state has been called upon to take social responsibility in the event of wage arrears by companies (Mizobata 2010).

The cosiness of authoritarianism has also been noted in China. When one’s material livelihood is heavily dependent on the state, it is natural to have an interest in the continuation of the status quo, even if it is not liberal or democratic (Wright, 2010: 175). In China, however, where digitalisation is significantly more advanced than in Russia and growth is sustained, paternalistic relations are not limited to material safety nets. Kajitani and Takaguchi (2019) characterise digitalising China as ‘a happy surveillance state’. China’s economic system is congenial to the values of its people, and ‘even if they ultimately have the power and the option of violent repression, they need to protect as much as possible the pretence that the people support the dictatorship’ (Kajitani and Takaguchi 2019: 126). This characterisation cannot be confined to China. Kajitani and Takaguchi (2019) argue that when governments use ‘nudges’ to encourage people to change their behaviour, not only in China but also in developed countries, this phenomenon also applies to governments in developed countries, and in a country with a ‘civil society’ with little capacity to monitor the government, the possibility of Sinicisation cannot be negated.

Democracy, in contrast, suffocates. In spite of digitalisation, the surveillance capitalism brought about by the concentration and secrecy of personal data by GAFAM (Google, Apple, Facebook, and Amazon) shows the horror of market monopoly and the risk of a divided society (Bartlett 2018; Foroohar 2019). The need for regulations is common.¹¹ In the United States, inequality and fragmentation characterise society, and the instability of regime change suggests that people are not always happy with rules; in the EU, globalisation is increasingly seen as a threat, and European scepticism and anti-liberal populism are emerging, for example in Poland and Hungary (Shoji 2018). In the case of Japan, the Pew Research Center survey paints a pessimistic picture, with high levels of dissatisfaction with both democracy and the economy.¹² In 2021, Japan was ranked 67th in the world for press freedom—the worst among developed countries—and this is considered a ‘problematic situation’ (Reporters Without Borders, The World Press Freedom Index, <https://rsf.org/en/ranking>, 25 May 2021 accessed).¹³

¹¹ In June 2021, the United States parliament discussed revision of antitrust bills, for regulating the giant information technology monopolistic enterprises following a detailed investigation report (Nadler et al. 2020).

¹² See Japanese Feel Better About Economy But Negative About Future | Pew Research Center.

¹³ The state-led capitalist countries are ranked at the bottom: Russia at 150th and China at 177th.

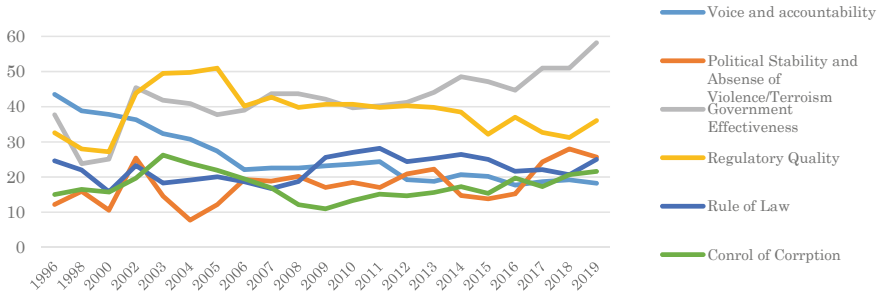


Fig. 4 World governance indicators in Russia (Note Percentile Rank (0–100): rank of country among all countries in the world. 0 corresponds to lowest rank and 100 corresponds to highest rank. Source Worldwide Governance Indicators (WGI) 1996 ~ 2019, <https://info.worldbank.org/governance/wgi/Home/Reports>, 25 May 2021 accessed)

6 Perspective of State-Led Trends

Today, ‘state-led’ has become the norm, and it is so large, strong, and deep that an economic system worthy of being called ‘state-led capitalism’ can be found mainly in emerging economies. However, the market and the state are not necessarily mutually opposed. ‘State-led’ is based on the interconnectedness of the state and the market. The market seeks the existence of the state as its guardian, and the state seeks the market as a major tool for economic development and a channel for globalisation. Therefore, the rise of ‘state-led’ and governmentalisation can be observed in advanced capitalist economies (Boyer 2021), and both advanced economies and emerging economies appear to be complementary.

‘State-led capitalism’ does not imply a high-quality state, and there is no guarantee that the cosiness that underpins it will last. The following indicators suggest a difference of state quality.

First, the Worldwide Governance Indicators (WGI)¹⁴ clarify the miserable positions of China and Russia, compared with advanced economies. Even though all the indicators reveal low quality, Russia’s scores for rule of law, voice, accountability, and control of corruption are particularly miserable (Fig. 4 and Fig. 5).

Second, the quality of government (QOG) Institute at the University of Gothenburg (Sweden) considers QOG—obtained by using a variety of indicators such as health, the environment, social policy, and poverty—as a benchmark for measuring credible, fair, corruption-free, and competent state institutions; however, QOG indicators are low among so-called state-led economies. For example, the fragile states

¹⁴ See <https://info.worldbank.org/governance/wgi/> (5 March 2021 accessed). The survey was conducted in over 200 countries and territories over the period 1996–2021 for six dimensions: voice and accountability, regulatory quality, political stability and absence of violence, rule of law, government effectiveness, and control of corruption.

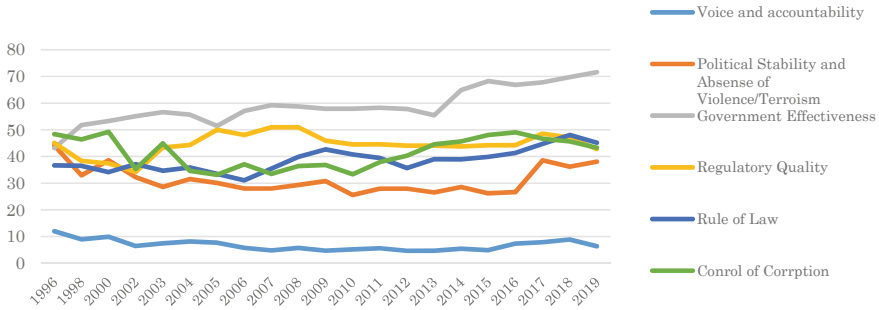


Fig. 5 World governance indicators in China (Note Same as Fig. 4. Source same as Fig. 4)

index (the failed states index),¹⁵ political corruption index, and other indexes are at low levels in emerging economies, including China and Russia.¹⁶

State-led capitalism is politically authoritarian and deeply entrenched in state-led characteristics. The state cannot be (over)estimated only in terms of its size and strength, and a deterioration in its quality can be observed. The depth of the state is measured by state penetration into society through income redistribution, as well as the attributes of the state players. If we emphasise that the problem lies in the source of its funding, the source of state-led capitalism in Russia is heavily dependent on oil and gas revenues and in China, on manufacturing and innovation based on GVCs.

What, then, is the origin of ‘the state-led’? In modern economy, where the private sector and the markets’ function and the state strategically complements market failure, the state-led stems from the malfunctioning or disappointing results of the market. However, we cannot indulge in such modest assessments. In state-led capitalism, the interests of the ruling elite are the driving forces. There is a proactive will that creates initiative. It may be seen as a kleptocratic system, where groups linked by both politics and economics form a system of plunder and create a state initiative to maintain it (Åslund, 2019). In this respect, it will be reasonable to say that Russia and China have a system in common, although their political systems are different.

Insofar as both Russia and China, which experienced or are experiencing socialist economic systems, institutionalise state-led types of governance, institutional change may well be path-dependent. Dzaraso (2011) finds the sources of Russian capitalism in the decline of the Soviet system and the influence of world capitalism. Therefore, private ownership exists in affinity with the state. This means that the quality of the Russian market itself was also developed on the initiative of the state. The same applies to China: ‘The state and elites controlling state institutions become stronger and society and the norms meant to keep the state in check become even weaker’ (Acemogul and Robinson 2019: 67).

¹⁵ It is measured by 12 political, economic and social indicators, including population issues, refugees and economic inequality.

¹⁶ See <https://qog01-p.gu.se/shiny/users/xalvna/qog/map2>, accessed on 5 March 2021.

Why are market institutions so fragile? Why do people react to state decisions? As Table 1 and Table 2 show, we may stress the state's takeover of the people or the 'tacit contract' whereby the people accept and conform to state-led trends. However, this contract cannot be overestimated. The scale of the takeover is low compared to that of the European welfare states. In contrast, the resources for acquisitions are at risk of drying up. Paradoxically, the state-led is based on the values of the people, who are satisfied with the redistributive policies of the state, even if they are low, and these values have not undergone a drastic change in the 30 years since the market transition.

At the opposite end of the spectrum from the liberal values of the United States is Russia, which the society is significantly more dependent on the state. Interestingly, Poland was in close proximity to Russia. Japan places a clear emphasis on state responsibility despite its low orientation towards state ownership. In addition to the unique positions of each country, we find a shift away from private ownership and personal responsibility, and we observe a shift towards state responsibility in Germany and the United States, whereas in Russia, the shift towards state responsibility is either stronger or generally more stable. In other words, the level of state responsibility in Russia has been stable and high in the context of the global increase in state dependence since the 2000s. In this case, if democracy is a constraint on state dependence, the population judge's democracy as a regime risk and sees authoritarian acceptance as an advantage (Rosenfeld 2021: 47–48). State dependence can be seen as an essential benefit for the population, especially for the middle classes, in the provision of public goods such as health, education, public transport, energy supply, and job security.

The sustainability of state-ledness depends above all on the sustainability of the resources used by governments to 'buy off' their citizens. Given that resources are finite, innovation is essential, while maintaining/increasing cost payers and reducing 'tacit contracts' is demanded. This is why the population problem is considered the most critical factor in state-led capitalism. The higher the cost, the more uncomfortable the situation becomes, and the more the state wants to have a policy in which all citizens share the pain.

7 Conclusion

The beginning of the twenty-first century was marked by terrorist attacks in the United States and China's accession to the World Trade Organization.¹⁷ In fact, the growth of emerging markets, especially in Asia and China has been remarkable, while the 2008 global economic crisis has strengthened the presence of emerging countries. Additionally, this crisis highlighted the importance of state intervention, which may have been fuelled by the emergence of populist politicians. The market

¹⁷ Russia joined the WTO in 2012.

was powerless to address poverty as well as economic inequality, and expectations were placed on the state's safety-net (OECD 2013, 2014).

The growth-obsessed emerging economies, especially China and Russia, are generally superimposed on authoritarian regimes, and consequently, the 'variant' of state capitalism in the global economy gradually spawns new growth 'by-products'. China, the world's factory since the 2010s, has become a key player in GVCs, with advanced manufacturing, research and development, and the emergence of the 'One Belt, One Road' global economic strategy. No longer subordinate to the developed world, China has developed a competitive growth strategy. Russia, as if in response to China, launched a more dynamic offensive from its position as the energy supplier to Europe and challenged the long-term war of economic sanctions and counter-sanctions. In both cases, the predicted growth has provided the impetus for innovation; here, the driving force has been none other than the state. Growth has ensured the prosperity and security of the population, which in turn has fostered public support, comfort, and happiness under authoritarian regimes.

The economic systems of developed and emerging countries resonate around the state-led character, and even 'complementarity' can be observed. The division between politics and economics has disappeared, and this mixture has been broadened by digitalisation and innovation. It will not be an exaggeration to say that all goods are now subject to security. Both the politicisation and governmentalisation of the economy have spread globally and appear to be self-perpetuating. The COVID-19 pandemic was the culmination of this process. Medical and pharmaceutical products, including masks and vaccines, are not only international public goods but also security imperatives, and both developed and emerging countries are undergoing a state-led restructuring of the international division of labour and innovation policies. Interestingly, and ironically, in all of these countries, the state stresses the need for a strong hand but struggles to secure trust. The perspective of state-led capitalism provides us with a means for thinking about the future of developed economies.

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Chapter 24

Professional Associations' Contribution to a New World Order Formation – The Case of Russia



Olga Bobrova

Abstract Professional communities are important actors of civil society in most of the countries around the world. Professional in different fields – industries or functions of management – come together, make groups, join each other with different non-commercial goals and boost economic development. Although the relations of government and business from one side and non-profit organizations and non-governmental organizations from the other side differ in the context of different world regions, they must be considered as important stakeholders for the New World Order and they play a unique role contributing to mitigation of the world wide problems – poverty, disease and unemployment. Many Associations made significant efforts to improve the quality of the market in their countries, they provide deeper engagement of business into the local communities, NPOs and other stakeholders. In Russia we have an example of Russian Business Ethics Network which targets compliance education of business and CSR and sustainable development promotion. In Japan we may learn from Japanese Forum of Business in Society founded in 2011.

Keywords Professional communities · Business ethics · Compliance · Corporate social responsibility (CSR) · Stakeholders · New world order · Russian management · Sustainable development

1 Introduction

Professional societies, unions, forums, associations and other collaborations are important actors of civil society in most of the countries around the world. Professionals in different fields – industries or functions of management – come together, make groups, join each other with different non-commercial goals and are really able to influence on the societies. In Japan we have a perfect example – The Japanese Forum of Business in Society which was founded in 2011. During last decade the Japanese companies have become more deeply engaged with local communities, NPOs and other stakeholders. Maybe due to exchange of experience on the JFBS

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they became more socially responsible and business of other countries will learn the best practices.

In my country Chamber of Commers and the Russian Union of Industrialists and Entrepreneurs (RSPP) was founded and supported by the government. But now there are some independent NGOs which unite professionals.

2 Classification of Professional Communities

2.1 The First Business Associations in the New Russia

Some unions are sponsored by government in Russia. They were founded in 1990s to follow the world patterns. Every developed country has a Chamber of Commerce, so in Russia we also need to have one. The Russian Union of Industrialists and Entrepreneurs (RSPP), the biggest business union nowadays, was established in June 1990 as a non-political organization to protect the interests of industry. Russian government and parliament members were the key initiators of the union and I guess they used some administrative resources to establish the organization. “RSPP priorities include: promotion of the business community interests in Russian and at the international level and consolidation of Russian industrialists and entrepreneurs’ efforts for business environment development; enhancing the status of business in Russia and the world; maintaining the balance of interests of society, government and business” – may we read on the web-site of the organization.

During last years these big and influential organizations focused on the fight with corruption. In Russian Chamber of Commerce was established the Council of business ethics and anti-corruption. And Russian Union of Industrialists and Entrepreneurs has launched an anti-corruption rating for Russian business.

2.2 Independent Unions

Along the development of independent Russian business some new associations were opened. For example, “Delovaya Rossiya” (Business Russia) and OPORA union. They unite Russian business of different size – the first union includes large businesses and OPORA specializes on the small and medium enterprises.

Later, businesspeople decided to make unions in accordance with their professional specialization. Association of Managers of Russia is a good example.

We may compare diversity of Russian business Associations with the two big ones which act in Japan for many years: Japan Business Federation and Nippon Keidanren. Although we cannot say that influence of Russian organizations is on the same high level as in Japan.

3 The Role of Civil Society in the New World Order Formation

3.1 New World Order in Regional Aspect

The term “New World Order” was introduced in the years of the First World War by N. Butler (1915). The main idea was about creation of the World Federation. UN contributed into realization of this concept. Moderation of the wars, as a function of this world organization in the beginning of XXI century still is needed. At the same time there is a number of other important problems which our world faces nowadays. «The essence of the new world order is characterized by the following trends: the strengthening of structural changes in the state and social arrangement of individual countries; transition to a new economy; the formation of a civilized man. However, even at this stage, there are such constraining factors as poverty, disease and unemployment» (2017)—states Sh. Zainutdinov. Therefore, we must concentrate on solving the local problems in different regions of the world.

Regional aspect of the world development includes the local economic development. So, the main actors of the New World Order in our century are subjects of business and their unions as well as professional communities. The last are important stakeholders of companies which are able to improve their business with the help of expertise of the professional communities mostly acting as NPOs.

3.2 Civil Society

In many countries non-profit organizations and non-governmental organizations are still relatively weak and, generally speaking, the ties with most of the stakeholders are still underdeveloped. That may be said about Russia and its eastern neighbors.

Among stakeholders of business, NGOs and NPOs provide the special links between society and companies. The most of corporate social responsibility (CSR) programs are realized through NGOs, in ESG agenda their role also is leading. Groups of people with similar interests may join the movements to pursue their goals. Professional communities allow to provide common development of people engaged in different organizations along with their professional needs through exchange of their experience and knowledge. And the civil society becomes stronger by development of variety of NPOs and NGOs.

3.3 The Ways of Influence of NPOs on the New World Order

NPOs influence development and implementation of the laws in their countries and they also promote world initiatives regarding sustainable development, ESG etc.

Business associations contribute into the development of CSR and making business more transparent and understandable for its stakeholders. For example, many companies join Global Reporting Initiative and publish their non-financial reports. The companies get recommendations to step into this process by the associations where they are members. Also, business is responsible for innovation, manufacturing and delivery of the basic goods and technologies to the people of the planet, so companies are providers of standard of living. Within the associations companies may develop the rules and approaches which they apply to the market. And the international standards, such as ISO 26000 and ISO 37301: 2021, are also developed with participation of many companies. The implementation of standards of CSR, compliance, anticorruption, stakeholder engagement and so on make business involved into the solving social problems of the world under the New World Order. Not to say about lobbying the interests of the business in governments and among politicians.

In 2020 Russian Federation for the first time presented the First voluntary National Review of UN Sustainable Development Goals. The presentation was made by the Russian Minister of Economic Development Maxim Reshetnikov in New York. The Minister told his listeners about the results of several years monitoring of socio-economic development, especially he focused on the measures taken to tackle the consequences of the COVID-19 pandemic. Several NGOs contributed their competence into the report. And now we are assured that Russia is on the way to sustainable future. In 2022 we entered a new world economic crises and professionals in Russia now are involved in developing ways to overcome consequences of the economic sanctions for the Russian society.

3.4 Russia as a Regional Actor in North-East Asia in XXI Century

It's difficult to say that in XXI century our world became more unified. "The current situation of global uncertainty in the development of the world economy leads to the formation of multilevel and multidimensional economic multipolarity" (Arkhipov and Yeletsky 2014). We may consider Russia as one of the points of growth in the global economy. And in North-East Asia we know several regional powers apart from Russia – Japan, both Koreas and China.

Russian Far East is developing intensively. Transport infrastructure in Siberia and Far East will provide my country the means to strengthen the trade relations with the eastern neighbors.

4 Russian Professional Communities in the Business Field

But no means and resources can help if managers in business are acting without integrity. If they not only escape making not ethical decisions but also if business-people do the right things due to wrong reasons. In the business assemblies integrity has been discussed and developed.

If we consider a businessman to be a profession (specialization), we must admit that businessmen started to unite into the unions and Associations in Russia in 1990s. We mentioned above the national movement in business circles to promote fair business. For example, at RSPP there is a Committee on Corporate Social Responsibility and Sustainable Development. But in newly appeared independent business associations some are exactly focused on business ethics and CSR. The example is in the next part of the paper.

5 Russian Business Ethics Network

Association of business ethics, compliance and corporate social responsibility (Russian Business Ethics the Network—RBEN) is a professional community of Russian researchers in the above fields, as well as representatives of business. The association units those who share the values of the association and are interested in the development of fair business in our country. The Association is a member of European Business Ethics the Network—a European network of national associations in the field of business ethics. RBEN was founded in 2016 and now consists of more than 170 individuals and 4 corporate members.

The mission of RBEN is a research and promotion of the principles of ethical and socially responsible business and sustainable development in Russia and the world.

The main projects of RBEN are:

- 1) Development of new educational case studies on business ethics, compliance, CSR and sustainable development on Russian companies' data;
- 2) More than 20 professional round tables in 2020–first quarter of 2021 with discussions of compliance (including digitalization), business ethics problems (including gender discrimination at work issues), environmental matters, corporate social responsibility and others;
- 3) The annual contest of student research papers;
- 4) Educational products for advanced training in the field of business ethics for employees;
- 5) Ethical audit—professional independent assessment of business ethics management systems in companies and organizations;
- 6) Promotion of educational cases among university professors;
- 7) Promotion of the new professions to the students and graduates—compliance managers, business ethics and ESG manager;

- 8) Common with EBEN Online Workshops on Self-Regulation of Market Ethics organized in 2021
- 9) Development of RBEN Certified Ethics and Compliance Professional
- 10) Cooperation with industries to support implementation of the Codes of Ethics. For example, in March 2021 Moscow Exchange has introduced the Code of Good Conduct on the Russian Financial Market.
- 11) Support of Russian universities to create or improve the Codes of Academic Ethics.

In 2022 we may say that Russian Business Ethics Network is rapidly growing Association of Russian speaking professionals in business, especially in compliance, and business ethics research. We participate in improvement of Russian legislation in the sphere of compliance. And by the means of formation of business public opinion we are eager to contribute into the New World Order creation in the XXI century.

6 Conclusions

The civil society in different countries plays an important role in the New World Order formation in XXI century. Through communication between NPOs internationally professionals may contribute their expertise to solve the problems of poverty, disease and unemployment independently from governments.

Acknowledgements I'm grateful to my colleagues in Russian Business Ethics Network Maxim Storchevov and other members of the team for their contribution into the development of RBEN from the very beginning of its foundation.

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Chapter 25

Government-Enterprise Relationship in China



Takuma Kobayashi

Abstract The purpose of this chapter is to discuss the government-enterprise relationship in China. Although China's marketisation process has progressed, unnecessary government intervention is still excessive. The share of state-owned sectors remains at a significant level. In addition, state-owned enterprises (SOEs) are predominant in strategic industries. Thus, China's government still has a strong influence on SOEs. Debt-laden SOEs can survive in the market, because they can obtain guarantees and support from the government. However, as the number of zombie privately-owned enterprises (POEs) has been increasing, the government and POEs also have a close relationship. Contrary to the market mechanism, POEs aim to expand rather than become more efficient, due to governmental policy.

Keywords Guarantees · Overcapacity · Zombie enterprise

1 Introduction

Although China's marketisation process has progressed, governmental market intervention remains. To demonstrate the strength of the government's influence, I would like to discuss the significant share of the state sector and *Guo jin min tui*, which means 'state enterprises advance, the private sectors retreat'.

Then, I will describe the relationship between the government and private enterprises from the perspective of overcapacity and zombie enterprises. State-owned enterprises have a close relationship with the government. Then, I would also like to consider the following questions. Is private enterprise in compliance with the market mechanism?

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2 Marketisation and Reduction of Government Involvement

In this section, I will explain two indicators of marketisation and market regulation.

2.1 Decrease in Government Involvement

Okamoto (2013) states that China's economic development has been engendered by a decrease in governmental involvement, rather than strong leadership of the government. Transitioning from socialism to capitalism, the free labour movement, openness to foreign countries, and the separation between ownership and management are the factors of China's economic development.

2.2 Marketisation Index

Table 1 illustrates the marketisation index and its five sub-indices. The marketisation index is an indicator that accounts for the contribution of market-oriented reform to economic growth. According to this index, China has accomplished significant achievements in marketisation from 2008 to 2014. Rapid progress has been made in the development of the private sector, market intermediaries, the legal environment, and the development of product markets. However, progress has stalled regarding the government-market relationship over the past few years, which indicates that there is still excessive unnecessary government intervention. Thus, we can say that although marketisation is developing in China, government intervention is not decreasing.

2.3 International Comparison of State Involvement

Table 2 shows the OECD Economy-wide Product Market Regulation (PMR) Indicators, which measure how competition-friendly a country's regulatory environment is within a broad range of economic sectors and policy domains. A higher score indicates less regulation. China's score is lower than that of developed countries and Russia. Therefore, China's state involvement is strong internationally.

Table 1 Scores for the 5 aspects of marketisation

| | Marketisation index | Government-market relationship | Development of private economy | Development of product market | Development of factor market | Development of intermediaries and legal environment |
|------|---------------------|--------------------------------|--------------------------------|-------------------------------|------------------------------|---|
| 2008 | 5.48 | 6.83 | 5.40 | 7.59 | 4.01 | 3.58 |
| 2014 | 6.56 | 5.62 | 7.33 | 7.77 | 5.93 | 6.11 |

Source Wang et al. 2016

Table 2 Comparison of state involvement (2013)

| | China | Russia | USA | Japan |
|---|-------|--------|------|-------|
| PMR | 2.86 | 2.22 | 1.59 | 1.41 |
| Distortions Induced by State Involvement | 3.57 | 3.41 | 2.70 | 1.85 |
| Public Ownership | 4.15 | 3.94 | 3.03 | 2.15 |
| Scope of SOEs | 6.00 | 5.40 | 2.90 | 2.13 |
| Government Involvement in Network Sectors | 4.44 | 3.72 | 0.58 | 1.63 |
| Direct Control over Enterprises | 3.16 | 2.87 | 3.00 | 1.85 |
| Governance of SOEs | 3.00 | 3.75 | 5.63 | 3.00 |
| Involvement in Business Operations | 2.98 | 2.89 | 2.38 | 1.55 |
| Command and Control Regulation | 2.90 | 2.36 | 2.19 | 0.76 |
| Retail Price Controls and Regulation | 3.06 | 3.42 | 2.56 | 2.34 |

Source OECD, Indicators of Product Market Regulation

3 Relationship Between Government and State-Owned Enterprises

3.1 *Guo Jin Min Tui*

Here, I focus on Guo Jin Min Tui.

China's reform of state-owned enterprises (SOEs) began after 1978. In the 1980s, the delegation of decision-making powers regarding production, sale, etc. centred on government enterprises. The separation of ownership from management increased the incentives towards the management of enterprises.

In the 1990s, the reform of ownership began. The reorganisation of SOEs into joint-stock enterprises and limited enterprises was promoted. As a result of the reform, the number of SOEs introducing private capital, that is, mixed ownership enterprises¹, increased, and many small-sized SOEs were sold to the private sector.

SOE reform has stagnated since the 2008 financial crisis. At that time, the index of the government-market relationship, one of the subindices of the marketisation index, declined. The government was concerned that several large-sized SOEs that had an abundance of physical and human capital were applying pressure on privately-owned enterprises (POEs).

As I already mentioned, Guo jin min tui has been concerned. I will explain whether it is really occurring or not.

Firstly, the share of the state sector within the GDP was 32% in 2014. Although it has been decreasing from 42% in 2004, it remains at a significant level (Kato et al. 2013; Kajitani 2018).

¹ Mixed ownership enterprise consists of state-holding enterprise, whose majority shares are owned by government, public organizations, or the SOEs themselves.

Secondly, state-owned enterprises were predominant in strategic industries (electrical generation and transmission, petrochemistry, information and communication, coal, aviation) (Nakaya 2013).

Thirdly, SOEs enjoy significant benefits from monopolies or oligopolies and preferential treatment in finance. This results in the expansion of the wage gap with non-SOEs.

To summarise the analysis of Guo jin min tui, the share of state-owned sectors has been decreasing; however, it remains at a significant level. China's government still has a strong influence on SOEs.

3.2 *Government Guarantee*

Here, I discuss the relationship between the government and SOEs, and consider why, although China's SOEs' performance is poor, they can survive. The keywords are 'government guarantee'.

Debt-laden SOEs can survive in the market because they benefit from guarantees and support from the government.

SOEs assume some governmental responsibilities, such as providing infrastructures, social welfare, education, and even government debt. Conversely, SOEs enjoy many benefits from their close ties with the government, such as entry into monopolistic areas, legal certification in key projects, taxation, and loans at lower interest rates with greater ease². The government and SOEs form an interdependent relationship (Zhu 2017).

4 **Competition-Based State-Owned Enterprises**

In this section, I discuss the coexistence of state-owned and privately-owned enterprises in the same sector and within the same enterprise.

Generally speaking, POEs' total factor productivity (TFP) is higher than SOEs'. However, this gap has decreased in almost all industries. In some sectors, SOEs' TFP is higher than POEs' (Xu 2014).

Why is SOEs' productivity improving? Such improvement is correlated with a mixed economy. A mixed economy consists of a mixed market and mixed ownership. In the mixed market, SOEs and POEs coexist within the same industries.

A mixed ownership enterprise comprises state shares in addition to private shares. I will present an example in the automobile industry.

² Because SOEs can obtain the loans directly from the banks at lower interest rates with greater ease, a lot of SOEs make some handsome and easy returns by lending out the loans which they obtained from banks (Zhu 2017).

4.1 *Mixed Market*

As I mentioned, China's markets are divided into three categories.

The first concerns monopoly or oligopoly markets, which POEs are prevented from entering due to governmental regulations (for example, power generation, oil, etc.).

The second category concerns markets in which POEs compete with each other.

The third category concerns competitive markets (mixed markets) in which SOEs and POEs coexist, such as iron and steel, automobile, construction, and so on. In mixed markets, SOEs exist. However, keen competitions take place. POEs misunderstand that there are opportunities to make a profit, a new capital investment decision, and seek to pursue more profits because SOEs do not exit from the market. In mixed markets, significant overcapacity occurs. Both SOEs and POEs are thought to be the source of overcapacity. Vigorous entry into markets also leads to overcapacity (Zhou 2006).

4.2 *Mixed Ownership Enterprises*

I consider why mixed ownership enterprises are not so inefficient³, which is partly due to the complexity of their ownership structure. This restricts governmental (SASAC: The State-owned Assets Supervision and Administration Commission of the State Council) intervention in the management of listed and affiliated enterprises. The parent enterprises who own joint enterprises are SOEs. These enterprises are statistically classified as belonging to the state sector. However, they are practically private or foreign enterprises.

I take the example of the ownership structure of China's automobile enterprise, FAW-Volkswagen Automotive Co., Ltd. The competitive market is formed in China's automobile industry, where China's SOEs collaborate with multiple foreign enterprises, 60% shares of which are owned by the government. However, 40% are owned by two foreign enterprises⁴. This results from the complexity of ownership. FAW-Volkswagen Automotive Co., Ltd. is statistically classified as an SOEs because government owns the highest share, however, it introduces private capital.

Another reason behind the efficiency of mixed ownership enterprises is that China's SOEs collaborate with two foreign enterprises. Further, POEs are rapidly developing⁵.

³ TFPs of the state-holding enterprises, which are higher than those of wholly state-owned in all of 40 sectors except for tobacco between 1998-2007 (Liu and Nie 2015).

⁴ They are VW, by which 30% shares are owned, and Audi, by which 10% shares are owned.

⁵ For example, Geely Automobile. Its new auto sales were ranked 4th in 2020 (Website of Mitsubishi Motors Hyogo).

In November, 2013, a decision of the Central Committee of the Chinese Communist Party (CCCPC) on major issues concerning comprehensively deepening the reform was announced.

The mixed economy is conducive to improving the amplification function of state-owned capital, ensuring the appreciation of its value and raising its competitiveness. Further, it is conducive to enabling capital under various kinds of ownership, to draw on one another's strengths to offset weaknesses, stimulate one another, and develop together. We will allow more SOEs and enterprises of other types of ownership to develop into mixed enterprises (Kato 2016).

Mixed ownership reform is not the first step to comprehensive privatisation. It ensures the appreciation of the capital of mixed ownership enterprises. Clear policies for the privatisation of SOEs' were not presented.

The aim of mixed ownership reform, rather than comprehensive privatisation, lies in the appreciation of its value and the improvement of its efficiency.

5 Overcapacity and Zombie Enterprises

In this section, I introduce the issues of overcapacity in China and zombie enterprises. The purpose of this chapter is to examine the relationship between the government and POEs.

5.1 Causes of Overcapacity

Table 3 illustrates the GDP composition in China. The investment rate has been increasing in China since the 1990s. The household consumption rate decreased from 1980 to 2010. Therefore, China's economic growth is characterised by high dependency on investment.

Overcapacity is defined as the difference between production capacity and actual production. Thus, overcapacity is considered the converse of the utilisation rate. Figure 1 shows capacity utilisation rates in six industries. In all these industries, capacity utilisation rates have been decreasing from 2008 to 2014.

One of the effects of overcapacity on the economy is that it provokes a decline in price and applies pressure on the profits of enterprises. Another effect is that SOEs that suffer from financial difficulties cannot repay loans to state-owned banks. Consequently, they ask for more loans, and the financial situations of state-owned banks worsen (Lu 2001).

The factors leading to overcapacity are as follows. The first factor concerns industrial policies for a specific region, e.g., the 'go west' strategy⁶ in 2000, and the

⁶ This is the regional development policy which China's government launched in 2000 to boost economic development of 12 western provinces.

Table 3 GDP composition

| | GDP | Final Consumption Expenditures | | Gross Capital Formation | | Net Exports |
|------|-------|--------------------------------|-----------------------|-------------------------|-------------------------------|-------------|
| | | | Household Consumption | | Gross Fixed Capital Formation | |
| 1978 | 100.0 | 62.0 | 48.8 | 38.4 | 29.9 | -0.3 |
| 1980 | 100.0 | 65.4 | 51.5 | 35.0 | 28.8 | -0.3 |
| 1990 | 100.0 | 63.3 | 49.7 | 34.0 | 23.9 | 2.7 |
| 2000 | 100.0 | 63.9 | 47.0 | 33.7 | 32.7 | 2.4 |
| 2005 | 100.0 | 54.3 | 39.5 | 40.3 | 39.4 | 5.4 |
| 2010 | 100.0 | 49.3 | 34.6 | 47.0 | 44.3 | 3.7 |
| 2015 | 100.0 | 53.7 | 37.6 | 43.0 | 41.9 | 3.2 |
| 2019 | 100.0 | 55.4 | 38.8 | 43.1 | 42.4 | 1.5 |

Source China Statistical Yearbook

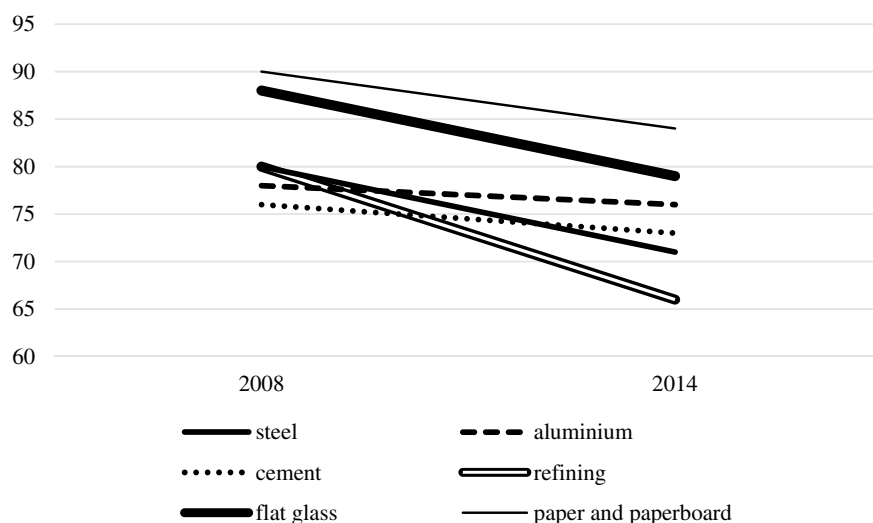


Fig. 1 Utilisation rates for 6 industries (Note Data for Aluminium are from 2008 and 2015) (Source European Chamber 2016, p. 3)

high availability of technology. Another factor correlated with zombie enterprises, which I will detail later, concerns local-level economic policies, that is, subsidies to producers. Local officials aim to avoid laid-off workers due to concerns about social stability. If zombie enterprises are non-performing and need to be shut down, then employees lose their jobs. Given current economic realities, new jobs may not be readily available in those same locations (European Chamber 2009, 2016).

5.2 *Main Factor of Overcapacity*

Here, I introduce you to two studies on overcapacity in the steel sector. Both researchers insist that SOEs are the main source of overcapacity. However, one insists that large SOEs are the main source (Brun 2016), while the other insists on small and medium SOEs (Watanabe 2017).

Are SOEs the main factor of overcapacity? In my opinion, POEs also create excess capacity. The reasons for this are as follows. First, small and medium-sized POEs vigorously enter markets. Second, POEs misunderstand that there are opportunities to make a profit, a new capital investment decision, and seek to pursue more profits because SOEs do not exit the market.

5.3 *Zombie Enterprises Generating Overcapacity*

Zombie enterprises are indebted firms that are unprofitable and depend on banks or government bailouts to continue their operation.

According to the official standard, zombie enterprises are enterprises whose profits have been negative for more than three consecutive years. However, this standard is excessively simplistic. According to Caballero et al. (2008), zombie enterprises repay their debt at a very low interest rate⁷.

The number and ratio of zombie enterprises in industry sectors above the designated size. Due to the reform of state-owned enterprises, the number of zombie enterprises decreased after 2009. Nevertheless, it increased again after 2012⁸ (Nie et al. 2016).

As for their influence, zombie enterprises distort the allocation of labour resources and bank financing, which hinders the growth of non-zombie enterprises. Zombie enterprises prevent technical progress and exacerbate overcapacity, especially in declining industries. These are factors of the increase in the number of zombie enterprises. Local governments collude with state-owned enterprises regarding local government officials' promotion⁹ (Zhou 2004).

The ratio of state-owned enterprises is higher than that of private enterprises, however the number of zombie private enterprises increased (Nie et al. 2016). The influence of the government on POEs is also thought to be significant. There are some cases in which SOEs received loans from state-owned banks and increased their profits, which can be managed for small and medium-sized POEs. Therefore, I think that POEs may not be in compliance with market mechanisms. Private enterprises

⁷ The criteria are explained in Nie et al. (2016).

⁸ According to the investigation of 340 thousand industrial enterprises in 2013, 27,167 enterprises were identified as zombie (Nie et al. 2016).

⁹ GRP (Gross Regional Product) growth is the most typical standard of performance in their region. They want to raise GRP for their promotion (Zhou 2004).

also become zombie enterprises. In the absence of promising state-owned enterprises, local governments also protect private enterprises.

As it is more difficult for small and medium enterprises to borrow funds from banks, they do so through mutual guarantees, irregular financing routes, and close ties of capital and business with upstream and downstream enterprises. In this case, if one enterprise faced difficulty and became a zombie enterprise, other enterprises that cooperated with it would follow suit because they would be obligated to rescue the enterprise by lending funds. This is called ‘the contagion effect’ (Fang et al. 2018).

Next, I explain why China’s government supports SOEs and POEs. Generally, a purpose of enterprises is to generate profits for shareholders and create value. However, in China, expanding the size of enterprises and increasing sales and total assets are critical.

In China, large enterprises find it easier to obtain support from governments due to the risk of mass protests occurring when governments do not save large enterprises experiencing financial difficulties. Hence, governments try to prevent such situations.

The bankruptcy of large enterprises with numerous employees has a significant impact on the local economy and people’s lives. Thus, enterprises should not be shut down if they expand their size.

The issue of inaccessible financing for private enterprises and small and micro enterprises remains. At the end of 2006, Shenzhen City decided to certify large private enterprises with more than 10 billion yuan in annual sales as ‘Privately-owned Leading Enterprises’, and to urge banks to extend loans to them. This policy ‘selects winners’ and is contrary to market mechanism, although it alleviates the difficulty of raising funds. POEs expanded their size ahead of their efficiency (Li 2018).

6 Conclusion

Although China has made significant achievements in marketisation, unnecessary government intervention is still excessive.

The share of state-owned sectors remains at a significant level. Thus, it can be said that China’s government still has a strong influence on SOEs. Debt-laden SOEs can survive in the market because they can obtain guarantees and support from the government.

As the number of zombie POEs has been increasing, the government and POEs have been maintaining a close relationship. Further, contrary to the market mechanism, POEs aim to expand rather than become more efficient, due to governmental policy.

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Part VI
Regional Collaboration and Good
Governance

Chapter 26

ASEAN's Governance of Labor Migration: Progress of Institutionalization and Challenges



Motoko Shuto

Abstract This chapter argues that the ASEAN Forum on Migrant Labour (AFML) has provided an unprecedented platform of policy reviews and discussions on migrant workers among a variety of stakeholders. It is unprecedented not only in terms of the various stakeholders but in the sense that each group of them annually holds meetings at the national and regional levels in advance, in collaboration with the ILO. Without this AFML process, the adoption of the ASEAN Consensus on the Protection and Promotion of the Rights of Migrant Workers in November 2017 would have been impossible. Nevertheless, there still remains a wide gap of policy implementation of the protection of migrant labor, which is a highly divisive issue in the domestic context and between the labour sending and receiving countries of ASEAN.

Keywords ASEAN Community · ASEAN Consensus · Labor Migration · AFML

1 Introduction

This chapter discusses new features of the dynamism of ASEAN's regional governance on labor migration from the three aspects. First, it reviews developments during the last decade in norm-setting and norm-sharing processes on protection and promotion of migrant workers' rights at the regional level. Second, it focuses on a new multi-layered scheme of policy discussions by multi-stakeholders for the ASEAN Forum on Migrant Labour (AFML). Third, it discusses the function and challenges of ASEAN for regional governance of labor migration by referring to the ASEAN Consensus on the Protection and Promotion of the Rights of Migrant Workers approved at the ASEAN Summit in 2017 based on recommendations originally submitted by the AFML.

The AFML is an unprecedented regional platform of policy discussions with a variety of participants and multi-layered schemes of discussions among government officials, associations of employers, labor unions and NGOs that have been working

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for migrant workers, in addition to the UN organizations and the ASEAN Secretariat. It is a multi-layered platform in the sense that such multi-stakeholders' meetings are held separately at the regional and national levels in advance before they attend the AFML meeting. It means that such participating members including NGOs are no longer the target of governance but part of actors in constructing a new platform of regional governance on labor migration in the ASEAN countries.

Based on recommendations of the AFML meetings which are mostly accepted in the ASEAN Consensus above in 2017, new or revised laws/regulations have been adopted at the national level. This means that once regional norms are shared and turned into a regional action plan, albeit with some reservations, it is not acceptable to ignore them by referring to the "non-intervention principle in domestic matters," which used to be one of the principles of ASEAN. Particularly since 2003 when ASEAN adopted the ASEAN Concord II, which declared that ASEAN would create an ASEAN community that consists of three pillars; ASEAN Political Security Community, ASEAN Economic Community and ASEAN Socio-Cultural Community, ASEAN began to institutionalize new regional platforms of policy discussions.

Then, this paper discusses the features of such new dynamism with multi-stakeholders' participation both at the national and regional levels and examines developments and challenges in enhancing regional governance in protecting and promoting migrants workers' rights to materialize an ASEAN Community.

2 Framework of Regional Governance of ASEAN on Labor Migration

After the ASEAN Concord II was adopted in 2003, ASEAN started its preparatory activities based on the Vientiane Action Programme (VAP), which was to be implemented during 2004 and 2010. In VAP, a number of interesting agendas were adopted, such as "strengthening the rule of law, judiciary systems and legal structure, effective and efficient civil services, and good governance in public and private sectors (1.1.iv)," and to "increase the participation of non-governmental organizations (1.1.v)." Moreover, the summit meeting agreed to charge their Ministers to start the "elaboration of an ASEAN instrument on the protection and promotion of the rights of migrant workers (Annex 1.1.4.6)." After this VAP, a new dynamism started for institutionalization of ASEAN to protect and promote the rights of migrant workers. The process of policy dialogues of ASEAN on labor migration can be shown in (Fig. 1).

Through the process of (Fig. 1), there are three crucial aspects: the participatory pattern, contents of discussions and regional action programs which turn to policy guidelines and new legislations in the ASEAN member states. Regarding the new pattern of multi-stakeholders' participation as is shown in the following sections, ASEAN has provided a platform for such multi-stakeholders' participation

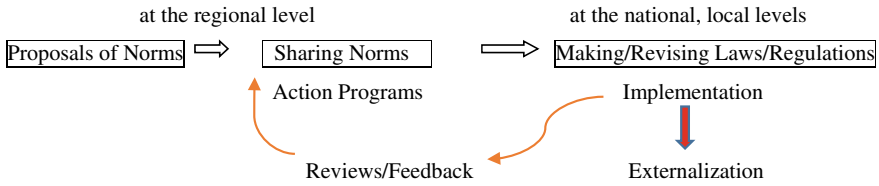


Fig. 1 Framework of regional governance of ASEAN on labor migration (Source by author)

and institutionalization since the mid-2000s. Concerning the contents of discussion, Section 4 below shows how norm-setting and norm-sharing discussions at the AFML are related to providing common policy guidelines of ASEAN.

3 Proposals of Norms from NGOs

The initial stage for proposals of norms in (Fig. 1) had actually started earlier through a series of consecutive advocacy activities by different types of NGOs since the 1990s. In a chronological order, the earlier actors were NGOs working for the rights of migrant workers at the regional level, such as Forum Asia (established in 1991), Asian Migrant Centre (AMC, est.1991) and Migrant Forum in Asia (MFA, est. 1994). While they had been active since the early 1990s, the important turning point was the Asia Pacific NGO Conference on Human Rights in Bangkok as a regional preparatory meeting for the UN World Conference on Human Rights in Vienna. Through this meeting the NGOs had started to make networking activities at the regional level. The focus during the 1990s and early 2000s was fundamental human rights in general. For instance, the Bangkok Declaration in 1993 referred to the importance of protecting human rights and freedoms of “vulnerable groups such as ethnic, national, racial, religious and linguistic minorities, migrant workers, disabled persons, indigenous peoples, refugees and displaced persons.”¹

After the Vienna Human Rights Conference in 1993, there emerged three types of new dynamism to advocate the ASEAN Ministerial meetings. The first type was the Working Group for an ASEAN Human Rights Mechanism (hereafter, WG-AHRM) which was established at the meeting of LAWASIA that is a regional group of law experts and professionals. It was this WG-AHRM that kept advocating the importance and responsibility of ASEAN for establishing a regional mechanism on human rights.

The second type was the ASEAN People’s Assembly (APA) which was a regional meeting organized by ASEAN-ISIS that consists of ASEAN affiliated think-tanks. In November 2000 when the first ASA was held in Batam, Indonesia, it was an epoch-making regional meeting of NGOs to discuss problems from the aspect of people.

¹ Coordinating Committee for Follow-Up Asia Pacific NGO Conference on Human Rights, *Our Voice: Bangkok NGO Declaration on Human Rights*, Bangkok: Asian Cultural Forum on Development (ACFOD), 1993, p. 245.

One of the speakers from Singapore, S. Samydorai, argued an importance of social dialogue for creating an ASEAN community and particularly the rights of workers should be guaranteed at the ASEAN level. His initiative eventually played a crucial role in the institutionalization process of the AFML. In this way by the initiative of NGOs, the concept of “people’s ASEAN” has turned to be one of the key concepts of an ASEAN Community since the 2000s, and in the ASEAN Charter which came into effect in 2008.

Nevertheless, while APA generally took a positive stance on liberalization of market economy, those who took a critical stance against it organized alternative NGO networks such as ASEAN Civil Society Conference (ACSC) and ASEAN People’s Forum (APF). When such reform-oriented NGOs held the regional meeting in February 2006, another regional network called SAPA (Solidarity for Asian People’s Advocacy) was set up.

As mentioned earlier, since ASEAN declared in the VAP that it would promote participation of NGOs in the policy dialogues, civil society groups became more active in advocacy activities on the agenda of ASEAN. It was against such new trends of “alternative regionalism”² that SAPA set up a working group on rights of migrant workers and an activist of a Singapore-based NGO, Samydorai, took the leadership in this working group of SAPA. He was a member of the WG-AHRM on behalf of Singapore during 2003 and 2007 when the VAP was adopted. It was the time when human rights NGOs were active in appealing the concept of “people-oriented ASEAN” and to establish an ASEAN Human Rights institutional mechanism.

In this way, since the early 1990s, advocacy activities on human rights issues and building a regional institution of ASEAN began to be proposed by various types of NGOs. Protection and promotion of the rights of migrant workers was one of such human rights issues. As ASEAN became more responsive to proposals of the NGOs, it turned from a target of their advocacy activities to an important partner to work with. In this context, Samydorai was committed with all three types of civil society groups above: WG-AHRM, APA and SAPA. As the appendix of the VAP imposed ASEAN to elaborate “an ASEAN instrument on the protection and promotion of the rights of migrant workers,” then Secretary General of ASEAN, Ong Keng Yong, asked him to take the initiative in preparing for the institutionalization.³ Thus, the purposes of the three types of NGOs above converged through him into the formation of the Task Force of ASEAN Migrant Workers (TF-AMW) which plays a crucial role in the AFML process, as shown below.

² Rother S. and N. Piper, “Alternative Regionalism from below: Democratizing ASEAN’s Migration Governance,” *International Migration*, Vol. 53, No. 3, 2015, pp. 36–49.

³ Personal communication with Mr. Sinapan Samydorai, 21 May 2019.

4 Sharing Norms at the Regional Level

Though ASEAN Labour Ministers' meetings had been held once every two years since 1975 except for the issues on Indochina refugees and human trafficking, it is since 2000 when they agreed to establish the ASEAN-OSH (Occupational Safety and Health) Network and they started to deal with labor issues at the regional level. Likewise, the issues related to labor migration did not become an agenda of ASEAN Labour Ministerial Meetings till the early 2000s.

After the Secretary General of ASEAN asked Samydorai to set up a meeting platform to discuss the issues on migrant workers, he coordinated a number of meetings with NGOs and the TF-AMW was established in April 2006. In addition to regionally active NGOs, three regional branches of international associations of labor unions; Union Network International–APRO, Public Services International, and Building and Woodworkers International⁴ joined the TF-AMW, and they submitted a set of 15 proposals for protection of the rights of migrant workers to the ASEAN Senior Labor Official Meetings in December 2006.

Shortly after that, the ASEAN Declaration on the protection and promotion of the rights of migrant workers (hereafter, Cebu Declaration) was adopted in January 2007. This was the first regional arrangement on labor migration. Having the four parts (22 articles), it was stated for the first time that the ASEAN member states “will promote decent, humane, productive, dignified and remunerative employment for migrant workers (Article 15).” And it clarifies Obligations of Receiving States (6 articles), Obligations of Sending States (4 articles) and Commitments by ASEAN (8 articles).

The implementation of the commitments above, however, is left to each member state “in accordance with national laws, regulations and policies.” It was a limitation of harmonization through the AFML. Also, while TF-AMW submitted proposals from a broader scope of protection including family of migrant workers and undocumented workers, the Cebu Declaration left them off the agenda, except for a section that both receiving and sending states “shall, for humanitarian reasons closely cooperate to resolve the cases of migrant workers who, through no fault of their own, have subsequently become undocumented (Article 2)”.

At the same time, the draft of ASEAN Charter was adopted at the Summit in November 2007 (took effect in December 2008). According to the Charter, the purposes of ASEAN are stated to “strengthen democracy, enhance good governance and the rule of law, and to promote and protect human rights and fundamental freedoms.” This is a remarkable change, considering that ASEAN used to restrict its principles to state-state relations only and avoid such domestic state-society relations as democracy and human rights. Based on the ASEAN Charter, the first ASCC Blueprint (2009–2015) was adopted in 2009, and in its C2 section, “Protection and Promotion of the Rights of Migrant Workers” was stated as one of the policy goals.

⁴ These three regional branches established ASEAN Services Employees Trade Union Council (ASETUC) in March 2007 to make advocacy activities directly to the ASEAN meetings, in addition to the AFML. ASETUC at the same time attends AFML every year.

At the same time, after the 4th ASEAN–UN Summit meeting in 2011, the UN organizations and ASEAN started comprehensive collaboration institutionally, especially in the socio-cultural sectors. Their collaboration throughout the processes of implementing and monitoring programs of ASCC was crucial for the first ASCC Blue Print (2009–2015) and the second one (2016–2025). On the other hand, for the UN organizations close collaboration with ASEAN for the ASCC-related programs has been part of implementation of MDGs/SDGs at the regional level. In other words, once ASEAN declared to realize an ASEAN Community, it has become a regional partner of UN organizations to carry out programs for MDGs/SDGs.

5 Institutionalization for Sharing the Principles through AFML

(1) **Setting up AFML** The ASEAN Ministerial Meeting in July 2007 agreed to set up the ASEAN Committee on the Implementation of the ASEAN Declaration on the protection and promotion of the rights of Migrant Workers (ACMW) under the Senior Labour Official Meeting (SLOM). And in March 2008 the ASEAN Forum on Migrant Labour (AFML) was held in Manila to follow up the Cebu Declaration. At the same time, since early 2007 TF-AMW made continuous efforts by holding bilateral meetings with the ASEAN secretariat, each member country except Brunei and Myanmar, on the agenda of the 22 Articles of the Cebu Declaration from the national aspects. The outputs of the meetings were submitted to the ACMW and became the basis of policy discussions of the AFML. In this way, a bottom-up approach was taken for starting the dialogues of AFML, largely owing to the contribution of the TF-AMW.

(2) **Institutional Features of AFML** The purpose of AFML was initially to examine the principles for implementation of the Cebu Declaration and submit the annual reports to the ACMW. After the meeting in 2008, AFML has been held annually at the host Ministry of Labor of the ASEAN Ministerial Meetings. The scheme of the AFML is remarkable in the following points.

First, the AFML is based on the Tripartite-Plus scheme consisting of representatives from each Government, the ASEAN Confederation of Employers (ACE) and the ASEAN Trade Union Council (ATUC) which is a member of ITUC that is closely linked to the ILO, and NGOs in addition to the ILO and other UN organizations (Fig. 2). If NGOs wish to attend, they first contact the TF-AMW, and the TF-AMW compiles the list of participating NGOs to the ACMW which endorses the list. In this sense, the TF-AMW is regarded as “a gate-keeper”⁵ of the AFML.

The other institutional feature is that since 2012 under the ILO coordination the similar trilateral national dialogues have been held several weeks before the AFML

⁵ Rother, S., “ASEAN Forum on Migrant Labour: A Space for Civil Society in Migration Governance at the Regional Level?” *Asia Pacific Viewpoint*, March 2018, p. 8. <https://onlinelibrary.wiley.com/doi/10.1111/apv.12181>.

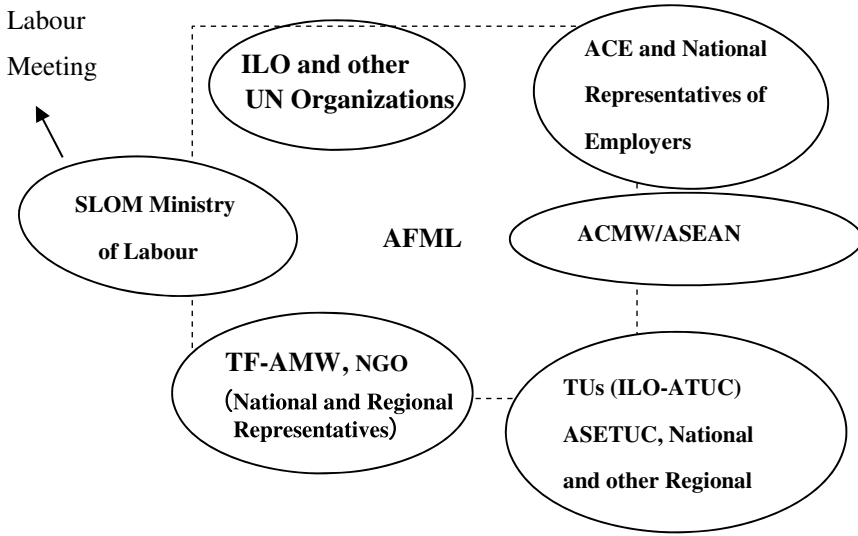


Fig. 2 AFML: Tripartite-Plus Scheme (Source by author) (Notes ACE [ASEAN Confederation of Employers], ATUC [ASEAN Trade Union Council], TU [Trade Union])

meeting. For such national preparatory meetings, government officials also attend. They usually attend the SLOM meetings or report what was discussed to their seniors who will attend the SLOM. Since the early 2010s, along with the AFML, the ASEAN Summit adopted documents which support the AFML process. For instance, the ASEAN Human Rights Declaration (AHRD) in November 2012 stated the rights of migrant workers as “integral and indivisible part of human rights and fundamental freedom (Article 4).” In the ASEAN Guidelines for CSR in 2016, protection of migrant workers’ rights is mentioned. In this way, in parallel with the annual AFML meetings similar statements were adopted at the ASEAN level.

(3) **Policy Proposals of AFML** Policy Recommendations of AFML are made based on a consensus-style and submitted to the ACMW. The two topics of each AFML are informed by the host government. So far, a wide range of issues have been discussed: from the 2nd to 4th AFML meetings (2009–2011), the topics were related to enhancing public awareness and promoting public campaign on the rights of migrant workers, from the 4th to 6th AFML meetings (2012–2013), effective recruitment practices and enhancing protection of migrant workers through data collection and sharing were the major topics. After the 7th AFML meeting in 2014, more specific agendas were discussed such as institutional reforms of pre-departure administrative procedure, by referring to One Stop Services and enhancing Occupational Safety and Health (OSH) for migrant workers. At the 11th AFML when Singapore was the host, the two topics were related to digitalization of information control for migrant workers. At the 13th online AFML meeting in 2020, the impact of COVID-19 on migrant workers was one of the two main topics.

Table 1 Policy recommendations of AFML from the 3rd to 13th meetings

| | Category | Major agenda | Number of recommendations 3rd-11th + 12th + 13th meetings |
|---|-------------------|--|--|
| A | Information | Pre-departure Orientation, One-Stop Service, Migration Resource Centers | 27 + 2 + 2 |
| B | Fair recruitment | Regulation of Brokers, G-G MoUs | 19 + 4 + 1 |
| C | Decent Work | Social security, Occupational Safety and Health (OSH), Portability, decent wages etc | 48 + 6 + 8 |
| D | Legal Support | Complaint-mechanism | 22 |
| E | Reintegration | Effective social reintegration programs | 12 + 0 + 1 |
| F | Public Education | Public education campaigns | 6 + 1 |
| G | Data collection | International Labour Migration Statistics (ILMS) Database | 14 |
| H | ASEAN cooperation | ASEAN Consensus, cooperation with TUs and CSOs | 10 |

Source compiled by author from the Annual Reports of AFML https://www.ilo.org/asia/publications/WCMS_713541/lang-en/index.htm

According to those who have participated in the AFML meetings, they have positive comments on the outputs of the discussions, though some said that the responses are not enough from the Mekong-basin countries of ASEAN.⁶ NGOs too have positive evaluation that AFML works as “facilitator” for the protection of the rights of migrant workers, while the employers’ association takes it as a useful opportunity to get information that is related to them. What is impressive is that Trade Unions, which used to pay little attention to migrant workers, have become active in monitoring the situation and reviewing feedback through the AFML. In addition, ATUC and the ILO-Bureau for Workers’ Activities (ILO-ACTRAV) conduct an on-line survey twice a year on the development of the agendas of the previous year. ILO is coordinating the “Triangle in ASEAN Programme” with the five Mekong-basin countries plus Malaysia during the period 2015–2027. ATUC too is committed with this Programme at the regional and national levels.

Among the 183 proposals submitted during the 13 AFML meetings up to 2020, 62 proposals are related to Category C on decent work such as Occupational Safety and Health (OSH), social security, freedom of association of migrant workers and so forth (Table 1). Also, agenda on Information Services and Fair Recruitment process are much focused categories (Table 1).

⁶ Interviews with representatives of ATUC, 31 January 2019 in Manila and ASETUC, 4 February 2019 in Kuala Lumpur.

The recommendations of the eight categories in (Table 1) were submitted to the ACMW which subsequently submitted them to the SLOM each year. In this way, based on the recommendations of AFML, the ASEAN Consensus on the Protection and Promotion of the Rights of Migrant Workers (hereafter, the ASEAN Consensus) was adopted at the Summit meeting in November 2017. Accordingly, the Action Plan (2018–2025) of the ASEAN Consensus has become the common platform of policy implementation for the ASEAN Labor Ministers.

(4) **The ASEAN Consensus in 2017** The ASEAN Consensus consists of 60 Articles, referring to all the stages of placement as follows. The first stage is for pre-departure procedures. It focuses on improvement of information services, efficient procedures, pre-departure training and new actions to prohibit overcharging of placement fees by any parties. The second stage is related to agendas on protection of migrant workers while they are working abroad. And the third stage is on the agenda related to the re-integration and social welfare after their contract is over and they return home. Concerning all these stages, it states the obligations of receiving states (14 Articles) and sending states (9 Articles) in addition to “Commitments of ASEAN Member States” (17 Articles). While the structure is the same with the Cebu Declaration in 2007, the ASEAN Consensus has more contents in detail. All such issues were discussed at the AFML and recommendations were submitted to the ACMW, which submitted them to the SLOM.

Among others, in the pre-departure process, sending states have obligations such as to provide information to migrant workers about the terms and conditions of their work through documentation (Article 22), to “prohibit overcharging of placement or recruitment fees (Article 23) and to simplify the processes by setting up “one stop service centre” (Article 24). The obligations of receiving states are among other things to provide fair treatment to migrant workers in respect of working condition and Occupational Safety and Health protection (Article 40), while one of the major obligations for both sides is to eliminate recruitment malpractices (Article 51).

(5) **Linkage with National governance** Then, how can such shared principles in the ASEAN Consensus be linked to new dynamism at the national level to facilitate the implementation? There are four types as follows.

First, among the sending countries the Philippines had established institutions well before the AFML, and among the receiving countries in ASEAN, Singapore has the high level of governance on migrant workers in terms of openness, institutionalization, and efficiency. Not a few agendas of the ASEAN Consensus have already been institutionalized in Singapore before the AFML started. For instance, as is stated in the Consensus, trade unions are already open to migrant workers in Singapore with the same membership fee, irrespective of nationality. Since 2004 two NGOs, Transient Workers Count Too (TWC2) and Humanitarian Organisation for Migration Economics (HOME) have been active in helping migrant workers. Obligations of employers to join insurance, attend an orientation program in case of employing domestic workers, confirming OSH Pass for construction work, are regulated in detail. Furthermore, the Employment of Foreign Manpower Act has been often revised in order to adjust to changing needs. Even so, however, the

COVID-19 pandemic in 2020 revealed that around 94% of the infected patients are migrant workers.⁷ Thus, the Government took quick actions and launched new housing plans, which had been long overlooked, for migrant workers.

Second, along with the AFML process, a new dynamism from Civil Society Organizations (CSOs) including Trade Unions led to new legislations since the early 2000s. The remarkable case is Indonesia, where since the early 2000s NGOs started to advocate for a coherent and comprehensive strategy for the promotion of migrant workers. Based on the Law No.39 in 2004 on placement and protection of migrant workers, the National Agency for Placement and Protection of Indonesian Migrant Workers (BNP2TKI) was launched in 2007. Then, the Law No 18 in 2017 on Protection of Indonesian Migrant Workers stated that recruitment fees are not charged to migrant workers. Considering that many problems of migrant workers can be attributed to the recruitment methods and fees, this was a remarkably radical decision, even though the zero-fee in employment process is one of the ILO principles. It was later followed by a detailed regulation in 2020 to be implemented in 2021.

Also, the One-Stop Service System has rapidly expanded in Indonesia, from one in 2014 to 33 places in 2019, and 45 as of February 2021.⁸ The village development program with former migrant workers (Desmigratif program) increased in number, from 120 villages in 2017 to 402 villages of 12 provinces in 2019.⁹ Though the Desmigratif program is still in the initial stage, along the AFML discussions, new policy measures have been taken to improve both pre-departure procedures and local re-integration programs for returnees.

Third, ILO's "Triangle in ASEAN Programme" works as a catalyst to improve governance on labor migration in the Mekong-basin countries, in collaboration with ATUC and other local stakeholders. Their achievement includes setting up 35 Migrant Resource Centers (MRCs), providing remittance schemes and policy consultations.¹⁰ Also, ILO helped the Cambodian government launch a code of conduct in early 2020 with two Associations of Recruitment Agencies in Cambodia, and made the standard of recruitment fee.¹¹ These developments are part of a progress in creating regional governance of labor migration in ASEAN.

Nevertheless, according to survey reports by NGOs a great number of people in Myanmar, Laos, Cambodia and Vietnam answered they received no pre-departure

⁷ *The Straits Times*, 18 July 2020. <https://www.straitstimes.com/singapore/why-dorms-with-lower-covid-19-prevalence-were-cleared-first>.

⁸ <https://pedoman.co/news/lindungi-pekerja-migran-kemnaker-siapkan-45-ltsa/> 19 February 2021 (Last Accessed 27 February 2021).

⁹ <https://www.kemnaker.go.id/news/detail/petugas-desmigratif-diminta-bantu-pendataan-pekerja-migran> 23 September 2019 (Last Accessed 20 February 2021).

¹⁰ "Triangle in ASEAN, Key Results" https://www.ilo.org/asia/projects/WCMS_718233/lang--en/index.htm (Last Accessed 20 February 2021).

¹¹ https://www.ilo.org/asia/events/WCMS_735805/lang--en/index.htm (Last Accessed 20 February 2021).

orientation or training.¹² Thus, it seems that many of them go abroad without having basic knowledge, skills and information about their rights to protect themselves. Moreover, in Thailand which is one of the major labor receiving countries in the region, among those who come from Cambodia, Myanmar and Laos and have got a job in Thailand through registered brokers are around 14% only. Far more people find a job through unregistered brokers or directly by employers.¹³ At the border areas even Cambodian and Thai police officers are directly or indirectly committed with broker business.¹⁴ Thus, there remains a vast space beyond the AFML discussions on regional governance.

6 Conclusion

Concerning the regional governance on protection and promotion of the rights of migrant workers, the AFML has contributed to making shared norms and principles which are mostly repeated in the ASEAN Consensus in 2017. It is a bottom-up participatory forum with multi-stakeholders, though they target on documented workers only.

There are key factors which have sustained this process. First, there was a continuing collective will to create a regional mechanism for labour migration governance from NGOs that had taken the initiative since the 1990s. Second, since the early 2000s ASEAN changed to take a more responsive attitude toward them, and third, an insightful leading activist played a crucial role to help ASEAN launch and facilitate the AFML process. Fourth, UN Organizations too actively joined the process to coordinate the Tripartite-Plus dialogues at the regional and national levels. In short, such various stakeholders actively joined the multi-layered process of AFML. The ASEAN Consensus is a product based on recommendations submitted by the AFML.

Nevertheless, how it can enhance quality of governance at the national level greatly depends on the will and capacity of each government, integrity of employers and migrant workers. At present there is a gap between labour sending and receiving countries in fulfilling obligations as stated in the ASEAN Consensus, which has no legal binding force. The lower the level of transparency and rule of law is, and the lesser public space is for NGOs, the harder it becomes to materialize the shared principles of the ASEAN Consensus. In short, due to such wide gaps, challenges still remain for full standardization of regional governance on labor migration which

¹² Human Rights Working Group (HRWG), *Migrant Workers' Rights in ASEAN Region: A Baseline Study*, Jakarta: HRWG, 2018, pp. 18–36.

¹³ ILO, *Recruitment Fees and Related Costs: What Migrant Workers from Cambodia, the Lao PDR and Myanmar Pay to Work in Thailand*, 2020, pp. 20–26, https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/documents/publication/wcms_740400.pdf (Last Accessed 10 December 2020).

¹⁴ Sary Seng, "Unseen Undocumented Cambodian Migrant Workers in Thailand," in Um, Khatharya and Sofia Gaspar eds., *Southeast Asian Migration*, Eastbourne, UK: Sussex Academic Press, 2019, pp. 167–168.

is a highly divisive issue, even though there have been developments of the AFML process.

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Chapter 27

Regional Collaboration in Europe and Asia; Learning from the European Union Strategy for the Danube Region (EUSR) and the Greater Mekong Sub-regional (GMS)



Soavapa Ngampramuan

Abstract This research focuses on investigating comparatively the origins and dynamics of sub-regional projects in the form of international river basins (IRB) in two different geographic settings, with one case study in Central Europe, and another one in Southeast Asia, namely the European Strategy for the Danube Region (EUSR) and the Greater Mekong Sub-region (GMS). This research recognizes that different levels of regional integration processes, like regional and sub-regional, and the dynamics behind them need to be distinguished from each other. These two case studies show a number of sub-regional characteristics, like cooperation at the local level, even transcending national borders, for supporting local economic development, in supporting related infrastructure development and inter-connectivity, shared energy supply and generation, shared tourism, and people-to-people exchange. They also share another commonality of sub-regional cooperation dynamic, the interaction of different actors across a range of issues and hierarchies, involving state and non-state actors. At the same time, they differ with regard in characterizing their integration process as either bottom-up or top-down. Lastly, they cannot be explained without taking into consideration both specific local aspects and the regional and global structural environment.

Keywords Sub-regionalism · Comparative politics · Danube region · Mekong region

1 Introduction

The objective of this research is to investigate the elements of sub-regional cooperation comparatively between the European Union Strategy for the Danube Region (EUSR) and the Greater Mekong Sub-region (GMS). Hence, in order to gain the

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result of research aims, this research is based on a qualitative method. According to Hay (2002: 61–66), this research aimed to collect evidence systematically (e.g., archival records, interviews, official statistics, histories, or surveys), search for noticeable patterns in the evidence, and formulate theories to account for those patterns.

While EUSDR and GMS can be regarded as sub-regional projects through international rivers, they are different in their characters. The EUSDR was elaborated by the Council of the European Union in October 2009 in order to support a sub-regional process of 14 countries along the Danube Basin. Its objective is territorial development in focus on the improvement of transport; the protection of the environment (including the fight against pollution); the promotion of economic development, activities of culture and tourism; and the reinforcement of disaster management (for instance, flooding). Its strategic objectives are divided into four ‘pillars’ and eleven priority areas. Each priority area is managed by two responsible countries. (Hübner 2008). While the GMS was initiated in 1992 by the Asian Development Bank (ADB) as a program of sub-regional economic cooperation, designed to enhance economic relations of states along Mekong River namely Cambodia, Lao PDR, Myanmar, Thailand, Vietnam and the People’s Republic of China (Yunnan Province and Guangxi Autonomous Region). The six member countries endorsed eight priority sub-regional projects and initiatives: energy, environment, human resource development, transportation, telecommunications, tourism, trade and investment.

Moreover, it is worth pointing out that there exists a relationship between both sub-regions at the Asia-Europe Meeting (ASEM) Foreign Ministers’ Meeting held on 6–7 June 201. The ministers noted that large rivers like the Mekong in Asia and the Danube in Europe have common features because of their size, and as a consequence, their international character. They also emphasized that the Danube Region Strategy and the Greater Mekong Sub-region have important experience and knowledge to share, which would assist capacity-building, and help them face their common challenges and their destiny to collaborate to make the best of the vast economic and social potential of the river basins. As a result, gaining knowledge of cooperation in a comparative perspective will provide a deeper understanding of sub-regionalism in current international systems.

In order to compare these two cases precisely, it is better to understand the dynamic of sub-regionalism phenomenon from existing literature reviews, especially in empirical case studies in Europe and Southeast Asia.

2 Understanding Sub-regional Development

This research recognizes different levels of regional integration processes, like regional and sub-regional dynamics that need to be distinguished from each other. Bremner and Bailes (1998), Cottey (2009), Dangerfield (1999, 2016), Gänzle (2017)

and Cihelková and Hnát (2006: 53) claimed that sub-regional groups were first established simultaneously in Europe when the processes of eastern enlargement and geopolitical changes were provoked by the formation of regional integration especially in Central and Eastern Europe since 1989. Multilateral cross-border cooperation platforms already existed in the form of the so-called sub-regional initiatives that had proliferated in Europe, located around the north, east-central and south-east peripheries of the pre-2004 EU after 1989 (Dangerfield 2016: 25). Meanwhile, Dosch (2013: 36) and Bhattacharya (2015: 19) claimed that sub-regional cooperation has been awakened in Southeast Asia since 1989 when the new schools of regionalism in Asia started to focus on the sub-regional schemes, and their effects on economic integration below the national state level, e.g., cross-border economic zones.

Sub-regionalism is classified to be different from classic integration theories of regionalism (Carmen 2013: 26–28). Sub-regionalism tends to focus on a smaller scale and a lower level of issues. Breslin et al. (2002) and Cottey (2009: 4) adds that the term “sub”-region refers to geographical-political spaces which are sub-sets of a larger regional space. Similarly, Hook & Kearns (1999: 6) stated that sub-regionalism is a type of regional cooperation which does not fall into the ‘sui gelleris’ theory. For example, they used term of sub-regionalism to describe inter-state cross-border cooperation schemes, but sub-region has generally been defined as part of a region whether it involves more than one state or some border areas or as a constituent part of a regional project. Carmen (2013: 26–28) analyzed that sub-regional form goes downwards to specific region, e.g., Central Europe and local entities. Likewise, sub-regional structure has frequently been used to imply ‘low’ or ‘limited’ cooperation among regional integration process especially cooperation among Western European states engaged in a wider EU regional integration process. Similar to Inotai (1998: 27) stated that sub-regionalism to integrate within a broader region, rather than to achieve deeper integration within the area it delineates, a sub-region theoretically may exhibit all the characteristics of a region but to the subordinate character of a sub-regional formation vis-à-vis larger regional structure. Therefore, sub-regionalism in the first stage is characterized by the interactions as a geographic connotation between nodes (states or parts of states) that transcend national borders which take place within a broader hemispheric or continent-wide regional context (Mittelman 2001: 214). The term ‘sub-regionalism’ has been adopted in order to be distinguished from the higher levels of regionalism, like the EU, and also from the lower levels of sub-regionalism promoted at the national level and actors below the national level (Hook & Kearns 1999: 6).

In addition, the fundamental difference of both does not relate only geographical term or size but also the economic and political weight of their respective memberships. Ochieng’-Springer (2016: 41) also stated that after the 1990s, because of globalization and other related events including the collapse of the Soviet Union, countries have sought to manage their affairs more outward-looking from regional protectionism under the new conditions that is sub-regionalism. Jessop (2011: 12) also argued state attempts to continuously promote cooperation at global level in the context of structural differences of each state in order to maintain security and the economic survival of the states within international politics. As a result,

sub-regional forms of cooperation shared between a group of geographically adjacent states which in broader contexts of integration depends on the constellation of states working together and the internal balance among them (Bhattacharya 2015: 24). Whereas, at the end of Cold War, security issues of sub-regionalism involve a new range of transnational security concerns, such as transnational organized crime, drug trafficking, terrorism increasing flows of illegal migration and environmental degradation (Carmen 2013: 26).

Later, from early to late 2000s the eastward enlargement of the EU and the ending of the Yugoslav wars reshaped the dynamics of sub-regionalism. The structure of sub-regionalism began to involve multi-lateral, sub-regional cooperation for policy-making and implementation: national governments (e.g., foreign ministries and other ministries or other state bodies), non-state actors (businesses and civil society organizations) and international administrative bodies became involved (Cotter 2009: 11). Sub-regionalism might complement the role of the nation-state and non-state actors in promoting the success of participation in sub-regional projects (Bhattacharya 2015: 24). It can be said that sub-regional dynamic involves emphasizing from both top-down and bottom-up process such as sub-state level and civil society. Furthermore, sub-regionalism involves with external actors such regional institution in particular for financial support.

Consequently, sub-regionalism from the existing literature review above will be applied as a framework to compare sub-regional processes of between EUSDR and GMS as follow:

- a) Geographical indicators and cross border cooperation
- b) Economic development and non-traditional security
- c) Domestic actors both in state and non-state levels
- d) Loose institutional form and multilevel
- e) External actors

3 Comparative Sub-regional Development Between EUSDR and GMS

3.1 Geographical Indicators and Cross-Border Cooperation

As geographic proximity still remains a central element of any sub-region that has been formed in territorial spaces based on a significant geographic characteristic such as a natural physical border of river or sea (Manoli 2012: 19; Dangerfield 2016: 25). It can be seen that EUSDR and GMS represent an enlarged geographic area consisting of a number of different countries along the river, Danube River and Mekong River respectively. Moreover, Osborne (2000; 259) called Mekong that “River Danube of the Orient” as the longest international river in Asia. Similarly, both sub-regions have been extensively used to delineate groupings of states in the post-Cold War having a geographic connotation.

EUSDR can be defined as being constituted of the riparian states along Danube Basin including Austria, Bosnia-Herzegovina, Bulgaria, Croatia, Czech Republic, Germany (Bavaria and Baden-Württemberg), Hungary, Moldova, Montenegro, Romania, Serbia, Slovakia, Slovenia and Ukraine. The process of the Eastern Enlargement of EU focused on the geographical and political relations to the dominant EU integration can be shown. EUSDR can reveal the aspect of sub-regional integration on the periphery which often coheres with the process of enlargement and thus prepares a way for the enlargement process in some respects contemporarily. However, it is different from GMS; while the five states of GMS namely Myanmar, Laos, Thailand, Cambodia and Vietnam are member of ASEAN but China (Yunnan province and Guangxi Region) did not join ASEAN.

Besides, sub-regionalism can be defined as structured relationship between geographically adjacent entities to facilitate both inter-state and sub-state level cooperation when only Bavaria and Baden-Württemberg of Germany join EUSDR and only Yunnan province and Guangxi Region of China join GMS. Both EUSDR and GMS can represent sub-regionalism which reflected an intent of conceiving a group of states as a part of a region, and some part of state can join sub-region in target specific areas. Additionally, the contiguous areas have prior interactions with the sub-state level to promote a borderless environment. For instance, the Yunnan government sought Yunnan that is a landlocked area but shares borders with Southeast Asian countries. Therefore, the local government used the Mekong or Lancang in China as a gateway to the South China Sea and development of border trade with neighboring countries such as Myanmar, Thailand, Laos and Vietnam, and according to Chinese economic export-oriented policies.

Sub-regional cooperation in one area may spill-over into other areas, for instance EUSDR hopes economic principles to gain impact on the policy-making process in non-traditional security issues such as, transnational border control of migration and crime when Priority Area (hereafter PA) 11 aims to foster security and to fight serious and organized crime. Additionally, EUSDR aims to share and resolve problems together particularly in terms of environmental degradation. When one pillar of EUSDR focuses on environmental protection in the Danube Region by way of PA4 aims to Restore and safeguard the quality of the water in Danube, PA5 targets to manage environmental risks and PA6 attempts to preserve biodiversity, landscapes and the quality of air and soil of Danube.

Likewise, EUSDR and GMS similarly intend to focus on cross-border collaboration among member states in their natural boundaries of sub-regionalism such the river coinciding with national borders. It can be seen when EUSDR and GMS cover a portion of a country include sub-state actors as Germany includes Germany only Bavaria and Baden-Württemberg and GMS included only two provinces: Yunnan and Guangxi of China on cross-broader process in circumstance geographic proximity of Danube and Mekong.

However, geographical indication is not only an essential component to construct sub-regional integration. Sub-region is dominated by geo-economic and national

strategies through a strategic network of transnational and trans-local actors. Sub-region could be also built to aim for strengthening interdependence and developing networks to economic cooperation and non-traditional security.

3.2 Economic Cooperation and Non-traditional Security

Sub-regional integration of EUSDR and GMS are dominated by geo-economic priorities of state. For instance, EU cross border program and European Territorial Cooperation (ETC) funding are employed for EUSDR in order to forge alliances on connecting the Danube Region for infrastructure and innovative services; development corridors; development of rail, inland water way and maritime transport in PA1 in order to improve mobility and multi-modality in inland waterways, rail, road and air. Moreover, European Commission is involved with EUSDR as financial resource in order to implement joint cross-border and transnational strategies and development programs within member countries.

While in GMS, economic corridors strategy was adopted to improve and enhance investments, focused on infrastructure transport development. When road access is available, it will help to reduce poverty and bring economic prosperity to the area. Three major roads under economic corridors projects namely the East–West Economic Corridor (EWEC), the North–South Economic Corridor (NSEC) and the Southern Economic Corridor (SEC) brought an important issue for private businesses development in the Mekong River basin. The scope of those economic corridor projects is dominated by geo-economic factors by focusing more on supporting multi-sectoral investment, greater transfer of urban development to rural area, and supporting a unified development of the economic corridor concept. GMS is also claimed as a strategic network of transnational and trans-local actors to localized economic cooperation zones. Trade and cooperation agreements seem to be an important component of liberalize economic activity and to go for export promoting. In 2015, Special Economic Zones (SEZs) were initiated along the economic corridors. SEZs are aimed to offer a competitive business environment to support global supply chains for foreign direct investment's attraction.

From this point of view, we can see the difference of GMS from EUSDR, SEZs of GMS are involved with some states which are related to geographic commonality, as Mekong river, flowing through the specific areas that launch a program (non-treaty based) to enhance economic activity of subset areas of the states. It shows as sub-regional cooperation to expand flows of foreign direct investment in order to activate management and integrate corporate functions. As a result, the economically weak states like Cambodia Laos, Myanmar and Vietnam (CLMV) need to share increasing trade and investment in their immediate environment, practical economic cooperation in the most promising area for sub-regional development among them. Consequently, in order to employ the GMS to attract Foreign Direct Investment (FDI) to the sub-region, the member states need to increase sub-regional integration and spur social and economic development through collaborative efforts. The

FDI also attracted to increase employment opportunities and industrial development in the participating localities, through distribution of benefits that may not always be equitable across the GMS region. Furthermore, GMS member states especially CLMV states expected that participating in GMS might lead to the improvements and development of infrastructures such as roads, railways, airlines, bridge, ports, rivers transportation and power plants. As a result, local and sub-regional stakeholder as well as private business sector have supported sub-regional integration dynamic. The widening and deepening of GMS economic corridors through development and construction of SEZs intent to enhance capacity development and knowledge generation and management through competitiveness of border zones with respect to transforming transport corridors into economic corridors.

While member states in the EUSDR, poor states, in particular former Soviet Union states such as Bulgaria, Croatia, Romania and Serbia aimed to join this sub-regional economic cooperation because of benefit from the other rich member states from Germany and Austria. They do not aim at higher levels of economic integration, but they considered a pragmatic solution to increase trade among member states are highly interlinked in production networks especially infrastructure development and cross border economic activities in free trade specific agreements. Some also need industrial investment such as new car industries from Germany and Austria that invested in Romania and Croatia etc. Besides, new effort to promote non-traditional security concerns such as transnational organized crime, drug trafficking, terrorism and the ever-increasing flows of illegal migration were discussed in EUSDR tasks and goals. In addition, sub-regional cooperation in EUSDR was targeted to solve trans-border problems like border security e.g., environmental harms, migration and from 12 priority areas of the EUSDR are related to cross border cooperation in economic development education, transport, tourism, culture, science and technology, environment, organized crime and border management. For instance, the Austrian government is worried about the possibility of a huge immigration movement of workers from the Central and Eastern Europe towards Austria. It would be more helpful to support economic development within the lesser developed parts of the Danube region by direct investment. Austrian and German business sectors also provide business opportunities for investment and transfer knowledge and technology to poorer states especially SMEs for reducing a development gap and creating jobs in the areas. However, it is different from these two sub-region, in EUSDR, there are rich states like Germany and Austria that can provide financial support for business opportunities and transfer knowledge and technology to weaker states.

Whereas GMS, member states also promoted sub-regional cooperation with economic development as the primary goal, other dimensions such as the environment protection, tourism, or to support poverty reduction are indicated as concern factors. As GMS, main goals included transportation, telecommunication, energy, human resource, environment, trade, investment, tourism and agriculture. Nevertheless, most states in GMS need loans from ADB or private funding especially for infrastructure. GMS member states still need funding for infrastructure and investment.

Thus, it can be surmised that both EUSDR and GMS do not aim at higher levels of economic integration or trade bloc. Each member state considers a practical solution

in low politics that is linked in production networks especially infrastructure development and cross border economic activities including new efforts to promote non-traditional security concerns such as economy, culture, navigation and environment protection.

3.3 Domestic Actors in State and Non-state Level

It can be seen that sub-regionalism both in EUSDR and GMS are promoted by national and sub-national actors. Especially, EUSDR was supported by Austrian and Romanian national governments and Baden-Württemberg Provincial government to formulate at the EU level since 2009. Both Austria and Baden-Württemberg local government hope the EUSDR can serve as an instrument of monitoring and coordinating the co-operation between different countries, to support activities and policies which should benefit the whole Danube region. While GMS was supported strongly by ADB as private international bank. Then member countries agreed to the benefit of joining the GMS. Six member states especially CLMV aim the same goal to integrate in the sub-region in order to get financial and technical assistance from ADB and private donors. As all GMS member states are developing countries, their national interests need to survive in the context of the new world economy. They need to increase flows of labors, exchanges of technology and resources, and greater capitals by external trade and investment.

3.4 Loose Institutional Form with Multi-level Governance

Although, both EUSDR and GMS are primarily intergovernmental arrangements, they do not focus on absolute gains or formal institutionalized regional integration. Both of them aim to increase social and economic interdependence by a low level of institutionalization and to address specific challenges by a particular group of—usually—neighboring states. There are two ranges of administration. The High-Level Group of All Member States is for the international level and national coordinator is for the national level. Both sub-regions' work depend mainly on task of coordination. Two member states are assigned to get in charge of each coordinated policy field such as to launch ideas, support policy implementation, and provide technical assistance and advice. Annual Forums and state meetings (Submit) are arranged each year as supreme meeting. EUSDR is coordinated to meeting by the European Commission, and the non-member states should be invited as appropriate. But GMS Submit and forum are arranged by the GMS Secretariat (located in Manila, Philippines) that was established by ADB. Secondly, the national contact point is to facilitate and support the co-operation at the national level among the members.

In particular, EUSDR is based on EU macro-regional strategy that restrict? with the three “No” rules (no new EU legislation, no new EU institutions, no new EU funds).

EUSDR focuses on coordinating existing financial resources, a coherent implementation of existing regulations and legislation and on minimal formal structures by using the existing institutions for the benefit of the region. Even though, there is PA 10 that is involved with institutional capacity and cooperation. It is concerned for cooperation regarding public services in order to support institution and companies in project formulation and project financing. PA 10 aims to distribute information to member states particularly to let the governments facilitate financial policy efficiency especially members from Eastern Europe.

Moreover, the most important thing that make sub-regionalism different from regionalism is accumulation of bottom-up projects, led by non-state actors. It is shown obviously in EUSDR goal that civil society such as NGOs and local group of people play important role since the establishment. It bases on the process of cooperation between provincial states and civil society. EUSDR was initiated by Baden-Württemberg and Vienna provincial governments including working groups and civil society such as ARGE Donaulaender, the Council of Danube Cities and Regions etc. The EUSDR is established with a strong emphasis of local government of Baden-Württemberg and civil society such as ARGE Donaulaender as well as on the participation of civil society on cross border cooperation of Danube such as the Council of Danube Cities. It can be said that EUSDR sub-regionalism is involved with multilevel actors, and is designed for a bottom-up approach of macro-regional strategies involving national, regional and local actors. EUSDR sub-regional integration process underlines national systems, subnational authorities and international or transnational bodies, as well as civil society, administrative and corporate structures.

Whereas GMS was initiated by suggestion and support of international development bank like Asian Development Bank, but the central government of member states still mostly manage and control transnational cooperation. However, the states allow business sector to perform as only advisor and deliver some of agendas to government in order to negotiate at the sub-regional level. This point is totally different from EUSDR. There is no power of non-state actor involve with the sub-regional integration process. Except Yunnan and Guangxi provincial governments that are commissioned to sub-national responsibilities of trans-national control or natural borders. Nevertheless, the main national authority remains with central government in Beijing. Civil society actors in the GMS initiative hardly play any role in the sub-regional integration process or corporate structures. Not like other multilateral initiatives such as Mekong River Commission, there are many Civil Society Groups who are involved for long in the monitoring activities, even if they may not be powerful enough to stop the degradation of the Mekong Basin environment. Even though there are fewer formal schemes of institutionalization, GMS sub-regionalism is intergovernmental arrangements, controlled with the top-down process particularly by the national governments.

3.5 *External Dominant Actors*

The importance of sub-regionalism phenomenon in 1990s is dominated by external factors from international system or outsider. It can be specific states, international organizations or other regions. Both EUSDR and GMS are constrained by external actors since their establishment. However, EUSDR has depended on regional institution, GMS has been influenced by the international organization.

EU is still the center of EUSDR sub-regional process. The relationship between EU and EUSDR has still remained and got involved as the subordinate status to wider regionalism. EUSDR embedded in the case of EU cross border programs. Austria, Bulgaria, Croatia, Czech Republic, Germany (Bavaria and Baden-Württemberg), Hungary, Romania, Slovakia, Slovenia are also members of EU. The role of EU can be a driver of economic transformation of developing national economies especially through its financial support in developing states to candidate countries such as Montenegro and Serbia or. In addition, EU's neighboring policy was represented by a relatively strong tool in EU's external relations to Bosnia-Herzegovina, Moldova and Ukraine. The EU Commissioner for Regional Policy launched the Danube Strategy is not only aimed at fostering good neighborly relations in the region, but it should also consolidate the European integration process with the Western Balkan countries. Its objective is territorial development, and it is based on the experiences of the Baltic Sea Strategy, in which the EU proposed four objectives: environmentally sustainable development, welfare (i.e., prosperity), accessibility and attraction, and safety and security (Hübner 2008). These are clear indications that a sub-regional integration approach was selected, even though the EU prefers to use the term 'macro-regional'. The strategy's priority involved the following topics (Assembly of European Regions, 2009). It can be seen that EU are building effort between EU members and non-members. As it can include an 'integrative function' supporting EU aspirant members. And providing a framework to tackle transnational policy challenges; and finally, it supports economic, political, and institutional reform in participating states. As a consequence, EUSDR can be seen as a superstructure category, which broadens the study of main tendencies in EU integration.

It is obviously opposite to GMS whose member states just transformed the national productive structure from agricultural and primary to industrialized economies, while development policies were to be coordinated by centralized governance through coordination among governments and public authorities like Asian Development Bank (ADB). ADB has played a crucial role in GMS as financial donor and technical supporter. ADB continually facilitate to create and support the communication between member countries and stakeholders at both political and operational levels within the GMS area, consequently providing assistance in re-enforcing a sub-regional consultation process.

4 Conclusion

At the level of sub-regionalism between EUSDR and GMS, there are both similarities and differentiations. Both sub-regional mechanisms do not aim for political integration or trade bloc, but EUSDR rather focuses on the promotion of cooperation in low politics (economy, culture, navigation and environment protection, Invest in people and education. EUSDR emphasizes on increasing growth potential, in a way of the new growth strategy by digital economy, innovation and services for people. While GMS concentrates on improving sub-regional infrastructure such as road, rail, airport, power grid, expand trade and investment cooperation for FDI. Both, EUSDR and GMS highlights sub-regional cooperation on connection for mobility, trade and energy, but EUSDR put more efforts on environment protection and risk management with cooperation on non-traditional security issues e.g., organized crime, migration. The most important point of EUSDR is to connect people to people through culture and tourism. Whereas, GMS supports the flow of people, goods, and vehicles, infrastructure development for FDI. GMS attempts to improve tourism and disease control for business sector and FDI too. However, both sub-regions hope sub-regional cooperation in one area might spill-over into other areas For instance, economic cooperation may help to solve to conflict according to water management such as for the GMS, economic cooperation may trigger members to solve problem about water degradation and level of water between Upper and lower Mekong especially when they have annual meeting. While EUSDR is aimed EUSDR may improves the water quality of the rivers and apply wastewater treatment in Danube. The sub-region shared problems particularly in terms of environmental degradation which can only be resolved through substantial interdependence.

Although, members of EUSDR have the same political system that is democracy but there is a big economic gap between rich and poor states, while there are political-economic differences among the GMS members. The important driver of EUSDR's establishment is a combination of historical awareness of belonging and the prospect of local and regional economic benefits. Despite the fact of GMS is motivated for economic benefits only. In addition, the initiative for formation of EUSDR was introduced by internal factors such as Austria and sub-national level of Germany including with non-state actor such as civil society. On the contrary, the foundation of the GMS was introduced by financial organization like ADB. The highlight of application of EUSDR depends on legal security, transparency, democracy, market economy and general political stability. It is composed in its objectives that are based on four policy areas, 11 priority areas namely environmental protection, economic development, infrastructure improvement, develop research, education and information technologies Tourism, institutional capacity and cooperation in soft security e.g., organized crime, migration. It can be felt to Strong sense of EU Danube identity creation of the EUSDR as a new symbol of Europe to strengthening the unity of Europe in order to create a new fragmentation of sub-group. Opposing to GMS that emphasizes on trade and FDI from industrial states. Even though, GMS goals are covered to soft" and "hard areas of co-operations that are transportation, trade

and transportation facilitation, energy, agriculture, environmental protection, human resource development, tourism, Information and communication technology, health collaboration particular AIDS, urban development and illegal drugs. All objectives aim for FDI and economic cooperation. Member states remain in political instability and no awareness of democracy or transparency with state centric control.

It can be surmised that trying to compare sub-regional contexts of these two sub-regions should consider sub-regional factors and conditions in the context of the various sub-regions. As one sub-region does not fit to explain the phenomenon of complexity of other part of the world. In order to understand sub-regional phenomena, it should be examined other regions and learn to share similarities and differences as a lesson to each other.

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Chapter 28

The Belt and Road Initiative and China-Eastern European Relations: The Domestic Context in Chinese Foreign Policies Regarding the Hungary-Serbia Railway



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Abstract Since initiated in 2013, the Belt and Road Initiative (BRI) has been widely focused on and debated in the context of political science and international relations. Given the character of the rise of China, which remains one of the most profound factors in East Asia and the world, BRI has been strongly promoted by the Chinese government and officially supported by involved countries, though how this initiative could reshape international order in the twenty-first century remains debatable. This paper's central puzzle is exploring how China could influence the international relations through the BRI, in a domestic context related in foreign policies, by focusing on an empirical study of the BRI project in the Central Eastern European Countries (CEEC).

Keywords Belt and road initiative · China · Central Eastern Europe · East Asia

1 Introduction

Since initiated in 2013, the Belt and Road Initiative (BRI) has been widely focused on and debated in the context of political science and international relations. Given the character of the rise of China, which remains one of the most profound factors in East Asia and the world, BRI has been strongly promoted by the Chinese government and officially supported by involved countries, though how this initiative could reshape international order in the twenty-first century remains debatable. This paper's central puzzle is exploring how China could influence the international relations through the BRI, in a domestic context related in foreign policies, by focusing on an empirical study of the BRI project in the Central Eastern European Countries (CEEC).

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There have been intense discussions about this research question. In the recent research literature, Haba (2015) explores the significance and implications of global strategy of China, including AIIB, BRI and Silk Road Concept.¹ Liu (2020) is trying to construct a new theoretical approach for understanding the roles of China in the global order. Since its critically theoretical analysis for huge of study literature in this field, after reviewing ‘status quo’ and ‘revisionism’, the author formed approaches such as ‘Status Quo, Parallel Supplement, Nested Enhancement, Regime Shifting, Competitive Regime Creation, and Ideological Confrontation’, and gave certain implications and hints for testing them by presenting brief observation of the case of BRI, which in the author’s view, is the typical case for understanding the core research question: China and the global order.² Singh (2020) contributes to a large scale of analysis for theoretical implications, focusing on geopolitical perspectives, towards an understanding of the geopolitical significance of One Belt One Road (OBOR) in Central Asia, including analysis of contexts among major players such as Russia, US, and China.³ Pepermans (2020) is based on a perspective of International Political Economy (IPE), contributes to a critical review of knowledge in mercantilism, by researching China’s construction (CE) and railway equipment sector (RWE) in global scale, both domestic and international contexts of actors in IR such as multilateral enterprise and states.⁴ Given by the significance and implications of theories in International Relations, especially neorealist, institutional liberal, and realist neoclassical concept, and though comprehensive literature study focusing on global governance which those theories put assumptions, Ly (2020) gives a broad thinking for the “efficacy of the BRI in serving Beijing’s quest for leadership in global governance”. By providing facts of advocating FTAs, multilateral cooperation within current global governance regimes, multilateral financing structures, etc., Ly (2020)’s argument lays on a character of China “to achieve leadership insofar as it seeks to shift the structure of global governance in its favor”.⁵ With the implications of Neoclassical Realism, Clarke (2020) explores two aspects of BRI, the “Structural

¹ Kumiko Haba (2015), “Powershift, AIIB and Silk Road Concept, the collaboration between Europe and China (パワーシフトと、AIIB・シルクロード構想-欧州と中国の共同-”, translated by Shixin Du), *International Trade and Investment* (『国際貿易と投資』), translated by Shixin Du, No. 100.

² Lina Liu (2020), “Beyond the status quo and revisionism: An analysis of the role of China and the approaches of China’s Belt and Road Initiative (BRI) to the global order”, *Asian Journal of Political Science*, <https://doi.org/10.1080/02185377.2020.1837193>.

³ Singh A. (2020), “Brzezinski & Mackinder theories: Role and influence on the political construction of Eurasia”. *Vestnik of Saint Petersburg University. International Relations*, vol. 13, issue 4, pp. 527–535. <https://doi.org/10.21638/spbu06.2020.407>.

⁴ Astrid Pepermans (2020), “Economic Nationalism in all its variety: The case of China’s construction- and railway equipment industry”, *Journal of Contemporary China*, 29:123, 431–453, <https://doi.org/10.1080/10670564.2019.1645491>.

⁵ Bora Ly (2020), “China and global governance: Leadership through BRI”, *Cogent Social Sciences*, 6:1, 1,801,371, <https://doi.org/10.1080/23311886.2020.1801371>.

Drivers and Domestic Imperatives”.⁶ All of these arguments are informative and comprehensive in analyzing and crafting theoretical framework.

This paper initiates a counterpart of this discussion, by looking into the empirical facts of China-CEEC relations in BRI. China-CEEC relations is a typical case towards the understanding of China’s influence on the international relations. Pepermans (2018), in which the central puzzle is that how China can influence Central and Eastern Europe by economic and political initiatives of cooperation which could be analyzed as a soft power, focuses on the framework of the BRI-17 + 1⁷, by providing several typical cases such as the Belgrade-Budapest high speed railway link and Bar-Bolyari Highway between Montenegro and China, to conclude with ‘creating a balanced trade relationship, involving cheap money, and resulting into a fruitful win–win cooperation’ of China’s approach to certain area.⁸ And in Tsuchida (2019), the motorway project in Montenegro, Bar-Boljare highway is analyzed particularly for understanding China EU relations in the CEEC area.⁹ Furthermore, in the light of the theoretical implications discussed above, China-CEEC relations could be either an initiative for enchanting the international system, as Ly (2020) and Liu (2020) argue, or it could be as Singh (2020) and Clarke (2020)’s implications for Chinese geographic focuses and inner legitimacy building consequence. It is now obviously leading to an enthusiastic discussion regarding China and CEEC.

This paper provides a domestic perspective for understanding China-CEEC relations in BRI, in the light of the assumption that the role of national actors in China can be significant in the regional cooperation (Fukuyama, 2016).¹⁰ Through the case study of Hungary-Serbia Railway, this paper explores the significance of multi-domestic actors for observing China and international relations from a domestic context.

Moreover, though the speech for ‘OBOR’ given by Xi Jinping was originally proposed in Central Asia and South East Asia, this paper argues that, China and CEEC relations remains one of the most important aspects for understanding the origin of BRI, and BRI was motivated by the cooperation with CEEC relations. In this meaning, an analysis of the CEEC area has a possibility to enlarge the scale

⁶ Michael Clarke (2020), “Beijing’s pivot west: The convergence of innenpolitik and aussenpolitik on China’s ‘belt and road’?”, *Journal of Contemporary China*, 29:123, 336–353, <https://doi.org/10.1080/10670564.2019.1645485>.

⁷ About the 16(17) + 1, refer the next section, ‘The Origin of BRI and the Central Eastern Europe Countries (CEEC)’.

⁸ Astrid Pepermans (2018), “China’s 16 + 1 and Belt and Road Initiative in Central and Eastern Europe: Economic and political influence at a cheap price”, *Journal of Contemporary Central and Eastern Europe*, 26: 2–3, 181–203, <https://doi.org/10.1080/25739638.2018.1515862>.

⁹ Tsuchida (2019), “The Belt and Road Initiative & Central Eastern Europe: The Case Study of Highway Project in Montenegro”, *Russian and East European Studies*, No. 48, 2019, 41–54, <https://doi.org/10.5823/jarees.2019.41>.

¹⁰ Francis Fukuyama (2016), “One belt, one road: exporting the Chinese model to Eurasia”, Stanford Public Policy Program, <https://publicpolicy.stanford.edu/news/one-belt-one-road-exporting-chinese-model-eurasia>, accessed on 24th Feb, 2021. Peter Cai (2017), “Understanding China’s Belt and Road Initiative”, Lowy Institute for International Policy, <https://www.lowyinstitute.org/publications/understanding-belt-and-road-initiative>, accessed on 24th Feb, 2021.

of the picture of the real characters of BRI, for understanding China's approach to international order.

This paper firstly describes the 17 + 1 mechanism of China and the CEEC area. Then, it introduces the case of the Hungary-Serbia Railway, one of the significant cases of BRI in the CEE, to clarify the role of current characters of China CEEC cooperation. Finally, it concludes the empirical character of BRI, that instead of a liberal cooperation, and the mutual state-centered cooperation is the basic character of the cooperation CEEC and China. Chinese foreign policy towards CEEC has been an extension of complex Chinese domestic policy as well, and it is still under discussion whether the narrative of "Win-Win" cooperation could craft a new international order.

This paper takes advantage of the official documents from the government of China, the government of Serbia and the government of Hungary, and a basic picture of the major actors enrolled in the BRI can be observed. Despite a lack of further and deeper information of current events, it is conceivable that this paper can give a general initiative for the further study of BRI and China's impact on international order.

2 The Origin of BRI and the Central Eastern Europe Countries (CEEC)

The symbol of beginning of One Belt One Road (OBOR), or Belt and Road Initiative (BRI), both known as *Yi Dai Yi Lu* ("一带一路", in Chinese) is widely mentioned as President Xi Jinping's speeches in Central and South East Asia, in 2013, which indicated China's initiative in global regional cooperation, and the official document for BRI, *Vision and Actions on Jointly Building Silk Road Economic Belt and twenty-first-Century Maritime Silk Road*, which was issued by the Ministry of Foreign Affairs and the Ministry of Commerce of China in 2015.¹¹ In this sense, it seems the starting of BRI had less relations with CEEC area. However, focusing on the relations between CEEC and China, before 2013, it is conceivable that China CEEC relations was a significant factor of the emerging of BRI.

Historically, especially since the end of WW II, CEEC have established relationships with China. After the establishment of PRC, CEEC, on the influence of the Soviet Union, became the first group of countries which recognized the diplomatic status of PRC and had cooperation with China during the Cold War era. In the 1980s, China sent delegations to Hungary to learn the market economy mechanism.¹² From 1990s to twenty-first century, China generally insisted the opening policy from Deng Xiaoping's era and achieved rapid economic growth, while in 2004, the enlargement

¹¹ http://www.xinhuanet.com/world/2015-03/28/c_1114793986.htm, viewed Feb 28th, 2021.

¹² *New Historical Documents, Sino-Soviet-Eastern European relations (Xin Shi Liao, Xin Faxian: Zhong Guo Yu Su Dong Guan XI)* China Social Academy, Edited by Hu Lifu, Vámos Péter, Li Rui, 2014.



Fig. 1 16 + 1 Format (Source 16 + 1 Format, the European Council on Foreign Relations [ECFR])

of EU allows CEEC countries to become EU member states. It is conceived that these two factors granted both an opportunity to cooperate with each other in a further global context, and in 2012, the first 16 + 1 meeting was held in Poland, which started the mechanism of the current China-CEEC cooperation.

The 16 + 1 China CEEC Cooperation meeting was firstly held in 2012 in Warsaw, Poland; in that year Xi Jinping was elected as the General Secretary (the fifth generation of leadership of the Communist Party of China, CPC). The meeting then began to be held once a year. In 2013, the 16 + 1 meeting was held in Bucharest, Romania, in which year that Xi Jinping made his speeches in Asia to announce the initiative of BRI. In 2015, the 16 + 1 meeting was held in Suzhou, China, when the official document of BRI was issued by Ministry of Foreign Affairs and Ministry of Commerce. And in 2015, the leaders of Hungary (Orban), Serbia (Vucl), and China (Li) signed the railway construction cooperation between Budapest and Belgrade. In 2019, Greece became the member of the Format, and 16 + 1 format (Fig. 1)

become 17 + 1.¹³ It is conceived that before the announcement of BRI in 2013 and 2015, China CEEC cooperation was already on track and became the foundation of the format of China CEEC regional cooperation, as a part of “One Belt” in BRI. In this sense, the China CEEC cooperation remains one of the motivating factors of the emerging of BRI, and then, along with the official announcement, it has been developed, with intensive diplomatic and economic cooperation, becoming one of the most important phrases of the regional cooperation mechanisms within BRI.

3 Hungary-Serbia Railway

Motivated by China CEEC relations, what has been the consequence of China CEEC mechanisms since 2012 and how can its implications be understood? For these questions, analyzing the project case of BRI in China CEEC relations is necessary, and this paper focuses on the Hungary-Serbia Railway, one of the most significant cases in the sense that domestic sectors play a profound role in BRI.¹⁴ This railway project is a result of the 16 + 1 format and supported by three main participants in the regional cooperation: China, Serbia, and Hungary.

The project of the Hungary-Serbia Railway was signed by the leaders of Hungary, Serbia, and China in 2015.¹⁵ It is said that the length of the railway will be 260 km, and the top speed will be 200 km per hour (160 km per hour, by Hungarian media), and it will shorten the time between Belgrade and Budapest from 8 to 3 h.¹⁶ The whole project is supposed to finish in 2023. The project is motivated by several national actors in China, including National Development and Reform Commission of China (NDRC), China State Railway Group Co., Ltd. (China Railway) with the cooperation from the government of Serbia and Hungary, and related to the policies of European Union (EU).

4 National Development and Reform Commission of China (NDRC)

Among a number of actors who participate in the train project, one of the most important is the National Development and Reform Commission (NDRC) of China.

¹³ <http://www.china-ceec.org/eng/>, viewed Feb 28, 2021.

¹⁴ For the significance of this project from an economic analysis, see Samuel Rogers (2019), China, Hungary, and the Belgrade-Budapest Railway Upgrade: New Politically-Induced Dimensions of FDI and the Trajectory of Hungarian Economic Development, *Journal of East-West Business*, 25: 7, 84–106, <https://doi.org/10.1080/10669868.2018.1561589>.

¹⁵ National Development and Reform Commission, https://www.ndrc.gov.cn/fzggw/jgsj/gjs/sjdt/201511/t20151125_1106321.html, viewed Feb 28th, 2021.

¹⁶ National Development and Reform Commission, https://www.ndrc.gov.cn/xwdt/xwfb/201512/t20151224_955866.html, viewed Feb 28th, 2021.

National Development and Reform Commission (usually called *Fa Gai Wei* in Chinese), is a directly led by the State Council (Guo Wu Yuan), and its most important function is national economic growth and plans, rather than foreign policy or foreign investment.¹⁷ The central role of NDRC in the railway project and the function of NDRC in China, indicates that the goal of railway project has a strong domestic context.

NDRC remains the center of the Hungary-Serbia Railway project. Before 24th November 2015, when the leaders of Serbia, Hungary and China signed the official document on the railway project in the 16 + 1 meetings, January of 2015, the deputy director of NDRC, along with the Ministry of Foreign Affairs, the Ministry of Finance, China Railway, visited Hungary. And Export-Import Bank of China, visited Hungary, Serbia, and Macedonia for the preparation of the Hungary-Serbia Railway project. The director of NDRC is the presenter of China who signed the contract with the Hungarian government on the witness of the leaders of Hungary, Serbia, and China in the 16 + 1 meeting in 2015.¹⁸ And in December, when the project starting ceremony was held in Novi Sad, Serbia, the deputy director of NDRC presented himself in the ceremony and read the congratulating letter from the prime minister of China, Li Keqiang.¹⁹

The primary motivation for NDRC to promote the railway project is related to the policy of “Railway Going Out Strategy” (*Tie Lu Zou Chu Qu*). The Railway Going Out Strategy is a grand strategy of Chinese infrastructure, which contains not only the Hungary-Serbia Railway, but also the Jakarta-Bandung High-Speed Railway in Indonesia, Chinese-Laos Railway, Chinese-Thailand Railway as well, all of which promote the building of infrastructure connection in the peripheral countries of China.²⁰

The Railway Going Out Strategy led by NDRC indicates the significance of railway project in China’s national economy. According to NDRC’s document, by the year 2015, the length of China’s railway had achieved 121 thousand kilometers, and the high-speed train had achieved 191 thousand kilometers, which remains 60% of the world’s high-speed train length. It is conceivable that the success of China’s domestic railway is the motivation of the Railway Going Out policy.²¹

¹⁷ National Development and Reform Commission, <https://www.ndrc.gov.cn/fzggw/bnpz/>, viewed Jan 20th, 2021.

¹⁸ National Development and Reform Commission, https://www.ndrc.gov.cn/fzggw/jgsj/gjs/sjdt/201511/t20151125_1106321.html, viewed Jan 20th, 2021.

¹⁹ National Development and Reform Commission, https://www.ndrc.gov.cn/xwdt/xwfb/201512/t20151224_955866.html, viewed Feb 28th, 2021.

²⁰ National Development and Reform Commission, https://www.ndrc.gov.cn/xwdt/xwfb/201602/t20160214_955410.html, viewed Jan 20th, 2021.

²¹ National Development and Reform Commission, https://www.ndrc.gov.cn/xwdt/xwfb/201607/t20160705_955571.html, viewed Jan 20th, 2021.

5 China State Railway Group Co., Ltd. (China Railway)

While NDRC is a governmental agency which takes the responsibility of the going out policy of China's railway project, the main actor (state-owned company) which is involved in the railway construction is the China State Railway Group., Ltd. (China Railway).

In 2013, the Ministry of Railway was abolished, and China Railway Agency was established to take the administrative responsibility of formal Ministry of China, while a corporation was established at the same time to continue the corporate responsibility of the formal Ministry of China.²² In 2019, China State Railway Group Co., Ltd. (China Railway) was established, as “a solely state-owned enterprise under the management of the central government, established in accordance with the approval of the State Council and the Company Law of the People's Republic of China”.²³ From 2015, the beginning of the construction of Hungary-Serbia Railway, China Railway remains one of the main actors taking responsibility for the railway construction.

China Railway takes on both domestic and international railway projects. Currently, China Railway has undertaken five overseas projects: Pakistan Lahore Orange Line Rail Transit Project, China-Thailand Railway Cooperation Project, Hungary-Serbia Railway Project, China-Lao Railway Project, Jakarta-Bandung HSR Project in Indonesia, and Hungary-Serbia Railway. According to the official documents of China Railway, China Railway must implement the national strategy of BRI and “going out”, to achieve the goal of “Railway Going Out”.

6 The Government of Serbia and the Government of Hungary

The government of Serbia supported the project of Hungary-Serbia Railway and is motivated to build a close relationship with China, primarily because the China's railway project can benefit Serbia so that Serbia can connect to European countries more conveniently. In September 2019, President Vucic attended a ceremony marking the 70th anniversary of the founding of China, and he said, “he is proud that Serbia is a significant link in the implementation of the One Belt, One Road project”, and he also said, “China has no partner that is more reliable than Serbia, or a friend that is more sincere²⁴”.

²² The Beijing News, http://epaper.bjnews.com.cn/html/2013-03/11/content_416789.htm?div=-1, viewed Feb 28th, 2021.

²³ The Government of PRC, http://www.gov.cn/xinwen/2019-06/18/content_5401248.htm, viewed Feb 28th, 2021. China Railway, <http://www.china-railway.com.cn/english/about/aboutUs/>, viewed Feb 28th, 2021.

²⁴ The Government of the Republic of Serbia, <https://www.srbija.gov.rs/vest/en/145452/serbia-most-reliable-partner-most-sincere-friend-of-china.php>, viewed Jan 20th, 2021.

In the following month, October of 2019, when the first cargo train from China arrived in Serbia, President Vucic attended the ceremony and said his idea is “to criss-cross and cover Serbia with all the modern communications, roads, railways, internet, and that thus Serbia joins in the developed economies which would solve infrastructural issues”. He also said that the railway project “will be a perfect connection with Europe”, and “Serbia is not a stop-by station for the Chinese trains anymore, but rather a destination²⁵”.

Familiar with the government of Serbia, the Government of Hungary strongly supports BRI and the relations between China and Hungary. In September 2019, Peter Szijato, the Minister of Foreign Affairs and Trade held talks with Wang Yi, member of the State Council of China and Foreign Minister, and emphasized in a joint press conference: “Hungarian-Chinese political, economic, trade and cultural relations are exceptionally good”. He said China is the number one trade partner outside the EU and “Chinese companies continue to view Hungary as an attractive investment destination, and their investments are bringing new technologies to Hungary with which they are greatly facilitating the Hungarian economy in the success of its dimensional transition”, as well he recalled that Hungary “was the first EU member state to join the bilateral agreement linked to the One Belt, One Road strategy, and we regard the initiative as “the foundation for new Eurasian cooperation”.²⁶ In the subsequent meeting, the minister also explained the contract on the Hungary Serbia railway is being realized with Chinese loan assistance.²⁷

The railway construction has been recognized as “one of the Central and Eastern European region’s most important infrastructure projects,” and the contract of the project in Hungary is signed and the implementation will be taken with the approval of the credit contract entered with China Exim Bank where 85% will be supplied (the remaining 15% will be supplied by the Hungarian state own resources).²⁸

²⁵ The President of the republic of Serbia, <https://www.predsednik.rs/en/press-center/news/presid-ent-vucic-attends-the-arrival-of-the-first-cargo-train-from-china-to-serbia>, viewed Jan 20th, 2021.

²⁶ The Government of Hungary, <https://www.kormany.hu/en/ministry-of-foreign-affairs-and-trade/news/hungarian-chinese-relations-have-never-been-as-good-as-they-are-today-> viewed Mar 12th, 2020.

²⁷ The Government of Hungary, <https://www.kormany.hu/en/ministry-of-foreign-affairs-and-trade/news/loan-agreement-negotiations-with-china-concerning-the-construction-of-the-budapest-bel-grade-railway-line-to-be-accelerated>, viewed Mar 12th, 2020.

²⁸ The Government of Hungary, <https://www.kormany.hu/en/ministry-for-national-economy/news/construction-of-budapest-belgrade-railway-line-could-begin-soon>, viewed Mar 12th, 2020.

7 The perspective of EU

From 2017, when China became the largest EU import country, expecting cooperation between Trans-European Transport Network (TEN-T)²⁹ and BRI, along with European Investment Fund (EIF) and Silk Road Fund (SRF), was focused.

The cooperation between Trans-European Transport Network (TEN-T, Fig. 2) and BRI was initiated by NDRC, interacting with the European Commission (Directorate-General for Mobility and Transport, DG MOVE)³⁰ to improve transport connectivity, and a Connectivity Platform in 2015 was established.³¹ Silk Road Fund (SRF), founded with multi-national actors investment from State Administration of Foreign Exchange, China Investment Corporation, China Development Bank and Export-Import Bank of China, is to provide investment and financing support for trade and economic cooperation and connectivity under BRI.³² SRF and European Investment Fund (EIF), which is a part of the European Investment Bank Group (EIB), with the central mission to provide finance to benefit small and medium-sized enterprises (SME) across Europe³³ signed a Memorandum of Understanding in 2017, aiming at facilitating a co-investment framework, in the presence of Premier Li Keqiang, President of the European Commission Jean-Claude Juncker and President of the European Council Donald Tusk.³⁴ Figure 3 is shows trends in EU and trains between China and Europe, and it is conceived that trains have increased sharply from 2014.

Nevertheless, the start of Hungary-Serbia Railway was from Serbia side in 2015, while in 2020, it is conceived that the project in Hungary side was eventually launched.³⁵ The reason is assumed by the concerns from EU, about ‘the transparency, non-discrimination and equal treatment, including for foreign companies, that are applied in the EU’.³⁶ Moreover, the critiques of this BRI project are ongoing. As

²⁹ European Commission, https://ec.europa.eu/transport/themes/infrastructure/ten-t_en, viewed Jan 19th, 2021. EU has been involved into several regional cooperation towards building infrastructure connectivity in Europe. For this point, Ngampramuan (2019) contributes an analysis of Sub-Regionalism in the EU Strategy for Danube Region, referring Soavapa Ngampramuan (2019) “Comparative Sub-Regionalism: Investigating Sub-regional Processes in the EU Strategy for the Danube Region and the Greater Mekong Sub-Region”, *Asia-Pacific Journal of EU Studies Vol. 17 No. 2*.

³⁰ European Commission, https://knowledge4policy.ec.europa.eu/organisation/dg-move-dg-mobility-transport_en, viewed Jan 19, 2021.

³¹ European Commission, https://ec.europa.eu/transport/themes/international/eu-china-connectivity-platform_en, viewed Feb 29th, 2021.

³² Silk Road Fund, <http://www.silkroadfund.com.cn/enweb/23775/23767/index.html>, viewed Jan 19th, 2021.

³³ European Investment Bank, https://www.eif.org/who_we_are/index.htm, viewed Jan 19th, 2021.

³⁴ European Investment Bank, https://www.eif.org/what_we_do/equity/news/2017/eib_silk_road_fund_initiative.htm, viewed Feb 28th, 2021.

³⁵ <https://www.reuters.com/article/hungary-china-railway-law/hungary-classifies-budapest-belgrade-chinese-rail-project-idUSL8N2D14V2>, https://www.ndrc.gov.cn/fggz/lywzjw/jwtz/202005/t20200521_1228543.html, viewed Jan 19th, 2021.

³⁶ Delegation of the European Union to China, https://eeas.europa.eu/delegations/china/21594/reply-eu-delegation-china-recent-media-reports-related-belgrade-budapest-railway-project_en, viewed Jan 19th, 2021.



Fig. 2 The Trans-European Transport Network (TEN-T) (Source Trans-European Transport Network, European Commission³⁷)

Zoltan indicates, “the Hungarian section will cost 750 billion forints” (roughly \$3 billion). Of this, 85% will be financed by Chinese loans, with interest between 132 and 200 billion forints (\$500 and \$800 million) and 15% by the Hungarian government. Potentially, then, the whole project will cost around 950 billion forints (\$3.7 billion). “Is it beneficial for Hungary to construct this railway with Chinese help? It seems that the project is more ideal for China than for Hungary.”³⁸ Even some scholars from China indicate the risk of the BRI project, though the government of Serbia, Hungary, and China support the BRI project as well as a majority of Chinese scholars³⁹ However, these points can be complex, while some studies focus on the larger picture of geo-political effect of the project indicating that “The Hungary-Serbia Train Project in the cooperation of China-Central Eastern Europe, is precisely the important project of pan-European Communication Corridor and also one of the ten projects which motivate the whole of Europe from west to east, and from south

³⁷ European Commission, https://ec.europa.eu/transport/themes/infrastructure/ten-t_en, viewed Jan 19th, 2021.

³⁸ Zoltán Vörös, “Who Benefits from the Chinese-Built Hungary-Serbia Railway?”, <https://the-diplomat.com/2018/01/who-benefits-from-the-chinese-built-hungary-serbia-railway/>, viewed Jan 20th, 2021.

³⁹ Shixin Du (2018), “The Regionalism of Europe and Asia: Will OBOR be a solution?” *Aoyama Journal of International Studies* (5), 179–190, 2018.

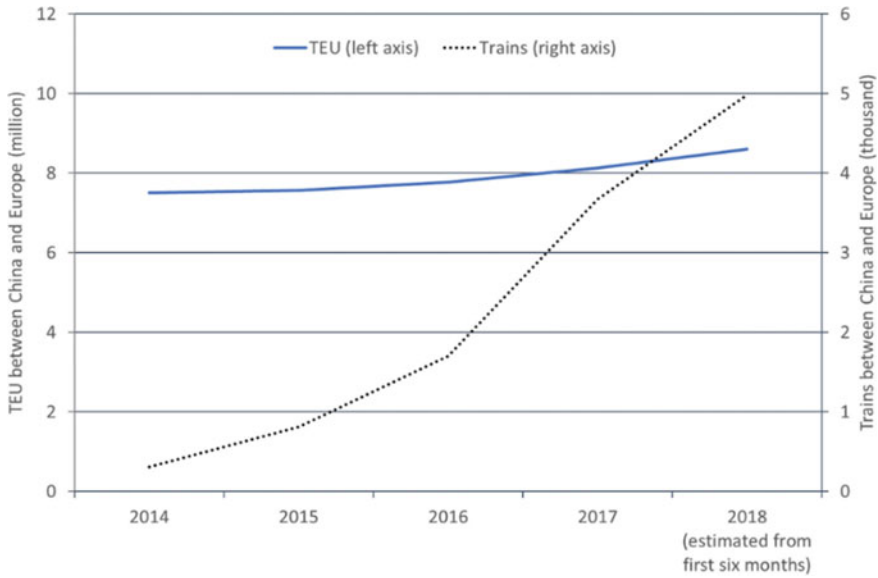


Fig. 3 Trends in TEU and trains between China and Europe (Source Dunmore [2019]⁴¹)

to north.”⁴⁰ Remaining debatable, China CEEC cooperation will still be one of the hot spots for exploring the nature of BRI and China’s influence to the global world.

8 Conclusion

This paper analyzed China CEEC cooperation in the framework of 17 + 1 Format, BRI, focusing current connectivity cooperation. From 1990s to the twenty-first-century, the rapid economic growth of China and the enlargement of EU provide great opportunities for China and CEEC, and since 2012 the establishment of the 16 (17) + 1 Format accelerated infrastructure connectivity constructions in China CEEC cooperation. The typical case provided in this paper is the Hungary Serbia Railway project, involving Hungary, Serbia, and China. By analyzing the actors enrolled into the project, such as National Development and Reform Commission (NDRC) of China and China Railway, which played a profound role in the railway construction, it is conceived that the domestic development context remains the motivation of the regional cooperation between China and CEEC.

⁴⁰ Liu, Zuokui (2017), “Europe and the initiative of OBOR”, OBOR Cooperation and Win-Win, edited by WANG Lei and WANG Liqiang, 2017.

⁴¹ ‘The “Belt and Road Initiative”: impacts on TEN-T and on the European transport system, Dick Dunmore, Alberto Preti & Clémence Routaboul’, *Journal of Shipping and Trade* volume 4, Article number: 10 (2019).

The project is supported by the governments of Serbia and Hungary, mainly for the reason of developing connectivity in Europe, and EU also welcomed Chinese regional cooperation with BRI, including the cooperation between Trans-European Transport Network (TEN-T) policy of EU and European Investment Fund (EIF) and National Development and Reform Commission (NDRC) of China and Silk Road Fund (SRF). The increase of trains connections between China and Europe in recent years indicated the further trade opportunity in the regional cooperation. Nevertheless, the agenda between EU states and non-EU states remain different, and it is assumed that the concerns and critique about the transparency and equal treatment, as discussed in the section of ‘The perspective of EU’, could be the reason and one of the challenges of China CEEC cooperation.

The findings of this paper above could help to explain the current characters and situations of both China CEEC cooperation and BRI. First, as well as the BRI being recognized as one of the significant foreign policies of China, the main actors in railway project, especially NDRC and China Railway indicate foreign policies regarding BRI are also can be explained as an enlargement of Chinese domestic development policy context. The success of high-speed trains in China motivates the Chinese government to introduce the railway project business as a foreign policy such as “Railway Going Out.” In this sense, the behaviors of China as either a geographic or a revisionist power while being discussed, have been enclosed by a domestic context, which could develop further discussion about China and international order.

Regarding the central puzzle, “how China could influence the international relations through the BRI”, if one expects this regional cooperation to lead to governance that is beyond sovereignty in the future, the answer of this paper is that point is not clear yet. Though 17 + 1 has provided a platform for China CEEC cooperation, as findings of this paper have shown, it remains the role of state (government)-centered, and it is still not clear how far institutionalization and norm constructure can reach yet. Nevertheless, especially from EU perspective, since China remains EU’s second largest trading partner and EU remains China’s biggest trading partner, it could be a strong motivation for both EU and China to cooperate further in China European relations, which could be expected to benefit CEEC, as the corridor between EU and China eventually.

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Chapter 29

Demand of Regional Cooperation in the New World Order: Case Study of France and Germany Towards the EU Formation, Focusing on Energy Security & Sustainable Development



Akanksha Singh

Abstract The twenty-first century has witnessed the most significant wave of globalization in history. Predominantly breakthrough of the internet (digital globalization) has made this world a global village in reality. On the contrary, due to the increasing trend of nationalism worldwide, nations are developing rather conservative approaches despite becoming more liberal and open to others. In this scenario, the significance of regional cooperation and integration among states increases manifold to maintain a rules-based international order, promote the rule of law, and peaceful resolution of disputes in the international community. This paper examines that how after an era of hate and suspicion during the two World Wars, countries reconciled for the common cause. Consequently, this paper analyses Franco-German reconciliation as a paradigm for present-day leaderships to cooperate and tackle global problems such as climate change, terrorism, nuclear threats, and poverty. This paper mainly outlooks energy as one of the essential cornerstones of European integration. Being the significant element of world order, energy has materialized as the most persuasive tool in global geopolitics. It has gradually been instrumental in designing world politics and international relations. Through this paper, author aims to foster regional cooperation in the current international order via the tool of energy security.

Keywords Globalization · Franco-German reconciliation · Energy policy in Europe · Regional cooperation

1 Introduction

The twenty-first century has witnessed the most significant wave of globalization in history. Predominantly breakthrough of the internet (digital globalization) has made this world a global village in reality. On the contrary, due to the increasing trend of nationalism worldwide, nations are developing rather conservative approaches

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despite becoming more liberal and open to others. According to the Japan Institute of International Affairs (JIIA) Strategic Annual Report 2019, “liberal international order” developed in the post-World War II era may end due to the lack of interest in multilateralism. Thus, the significance of regional cooperation and integration among states increases manifold to maintain a rules-based international order and promote the rule of law and peaceful resolution of disputes in the international community. This paper examines that how after an era of much hate and suspicion towards each other during the two World Wars, countries reconciled for the common cause. Consequently, this paper analyses Franco-German reconciliation as a paradigm for present-day leaderships to cooperate and tackle global problems such as climate change, terrorism, nuclear threats, and poverty.

This paper mainly outlooks energy as one of the essential cornerstones of European integration. Being the significant element of world order, energy has materialized as the most persuasive tool in global geopolitics. It has gradually been instrumental in designing world politics and international relations. Under the “Schuman Declaration” France and Germany agreed to pool their coal and steel resources under the cooperative framework, resulting in the European Coal and Steel Community (ECSC) formation, making the European integration process practically feasible. Therefore, through this paper, author aims to foster regional cooperation in the current international order via the tool of energy security.

Regional cooperation and integration are processes through which countries can achieve national interest in collaboration with each other (ADB 2013). Well-integrated markets are more secure to economic shocks and tend to avail more investment in high risk and high return assets since there is an opportunity to diversify and share the risk (Obstfeld 1994; ADB 2013). With deeper connectivity and balance in resource distribution across the region, the integration process stimulates economic growth, consequently increasing employment opportunities. However, benefit distribution is an essential element that needs to be considered to foster future integration (ADB 2013). The process of regionalization and globalization in the present era are so intimately intertwined overlapping one another, hence making the contemporary regionalism of the twenty-first Century fundamentally different from the regional cooperation and integration, which developed in the post-world war phase in the twenty Century (Soderbaum and Hettne 2006).

Classical regional integration theories between the 1950s and 1960s focused mainly upon European integration. It was the time when regional cooperation under the influence of national interest was determined by the governments (Soderbaum and Hettne 2006). Thus, a lesson, which can be learned from the European experience is-the need to lay an early institutional foundation for financial policy cumulation. Due to its strong focus on the role of institutions in Europe’s own integration process and the importance of institutionalized interregional relations, the European regional integration model represents a potential world order (ibid).

2 Franco-German Reconciliation

France and Germany are the two largest economies of the European Union (EU), with leading positions in the European politics. During World War II, French, on one hand, was an allied power, and on the other hand, Germany was a vital axis power; at the end of the war, France emerged victorious, and Germany, with defeat became even more isolated (Sudholter 2014). War left economies with the problem of reconstruction, at that time Coal and Steel emerged as the critical sector of the economy, whether it was day to day commodity, or the refined products for military expansion coal and steel was the centre of all industries, thus it became essential for each state to acquire and exploit these mineral reserves in order to grow their economy.

For a very long time, the Ruhr basin situated in France and the German border had been an area of conflict between them. Ruhr was the primary mining field supporting the heavy industries, and traditionally, it was considered as Germany's armory (Piodi 2010). After World War II, allies placed this critical territory which was the backbone of the Germany's most established steel industry, on the underside of the exclusive International Authority for the Ruhr (IAR) which was responsible for managing regulation and distribution of coal and steel production between domestic consumption and exports (ibid).

In the post-WW II period, the Schuman Declaration was the first and the most significant breakthrough towards Franco-German reconciliation (Hitchcock 1998; Gillingham 2004). Schuman Declaration on 9 May 1950 proposed that "Franco-German production of coal and steel as a whole be placed under a common High Authority, within the framework of an organization open to the participation of the other countries of Europe", in order to set up a common foundation for economic development of European states. Schuman viewed that in order to make war "not merely unthinkable but materially impossible between France and Germany", it was essential to setup up a production unit in consensus with both states with basic element of industrial production on the same term. There was fear that Germany may misuse its dominant position in the market and prevent other European states from rebuilding their industries. Thus, the European Coal and Steel community (ECSC) was proposed to avoid German sovereign control of over coal reserves of Ruhr Basin and steel industry (Milward 1984; Alter & Steinberg 2006). The plan intended to setup a single European market for "community development" of coal and steel where raw material consumers would be approved free access to production sources (Sethur 1952). Under the "Schuman Declaration" France and Germany agreed to pool their coal and steel resources under cooperative framework, resulting in the formation of European Coal and Steel Community (ECSC) making the European integration process practically feasible.

Political will, personal connections and ceremonial events have been pivotal in fostering Franco-German reconciliation (Krotz and Schild 2013; Druol 2017). It happened after that personal invitation, when French president Charles De Gaulle

invited his German counterpart to his personal family home in Colombey-les-deux-Eglises in Eastern France instead of the Elysee Palace in Paris making German chancellor only leader to visit French president's family home. It was under this intimate setting when De Gaulle conveyed his intentions to end the old age hostilities between the two countries. Moreover, there was time to start relationship based on mutual trust, respect and understanding to foster this bilateral relationship (Druol 2017). This personal entente between both leaders led to the signing of the Elysee Treaty on January 22 in 1963 to establish a new level of cooperation between France and Germany with idea of lasting friendship between the two former rivals (ibid).

3 Regional Cooperation and Integration: Need of the Hour

The formation of European Union has set up a unique level of economic and political integration and an example for others to learn from it. As of 2020 448 million people move freely with security of freedom and equality in the region. Such kind of sustained model requires strong institutions to handle legal and political mechanism. Starting from the Schuman declaration in 1950, then formation of ECSC (1952), European Economic Community, European Atomic Community (1957), Single European Act (1986) and the Maastricht Treaty (1992). Thus, these were the sustained political efforts for a long time to carve out the picture of highly integrated European Union (Cuyvers 2017).

Taking an example from European integration, there have been many other initiatives from groupings in Africa, Asia, Middle East and South and Central America to achieve regional integration through cooperation such as- African Union (AU), Association of South East Asian Nations (ASEAN), Mercosur in South America, South Asian Association for Regional Cooperation (SAARC), Gulf Cooperation Council (GCC) and others. However, despite the initial enthusiasm the desired level of cooperation could not be achieved and no other regional association is near to EU in terms of political and economic cooperation. After European Union, the best model of regional cooperation has been obtained by ASEAN. However, unlike European Union, ASEAN is an intergovernmental organization with no clear interest in sharing sovereignty (Cameron 2010).

Despite the clear ambitions for regional integration, there are no leadership efforts in this direction from states to resolve problems and suspicion towards each other such as; a) in North East Asia, integration will be impossible without the cooperation between South Korea, China and Japan, b) similarly, in South Asia leaders from India and Pakistan must learn to leave behind past and reconcile for better and secure future. It is possible only through the reconciliation. In this direction, countries can go ahead above on the steps mandatory to create a regional community such as custom union, free trade area and single market (Cameron 2010). As one of the most important commodities which can drive countries to come together for mutual cooperation is the "energy" which is a vital necessity of the modern globalized world. In the post-World War time, it was coal and steel which acted as the chief material force

for progressive and pragmatic cooperation among the European countries (Tripathi 2012). Now it can be power grids and multi-national pipelines, which can inspire states to connect for sustainable growth and progressive future.

It shows that reconciliation led to increase in cooperation among states, this cooperation enhances multinational infrastructure development which enhances connectivity, the unhindered connectivity nurtures the flow of energy from energy surplus states to energy deficient states hereby fostering energy security for all. Once the energy security of a state is maintained then it directly affects the economy of state, and deepens the prospects of regional cooperation and integration. Regional cooperation and integration not only foster stability in the region through democratic reforms but also enhances the economic sustainability via efficient usage of scarce resources (Edoho 1997). Since the establishment of ECSC, energy has played a key role in nurturing European economic Integration. EU has benefitted from open policies on energy market liberalization and integration, and hence presently European energy sector has the largest interconnected power systems of natural gas and electricity in more than 20 countries of continent Europe (Shi and Yao 2020). Taking a lesson from the European experience, other sub-regional initiatives in different parts of world can learn that regional integration could be the crucial approach which can give boost to macroeconomic policies and can enable economies to cooperate with each other on the basis of their individual economic benefits for common development (ADB 2013). Hence, Asian Development Bank defines regional integration, “as a process of strengthening interconnectivity encompassed by the economies of a region through enhanced collaboration with the backing of unified policies and initiatives” (Sarker et al. 2020).

In order to nurture deeper regional cooperation and integration, world leaders on 25 September 2015 decided to adopt new framework, which is titled as “Transforming our World: The 2030 Agenda for Sustainable Development” and reiterated that “The 2030 Agenda compels us to look beyond national boundaries and short-term interest and act in solidarity for the long term. We can no longer afford to think and work in silos” (UN ESCAP 2016). It is high time to work together, use available energy reserve and address global challenges such as terrorism, climate change in cooperation with each other. However, because of the lack of political will, capital investment, mutual trust among countries, and the absence of Institutional framework, the course of action for regional cooperation is undoubtedly slow despite the enormous potential benefits, which can garner from regional cooperation and integration (Lee 2003).

4 Role of Energy in Boosting Regional Cooperation

In its recent report McKinsey Global Institute predicted that by 2040, Asia would account 50% of worlds total GDP, and 40% world’s energy consumption. Growth of energy consumption in rapidly developing energy markets of the Indo-Pacific region would change the geopolitical dimensions of the region and intensify competition for

energy resources (Sovacool and Vivoda 2012). Thus, to ensure security of available energy resources, it becomes imperative for Asian economies to realize the importance of regional cooperation to sustain their economic growth in long run. An American legal expert John Ashcroft said that, “if necessity is the mother of invention, it is also the father of cooperation” thus energy security is the necessity of present world order where cooperation is well desired (Tripathi 2012). Energy has the potential to create a new regional and international cooperative framework. In today’s interdependent world, no country can fulfil its energy needs on its own. Energy connectivity via multinational cooperation opens the doors of energy diversification to countries through more energy reserves. There is scope for developing countries to strengthen their capacities through transfer and application of technologies (UN ESCAP 2017).

In the present era of globalization maintaining energy security is of crucial importance for each country to sustain their economic growth, therefore energy security holds a special place in the foreign policy making of each country. The stability of energy markets is of crucial importance for the peaceful world order, thus bilateral and multilateral cooperation for successful energy collaboration is highly essential to maintain energy security. Energy connectivity links energy producers to energy consumers of the region and advantages to their geographical proximity through favourable transportation cost. Energy deficit countries with high consumption for energy have to depend on other energy resource-wise rich countries to meet their domestic demand. Cross energy trade and greater interdependence within the region is an effective solution to deal with the energy imbalance. Greater interdependence is critical particularly for consuming countries as it reduces vulnerability to energy price volatility and supply disruption, which are commonly caused by undiversified sources of energy imports (Cabalu et al. 2010).

International Energy Agency (IEA) explains energy security as “the uninterrupted availability of energy sources at an affordable price” (IEA 2019). Thus, intra and inter-regional connectivity of energy guarantees the availability of energy resources at economic prices in a sustainable manner. Asian economies however rich in diverse energy resources, these resources are unevenly distributed in different regions of Asia. Such as the energy surplus countries are unevenly situated in the different sub-regions of Asia such as Kyrgyzstan, Kazakhstan, Turkmenistan, Azerbaijan, Saudi Arabia, Bhutan, Nepal, Lao PDR, Myanmar, Uzbekistan, Russia, Cambodia and Vietnam in terms of hydrocarbon, hydro power, geothermal, nuclear, tidal and wind power energy sources. Countries accounted as the growth engine of Asia such as China, India, Japan, South Korea, Indonesia and others are highly energy deficient countries. Therefore, regional cooperation and integration can bring together deficient and surplus regions and enhance their economic growth through investment, infrastructure development and energy security (Sarker et al. 2020). In this direction, the several energy connectivity initiatives of Asia overlapping each other, struggling to find out sustained path of cooperation and integration. SWOT Analyses of Interstate & Inter-regional cooperation.

This article uses the SWOT Framework where S stands for Strength, W stands for Weaknesses, O stands for Opportunities and T stands for Threats for the interstate and inter-regional cooperation. S & W are considered as an internal factors which can

help a region to understand that which of its resources and capabilities are likely to be sources of competitive advantage and which can act as barriers on path of growth. O & T shed a light on external environmental factors which a region or state may attract from other state or region (Gurel and Tat 2017).

Strategic location, energy reserves, connectivity between energy deficient and energy surplus countries have been identified as the internal Strengths of a region which can attract countries towards each other to connect. Weaknesses emphasize upon the disadvantages such as lack of investment, government policies (complicated bureaucratic procedures which may hinder economic growth), and fragmented energy networks which are less efficient in terms of cost and resource used hereby providing costly energy. Technology advancement, investment in pouring and economic integration are considered as the external Opportunities a state can leverage while collaborating with other state. Lastly the Threat section identifies environmental threats, conflicts and interstate competition as the external risks to be taken into consideration and sums up about these potential disadvantages that—in between all growth and infrastructure development ecological concerns are taken for granted, border conflicts and terrorist activities can hold up any initiated project for years and interstate competition for scarce resources can create dispute among the actors involved. Henceforth this SWOT framework analyses provide positive and negative aspects of external and internal environment to policy makers while formulating global policy processes. The very essence about SWOT analyses that it provides holistic perspective with greater degree of transparency about the subject matter by envisioning that how weaknesses can be turned into strengths and how threats can be turned into opportunities.

In order to secure energy security and sustainable growth for the upcoming decades, role of regional cooperation will be imperative for sustainable growth, for example sub-regional power trade can help meet energy demands while maximizing scarce natural resources. Usage of different peak times for different states in an inter-regional power grid can reduce the need to build a new power generation plant all together in each country (ADB 2013). With greater cooperation and energy connectivity, there is huge potential for energy security improvements via addressing energy challenges to enhanced energy cooperation. Most of the times, energy connectivity links together effectively indigenous energy sources to demand centres through trade, cross border investment and technical cooperation (UN ESCAP 2017). Biggest challenge in front of Asia towards its regional integration like EU as a whole is its vastness, extreme diversity and huge economic imbalance, therefore Asian economies can learn from the experience of ASEAN that has learn from EU experience that how regional cooperation can be leveraged to facilitate connectivity and economic growth.

5 On Path of Cooperation & Integration: ASEAN Experience

This section examines the growth and evolution of energy connectivity in ASEAN region, which has emerged as the most successful economically integrated region of Asia. According to ASEAN secretariat report it is the most preferred investment destination and would grow to be the 4th largest economy in the world by 2030. ASEAN Economic Community aims to boost energy security, connectivity and sustainability through multilateral power trade cooperation and provide political, regulatory and policy framework to establish regional energy market. ASEAN Power Grid and Trans-ASEAN Gas Pipeline are the two most suitable example of multilateral cooperation in energy sector from the region (Xunpeng 2014; ASEAN Centre for Energy 2020).

ASEAN Power Grid (APG): Started in 1997 as the cross-border bilateral power connection initiative, APG has grown into sub-regional initiative which aims to integrate whole Southeast Asian region and presently interconnects the power system of Singapore, Thailand, Lao- PDR, Malaysia, Indonesia and Brunei through 3 sub subsystems i.e., Upper West System, Lower West System and East System (Xunpeng 2014). Strengthen electricity network would foster the market integration and development via reduced energy prices, power shocks, supply shortages and efficient usage of available resources thus facilitating sustainable development goals (Silitonga 2018). As ASEAN region consists of large, medium and small economies, and it is challenging for small economies to develop such large-scale infrastructure on their own, thus APG is expected to reduce regional gap by supporting more cross border trade, as well as promote profitable investment in renewable energy (ASEAN 6th Energy Outlook 2020). So far APG has not only benefitted the region in terms of energy connectivity and economic integration, but it has also strengthened the ASEAN's influence in global economy (ibid).

Trans-ASEAN Gas Pipeline (TAGP): Estimated by ASEAN Secretariat, Southeast Asia has the 7.5 trillion cubic meters of gas reserves almost 3.5% of world's total (Subhan, The ASEAN Post 2018). In 1990s ASEAN commissioned a regional study for the development and consumption of region's natural gas to reduce the region's dependence on crude oil, the study recommended a construction of trans-ASEAN gas pipeline that could link 80% of ASEAN's total natural gas reserves (Xunpeng 2020). Thus, TAGP is the second important infrastructure project which aims to foster ASEAN's energy cooperation. With a view of minimizing environmental impact this project aims to setup interconnected energy network to ensure greater gas supply through connecting prevailing and planned pipelines and regasification of terminals across the borders (ASEAN Centre for Energy 2020) and hence connects gas fields from diverse region i.e., Andaman Sea, South China Sea, Gulf of Thailand to ensure uninterrupted gas supply. With enhance energy security project TAGP is expected to encapsulate investment in infrastructure and technology in the region.

These examples showcase that regional cooperation and integration at the level of resource sharing can bring countries together into a network of interdependence to

ensure maximum use of scarce reserves fostering sustainable development (Sarker et al. 2020). Such connectivity and transmission links can act as a stepping stone towards stronger international agreements in global policy processes.

6 Conclusion

Process of regional integration also promotes peace and security, but for that, political will and commitment are of utmost necessity. In the present global scenario, to maintain political and global significance, integration is a feasible option for each state. Since the inception of digital globalization, markets and companies have transcended borders, so countries must rise above their own borders and cooperate to retain their relevance, leaderships can adopt a proactive approach with a greater sense of ownership and provide policy support to foster investment friendly environment, as conducive the environment the greater the chances for collaborations. From European experience, it can be derived that reconciliation can be an important component for developing the crucial political will for cooperation and ultimate integration. The cornerstone of EU integration was the Franco-German reconciliation, which was achieved by the sustained political efforts of leaders from both countries. As stated by Charles Lyell, “the Past is the Key to the Present” this is a lesson which present leaderships can learn from their predecessors, that it’s high time we all should move forward on one path to provide sustained future to our future generations. Owing to its vast range of diversity, building regionalism in Asia would require collective leadership from major economic powers to recognize tolerable balance of power among all participants. Other sub regional initiatives of Asia can learn from the approach of the successful initiatives mentioned in the paper to develop energy corridor through which it will be easy to develop economic corridors. Therefore, countries such as Japan, China, India, Republic of Korea and Indonesia and others can play an influential role to enhance the “soft” & “hard” connectivity of the continent.

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