



BASC NEWS

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ASSAULT ON THE LIBERAL TRADING ORDER

By Vinod K. Aggarwal, Director



Photo Credit: Evan Vucci, AP 2016

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Given the hotly contested U.S. presidential election and the surprising victory of Donald Trump, followed by the flurry of executive actions, it is easy to lose sight of the broader challenges to the U.S.-promoted post-Second World War economic order. My analysis proceeds in four parts. First, I consider how we have moved away from multilateral to bilateral trade negotiations. Second, I consider how the consensus for a liberal trade order has frayed, focusing on systemic changes, U.S. domestic political economic conflicts, and a rethinking of the ideological consensus around the benefits of free trade. Third, I highlight factors that drove the demise of TPP. I conclude by looking at the future of trade accords in the Asia-Pacific.

I. Alternatives to the WTO

After 14 years of contested negotiations, countries essentially terminated the Doha Round of the World Trade Organization in December 2015. But even before the demise of the Doha Round, growing frustration with the slow pace of multilateral negotiations led many countries to seek al-

ternatives to liberalize international trade including sectoral, regional, and bilateral approaches.

First, countries negotiated sector-specific multilateral agreements, including the 1997 Information Technology Agreement, which was expanded in 2015. This was followed by the 1998 Basic Telecom Agreement and the 1999 Financial Services Agreement. While these accords had strong appeal for free trade, they reflect a failure to appreciate the political economy of trade. Sectoral agreements tend to undermine the global coalition for free trade. They focus solely on “winners” from trade agreements and ignore the losers. By giving successful competitive sectors what they want, ironically, they undermine the coalition for free trade. Because of this sectoral focus, powerful actors that otherwise should provide support for broader trade liberalization simply pursue private goods.

Second, on a regional basis, countries have pursued trade liberalization through arrangements such as the EU,

NAFTA and ASEAN. But regional approaches create their own sets of rules and procedures, and can lead to a complex business environment. The problems that Google and Facebook, among others, face in Europe, demonstrate the pitfalls of differing rules—often driven by protectionist intent. But compared to the third approach, bilateral accords, the regional accords do not look all that bad!

Since the late 1990s, countries have negotiated a flurry of bilateral FTAs. While there were only 47 FTAs in 1994, the number had increased to 267 by the end of last year. Major economic powers such as the US, the EU, China and Japan, and medium-sized economies such as South Korea, Chile, Mexico and Singapore, have all negotiated a “noodle bowl” of bilateral FTAs, often with strategic and political objectives in mind. While bilateral FTAs are the new hot thing for the Trump administration, this is a shortsighted view.

Bilateral FTAs, with their specific provisions reflecting lobbying prowess, can lead to significant discrimination and impede trade, particularly given the Asia-Pacific’s complex supply chains. Moreover, while President Trump may correctly view this as a game of asymmetric power to pressure smaller countries into unfavorable deals, transforming trade from a multilateral rule-based system to a power-based system will have negative consequences. The US is not the only country that can play this game; the EU, China, and others are likely to pursue this strategy as well.

II. Threats to the Western Liberal Trading Order

What has led to the problems we see in the Western liberal trading order? The candidates include declining US hegemony and the rise of China; a fraying US domestic coalition for free trade; and an erosion of the ideological consensus – particularly among rich countries – on the benefits of trade. I will focus on all three, but my primary emphasis will be on the domestic coalition level.

A systemic explanation focuses on the relative balance of power between the dominant country, the US, and a rapidly-rising China. The impact of India and other BRIC countries has also been significant in making negotiations more complex. During the Cold War, the US promoted open markets among its allies as a bulwark against the Soviet bloc. Yet, following the end of the Cold War, the security justification for supporting “free riding” allies began to erode, and Trump during his campaign fully exploited this changing sentiment. Following the inclusion of China into the WTO in 2001, its rapid export growth began to pose a new challenge to the US-led trading order. From the standpoint of the theory of hegemonic stability, China has increasingly moved toward becoming a peer competitor of the US, making policy coordination more difficult and leading to a growing spillover into a host of different issues

including the South China island dispute. And as other countries such as India, Brazil, and the EU, all more powerful than before, sought to seek their own goals, particularly with respect to so-called behind the border issues, the difficulty of securing a successful outcome in the WTO became all the more challenging.

From an ideological perspective, non-governmental organizations have played an important role since NAFTA in promoting an alternative vision of the costs of trade. In addition to arguments about health and environmental implications, their criticism of multinational companies has found its way into the mainstream. While many of these arguments are at least partially well founded, their criticism of trade liberalization through the WTO has taken its toll. But as these NGOs have seen, the alternative of a bilateral approach to trade opening has not always helped them secure their goals.

Let me turn to my central focus, the domestic level. The rapid rise of Chinese import penetration of the US market, often with US companies located in China leading the charge, has contributed to the disappearance of domestic manufacturing jobs, eroding the political consensus for free trade in the US. This should not have come as a surprise to liberal economists—except for their self-induced, formalized naïveté about the economic costs of adjustment.

This is hardly a new development. When textile workers lost their jobs in the 1960s, the view from elites was “it’s not about us.” When steel workers lost their jobs in the 1970s, it was again “not about us.” When auto workers lost their jobs in the 1980s, the refrain was “it’s not about us.” But with high tech workers losing their jobs, and US companies in solar and wind having problems, guess what? It is us.

The mantra of “let them adjust” ignored the massive literature on active labor market policies, lobbying and other aspects of the political economy of trade. By ignoring the political economy of job losses, liberal economists have contributed to the rise of protectionist populism. For free market devotees, even the slightest deviation in government intervention was seen as the slippery slope to communism. Now suddenly these economists have discovered inequality, the negative impact of imports, and the possible costs of immigration—all the staple of international and comparative political economy that has long warned about the downside of globalization without adequate domestic compensation mechanisms.

The lack of interest in such issues can be seen in relevant policies and writings. Trade Adjustment Assistance for

Workers in 2015 provided coverage to only 57,000 workers. Others, like the Training and Employment Services, had a relatively minor impact. The most interesting book on this issue was recently published by Ted Alden, a Council on Foreign Relations Senior Fellow. His book, *Failure to Adjust*, is a must read. He shows how Pete Peterson's concerns as early as 1971 about the need to balance open trade with domestic adjustment policies were ignored in the Nixon administration.

Turning to Trump, the basic problem is that he and many of his advisers have given half-truths about the causes of the current economic situation in the US. He has focused on the loss of manufacturing jobs in the US, pointing to immigration, trade, and outsourcing. All of these undoubtedly have led to job losses. But the major culprit of job loss in manufacturing is closely tied to a technological transformation in production, something that Trump has simply ignored. And his solution is simple: stop immigration; stop trade; and stop outsourcing. But of course an inward autarchic turn will give us a short run economic boost but is likely to lead to the same problems that all countries pursuing import substitution in the post-WW II era faced: while it worked in the short run, in the long run it led to inefficiency, corruption, and a lack of global competitiveness. I see no reason to believe we will not end up in the same boat.

The other aspect of the domestic political economy of trade concerns industrial policy, which has been seen only in terms of the "dreaded across the board import substitution" that I mentioned. While economists have been highly skeptical of the ability of governments to successfully promote industrial policy, they have often ignored the success of at least some countries in getting intervention right. Recent work on China's aggressive support for its companies, both state-owned and private, shows that even "green" new growth sectors – where presumably developed countries would find a comparative advantage – have fallen victim to the glut of Chinese bank-led financing in the wind, solar and other sectors. This is not across the board protection; it is selective aid to industry, and it may be hard to pull off in the US. Still, without understanding the costs and benefits of horizontal versus vertical industrial policy, we do ourselves a disservice in lumping all of these measures as wrong headed government intervention.

The political implications of these developments are quite clear. The major party candidates in the US presidential election were protectionist. In June 2016, Trump called TPP a "rape of our country" and NAFTA the "worst trade deal in the history of the country." President Trump has now withdrawn the US from TPP and is renegotiating NAFTA.

III. Selling the TPP: Security Framing

In the face of sharp opposition to trade liberalization evident prior to the election, and to globalization more generally, the Obama administration pushed the importance of the TPP as balancing China – economically, politically and from a broader strategic standpoint. Obama warned that "if we don't pass this agreement – if America doesn't write those rules – then countries like China will." And Obama Secretary of Defense Ashton Carter argued, "In terms of our rebalance in the broadest sense, passing TPP is as important to me as another aircraft carrier. It would deepen our alliances and partnerships abroad and underscore our lasting commitment to the Asia-Pacific."

Yes, there are important strategic implications of TPP. But by returning to the post-Second World War tactic of selling trade accords in a security context, there was an increasing reliance on oversold strategic claims with respect to the TPP. Pulling out the national security argument as the major driver is a sign of laziness. The temptation to frame the TPP in economic and strategic balance-of-power terms diverted attention from the specifics of the agreement. The result was a failure to promote TPP on its economic merits. And more importantly, without a link between measures to promote open trade and domestic measures to improve adjustment for workers and firms, the economic merits of such agreements may indeed be suspect.

IV. Looking to the Future

The trade architecture of the Asia Pacific has long been of central importance to the United States. Within the broader WTO context, we have seen the creation of APEC in 1989. Subsequently, we have seen the negotiation of TPP and RCEP. The latter Regional Comprehensive Economic Partnership consists of the 10 ASEAN countries and China, Japan, Korea, Australia, New Zealand, and India.

While the origins and evolution of these accords may be familiar to many of you, a few points are worth making. In part, the TPP has its origins in the difficulty of transforming APEC into a true pan-regional trade agreement. By 2008, the effort to create a so-called Free Trade Area of the Asia Pacific seemed to be going nowhere. Meanwhile, the Trans Pacific Strategic Economic Partnership agreement, known as the P4, created in 2002 by Chile, New Zealand, and Singapore (with Brunei joining the negotiations in 2005), called for trade liberalization that went beyond traditional border barriers to include the regulation of intellectual property, rules of origin, government procurement and other "behind-the-border" measures. And the Obama administration simply affirmed an earlier Bush administration decision to take part in TPP negotiations.

The TPP has been pitched as a US-led agreement, but the

role of these smaller countries in originating this accord has been marginalized. This is particularly important in the context of the framing of TPP and RCEP as a US versus China battle. It has also been viewed as the Obama Administration's TPP—again ignoring President Bush's role in joining the P4. This framing has been detrimental, and while TPP is dead for now, the historical context may be useful if revived.

RCEP has been led by the ASEAN countries, and its composition reflects a failure—not a success—of Chinese policy. The Chinese preferred to have ASEAN plus 3 negotiations excluding Australia, New Zealand, and India, but Japan prevailed in part because of the progress in TPP.

The idea of creating RCEP was first discussed in November 2011 and formalized the following November. Currently, negotiations are ongoing and 16 rounds have been completed. Although participants missed the end of 2016 as the target for completion, negotiations are continuing. In my view, RCEP is likely to follow the Chinese approach of signing first and negotiating later. It is also much less focused on behind-the-border measures, which were the subject of the TPP. With most Asian countries pursuing active industrial policies, strongly binding rules that would constrain government behavior seem unlikely.

Some have suggested that RCEP could provide a stepping-stone to the broader FTAAP under APEC auspices that was initially pushed by the US. Many including me believed that both TPP and RCEP could become part of the FTAAP, with the former going further in its liberalization efforts than the latter. A redone TPP without the US might still play this role with the TPP being a more liberal accord and RCEP being less so, but with both being nested under FTAAP.

From a US perspective, President Trump has argued that he favors a bilateral approach to trade agreements, a policy pursued actively in the 2000s. But one of the driving motivations behind the TPP was to deal with the resulting “noodle bowl.” Clearly a bilateral approach does not solve the problem of global supply chains. Why this naiveté? The problem is that when you are in the hotel business, with branding as a key strategy and selling rooms in particular countries, the issue of the management of a global supply chain is not something that our “astute” businessman president really grasps.

It remains to be seen if the US can again provide leadership on trade or if it will abdicate this role to China. Without US leadership, a Trump presidency will accelerate the demise of the post-Second World War liberal economic order that has served much of the world very well despite the flaws I have mentioned.

The view that China will step in as the great liberalizer to replace the US, however, is in my mind simply wishful thinking.

As Elizabeth Economy has pointed out in a recent piece focusing on information control and the environment, the type of globalization that China has in mind is very different from what we in the West have in mind. And as I have suggested, with its industrial policy as active as ever, the type of trade agreements we are likely to see will be a reflection of its power—not as a provider of global public good.

For endnotes to article, please go to page 15.

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This is an abridged version of Vinod Aggarwal's presentation at the Asian Foundation Board of Trustees Meeting. It also draws from his recent article “The Liberal Trading Order under Assault: A US Perspective” in Global Asia, Vol. II, No. 4, Winter 2016.



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DIRECTOR'S NOTE

Dear Colleague,

Thank you for your continued interest in the Berkeley APEC Study Center (BASC). This newsletter highlights BASC's three main research programs, namely Mega FTAs, disaster management, and cyber security, focused on the Asia-Pacific. It also presents our most recent research on China's 'One Belt, One Road' Initiative, China's increasing involvement in the Syrian civil war, and the Asian Infrastructure Investment Bank.

Yinan Zhang provides a comprehensive account of China's 'One Belt, One Road' Initiative in the context of the historical Chinese tributary system. He first describes some important features of the two systems respectively. Then he analyzes the Initiative/new system's potential economic cost and strategic benefits. Finally, he compares the two systems and argues that while they share the same principle of providing economic benefits to China's periphery to ensure geopolitical security, the new system involves a novel interest in a greater degree of economic integration in the region.

Somi Yi develops potential explanations for China's involvement in the Syrian civil war. She contends that China's increasingly active role in Syria reflects the country's revision to its noninterference stance that resulted in its strategic loss in Libya. She also argues that China regards a Beijing-friendly Syria as a foundation for its 'One Belt, One Road' strategy in the Middle East. Simultaneously, she relates the Chinese involvement to the country's strengthening partnership with Russia in resisting the Western political and military pressure.

Yilun Cheng calls attention to the role of the Asian Infrastructure Investment Bank in infrastructure development in the Asia-Pacific. She first stresses the positive prospect of the Bank in the context of the enormous regional infrastructure gap and China's growing expertise in infrastructure construction. Then she points out the potential problems of the Bank in terms of financial operations and political concerns. In the end, she comes to the conclusion that the Bank is beneficial to the regional development and calls for a more collaborative stance from the US and Japan towards China regarding infrastructure investment.

I hope this newsletter will help enhance your understanding of politics, economics, and business in the Asia-Pacific. The Berkeley APEC Study Center is grateful for support from the Institute of East Asian Studies, Center for Chinese Studies, Center for Japanese Studies, Center for Korean Studies and EU Center for Excellence at UC Berkeley and the University of St. Gallen for our cooperative projects. We are also deeply grateful for the sustained support of the Ron and Stacey Gutfleish Foundation.

Vinod K. Aggarwal
Director, Berkeley APEC Study Center

BASC PROJECTS: APPROACHES TO DISASTER MANAGEMENT

By Melissa Carlson, Project Director



Disaster management has emerged as a front for coordination and cooperation in the Asia-Pacific. Plagued by earthquakes, tsunamis, and other sudden-onset, large-scale disasters, this critical region has frequently had to face mass casualties, rebuild vast property destruction, and manage large population displacement. Despite the involvement of tens of local, national, regional, and international organizations, current disaster programming has often failed to consistently provide critical basic services.

Our disaster management research builds upon our conference held in April 2016 titled ‘Improving Disaster Management in the Asia-Pacific.’ Attended by medical practitioners, scholars, and other key stakeholders involved in disaster management in the U.S. and East Asia, this workshop sought to identify existing obstacles affecting effectiveness of service provision and crisis response. Topics discussed ranged from problems in institutional design and coordination across emergency response and resilience programming, to gender dynamics in service provision, to use of new technologies to better design response. Within these issue-areas, attendees discussed how to develop ways to mitigate these challenges, and outline next steps for further research.

Since this conference, we have continued collaboration with key stakeholders to design a comprehensive research program focused on coordination between global, regional, and national actors involved in emergency response and resilience programming. Public policy, development, and humanitarian scholarship has identified inefficiencies in global disaster responses, pointing to the costs of coordination

as a main obstacle to effective service provision. However, these conventional explanations do not identify where these costs are incurred. Do breakdowns in coordination of disaster management occur at global, regional, national, or local levels? At what level is coordination most costly? Where does the bargaining occur, and when do costs of coordination outweigh the benefits?

To answer these questions, we have developed a unique research program that integrates qualitative and quantitative social science methods. Through elite interviews with representatives of various international organizations, and surveys with stakeholders on the ground, we plan to identify the levels at which coordination breaks down, and explore what factors lead this break down to occur.

Answering these questions is particularly critical in the Asia-Pacific. As one of the most disaster-prone areas in the world, the Asia-Pacific’s ability to effectively cope with frequent, overlapping disasters is critical for regional security. Currently, a vast network of actors, ranging from aid organizations to military commands, creates a complex system of overlapping institutions and organizations that are triggered when disaster strikes. The U.S., Japan, South Korea, and China have each developed their own disaster management initiatives; ASEAN has also begun to create infrastructure to guide disaster management policy.

The long term goal for our research program is to create an evaluatory group of diverse stakeholders that provide expertise to relevant policy makers, ensuring that actors’ cooperate in providing services.

BASC PROJECTS: CYBER SECURITY AND 'THE STATE'

By Andrew Reddie, Managing Editor, Business and Politics

We are delighted to announce our project focusing on comparative industrial policy in the cybersecurity sector sponsored by UC Berkeley's Institute for East Asian Studies and the Center for Long-Term Cybersecurity. This project builds upon our recent conference held in Fall 2016 on the relationship between state and non-state actors in the cybersecurity issue space sponsored by the U.C. Berkeley Center for Long-Term Cybersecurity.

The Internet makes mass communication and transnational collaboration increasingly accessible; states find themselves caught in the double bind of ensuring state survival while also satisfying domestic audiences' demand for Web access. Currently, the security literature surrounding the provision of cyber security focuses primarily on state-to-state dyads and cyber-terrorism. However, a variety of non-state actors, from "freedom of information" campaigners to companies, also use ICT tools and have the potential to advertently and inadvertently threaten state security. When states systematize their approach to cybersecurity in defense against such threats, it is not only non-state actors who bear states ill will but also those that wish to use the Internet for peaceable and productive ends that stand to gain or lose significantly from access and limitations of new policies. This nascent project involving five scholars from UCB and UCSD represents a first step in analyzing this latter process as it looks to provide policy-relevant analysis and prescription for governments facing threats derived from the cyber realm, with a particular focus on threats from non-state actors. As such, government agencies and industry groups represent major constituencies for this research as security doctrines and regulations surrounding Internet governance are continually updated. It is for this reason that we engage with industry professionals, government, and academics.

Our recent conference, held over two days in November 2016, provided a space for academics, policy-makers, military, and industry to convene to discuss the politics of cyberspace and to suggest areas in social science research that were ripe for further study in light of technological change. Participants in the conference included representatives of CSIS, New America, Stanford University, King's College London, Berkman Center, CLTC, Carnegie Endowment for International Peace, Electronic Frontier Foundation, Palo Alto Networks, Citizen Lab, United States Pacific Command, Qadium, and the Lawrence Livermore Lab among others.

Across four panels on topics including threats in cyberspace, state responses to these threats, and multilateral governance initiatives, it became clear the degree to which the domestic politics concerning support for dealing with the threats and challenges of technological change have largely been ignored in the nascent literature. Moreover, participants in the conference suggested that social scientists had failed to keep pace with the changing policy-making process concerning cyberspace and Internet-adjacent industries. The consensus concerning a future research agenda for the group centered on examining industrial policy across the United States, Europe, and China.

This follow-on project uses social science methods to characterize the state's support for the cybersecurity industry and adjacent firms are integral to our understanding of both the national cybersecurity sector and international cybersecurity architecture. It offers the necessary first step to understand the ways in which new technology is re-shaping the relationship between firms and governments.

Policy-makers are only beginning to craft industrial policy to drive private investment in much-needed cybersecurity expertise and infrastructure. As they do so, it is essential for social scientists to understand the policy environment in which they are crafting policy as well as analyzing the implementation and enforcement of regulatory regimes. More than most, this project is directly "policy relevant."

Our research also offers a useful theoretical innovation by taking extant international and comparative political economy theory and applying it to a "securitized" technological sector of the economy. As such, it offers a space for theoretical innovation where security and economic concerns meet with externalities across all industries, whether adjacent firms are reliant upon Internet technology itself or firms that simply use the Internet as a marketplace.

By looking at government-business interaction in the cybersecurity industry and possible institutional cooperation at the international level, we seek to address key issues on understanding and improving regulatory measures to enhance cybersecurity.

As ever, we welcome any input from members of the research and professional community as we continue our research.

BASC PROJECTS: MEGA FTAS IN THE ASIA-PACIFIC: TPP, RCEP, AND AIIB

By Sarah Lee, Project Director



Photo Credit: Bloomberg

As one of the main research projects at the Berkeley APEC Study Center (BASC), the study of Mega-FTAs has taken on a special momentum in 2016, reflecting the ongoing political and economic changes in the Asia-Pacific. Through the publication of a special issue in *Asian Survey* and the Mega-FTA conference held at the University of California, Berkeley, BASC has produced and shared important knowledge regarding these special free trade institutions of global significance.

In October 2016, BASC hosted a conference on Mega-FTAs called, “TPP, RCEP, AIIB: Shaping a New Political-Economic Order in the Asia-Pacific?” with sponsorship from institutions including the Institute of East Asian Studies and UC Berkeley. Political, economic, and legal scholars from the United States, Asia, and Europe came together to discuss some of the political and economic implications of these mega-FTAs. These scholars adopted both theoretical and empirical approaches to produce diverse perspectives on both the countries included and excluded from these new institutions. Various findings hinted at these mega-institutions’ capacity to influence not only the domestic politics, but also the relations among countries as well as the regional and global dynamics of trade and politics.

Since the conference in October, many changes have occurred in the political climate with direct influence on the future of these mega-FTAs. The domestic implications of these mega-FTA negotiations have been one of the most hotly debated issues during the presidential election. Candidates frequently mentioned pulling out of the Trans-Pacific Partnership (TPP) as a way to signal commitment to

domestic workers as well as strength to rivals such as China. In line with his campaign rhetoric, the newly elected President Trump has pushed forth his “America First” approach by immediately ending U.S. involvement in the TPP upon taking office. This decision has put an end to years of U.S. efforts in negotiating the agreement, and also caused member countries to consider their options in either continuing on without the U.S. or joining other trade institutions as an alternative.

With these new changes, some previous discussions on mega-FTAs become no longer relevant, while other discussions gain greater importance. For example, predicting the impact of the TPP on the domestic economy of the U.S. may not be applicable any more, but parallel assessments for Japan, a close U.S. ally, may deserve greater attention in light of U.S. pullout. Similarly, due to recent hints of America’s shift toward isolationism, RCEP and the Asian Infrastructure Investment Bank (AIIB), both supported by China, may gain greater appeal among countries that have not yet joined. In this way, the mega-FTAs and institutions remain extremely relevant in current political discussions, albeit with different focal points and implications.

Until recently, BASC has focused on understanding the evolution of trade politics, during which the emergence of mega-FTAs played a crucial role, and researched the implications of ongoing changes in global trade relations. Now, the focus on trade has become even more important for the future of global economy. Amidst this evolving climate, BASC is excited to pursue research and provide venues for communication regarding these trade institutions.

ONE BELT, ONE ROAD, AND THE CHINESE TRIBUTARY SYSTEM IN THE 21ST CENTURY

By Yinan Zhang, BASC Research Assistant



Photo Credit: CGTN America 2015 Youtube

The “One Belt, One Road” Initiative, officially “Belt and Road,” is an ambitious geopolitical and economic program proposed by the Chinese President Xi Jinping. With a substantial emphasis on cooperation in five major areas – policy coordination, facilities connectivity,¹ unimpeded trade, financial integration, and people-to-people bonds² – this Initiative is widely perceived as an attempt to boost regional integration in Asia.⁴ In an effort to supplement the existing literature, this article will discuss the Initiative, focusing on the new system’s inheritance and innovation in the context of the previous Chinese tributary system. While both policies stress China’s security concerns, “One Belt, One Road” involves a much more prominent economic ambition, compared with the old system’s trade conservatism.

I. The Classical Tributary System

The historical tributary system of China was the backbone of diplomatic and economic interactions between the Imperial China and, mostly, its neighbours in the country’s periphery. In the system, the tributary states sent emissaries to pay tribute to the ruling Chinese Emperor and acknowledge the Emperor’s supremacy in exchange for trade authorisation; additionally, when China was at war, the tributary states would either remain neutral or pro-

vide crucial aid. Established as early as the Western Han Dynasty, the system was built upon the “cultural pre-eminence” of China relative to its neighbours and the derivative belief that “barbarians” coming to China would wish to be Sinicised and “participate in the benefits of (Chinese) civilisation,” and were thus required to recognise the Emperor’s “mandate to rule all men.”⁵⁶

Despite China’s Confucian view of the world order, the system was, in part, motivated by security concerns. Politically, the tributary states’ adherence to the system (mainly through regular tributary missions) embodied their recognition of the superiority of the Emperor and the Imperial China. As mentioned above, these states would align with China in the case of war, giving China decisive military superiority against its long-term rivals, particular the northern nomadic kingdoms.⁷ In this way, the poor and vulnerable frontier regions would gain a greater degree of security while forming a buffer zone.

Economically, the system was China’s main (if not the sole) channel of international trade. Notably, trade under the tributary system was in no sense profitable for China – the Chinese “gifts” usually out-valued the tribute offered by the tributary states.⁸ From the Chinese point of view, the

trade itself did not serve simply as a means of transferring goods, but rather that the Emperor was pleased with the tributary states' "submissive" attitude towards China and the willingness to be Sinicised. After all, this mega-empire was self-sufficient, making most of the foreign supplies "unnecessary," and thus did not have an urgent, if any, need to trade with tributary states.⁹ While deviating from the modern economic view of gains from trade, it allowed the Emperor to demonstrate the empire's prosperity to the rest of the world, satisfying his political agenda. At the same time, these tributary states benefitted from this trade relationship, at the cost of placing the Chinese Emperor nominally above the states' own rulers.¹⁰

Due to the geographical barriers between China and other superpowers, the system worked fairly well for centuries.¹¹ Even in the late 18th century, when European powers sent official trade delegations to China, they were regarded as "tributary emissaries."¹² When the British delegation asked the Chinese government to open ports for trade and reduce tariffs, the Qianlong Emperor turned them down because free trade was incompatible with the tributary system.¹³ But as the Western powers expanded their spheres of influence in East Asia and eclipsed China in strength (marked by a series of "unequal treaties" between China and the Western powers since 1842), the classical tributary system collapsed.

II. The "One Belt, One Road" Initiative

The original tributary system described above is obviously untenable in today's world. China's assumed cultural superiority, the core of the old system, is archaic in a modern Asia organized by the Westphalian model. Moreover, China itself has terminated unconditional aid provision for the Third World in the post-Mao era.¹⁴

However, this does not at all mean China does not need a system to stress its strategic concerns, especially as the country has emerged as a potential global superpower. Since the commitment to the "Pivot to Asia" became manifest in the American foreign policy, China has increasingly viewed the American presence in the region as a real threat.^{15 16} Surely, Xi Jinping does not envision a strong U.S. influence on the Chinese border in his "China Dream." On the other hand, the existing non-alliance policy has helped China maintain diplomatic flexibility since Deng Xiaoping's leadership, and a deviation from this policy may be interpreted as an explicit plan targeting at the third party – presumably the U.S. – strengthening the ground for the hawkish faction in Washington's diplomatic circle.^{17 18} Beijing thus seeks to hedge the renewed American focus on the region to protect its interests.

The Chinese solution is the "One Belt, One Road" Initiative. In 2013, two years after the emergence of the "Pivot to Asia" strategy, Xi unveiled the ideas of the Silk Road Economic Belt (SREB) and the Maritime Silk Road (MSR) respectively during his visits to Kazakhstan and Indonesia.¹⁹ ²⁰ This was further supported by the foundation of the Silk Road Fund and the Asian Infrastructure Investment Bank (AIIB), with the latter covering the majority of the East and Southeast Asian countries and attracting a significant number of European countries, despite American concern.²¹

In its official action plan, the Chinese Government stresses that the Initiative is "designed to uphold the global free trade regime and the open world economy in the spirit of open regional cooperation."²² Indeed, in today's world, China is one the most enthusiastic free-trade advocates, contradicting to the conservative Imperial China in the old tributary system centuries ago. Trade is now a core concern of China's new tributary system, a result of the enormous economic benefit and prestige China has enjoyed since its integration into the global economy.²³ Particularly, China stands as the largest trading partner for 124 countries and will not be hesitant to utilise this position for the goal of "[strengthening] economic cooperation with other economies."^{24 25} The use of economic position as a leverage is, arguably, still the old system's trick.

III. A Costly Project from a Purely Economic View?

A greater degree of connectivity,²⁶ as designed by the Initiative, will surely extend China's influence. However, Beijing's ambition to build the Belt and the Road may incur incredible costs. In particular, the loans funding the projects may take a significantly long time for countries in these regions to pay back, so long that Chinese officials do not expect all to be repaid in full.²⁷ Naturally, even if the infrastructure connection promotes local economic performance in the long term, it is questionable whether the progress is great enough to cover the loans in full within a reasonable time frame. Equally important, it is yet to be seen whether the enhanced regional connectivity will work for or against China. While the Central Asian countries typically do not compete with China in the same sectors, the ASEAN economies, when combined, echoes China's development story decades ago.

Conversely, the Initiative's massive infrastructure projects will create a large external demand for Chinese products, essentially easing the domestic pressure stemming from overcapacity.²⁸ Another potential economic gain for China is the benefit of connectivity in its north- and south-western regions.²⁹ Consistent with the long-standing saying that "If you want to get rich, build a road," the poor western provinces will, ideally, gain a much greater share of the Eur-

asian trade flows, by establishing “dry ports” as transport hubs and later production centres, just like the sea ports in the eastern coastal provinces and, the “treaty ports” in the Qing dynasty. But the rationale behind is not perfect. An obvious question is whether this connectivity will be capable of competing economically with the existing maritime trade routes. The demand and capability along the land-based routes may not be large enough to reduce the cost of overland transport to the level of container cargos.³⁰ The existing pipeline networks between Kazakhstan and China is already a real-life case for this doubt: although it satisfies China’s energy security policy, it has been “deemed uneconomical.”³¹

IV. The Strategic Consideration: Why Is the Cost Worthwhile?

Before simply regarding the system as inefficient, as the classical economists would usually do, one should ask himself: Is it a purely economic initiative after all? Indeed, the Initiative involves a substantial degree of strategic thinking. Through this series of concessions, China may be able to incorporate countries in Central and Southeast Asia into a greater regional economic bloc centered around itself. Within this bloc, China will, in consultations with the countries, set up the blueprint for industrial structuring for the entire mega-region. Establishing itself at the top of this hierarchy, China will be following a regional industrial rationalisation strategy similar to that within the Japanese “Flying Geese” model. As Japan in the late 20th century, China will become the “lead goose” in the 21st century, playing a decisive role in the industrial upgrade process of the other countries in the region, and serving as the main coordinator in the event of intra-regional trade conflicts.³² What is more to China’s advantage is that, due to the geographic separation of the Central Asian countries and their Southeast Asian counterparts, China will become a centre not just in terms of industrial rationalisation, but in terms of intra-regional trade and transport. If successful, a colossal economic union with nearly 2 billion people will emerge and, considering its potential, stand as an important economic engine of the world.

Furthermore, this economic arrangement will, highly likely, evolve further into unmatched political influence over China’s periphery, which was the goal of the classical tributary system. A successful economic integration within a region will encourage political cooperation; one can recall the evolution of the Franco-German relations from intense rivalry to sharing a European voice in the global stage since the post-World War II economic integration of Western Europe. Arguably, a lesser degree of political alignment

than “sharing an Asian voice” will be a good enough goal for Chinese strategists – in fact, a “benevolent neutrality,” if fully maintained by the other countries in the region, will be sufficient to create a quasi-buffer zone where the perceived external threat will be restricted, just like the political function of the tributary states in the past. This is consistent with China’s non-alliance foreign policy and will not necessarily arouse other great powers.

V. Conclusion: Comparing the Old and the New Systems

Indeed, the Initiative resembles the traditional tributary system, with striking similarities. By joining the system, primarily through joining the AIIB, countries in Central Asia and Southeast Asia, as the “tributary states,” express their acknowledgement of China’s superiority in economic power (and sometimes also in political power) and the will to participate in the “Sinocentric” economic ecosystem. China, as the axis of this system, then provides its peripheral countries with lucrative infrastructure projects and, through enhanced connectivity, greater access to the enormous Chinese market, as “gifts to tributary states.” The peripheral countries harvest the major economic gain with the direct infrastructure upgrade and the indirect gains from trade, while paying the tribute of a generally non-anti-Chinese policy. China, on the other hand, gains the strategically important leadership in a gigantic economic union along with an enhanced level of political security. Notably, the peripheral countries can still maintain friendly relations with other great powers, as long as they do not turn rebellious.

The significant upgrade of this new tributary system from its historical counterpart is, obviously, Chinese leaders’ economic ambitions. Although the Emperors in the past could be satisfied with an inward-focused economic doctrine, the members within the Politburo today are eager (and perhaps desperate) to establish more sophisticated economic connections through this system. Indeed, unlike its imperial past, China today relies heavily on international trade. And to further realise the consumption potential of the regions, China will have to make these countries rich. From the macroeconomic point of view, the strategy is an approach that is in essence a fiscal stimulus but materialised through trade. This echoes the practice of giving the “tributary states” more economic concessions in the old system, although the goal is not purely political any more. As the axis of this updated system, China is still expected to invest more than it will gain economically, but the long term economic gain will be so great that it could not be imagined within the old tributary relations framework.

CHINA'S INVOLVEMENT IN THE SYRIAN CIVIL WAR

By Somi Yi, BASC Research Assistant



Syrian President during an interview with China Central Television in Damascus, Photo Credit: SANA via Reuters

Since the mid-1950s, China has prided itself in its commitment to the principle of noninterference. Beijing's position on conflicts between North and South Korea, Iran and Iraq, Israel and the Arab states, among others, have largely been driven by its nonintervention policy.¹ Despite this trend, however, China recently announced that it would be pursuing a larger and more "open" support for the Assad regime by strengthening military ties on top of maintaining strong diplomatic ties with Syria.² What could be driving Beijing's decision to get more involved in Syria despite strong international condemnation of the Assad regime's actions? Why is a country, historically so committed to noninterference, suddenly getting involved in the violent affairs of a Middle Eastern country?

I. Shadow of the Libyan Intervention

One answer could lie in China's regrets over the aftermath of the 2011 international intervention in Libya. When Russia and China abstained from voting on UN Security Council Resolution 1973 and declined to participate in the subsequent, authorized military intervention, they had not intended for R2P to result in Gaddafi's downfall and a democratic revolution. R2P now had the precedent of being

used for regime change by Western states to bring down authoritarian rulers and spread democracy - an ideological threat to these two relatively authoritative countries who want to stem the influence of the West in the Middle East, Africa, and Eurasia.

China's abstention from the resolution vote on Libya was seen as submission to Western pressures, sparking domestic criticism for maintaining noninterference rather than stalling the implementation largely-Western norm of R2P.³ As a result, China sees its "involvement", or rather, lack thereof, in Libya as "gaining nothing while losing everything"⁴ and so, is largely hesitant to make the same mistake again in Syria. By getting involved with the crisis in Syria and strengthening ties with Assad, China deviating from its historical support for noninterference in order to prevent another Libya from happening. China stands to gain a lot from alliances with anti-West states, such as oil-rich Iran. Supporting Assad's regime via limited military assistance is a show of supporting Assad's legitimacy as a ruler despite multiple human rights abuse accusations. Rather than act as a bystander and risk having pro-Western interests take over Syria, Beijing has opted to take a more ac-

tive approach in order to secure a more favorable outcome.

II. 'One Belt, One Road' Initiative

Another answer to China's increased involvement in Syria could be Beijing's potential geopolitical ambitions in the Middle East. China's fairly recent One Belt, One Road (OBOR) strategy exemplifies the country's diplomatic and economic expansion outwards. OBOR's main goal is to create an integrated economic area among the original Silk Road countries in Central Asia, West Asia, the Middle East, and Europe by expanding trade, building infrastructure, and improving cultural exchanges.⁵ This multi-billion dollar initiative shows China's commitment to strengthening its international influence and further integrate the country into the global economy.

With plans of expanding its economic future into the Middle East already beginning under OBOR, China could see Syria as an important ally in the region.⁶ The city of Damascus, for example, was historically one of the key trading stops along the Silk Road.⁷ China could therefore view Syria as a key stepping stone for accessing and pursuing Chinese interests in the Middle East, Africa, and Europe. Including Syria in OBOR would potentially allow China access to Syria's Mediterranean ports, lucrative European markets, and Africa generally. In addition, maintaining pleasant relations with the Assad regime would mean that China could continue enjoying being Syria's third largest importer.⁸

OBOR shows China's willingness to move beyond its historical, relative isolation from the rest of the world and into playing a bigger role on the international stage both economically and politically. Syria represents a chance to act upon OBOR strategies and gain not only an economic ally, but a diplomatic one. For China, the Middle East is too valuable economically and too strategic geopolitically to let Western norms and interests dominate the region. Should the Assad regime succeed in regaining control of the country, Beijing would be in a good position to negotiate for even more beneficial economic treatment in Syria and further its OBOR interests. There is no guarantee that a new government led by pro-democratic rebels would be friendly with China. As such, Beijing has a vested interest in ensuring the Assad regime succeeds in taking back the country. With the Obama administration and other Western countries explicitly training and arming moderate rebels opposing the Assad regime, it is no surprise that China is wary of a pro-Western government replacing Beijing-friendly Assad.⁹

However, with Donald Trump's election as president, it will be interesting to see how the US's role in the region will

change. Trump has already insisted that the US's main objective in Syria should be to assist the Assad regime in tackling IS despite the rebels' request for continued assistance.¹⁰ Obviously, Trump's position on Syria has been viewed positively by Russia and China as they have largely leaned towards keeping the Assad regime in (power)

On top of this, China and Russia's joint vetoes on numerous UN security resolutions regarding Syria have sent a powerful message to the rest of the world about Sino-Russian diplomatic relations. On June 25, 2016, Chinese President Xi Jinping summed up the current state of the partnership by stating that "President Putin and I have unanimously decided that the more complicated the international situation, the more determined we should be, guided by the spirit of strategic cooperation and the idea of eternal friendship".¹¹

In light of their respective international debacles in the South China Seas and the Crimean peninsula, China and Russia are making a powerful statement in defiance of the largely Western-dominated international norms and institutions. Russia and China's cooperation in vetoing resolutions on Syria can be seen as delegitimizing Western dominated institutions like the UN and providing a counterweight to the perceived Western hegemony in the Middle East as well as the rest of the world.¹² Both countries would benefit from a departure from Eurocentric dominance and a move towards greater multipolarity. The strengthening of Sino-Russian relations in objection to action in Syria have shown the world that Beijing and Moscow are determined to start counterbalancing the disproportionate amount of power Western states currently have.

III. Conclusion

Whatever geopolitical power politics are at play in Syria, China has clearly taken a much more active approach than might have been predicted considering Beijing's historical commitment to noninterference. And while it may be impossible to ever know the true intentions of a state, it is interesting to look into what may be driving China's increasing involvement in the Syrian conflict.

ON THE ASIAN INFRASTRUCTURE INVESTMENT BANK

By Yilun Cheng, BASC Research Assistant



Photo Credit: Takaki Yajima, Reuters

Proposed by China early in 2013, the Asian Infrastructure Investment Bank (AIIB) finally came into operation this January. In less than a year, the AIIB has lent out 1.73 billion dollars in total to support nine major energy and infrastructure development projects in the Asia-Pacific. Since then, more than thirty countries other than the fifty-seven founding members have voiced their intention to join the Chinese-backed institution. Jin Liqun, the current AIIB President, revealed that by the beginning of 2017 the bank would have more than ninety official members. Although the AIIB still faces significant challenges from both Japan and the US, there is no doubt that the bank would exert a crucial role in infrastructure development in the Asia-Pacific.

In the first place, with an initial funding of approximately \$50 billion, the AIIB could potentially help meet Asia's huge infrastructure needs, which are beyond the capacity of existing institutional arrangements. According to the Asian Development Bank's 2010 assessment, "Asia will need to invest approximately USD 8.22 trillion in overall national infrastructure for energy, transport, telecommunications, water, and sanitation from 2010 to 2020."¹ However, research by the World Resources Institute shows that during the 2014 financial year, the World Bank and the Asia Development Bank, both of which have been prioritizing poverty reduction, only spent \$24.2 billion and \$21 billion

respectively on infrastructure in the region.² Unlike other BRICS countries, China has sufficient reserves to make up this gap.

Moreover, China's growing expertise in building physical infrastructures such as railways, roads, electricity, and telecommunication networks is getting recognized in the international context.³ By 2014, exports value of China South Railway and China North Railway, China's largest state-owned rolling stock manufacturers, was each more than \$3 billion, with an increase of more than 60% compared to the previous year.⁴ Chinese-funded infrastructural projects also overlap with China's efforts to reshape the regional security architecture. The AIIB can be especially effective when in combination with other alternative structures promoted by China in areas of finance, trade and investment, security, technology, and informal diplomatic forums.⁵

However, the AIIB also faces substantial challenges. In the first place, China is relatively inexperienced in capital operation, and most recipient countries are developing countries with poor credit. Thus the bank's financial sector is likely to assume a low degree of openness and the market risk is relatively high.⁶ Also, unlike Japanese projects that are backed by profit-seeking private firms, Chinese initiatives are usually politically driven and can at times ignore

the projects' financial feasibility. For example, China's recent project to build pipelines in Myanmar reflects its political ambition to gain more influence in the Southeast Asia and does not involve private corporations wishing to make a real profit. As a result, the project was later deemed financially unviable.⁷

The fact that Japan and the US remain noncommittal to the AIIB also creates obstacles. Although the two countries claim to be mainly concerned with whether the bank would follow international best practices, their decisions are actually driven by what China labels "cold-war mentality." One US government official told *The Financial Times*, "We are wary about a trend toward constant accommodation of China, which is not the best way to engage a rising power."⁸

However, infrastructure investment in the Asia-Pacific is not a zero-sum game. The need for infrastructure investment in the region is so enormous that there is enough room for other multilateral developmental banks to exert their own influence. An additional development bank can only add more resources and create new opportunities for cooperation.⁹ The current institutional arrangements fail to recognize China's growing power. Take the Asian Development Bank for example. Japan and the US both control approximately 13 percent of the votes, while China can only influence 6 percent of the total votes, not to mention the fact that the president of the bank is always Japanese. China is at a similarly disadvantageous position at other mainstream institutions such as the World Bank and the International Monetary Fund where America and Europe take charge by placing a director from their own countries. Even though in 2010 the G-20 countries decided to increase China's IMF quota from 3.65 to 6.19 percent, the US did not want a bigger Chinese influence and refused to rectify the reform, which effectively killed the agreement. Considering this international context, China is bound to dedicate significant resources into building its own sphere of influence. Efforts at undermining the AIIB will almost certainly backfire and reinforce Chinese determination to build alternatives structures.

By refusing to take part in the AIIB, Japan and the US are also giving up their opportunity to get involved in the new organization's decision-making process. Despite criticism from the Obama administration, many of America's most loyal allies including the UK chose to join the AIIB as founding members so that they could influence the governance of the AIIB as insiders.¹⁰ America and Japan's participation could help ensure that the new bank complements, rather than rivals, existing institutions. At this point, both Japan and the US should be open-minded about future collaboration with China on specific investment projects.

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