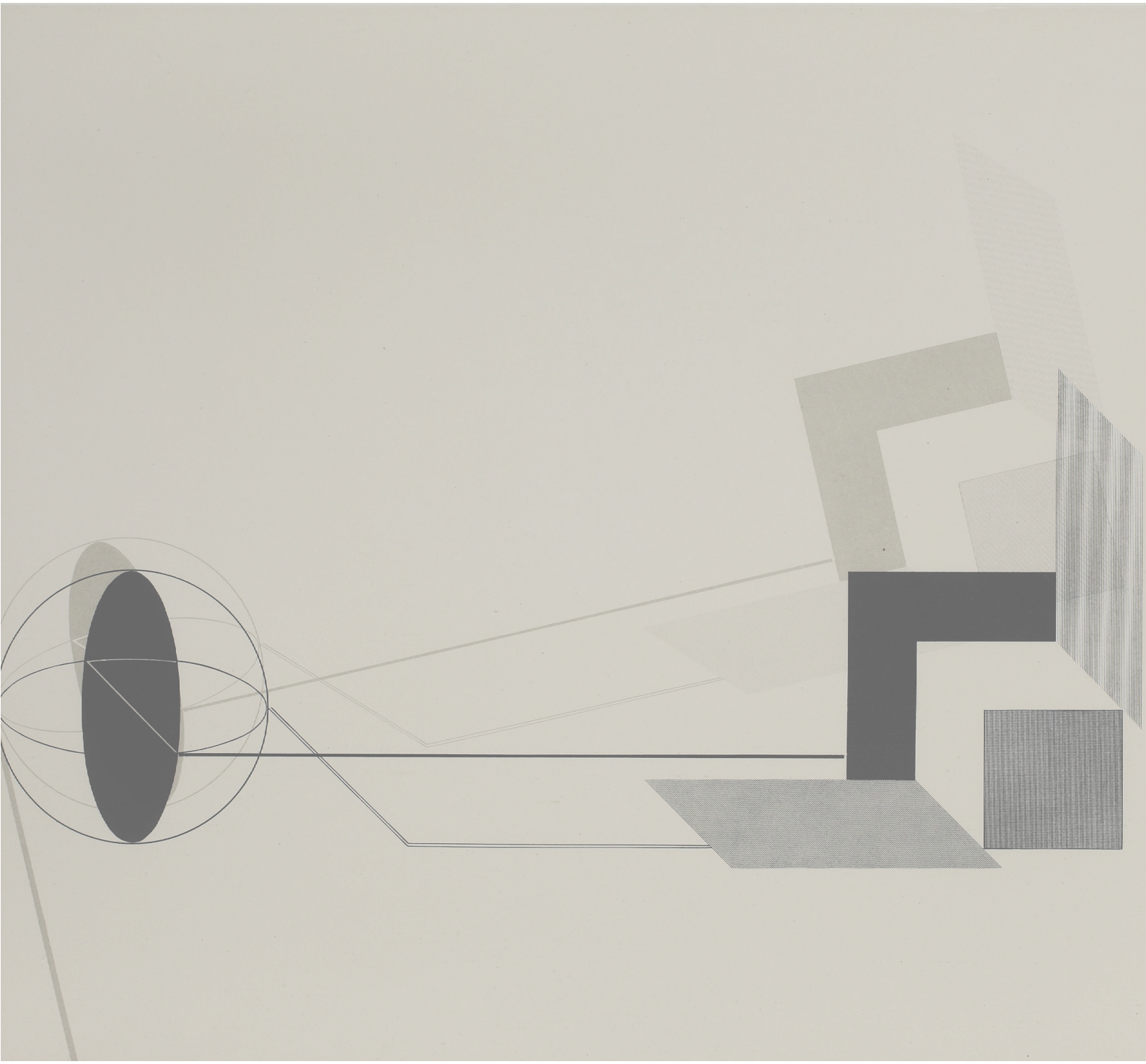
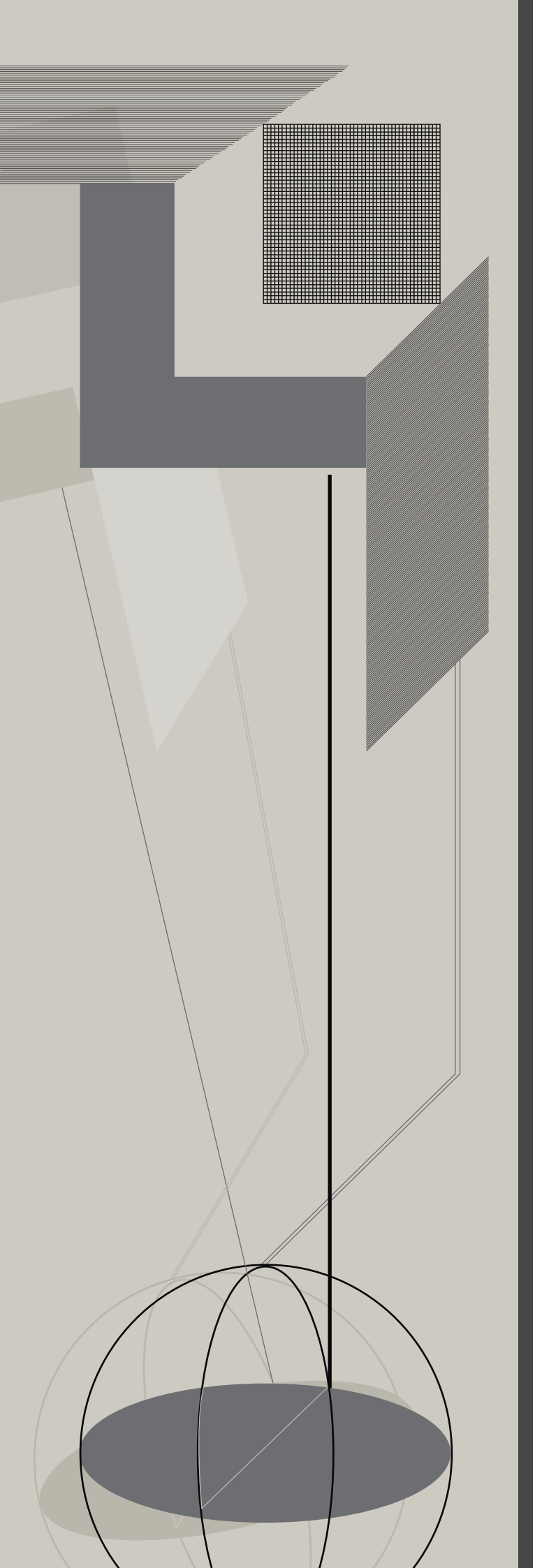
TRISTAN KENDERDINE



Petition for Doctor of Letters

26 August 2025



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Executive Summary

Kurt Vonnegut was denied a Master's degree in anthropology from the University of Chicago for a thesis that described the shape of stories.

I read most of Vonnegut's novels in my 20s, and sometime during my doctoral studies I watched a lecture where he described his thesis and drew the shapes of stories. I thought it was one of the best ideas I had seen in a long time.

I have a science friend who works on the supercomputer at ANU, and who should have had a PhD in physics, we were discussing teaching methods, and she said 'if you cannot draw a picture of it, you do not understand it.' I have often used this same principle.

At ANU I wanted to investigate the shape of institutional change, whether there could be a framework metaphor, a measurable outcome or method of investigation in the social sciences based on the shapes of institutions.

I was a PhD Candidate at College of Asia and the Pacific, Crawford School of Public Policy in Political Science and International Relations from 2015-2018. Perhaps I should have chosen a small project, something easy. But I wanted to find a way to map the shapes of institutions idea on to the emerging public policy of China's industrial policy.

My favourite line from the termination of that degree program was 'Tristan, this work is not of the quality expected at this institution.' I have told that story often, and am proud of it. Because I agree entirely, my work is not of the quality expected at the Australian National University, it is degrees higher.

A higher degree then now fits my purposes very cleanly.

I was right about China's industrial policy. Now everyone in the world is talking about China's industrial policy. But they were not in 2015. I was not ahead of everyone in the world, but I was ahead of most people in the world, and I was ahead of everyone at the ANU.

I continued my work alone, I continued in the field, I continued to publish. And now, ten years later, I have a portfolio of work that merits a Doctor of Letters higher degree.

The Doctor of Philosophy study that I enrolled in, proposed, completed and subsequently published was never recognised by the Australian National University. And yet ANU during that time graduated many PhDs in similar fields. How can I stand out in the research marketplace when I am better at both theoretical and applied research than ANU PhD graduates?

In petitioning for the Doctor of Letters (D. Litt.) higher degree, I am not seeking to redress any wrong under the PhD candidature. Rather, I am petitioning for recognition of a body of academic work that surpasses the level expected of a regular doctoral degree.

I want to use the English higher degree as something closer to a German habilitation, a recognition of mastery of multiple disciplines, the ability to produce independent and original work of the highest quality, and the ability to teach and supervise university students.

I am applying for Associate Professor level jobs in the Japanese university system to begin April 1 2026. The D Litt as habilitation degree would give me the doctorate that I have already earned, and formalise my position as a degree-holder able to supervise graduate students in university systems both in Japan and globally.

I have four social sciences book manuscripts in advanced stages. If I had an academic position, I

could publish them all within a short space of time for use as promotion to full professor. However outside the academy there is little incentive to publish these now, which would take away my future ability to be promoted by publication.

This petition is organised as a series of portfolio demonstrations, highlighting my existing published body of work. This is accompanied by arguments and statements on the work. Together the body of work here is clearly at the level of Associate Professor in an Australian university. And yet without any doctorate degree I am barred from working. All I am asking for is the right to work.

I have never been to a university graduation ceremony, and I do not want to start now. If you grant this petition for Doctor of Letters can you please send the certificate to:

PO Box 597 North Hobart, Tasmania.

In sincerity,

Tristan Leonard Kenderdine
26 August 2025

Australian National University

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G. Largely ignore this
- G1 Public outreach work

H. No one reads these

Navigation

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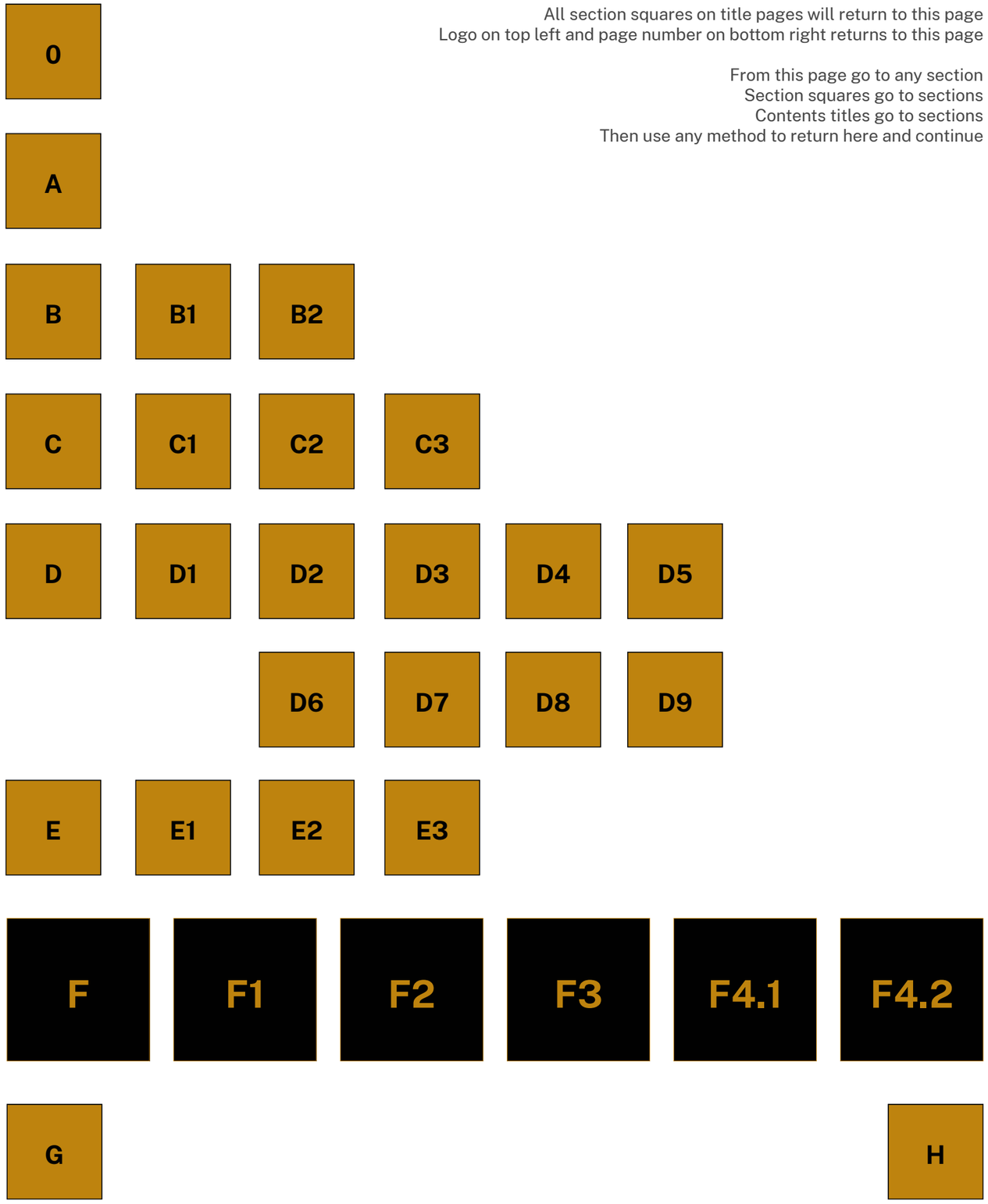

A

Is This It?

Petition submitted to the Deputy Vice Chancellor's Office

of

The Australian National University

In partial fulfilment of the higher degree requirements for

Doctor of Letters

D. Litt.

Tristan Leonard Kenderdine
26 August 2025

The application must:
(a) be in writing;

THE AUSTRALIAN NATIONAL UNIVERSITY

THIS IS TO CERTIFY THAT

FOLLOWING THE COMPLETION OF
AN APPROVED PROGRAM OF STUDIES

TRISTAN LEONARD KENDERDINE

HAS BEEN AWARDED THE DEGREE OF

DOCTOR OF LETTERS

GIVEN UNDER THE SEAL OF THE AUSTRALIAN NATIONAL UNIVERSITY

The application must:
(b) state the higher doctorate for which admission as a candidate is sought;

B

Who Is This?

Tristan Leonard Kenderdine

Research Director, Future Risk

Tristan is Research Director at Future Risk, working on China's geoeconomic policy in Eurasian states. Tristan has over ten years' experience as team leader and principal researcher for commissioned client research for Future Risk, Feng Insight, Claydon Gescher Associates, and China Policy. He has led research projects for government and industry clients such as the European Commission, German Ministry of Economic Affairs & Energy and Canola Council of Canada. Policy research has covered trade, industry, energy, agriculture, maritime, polar, security and transport policy, as well as aluminium, steel, grain and oilseeds markets. He has published widely in the fields of political economy, international relations, and political science. Tristan holds Master's degrees in both International Relations (UNSW) and Political Economy (Sydney), an incomplete PhD in Political Science and International Relations at ANU and Master of Laws in Polar Law at Akureyri, Iceland. His Bachelor's degree was in History and Asian Studies at the University of Tasmania.

Who I am

Founder
Founder, owner and Managing Director of Future Risk Australia Pty. Ltd. in Australia
Founder, owner and Director of Hansa Press LLC in Ukraine

At Future Risk, Tristan focuses on political economy and political geography approaches to China's geoeconomic policy in Central Asia and Eurasia. Both companies were founded due to the lack of viable institutions in higher education in Australia. I am essentially my own private university now.

Degrees

PhD [Terminated] Political Science and International Relations (Australian National University)

LLM Polar Law [Incomplete 60/90ECTS] (University of Akureyri)

MA Political Economy (University of Sydney)

MA International Relations (University of New South Wales)

BA History and Asian Studies (University of Tasmania)

Journals
Kenderdine has published original research papers in: Global Policy, Journal of Chinese Political Science, Eurasian Geography and Economics, Die Erde – Journal of the Geographical Society of Berlin, Asian Development Bank Institute, Asia and the Pacific Policy Studies, Central Asian Affairs, The World Economy, Copenhagen Journal of Asian Studies, MGIMO Review of International Relations

Shorts
Kenderdine has published op-eds in: Nikkei Asia, Financial Times, Straits Times, South China Morning Post, Arctic Institute, Middle East Institute, Diplomat, East Asia Forum, Global Policy, Policy Forum, Lowy Institute for International Affairs, Eurasianet, Central Asia and Caucasus Analysis, Global Policy, Kyoto Review of Southeast Asia, Russian International Affairs Council, Mir Peremen

In 2020 Tristan was joint-named for the annual Albert O. Hirschman award for the best writing on political economy by the Washington Post.

Media
Kenderdine has been quoted by news media such as: Reuters, Wall Street Journal, Bloomberg, Associated Press, The Atlantic, Radio Free Europe/Radio Liberty, Vlast South China Morning Post, Straits Times, Voice of America Mandarin, Newsweek Japan, Radio Azattyk, Asia Times, Merkur, n-tv

Has appeared in video interviews on BBC World News, Radio Free Europe/Radio Liberty, Asharq News and SBS Korea

Translations
Kenderdine's work has been translated into Japanese, Viet Namese, Chinese, Kazakh, German Spanish, French, Indonesian, Farsi, Arabic, Azeri, and Russian. His translated work has been published online, in traditional printed newspapers, and in books.

Books
His work has been included in books published in Beijing, Kyoto, Tokyo, Barcelona, and London.

Course Material
Kenderdine's work is on course reading lists at The Bush School of Government and Public Service at Texas A&M University and the National Chengchi University's Department of Diplomacy

Teaching
Kenderdine has taught postgraduate public policy at Australian National University and Dalian Maritime University, guest lectured at University of Akureyri, taught undergraduate linguistics at Da Yeh University and Shaoguan University, and taught high school at Choong Ang and Dachang High School in Korea, and Sa Nguan Ying and Chakkham Khanathon High Schools in Thailand

Influential Citations
His work has been cited by the United States Congress' US-China Economic and Security Review Commission, US Senator Marco Rubio's report on Covid-19, France's Ministry of Defence, Finland's Minstry of Finance, Viet Nam's Ministry of Agriculture, Kirkenes local government in Norway; the OECD, UNCTAD, Eurasian Development Bank. Asian Development Bank

Kenderdine's articles are also cited in Wikipedia in the languages of French, Spanish, German, Thai, Arabic, Russian, Czech, French, Polish, Portuguese, and Catalan

Peer Reviews
Kenderdine has served as peer reviewer for academic books and journals at: Oxford University Press, Routledge, Central Asian Survey, Polar Record, Marine Policy, Socio-Economic Review, Globalizations, Journal of Eurasian Studies, Post-Communist Economies, Journal of Asian Public Policy, Sage Open, OSCE Academy Policy Papers, East Asia Forum

Tristan Leonard Kenderdine
Research Director, Future Risk
26 August 2025

Profiles

The following profiles demonstrate to the Committee who I am. They also demonstrate that my research output is superior to ANU College of Asia and the Pacific PhD graduates. The weakest profile here is the ANU Research portal. After a while, I just started listing my private commercial companies as my research affiliation. If ANU had wanted more papers published in more journals, I could have been affliated with the ANU for all of these publications. No university wanted my publications, so I publish myself now as Research Director of Future Risk.

Google Scholar

Tristan Kenderdine

FOLLOW

Other names

Future Risk, Hansa Press
Verified email at anu.edu.au - Homepage

Political Economy Political Philosophy Political Geography Geoeconomics Political Anthropology

GET MY OWN PROFILE

TITLE	CITED BY	YEAR
China's Industrial Policy, Strategic Emerging Industries and Space Law T Kenderdine Asia & the Pacific Policy Studies 4 (2), 325-342	132	2017
International Capacity Cooperation—Financing China's Export of Industrial Overcapacity T Kenderdine, H Ling Global Policy 9 (1), 41-52	59	2018
Middle corridor-policy development and trade potential of the Trans-Caspian International Transport Route T Kenderdine, P Bucsky ADBI Working Paper Series	47	2021
China's Middle East Investment Policy T Kenderdine, P Lan Eurasian Geography and Economics 59 (5-6), 557-584	31	2018
Insurance Plus Futures: Agricultural Commodity Price Reform in China T Kenderdine Asia & the Pacific Policy Studies 5 (2), 331-346	29	2018
Death of the East Asian Goose and the Rise of China's Geoindustrial Policy T Kenderdine Journal of Chinese Political Science 23 (3), 437–453	15	2018
Caucasus Trans-Caspian Trade Route to Open China Import Markets T Kenderdine East Asia Forum	14	2018
China's Policy Banks Are Lending Differently, Not Less T Kenderdine, N Yau The Diplomat	13 *	2020
China's Anti-Corruption Campaign and Outward FDI by State-Owned Enterprises Z Qi, T Kenderdine, T Tang, Q Liu The World Economy	11	2022
Middle Corridor: Policy Development and Trade Potential of the Trans-Caspian International Route T Kenderdine, P Bucsky Asian Development Bank Institute Working Paper	11 *	2021
Is the Iron Silk Road Really So Important? Rail Freight Use on China's "Silk Road Economic Belt" P Bucsky, T Kenderdine MGIMO Review of International Relations 13 (5), 168-193	8 *	2020
Kazakh Land, China Capital: Exporting China's Project System to External Geographies T Kenderdine Central Asian Affairs 5 (4), 313-341	8	2018

Cited by

	All	Since 2020
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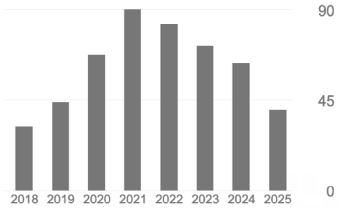

Co-authors

Péter Bucsky
University of Pécs

Google Knowledge Portal

Researchmap Japan

ANU Respository

Harvard Hollis

C

Who This Is Not

ANU Professors

Social sciences, full professors

So this is who should be granting PhDs, and whose work is supposed to be better than mine. And they have been paid for twenty years to do this.

Shiro Armstrong

FOLLOW

GET MY OWN PROFILE

Professor, Australian National University
Verified email at anu.edu.au - Homepage
international trade international economics

TITLE	CITED BY	YEAR
Measuring trade and trade potential: A survey SP Armstrong Crawford School Asia Pacific Economic Paper	225	2007
Asian trade structures and trade potential: an initial analysis of South and East Asian trade SP Armstrong, P Drysdale, K Kalirajan Available at SSRN 1767686	58	2008
RCEP: a strategic opportunity for multilateralism P Drysdale, S Armstrong China Economic Journal 14 (2), 128-143	51	2021
The politics of Japan–China trade and the role of the world trade system SP Armstrong The World Economy 35 (9), 1102-1120	46	2012

Cited by VIEW ALL

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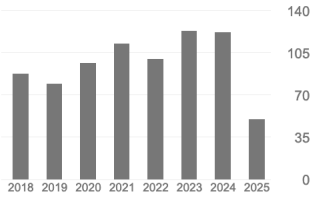

Amy King

FOLLOW

GET MY OWN PROFILE

Australian National University
Verified email at anu.edu.au - Homepage
China Japan international order ideas in International Relati…

TITLE	CITED BY	YEAR
Beautiful politicians A King, A Leigh Kyklos 62 (4), 579-593	196	2009
Are Ballot Order Effects Heterogeneous?* A King, A Leigh Social Science Quarterly 90 (1), 71-87	93	2009
China–Japan relations after World War Two: empire, industry and war, 1949–1971 A King Cambridge University Press	68	2016
Assessing the deterioration in China–US relations: US governmental perspectives on the economic-security nexus R Foot, A King	49	2019

Cited by VIEW ALL

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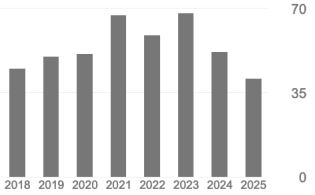

John Blaxland

FOLLOW

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Professor of International Security & intelligence Studies, Strategic & Defence Studies Centre
Verified email at anu.edu.au - Homepage
Australian military affairs security and intelligence Thailand Canada Southeast Asian security

TITLE	CITED BY	YEAR
The Australian Army from Whitlam to Howard J Blaxland Cambridge University Press	58	2014
The Protest Years: The Official History of ASIO: 1963-1975 J Blaxland Allen & Unwin	54	2015
Strategic Cousins: Australian and Canadian Expeditionary Forces and the British and American Empires JC Blaxland McGill-Queen's Press-MQUP	52	2006
The Secret Cold War: The Official History of ASIO 1975-1989 J Blaxland, R Crawley	37	2016

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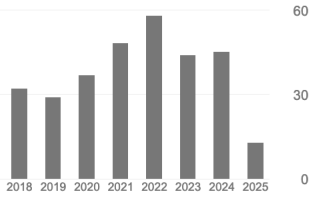

ANU PhD Graduates

Graduates with research careers

So look how far advanced I am compared to these ANU PhD graduates and early career researchers
And they are paid for their public works, while I was not.

Dirk van der Kley

FOLLOW

GET MY OWN PROFILE

Australian National University
Verified email at anu.edu.au
Geoeconomics International Political Econ… PRC Foreign Policy

TITLE	CITED BY	YEAR
China's foreign policy in Afghanistan D Van der Kley < bound method Organization. get_name_with_acronym of< Organization: Lowy …	32	2014
How Central Asians pushed Chinese firms to localize D Van Der Kley, N Yau Carnegie Endowment for International Peace.	26	2022
Securing the Belt and Road Initiative: China's Evolving Military Engagement Along the Roads N Rolland, M Duchâtel, MS Chase, K Gunness, Guifang (Julia) Zue, ... National Bureau of Asian Research	26	2019
Chinese companies' localization in Kyrgyzstan and Tajikistan D Van der Kley Problems of Post-Communism 67 (3), 241-250	23	2020

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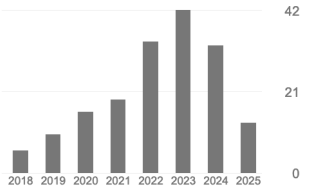

Nathan Attrill

FOLLOW

GET MY OWN PROFILE

Australian National University
Verified email at anu.edu.au
Chinese politics Chinese foreign policy international relations

TITLE	CITED BY	YEAR
Australian debate of the China question: the Covid-19 case DJ Lim, N Attrill Australian Journal of International Affairs 75 (4), 410-431	10	2021
Supply chains and the global data collection ecosystem S Hoffman, N Attrill Australian Strategic Policy Institute	6	2022
China's Cyber Vision: How the Cyberspace Administration of China is Building a New Consensus on Global Internet Governance N Attrill, A Fritz Australian Strategic Policy Institute	5	2021
The influence environment A Joske, L Li, A Pascoe, N Attrill	3	2020

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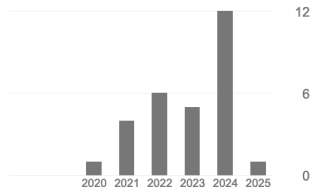

Benjamin Herscovitch

FOLLOW

GET MY OWN PROFILE

School of Regulation and Global Governance, The Australian National University
Verified email at anu.edu.au - Homepage
China's economic statecraft…

TITLE	CITED BY	YEAR
A Balanced Threat Assessment of China's South China Sea Policy B Herscovitch Cato Institute	23	2017
A fair go: fact or fiction? B Herscovitch Centre for Independent Studies	16	2013
Localization and China's Tech Success in Indonesia G Priyandita, D van der Kley, B Herscovitch Carnegie Endowment for International Peace.	14	2022
Australia's Asia literacy non-problem B Herscovitch	11	2012

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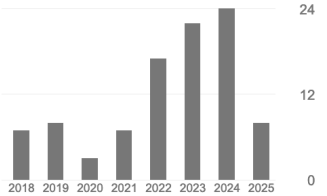

International Professors

Equivalents to College of Asia and the Pacific Professors

Am I not equivalent to these people? In the same conversation? I would argue that I am Associate to their Full Professor. What I am not is a graduate student without a doctoral teaching licence.

Lynette H. Ong

FOLLOW

Professor of Political Science, University of Toronto
Verified email at utoronto.ca - Homepage

Comparative Politics Authoritarian Politics Social Mobilization Political Economy of Devel…

TITLE	CITED BY	YEAR
State-led urbanization in China: Skyscrapers, land revenue and "concentrated villages" LH Ong The China Quarterly 217, 162-179	313	2014
Fiscal federalism and soft budget constraints: The case of China LH Ong International Political Science Review 33 (4), 455-474	112	2012
Thugs and outsourcing of state repression in China LH Ong The China Journal 80 (1), 94-110	105	2018
Between developmental and clientelist states: Local state-business relationships in China LH Ong Comparative Politics 44 (2), 191-209	101	2012

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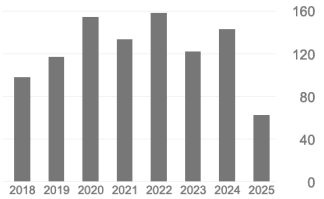

Pavin Chachavalpongpun

FOLLOW

Professor
Verified email at cseas.kyoto-u.ac.jp

Thailand's politics

TITLE	CITED BY	YEAR
A plastic nation: The curse of Thainess in Thai-Burmese relations P Chachavalpongpun (No Title)	119	2005
Reinventing Thailand: Thaksin and his foreign policy P Chachavalpongpun Institute of Southeast Asian Studies	104	2010
" Good Coup" Gone Bad: Thailand's Political Development since Thaksin's Downfall P Chachavalpongpun Institute of southeast asian studies	73	2014
The politics of international sanctions: The 2014 coup in Thailand P Chachavalpongpun Journal of International Affairs, 169-185	67	2014

Cited by	All	Since
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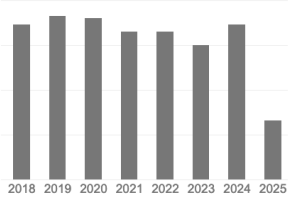

Stephen R NAGY

FOLLOW

Other names

Professor, Department of Politics and International Studies, International
Verified email at icu.ac.jp - Homepage

International relations Japan Sino-Japanese US-China-Japan Relations Indo-Pacific

TITLE	CITED BY	YEAR
Politics of Multiculturalism in East Asia: Reinterpreting Multiculturalism SR Nagy Ethnicities 14 (1), 1-17	53	2013
Territorial Disputes, Trade and Diplomacy: Examining the repercussions of the Sino-Japanese territorial dispute on bilateral trade S Nagy China Perspectives 2013 (2013/4), 49-57	42	2013
Nationalism, domestic politics, and the Japan economic rejuvenation SR Nagy East Asia 31 (1), 5-21	29	2014
FROM TEMPORARY MIGRANT TO INTEGRATED RESIDENT: LOCAL GOVERNMENT APPROACHES TO MIGRANT INTEGRATION IN THE TOKYO METROPOLIS	24	2012

Cited by	All	Since 2020
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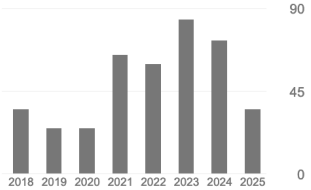

D

Read This

Petition

A doctoral dissertation is around 80,000 words. I have one of those if you would like to see it? But I am banned from submitting it to the ANU repository. And because I published so many of the chapters, now the book project is not attractive to publishers, because almost all of my PhD thesis is already published. But while ANU is graduating PhDs on 80,000 words of unpublished work, I am presenting here a petition for an earned D Litt on 250,000 words of published material. Surely I can get something for all of this academic work so that I can take up a basic teaching role?

A PhD needs to be a sustained philosophical argument; my D Litt work is a multiplex of sustained arguments across multiple philosophical fields. My philosophy is better. A PhD needs to be original work; my D Litt is published original work. My work is more original. A PhD requires a literature review; I am now an established academic book reviewer with top university presses in the United States, and a peer reviewer in the journal system. My literature reviews are better. A PhD does not need to be read; my work is read, shared, debated and informs global policy discussions. My work is better than a PhD, so I argue that I am now in the D Litt higher degree territory.

Work

The work presented in this D Litt petition is a series of anthologies. Across the five anthologies, work totals over 600 pages of published materials, around 262,000 words.

Academic journals: c. 100,000 words, c. 250 published pages
Magazines: c. 18,000 words, c.50 pages (24 double spread)
Book Reviews: c.44,000 words, c.100 published pages
Short research articles, commentary, and intervention: c. 100,000 words published, c. 300 pages

The short pieces are not journalism. They are research outputs, in short form. Sometimes it was commentary, but mostly it was source-based research. This is actually a good exercise to anthologize the work, as some pieces are starting to become unavailable to the public, meaning originals are now disappearing. In politics, things move quickly, and publishing a well-timed research-based note in the Diplomat magazine reaches a wider audience and is more impactful than collecting ten of them and trying to squeeze them through the journal system.

Concurrently to this work, as I was a self-funded (unpaid) PhD student while at ANU, I worked around forty research projects totalling many more words and pages than I published under my own name. That is to say, I did about double the work I can show you, my non-disclosure limited private research work is as least equal to my published work over the ten year period.

I also have unpublished manuscripts that have been developed over the same time period, including ten more journal articles close to publishable form and four book manuscripts.

So, I ask you: how can I show people that I am better than an ANU PhD graduate? What certificate can I show a Japanese university now to demonstrate that I am better than the graduates of Crawford Policy and Governance? How can I show people that I would not be moved from the College of Asia and Pacific, where in Japan these are exactly the colleges I am applying to?

Quality

I taught Australian Awards Scholarships students at Crawford School of Public Policy. I know how low the standards of scholarship are at ANU, College of Asia and the Pacific and Crawford. No one can tell me that my work was worse than those AAS students. And look around the cohort of PhD graduates from my era 2015-18, there is no one that comes close to matching my output or my quality. Perhaps some of the anthropologists in RE&D did more sophisticated work, but in the POGO

program, my work has been far superior to anyone's that the ANU graduated.

ANU

Can I demonstrate a connection to the university? I published over 100 articles with the byline Australian National University, College of Asia Pacific, or Crawford School of Public Policy. I promoted the school's name in newspapers in Singapore, Hong Kong, Taipei, and Tokyo. I carried the school's name into journal publications at the George Washington University, Durham University, London School of Economics, Cambridge, and SOAS London. Who else in my PhD cohort did this? This is why I petition ANU for an earned D Litt, because I did so much more than a PhD, and because I did my doctoral work through the ANU.

One of the main things I want the emphasise in this application is that I was ahead of the world, and ahead of the university. Everyone is talking about China's industrial policy now. But in 2015 and in 2017 no one would let me study it. A university should be a place of free enquiry, and a place where progressive ideas are tested, and new research rewarded. Instead ANU was a tired place of mediocrity and uninventiveness, where my research project proposal fell on the deaf ears of those who had already failed in life, and who did not want to see someone rise past their own mediocrity.

Future

I want to close up this ten year research period and move on to newer projects. That could be writing up the books, taking a heavy teaching load in Japan, or chasing grants in private research again. My private research contracts have been veering towards the security space lately, and I am focused on the United States defence establishment for that work, certainly not wasting my time with the Australian level of research. I could not do this kind of work in Australia, no one would fund it. But with a D Litt I could take a university professorship in Japan, and with that base continue to compete for US-funded grants. There is no future for me in the Australian university system, but do me the dignity of being allowed to leave habilitated.

PhD or D Litt?

Some people put everything into getting a nice degree from a name school and then doing nothing. I've gone the other way, I've only ever been to standard public universities, and I've done the work and published it instead. I did a PhD at ANU 2015-2018 but was terminated for lack of supervision. I continued the work alone from the field (China and Kazakhstan) and published the thesis chapters as individual journal articles.

The original ANU PhD which is now Policy and Governance was Political Science and International Relations. That's what I think I should be a D Litt in. D Litt (Political Science and International Relations). Though my project's work spanned International Relations, International Political Economy, as well as real Political Economy, Political Anthropology, and Political Geography. I feel comfortable supervising PhD students in those five disciplines plus history. If there needs to be a single discipline attached to the D Litt, I would recommend International Political Economy, if I could choose for myself although underserved, I would call this work Political Anthropology.

I have over 200 articles now, and I guess the crux of the argument hinges on whether 100,000 words of newspaper and blog posts counts the same as journal articles - I genuinely think that they do given the quality I put out and how broken the journal system is. One timely political piece based on 'new to the world' research published in The Diplomat is genuinely worth more than a tired 10,000 worder published three years after the political event.

Citations and impact in social sciences are harder to measure, but for example I have now what the head of school had when I was terminated, I have more now than the full professors there had in 2015 when they were Associate Professors, and it's a similar story comparing with heads of international affairs schools in Toronto, London, and Singapore. The ANU Deputy Vice-Chancellor of Research has 2000 career citations in social science, so my 500 as a non-academic is strong. My work is certainly much stronger than any PhD graduated by Crawford School since its inception. So, how can I be better than everyone that Crawford has graduated, but still have a worse degree?

So I'm at the mid to upper end of Associate Professors already. That's not conventionally D Litt territory, but then I should be an Associate Professor already and not need a doctorate degree to be able to migrate out of Australia. I also need something that lets me stand out from other ANU CAP PhD graduates, and also from mediocre professors. If this work isn't better than a PhD or equal to an Australian professor then what would be? A couple of sole authored monographs at Cornell? They are coming. But I need to be able to work, and I cannot get a job without a doctorate. What does better than this look like?

One criticism I heard a lot while an ANU PhD student was 'it is unclear how all of this fits together.' If after reading this document it is still unclear to anyone how all of this fits together, then the burden of cognitive responsibility is very much no longer on my shoulders.

The point here is that in the PhD, I was not able to communicate directly, cleanly or succinctly, whether through protecting people keeping state secrets, maintaining non-disclosure agreements, or rightly or wrongly imagining that I was protecting other people. The university on the other hand, has no reason whatsoever to not make their processes as clean and clear and operable as possible. Most universities have mottos along the lines of lux et veritas. Universities in this generation have strayed very far away from the pursuit and defence of truth and light. And we are entering a period of profound darkness.

If anyone thinks that this is an easy way around a PhD, let me submit my thesis for the PhD. And also let's see the same publication requirements for future PhDs from College of Asia and the Pacific. I went on a wild journey, I lost a lot in my life. But I made this. Anthologize it, wrap it up and let me take up a teaching position now.

Scholar

What kind of scholar will I be with a D Litt but without a PhD? Well, a much better one I think.

Who I am like: I'm like the pioneers who did MBAs in the 1980s when everyone else was too scared to abandon the traditional academic path. Like the entrepreneurs who went to Southeast Asia and China already in the 1980s when Japan was the safe international business bet. Now everyone wants the previously unconventional MBAs and everyone piled into the China story. But it takes courage to forge new paths, I did a doctorate by publication – no one can deny that. But it was too unconventional, too risky, too pioneering. But already the PhD by publication is becoming standardized, encouraged and rewarded: the mediocre students stay and do PhD theses that no one will ever read, and the people like me have international reputations and work abroad.

Who I am not yet: Oe Kenzaburo was my intellectual hero. And I still feel that there is enough time to expand my world to be closer to something like he did. Like Oe, I am from a backwards and poor part of an an otherwise wealthy country. Unlike Oe, letters, learning, and publications are not respected in Australia and are not attached to the social mobility required to have a normal life such that writing and research can be pursued.

Who I want to be like: the founder of Keio university, Fukuzawa Yukichi. He founded a school of Dutch studies in 1860s Japan. Trying to understand not simply European maritime technology, but the Protestantism and philosophies that led them to these new technological and geographical horizons. This was super progressive. Fukuzawa's ethos of Independence and Self-Respect to me puts Keio far ahead of the ANU. Australian universities are now hollow, a façade of learning. People pretend to be interested in technology, but where is the philosophy? Where is the superstructure? How can we feel our way forwards from here? Because the universities are flailing. Those of us outside the traditional academic system are pushing the way forwards. To be able to institutionalise this oneday like Fukuzawa did would be the ultimate goal.

I will go and I will make something new. With you or without you. But ANU will always be left holding my name as I take your name and surpass it. I have self-respect, and I have my honour. Do you have enough self-respect to now grant me a degree that costs nothing to you?

ANU Rules

To be absolutely clear – I am petitioning for an earned doctor of letters, not an honorary doctor of letters.

I am also not doing this from hubris, but from practicality. I need a doctorate degree to take up an Associate Professor's position in the Japanese university system, and the path to a higher doctorate degree is clearer and fits better for my case than the old PhD.

I have four book manuscripts drafted. But I would like to use them for promotion from associate to full professor once habilitated. Which means I need a doctorate degree first to get the Associate Professor position.

You must apply in writing to the Deputy Vice-Chancellor (Research and Innovation) (DVC.Research@anu.edu.au). The application must:

(a) be in writing; and
(b) state the higher doctorate for which admission as a candidate is sought; and
(c) include complete details of the person's qualifications and, if relevant, professional experience.

The applicant is eligible to be considered for admission as a candidate for the higher doctorate if:
(a) the applicant:
(i) holds a degree of the University; or
(ii) holds an award of another university that, in the Deputy Vice-Chancellor's opinion, is equivalent to a degree of the University; or
(iii) the applicant is, in the Deputy Vice-Chancellor's opinion, otherwise qualified to be a candidate because of the applicant's eminence in learning or creative achievements; and
(b) the applicant:
(i) is a full-time member of the academic staff of the University and, during the previous 10 years, has been employed as a full-time member of the academic staff of the University for a total at least 3 years; or
(ii) has, or has had, a connection with the University that, in the Deputy Vice-Chancellor's opinion, is at least as equivalent as the connection mentioned in subparagraph (i).

This document

(a) be in writing; and

Earned Doctor of Letters D Litt

(b) state the higher doctorate for which admission as a candidate is sought; and

Sections D of this document

(c) include complete details of the person's qualifications and, if relevant, professional experience.

Former PhD Candidate at ANU College of Asia and the Pacific; master's graduate of Sydney University and University of New South Wales

The applicant is eligible to be considered for admission as a candidate for the higher doctorate if:
(a) the applicant:
(i) holds a degree of the University; or
(ii) holds an award of another university that, in the Deputy Vice-Chancellor's opinion, is equivalent to a degree of the University; or
(ii) has, or has had, a connection with the University that, in the Deputy Vice-Chancellor's opinion, is at least as equivalent as the connection mentioned in subparagraph (i).

Why not just do a new PhD? Pay me the equivalent of a 3-year APA and I can deliver a PhD thesis into the repository in three weeks. Otherwise, I worked for you for free for four years, where is the incentive to work another 3-4 years for free for your corporation?

I cannot afford to keep doing research for free, because I already did one and published all my research findings, so why do the same thing again when the results last time were poverty, ruin, ridicule and strife? At ANU, where would the incentive be for me to trust your institution again? At a global university, who would take me as an entry-level PhD student when my publications are better than any supervisor I would find?

Simply put, I did more than a PhD, and I got less than the result. This is tall poppy manifest.

Connection to University

I graduated University of Tasmania, University of New South Wales, Sydney University and was expelled from Australian National University.

Where should smart, hardworking people go in Australia? University? Government? Judiciary? Business? There persists a culture of mediocrity in Australia particularly around anything institutionalised. Our institutions reward the average, elevate the mediocre and shun progress, intelligence, questioning, and truth.

Habilitation

Und ziehe schon an die zehen Jahr

I would like to be able to apply for the D Litt terminal degree as the equivalent of a German habilitation, to then use as a teaching degree in Japanese universities.

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When I was very young, I was read a Rupert the Bear book. It had a main story with pictures and dialogue, a more advanced English story, and a simple English story. I was struck by the layered and parallel story-telling, which created access. Those that could only view pictures could follow along, those that could read basic English could follow a little more, and those with better English could enjoy it on as many levels as I can.

A standard PhD degree is around 80,000 words on a chosen topic, most of which will never be published and will sit in a repository unread until someone becomes famous enough to need to dig dirt on. While my breadth is quite wide here, I am offering 250,000 words of published material. It was on a defined topic, a ten year project, a journey which is now over. 2015 to February 24 2022. And to anthologize the work here, present it for accreditation, and in the German sense apply for habilitation is apt.

At my TPR I said that Hegel, Kant, and Marx had all been allowed to present PhD theses. And that I was incredulous that I was not allowed to. The examiners questioned my comparing myself to these three. Now I would say again of these three: that they did not need to become full-fee paying international students to complete their studies. The modern university is essentially a Prussian institution, and the Prussian state higher education system means that it would sound ludicrous for G F W Hegel to have to travel to the London School of Economics or Columbia University in New York to complete a study of my quality because no Australian University was willing or able to supervise me.

What am I graduating? Certainly not Sinology. Political Economy? International Political Economy? Political Science? International Relations? Something new? Where the new is in a political geography or a political anthropology that has not quite been formed, At the core of it is the pure gonzo research of Hunter Thompson, the shape of stories of Vonnegut, and the reiterative divergence of Maurice Sendak.

Can I teach other PhDs now? I can very easily offer the world the level of PhD supervision I myself received at ANU. But in earnest, yes given the level of PhD graduate I have supervised in private research, I have guided, molded, edited, pushed back, and otherwise shaped younger minds on their research journeys and can easily formalize this in a public university setting.

But what do I want to teach? Undergraduate History of Political Philosophy at Keio University in Tokyo or 19th Century History at the Faculty of Letters at Kyoto University. Something like this. I want to migrate out of Australia. I am not asking for a degree to hang around the Australian system and vie for ARC funding and teach third-rate international students.

This D Litt is an habilitation. I'm better than the PhDs. My work shows this, my citations are not extraordinary for a stellar US Ivy League PhD, but better than ANU PhD graduates. I can show you scholars in my peer group from Keio, Harvard, Berkeley, and Washington who I think are better scholars than I am. I can show you raw intelligence thwarted by political prison, and education bureaucracy that is greater. But for someone without a doctorate, I am King of the Outsiders.

I once met a guy at a party in Beijing and realised his crystalline cube of intelligence was beyond

me, I once knew a lady who had come second in the Kansai region high school chess competition and who first made me realise there was a strength beyond my own, I knew a lady of pure raw intelligence that consumed her with rage and hatred for the world that was manifested in only darkness, and I knew a lady once, at ANU, the highest of ladies, of a personal respect so high, an ability so deep, and a sharpness so keen that nothing escaped her. I knew four people in the world outside my family whose intelligence I respected like this. It is rare. I am rare. And I am higher. I petition those involved to invoke a committee to assess my work and I in earnest ask to be granted the degree Doctor of Letters, because it would be right to do so.

I did not do this alone, but I did it by myself. I did not need you for the work. But I need your signatures now to progress.

Personal Statement

I graduated with a Bachelor of Arts aged 20. At bachelor's level I was offered Honours in three disciplines: Philosophy, History, Asian Studies. I did not do an Honours year for three reasons:

- It seemed like the most mediocre people were doing them
- I thought the future of education was US style education in Asia, foreseeing the Master's trend
- I had an opportunity to go into the field and work in Thailand

At master's level the higher education reforms meant that as a 22 year old who had migrated alone from Tasmania to Sydney I was hit with:

- Deregulated tuition pushing annual university fees from $3,500 to $20,000
- No government support for postgraduate research students under the age of 25
- Work for Dole for students relying on Newstart payments
- Work Choices for those pushed out of the university system into the workforce

As a result of these reforms, all the smart people I knew in our early 20s left the university system. Most ended up emigrating to better countries. I left university at age 22 with an MA from UNSW and went down to work in a hotel in Sydney for four years. Then I too left Australia, hoping to never come back.

At 29 I was living in Taiwan, teaching undergraduates, formally a Lecturer in the School of Modern Languages at Da Yeh University, in reality not much more than a generic English teacher. I had escaped Tasmania, escaped Australia, escaped poverty. I was eating mangoes, oysters, salmon, drinking Kirin beers. I could import books from US Amazon, I was renting a three-bedroom apartment.

I took a risk. I decided to try to come back to Australia to finish my education and break into research. I did this with the hope of returning to Taiwan or Japan in the future to be teaching, but teaching a discipline, international relations, political economy, political philosophy. ANU is now trying to develop a joint Asia-Pacific degree with Ritsumeikan University – I would have been the perfect person to be teaching on both sides of this degree.

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I came back to Sydney, worked full-time nights and studied full-time for a second masters, in political economy. A tough year but doable in Sydney where working class work was available, albeit still on Work Choices contracts with no penalties. Then I found it: a research internship in Beijing at China Policy. If I ran as hard at that as I had run in Sydney, I could carve out a place for myself. I quit my job, the last time I have ever been formally employed, and went to Beijing again carrying everything I owned. It worked, I succeeded, it was a learning environment and I grew.

Now, 31. PhD offer from ANU. Still not too late to make it. If I run hard, if I run hard. But to run hard there must be clear guidelines. Structure. Supervision. Money? Would there be a stipend? Who knows, but I had to leave Beijing. Between a Sydney University degree and a China Policy internship I was then $25,000 in credit card debt. Could I get through the three-year PhD at ANU, get out with a doctorate and get back to stable employment in an East Asian university?

Crawford School of Public Policy. There is a famous scene of Mohammed Ali being 'held back' by his trainer ever so lightly touching his chest with two pointed fingers. 'You're lucky he's holding me back.' There is a lady somewhere in the world who depends on the reputation of the ANU for her career. She no longer knows if I exist or not, but my desire to protect her reputation is what has always held me back from going public on the intellectual horrorshow that was Crawford – The

Goulburn Graziers' Association had more intellectual depth than the College of Asia and the Pacific in my experience. Paying Sydney-level rents in Canberra with no APA and no welfare system income support to receive the vagaries of supervision from the ANU was not simply unrewarding, it was financial suicide.

So, I went back to Beijing where my work was valued, where I was mentored, where I grew, and where I contributed to some really great work. Great methodology, great output, and paying clients that read what I wrote, and took policy suggestions seriously. I traded up from a university that was not much past mediocre, to a policy research house that saw me delivering research to clients in government and industry, and where I built a personal reputation.

But I'm from Tasmania. I'm from poverty. I'm from a garbage education system. I left home at 16 and made my own way in the world without any family support and with the barest of any help from any university. I always knew that I still wanted to end up with a teaching position in academia somewhere, a failsafe so that I could live in Japan and never have to return to Tasmania.

After leaving the research position in Beijing I went to Kazakhstan to try to finish the ANU PhD by publication. From eight chapters of the original thesis, five were published by the end of the 2015-2018 PhD period. The fifth chapter, I was standing in the post office in Almaty, with a blackened eye after being attacked outside my apartment, sending the signed publishers agreement to the Netherlands. No support, no supervisor, no job, alone in Kazakhstan but I had done it, I had completed my PhD work, and published the fifth chapter. Result: expulsion from the Australian National University.

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I did something big, I did big work. It was done. I could move on. But move to what? This is who I have become now, a researcher and a writer. So without the ANU PhD I just kept going, back into the field in Kazakhstan, Covid pandemic in Tbilisi, Georgia, post-pandemic into Ukraine, and then after being caught in the war, into the European Union as a refugee.

I went somewhere deep, I studied broadly. I took chances, and tried to find answers. I came out of Beijing with the state economic plan on the Belt and Road. I setup in the Heart of Eurasia to see how that plan would play out, I pioneered a place that journalists and academics came to seek me out. And when the facts changed, I changed my mind. And when the geopolitics changed, I reacted. Such that the ten year period on the Belt and Road ended up mirroring the Middle Corridor: a journey from Beijing-Almaty-Tbilisi-Lviv. Eight years of fieldwork, a mountain of publications, and work that I did not need the ANU for.

But now back in Australia, I am on hiatus, looking for the next thing. That should logically now be teaching, and teaching in a good Japanese university is the next clear step for me. A Doctorate degree would let me go back to teaching but at the right level this time. Even without what comes next, I want to close up this ten year 2015-2025 research period and move on to newer projects. That could mean a research professorship writing up the books, I have three solid, plus one weaker book manuscripts drafted.

Or there's a Japanese university in Kyushu in much the same geographic environment as the Taiwanese university I left in 2013. Ritsumeikan Asia Pacific University is a place I could walk in to with an ANU doctorate. It has taken me ten years instead of four, but there is a very easy way for this to all come around, and for me to be again in East Asia, teaching and researching and publishing, and to have completed the cycle.

I have many degrees, but I have never been to a graduation ceremony. I do not want a ceremony now. I would just like the degree posted to a PO Box in Tasmania, so that I can then use it in visa applications to Japan to take up positions within Japanese academia. Please, I can have the job if I only ask, just allow me the qualification to be able to work.

Professional Experience

I am from a working class background in rural Tasmania. My mother then had a stroke when I was 16 and I lived the world alone without any family support. Once government support for studying was taken away in 2005 under the Howard higher education reforms, I dropped out of school and worked. Four years in hotels, and then four years English teaching in East Asia – always with the idea that I could work towards coming back to university once my money was better, and with the East Asian experience I would need to pursue a doctorate on either the politics of one of the Asian countries I had focused on or a regional integration project.

Where a university bachelor's degree was a way out of poverty and misery in Tasmania, in later life the universities ceased their social mobility function and it was commissioned research that became my vehicle for advancement, where my work was assessed against markets, where I sank or swam, and where I lifted others rather than be supported. During the doctorate, the ten-year research period and the intellectual maturation under the publication period, four major companies were involved: China Policy, Feng Insights, Future Risk and Hansa Press.

So, rather than university research, I worked in research and publishing for ten years:

China Policy: My start into research did not come from a university. Instead I found a private enterprise in Beijing doing really strong work on politics and economics research. It was entirely focused on domestic Chinese politics. Headed by a former diplomat and an academic émigré – they had both seen a decline of the university and instead developed a research centre privately, training hundreds of interns and research managers, mostly young people in between a master's and a doctorate.

Feng Insight: Consulting means having to make money, facing the market alone. Where China Policy had the better methodology, Feng was able to bring in the better clients. At Feng I was lucky enough to find a great mentor as well, and this mentorship was worth more than any other company or university could offer me. The projects we did here were outstanding works of macroscopic thought. I learnt about clarity of writing, of creating policy, of presenting visually, speaking to convince, and writing to cover all corners of the Earth. This was a writing apprenticeship as much as it was learning how to commercialise social science research.

Future Risk: Business isn't business unless you risk your own money. It was too early in my research career to try to start out alone. But events in the former two companies meant I was not being paid what I was worth, and not a large enough share of the big projects I was bringing in. I was still living on $12,000-18,000 a year, only possible while residing outside Australia. For working for so little, and also carrying a PhD candidature, I thought I might as well take the hard years now and begin building the company, structure, reputation and output that might start to turn into stable income after the first three years or so.

Hansa Press: What would 'making it' look like in this world? Well, to establish a social sciences publishing house that fills the niche that the academic publishing world and the universities have left vacant. So at journey's end, I was not trying to buy the big house on the hill, I was trying to develop something that should have already existed within the ANU: a world class social sciences academic publisher. I do not have the cultural cringe, I do not that that being born in Australia means we have to make do with less. But in Ukraine, I saw an opportunity to create something that the Australian universities lacked.

So now looking back on the ten years of commercial research and publishing work, it is clear to say that I have done more public academic work than anyone from my PhD cohort, and most of the ANU professors from my time. And I have done that not as an employee of any university, but instead

alongside working to pay for the privilege of publishing academic work for free. I did far better work than if I had stayed in the university, and the university made it very clear that they did not want me anyway.

But first Covid changed a lot, and then the Ukraine war impacted my ability to work in cheaper economies. I came into the EU as a Temporary Protection refugee from the Ukraine War as I had Ukrainian residency at the time the war broke out. For many years I did not need an Australian doctorate, because I felt I was doing better work. The PhD path is closed for me now, but the D Litt recognition of my work can formalize this professional portfolio of academic and political research that I have developed.

I now need formal employment. I could walk into an Associate Professorship in Japan, where I want to migrate to, if I had a terminal degree. I have no interest in Australian academic work or the corporate academic model. But to enter the Japanese system I need a doctoral qualification. I have done the work, I am as qualified as most Associate and even full Professors. 2026 should be the intersection year – where the public academic publications and the private commissioned research come together, where I can build an office and a life and hopefully move forwards with the more important things in life.

Research Works Completed while a PhD Candidate and in the following years:

— Failure to Launch: Kazakhstan's Stalled COVID-19 Vaccine Program, Vaccine Transparency and Accountability, Innovation For Change, Almaty 2023 (coauthor)
— Union Building on the Belt and Road: Pakistan, Kenya, Kazakhstan, Mongolia and Thailand, International Transport Workers' Federation, London 2022 (research coordinator, principal investigator)
— Mapping Global China-Belt and Road Initiative Map Project, New York University, New York 2022 (web design, development and data strategy)
— Integrating CAREC Region: Policy Research for Regional Integration of Maritime Transport Access in Kazakhstan, Kyrgyz Republic, Uzbekistan, Tajikistan and China on the Ob' River Corridor, CAREC Central Asia Regional Economic Cooperation Program of the Asian Development Bank, (principal investigator), Urumqi, 2021
— China-India Relations and Kazakhstan: Reconceptualising the Regional Multistate Paradigm, Committee of Science of the Ministry of Education and Science of the Republic of Kazakhstan, (co-investigator), Almaty, 2021
— Trans-Caspian Transport Corridor: Infrastructure and Trade, Asian Development Bank Institute, Tokyo, 2020 (coauthor)
— *Non-Disclosue Agreement*, 2019
— Policy Submission to Australia Foreign Policy White Paper, Australia Department of Foreign Affairs and Trade, Canberra, February 2017 (author)
— Palm Oil Intelligence Visualisation Project, commissioned by Palm Oil Analytics, Singapore, February 2017 (author)
— Essential Palm Oil Statistics 2017 commissioned by Palm Oil Analytics, Singapore, December 2016 (author)
— Advance EU Access to Financial Incentives for Innovation in China, commissioned by the European Commission, Brussels, July 2016 (junior expert)
— Understanding Chinese Legal Economic Reform, commissioned by the European Commission, Foreign Policy Instruments, Brussels, 2016 (EU-CLERA EU-China Legal and Regulatory Reform Agenda manager)
— China Restructures Agricultural Support, commissioned by the European Commission, Brussels, July 2016 (coauthor)
— China and CCAMLR — Building a Science Power, commissioned by Pew Charitable Trusts,

Washington DC, May 2016 (coauthor)
— Policy Process and Policy Risk in China, confidential report commissioned by BHP Billiton, Singapore, April 2016 (principal investigator)
— China-Oman Trade and Investment Relations: Development Opportunities, commissioned by Oxford Analytica, February 2016 (coauthor)
— China Fourth Quarter 2015 Agricultural Policy Update, commissioned by Canola Council of Canada, Winnipeg, January 2016 (coauthor)
— China's Blue Strategy for Global Oceans, commissioned by Pew Charitable Trusts, Washington DC, November 2015 (coauthor)
— China Third Quarter 2015 Agricultural Policy Update, commissioned by Canola Council of Canada, Winnipeg, October 2015 (coauthor)
— China Plans its Future in the Antarctic, commissioned by Antarctic Ocean Alliance for the Antarctic and Southern Ocean Coalition, Washington DC, July 2015 (coauthor)
— China Second Quarter 2015 Agricultural Policy Update, commissioned by Canola Council of Canada, Winnipeg, June 2015 (coauthor)
— China: Commodities, Energy, Environment, confidential report commissioned by UC Rusal, Moscow, March 2015 (coauthor)
— Rising Demand, Growing Challenges — The Regulatory Environment for Canola in China, Commissioned by Canola Council of Canada, Winnipeg, December 2014 (coauthor)
— China's 2014 Reform Agenda — Implications for Quality Infrastructure in the Machinery and Equipment Sector, commissioned by Deutsche Gesellschaft für Internationale Zusammenarbeit GIZ for submission to the German Federal Ministry of Economic Affairs and Energy BMWi, August 2014 (principal investigator)
— Horse Racing in China — A Mirage in the Distance, commissioned by Europe China Research and Advice Network, Brussels, August 2014 (principal investigator)
— Public Procurement in China — Development and Directions for Greater Market Access, commissioned by Europe China Research and Advice Network, Brussels, June 2014 (principal investigator)
— Rice Imports to China — Market Entry Strategies for Basmati, commissioned by Amira Nature Foods, Dubai, May 2014 (principal investigator)

Interdisciplinarianism

At every stage of education in Australia I was told to prepare for multiple careers, and to build complementary competencies. In the social sciences almost all work is interdisciplinary now. So, am I not a big success? Yet I feel like I have only been punished for pursuing interdisciplinary abilities.

Competencies Table

Peer reviews provided

- Law of the Sea
- Central Asia Geoeconomics

Publications

- Geoeconomics
- Geopolitics
- Geoindustrial Policy
- China Politics
- China Security
- China Finance
- Central Asia Politics
- Japanese History
- Agricultural Economics

Doctoral

- Politics and International Relations

Master's

- Public International Law
- Political Economy
- International Relations

Bachelor's

- European History
- East Asian Studies
- English and European Languages

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Legal Reads This

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That is to say, the works presented here cover a wide range of legal structures surrounding authorship and operating as an author, creator, producer, and researcher in the digital age.

All this published material started life as a PhD project at ANU. Most of the work now cannot be submitted as a PhD thesis because copyright has been licenced. I also cannot publish most of this work again as a standalone book as the copyright licences have been transferred, and because book publishers generally want over 70% of the chapters to be original. I undertook a thesis by publication strategy for my academic work, and ended up with no degree but many more publications.

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Tristan Leonard Kenderdine
26 August 2025

Contribution Statement

Collaboration on some journal articles took place. I helped two research associates from the private research company China Policy by giving them second authorship, and they helped me with some primary Chinese language source-work.

Lan Peiyuan is uncontactable but her contribution was around at 10% for:

China's Middle East Investment Policy, T Kenderdine, P Lan, Eurasian Geography and Economics 59 (5-6), 557-584, 2018

Han Ling is possibly contactable and her contribution was around 10% contribution for:

International Capacity Cooperation — Financing China's Export of Industrial Overcapacity, T Kenderdine, H Ling, Global Policy 9 (1), 41-52, 2018

Peter Bucsky and I collaborated on four journal articles, where we switched names between first and second author out of fairness. I would say honestly 60-40% in my favour in the final products, but 50-50% is fair given that the papers could not exist without his work, and that we each brought 50% of the work to the table before the final writeups, cuts started tipping content on page back towards my heavier contributions. Peter Bucsky, in all honesty probably more like 60/40. But also equally I could not have had one publication without him, with his stats work (probably the Die Erde one, I don't need him for honestly, probably one. by myself. But together with four papers was so much better for everyone involved including the audience,.

On Peter I wrote everything, the words are mine. The statistics are his, some arguments are his, the work was collaborative, he was huge, but I was the writer.

Niva Yau on the Diplomat article that was named for the Albo award – started out as a conversation, ended up with my drafting, my research direction, my heavier influence, but her genuine contribution on research, argument, final copy. I think 70-30% in my favour of contribution would be fair, but happy to call it 60-40.

Original Works Statement

Maps

All maps are my own original work except for those appearing in Global Asia.

Other Graphic Design

All Diplomat graphics are my original work. Arctic institute, my original work.

All Enerpo graphic design is mine

All graphics in all journal articles are mine

Much more original graphic design work has gone into commissioned research documents and cannot be submitted for assessment here as the work is not in public.

All charts, tables and any other visual aids are my original work unless otherwise stated, and excepting the statistical tables in the four works with Peter Bucsky which are his original data and analysis.

Global Asia graphics. Anything from Global Asia is mixed, sometimes mine, sometime's their in-house, sometimes collaborative graphic design.

CCP Wall Chart. The original link to the wall chart of ccp personnel is too large to submit. It can be accessed at ftrsk.com/index

Paywalls
All works included have been publicly available in the past, some works are now paywalled or removed from the internet. Where original articles have been restored from word files, I used the last known submission file, I did not edit anything, any mistakes are left in as they were sent to the editor at the time.

Financial Times article paywalled

Nikkei articles are now all paywalled

Two book reviews offline since Hansa Press website taken offline (by me)

F

Scan This

Anthologies

Short Research Articles
Magazines
Book Reviews
Journals II - The Road
Journals I - The Thesis

Statement on Anthologised Works

All of this work is interwoven with my original PhD thesis: China's External Industrial Policy 2012-2022. Philosophically it combines Historical Institutionalism and Economic Institutionalism in the tradition of the German Hisstorical School of economics, methodologies rooted in Actor-Network Theory, the broad foreign policy strokes of International Relations and International Political Economy, with the state and state institutions as the basic units of analysis in the traditions of Comparatic Politics, along with some smaller elements of Post-Keynesian Economic Theory applied to the transnational nature of Chinese capital.

The applied work stems mostly from mining a little-known policy website which was disseminating China's Belt and Road economic policy through the Ministry of Commerce's Going Global website, which pulled together a range of centralised and decentralised sources from the Central Minsitry down to the Foreign Economic Cooperation Offices of MofCOM within the distributed embassy system. The policy audience for which was Chinese entrepreneurs going into Belt and Road economies. The volume of policy put out through this system was too large for one person to cover it all, but I made a pretty good go of covering the China-Central Asia economic relationship from the Central Politburo in Beijing to the factory floor in Central Asia.

Short Research Works

The short pieces are not journalism. They are research findings, in short form. Sometimes its commentary, but mostly it's source-based research. This is actually a good exercise to anthologize the work, as some pieces are starting to become unavailable to the public, meaning originals are now disappearing. I published ten articles each in East Asia Forum and Policy Forum, the feature publications of Crawford when at CAP. And But I get nothing and get kicked out. Why? Classic Australian Tall Poppy. So this tall poppy wants a higher degree.

Magazines

These longer, more illustrative forms centre on a particular element of the China-Central Asia geoeconomic relationship that my data cube was producing. Collecting enough policy documents about a particular subject and crafting a narrative essay around the evidence. These were all published in Global Asia magazine. This is my favourite format though and I would like to pursue more publications like these, and fewer like the academic paywalled ones.

Book Reviews

There is some leeway here to move away from the core Doctoral work I was doing at the time, although most things fit together when viewed through the prism of China's Geoindustrial Policy. Arctic, Antarctic, Iran, Indian and Pacific Oceans are all connected through the policy lens I was working from. My fieldwork period started in 2016 in Beijing, and ended February 24 2022 in Lviv, where my Middle Corridor and Belt and Road work was moving towards East European investigations and where my reading was heading towards European history.

Journals

I published two single authored full length journal articles in the Asia and the Pacifc Policy studies. I had a third paper accepted, passed peer review and minor corrections submitted, but was withdrawn by the editor before publication without explanation. Subsequent submissions to the journal were always desk rejected for spurious reasons like picture format file png/jpg. Meanwhile my first sole authored APPS article is one of the most highly cited articles in the journal's history.

F1

Spirit of Gonzo

Short Research Articles

2015-2025

Collected Short Research Works

2015-2025

Most of the references in these research articles are important. If I unfolded all the html links into traditional footnotes, I imagine it would extend the word count of this anthology by around 40,000 words. So if I rewrote this work out now as a book length academic work with footnotes, it would be a 150,000 word work.

If none of this were published, this is what I would do now, write over the top of this, weave a narrative through it all, explain to the reader what I was doing when I focused on certain things, and there, I have another book, a better than PhD thesis, and a good university press publication.

The way that I did it was better for the reader, better for the world, it put truth out in public quick and early. The way I did it was not good for the university. And then without the university degree, it was not optimal for me either. But who would you want teaching, the mediocre Canberra drone who plodded through the thesis route, or what I have done? I would want to send my daughter to learn from the person who did this, not the ANU PhD graduate.

Some of these could have been clustered together, formalized into journal articles and ten short articles could be one journal article. Journals are more work, they do require tighter theoretical reasoning. But the academic journal system is broken. Would I or the reader be better served by one journal article behind a paywall in Journal of Peasant Studies, or having eight short pieces that are timely, research-based and accessible to the reader on the open internet?

How it all Fits Together

The 100,000 words presented over the next c.300 pages in F1 have been clustered into themes to aid the reader. The clusters demosntrated the multiplex problem that I was investigating, how politics impacts policy, how land controls finance, how foreign policy was being run by the Ministry of Commerce, and how the new geoindustrial policy was being formed and promulgated through these conflicting frictions.

Putting it All Together
This is the cherry on top that shows how the project all came together. Without investigating China's geoindustrial policy, I would not have been able to create this holistic view of China's foreign polices.

Elite Politics
People make policy. Towards the end of the project I realised that much of what I had been doing was closer to political anthropology than foreign policy studies. Building up a network of people was a technique taught to me by a sociologist, but I think the anthropology of policy systems thinking is a better way to analyse the people who make the institutions in which they themselves operate.

Geopolitics and Foreign Policy
This is the fun work that you get to do if you do the hard work first. The Kissinger's and the Brzezinski's of this century cannot simply engage in map-gazing and heuristics. There must be some meat on the bones before one looks at the big geopolitical chessboard. Once we look though, we see Morgenthau and Schmitt in China creating positions that would need Eurasian ideologies that have not yet formed. Ending at the start is bettern than starting at the end.

Geoindustrial Policy and Geoeconomics
Here it is. Years before they were scrambling for the term geoeconomics, I was publsihing on geoindustrial policy. Half a decade before Strategic Policy Grants gave ANU $1 million to work on China's geoeconomic policy, I was building a database and publishing works. The geoindustrial policy is the core of the Belt and Road, and while most academics missed the point of Belt and Road entirely, no one in the world now is blind to China's industrial policy.

Geofinancial Policy
It does not matter who makes the laws as long as I control the banks. Except in CCP China, the state is the bank. How state-owned banks operate is crucial to understanding how China's foreign policy works. Policy banks themselves are institutions worthy of study, but the entire system underpins a new form of transnational capital. The majority of my work on this is reserved for a book that I intend to publish once I have an academic position.

Agricultural Policy
All China's economic and political problems stem from land, land-ownership and land-use. The agricutural prism here is more important than the financial for understanding the institutions of friction within China's state economy.

Collected Short Research Works

Putting it All Together

— Who Makes Foreign Policy in China? Diplomat, February 2022

Theory

— Reiterative Policy Divergence — Explaining the Processes of Political Change, Global Policy, November 2020
— China's 'Erhardian Bargain', East Asia Forum, May 2020
— The Clash of Theory and Practice in China's Belt and Road Initiative (with Péter Bucsky) Progress in Political Economy, November 2021

China Elite Politics

— Xi Loyalist Ding Xuexiang Could Benefit From Factional Infighting, Diplomat, February 2022
— China's Foreign Affairs Director Seat May Fall out of the Politburo, Diplomat, October 2021
— Rural Affairs Specialist Han Jun Likely to Ascend to Vice Premier in 2022, Diplomat, September 2021
— Sub-Provincial City Cadres: China's Leadership Cohort for 2027 and Beyond, Diplomat, September 2021
— Chen Gang a Dark Horse to Lead China's Strategic Technoindustrial Policy, Diplomat, August 2021
— Chen Min'er Guarantees Xi Jinping's Influence Into the 2030s, Diplomat, August 2021
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— Middle East LNG Hedging in China's Energy Diplomacy, Diplomat, March 2021
— China Political Risk Architecture Exposed in South Caucasus, Russian International Affairs Council, March 2021
— China's Technoindustrial Policy Is More Soviet Retro Than Japan Innovation, Diplomat, December 2020
— China Missteps With Wild Allegation of a 'New' Deadly Pneumonia in Kazakhstan, Diplomat, July 2020
— The Ferghana Valley Railway Should Never Be Built (with Péter Bucsky) Middle East Institute, March 2020
— US–Iran Conflict Would Strengthen China's Position in the Middle East, Russian International Affairs Council, June 2019, reprinted in Russian
— Kazakhstan as an Arctic State and a Maritime Power, Central Asia-Caucasus Analyst, January 2019
— One Country, One Province: China's External Industrial Policy in the Middle East, Middle East Institute, June 2018
— Russia Sanctions Push Kazakhstan Closer to China, Global Policy, April 2018
— China's Policy Bank Investment Profits from Uzbekistan's Monetary Policy Reform, Central Asia and Caucasus Analyst, April 2018
— Caucasus Trans-Caspian Trade Route to Open China Import Markets, East Asia Forum, February 2018
— ASEAN Lacks Common Trade Policy on China's International Capacity Cooperation Strategy, Kyoto Review of Southeast Asia, February 2018
— Arctic Link Reveals the Full Scope of China's Belt and Road Ambitions, South China Morning Post, October 2017
— Caspian Sea is China's Best Bet for Belt and Road, Nikkei Asian Review, September 2017
— China Eyes Iran as Important Belt and Road Hub, Eurasianet, September 2017
— China's Geoeconomic Strategy and Industrial Transfer in the Middle East, Global Policy, August 2017
— Mongolia Gets On Board with China's Belt and Road Initiative, Eurasianet, July 2017
— The Real (Thucydides) Trap is Simplistic Thinking, Straits Times, June 2017
— A Forum and a Feint — Belt and Road or China's One-way Trade Street?, Policy Forum, May 2017
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— Putting the Pacific on China's Radar, Asia, Pacific Bulletin, East West Center, January 2017
— China's Multilevel Governance Problem — Policies Lost in Transmission in Central Asia, Policy Forum, November 2016

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— What the World Gets Wrong about China's Overcapacity, Nikkei Asia, August 2024 Reprinted in Japanese 中国がもたらす不当廉売の構図, 日本経済新聞
— China's Central Asian Rail Investment Does Not Add Up, (with Péter Bucsky) Diplomat, April 2021
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— Rail Freight Use on China's Iron Silk Road Underdelivers, Diplomat, November 2020
— China's Petrochemical Enterprise Alliance and Iran Oil Trade, Middle East Institute, May 2020
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— Global Ambitions Fuel China's Nuclear Power Strategy, East Asia Forum, February 2019

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— Afghanistan-Iran Trade Corridors to Bear Fruit for both India and China, Central Asia-Caucasus Analyst, July 2018
— Debt-trap or Dumping Factories? China's Geoindustrial Policy in External Geographies, Global Policy, June 2018
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— China's River-Based Inland Civil Nuclear Policy to Lead Developing Economy Energy Strategies, Global Policy, November 2017
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— China Set to Tackle Overseas Investment Risk, Financial Times, June 2018
— Rise of China's Export Credit Policy Insurance in Eurasia, Russian International Affairs Council, July 2018
— Why is China Building its Own Domestic Credit Ratings Architecture?, The Diplomat, September 2017
— China is Exporting Risk to the Asia-Pacific, East Asia Forum, August 2017
— China Returns to 'Bird in the Cage' Economic Policy, East Asia Forum, January 2017

Agricultural Policy

— Rural China's Impossible Policy Trinity, East Asia Forum, March 2020
— China Running Low on Ideas in Rural Policy, Policy Forum, February 2020
— China's Agricultural Paradigm Shift, Policy Forum, May 2018
— China's Rural Revitalisation Strategy Underwhelms, Policy Forum, February 2018
— China's Agriculture Trade Policy Full of Beans, East Asia Forum, June 2018
— Calm the Alarm on Antarctic Krill Fishery, Lowy Institute for International Policy, January 2018
— Fish Futures — Prospects for Seafood Futures Contracts on China's Commodity Exchanges, Nikkei Asian Review, May 2017
— China's Agroindustrial Capacity Cooperation in Central Asia, Central Asia-Caucasus Analyst, April 2017
— Seeding Risk in Chinese Agricultural Insurance, East Asia Forum, October 2016
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Putting it All Together

Who Makes Foreign Policy in China?

There are at least 8 distinct forms of foreign policy in China. Approaching the 2022 leadership transition, it is important to understand the various institutions in play.

Tristan Kenderdine
February 04, 2022

The Diplomat

Does China have a coherent foreign policy? The "wolf warrior" debate over the past two years implied that China's foreign policy took a new direction and is now being wound back. However, wolf warrior discourse dominated only the traditional diplomacy bureaucracy; diplomacy is not foreign policy.

The disparate nature of foreign policymaking within Communist Parties makes it difficult to speak of a singular foreign policy. The institutionalization of foreign policy making mechanisms within the Chinese Communist Party (CCP) also solidifies this separation. Wolf warrior diplomacy was indeed a foreign policy, it came at the expense of the Wu Jianmin school of constructive engagement diplomacy. While the wolf warrior approach has infected the Ministry of Foreign Affairs and dominated international media sound bites, it is not the foreign policy of China. That is a more multifaceted, inherently institutionalized, and hierarchical system of policy formation and dissemination.

Ideas of two-track or multitrack Chinese foreign policy are not new. I consider that China currently has at least eight distinct foreign policymaking apparatuses, each with their own institutional path dependencies, personnel, objectives, strengths, failures and metrics for success. These are great power foreign policy; national security policy, strategic resource policy; geoeconomic policy; near-abroad foreign policy; traditional diplomatic foreign policy; diaspora policy; and local foreign policy.

Great power foreign policy is the meta policy institution, encompassing the Party Leading Groups. Though rarely seen in public, this level guides the PRC's course through near horizon history. While national security is the domain of the party-military complex, strategic resource security is a form of foreign policy enacted through state institutions, focused on oceans, agriculture, poles, technology and space. Geoeconomic foreign policy is another field agented through the state, where the Ministry of Foreign Affairs is the garnish to Ministry of Commerce's meat.

Through the Belt and Road, another foreign policy institutionalization is emerging, that of near abroad foreign policy. Taken from the Soviet Union foreign policy structure, China's enhanced focus on geographically near state economies is managed primarily through the Political and Legal Affairs Commission and the People's Armed Police and Ministry of Public Security, which operate under its command.

Diaspora affairs is another distinct area of foreign policy, organized through the United Front Work Department, Overseas Chinese Affairs Office, the Taiwan Affairs and Hong Kong Affairs Party Leading Groups, as well as the Ethnic Affairs Leading Group and wider policy portfolio, which is increasingly important given the redefinition of "overseas Chinese" extending increasingly to Uyghurs, Kazakhs, and other minorities living abroad.

China Foreign Policy-making Institution Hierarchy		
Importance	Foreign Policy Typology	Agent
First	Great Power Foreign Policy	Party
Second	National Security Policy	Party
Third	Strategic Resource Foreign Policy	State
Fourth	Geoeconomic Foreign Policy	State
Fifth	Near Abroad Foreign Policy	Party
Sixth	Traditional Diplomatic Foreign Policy	State
Seventh	Diaspora Foreign Policy	Party
Eighth	Local Foreign Policy	Local

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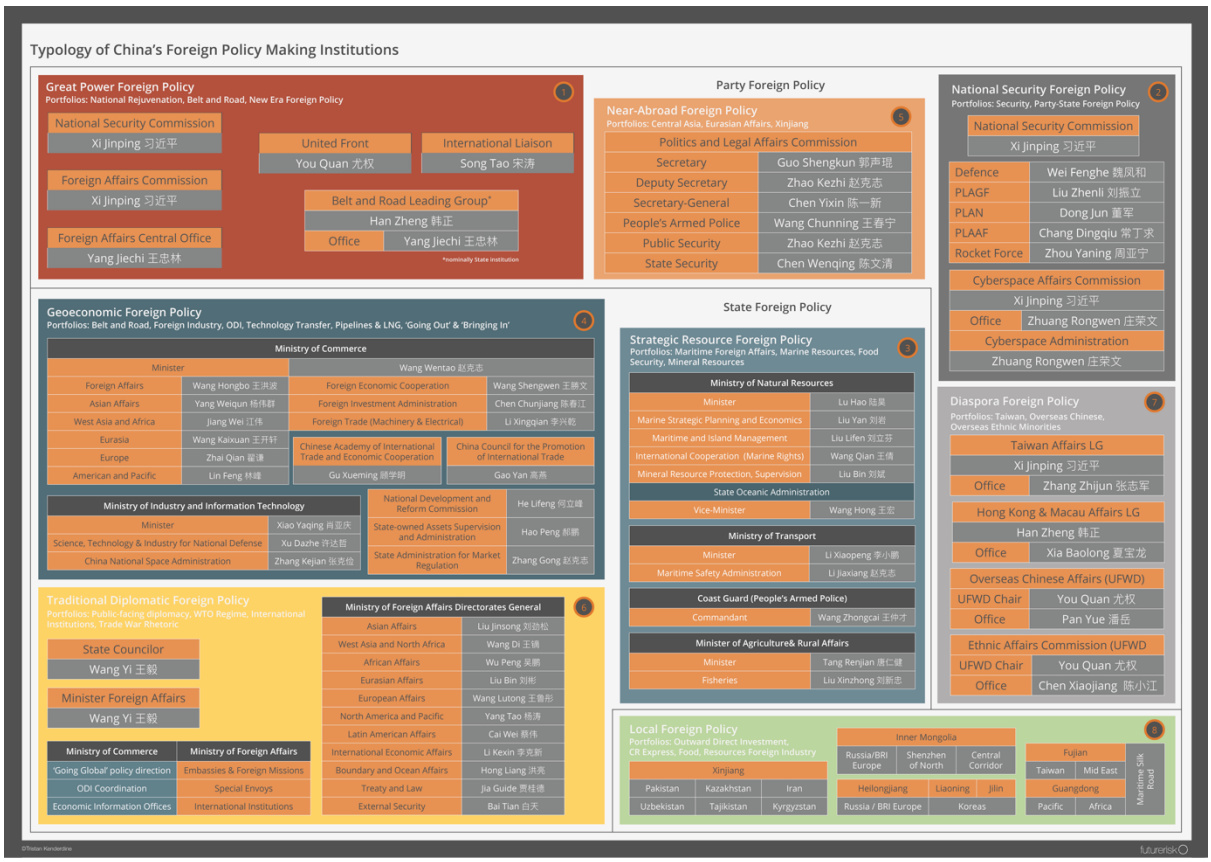
futurerisk

The eighth typology is local jurisdictions and their ability to form independent foreign policy, which is increasingly apparent through the Belt and Road systems. Different provinces and cities are pushed into targeted external economies, for example Guangdong to the Pacific Islands. Localism can also work independently of central goals, such as the investment-attracting Korean foreign policy of Dalian city under Bo Xilai.

Exploring the institutional connections between the differing party and state organs to create a holistic understanding of foreign policy formation by attempting to categorize and typologize China's disparate foreign policy apparatus is an interpretative task. The array of institutions that contribute to foreign policy formation, debate, and deployment in China is huge. They are also in a constant state of change, as Party Leading Groups morph into Commissions, new foreign policy responsibilities coalesce around the domestic security institutions, or new strategic responsibilities center state institutions traditionally focused on domestic resources. The face of diplomacy once it appears at Foreign Minister Wang Yi's level is either preordained senior CCP policy, in the case of great power competition with the U.S., or delegated responsibility for low priority geographies, such as foreign policy related to Kazakhstan's politics.



It is widely understood that the Ministry of Foreign Affairs has very little say in foreign policy. While the public face of state diplomacy, MOFA is usually the last to know what the actual foreign policy is. The education backgrounds of MOFA staff are overwhelming languages and humanities-driven, with little hard economics, political science, or political theory. While they are currently being eaten by the wolf warrior class, in the future a more economically open China may have a sleeping giant of resources within the Ministry of Foreign Affairs.

If there is a State Council ministry that does practice independent foreign policy formation and deployment, it would be the Ministry of Commerce. China's network of embassies abroad, which are ostensibly run by MOFA, are in practical reality an enclosure for the Ministry of Commerce Foreign Economic Offices and the geoeconomic policy run from them. Ministry of Commerce is present, and policy dominant, in every Chinese embassy and mission, and it is the Ministry of Commerce enacting much of the Belt and Road policy agenda.

Perhaps the most independent from upper CCP meta foreign policy is geoeconomic policy, which has emerged onto the world stage from the foreign operations of Ministry of Commerce. Geoeconomic policy is still largely a result of the compaction of domestic economic policy seeking foreign solutions. The Ministry of Commerce, though, still takes ultimate foreign policy direction from the National Development and Reform Commission (NDRC) and only has the greatest power in foreign policy deployment, not formation.

China's foreign policy through the second Xi Jinping administration has been more geoeconomic than geopolitical. The nexus of this is the combination of Ministry of Commerce and Ministry of Industry and Information Technology. China's Ministry of Commerce is leading the institutionalization of the combination of international trade, technology, and technoindustrial policy model through foreign policy leadership of other agencies such as Ministry of Industry and Information Technology. Together, these two ministries perform similar functions in catch-up industrialization and technoindustrial policy.

However, something entirely novel to the China model is the Ministry of Natural Resources as a key membrane between state foreign policy and strategic foreign policy. This ministry controls institutionalized control mechanisms over land and oceans, especially after absorbing the State Oceanic Administration. The MNR works with the Ministry of Agriculture and Rural Affairs to policy co-opt various otherwise domestic agencies into the same foreign resources policy sphere.

Ignoring the party institutions or the various near-abroad-, geoeconomics-, or strategic-focused foreign policy institutions is to give in to the political theater of the wolf warrior, and to be willingly fooled by China's hierarchy of foreign policy prestige, which differs markedly from the hierarchy of actual power. The wolf warrior reality show in the Ministry of Foreign Affairs through the second Xi Jinping administration was a sideshow in China's foreign policy formation. Similarly, looking now for the future replacements of Yang Jiechi and Wang Yi in China's public-facing diplomacy roles does not yield the key to understanding the party, state, or strategic direction of China's future foreign policies.

Observers of China's foreign policy formation need a more acute understanding of which institutions make foreign policy in China, and the varying degrees to which policy formation and deployment can be politicized in both the current international environment as well as within any future attempt to establish a multipolar global order. The mechanisms and personnel of China's internal foreign policy-making system, though, are already institutionally multipolar.

Theory

These three more theoretical articles demonstrate the types of theory I was bringing into my academic work.

Here they are presented in order of importance, not chronology.

Reiterative Policy Divergence — Explaining the Processes of Political Change

Tristan Kenderdine argues that during a period of global change, institutional theory can help make sense of the chaos. How institutions persist, change and ultimately perish though is closer to evolutionary biology than political science.

By Tristan Kenderdine
25 November 2020

Global Policy

As the world enters a decade of uncertainty, old paradigms and political narratives have quickly become redundant. But a theoretical explanation for the path-dependent rise and fall of these institutions is 'reiterative divergence'. Prominent proponents of reiterative divergence include Richard Dawkins in evolutionary biology, and in literature Oe Kenzaburo and Maurice Sendak.

Reiterative divergence refers to how an organism, institution or idea evolves into another form through the process of multiple, dependent, iterative changes. The concept is in widespread use in engineering, science and technology, and has entered the public policy vernacular through such terms as 'Industry 4.0' or 'Globalisation 2.0'. Yet political and economic theory through the neoliberal period has eschewed understanding the processes of these iterative changes. Consequently understanding the institutions that form, maintain and change political and economic history has been sidelined.

In contemporary societies with autocratic regimes, each individual is too concerned about the consequences to protest, until suddenly there is enough momentum on the ground and previously forbidden mass activities are tolerated and quickly normalised. These changes manifest rapidly, but they are both long-term path-dependent and short-term critical juncture-dependent. They are neither derived from universal values nor driven by external influence. In 2020, the popular protests in Belarus are a prime example.

In modern European history, 1848 was the year of failed revolutions that forced the formation of the nation state as we know it. The historical juncture is obvious in retrospect and revisionists write about its inevitability since they know of its existence. The demise of the aristocratic regime, the rise of the nation state, and the collapse of the Soviet Union in 1792, 1848, and 1991 (respectively) all appear inevitable in retrospect. But in real-time, the collapse and renewal of these political institutions was shocking. They are examples of in-system change playing out for all to see.

Institutions can be hard such as government ministries or newspapers, ideological concepts such as communism or neoliberalism, or even simply discourses such as globalisation or the theory of China's economic convergence. North's famous definition is that 'institutions include any form of constraint that human beings devise to shape human interaction.' This means that essentially all forms of human interaction in the political, economic, cultural, and social worlds can be analysed as institutions.

2020 has seen the end of many institutionalised discourses underpinning the China-in-the-world narrative from Western powers. From within China, the two divergent domestic narratives in contemporary Chinese economic policy have been the persistence and expansion of domestic industrial policy into nationalist technoindustrial policy and the development of a novel external industrial policy, or 'geoindustrial policy'.

The iterative institutional processes that have empowered the domestic national industrial policy upon which China's 'economic miracle' growth was built, are the same processes that China's assertive domestic technoindustrial and foreign geoindustrial policies are built on. The confluence of these institutions is politically and economically challenging for the global economy.

These institutional path-dependencies are now bringing China's technonationalist and geoindustrial policies into direct friction with institutionalised neoliberal globalisation. Neoclassical economics and neoliberal ideology though are ill-equipped to identify or analyse these institutional dependencies or their iterative policy divergences.

Historical institutionalism and economic institutionalism though are two theories of path-dependencies that can understand and predict the critical junctures that have forced these institutional changes. And yet political scientists and non-neoclassical economists have been largely marginalised by the contemporary global policy-making community.

This lack of historical institutionalist analysis of government policy to understand the causes of institutional persistence and reiterative divergence in the policy process has meant that a false narrative of China's economic convergence prevailed, while in reality China's Belt and Road trade policy was establishing a parallel trade and investment strategy which negated all historical experiences of industrial development in East Asia.

We need better institutional theory in both political science and political economy to be able to deliver early warning systems for these types of change. Rather than ceding policy and political agency to positivist economists and quantitative political scientists, we need to revive and revise theories on political and economic institutions that help to explain and ultimately to predict the structure and shape of a history that we all inhabit.

Historical institutionalists hold sway only in a small subsection of political science, while institutional economics is largely marginalised from contemporary global policy-making. And yet both institutional models work in four dimensions: space and time. There has not been any theory since Hegel to negate the use of both space and time to solve social, political and economic problems. And yet the global policy-making system has entirely denied the spatial dimension in economic development analysis, and ignored the processes of reiterative divergence in temporal analysis.

Both historical and economic institutionalism are concerned with how some institutional systems remain stable while others fluctuate. Historical institutionalist ideas on path-dependency, linear causality and institutional legacies encourage building analytical models to assess universal critical junctures in order to demonstrate paths of institutional political, economic, and social development.

Examining these factors of institutional persistence and institutional change should then demonstrate which elements of an institution are resilient to change and which elements are susceptible to change. This can account for the failure of critical juncture energy to dissipate through absorption by an institution, or conversely where the critical juncture has enough energy to change the form of an institution.

I would like policy-makers to think of these processes as 'reiterative policy divergence'. Policies are the institutionalisation of ideas which shape subordinate political and economic institutions. Thinking in terms of 'reiterative policy divergence' can be an analytical tool for systematically understanding the inertia of institutional change. This type of thinking can then assess and predict how historical critical junctures can puncture long-run institutional equilibrium such as the Long Peace or the Concert of Europe.

Assessing these iterated processes of policy choices can help to explain how institutions are formed and how they continue to evolve, rather than relegating historical and economic

institutionalism to describing the acceptance of rules in compliance with a sociological or historical system without trying to understand how the institution was formed, how it is maintained, or how it changes.

The outcomes of reiterative policy divergences that change political and economic institutions are clear and obvious in retrospect. Institutions persist until they do not, and institutions change until they stop changing. But theoretically, the academy and government have both failed their duty of care to political science, political economy, and to history. To ignore space as neoclassical economics does is a weakness and to ignore time as neoliberal politics does is myopic. The only constant is change. Let us get better at evaluating, measuring and reacting to the processes of continuous institutional change.

Tristan Kenderdine is Research Director at Future Risk.

China's 'Erhardian Bargain'

The English call it wacky economics, it is at odds with France's economic philosophy of dirigisme and it has been accused of pushing the European Union into a monetary policy stalemate. Yet German ordoliberalism may have much in common with contemporary economic policy in China.

Tristan Kenderdine
16 May 2020

East Asia Forum

The German Historical School of economic theory played a huge part in China's choice of development trajectory and institutions during industrialisation. The economic logic of China's reform era model was part Friedrich List, part Alexander Hamilton and part Ludwig Erhard. In Germany, this economic logic would evolve to become ordoliberalism.

East Asian economic development has consisted of a series of exercises attempting to emulate the German experience. These attempts include the 'East Asian miracle', South Korea's 'Miracle on the Han River', 'Taiwan's Miracle' and 'China's economic miracle'. These aphorisms — almost always inadvertently — refer to the original *Wirtschaftswunder,* the 'Miracle on the Rhine' of post-war German reconstruction. But both globalisation and development economics consistently ignore the contribution of the underlying ordoliberal theory to economic development policy.

The model for industrial development in East Asia requires a national economic system in the first instance. State-capitalist industrialisation drives in East Asia were all dependent on a 'Lewis model' of converting an unlimited supply of rural labour into labour for urban manufacturing. Under this labour-for-development model, there is generally a window of around 30 years within which states establish the initial institutions of industrialisation before moving into regional and global trading regimes. Indeed, during each of the 30-year industrialisation windows in Germany, Japan, South Korea and Taiwan, an entire generation was forced to make a sacrifice for the nation.

This national sacrifice required a willing supply of labour to be used for a greater utilitarian good. This is one of the key ingredients of the East Asian industrialisation model: a population of labour that undertook generational sacrifice for future national and generational prosperity. Compared with the early European and American industrialisers that used forced labour to achieve this, the East Asian model is better described as 'coerced labour'.

This sacrifice is often taken as an acceptable trade-off between governments and their populations. In South Korea, for example, the working generation from 1956 to 1979 suffered immense hardships through rapid industrialisation so that the country could modernise. In East Asian economic history, the political legitimacy mechanism underlying this economic growth period could be described as an 'Erhardian Bargain' with rural labour.

The political legitimacy of an Erhardian Bargain is dependent on government achieving industrialisation within one generation. When industrialisation drives fail — like they have in Thailand and Kazakhstan — public discontent that the sacrifice did not result in sufficient capital accumulation necessitates a renegotiation of the bargain.

In China, labour sacrifice has been immense and coastal development astonishingly successful. But the hinterland remains poor, rural development has stalled and many parts of rural China

lag behind aggregate development. For example, the seven least-developed provinces in China have per capita incomes under US$7000 a year — that is over 238 million people who are far off the OECD income range.

The legitimacy of China's Erhardian Bargain is now being put to the test as the economic restart post-COVID-19 hits labour in China hard. Many mid-income salary workers are on half-pay or no pay, many rural migrants have returned to the countryside from urban factory work and new graduates and high-skilled workers are facing an impossible leap in 2020 to reach national science and technology industrial policy goals.

The promise of economic development after a 40-year modernisation project is the backbone of Chinese Communist Party legitimacy. But China's central leadership may find it difficult to ask rural migrant workers to take another hit for national development, especially after rural families have already sacrificed their children into the urban industrialisation project in the hope of long-term gains that for many have not yet materialised.

The 2020s is the decade that China is due to deliver on its Erhardian Bargain: to eradicate rural poverty by 2020, to achieve a moderately prosperous society by doubling 2010 GDP by 2021 and to establish the economic growth framework to become a developed 'modern socialist state' by 2035. But a continuous supply of rural labour is needed to support China's further economic growth and development. It is not as simple as turning the machines back on if structural elements of labour were to drop out.

The central leadership in Beijing already has a huge task to transform the Chinese economy into one driven by consumption, imports, outbound FDI investment and high-technology. This would have been an economic pirouette of the highest dexterity even in reasonably good economic years. To achieve it this year — given low-to-no growth, a developing labour crisis and a possible debt crisis on the horizon — appears to be a step too far.

Even before COVID-19, the contemporary debate in China's macroeconomic policymaking circles was already between stimulus and austerity. The project to integrate China into the global economy has stalled and may need a new theoretical framework to both redefine China's domestic economic policy and international macroeconomic guidelines. In the post-COVID-19 economic restart, there may not be another 'miracle'. The policy uses of both Listian national economics and the 'Erhadian Bargain' of a generation of rapid growth have now expired. Perhaps a contemporary Chinese version of ordoliberalism could provide the policy tools to maintain economic growth.

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The Clash of Theory and Practice in China's Belt and Road Initiative

Tristan Kenderdine and Péter Bucsky
November 25, 2021

Progress in Political Economy

China's *Belt and Road* is not an infrastructure project. With the external industrial policy *International Capacity Cooperation* being now unwound and *Belt and Road* floundering as the guiding foreign economic policy, the intercontinental containerised China Rail Express (*CR Express)* is sitting on unsure domestic policy grounds. The system is a network of rail freight lines connecting China with Europe via an array of nodes in Central Asia. China central policy planning exists to coordinate the continued policy development of the intercontinental rail system through the 2020s, however, there is a dearth of space for policy or theoretical debate on improving either the intercontinental rail plan or China's wider geoindustrial policy in Eurasia. Geoeconomic theory is in vogue again, yet without any recourse to political economy theory, and without any operational or theoretical model for analysing the geoeconomic factors at play in China's Eurasian economic policy deployment.

Contemporary applications of Cumulative Causation theories remain marginal heterogenous footnotes against the distributed multilateralism of contemporary development economics, and yet Cumulative Causation explains most completely the successful industrial policy-driven economic developments in East Asia as well as the failure of other economic geography approaches to both regional and national economic development. Kaldor's dissatisfaction with orthodoxy in economic theory highlighted the inability of neoclassical economics to account for regional variation in the economic path-dependency of national systems of economic development. While Myrdal's sprawling works were the basis for the United Nations economic redevelopment program for Europe.

Kaldor's model is important in the decolonisation and reindustrialisation period, where the path-dependency approach to industrial development resulted in several successful industrial development strategies in Japan, Korea and Taiwan, while the combination of a mainstream neoclassical equilibrium approach to economic development and an unimaginative United Nations bureaucratic model have failed to industrially develop any countries in Africa, South Asia, South America or the Pacific since the Keynesian crisis of the 1970s. If the hybrid of neoclassical economics and global governance worked, then where is the next Tongan technoindustrial state or Tanzanian economic miracle?

The policy governance of China's economic development model has used different European economic theory to solve different problems. While Cumulative Causation theory is not overtly used in China policy making, it does explain many aspects of China's development model well because it is an economic theory which readily explains structural changes in physical capital, regional differentiation, and positive government intervention to create new institutions for capital accumulation.

Harnessing the economic policy potential of future path-dependencies

Our study considered China's central and provincial government intervention in subsidising provincial and city pseudo-private rail freight operators to support existing intercontinental lines and incentivise development of new lines. The rail infrastructure already exists to run rail freight from Central China through Xinjiang into Kazakhstan and from there either to Europe or to other Central Asian destinations. The government intervention is not in infrastructure building, but rather subsidising the China freight forwarding companies in order to offer container shipment to local importers and exporters. Collecting hard data on the subsidy system is a nightmare given the distributed nature of the subsidies and the multiple levels of

China public administration which can receive them. Conservative estimates though are that at least half the cost of shipping one TEU container is covered by the subsidy system.

We tried to assess whether such a government intervention would be economically justifiable, not merely geoeconomically desirable for China state power projection, which seems the primary policy goal. Measuring the future economic benefits of a successful government intervention is impossible, particularly when assessing the creation of an entirely new market, which the Europe-Central Asia-China rail line is. Cumulative Causation though is a useful policy tool for assessing structurally transformative interventions. The multi-causal nature of Cumulative Causation analysis segues with wider social science theories which must agent both time and space simultaneously, theories of history and geography such as historical institutionalism, political geography, economic geography, and economic institutionalism.

Cumulative Causation is a difficult model for the contemporary field of development economics because it does not offer easy metrics for neoclassical economics to measure time series developments and neither does it lend itself easily to the simplistic open trade multilateralism of the post-Cold War global economy. While there are various ways of understanding Cumulative Causation, the three most important figures are Kaldor, Myrdal and Veblen. Veblen studied the industrialisation of Germany, and both Kaldor and Myrdal worked for the United Nations rebuilding post-war Europe. Taken as a unified system of thought, Cumulative Causation yields a system of understanding institutional change and industrial development, with natural applications in technoindustrial policy, international aid, and structural intervention in domestic economic development.

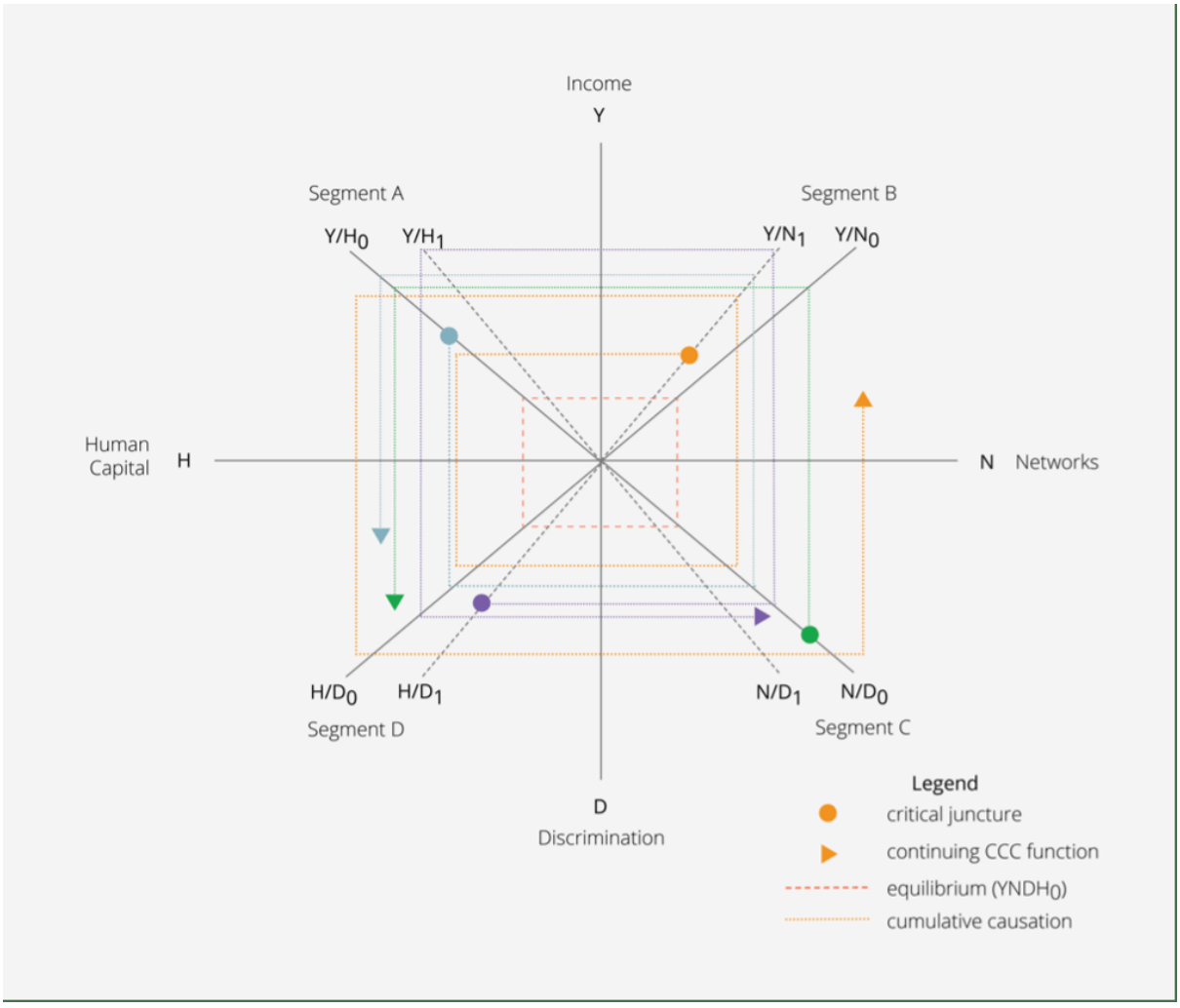


Figure. Stylised model of dynamic capital accumulation and decumulation with multiple external social institutional influences. Adapted and expanded from Philip O'Hara.

For our analytical framework, we used a stylised model of positivist variables as a heuristic. The real-world government intervention by China in the intercontinental rail freight market is much more deeply complex and interrelated, but this figure is useful for thinking through path-dependencies of capital accumulation and decumulation. An analytical model of the geoeconomics of Cumulative Causation explains well this process of economic change underway in Eurasia as a result of China's *Belt and Road*, *International Capacity Cooperation* and *CR Express* geoindustrial policies. From a starting position of an exogenous intervention from a more economically advanced system to a lesser, from China to Central Asia via the China freight forwarders, the system can move from one state of equilibrium through a process of historical and institutional economic change of accumulation into a new equilibrium at a higher order of modality.

However all government interventions carry with them the risk of introducing a capital decumulation effect. Decumulation also occurs as a result of multivariate causality, applicable to spatial economic accumulation/decumulation as well as temporal growth/retraction, meaning that a government intervention cannot be sure of which segment of exogenous social influence the intervention will affect, or whether the result on the economic system will be accumulative or decumulative. A real-world example of decumulation would be overinvestment in steel and cement resulting in underutilisation of capacity resulting in misallocation of capital in heavy industrial infrastructure which could have been better allocated to a transport or education network development. Government public goods across all types of economies face these difficulties, but in China with a mixed planned and semi-open economy, the causative institutional intersection is more acute, with more externalities and fewer internal modifiers than Western capitalist economies.

Layers of such institutionality govern the economic feasibility of projects such as *CR Express*, which is why neither international relations theory analyses of *Belt and Road* nor positivist economic analyses of interstate or regional trade development can assess the totality of the geoindustrial policy. The point of institutional analysis is that in the absence of statistical data, political anthropology of policy analysis approaches are more useful in assessing state capitalist behaviour. Assessing any economic viability of individual systems across China's Eurasian geoeconomic policy though remains difficult against the seeming early decay of the initial *Belt and Road* industrial rollout and China's wider multilateralism vacuum, meaning that not even political objectives are being achieved, much less economic.

China's Eurasian railway a strategic subsidy, not economic development

While China has laid claim to visionary transcontinental transport corridors through *Belt and Road*, in intercontinental rail freight these plans were often simply tracings of existing Asian Development Bank funded projects or codification of lines which regional cities had already built up themselves. Most real investment in connectivity and trade development in Central Asia is overwhelmingly still financed by European institutions, whether directly through European Commission funding mechanisms or indirectly through the European Bank for Reconstruction and Development or the TRACECA (Transport Corridor Europe-Caucasus-Asia) project. Asian Development Bank's CAREC (Central Asia Regional Economic Cooperation Program) program meanwhile appears more and more state-captured by China interests — leveraging Australian, United States and Japanese capital to build railways to nowhere across both southern and northern Xinjiang and with otherworldly policy plans for crossing the Tian Shan, Pamir and Karakoram mountain ranges by rail.

Despite projected policy discourse of a China development model, if China's diplomatic rhetoric is not based on reliable or replicable growth in freight throughput numbers, then governments, policy-makers and academics can make neither positive nor negative assessments based on

unverifiable data. At present, the *CR Express* intercontinental rail freight system is running on China subsidies and European Union goodwill. There is very little economic incentive for either China, Central Asia or Europe to maintain this system on a market basis. For China, the ability to establish offshore industrial production clusters in Eurasia via the parallel trade policies of *Bringing In* and *International Capacity Cooperation* create a political incentive. For Central Asian or European states though, there is neither political nor economic incentive.

CR Express is also effectively an attempt to institutionally unite three customs unions: the People's Republic of China, the European Union, and some form of Eurasian customs, trade and economic integration microregion, as either the *Middle Corridor*, the Eurasian Economic Union or a future projection of China's customs, finance, and import standards. In trying to unify three customs unions, the best institutions and theories available should prevail. At this time that would mean the European Union multilevel governance model. Multilevel governance is a functionalist institutionalist alternative to Washington Consensus multilateralism. This means that even within Western globalisation there are multiple conceptions of international institutionalism. Many of the institutional governance problems that China is grappling with have already been tackled in the European Union by the multilevel governance development.

China's international political and economic approach to institution building in Eurasia seems to be caught in the dichotomy that China should provide its own domestically cultivated alternative to the Bretton Woods institutions. However not only has China not succeeded in developing effective institutions to guide transport, industrial and financial development in Eurasia, the geoeconomic political rationale behind the dichotomy is false. The future institutional development of transport corridors in the region should be based on transparent data and best institutional practice. And yet as the geoeconomic supply is policy-driven from the China side, it is China governance models which are being exported along the *Belt and Road* economies. Ultimately this fails China as much as it fails the Eurasian partner economies.

Economic planning more European Commission than East Asian model

Regionalism continues to be more important than globalism. Yet the economic spatial planning of communist China's transport policy planning architecture is an uninspiring model for economic development in Eurasia. The industrial infrastructure and the foreign policy surrounding Eurasian rail freight connectivity are both extant economic development opportunities. However where China is failing in this new Eurasian transport policy is in the monumental attempt to replace existing global and regional trade orders with a novel form of multilateralism and multipolarity.

Policy evidence from the *Belt and Road* transport case suggests that China's attempt to replace global multilateralism with regional multipolarity is built on shaky economic development grounds. China's national system of economic development that resulted in the domestic industrial growth strategy lacks the institutions to be able to export the model as a geoindustrial policy for China's geoeconomic neighbours. The attempt to simplistically recreate China's domestic industrialisation institutions in China's near neighbours in Central Asia through the *Belt and Road* initiative are already beginning to fray.

While Kaldorian economic theory may hold true for a potential Cumulative Causation effect in the economic integration and development of the Central Asian, Caucasian and Black Sea economies through China's investment in transport and logistics systems, the institutional vacuum within these economies means that this effect is more likely to dissipate than to materialise. Weak demand, high costs, the persistent economic alternative of maritime trade routes, and other economic factors still trump the political risk that would follow if these were not factors. More than this, the myriad variables of the political systems interfering with economic development in each of the many countries in Eurasia that the China model would have to manage, seem ultimately to create a political economy impasse for the China Eurasia rail system.

Cumulative Causation is good economic theory, allowing for examination of past and existing institutional phenomena and providing a level of predictive explanatory power for future path-dependencies in economic development. There is certainly room in the policy discussion on national, regional and global economic development for economic theory which agents space and time better, and has more practical outcomes than the current failures of development economics. However Cumulative Causation's practical use has historically manifested itself far better in the institutions intergovernmental institutions which which rebuilt post-war Europe's economic systems than it does in China's contemporary state-planning apparatus pursuing an ephemeral Eurasian geoeconomic dream.

This article is a synopsis of 'China's 'Belt and Road' Rail Freight Transport Corridors — The Economic Geography of Underdevelopment' published in Die Erde – The Journal of the Geographical Society of Berlin.

China Elite Politics

Xi Loyalist Ding Xuexiang Could Benefit From Factional Infighting

Certain to remain on the Politburo, Ding's quest to reach the Standing Committee will depend on the results of political infighting between rival cliques.

By Tristan Kenderdine
February 01, 2022

The Diplomat

With space tightening and purges intensifying, the Chinese Communist Party (CCP) core is likely to enjoy the safest passage through to the 20th Party Congress this fall. Ding Xuexiang is concurrently CCP General Secretary Office director and Central Committee General Office director. This means he runs Xi Jinping's office, working with him day to day, as well as being in charge of keeping the Central Secretariat in line. General Office secretary is a bit like a party whip in a Westminster Parliamentary democracy system.

Policy-wise, Ding is the perfect combination of CCP institutionalist and science and technology innovation policy advocate. This is perhaps the optimal policy meld for a decade likely to be defined by strong party rule and strategic technoindustrial competition with outside economic powers. Expect him to be have a strong leading role in post-2022 Party Leading Groups related to science and technology policy.

Ding is one of the party old guard. He began in heavy industry work, entering the workforce straight from university with only a bachelor's degree. Ding came up in the materials research industry, a hugely important sector of innovation, industrial policy, and strategic resource development for the nationalist economic plan. New materials is a strategic policy area and developing new material technology also goes in hand with geoeconomic and strategic foreign resource policy. Although Ding did not join the CCP directly in university, in Shanghai Ding's rise through executive party experience seems characteristic of someone protected by a leader within the party. Clearly competent enough to command the respect of the cadres he controlled, he also seems to have been marked early for promotion and shepherded upwards.

Ding Xuexiang 丁薛祥 — 20th Party Congress Assessment

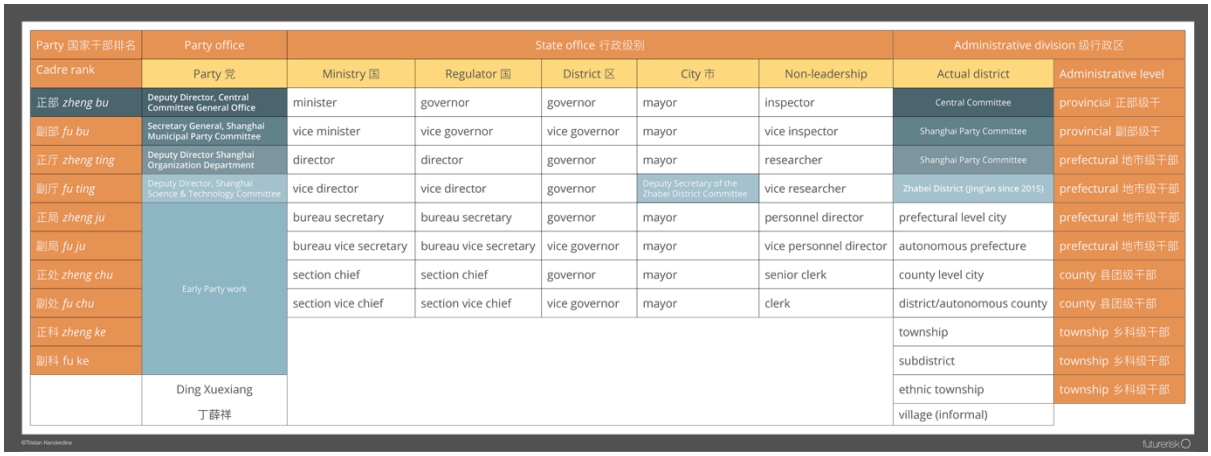
Party vitals	
Party Cadre rank	正部 Zhengbu
Born	1962
Age 2022	59
Age 2027	64
Promotions remaining	2
Demographics	Han, male

Promotion prediction
NPC Standing Committee Vice-Chair
Future possible promotion seats
NPC Standing Committee Chair Central Secretariat Secretary CDIC Secretary Organization Department Head

Institutional history	
Current positions	Central Committee of the China Communist Party General Office Director China Communist Party General Secretary Office Director President of the People's Republic of China Office Director
Institutional gravity	New Era Core, New Shanghai Clique
Zones of influence	Shanghai, Beijing
Policy competencies	Science and Technology Policy, Materials research, Party organisation, Party history
International experience	None
Education	Northeast Heavy Machinery Institute (Mechanical Engineering), Fudan University (Public Administration) Shanghai Institute of Materials Research

After studying in northern Hebei, undisturbed by the Cultural Revolution, Ding has spent his

entire career in safe party seats in Shanghai and then in Beijing in the Central Committee. Prior to moving into politics at aged 37, Ding had a career in research, working progressively through research and administration and party positions within the Shanghai Materials Research Institute of the Ministry of Machinery Industry, now a state-owned enterprise under the China Machinery Industry Federation. Ding completed the mid-career Party School training in 1993, as well as being pushed through a Fudan master's degree in public administration, both degrees completed as on the job training. Ding, though, is more likely to fall in with the Cultural Revolution learn-by-doing types than the new, younger school of university book learning cadres.



Party 国家干部排名	Party office	State office 行政级别					Administrative division 级行政区	
Cadre rank	Party 党	Ministry 国	Regulator 国	District 区	City 市	Non-leadership	Actual district	Administrative level
正部 *zheng bu*	Deputy Director, Central Committee General Office	minister	governor	governor	mayor	inspector	Central Committee	provincial 正部级干
副部 *fu bu*	Secretary General, Shanghai Municipal Party Committee	vice minister	vice governor	vice governor	mayor	vice inspector	Shanghai Party Committee	provincial 副部级干
正厅 *zheng ting*	Deputy Director Shanghai Organization Department	director	director	governor	mayor	researcher	Shanghai Party Committee	prefectural 地市级干部
副厅 *fu ting*	Deputy Director, Shanghai Science & Technology Committee	vice director	vice director	governor	Deputy Secretary of the Zhabei District Committee	vice researcher	Zhabei District (Jing'an since 2015)	prefectural 地市级干部
正局 *zheng ju*	Early Party work	bureau secretary	bureau secretary	governor	mayor	personnel director	prefectural level city	prefectural 地市级干部
副局 *fu ju*		bureau vice secretary	bureau vice secretary	vice governor	mayor	vice personnel director	autonomous prefecture	prefectural 地市级干部
正处 *zheng chu*		section chief	section chief	governor	mayor	senior clerk	county level city	county 县团级干部
副处 *fu chu*		section vice chief	section vice chief	vice governor	mayor	clerk	district/autonomous county	county 县团级干部
正科 *zheng ke*							township	township 乡科级干部
副科 fu ke							subdistrict	township 乡科级干部
	Ding Xuexiang 丁薛祥						ethnic township	township 乡科级干部
							village (informal)	

Ding worked through the CCP ranks almost entirely within the party positions. After initial promotions through the Science and Technology Work Committee and a requisite stint at a prefectural level post – in this case, as executive of a densely populated inner city Shanghai district – Ding then rose progressively through the Shanghai municipal Organization Department, General Office, and Politics and Legal Affairs Commission, the local version of the national domestic security apparatus. Rising initially through party positions within the Shanghai Institute of Materials Research, including as propaganda department director, means Ding has experience in all party positions of propaganda, organization, general office, and politics and legal affairs commission, making him the near perfect CCP all-rounder (Ding is missing only discipline inspection for a party policy full-house).

His seven-year career boost through the Shanghai municipal party positions elevated Ding first as an alternate member of the 18th Central Committee and then a full member and straight into the Politburo for the 19th Central Committee. As director of the General Office, Ding has also sat with Xi on the National Security Commission since 2017.

Factionally, Ding is perhaps one of the foremost members of the New Era Core. But in terms of the traditional geographic and institutional factions, his career is largely unremarkable. There is often a tendency to oversubscribe to the idea that the fringe provinces produce the most powerful cliques. Institutionally defined cliques such as the Communist Youth League, Shanghai Cliques, Industry Associations, and increasingly finance and fin-tech governance cliques are also just as important as the geographically defined factions. Ding is young for the New Shanghai clique, but also fits the well-worn pattern of Xi keeping insiders close. However, beyond his New Shanghai factional affiliation, Ding has been in the architect's drafting room of the New Era project for the past 10 years. Ding is already established within the party's ideology echelons; his role from 2022 will likely include a redefining of the sub-supreme power structures of the leading faction.

Ding has been at the top with Xi for the entire period since 2012, when he first reached *zhengbu* party cadre ranking. Ding was barely 50 years old when was made deputy director of the General Office at the start of Xi's first term. By the second term in 2017 he had risen to the

Politburo and, all things being equal, he is a strong contender to rise into the Politburo Standing Committee in 2022. Age restrictions mean he would be eligible for 2022 and 2027, making him a clear New Era Core leader to flank Wang Huning and Chen Min'er through the 2020s.

Ding is well place to guide the CCP in its pursuit of ephemeral policy goals and party signposts in its technoindustrial quest. Ding has also ideologically contributed to Xi Jinping's "Rule by History" policy, speaking at the National Party History and Documentation Department Meeting in 2021, stressing the centenary goals of the CCP and the New Era mindset under Xi Thought, and publishing a People's Daily editorial on Xi's history resolution. We can expect Ding to be part of a Xi and Wang New Party History administration. Even if Xi were to be forced from power, Wang and Ding would still carry the factional history torch no matter who makes it to general secretary.

Projected 2022 Politburo leadership

	Seat	Projected Seat Holder		Birth	Age 2022	Age 2027	Change	Faction
Standing Committee	General Secretary	习近平	Xi Jinping	1953	69	74	Supreme Leader	Crown Prince
	State Council Premier	王沪宁	Wang Huning	1955	67	72	Change position	Constitutional Monarchist
	NPC Standing Committee Chair	李克强	Li Keqiang	1955	67	72	Change position	Tuanpai
	CPPCC Party Secretary	汪洋	Wang Yang	1955	67	72	Position to be determined	Tuanpai
	Central Secretariat Secretary	陈敏尔	Chen Min'Er	1960	62	67	Change position	Zhijiang / Guizhou / New Era
	CDIC Secretary	赵乐际	Zhao Leji	1957	65	70	Position to be determined	Shaanxi Clique
	First State Council Vice-premier						Seat to be filled	-
State Council and NPC	2nd Vice Premier of the State Council	李希	Li Xi	1956	65	70	Change position	Zhijiang New Army
	3rd Vice Premier of the State Council	陈全国	Chen Quanguo	1950	67	72	Change position	New Era Core, Waning Tuanpai
	4th Vice Premier of the State Council	韩俊	Han Jun	1950	59	64	Politburo Incoming	-
	NPC Standing Committee Vice-Chair	丁薛祥	Ding Xuexiang	1962	59	64	Change position	New Era Core, New Shanghai
Provincial Party Secretaries	Guangdong Party Secretary						Seat to be filled	-
	Shanghai Party Secretary	李强	Li Qiang	1956	63	68	Position to be determined	Zhijiang New Army
	Tianjin Party Secretary	李鸿忠	Li Hongzhong	1959	66	71	Position to be determined	-
	Chongqing Party Secretary						Seat to be filled	-
	Beijing Party Secretary	蔡奇	Cai Qi	1963	67	72	Position to be determined	Zhijiang New Army
	Xinjiang Uyghur Autonomous Region Party Secretary	马兴瑞	Ma Xingrui	1959	62	67	Politburo Incoming	-
Wildcard							New seat to be filled	-
Party positions	Director of the National Supervisory Commission						Seat to be filled	-
	Director of the General Office						Seat to be filled	
	Head of the Organization Department						Seat to be filled	-
	Political and Legal Affairs Commission Secretary	陈一新	Chen Yixin	1959	62	67	Politburo Incoming	Zhijiang New Army
	Propaganda Department Head	谌贻琴	Shen Yiqin	1959	62	67	Politburo Incoming	Guizhou Connect
Military	Central Military Commission Vice Chair							
	Central Military Commission Vice Chair							

= Core Party & Factions | = projected 2022 seat | = Politburo new entry | = Politburo seat change | = Politburo new seat | 67 up | 68 down

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As incumbent director of the CCP's Office of the General Secretary, Ding is sitting now in the position that Li Zhanshu held before his ascendancy. Regardless of Li being taken down or not in the run up to the 2022 Congress, he would be expected to retire under age limitations. There is thus a clear and natural path from Party General Office director to NPC Standing Committee chair and Ding could simply replace Li Zhanshu. A possible purge of Li, though, may be aimed at blocking off attendant personnel who could shepherd Ding into the higher echelons of power and ascending to the Politburo Standing Committee. The path-dependencies of this model mean keeping Wang Huning and Li Keqiang, which makes it difficult to place Ding in the Standing Committee.

With a 2027 promotion still remaining, Ding joining the cohort of Chen Quanguo sitting just outside the Standing Committee is more likely than the Xi dream team of Ding joining Chen Min'er and Wang Huning at the top. Although it is odd to conceive of Ding moving into a state position after a career entirely within party positions, there is a party-fication of state positions

underway and NPC Standing Committee chair and vice chair is the natural path forwards for career party positioners. Central Secretariat secretary would also be a big promotion in the right vein of Ding's abilities, but the Standing Committee is too stacked at the top for him to be likely to make it this way.

Ding is already one of the most powerful members of one of the most powerful Politburos in contemporary Chinese history. However, his fortunes are entirely tied to Xi Jinping, and while internal factional positioning continues through the run-up to the fall Congress, Ding is safe from any purges, so long as Xi himself survives. If Xi were removed from power, then Ding would also likely rapidly disappear. If Xi does form a third Politburo, though, Ding will have been an instrumental loyalist to the project and a third Xi administration will include Ding – whether or not he is formally seated on the Politburo Standing Committee.

China's Foreign Affairs Director Seat May Fall out of the Politburo

Without any strong contender emerging to replace Yang Jiechi, the next director of the Office of Foreign Affairs could be cut from the Politburo, opening a slot for a different party position.

By Tristan Kenderdine
October 08, 2021

The Diplomat

Many positions within the Chinese Communist Party's Politburo are institutionally organized as permanent seats. But individual politicians may hold multiple seats, opening spaces for both new seats to enter Politburo and for skillful politicians to carry on in their existing seats.

At the 20th CCP Congress, Yang Jiechi is set to retire as director of the General Office of the Central Foreign Affairs Commission. The natural successor would be State Councilor and Foreign Minister Wang Yi, but Wang is also already over retirement age. Without a standout candidate to inherit China's nominal foreign policy leadership, it is likely that the foreign affairs Politburo position will be scrapped in 2022.

With both Yang and Wang retiring, the highest state-ranked foreign affairs cadre would likely be one of the incoming five state councilors, who would nominally take over the state foreign policy portfolio, or an incoming minster of foreign affairs. The Ministry of Foreign Affairs, though, actually has very little remit over foreign policy in China. Even nominally, whomever emerges as minister of foreign affairs will only be stepping into the second-ranked state position, and will be far down the CCP pecking order. Real foreign policy has always been made in Party Leading Groups, which have only become more centralized under Xi Jinping's system of commissions.

The reality of creating a new Politburo seat is that a strong political candidate will carry the seat into creation. If foreign affairs falls out of Politburo, a new party position could then take up a Politburo place. The five most likely options are: an internal security state councilor position refashioned into a near-abroad foreign policy chair; the United Front Work Department director; a new Spiritual Civilization Office director; an empowered Policy Research Office director; or a new vice president.

With the foreign affairs portfolio state councilor seat dropping out of the Politburo, the obvious replacement would be to install the internal security/near abroad policy portfolio in its stead, remembering that internal security had been a Politburo Standing Committee position until 2012. There is a clear emerging need in elite party policy-making for a balance between near-abroad, domestic foreign policy narratives, ethnic affairs, and geoeconomic policy.

An inspired move toward a stronger police state-foreign policy hybrid in China could see Zhao Kezhi's current state councilor position be made a Politburo place. Through the second Xi term, Zhao has acted like a Politburo member, and his internal security policy seat is the type of position that a third Xi term would need: a combined oversight of the domestic security apparatus and near-abroad national security foreign policy architecture, embodied in a CCP loyalist. Whomever inherits Zhao's seat could be very quickly within the inner circle.

Elevation of the United Work Front Department Director is also an option, Sun Chunlan was in this seat in the first Xi term, and from an institutional perspective, the United Front Work Department director rejoining the Politburo would suit the 2022 state of political play. The United Front Work Department fits the policy portfolio of needing someone to take care of China's bordered allies, Shanghai Cooperation Organization states, and domestic ethnic affairs

agenda. But there is little talent young enough to proffer a good candidate, and these policy functions are more likely to be served within the upper party leading group structure. Current head You Quang is too old to be in contention and first-ranked deputy director Zhan Yijiong only just scrapes in under age restrictions. Other leadership contenders at United Front are also quite dusty, with deputy directors Bagatur and Xu Lejiang both born in 1955.

Projected 2022 Politburo leadership

	Seat	Projected Seat Holder		Birth	Age 2022	Age 2027	Change	Faction
Standing Committee	General Secretary	习近平	Xi Jinping	1953	69	74	Supreme Leader	Crown Prince
	State Council Premier	王沪宁	Wang Huning	1955	67	72	Change position	Constitutional Monarchist
	NPC Standing Committee Chair	李克强	Li Keqiang	1955	67	72	Change position	Tuanpai
	CPPCC Party Secretary	汪洋	Wang Yang	1955	67	72	Position to be determined	Tuanpai
	Central Secretariat Secretary	陈敏尔	Chen Min'Er	1960	62	67	Change position	Zhijiang / Guizhou
	CDIC Secretary	赵乐际	Zhao Leji	1957	65	70	Position to be determined	Shaanxi Clique
	First State Council Vice-premier						Seat to be filled	-
State Council and NPC	2nd Vice Premier of the State Council	李希	Li Xi	1956	65	70	Change position	Zhijiang New Army
	3rd Vice Premier of the State Council	陈全国	Chen Quanguo	1950	67	72	Change position	New Core, Waning Tuanpai
	4th Vice Premier of the State Council	韩俊	Han Jun	1950	59	64	Politburo Incoming	-
	NPC Standing Committee Vice-Chair						Seat to be filled	-
Provincial Party Secretaries	Guangdong Party Secretary						Seat to be filled	-
	Shanghai Party Secretary	李强	Li Qiang	1956	63	68	Position to be determined	Zhijiang New Army
	Tianjin Party Secretary	李鸿忠	Li Hongzhong	1959	66	71	Position to be determined	-
	Chongqing Party Secretary						Seat to be filled	-
	Beijing Party Secretary	蔡奇	Cai Qi	1963	67	72	Position to be determined	Zhijiang New Army
	Xinjiang Uyghur Autonomous Region Party Secretary	陈润儿	Chen Run'er	1957	67	72	Politburo Incoming	-
Wildcard							New seat to be filled	-
Party positions	Director of the National Supervisory Commission						Seat to be filled	-
	Director of the General Office	丁薛祥	Ding Xuexiang	1962	59	64	Position to be determined	
	Head of the Organization Department						Seat to be filled	-
	Political and Legal Affairs Commission Secretary	陈一新	Chen Yixin	1959	62	67	Politburo Incoming	Zhijiang New Army
	Propaganda Department Head	谌贻琴	Shen Yiqin	1959	62	67	Politburo Incoming	Guizhou Connect
Military	Central Military Commission Vice Chair							
	Central Military Commission Vice Chair							

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There was no foreign affairs Politburo position in Xi's first term where Wang Huning held a Politburo place as Central Guidance Commission on Building Spiritual Civilization Office director. Wang continues to hold this important post, which defines the CCP's place in the world – making Wang's post arguably more powerful than any foreign affairs position. This Spiritual Civilization position is the ideological heart of China's place in the world, constructing and disseminating civilizational values, state policy, and guidance for the highest-level party doctrine. Ecological Civilization, for example, was the guiding doctrine of Xi's two terms and the CCP is overdue for a new civilizational signpost.

A strong institutional option would be to empower the Spiritual Civilization office director to the Politburo-yielding seat it was in 2007 and 2012, only falling out of the Politburo to accommodate Yang Jiechi at foreign affairs. However Wang Huning is the Spiritual Civilization intellectual architect and as he will remain in the Standing Committee, he will likely retain responsibilities as formal bureaucratic director of this party meta policymaking office. Another of Wang's concurrent roles, though, was recently relinquished, resulting in the promotion of a new Policy Research Office director. The 62-year-old Jiang Jinquan would be a good candidate to ascend into the Politburo in 2022, particularly if Wang Huning were compelled to release some long-held policy responsibilities. If Jiang were eligible for two terms, he would be in strong contention; with only one term before he reaches retirement age, though, he is still good cover for what is essentially a push into a third term for an ideologically-driven regime, which might not make a fourth term.

Vice president would be the traditionalist position to occupy the vacant Politburo slot. However current Vice President Wang Qishan was installed in this seat precisely as a mechanism for him to avoid Politburo age restrictions. Reinvigorating the office of the vice president, a non-policy or governance specialist position, could give Xi another slot to place a well-rounded political ally. As vice president is currently a lame duck chair, and with the state in decline relative to the party, the ability to party-politicize this chair could be a strong Politburo wildcard move. However, with so many other pressing policy priorities to cover, the vice president returning to Politburo should be considered a low probability scenario.

The foreign affairs chair dropping out of the Politburo at a time of strong international friction would only signal that foreign policymaking is being absorbed by higher party functionaries, to be run more directly from the Central Foreign Affairs Commission, with only a figurehead spokesperson. While the Central Foreign Affairs Office director seat vacated by Yang Jiechi will become less important, it will not be dissolved and its responsibilities could be filled by a specialist spokesperson like Liu Xiaoming. By pushing state foreign policy offices and voices into groupthink, though, and by marginalizing any political faction right of Xi through the 2021 rectification purge, the foreign policy capabilities of the CCP in 2022 will only become even more limited and more of a policy liability for the administration.

Armed with little more than classical Leninism, some crudely imported Morgenthau realism, and with only a slightly better ability to project force than in previous decades, the types of deep policy layering necessary for China to achieve its diplomatic goals in international policy fields are unlikely to emerge from the next iteration of the Politburo.

Rural Affairs Specialist Han Jun Likely to Ascend to Vice Premier in 2022

Han Jun's elevation to Jilin governor puts this rural policy careerist in strong contention for one of four State Council vice premier positions in 2022.

By Tristan Kenderdine
September 17, 2021

The Diplomat

In China's political philosophy, rural is half the China state: half the polity is urban, the other half rural. While state-party dichotomies tend to dominate analyses of China's elite politics, the rural aspect of the urban-rural split is often overlooked. More than simply agricultural, peasant, or village policy, rural affairs is a broad portfolio. Yet while this rural affairs portfolio is a sprawl of governance, economic, and social policy competence, there is no Politburo chair institutionalized for rural affairs responsibility.

Rural affairs is largely governed from within the State Council, although outside input comes from the National People's Congress Agriculture and Rural Affairs Committee, the CPPCC Agriculture and Rural Affairs Committee, and the Party Central Leading Group for Rural Work, the office for which sits in the Ministry of Agriculture and Rural Affairs. This ministry also coordinates much of China's foreign agricultural policy and runs adjacent to resources and environment policy. Within the Politburo framework above these state structures, rural affairs is usually overseen by State Council vice premiers.

Han Jun, the governor and deputy party secretary of Jilin province, is now in prime position to ascend to become one of the four State Council vice premiers in the 2022 Politburo. While rural, land, resources, and agriculture policy is currently split between Han Zheng and Hu Chunhua, Han Jun is the genuine rural affairs policy specialist in the current administration. Politically, Han is a policy pragmatist and technocrat in the style of Wang Yang or Zhang Gaoli. Han served previously on the Central Leading Group for Finance and Economics from 2014-2020, a period that saw the ouster of many right-liberal, market-minded financial cadres, the end of the careers of Lou Jiwei and Zhou Xiaochuan, and the movement back toward centralized control of financial markets. Han is thus well placed as a generalist, with experience in rural policy research, and practical policy implementation in finance, economics, rural affairs, and agriculture.

Unlike the cadre cohort before him, with their disrupted educations during the Cultural Revolution, Han stayed entirely within the higher education system from bachelor to terminal degree, emerging aged 26 with a doctorate in agricultural economics. He then went straight in to policy research, moving from Shaanxi to Beijing to take up his first job at the Rural Development Research Center. After nine months of fieldwork in poverty alleviation back in Shaanxi, Han returned to Beijing and spent a decade at the Chinese Academy of Social Sciences, rising to deputy director of the Institute of Rural Development. In 2001 Han then moved to the rural economics section of the State Council's Development Research Center where, by 2010, he had again risen to deputy director.

Through this decade at the Development Research Center, Han took the full-length one year Central Party School training in 2006 and a Tsinghua-Harvard short course on public administration in 2003. In September 2012 Han also took a three-week Cambridge Judge Business School executive training course, immediately after he had attended the three-month National Defense Strategy Research course of the PLA's National Defense University. This national strategic defense training of provincial level cadres has intensified in recent years,

with a focus on network and supply-chain security in food, water, energy, electricity, and transport.

Han Jun 韩俊 — 20th Party Congress Assessment

Party vitals	
Party Cadre rank	正部 Zhengbu
Born	1963
Age 2022	59
Age 2027	62
Promotions remaining	2
Demographics	Han, male

Promotion prediction
Fourth Vice-Premier of State Council
Future possible promotion seats
Third Vice-Premier of State Council Jilin Party Secretary Chongqing Party Secretary Minister of Agriculture

Institutional history	
Current positions	Jilin Governor, Deputy Party Secretary
Zones of influence	Beijing, Shaanxi, Jilin
Policy competencies	Agriculture, Rural Affairs, Finance, Social Science Research
International experience	International education - United Kingdom; Pacific Agriculture Trade War
Education	Shandong Agricultural University (Agricultural Economics) , Northwest Agricultural University (MA & PhD Agricultural Economics) Tsinghua-Harvard short course (Public Administration) Central Party School Mid-Career Training, National Defense University short course (Defense Strategy), Cambridge University short course (Advanced Leadership)

2014 was Han's big break, as he was made deputy director of the Office of the Central Leading Group for Rural Work and also deputy director of the Office of the Central Leading Group for Finance and Economics. This put him in a unique position. Rural development and rural finance is always an important policy position, but as concurrent deputy director of the finance and economics working group Han was directly among the leadership of the entire Chinese economy, with policy purview over all facets of financing China's economy and wider economic policy.

Han had been missing executive leadership experience, but in January 2021 he was made governor and deputy party secretary for Jilin, working under Party Secretary Jing Junhai. Jilin, located on the Songhua River on the Manchurian Plain, is an important northeastern agricultural production center for China, a major producer of rice, soybean, maize, and sorghum.

Han Jun moving to Jilin governor as a prelude to returning to a central position would be a similar trajectory to Han Changfu, who was first governor of Jilin before becoming minister of agriculture. Until 2020 Han Changfu had governed with policy competence over China's rise into global food markets, both through global commodity markets as well as the Belt and Road agriculture plans to develop a series of offshore production bases.

Given his inexperience in other policy fields and lack of leadership experience, it would be fair to consider Han staying as Jilin governor through the 2022-2027 term or at most to be promoted to a non-Politburo provincial party secretary position. However, given the ongoing rectification purge, Han looks like he is being rapidly promoted. Han could conceivably go to one of the Politburo provincial party secretary positions, but his lack of leadership or party position experience mean he is more likely being elevated to provincial governor now as a preparatory step before going to one of the four State Council vice premier positions.

Policy-wise, for a third Xi administration depending on poverty alleviation and rural development for legitimacy, there has been a dearth of rural policy since 2018. This has left poverty alleviation as the only rural policy and governance narrative. Han Jun would thus be handed a portfolio of policy problems and few tools with which to solve them.

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Standing Committee	General Secretary	习近平	Xi Jinping	1953	69	74	Supreme Leader	Crown Prince
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	NPC Standing Committee Chair	李克强	Li Keqiang	1955	67	72	Change position	Tuanpai
	CPPCC Party Secretary	汪洋	Wang Yang	1955	67	72	Position to be determined	Tuanpai
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	CDIC Secretary	赵乐际	Zhao Leji	1957	65	70	Position to be determined	Shaanxi Clique
	First State Council Vice-premier						Seat to be filled	-
State Council and NPC	2nd Vice Premier of the State Council	李希	Li Xi	1956	65	70	Change position	Zhijiang New Army
	3rd Vice Premier of the State Council	陈全国	Chen Quanguo	1950	67	72	Change position	New Core, Waning Tuanpai
	4th Vice Premier of the State Council	韩俊	Han Jun	1950	59	64	Politburo Incoming	-
	NPC Standing Committee Vice-Chair						Seat to be filled	-
Provincial Party Secretaries	Guangdong Party Secretary						Seat to be filled	-
	Shanghai Party Secretary	李强	Li Qiang	1956	63	68	Position to be determined	Zhijiang New Army
	Tianjin Party Secretary	李鸿忠	Li Hongzhong	1959	66	71	Position to be determined	-
	Chongqing Party Secretary						Seat to be filled	-
	Beijing Party Secretary	蔡奇	Cai Qi	1963	67	72	Position to be determined	Zhijiang New Army
	Xinjiang Uyghur Autonomous Region Party Secretary	陈润儿	Chen Run'er	1957	67	72	Politburo Incoming	-
Party positions								-
	Director of the National Supervisory Commission						Seat to be filled	-
	Director of the General Office	丁薛祥	Ding Xuexiang	1962	59	64	Position to be determined	
	Head of the Organization Department						Seat to be filled	-
	Political and Legal Affairs Commission Secretary	陈一新	Chen Yixin	1959	62	67	Politburo Incoming	Zhijiang New Army
	Propaganda Department Head	谌贻琴	Shen Yiqin	1959	62	67	Politburo Incoming	Guizhou Connect
Military	Central Military Commission Vice Chair							
	Central Military Commission Vice Chair							

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futurerisk ©Tristan Kenderdine

Han's rural affairs research career has focused acutely on rural finance, hukou reform, and land reform. These three big policy challenges of contemporary China are persistent insoluble problems, and they will remain acutely problematic through the 2020s. As China seems destined for a decade of neo-Maoist economic policy, concerns over grain shortages and food security are already high on the national security agenda, requiring an adept technocrat to manage both domestic and foreign policy responses.

As State Council rural affairs specialist, Han would assume control of an informal policy portfolio centered on rural, agricultural, finance, and food security affairs, manifested in various leading groups and party policy positions. His age means he qualifies for the next two Central Committees, meaning if he does not make Politburo this term, he almost certainly would in 2027. Being in the same age cohort as Hu Chunhua and Chen Min'er, though, opens space for Han to become a centrist state buffer between Xi's CCP core and any right-liberal resurgence. Expect Han's State Council vice premier policy portfolio to be explicitly centered on poverty alleviation, but implicitly centered on the institutional transition of China's coastal model to the inland, while simultaneously managing the food security aspects of any future trade war activity.

Sub-Provincial City Cadres: China's Leadership Cohort for 2027 and Beyond

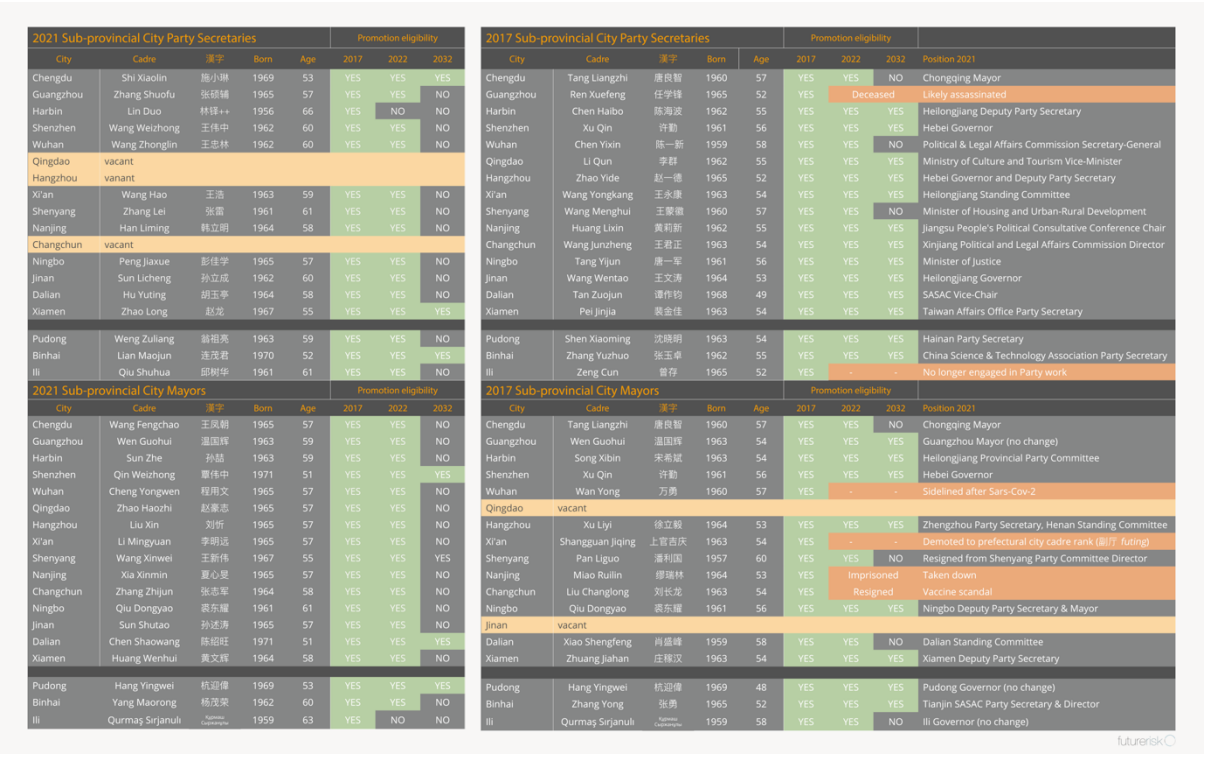
Sub-provincial city governance positions are often the last policy-testing ground before promotion to ministerial-level cadre rank, and the possibilities of central leadership positions that this brings.

By Tristan Kenderdine
September 03, 2021

The Diplomat

China's governance is barely institutionalized into any formal central forms of political power. Instead, China is governed by geographic regions. There is no distinction between central and provincial positions once cadres reach the "provincial-ministerial" *zhengbu* rank. The central governance structure is then made up of a combination of formal institutionalized positions and loose alliances, making an informal centralized power structure close to a form of cadre-federalism.

Sub-provincial level cities, though, are governed by cadres at the *fubu* rank, half a rank above prefectural rank and half a rank below provincial. There are 15 proper sub-provincial level cities, plus two of the 19 centrally governed "New Areas" as well as the Ili Kazakh Autonomous Region, a sprawling far western Xinjiang administrative unit that covers Ili proper, Tacheng, and Altai prefectures. The proper sub-provincial level cities mostly cross-over with the state planning mechanism, with 13 of the 15 also directly named cities in the central state plan, the exceptions being Hangzhou and Jinan. Cadres who pass through this sub-provincial city governance level are often on a career track to provincial cadre level appointments, which put them on course for high level political power. These sub-provincial leaders are thus positioning themselves now for powerful central roles in the future.



2021 Sub-provincial City Party Secretaries

City	Cadre	漢字	Born	Age	Promotion eligibility 2017	2022	2032
Chengdu	Shi Xiaolin	施小琳	1969	53	YES	YES	YES
Guangzhou	Zhang Shuofu	张硕辅	1965	57	YES	YES	NO
Harbin	Lin Duo	林铎++	1956	66	YES	NO	NO
Shenzhen	Wang Weizhong	王伟中	1962	60	YES	YES	NO
Wuhan	Wang Zhonglin	王忠林	1962	60	YES	YES	NO
Qingdao	vacant						
Hangzhou	vanant						
Xi'an	Wang Hao	王浩	1963	59	YES	YES	NO
Shenyang	Zhang Lei	张雷	1961	61	YES	YES	NO
Nanjing	Han Liming	韩立明	1964	58	YES	YES	NO
Changchun	vacant						
Ningbo	Peng Jiaxue	彭佳学	1965	57	YES	YES	NO
Jinan	Sun Licheng	孙立成	1962	60	YES	YES	NO
Dalian	Hu Yuting	胡玉亭	1964	58	YES	YES	NO
Xiamen	Zhao Long	赵龙	1967	55	YES	YES	YES
Pudong	Weng Zuliang	翁祖亮	1963	59	YES	YES	NO
Binhai	Lian Maojun	连茂君	1970	52	YES	YES	YES
Ili	Qiu Shuhua	邱树华	1961	61	YES	YES	NO

2021 Sub-provincial City Mayors

City	Cadre	漢字	Born	Age	Promotion eligibility 2017	2022	2032
Chengdu	Wang Fengchao	王凤朝	1965	57	YES	YES	NO
Guangzhou	Wen Guohui	温国辉	1963	59	YES	YES	NO
Harbin	Sun Zhe	孙喆	1963	59	YES	YES	NO
Shenzhen	Qin Weizhong	覃伟中	1971	51	YES	YES	YES
Wuhan	Cheng Yongwen	程用文	1965	57	YES	YES	NO
Qingdao	Zhao Haozhi	赵豪志	1965	57	YES	YES	NO
Hangzhou	Liu Xin	刘忻	1965	57	YES	YES	NO
Xi'an	Li Mingyuan	李明远	1965	57	YES	YES	NO
Shenyang	Wang Xinwei	王新伟	1967	55	YES	YES	YES
Nanjing	Xia Xinmin	夏心旻	1965	57	YES	YES	NO
Changchun	Zhang Zhijun	张志军	1964	58	YES	YES	NO
Ningbo	Qiu Dongyao	裘东耀	1961	61	YES	YES	NO
Jinan	Sun Shutao	孙述涛	1965	57	YES	YES	NO
Dalian	Chen Shaowang	陈绍旺	1971	51	YES	YES	YES
Xiamen	Huang Wenhui	黄文辉	1964	58	YES	YES	NO
Pudong	Hang Yingwei	杭迎伟	1969	53	YES	YES	YES
Binhai	Yang Maorong	杨茂荣	1962	60	YES	YES	NO
Ili	Qurmaş Sirjanuli		1959	63	YES	NO	NO

2017 Sub-provincial City Party Secretaries

City	Cadre	漢字	Born	Age	Promotion eligibility 2017	2022	2032	Position 2021
Chengdu	Tang Liangzhi	唐良智	1960	57	YES	YES	NO	Chongqing Mayor
Guangzhou	Ren Xuefeng	任学锋	1965	52	YES	Deceased		Likely assassinated
Harbin	Chen Haibo	陈海波	1962	55	YES	YES	YES	Heilongjiang Deputy Party Secretary
Shenzhen	Xu Qin	许勤	1961	56	YES	YES	YES	Hebei Governor
Wuhan	Chen Yixin	陈一新	1959	58	YES	YES	NO	Political & Legal Affairs Commission Secretary-General
Qingdao	Li Qun	李群	1962	55	YES	YES	YES	Ministry of Culture and Tourism Vice-Minister
Hangzhou	Zhao Yide	赵一德	1965	52	YES	YES	YES	Hebei Governor and Deputy Party Secretary
Xi'an	Wang Yongkang	王永康	1963	54	YES	YES	YES	Heilongjiang Standing Committee
Shenyang	Wang Menghui	王蒙徽	1960	57	YES	YES	NO	Minister of Housing and Urban-Rural Development
Nanjing	Huang Lixin	黄莉新	1962	55	YES	YES	YES	Jiangsu People's Political Consultative Conference Chair
Changchun	Wang Junzheng	王君正	1963	54	YES	YES	YES	Xinjiang Political and Legal Affairs Commission Director
Ningbo	Tang Yijun	唐一军	1961	56	YES	YES	YES	Minister of Justice
Jinan	Wang Wentao	王文涛	1964	53	YES	YES	YES	Heilongjiang Governor
Dalian	Tan Zuojun	谭作钧	1968	49	YES	YES	YES	SASAC Vice-Chair
Xiamen	Pei Jinjia	裴金佳	1963	54	YES	YES	YES	Taiwan Affairs Office Party Secretary
Pudong	Shen Xiaoming	沈晓明	1963	54	YES	YES	YES	Hainan Party Secretary
Binhai	Zhang Yuzhuo	张玉卓	1962	55	YES	YES	YES	China Science & Technology Association Party Secretary
Ili	Zeng Cun	曾存	1965	52	YES	-	-	No longer engaged in Party work

2017 Sub-provincial City Mayors

City	Cadre	漢字	Born	Age	Promotion eligibility 2017	2022	2032	Position 2021
Chengdu	Tang Liangzhi	唐良智	1960	57	YES	YES	NO	Chongqing Mayor
Guangzhou	Wen Guohui	温国辉	1963	54	YES	YES	YES	Guangzhou Mayor (no change)
Harbin	Song Xibin	宋希斌	1963	54	YES	YES	YES	Heilongjiang Provincial Party Committee
Shenzhen	Xu Qin	许勤	1961	56	YES	YES	YES	Hebei Governor
Wuhan	Wan Yong	万勇	1960	57	YES	-	-	Sidelined after Sars-Cov-2
Qingdao	vacant							
Hangzhou	Xu Liyi	徐立毅	1964	53	YES	YES	YES	Zhengzhou Party Secretary, Henan Standing Committee
Xi'an	Shangguan Jiqing	上官吉庆	1963	54	YES	-	-	Demoted to prefectural city cadre rank (副厅 *futing*)
Shenyang	Pan Liguo	潘利国	1957	60	YES	YES	NO	Resigned from Shenyang Party Committee Director
Nanjing	Miao Ruilin	缪瑞林	1964	53	YES	Imprisoned		Taken down
Changchun	Liu Changlong	刘长龙	1963	54	YES	Resigned		Vaccine scandal
Ningbo	Qiu Dongyao	裘东耀	1961	56	YES	YES	YES	Ningbo Deputy Party Secretary & Mayor
Jinan	vacant							
Dalian	Xiao Shengfeng	肖盛峰	1959	58	YES	YES	NO	Dalian Standing Committee
Xiamen	Zhuang Jiahan	庄稼汉	1963	54	YES	YES	YES	Xiamen Deputy Party Secretary
Pudong	Hang Yingwei	杭迎伟	1969	48	YES	YES	YES	Pudong Governor (no change)
Binhai	Zhang Yong	张勇	1965	52	YES	YES	YES	Tianjin SASAC Party Secretary & Director
Ili	Qurmaş Sirjanuli		1959	58	YES	YES	NO	Ili Governor (no change)

futurerisk

From the 2017 cohort of sub-provincial city Chinese Communist Party (CCP) secretaries, cadres mostly went on to ministerial and provincial level positions. Of those who stayed in the party track and went to central or regional CCP political organs, Chen Yixin, the current secretary general of the Central Politics and Legal Affairs Commission and likely to ascend into the Politburo in 2022, was in 2017 party secretary of Wuhan. Wang Junzheng went from Changchun sub-provincial leadership up to Xinjiang Political and Legal Affairs Commission director. In a less important province, this could be considered a demotion, but after doing CCP work in Xinjiang with Chen Quanguo, Wang will likely be rewarded with a higher climb.

Party secretaries at the sub-provincial level also are promoted to State Council positions at the vice-ministerial and ministerial level. Tang Yijun, former party secretary of Ningbo, is now minister of justice and also a strong contender to go up to the Politburo in 2022. The other full State Council minister from the 2017 sub-provincial city cohort is Wang Menghui, who went from Shenyang party secretary to minister of housing and urban-rural development. Former Qingdao Party Secretary Li Qun is now a vice minister at the Ministry of Culture and Tourism and Tan Zuojun went from Dalian party secretary to a State-owned Assets Supervision and Administration Commission (SASAC) vice chair position.

For those who went to provincial governance, Wang Wentao went from Jinan party secretary to Heilongjiang governor, Zhao Yide from Hangzhou party secretary to Hebei governor, and Wang Yongkang from Xi'an to Heilongjiang Standing Committee. Xu Qin has had an interesting rise from Shenzhen party secretary to Hebei governor and is still young enough to have an impact on central politics. Pei Jinjia went from Xiamen up to the Central Committee Taiwan Affairs Office, where he is now party secretary and vice director. Tang Liangzhi only went up from Chengdu to Chongqing mayor, a predictable though small promotion, but likely solidifying his role in the emerging southwestern power structure centered around Chen Min'er. The least successful of the 2017 cohort was Ren Xuefeng, who after moving up to Chen Min'er's Chonqging was almost certainly purged at the Fourth Plenum in Beijing – he died from medical issues related to falling from a building.

Zhang Shuofu is the best placed of the 2021 cohort of sub-provincial leaders. Zhang is currently the stop-gap replacement for Ren Xuefeng as Guangzhou party secretary, meaning serious Party loyalty. Guangzhou is the second most populous sub-provincial city after only Chengdu, and with the Greater Bay Area integration project and the National Security Law takeover of Hong Kong, this is a position of both economic and political importance. Zhang is young for such a high position, and could be a bridge of the New Left into the 2030s. Given his recent rapid recent rise, Zhang is likely to be on the fast-track to provincial level leadership and could become a provincial party secretary as early as 2022.

The current cohort also includes Shi Xiaolin, another good prospect for future provincial leadership, especially now that she is ranking within Chen Min'er's southwest faction. Shi is female and young enough for three promotions, so within the same age cohort as Chen Gang and able to begin factionally positioning for a run at the 2027 power stakes. With United Work Front Department bona fides and vast experience in economically sophisticated Shanghai, Shi is well-placed to take up a smaller province party secretary position sometime in the 2022-2027 period. Han Limin in Nanjing is also a good future prospect for provincial-level leadership. She replaced Zhang Jinghua in June 2021, and was previously mayor of Nanjing and has experience in shipbuilding, a strategic emerging industry. Han also has New Area experience in Jiangbei.

In Xinjiang, the current party secretary of Ili, Qiu Shuhua, is a solid but thoroughly local cadre. She has spent her career in various party positions within Xinjiang, including overseeing Urumqi high-technology zone. She currently is serving as Xinjiang Chinese People's Political Consultative Conference (CPPCC) vice-chair, and first political commissar of the Fifth Division of the Xinjiang Production and Construction Corps, which directly governs the strategic prefectural town of Shuanghe, Qiu is unlikely to ever emerge on the national stage, but she

will likely be promoted to Xinjiang regional standing committee in the 2022-2027 period. By contrast, Qurmaş Sırjanulı has been governor in Ili since 2017 and is approaching retirement, and has simply been a token ethnicity governance position to ensure stability maintenance.

The Qingdao, Changchun, and Hangzhou party secretary chairs are all vacant as purges have taken out their previous leaders in January, March, and August respectively. The ongoing Hangzhou purge should provide an indication of the intended shape of the CCP once the current rectification pruning is complete. A major difference already clear between the 2017 and 2022 cohort of sub-provincial leaders, though, is the average age: 54.4 and 58.6 respectively. While 13 cadres were eligible for three promotions in 2017, that figure will only be two in 2022, meaning few will be forming into factions capable of lasting into the 2030s.

Categorizing sub-provincial cadres into factions is often speculative until solid interpersonal bonds can be established. Under Xi, the metric for success was personal knowledge of the person in question, but previous metrics had been provincial and regional economic development success. Membership criteria for entry into factional politics thus changes with the dynamic form of the informal factional system itself.

Sub-provincial level cadre leadership, though, is a fraught position; cadres in charge of these jurisdictions are big enough to fall but not strong enough to defend themselves. For most party secretaries at this level in 2022, the only two roads are up to power or down to destruction.

Chen Gang a Dark Horse to Lead China's Strategic Technoindustrial Policy

Chen Gang will likely enter the Politburo in 2027. His experience governing technoindustrial clusters will be a valuable skill set for top governance positions through the 2020s.

By Tristan Kenderdine
August 31, 2021

The Diplomat

In the 1990s and early 2000s, China's economic trajectory centered on catch-up industrial policy focused on construction, heavy industry, and manufacturing-led GDP growth. China's technoindustrial policy for the 2020s maintains that reliance on manufacturing but focuses on high-technology production and consumer markets constructed from a hybrid of domestic and Belt and Road markets. This science and technology-driven technoindustrial policy is focused on innovation, soft platforms, hard networks, and advanced manufacturing. But it is essentially the same industrial policy model, albeit with fiber-optics as the new cement, social media platforms as the new office space, and innovation curves as the new provincial GDP metrics.

Chen Gang has been at the heart of this dimensional transformation since 2012. In a sense, Chen is positioned as a bridge between old and new industry. He oversaw development of Beijing's Zhongguancun high technology hub, then helicoptered into Guizhou province to oversee the high-tech development of cloud computing, big data, artificial intelligence, and the contentious semiconductor partnership with Qualcomm. Chen is now well-placed to become one of the central architects of China's technoindustrial policy. In December 2020 Chen was granted is his final cadre rank promotion to full *zhengbu*, qualifying him for minister/provincial-level Chinese Communist Party positions. Outside the military there are no higher cadre ranks, meaning Chen is already at the same party level as current Politburo Standing Committee members.

Politburo would be a huge but unlikely promotion for Chen in 2022. The fact that he was not promoted to full provincial party secretary in Hebei, or anywhere else, indicates that he will not probably make the 25 Politburo members in 2022. However already being at zhengbu level means he has promotion opportunities at the next three Party Congresses, in 2022, 2027 and 2032. An alternate member of the 19th Central Committee, Chen will almost certainly be made a full member in the 20th Central Committee in 2022. If he were then to be promoted to one of the provincial party secretaries or a State Council minister position at some point in the 2022-2027 period, he would be a strong contender to enter the Politburo in 2027. If current CCP trends hold through the 2020s, he could be angling for Politburo Standing Committee by 2032.

The sixth-generation leaders like Chen (born in 1965) are the first to really have no legacy from the Cultural Revolution. This generation of leaders will also likely be the first removed from the engineering graduate political nexus. Chen's chemistry doctorate from Peking University is a trend likely to continue as more younger cadres move into elite leadership positions. Where the older generations mostly held either engineering or teaching degrees, cadres now under 60 are more likely to have studied abroad or completed a terminal doctorate degree in their discipline. From 2027 we could see a very different type of younger politician in China.

Chen's academic and industry training in inorganic chemistry aligns with China's ambitions in high technology and innovation, and he is likely to be a key architect in the 2022-2035 technoindustrial policy matrix. Chen is also an emerging talent in the "Guizhou Connect" of party politicians who have cut their teeth in the technoindustrial province and who are now positioning for the next promotion in their careers. Chen was vice party secretary and vice

governor in Hebei province, where other Guizhou Connect member Wang Xiaodong was party secretary and where Guizhou Connect elder Zhao Kezhi was before him. More important is the policy continuity between Chen's work developing Beijing's Zhongguancun high technology zone, the Gui'an New Area high technology zone in Guizhou, and then most recently Xiong'an New Area macroeconomic development zone in Hebei.

Guizhou's role as a "New Third Front" technoindustrial zone is not a regional policy; this is a central policy enacted in a region. Likewise, the Guizhou Connect faction is not a regional power base; it is a central political faction being acted out in a provincial setting. While there is distinct cross-over between the Zhijiang New Army and the Guizhou Connect, most of the Zhijiang acolytes are now or soon will be passing through age requirements. By contrast, the Guizhou Connect now represents the political youth of the CCP core. The policy leaders of this New Third Front technoindustrial strategy will be in key party positions through the 2022-2027 and 2027-3032 periods as the party attempts a hybrid of Maoist party-building and the high-technology technoindustial policy that eluded the Soviet Union.

Chen Gang 陈刚 — 20th Party Congress Assessment

Party vitals	
Party Cadre rank	正部 Zhengbu
Born	1965
Age 2022	56
Age 2027	61
Promotions remaining	3
Demographics	Han, male

Promotion prediction
None—All China Federation of Trade Unions
Future possible promotion seats
Sichuan Party Secretary Guizhou Party Secretary MIIT Minister Chongqing Party Secretary Hebei Party Secretary

Institutional history	
Current positions	All-China Federation of Trade Unions Party Secretary
Institutional gravity	New Core, Guizhou Connect
Zones of influence	Beijing, Hebei, Guizhou
Policy competencies	Technoindustrial policy, science-technology policy, macroeconomic policy
International experience	Beijing Municipal Commission of Foreign Trade and Economic Cooperation Vice-Director and Beijing Council for the Promotion of International Trade Director
Education	Yangzhou Teacher's College (Chemistry) Harbin Institute of Technology, Peking University (PhD Inorganic Chemistry)

Chen would have suited as Hebei governor or party secretary on the way to a central position, following Zhao Kezhi's path to power, but recent promotions in Hebei effectively rule this out for now. His next promotion should be to a more powerful ministerial-level leadership role, such as governor of a small province and then party secretary of the same province or another small or medium sized province. He could otherwise take a more technocratic path, as minister of science and technology or minister of industry and information technology. Xi's party centralization has generally alienated the state positions, weakening the State Council, but to pursue a technoindustrial-led nationalist strategy, strong technocratic leadership is needed for the next generation in industry. Chen is well placed to be this conduit between industry, state, and party.

Chen was already one of the most highly placed vice-ministerial party cadres as vice party secretary and vice governor of Hebei as well as party secretary of the Xiong'an New Area. His first full ministerial appointment has been as party secretary of the All-China Federation of Trade Unions. This is naturally not a true trade union, more like a full ministerial industry association which oversees industrial coordination as well as party-building. These central ministerial and vice-ministerial industry associations are good places both for young policymakers and politicians to join in with the national leadership structure without having to physically go down to provincial level. It is also a good place for a technoindustrial policy leader to disrupt the legacy industry stalwarts. China's labor and industry governance institutions are going to be less free market and more structured than either the U.S. or EU attempts

to transition to a digital economy were. Expect more party-led attempts at reinvigorating industrial, high-technology industries, and digital economy institutions.

As his political career continues, Chen Gang can grow into a both a policy architect for the technoindustrial puzzle for Xi Jinping, and a political asset within a Chen Min'er power faction. By 2027, if he stays out of trouble, Chen could already be in a strong provincial party secretary or State Council position and be making a push for the Politburo.

Chen has been cutting his teeth on the key policy priorities for Beijing's 2022-2035 period, meaning if he does not misstep politically this term, that next term he could become a powerful technocrat, someone focused on results and to whom political power may accrue through merit rather than raw ambition.

Chen Min'er Guarantees Xi Jinping's Influence Into the 2030s

Chen Min'er has long been near the top of China's governance structure. His development as a likeness to Xi means he is now the conduit between the elder and younger factions of Xi's New Core.

By Tristan Kenderdine
August 27, 2021

The Diplomat

Chen Min'er rose to international prominence in the leadup to the 19th Congress of the Chinese Communist Party (CCP) in 2017. With the institutionalized presumption that General Secretary Xi Jinping would choose a successor at the mid-point of his administration, Chen looked a good candidate for Xi to tip as the next leader. It was not to be, as Xi bucked tradition and refrained from tapping a leader-in-waiting.

Throughout the 2017-2022 period rumors and political analysis alike have variously put Chen in and out of contention for Politburo Standing Committee in 2022. If Wang Huning moves positions within the Politburo Standing Committee in 2022, Chen would be a safe bet to move up into the vacated Central Secretariat secretary position. Chen would be political overkill as director of the Organization Department or the General Office, though he could be a solid pick for a higher-ranked State Council vice minister if Xi were to stack the state positions with party stalwarts.

Chen is another cadre who was protected from falling into the end of the Cultural Revolution. He stepped through teacher's college and straight into the Zhejiang provincial Party School. At both institutions he took a highly political focus, ending university as the director of the college's propaganda department, and at Party School staying on an extra year to teach political theory. Both are indications of thoroughness and trust, but also of pursuing a goal higher than his current station.

Since then, Chen had a nearly perfect CCP political career, working on core party functions and being promoting by jumping ranks through essentially repeating the same patterns in successively higher administrative areas. His administrative testing grounds were Shaoxing county, Ningbo municipality, and Zhejiang province. In Shaoxing, Chen rose successively through propaganda, vice secretary, and then party secretary. He then did the mid-career Central Party School training in law, and rose through the party secretary positions in Ningbo, where he also took on responsibility as news chief. At Zhejiang provincial level, Chen started again in propaganda, then worked with Xi Jinping in the Zhejiang Provincial Standing Committee for five years. Once given ministerial level cadre rank and promoted to run the small, political risk-free but increasingly techno-strategic province of Guizhou, Chen was already a made-man in the CCP.

China's provincial governors and party secretaries preside over provinces with economic status as large as European countries. Conventional economic growth targets were for over a decade a key metric in political competence. In Xi's "New Era," a more multifaceted value system is developing. This is not simply a case of market retreat and a return to CCP politics, but rather introducing additional metrics of social and economic progress into definitions of modernity. One of these is the science-technology innovation and manufacturing nexus seen as so crucial to China's rise through the 2020s. The province of Guizhou has been pivotal in this techno-structural development.

Guizhou connections began to emerge into national CCP discourse from the 18th Party

Congress. Going into the 19th Party Congress in 2017, there was the clear emergence of the Zhijiang New Army as a new institutionalization of relationship politics, but the sketches were also already there of a secondary clique, centered on Guizhou. The emergence of this "Guizhou Connect" is not simply a secondary political faction of Xi's New Core. Guizhou is home to much science-technology, high technology, techno-industrial, and military-industrial development. Guizhou thus constitutes a modern-day "Third Front" of techno-industrial projects of key importance to the national development strategy. Having a tight-knit group of CCP stalwarts in place in Guizhou represents a cross of national security, party-building, and future-focused techno-industrial policy for the 2020s, with the superficial political face of economic development and poverty alleviation in reality forming distant policy priorities.

Current Guizhou Connect factionites emerging onto the national stage include Chen Min'er, Shen Yiqin, Wang Xiaodong, and Chen Gang, all of whom are likely to be important players in the 2022-2032 period with at least two promotions remaining under age restrictions. Guizhou Connect elders include Li Zhanshu and Zhao Kezhi, who are expected to retire from the Politburo and State Council, respectively.

Chen is now the highest ranking member of both key New Left Party factions, the Zhijiang New Army and the Guizhou Connect. This makes him powerful in both controlling the future of the two factions, but also serving as a bridge between the differences in political form that each generation represents.

New Left Political Factions							
Current Position	Guizhou Connect			Zhijiang New Army			Current Position
Retiring							
NPC Standing Committe Chair	1950	栗战书	Li Zhanshu	Chen Xi	陳希	1953	Organization Department Director
Ministry of Public Security Party Secretary, State Councilor	1953	赵克志	Zhao Kezhi	Xia Baolong	夏宝龙	1952	Zhejiang Party Secretary, Hong Kong & Macau Affairs Office Director
Promoting							
Chongqing Party Secretary	1960	陈敏尔	Chen Min'er	Chen Min'er	陈敏尔	1960	Chongqing Party Secretary
Guizhou Party Secretary	1959	谌贻琴	Shen Yiqin	Chen Yixin	陈一新	1959	Zhengfawei General Secretary
Party Secretary All China Federation of Trade Unions	1965	陈刚	Chen Gang	Li Qiang	李强	1959	Shanghai Party Secretary
CPPCC Agriculture Committee	1960	王晓东	Wang Xiaodong	Lou Yangsheng	楼阳生	1959	Henan Party Secretary
Guiyang & Gui'An New Area Party Secretary	1963	赵德明	Zhao Deming	Li Xi	李希	1956	Guangdong Party Secretary
				Huang Kunming	黄坤明	1956	Director Central Propaganda Department
				Ying Yong	应勇	1957	Hubei Party Secretary
				Cai Qi	蔡奇	1955	Beijing Party Secretary
				Bayanqolu	巴音朝鲁	1955	Jilin Party Secretary
				He Lifeng	何立峰	1955	NDRC Minister

Cadres struggle to get close to a position of national power at ministerial cadre level before they are too old. For most, a ministerial-level appointment is the last grab in their career. Chen had this pressure taken off him already in 2012-13 when he stepped into the governor of Guizhou position. Five years of political network building and then five years as Chongqing party secretary means he is sitting at the table already.

Chen was given his place at such a young age in part to counter the CCP's right-faction picks of Hu Chunhua and Sun Zhengcai under Li Keqiang. Sun was taken down in 2017, but Li would outlast Xi if institutional rules were followed, and Hu was positioned early to be a to rightist leadership candidate. Chen's early rise has meant he could afford to focus on national politicking over his own career. He now has a chance to be leading political factions behind the scenes and determining the political path of China in the 2020s.

Chen is currently Chongqing party secretary, with the only meaningful promotion to a central

position being to the Politburo Standing Committee. Likely to take the Central Secretariat secretary position if Wang Huning is promoted, Chen would also serve well in Discipline Inspection. Chen would make an excellent General Office secretary, but this would essentially be a demotion when the Standing Committee is in play. While ideas of him being China's supreme leader one day have largely fizzled out, there was loose talk that Chen could be made state president while Xi remains on as CCP general secretary. This would fit the personal politics well, but would still leave the Standing Committee seat open. If Xi were no longer in power after 2022, Chen Min'er would likely be the first to be purged by any new leadership.

Chen Min'er 陈敏尔 20th Party Congress Assessment

Party vitals	
Party Cadre rank	正部 Zhengbu
Born	1960
Age 2022	62
Age 2027	67
Promotions remaining	2
Demographics	Han, male

Promotion prediction
Central Secretariat Secretary
Other possible promotion seats
General Office Organization Department

Institutional history	
Current positions	Party Secretary of Chongqing
Institutional gravity	Zhijiang New Army, Guizhou Connect, New Core
Zones of influence	Zhejiang, Guizhou, Chongqing
Policy competencies	Poverty alleviation, technoindustrial policy, economic policy, propaganda, state media
International experience	No foreign appointments
Education	Shaoxing Teacher's College, Zhejiang Party School

Chen represents the future institutional development of Xi's New Left movement beyond 2022. With institutionalized 10 year terms, we expect a reset and reguidance of CCP ideologies. Even if 2022-2027 is to be a third Xi term, all other cadres will likely still develop within the institutionalized five-year term structures and other party limitations. This means younger cadres will be disjointed from the New Left old guard and will bring new ideas and directions to the New Left movement beyond the leadership of Xi Jinping. This could result in a more extreme left as incoming cadres try to please Xi by being ultra-left. Alternatively, new cadres taking a softer approach within a faction entrenched in power could pull the CCP back closer to center-left. In addition, more polarized internal power struggles could see a variation of the old left-against-rightists dynamic play out again in the 2020s.

Watching the development of the Guizhou Connect will be key to determining the internal policy and political positions of China's cadres. Chen Min'er's leadership over this new group could determine many upcoming internal political struggles within the CCP.

Shen Yiqin, Party Historian, to Bring Depth to CCP Politburo

Shen Yiqin, a party history expert and representative of the emerging Guizhou faction, is the leading female candidate for Politburo promotion in 2022.

By Tristan Kenderdine
August 24, 2021

The Diplomat

Emerging from the Guizhou Connect political faction, a southwestern China clique with many crossovers with the Zhijiang New Army, Shen Yiqin is the most obvious female candidate for promotion to the Politburo in 2022. Shen's party-building experience and fast-track into provincial-level cadre leadership positions point to her ascending into the Politburo in 2022.

Before 2002, there had been no women in the Chinese Communist Party (CCP) Politburo since the 1982 12th Central Committee, where Kang Keqing served on a then 29-member Politburo. Having at least one woman on the Politburo has been institutionalized as rule since 2002, though many rules are now being abandoned. Shen is also ethnolinguistically Bai, a southwest China minority group, adding value to her identity politics at the national level. Representation of women and ethnic groups are both important promotion factors in elite CCP politics. Both other female leaders at the provincial leadership level are also ethnic minorities.

Shen Yiqin's trajectory is interesting from a party cadre institutional perspective, as she rose mostly through the non-leadership promotion track. Much of her career was in education, research, and party-building, positions in administration and research with a parallel cadre rank. There are five main streams of the party cadre hierarchy: party, state, administrative, legal, and scholar. Promotion along this scholar track can lead to party positions in history, ideology, propaganda, and organization, but they rarely result in a clean transition in executive political power. Wang Huning is the archetype for this type of promotion path, but Shen has been fast-tracked from non-leadership into serving as governor of her native Guizhou province, opening a range of promotion opportunities in 2022.

Unlike many other candidates in this age range, Shen did not avoid the tail-end of the Cultural Revolution and was a "sent down youth" for a year before entering Guizhou University, where she studied history. Shen then went straight into the graduate school at the provincial Guizhou Party School, teaching and researching party history and party-building. Party schools are graduate schools of governance, political science, political economy, and party history. The Central party school system is a political career-maker and an essential gateway to provincial-level cadre governance positions.

In her provincial career, Shen has consistently held multiple posts across the spectrum of academic, party, and governance positions. At the apex of her Guizhou academic career, Shen has been both party secretary of the Guizhou Party School and chair of the Guizhou Federation of Social Sciences, solidifying her at the top of the party school apparatus as the membrane between party school and party in Guizhou. Shen also went to Central Party School three times: for a full-year course in 1998-1999; for mid-career training in 2007 in economics, presumably to broaden her policy competencies; and then again in 2009 for the ministerial-level cadre training. In between she did the requisite subprovincial administration vice party secretary positions, at Qiannan and then Tongren prefectures, both times for under two years as she quickly returned to provincial level governance. Shen's provincial career-making position was as director of the Guizhou Propaganda Department, which she held for five years from 2007-2012 before beginning her ascent through top-level governance positions.

A provincial career in propaganda and the party school could have been the terminus of her

career. But in 2009 though she completed the ministerial-level Central Party School mid-career course. This provincial cadre level mid-career training is the funnel through which national-level leaders emerge. By 2012 Shen was vice governor of Guizhou, by 2015 a vice party secretary of the Guizhou Political and Legal Affairs Commission, and successively in 2018 and 2020 Shen ascended to first governor and then party secretary of Guizhou.

Shen's direct rise was likely sped up close to the 2022 promotion round, where she is now in excellent position to assume a role in Politburo. From there, she can defend core party interests against any possible liberal-right resurgence in 2027.

Shen Yiqin 谌贻琴 20th Party Congress Assessment

Party vitals	
Party Cadre rank	正部 Zhengbu
Born	1959
Age 2022	62
Age 2027	67
Promotions remaining	2
Demographics	Bai, female

Promotion prediction
Propaganda Department Director
Other possible promotion seats
Organization Department Director 3rd Vice-Premier of State Council 4th Vice-Premier of State Council Director of National Supervisory Commission General Office Director

Institutional history	
Current positions	Party Secretary of Guizhou Province
Institutional gravity	Guizhou Connect, Zhijiang New Army, New Core
Zones of influence	Guizhou
Policy competencies	Party history, Party building, propaganda, education, economics, administration
International experience	No foreign appointments; No national or regional appointments outside Guizhou
Education	Guizhou University (History) Guizhou Party School, Central Party School (economics)

Shen is well suited to take one of the six party positions in 20th Central Committee Politburo. She could be director of propaganda, the National Supervisory Commission, the General Office, or the Organization Department. Propaganda would be most likely, with Organization more likely to go to someone with more national and Beijing experience. Though less likely, Shen also qualifies for a state position, perhaps as third or fourth vice minister. However, her career trajectory conforms more to a party position in the Politburo. As director of propaganda, Shen could fit well into a restrengthened nexus of the six party organ seats on the Politburo.

Her obvious weaknesses are her lack of foreign policy experience, Beijing national experience or economic management. But within the institutional nexus of the party positions, Shen should be a comfortable and confident leader behind the state policy scenes. It would be easy to imagine her forming close working relationships with Chen Quanguo, who has vast experience in Organization Departments, and Chen Yixin in the Central Political and Legal Affairs Commission where Shen has provincial experience.

Chen Xi is retiring, meaning that dean of the Central Party School is an additional position possibly open to Shen. Central Party School dean is no longer limited to a Standing Committee member and confers no status within the Politburo, but would be an excellent career highlight for Shen, and would give the Politburo a solid party ideology professor who could lead party-building for the 2020s.

Projected 2022 Politburo leadership

	Seat	Projected Seat Holder		Birth	Age 2022	Age 2027	Change	Faction
Standing Committee	General Secretary	习近平	Xi Jinping	1953	69	74	Supreme Leader	Crown Prince
	State Council Premier	王沪宁	Wang Huning	1955	67	72	Change position	Constitutional Monarchist
	NPC Standing Committee Chair	李克强	Li Keqiang	1955	67	72	Change position	Tuanpai
	CPPCC Party Secretary	汪洋	Wang Yang	1955	67	72	Position to be determined	Tuanpai
	Central Secretariat Secretary	陈敏尔	Chen Min'Er	1960	62	67	Change position	Zhijiang / Guizhou
	CDIC Secretary	赵乐际	Zhao Leji	1957	65	70	Position to be determined	Shaanxi Clique
	First State Council Vice-premier	李希	Li Xi	1956	65	70	Change position	Zhijiang New Army
State Council and NPC	2nd Vice Premier of the State Council						Seat to be filled	-
	3rd Vice Premier of the State Council	胡春华	Hu Chunhua	1952	59	64	Position to be determined	Tuanpai
	4th Vice Premier of the State Council	陈全国	Chen Quanguo	1950	67	72	Change position	New Core, Waning Tuanpai
	NPC Standing Committee Vice-Chair						Seat to be filled	-
Provincial Party Secretaries	Guangdong Party Secretary						Seat to be filled	-
	Shanghai Party Secretary	李强	Li Qiang	1956	63	68	Position to be determined	Zhijiang New Army
	Tianjin Party Secretary	李鸿忠	Li Hongzhong	1959	66	71	Position to be determined	-
	Chongqing Party Secretary						Seat to be filled	-
	Beijing Party Secretary	蔡奇	Cai Qi	1963	67	72	Position to be determined	Zhijiang New Army
	Xinjiang Uyghur Autonomous Region Party Secretary	陈润儿	Chen Run'er	1957	67	72	Politburo Incoming	-
Party positions	Director of the Office of Foreign Affairs						Seat to be filled	-
	Director of the National Supervisory Commission						Seat to be filled	-
	Director of the General Office	丁薛祥	Ding Xuexiang	1962	59	64	Position to be determined	
	Head of the Organization Department						Seat to be filled	-
	Political and Legal Affairs Commission Secretary	陈一新	Chen Yixin	1959	62	67	Politburo Incoming	Zhijiang New Army
	Propaganda Department Head	谌贻琴	Shen Yiqin	1959	62	67	Politburo Incoming	Guizhou Connect
Military	Central Military Commission Vice Chair							
	Central Military Commission Vice Chair							

= Core Party & Factions | = projected 2022 seat | = Politburo new entry | = Politburo seat change | 67 up | 68 down

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If Shen does not ascend to the Politburo, she would still likely be promoted to a central position, probably as a state councilor or in one of the higher Political and Legal Affairs Commission positions. But by the identity composition rule of one woman, Shen will almost certainly replace Sun Chunlan in Politburo. Sun, though, is an adept administrator and state agent, who controls a sprawling policy portfolio with high degrees of both policy competence and leadership. By contrast, Shen's interests in governance are less technical, more hands-off, and more focused on party-building, CCP history, and theory. Shen's career is more reminiscent of former Deputy Secretary General of the State Council Jiang Xiaojuan, or party ideology architect Wang Huning, though perhaps not matching either academically.

Xi's central "New Era" turn from economic theory to CCP theory, though, opens many doors for Shen at the national level. Expect her to be deep in the political discussion on ideological formation and new forms of party history interpretation, narrative control, and history-political synthesis for the consumption of both domestic audiences in China and select international target audiences. As the CCP's public relations effort is increasingly focused on domestic audiences, though, her connection to the regional base of the expanding Guizhou clique will likely be seen as more important as party-building continues to dominate state policy.

Emerging Ethnic Affairs Policy Specialist Chen Run'er Could Take Over as Xinjiang Party Secretary

A low flier on a newly established institutional trajectory toward ethnic affairs governance, Chen Run'er could replace the infamous Chen Quanguo at the 2022 CCP Congress.

By Tristan Kenderdine
June 14, 2021

The Diplomat

Chen Quanguo's likely promotion in 2022 opens the need to find a strong, competent party secretary for Xinjiang who has experience in ethnic affairs policy. Chen Run'er's rapid rise and recent promotion to Ningxia Hui Autonomous Region should signal that he is being groomed for party secretary of one of the more powerful ethnic autonomous provinces as in 2022.

Under Xi Jinping, provincial party secretary positions have become more important and powerful than the provincial governors. Party secretaries were nominally the ultimate authority at provincial level previously, but Xi's restrengthening of party over state and of center over local has meant that the 2017 and now the 2022 provincial party secretary positions are more important than they were in 2007 or 2012. Ethnic autonomous regions like Xinjiang are also now more central to CCP plans and no longer policy or career testing grounds, meaning experience in running a large ethnic minority autonomous region now carries political capital.

Chen Run'er was party secretary of Heilongjiang and Henan before being recently appointed as party secretary for Ningxia Hui Autonomous Region. Ningxia's Hui are a people deeply connected to Central Asia – the population was split by the expansionist Qing wars against the Dzungar Khanate, resulting in a polity of integrated Hui in Ningxia and a much smaller émigré population of Dungans in Kazakhstan and Kyrgyzstan. Chen also previously served in northeast China's Manchuria, the ethnic polity most successfully integrated into Han China, with the native Tungusic language, once an official Imperial language, now effectively extinct.

Developments through the Xi era mean that the ethnic provinces are no longer peripheral places for long career-building tours of duty. The central locus of the Belt and Road and China's Indian Ocean strategy are in Xinjiang and Tibet, meaning a trusted core clique is needed to govern the next stage of policy development now in planning for 2022-2027.

A possible Chen Run'er appointment to Xinjiang could represent an attempt to show a softer touch. Chen Quanguo implemented the hard regional policies and the center is now dealing with the resultant geopolitical damage, including instituting a media spin campaign. Chen Run'er is not as ambitious a climber as Chen Quanguo was. He can then be a more pliable man for Xi in Xinjiang, continuing the policy movement already set in pace, but also be trusted to not implement any harder policies or deviate too far from the center's stated policy goals already set in motion. Being fast-tracked into ethnic policy management must indicate some central purpose for a cadre who set out on a basic CCP career in Hunan and Henan and primarily trained in agronomy.

Chen's career path before the vice ministerial cadre level promotion had been one of quiet regional plodding. His long time at lower levels of cadre rankings, though, allowed him to gain experience in many lateral positions. The ten levels in the Communist Party cadre hierarchy determine which geographic public administration units the cadre can work at, and these correspond to functional job titles and positions across the party-state. The hierarchy is integrated horizontally as well as vertically, such that moving between party, state, legislative,

and administrative positions is possible at the same cadre level. For example Chen spent a year as deputy party secretary at Hunan Department of Geology and Mineral Resources before spending two years as in the state position of mayor at Xiangtan Municipality, then as a full party secretary of Xiangtan, a lower level municipality. All of these positions were at the vice ministerial cadre level.

After Chen's promotion to the ministerial level, he then spent seven years in the dual positions of party secretary of Changsha and on the provincial standing committee of Hunan. Chen's was the portrait of a regional career until he was picked out by the Xi administration in 2013. He is now being run hard at the end of his career. His three years as deputy party secretary in Heilongjiang saw him narrowly avoiding the corruption cut in Xi's first purge. He then spent three years, 2016-2019, as deputy party secretary and governor of Henan. In 2019 he was elevated diagonally to Ningxia Autonomous Region as party secretary. A low-flying alternate member of the 17th and 18th Central Committees (2007-2017) Chen became a full member for the 19th Committee, and with one promotion left is a wild card for Xi to deploy.

Chen Run'er 陈润儿 20th Party Congress Assessment

Party vitals	
Party Cadre rank	正部 Zhengbu
Born	1957
Age 2022	65
Age 2027	72
Promotions remaining	1
Demographics	Han, male

Promotion prediction
Party Secretary of Xinjiang Uyghur Autonomous Region
Other possible promotion seats
Party Secretary of Inner Mongolia Autonomous Region Party Secretary of Tibet Autonomous Region

Institutional history	
Current positions	Party Secretary of Ningxia Hui Autonomous Region
Institutional gravity	-
Zones of influence	Ningxia, Henan, Heilongjiang, Hunan
Policy competencies	Mining resources & geology, Agriculture and agronomy, Ethnic affairs
International experience	No foreign appointments
Education	Hunan Agricultural University, Central Party School mid-career training

Chen Quanguo is likely to be promoted out of Xinjiang into a central position at the 20th Party Congress in 2022. This frees up an important party, Politburo, state, and geopolitical position. In April 2021, Chen published an article in Qiushi, signaling his party credentials ahead of the 2022 Party Congress. The article centered on the drab rhetoric of poverty alleviation, economic development, and strengthening the line that ethnic minorities' economic development is dependent on the CCP. The essay, though, was really a chance for Chen to try his hand at central-level party communication: demonstrating competencies in fulfilling previous party goals and putting his case forward for further promotion at the upcoming Congress. This is something akin to a primary speech in the United States, laying one's policy cards out on the table.

Given his fast-track to Ningxia, Chen now has the opportunity for a difficult but career-defining promotion. Chen could be being groomed for Inner Mongolia or Tibet, but that would put him out of contention for 2022 Politburo. For him to be in the 25-person Politburo he would have to either be put in charge of Xinjiang or possibly one of the party positions. He does not have the portfolio experience to suggest any particular party position, though.

Chen's would be a remarkable rise into the Politburo, indicative more of the new faction of Xi

loyalists than of any policy competency or leadership potential. Chen is thus a useful politician for Xi, and while deploying him to Xinjiang might not be the most inspired move from a governance perspective, it does stack a central control line in the Politburo. If Xi is going for a third term or at least seeking to maintain power behind the throne, a party stalwart is needed in Xinjiang.

Projected 2022 Politburo leadership

	Seat	Projected Seat Holder		Birth	Age 2022	Age 2027	Change	Faction
Standing Committee	General Secretary	习近平	Xi Jinping	1953	69	74	Supreme Leader	Crown Prince
	State Council Premier	王沪宁	Wang Huning	1955	67	72	Change position	Constitutional Monarchist
	NPC Standing Committee Chair	李克强	Li Keqiang	1955	67	72	Change position	Tuanpai
	CPPCC Party Secretary	汪洋	Wang Yang	1955	67	72	Position to be determined	Tuanpai
	Central Secretariat Secretary						Seat to be filled	-
	CDIC Secretary	赵乐际	Zhao Leji	1957	65	70	Position to be determined	Shaanxi Clique
	First State Council Vice-premier	李希	Li Xi	1956	65	70	Change position	Zhijiang New Army
State Council and NPC	2nd Vice Premier of the State Council						Position to be filled	-
	3rd Vice Premier of the State Council	胡春华	Hu Chunhua	1952	59	64	Position to be determined	Tuanpai
	4th Vice Premier of the State Council						Seat to be filled	-
	NPC Standing Committee Vice-Chair						Seat to be filled	-
Provincial Party Secretaries	Guangdong Party Secretary						Seat to be filled	-
	Shanghai Party Secretary	李强	Li Qiang	1956	63	68	Position to be determined	Zhijiang New Army
	Tianjin Party Secretary	李鸿忠	Li Hongzhong	1959	66	71	Position to be determined	
	Chongqing Party Secretary	陈敏尔	Chen Min'er	1956	62	67	Position to be determined	Zhijiang New Army
	Beijing Party Secretary	蔡奇	Cai Qi	1963	67	72	Position to be determined	Zhijiang New Army
	Xinjiang Uyghur Autonomous Region Party Secretary	陈全国	Chen Quanguo	1950	67	72	Position to be determined	Waning Tuanpai
Party positions	Director of the Office of Foreign Affairs						Seat to be filled	-
	Director of the National Supervisory Commission						Seat to be filled	-
	Director of the General Office	丁薛祥	Ding Xuexiang	1962	59	64	Position to be determined	
	Head of the Organization Department						Seat to be filled	-
	Political and Legal Affairs Commission Secretary	陈一新	Chen Yixin	1959	62	67	Politburo Incoming	Zhijiang New Army
	Propaganda Department Head	黄坤明	Huang Kunming	1954	66	71	Position to be determined	Zhijiang New Army
Military	Central Military Commission Vice Chair							
	Central Military Commission Vice Chair							

= Core Party & Factions | = projected 2022 seat | = Politburo new entry | = Politburo seat change | 67 up | 68 down

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The governance of Xinjiang, Inner Mongolia, Tibet, and Ningxia have become more important positions for the CCP as the Belt and Road Initiative pushes the China model out along the Gansu corridor and into Eurasia. For Kashgar, Khorgos, Turpan, and Lanzhou to become genuine import gateways to China's geoeconomic partners in Eurasia and the Indian Ocean, the center will need to ensure adequate control of these borderlands. Whichever ethnic autonomous region he is posted to, Chen Run'er will have a difficult job ahead. Whoever is to lead Xinjiang from 2022 will represent the party through the developing narrative crises of Xinjiang governance.

Chen Quanguo, Architect of Xinjiang Crackdown, Likely to be Rewarded With Central Position in 2022

Xinjiang Party Secretary Chen Quanguo will likely see a promotion at the 2022 Communist Party Congress, perhaps to vice premier.

By Tristan Kenderdine
June 07, 2021

The Diplomat

Infamous for iron-fisted policies directed at China's ethnic and religious minority border regions in Tibet and Xinjiang, Chen Quanguo could have already been promoted sooner and is likely in line for a powerful promotion in 2022. Having honed his ethnic affairs skills in Tibet, Chen was deployed to Xinjiang to affirm Chinese Communist Party supremacy over population centers ahead of their development into import hubs for the Belt and Road policy. Often characterized by Western media as a campaign against Uyghur Muslims, the Xinjiang policy is not anti-Muslim at its core but rather is more acutely a campaign against ethnic minorities. The same policy principles have been deployed against Buddhist Tibet and Inner Mongolia, and in Xinjiang any notional appeal to a rhetorical reactionary response to Uyghur Islamic separatism should be dispelled by ethnic Kazakhs, Kyrgyz, and others being caught up in the same campaign.

Xinjiang governance has been more akin to a praetorate than a party position. However, while Xinjiang is a province with looser governance structures, it has perhaps the most clearly developed provincial policy architecture. Chen inherited the policy structures of the Second Central Xinjiang Work Symposium and then led through the third such symposium, which was held in September 2020. This provided a new governance framework through which to set the policy agenda for the coming period. These Xinjiang work symposia are haphazard policy engagements, not formalized into institutional time periods like the five-year plans in economic guidance or ten-year term limits in state governance positions. The previous Second Central Xinjiang Work Symposium, which was meant to run from 2014-2018, was simply extended without formal policy development and we had been expecting the Third Symposium for another two years after that. And after two successful tours of ethnic duty repressing campaigns – first in Tibet, followed by his current more high-profile position in Xinjiang – Chen is likely to be rewarded with an easy Beijing posting after the equivalent of a hostile foreign affairs posting.

Common amongst the current cohort of Central Party leaders, Chen's early career was marked by an ability to avoid the tail-end of the Cultural Revolution. All the current generation of ministerial level cadres mostly had the beginnings of their education delayed, but largely avoided any of the real personal destruction of the period. Chen survived his transition into adulthood not through an early party appointment but through military service, joining the First Army, Third Division Artillery Regiment. The First Army is a core Eastern Theater Command with a long history unbroken until the 2017 military region reorganization. Chen later built worker credentials in an auto parts factory, before studying political economy and then beginning a CCP career.

Chen's party experiences oscillated between executive branch positions and the administrative branch. Chen first took an executive party role in the Zhumadian Prefectural Committee, then entered the administrative stream in the Policy Research Office in the same prefecture for three years, then went back to party executive in Suiping County for four years. He was later concurrently a member of the Pingdingshan Municipal Party Committee Standing Committee (executive) and director of Henan Province Organization Department (administrative). He then took an easy mayoral position in Luohe while he studied for an MBA degree in Wuhan, and

then took a state appointment as vice governor of Henan Province for two years. He then sat around the top of Henan party positions on the Provincial Party Committee and Organization Department while studying for a Ph.D. in management, after which his political ascent to the central CCP began.

This combination of executive and administrative functionary makes him a perfect cadre to staff higher levels of party organs and the Politburo as well as a trustworthy isolated individual operator in the borderland provincial positions he later took in Tibet and Xinjiang. Chen was governor of Hebei, a state position, for three years, before being moved back to executive as Tibet party secretary for five years. And from 2016 he was moved to Xinjiang as party secretary and first political commissar of the Xinjiang Production and Construction Corps. Chen was formally inducted into the 25-member Politburo in 2017, where he will have been for five years come the 2022 Party Congress.

Chen Quanguo 陈全国 20th Party Congress Assessment

Party vitals	
Party Cadre rank	正部 Zhengbu
Born	1955
Age 2022	67
Age 2027	72
Promotions remaining	1
Demographics	Han, male

Promotion prediction
4th Vice-Premier of the State Council
Other possible promotion seats
Head of Organization Department 3rd Vice-Premier of State Council Director of National Supervisory Commission Head Propaganda Department

Institutional history	
Current positions	Party Secretary of Xinjiang Uyghur Autonomous Region
Institutional gravity	New Core, Waning Tuanpai
Zones of influence	Xinjiang, Tibet, Hebei, Henan, Zhengzhou
Policy competencies	Ethnic affairs, economic policy, internal security, political reeducation
International experience	No foreign appointments; Near Abroad: Xinjiang - SCO adjacent, Tibet - India border disputes
Education	Zhengzhou University (economics), Wuhan University of Technology (economics), Mid-career Party School

Chen is almost certain to gain a promotion back to the center but only has an outside chance to climb into one of the Politburo Standing Committee seats. Chen could go back to CCP administrative positions such as head of the Organization Department, Propaganda Department, or of the National Supervisory Commission. He is already a Politburo member meaning a ministerial-level appointment to run the United Front Work Department would be a demotion. While party positions would suit Chen's character and career better, Xi has spent two terms stacking the state positions with more party-minded acolytes. Thus, while Chen could move sideways into one of the CCP positions, it is more likely he will go into a state position. The obvious state positions he could take would be the third or fourth vice premier of the State Council. A higher promotion than third vice premier is unlikely given Chen's lack of experience across other policy areas.

Contemporary policy and governance in Xinjiang and the CCP executives who operate there are driven by what the party wants from the jurisdiction and the public administration realities mean that party executives must realize quantifiable policy goals. To take the known risk of Western media backlash against the Xinjiang concentration camps, there must also be a known party goal worth taking this risk for. Xinjiang, Tibet, Inner Mongolia, and Ningxia were left alone as a CCP policy testing grounds for decades. Now there is a major geoeconomic use for Xinjiang and both provincial governance and policy is changing.

Projected 2022 Politburo leadership

	Seat	Projected Seat Holder		Birth	Age 2022	Age 2027	Change	Faction
Standing Committee	General Secretary	习近平	Xi Jinping	1953	69	74	Supreme Leader	Crown Prince
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	CPPCC Party Secretary	汪洋	Wang Yang	1955	67	72	Position to be determined	Tuanpai
	Central Secretariat Secretary						Seat to be filled	-
	CDIC Secretary	赵乐际	Zhao Leji	1957	65	70	Position to be determined	Shaanxi Clique
	First State Council Vice-premier	李希	Li Xi	1956	65	70	Change position	Zhijiang New Army
State Council and NPC	2nd Vice Premier of the State Council						Seat to be filled	-
	3rd Vice Premier of the State Council	胡春华	Hu Chunhua	1952	59	64	Position to be determined	Tuanpai
	4th Vice Premier of the State Council	陈全国	Chen Quanguo	1950	67	72	Change position	New Core, Waning Tuanpai
	NPC Standing Committee Vice-Chair						Seat to be filled	-
Provincial Party Secretaries	Guangdong Party Secretary						Seat to be filled	-
	Shanghai Party Secretary	李强	Li Qiang	1956	63	68	Position to be determined	Zhijiang New Army
	Tianjin Party Secretary	李鸿忠	Li Hongzhong	1959	66	71	Position to be determined	-
	Chongqing Party Secretary	陈敏尔	Chen Min'er	1956	62	67	Position to be determined	Zhijiang New Army
	Beijing Party Secretary	蔡奇	Cai Qi	1963	67	72	Position to be determined	Zhijiang New Army
	Xinjiang Uyghur Autonomous Region Party Secretary	陈润儿	Chen Run'er	1957	67	72	Politburo Incoming	-
Party positions	Director of the Office of Foreign Affairs						Seat to be filled	-
	Director of the National Supervisory Commission						Seat to be filled	-
	Director of the General Office	丁薛祥	Ding Xuexiang	1962	59	64	Position to be determined	
	Head of the Organization Department						Seat to be filled	-
	Political and Legal Affairs Commission Secretary	陈一新	Chen Yixin	1959	62	67	Politburo Incoming	Zhijiang New Army
	Propaganda Department Head	黄坤明	Huang Kunming	1954	66	71	Position to be determined	Zhijiang New Army
Military	Central Military Commission Vice Chair							
	Central Military Commission Vice Chair							

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Whomever inherits the Xinjiang party secretary position from Chen though will walk into a job mostly complete, with a hardline policy prescription already enacted. The policy inheritance for the party is now consolidation rather than policy innovation, and the politician who enabled this change will be promoted into the safety of the center.

Zhao Kezhi's Legacy Could Define China's Regional Security Paradigm

The 20th Party Congress will mark the end of Zhao's CCP career, but his internal affairs policy will continue.

By Tristan Kenderdine
April 12, 2021

The Diplomat

Zhao Kezhi enjoyed a fortuitous run through the gauntlet of the mini-purge political cleanup at the end of the first Xi administration in 2016. As minister of public security, Zhao is now head of a strengthened internal security apparatus for the second purge ahead of a probable third Xi term. But Zhao's legacy will not be one of personal luck and a happy career. The legacy he passes on will shape the domestic security apparatus for the 2022-2032 period.

Looking to the 2022 Party Congress, personnel promotions for the Politics and Legal Affairs Commission are in a strange place. Zhao should naturally move up to replace Guo Shengkun as secretary of the commission, but by party age rules both Guo and Zhao should retire in 2022, meaning both the commissar and the public security minister positions should be filled. Political and legal affairs secretary is a Politburo spot, whereas the minister of public security, as internal security deputy, is not. Politics and legal affairs secretary was historically a Politburo Standing Committee place, but that tradition was changed after the Zhou Yongkang Affair. At this distance from October 2022, Chen Yixin seems the front-runner to takeover as secretary. But whoever replaces Zhao Kezhi will be on the front-line of stability maintenance for first half of a decade, where both Xinjiang and cybersecurity are already key policy positions.

Zhao was barely 19 when he began work as a middle school teacher in 1973, suggesting familial protection from the Cultural Revolution. Early education had to be eschewed for entry-level Party positions. Zhao then later walked through the requisite Central Party School postgraduate training, which is essentially a precursor to higher administrative promotion. Zhao's career has far exceeded his early potential, having been mostly confined to his native Shandong from 1973 to 2010. He has not done the conventional tour of duty characteristic of a Youth League factionite groomed for national leadership. After Shandong, Zhao was tested with a promotion into CCP leadership positions in neighboring Jiangsu, continuing in party rather than state leadership positions, which has been indicative of a gravitational shift in promotion patterns under Xi.

Zhao's big career move came after only two years in Jiangsu, first to acting governor and then governor of Guizhou province. Guizhou is traditionally a policy testing ground, too poor for anyone to care if the policies fail. China's top economists have worked extensively on policy trials in the region to first reduce poverty and overcome the difficulties of integrating it with the coastal industrial growth model, and later to develop innovation and science and technology industries and most recently an ambitious plan to economically integrate Guizhou into the emerging Chongqing-Singapore spatial plan.

Zhao Kezhi 赵克志 20th Party Congress Assessment

Party vitals	
Party Cadre rank	正部 Zhengbu
Born	1953
Age 2022	68
Age 2027	73
Promotions remaining	0
Demographics	Han, male

Promotion prediction
Retired
Other possible promotion seats

Institutional history	
Current positions	Politics and Legal Affairs Commission, Vice Secretary Ministry of Public Security, Minister State Council, State Councilor
Institutional gravity	Xi Core, Guizhou Gang, Zhijiang New Army
Zones of influence	Shandong, Jiangsu, Guizhou, Hebei
Policy competencies	Internal Affairs, National Security, Science and Technology Policy, Supply-side Reform
International experience	No foreign appointments, Shanghai Cooperation Organisation integration, Central Asia domestic security policy
Education	Central Party School mid-career training

While the current Politburo leadership has been characterized as the Zhijiang New Army, for those CCP cadres at or near the top having touched Zhejiang province in some way, a newer crop of Xi loyalists has come up through Guizhou. Loosely adjacent to the Chongqing model, but under closer central command than Bo Xilai was, this Guizhou Gang was a testbed for some of China's current elite leaders including rising stars Chen Yixin and Chen Gang, as well as the more established Li Zhanshu and Chen Min'er. Current Politics and Legal Affairs Commission Secretary Guo Shengkun was also vice party secretary of neighboring Guangxi for four years and the party secretary of Guangxi for five years, before moving up to the national central level to be party secretary and minister of public security.

In Guizhou, Zhao oversaw the development of a new political clique and a node in China's new national development model. With Zhao at the helm, Guizhou developed from a backward economy orphaned from the coastal growth experience into a new Third Front industrial technology center. Guizhou was to be developed into a techno-industrial command economy to cover China's push into global technological competition, trade wars, and technology self-sufficiency. The failed joint venture with chip maker Qualcomm was supposed to be a vanguard bringing high-technology transfer to the region. Massive infrastructure builds in internet hardware paved the way for the state developing a cloud computing and artificial intelligence center in Guizhou, to supplement the existing and expanded satellite technologies and the development of high technology manufacturing centers.

Between leading Guizhou and his current post as minister of public security, Zhao was Hebei party secretary, moving up in 2015 to replace Zhou Benshun who was purged under the anti-corruption campaign. In Hebei, China's traditional steel center and core of the new public administration integration of Jingjinji, Zhao steadied the ship. Zhao was rewarded for his loyalty in the 19th Party Congress with a promotion to a one-term position as state councillor and minister of public security. The techno-industrial stream developed in Guizhou and Hebei would follow now-Minister Zhao into an unlikely geography: Central Asia via the institutional export of the internal surveillance regime.

Zhao was an integral ally in the recentralization of both the China Coast Guard and the People's Armed Police back under Central Military Commission (and Xi Jinping's) leadership. Zhao has been a pliant and amenable second in command. After 2022, the new minister of public security, as deputy of the Politics and Legal Affairs Commission, will have a much larger policy mandate to inherit than either Guo Shengkun had under Meng Jianzhu or Zhao himself had

under Guo.

For the past five years, under Guo Shengkun, Zhao has been second in charge of the domestic security apparatus, which has been increasingly strengthened domestically and tentatively deployed in near abroad Belt and Road states. While China's near Pacific neighbors have analyzed the calculus of the Coast Guard Law for the East China and South China Sea theaters, much less analysis has focused on Political and Legal Affairs Commission's engagement with, and transfer of, the domestic surveillance state to the Central Asia and Eurasian Belt and Road states. The 2022-2027 Political and Legal Affairs and Ministry of Public Security leadership that takes over from Zhao will continue development of this near abroad domestic security and national security integration in conjunction with an expanded domestic security mandate.

2022 Watch: Chen Yixin Likely to Become China's Internal Security Commissar

Chen, the head of Xi's rectification campaign, is likely to ascend through a restrengthened Politics and Legal Affairs Commission.

By Tristan Kenderdine
April 07, 2021

The Diplomat

Chen Yixin has rapidly gone from strength to strength and is now emerging as the leading candidate for secretary of the Central Politics and Legal Affairs Commission in 2022, with even speculation of a path to Chinese Communist Party (CCP) general secretary in 2027. However, Chen's path to Politburo promotion is complicated by paranoia over the ever-present threat of a palace coup.

Chen is heading up the 2021-2022 rectification campaign, a political purge along the lines of the first Xi administration's "flies and tigers" campaign, which cleared political opposition for the second Xi term and allowed for greater institutional centralization of a variety of powers: legislative, internal security, party, military, and paramilitary. Chen, then, in 2021 is perhaps the most feared political entity in China domestic politics. The rhetoric surrounding this new rectification campaign has been stark: slogans like "remove the tumors" and "like Yan'an" echo the earliest of Mao Zedong's Stalin-inspired political purges to ensure CCP loyalty, with the contemporary policy additions of "drive the blade in" and "scrape the bone clean."

The terminology of the rectification and re-education campaign is couched in Confucian education and CCP rhetoric, a much harder sell to outside observers who could at least want to believe that the first purge under Xi Jinping was centered on countering the corruption that had been allowed to run wild from the Hu Jintao years. This rectification campaign is more direct in ensuring no one is left to challenge Xi, and whoever survives the scraping will be bone-hard.

Xi's second term has restrengthened Politics and Legal Affairs Commission after the institution was defanged followed the Bo Xilai-Zhou Yongkangpolitical accession struggle in 2012. Chen is currently secretary-general, a powerful Party administrative role akin to the less publicly visible roles of the various Leading Group office secretaries. He is likely to be promoted to the Politburo seat of secretary in 2022, replacing outgoing Guo Shengkun. This would effectively crown Chen internal security commissar with a wide range of policy tools for both internal and near abroad security deployment.

Chen has a long career as a fixer. He was placed in charge of the central COVID-19 response. At the height of the pandemic in 2020 there were rumors of internal CCP factions seeking to remove Xi from power. Chen was at that time sent in to Wuhan to shore up CCP control and reestablish confidence in the center, formally as the institutionally paired chair of Wuhan party secretary-Hubei deputy party secretary. There is no talk of Xi leaving power now, though, and the coming 2022-2027 period is being shaped by whoever survives the 2021-2022 campaign.

Chen's 40-year CCP career and political path has been almost entirely within Zhejiang province. Chen sat in the Zhejiang Provincial Party Committee for eight years, covering roles from the Policy Research Office and Finance and Economics Leading Group. After mid-career Central Party School training Chen went to Jinhua city between 2011 and 2013 as party secretary, where he was responsible for development of Jinyi New Area, the location of Alibaba's logistics center. Chen was then assigned to Wenzhou from 2013 to 2015, an affluent coastal business center and a testbed for many fiscal, financial, microfinance, credit rating, and SME development policies under Chen. Chen thus has strong policy experience in both post-industrial growth institutions as well as the shadow banking and debt default risks associated with the developed

coastal cities.

After a series of promotions, including leading the Party Committee of the Wenzhou Military Subregion, Chen was fast-tracked to the center in 2015 as vice secretary of the Office of the Central Leading Group on Comprehensively Deepening Reform, a powerful but opaque party position close to the center of power. In early 2017 Chen was then assigned to a short stint of just over a year to the dual seat of Wuhan party secretary and Hubei Provincial Party Committee vice secretary – the same seat Ma Guoqiang was purged from in 2020 following the coronavirus political fallout. After Wuhan, Chen was brought back to the center in his current role as secretary-general of the Politics and Legal Affairs Commission.

In his party position in Hubei, Chen was also head of the Party Committee of the Wuhan military subdistrict, from whence Chen orchestrated the central policy task of reforming the military regional system in 2018, which resulted in reducing China's domestic military security administrative districts from seven to five. The reform has significant cross-over with internal security given the changed institutional roles of both the People's Armed Police and the China Coast Guard.

Chen is a prominent member of Xi's next generation power base, the Zhijiang New Army faction, a function of complicated personal relationships and their connections to geographic space, public administration, and ultimately the Soviet institutions of governance that define domestic Chinese politics. It was as a result of this factional connection that Chen enjoyed a sudden parachute-promotion from Zhejiang directly to Xi's Deepening Reform Leading Group, which brought Chen into the inner circle of CCP leadership.

Chen Yixin 陈一新 — 20th Party Congress Assessment

Party vitals	
Party Cadre rank	正部 Zhengbu
Born	1959
Age 2022	62
Age 2027	67
Promotions remaining	2
Demographics	Han, male

Promotion prediction
Secretary of the Central Political and Legal Affairs Commission
Other possible promotion seats
2022 CDIC Secretary 2022 Central Secretariat Secretary 2027 General Secretary

Institutional history	
Current positions	Central Leading Group for Comprehensively Deepening Reform Office, Deputy Director Politics and Legal Affairs Commission, Secretary General
Institutional gravity	Zhijiang New Army, Xi Core, Sent down youth, Communist Youth League
Zones of influence	Zhejiang
Policy competencies	Party-affairs, discipline inspection, finance policy, SME policy
International experience	No foreign appointments
Education	Sent down youth, Bachelor's degree in Physics Lishui Teachers College, Harvard University Public Management Advanced Training Course, Central Party School Mid-career Training Course

Chen is young enough to have two promotions left in his CCP career. Chen might be a long shot for the 2022 Politburo Standing Committee but he is almost certain to be promoted into the Politburo, most likely directly into the role of secretary of the Political and Legal Affairs Commission, replacing the Guo Shengkun and Zhao Kezhi partnership as the head of China domestic security policy. If Xi Jinping stays at the head of a loosely institutionalized war cabinet, then Chen could conceivably stay as political and legal affairs secretary for two administrations. If in more moderate scenarios Xi were to leave and a more liberal administration were to take over and change China's direction in 2027, then Chen could be promoted into the Politburo Standing Committee in a friendly environment, or purged completely depending on both the excesses of his 2021-2022 Rectification Campaign and the mode of rule of the 2022-2027 Politburo. Chen is also a clear leading contender to replace

Xi Jinping if a peaceful transition of power occurs within the New Left ruling faction and the continuity of a leader appointing a successor is followed.

In 2022 Chen could conceivably get a super promotion into the Politburo Standing Committee as Central Discipline Inspection Commission head, or as Central Secretariat Secretary, if Wang Huning moves up to premier, although the position of Political and Legal Affairs Commission secretary fits much more snugly.

Projected 2022 Politburo leadership

	Seat	Projected Seat Holder		Birth	Age 2022	Age 2027	Change	Faction
Standing Committee	General Secretary	习近平	Xi Jinping	1953	69	74	Supreme Leader	Crown Prince
	State Council Premier	王沪宁	Wang Huning	1955	67	72	Change position	Constitutional Monarchist
	NPC Standing Committee Chair	李克强	Li Keqiang	1955	67	72	Change position	Tuanpai
	CPPCC Party Secretary	汪洋	Wang Yang	1955	67	72	Position to be determined	Tuanpai
	Central Secretariat Secretary						Seat to be filled	-
	CDIC Secretary	赵乐际	Zhao Leji	1957	65	70	Position to be determined	Shaanxi Clique
	First State Council Vice-premier	李希	Li Xi	1956	65	70	Change position	Zhijiang New Army
State Council and NPC	2nd Vice Premier of the State Council						Position to be filled	-
	3rd Vice Premier of the State Council	胡春华	Hu Chunhua	1952	59	64	Position to be determined	Tuanpai
	4th Vice Premier of the State Council						Seat to be filled	-
	NPC Standing Committee Vice-Chair						Seat to be filled	-
Provincial Party Secretaries	Guangdong Party Secretary						Seat to be filled	-
	Shanghai Party Secretary	李强	Li Qiang	1956	63	68	Position to be determined	Zhijiang New Army
	Tianjin Party Secretary	李鸿忠	Li Hongzhong	1959	66	71	Position to be determined	
	Chongqing Party Secretary	陈敏尔	Chen Min'er	1956	62	67	Position to be determined	Zhijiang New Army
	Beijing Party Secretary	蔡奇	Cai Qi	1963	67	72	Position to be determined	Zhijiang New Army
	Xinjiang Uyghur Autonomous Region Party Secretary	陈全国	Chen Quanguo	1950	67	72	Position to be determined	Waning Tuanpai
Party positions	Director of the Office of Foreign Affairs						Seat to be filled	-
	Director of the National Supervisory Commission						Seat to be filled	-
	Director of the General Office	丁薛祥	Ding Xuexiang	1962	59	64	Position to be determined	
	Head of the Organization Department						Seat to be filled	-
	Political and Legal Affairs Commission Secretary	陈一新	Chen Yixin	1959	62	67	Politburo Incoming	Zhijiang New Army
	Propaganda Department Head	黄坤明	Huang Kunming	1954	66	71	Position to be determined	Zhijiang New Army
Military	Central Military Commission Vice Chair							
	Central Military Commission Vice Chair							

= Core Party & Factions | = projected 2022 seat | = Politburo new entry | = Politburo seat change | 67 up | 68 down

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Chen is now a risen power in China domestic politics. Young, capable, determined, and smart, his personal success also tells the story of the deterioration of the party-political system in China. A cadre of Chen's talent emerging onto the national stage in 2012 might have been expected to put a problem-solving mind to work on policy solutions such as climate change, energy policy, international finance, health, or poverty alleviation. Instead, in 2021 we witness one of the best and brightest in China's political system emerging into an internal security commissar role with the power and mandate to cut down the political opponents of the CCP.

China's Ocean Policy Specialist to Miss Out on 20th Central Committee

Liu Cigui's promotion from Hainan party secretary effectively takes him out of the running for the ultimate prize: membership in the CCP Politburo.

By Tristan Kenderdine
January 22, 2021

The Diplomat

Liu Cigui is perhaps the first high-profile casualty in China's 2022 Party Congress race. He was effectively eliminated in December 2020 along with other Politburo potential Bayanqolu. Liu was promoted out of contention, being taken out of the Hainan party secretary position and "elevated" to central level as the vice chair of the National People's Congress Foreign Affairs Committee. Sitting on this committee alone could have been an indication of Liu's future role in China's foreign policymaking and party power system. But this promotion out of the provincial party seat to a central position without a path to Politburo signals the end of his political career. His foreign policymaking career may live on though through the 2022-2027 political administration.

Liu's early career was boilerplate. Like top leader Xi Jinping, Liu was a sent-down youth instead of attending bachelor studies, and then from the age of 20 went straight in to public service, emerging through various levels of Chinese Communist Party (CCP) organs in Fujian first via the Communist Youth League and then as spatial party secretaries, eventually of prefecture-level Putian, a coastal city of 2 million along the Xiamen-Quanzhou-Putian-Fuzhou coastal axis. Liu's career began in earnest at the age of 34 when he spent three years as director of Fujian Oceanic and Fishery Bureau. Fish in Fujian is a social policy, a commercial and export staple, and an institutionally important policy position. He then stepped through the regional city governance structures, with five years as mayor and party secretary of Longyan prefectural level city, and then as mayor and party secretary of provincial capital Xiamen. Through this time the policy groundwork was also being laid for Fujian to geoeconomically connect to Middle East under the Maritime Silk Road policy.

Due to central-level prioritizing of ocean policy, Liu was able to move into the central-level Ministry of Land and Resources as director of the newly reformed specialized State Oceanic Administration. The State Oceanic Administration had a flourishing of administrative power and policy practice between 2013-2018; Liu was director from 2011 to 2014. As director, Liu competently helmed a powerful political and policy position, which for a time also had jurisdiction over the paramilitary China Coast Guard. Later 2018 State Council reforms brought the State Oceanic Administration directly back under an also reformed Ministry of Natural Resources, after which ocean and polar policymaking became more opaque.

The same State Council reforms in 2018 also pushed China Coast Guard command to the People's Armed Police, with a revised People's Armed Police Law effective 2021 that would further integrate the command and operational structures, allowing for People's Armed Police deployment via Coast Guard vessels for domestic security operations in near-abroad theaters. With a newer Coast Guard Law also currently before the NPC, this institutional melding of People's Armed Police and China Coast Guard remains a cause of concern for China's maritime neighbors. Under Liu's State Oceanic Administration tenure though, the China Coast Guard was more institutionally independent, and central policymaking on both oceans and poles enjoyed a period of relative autonomy.

In 2015 Liu was promoted from the State Oceanic Administration back to provincial level as party secretary of Hainan, a wide-ranging policy position comprising South China Sea issues,

development of Hainan's free trade port project and tourism development, as well as wider Maritime Silk Road integration. Liu also remained a voice in wider ocean and polar policy as Hainan developed into the gatekeeper for South China Sea issues, the Singapore-Chongqing channel, Guangxi port developments, and Hong Kong surrogacy. The development of Hainan is critical to CCP future plans as a replacement to the international trade functions of Hong Kong, and both a macroeconomic and security gate for the newly developing Singapore to Chongqing New International Land-Sea Trade Corridor, as well as wider integration with the Zhejiang-Fujian-Guangzhou-Guangxi Maritime Silk Road project, particularly through the development of Guangxi's ports. Hainan is also a gatekeeper jurisdiction for new critical infrastructure LNG import terminals in both Guangxi and Hainan. Hainan is thus integral to a new Shanghai-Chongqing-Singapore axis, which is designed to pull economic geographic gravity toward the southwest China port infrastructure, replacing the geographic and institutional significance of Hong Kong, and more closely integrate China's southwest with Singapore.

Liu's tenure in Hainan was good, overseeing developments such as the Hainan Free Trade Law and Haikou free trade port. He was widely expected to be promoted to the center after his provincial tour; however, he was replaced as Hainan party secretary in December by Shen Xiaoming without a commensurate promotion to signal his path to the Politburo. There had been a direct path from Hainan to being admitted to the Politburo in October 2022, conceivably as director of the General Office of the Central Foreign Affairs Commission.

Liu is a Xi loyalist, part of the Fujian clique, and his status as sent down youth, coupled with his membership of the 130-member Central Commission for Discipline Inspection in 2013-2017, should have protected him from any reach of the 2021 rectification campaign. He would be 67 in 2020 making him eligible for one last promotion. The most obvious position would have been to the Central Foreign Affairs Commission, or possibly as NPC Standing Committee vice chair. Huge promotions would have been to NPC Standing Committee chair or fourth vice premier of the State Council, or the non-Politburo position of state councillor with a foreign affairs portfolio. A more successful career path would have needed him to have already been party secretary of Guangzhou, not simply Hainan. However his new position as deputy chair of the NPC Foreign Affairs Committee is a signal that he is being moved up and sideways, out of Politburo contention.

Liu Cigui 刘赐贵 — 20th Party Congress Assessment

Party vitals	
Party Cadre rank	正部 Zhengbu
Born	1955
Age 2022	67
Age 2027	72
Promotions remaining	1
Demographics	Han, male

Promotion prediction
eliminated
Other possible promotion seats
Director General Office of Central Foreign Affairs Commission NPC Standing Committee Vice-Chair

Institutional history	
Current positions	NPC Foreign Affairs Committee Deputy Chair
Institutional gravity	Xi Core, Sent down youth, Communist Youth League, Fujian clique
Zones of influence	Fujian, Hainan, Global Oceans
Policy competencies	Oceans, Poles, Trade, Transport, Coast Guard, Maritime Silk Road, Macroeconomic Development
International experience	No foreign appointments, extensive foreign policy experience (near-abroad seas, Western Indian Ocean, poles)
Education	No bachelor degree (Sent Down Youth), Xiamen University postgraduate study Oceanography

Liu, though, is likely to remain an influential source of foreign, ocean, and polar policy within the next administration, as the Hambantota-Gwadar-Duqm-Mombasa-Maputo maritime projection arc in the western Indian Ocean begins to take shape. Having presided over the development of both the State Oceanic Administration and Hainan's integration into China's

globalization project, Liu Cigui still has potential to be a force in China's foreign policy in the 2022-2027 administration. His experience in oceans, poles, and Maritime Silk Road and Indian Ocean territories, and the evolving Hong Kong-Hainan shift mean that Liu has already been shaping China foreign policy on the inside since 2011. Without Liu as a core central policymaker though, there will be a large foreign policy space to fill in the Sri Lanka, Oman, and Mozambique projects, as well as the emerging governance of China's ocean-borne LNG import trade. In ocean policy at least, we should expect to see the end of the disastrous "wolf warrior" discourse and the rise of a new form of foreign policy practice, more concerned with building a narrative of China's access rights to global commons with the China globalization narrative at the forefront.

While Liu's demotion leaves a hole in Maritime Silk Road, ocean, and polar policy formation in elite China politics, there remains the potential for a younger politician to become the maritime answer to the space left by former Politburo Standing Committee member Zhang Gaoli in the Belt and Road policy arena. Liu Cigui's NPC Foreign Affairs Committee position is a soft touch to push an old-hand into safe pastures. The institutional policy space left in the wake of Liu, though, is a powerful portfolio. Whoever fills Liu's policy space will have to manage a retraction, rebranding, or recalculation of Belt and Road, particularly on any policy practice revision of the Maritime Silk Road. The institutions and personnel who take control of China's ocean policy, polar policy, South China Sea policy, and Maritime Silk Road policy will have powerful voices in shaping China's coming decade in global affairs.

Is Institutionalism Still Useful in Elite China Political Analyses?

China's elite politics is ultimately unpredictable, but the party cadre system remains the most resilient political institution.

By Tristan Kenderdine
January 05, 2021

The Diplomat

Alice Miller was a pioneer in using institutional analysis of elite Chinese politics to predict institutional and personnel changes based on a combination of Chinese Communist Party (CCP) organs, party cadres, and historical party institutional analysis. Now in most cycles of CCP administration, analysts compete to offer insight into possible forms of institutional change. Ahead of the 2022 Party Congress, institutionalists have already begun personnel analysis as well as wider macro policy directional analysis. This work assumes that the past institutional forms are an indicator of future structures. But in the lead up to the 19th Party Congress in 2017, Jessica Batke was correct to note that much is written about Chinese politics assuming to know more than we really do.

If the state ideology does not change, then any changes to the institutional superstructure can only be superficial. While there have been important recent changes in political rhetoric and ideology, as well as macroeconomic policy and national system direction, they are not enough to expect wholesale institutional changes in the party cadre system or other internal party institutional changes.

Policy-wise, dual circulation, demand-side reform, and an imminent political and legal rectification campaign are the important agenda items for 2021. Between this rectification stick and the demand-side reform carrot, there is a lot of political space to clean out opposition, block promotions of the unanointed, reward the policy competent who emerge from the subnational competitions, and strengthen incumbent political factions going in to the 2022 Congress. As 2021 policy progresses, we should begin to see this 2022 political space open up.

Managing personnel changes in the 2022 Party Congress is now a huge task for the CCP because this should be an institutional transition of renewal. However if top leader Xi Jinping does successfully maneuver to stay on, it would mean breaking many institutional conventions and having to manage close party appointments very carefully. It is very difficult to allow even a modicum of political renewal within a Communist Party and there will be many party cadres who stayed quiet through the ten-year Xi administration because they expected to come out in to the sun in the 2022-2032 period of elite leadership. Managing them is the personnel problem facing Xi now.

The main institutional rule remains the "seven up, eight down" system, where party cadres are promoted or retired based on age: those aged 67 and younger can be promoted, with promotions within the hierarchy halted after 68. There are also still two-term limits on the State Council positions of premier, the four vice premiers, and five state councilors, so in 2022 Premier Li Keqiang can stay within the Politburo Standing Committee, but must change seats. The CCP's general secretary was limited by convention to two terms, so although Xi removed the legal two-term limit for the largely ceremonial state position of President, the party position of general secretary should still be limited. But most observers both within and outside China expect Xi to at least try to maintain power for a third term.

In the current Politburo there are nine non-military and two military seats that must be vacated in 2022 by the age restriction rule. Of the remaining 25 seats, 12 are candidates to be reshuffled, with the possible exception of Wang Huning, and by term limit rules there should

be a new State Council premier chosen from either the reshuffled candidates or a new entry. Most of the party governance positions retire due to age restrictions too. Guo Shengkun should make way for Zhao Keji as the top domestic security official and Yang Jiechi will leave, opening a space in the foreign affairs portfolio.

Politburo leadership ahead of 2022 Party Congress

	Seat	Current holder		Birth	Age 2022	Restricted	2022 Seat in play
Standing Committee	General Secretary	习近平	Xi Jinping	1953	69	Convention limited	Ambiguous
	State Council Premier	李克强	Li Keqiang	1955	67	Term limited	Seat to be open
	NPC Standing Committee Chair	栗战书	Li Zhanshu	1950	72	Age limited	Seat to be open
	CPPCC Party Secretary	汪洋	Wang Yang	1955	67	Change position	Reshuffle seat
	Central Secretariat Secretary	王沪宁	Wang Huning	1955	67	Change position	Reshuffle seat
	CDIC Secretary	赵乐际	Zhao Leji	1957	65	Change position	Reshuffle seat
	First State Council Vice-premier	韩正	Han Zheng	1954	68	Age limited	Seat to be open
State Council and NPC	2nd Vice Premier of the State Council	孙春兰	Sun Chunlan	1950	72	Age limited	Seat to be open
	3rd Vice Premier of the State Council	胡春华	Hu Chunhua	1952	59	Change position	Reshuffle seat
	4th Vice Premier of the State Council	刘鹤	Liu He	1962	70	Age limited	Seat to be open
	NPC Standing Committee Vice-Chair	王晨	Wang Chen	1950	72	Age limited	Seat to be open
Provincial Party Secretaries	Guangdong Party Secretary	李希	Li Xi	1950	66	Change position	Reshuffle seat
	Shanghai Party Secretary	李强	Li Qiang	1956	63	Change position	Reshuffle seat
	Tianjin Party Secretary	李鸿忠	Li Hongzhong	1959	66	Change position	Reshuffle seat
	Chongqing Party Secretary	陈敏尔	Chen Min'er	1956	62	Change position	Reshuffle seat
	Beijing Party Secretary	蔡奇	Cai Qi	1963	67	Change position	Reshuffle seat
	Xinjiang Uyghur Autonomous Region Party Secretary	陈全国	Chen Quanguo	1950	67	Change position	Reshuffle seat
Party positions	Director of the Office of Foreign Affairs	杨洁篪	Yang Jiechi	1953	72	Age limited	Seat to be open
	Director of the National Supervisory Commission	杨晓渡	Yang Xiaodu	1950	69	Age limited	Seat to be open
	Director of the General Office	丁薛祥	Ding Xuexiang	1953	60	Change position	Reshuffle seat
	Head of the Organization Department	陈希	Chen Xi	1955	69	Age limited	Seat to be open
	Political and Legal Affairs Commission Secretary	郭声琨	Guo Shengkun	1960	68	Age limited	Seat to be open
	Propaganda Department Head	黄坤明	Huang Kunming	1954	66	Change position	Reshuffle seat
Military	Central Military Commission Vice Chair	张又侠	Zhang Youxia	1956	72	Age limited	Seat to be open
	Central Military Commission Vice Chair	许其亮	Xu Qiliang	1955	72	Age limited	Seat to be open

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Within the current Politburo, most of the State Council and National People's Congress chairs retire from age, with the exception of Hu Chunhua. Most internal reshuffles from within Politburo will be towards these seats. All of the provincial boss chairs are young enough for at least one more term, with Chen Min'er eligible for two more terms. Two or even three of these current provincial bosses are can move up into the Politburo Standing Committee and the remainder can move into the other state or National People's Congress positions, which then creates room for external candidates for the big provincial seats.

These provincial party secretary places are the staging grounds for future Standing Committee candidates, meaning whoever is promoted from these positions will be very important in the 2022-2027 administration, and whoever is promoted to these positions will be important in the 2027-2032 administration. The standouts at the moment are Li Xi, Chen Min'er, and Chen Quanguo, all of whom could ascend into the Standing Committee given the right scenarios playing out in their favor. And whoever is promoted to replace any of the party secretary positions of Guangdong, Shanghai, Tianjin, Chongqing, Xinjiang, or Beijing is indicative of the form of higher leadership being prepared for the 2027 administration.

For the nine wholly vacated seats in 2022, there are only so many institutional places from which candidates can be drawn. The main institutions that yield potential Politburo candidates are central party organs, provincial party secretaries, provincial governors, State Council ministers, and the party secretaries and mayors of the 15 subprovincial level cities. This is the basic pool of candidates and assessing this level of the public administration hierarchy yields the contenders for both this upcoming and future Politburo ranks. There are SOE leaders with the requisite party cadre rank of *zhengbu*, and there are political outliers like the Wang Qishan

or Liu He paths to peak power, but essentially there is a pool of around 120 party cadres with the zhengbu rank who currently serve in city, provincial, ministerial, or party institutions.

The 20th Party Congress Politburo will be an attempt at institutional rigidity in an administrative term conventionally marked for change. This means extending loyal personnel in the cadre system into their final career term for the Xi project's 2022-2027 administration, rather than empowering candidates with two terms left in their careers who could serve for the entire 2022-2032 period. This introduces a new form of institutional friction into China's political system.

There remain serious limitations to using institutional analysis to determine future path dependencies in China's Politburo. No one can predict factional changes in power, political purge campaigns, or the violation of institutional conventions. But the party cadre system remains the most resilient political institution in modern China, the machinations of which will continue to determine many political and policy outcomes in the 2022-2032 period.

Politburo 2022 Candidate Analysis: Li Xi

The Communist Party secretary of Guangdong province is a near-lock for the Politburo Standing Committee come 2022.

By Tristan Kenderdine
December 29, 2020

The Diplomat

As head of the largest economy in China, Guangdong Party Secretary Li Xi is at the forefront of technoindustrial policy, trade policy, economic reform, and regional integration. Li Xi has one more promotion left in his career; he will almost certainly join the Politburo Standing Committee (PBSC) at the 20th Party Congress in 2022. Li has been a loyal stalwart of the Xi Jinping project, and falls firmly into the core camp. His five-year stint as Guangdong party secretary is probably the safest, and most powerful, seat outside the PBSC, signaling the trust placed in him. His position in the 20th Party Congress Politburo Standing Committee is the only real variable now. Li Xi is likely to sit in either the first vice premier of the State Council or Central Secretariat secretary seat, depending on whether Wang Huning stays or moves into a new role within the Standing Committee.

Li's early life and party career were in Gansu, working for his hometown country party offices from age 20, even before his bachelor's study. After graduation he went straight to the Gansu provincial Propaganda Department, and then on to the General Office briefly before various roles in the provincial Organization Department from 1986 to 1995. After a year as party secretary at the county level in Xigu, Li went up to the prefectural level in Lanzhou, again in the Organization Department. He then moved sideways to a higher position in a lower prefecture, serving four years at Zhangye prefecture, while also completing the Central Party School mid-career training. A final promotion to Gansu provincial level allowed him to move up to Shaanxi province.

Li's rapid and competent rise through Gansu meant that he then qualified for the "political grand tour," the institutional prerequisite for eventually ascending to national politics. This is a crucial stage in a China politician's career, because the party cadre rank does not change much from here until either national leadership or retiring into obscurity. A strange quirk of China's political system is that there are no truly national level positions — for such an ostensibly centralized Leninist political structure, China operates far more like a federal system. Once a cadre has risen to provincial minister level, the political landscape consists of a series of tours of duty to prove loyalty, build factional relationships, gain cross-country experience, and manage increasingly larger populations and economies. For Li, his political grand tour was through Shaanxi, Shanghai, Liaoning, and finally Guangdong over a period of 18 years.

Li's first nine years in Shaanxi cemented his position in the regional political tournament system. He sat on the Provincial Party Committee and was party secretary of Yan'an prefecture, a significant site in CCP history. Three years in Shanghai followed, back to his preferred Organization Department role while also with a hand in cadre training at the provincial Party School. The timing of his appointment as party secretary of Liaoning in 2014, briefly as acting governor and then more permanently as party secretary, was significant given Xi Jinping's desire to secure the province that had been a power base of rival Bo Xilai during his ascendency through Dalian. For the 19th Party Congress, Li has been party secretary of Guangdong province, sitting on the Politburo as one of the six provincial boss seats.

Li is thus part of Xi Jinping's core political faction, cemented in his time in Shanghai and an important member of the Shaanxi Clique. As Guangdong party secretary, he was the most powerful non-Standing Committee politician in China for the past five years. At the central

level, Li was an alternate member in the 2007-2012 17th and 2012-2017 18th Party Congresses, and a full member of the 19th Party Congress since 2017.

Li Xi 李希 — 20th Party Congress Assessment

Party vitals	
Party Cadre rank	正部 Zhengbu
Born	1956
Age 2022	66
Age 2027	70
Promotions remaining	1
Demographics	Han, male

Promotion prediction
First Vice-Premier State Council
Likely promotion seats
State Council Premier NPC Standing Committee Chair CPPCC Party Secretary Central Secretariat Secretary First Vice-Premier State Council Second Vice-Premier State Council

Institutional history	
Current positions	Politburo, Central Committee, Guangdong Party Secretary
Institutional gravity	Xi Core, Shaanxi Clique
Zones of influence	Guangdong, Liaoning, Shaanxi, Gansu
Policy competencies	Party building, macroeconomic management
International experience	None
Education	Northwest Normal University (Chinese Language and Literature), Central Party School, Tsinghua (MBA)

Li's core status is predictable given his party roles throughout his career. The Organization Department, Propaganda Department, and General Office are all core CCP organs, replicated at every level of the party hierarchy, with the central level organs being represented on the Politburo. This would normally put Li in line for a core position in the Standing Committee, as the Central Secretariat or the National People's Congress Standing Committee chair. However Li's most important position has been as party secretary of Guangdong province, running a huge macroeconomic project, making him a more practical, policy-oriented politician, and part of a group of core acolytes currently in the provincial party boss seats. To have worked through the central Organization Department, Propaganda Department, or General Office he could have been in the Politburo and continued into the Standing Committee in a core party position. But as he has taken a more practical approach, particularly since his tours of duty in Shanghai, Liaoning, and Guangdong, Li is now more in line for one of the State Council positions, especially given the indications are that Xi would continue to weaken the independence of the state in those positions, bringing them closer to party policy priorities.

Li's policy trajectory in Guangdong in 2017 points to his likely contribution to 2022-2027 elite leadership, much like a United States senator's voting record might be examined to extrapolate possible future institutionalized behavior. Li is the highest domestic political authority responsible for development of the Greater Bay Area, the latest incarnation of the decades-old economic integration plan for the Guangdong-Hong Kong-Macao area, which has taken on extreme politicized force in 2020. Li has also led implementation of industrial integration and upgrading across the province's industrial base such as under the "1+1+9" macroeconomic governance model for Guangdong and its component subprovincial public administrative units. The first "1" is strengthening CCP leadership; the second "1" is deepening reform; and the "9" refers to a series of macroeconomic and long-term political objectives for the province. Li has also been tasked with the local practical political implementation of "Spiritual Civilization," the highest order ideological framework for the Xi administration. That the most marketized and international-facing provincial economy in China has so successfully restrengthened party-political control over market institutions under Li's tenure is telling.

Li's major policy weakness is a lack of formal international qualifications. Many current high-ranking cadres have either studied or worked abroad, a trend that will only become more ubiquitous as younger candidates move into the elite leadership cohort of the 2022-2032 period. However, Li has been increasingly exposed to practical foreign policy, for example

meeting India's External Affairs Minister S. Jaishankar in New Delhi in 2019. Li has also overseen major foreign policy practice in heading the most international-facing province in China's state-market economy. Under Li's tenure, Guangdong has become a principal node in the Maritime Silk Road project, coordinating the Pacific Islands arm of the Belt and Road. Li has also coordinated China's institutional takeover of Hong Kong as the highest level regional politician responsible for the 2020 changes. While Li will not be China's foreign policy face to world, expect him to have a strong hand in China's geoeconomic policy and CCP foreign policy.

Li Xi will almost certainly ascend to Politburo Standing Committee in 2022 as long as Xi Jinping or at least a Xi-dominated CCP remain in power. As an absolute Xi stalwart, Li will have to hold together and implement a series of carefully orchestrated political and economic policy narratives. Whatever Li's position in the 2022 Politburo, expect his portfolio to be tasked with tough-to-implement policies that further politicize market institutions.

China Looks Ahead to 20th Party Congress in 2022

China's elite politics begins the run toward the personnel changes of October 2022's 20th Party Congress.

By Tristan Kenderdine
December 07, 2020

The Diplomat

The 19th Party Congress Fifth Plenum is completed; the 14th Five-Year Plan is in draft. Now China's elite politics begins its run toward the quinquennial personnel changes of October 2022.

In 2022, the Chinese Communist Party (CCP) will hold its 20th National Party Congress, shaking up the top echelon of Chinese politics. There are two extreme scenarios for the institutional transition of supreme leadership in 2022: either Xi Jinping stays for a third term, unprecedented in recent history, or he is dismissed by internal CCP factions and his political power neutered before October 2022. Whichever of these transpires, there is a huge interlocking institutional framework of lower-level cadres vying for various stages of political career promotion.

This is the first in a series of institutional profiles of potential Politburo leaders for 2022. The 25-member Politburo of the Central Committee of the Communist Party of China is the third most powerful organ in China's politics, after the pseudo-institution of the supreme leadership and the Politburo Standing Committee. In the current political climate, the Politburo is the highest organ of power that is likely to remain institutionally stable through the end of Xi Jinping's second five-year term.

This series will examine the lesser known cast of characters in the pantomime: The political acolytes and economic policy magistrates that make up the wider fabric of political stability and constancy in China's political system. Examining some key personnel in this political term as they make their careers in the subnational tournaments of political progress can help policymakers to imagine more multiplicitous and nuanced scenarios for China's political, social, economic, foreign, and geoeconomic policy in the coming 2022-2027 period and beyond.

The backdrop of China's leadership transition is a world in geoeconomic flux. The narrative of China's convergence into the global economy has been shattered, and globalization has been shaken in the theories of both neoliberal transnational capital and development economics. However, China's model is an inversion of the Japanese Listian system of national economic development and German Wilhelmine industro-nationalism. While a novel application, this is a political grafting of theoretical models with known path-dependent faults.

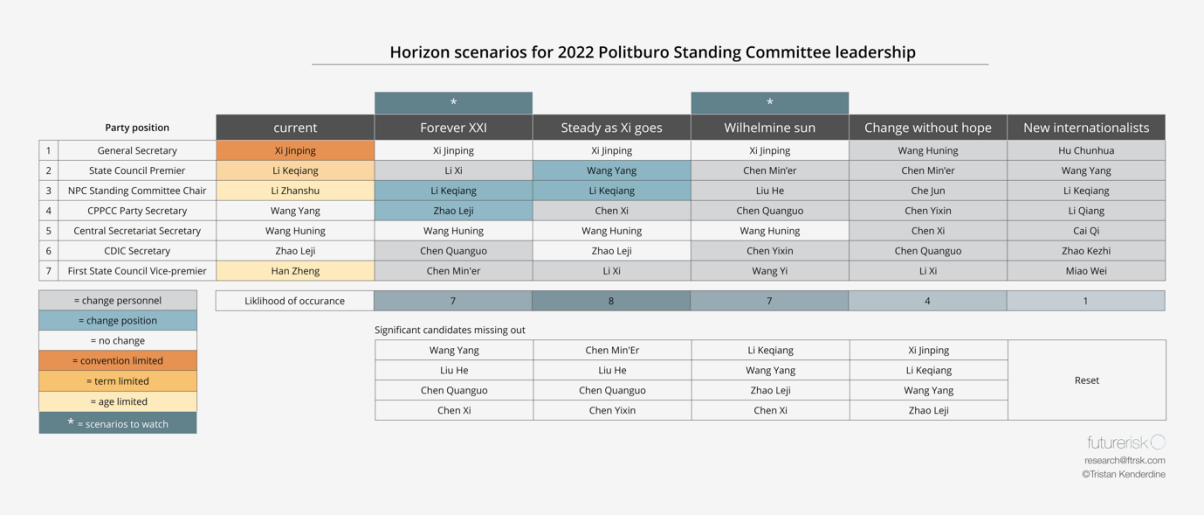
China's future institutional path-dependencies center on the interplay between this national system of economic development and the CCP cadre system. The cadre system is the most stable political institution in contemporary China. At the level of Politburo contention, these are people who have waited entire lifetimes for their final political appointments, and who have served different factions and politically survived through decades of differing policy and institutional structures.

The consolidation of power under Xi Jinping has weakened the explanatory power of institutionalist analyses of CCP cadre movements; however, the chairs within that Party structure are still stable dependent variables. The chairs that form the institutions of power may change slightly, but they are in very stable orbits. The reality of the coming decade of China's 2022-2032 political history will play out in the shadow of this institutionalized system.

However, the tides of political fortune can swing very quickly at the top of elite Chinese politics.

I do not think that Xi Jinping will be the general secretary of the CCP in October 2022. Consider that Xi was very nearly removed from power in March 2020, and that his own rise to power was on the back of a failed coup.

If Xi Jinping will no longer be the leader of the CCP in November 2022 it will not be because of institutional grey rules that would require the chairman of the Party to serve only two five-year terms, or age restrictions but more because his position had become untenable to the factions within the Party who are capable of changing history. Wang Qishan is the obvious power-broking defensive pivot to watch, being a paternal figure to many in the CCP hierarchy.



Horizon views of scenarios and personnel appointments for an October 2022 leadership transition.

To begin the scenario-testing, we entertain a variety of scenarios for the 2022 Politburo Standing Committee. The scenarios seen here are long-view horizon shots. The multiple pathways depicted here must obviously coalesce into a single functional reality the closer the time horizon reaches to October 2022, but in the meantime China's elite politics has a huge array of political machinations in constant play.

The first two are New Left conservative scenarios, both in the "Xi continues" narrative. The first introduces more progressive change, signalling that Xi would have more open choice in promotions. The second is a very conservative scenario where most personnel stay and only change position; this is the scenario where only Xi staying on is the greatest variable. In none of the scenarios is Wang Huning elevated, as a third Xi term would likely weaken state positions and strengthen party positions, meaning Wang staying as central secretariat secretary would likely become a stronger position that State Council premier due to this institutional shift

"Change without hope," though, is a left radical scenario that considers a wholesale change of personnel but does not alter policy course. This scenario sees the exit of Xi Jinping but the continuation of the policy course set by the 2012-2022 administration. It promotes Wang Huning to top position, places Chen Min'er as deputy, and would presume that Xi Jinping controls policy and political direction from a third office, essentially a Medvedev scenario.

The fourth is a left radical scenario that abandons most institutional conventions and essentially sets up a war cabinet. Wang Yi, currently a state councilor and so normally not eligible, comes in despite also passing the age limitation. Liu He stays with the same reasoning, and CCP and ideology stalwarts stack the state positions. This "Wilhelmine sun" scenario is a drastic descent into Schmittian worlds of expansionism.

The fifth is a radical reset to a right conservative scenario. For either of these to take shape

there would have to be serious elite political change and a drastic change in policy direction back toward the politicians and politics of reform and opening. The difficulty in constructing scenarios for a swing back to the right demonstrates how effectively eviscerated the right has been under Xi. “Right” in China is also much farther left than in any contemporary Western democracy; as such, any future rightists will be ones so left to have politically survived this long. In this scenario Zhao Kezhi is “promoted” in order to nullify his influence and some conciliatory consolidations of market liberal jurisdictions in Shanghai and Guangdong re-empowered.

The consolidation of power under Xi has weakened the explanatory power of institutional analysis of CCP cadre changes. However the legitimacy of the party rests upon this internal party institution. Closer to the time of the actual Congress, it will be possible to refine this cadre calculus and see more clearly the profiles of the personnel likely to ascend. Such analysis remains valuable to observers of the political acumen of future Chinese leaders as they come up into view. And without inside knowledge of the cliques and factions possibly poised within the Party, institutional public administration analysis can give us a clearer view of possible political futures. Predicting Standing Committee scenarios lets us then move on to predicting Politburo seats, a more complicated but potentially more rewarding endeavor.

This scenario-testing and risk analysis of future Politburo and Standing Committee membership is an analytical exercise from a historical institutionalist perspective that can help to explain the complexity of institutional change within the Chinese Communist Party. By October 2022 we will be witnessing a new chapter in political history. A continuation of Xi Jinping’s rule is likely to pursue the inevitable path-dependencies of an industrial power’s rise into externalized nationalism, but any new leadership structure would be faced with a near impossible problem of reintegrating China’s institutions into the global economy.

China's Fifth Plenum: Old Goals and Shifting Priorities

There's much more than technoindustrial policy in China's Fifth Plenum communique, especially when compared to the 2015 outcomes.

By Tristan Kenderdine
November 04, 2020

The Diplomat

China's fifth plenum communique has all the hallmarks of retro Soviet oratory combined with all the future path-dependencies of the Amstrad computer. While innovation in science and technology goals remain important, critical policy areas are being downgraded or ignored as the planning stages of the 14th Five-Year Plan near completion. This communique and the proto-14th Five-Year Plan that it presages highlight a continuation of regressive economic policy, not a bold leap into an innovation-led future.

Much analysis has focused on the prominent position of innovation in science and technology policy in the communique. But innovation was already the highest policy priority area in 2016's 13th Five-Year Plan. More important than the continuation of innovation as the highest policy priority are the higher position of manufacturing, the lower position of rural reform and a shift in rhetoric from "opening up" to "international cooperation."

Plenums are annual meetings of the full Central Committee of the Chinese Communist Party (CCP). There are seven plenums in a five-year administrative term, the most important being the Third, Fourth and Fifth Plenums. The Third Plenum is the administration's first attempt to really set its policy agenda, so its communique normally has the most practical policy measures. The Fourth Plenum is mostly concerned with party-building, ideology and governance matters – providing the internal party renewal that elections would in a democratic system. The Fifth Plenum is mostly an analysis of the previous five-year plan and sets the policy blueprint for the coming plan.

Comparison of Fifth Plenums and Five-Year Plans

2021 14 FYP (predicted)	2020 5th Plenum
	2035 Long Term Goal of Achieving Socialist Modernisation
Part I Guiding Ideology and Development Philosophy	14FYP Guiding Ideology and Principles
	14FYP Economic and Social Development Goals
Part II Innovation and Domestic R&D	Sci-tech Innovation and Indigenous Innovation
Part III Modern Industrial System and Manufacturing Power	Modern Industrial System and Manufacturing Power
Part IV Dual Circulation Economy and Domestic Demand	Domestic Market, Demand and Consumption Development
Part V	Market Reforms
Part VI Rural Revitalisation	Rural Revitalisation
Part VII New Urbanisation	New Urbanisation and Regional Spatial Planning
Part VIII Regional Coordination and Spatial Planning	
Part IX Cultural Industries Development and Soft Power	Cultural Soft Power
Part X Ecosystems and the Environment	Ecological Civilisation
Part XI New Style International Cooperation	New Style International Cooperation
Part XII	
Part XIII	
Part XIV Human Services in Education and Health	Human Services and Development
Part XV Human Services in Employment, Ageing and Pensions	
Part XVI	
Part XVII	
Part XVIII	
Part XIX New Style National Security	National Security
Part XX Defense Forces Modernisation	Defense Modernisation

2016 13FYP	2015 5th Plenum
Part I Guiding Thinking and Development Philosophy	Moderately prosperous society, maintaining a medium-high economic growth rate, doubling 2010 GDP by 2020
	13FYP Objectives
Part II Innovation-Driven Development	Innovation as the Centre of National Development
Part III New Systems Development	New Systems: Spatial Planning, Internet Structure, Big Data
Part IV Agricultural Modernisation Modernization	Agricultural Modernisation
Part V Optimised Modern Industrial System	New Industrial Systems, Develop Manufacturing Power
Part VI The Cyber Economy	Market Reforms
Part VII Modern Infrastructure Networks	
Part VIII New Urbanisation	Urban-Rural Development Integration
Part IX Development Coordinated Between Regions	Regionally Coordinated Development
Part X Ecosystems And The Environment	Ecological Civilisation
Part XI All-Around Opening Up	Open Development and Opening to Global Economy
Part XII Deeper Cooperation Mainland, Hong Kong and Macao	Mainland-Hong Kong-Macao Integration
Part XIII The Fight Against Poverty	Public Service Provision
Part XIV Better Education And Health For All Citizens	Education
	Healthcare Reform
Part XV Support Public Wellbeing	Income Inequality
	Social Security
	Pension Funds
	Equalise Development across Population
Part XVI Socialist Cultural And Ethical Progress	
Part XVII Better And More Innovative Social Governance	Party Committees and Party Ideology
Part XVIII Socialist Democracy And Rule Of Law	Rule of Law Methods
Part XIX Coordinated Economic And Defense Development	National Security

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Figure 1. Comparison of Fifth Plenums and Five-Year Plans over the two Xi Jinping administrations.

Comparing the 2015 and 2020 Fifth Plenum communiques and the resulting Five-Year plans, we can see a reshuffling of several policy priorities. And we can also construct a reasonably accurate shadow of the structure of the 14th Five-Year plan, which will be tabled in March 2021.

The clearest takeaway is that this 2020 communique is already much closer to the structure of a completed five-year plan. While the 2015 communique contained all the elements that would go into the final plan, they were more policy protozoic; the 2020 version is already nearly ready to be numbered and structured into the formal policy document.

More interesting than the continued apex of innovation as the central driver of economic development is that manufacturing policy has risen to the secondary priority. This does not mean that manufacturing was not important before, but it does mean that new policies for advanced manufacturing are forthcoming and I would expect a codification of the manufacturing power policy to be highly structured and well thought-out in the 14th Five-Year Plan.

The dual circulation policy is likely to fill in the Part IV slot. This is probably the most important policy area, but also one that is theoretically, ideologically and practically the thinnest. Expect a lot of proto-policy maxims here, without clear goals or metrics. This area will be a real chance for the Liu He side of economic governance to stake a claim for successful transition to domestic demand. However the policy development priority of strong domestic market demand is naïve without competition policy and reform. Part V will focus on deepening financial reform, but we do not have a title or clear idea of what the market reform portfolio will look like in the final plan.

Parts VI, VII and VIII – on rural revitalization, nw style urbanization and regional spatial planning, respectively – are where we will see most practical policy measures, but this is also where the Party consistently hopes for a policy panacea. Rural revitalization dropping from the fourth to sixth priority is telling. Rural reform is arguably the biggest institutional blockage to China's economic development, the second being its aging population and problems with public service provision. But health care, aging demographics and pensions consistently rank lower down the Party's policy priorities than rural reform, which usually sits alongside technoindustrial development and marketization reforms.

Viewed from the "Soviet collapse" narrative, the rural, urban and regional policy portfolios represent some of the biggest policy dead-ends. However from the successful China development model narrative, they are the most forward deployed command-economy policy mechanisms, and the Party is too far committed to back out now. Expect grand plans and mega projects in this section in the 14th Five-Year Plan. At the 19th Congress, however, no clear successor to the role that Zhang Gaoli played in the 18th has emerged, so it is hard to imagine any great successes in spatial planning in the 20th Party Congress absent clear policy leadership. Spatial development, though, is the single greatest selling point of planned economies and it will be interesting to see the further development of the spatial planning model – not only the main regional poles of the Greater Bay Area, Jing-Jin-Ji, the Yangtze River Delta and Yangtze River Economic Belt, but also the variety of lower-level provincial and interprefectural spatial planning models.

Against the backdrop of these progressive spatial plans though, there are some serious deficiencies. In the 13th Five-Year Plan there was a progressive section on new networks, including domestic market structure, logistics systems, the Internet Plus plan and big data systems development. However, taking the logistics network model as an example, inter-modal hub development for rail-road-sea integration has been poorly implemented. These systems are needed for the continuation and development of the coastal export model, the China Rail Express system to Europe via Eurasia, and the development of the domestic logistics system on which the dual circulation demand model is due to be based. But in domestic logistics development over the past five years, the inter-provincial competition system has caused

inefficient practices to creep in, with too many low quality infrastructure builds and not enough high-quality or systems development.

Ecological civilization is a well-established a codified policy priority by now. However, the 18th Party Congress Fifth Plenum Communique had a huge array of detail on ecology and ecosystems and the policy form that ecological civilization could take in order to achieve its goals. Perhaps the lower level of detail in this communique implies advanced policy implementation and less need for aspirational goals. But it is more likely that ecological civilization, like rural revitalization, has suffered a policy deadening under Xi Jinping Thought and that good policy minds and creative ideas have been chased away or otherwise silenced. The result is drab boilerplate Party-speak rather than any novel problem-solving ideas for the coming five-year term.

The Fifth Plenum communique's rhetoric of a shift to a high-quality development is also a little hollow. This has been on the policy books for over five years. With the 14th Five-Year Plan draft around the corner, we really need to be seeing what this high-quality growth is going to look like, and what institutions and mechanisms are going to ensure quality, standards and the transitions to world-class systems that the Party is promising China's people.

The 14th Five-Year Plan section on "new style international cooperation" will be important. This section will be where the CCP lays out its plan for a multipolar geoeconomic world. For the Fifth Plenum communique, it is interesting to see "high-level opening" and "win-win" both occur higher in the order of the paragraph of international cooperation than the Belt and Road Initiative (BRI), which has dropped down to the last priority on the list. The policy goals will be to integrate China's parallel institutions into maintaining domestic growth, developing new markets and continuing the deployment of the offshore industrial base model.

Expect the geoindustrial policy of international capacity cooperation to be canned and a new form of "going global" to reappear; for the hollow diplomatic rhetoric of win-win to not be backed up by any practical policy; and for doubt to be introduced into the BRI (or it being morphed into some new geoeconomic policy container). China is likely to begin a coordinated withdrawal of geoeconomically deployed capital along the BRI, but cannot pull back ideologically from the policy.

The stark drop-off in policy innovation and problem-solving as we near the end of Xi Jinping's second term is indicative of a culture of fear in progressive policy-making. Rather than innovating into a high-technology manufacturing future, China's regressive, Soviet-esque economic policy is likely to stunt innovation and technology development. The indications from this Fifth Plenum communique are that a dearth of policy ideas has set in, not a plethora.

Consolidating China's Party-state

China's Third Plenum restructures the state with party-strengthening measures

Tristan Kenderdine
1 March 2018

Policy Forum

The constitutional removal of two-term presidential limits combined with the Party-strengthening movement of the Third Plenum fundamentally weakens China, Tristan Kenderdine writes.

It has been a frantic week in Chinese politics. Not only was it revealed that Xi Jinping is proposing to remove two-term presidential limits, but he also brought forward the Third Plenary Session from the second half of 2018 to February, before the Two Sessions this month.

Both moves have left political scientists scratching their heads. And now the Third Plenum communique, centred on deepening Party reforms over State institutions, is signalling an even stronger governance restructure.

For all the concerns about Xi consolidating power, the President of the People's Republic of China is essentially a meaningless title – a point missed by most in the media this week. Executive power in China is in the hands of the General Secretary of the Communist Party of China.

One argument as to why Xi has removed the two-term limit from the Chinese constitution is that by doing so he aims to make clear that the State office of President is subservient to the Party. An unlimited Presidency could also give Xi a convenient institutional office to retire into while overseeing the rest of his political projects.

If so, this move is fundamentally about weakening an institution that had been progressively strengthened since its reinstatement in the constitution in 1982. On this reading, the message Xi is sending is that Party institutions dominate State institutions. If so, the story is not really the erosion of old State institutions like the presidential term limits, but rather the formation of new Party institutions like the National Supervision Commission.

The reason that such drastic reform of the State is possible, and announced early in the Third Plenum 2018, is because Xi has so successfully taken control of the Party. In a democracy, an equivalent achievement would be to control both houses of Parliament. This is the political mandate that Xi has been building towards, and this coming 18-month period will be where he sketches out and fills in his true policy agenda.

The Deng era reforms had allowed for a slow institutionalisation of Chinese political norms, one of which was a growing separation of Party and State. But the message from the 2018 Third Plenum is that this era of separation is over.

The Third Plenum is usually in the first Autumn of a Central Committee's five-year administration – in other words after about one year into the Committee. The meeting is the administration's chance to establish a policy agenda for the coming five-year period, and to lay out the broad projects it wishes to embark on and the frameworks it will use to achieve them.

Previous Third Plenums have resulted in a number of critical policy turning points: (*see table*).

If the message of the 19th Party Congress was that the Reform Era is over, the message from this year's Third Plenum is all about 'governance reform' (in other words, Party reform of the

State).

This stands in stark contrast to the 2013 Third Plenum of the 18th Party Congress, which talked about the 'decisive role of the market'. Such rhetoric was by parts exhilarating and confusing and had foreign business in China speculating on just how much economic reform this would mean. Five years on, the 2018 Third Plenum has shifted focus to Party strengthening and a recentralising of power, framed as governance reform.

Minxin Pei has written that the realists were right and the liberals wrong: greater levels of international trade do not make democracies, and globalisation is not the end of history.

The shift away from economic reform towards recentralising power potentially gives China hawks cause for celebration. Despite appearances, the centralisation of power around Xi Jinping will only lead to a weakened China, a slower-growth China, and a China with less influence on the world stage.

In the coming four years, we can expect a governance project that amalgamates some State Council ministries into super ministries and creates greater devolution to provincial, prefectural and township governance. But the Third Plenum's call for deepening Party and State institutional reforms is not an advance in state governance, but rather a regression to Party politics.

Ultimately, this Party strengthening is likely to mean a weakened China, and a China that is now economically going nowhere. A stronger executive means a weaker state, and a weaker state means weaker political and economic benefits for citizens.

The real losers from these moves are neither the advocates of Western liberalism, nor Chinese political elites who must further cede power to Xi Jinping. The real losers are those Chinese poor who were already marginalised from the 40-year growth model and look to be again appropriated for a centralised political end.

This is the first Third Plenum of the post-reform era, and for the first time since 1978, it does not focus on an economic goal. The poor of China deserve better than a post-reform era that fails to deliver a macroeconomic plan but instead concentrates power within an ever-smaller circle in Zhongnanhai.

Ahead of Party Congress, Keep an Eye on China's Leading Groups

What will China's leadership reshuffle mean for economic policy?

By Tristan Kenderdine
October 17, 2017

The Diplomat

Ahead of the cadre shuffle in China next week, most attention will be reserved for the changing of the guard in the Politburo Standing Committee. However, it is important to remember that leadership of party and state leading groups is what really drives policy process and change in China. While a variety of formal and informal power structures define policy fermentation and transmission in China, at the core is a hierarchic system of committees, or leading groups, a 21st century manifestation of the 1920s Leninist Party structure. The committee system effectively fulfills the function of the legislature in common and civil law systems of governance.

These leading groups are institutionalized from the highest organs of power to the lowest village organization. The policy portfolios of leaders are fluid arrangements, likely to morph over the course of a five-year administration. The policies which these committees output are interpreted and implemented vertically downwards, moving from vagaries in proto-policy at the central level to specifics in production catalogues, tariff rates, and insurance regulations.

Party leading groups, over state leading groups, are the pre-eminant decision-making fora. Xi Jinping's Comprehensively Deepening Reform Leading Group, in charge of change, is now the most powerful, while Liu He's Financial and Economic Affairs Leading Group, in charge of money minders, sets key economic agendas. State leading groups, which set functional policy, are currently dominated by Zhang Gaoli, China's top vice premier, but will necessarily morph and institutionally evolve after the 19th Party Congress, with new personnel to staff the central trade and industry policy apparatus which defines the subnational government and state-owned enterprise (SOE) production system.

Zhang Gaoli directly or indirectly ran an almost obscene amount of leading groups through the 2012-2017 period, including the Belt and Road Leading Group. Zhang was effectively running China's economy through the various energy and industrial policy leading groups, and his expected departure at the 19th Party Congress will leave a policy implementation gap.

Miao Wei at the Ministry of Industry has been in charge of strategic emerging industries and Made in China 2025, while in the National Development and Reform Commission (NDRC) He Lifeng heads up the supply-side reform agenda. Other key central industrial policy committees, particularly the State Owned Enterprise Reform Leading Group, are largely split between Ma Kai and Wang Yong. Ma drives the industry 4.0 advanced technology agenda while Wang helps clean up old industry, particularly by engaging the industry associations. Industry associations are the institutional wreckage of the *danwei* line ministry production system. Carved out as independent institutions from coal, metallurgy, electricity, and building materials ministries, they form a membrane between state and market, representing the interests of industrial assets, capital, and labor at the vice-ministerial level and are responsible for intervening in strategic domestic and international markets such as iron ore.

To achieve both central and regional industrial policy goals, a new wave of leading groups are beginning to emerge. For example the Leading Group for the Development of the New Materials Industry, led by Ma Kai, was established to implement the New Material Industry Development Guide, itself a joint project of the Ministries of Industry and Information Technology (MIIT), Finance, and Science and Technology as well as the NDRC. The guide sets specific goals for the development of advanced, strategic, and new materials. This all integrates with the central

Made in China 2025 industrial policy under which China has started developing manufacturing innovation clusters, developing intelligent manufacturing, strengthening the traditional industrial base, and developing capacity in green manufacturing, and high-end equipment manufacturing.

Regardless of who winds up taking leadership positions next week, we can expect the reform agenda in 2018-2022 to move past steel and coal and into a variety of inefficient and overcapacity industries. The degree to which individual firms will be subject to market conditions is likely to be dependent on how effectively China's domestic industrial policy aligns with the international geoindustrial policy. If domestic policy reforms start paying off in external geographies, then expect continued meaningful reform, but if geoindustrial and domestic policy fail to harmonize then European and American firms could calling foul as subsidies creep back in.

Old capacity and subsidy problems will necessarily follow state funds to support innovation and transitions into higher value-added manufacturing. For example, new energy vehicle subsidies are to be phased out from 2020. This is likely to result in a rapid overinvestment in low-end capacity now and a tailing off of R&D investment just as the industry would require technology advances to push new frontiers post-2020. Likewise there is as yet no clear plan for dealing with new overcapacity cycles developing in robotics manufacturing, with clear calls for MIIT to develop a regulatory plan to avoid current subsidies sowing the seeds of future overcapacity problems.

Current nibbles around the edges of serious SOE reform are unlikely to be transformed into holistic in-system institutional changes in the industrial structure. The sheer scale of cleaning up China's industrial production institutions without wholesale private ownership, and the bankruptcies that that would necessarily entail, mean that for the second Xi administration, institutional SOE reform will largely be viewed through the ability of large central SOEs to compete abroad.

Most economic analyses of the rise of China focus on Keynesian macro accounting — that is, counting what is there. Most international relations and security studies analyses focus on the potential of China's impact on the world — guessing what might be. However, in order to understand the possible future trajectories of China's industrial economy and trade policy, analysts should examine extant policy, regulatory, and legal documents throughout the 2018-2022 period and consider the personal politics behind each of the policymakers. Focus on the leadership and policy trajectories of the trade and industrial policy matrix are critical to understanding and planning for China's impact on global markets and international trade.

How China's Poorest Province Became a Political Kingmaker

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Chen Min'er's promotion once again signals Guizhou's importance as a political proving ground.

By Tristan Kenderdine
July 19, 2017

The Diplomat

Sun Zhengcai has lost his seat as Party secretary of Chongqing, the southwestern regional capital of both state industrial policy and Party political power, and is likely to be culled from the Politburo ranks. Chongqing's seat in the 25-person Politburo will fall to Sun's replacement, Chen Min'er. Sun Zhengcai, along with Hu Chunhua, are two young members of the central Politburo, only 53-years-old and allied with the Hu Jintao Shanghai clique. At the beginning of the first Xi administration they were earmarked for future Politburo Standing Committee (PBSC) seats. Now the wagons have circled around Xi Jinping as the central administration looks to groom an alternate future leadership contender. But Sun being replaced by Chen is not a simple matter of personnel politics; it is tied to deeper institutional and regional power structures.

Chen is now assured of a Politburo place in the 2017 reshuffle. If not promoted directly to the PBSC this term, he will likely be there in 2022, quite possibly as chairman. He moved up to Politburo-seat-yielding Chongqing from his post as Party secretary of Guizhou, a small, industrially backward, poverty-ridden inland province in southwest China, outside or on the fringes of the Chinese state for most of imperial history. Guizhou is the "hospital pass" of provincial Party politics — mired in structural poverty, with development bottlenecks at the village-level, often below the formal public administration architecture. The urbanization that has transformed village poverty to industrial comfort in other parts of China has not so much failed in Guizhou as been designed to fail. Guizhou has been an institutionalized economic input into other provinces' development.

So why is Guizhou the kingmaker of contemporary Party politics?

Rich in mineral and water resources, Guizhou was orphaned from coastal province growth yet formed the resource backbone for the coast's industrial development. Through the 21st century boom it has relied on power generation and traditional industries but is littered with the corpses of wrecked cement and steel-based government projects: bridges, roads, railways, and apartment farms. However, progressive policy and poverty coexist in Guizhou; the province is a central Party policy testing ground where policy failure has little consequence.

Guizhou has also long been a Party personnel testing ground. A stint in impoverished Guizhou is a proven step backward to move forward in the central Party architecture.

Many former Party secretaries of Guizhou have gone on to take center stage in Beijing. Party Secretary Zhu Houze was a famous Guizhou native, more scholarly and literary than other Party-climbing ring-ins; he became head of the Central Propaganda Department in 1985. At the department Zhu enacted the "policy of three broads," meaning to be broadly generous, tolerant, and relaxed in matters of public political discourse. Extended to all media this created a historical bubble of independent thought and writing under Hu Yaobang.

The most famous of all Guizhou Party secretaries is, of course, Xi's predecessor, General Secretary and President Hu Jintao, who served as Party secretary of the province from 1985-1988.

Another former Guizhou leader, Li Zhanshu, currently the Communist Party's General Office director, is a possibility to be promoted to the PBSC at the 19th Party Congress. Li was marked for a quick rise to power after being positioned as Guizhou Party secretary from 2010-2012, while being the only one of the 167 alternate members of the 17th Central Committee of the Communist Party of China not within the top 206 cadres of regular membership.

More recently, Zhao Kezhi, another likely candidate to ascend to Politburo in the 19th Party Congress, held stalwart positions as Party secretary of Hebei (2015 to present) and Guizhou (2012-2015), moving up directly from Guizhou in 2015 to replace Zhou Benshun, who was placed under investigation. Zhao was also Guizhou's governor under provincial Party Secretary Li Zhanshu from 2010-2012. He has also been provincial vice governor under Zhang Gaoli in Shandong and under Li Yuanchao in Jiangsu.

Chen Min'er himself took over as Guizhou Party secretary from Zhao Kezhi. Chen cut his political teeth during a 30-year career in Zhejiang, firmly putting him at the forefront of the Zhejiang New Army, a group of Party loyalists to Xi who all emerged from the coastal province's political nexus. While in Guizhou, Chen marshaled a cohort of Party talent, many destined for sixth generation leadership. These include Guiyang Party Secretary Chen Gang, Politics and Legal Affairs Commissar and Guizhou deputy Party Secretary Chen Yiqin, Guizhou Vice Governor Qin Rupei, and Guizhou Economic Information Commission Director Ma Ningyu. These are all personnel to watch for future central leadership positions.

Chen Gang was sent to Guiyang, the provincial capital, on a mission in 2013 to establish a big data center, to pull the province's industrial development forward through the information communication sector. He had previously led Beijing's Chaoyang District and set up Zhongguangcun, Beijing's ICT innovation hub. Chen is a political climber, well positioned for a return to Beijing after his tour of Guizhou and likely to climb to Politburo level by the 20th Central Party Congress in 2022. Chen's strategy for Guiyang has been to "overtake on the curve," that is, to leapfrog more advanced provinces through technology.

Where previous Party policy pilots have focused on bridge-building and agricultural industrialization, the round of policy upgrades under Chen Min'er and Chen Gang focused on internet infrastructure, developing Guizhou's capital Guiyang as a cloud computing center. Science and technology parks are the key economic institutions here and are used to do the work of coastal provinces' special economic zones. National development zones such as Gui'an New Zone and Zhongguangcun Guiyang Science and Technology Park account for around 20 percent of domestic exports and inward FDI. It is these state economic institutions, not firms, we should watch to understand the political economy of Party economic policy and personnel tournaments in provincial China.

These technological development projects are the 13th Five Year Plan equivalent of the cement-development championed by previous Party leaders in Guizhou. And these policies create an ideal testing ground for future Party talent to compete in the provincial economic development tournament system. Against arguments that project-driven steel and cement-dependent industrial development is better than rural poverty, one of China's key economic architects instead labelled the Chongqing model "a disaster." Chen bet his career on a different approach, and it's paying dividends.

Administratively, Guizhou is stuck in a patron-client relationship with the central Party apparatus. Guizhou is a policy testing ground for central experiments and projects. Any harm to the polity that any policy brings has zero impact on the legitimacy or efficacy of the central government in Beijing.

State development of the nexus between FDI, industrial output, and state industrial zones has been a core feature of the East Asia development and governance model. But nowhere is the local governance structure less responsible for policy failures at the local level nor more

rewarded at the central level than in China's public administration and its policy testing at local levels of government.

That Sun Zhengcai was to be sidelined is not news. For those paying close attention, Chen Min'er has been an obvious choice to rise quickly. Guizhou is one of the poorest provinces in China, but as a policy testing ground it is a tour of duty for those destined to climb higher in the central bureaucratic hierarchy. To get to the heart of the cadre calculus of the Party architecture, watch the industrial structure and the colocation of industrial clusters and political power.

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Geopolitics and Foreign Policy

China's Technoindustrial Policy Is More Soviet Retro Than Japan Innovation

In science and technology innovation, closed markets, proprietary standards, and ideologized scientific research policy are a recipe for retrogradation.

By Tristan Kenderdine
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The Diplomat

Following from the Fifth Plenum Communique, which sketched the form of the coming 14th Five-Year Plan, the China Communist Party released two more major technoindustrial plans, a fuller Central Committee proposal on the 14th Five-Year Plan and 2035 Long-term Goal, and Xi Jinping's interpretation of the proposals. This should be the blueprint for China's technoindustrial policy for the 2022-2035 period. However in substance, the policy proposals are more rhetoric than robots.

While United States policmakers have shunned industrial policy for the past two decades, Senator Marco Rubio has argued for countering China's industrial policy with a new U.S. industrial policy. The European Union has long utilized industrial policy principles for its economic development plans, given the uneven economic development among member states. And 2020 is seeing an acceptance that neoliberalism has failed to economically develop any new states this century, while hollowing out the structural bases of the industrialized economies.

However industrial policy and technoindustrial policy are better tools for catch-up economic development than for leading innovation. In science and technology innovation, closed markets, proprietary standards, and ideologized scientific research policy are a recipe for retrogradation. China now in 2020 is more like a hybrid form of what Japan and the Soviet Union were in 1986 – a real-estate investment driven bubble economy, which has defied the odds to become a world leader in some technology areas; alongside a creaking, massively geographically distributed, industrial command economy production model that is policy-prioritizing high-technology breakthroughs but still dependent on unreliable or inefficient energy and labor inputs.

Where Japan used technoindustrial policy to economically develop and then to converge with the global economy, the Soviet Union's industro-and techno-nationalist policies led it into a domestically-dependent planned economy dead-end. But where Japan and South Korea at comparable stages of development opened to the world more, and gradually eased off their techno-industrial policy and let *zaibatsu* and *chaebol* firms compete in the global market, China is now closing off more and becoming more internally dependent, like the late-stage Soviet Union.

For the Soviet Union, Japan, and now China, industrial policy is always technology policy. In the Northeast Asian development model, industrial policy was not simply steel and cement but the development of institutions such as Fujitsu, Samsung, or TSMC that could bridge technology systems into the integrated systems of aircraft and the technoindustrial infrastructure of semiconductor foundries. It is a continuous, iterative process of developing known paths in industrial systems.

While the science and technology goals change, the economic structural determinism does not. Japan, South Korea, and Taiwan all followed non-Marxist historically-determined economic development agendas. Their economic development strategies overcame known historical path-dependencies in economic development. It was this historical school of industrial policy as economic development that has lifted people out of poverty in China too, not the Chinese

Communist Party.

China's economy is now undergoing a structural process of introducing a dual circulation model to rely more on domestic consumption while still keeping a window open to foreign markets. For technoindustrial policy this means reconfiguring the same institutional structures that were utilized for trade and industrial policy in the reform era. China's 2035 Vision problems are going to face the same path-dependency issues that resulted in productivity drop-offs in Japan in the 1980s and the Soviet Union in the 1970s, with institutions that failed to wholly solve the social, economic, and political problems of the growth period.

China's persistent economic institutional problems include an over-reliance on real estate to maintain growth, poorly formed capital markets (meaning that allocation of capital is skewed toward state-owned or state-supported enterprises), a huge reliance on coal and a dirty industrial base, and reliance on a state-owned enterprise sector for most actual service provision.

China's 14th Five-Year Plan is a challenge to global economic and technology systems, but its technoindustrial policy is misdirected. It should be turned toward its rural poor, its undeveloped internal markets, its poor logistics system, its environmental systems, and other areas where catch-up, remediation, or known path-dependencies are used.

China's reliance on technoindustrial policy in the 14th Five-Year Plan is not bad policy because it is industrial policy. It is bad policy because it shuts off the institutional avenues to economic growth and technological innovation, while turning to a reliance on domestic institutions, which have historically yielded industro-nationalism, techno-nationalism, and in the case of the Soviet Union, eventual economic collapse.

Industro-nationalism and techno-nationalism are political institutions built on economic institutions, and they have poor aggregate outcomes for both individuals and for global peace and prosperity. The political risks of maintaining these industro-nationalist economic institutions into a new phase of techno-nationalism will outweigh any economic benefits in the nationalist "new era."

Unfortunately for the economic aspirations of the people of China, the Party's 14th Five-Year Plan policies of domestic dependence and shunning of global markets, capital, and technology look more like the Soviet Union's 1920s economic policy than even the best-case scenario for China of a 1990s Japan of low to no growth and an acceptance of the limitations of technoindustrial policy.

China's Disjointed Foreign Policies Concede Agency on Kazakhstan Discourse Control

Tristan Kenderdine
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Russian International Affairs Council

The most credible scenario of the cause of the January Kazakhstan unrest is an abortive attempt at a palace coup from intra-Nur Otan factional clan infighting. The ongoing political purge of the Nazarbayev clan members situated in top positions is indicative of who the victorious Tokayev faction blames. Discussing this transparently though is neither in the interest of the ruling Nur Otan party, China's CCP or United Russia. Operating within spaces of shadow truth then has meant that each of the three state institutional actors has had to craft competing narratives of events, actors, their agency and both the real and the desired outcomes. Constructing and controlling these narratives means first establishing and defending discourse formation control. Assessing the relative success of the three state actors' abilities to project narratives and control discourse, China has come a distant third to not even particularly convincing or strong narrative formation by the dominant Russia or the subordinate Kazakhstan.

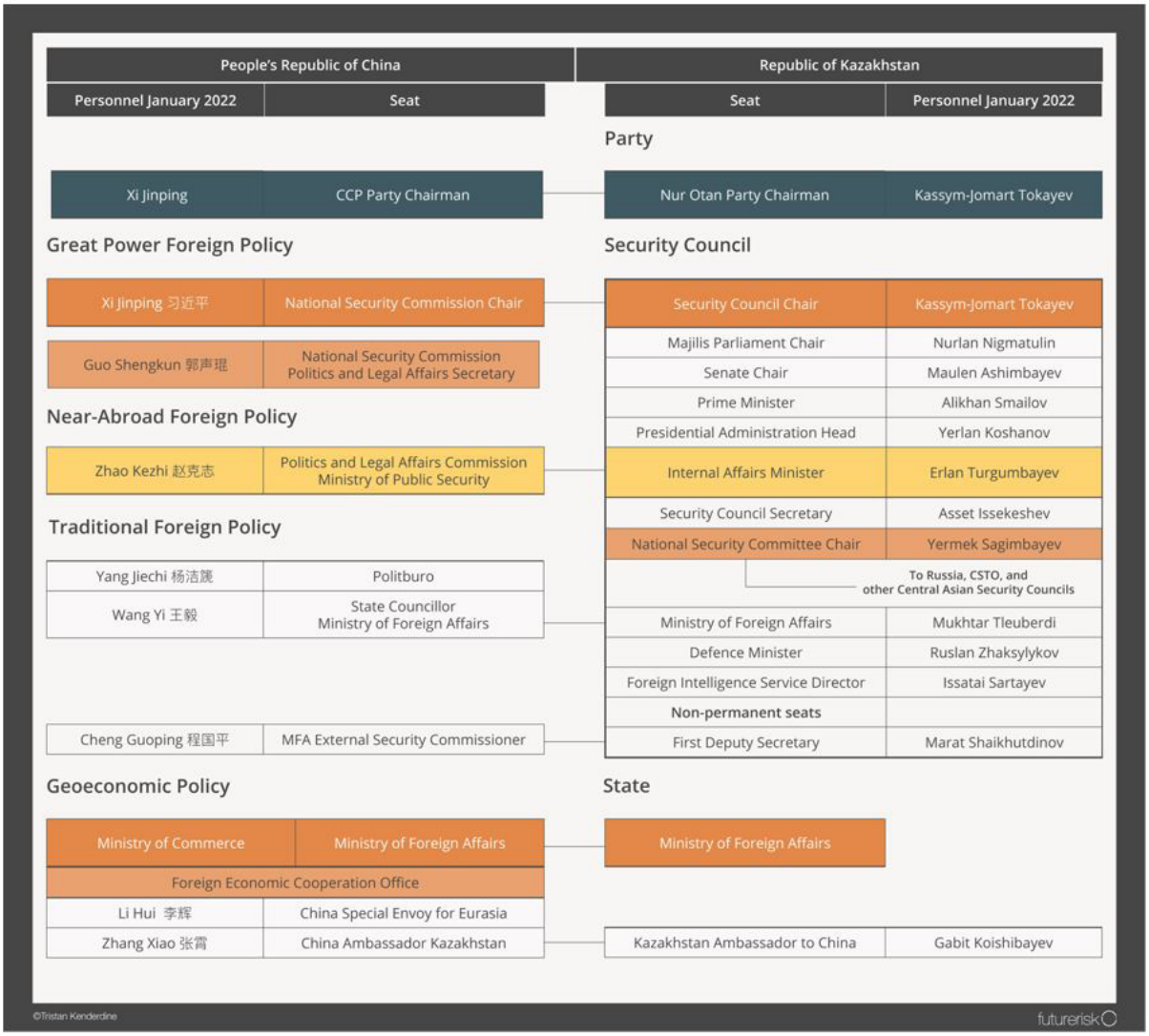
Actual narratives on domestic Kazakh politics center on the politically falling or self-exile of members of the Nazarbayev clan. During the violence though, the Tokayev faction of Nur Otan Party maintaining rule over Kazakhstan immediately opted for a narrative of foreign militants and terrorism. This line from the Kazakhstan capital to explain both the use of violence against the government and the government's use of violence, remains unconvincing. Defining the threat as foreign was a necessary step to legitimise CSTO deployment, with a secondary path-dependency of having to identify foreign actors. Neither the foreign designation nor the identification of terrorism are in any way convincing. However caught between a domestic audience and the pseudo-legality of the CSTO, the Tokayev discourse is limited in its imaginatory scope. Kazakhstan's discourse has thus centred on shifting agency away from both the factional power struggle as well moving culpability away from the incensed local citizenry whose initial legitimate protests appear to have been hijacked by political opportunism.

Russia's emerging narrative has been to position its intervention rhetorically against an overt 'revolution' and implied Turkic nationalist elements, a deft game, attempting to meld an entirely domestic Kazakh political event into Russia's wider regional balance of power games with Turkey in Syria, Karabakh, Ukraine and Africa. Outside observers have tended to focus on either Russia's potential remilitarisation of the post-Soviet space or on exploring idiosyncratic perceptions of the Sino-Russian relationship in Central Asia. Neither seem concerned with subnational institutions, their competing frictions, or evidence. While the political theatre of Central Asian authoritarian discourse control fools no one in the domestic audience forced to consume it, it does have the institutional outcome of crowding out space for late-comer discourses to form.

This leaves no space but China's domestic media for the attempt to inject the '*Three Evils*' policy rhetoric into the information stream or to belatedly begin to engage with the easiest of Pan-Islamist rhetoric. China's *Near-abroad* policy towards ethnic Kazakhs in Xinjiang and Kazakhstan alike centres on the outdated *Three Evils* policy language formation. These *Three Evils* of terrorism, separatism and extremism manifest as an acute on the Uyghur and Kazakh ethnic minorities in Xinjiang, stressing the threat to the state from Islam, ethno-nationalism and the largely imagined violent pursuit of separatist causes which utilise either of these symbolic representations of power. However linking the recent Republic of Kazakhstan unrest to China's *Three Evils* proxy rhetoric alienates China from either the Kazakhstan or Russian narratives. China's current foreign policy statecraft is not deft enough to align this anti-Turkic, anti-Islamic

rhetoric with its geoeconomic policy toward Republic of Turkey, a key geoeconomic hedge against Russia in the *Belt and Road* policy. Neither does the discourse blaming domestic Islamic separatism have the agility or grapple or to latch on to the combined Russian and Kazakh narratives. Turkey's Pan-Turkic agenda though does takes a legitimacy hit and a relegation in discourse formation ability due to the Kazakhstan unrest.

China's foreign policy position on the 2022 Kazakhstan unrest seems to have been much the same as with the 2020 Karabakh War, wait to see who emerges victorious, and back the winner. Such persistently reactionary foreign policy though leaves no space for China to pursue long-term geoeconomic policy. It is also at odds with China's concomitant internal security integration policy in Central Asia as well as its Eurasian geoeconomic policy. China's foreign affairs, internal security, and geoeconomic policy mechanisms have thus found themselves institutionally disjointed when focused on this Kazakhstan crisis. The three major sources of China's foreign policy in Kazakhstan are the Political and Legal Affairs Commission, Ministry of Commerce and the Ministry of Foreign Affairs, in that order. They respectively control policy formulation in near abroad internal security, geoeconomics and traditional foreign policy.



China's differentiated foreign policy apparatus and dialogue equivalents in Kazakhstan

Kazakhstan's state foreign policy apparatus is weak, but the counterpart in China is also very weak. The strongest elements of China's Party foreign policy institutions though tend to ignore

Kazakhstan as too small, while the strongest actual connection between Kazakhstan and China is through the domestic security integration framework, between the Politics and Legal Affairs Commission on the China side and the Security Council on the Kazakhstan side.

More widely, China effectively has four disparate but convergent institutional sources of foreign policy institutional sources. Great power politics, the policy weather of which emerges from the Party Leading Groups and Commissions; Near Abroad foreign policy emanating from the Politics and Legal Affairs Commission, traditional diplomacy which operates more as international political theatre, centred on the Ministry of Foreign Affairs, and finally the practical geoeconomic policy which is almost exclusively the foreign policy domain of the Minister of Commerce. While Republic of Kazakhstan is generally too low on China's foreign policy priorities to warrant upper Party attention, China's greatest strength in Eurasian policy development and deployment is in a growing institutional integration with Kazakhstan in internal security. However in traditional foreign policy and concomitant security China is weak to the point of absenteeism in Eurasia. The culmination of this disjointed foreign policy deployment is that China lacks institutional strength to develop discourse in Eurasian foreign policy.

China's Political and Legal Affairs Commission has direct institutional integration with the Security Councils of all the Central Asian states and Russia through the Minister of Internal Affairs or its equivalent liaising directly with the Chinese counterpart. In Kazakhstan Erlan Turgumbayev is at the end of this international security communication line, perhaps suggesting why has kept his place in Tokayev's cabinet. This domestic and foreign security integration between China and Kazakhstan is much more important than any foreign ministry statements. In China, the Ministry of Foreign Affairs has very little power in setting or enacting policy. Where China did exercise agency in the Kazakh unrest though was in the very low ordinate geopolitical games of Uyghur and Kazakh detention, and in reinforcing Kazakhstan economic diplomacy subservience to Beijing.

At the executive level, General Secretary Xi did call Nur Otan Chairman Tokayev expressing support for the incumbent, but this was on January 7, two days after Tokayev requested support from the CSTO thus guaranteeing his Presidency would survive any internal challenge. When there was then no jeopardy in China's exercise of state agency, it was both deferential and directed to the Russian Federation. State Councillor and Foreign Minister Wang Yi's call to Russia's Sergei Lavrov expressing the possibility for SCO forces to be deployed demonstrates the genuflection involved — the hollow offer on January 10 was well after Russian CSTO troops had been deployed with boots already on the ground. On the same day Wang Yi also called Kazakhstan Minister of Foreign Affairs Mukhtar Tileuberdi, where Tileuberdi was expected to pledge support for China's crackdown on Kazakh minorities in Xinjiang. Wang later issued a statement of solidarity with Kazakhstan in an attempt at great power diplomacy, but again this high level China statement only came after both the Kazakhstan domestic power struggle was already over and after the international security order had been established through Russian leadership.

For the Foreign Affairs source of policy, Kazakhstan's ambassador to China, Gabit Koishibayev, also spoke on the January 10 press conference on foreign affairs to assure the domestic narrative centred on China investments in Kazakhstan that the violence and political unrest was under control and that it would neither spillover to Xinjiang nor damage China's economic interests in Kazakhstan. Wang Wenbin, China Foreign Ministry spokesperson also followed up questions on the Kazakh ambassador's positions on 12 January, reiterating that nothing had happened, and that if it had, then it was now over, saying merely that the domestic turmoil in Kazakhstan was caused by local riots which had turned violent. The China state diplomatic apparatus stuck to the line fed to it that there was no internal power struggle in Kazakhstan, maintaining a veneer of loyalty to the Tokayev administration. Hugely unpopular in Kazakhstan, the China ambassador to Kazakhstan Zhang Xiao issued no statement through the unrest and emerged with only a characteristically unconvincing statement of hollow support for the winner

in Chinese media on January 12.

This small China speaking softly with no stick is very different from the grandiose visions and statements of Eurasian geoeconomic predominance which have defined *Belt and Road* analysis. Liu Hui, China's special envoy for Eurasia, with a direct counterpart on the Kazakhstan Security Council in Marat Shaikhutdinov, met with Tokayev in the Kazakh capital in only the end of December 2021, and yet has been absent from the discourse on the current Kazakhstan political turbulence and subsequent Russian stabilisation. Tokayev's expression at that meeting of a Kazakhstan-China 'all-weather friendly relationship' may have proven optimistic — Kazakhstan is at the 'Comprehensive Strategic Partner' level in China's foreign policy hierarchy.

Who China does speak with seriously on the Kazakhstan side though is not in diplomacy but precisely in the world of domestic security which Tokayev has blamed for the attempted palace coup.

For Tokayev's Kazakhstan, a major challenge ahead of consolidating domestic power will be to keep the lifeline economy compliant with the expectations of capital-starved Kazakhstan's international investors, particular its state planned-economy partners. However, if a radically different faction had usurped power and formed government in Kazakhstan, China would not now be in any foreign policy position to assert its economic interests. Not playing a hand and allowing Russia to assume the geopolitical risk may well have been strategic calculation. However, through inaction, China has now narrowed the institutional space to shape either this or future narratives. In an information space already crowded with Russian and Kazakhstan discourse formation there is diminishing space for China's multi-institutional conflicting foreign policy typologies to construct themselves into the Eurasian discourse.

Kazakhstan's Common but Differentiated Institutions of State Power

Tristan Kenderdine
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Russian International Affairs Council

The internecine violence of intra-Party clan fighting spilled catastrophically into the streets of Almaty, opening a window to a clan power struggle which has likely sounded the death-knell of the Nazarbayevs in domestic Kazakhstan politics.

With the Kazakh government stabilized and the Russian-led CSTO force now withdrawing, the political risk scenarios surrounding Kazakhstan domestic political, social, economic, and geopolitical future are still just as opaque, complex, and institutionally multivariate. Tokayev is confirmed as still President and also now heading the Security Council for the first time after ousting Nazarbayev from a lifetime appointment. Forming a new political faction around Tokayev both through the nominally executive cabinet and through the internal control and external security institution of the Security Council though will require serious trade-offs with the now weakened Nazarbayev clan.

The Occam's Razor of the week of social unrest and political and security turmoil was that an as yet unidentified political institution had organized a contingency plan to usurp de facto political control in the country in the event of a 'Day Zero' scenario. A Day Zero scenario is one in which either one or a combination of institutional factors such as a decline elite trust in executive leadership or violent anti-government popular protest create the conditions for an opportunistic seizure of power. With the aging of Nazarbayev, Day Zero scenarios mostly center on his physical incapacity and the willingness or ability of the previous ruling clan to either negotiate a transition from power, abandon their power structures, or fight to retake the dominant clan position.

That the initial protest was a legitimate public upswelling of anger primed by the removal of the LPG subsidy is well established. That the Tokayev government claim that the protests turned violent due to foreign terrorist activity is laughable. And that concurrent with the violent protests there was a power struggle at the top of the Party is almost certain from logical inference. The three black boxes that remain unanswered are: who was the second group within the protesters who turned the movement militant; who constituted which faction in the power struggle; and how much real control did they have over military and police units before the CSTO intervention was enacted? Neither of these may ever be known. Whatever the details of the militia attacks under the cover of protest, the initial public discontent cause of the protests though is now largely inconsequential.

Given what is known, we assessed the institutional outcomes of the various institutional actors involved in the Kazakh unrest. This is built on a series of working analytical positions: that the Kazakh unrest was caused initially by genuine protests, was then opportunistically hijacked by as yet unknown political forces, was not an incident of terrorism, was not orchestrated or enacted by foreign forces or persons, and that whether correctly or not that President Tokayev genuinely believed a coup was imminent, that the political origin of the coup was within his own Nur-Otan party, and that this is what determined the decision to call Pashinyan to invoke the CSTO to deploy Russian-led intervention forces to stabilize the governments hold on power. We categorized each of the institutional actors in the Kazakhstan unrest and assigned them one of four levels of meta, super, ordinate or subordinate political games they were deemed to be playing, and then rated them on a binary of win-lose.

The Russian institutions of state power emerged the strongest from these differentiated

games, with both the Presidential Office and the CSTO attaining political capital without losing anything. For example, the CSTO proved itself to be the dominant political security paradigm in the region, and the CSTO operations at a military level were wholly successful, professional, competent. Whereas the regional, poor ethnic Kazakhs who initiated the initial protest against rising gas prices lose two ordinate and subordinate changes: no meaningful change in resource governance in Kazakhstan, and they remain orphaned from the economic growth model. Several bifurcations emerge from such an analysis, such as the differing outcomes of institutions responsible for discourse control in Russia and Kazakhstan. Analyzing Republic of Kazakhstan as having lost all games aside from maintaining institutional integrity cedes discourse formation control to the Russian institutions which enacted state power while Kazakhstan could not. Micro bifurcations exist too, for example both journalists and activists did not achieve their superordinate goals, however simply surviving and not being targeted in retributive purges is an ordinate survival win. The greatest differentiated ordinated win to loss matrix though is between the Nazarbayev Clan and the Tokayev Faction. While the Tokayev Faction has emerged still in power, both political institutions have suffered heavy losses, while still enjoying some lesser ordinate game wins.

Superordinate Insitutional Games in Janaury 2022 Kazakhstan Unrest

Institution	Game	Ordinality	Result
Russia Presidential Office	Shadow capital derived from Kazakhstan ceding security agency to Russia	Meta Ordinate	Win
	Discourse formation control	Superordinate	Win
	Realist hard power demonstration of strength	Ordinate	Win
CSTO Political Structure	Regional political supremacy	Superordinate	Win
CSTO Command Structure	Real-world operational competence	Superordinate	Win
Republic of Kazakhstan	Maintain discourse formation control	Meta Ordinate	Lose
	Remain institutionally intact, avoid civil war or outside aggression	Superordinate	Win
	Maintain independent foreign policy	Ordinate	Lose
	Maintain internal integration of military, paramilitary, police, intelligence	Ordinate	Lose
	Public respect/fear of state institutionalised power and violence	Subordinate	Lose
Tokayev Faction	Independent discourse formation control	Meta Ordinate	Lose
	Independent jurisdiction on Kazakhstan sovereignty	Superordinate	Lose
	Create monopoly on Kazakhstan presidential powers	Ordinate	Win
	Solidify trusted domestic political faction	Ordinate	Lose
Nazarbayev Clan	Maintain national political and economic predominance	Superordinate	Huge Loss
	Maintain monopoly on institutions of state power and violence	Ordinate	Huge Loss
	Maintain monopoly on Kazakhstan presidential powers	Ordinate	Huge Loss
	Maintain personal oligarchic wealth inside and outside country	Subrdinate	Win
	Individually physically survive death and imprisonment	Subrdinate	Win
Kazakh Oligarch Class	Maintain supreme authority over Kazakhstan government	Meta Ordinate	Lose
	Remain untouchable class	Superordinate	Lose
	Maintain oligarch class system and individual's status	Ordinate	Win
	Avoid individual purges	Subordinate	Win
'Day 0' Factional Elites	Fulfil planned political-change objectives	Ordinate	Lose
'Day 0' Milita Groups	Fulfil planned operational objectives	Ordinate	Win
Urban Kazakh Citizens	Maintain socio-economic status	Ordinate	Neutral
	Maintain access to daily economic goods (food, transport, communications)	Subordinate	Lose
Independent Journalists	Report freely on newly developing government	Superordinate	Lose
	Not be entirely silenced in coup aftermath	Ordinate	Win
Political Activists	Have say in formation of new government	Superordinate	Lose
	Survive political purge	Ordinate	Win
Regional Kazakh Citizens	Challenge central government and policies	Ordinate	Lose
	Socio-economic needs met	Subordinate	Lose

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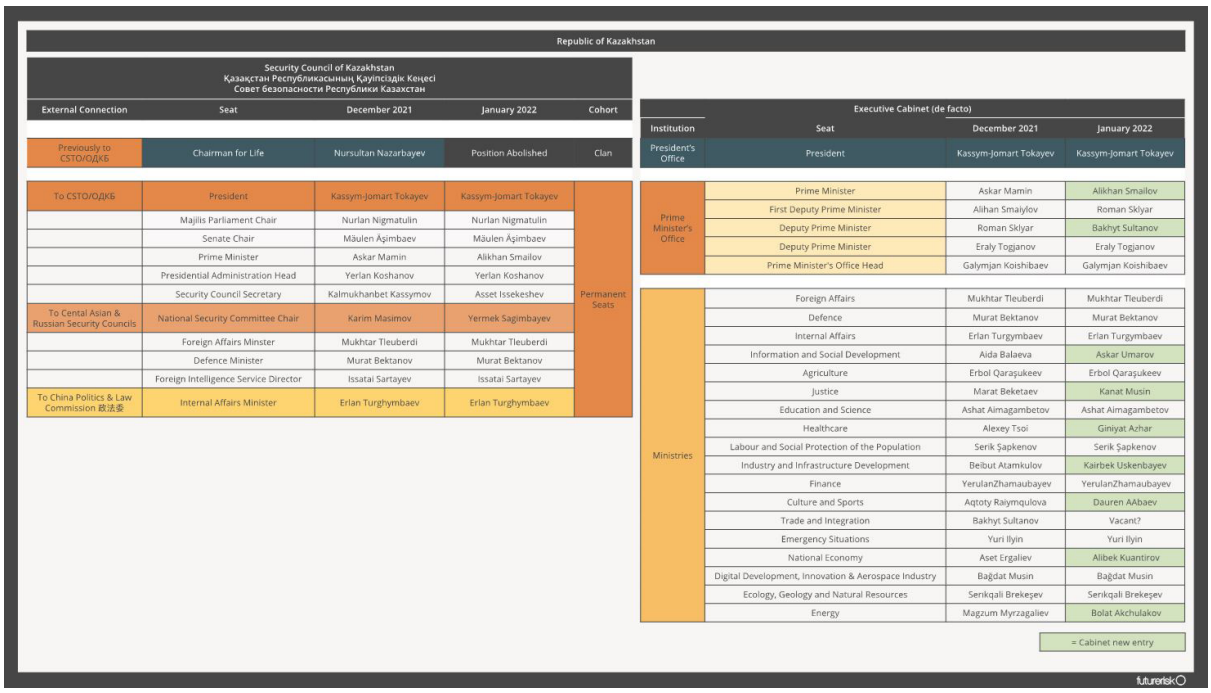
Ordinated Institutional Games played, won and lost in the Kazakhstan unrest



Kazakhstan's Dual Executive Power Structure and January Seat Reshuffle

Kazakhstan's new executive cabinet though remains very similar to the previous one. Tokayev though is still too politically weak to carry his own entourage. To hold power now, he must continue to make political compromises with personnel who benefited under the Nazarbayev clan's rule. We have already seen with the new Security Council and cabinet picks. He cannot move strongly against the entrenched elements of the Nazarbayev clan whom he still needs to form government, and he now has the added pin of Putin backstopping security policy. Where we can expect greater changes though are in the Security Council and in a likely future reform of the KGB-successor agency, the KNB internal security service as well as other institutions of internal security and intelligence which operate in a gray zone between military, state and party. Can Tokayev now balance creating intra-party stability, executive control of the state ministries, maintain control over the military without Russian assistance while simultaneously reforming the domestic security apparatus? Erlan Turghymbeav keeping his position as Internal Affairs minister with its position on the Security Council is perhaps an indication of the trade-offs having to be made. While it appears the noose is tightening on Nazarbayev clan members, there are many Nazarbayev loyalists within the old administration who still hold a place and a future in the Tokayev era.

Without a clear smoking barrel of the failed coup attempt though or any clear details yet of a retributive political purge, assessing the various failures of the unrest at national, party, domestic security and personnel levels remains clouded by the extremely opaque nature of the elite leadership in Kazakhstan. Coming to power in 2019 on aspirations of ruling as an economic authoritarian though, any position Tokayev's now takes on building the national economy or reforming the oligarch class seems likely to be empty rhetoric. The major practical task ahead will be institutional reform of the KNB and related structures. If Tokayev can restructure the internal security apparatus this will feed into stronger institutionalized control over the National Security Council and a stronger, perhaps more competent grip on the organs of state power in Kazakhstan. From this position, Tokayev might be able to achieve some policy goals designed to assuage popular discontent. Any material benefit to the people of Kazakhstan looks years away though, and despite humiliating himself in front of Russia and China, the new Tokayev may yet prove much the same as the old Nazarbayev.

Northern Corridor for Central Asia-Arctic Ocean Transport Access

By Tristan Kenderdine
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The Arctic Institute

Russian rivers famously 'go the wrong way.' The United States and Canada have the beneficial hydrography of the interconnected Great Lakes system and the Mississippi, and Europe has the Rhine, Elbe, Danube, and Dnieper inland waterways which gives even landlocked states such as Switzerland and Austria direct access to the ocean and the favourable costs that maritime transport bring to trade. But for Kazakhstan, one Russian river does 'go the right way.' The Ob'-Irtysh river system penetrates deep into the heart of Eurasia, offering Central Asian states an avenue for directly accessing ocean trade lines.[1)]

The Russian Federation stands to be a net beneficiary of climate change. Melting Arctic multiyear ice is rapidly opening possibilities for Northern Sea Route (NSR) operations with more ice-class vessels, fewer icebreakers, more LNG transit and containerised transport, and more international transshipment ports and multimodal port operations. However the developing geoeconomic competition in Eurasia between China, Russia and Central Asian states means that inland river transport also has a geoeconomic security aspect.[2)]

An increase in NSR traffic offers a natural piggy-back development possibility for opening Eurasian inland river transport to connect to the Arctic with less frozen-river time and more navigation days per year. A warming climate only makes more of Eurasia accessible to maritime transport and inland waterway navigation. Russia's climate change geographic capital can thus be extended to offset the traditional 'geography tariff' borne by Russia's neighbours, in Kazakhstan and Mongolia, and deeper into Central Asia and China.

While these inland waterway connections could synchronise with expanding trans-Arctic shipping, any development of inland river or Arctic Ocean transport systems carry water security, transboundary security, and ecological security risks. Arctic transport development will also likely not only encourage the reemergence of regionalisms, and restrengthen geoeconomic regional agendas, but will also necessitate institutional strengthening of environmental monitoring, mitigation and remediation systems. The advance of a Eurasian inland waterway transport system will thus have serious consequences for both geoeconomic and environmental security for the polities and biomes which development may service.

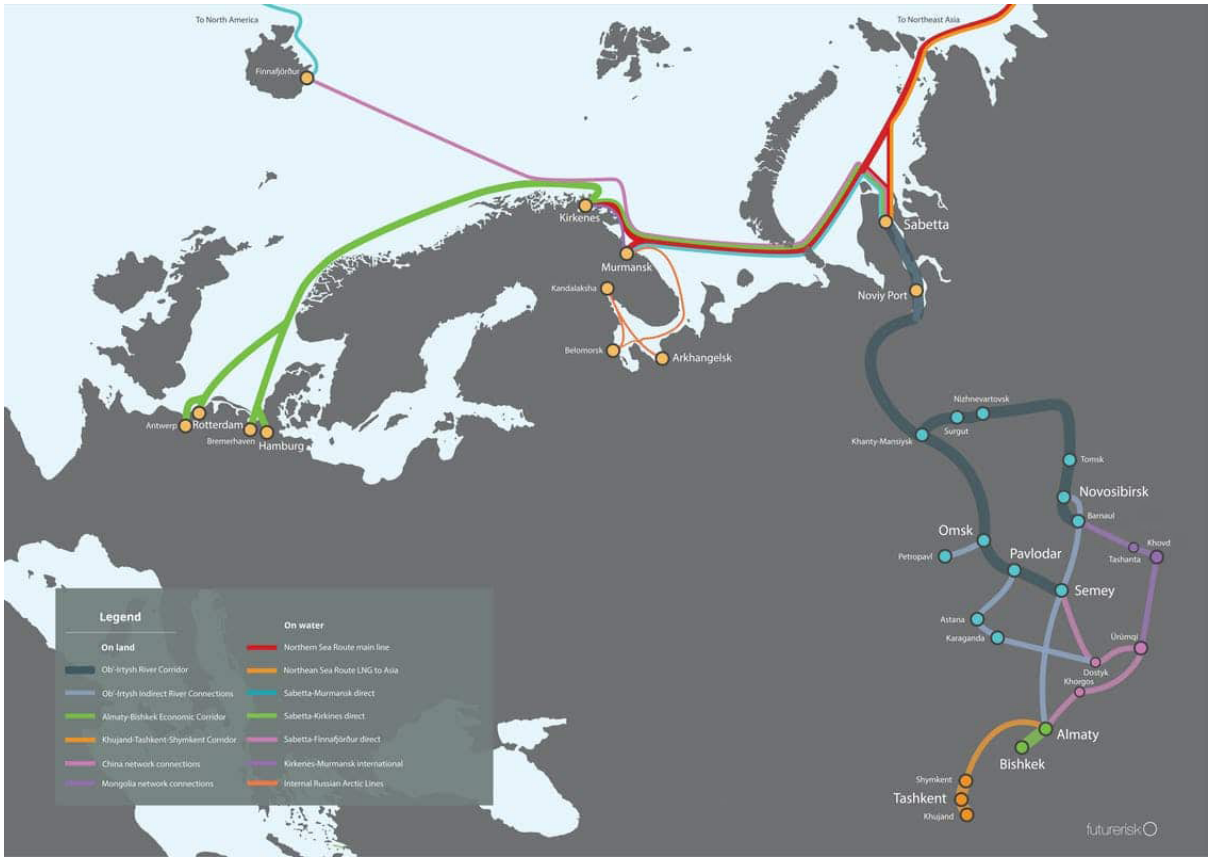
Inland Transport Development in Eurasia

Kazakhstan's inland waterways are extremely underdeveloped. Kazakhstan has over 4,000 kms of navigable inland waterways, comparable with the Western European industrialised economies of Germany and France. While Kazakhstan could never rival a state like the Netherlands for inland waterways, the natural geography presented is similar to Switzerland on the Rhine or Austria on the Danube: deep inland developed economies with access to the global ocean for trade.

China's *Belt and Road* transport policies in the Central Asian economies have come with media hype on the supposed benefits of the shorter transit times offered by the China Rail Express intercontinental rail corridors connecting China and Europe via either Russia or the Black Sea.[3)] The argument is that there is sufficient demand for goods with transport time needs shorter than maritime but cheaper than air freight, and that these increased transcontinental rail services will help to build economies of scale.[4)]

However, for the Central Asian economies on the East-West facing Eurasian rail network — Kazakhstan, Kyrgyz Republic, Uzbekistan and Tajikistan — transit time is far less important than

transport cost. Maritime trade is vastly cheaper than rail or road transit and almost universally preferable unless cold-chain storage or just-in-time inventory supply chain management are important. The consumer pays the transport tariff, with the Central Asian consumer consequently paying a tariff simply due to geography.



Tristan Kenderdine Kazakhstan inland waterway connection to Northern Sea Route.

The cost of Twenty-Foot Equivalent Unit (TEU) container imports into Kazakhstan's Aktau port or Turkmenistan's Turkmenbashi port are already comparable with Mediterranean, Black Sea, and Indian Ocean transport costs. If Central Asia's consumer cities were located on the Caspian Sea, then transport costs would be comparable to Europe. However, rail and road transit to inland cities in the far east of the region in Kazakhstan, Kyrgyz Republic, Uzbekistan and Tajikistan contribute well over 100 percent of the cost of transporting a TEU from Europe to the Caspian Sea.

A *Northern Corridor,* as a North-South axial multimodal transport corridor reaching Uzbekistan, Tajikistan, Kyrgyzstan and Kazakhstan towards northern Siberia at the Kara Sea connecting to the NSR, could link the region to global ocean trade. This route would always be more expensive than connecting two warm-water ports in the Atlantic, Indian or Pacific Oceans. But development of a Eurasian inland waterway transport system to connect to the Northern Sea Route could become a second-tier alternative for Central Asia to reach global markets.

A New Vector for the Northern Sea Route

The dearth of inland waterway transport in post-Soviet economies is not due to lack of favourable geographical conditions, political vision, or poor built-environment. Rather, inland waterway development throughout the former Soviet Union and its satellites has faced a

decumulation period. While inland waterway use in Poland, Romania, and Hungary collapsed after 1991 and started recovering under UNECE development, the Soviet Union's quite active intra-Arctic shipping and inland waterway transport systems that crashed, have yet to recover under independent Russia and Kazakhstan.

Central Asian economies are traditionally analysed as landlocked, however, the combination of inland water transport on the Ob'-Irtysh river system and a thawing Arctic Ocean, making the Northern Sea Route viable, opens the possibility for increased maritime transport directly from Kazakhstan to both Europe and East Asia. The Northern Sea Route connects Russia's Sabetta port with the Northeast Asian shipping lines centred on Dalian, Qingdao, Zhoushan, Yokohama, Busan, and Kaohsiung and with the North European ports, Rotterdam, Hamburg, Bremerhaven, Antwerp, Zeebrugge, and Le Havre. For Central Asian economies to have access to these shipping lanes at costs comparable to those enjoyed by European inland economies would be a huge economic advantage. If it works for the Rhine and the Danube, why are the Volga, Don and Ob' so underutilised?

Even without the prospect of the *Northern Sea Route* opening an inland waterway to direct maritime trade, greater development and integration of Russia's inland waterways with Central Asian economic and transport development would be desirable. And yet, the Ob'-Irtysh river system has inadequate port infrastructure, small fleets, ageing infrastructure, poor natural river course maintenance, and nearly no canalization.

This route would likely never become a primary trade route for Kazakhstan or the other Central Asian States. But maintaining the possibility of cheaper, Summer, water-borne trade into the Eurasian landlocked economies is a prospect which could save Central Asian consumers the costs of the natural geography tariffs they are currently subject to. Multilateral economic development agencies already support development of second-tier transport alternatives, such as the CAREC Corridor system's extant use of Afghanistan, Turkmenistan and Pakistan as viable transport routes.

Expanding Sabetta port infrastructure into containerised shipping opens the possibility for intra-Arctic transshipment infracture, connecting transhipment ports in Kirkenes and Finnafjörður in Europe and the new LNG transhipment port development in Kamchatka.[5)] Development of multimodal containerised transport towards Europe is the most viable, with shorter distances, advanced multimodal infrastructure and the development of North-minded logistics projects such as the Arctic Corridor.[6)]

The challenge for Kazakhstan and other Central Asian economies is not the NSR. Rather it is the need to organise, plan and invest in road, rail and inland waterway transport infrastructure to develop a *Northern Corridor* connecting Kazakhstan's existing national logistics network, the Bishkek-Almaty corridor and the Tashkent-Shymkent-Khujand corridor. Connecting Kazakhstan, Kyrgyz Republic, Uzbekistan and Tajikistan into an Arctic Ocean maritime transport vector focused on a containerized port in Sabetta would leverage the ongoing developments of intra- and trans-Arctic shipping.

Geoeconomic Integration and Security

Despite the hype surrounding *Belt and Road* investment in Eurasian rail transport, the European Union provides more assistance to Central Asian transport development than China, and UNECE offers a cleaner model of multilateral transport integration and standardisation.[7)] European transport integration with Central Asia and Eurasia is an economic good, and one which aligns with the direct assistance and other European Union and European state mechanisms for economic development assistance for Central Asian economies.

The existing international legal framework and multilateral institutions favour a regionalist approach to European transport integration with Kazakhstan, Kyrgyz Republic and Uzbekistan. Kazakhstan should sign, ratify and accede to the *European Agreement on Main*

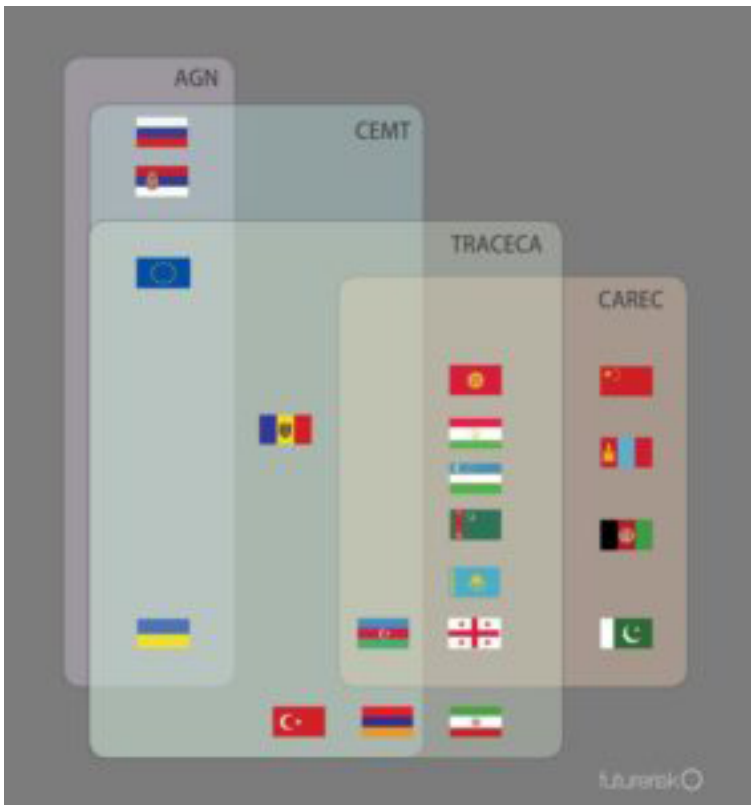
Inland Waterways of International Importance thereby joining the multilateral standard for inland waterways governance first developed by UNECE and which the Russia Federation now also works under.[8)]

This would not only provide clear pathways to industrial standardisation and regional integration but would also encourage statistical collection by the Central Asian economies allowing for aggregation at the European Union and UNECE levels. Regional institutions are likely to increasingly replace globalisation institutions as globalisation retreats. For a functional inland waterway regionalism to work with Russian and Central Asian partner economies, the clearest path to success is to join the existing regional forms of multilateral, international law based institutions.

Central Asian economies remain a geoeconomic periphery. From a China perspective, developing road and rail links from Kashgar and Khorgos to Central Asia, Pakistan and Afghanistan is geoeconomically strategic. However, for genuine market-based transport systems to deliver lower goods costs to consumers in Kazakhstan, Kyrgyz Republic, Uzbekistan and Tajikistan, regional transport development plans must focus on strategies which benefit the independent states of Central Asia.

Focusing on cluster development rather than economic corridors should prioritise exports and manufacturing centres in the clusters along the corridors. Multimodal transport and economic development are complementary. The development of modal economic clusters and linear economic corridors in Central Asia can both agglomerate capital and cumulatively attract secondary and tertiary industries. Investing in Kazakhstan's dilapidated inland ports at Pavlodar, Semey and Ust-Kamenogorsk would be capital investments that could deliver multiplier benefits across a range of industries and exports, as well as addressing Kazakhstan's import cost problem.

Multiple second-tier transport alternatives such as the *Northern Corridor* can become economic vectors for Central Asian economies, connecting across both the Arctic Ocean and the Caspian Sea. Any investment in transport development in Central Asia's Arctic vector should prioritise the economic benefit of the people of Tajikistan, Uzbekistan, Kyrgyz Republic and Kazakhstan. However, these investments should be measured in increases in speed and tonnage; and decreases in freight prices. Development of transport corridors should not depend on the grand geoeconomic plans of either Russia or China.



Tristan Kenderdine Euler diagram of European-Eurasian transport integration.

The *Northern Corridor* opens greater possibilities for economic development for these land-locked Central Asian economies. And it offers the European economies a simple path towards integrating new market-focused economies and consumer populations in Central Asia. Reintegrating Kazakhstan's broken inland waterway system would benefit consumers all along the transport corridor. The trade potential for opening Central Asia to Europe and East Asia via an Arctic Ocean shipping vector changes the dynamics of the current multilateral assistance approach to economic development in the region. For Central Asian trade and logistics development, the *Northern Corridor* provides both an economic and a geoeconomic alternative to either the dependency of land-locked economic development or the false promise of the *Belt and Road*.

Tristan Kenderdine is Research Director at Future Risk and Executive Editor at Hansa Press.

Middle East LNG Hedging in China's Energy Diplomacy

Increased demand for energy will give China greater and greater dependency on – and sway over – the world's LNG producers.

By Tristan Kenderdine
March 12, 2021

The Diplomat

China's energy mix is currently changing to include more natural gas and liquefied natural gas (LNG). Combined piped gas and ship-borne LNG currently comprise around 8 percent of China's energy mix, half of which is imported. Import sources are roughly evenly split three ways between the Central Asian Gas Pipeline crossing from Kazakhstan carrying mostly Turkmenistan gas, the Russian Power of Siberia pipeline gas, and ship-borne LNG, with China having a long-term stake in Russia's Arctic Yamal LNG project.

China's geoeconomic policy around natural gas imports has clear potential for politicization, with impacts on both the supply countries and for other buying countries like Japan. China has previously politicized the sell-side of strategic commodities, banning rare earth exports to Japan, and has consistently politicized the buy-side of Australian iron ore under the China Iron and Steel Association cartelization scheme. Creating new buy-side dependencies in LNG and piped gas creates new forms of institutional power through which to exercise foreign policy via strategic price-setting and import volume control.

Imports of gas, though, are already showing signs of greater institutional control and monopolization than in the iron ore trade. China's gas imports are increasingly coordinated by a single entity, PipeChina. Established in 2019, PipeChina has begun to absorb China's gas infrastructure from the three existing upstream oil and gas state owned enterprises (SOEs) with the ostensible goal of marketizing the midstream to promote market competition for downstream SOEs, local governments, and private enterprises to lease capacity. PipeChina has already taken over the majority of China's LNG regasification terminals, with three additional large regasification terminal projects to come under its control upon completion. When Shandong's Longkou Nanshan LNG facility comes online, PipeChina will control 35.6 Bcm of coastal regasification facilities, more than three times the combined capacity of remaining LNG terminals, as well as the 55 Bcm Central Asia Gas Pipeline and the 38 Bcm Power of Siberia pipeline.

China's wider hydrocarbon and petrochemical geoeconomic access policies are also more internationalized than previous industrial commodities under the rapid growth era. China's petrochemical industry is organized into a cartel under the China Petrochemical International Capacity Cooperation Enterprise Alliance – effectively an attempt to cartelize both supply and demand-sides to create a whole value chain approach to achieving strategic access to energy resources through the Belt and Road economies. Coordinating industrial park investment, leveraging policy bank capital, and securing institutionalization of commodity prices can ensure not only stable supply, but political control of offshore industrial production bases and their inputs.

Around half of China's hydrocarbon imports are from the Middle East, and China's expanded hydrocarbon investment in the Middle East has acute geoeconomic implications. But China's political geography concept of the Middle East is different to the United States, Europe, or Japan's. Although China is the world's largest importer of oil, with China's Middle East oil sources becoming increasingly important, there are confused and conflicting geoeconomic policies surrounding Central Asia, the "Arab states," Turkey, and the Caucasus region, which

blur the line between Central Asia and Iran, the Arabian peninsula, and East Africa.

China is also struggling to articulate a "Near Abroad" foreign policy, a Soviet Union international relations term now borrowed and redeployed by China. The four Near Abroads in the Soviet Union were the Baltics, Eastern Europe, the Caucasus, and Central Asia. Both foreign and China analysts use the Near Abroad term in the China context, and although it is not the official policy of either China's Ministry of Commerce or Ministry of Foreign Affairs, China-Pakistan policy taxonomy often conforms to Near Abroad thinking and much of China's Belt and Road policymaking in Eurasia, the Middle East, and East Africa corresponds to a Near Abroad foreign policy concept.

Just as understanding domestic energy policy in the Middle East requires a close reading of the domestic policy priorities and access discourses of the United States, European Union, and Japan, China's domestic policy institutions, political personnel, and policy discourses, as well as its means to achieving and maintaining geoeconomics access, will become crucial through the 2020s. Qatar, the world's largest LNG exporter, exported 104.8 Bcm in 2018, but with China's total gas dependency projected to be 550 Bcm per year by 2030, the global dynamic of Qatar as largest exporter and Japan as largest importer is changing. This has clear implications for stable market suppliers such as Qatar, Australia, the United States, Indonesia, Malaysia, and Papua New Guinea, as well as Japan's energy security as traditionally the largest LNG importer, being now displaced by China.

For exporting nations in the Middle East and Central Asia, as well as Russia, there is as yet no great political risk in developing greater export capacity with China or with allowing Chinese capital to invest in upgrading domestic industrial structures in host economies. Yet the geoeconomics of LNG in particular have long centered on an East Asian import dependency, with the institutionalization of prices through import policies mostly set by Japan. In LNG, China is now mirroring a Japan import dependency energy strategy, meaning a new array of China policies aimed at mitigating dependency will emerge alongside greater buy-side activity in global hydrocarbon markets. This gravity of institutional rule-setting and price-taking behaviors is now shifting from Japan to China in the LNG trade. And China's strategic import dependency hedging in LNG through PipeChina is perhaps the clearest indicator of future institutions and policies across a wider range of commodities.

For Middle East, Eurasian, and Pacific gas exporting states, a greater engagement is needed with China's geoeconomic policy and institutionalized strategic hedging in energy commodities. China's state policymaking apparatus is still developing a nascent Indian Ocean geoeconomic policy and a macroregional integration discourse. However, new forms of geoeconomic theory are needed to conceptualize the problems posed by development of parallel institutional systems within transnational capital industries such as energy and resource commodities.

This article is a synopsis of "The Middle East in China's Energy Mix – Strategic Imports and Investment on the Belt and Road," presented to The Institute of Energy Economics, Japan.

China Political Risk Architecture Exposed in South Caucasus

Tristan Kenderdine
March 3, 2021

Russian International Affairs Council

China-Azerbaijan relations after the Second Karabakh War remain in passive mode. More widely, reactionary foreign policy has exposed China's Belt and Road narrative as both politically and economically thin. As access narratives across crucial chokepoints for China's Belt and Road intensified in 2020, China's foreign policy in the South Caucasus remains ill-defined.

While 2020 saw instability across key Belt and Road chokepoints Azerbaijan, Kyrgyzstan and Belarus China has been exposed as having little political risk architecture with which to engage the region. Despite geoeconomics logistics priorities and an increased geopolitical interest in the Caspian gas pole, Azerbaijan remains more important to the European Union than to China. And for China, Central Asia has been demonstrated to be a more policy-critical geography than the South Caucasus, with a more sophisticated policy architecture deployment.

With a poor regional Belt and Road integration policy and a lackluster position on the Second Karabakh War, China is now being shown up as having no South Caucasus policy. China's foreign policy hierarchies show that the three South Caucasus countries are all ranked equally at the lowest level of diplomatic relationship of the Eurasian Belt and Road countries. Georgia, Armenia and Azerbaijan are all at the 12th tier in China's diplomatic hierarchy, Friendly Cooperative Partnership. Whereas the South Caucasus peripheral powers all rank more highly, with Turkey at the 6th tier, Iran in the 4th tier along with Belt and Road strategic economies Kazakhstan and Uzbekistan, while Russia and Pakistan are first and second respectively.

China only established Friendly Cooperative Partnership status with Azerbaijan in 2015, after Georgia in 2006 and Armenia in 2000. Thus for the policy concept of a pan-Turkic corridor from Istanbul to Khorgos over the Caspian Sea, the priority for reaching China is more pronounced on the Turkey Republic and Turkic states side, with little policy attention from Beijing. Aliyev was in Beijing in 2019 for the Belt and Road summit, and both Politburo Standing Committee member Li Zhanshu, and top non-Politburo foreign policy-maker State Councillor Wang Yi visited Baku, but these high-level meetings have not been followed up with any tangible geoconomic policy.

Contrast this with the early days of Belt and Road development when in 2016 Azerbaijan received two very different diplomatic guests from China, Meng Jianzhu then head of domestic security, the tsar of population surveillance, internet control, and internal paramilitary policing, and Zhang Gaoli, the policy architect of the economic side of the Belt and Road, responsible for the infrastructure, industrial transfer, and financial expansion nuts and bolts of Belt and Road in Eurasia. Visits by these senior practical policy-makers signalled clandestine development of Azerbaijan domestic security technology as well as transformative geoeconomic industrial transfer projects.

However China has not built on this early *Belt and Road* diplomacy and engagement. The Economic and Commercial Office of the China Embassy in Azerbaijan information service is almost entirely commodities and macroeconomic figures updates. Whereas Central Asian economic and commercial offices have more sophisticated analysis and information services across a wider range of economic and social issues. Azerbaijan is also at a strange cross-road in China's diplomatic discourse. Ministry of Foreign Affairs categorizes Azerbaijan as 'Asia' whereas Ministry of Commerce includes it within its Eurasian (post-Soviet) categorization, while some central level Party China foreign policies for the region consider Azerbaijan as part of the China-Arab dialogue. Spatial planning is important in both China's domestic public

administration and planned external geoeconomic policy, meaning the lack of integration in this spatial thinking is indicative of an unclear foreign policy agenda.

Ministry of Commerce remains the most important foreign policy-making office in China's State Council public administration, and was the spearhead of the practical economic mechanisms of the *Belt and Road*. The Ministry leads development of the archipelago of Chinese capital in the network of over 80 *Overseas Economic Trade and Cooperation Zones*. These offshore industrial parks mimic the conditions of early capitalism in China's onshore *Special Economic Zones*, cheap labour, low regulation and cheap raw inputs. They are a core geoindustrial institution underpinning the *Belt and Road*, yet in the South Caucasus, Georgia is home to the only China industrial park, Hualing Kutaisi Free Industrial Zone, whereas there are at least eight industrial parks in North Africa and West Asia, and six in Central Asia, highlighting these two regions' long-term geoeconomic significance.

China's basic political calculus in the South Caucasus is that Azerbaijan, Georgia and Turkey are all useful *Belt and Road* nodes in a corridor to bypass Russia, but that Armenia has no geoeconomic value. China's South Caucasus foreign policy also cannot entertain any discourse of Armenian expression of self-determination in Karabakh as this runs counter to the Uyghur policy in Xinjiang. However China's wider *Belt and Road* geopolitical position with does Armenia run counter to the ideological discourse construction through the Ancient Civilizations Forum, which includes Armenia but not Turkey. Self-identifying as an ancient civilization is integral to China's underlying globalization ideology. Yet there remains essentially no engagement with Russia's *Third Rome* thesis or anti-Atlanticist position. China entering the South Caucasus geoeconomic space with a thinly researched appeal to ancient history belies a naivety in narrative construction.

For China though, the lack of regional engagement is understandable. Whereas most of China's *Belt and Road* policies are geoeconomic, the China-Azerbaijan relationship is geopolitical. China has no need for Azerbaijan hydrocarbon exports as China's regional sources are Turkmenistan and Russia for gas, Iran for oil. Azerbaijan is though a key node in the *Middle Corridor* transport corridor with China. However while the *Middle Corridor* rail freight system is important to China, it has largely been left to the regional economies themselves to develop. China's strategic interests in Azerbaijan are thus centred not on the utility of regional access itself, but rather on future scenarios of other states' access, Russia in the Caspian Sea, the European Union in Adriatic gas, and Turkey via the rail freight system. Yet while much of the *Belt and Road* is designed to circumvent reliance on Russia, but China still lacks the Turkey competence to develop a viable regional geoeconomic presence.

China has little political risk exposure in the South Caucasus. But the negative space of China's geoeconomic policy in the Caspian and Black Sea geographies is indicative of the policy disjointedness of the *Belt and Road*. There is now an ideological vacuum in China's foreign policy which prohibits policy-makers from crafting discourses for the states and regions involved. Azerbaijan in 2020 was a *Belt and Road* node which demonstrated that China does not have the political risk architecture in place to manage the multivariate policy outcomes present in the *Belt and Road* hyperpolicy. As the South Caucasus becomes more important for both the European Union's energy security, and a deepening Russia-Turkey geopolitical *contretemps*, China will continue to struggle to form geoeconomic policy for the Eurasian *Belt and Road* economies as long as these states hold little economic or narrative legitimising power.

China Missteps With Wild Allegation of a 'New' Deadly Pneumonia in Kazakhstan

Fortunately for the world, there is no new plague coming out of Kazakhstan.

By Tristan Kenderdine
July 11, 2020

The Diplomat

Kazakhstan was the unlikely target of China's latest misfiring pandemic diplomacy. A reasonably innocuous Ministry of Commerce communique was reprinted as fact in both Hong Kong and mainland China in English, leading to international news wires making the same spurious claim that a new form of deadly pneumonia had emerged in Kazakhstan since June.

The original message was from the Economic and Commercial Office of the Chinese Embassy in Kazakhstan. The note was replicated by Xinhua a little over an hour after being posted by the China Embassy in Nur-Sultan, and soon after went viral on WeChat. The claim of a new pneumonia disease was cited widely as Chinese media sounded the alarm and ran with a series of stories that took the disinformation seriously.

English-language media coverage was led by the normally credible *South China Morning Post*, which uncharacteristically echoed the state-run English language tabloid, the *Global Times*. The SCMP article cited unverified claims, while the *Global Times* went into plain diplomatic spin mode.

The Kazakh Ministry of Health has distanced themselves from the Chinese media reports, outright denying the claim. Kazakhstan's Ministry of Health has faced strong criticism for its handling of the COVID-19 pandemic, and the health minister was replaced in June after contracting COVID-19.

The Kazakh government COVID-19 portal itself was a cause of concern for many impartial watchers, as Kazakhstan official statistics ceased including asymptomatic carriers in the top-line data. A statistical recalibration to include these cases is what caused a massive spike in Johns Hopkins University's reported numbers on July 1.

But Kazakhstan's spike in deaths is not attributable to a new form of pneumonia more deadly than COVID-19.

Kazakhstan's infections have been recorded at a suspiciously stable but high rate of around 1,400 per day for the past week, which is not in line with the exponential growth logarithm of the virus. This high but stable rate seems like a managed number, which is unsurprising in a country that has seemingly lost control of its testing regime.

COVID-19 is now so widespread in Kazakhstan that monitoring the infection rate is essentially meaningless. The only serious statistic to watch now is the mortality rate. At the moment, that number is deaths reported as COVID-19, plus those reported as pneumonia. Such a count puts the total dead at around 2,250, over a reported infection total of 54,747, which yields a mortality rate of around 4.1 percent, exactly within the known range for COVID-19. That is still a mortality rate less than half of Italy at its peak. Kazakhstan's current "unknown pneumonia" mortality rate could double and still be below Italy's COVID-19 mortality rate.

This spike in Kazakhstan's COVID-19 death rate is more readily explainable by poor governance

systems. An already fragile healthcare system is overburdened, not enough tests are being completed, poor social practices meant that the general population did not follow social distancing guidelines, and pervasive incompetence permeates every level of government.

The situation among the majority of Kazakhstan's citizens also makes it a prime population for a pandemic. The minimum wage is just $110 per month. Oil exports mean that the country's GDP per capita statistics paint a picture of moderate prosperity, but income inequality is extreme, meaning there is a large poor population increasingly without access to pharmaceutical or medical systems.

The Kazakh response to the pandemic and its fiddling with the statistics was not unique in Central Asia. Tajikistan's statistics on infections and deaths remain wildly implausible. Turkmenistan claims no infections while it is largely understood that the pandemic is silently raging through the country. Uzbekistan began its second lockdown period on July 10 after a surge in infections.

Fortunately for the world there is no new plague coming out of Kazakhstan — just the known pandemic run amok.

Unfortunately for China's supposed Belt and Road partner Kazakhstan, the source of the fake pneumonia story is the Economic and Commercial Office of the Chinese Embassy in Kazakhstan. This means that there cannot be any plausible deniability as would be the case if the rumor were started by a Chinese media outlet.

That's exactly what happened when a series of nationalist internet posts emerged earlier in the year. The inflammatory post "Why Kazakhstan Desires to Return to China" (哈萨克斯坦为何渴望回归中国) was dismissed by the Chinese government as the work of a rogue nationalist. But the post resulted in an official summoning of Zhang Xiao, China's ambassador to Kazakhstan, who already had tested his credibility with his belligerent tirade after being unable to contain public knowledge of the Xinjiang camps. Ethnic Kazakhs being caught up in the repression campaign against Uyghurs in Xinjiang is a divisive issue in Kazakhstan — widespread public discontent is in friction with the elite's pro-China economic integration project.

Zhang Xiao in Kazakhstan, though, is but one of a series of unlikable Chinese ambassadors and foreign policy officials, including China's ambassador to the United Kingdom Liu Xiaoming, who has actively fed COVID-19 conspiracy theories, the now infamous Foreign Ministry spokesperson Zhao Lijian, or fellow spokesperson Hua Chunying, whose unenviable spin tasks have included painting Canada as a threat to global security.

As Professor Kai He also argued recently, the "Wolf Warrior" foreign policy narrative that these pantomime villains personify has run its course. The belligerent foreign policy has set China's diplomatic relations with some of its closest trading and strategic partners back years, if not decades. The levels of diplomatic immaturity in this rhetoric and strategy from China are hard to comprehend.

Kazakhstan was supposed to be a linchpin in China's Eurasian economic foreign policy. Rather than geopolitical strategy, though, the embassy's reckless issue of disinformation seems like China's wider political and geoeconomic engagement policy in Eurasia is flying ideologically blindly. This virus diplomacy is a far cry from the aspirations of global economic leadership that China had projected throughout the past decade. Why does China still not have a coherent narrative for its Kazakhstan policy? The answers must lie in the highest levels of leadership in China.

"Wolf Warrior" diplomacy has already failed China's foreign interests. The wider political and diplomatic fallout from this 2020 foreign policy misstep may counterintuitively be that the nationalist faction majority within the CCP could reduced to a rump at the next Party reshuffle in 2022. Overplaying the nationalist rhetoric now may actually strengthen China's

market liberals and internationalist reformers within the very fractious institutions of China's Communist Party leadership. Any changes to China's foreign policy though could take upwards of 18 months to become visible, particularly in Central Asia.

Tristan Kenderdine is research director at Future Risk.

The Ferghana Valley Railway Should Never Be Built

March 17, 2020
Péter Bucsky, Tristan Kenderdine

The Middle East Institute

I primarily wrote this, I just wanted to share authorship with Peter back and forth while we were collaborating on journal articles

A planned Kashgar to Osh railway is part of China's Eurasian Intercontinental CR Express rail freight policy. It would require a huge amount of new construction, massive public debt for Kyrgyzstan and would provide no clear economic benefit. The proposed line would also actually be longer than the existing route from Urumqi to Tashkent via Kazakhstan.

Dreams of a China–Kyrgyzstan–Uzbekistan railway project have been around since the independence of the Central Asian states, whose transport networks still invariably face Moscow rather than serve any national interest. As such, a Kashgar–Osh–Ferghana railway connection does have a lot of potential for regional economic integration. It would serve mostly as an important eastward gateway for Uzbekistan's Ferghana valley, as currently the only railway connection from the capital Tashkent to the region is a dead end in Osh.

Ferghana was the landing point for Saudi Wahhabism in the 1990s and for its transmission into Afghanistan and Pakistan.[1] It is one of the most populated areas of Central Asia, pocketed with enclaves and exclaves of Kyrgyzstan, Tajikistan and Uzbekistan — an ethnically diverse region with great potential for economic development, against the backdrop of the continued risk of inter-ethnic violence.

The Ferghana Valley is also the historical fertility grounds of China's Silk Road interaction with Central Asia. The valley was home to the stock of 'heavenly horses' that formed the Han dynasty cavalry and which became the genetic base for the horse's more widespread use in China.[2]

China now hopes to construct a new economic transport link here in Ferghana — a rail freight line. On the Central Asia side, the Ferghana line currently terminates in the Kyrgyz city of Osh. China plans to connect this line by constructing new track from Osh to Kashgar in southern Xinjiang province.

The proposed rail link from Kashgar, across Kyrgyzstan, and into the Ferghana looks great on maps and in policy proposals, but lacks basic economic fundamentals. The 600 km rail line would be built through essentially unpopulated lands in Kyrgyzstan and China. Therefore, the local economic improvement potential for Kyrgyzstan is virtually non-existent.

Uzbekistan stands to benefit more from China opening market access via the line and has supported China's plan from the outset. Whereas Kyrgyzstan's position has been in limbo — the railway being a good proxy for the current domestic political impasse.[3] Kyrgyzstan in principle supports the project, but government knows that it cannot fund any part it.

The original 2012 cross-Kyrgyzstan plan was to build almost 50 tunnels and close to 100 bridges, with a total length of 50 km. The line would traverse mountainous terrain, some sections over 3,000 meters above sea-level, with new construction of approximately 280km of track in Kyrgyzstan and 180 km in China.

In 2012 costs were projected to be between $2.5-3 billion.[4] Given the realities of China's construction projects, from Kenya to Montenegro, the real cost, if construction were to begin

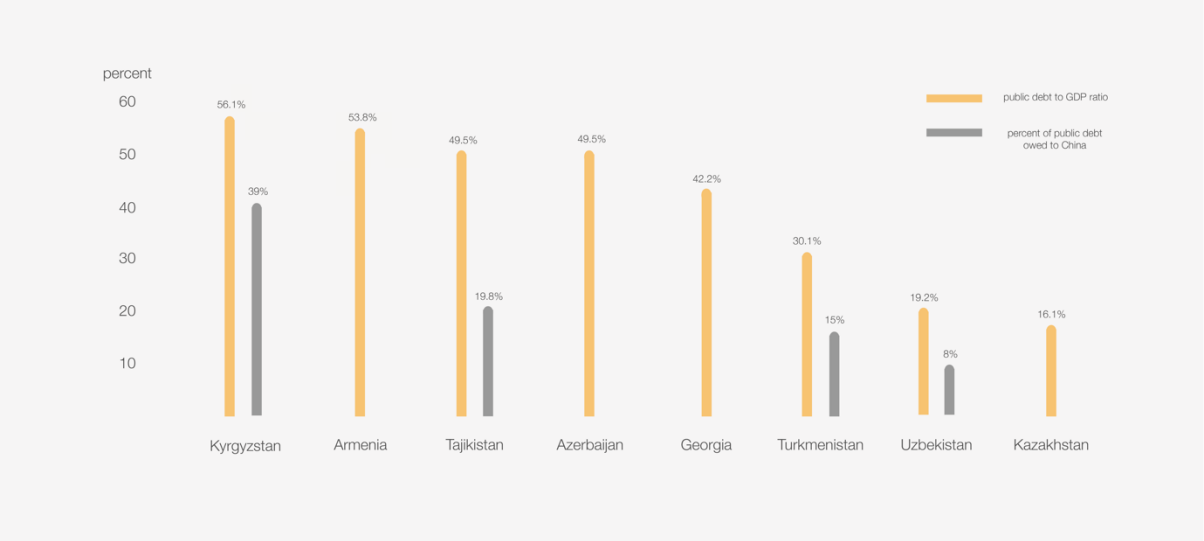
today, would certainly be much higher.

Kyrgyzstan's total government debt is currently $4.7 billion, of which $1.8 billion is owed to China. If the debt-burden were carried by Kyrgyzstan then the project would push the debt ratio of the country to 86-92% of GDP on the 2012 cost estimates, and easily over 100% with more realistic current costs.

Kyrgyzstan is already one of the most vulnerable states in the region to foreign debt risks. The country has the highest ratio of government debt to GDP in the region. China's Exim Bank currently holds 39% of the Kyrgyz Republic's total foreign debt. And according to the Kiel Institute for the World Economy study involving sovereign risk guru Carmen Reinhardt, Kyrgyzstan is the fifth most indebted nation in the world to China measured against GDP, after Djibouti, Tonga, the Maldives and the Democratic Republic of Congo.[5]

Uzbekistan has a much lower and more manageable government debt stock, a larger population and thus wider consumer base, and more diversified industry than Kyrgyzstan. But China's share of Uzbekistan's foreign debt is also already around 40%. It is difficult to avoid the meme of debt-trap diplomacy.[6]

Figure 1. Regional public debt as a percentage of GDP and China's share of debt.



Realities of railway construction and capacity

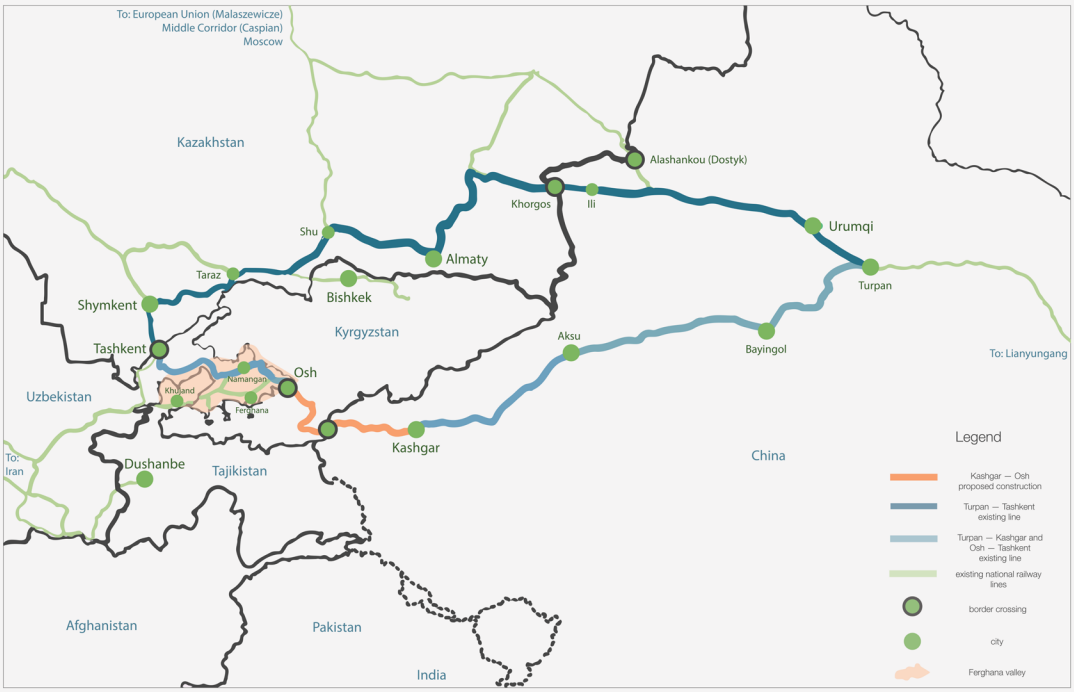
While the railway line connecting Uzbekistan through Kyrgyzstan via the Torugart Pass to China has been planned since 2012, the actual route of the line has never been finalized.

In fact, compared with the existing, more direct route from Tashkent to the China rail junction in Turpan via Khorgos in Kazakhstan, a new connection between Tashkent and Turpan via Kashgar would be around 50 kms longer.

Figure 2. The new railway is actually farther from the transport and logistics hub of Turpan, near Urumqi.

This 50 km is not particularly significant over a distance of around 2,000 kilometers. But there are also other limiting factors to the proposed Tashkent-Kashgar-Turpan line.

The Kashgar-Turpan line within China is a high-altitude railway that is only single-tracked and non-electrified (diesel only) on the China side, which significantly limits its capacities. The new rail line planned from the China border to Osh would also be single-tracked and diesel.



Therefore even if the line were built, its transport capacity potential would be much lower than the existing rail infrastructure connecting Uzbekistan to China via Kazakhstan on the northern route.

The line from the railway junction in Turpan to the Kazakh border at Khorgos is fully electrified and double tracked. On the Kazakh side, the line is single-tracked and non-electrified until Almaty, but again double-tracked and electrified and in very good condition from Almaty to Tashkent.

The new Ferghana to Kashgar line could possibly be justified if traffic volumes were high via the Kazakhstan crossings at Khorgos or Dostyk. But the Khorgos dry port — the overrated flagship BRI project — is highly underutilized.[7] According to our research, only 7 to 10 freight trains use the route daily in either direction. If additional capacity were needed, electrification of the Altynko-Almaty section in Kazakhstan would be a much cheaper and faster alternative than building a new line from Kashgar to Osh.

The gauge of the railway is also problematic: China wants to convince Kyrgyzstan to build it in standard gauge (1435 mm), while Kyrgyzstan and Uzbekistan's national standard is broad gauge (1520 mm).

Why does China want this railway?

Central Asia and Caucasus states are linchpin economic allies for China's Belt and Road Initiative (BRI). These 'near abroad' economies are the closest markets to China's developing Western provinces, and are already reasonably well connected by road and rail to China. The proposed new railway would allow further deepening of China's trade relationships with both Kyrgyzstan and Uzbekistan.

For the regional economies, the past decade saw substantial growth in trade with China. While the European Union (EU) is still the region's largest aggregate trading partner, China overtook Russia in the aggregate, and also for many individual economies, China is now a major trading

partner. For Kyrgyzstan and Uzbekistan, 52% and 23% of trade, respectively, is settled with China.

However, these economies individually are tiny markets for China. For example in 2018 China asked to import 400,000 tons of honey from Kyrgyzstan. The only problem was that Kyrgyzstan could only produce around 10,000 tons for export annually.[8]

China's foreign policy goals in Belt and Road economies are not simply about building infrastructure or opening new markets. China's Central Asian and Caucasus policy is inherently political. China's goals with the Kyrgyz Republic-Uzbekistan rail link are also not limited to regional trade. Naturally it is a node in a wider geopolitical and geoeconomic policy agenda.

China's *Development Plan for China-Europe Freight Train Construction 2016-2020* is the backbone infrastructure plan for rail freight connections across Eurasia.[9] Two main intercontinental rail trunk line groups were established by the plan: the first mainly uses the existing Trans-Siberian Railway (East lines), and a second uses the existing Kazakhstan rail network (West lines).[10]

The West rail connections running through Central Asia mainly serve traffic destined to terminate within the region or to transit through to Europe, Turkey and to a lesser extent, Iran. The West 1 line exits from Xinjiang Alashankou (Dostyk)/Khorgos border stations, connecting to the Kazakhstan and Russia rail networks, passing through Belarus and entering the European Union in Poland.

The West 2 line exits Xinjiang, also at either of the Alashankou/Khorgos border stations, runs through Kazakhstan, Turkmenistan, Iran, Turkey and enters the EU in Bulgaria. These are already functioning lines, with over 90% of the China-Europe cargo volumes delivered through the West 1 line.

The West 3 line is the only line which is a planned new build. It would connect Kashgar to Osh through the Torugart pass between Kyrgyzstan and Uzbekistan, leading to Uzbekistan's Ferghana Valley. China's 2016 China-Europe intercontinental rail freight plan then has it passing through Uzbekistan, Turkmenistan and Iran, where it would join up with the West 2 line.

This West 3 line into the Ferghana Valley opens no new markets, and connects China to nowhere in Eurasia that is not already connected by other infrastructure. It is therefore purely a geopolitical infrastructure build, with zero immediate economic benefit for China.

In the long-term though, this rail connection could fulfil its geoeconomic potential for China. The plan intersects with more macroeconomic development policies to develop Kashgar into an import hub, a logistics hub, and the vanguard of a new industrialized Xinjiang economy. The future development of transport links to Uzbekistan and Pakistan thus have huge potential for China's domestic economic development agenda in Southern Xinjiang.

Xinjiang also plays a very different policy role for China in the Belt and Road era than it had before. Northern Xinjiang has been effectively populated by Han Chinese, and integrated into the national economic development strategy. Southern Xinjiang, though, remains economically orphaned from coastal China, with a low population density, and a geographic isolation behind mountains and desert. Developing new transport and trade routes from South and Central Asia could become backbone infrastructure for the economic development of Southern Xinjiang, centered on Kashgar.

In geoeconomic development terms, southern Xinjiang is currently a transport dead-end. There are no modern, high-capacity road or rail connections to neighbouring countries. The even less likely railway line to Pakistan is also planned to terminate here.

Therefore, a new connection in to Central Asia would also strengthen China's strategic hedging against both Kazakhstan and Russia.[11] The Kazakh West 1 and West 2 rail links, and the

developing Middle Corridor Caspian Sea route all strategically cut out Russia from China's geoeconomic transport calculus.[12] However there are currently no intercontinental land routes that isolate both Russia and Kazakhstan from China's geopolitical risk.

The construction of the new line through Kyrgyzstan and Uzbekistan would also strengthen two developing 'principal-agent' relationships for China in the region. Kazakhstan, despite its multi-vector foreign policy, remains heavily a Russian Federation security stalwart.[13] Any Russia-Kazakhstan trade or security bloc would naturally undermine China's longer term geoeconomic ambitions in the region.

Kyrgyzstan and Uzbekistan though, with greater trade dependence and greater sovereign debt owed directly to China, would become more easily co-opted into any future China geoeconomic policies in the region. This Kashgar to Tehran via Tashkent corridor then becomes much more than simply a transport link. The ability to then shift geotransport policy between the two corridors strengthens China's regional position, strengthens the Iran-China corridor, and would safeguard the availability of multiple alternative routes.

Railway viable only if China pays

Kazakhstan Railways transported 283 million tons of freight in 2018, with the railways of Uzbekistan and Kyrgyzstan transporting only 95 and 7 million tons, respectively. China's western rail freight links to Central Asian economies do have the potential to be hugely transformative and economically positive.

However, overall, the proposed railway line would primarily benefit China's domestic Xinjiang economy, as well as China's wider regional geopolitical and geoeconomic ambitions. But under the current model the financial costs, and financial risk, of a Kashgar to Osh railway, would fall mainly on Kyrgyzstan and Uzbekistan — whose economies would barely benefit from the line's construction. For either country, there is no realistic reason to support China's idea.

The distance, cost, capacity, and potential economic use of an Osh to Kashgar freight railway makes zero economic sense. And under the current model, the construction of the railway link would push a huge China policy bank debt burden on to Kyrgyzstan's public finance architecture. As such, the railway cannot serve any economic goal, it can only serve a geopolitical one.

For Uzbekistan, its land-locked markets would be better serviced by the shorter and cheaper Kazakhstan route to China. For the Kyrgyz people, they should not have to shoulder the financial burden of China's political goals. If the only motivation is geopolitics, then China should pay for the Ferghana rail line to Kashgar.

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US–Iran Conflict Would Strengthen China's Position in the Middle East

Tristan Kenderdine
June 6, 2019

Russian International Affairs Council

***this was also translated in Russian here**

China's rise in the Middle East is not simply a case of debt-trap diplomacy or expanding Chinese influence, it requires an ideological shift to accommodate a new regional player and the process of institutional change that that brings. Any US action in Iran would profoundly benefit China's interests in Iran and strengthen its position across the region. Inviting China's capital, technology transfer, and arms trade into Iran and further opening Iranian export markets to China would greatly accelerate a fundamental shift in the undercurrent of the Middle East: a geoeconomic shift from a northward regional axis to a southward regional axis – away from Moscow and towards the Indian Ocean, facilitating China's access ambitions.

Without a US-trade war in the Pacific or a potential hot war in the Gulf, the world does not have too much to fear in China yet. Generally speaking, China is too incompetent to be a superpower: ideologically deficient, global governance deficient, power projection deficient, and geoeconomically deficient. Coupled with the fact that China has geopolitically over-extended itself over the past eighteen months and also has virtually zero competence in Middle East affairs, China is unprepared to fully back Iran in any conflict with the US.

However, a developing China axis of future influence falls roughly along a straight line from Urumqi to Cairo. Professor Wang Yangshu, at Lanzhou University Central Asian Institute, has argued that China's interaction with Central Asian and Middle Eastern economies will primarily be with the US along this line. I would further push that anything south of this line falls into a China Indian Ocean sphere of influence, while anything north of it remains solely within Moscow's purview. Moreover, if Russia's historically significant regional states are Afghanistan, Iran, and Turkey, then China's could be said to be Pakistan, Iran and Turkey. It is clear that Iran is central to China's 21st Century geostrategy.

Iran is a strategic Belt and Road bridge, critical to China's land and sea infrastructure construction for cementing trade routes from Europe and East Africa into Western China. The five key the Middle East Indian Ocean economies for China are Pakistan, Iran, Saudi Arabia, Egypt, and Oman all centered around an Indian Ocean geoindustrial policy. The prospect of China geoeconomic power in the Persian Gulf and the Red Sea mean opening the Indian Ocean to a new world of geoeconomic opportunities for China's geo-industrial and geopolitical options. This means China's Middle East trade and industry policy should be read as a geo-industrial foundation of a future geopolitics

For Iran, wider questions about the Iranian economy all seem to have natural answers in China too. China's civil nuclear technology transfer program is bringing third-generation pressurized water Hualong One reactors to Iran, which can be deployed on inland river systems, away from the vulnerable coast. Alongside technology transfers, China is offering industrial capacity transfers in aluminum and steel, agroindustrial investment, and of course, a massive oil consumer market. China is also developing competency in water security in the region, practicing strategic water limitation of Tibetan rivers to India, developing a Tibet-Xinjiang terraforming plan, as well as its strategic cooperative relationships with Kyrgyzstan and Tajikistan — both great water stores. Given Iran's acute water security crisis and extant domestic political risk, any Chinese water security would be invaluable.

Questions on Iran that the US administration should be asking itself are which formal and informal government-to-government institutional linkages between China and Iran will be strengthened by any US-led conflict? Perhaps most importantly in terms of institutional history, would be the institutional relationships of the people within Iran who were there for Iran-China arms trade and military support in the past. Like the picture of Rumsfeld with Saddam, who from Iran was buying Chinese arms in the Iran-Iraq war who is still reasonably relevant to the current Iran administration? Similarly, with China's economic technoindustrial transfers, there is an Iran-China institutional structure here that strategic bombardment is not going to weaken, but will only strengthen.

China already has overseas military bases in Tajikistan and Djibouti. It has flirted with force projection in Syria. China also supplies technology to Iran for Iran's civil nuclear power program. China has the power to shortcut any aspect of Iran's military nuclear program. In the short-term, there is little chance of China forward deploying in Iran, but in the longer term, closer military relations between the two states could begin to form a natural alliance against US power in the region. The US media response to US belligerence in Iran has so far been one of bemusement, but Chinese rhetoric towards the US over the trade war has been a "tallionic" like for like, with the statement on Tuesday 15th May 2019 on State CCTV about the trade war that China is not willing to fight, but not afraid to fight, and will fight if necessary. And if China were to support Iran in proxy wars with the United States, the resulting quagmire could become intractable for the US.

China may not be ready for regional influence or projected power, but foreign policy hawks in Washington or Moscow are not ready for this either. Both have only ever seen China within their own threat matrices, not of China redefining these matrices. Likewise, the outcome of any military confrontation will not matter in the short-term, but this could be remembered as the conflict that ended the 75-year aerospace domination of warfare, and ushers in a new age of security threats in information, technology, and water.

If the US is seen to be throwing the dice rather than thinking it through, then China's Iran policy is also undercooked, a waxing regional power completely unprepared for foreign policy misadventures in the Middle East. However, for the US, this is not 1991 or 2003. In 1991 regional conflicts were more easily isolated into global power narratives. The year 2003 destabilized the region, was probably the beginning of the distrust and delegitimation of Western democratic governance models abroad and also the start of disaffection with national and power politics as patronage systems at home. However, unlike 2003, 2019 is wired. In 2019 governments struggle to control narratives that were once the monopoly of technocrats in the military industrial complex. The US has lost control of the global governance narrative, and let slip the dogs of war on a whim into a tornado of uncontrollable variables in both information warfare and conventional warfare is inviting catastrophe from calm.

Kazakhstan as an Arctic State and a Maritime Power

By Tristan Kenderdine
January 23, 2019

Central Asia-Caucasus Analyst

The Ob'-Irtysh is the sixth largest river in the world by drainage area and sixth longest in the world at 5,410 kilometers. It is a broad and deep river, easily navigable by river barge, and also by sea-going vessels deep into the Eurasian continent. Geographically, this river system connects Kazakhstan to the Arctic Ocean, and if sufficient river maritime infrastructure were present then Kazakhstan could avoid the endogenous trade tariff that comes with being landlocked. This has massive implications for Kazakhstan's potential trade, industry, and wider economic development.

BACKGROUND: Halford MacKinder's Eurasian heartland theory has had a revival in recent years. Advocates of Eurasian heartland geopolitics usually argue that land-power control of the World Island is the ultimate high-ground. However, an often-overlooked aspect of MacKinder's original Eurasian Heartland thesis is that he directly references the Arctic Ocean. His map of the World Island blocks access to Eurasia by an "Icy Sea." Yet the 21st Century combination of a thawing Arctic Ocean and new industrial developments in Western Siberia opens up the possibility of sea-power geopolitics to the Eurasian heartland. This presents the possibility of Kazakhstan gaining maritime access to the Arctic.

Development of the Northern Sea Route (NSR), connecting East Asia and Europe via the thawing Arctic Ocean adjacent to Russia's Eurasian Arctic is already advanced. Industrial and shipping transport architecture from Yamal-Nenets is laying the foundations for a future self-reinforcing future industrial cluster along Myrdalian circular cumulative causation lines. The combination of port development, a viable Arctic Ocean shipping route and the possibility of greater industrial development further upstream into Eurasia offers huge industrial complementarity possibilities to Kazakhstan.

Key to the development is Russia's Sabetta Port on the Gulf of Ob', opening to the Kara Sea and the Arctic Ocean and ultimately to East Asian and European markets. Sabetta was built to service the South Tambeyskoye liquefied natural gas (LNG) field, to ship from Yamal to East Asia. While Sabetta has been developed primarily as an LNG liquefaction and outward shipment port, it is also concurrently developing multimodal containerized freight capacity. In 2015 the local Yamalo-Nenets Autonomous District legislative assembly approved a rail plan to better connect it to the Russian industrial complex: "Construction and Operation of the New Non-Common Use Railway Line Bovanenkovo-Sabetta."

Local government authorities are excited about developing the port for container transshipment. Ural Bureau Customs Chief Vyacheslav Goloskov has said that while Sabetta was "initially meant as a dedicated gas offloading port ... now it has effectively become Ural's gate to the sea." Goloskov argued that if icebreakers lead the way for LNG ships, then ice-class containerized cargo vessels can follow in the wake, making Sabetta a year-round transshipment port. The NSR is already attracting increasingly diverse cargo shipments, for example refrigerated fish from Vladivostok-Arkhangelsk and timber from Arkhangelsk to Shanghai.

An effective transshipment port at Sabetta means that for Kazakh trade to enter the World Ocean it must only reach Sabetta first. Development of the inland waterways from the Yamal-Nenets bridgehead is already being pursued by regional Russian subnational governments in the West Siberian plain. Linking up with this continental river transport system offers Kazakhstan the possibility of a viable maritime route. The Ob'-Irtysh River is navigable for the entirety of its 5,410 kilometers from the Kazakh-China border to the Kara Sea. The Ob' river

portion of the transit – 1,200 kilometers from the West Siberian Plain to Sabetta – is navigable by ocean-going vessels. An electronic navigation database for river transport along the Irtysh is slated to be finished by 2020 under Russia's "2020 Development Strategy for the Russia Federation Transport System" and "2030 Development Strategy for Inland Water Transport," allowing for safer transit of the river by ocean vessels.

IMPLICATIONS: Kazakhstan's main transport corridors are currently railways and roads moving mostly east to west. While these east-west and west-east axial corridors remain the key extant and potential economic development zones, the possibility of a south-north axial transport corridor to West Siberia is emerging. In 2016 two major transits were made from South Korea across the Northern Sea Route first to Sabetta and then deep inland up the Ob'-Irtysh: one to Tobolsk in the Omsk region of the Russian Federation, the other to Pavlodar in Kazakhstan.

This Northern Sea Route freight to Kazakhstan first transited the Arctic Ocean from Ulsan, a heavy industrial port in South Korea near the heavy shipbuilding center Busan, transiting to Sabetta on the Yamal Peninsula. The total journey from Ulsan to Pavlodar, Kazakhstan is about 14,000 kilometers with over 2,000 kilometers on the Ob'-Irtysh twin Siberian rivers. The initial delivery of heavy plant equipment to an oil refinery in Pavlodar was a two-stage river barge operation from Sabetta to Omsk and then from Omsk on to Pavlodar. The principal initial attraction of this ocean-river transport artery is for super heavy oversized cargo such as plant machinery and equipment that cannot be transported in TEU-standard containerized freight and does not have specialized ocean freight capacity that super large ore carriers, or liquefied natural gas containers have. For example, the weights of the two petrochemical reactors delivered to Pavlodar were 527 and 550 tons.

Alexander Voronenko at the Shanghai Cooperation Organization Research Centre at Khabarovsk State University of Economics and Law has collected materials for what he calls "Project Ob'-Irtysh." Voronenko argues for the south-north development of the inland waterway for a perpendicular connection with China's east-west New Silk Road Economic Belt. Along with Sabetta, the inland river ports of Salekhard, Khanti-Mansyisk and Omsk are developing port capacity. Amazingly this inland river transport system has also recently been used to transport heavy equipment from the Volga to Omsk: from Volgogradneftemash plant via Saint Petersburg and then on to Gazpromneft refinery plant in Omsk – replicating a similar journey undertaken in 1984 under the Soviet system which transported from Volgograd to both Omsk and Pavlodar using the inland waterways.

Russia's development of Yamal-Nenets is the infrastructure and global market paradigm shift that Kazakhstan needs to exit Eurasia by sea. Domestically, Russia's Federal Ministry of Maritime and River Transport manages the river system through the "Ob'-Irtysh Basin Inland Waterways Administration" while the Arctic NSR has its own federal agency in Russia. But bilateral legal frameworks between Russia and Kazakhstan are already in place to easily increase river transport volumes between Russia's Omsk and Kazakhstan's Pavlodar and Semey.

CONCLUSIONS: Like much of Kazakh history, its Arctic maritime strategy is largely dependent on Russian economic development, investment, and geopolitics. For Kazakhstan, the real variables are threefold: greater investment in Sabetta port and its development into a containerized transshipment port; capacity and reliability of the river barge system from Sabetta to Omsk; and Chinese and Russian cooperation for increased vessel transits on the NSR. If the NSR-Sabetta-Omsk multimodal ocean-river transport system develops alongside increases in trans-Arctic shipping from East Asian ports to Sabetta, then developing the final leg from Omsk to Pavlodar, and even Semey in Kazakhstan is not a difficult prospect. The possibility of containerized maritime transport along a West Siberian-Arctic Ocean river-ocean corridor has the possibility to transform Kazakhstan into an effective maritime nation with access to the Arctic. By extension, it opens Kazakhstan to the maritime economies in both East Asia and Europe and further into the World Ocean. **AUTHOR'S BIO:** Tristan Kenderdine is Research Director at Future Risk, tristan.leonard@ftrsk.com.

Russia Sanctions Push Kazakhstan Closer to China

By Tristan Kenderdine
23 April 2018

Global Policy

Tristan Kenderdine examines the growing dependency of global industrial output on Chinese policy and the risks this holds for a global trade perspective.

Ahead of the Astana Economic Forum in May, Kazakhstan will be looking to showcase its integration with the global economy and tout its attractiveness for global investment. Yet the reality of Kazakhstan's international trade and investment policy will be dominated by the twin pins of China's geoeconomic strategy and its continuing symbiotic economic relationship with Russia. And for the United States, the introduction of short-term exchange rate volatility via renewed Russian sanctions pushes Kazakhstan further towards China rather than pulling it into the global economy. Poor policy integration from the US, means that its Russian sanction policy is having spillover effects on Kazakhstan, while China's state policy finance architecture is standing ready to offer decade-length strategic investment in industrials.

Kazakhstan was hit in April 2018 with exchange rate volatility in a proxy effect from the US targeted weakening of the Russian ruble. The ruble lost 10 percent in value against the US dollar in the week following the introduction of sanctions, and as a result the tenge weakened 3 percent over the same week and 1.8 percent in the two days 9-10 April alone. This falling tenge prompted central government ministries and the National Bank of Kazakhstan to draft an emergency government response plan.

Central bank officials have been in fire-fighting mode. Daniyar Akishev, director of the National Bank of Kazakhstan, reminded the population that it was normal for a floating tenge to go through weakening and strengthening cycles, and advised the government not to take any defensive monetary policy decisions. Alpysbai Akhmetov, vice director of the National Bank of Kazakhstan, reaffirmed that the recent mini devaluation had simply been market deviation, and that the national bank would not engage in active foreign exchange interventions. While Timur Suleimenov, Minister of National Economy, said that Kazakhstan would consider short-term trade and investment policy options rather than interventionist monetary policy.

Kazakhstan introduced a free-floating exchange rate regime for the tenge in August 2015 after having to weaken the national currency by 19 percent in 2014 to align the US exchange rate to Kazakhstan's ruble peg. Soon after floating, the tenge lost a further 40 percent in a move that devastated many working people, as real estate is routinely negotiated in US dollars. Kazakhs are wary of a repeat of the devaluations, and it will be a hard sell to reassure the public that the latest exchange rate volatility tied to the ruble is market-driven rather than state-directed currency devaluation.

While Russia ruble sanctions hit the Kazakhstan tenge by proxy, China's industrial transfer policy finance offers a long-term stability to finance economic development. Kazakhstan has benefited from clearer policy transmission from China than many other economies on the Belt and Road geoindustrial policy. This latest threat to the tenge comes as Kazakh Invest released a list of 658 industrial investment projects for 2018-2020 to better align with China's investment in the Kazakh leg of the Belt and Road.

China's geoindustrial macrostrategy to transfer industrial capacity to external geographies in Central Asia is becoming increasingly clear. China's domestic factory closures under the Supply-side Reform policy is forcing Chinese State-owned Enterprises to relocate abroad. This is guided by with soft policy bank loans to help them ease into external geographies, are guided

by government policy to match certain provinces with certain Central Asian states to push outward direct investment in targeted industries. China's industrial transfer financing policy for Kazakhstan centres on Hebei province in a financing system known as 'One Province, One Country'.

At an International Capacity Cooperation conference in Astana in August last year, China's Hebei sent provincial representatives of the Development and Reform Commission, Department of Commerce, and Department of Agriculture to meet with Kazakh officials and leaders of China's enterprises to discuss deepening International Capacity Cooperation. This followed a meeting in Beijing in May which saw Hebei province pledge to focus on four areas of exporting factory capacity in steel, cement, glass, and photovoltaic cells as well as equipment manufacturing.

The pattern of one Chinese province being paired with one sovereign state is normal for the unfolding industrial transfer policy. Not only is Hebei province paired with Kazakhstan, Jilin province is matched with Russia, Henan with Uzbekistan, Guangdong with Pakistan, and Shanxi to Indonesia. This administrative matchmaking is then paired with access to preferential policy funding and guided by international industrial associations by sector. For example Jilin to Russia in agriculture, rail transport, and finance; Shanxi to Indonesia in nickel smelting, energy equipment and transport equipment.

The Hebei-Kazakhstan pairing focuses on aluminium, glass, cement, logistics and warehousing, pharmaceuticals, and agroindustrial machinery. Hebei province, due to be merged with Beijing and Tianjin into the Jingjinji super-province, is the most concentrated steel production complex on the planet. As the centre of China's coal-steel industrial complex and its peripheral industries, Hebei is to be the hardest hit of any provincial governments by the central government's plans to curb excess factory capacity in traditional polluting industries. Enterprises and projects that have already begun transferring abroad include the Astana Industrial Park Phase II project, a joint venture between Xingtai Road and Bridge Construction Corporation and Astana City Investment and Development Bureau; USD 200 million to establish industrial parks in North Kazakhstan's Petropavlovsk; JA Solar Holdings photovoltaic energy generation; and China Glass Holding's move to take over a 600 ton a day floating glass production line. Eurasian Natural Resources Corporation Logistics has also established a cross-border e-commerce, warehousing and logistics deal with Hebei Good Hope Logistics Development.

Kazakhstan's national level economic planning is designed to utilise Chinese capital to leverage a 'third modernisation' into an open economic model. Policies such as the Kazakhstan 2050 Strategy, for long term post-hydrocarbon economic development, the USD9 billion Nurly Zhol (Bright Path) critical infrastructure investment plan to dock with China's Belt and Road transcontinental transport and logistics policy, and the Kazakhstan Industrial Innovation Development 2015-2019 short-term secondary industrial promotion strategy all exude an independent industrial strategy open to foreign investment. And the Russian Federation remains Kazakhstan's largest trading partner, with the countries tied together in the EEU customs union and sharing a high degree of economic complementarity. This means neither Moscow nor Astana have any need to fear Chinese industrial investment in Kazakhstan.

But Washington is now flirting with a geofinancial risk that it is unprepared to back. US destabilising the ruble risks pushing regional economies striving for greater integration with the global economy instead towards a ruble-yuan pact or a petro-yuan. And for recipient countries, China's closed capital account and unaudited state banking credit system means that investments in Kazakhstan carry with them an inherent financial risk tied to China's banking system. Suffering from a period of policy malaise, Washington is seeing decades of careful policy architecture in Central Asia being flattened with the broad, boorish strokes of sanctions and tariffs. Global trade calculus is more complicated than Washington can plan for, and in a battle of steel and aluminium, Kazakhstan will be happy to soak up China's excess

capacity in both. The longer-term risk for the global trade perspective though is world-wide aggregate industrial output's growing dependency on Chinese policy bank capital.

For the United States, targeting the ruble hurts more than just Russia, and US foreign policy credibility in Central Asia is naturally taking a hit. For Kazakhstan, used to balancing geopolitical power, the rhetoric of global economic convergence may soon be muffled by the hard reality of rubles and yuan. Regardless of the Kazakhstan government's response to the short-term attack on the tenge, Kazakhstan's long-term investment strategy is banking on China.

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China's Policy Bank Investment Profits from Uzbekistan's Monetary Policy Reform

By Tristan Kenderdine
Monday, 16 April 2018

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Following high-profile visits by Premier Li Keqiang in 2015 and Xi Jinping in 2016, China's is domestically devolving its trade and industrial relationship with Uzbekistan to provincial and prefectural levels of government. However, financing for China's investment in Uzbekistan remains either directly invested or indirectly coordinated by one of China's three central policy banks, Export-Import Bank of China, China Development Bank, and the Agricultural Development Bank of China. Since 2014, the Exim Bank has committed to fund Belt and Road projects worth around US$ 120 billion, which corresponds to nearly a full year's GDP for Uzbekistan. These quasi-sovereign wealth funds certainly pose a systemic debt risk, but are not necessarily a debt-trap.

BACKGROUND: in June 2016, China Railway Group completed the Exim Bank-funded construction of the Pap-Angren railway, an artery connecting Fergana and Western Uzbekistan, uniting Namangan with Tashkent. At the resulting trade mission, General Secretary Xi and then President Karimov signed a joint statement laying the groundwork for greater science and technology transfers as well as the development of regional transport infrastructure and economic corridors.

Beijing's foreign trade policy, International Capacity Cooperation, is still taking shape. It is simply one aspect of Beijing's Eurasian foreign policy and an attempt to offshore industrial capacity to Central Asian and Middle Eastern partners. As part of the initiative, Uzbekistan's President Shavkat Mirziyoyev was in Beijing in May 2017, signing another joint statement to deepen economic cooperation between the states, and strengthen cooperation between China's Ministry of Commerce and Uzbekistan's Ministry of Foreign Economic Relations, Investment and Trade. The agreement detailed space for China's Exim Bank and China Development Bank to fund projects in energy, hydropower, chemicals, irrigation, building materials, manufacturing, and transport infrastructure. Then again in August 2017, Mirziyoyev met with Jin Liqun, president of the Asian Infrastructure Investment Bank, to discuss projects with a total budget of over US$ 2.7 billion including energy infrastructure construction, water conservation facility modernization, highway construction, railway electrification and a feasibility study on a Tashkent metro line expansion.

China's direct investment in Uzbekistan is still heavily concentrated in hydrocarbons. Uzbekistan's inward foreign investment grew by 13.8 percent in the first half of 2017 but was highly concentrated in the energy sector, comprising 67.6 percent of the total, up from 32.7 percent the previous year. Wang Haibin, Senior Economist at state-owned giant Sinochem, has argued that China should take advantage of low global oil and gas prices to expand its investments in hydrocarbon production abroad, particularly in Caspian Sea rim economies, which he terms the "New Middle-East" for their potential as energy exporters.

IMPLICATIONS: Sadiq Safayev, Uzbekistan's First Deputy Senate Chair, tasked with talking up foreign investment and trade, has said that Uzbekistan is pinning the country's investment strategies on the development of international transport corridors, including the EU-Caucasus-Central Asia, and Central Asia-China transport routes. Safayev hopes for the volume of TEU cargo container throughput to reach 300,000 by 2020. However, transport infrastructure is

ageing, with only 900 km of electrified railway track of a total 6000 km network, and a variety of underresourced industrial clusters needing foreign investment for upgrading.

Yet, China also sees two main opportunities in Uzbekistan in potential agricultural production and the relative underuse of Uzbekistan's industrial matrix. Uzbekistan has complete industrial networks for the production of both cars and aircraft as well as a non-ferrous metals complex and petrochemical industries, but the country has since the global financial crisis followed a commodity export strategy behind a closed, pegged foreign exchange regime.

To improve the foreign investment climate, President Mirziyoyev has begun an ambitious monetary policy reform to depeg the Som. The 2016 Presidential Decree "On Monetary Policy Priority Directions," planned to allow the currency to depreciate, reflects realities in the market value of the Som. The Ministry of Finance and the Central Bank moved from restrictive to defensive monetary operations, whilst maintaining some regulatory controls to avoid the risk of dollarization. Moves began in September 2017 to abandon the U.S. dollar peg, which had resulted in a dual exchange rate regime. When the peg was released on September 5, the Som depreciated 48 percent from 4210 to 8100 – around the previous black market rate. Residents can now buy foreign exchange cash from banks, commercial banks are able to exchange foreign currency freely, and foreign residents can open bank accounts in Uzbekistan, all important liberalization steps towards a freely convertible currency that will in turn attract foreign investment. Due to depreciation, Uzbekistan's exports have naturally become more attractive to foreign markets. Yet, this also implies risks for a country largely dependent on commodities exports.

A debt-trap narrative has emerged in the wake of China's conversion of credits to political influence in first Sri Lanka and then the Maldives, and raised questions of sovereignty as collateral for China's development loans. Yet, small and strategic states in the Indian Ocean are not the same as Iran, Kazakhstan, or Uzbekistan on the Eurasian mainland, and China's foreign policies are naturally different for different strategic geographies.

The policy banks and the International Capacity Cooperation funds are serious poles of geopolitical and international political economic gravity. Simply treating this as conventional outward overseas direct investment using firm level analyses will not work. Yet to say that China's policy bank lending for trade and industrial development is predatory is too simplistic. China's trade and industry policy in Central Asia and the Middle East is part of a multifaceted foreign policy. However, developing states in the region do need to understand the institutional nature of these outward investment vehicles. China's external policy banking may not necessarily be nefarious, but there are serious implications on a state, regional and global strategic level.

To understand China's positioning, we should observe the local governments in China, which are coordinating these investments. Provincial and prefectural governments are matched to external geographies by sector – petrochemicals in Luoyang with Bukhara in Uzbekistan, and Hebei aluminum with Pavlodar in Kazakhstan. For example Zhang Weining, vice-governor of Henan Province and chair of the Provincial International Production Cooperation Leading Group, visited Uzbekistan to sign a provincial-level agreement with the Samarkand city government and to promote the Henan-Uzbek Agricultural Industrial Park. A 2017 agreement also established a city-to-city relationship between Luoyang in Henan and Bukhara. Luoyang is China's second-largest prefectural city by industrial economic output, and a major production center for aluminum, glass and petrochemicals. The Bukhara region, by contrast, is rich in hydrocarbons but poor in infrastructure.

China's policy banks have succeeded in delivering an industrial development agenda in domestic China and have so far proven adept at financing infrastructure projects in Central Asia, where the World Bank and Asian Development Bank have failed to deliver. However, Uzbekistan's long relationship with inflation and currency instability heighten its possible

dependence on Chinese capital. Ultimately, the reliance of Uzbekistan and other Central Asian states on China's policy banking model exposes these countries to risks in China's domestic economy, the source of the policy bank credit.

CONCLUSIONS: China itself remains protected from global capital behind its closed capital account. Yet, that does not mean it will not exploit foreign investment regimes in developing countries on its periphery. International Capacity Cooperation along the Belt and Road is an attempt to circumvent China's foreign exchange bottleneck. This is more important to understand than fears of simple debt entrapment: it means an export of China's systemic financial risk. A closed capital account hurt Uzbekistan for too long, while China has managed to maintain its mercantilist position while remaining inside the WTO framework. However, a wholesale opening of capital accounts may not be the policy solution for developing Central Asian economies enamored with easy Chinese capital. Chinese debt does come with strings attached, but Uzbekistan should probably be more worried about the risk of becoming embedded in China's debt system than exploited by it.

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Caucasus Trans-Caspian trade route to open China import markets

Tristan Kenderdine
23 February 2018

East Asia Forum

The 'Middle Corridor' of the Trans-Caspian International Transport Route (TITR) is expanding. At a meeting in Ankara on 16 February it was agreed that Turkish State Railways would join the TITR as a full member. Kazakhstan, Azerbaijan and Georgia established the TITR in 2013 as a coordinating committee between their national railways.

In April 2017 they signed the Trans-Caspian International Transport Route Protocol, underpinning the international legal framework for the TITR.

The main appeal of the TITR for landlocked Kazakhstan is access to Lianyungang Port in China's Jiangsu. Lianyungang is an associate member of the TITR, along with the Ukrainian Railway and Poland's PKP LHS Broad Gauge Metallurgical Railway Line, the longest broad gauge railway line in Poland. Ukrainian cooperation opens the Black Sea port of Chornomorsk, while Polish cooperation joins the Western Europe railheads.

The Ankara meeting followed the Trans-Caspian Middle Corridor meeting in Beijing with the embassies of Georgia, Azerbaijan, Turkey and Kazakhstan in January 2018. The discussion on deepening logistics and trade cooperation was attended by Shahin Mustafayev, the Azerbaijan Minister of Economic Development, and Giorgi Cherkezishvili, the Deputy Minister of Economic and Sustainable Development of Georgia, with China represented by Luo Weidong, director of the Eurasian Department of the Chinese Ministry of Commerce and Li Wenxin, deputy general manager of China Railway Corporation.

With Eastern Europe, the Caucasus and now Turkey on board, China is aiming for China–Europe trade to reach an annual 300,000 shipping containers via the Trans-Caspian Route by 2020. Fifteen thousand shipping containers per year is the agreed target for China–Turkey container traffic in 2018, with the cost of one container from Lianyungang to Istanbul by block train costed at US$6300.

For Azerbaijan, the development of this Trans-Caspian route means more than simply becoming a trans-shipment port. The Caucasus nations are already some of the economies most integrated into China's Belt and Road Initiative (BRI). As more infrastructure projects are completed, China's interest in Azerbaijan will shift from the construction of infrastructure to how such projects will facilitate regional trade.

On the east–west axis, the Baku–Tbilisi–Kars railway to Turkey opened in October 2017, facilitating the Middle Corridor plan. On the north–south axis, Azerbaijan is also pushing for the completion of the Rasht–Astara railway to Iran, which is part of the multilateral North–South Transport Corridor initiative going from Russia through the Caucasus and the Persian Gulf to India. And the Trans-Adriatic Pipeline will enable additional Azerbaijani natural gas exports to the European Union.

Hydrocarbons (Azerbaijan's main export) are not necessarily the sole motivator behind these trade-related infrastructure projects. SOCAR, Azerbaijan's main oil company, extracted 8.6 per cent less natural gas and 8 per cent less oil in 2016 than in 2015. Oil and natural gas extraction costs rose by 3.2 and 17.7 per cent respectively over the same period. While energy will continue to form the backbone of Azerbaijani exports, Azerbaijan is seeking to move away from hydrocarbon dependency amid these rising production costs in order to pursue newfound opportunities for export diversification along new transport routes.

Azerbaijan is strategising agricultural exports to both Russia and China, aiming to create a US$1 billion industry. Shahin Mustafayev recently said at a Russian trade conference that US$240 million of agricultural exports to Russia (in the first seven months of 2017) was not enough and that Azerbaijan sees agriculture as a good way to hedge against fluctuating hydrocarbon prices. Azerbaijani National Bureau of Statistics data show that exports of non-oil products in the first half of 2017 had increased by 27 per cent to US$855 million (which amounts to 10 per cent of total exports). These figures include the substantial growth in exports of fruit, vegetables, potatoes, tobacco, wine and cottonseed.

Deepening and normalising non-oil trade with multiple trading blocs could see Azerbaijan become an important agricultural exporter in China's eyes. China is currently Azerbaijan's fourth-largest trading partner and under the BRI that is sure to increase.

A major goal of the BRI is the broadening of China's import base — it will give China greater access to goods and services that it cannot produce domestically. In return, Caucasus and Central Asian countries such as Azerbaijan gain an alternative export market. If BRI countries leverage the situation correctly and prepare adequate trade strategies and negotiating positions, then they too stand to benefit substantially.

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ASEAN Lacks Common Trade Policy on China's International Capacity Cooperation Strategy

Tristan Kenderdine
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International Capacity Cooperation (国际产能合作) has been on the policy books in Beijing for the past three years, and its practical effects are beginning to be felt in China's external geographies. China's Ministry of Commerce is tasked with implementing a monumental policy initiative, the closed-capital account equivalent of an FDI foreign trade strategy. This is the public administrative arm of the Belt and Road geopolicy, and the practical financial avenue for Chinese funds to reach Southeast Asian economies. In a command economy, the physical economic infrastructure is coordinated by the state, the same is true of China's offshore geoindustrial policy. The plan is simply to move Chinese factories to external geographies, to take China's investment-driven construction and manufacturing industries offshore. It is to have much the same capital effect as Japan's rapid development of regional production networks after the Plaza Accords, with the exception that China's capital account is to remain closed throughout this capital offshoring period.

An array of geography-specific policies and plans are working their way through consensus in Beijing and transmission to local governments in China. Provincial and prefectural governments in China are being paired with external geographies and instructed to coordinate industrial production with China's central government. For ASEAN economies there are clear opportunities presented by Beijing's policy, to replicate and complement the system of industrial parks and regional production models that Japan has already established. Yet the Chinese model also presents serious financial risks which are not being clearly presented to host economies.

ASEAN economies as nodes in Beijng's distributed network

Beijing is expecting China-ASEAN trade to double to USD 1 trillion in the next 5 years. China's General Administration of Customs statistics for H1 2017 show China's trade with Malaysia and Indonesia was up 20.9% and 13.9% respectively. To facilitate this, Gao Yan 高燕 China Ministry of Commerce deputy minister recently announced five measures to promote international capacity cooperation with ASEAN including central government support through an enterprise management system; targeted policy loan and credit export support for advanced manufacturing industry and other strategic industries' outward FDI; coordinating the Belt and Road and international capacity cooperation policies through Guangxi province; targeting sectoral cooperation in railways, highways, power grids and electricity generation, nonferrous metals, building materials and construction machinery; and strengthening national industry guidelines for firms' overseas investment. China is promoting the international capacity cooperation policy as not simply offshoring production capacity, more as an alternative model to the Japanese-led FDI system in Southeast Asia. China is promising to move intelligent manufacturing centres to Southeast Asia, not simply low-end production capacity in steel, cement, aluminium, paper and glass.

In order to dock China and countries along its supply chain, Beijing is looking to promote state-owned enterprise presences in industrial parks and industrial complexes in Southeast Asia. In June 2017 the East China Expo held in Hanoi extolled the partnership opportunities in electromechanical products, particularly in machinery and equipment. While the China Meteorological Service Association is the vanguard for China's satellite industries to go global. September 14-15 2017 saw the 14th China-ASEAN Expo held in Nanning, Guangxi. Guangxi is being billed as China's gateway province to Southeast Asia. The program promoted regional industrial transformation and upgrading sectoral cooperation in high-speed rail, nonferrous metals, electricity, communications, intelligent manufacturing equipment, unmanned aerial vehicles, intelligent robots, and 3D printing.

Guangxi is the only province which is connected to ASEAN by both land and sea. Its role in the wider Belt and Road macrogeopolicy is a spatial international economic industrial policy composed of 'one hinge, one centre, five channels, and six networks'. This is Beijing policy parlance for the construction of the Nanning international transport hinge, Beibu Gulf international shipping centre, the five economic corridors of maritime ASEAN, land ASEAN, Belt and Road, Southwest and Central-South China, and the Pearl River Delta (Guangdong, Hong Kong and Macao); the six networks are port network, highway network, high-speed rail network, dense aviation network, fiber-optic communication network, and gas pipeline network.

Guangxi is not the only province with centralised plans to dock with Southeast Asia. Both Shanxi and Shaanxi are slated to look south to ASEAN to integrate themselves into the the global industrial manufacturing chain. Debt, coal and corruption riddled Shanxi province is to dock China's Belt and Road with Indonesia, with a joint project already underway between China Railway Group and Indonesia Wanxiang Nickel Company in the Sulawesi Nickel Iron Industrial Park project. While Shaanxi is integrating more completely with China's 'Industry 4.0' and 'Made in China 2025' industrial policies, selling itself as 'Big Xi'an' to take advanced aerospace, engines, components and equipment out to ASEAN FDI. Both provinces are keen to shed the image of coal and peasant labour dependencies, and the state subsidised centralised industrial complex, and rebrand themselves as purveyors of advanced manufacturing technology.

China's 'One-by-one' policy to prevent ASEAN Common Market response

China's industrial policy in external geographies is governed by a 'one-by-one' approach that favours bilateral agreements with sovereign states over multilateral bodies. Yet China's economic ambitions in the region are organised in multilateral blocs. China's primary focus is the Nanning-Singapore economic corridor through Thailand and Malaysia while the secondary external cooperation mechanism is focused on the CMLV bloc of Cambodia, Myanmar, Lao, Viet Nam.

Thailand is an integral hub for China's Belt and Road strategy, as a corridor for the Nanning-Singapore economic corridor, supporting the Thai Eastern economic corridor and as China's entry into Cambodia, Laos, Myanmar and Viet Nam markets through the China-IndoPeninsula economic corridor strategy. This is before the ephemeral Khra Isthmus canal is in the mix.

China-Thai International Capacity Cooperation will present in practical terms through expansion of the industrial park system. Practical agreements are already in place for the China-Thailand Chongzuo Industrial Park and Pazongfu Special Economic Zone in China, and Thailand's Rayong, Loka, and Li Sheng Rubber Industrial Parks. At the executive level, four agreements between the Thai and China government have recently been signed: The broad Thai-Chinese high-speed rail project; specific Bangkok-Nakhon Ratchasima high-speed rail Civil Engineering Design Contracts; Memorandum of Understanding on Cooperation Between the Silk Road Economic Zone and the 21st century Maritime Silk Road; and the Joint Action Plan on Strategic Cooperation between China and Thailand (2017 -2021). Thai laws have also been herded into

compliance with the bilateral rail agreement.

Of course the main axis in Thailand's development and inbound investment strategy is the relationship between Japan and China. There is deep-seated respect and gratitude in Thailand for Japanese industrial investment, probably more so than in any other East Asian economy where the ADB has largely failed its mandate to deliver targeted investment to aid industrial development. Japan is currently realigning its international trade and investment strategy to a geopolitical containment of China and the competition for investment that Chinese capital brings.

Most trade and investment with China's external geographies is a one-way street. For Thailand in particular and for ASEAN in general, there is a real possibility to create a two-way trade and investment architecture. But for ASEAN this requires a common external trade policy, not allowing China's one-by-one policy to isolate individual states. And for Thailand in particular engagement with China investment has a very real possibility to become a multi-directional investment axis, if Japan and Indian FDI and infrastructure competition can be played against China.

Semi-industrialised and with large rural populations still heavily sensitive to prices on core agroindustrial products and inputs such as rice, rubber, cassava, sugar, and palm oil, the economies of Thailand, Indonesia and Malaysia on one axis, and the CLMV axis on the other need one final decade of solid industrial investment from Northeast Asia to get them over the line into high-income and advanced manufacturing economies. For ASEAN it should not matter whether that investment comes from China or Japan, but the smart money will be betting both ways.

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Arctic link reveals the full scope of China's belt and road ambitions

Tristan Kenderdine says the world should take note of China's vision of integrating an Arctic route for trade with Europe into its massive Belt and Road Initiative - but its ambitions need not be seen as a threat.

Author: Tristan Kenderdine, Australian National University

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South China Morning Post

The Belt and Road Initiative is actually One Belt, One Road, One Ring (yidai yilu yihuan 一带一路一环). An article carried in the South China Morning Post in May quoting Tsinghua professor Hu Angang discussing 'Belt, Road and Circle' is correct. China has state-plans to extend the Belt and Road Initiative to encompass Mackinder's 'World Island' by incorporating the Arctic route.

In July 2016 I was in the control room of Dalian Port Authority as part of an international legal scholars field trip and was shown a video which greatly surprised me. We were being shown the capabilities of the port's information system on a huge ten metre multi-display visual system. The wall display panel transformed from its daily functions monitoring weather patterns, ship locations and TEU boxes moving through customs to show a video. At the end of the video a map was displayed proudly declaring the 'One Belt, One Road and One Ring' strategy, showing the Russian Arctic trade route from China to Northern Europe closing the loop around the World Island.

The Arctic route complements China's Belt and Road strategy perfectly. Belt and Road is actually five belts and two roads. The five belts run through Russia, Mongolia, Georgia, Kyrgyzstan and Turkey, with two maritime lane terminals in Piraeus in Greece and Djibouti in Africa. All channels feed imports back into China in an attempt to diversify China's inroads to feed its consumption markets. Rail links to Moscow and sea routes through Malacca are fully capable of carrying the volumes China needs, but the geoindustrial policy is to diversity risk away from Suez, Malacca, and Russia.

It is no secret that China has been planning to utilise the warming Arctic Ocean waters to improve trade and logistics ties with Europe. Since the Busan to Hamburg route was first run in 2010, there has been a wave of interest in this shorter route between northeast Asia and northern Europe. But the Belt, Road and Ring geostrategy has been largely distanced from what were previously separate policies of the Belt and Road and China's Arctic ambitions under the reformed State Oceanic Administration.

The Belt, Road and Ring has effectively been confirmed by the Vision for Maritime Cooperation under the Belt and Road Initiative. Along with established sea routes to connect China's land economic corridors in Bangladesh and Pakistan, as well as connecting Hambantota and Djibouti as the African trade hub, the report also listed a Pacific channel. The Pacific route extends the Maritime Silk Road to the Pacific Island Countries, presumably towards a port hub in Fiji which would then connect to Panama or Colombia. And the Arctic Route was mentioned as a sea route, joining the Indian Ocean route to form China's World Island trade and investment circle.

The Arctic route is logistically much quicker than the New Silk Road rail route, administratively easier with public international law applied to ocean transport, not national laws or EEU and EU law. Strategically it pulls power away from the United States' stranglehold on China's shipping through the Malacca Straits and the Philippine Sea. A dubious statistic has been doing the rounds arguing that US and European shipping is dependent on free passage through the

South China Sea and that China's rise threatens this. This is exactly China's fear, as currently all of its shipping traverses either the South China Sea or the Philippine Sea.

The opening of the Arctic route presents a unique industrial and trade catch-up opportunity for China. China cannot quickly catch up to the conventional mobile nuclear powered aircraft carrier fleets which the United States uses to project naval power. But in the Arctic all powers are at similarly technological horizons. In 2014 China's Xue Long was rescued by the Aurora Australis after itself attempting to rescue the Russian Akademik Shokalskiy. In terms of nuclear submarines and intercontinental missiles, China is at a disadvantage. But no Great Power can effectively project power on the surface of the poles, meaning China is at little comparable disadvantage.

However the Belt and Road is not about maritime power or national security, it is about securing import channels to fuel China's further economic growth, and it is about offshoring production for export to China as it becomes a net importer. By exporting fixed-capital China is offshoring factories to external geographies. Factories in Kazakhstan will simply reexport output to China.

This is combined with China's interest in becoming a maritime power, predicated on a sense of having been excluded from global commons and public international waters. For China, Oceans and Poles serve as both a resource potential and a critical platform for global transport and trade. The forthcoming Basic Ocean Law, currently being drafted in China's law schools and central government, will provide the legal basis for China's engagement with the wider oceans, and should yield some clues on the central trade and transport policy for Belt, Road and Ring.

China's geopolitical interest in the Poles is clear from the 2015 National Security Law, its science and technology development trajectory and its institutional engagement with the Arctic Council and the Antarctic CCAMLR. This is further evidenced by strong institutional voice in other ocean institutions such as the International Seabed Authority and the Biodiversity Beyond National Jurisdictions treaty negotiations.

Understanding the Belt, Road and Ring needs serious analysis of the administrative arm of government, and of the ministries and local governments that enact geoindustrial policy. To understand China's geoeconomic ambitions on the World Island, look at the industrial policy, the maritime industrial goals, and the science and technology agenda. China's geoindustrial policy will redefine global trade, investment, industrial output, resource allocation, and ultimately humanities production and consumption patterns.

However China's geoindustrial ambitions need not be a threat. Chinese steel is building the World Island, and the World Island can feed China's agricultural demands. The Belt, Road and Ring can develop a huge trading nexus for China's imports across Central Asia, the Middle East, Africa and the world's oceans which the OECD countries development models have failed.

Strategic thinking around Belt and Road should be upgraded by looking at China's geoindustrial complex. Because the form of the industrial matrix on the World Island will define future power structures, not the other way around.

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The Caspian Sea is the Best Bet for China's Belt and Road

Black Sea ports and Caspian Sea offer China safe passage

Pireaus to Khorgos route will benefit all parties and further Beijing's goals

Tristan Kenderdine
Oct 2-8 2017

Nikkei Asian Review

Most attention on China's Belt and Road Initiative has so far been centered on its northern rail routes through Russia and Central Asia and its investment in Mediterranean and Indian Ocean seaports. But policymakers in Beijing have long been dreaming of an alternate route which more closely aligns China's twin land and maritime trade strategies. They may have found it in the Pireaus to Khorgos route.

Of all Belt and Road corridors with a land component, the Pireaus to Khorgos route between the European Union and China involves the shortest time on land and only touches the jurisdictions of Georgia, Azerbaijan and Kazakhstan. This is the fewest countries of any proposed land bridge between the European Union and China that also allows the circumvention of Russia. For the Pireaus to Khorgos route, China's trade and infrastructure strategy in the Caucasus rest on cross-Caspian Sea ferry logistics.

Consider China's four other competing Silk Road land routes proposed in 2016 in the National Development and Reform Commission's "China-Europe Corridor Construction and Development Plan:" Manchuria-Russia-Belarus; Mongolia-Russia-Belarus; Kazakhstan-Russia-Belarus; Kyrgyzstan-Uzbekistan-Turkmenistan-Iran-Turkey.

The China-Russia-Belarus route crosses the fewest jurisdictions, but includes Russia and is by far the longest distance by railway -- two factors that are massive strikes against a China policy designed to subvert Russian and U.S. trade institutions.

The Mongolia-Russia-Belarus route reaches the same number of jurisdictions but is also long and involves Russia. Likewise for the Kazakhstan-Russia-Belarus route. The Kyrgyz Republic route takes in five jurisdictions and two rail gauge changes: one from China to Kyrgyzstan, the other from Turkmenistan back to standard gauge in Turkey.

By contrast, the Pireaus to Khorgos route connects the Greek port to the Georgian terminals of Batumi and Anaklia over the Black Sea, which is protected by international marine law. For China, shifting twenty-foot equivalent units across the Caucasian isthmus to access the Caspian Sea may be worth the higher cost than a pure sea route and is certainly much cheaper in both time and money compared with either the direct Belarus-Russia or Belarus-Russia-Mongolia routes.

In April, Kazakhstan, Azerbaijan and Georgia signed "The Belt and Road Cross-sea Transport Channel Agreement" to coordinate construction of the trans-Eurasian transport corridor. The sea route effectively joins China's Khorgos Gateway to the Black Sea by linking Georgia's new deep water Anaklia port via a cross-Caucasus rail corridor, strengthening the ferry route from Baku to Aktau, and upgrading the cross-Kazakhstan Aktau to Khorgos rail link.

The strategy means that goods travelling from Europe exiting COSCO Shipping's Piraeus terminal can traverse the Black Sea's international waters, cross the Caucasus via an integrated transnational rail corridor, the Caspian Sea, and then over Kazakhstan back into the arms of

China's COSCO Shipping at the dry port in Khorgos.

Inland avenue

Using the Black and Caspian Seas means China's Xinjiang region would be connected to Europe by a mostly maritime route, effectively floating goods from Athens to Kazakhstan through what could become the world's inland Panama or Suez Canal.

Linking Khorgos to Anaklia opens the Black Sea for China, docking its Eurasian land strategy in Georgia. And as rail transport in the Caucasus and Kazakhstan will be subsidized by the Chinese taxpayer, the Caspian Sea route is the closest thing to an economically viable maritime route into Western China.

Georgia has been front and center of China's Silk Road plans, with China's geoindustrial and trade ambitions in the Caucasus clear throughout the Belt and Road planning process. China and Georgia have already concluded a free trade agreement in May, the first of any of China's strategic transport corridor partners.

The fast-tracked FTA will come into force at the end of 2017 or early 2018. Under that deal, 90.9% of China's imports from Georgia will be tariff-free while China's exports to Georgia will be 96.5% tariff-free. For China, this makes Georgia a tax-free land-bridge through which to move EU-China trade. For Georgia, it represents the great-power balancing necessary to offset its perennial struggle with Russia.

For Azerbaijan, the new trade route represents a chance to connect to new markets and diversify from hydrocarbon dependency. Azerbaijan has been taking great strides to internationalize, with the State Oil Fund of Azerbaijan increasingly active in international markets. Azerbaijan's Ministry of Economic Affairs recently released its "Ten Strategic Objectives for 2021," focusing on developing non-oil and gas sectors, increasing export competitiveness and investing in transport infrastructure, fitting China's needs perfectly.

On the Kazakhstan side, plans are to expand capacity across the Caspian Sea international transport corridor over the coming five years, on hopes that cargo volumes would treble. The eventual size of COSCO's new logistics hub in Khorgos should give some indication of the TEU and dry freight capacity of the Aktau to Khorgos corridor.

And Kazakhstan's main rail infrastructure project is expanding capacity from Khorgos in the East to Aktau on the Caspian, not from Khorgos to Moscow or Khorgos to Turkmenistan, the two other transport corridors China has plans to develop in Kazakhstan. Aktau port has already been expanded and Kazakhstan is hoping to develop its other Caspian Sea ports. Completion of the Baku–Tbilisi–Kars railway connecting Azerbaijan to both Georgia and Turkey by land completes a trade route that will increase throughput on the Caspian.

From China, expect more policy notifications and trade regulations over the coming 12 months on strengthening the cross-Caspian ferry corridor and building capacity in the three key ports of Aktau, Baku and Anaklia. However, China's approach to international public law will continue to be from a position of moral rule-by-virtue rather than concrete legal structures and institutions. China's "one by one" trade policy, treating each country individually, leverages its enormous bargaining power and will extend a global trend toward bilateral trade agreements, at the expense of multilateral, rules-based systems.

However, if China's consumer markets can provide the demand to drive infrastructure and economic advancement through Central Asia and the Caucasus, then global trade ultimately benefits. If Georgia could one day join the EU, then it could truly become the gateway to China's land-based trade routes as a crossroad between the bloc, the Eurasian Economic Union and

China's Belt and Road strategy. But as debt problems take root at home, China's soft policy loans to companies investing in its trading partners must ultimately benefit the people in the region, not simply the grand plan in Beijing.

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China Eyes Iran as Important Belt and Road Hub

Tristan Kenderdine
Sep 7, 2017

Eurasianet

China's strategic interest in Iran is intensifying. Chinese manufacturers are looking to establish new operations in Iran, and Tehran is viewed as a vital transport and logistics hub.

Iran is focusing in 2017 on expanding its railway network so that it can better align with China's Central Asian logistics strategy, Iranian Minister of Transport Abbas Akhodi said recently. The minister added that the chief goal for Iran's Department of Transportation would be to improve connections of the national rail network to neighboring railway networks. China is also providing $1.5 billion in financing to electrify the Tehran-Mashad trunk line, and another $1.8 billion to establish a high-speed rail connection linking Tehran, Qom and Isfahan. In return, Iranian authorities are slashing transit tariffs for Chinese goods, according to railway chief Saeed Mohammedzadeh.

The Iranian upgrades are seen as crucial to achieve two Chinese trade priorities – expand commerce with Turkey and widen access for Chinese goods to Iranian ports near the Strait of Hormuz. Beijing hopes to see trains running between the western Chinese region of Kashgar and Turkey's Istanbul as soon as 2020. Iranian railways figure to serve as key links in routes through both Central Asia and the Caucasus.

For Iranian leaders – who have struggled to overcome international efforts to isolate Tehran because of its controversial nuclear program and other factors – China represents an important outlet for international trade and finance. On the sidelines of the Belt and Road launch event in Beijing in May, Iran's Economic Affairs and Finance Minister Ali Tayebnia held talks with Chinese Finance Minister Xiao Jie to discuss substantial development assistance deals, which the two sides hope to seal in the coming months.

In 2015, Chinese enterprises in Iran signed contracts worth $1.5 billion. And Iran has since become a major market for Chinese construction and energy infrastructure equipment. China's major contracting projects in Iran include energy, transport, steel, and chemicals. Among the planned energy projects is a production facility that would produce components for nuclear power plants.

Song Zhiping, Chairman of China Building Materials Group, characterized Chinese projects in Iran as a "win-win" solution. He asserted that Chinese manufacturers were capable of moving production lines to Iran for about 20 percent-to-30 percent of the cost of other international competitors.

China's trade and foreign policy with Iran falls into a distinct category. Policymakers in Beijing tend to align their activities within various ministries according to geographic boundaries, with separate departments dealing with distinct areas. But Iran, in the eyes of Chinese policymakers, is not considered West Asian, Arabian, or Middle Eastern, it is included in East Asia. Iran, along with Pakistan, is considered so important to China's sphere of influence that they are part of the 'home affairs' region, including Japan, Hong Kong and Indonesia.

China's Geoeconomic Strategy and Industrial Transfer in the Middle East

By Tristan Kenderdine
03 August 2017

Global Policy

Tristan Kenderdine calls for better tools to analyze China's growing economic influence.

Trade agreements between nation states usually create state-to-state frameworks for private trade and investment. In China's case, the trade and investment strategy being agreed to is a state-capitalist one. In particular the **international capacity cooperation** policy directly seeks to offshore China's industrial capacity, coordinated through a pan-Middle East **trade policy**. While the macro geostrategy is to open two routes, one from Europe and one from East Africa, China's regional trade and investment strategy centres on the large Middle East economies of Egypt, Iran, and Saudi Arabia.

Beginning with energy equipment and components, state plans target different geographies in The Middle East and Africa to become part of China's closed model of production. This is effectively a **parallel trade strategy**, maintaining a closed capital account and controlling labour and capital inputs into industrial production, only offshoring the land factor to another state.

The Middle East strategy is really a node in China's greater Africa strategy. Africa's strategic importance to China has been well **documented** and should already be considered China's primary long-term investment geography. 'West Asia and Africa' is the Chinese planning term for this geographic region of overseas direct investment and international capacity cooperation. While initial international capacity cooperation projects have centred on Central Asia, Africa's population, potential for productivity improvements and growing global importance makes it central to China's **strategy**.

Capacity cooperation investment mechanisms in greater Africa include the **Sino-Congolese Bank** for Africa and South Africa's Investec Bank and **Export-Import Bank of China** agreement for a strategic export, infrastructure and agriculture credit program. While total **China-Africa trade** was only around **C¥140 bn in 2014**, two-way trade between **Hunan province alone and greater Africa** totaled over USD 2 billion in 2015. With rising Chinese consumption and policy support for African exports, the two-way trade has the potential to rapidly grow into a USD1 trillion market.

The Middle-East is therefore crucial for China to facilitate African, and European, exports to its consumer and industrial markets. To this end, the Pakistan–Oman–Somalia axis is a land-power strategy for securing a safe sea-trade route for goods moving into China's consumer markets.

Oman lies at a crucial crossroads of China's Indian Ocean maritime strategy and is slated for heavy investment in energy equipment and maritime industries. However China's principal trade and investment targets are the trifecta of the large Middle East economies of **Iran, Saudi Arabia and Egypt**. In Chinese policy circles, Iran is not considered part of West Asia but rather, along with Pakistan, as part of East Asia, demonstrating the importance of both Iran and Pakistan to China's inner circle foreign and trade policy.

Iranian cooperation is critical to China's land and sea infrastructure building routes to Europe. Strategically located for China, Iran is a Belt and Road bridge with the Straits of Hormuz likely to couteract dependency on the Suez Canal, while the development of the Pakistan corridor opens China's route from East Africa.

For Iran, which has been so effectvely excluded from the international community, China should find easy inroads. Energy equipment capacity is again high on the list of carrots. In 2015, Chinese enterprises in Iran signed contracts worth USD1.5 billion. Iran has since become a major market for China's overseas exports of engineering, technology and complete sets of equipment. China's major contracting projects in Iran include energy, transport, iron, steel, power, chemicals, mining, communications, automobiles, motorcycles and home appliances

Saudi Arabia continues to be the **largest trading partner for China in the Middle East**. Saudi Arabia is currently pursuing dual energy strategies, an external oil strategy and a domestic nuclear strategy. Saudi Arabia plans to produce 9.5 million kilowatts of non-fossil fuel derived electricity by 2030. 16 new nuclear power plants will be built at a cost of around USD 100 billion. China Nuclear E&C Group and King Abdullah City for Atomic and Renewable Energy signed a Memorandum of Understanding for cooperation on Saudi **high-temperature gas-cooled reactors**.

Chinese investment in Egypt secures the geoeconmic lifeblood of the Europe-Middle East-Africa trade nexus. It also buys China a friend in the most populous Middle Eastern state, and one without serious natural animosities (as plagues the Saudi-Iran relationship). Newly signed large-scale contracting projects include Egyptian telecommunications infrastructure built by Huawei, and Egyptian national grid upgrade project by China Power Technology Equipment. China provides economic assistance to Egypt under the annual '**Economic and Technical Cooperation Agreement**' to determine the specific amount of assistance. The two countries are exploring a parallel mechanism for interest-free loans.

The rise of China in the Middle East is not so much an upset of the geopolitical order as a subversion of institutional actors requiring new levels of geoeconomic analysis. State to state strategy is being enacted by firms, yet firm-level analysis is not picking up the state narratives, and international relations analyses are not picking up the firm-level dimension. China's rise in the Middle East and Africa need not be a threat. But let's employ the right tools to analyse state power games both through analysis of international capital at the firm level, and the technology and industrial transfers that are most definitely being deployed as a matter of state coordination.

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Mongolia Gets On Board with China's Belt and Road Initiative

Tristan Kenderdine
Jul 7, 2017

Eurasianet

China's Belt and Road is putting pressure on Mongolia to resolve a strategic dilemma. On the one hand, Ulanbaatar is eager to reduce its political and economic dependence on China through its Third Neighbor foreign policy; on the other, Mongolia faces competition from Kazakhstan to reap the potential rewards of becoming a key node in the Belt and Road.

The Belt and Road initiative is not a perfect fit with Mongolia's current economic priorities. Mongolian leaders want to diversify the country's economy by building a manufacturing base and reducing its near total dependence on the exports of natural resources. Ulaanbaatar also wants to expand its number of trade partners. At present, China is by far Mongolia's largest trading partner, accounting for 90 percent of Mongolian exports and over 30 percent of its imports, and, as Mongolia's balance-of-payments crisis last year demonstrated, this economic arrangement invites instability, rather than protects from it.

Belt and Road, however, does dovetail with one aspect of Mongolia's national development strategy, known as the Steppe Road. Launched in 2014, the Steppe Road plan envisions the construction of a modern expressway and rail line that will traverse Mongolia, stretching from the Chinese mainland to Russia. Together with plans to extend other railways, modernize gas and oil lines, and update the electricity grid, the program calls for some $50 billion in investment.

The two states recently agreed to align the Steppe Road plan and Belt and Road and elevated their relations to a comprehensive strategic partnership. Together with Russia, they are already collaborating on more than 30 projects, most of them focused on upgrading transport and communications infrastructure.

China seems to be offering Mongolia a lot of sweeteners. Beijing has begun to reorganize its rail infrastructure and customs procedures to benefit Mongolia, and last year's launch of a direct freight service from Mongolia to South Korea via China has cut transport time nearly in half. Mongolia also reportedly received discounted tax rates on one-third of its exports to China, along with a guarantee that it will continue enjoying access to the port of Tianjin, a springboard to more distant markets.

Offering such incentives makes lots of sense for Beijing, which sees the transport route via Mongolia as forming the backbone of the China-Mongolia-Russia Economic Corridor – a key route in the Belt and Road network. Accordingly, Beijing expects to channel some $30 billion to related projects in the next five to ten years, with total potential investment reaching as high as $90 billion by 2035.

Beijing envisions a trio of parallel northbound transport lines traversing the mainland from Guangdong province on the South China Sea: a highway, a high-speed railway, and a cargo rail line. The government is already encouraging provinces located on this corridor to direct their export routes toward the town of Erenhot on the Chinese-Mongolian border, where a cross-border economic cooperation zone is currently under construction.

The Mongolia corridor will augment two traditional trade routes to Russia: one that runs from western China through Central Asia, and another that crosses into Russian territory directly at the Inner Mongolian city of Manzhouli, around 30 miles east of the Mongolian border. The latter is fed by shipping routes running along China's eastern coast and is sometimes called the

Dragon River Silk Road in Chinese documents.

The China-Mongolia-Russia route calls for the creation of two free trade zones. The first, on the Sino-Mongolia crossing at Gashuun Sukhait, will facilitate export processing and service Mongolia's Tavan Tolgoi coal mine. The second, on the Mongolian-Russian border at Altanbulag, is aimed at promoting eco-tourism.

The extent to which Mongolia can take advantage of Belt and Road's possibilities and realize its own economic goals is a big uncertainty. Harmonizing the interests of Chinese firms that are implementing Belt and Road-related projects with those of Mongolian authorities promises to present challenges. Another challenge lies in trying to coordinate priorities among a wide variety of local, provincial and national governing bodies in China, Mongolia and Russia.

Mongolian leaders for now seem to be hoping that the development of transport routes will spur the creation of industrial clusters in the country, which are seen as an engine of growth for manufacturing and agribusiness. The realization of that vision would at least help Mongolia make progress toward diversifying its economic base. Meanwhile, Mongolian leaders appear resigned to having to set aside for now the goal of reducing the country's dependency on China.

The Real 'Thucydides Trap' is Simplsitic Thinking

Author: Tristan Kenderdine is Research Director at Future Risk
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Straits Times

Professor Graham Allison's simplistic finding that 'rising state power usually causes armed conflict' is being swallowed as gospel by media and academics alike. It is dangerous and defeatist thinking that works against progressive development of a Northeast Asia security dialogue and future protocols.

'Thucydides' Trap' is the thesis that a rising power upsets the established balance of power making war inevitable. And the concept has had a good run in both Chinese and American public security discourse. However it is based on little more than a superficial reading of modern history and the 'trap' is far from an accepted paradigm.

However Thucydides' Trap is as meaningless as the 'Pivot to Asia' which was simply rhetoric taken out of context with no significant troop or hardware replacements. The Obama administration presided over a status quo in East Asian security, not a pivot.

In the Indo-Pacific for example, Australia for example has risen to be a middle-power without conflict with Indonesia; Thailand has risen to be the dominant industrial-military power in mainland Southeast Asia without a major state incursion; and India continues its rise without major threat of war.

The Long Peace in the Western Pacific has been the United States' great diplomatic, security and and economic success. The legacy of the United States' role in the Western Pacific is near spotless, from guaranteeing peace and security in post-war Japan which peacefully reindustrialised, the establishment and nurturing of SEATO which grew into ASEAN, defence of the Taiwanese and South Korea polities.

The only solution to Asia-Pacific security is one that engages China, and establishes the institutions and dialogues necessary to allow China a voice in shaping the security paradigm of its region. It is possible to have lasting peace in the Indo-Pacific in a post-US hegemonic order and we should all be working towards this ends.

However it is as natural as anything for China to push back against the forward deployed US forces in the Western Pacific. Imagine if 20th Century Republican China had had an undefeatable flotilla sitting off San Diego through the United States' Great Depression in the 1930s. Chinese control of the Eastern Pacific is as anathema to the United States as United States' control of the Western Pacific is to China.

Thucydides' world had just one sea, the Meditereanean. However the China-US rivarly for naval dominance is spread over two oceans, the Pacific and the Indian. China's quest to become a two-ocean power is clear. And Chinese hegemony of the Indian Ocean is not so far-fetched.

But likening China to Athens in grwoing naval supremacy belies just how nascent China's naval power projection capabilites are and ignores the role of United States in the region. If China is Athens, is the US really Sparta?

Entertaining the Attican analogy, it is much easier to liken the United States to Athens, an imperial trade and naval power, while contemporary China much more resembles Sparta. US control of the Pacific for the 70 years since the end of the Japanese war is comparable to the

rise of the Athenian Empire. While China's reliance on a peasant class to prop up a top-heavy land-based power structure looks a lot more like the helots and warriors of Sparta. And of course the Archagetai diarchy looks a lot more like the collective leadership of the Chinese Communist Party than anything Athenian, imperial or otherwise.

Yet while China looks like strong-arming Southeast Asia, it is still caught in a Western Pacific game set by the indisputable naval hegemon. The principal feature of naval power is the ability to project power, something China has lacked for the entirety of its civilisation. To contrast its impressive Coast Guard vessels with the weak navies of the Philippines and Malaysia belies the larger game. China has limited mobile nuclear power capabilities and lacks sufficient submarine or aircraft carrier fleets to effectively project ocean power.

Indeed the China security paradigm is defined by the two-island chain clinch projected by US naval power. China's shipping lanes are completely dominated by US power, by the forward deployment line of the 7th fleet and by the Straits choke in Malacca. To liken China to the Delian League which controlled the Aegean is more than a stretch when China barely has freedom of movement in its near seas.

As China was excluded from the 20th century security framework of East Asia, its rise cannot be status quo. The world depends on the United States to tactfully defend, withdraw, secure, stare down and stand up all at the same time in varying spheres in East Asia. However China must be included as part of the security framework for ASEAN, Australia, and the Japan-Korea-Taiwan triangle.

Economically the world has engaged with China, but the security apparatus of the Western Pacific is stuck in a post-containment malaise. That the end of the Cold War ended in the triumphalism of End of History just as in Prussia after defeat of the French Empire demonstrates not a successful containment, but a failure to engage with a now resurgent Russia and an ascendent China.

If we want to avoid falling into simplistic thinking about changing security paradigms of China's rise, let us hear more Chinese voices on what China sees its role in the Pacific as and let us see how deep and multifarious the debate on China's role in the Asia-Pacific maritime law and security architecture can be.

The Asia-Pacific is not the Peloppenese and security reality is more complex than Attican history. The more reference to naval history the better in understanding the factors which will help us all to avoid conflict. But let us leave the Peloppenese to history. And let us all do better than relying on Herodotus to dictate the outcomes of the 21st Century Asia-Pacific Security paradigm.

Let us not allow a simplistic Attican catch-phrase to dictate our choices in rebalancing the 21st Century Asia-Pacific security architecture. Establishing such an architecture to ensure the continued prosperity of all nation states in the Western Pacific, Northeast Asia, and increasingly the Indian Ocean will be the political and regional integration challenge of the 21st Century.

The world is more complicated than Thucydides', and our narratives need also be.

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A forum and a feint: Belt and Road or China's one-way trade street?

Tristan Kenderdine
17 May 2017

Policy Forum

Rather than a regional trade agreement, China's Belt and Road strategy is an extension of Beijing's economic policy in foreign lands, Tristan Kenderdine writes.

Boxers throw feint punches, and magicians misdirect to the dummy hand. Such was the intention of the Belt and Road Forum which took place in Beijing on 14 and 15 May. China intended to project an image of a multilateral trade project of mutual benefit while obscuring the initiative's problematic export of China's industrial overcapacity and policy bank debt model. However, the forum will be remembered as a China foreign policy misstep rather than a sleight of hand.

The intended feint was not the spectacle it could have been because China concentrated on making inroads through the executive branch of other countries' governments, ignoring the administrative branch where it is actually stronger. Rather than relying on powerful heads of state visiting Beijing, China should have concentrated on inviting technocrats and ministers to draft a genuine trade agreement.

Thailand, China's strongest Belt and Road partner in Southeast Asia, perhaps missed the memo. Bangkok left Prayuth Chan-ocha, the head of the ruling military Junta and Prime Minister, at home, instead sending delegates from the ministries of Transport, Commerce, Digital Economy, Science & Technology, and Foreign Affairs.

Whether intended or not, these are exactly the state-to-state transfers China needs to encourage if the Belt and Road is to mature from mere foreign policy to a framework for regional cooperation.

Other forum attendees indicate China's strategy to cement the bilateral relations necessary for the success of Belt and Road. China's key partner, Kazakhstan, obligingly sent President Nazerbayev to Beijing, and China's fellow Central Asian partners, Kyrgyzstan's President Atambayev and Uzbekistan's President Mirziyoyev were also present.

But not all leaders answered Beijing's beck and call.

Interestingly, Turkmenistan's President Berdimuhamedow was absent. His country is vital to China's strategy, as the rail ink from the Kyrgyz Republic to Uzbekistan to Iran must pass through Turkmenistan to have a chance of bypassing Russian influence.

More significant were the absences of high profile leaders from Iran, Saudi Arabia and Egypt. China's Middle East investment strategy hinges on creating a geoeconomic axis from three of the most populous countries in the region. Their importance is attested by a 2016 Middle East policy paper, which outlined China's strategy in energy equipment and agro-industrial capacity transfer.

China is also key to Saudi Arabia's 2030 strategy to wean itself off oil dependency. Beijing is providing civil nuclear technology to spearhead the development of a network of 16 civil nuclear plants that aim to supply 50 per cent of Saudi Arabia's energy needs.

The Belt and Road is effectively China's answer to comparative advantage – allowing it to subvert Washington Consensus trade norms. As such, the plan is a vast state-planning

policy to coordinate China's trade and investment strategy in external geographies. It is not a resurrection of the liberal international order, it instead represents the institutionalisation of its own international industrial policy. As Jörg Wuttke has argued, rather than a regional trade agreement, the initiative is a one-way street.

The Eurasian Resources Group made a similar complaint, arguing that if China were serious about expanding international trade through the Belt and Road then there must be a reciprocal opening of consumer and capital markets in China.

But the real feint is that Chinese money destined for Belt and Road economies is not meant for infrastructure investment. Instead, finance is to fund industrial capacity to produce the inputs for infrastructure investment – an important distinction. Under WTO rules, a state cannot dump cement into international markets, but there is nothing to stop a state from dumping a whole cement factory to an external geography.

China's trade with Europe will likely develop into a two-way channel as China transitions from a net exporter to a net importer. However for the foreseeable future, investment in Central Asia and the Middle East will remain one-way trade on China's terms, effectively extending China's industrial matrix into Central Asia for re-export to China, without opening China's deeper consumer and capital markets.

International media focus on the Belt and Road forum will likely centre on railroad and port infrastructure. Most of this is nothing new. China is fairly clear about the logistics lines it wishes to develop in order to bring goods in. In Central Asia and the Middle East, three western trunk lines are designed to pass through Russia-Kazakhstan, Georgia-Kazakhstan, and Turkey-Iran-Kyrgyzstan. On the Maritime Silk Road, the clear terminals for routes into China are from Piraeus in Greece, Oman, Pakistan, and East Africa.

However, to achieve these infrastructure goals, China must engage the state bureaucracies of host countries. Presidential handshakes and the choreographed Confucian 'harmonious co-existence' of photoshoots do not build railways and ports. And without a concerted effort to build international public rule of law, it will be difficult for China to shake the simplistic Sinophobia which plagues its international trade agenda.

Chinese investment in the geographies, industries and technologies that the West has ignored should be welcomed. There is no such thing as too much steel, cement, glass, paper or aluminium as far as Central Asia, the Middle East, and Africa are concerned.

But, do not lean into the feint. This is the Chinese domestic development model applied to external geographies, and it carries the seeds of a global debt-deflation scenario.

Central Asia: Challenges Ahead for China's Belt and Road Project

Tristan Kenderdine
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Eurasianet

China's bid to expand its economic presence in Eurasia – embodied in its "Belt and Road" initiative – requires a major upgrade of railway capacity, especially in Central Asia. Planning and implementing the upgrade entails significant challenges involving coordination, both domestically among various Chinese state agencies and entities, and internationally between China and Central Asian states.

The railway component of the Belt and Road is ambitious, with an abundance of moving parts. The concept relies on three trunk lines running through Central Asia. West Passage 1 exits from Xinjiang's Alashankou (Khorgos), runs to Kazakhstan and moves on to a junction with Russia's Trans-Siberian Railway. From there, the route can extend to the European Union via Belarus.

West Passage 2 exits Xinjiang's Alashankou (Khorgos) and, via Kazakhstan, connects to Turkmenistan, Iran, Turkey and other countries, again with possible access to Europe; a branch also connects to the Caucasus via Kazakhstan and ferries across the Caspian Sea. Meanwhile, West Passage 3 connects China's western city of Kashgar to Osh, in the Kyrgyz sector of the Ferghana Valley, via the Irkeshtam Pass. From there, the railway heads to Uzbekistan, Turkmenistan, Iran, Turkey, and beyond.

Another trunk line, not involving Central Asian states, is called East Passage 1. It connects the Inner Mongolian town of Erenhot to the Trans-Siberian railway, and from there to Europe.

(View charts of both existing and planned rail routes and border crossings).

So far, China's efforts to address the coordination challenges have been hampered by a lack of a nuanced approach that accounts for the social and cultural sensitivities of its Central Asian neighbors.

In their dealings with Central Asian leaders, Chinese authorities have framed the Belt and Road in purely pragmatic, economic terms, calling it a "South-South" development policy that will produce a "win-win" economic situation for all involved. Many independent observers believe this appeal to pragmatism misses the point.

Politically, Central Asian states are not all "mini-Chinas" with centralized political systems. The political complexion of Central Asia involves a wide array of governance structures, varying core-periphery power relations with Moscow, and, in some states, complex relations between central and regional authorities.

Meanwhile in the socio-economic sphere, officials in Beijing do not seem to appreciate concerns among Central Asian leaders, who believe China's massive economy is capable of overwhelming their own economies, and have a transformational effect on their societies.

Internally, three corridors are being developed within China to funnel trade outward via rail. The West corridor comprises the northwest, southwest, central and southern regions, utilizing the Lanzhou-Urumqi railway network. The North corridor comprises the north, central and southern regions of China and utilizes to south-north Beijing-Guangzhou rail network. The East corridor comprises the northeast, east, central and other regions, utilizing the Beijing-Shanghai and

Harbin-Dalian railway clusters.

A major component of China's approach to address logistical dilemmas is a policy dubbed "international production capacity cooperation." The idea is to reduce domestic overcapacity and disperse Chinese production, and, in the process, reduce railway choke points that could hamper the efficient distribution of exports produced by Chinese firms.

Under the policy, Chinese firms are being encouraged to "go global" and move plants abroad. State-backed financial institutions are on notice to help whole domestic industry chains move offshore and to provide infrastructure investment in host countries that facilitates both the transit of exports, and the development of industrial capacity in those host countries.

Primary state responsibility for promoting the offshoring initiative will fall on provincial-level officials, backed by central planners. Chinese financial institutions are also creating financing mechanisms that will be available to provincial governments, which have their own Belt and Road policies that are supposed to be tailored to play to geographic, industrial-infrastructure and competitive-advantage strengths.

This strategy carries with it a couple of big risks. The biggest is perhaps a lack of institutional experience at the lower levels of China's governing structure in dealing with counterparts abroad – something that could easily create a drag on the offshoring effort. If it is not handled deftly, China could end up exporting its problem of industrial overcapacity.

For China to keep the Belt and Road railway component on track, it needs provincial officials to be up to the task of negotiating intricate international deals, and it also needs the domestic financial system to hold steady. Chinese officials additionally should tweak their approach toward Central Asian states, acknowledging the diversity of the region and engaging neighbors in a way that is more culturally tactful.

Putting the Pacific on China's Radar

Tristan Kenderdine, Research Director at Future Risk, explains that "The Pacific Islands Forum economies have a huge opportunity to align with China's global geostrategy through the new capacity cooperation financing mechanisms."

Tristan Kenderdine
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Asia Pacific Bulletin

As China's foreign direct investment strategy is increasingly formalized into international capacity cooperaTIon funds, Pacific Island economies are struggling to engage China's broader Belt and Road policies. While Beijing's investment and trade strategy conTInues to transform the ocean corridor west from Southern China to Southeast India, the South Pacific looks to be orphaned through yet another period of history. However, the Pacific Islands Forum economies have a hugeopportunity to align with China's global geostrategy through the new capacity cooperaTIon financing mechanisms.

In 2016, China embarked on a massive capacity cooperaTIon funding campaign to develop a parallel trading system which bypasses internaTIonal capital infrastructure and allows China to invest abroad while maintaining a closed capital account. This campaign forms the vanguard of a state trade strategy with a transformaTIve power over the macro Asian region. Targeted economies include Central Asia, West Asia, Southeast Asia, Africa, LaTIn America and most recently Central and Eastern Europe.

Both the People's Republic and the Republic of China have long engaged in aid for diplomacy strategies in Pacific Island states. However Beijing now sees a crossroads emerging between South America and China through the Pacific, and has a new strategic interest which goes beyond the Taiwan issue.

China's slowing industrial economy has also seen a growing desperaTIon from Beijing to offshore industrial growth. Foreign direct investment from Chinese state driven infrastructure projects has increasingly found its way to states recognizing the People's Republic: Papua New Guinea, Fiji, Tonga, Samoa, Vanuatu, and the Federated States of Micronesia. Despite this, no specific capacity cooperaTIon funds — the finance mechanism for Belt and Road offshoring industrial capacity — have yet been earmarked for Pacific Island states. China's wider ocean strategy includes industrial and agribusiness offshore investment. Its Pacific Island trade and investment strategy is run through Guangdong Province and provincial level ciTIes there which coordinate investment in Pacific Island fisheries, agriculture, and infrastructure.

The more specific Belt and Road strategy links China's eastern and southern port ciTIes with Europe via the Indian Ocean port system. Designated trading routes pass through the South China Sea and the Malacca Straits, then through Myanmar and Sri Lanka on the way past India, and the Middle East toward European sea terminals in Greece, Turkey and Italy. Pacific Island countries sit at a different crossroads, between South America and China's East Coast. The development of China's rail and canal projects is opening logisTIcs infrastructure hubs in South and Central America. This means that a new South Pacific shipping corridor is likely to open up.

A deep-water container port at a half-way point could replicate Dubai's air strategy on the sea. Fiji becoming a mariTIme Dubai would bring investment to the region and facilitate trans-Pacific trade logisTIcs. As Papua New Guinea has benefited from liquefied natural gas exports to Taiwan, China and Japan, so too can other Polynesian, Melanesian, and Micronesian island

economies find new trade avenues into the Asian mainland.

Containerized intermodal shipping logistics and refrigerated shipping will see huge demand as China's domestic cold-chain logistics system develops. Chinese demand for a variety of commodies from South and Central America will see increased demand for both soft and hard commodiTIes shipping. A global downturn in shipping paired with an oversupply of ships creates opportunity for Pacific Island countries to develop trade routes while infrastructure is affordable.

South Pacific fisheries and food industrialization present an opportunity to feed China's huge and growing demand for fish protein that neither global wild catch nor industrial aquaculture can currently service. Mariculture, landing stations and harbor infrastructure, fish processing facilites, and aquaculture development all hold potential for Pacific Island economies. Fish processing facilites could leverage Chinese investment in infrastructure, build aquaculture employment bases and export clean fish products to the Chinese mainland. China's distant water fleets already exploit wild-catch in both the Pacific and Southern Oceans and China has a huge demand for high-quality, safe, standardized food.

Gene industrializarton and gene research is a key strategic industry for China. Legal and organizaTIonal developments in seed and animal geneTIcs are laying the groundwork for China to become a world leader in geneTIcs. Interest in biodiversity in the Pacific and the seabed are clear. Negotiations on Biological Diversity Beyond Areas of National Jurisdiction demonstrate China's interest in marine biodiversity.

China is also at the forefront of internaTIonal seabed mining, taking a leading role in the International Seabed Authority. Chinese state owned enterprise, China Ocean Mineral Resource Research and Development Association currently has 15-year exploratory rights over areas in the Clarion-Clipperton fracture zone, searching for ferromanganese, cobalt and polymetallic nodules. As more industrialized nations engage in the 21st century submarine land-grab, the Pacific Island economies are sittng on more land than most conTInental countries that, if leveraged well, could bring huge benefit to their populatIons. Aerospace technologies, satellite communicaTIons and space policy are also rapidly being developed by China, which has signaled a desire to create a network of floating satellite ground statIons. Given an increasing constellaTIon of satellites and more sophisTIcated use, China needs reliable communicaTIons surface staTIons in the South Pacific.

China also faces a dependency on US controlled submarine internet communications lines. The global internet infrastructure is dependent on cables lying across the ocean floor such as Blue Sky — the proposed line from New Zealand to the US. China has already laid its own cables between South America and Africa, and faces bottlenecks to both service and security in the Hawaiian dominated north Pacific. A South Pacific communicaTIons route to South America would be invaluable to China, and access to this cable infrastructure would be equally valuable to Pacific Island economies.

Thinking of China as a net exporter of capital goods, and importer of consumer goods, means small economies plugged into China need pay attention to consumer sentiment and behavior in the country. China's wider geopoliTIcal and marine strategies will bring investment and infrastructure to Pacific Island economies. This capital of course comes with state mercanTIlist strategies attached.

However, access to these consumer markets will allow Pacific Island exports to feed China's demand for fish protein, hydrocarbons, minerals, biopharmaceuTIcals and marine energy. Outside analysis of economic development in the Pacific has too long focused on tourism, remittance and aid, ignoring the export potenTIal of the island economies. As the Pacific Island economies increasingly engage with global trade, capital investment from China can help to

develop industrial infrastructure for further regional economic integration. While both Chinese capital and construction projects present sustainability and quality problems, an impending wave of investment should be harnessed by the Pacific Islands Forum as an opportunity for capital, infrastructure and economic development for the region as a contiguous whole. Let commerce with China build the Pacific Islands into a genuine trade bloc and let us banish dependency economics once and for all.

China's multilevel governance problem: Policies lost in transmission in Central Asia

Tristan Kenderdine
21 November 2016

Policy Forum

If the New Silk Road is to reach Europe, China's bureaucrats will need to lift their game and more closely communicate policy developments with their counterparts in countries along its path, Tristan Kenderdine writes.

What is today the European Union (EU) began as the European Coal and Steel Community in 1951. Multilevel governance is European state administrative theory that has grown with the EU to describe and define the institutions and public administration powers of the industrial bureaucracy's multiple levels. China's New Silk Road through the post-Soviet states will encounter many of the same governance problems that Europe has already solved.

As China readies its five-year industrial policies and coordinates massive financial cooperation and project system funding, a policy transmission gap is emerging: the lower levels of the Chinese government are not connecting with their counterparts in the bureaucracies of economic partner countries. With huge and well-orchestrated plans, such as the one for intercontinental rail, China will face a multilevel governance policy transmission problem without upgrades to its public administration communications infrastructure and protocols.

State Council Premier Li Keqiang was recently in Central Asia talking up the benefits of industrial capacity cooperation and security measures as the development of two trunk rail lines through Kyrgyzstan and Kazakhstan to service the Belt and Road geo-industrial policy continues. While Chairman Xi Jinping has had high profile meetings with the Presidents of Shanghai Cooperation Agreement and Eurasian Economic Union (EEU) countries concerning the Silk Road initiative, the lower levels of bureaucratic implementation and policy transmission have not taken place. This has left many senior policymakers in Central Asia unclear about China's intentions.

In Kyrgyzstan, the Kashgar-Osh rail line would open up a logistics supply channel through Fergana to Samarkand, and south through Turkmenistan to the stable trading partners of Iran and Turkey ending in Istanbul, a natural terminus. For the Kashgar to Fergana Valley rail connection to succeed, China must manage a very difficult set of relationships. The Fergana Valley in both Kyrgyzstan and Uzbekistan is home to Salafism, a school of Sunni Islam, which China's intellectual, diplomatic discourse is as yet unprepared to deal with. The terrain through the Tian Shan mountains is an engineering challenge in itself. Establishing the logistics lines and achieving institutional integration will be equally daunting diplomatic feats. Kyrgyzstan was benefiting from increased Chinese imports before having to harmonise their trade tariffs upwards upon joining the Eurasian Economic Community, meaning on simple trade metrics, China should be encouraged. However, greater levels of understanding are needed between China and its bordered neighbours to pull off the project. (*Click here to see map*).

Managing the relationship with Uzbekistan also presents serious difficulties. Uzbekistan faces economic risks due to the closed nature of its economy. Its focus is squarely on employment opportunities for its huge population. For Uzbekistan, the Eurasian Economic Union presents more challenges than solutions, whereas China can offer capital and currency support to a country in grave danger of dollarization if it opens up its economy under the EEU.

Kazakhstan is at an historic crossroads. Its middle-income status, great natural resources and relatively transparent governance make it a global pivot point, in the centreboard of the

Eurasian landmass, for the balance of power over energy and water security. Kazakhstan's government is highly centralised, meaning China can negotiate state-to-state agreements with its long-standing friend, President Nazarbayev, with relative ease. However, it also means that the process of policy transmission and implementation among lower levels of government is difficult, slow and not clearly communicated. A case in point is the signing, according to Dr Meruert Makhmutova, Director of the Public Policy Research Center (an independent think tank in Kazakhstan), of a capacity cooperation agreement involving the relocation of 50 industrial plants from China to Kazakhstan. Beyond that, there was little public information provided about the industries, firms or plants to be transferred. This makes it difficult for the capacity-receiving nation to prepare its regulatory and financial systems for the new industrial influx, and leaves business, which must adapt to new input-output matrices, with no idea of the structural change about to take place. If capacity cooperation is to work, the host nation must be able to adequately prepare.

To balance geo-industrial power between dependence on Russia and instability risks in the Central Asian Republics, it is entirely sensible for China to have two roads to Europe, through both the Russian and Turkic worlds. However, the many sovereign states in between China and Europe, and their people, should be consulted, communicated with, and transparently engaged in building them.

Trade, Industry and Geoindustrial Policy

What the world gets wrong about China's overcapacity

Many policymakers confuse productive capacity with production output

Tristan Kenderdine is research director at Future Risk.
August 5 2024

Nikkei Asia

There is cyclical confusion in the analytical community whenever China's industrial overcapacity gets out of whack, with analysts, policymakers and even the European Commission confusing productive capacity with production output.

The term "overcapacity" is being used everywhere, but particularly in Europe, to show how much China is overproducing. But capacity is not production, and overcapacity only hurts China's domestic economy. For China's trade partners, the dumping of goods at below costs is what hurts them.

Overcapacity in industrial economics is building out larger factories than a company needs in the hope that the supply will create its own demand. In a capitalist economy, the individual firm that invests to build a factory far beyond market demand will incur losses -- fixed capital losses from construction, then operational maintenance losses in land taxes, electricity, and the amortization of buildings and machines and then further losses in unrealized gains because the factory operates at below capacity utilization optimization levels.

Capitalism theory and practice show that the company takes the loss for overcapacity, learns from its mistakes and next time builds a more appropriately sized factory.

In communist economies like in the former Eastern bloc, the state takes the loss for overcapacity, causing more misery for the workers who pay for the state.

In China's mixed-model economy, the communist state may take the loss for a state overinvestment but mostly cannot afford the price of making the company take the capital loss: political legitimacy. Without bailouts or the ability to go bankrupt, the only way is forward, and the loose capacity turns into actual production, which is then dumped onto international markets. This means that other suppliers to global markets take the loss for China's overproduction, a consequence of its overcapacity.

In a functioning market economy like the U.S., where the international market demands, say, 1 liter of soybean oil, a series of 1-liter-bucket companies might attempt to service the demand. They will carry soybean oil to market at varying rates of capacity utilization, for example, two low-quality producers at 25% and one higher-quality company at 50%. Each has had to rationally allocate capital to build a 1-liter bucket and compete each day to cover both operational and fixed capital costs. But there is always excess capacity in the buckets.

If the Chinese state invests in a single 4-liter state-owned bucket and attempts to carry 1 liter of oil to the market with a capacity utilization rate of 25%, then China's state capitalism has invested in too large a bucket to supply global demand and has already lost on capital expenditure. China should have allocated capital to construct a 1-liter bucket to compete with the U.S. companies. But this is not yet an international disaster. China simply has a giant, useless bucket, and should probably reform its capital allocation methods.

But China is not a centralized state-controlled economy. While it has influence over policies and subsidies, China's political center does not actually do that much. For buckets, they mostly

allow local levels of government to provide bucket-building subsidies.

Mr. Zhao, for want of a better name, sees a local subsidy and wants to enter the market. Zhao is not a corrupt provincial leader who can get subsidies for a 4-liter bucket mega project, he's just a regular Zhao and through hard work and finagling can get himself into ownership of a 1-liter bucket. The problem for the international market is that he is not the only enterprising regular Zhao. Zhang, Zou and Zhen have all used the same mechanisms to establish 1-liter bucket businesses based on subsidized market entry costs and artificial future demand.

Now we have an economic disaster. Zhao has production costs and can neither back out nor go bankrupt. The same is true for the other three, all fighting to survive. So they all use their full capacity, taking present operational losses on the promise of future market share, and they oversupply the market with 4 liters of oil. The state can do little to stop them, and each has zero incentive to carry less, because if they do, the others will take their share of the artificial demand. The soybean oil prisoner's dilemma.

Can the state go to each and demand that they only carry at 25% capacity? With a big enough stick, yes. But then next year, the state will want to use the same local government subsidy-driven production system to make solar panels, then semiconductors, then drones.

If the state destroys Zhao's business, then the next Zhao will not make the state's EVs, its flying cars or its drone armies. This is how overcapacity works in China's mixed economy. And as China has overcapacity baked into its production system, expect another flurry of overcapacity issues in a different techno-industrial sector in three to five years.

Capacity is not production. Capacity is not dumping.

China has overcapacity in high-speed rail manufacturing, but the factories simply sit idle most of the year. Overcapacity in China's EV industry is a China capital expenditure loss problem. But if China runs those EV factories at full capacity, overproduces EVs and dumps EVs on international markets at prices that destroy European, American and Japanese car manufacturers then this is a dumping problem.

For non-China producers of EVs this is a disaster. It is conceivably a good thing for countries with no domestic industries for whom a supply of cheap Chinese EVs does create its own demand. Europe, though, is upset about being flooded with low-cost goods that are subsidized by the Chinese state. Europe is not upset that China has misallocated domestic capital.

China's EV dumping is a bad thing, but remember that "overcapacity" is the big empty factory, not the mountains of EV "production" when the factory is turned on.

China's Central Asian Rail Investment Does Not Add Up

China's contribution to Central Asian rail connectivity remains miniscule.

By Tristan Kenderdine and Péter Bucsky
April 01, 2021

The Diplomat

Much has been made of China's Belt and Road policy and the supposed economic benefits for Central Asia. A case in point is the CR Express (China Rail Express) system of containerized intercontinental rail freight between China-Europe and China-Central Asia. Much media copy has fallen for the Khorgos policy hype, and much research has taken China state media reports on the volume of containers transported at face value.

The main problem is that there are no official statistics available on goods transported from China to other countries by rail. We have examined statistical data sources from the European Union and found that the volume of rail freight trade between China and Europe falls below the level reported by China. We also have examined the role that China has played in developing rail infrastructure in Central Asia. We find that while China has increased its trade relationships with the five Central Asian republics, foreign direct investment (FDI) capital stock remains very limited. In terms of rail corridor and rail infrastructure development specifically, China's contribution has been negligible.

One of the promises of China's Belt and Road Initiative (BRI) investment was to build infrastructure that would facilitate trade between Central Asia and China, replacing Soviet-era industrial infrastructure that favored Russo-centric trade institutions and practices. China's policy promises for the region were of supply-side led infrastructure development. However, in rail freight almost no infrastructure investment has taken place. In addition, demand-side GDP and trade growth remain the primary economic drivers of rail freight transport volume, not vice versa.

Research analysis has focused on the development of road and rail transit corridors that would reduce transport costs and times, thereby front-loading economic growth. However, in reality China has had a very limited role in regional rail transport infrastructure development, and even after the introduction of the BRI, China has provided virtually no funding for new projects in the region. One study even found that for the BRI in the Commonwealth of Independent States (CIS), the spatial spillover effects of transport infrastructure development have actually been negative.

The only three rail infrastructure projects that China has been involved in are Uzbekistan's Angren-Pap railway (as a $500-million contractor on the Qamchiq tunnel section), Tajikistan's 40.7 km Vadhat-Dangara line ($121 million, 95 percent financed by Export-Import Bank of China); and the Khorgos Gateway white elephant (as a 49 percent minority shareholder).

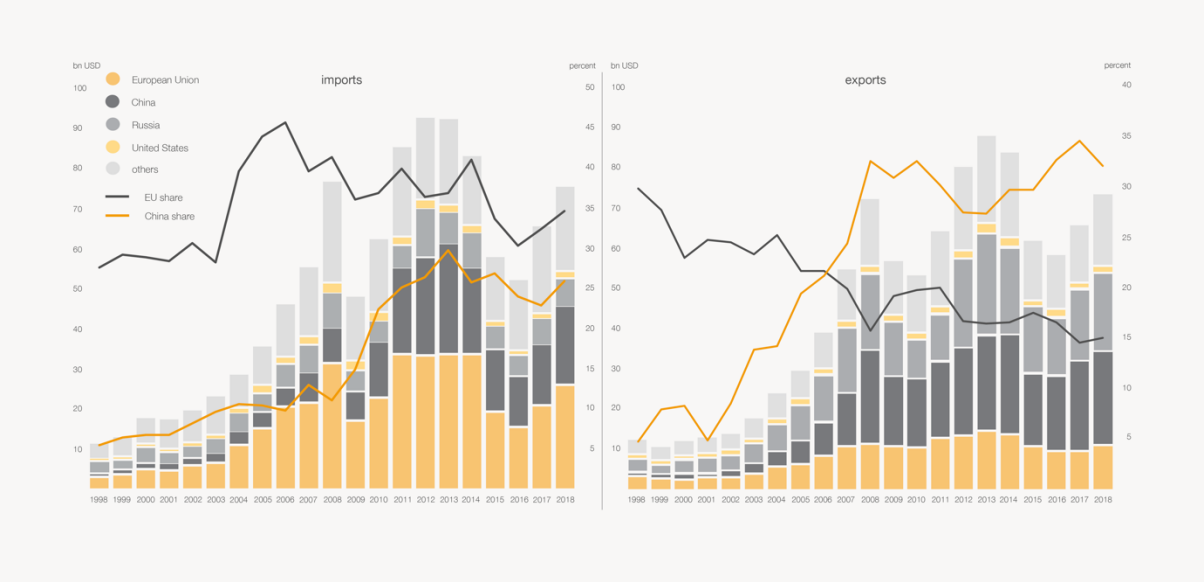
While Khorgos has received huge media attention, the Alashankou/Dostyk crossing farther north is the main cross-border thoroughfare for China-Europe trains via Kazakhstan. Khorgos was policy-designed to be a dry port and the cross-border point for China-Central Asia class rail freight. By our estimations, based on in-person visits, Khorgos remains hugely underutilized. In 2019 on average only six trains passed the Khorgos/Altynkol border daily in combined directions. Compare this with 25 daily train crossings at Alashankou/Dostyk.

Not only infrastructure investment, but the significance of rail freight transport between

China and Europe or China and Central Asian countries has remained limited. Despite the rapid development of China-Europe rail freight transport, carriage volumes are still very low. In 2018 rail only had a 2 percent share of all transport between the two regions, measured by volume.

Further growth potential is also limited due to infrastructure capacity. While trade expanded rapidly to around 500,000 twenty-foot equivalent unit (TEU) containers per year, without major infrastructure investments this can only improve to around 1 million TEU per year due to capacity bottlenecks. And despite clear structural determinants that favor growth in rail freight, traffic volumes across the Central Asian region only grew 1.3 percent between 2014 and 2018. Rail freight transport growth was actually higher between 2008 and 2014 at 26 percent, demonstrating that regional rail freight growth actually *fell* after the introduction of the BRI.

The contiguous economic region of the five independent Central Asian states, with a combined population of around 75 million people, has huge potential for extra-regional cooperation in trade, investment and transport. Between 1998 and 2008 Central Asia's GDP increased 356 percent, while trade grew 698 percent. Between 2008 and 2018, however, GDP growth was only 31 percent, while trade growth slowed to 1 percent. Taking the period from the 2013 introduction of the BRI to the latest available data in 2018, the two figures are even grimmer: GDP declined by 30 percent and trade declined by 19 percent.



Figures 1 Central Asia's regional trade partners

Disaggregated, the region's major trade partner in 1998 was the European Union (29 percent) followed by Russia's 28 percent, with China at only 5 percent. By 2018 China had become the region's most important trade partner (29 percent) displacing a slightly declined EU trade share (25 percent), while Russia heavily declined to only 18 percent of the region's external trade. Analyzed in real terms, China has not been developing additional trade, but was simply replacing Russian trade.

As a source of FDI though, China has yet to deliver any real development in the region. Kazakhstan is the greatest attractor of FDI in the region and the flagship partner economy of the BRI. But in the third quarter of 2019 the EU accounted for 57 percent of Kazakhstan's FDI stock, with 20 percent from the United States and only 6 percent from China, according to statistics from the National Bank of Kazakhstan. China did oversee a 397 percent increase in FDI stock in the five Central Asian republics between 2009 and 2018, but while this growth is rapid, it comes from a very low baseline, and is actually lower than Russia's regional FDI growth of 425 percent in the same period.

China's introduction of the BRI has made Central Asia a spotlight of geoeconomic and geopolitical analysis. However, the realities of regional rail freight transport are that Central Asia still overwhelmingly gravitates toward Russia and Europe, not to China. China's CR Express rail system to and from Europe also only plays a minimal role in the development of trans-regional rail freight transit: these trains account for only 14 percent of cross-border traffic between China and Kazakhstan.

Despite major investments in new rail corridors within the region, the vast majority of transport routes remain the same Soviet lines that still gravitate toward Russian trade – and beyond toward Europe. Rail connections to China are underutilized, and the BRI flagship project CR Express plays only a marginal role in Central Asian regional rail transport. China's trade activities in the region could conceivably begin to displace Russia's regional trade share, but in terms of foreign direct investment, China still lags behind Russia and the European Union.

The five Central Asian economies deserve to be integrated into regional and global economies. The promise of greater trade connectivity via China's BRI should be a net positive. And yet, both the European Union and Russia have consistently proven to be more important trade and transport powers than China. China's contribution to Central Asian rail connectivity remains minuscule. Future development of extra-regional trade connectivity and transport infrastructure should be welcomed, but evidence-based policy should lead the way, not media hype or false hopes.

This article is a synopsis of "Central Asia Rail Development: Why China's Belt and Road Initiative lacks regional importance" published in The Copenhagen Journal of Asian Studies.

Kazakhstan-China Border Delays as Rail Freight Hedge Wobbles

A bottleneck on the Kazakh-China border has left thousands of wagons waiting to cross for weeks on end.

By Tristan Kenderdine and Péter Bucsky
January 05, 2021

The Diplomat

For China, the geoeconomic policy principles behind the Iron Silk Road rail link through Central Asia were to provide China a hedge against its reliance on Pacific Ocean economies in the event of trade tensions. However, 2020 demonstrated that the Central Asian states have no hedge against the geoeconomic risk of relying on China as a trade partner. On the China-Kazakhstan border, rail freight wagons and trucks have been backed up for over a month as China tightens import restrictions, leaving Kazakh goods destined for China sitting idle.

Rail freight backed up at the Dostyk and Altynkol border crossings reportedly totals more than 7,000 wagons, some of which have been waiting for up to 42 days. Freight delays started in October, with agricultural exporters hit hardest, as grain and oilseed products can spoil if not delivered on time. Freight forwarders are also exposed to losses as they fear fines from their Chinese-side buyers for failure to deliver, leading to calls for the Kazakhstan Ministry of Industry and Infrastructure Development to issue *force majeure* notices for Kazakh exporters.

In 2016, a Strategic Cooperation Agreement and a Freight Forwarding Services Agreement were signed between the Kazakhstan national railway state-owned enterprise KTZ (Kazakhstan Temir Zholy) and the Urumqi Railway Bureau, now the China Railway Urumqi Group. The agreements allow for the passage of 18 trains per day. This was followed the year after with a KTZ and Russian Railways Strategic Cooperation Agreement. But it is the China side that is forcing the present slowdown by restricting imports into China under the guise of pandemic quarantine controls.

Changes between Kazakhstan-China cross-border trade as a direct result of the 2020 pandemic included suspension of non-scheduled CR-Express China-Europe rail freight, but not a reduction in the total number of cross-border trains. This had little effect on the China-Europe container trains, as the overwhelming majority of these train crossings are scheduled, but did provide an institutional grounds on which to restrict Kazakhstan's exports to China.

Kazakhstan's unilateral trade restrictions imposed due to the pandemic included unilateral bans on exports of most wheat and processed wheat and rye products, buckwheat, sugar, potatoes, and sunflower seeds and oil. The Eurasian Economic Union also imposed export restrictions on a similar array of cereal grains and basic foods including crushed and uncrushed soybeans, a strategic import for China.

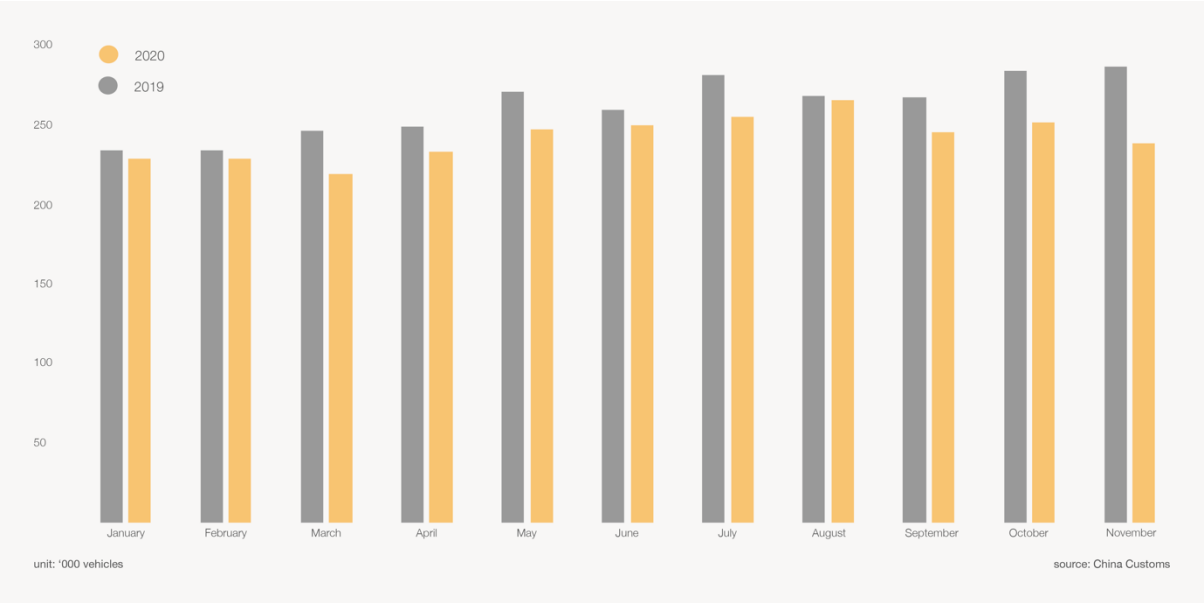
But since July 1, Kazakhstan has been reopening its border crossings, without reciprocation from the Chinese side. In addition to Altynkol (Khorgos) and Dostyk (Alashankou), Kazakhstan has reopened the minor road border crossings of Kalzhat and Maikapshagai, but the border stations on the China side remain closed. In October, Kazakh railway wagons began backing up on the border, but new China pandemic restrictions since November 15 further reduced rail traffic to a maximum of 10-11 trains per day, with lows of six to seven per day. Zhanibek Tayzhanov, deputy chairman of the transport committee of Kazakhstan's Ministry of Industry and Infrastructure Development asked China to reinstate the 18 trains per day benchmark but instead an agreement in late December only increased the daily limit to 15-16 trains. The main bottleneck is on non-containerized freight wagons, mostly acutely affecting agricultural

commodities.

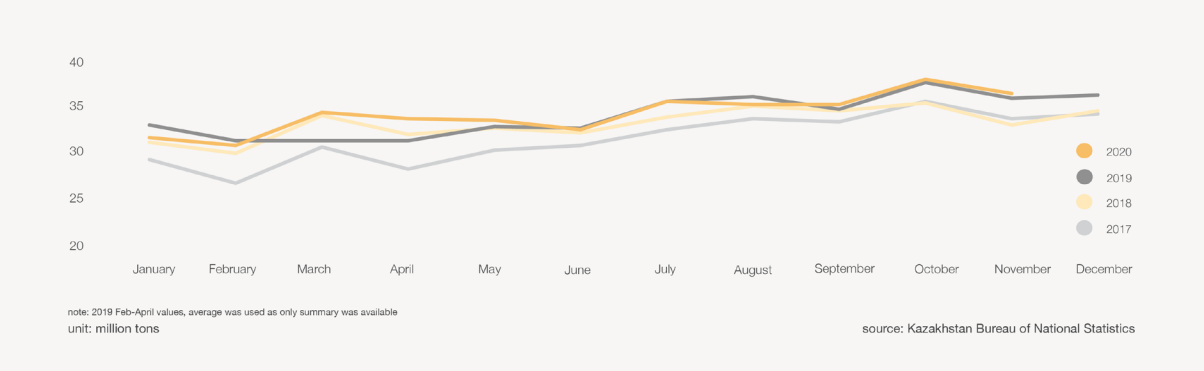
This means the freight backlog will begin to ease but will remain a problem. Kursiv reports Kanat Kobesov, deputy general director of KTZ-Freight Transportation LLP saying that the backlog of rail wagons fell from 9,000 to 7,000 through December, with the Kazakh side prioritizing perishable agricultural commodities and goods. The Kazakh grain exporter Food Contract Corporation reportedly sent 438 rail wagons to the border in October, with only 60 wagons crossing by December. Shokan Badykhan, executive director of the Grain Union of Kazakhstan, has said the problem is expected to continue throughout the first quarter of 2021.

Such a bottleneck at the border naturally creates a backlog farther down the logistics chain, Kursiv reported Yevgeny Karabanov, founder of the Severnoye Zerno Group, as telling a public online forum for representatives of the National Chamber of Entrepreneurs of Kazakhstan (Atameken) on December 22 that his company had 17 rail wagons bound for Dostyk sitting idle at Nur-Sultan or Akkol.

Trucks attempting to cross at the Nur Zholy/Khorgos road crossing have also faced delays. Where previously 100-150 automobiles were passing per day, the China side of the checkpoint is now only accepting 20-30 per day. The backlog of truck drivers sleeping in their vehicles has resulted in intervention by the Kazakh central government against extortion of truck drivers by local customs authorities. Kazakhstan's new contactless electronic queue system for Nur Zholy has also added to the problem, amid widespread allegations from freight haulers of corruption, as some in the queue are seemingly bypassing others.



Number of in- and outbound rail wagons 2019-2020, China.



Monthly data on all goods transported by rail 2017-2020 in million tons, Kazakhstan.

Cross-border statistics for 2020 do not support China's claim that the new restrictions are due to the pandemic. While all other forms of China trade transport fell in 2020 due to the pandemic, rail remained mostly steady throughout the year. Over the past decade, the monthly average rail trade between Kazakhstan and China measured in million of tons moved from around the low 20s in 2008-2011 to the mid 30s in 2017-2020, with no significant reduction in 2020 as a result of either the pandemic or any political issue, until now. Monthly customs data underlines the impact of the policy that China has implemented on rail imports: in November 2020, 16.7 percent fewer rail wagons crossed all of China borders than the same month in 2019.

For Kazakhstan to issue *force majeure* notices would be to accept that COVID-19 is genuinely disrupting supply chains. Trade and transport data from both China and Kazakhstan show that this freight connection should be functioning normally. Statistics show no major changes in rail freight transport between Kazakhstan and China through the pandemic year. This means that China's actions are more easily analyzable as a classic non-tariff barrier to trade problem. Without central political malice, this seems like subnational bureaucratic incompetence on the part of China.

The National Chamber of Entrepreneurs of Kazakhstan (Atameken) has been the most vocal in calling for government action to resolve the freight bottlenecks. A coalition of freight forwarders and exporters joined the Transport Committee of the Ministry of Industry and Infrastructure Development on a December 24 trip to the Dosytk/Alashankou border crossing station. The state-market field trip included Atameken, KTZ and other logistics companies, the Kazlogistics Union of Transport Workers, and the Grain Union of Kazakhstan.

In mid-December, Kazakhstan's Ministry of Foreign Affairs sent a note to the Chinese Embassy in Nur-Sultan concerning the border issue. And a weekly subnational inter-governmental dialogue on rail freight each Tuesday remains in place. Kazakh Minister of Trade and Integration Bakhyt Sultanov said that China now has a similar problems with its other land border trading partners, including with Kyrgyzstan, Russia, and Mongolia. However Sultanov also said that the situation highlights the dangers of trade-reliance on China. Kazakh Prime Minister Askar Mamin, who was president of KTZ from 2008 until 2016, is currently in negotiations with the Chinese side to resolve the issue.

These China import bottlenecks call into question the viability of some of the wider aspects of Belt and Road Eurasian transport corridor integration, particularly the Middle Corridor connection to Turkey. From July 2020, a regular service between Xi'an China and Turkey using the Middle Corridor and Baku-Tbilisi-Kars rail infrastructure was formalized. The grander visions of Iran, Turkey, and Pakistan being connected by rail to China seem rather distant if the simpler bilateral Kazakhstan-China freight system is bottlenecking.

For Belt and Road economies which envisioned the shifting of the regional trade paradigm from land-locked to "land-connected" or "land-linked," this bottleneck demonstrates that China is no more reliable a trade partner than Russia. Without any policy communication or political explanation, Kazakhstan's exporters and freight forwarders are under pressure due to the actions of the Chinese state. For the European Union economies connected to the Iron Silk Road, the situation again demonstrates the lack of transparency in agreement documents and customs statistics. The Kazakhstan-China intercontinental rail system has taken on the institutional forms of the governance models of the states that run it.

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Middle Corridor Struggles to Find Its Way Across Eurasia

Without China's geoeconomic policy push, there is still little economic rationale behind the development of the Middle Corridor.

By Péter Bucsky and Tristan Kenderdine
December 08, 2020

The Diplomat

The Trans-Caspian International Transport Route (TITR) or Middle Corridor, is a conglomeration of rail companies from China, Europe, and trans-Caspian geographies comprising China, Kazakhstan, Azerbaijan, Georgia, Turkey, Romania, and Poland. This corresponds roughly to China's West 2 CR Express corridor, which itself is an overlay of the Central Asia Regional Economic Cooperation (CAREC)'s rail corridors 2 and 6.

The concept and early institutional development of the Trans-Caspian corridor is promising.

The Middle Corridor would allow for greater state-to-state coordination of transcontinental rail freight across member countries adjoining China and the European Union, but is also being developed from the position that the extra-regional and intra-regional rail freight system development should be economically viable for the countries involved.

Most external analyses of China's CR Express Belt and Road rail freight system have been from the intercontinental China-Europe perspective. But development of the Middle Corridor system relates to the viability of intermediate freight lines. For example, if the three separate legs of Istanbul to Aktau via Baku, Aktau to Khorgos, and Khorgos to Lianyungang are economically viable then Lianyungang to Istanbul also becomes viable.

The concept of the Middle Corridor is that with minimal Chinese input, the other economies involved can establish a coordinated rail corridor, which can facilitate intercontinental China-Europe trans-regional trade, but also develop intra-regional and extra-regional trade. Most of the potential depends on developing extra-regional trade. For example, if Kazakhstan can increase trade with the European Union, then both the intra-regional and trans-regional trade can piggy-back on that development. But if extra-regional trade with Europe does not increase, then it is difficult for China-Europe trans-regional trade to ever become economically viable.

There remain serious logistic, infrastructure, and institutional development hurdles if the Middle Corridor is to serve the macroeconomic interests of its host economies and become economically viable for individual freight forwarders, exporters, and importers. Lack of price transparency remains a major fault in both the Middle Corridor and CR Express systems. The Middle Corridor is also multimodal, having to cross seas twice, once in the Caspian and once again on either the Bosporus or Black Sea. While the more trafficked China-Europe CR Express route from Kazakhstan to Poland is longer, it is also a single overland connection.

The conventional narrative on China in the Belt and Road was as an infrastructure investor. But in Central Asia rail infrastructure, China has only been involved in the Qamchiq tunnel project and the Vadhat-Dangara line. China's rail freight policy in Central Asia has not been an infrastructure project but a logistics development project. For that, there are an array of freight forwarders in China especially at the local level who might have incentives to use the system, or might be subsidized either directly from the central level or at various local levels of government or who might receive some other cross-subsidy to incentivize their participation in the development of the system.

Most development of the international rail freight systems is coordinated by state-owned rail networks, and much of the logistics traffic is through state-owned subsidiaries of these state

rail corporations. This state-to-state development of the Middle Corridor governance institution should mean a smoother operational environment for private freight forwarders. Within Central Asia and the Caucasus, logistics operators are mostly state-owned subsidiaries, and while many are well-run and competitive, ultimately their participation is as a result of national industrial development policies where the state sees value in developing this system. From the European side, participating ports and logistics service providers seem less optimistic, and have fewer policy incentives to develop the system.

For China, the wider geoeconomic goals of connecting Xinjiang to the ocean are pursued through a combination of Kazakhstan-Turkmenistan-Iran, the direct Pakistan corridor, as well as the parallel Kazakhstan-Turkmenistan-Afghanistan-Tajikistan corridor development. The ghost prospect of the Kashgar to Osh line through Xinjiang-Kyrgyzstan-Uzbekistan remains geopolitically, if not economically, viable.

However these southern routes still mostly rely on Middle Corridor state Kazakhstan, while the Middle Corridor excludes the Turkmenistan, Kyrgyzstan, Uzbekistan, Afghanistan, and Iran routes to China. This leaves Middle Corridor economies on the Kazakhstan-Turkey line participating in a regional rail link development system that serves as one node in China's higher ordinate geoeconomic policy interests.

For China's economic CR Express freight traffic, most crosses Kazakhstan on the same rail links as the Middle Corridor but exits on the Russian route to Europe. Middle Corridor development is tangential to this, and its development cannot piggy-back on China-Europe route developments. For China, these lines are geoeconomic and worth losing money on. CR Express terminals are centered in central China on east-west Yangtze River Economic Belt corridors – meaning that major international freight hubs are in central China, not Lianyungang port of the Middle Corridor or other coastal ports, which would allow Kazakhstan, Georgia, or Turkey access to the Pacific Ocean.

Central Asia, the Caucasus, Turkey, and Eastern Europe have great industrial infrastructure potential for the development of a rail corridor. But domestic industrialization drives are malformed, stalled, or non-existent. Meanwhile, China's domestic industrial policy is sophisticated and its geo-industrial policy is in an advanced state of deployment. Without domestic trade and industrial policy development from the Middle Corridor state, docking the system to China on one side and the European Union on the other will be difficult.

The three institutional groupings of the European Union, Middle Corridor economies, and China have differing policy objectives and competencies in developing a viable Eurasian rail network. China is invested and infrastructurally developed, but lacks regional competence; the Middle Corridor economies are invested but are structurally and institutionally underdeveloped; while the European Union is regionally competent but uninvested in the project.

Increased rail transport infrastructure and trade volume should benefit the Middle Corridor economies themselves. However, the Middle Corridor remains a reactionary policy to China's subsidized incentives to domestic freight forwarders to use the CR Express intercontinental rail system. Without the China policy, the Middle Corridor development policy incentives disappear. Without China's geoeconomic policy push, there is therefore still little economic rationale behind the development of Middle Corridor.

Péter Bucsky is a Ph.D. candidate at the University of Pécs, Doctoral School of Earth Sciences; Tristan Kenderdine is research director at Future Risk. This article is in part a synopsis of a presentation to the Asian Development Bank Institute's "Trans-Caspian Transport Corridor: Infrastructure and Trade" workshop.

Rail Freight Use on China's Iron Silk Road Underdelivers

Is China's CR Express destined for the industrial graveyard of Eurasian economic policy history?

By Tristan Kenderdine and Péter Bucsky
November 13, 2020

The Diplomat

Containerized rail freight transport under China Rail Express (CR Express) between Europe and China is one of the flagship projects of the Belt and Road Initiative (BRI). However these rail links have been in development since 2011, predating the BRI. China's co-optation of this transcontinental rail freight development was part of a grander policy vision of an Iron Silk Road to service its new Silk Road Economic Belt, the overland portion of what has come to be branded the BRI more broadly.

Both academic analysis and news media report a rapidly growing number of trains. We calculated the amount of trains arriving in Europe using open source Eurostat, the statistical office of the European Union. We compared these figures with hand tallied figures from China's state media reports of the number of trains leaving China for Europe. We found serious discrepancies between the two figures.

For example in 2017, Chinese state media reported around 3,211 intercontinental trains leaving China for Europe. However Eurostat only recorded 1,793 arriving. Even accounting for some trains being joined together to form longer ones for the Alashankou/Dostyk (Kazakhstan) to Małaszewicze/Brest (European Union) leg, this still leaves serious discrepancies in China-Europe rail freight accounting. We would expect to find similar discrepancies in China-Central Asia rail lines.

Both popular media and academic literature have also focused on growth in the containerized rail freight network in China, Europe, and Central Asia. But containerized freight trains are a tiny proportion of railway traffic both in the EU and China. And China's new CR Express system is not the sole intercontinental rail service, with many European car manufacturers running express services between China's industrial northeast and Europe.

CR Express Europe Lines

City	Province	City level	Intermodal?	China Name	Terminals	Exit port	Terminal	Length km	Days	Trunk
Kunming	Yunnan	Prefectural	Dryport		Kunming - Rotterdam	Alashankou	Netherlands	17,000	15	West
Shenzhen	Guangdong	Prefectural	Shenzhen	湾区号 Wanqu Hao	Shenzhen - Duisburg	Alashankou	Germany	13,438	16	West
Yiwu	Zhejiang	Prefectural	Dryport	义新欧 YiXinOu	Yiwu - Madrid	Alashankou	Spain	13,052	21	West
					Yiwu - London	Alashankou	England	c.12,800	18	West
Xiangyang	Hubei	Prefectural	Wuhan	襄汉欧 XiangHanOu	Wuhan - Hamburg	Alashankou	Germany	c.12,800	15	West
Xiamen	Fujian	Provincial	Xiamen		Xiamen - Łódź	Alashankou	Poland	c.12,800	15	West
Changsha	Hunan	Prefectural	Dryport		Changsha - Duisburg	Alashankou	Germany	11,965	16	West
Wuhan	Hubei	Provincial	Wuhan	汉新欧 HanXinOu	Wuhan - Lyon	Alashankou	France	11,300	16	West
					Wuhan - Dolice	Alashankou	Czech Republic	10,100	14	West
					Wuhan - Pardubice	Alashankou	Poland	10,863	15	West
Chongqing	Chongqing	Provincial	Chongqing	渝新欧 YuXinOu	Chongqing - Duisburg	Alashankou	Germany	11,179	12-14	West
					Chongqing - Moscow	Alashankou	Russia	8,129	11	West
					Chongqing - Cherkessk	Alashankou	Russia	8,340	11	West
Chengdu	Sichuan	Provincial	Dryport	蓉欧 RongOu	Chengdu - Łódź	Alashankou	Poland	10,800	12-14	West
Zhengzhou	Henan	Prefectural	Dryport		Zhengzhou - Hamburg	Alashankou	Germany	10,214	11-14	West
Xi'an	Shaanxi	Provincial	Dryport	长安号 Chang'an Hao	Xi'an - Rotterdam	Alashankou	Netherlands	8,850	18	West
					Xi'an - Moscow	Alashankou	Russia	7,251	14	West
Lanzhou	Gansu	Provincial	Dryport	兰州号 Lanzhou Hao	Lanzhou - Hamburg	Alashankou	Germany	8,961	13	West
Urumqi	Xinjiang	Prefectural	Dryport		Urumqi - Duisburg	Alashankou	Germany	8,000	8-10	West
Korla	Xinjiang	Prefectural	Dryport		Korla - Duisburg	Alashankou	Germany	6,990	14	West
Yining	Xinjiang	Prefectural	Dryport		Yining - Kupavna	Alashankou	Russia	5,300	8	West
Urumqi	Xinjiang	Prefectural	Dryport		Urumqi - Moscow	Alashankou	Russia	4,570	7	West
Urumqi	Xinjiang	Prefectural	Dryport		Urumqi - Chelyabinsk	Alashankou	Russia	2,635	6	West
Shihezi	Xinjiang	Prefectural	Dryport		Shihezi - Chelyabinsk	Alashankou	Russia	2,400	4	West
Yantai	Shandong	Prefectural	Yantai	齐鲁号 Qilu Hao	Yantai - Duisburg	Erenhot	Germany	c 10,000	20	Central
Dongguan	Guangdong	Prefectural	Dongguang		Dongguan - Duisburg	Manzhouli	Germany	13,488	19	East
Dalian	Liaoning	Provincial	Dalian		Dalian - Hamburg	Manzhouli	Germany	11,350	12-14	East
Suzhou	Jiangsu	Prefectural	Zhoushan	苏满欧 SuManOu	Suzhou - Warsaw	Manzhouli	Poland	11,200	14	East
Yichang	Hubei	Prefectural	Yichang	宜汉欧 YiHanOu	Yichang - Hamburg	Manzhouli	Germany	c.11,800	17	East
Shenyang	Liaoning	Provincial	Dryport		Shenyang - Hamburg	Manzhouli	Germany	c.11,800	12-14	East
Guangzhou	Guangdong	Provincial	Guangzhou		Guangzhou - Moscow	Manzhouli	Russia	c.11,800	16	East
Yingkou	Liaoning	Prefectural	Yingkou	营满欧 YingManOu	Yingkou - Warsaw	Manzhouli	Poland	10,500	14	East
					Yingkou - Dobra	Manzhouli	Slovakia	c.11,800	15	East
					Yingkou - Lida	Manzhouli	Belarus	10,050	10	East
					Yingkou - Moscow	Manzhouli	Russia	9,860	12	East
					Yingkou - Kaluga	Manzhouli	Russia	8,400	13	East
					Yingkou - Khovrino (Moscow)	Manzhouli	Russia	8,500	10	East
Harbin	Heilongjiang	Provincial	Dryport		Harbin - Hamburg	Manzhouli	Germany	9,820	15	East
Changchun	Jilin	Provincial	Dryport		Changchun - Schwarzheide	Manzhouli	Germany	8,800	14	East
Shijiazhuang	Hebei	Prefectural	Dryport		Shijiazhuang - Minsk	Manzhouli	Belarus	8,500	15	East
Harbin	Heilongjiang	Provincial	Dryport		Harbin - Ekaterinburg	Manzhouli	Russia	5,869	12	East

CR Express Central Asia Lines

City	Province	City level	Intermodal?	China Name	Terminals	Exit port	Terminal	Length km	Days	Trunk
Tianjin	Tianjin	Provincial	Tianjin		Tianjin Binhai - Ulaanbaatar	Erenhot	Mongolia	1,500	3	Central
Yiwu	Zhejiang	Prefectural	Dryport		Yiwu-Tehran	Alashankou	Iran	10,399	14	West
					Yiwu - Almaty	Alashankou	Kazakhstan	10,000	6	West
Qingdao	Shandong	Prefectural	Qingdao		Qingdao - Kelif	Alashankou	Turkmenistan	9,888	15	West
Binzhou	Shandong	Prefectural	Binzhou		Binzhou - Tashkent	Alashankou	Uzbekistan	5,630	9	West
Lianyungang	Jiangsu	Prefectural	Lianyungang		Lianyungang - Almaty - Tashkent - Central Asia	Khorgos	Kazakhstan, Uzbekistan	5,600	7	West
Hefei	Anhui	Prefectural	Dryport		Hefei - Almaty - Central Asia	Alashankou	Kazakhstan	5,600	9	West
Kuytun	Xinjiang	County	Dryport		Kuytun - Tbilisi	Alashankou	Georgia	5,470	9	West
Qingdao	Shandong	Provincial	Qingdao		Qingdao - Almaty, Bishkek	Alashankou	Kyrgyzstan	5,400	8	West
Linyi	Shandong	Prefectural	Lianyungang		Linyi - Almaty	Khorgos	Kazakhstan	5,100	7	West
Xi'an	Shaanxi	Provincial	Dryport	长安号 Chang'an Hao	Xi'an - Almaty	Alashankou	Kazakhstan	3,808	5-8	West
					Xi'an-Zhezi, Kazakhstan	Alashankou	Kazakhstan	5,027	10	West
Qingzhou	Shandong	County	Weifang		Qingzhou-Almaty	Alashankou	Kazakhstan	5,000	6	West
Lanzhou	Gansu	Prefectural	Dryport		Lanzhou - Almaty	Alashankou	Kazakhstan	2,653	4-5	West
Wuwei	Gansu	Prefectural	Dryport		Wuwei - Almaty	Alashankou	Kazakhstan	2,648	4-5	West

CR Express Europe and Central Asia Lines Schedule. Click to expand.

The CR Express intercontinental containerized rail freight system was deployed in 2016 by China's National Development and Reform Commission (NDRC) as a development plan and consolidation policy. The aim was to bring together the disparate Eurasian rail services offered by local governments, rebrand them into a single product, and help to coordinate the national intercontinental rail system. The two new Eurasian rail classes introduced to China's domestic rail governance under CR Express were China-Europe Class and China-Central Asia Class.

However integrating intercontinental rail classes into the China domestic rail system faced bigger obstacles than any possible geopolitics surrounding the development of a Eurasian rail corridor network. Rail freight has been declining as a proportion of China's domestic modal split since 2011 as a result of shrinking demand for coal. This is the major domestic policy change driving the fundamental dynamics of China's international rail transport policies.

This shrinking coal transport demand does create new capacity allowing an alteration of the axial corridor utilization within China's domestic rail system to develop a policy of West-facing rail freight along the New Eurasian Land Bridge. However, there remain many domestic institutional bottlenecks to development. Four major domestic hurdles that impact the CR Express intercontinental rail freight system are the lack of intermodal hubs, poor seaport connections, underdevelopment of containerized freight, and undeveloped intermodal corridors.

Lack of Intermodal Hubs

China has few intermodal hubs. "Intermodal" refers to freight carriage across several types of transport, for example a combination of rail, road, ferry, or ship. There are only 39 major intermodal hubs in China that handle containerized rail freight. In comparison, there are 385 intermodal rail terminals in the European Union. This is partially a result of rail freight receiving little government policy attention through the high-speed passenger rail priority period of the past decade. Industrial transport infrastructure is also poorest in the Western and Central China provinces where the CR Express rail freight terminals are located, meaning rapid development of intermodal hubs is needed.

Poor Seaport Connections

Maritime terminals are also underdeveloped and not ready for rail-sea intermodal operations. In 2010 only 10 of China's 135 government approved ports were using rail-waterborne intermodal transport operations. The promise to Kazakhstan for being the transit corridor for CR Express was sea access via the Lianyungang port in northern Jiangsu. But before expanding its container transport network to Europe and Central Asia, China has immense work to do to upgrade its containerized rail cargo systems and their poor port connections. For example a 2010 study calculated that only 1.3 percent of the total maritime container output was moved through ports by rail.

Underdeveloped Containerized Freight Systems

Many of China's existing domestic rail freight corridors were developed to maximize bulk coal carriage or other dry-bulk commodities such as iron ore. This meant that containerized rail freight transport is severely underdeveloped, as bulk carriage infrastructure was preferentially developed. Existing domestic rail networks are also tangled, unreliable, and still mostly optimized for south-north carriage, not east-west carriage. The institutional legacies of these built-for-coal bulk rail corridors have left domestic containerized cargo domestically underdeveloped, and not ready for internationalization.

Undeveloped Intermodal Corridors

Without intermodal hubs, rail-seaport connectivity, or established containerized freight systems, it is difficult to establish intermodal rail freight corridors. In 2011 five freight rail

corridors between the inland and maritime ports were established. But in 2015 these corridors transported only 1.54 million twenty-foot equivalent units (TEUs), whereas China's sea ports handled 189 million TEUs in the same year. The total from all intermodal rail corridors carried only 0.8 percent of the containers handled by maritime ports. This means that both domestically and internationally, the inland intermodal corridors for containerized rail traffic within China remain underdeveloped.

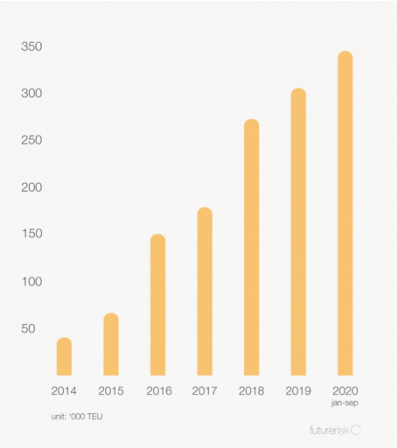

Figure 1. Growth of CR Express cross-border containerized rail freight TEU throughput

Despite the national NDRC plan, most prominent international rail freight services have been developed by local governments. These trains receive state subsidies, not only at the national level, but also from the provincial and prefectural governments. The subsidies cover 30-50 percent of total transport costs, therefore it is highly questionable whether even the current volume of transport can be sustained. As the national subsidies are due to be phased out, it is unclear what burden the local governments are prepared to bear to ensure the rail lines stay operable.

From what little evidence is available, the economic reality of CR Express is much more sober than media hyperbole. And any future development of the CR Express system will remain dependent on subsidies. For European and Central Asian transport policymakers, as long as China continues to subsidize the system, the domestic benefits are worth participating in the program. But reciprocal subsidies to maintain the network would be neither efficient nor desirable.

Consider that inbound rail freight to Europe from China was actually higher before the introduction of CR Express trains or the Belt and Road policy. According to European Union Directorate-General for Trade, export/import tonnage between the EU and China by rail has grown in recent years, but it was higher a decade ago. This without any Iron Silk Road policy or media hype.

The reality is that there is simply too small a throughput for the China-Europe rail bridge to have any meaning for either Europe or Central Asia. As a percentage of intra-China or intra-European rail trade, the intercontinental rail freight ratio is minuscule. Coupled with deficiencies in China's domestic containerized rail cargo infrastructure and the unending dominance of maritime container transport, the potential development of a viable Iron Silk Road once subsidies are removed is, on current evidence, beyond weak.

Ultimately, we find the data unconvincing that the China-Europe CR Express rail class has long-term structurally transformative effects on host economies in Europe, or China. For Central Asian economies, given maintained levels of Chinese government subsidies, the CR Express project is probably worthwhile given the lack of maritime transport alternatives.

However for CR Express to improve and expand, China-side subsidies need to be transparent, legal standards, contracts, and other logistics factors need to be integrated to European standards, host economies need to understand which levels of Chinese government they are dealing with, and what their political and economic risk exposure is in engaging with the CR Express system.

However the wider problems of China's intercontinental rail ambitions remain not economic but political. For the rail policy to have been successful, China's CR Express policy should have served both Eurasian and European interests, not just China's. Russia's many failed or stalled economic development and political expansion projects into Eurasia should have been a history lesson. China's CR Express may soon join the industrial graveyard of this Eurasian economic policy history.

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China's Petrochemical Enterprise Alliance and Iran Oil Trade

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Middle East Institute

China's outbound capital policy is an attempt to reforge the Middle East in its own economic likeness through a revised 'Going Global' geoeconomic macro policy. China-Iran oil trade is only the beachhead of a deeper economic integration agenda, yet the geoeconomic management institutions that are currently forming will define China-Iran and wider China-Middle East engagement for decades to come.

China's demand for Iran oil is only one side of a geoeconomic game that takes in multiple stake-holders in nuclear energy, advanced manufacturing, offshore distributed manufacturing zones, and global trade routes.[1] Iran's dependence on China for oil exports may be problematic for Iran, but for China, the relationship represents a multiplex of institutional and policy opportunities.[2]

China's wider foreign policy in the Middle East is still emerging, however the institutions surrounding the Iran-China oil trade are already well advanced. Macro geopolitical rhetoric will continue to be delivered in terms of 'civilization-to-civilization' Athens Forum dialogue. However the geoeconomic institutional realities are more sobering than this affectation.[3]

Iran-China oil trade is a long-term institutionalized project that is likely to remain quietly stable through the 2020 oil price volatility.[4] And while the China-Iran geoeconomic relationship is often seen from outside as geopolitics in the extreme, the institutional realities are more pragmatic with fewer hyberbolic foreign policy soundings from the domestic China perspective. [5]

'International Capacity Cooperation' (ICC) has been the guiding trade, industry and investment strategy of China for the past five years, while 'Going Global' has been around for over 20 years. Often though, both terms remain vague macro policies that Central government can shovel big ticket institutions, enterprises, loans and projects into, and out of, at will.

But the China Petroleum International Capacity Cooperation Enterprise Alliance gives us a first glimpse of what a concerted China state geoeconomic presence in a host economy would look like. It is useful because it is a reasonably permanent institution, and it is interesting because the results of this public administration experiment are reasonably replicable across other Belt and Road host economies.

Who runs China's Iran oil policy?

The overarching bilateral framework for petroleum cooperation between the two states was established under the Long-term agreement on crude oil trade between the People's Republic of China and the Islamic Republic of Iran treaty, signed on March 17 2002.[6] The treaty provides for at least 12 million tons of crude oil export annually.

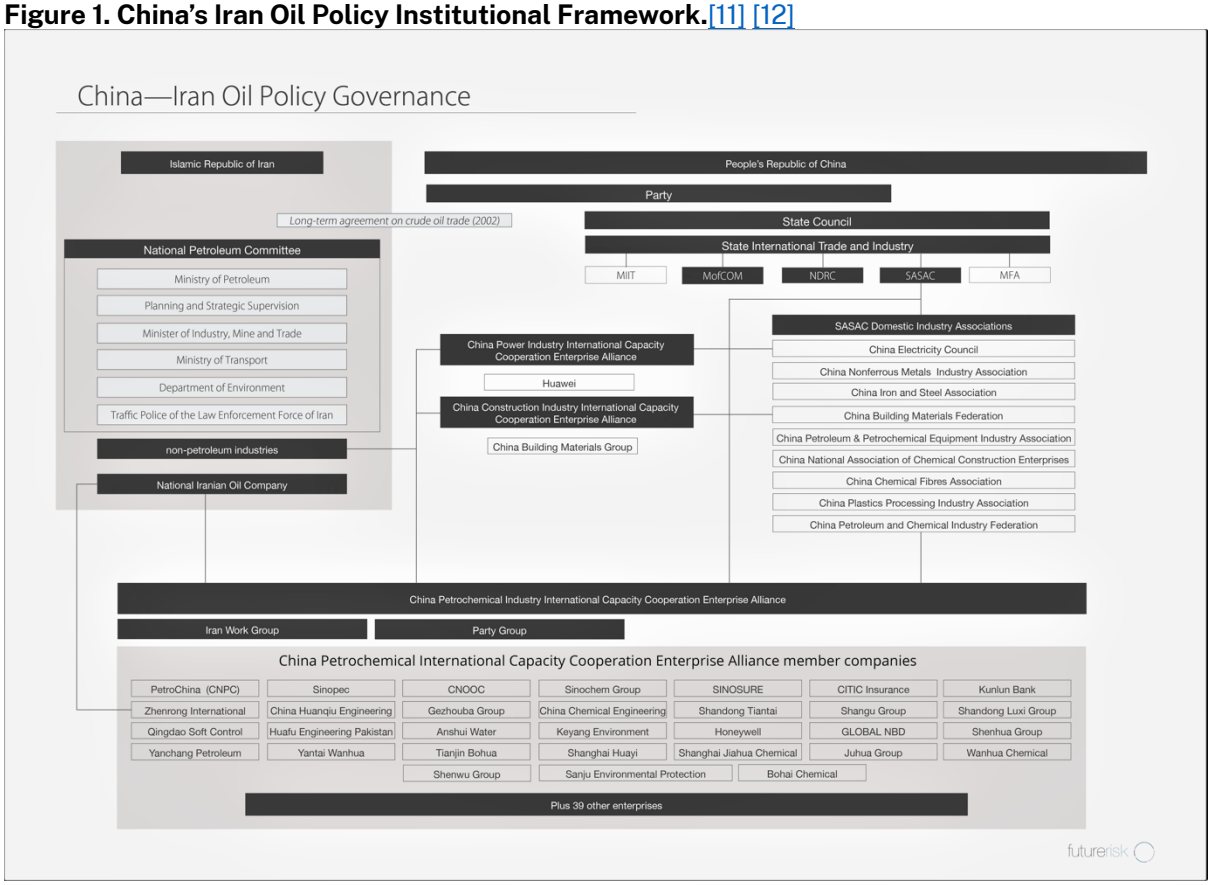
In order to implement the agreement, overcome various stages of sanctions and to integrate China's Iran policy with China's wider 'Going Global', 'International Capacity Cooperation', and 'Belt and Road' foreign policies, a variety of institutions have developed to manage the China-Iran petrochemical policy relationship.

The most recent, and important, of these institutions is the China Petrochemical Industry International Capacity Cooperation Enterprise Alliance (ICC Petrochemical Industry Alliance) established in 2016.[7] [8]

The ICC Petrochemical Industry Alliance consists of seventy major petroleum and chemical SOEs and semi-private enterprises, led by China's 'Big Three' oil producers PetroChina (the listed arm of China National Petroleum Corporation), Sinopec and China National Offshore Oil Corporation (CNOOC). [9] [10] Other China enterprises under the ICC Petrochemical Industry Alliance include financial, insurance, chemical, and construction enterprises, including a mix of national and local government SOEs and pseudo-private capital.

China has established ICC Enterprise Alliances for all the major industries. There are ICC Industrial Enterprise Alliances for electric power, steel, non-ferrous metals, construction, light industry, mining, and shipbuilding. These are sectoral groupings that allow entire industrial chains to coordinate policy activity as a single institution, across a range of China's external economies. They are also obviously easily directed by Party/State economic policy agencies.

Figure 1. China's Iran Oil Policy Institutional Framework.[11] [12]



All the ICC Enterprise Alliances are basically broad supply-side cartels, 50-to-100 huge companies organized together to operate under one policy direction in external economies. The international operations of China's domestic industry federations had previously operated as buy-side cartels, attempting to control the prices of commodities that came into China, such as attempts to control iron ore prices by China Iron and Steel Association.[13] But this new set of institutions is mostly concerned with establishing manufacturing bases abroad and thus are better understood in terms of trying to cartelise the supply-side.

In general, China does not need to employ a national level energy security council or to coordinate petroleum importing activities at the national economy level, because it has national State-owned Enterprises. These can fulfil the state bureaucratic agenda directly. Now with these national ICC Enterprise Alliances, the Party-State can even more easily coordinate sectoral industrial Going Global operations in external economies.

These ICC Enterprise Alliances institutionally intersect with wider Party-state geoeconomic

policy in two ways. The first major institutional intersection for the ICC Petrochemical Industry Alliance is a horizontal integration with the other sectoral ICC Enterprise Alliances. The second is the retrospective integration with the domestic industry associations which had previously organized the same domestic industrial enterprises. There is also an extreme amount of personnel crossover between the two types of industry association — domestic and international.

The new ICC Enterprise Alliance institutions are formed on the basis of the domestic industrial association system. These correspond to similar industries — cement, steel, aluminium, electricity, light industry etc and function as vice-ministerial bureaucratic agencies, meaning their heads are only one step away from top China Communist Party (CCP) positions in State Council or Party agencies.

On the China side, the ICC petrochemical enterprise engagement in Iran runs through some key people at the Party-State-enterprise level. These personnel are often wearing multiple hats: an enterprise hat, a Party position, a state policy position, and now also an ICC Enterprise Alliance position.

For example, Pang Guanglian is concurrently deputy Secretary General of the domestic industry association, the China Petroleum and Chemical Industry Federation (CPCIF). He is also on its Party Group Standing Committee, is vice chair of CPCIF's International Exchange and Foreign Enterprise Committee and is also now Secretary General of the new ICC Petrochemical Industry Enterprise Alliance.[14] [15]

Pang is the industry leader for China's hydrocarbon and chemicals sector, and on the ongoing trade war with the US and growing Iran economic integration, has argued that a greater decoupling between China and the US in the global economy is now inevitable. He has also been touting market reforms in the downstream retail end of China's oil and gas sector.[16]

Similarly, Li Shousheng is Chairman of CPCIF, and also Chairman of the Petrochemical ICC Enterprise Alliance.[17] Li is also a sitting member of the State-owned Assets Supervision and Administration Commission Party Group, and an independent non-executive director of China National Petroleum Corporation. Li also heads the recently established China Petroleum and Chemical Industry Artificial Intelligence Alliance.[18]

SASAC Party Group is one of the highest Party positions in China, while being on the board of CNPC is one of the highest enterprise positions in China. Li has said explicitly that the aim of the ICC Petrochemical Enterprise Alliance is to coordinate the structure of ICC activities along Belt and Road economies and to directly guide foreign cooperation activities, including between China and Iran.[19]

In the institutional makeup of the ICC Enterprise Alliance, the enterprise side is just as important as the Party-State side, with many provincial government SOEs and some pseudo private capital enterprises participating in the alliance.[20] Significant enterprise-level personnel in the ICC Petrochemical Enterprise Alliance include Ms. Wang Xinge General Manager of China Huanqiu Engineering.[21]

There is clearly a lot of institutional translation from the old industry federation system.[22] Another example is Mr. Zeng Jian who is both CPCIF Party Group vice secretary and executive vice chair of the ICC Petrochemical Enterprise Alliance.[23] But also within the institutions itself, already established as being cross-sectoral, cross-governmental and interrelated with policy and politics, are intersectional leading groups, or committees, which provide policy guidance to the alliance.

For example the ICC Petrochemical Enterprise Alliance has an 'Iran Work Group'.[24] This group is periodically policy-driven by top level design such as the Notice regarding the publication of the Regulations on the Work of the Iranian Working Committee of the China Petroleum and

Chemical Industry International Capacity Cooperative Enterprise Alliance (Consultation Draft). [25] The policy prescriptions from which are outlined below.

Figure 2. Institutional functions of the ICC Petrochemical Enterprise Alliance's Iran Work Group.

The leading groups within this ICC Petrochemical Enterprise Alliance are important policy nstitutions in designing and implementing China's state policy on oil trade with Iran. Analysing this legal-bureaucratic approach to China's economic institutional engagement with the global economy in general, and Middle Eastern economies in particular, will be increasingly important to understand as China emerges into a second-round of globalisation.

Indian Ocean Trade War dynamics

Iran cooperation is critical to China's land and sea Eurasian trade and investment infrastructure.

China has developed a range of trade, logistics, investment, and external industrial policies which explicitly define Iran as a strategic geoeconomic partner. These include investment in the Iran rail network development, the Caspian Sea Trans-Caucasus logistics route, the Chabahar port development, and the Tehran-Istanbul rail link as part of the Lapis Lazuli Road. These are all trade and investment strategies which can develop alongside an industrial capacity transfer policy which is ultimately aimed at shifting China's production of infrastructure inputs to Central Asia, the Middle East and East Africa.

This geoeconomic gravity has clear political displacement implications for the region. China has no incentive to follow US sanctions against Iran except where it might attract sanctions upon itself. For Iran, China is its largest export market for crude oil and the Iran-China oil trade has continued despite the recent round of sanctions.[27] [28] While China's customs data statistics show imports of Iranian oil dropping, China is widely understood to have simply moved trade onto Iran owned-vessels on the export side and obfuscated reporting on the import side.[29] [30] [31]

The previous sanctions regime under the Obama administration had punished the major China-Iran state-owned oil trader, Zhuhai Zhenrong. The latter company had been the key China SOE

charged with fulfilling China's oil policy in Iran and was tasked to fulfil the 2002 long-term agreement as China's client partner with the National Iranian Oil Company.[32] As per the treaty, Zhenrong had consistently imported 12 million tons of crude oil from Iran annually since 2002 until it stopped reporting in 2010.

Zhuhai Zhenrong was sanctioned by the Obama administration, but its institutional persistence means it is probably directly named in the long-term supply treaty with Iran. Another long-term supply treaty with Iran, for refined fuel, is brokered by a different arm of the company, Tianjin Zhenrong. While the new ICC Petrochemical Enterprise Alliance names one member as Zhenrong International. Zhenrong had been one of the initial central SOEs under the jurisdiction of central SASAC when it formed in 2003. However the ownership and institutional structure of Zhenrong transformed in 2015, and is now unclear.[33] [34]

The Meng Wanzhou sanctions case also aligns with the ICC Enterprise Alliance structure. Meng was arrested in Canada over Huawei's alleged breaking of Iran sanctions.[35] Huawei is a member of a different alliance, the Electric Power ICC Enterprise Alliance. Batteries are huge business for the China SOE, and for the alliance, power engineering projects have been a vanguard ICC industry in Iran. [36]

The work of each ICC Enterprise Alliance then clearly intersects with the work of the others. Power equipment for example is a key node in the ICC strategy and the ICC Power Enterprise Alliance has obvious institutional and policy synergies with petrochemicals [37] If we analyse the ICC Petrochemical Enterprise Alliance as a supply-side cartel, then what do ten sectoral ICC Enterprise Alliances working together mean?

China-Iran investment and trade is not simply oil. In 2015, the launch year of ICC, Chinese enterprises in Iran signed contracts worth $1.52 billion. In 2016 the agreements were expanded into an umbrella $600 billion 2016-2025 investment project. Iran has since become a major market for China's overseas exports of engineering, technology and complete sets of equipment — in essence a host economy for the transfer of China's factories.

In the wake of the US sanctions on Iran in 2019, China upgraded this 2016-2025 geoeconomic relationship by adding an additional $400 billion to the investment package, of which $280 billion would go directly to Iran's petrochemical industry, and $120 billion to other key ICC manufacturing sectors.[38]

While in other ICC economies in Central Asia and Eastern Europe China is transferring a lot of industrial capacity in low-end manufacturing, there is a concerted effort in Iran, and other Middle East economies, to transfer high-value-added factories, in nuclear and new energy equipment, satellite communications and agribusiness machinery.

ICC is an industrial capacity transfer policy that aimed to transplant brownfield China domestic production into greenfield investment. However, there are very few success stories to point to in either China's global policy or in the Middle East. It remains to be seen whether potential BRI Eurasia-Africa investments can really replace China's existing Pacific trade.

And while much of the institutional inertia has been set in motion, the branding of these activities as 'ICC' is being wound back. At a central Ministry of Commerce level, the 'ICC' branding is being retrofitted back to the 'Going Global' policy rhetoric. The ICC Enterprise Alliances will seemingly keep their titles, as will the ICC sovereign wealth funds. [39] So the policy name cannot simply be erased from China's institutional economic history. But expect a lot more 'Going Global' rhetoric in English as ICC 2.0 policy language is backtracked to Going Global 1.0.[40]

China's wider Persian Gulf game

China's industrial investment strategy in the Middle East economies is really part of a wider

'Middle East-Africa wing' of its global 'International Capacity Cooperation' policy.[41] There are huge opportunities for Middle East economies to catch some cheap industrial transfers and unaudited public debt as clean capital investment. But there are also geopolitical risks.

China is speeding up institutional integration and narrative construction around 'Eurasianification'.[42] However, for China, the Middle East is a necessary problem, rather than a goal in itself. From a hard-line realist international relations perspective, China's geoeconomic and geostrategic purposes would be much better served if the Middle East simply did not exist. If China could have an Indian Ocean port on the edge of Xinjiang with which to access new industrial transfer developments in East Africa, this would serve China's geoeconomic policies much better.

In geopolitical reality though, China's Central Asia-Middle East-East Africa International Capacity Cooperation strategies all coalesce in Iran as China's land bridge to the Belt and Road economies in Europe and ocean access to the Middle East and East Africa trade, industry and investment policy ambitions.

Ultimately, China's trade and investment agenda in the Middle East is one of imports back in to China. And the Iran-China hydrocarbon trade will be a good indicator of how the rest of China's Middle East development strategy and future trade logistics networks develop. China as an importer is an under-valued analytical framework in China's 'New Era' economic model, as the 'China as exporter to the world' dogma was so firmly established under the reform era model.

Naturally, strengthening geoeconomic ties with Iran serves internally coherent economic goals. But China building a maritime sphere of influence in the north-western Indian Ocean is impossible to ignore. China in the Middle East is a new global economic dynamic. And China's long-term institution building in Iran is a vanguard of China's wider Indian Ocean geoeconomic policy.

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China's Trade Policy Shift as International Capacity Cooperation Policy Rebranded

Tristan Kenderdine
February 25, 2020

Russian International Affairs Council

China's major international trade and investment policy '*International Capacity Cooperation*' (ICC) is getting a rebrand. ICC emerged as the dominant trade policy coordinating China's outbound FDI in 2015. This came as the Xi administration struggled with a slowing economy and a transition to domestic consumption and a move away from manufactured exports towards capital FDI internationally. *Supply-side Reform* complemented the policy when Liu He brought forth his domestic restructure economic policy in 2016 to clean up overcapacity, deleverage the financial sector and promote domestic consumption. For China's FDI, *Supply-side Reform* decapacity policies were the stick to stop cheap policy investment in China and *International Capacity Cooperation* was the carrot to incentivise industrial investment abroad.

ICC was essentially an upgrade to the decade plus long *Go Global* policy which saw both domestic Chinese firms strengthened to compete in international marketplaces as well as takeovers of strategic foreign enterprises and institutions — such as the successful purchase of Kuka industrial robotics, or the unsuccessful takeover of the Chicago Stock Exchange.

The Ministry of Industry and Information Technology played a key role in organising domestic industry under the *Go Global* policy, supported by the National Development and Reform Commission the state-owned enterprise overseer SASAC, and the Ministry of Science and Technology. But the trade and investment policy really belonged to the Ministry of Commerce (MofCOM), the principal institution guiding China's implementation of *International Capacity Cooperation*.

But recently, the rhetoric surrounding the policy has changed. Since 2015 the guiding macroeconomic policy was named *International Capacity Cooperation* (国际产能合作 *guoji channeng hezuo*). However in late 2019, the Ministry of Commerce, particularly the Department of Foreign Investment and Economic Cooperation, dropped the name from its website, and restructured its ICC policy dissemination.

The MoFCOM FEC website is still largely organised the same way as when it was labelled ICC, but the labels have changed and the emphasis is now on the section on *Overseas Economic Trade and Cooperation Zones* — China's external SEZs that are being set up along the *Belt and Road* economies. ICC policy content has disappeared from the MofCOM FEC website.

This is significant. ICC was the practical economic architecture underpinning the *Belt and Road Initiative*. ICC was how the funding was organised, how the enterprises were incentivised abroad, how the host economies were promised specific industrial transfers in MoUs, and how the central China government instructed provincial and prefectural governments on which industries to take abroad and to which states they should be paired.

International Capacity Cooperation was actually quite a clever idea. It had the potential to become an inflection point for the global development/aid regime, as well as the global trade status quo under the Bretton Woods institutions.

It was formed as China had excess capacity across all industrial sectors, GDP growth was slowing, and FDI investment into outside economies was beginning to ramp up. China was also able to advantage of a unique position within the WTO framework — the world's workshop within the system, but able to dump commodities with impunity outside the system. And China

was able to both accumulate tradeable capital behind a closed capital account while also still investing abroad.

International Capacity Cooperation was then designed to lift up whole industrial clusters from the Chinese mainland — where they were responsible for overcapacity, and transplant them as FDI into China's emerging market trading partners — where they would count as greenfield investment and the outputs of these factories would become new exports from the host economy, back into China's consumer markets and onwards to third economies. It was a system designed to be a network of offshore industrial bases that could operate as *renminbi* islands, outside the walls of China's closed capital account, but still controllable by the Party's financial and state-owned enterprise institutions.

Dedicated funds were established to finance the moving of industrial clusters abroad. Meanwhile provincial and prefectural governments were sticked with overcapacity reduction targets and carrotted with easy capital to take manufacturing clusters abroad. Central Asia, Middle East, East Africa and East Europe have been the key economies targeted. However the semi-open policy process means that many documents and agreements core to the ICC agenda remain classified.

Policy bank and sovereign wealth fund investment incentives are both sectoral and geographic. Geographically the provincial and prefectural level cities are organized to go out under direct policy guidance matching domestic China provinces to country level economies under the one country, one province system. Sectorally, ICC *Go Global* operations are coordinated by national ICC industry associations, new institutions formed on the basis of the domestic industrial association *shiyedanwei* (事业单位) system. These ICC Enterprise Alliances will seemingly keep their titles though, and the ICC sovereign wealth funds keep them too, so the policy name is not simply erased from China's institutional economic history. And China public conferences on the ICC project though have proliferated in the past two years with dedicated ICC conferences for Africa and Latin America.

Ideological support and policy development from outside the Party or in clear public domain is harder to find though. Liu Yanhong at the Chinese Academy of Social Sciences recently published a paper in English which is pretty close to what we assume Party trade policy to be.

In terms of party-political process though, there is another good reason why ICC is running out of steam: the dual personnel movements of Zhang Gao Li's retirement in 2017 and the continued decline in influence of Li Keqiang. ICC was a Li Keqiang pet project back in 2014-15 when Lou Jiwei and Zhou Xiaochuan were running a market liberal agenda at Ministry of Finance and Central Bank respectively, and when policy rhetoric seemed still genuinely concerned with 'the decisive role of the market'.

With Zhang Gaoli pushing strong practical policy measures, and Li Keqiang heading up macropolicy direction, ICC had two of the seven Politburo Standing Committee members working on it. Times have changed. Zhang is gone amiably after doing sterling work, but Li Keqiang is now just simply too high at too young an age to justify taking out and the Party machine must leave him there. He has now been so neutered that any part of his policy portfolio is effectively tainted by his lack of political power.

China's trade policy is becoming more sophisticated and the two-arm approach of strategically opening and closing will likely continue. However, the domestic industrial policy upon which the external trade policy is based is running into the same dead-end as *Made in China 2025* did. The relabelling of *International Capacity Cooperation* to *Overseas Economic Trade and Cooperation* is only on the surface a policy rhetoric change. The rebranding of the policy under a different name does not mean that the core mission changes or that mechanisms and institutions developed to facilitate it will not remain in effective operation.

But something is changing in China's trade and industrial policy. China's top leadership has

been genuinely surprised by the backlash against the *Belt and Road Initiative*, where the thought had been that ICC would be welcomed by developing economies. As ICC is still the practical policy measure that underpins *Belt and Road* economics in China's trading partners, it cannot be simply unwound.

The wheels have already been set in motion, huge institutions in capital, industry and trade have been established and are coordinated by the ICC macropolicy. Macro effects of ICC will surely continue to determine the development trajectories of China's emerging FDI partners, as well as the advanced capitalist trading economies that will have to realign their own trade and investment strategies to accommodate it. ICC is still here, but the policy rhetoric surrounding it is likely to become both much more sophisticated, and obfuscated, in the near future.

Global ambitions fuel China's nuclear power strategy

Tristan Kenderdine
21 February 2019

East Asia Forum

Over the past several years, there has been a monumental shift in China's energy policy towards nuclear power. And Beijing's nuclear ambitions aren't limited to its own borders. Its 'Made in China 2025' blueprint envisages vastly expanding China's role in nuclear power generation in developing economies worldwide.

Western environmental and energy policy communities have long berated China for refusing to abandon its reliance on thermal coal. But China's commitment to expanding renewables has actually been extraordinary. Solar energy only became a viable solution in most OECD economies in 2013 after China poured into the market and made cells affordable. A similar story occurred in 2016 with batteries for electric vehicles and hybrids.

It is true that China's coal emissions have not peaked. While renewables are taking a larger share in China's energy mix, they are still mired in curtailment and subsidies. Fossil fuels are slated to dominate China's energy generation until at least 2030.

Still, one important policy change will affect not only China's emissions targets, but also the future energy options of less developed countries: China's subsidised inland nuclear power reactors.

China nearly doubled its nuclear-generated electricity output between 2013 and 2016. It has surpassed Japan to become the world's fourth-largest nuclear-power country, with a total operating installed capacity of 42.9 gigawatt electrical (GWe) in 2018. Nuclear is set to expand to as much as 281.8 GWe by 2030. This would take nuclear-generated electricity from 2 per cent to up to 20 per cent of China's energy mix.

Expanding on its 45 current reactors, China has 43 more under construction, with a further 92 slated to begin construction by 2020. China plans to reach a total of 56 working reactors by 2020, to be the world's second-largest nuclear country.

To achieve these goals, investment of around 540 billion yuan (US$80 billion) is needed, according to Zhefu Holding Group, a private company that makes nuclear equipment. A technological gap must also be breached, with the rollout of China's third-and fourth-generation nuclear reactors.

Inland civil nuclear systems require river water for coolant, a problem China is solving by using the Yangtze River basin. The deployment of next-generation nuclear reactors using river water for coolant has no precursor in terms of scale.

But if China's model proves successful, it will likely be replicated across river systems throughout the developing world. This means both exporting nuclear energy components and equipment, as well as exporting the factories and technologies to manufacture them. While initial nuclear exports have targeted advanced economies such as France and the United Kingdom, the majority of the rollout will be directed toward the Middle East, Africa and South America.

Beijing's ambitions for nuclear power-generation indeed go well beyond its domestic economy. Internationally, exports of China's nuclear reactors to Belt and Road economies are designed to replicate the export-oriented development policies of countries such as Germany, Japan and South Korea. A single nuclear plant generates approximately 30 billion yuan (US$4.5 billion) in

economic output value, the export equivalent of 300,000 vehicles.

The Made in China 2025 blueprint is the vehicle for China's nuclear power industry to go global through the promotion of advanced nuclear power equipment. Two indigenous large-sized pressurised water reactors — CAP1400 and Hualong One — have been selected as the leading technology to facilitate the global strategy. The development of high-temperature reactors and fast-neutron reactors are also seen as important for the industry's global influence. The development of small modular reactors is planned to allow China to acquire intellectual property rights in the area of civil nuclear power ship technology and produce a 100 billion yuan (US$15 billion) market for offshore oil drilling.

Armed with third-generation nuclear power technology, China has already signed contracts or is discussing cooperation with 20 countries including Argentina, Egypt and the United Kingdom. China has also signed agreements with Saudi Arabia and Iran to provide energy equipment plants to feed into the countries' planned nuclear plants. Exported nuclear plants along the Belt and Road are expected to reach 100 by 2030.

Cooperation with developed economies in civil nuclear power will likely have geopolitical strings attached. For example, projects in the United Kingdom and France would reduce the two United Nations Security Council members' room to complaint if other countries, like Iran or Egypt, accepted similar offers for China to build civil nuclear projects.

Chinese enterprises developing nuclear power will also experience enhanced market competitiveness with other nuclear powers — Russia, the United States, France, Japan and South Korea — if Hualong One is successfully built in the United Kingdom.

In less-developed economies, China has already begun administrative processes to export nuclear equipment and nuclear equipment capacity plants. A civil nuclear memorandum of understanding with South Africa is designed to tap into China's experience, especially in personnel training, technical support and nuclear facility monitoring. Elsewhere, the China National Nuclear Corporation is to build Argentina's fourth nuclear power plant under a US$6 billion deal. China General Nuclear Power will also build four Hualong One nuclear reactors in Kenya, to be operational by 2030.

If China intends to sell nuclear equipment abroad, it must first understand the technological and safety risks in its own backyard and ensure that its technology is dependable. A domestic nuclear accident coinciding with a flood on the Yangtze River could be catastrophic. It must also ensure that it promotes effective safety protocols and standards alongside its exports of energy equipment. For civil nuclear power to solve China's environmental policy woes, it must be policy-complete enough not to export environmental risks.

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Towards a Central Asia and Caucasus Trade Bloc for Belt and Road

By Tristan Kenderdine
Tuesday, 30 October 2018

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In the trade war with the U.S., China has clearly shown that it is willing to reject Pacific trade partners based on political over economic considerations. Beijing's wider policy to develop industrial and agroindustrial capacity in Central Asia, the Caucasus and the Middle East means that these economies can use short-term structural changes in global trade dynamics to their longer term advantage. Ultimately, all states suffer in a trade war. If Central Asian, U.S. and European producers all had open access to China's markets, all sides would benefit in the long run. In the short term though, a U.S.-China trade war is a huge opportunity for Central Asian economies to soak up China's heavy industry outward direct investment despite the risk of a China policy bank debt-trap.

BACKGROUND: Central Asian and Caucasus economies stand to benefit from any trade frictions between the U.S. and China. The acute source of friction on the U.S. side is that China is dumping steel and aluminum products into its markets at below market prices. Of course this is a proxy for the more macro problems of intellectual property and forced technology transfer. But in industrials, it is true that China has been dumping with impunity for years. Now China has a stated policy to dump industrial capacity rather than dumping industrial outputs, as well as a need to rapidly diversify its agricultural commodity imports.

Instead of continuing to dump industrial output abroad, China actually wants to close many of its steel and aluminum factories – or rather than simply close them, to move them abroad. This policy is called International Capacity Cooperation and it is the main practical economic policy of the wider Belt and Road trade strategy. Essentially China is giving away industrial chains in steel, aluminum, cement, glass, paper, textiles, light industry manufacturing, mining, agricultural machinery, and energy equipment. This is a fire sale on Chinese industrial plants.

China has industrial overcapacity through an abundance of both steel and aluminum smelters due largely to a Keynesian fiscal stimulus from 2008. Too many people took easy government loans and invested in building surplus new capacity in steel, aluminum, cement, plate glass and other industrial products. Now China has too many smelters and too many processing plants. If it ran all the industrial capacity at full capacity, it would overproduce metals and flood the world market, distorting prices and disrupting supply chains. Instead, many plants are not used. If Central Asian economies invest wisely, then they could pick up a bargain, and then use the capacity to both develop their own industrial economy as well as export industrial commodities back to China in the future.

China's tariffs targeted against the U.S. are on two main commodities: soybeans and sorghum. Both are essential agricultural commodities for meat production. China is drastically changing its food consumption habits as it grows richer and more citizens demand cleaner and better food. China is also changing its food security priorities to allow more imported products, at the commodity input level of the supply chain as well as finished meat, aquaculture, horticulture, dairy and wine products. Feeding China is a huge opportunity for economies in the region, from Kyrgyz honey to Georgian wine, there is essentially a bottomless market for clean, quality food products into China. China recently reportedly asked Kyrgyzstan for 400,000 tons of honey per year where Kyrgyzstan's current honey production is only 10,000 tons annually. China also now has a huge incentive to invest in a Kazakh soy agroindustrial complex to import protein into China. And Kazakhstan already has established meat and dairy agroindustrial production chains. In this sense, the U.S. loss could indeed be a huge opportunity for Central Asia.

IMPLICATIONS: The Central Asian part of the Belt and Road Initiative, deployed through International Capacity Cooperation stands a decent chance of working, despite the wider criticism. Rather than the usual China bilateral agenda-dominance, actors on all sides actually stand to get something out of it. China's Communist Party gets breathing space to transform China's domestic economy to a higher level of manufacturing, Central Asian and Caucasian states have the possibility to buy cheap industrial plants to build economic architecture, and China's policy banks get to offshore China's domestic debt abroad without opening the current account. Probably the hardest hit actors will be the Chinese local governments and local government enterprises that are being shunted down the Belt and Road, unwillingly for the most part, to clean up domestic capacity. Thus, while Belt and Road and International Capacity Cooperation is not perfect for anyone, everyone gets something out of it.

The risk of a China debt-trap certainly remains, but China is never a single strategy, never a single idea. There is a serious risk of small economies overleveraging and being spun into Beijing's web of financial dependence. Smaller Central Asian economies such as Kyrgyzstan, Uzbekistan, Turkmenistan, Tajikistan as well as Armenia in the Caucasus are exposed to this kind of debt-trap scenario. But larger economies such as Turkey, Iran and Kazakhstan are well placed with diversified economies and deep tax bases to avoid the debt-trap. The most important way to avoid becoming overly exposed to China's policy debt, however, is transparency and public scrutiny.

China's policy loans are often not at better rates than international capital markets, and are sometimes worse. The attractiveness of these loans lies in the fact that China will not impose institutional transformation agendas that often come as part of the Washington Consensus package. Yet for the people of smaller countries exposed to China's debt risks, it is important that loans are in the public interest and that independent observers within the country as well as outside observers can scrutinize the loan books like they could if it were development aid. At the moment, the only actors who really understand the play are those running the loan books at Export Import Bank of China, China Development Bank, Agricultural Development Bank of China, Sinosure, and a few of the larger commercial banks like Industrial and Commercial Bank of China.

Without transparency in China's policy banking, there is a serious danger of countries building useless projects that only soak up China's excess steel, cement and aluminum capacity, and leave the host country with a debt-obligation on a worthless asset. If countries use China's capital wisely, then there are many opportunities to create mutually beneficial investments that can help develop and diversify the industrial economy of the host country. But simply taking every loan for every project that China offers would be unwise, and governments hiding their debt obligations from their citizens is a recipe for disaster.

CONCLUSIONS: China's Belt and Road serves Beijing's interests, not Astana's, Moscow's, Baku's or Tashkent's. This is natural, but there is no reason not to benefit from foreign investment and a greater infrastructural and institutional integration in the economic space between China, Russia, the EU, Turkey and Iran. China, however, has a diplomatic policy to engage with other states through bilateral arrangements. This means that via Belt and Road, China acts unilaterally as if it is within its own borders; China-Armenia or China-Kyrgyzstan relations are more likely to benefit Beijing than China-Iran, China-Turkey or China-Kazakhstan relations. Thus, national economies need to have strong plans in place for how they plan to benefit from China's investment and greater integration with China's economy. However, Central Asian and Caucasus economies also need to be aware that their economic power grows immensely by being able to negotiate together. The Eurasian Economic Union pulls the customs and economic integration gravity towards Moscow, and there is little chance of a pan-Turkic customs union. But perhaps a Silk Road trade association comprising Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan, Iran, Armenia, Azerbaijan, Georgia, and Turkey could provide the institutional basis for a stronger, and unified Central Asian and Caucasus response to China's Belt and Road trade agenda. If these economies could attract China's investment and trade as

a bloc it could likewise lobby China to open its import markets as a bloc, to the benefit of each individual country within the bloc.

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Afghanistan-Iran Trade Corridors to Bear Fruit for Both India and China

By Tristan Kenderdine
Tuesday, 17 July 2018

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A strategic deployment of trade corridors is taking shape across Afghanistan and Iran as both India and China subvert each other's trade strategies through key geoeconomic states. Afghanistan's land corridor to Chabahar port connects it to India by sea, creating a Persian-Gulf to Caspian Sea corridor, while the Afghan air corridor to India provides a parallel, more direct trade route. By contrast, China's twin economic corridors in the region run perpendicular: north-south through Pakistan to the Gulf, and east-west through Iran to Istanbul. Pakistan's Gwadar and Iran's Chabahar are thus effectively in the same geopolitical node, connecting very different Great Game trade strategies.

BACKGROUND: The east-west axis link between China and Iran is important for China's interests in a wider Belt and Road geoeconomic rebalancing to Central Asia and the Middle East. For Afghanistan, a range of opportunities exists for infrastructure upgrades on both the north-south and east-west axes. The construction of the China-Kyrgyzstan-Tajikistan-Afghanistan Silk Road fiber optic network is progressing with a Memorandum of Understanding signed for the construction of a Kashgar to Fayzabad fiber optic cable system via Tajikistan. Around half of the 2200km Afghanistan-Tajikistan-Kyrgyzstan-Iran-China railway project will be on Afghan territory, with technical assessments already complete.

Afghanistan's President Ashraf Ghani is relying on exports to China of industrial manufactures, marble and agricultural commodities. Ghani has touted regional trade and industry integration, saying in a meeting with the World Bank that Iran and China will be connected through Afghanistan upon completion of the Kunduz to Mazar-e-Shale railway project. President Ghani has stressed the importance of closing Afghanistan's transport loop and connecting to Iran, hoping to make Herat province a regional transport hub. Afghanistan's Ministry of Commerce and Industry has also said that two-way trade between Afghanistan and Iran is already amounts to over US$ 2 billion dollars annually.

To facilitate Afghan agricultural exports, an air corridor between Afghanistan and India is already open, shipping mostly fruit and herbs to South Asia. Beijing has criticized India for using the air corridor to bypass the China-Pakistan bilateral corridor, but Afghanistan also plans to open monthly cargo flights with Sri Lanka to promote two-way trade. However, lack of cold-chain logistics networks is hampering effective commerce. 120 tons of fruit was recently stranded at Kabul airport due to cold-chain logistics failures. Investment in cold storage warehousing is progressing, however, with a 60-ton cold store completed in Kabul and three more under construction in Parwan, Samangan and Balkh provinces, according to the China Chamber of Commerce for Foodstuffs and Native Produce.

Agricultural production in Afghanistan has a huge potential to service China's growing food import needs. Nimroz province, on the Iranian border, saw an 80 percent growth in melon production in 2017 up to 300,000 tons. Afghanistan's Ministry of Agriculture will distribute saffron bulbs to farmers to encourage cultivation of 3,000 acres, aiming for a national production of 8 tons, which represents a US$ 15 million a year industry. China's Ministry of Agriculture and Rural Affairs is also investing in 20 fish farms in Nangarhar province, surrounding Jalalabad. Afghanistan's 2017 grape production reached 100,000 tons, an increase of 15 percent, and most grapes will be exported to India through air corridor cargo flights.

IMPLICATIONS: Both India and China are hoping to tap into an underrepresented and growing

agricultural sector in Afghanistan. Afghanistan's informal economy is huge, accounting for an estimated 50 percent of the formal economy. This means that central government institutions are not accounting for vast areas of productive capacity. Afghanistan's Ministry of Agriculture says that most arable land is not being used, with only 2.5 million hectares of 7.5 million cultivated. This is mostly due to a lack of irrigation systems, yet Afghanistan has water resources of 70 billion cubic meters per year. However, currently 80 percent of that flows to Iran, Pakistan and Central Asia. With investment in irrigation and transport, there is huge potential for agricultural commodity export to China and India.

For Afghanistan, this China-Iran connection intersects with the Afghanistan-Iran-India tripartite dialogue to develop trade facilitation through Iran's Chabahar port. Afghanistan enjoys preferential tariffs in the Iranian port, with trade in goods enjoying export tariff concessions of 80 percent and import tariff concessions of 75 percent. For India, the hope is to be able to connect India's Kandla port in Gujarat to Chabahar. On the Iranian side, goods destined for Afghanistan will travel by truck to the Iran-Afghanistan border town of Milak, in the same Sistan and Baluchistan province as the Chabahar port. Despite making little hard economic sense, the geoeconomic strategy is clearly to the benefit of all three nations as a counter to the China-Pakistan trade axis. Whatever the geoeconomic reasoning, the Persian Gulf is set to carry greater volumes of trade in the near future.

These trade corridors also have the potential to extend Afghanistan's trade with Central Asia. Afghan trade and industry officials have advocated expanding trade with Uzbekistan and Kazakhstan in the fields of transportation, natural gas, mining, industry, and logistics. Yet the greatest challenge facing any development strategies in Afghanistan remains the lack of reliable electricity supply. Afghanistan imports about 200,000 megawatt hours of electricity from Tajikistan per month.

For China, the game in the Persian Gulf is much wider than simply using Gwadar to access the Indian Ocean. China is building an Indian Ocean import-focused trade strategy. This network of international trade opens China to imports from East and Central Africa, and allows it a serious space for asserting itself as a trade pole in Central Asia and the Middle East. However, it also means that as an eventual net-importer it will begin to pull the gravity of international rule-setting into its orbit. A new import trade policy is emerging from Beijing, and will be more fully understood leading up to November's China International Import Expo in Beijing and Shanghai. However, India and Iran seem to be far off the pace in defining Persian Gulf regional trade dynamics, while Afghanistan can benefit from the ambiguity.

There is a tendency to analyze Afghanistan as simply a node in a wider regional conception of the economic spheres of Russia, the U.S., Europe and increasingly China. For a region essentially isolated and marginalized from modern development history, the prospect of increased maritime access to the Persian Gulf and the Indian Ocean open a new world of geoeconomic opportunities.

CONCLUSIONS: China's foreign policy is really one of multiplicities framed as bilaterals. The rhetoric and policy practice will be strictly bilateral and one-to-one, playing to China's trade negotiating strength of numbers. China eschews any notion of plurilateralism on the pattern of the Washington Consensus. However China's trade and industry policy in external geographies is multifarious, China will naturally plan firm, state, multi-state and regional industrial policy. No matter the geopolitics, Afghanistan can only benefit from inward direct investment. Whichever way its energy and transport networks are built and rebuilt, all investment is a boon. Whatever the long-term outcome, in the short-term, Afghanistan is very much on the radar of two expanding powers in India and China.

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Debt-trap or Dumping Factories? China's Geoindustrial Policy in External Geographies

By Tristan Kenderdine
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Global Policy

The wheels have started rolling on China's globalisation project, and it is less a case of globalisation with Chinese characteristics than it is a complete remodeling of the concept. China's outward direct investment lies in the reshaping of global trade and investment institutions, and the dismemberment of 20th Century trade paradigms.

What we knew all along is true: Belt and Road investments come with state capital strings attached. Kyrygyzstan, Mongolia, Sri Lanka, Djibouti, Maldives and Vanuatu are taking out loans behind closed doors that they are going to struggle to repay. The debt-trap analysis is certainly one part of the Belt and Road investment strategy. But the bigger and more interesting debate is on China's remaking of global trade systems.

China's trade and industry policy towards external geographies is a contiguous government policy, coordinated under the umbrella of International Capacity Cooperation. This geoindustrial policy is centred on transferring factories and whole value chains to external geographies. This is essentially an 'external industrial policy'. The strategy is really less about transferring domestic debt to foreign debtors than transferring industrial capacity.

It is being financed through International Capacity Cooperation investment funds. These coordinate state domestic and external industrial policy, state-owned enterprises, and external economy factors such as land and capital. Between the closed capital account, state policy banks and state commercial banks, there is no finance in China that can be considered truly private. On 'private capital' in China, it is important to remember that there is none. There is only state capital and 'less-state capital'.

Parallel trade is simply grey, or black, market trade undertaken by small units: individuals or firms. China's rewriting of the global trade paradigm is really taking an institutionalist approach to state directed parallel trade. So rather than the convergence of Japan's redevelopment in the 20th Century, we get an additional trade and investment system which runs parallel to the institutional convergence narrative.

This is really building a parallel trade architecture — a political counter to the TPP and the Pacific trade orthodoxy. This is not a binary choice, China can play both: trade norm convergence in Shanghai and parallel trade system in Chongqing. This does not mean the end of China's opening agenda, but it does mean the death of the Flying Geese paradigm of East Asian economic development.

Dumping Factories, not Dumping Commodities

Under WTO rules, it is illegal to dump steel and aluminium on international markets at below cost, which is what China is widely understood to have been doing. While Chinese dumping has so far gone largely uncensored, an ingenious way around any potential tightening of the trade rules is simply to move the wholly owned factory to an external geography. The WTO does not have anything to say on the dumping of whole factories abroad.

China is just moving whole industrial clusters to external geographies and then continuing to overproduce steel, aluminium, cement, plate glass, textiles etc. And the industrial transfer plan

is to maintain a Chinese governance model on a closed value chain – in effect creating a parallel trade and industry regime.

In the case of dumping factories - essentially moving economically unviable industrial chains abroad - the Chinese commercial bank loan book looks the same as ownership of a domestic factory would. The key difference is that factory outputs are no longer domestic overcapacity being dumped, they are developed capacity of the host economy and they become legitimated exports, whether back to China when needed, or external to third countries. This means we should expect cheap industrial outputs to ease up from China but pick up from East Africa. And they will not start showing up as dumping immediately, because they are the inputs into the Belt and Road infrastructure projects.

The cheap manufacturing that China used through the 40-year development model is simply being picked up and moved, not to other Asian economies but to East Africa and other strategic export-oriented geographies. By offshoring production of old industrials, light manufacturing and some high technology value-added manufacturing to Central Asia, the Middle East, Southeast Asia and East Africa, China appears to restructure its domestic economy without actually restructuring anything.

China's Supply-side Reform policy is the other side of the International Capacity Cooperation equation. The idea is to reform domestic supply of industrials by moving them offshore. This takes the pain out of closing factories at home, as all the vested interests apart from the workers get to continue business as usual. Displaced steel, cement and aluminium workers can move into higher value-added manufacturing jobs, and yet in the Keynesian aggregate supply model, China does not have to swallow the bitter pill of abandoning state-owned heavy industry — it just continues the same model, but in an external geography. State-owned banks, SOEs, local governments, and industry associations all get to keep their piece of the industrial matrix by simply moving it abroad under International Capacity Cooperation.

This is a clear case of structural over cyclical economic change along Myrdalian and Kaldorian principles of cumulative causation. On the surface it may appear to be the same as Japanese outward direct investment in Thailand, Korea and Taiwan. But Japan's was audited private capital seeking cheaper factor endowments. China's investment in Kyrgyzstan, Mozambique or Afghanistan is clearly not based on chasing factor endowments. Domestic stable electricity supplies, stable labour, and a clear regulatory environment combined with proximity to the emerging import markets of China mean that any cheap labour in Cambodia is not enough to incentivise a move. China's investment in Laos for example is clearly strategic, not factor-driven.

China's strategic state investment in ports and trade lines, investment in heavy industry in Central Asia, advanced industry and agribusiness in the Middle East, and transplanting manufacturing clusters to East Asia builds a contiguous Indian Ocean trade strategy. The obvious next move from this is to offshore production of more complex outputs like ships, energy equipment and plants, and communications hardware.

This International Capacity Cooperation policy is a novel solution to a problem that is illegal under current international public trade law. However in resetting the rules of the game, China's domestic consumption moves to be become the rule-setter rather than the rule-taker. This means that China is rewriting both the ascendency of neoclassical economics in the global trade institutions, and replacing it with global institutions that better reflect its domestic political economy

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As it dumps entire steel factories, China stays one step ahead of US

by Tristan Kenderdine, opinion contributor
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The Hill

The threat to global trade institutions is not of Chinese parallel trade circumventing the current order, but rather a challenge from China establishing a parallel trade system. This parallel system will slowly pull the gravity of legitimacy toward China's domestic institutions.

It is headed by the International Capacity Cooperation (ICC) policy, which is designed to offshore industrial capacity. In this transition from "dumping commodities," to "dumping factories," China is rewriting the global trade rulebook, while the U.S. attempts to rein-in a shadow industry.

This China globalization agenda is why the U.S. tariffs on metals would fail, regardless of any negotiated settlement.

{mosads}It has been clear that China has been dumping steel and aluminum on international markets for years, and likely other industrial output as well. But there is nothing in the World Trade Organization (WTO) rules about dumping the factories, plants and smelters abroad and just continuing to subsidize overproduction in external geographies.

China is already in a sophisticated policy deployment stage of transferring industrial capacity abroad in steel, aluminum, cement, petrochemicals, light industry, mining and textiles.

So this International Capacity Cooperation policy is a novel solution to a problem that is illegal under current international public trade law. In part, this strategy precisely defends against unilateral sanctions.

And the wider narrative is that this offshoring of capacity is a game changer: ICC, if effective, would be as big a paradigm shift as China joining the WTO was in 2001.

The key difference between dumping factories and dumping commodities is that industrial outputs would no longer be domestic overproduction, they would be new developed capacity of the host economy, and legitimate exports.

The deployment of this trade and industry policy from Beijing means regardless of any unilateral U.S. action, we would expect industrial dumping to ease up from China, but for output to begin to pick up from East Africa, Central Asia, Middle East and Southeast Asia.

These outputs would not start showing up as dumping though, because they are to be the inputs into the One Belt, One Road Initiative infrastructure projects.

China also wants to lose these jobs in the steel and aluminum sectors because a Keynesian fiscal stimulus policy from 2008 meant that China is now burdened with industrial overcapacity in sectors that it sees as sunset industries as it chases high-technology manufacturing.

Through the supply-side reform policy, China is cutting capacity in domestic industrials and moving them either inland or offshore. This takes the pain out of closing factories at home, as China can move 100-150 million workers into higher value added manufacturing in 5G, satellite technology, robotics, new materials and nanotechnology.

If the aim of the tariffs is a targeted sniper shot to convince China to drop the Made in China

2025 (CM2025) industrial policy, then that cannot work either. CM2025 is a massive exercise in parallel planning that is already deployed through the banking system, local governments and enterprises.

China could conceivably agree to not research, plan and deploy the following national industrial policy, say a future "Innovation China 2050" policy, but it would be impossible to roll back Made in China 2025 and the strategic emerging industries. That would be like China asking the U.S. to roll back the last six Federal Open Market Committee policy decisions.

China's heavy industry is also largely still run at a state capital level. Any Chinese firms directly targeted will simply go down, restructure and rapidly re-emerge under different funding and ownership arrangements. On top of all this, China is transitioning to become an eventual net-importer.

That means that the gravity of power shifts much more to the Chinese buy-side. So, closing China's export markets to the U.S. will not hurt China as much as it would have 20 years ago.

China responded with surgical threats on proxy commodities. The reciprocal targeting of U.S. exports to China produced in states that are key to Republican political power, including those in the Midwest, South, key swing states and old blue-wall states.

The Soy tariffs hurt Minnesota, Illinois, Indiana, Ohio and Iowa as well as North Dakota and Nebraska. While any farm state not hit by a soy tariff would be hit by a sorghum tariff. These are states already hurt domestically by Trump's anti-North American Free Trade Agreement policy.

All of this is going on while China has been slowly but systematically moving toward liberalizing agricultural commodity imports. This demonstrates a level of sophistication, ruthlessness and intelligence on China's part.

Soy, in particular was a master play, because a bumper crop in Brazil has meant that China could very effectively switch suppliers. This had immediate impact on U.S. farm lobbies.

So, China is attempting to manipulate upcoming midterm elections in Pennsylvania, Ohio, Indiana, Iowa and Minnesota, while the U.S. has very little political gravity over domestic Chinese arrangements.

By allowing this, the U.S. is demonstrating that political influence in state-level domestic politics is for sale. And with Trump the trade negotiator in chief, that should worry political scientists as much as economists.

Ultimately, these tariffs are more about resetting the gravity of a broken global trade system. The WTO is broken, the Trans-Pacific Partnership and Transatlantic Trade and Investment Partnership were never going to solve regional or global trade, and China is dumping metals into U.S. markets.

Being in this situation was more a problem of trade policy appeasement through China's 15 years of WTO transition. There was an almost Chamberlain-level of appeasement through this period where the overriding narrative was simply to wait for China to converge.

China has not converged, and now the open trading economies are 10 years behind where they could have been.

Pushing back on China should not mean being disrespectful, escalating conflict or widening the scope of dispute. But ultimately, the U.S. unilateral action will mean that economies of the EU, Australia, Canada, Mexico and others will all find it more difficult to pressure China to alleviate existing non-tariff barriers to trade.

U.S. agricultural exporters and U.S. manufacturers do deserve a better trade deal, but broadside tariffs on China's sunset industries are not the way to do it.

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One Country, One Province: China's External Industrial Policy in the Middle East

Tristan Kenderdine
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Middle East Institute

Convergence is the exception that proves the rule. While Japan converged into the Western economic institutional system to orchestrate its outward direct investment in the Asia-Pacific, China has made clear that it will not conform to the Flying Geese Paradigm of East Asian Development. China's domestic industrial de-structuring is now passing through the same phase as Japan's, coordinated through *Supply-side Reform* policy. Yet China's external trade and industry policy is centered on the Indian Ocean, not the Pacific. And the industrial transfer policy is to maintain a Chinese governance model on a closed value chain — in effect creating a parallel trade and industry regime.

International Capacity Cooperation is the policy that coordinates China's domestic finance, industry and trade institutions into a holistic *Belt and Road* "going out" industrial transfer strategy. It would be incorrect to analyze China's foreign direct investment in these geographic areas at the firm level. Industrial transfer funds, administrative government unit matchmaking, and external industrial associations have all been developed to facilitate the institutionalization of the industrial transfer trade policy to the Middle East.

China's non convergence with the post Bretton-Woods trading system means its domestic institutions will shape the global economy as well as regional economic orders in the Middle East, Central Asia, East Africa, and North Africa. In the Middle East and Central Asia, the form of China's external industrial policy is becoming clearer through formation of specialized domestic China institutions in both finance and industry. In the Middle East, this geo-industrial policy centers on energy equipment manufacturing, satellite technologies, and both traditional and new energy.

Offshoring China's Project-System to the Middle East

There are clear institutional interrelationalities between China's domestic public finance architecture, central government ministries, local government industrial clusters, and industrial enterprises. However, for China, the missing institutional element from this industrial policy transmission and coordination chain is convergence with the host economy. *International Capacity Cooperation* is China's policy answer to coordinating industrial clusters in sovereign states. It is the practical industrial policy matrix through which industries, local governments, and policy banking are designed to intersect with partner economies as part of the wider geo-economic *Belt and Road* strategy.[1] It is also effectively a circumvention of comparative advantage.[2]

China's industrial investment policy narrative for the Greater Middle East was laid out in a 2016 Middle East White Paper, and is focused on exporting industrial capacity in civil nuclear, traditional and new energy and space satellite cooperation. While Central Asia is slated for soaking up China's excess heavy industries in steel, nonferrous metals, cement, and glass, Beijing is bringing stand-alone industrial clusters to the Middle East in advanced production industries such as energy and energy equipment, communications, construction machinery and equipment, aerospace, transport, marine and marine engineering.[3]

The whole Middle East geography is a strategic geo-satellite location for China; the 2016 Middle East white paper targeted space communications and traditional mobile

telecommunications infrastructure.[4] The policy paper identified agro-industrial and aquaculture industries as secondary industrial sectors, calling for both industrial transfer and industrial scientific development capacity, particularly rain-fed agriculture and veterinary sciences.[5] While popular narratives have centered on China's investment in traditional construction in port and trade logistics infrastructure, the wider macro-strategy is the use of this infrastructure as part of transitioning China from an export-led economy to a net importer.[6] This means a focus on feeding China, moving low-end manufacturing centers abroad for re-import to Chinese consumers, and building Indian Ocean-centric regional production networks for investment in next-generation technology and industry.

Industrial Integration in Saudi Arabia, Iran, Egypt, Oman, and UAE

China's investment in Middle East industry and technology will be strongly drawn to projects that sit within its overall design for an Indian Ocean geo-industrial policy. China's investment in strategic Middle East economies is not simply a matter of *Belt and Road* infrastructure building. Even where infrastructure is being built, such as in Oman and in Afghanistan, the end result is an import trade strategy, to use the built infrastructure as part of a new trade paradigm. Investment in strategic ports and trade lines can be likened to stock and flow investments. Think of China's capital building a port as stock, but the major investment is in controlling the flow of trade through the port.

In Saudi Arabia and Iran, China is expecting to invest in civilian nuclear energy equipment manufacturing plants. China itself is looking to replace energy dependence on Russia with a traditional Middle East energy plan. Oil exploration, production, transport and refining, as well as oilfield engineering services and equipment trade, are all on the agenda for China. China also plans to strengthen investment in solar, wind, hydropower and other renewable energy. China's firm-level investments are also changing the face of energy production within the Middle East (e.g., State Grid's rollout of China's EHV transmission technology in Egypt's 500 kV backbone network upgrade project).[7] In a rare display of two-way investment, Saudi Arabian American Oil Company (Saudi Aramco) is expected to sign an agreement with PetroChina to invest in an oil refinery in Yunnan province, and China's national defense giant China North Industries Group (NORINCO) and Aramco have signed a framework agreement to establish a refinery complex in northeast China.[8][9]

Overwhelmingly clear is China's secondary capacity transfer plans in agribusiness. Agriculture and aquaculture exports from Oman, Iran, and Afghanistan are designed to orchestrate a structural shift to China's Xinjiang province as a net food importer, helping China to build trade and logistics complementarities along Myrdalian economic theory. The Middle East agrifood production network will also serve as a logistics hub for China's wider agrifood exports from investments in East Africa. The Chinese Academy of Tropical Agricultural Sciences Institute of Coconut plans to establish a 'China-Emirates Date Palm Agricultural Technology Park' in Dubai, and a sugar refinery in Oman built with Chinese capital in the port of Sohar.[10] [11] And Iran recently approved a 'Science Foundation for the Silk Road' in Tehran to invest in nanotechnology, renewable energy, brain cognitive science, and biotechnology.[12] Food technology and food safety also feature prominently in China's wider trade and investment plans.[13] [14] In terms of spatial industrial policies, China is billing Hainan as the Dubai of the East or the new Hong Kong, to be funded by the China Ocean Strategic Industry Investment Fund, which was established in 2016.[15]

Match-making Provinces to Sovereign States

The most important aspect of China's industrial transfer policy in the Middle East is the matching of sovereign states with Chinese provincial and prefectural administrative units in order to coordinate liquid and fixed capital transfer to external geographies. This mechanism means that domestic Chinese institutions will trump international institutions in the new trade paradigm. These intergovernmental pairings link the state investment funds and the state

offshore industrial associations, mating local government administrative units with external economies. They are similar to sister city relationships but are more practical and designed to foster tangible investment and industrial transfer.

Through 2018, China's policy for matching provinces and prefectural cities to sovereign states is becoming clearer; for example, pairing Hebei province with Kazakhstan, Gansu province with Iran, Fujian province with Saudi Arabia, Hubei province with Egypt, Ningxia province with Oman, and Hainan province with Dubai. One of the earliest ICC matchmaking connections was between the National Development and Reform Commission and the Hubei Provincial Government to establish an institutional mechanism for taking the Hebei equipment manufacturing industry to Kazakhstan.[16] Hubei was directed to create supportive policies to facilitate the "going out" of iron and steel, cement, plate glass, automotive parts, optoelectronics, photovoltaic cells, agricultural commodity processing, and energy equipment in Central Asia, the Middle East, East Africa, and Eastern Europe.[17] This pattern will repeat as the institutional matchmaking develops in China-Middle East industrial transfers.

Figure 1. China's Middle East Industrial Policy Docking Institutional Matrix

Target Economy	Principal Province	Secondary Province	ICC Fund	ICC Enterprise Alliance	Industrial Sectors
Pakistan	Guangdong	Shandong, Sichuan		China Light Industry ICC Alliance	Solar, Infrastructure Construction
Iran	Gansu		Silk Road Science Foundation Fund	Petrochemical ICC Alliance, Steel ICC Alliance	Steel, Petroleum, Chemicals, Automobiles
Saudi Arabia	Fujian	Yunnan	China-Arab Investment Fund	China Construction ICC Alliance	Civil Nuclear, Oil Refining
Egypt	Hubei	Gansu	China-Arab Investment Fund	China Textile ICC Enterprise Alliance	Infrastructure Construction, Food
Oman	Ningxia				Infrastructure Construction
Dubai	Hainan		China Marine Strategic Industry Investment Fund		Marine Industries

Subnational administrative units in China are also matched with subnational units in host economies, such as Luoyang in Henan province with Bukhara in Uzbekistan or Iran's Qom province matched with China's Gansu province. [18] However, for the most part, China's external trade and industry policy is spatially planned for matchmaking economies of similar size, geographic proximity, or industrial complementarity. So expect many more provincial-level to sovereign state administrative matchmakings to take place in the coming 2018-2020 period.

Institutional interrelationships between the multiple levels of government and industry coordination are only beginning to emerge. But a clear pattern is forming of a governance chain replacing the value-chain. As Maritime Silk Road funding comes down the government line from the policy banks, we will see ever clearer fixed capital investment plans for entire industrial complexes on ocean-frontage economies in the Middle East, particularly for Oman, Iran, Egypt, and Saudi Arabia.[19] We can also expect to see production of food, energy equipment, energy, and heavy industry commodities in Iran, Saudi Arabia, Egypt, and Oman to be completely within China's industrial finance external governance. This fundamentally reshapes the global trade and investment paradigm and recreates a closed value chain model in China's external geographies.

Industrial International Capacity Cooperation Enterprise Alliances

China state industrial policy in the Middle East is essentially employing vertical integration. David Kelly recently reminded us all that there is no such thing as private capital in China. There is only state and less-state, and any "private" enterprise is dependent on state-owned banking capital.[20] The state-owned enterprises are coordinated by industrial sector under an International Capacity Cooperation Enterprise Alliance. These are mirrors of the industry associations that govern China's domestic industries. There are remnants of the ministerial-coordinated complete vertical integration under the planned economy.

For example, China's domestic aluminum industry association is simply the last institutional

remains of the Ministry of Non-Ferrous Metals. These industry associations are now vice-ministerially governed units that are often in charge of China's commodities import policies and price setting. In 2017, China established a China Non-Ferrous Metals Industry International Capacity Cooperation Enterprise Alliance to facilitate state aluminum production in external economies. It is clear now that these institutions exist for all industrial sectors (e.g., the China Construction Industry International Capacity Cooperation Enterprise Alliance, and the China Iron and Steel Industry International Capacity Cooperation Enterprise Alliance).

These *International Capacity Cooperation* enterprise alliances are then matched to regional specific policy bank funds, such as the China-Arab Investment Fund, the China-Kazakhstan Industrial Development Fund or the China Marine Strategic Industry Fund. Each fund has its own regional and industrial sector strategic investment goals. These play on three factors: 1) China's regional industrial restructuring needs; 2) industrial complementarities in the host region; and 3) macro national strategies. This means a typical *International Capacity Cooperation* industrial transfer project would fund a local Chinese industrial complex to close, to relocate outside the country, and then to use the outputs of that external facility to serve state geo-economic goals.

This means China's industrial investment strategy in Middle East host economies is orchestrated by the equivalent of a China ministerial bureau for foreign steel production, leveraged on policy bank investment, with enterprises centrally coordinated to fulfil state industrial policy goals. Imagine the Singapore or Hong Kong industrial development model, but with China Communist Party control. While the strategy is effectively creating a bubble version of China's economy in Middle Eastern economies, it is not so much a sophisticated grand strategy, but rather a means of perpetuating its domestic industrial planning and financing system abroad, instead of undergoing a difficult institutional change at home.

Conclusion

While geo-policy hawks race to the military-security nexus, and the free-trade crowd of the Pacific stress firm-level outward direct investment analyses, there is little space for political economy analyses that see China's Indian Ocean trade strategy in economic terms, but not neoclassical terms. Yet not all state-capital analyses need rush to debt-trap scenarios and militarization narratives. There is a place for China's state capital in the Middle East. It is rational for China to feel its capital institutions subservient to the international orthodoxy. It is equally rational for states such as Iran, ostracized by the US under globalization 1.0, to seek new trade and investment partners.

But China's globalization 2.0 comes with serious risks. Without a freely exchangeable currency and with the hangover of local government debt in its banking system, Chinese capital itself carries inherent risks that European, American, and Japanese capital does not. This is not simply a case of China taking its place in the global investment architecture; it is a rewriting of the global trade and investment institutional norms. A closed model of production in Saudi Arabia, Egypt, or Iran under China's domestic governance model is effectively a parallel trade policy. It is a state-capitalist industrial policy pursued in an external geography, and one that does not touch the conventional balance of payments and international exchange state accounting regime.

While this capital may be branded variously as private equity investment, private enterprise investment, state aid, or multilateral international assistance loans, the macro strategy is clearly centered on a vertical integration of China's industrial production in external geographies. By expanding this alternative to the default global trade, industry and investment regime, China's parallel trade policy is an advanced form of financial neo-mercantilism that will, by definition, run adjacent to existing WTO trade rules, and will ultimately challenge their existence.

Notes

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China's River-Based Inland Civil Nuclear Policy to Lead Developing Economy Energy Strategies

By Tristan Kenderdine
23 November 2017

Global Policy

Tristan Kenderdine looks at China's policy to export its civil nuclear program.

Just as China's domestic thermal coal burning affects global climate, its non-fossil fuel policy shapes global environmental policy. Over the past two years there has been a monumental shift in China's energy policy towards nuclear. And the expansion of the inland nuclear network is slated for the Yangtze River, from Sichuan all along the river's course to the nuclear hub in Zhejiang. China's civil nuclear expansion also focuses on offshoring production of energy equipment to external geographies, meaning more affordable nuclear plants for developing countries. Coupled with Chinese investment in cement, expect a flowering of civil nuclear plants along the rivers of Africa, South America, and the Middle East.

The western environmental and energy policy communities have long berated China for its continuing reliance on thermal coal, the lifeblood of its industrial economy, which has lifted hundreds of millions out of poverty. However, China's commitment to the expansion of renewables has been extraordinary. Solar energy only became a solution in most OECD economies in 2013, once China had poured into the market and made cells affordable. A similar story occurred in 2016 with batteries for NEVs (new energy vehicles), as the electric car only became a reality once Chinese components manufacturers were able to produce cheaply enough to create an economy of scale.

China **nearly doubled its nuclear generated electricity output** between 2013 and 2016. The central Chinese government has made it clear that it is serious about ramping up its civil nuclear electricity production. From the 36 current reactors, China has 63 reactors under construction. 96 are slated to begin construction by 2020, and a further **79 are to be completed by 2030**. This would take China's operating capacity from 32,637 megawatt electrical (MWe) in 2017, to a **massive 302,783 in 2030**.

If China is serious about nuclear, then the spill over effects of cheap energy equipment manufacturing will push peripheral countries into China's nuclear orbit. Energy equipment capacity cooperation is already a staple of China's external industrial policy. And countries such as Saudi Arabia and Iran are already in line to benefit from cheap Chinese electricity generating energy equipment. The effect on global productivity and living standards would be dramatic if Africa, Southeast Asia, the Middle East, and Central Asia had access to the cheap, abundant, and reliable electricity that Chinese energy equipment would bring. According to Xie Zhenhua, China's global energy policy envoy, China intends to extend inland nuclear in order to meet its COP21 **commitments**. However, in order to extend the economic prosperity that cheap electricity brings, China will need to break **technological and regional governance barriers** to ensure the safe operation of inland nuclear power plants.

Beijing has released plans for a sizeable network of inland plants, mostly concentrated in central China along the Yangtze. **Hubei and Hunan** will be home to the most **reactors outside** the coast, with plans also for **Jiangxi, Anhui, Henan, Sichuan, Chongqing, Guizhou and northern Guangdong**. The principal problem facing inland nuclear is the high water demand of reactors — hence **locating them along the Yangtze**, which provides an inland water source. Traditional coastal nuclear powerhouses Guangdong and Zhejiang will massively ramp up capacity too. Guangdong is to get nine new nuclear sites with 28 reactors totalling 36,000 MWe. Zhejiang will add 15,000 megawatts (MW) to its existing 6,141 to remain the heartbeat

of the Yangtze Delta. And the Bohai Bay industrial cluster of Liaoning-Hebei-Shandong is to become the third coastal civil nuclear hub, with Shandong moving from no nuclear presence to over 20,000 MW.

China plans to construct an **additional 26 plants** to reach a total of 56 plants by 2020, to become the world's second largest nuclear country. Equipment manufacturing is currently dominated by Shanghai Electric, Dongfang Electric Cooperation, and China First Heavy Industries, whose production capacity can meet the demand of 12 to 15 plants per year.

Internationally, exports of China's domestic Hualong 1 and CAP1400 nuclear reactors to Belt and Road economies are designed to replicate the export-oriented development policies of economies like Germany, Japan, and Korea. The economic value of nuclear power plants has much the same **industrial complementarity** effects as the automotive industry or the high-speed rail manufacturing cluster. A single nuclear plant generates approximately C¥30 bn in economic output value, the export equivalent of **300,000 cars**. China has successfully exported eight nuclear power units to seven countries, and has established talks with more than 40 countries. However, cooperation with developed economies in civil nuclear power likely has geopolitical strings attached. Could France or England oppose transfer of civil nuclear technologies to Iran or Egypt if they had themselves been beneficiaries?

There is obvious opposition to inland nuclear centers on **environmental and nuclear safety issues**, particularly given China's infamous inability to connect investment in electricity generation with regional electricity grids. Currently, coal-burning provinces send electricity to the coast, so they are paying the environmental dividend for the coast's economic development. Chinese provincial governments have recently been paying out a double dividend: once for polluting air pollution through thermal coal, and once again through the cost of investing in photovoltaic and wind capacity which has sat unused, curtailing the grid. Nevertheless, China aims to finish transitioning from a **large to a strong nuclear country** emphasising high safety levels. During the 13th 5-year plan period, the forthcoming **Nuclear Safety Law** will address safety and legal gaps in the 2003 Radioactive Pollution Prevention and Control Law.

If China's policy to export its civil nuclear program is to be successful it must first demonstrate industrial and environmental policy coordination at home. The new inland nuclear program could bring river-based civil nuclear generated electricity to new areas of **Africa and South America**. If China intends to sell nuclear equipment to external geographies, it must understand the technological and safety risk in its own backyard, and ensure that its technology is dependable and that it promotes effective safety protocols and standards alongside its energy equipment exports. A domestic nuclear accident coinciding with a flood of the Yangtze river could be catastrophic. For civil nuclear to solve China's environment policy woes, it must be policy-complete enough not to export environmental risk to the Middle East, Africa, South America, or Eurasia.

The next phase of China's trade and industry strategy

Tristan Kenderdine
17 November 2017

East Asia Forum

In Brief

While most eyes on China's 19th Party Congress focused on personnel movements in the executive arm of government, the practical policy machinations occur in the administrative arm — the State Council. This policy nexus directs government trade and industrial policy across a range of old and new industrial sectors, in much the same manner as Japan coordinated its industrial policy through the Ministry of International Trade and Industry during its post-war catch-up industrialisation phase.

China ascended to a position of global trade leadership through the 2012–17 period as domestic governance of its trade and industry policy became acutely important to the global economy.

For the coming 2018–22 period, a reinvigoration of Party ideology will give the State Council the proto-policy necessary to realise its 'global civilisation' narrative as the global trade agenda shifts away from US-led globalisation. The nature and direction of China's geoindustrial policy will play an important role in determining to what extent this narrative is put into practice.

In the first Xi administration, industrial policy was steered towards orchestrating China's rise up the global value chain and facilitating the movement of fixed capital to external geographies. But five-year administrations are long enough for factional politics to ebb and flow and the 2013–14 policy narrative that called for the market to play a decisive role seems like forgotten history now.

China's trade strategy for the second Xi administration will be dominated by the interplay between international capacity cooperation and supply-side reform. Capacity cooperation offshores China's industrial capacity to external geographies, while supply-side reform cleans up old industrial capacity at home.

Taken together, these two policies result in a contiguous domestic industrial policy that directly affects the global economy and challenges international trade norms, as it is established behind a closed capital account.

While supply-side reform and capacity cooperation are synergistic policies, there is likely to be friction in domestic implementation. Supply-side reform restricts capital for state-owned enterprises (SOEs), which predominantly manufacture domestically. By contrast, capacity cooperation grants easy policy loans to SOEs going abroad to manufacture.

This is designed to provide an incentive to move capacity abroad, to migrate to higher value-added manufacturing at home and abroad, as well as to curb capacity in low-end polluting traditional industries. The exemplification of this policy synergy would be a Hebei-based SOE steel producer transforming into a robotics manufacturer producing out of East Africa.

The Ministry of Industry and Information Technology (MIIT) is tasked with policy implementation of strategic emerging industries such as biotech, new energy, new materials, new energy vehicles, advanced manufacturing, high technology services and digital creative industries.

The challenge for MIIT over the coming five-year term will be to coordinate these new

innovation-based policies with that of the macro Made in China 2025 industrial policy — all of which is to be done while coordinating with subnational industrial policy clusters that are responsible for implementing national-level strategy.

National manufacturing innovation platforms will launch intelligent manufacturing pilot projects under the Internet Plus policy nexus of Industrie 4.0 projects. The aim will be to improve and transform processes, materials and standards in industrial manufacturing. This supports macro industrial strategies, which remain focused on the production of large aircraft, aircraft engines, gas turbines, energy equipment, new energy, nuclear energy, high-speed rail and other high-end equipment.

The critical policy implementation at the State Council level in Xi's second term will largely depend on filling the political vacuum created by the vacating First Vice-Premier Zhang Gaoli. From overseeing economic integration with Kazakhstan to coordinating Jingjinji regional integration to spearheading environmental and energy policy, Zhang has been everywhere at once in this past five-year term. Xi's focus on power consolidation has been possible largely because Zhang was effectively running the economy.

For the 2018–22 'New Era' post-reform agenda, the degree to which individual firms will be subject to market conditions is likely to be dependent on how effective China's domestic industrial policy aligns with its international geoindustrial policy.

If supply-side reform succeeds in consolidating SOEs, in helping them deleverage debt and overcapacity and in enveloping them in international production and trade, then we may see a green light for more subnational SOEs to continue 'business as usual' as they collect on policy loans and tax concessions to upgrade their production practices under international capacity cooperation.

But if capacity cooperation falls flat abroad, then tighter capital controls at home may disincentivise Chinese SOE managers from investing in fixed assets abroad. International trade in industrials would thus continue to be characterised by dumping domestic product on international markets.

If that happens, then the 2018–22 period could see a softening of industrial policy and a resurgence of a reempowered market-liberal agenda from the currently marginalised Hu Jintao and Jiang Zemin political factions.

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China's Aluminum Industrial Capacity Cooperation in Kazakhstan

By Tristan Kenderdine
Thursday, 19 October 2017

Central Asia-Caucasus Analyst

International Capacity Cooperation is China's policy answer to comparative advantage, a vast state-planning exercise to coordinate China's trade and investment strategy in external geographies. It is the practical industrial policy matrix allowing industries, local governments, and policy banking to intersect with partner economies as part of the wider geoeconomic Belt and Road strategy. For China's aluminum sector, which is already heavily state subsidized and widely considered to be dumping on international markets, it represents an opportunity to extend the lifespan of the industrial policy and policy bank model. The formation of an aluminum capacity cooperation enterprise alliance should be a warning signal to the non-ferrous metals industries of China's trading partners in Central Asia.

BACKGROUND: A forthcoming International Capacity Cooperation 13th Five-year Plan will list Kazakhstan as China's "main axis" to Africa, the Middle East and Central Europe, while it designates Indonesia and Malaysia as the gatekeepers to the Malaccan route to Europe. Industries that China is offshoring include steel, nonferrous metals, building materials, chemicals, automotive, agriculture, construction machinery, and aerospace technologies.

Key to China's industrial capacity transfer strategy in Central Asia is moving aluminum capacity to Kazakhstan, Azerbaijan, and Mongolia. To this end, on March 31, 2017, representatives of China's aluminum industry met in Beijing with officials of the National Development and Reform Commission, the State-Owned Assets administrator (SASAC) and the China National Nonferrous Metals Industry Association to form the China Nonferrous Metals International Capacity Cooperative Enterprise Alliance. China National Nonferrous Metals Industry Association Communist Party Secretary Chen Quanxun, said that the combination of the policies *Going Out*, *International Capacity Cooperation*, and *Belt and Road* have resulted in increased foreign direct investment in non-ferrous mines, mineral rights and plants in 2016.

Kazakhstan's Minister for Investment and Development, Zhenis Kasymbek, was recently on a working visit to China where he met with China's Ministry of Transport. The delegation met with representatives of China National Machinery Import & Export Corporation (CMC), Cereals, Oils and Foodstuffs Corporation (COFCO) Gezhouba Cement (construction), Cathay Industrial Biotech (biogenetics and biotechnology), Shandong Hi-Speed Group Corporation (transport infrastructure), Norinco (China Northern Industries – diversified defense, vehicles, machinery and construction), Sinosure, Export-Import Bank of China, and the Silk Road Fund.

In February 2017, Kazakhstan's Ambassador to the People's Republic of China Shahrat Nuryshev met with Xu Weihong, chief economist at AVIC Securities, discussing construction of a mining and chemical-metallurgical complex in the Zhambyl region and the development of a special economic zone in Pavlodar. The projects are worth US$ 2.3 billion with Chinese partners China Metallurgical Group Corporation, China Machinery Engineering Corporation and AVIC Corporation. The investment in the Kazakh industrial cluster will output titanium dioxide, silicon dioxide and vanadium pentoxide to China for use in the production of aircraft and aerospace industries. China has invested in industrial projects in Kazakhstan, including Kazakhstan Aluminum, Kaz Minerals copper mine in Aktogay, and Petrochina's petcoke project in Pavlodar, all of which are at least partly funded by Beijing's policy banks China Development Bank and the Export-Import Bank of China.

On the Kazakh side, most Chinese aluminum investment roads lead back to Alexander Mashkevich's Eurasian Resources Group (ERG), in which the Kazakh government owns 40

percent. The Eurasian Natural Resources Corporation arm owns a third of the mining and metals sector in Kazakhstan including Kazakhstan Aluminum, Kazakhstan Electrolysis Plant, TNC Kazchrome, Sokolov Sarbai Mining, and the Eurasian Energy Corporation.

IMPLICATIONS: Much of the Kazakh enthusiasm derives from the high-level international capacity cooperation agreement signed with China in 2015. In January-September of 2016, the inflow of direct investments from China already amounted to US$ 623.9 million, a sevenfold year-on-year increase. This is part of the 50 joint Kazakhstan-China industrial capacity cooperation projects agreed in 2015, worth US$ 25-30 billion over five years, and intended to create industrial cluster cooperation zones in transport infrastructure, manufacturing, construction, and agriculture.

However, ERG is large enough to want to invest in China, and feels that reciprocal capital investment channels should exist given China's investment in Kazakhstan. ERG is unhappy with existing obstacles preventing it from raising capital on the Shanghai Stock Exchange, and instead being beholden to policy bank capital. ERG has argued that its domicile in Luxembourg entitles it to list in Hong Kong under English Common Law, and that the Hong Kong-Shanghai Stock Connect means it is then eligible to raise capital in Shanghai, following the model set by Rusal in 2010. China does not agree and has blocked any attempt by ERG to issue securities in China.

Outside China, ERG is cooperating with Chinese policy bank funds to develop projects both domestically and internationally. ERG has partnered with China Nonferrous Metals Industry Group, Export-Import Bank of China, Industrial and Commercial Bank of China and China Export & Credit Insurance Corp to complete an US$ 800 million copper and cobalt project in the Democratic Republic of Congo's Katanga district. The project will come online in 2018 to supply China with 20,000 tons of cobalt, its single biggest supplier, enough to make batteries for 500,000 electric vehicles. Congo's Katanga is home to nearly half the world's proven cobalt reserves, with cobalt and manganese set to be in high demand due to China's battery boom. ERG is also seeking Chinese funding to double the capacity of the Kazakhstan Aluminum plant, which currently produces 300,000 tons per year, requiring around US$ 3 billion of Chinese capital. It has also reached a separate agreement with China Development Bank for at least US$ 2 billion in financing for three projects in Kazakhstan in the aluminum, iron ore and power sectors.

Kazakhstan is working to make investment in its aluminum production and mining industries friendly to foreign capital. Kazakhstan's Minister of National Economy Timur Suleimenov said that the Ministry is looking to modify mining tax laws in order to attract more foreign direct investment. According to the new tax law, mining companies will need to pay only after-profit tax, removing taxes for exploration and mining. In order to implement the 100 Steps national industrial policy, the Kazakhstan Ministry of Investment and Development is writing a *Codex on Minerals and Mineral Resources* for submission to the *Mazhilis* (parliament) in late 2017. The new code will introduce the "first come first served" principle based on the Australian model, simplify approvals of mineral exploitation rights, and apply CRIRSCO standards (Committee for Mineral Reserves International Reporting Standards) to mineral reserves assessments.

It is clear that China's geoindustrial policy can develop infrastructure in the region and transfer industrial capacity in sectors such as non-ferrous metals, which can help close Kazakh industrial complementarity gaps and fill in the industrial base. In Central Asia, many states retain partially functioning or unclosed industrial complementarity loops, a heritage of their position as peripheral nodes the Soviet continent-wide state industrial planning. Present-day water resources, transport networks, energy networks, and a variety of traditional industrial bases remain dysfunctional or isolated due to the economic decoupling from Moscow. However, it is equally clear that there will be no reciprocal opening of Chinese capital markets and that Kazakh firms can cooperate only under China's policy bank model. Private, or state, capital generated on the Kazakh side will not be allowed to cross the mountains back into China.

CONCLUSIONS: China's International capacity cooperation policy will bring investment to Kazakhstan's non-ferrous metals industry, offshoring its excess aluminum capacity. However, capacity cooperation, and the wider Belt and Road infrastructure investment policy are strictly beneficial to China due to its perpetuating policy banking model. In effect, China establishes a parallel trade and investment system, intrinsically tied to Chinese state-owned enterprises and the institutions of Chinese state capital. International capacity cooperation is a genuine attempt to bring entire industrial clusters to China's external geographies in order to develop the industrial bases of its trading partners, while offshoring is current cyclical overcapacity problem. Moreover, China's fixed-capital investment in the region's traditional industrial bases is a gift that the Central Asian republics cannot afford not to ignore. However, Kazakhstan and other Central Asian partners should be aware that this capital has state-strings attached, and that there will be no reciprocal opening of China's consumer, production or capital markets.

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13th Five-year Plan on International Capacity Cooperation — China Exports the Project System

By Tristan Kenderdine
17 October 2017

Global Policy

Expected for over a year, China's 13th Five-year Plan on International Capacity Cooperation is not forthcoming. When finally released, it will detail China's trade and industry policy for external geographies and put meat on the Belt and Road bones.

In May 2015, the State Council issued Guiding Opinions on Promoting International Production Capacity in Equipment Manufacturing Cooperation, a policy that was quick to spread to other sectors of the industrial economy through promotion and reinforcement at first the Agricultural Work Conference and then the Central Economic Work Conference, both in late 2015. The formal 13th Five-year Plan in International Capacity Cooperation has been a long time coming down from the Centre but its effects and macropolicy have been clear for the past 18-24 months of sub-central and subnational policy. Ministry of Commerce has been coordinating a series of industrial policies in external geographies through sectoral-specific policies, State-owned Enterprise coordination, subnational governments, Chinese embassies abroad and host governments abroad. A top-down centrally planned industrial policy, it is quite an ingenious way to 'solve' China's industrial overcapacity problem, restructure its domestic industry towards Industry 4.0 higher value-added advanced manufacturing, and export capital factor productivity without opening the capital account, however it remains a one-way street for the host economies.

The13th Five-year Plan on International Capacity Cooperation will introduce a 'One Axis-Two Wings' spatial planning framework. Central Asia (principally Kazakhtstan, Azerbaijan, Georgia and also Iran) is the axis on which China is to balance its trade strategy with the 'West Wing' of Africa, the Middle East and Central Europe. Brazil, Peru and Latin America constitute the 'East Wing'. Targetted sectors for industrial integration remain transport, energy, communications, engineering machinery, aerospace, and marine engineering. Vanguard factory specific sectors include steel, nonferrous metals, building materials, chemicals, light industry, automobile, agriculture, and construction machinery. Actual enterprise investment over the past two years in external geographies has generally played out according to the 'Main Axis to Africa' recipe, despite central policy only being loosely coordinated through the provinces and policy banks.

The International Capacity Cooperation policy reinforces China's commitment to improve the fiscal, financial and other supporting policies to ensure that Chinese firms can access export credits and insurance, SOEs have adequate credit lines, and that policy banks can issue renminbi (RMB) denominated credit in host economies. During the fourth **China-Kazakhstan Government Business Cooperation Council**, Kazakhstan National Sovereign Fund and Chinese counterparts at Ministry of Commerce (MofCOM) and CITIC Group signed an agreement creating the 'Sino-Kazakhstan Cross-border RMB Production Capacity Cooperation Fund'. The fund allows Chinese capital to enter an external geography without being first converted into foreign currency, it is essentially creating a capital bridge for China's SOEs which have operations both in China and abroad. We can expect similar policy banking procedures in the Middle East and particularly Africa as the International Capacity Cooperation project rolls forwards.

As predicted by Yang Yiyong, director of the Institute of Social Development, China Macroeconomic Research Institute, much of the practical cooperation mechanisms centre on **free trade zone and industrial park cooperation**. China envisions a sub-regional economic cooperation docking with its broader Belt and Road geoindustrial policy. Docking with the

developing of economies along Belt and Road economic corridors are to birth a series of free trade zones and sectoral specific industrial parks, along the model of Japan's Regional Production Network in East Asia.

Parallel Trade and Investment Architecture

The Project System is the policy-base upon which International Capacity Cooperation is built. The Project System concept is used by Chinese economists such as **Luo Xiaopeng** to refer to the Keynesian capital-works project system used by the central government as an investment-driven growth model. In short, leverage GDP growth through construction activities funded by the state, regardless of the regional needs of the populace, the inneficient production, or the banking debt accrued. International Capacity Cooperation effectively offshores this Project System model without reforming the deeper financial and industrial structure problems China faces. The implications for recipient countries being that they are importing China's financial model, and given the incomplete reforms of China's banking sector, means they are importing substantial and unregulated levels of risk.

Wang Xiwen, Ministry of Industry and Information Technology (MIIT) International Economic and Technical Cooperation Centre Director, has **argued a direct parallel** between China's International Capacity Cooperation policy and Japan's offshoring of industrial capacity from the 1970s. He said that China's policy is little more than following that typical Japanese model where Japan, after 60 years of industrial growth and post-war rebuilding faced similar industrial constraints to China now. Wang argued that to overcome the urban concentration of industrial complementarities, Japan passed a crucial **series of laws** to regulate and restructure its industrial economy, such as the New Industrial City Construction Law (1962), and the Industrial Relocation Promotion Law (1972). These laws resulted in capacity transfer away from cities into fifteen newly developed industrial clusters in Japan, which allowed for cheaper inputs and greater complementarity and decentralisation. To move Japanese industry into higher value-added manufacturing and restructure away from heavy polluting industries, the High-tech Industrial Zone Promotion Act (1983, 1998), created 26 local cities in the high-end manufacturing industry, and the Knowledge-intensive Industry Location Act (1988, 1998) incentivised 26 local cities to develop software services. **Wang's argument** mirrors the arguments of economists such as Dani Rodrik and **Suehiro Akira** who understand the historical institutional nature of economic restructuring and the state's role in reforming both markets and institutions to aid economic development.

China's Ministry of Commerce's other contemporary major trade and industry policy, the **13th Five-year Plan of Foreign Trade Development** aims to mirror this secondary aspect of Japan's industrial restructure. That is, to open foreign markets to Chinese capital and labour inputs and to develop the innovation industries at home to increase value-added advanced manufacturing output. It specifically says to strengthen trade and industrial policy coordination, and to enhance competitiveness in innovation-driven development. China's science and technology research and developing financing is rapidly approaching and surpassing technological horizons on the way to restructuring its domestic industrial production while International Capacity Cooperation develops the industrial clusters abroad to manufacture and reimport into China. China is currently constructing a long-term plan to become a net-importer of manufactures and an exporter of technology.

Against accusations that China is merely attempting to offshore low-end industrial plants such as steel, cement, aluminium, glass, and paper, **Peking University Institute of International Relations Professor Zhai** Kun has said that 'China's production capacity is generally in the middle and high-end levels, this production capacity is in advanced technology.' Outsider observers are not so optimistic, particularly those in the European community who have seen technology transfers go one-way into China for decades and are experiencing what **Joerg Wuttke has recently called 'promise fatigue'**, an idea that the European Union, Japan and the United States have poured technology transfers and investment into China on the promise

of China one day opening its markets to international competition. Yet the combination of the global financial crises and the decline of American global leadership seems to be enough to convince China that it has a chance to make it on its own, a few more years of promises not withstanding.

This new 13th Five-year Plan for International Capacity Cooperation will merely codify what has been occurring at all levels of government and industrial enterprise for the past two years. However it is an important policy document for the globalised economy to take note of. It in effect spells out China's Belt and Road strategy, and the merchants making hay on guessing what Zhongnanhai is planning had best stop in the face of evidence. For recipient countries, this can be as beneficial as Japan's Regional Production Networks were to ASEAN economies, or it could be as ruinous as IMF loans to non-OECD countries through the regime of Washington-consensus neoliberal ideology. China's hand is open and its financing model for its trade and investment architecture is clear. Policymakers in Africa, Middle East and Central Asia can benefit from RMB-denominated investment, but they should be aware of the risks and understand the wider game that China's eventual import strategy represents.

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How can China afford its science and technology goals?

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Tristan Kenderdine

East Asia Forum

In Brief

China is at a historic economic juncture. Its urban-centric growth model has orphaned the rural population while the urban population struggles with incomes below OECD levels and housing, education and health costs above those in Europe.

Science and technology policy is also at a critical point, with China on the edge of a series of techno-industrial upgrades into super advanced industries, shifting its growth model into high-end value-added manufactures.

To achieve this, China is reconfiguring its science research funding bureaucracy. Projects that proliferated under the 12th Five Year Plan (FYP) are being streamlined into a new, simplified funding arrangement. This includes the previous umbrella programs of 973 (basic science research) and 863 (high technology research).

To spearhead the research and development (R&D) funding overhaul, the Ministry of Science and Technology (MoST), which acts as a gatekeeper for funding and project coordination, upgraded and consolidated the National Key Technologies R&D Program. This is the first of the five major umbrella programs in national R&D reform. The consolidated institution supersedes the 863 and 973 programs, which had previously been scattered across a variety of government agencies and state-owned enterprises (SOEs).

Funding for the 13th FYP is now beginning to be rolled out in projects overseen by MoST and coordinated through hierarchical project databases and funding grants. Larger, horizontal, inter-ministerial science and technology details are likely to be rolled out throughout 2017 and 2018.

The reform process established in 2014 is nearly complete. In 2014 key pilot projects were established and a database of centrally financed research projects was setup. Throughout 2015 and 2016 five categories of the science and technology plans were demarcated with a unified and transparent management platform established. Now in 2017, the clean-up and abolition of the old funding channels is being enacted to allow the full operability of the five new categories of projects and funds.

By simplifying the new R&D funding into five sections, the policy coordination aims to integrate project application and resource allocation and to upgrade industry chains and financing channels for technology innovation. This is while allowing markets to play their role and limiting governmental agencies from micromanaging projects.

The wide-ranging R&D bureaucratic architecture, which includes MoST along with a wealth of other ministries in the science and technology industrial complex, is to be consolidated from the current, fragmented funding channels into a unified inter-agency platform. This shift in R&D management is hoped to enable stronger oversight, promote efficiency and reduce micro-management from the centre and wasteful investment by the localities.

Since 2014, the Ministry of Finance has also been channelling funding for industrial upgrading away from local government fiscal spending that can't be audited and into more transparent

and centrally coordinated industrial development investment funds. By early 2017 there were nearly 1000 individual funds collectively worth US$500 billion.

These funding mechanisms will intersect with other centrally coordinated industrial policy developments as science-technology reform for national innovation is integrated into China's wider industrial infrastructure. China's State Council has said advancements in science and technology will lead to socio-economic development. And it's spending big, with R&D investment to account for 2.5 per cent of GDP by 2020. SOEs — the backbone of China's science-technology industry — will be mandated to spend 1.5 per cent of business revenue on R&D.

The proliferation of 5-year plans into horizontal sectors and vertical tiers of government is quite natural. But the speed at which the industrial technology plans have been formed and published is indicative of advanced planning. Trade policy in comparison is still struggling to publish its 13th FYP on international capacity cooperation 10 months on from its announcement.

For policy transmission and implementation, China's network of high-tech industrial parks stand ready to act as a conduit between central government, local government and SOEs. Mostly governed at the prefectural-levels, such parks generate around 10 per cent of China's industrial output and 16 per cent of its export value. Cooperation between central government funds, prefectural government industrial parks and private capital enterprises have opened a huge array of R&D funds to guide the science and technology industrial complex. Key technologies generated by these parks include graphene cables, environmentally friendly materials, new energy vehicles and photovoltaic energy.

Of course, the system will be open to misuse and misdirection of funds. There is already an overcapacity problem in low-end robotics as subsidies have encouraged the picking of low-hanging fruit rather than developing the industrial clusters necessary for future innovation.

Similarly in higher education, reform of the 211 and 985 programs into 42 strategic schools is unlikely to result in substantial changes in Chinese university and vocational sector outputs, other than a few soundbites from global rankings.

The start of any FYP cycle always sees policy exuberance and a flood of funding for strategic industries and centrally coordinated, industrial technology capacity. But watching the government's science-technology funding scheme is especially prescient as China pushes through the post-industrial technology barrier and begins to take the lead in areas like artificial intelligence, robotics, batteries and new energy, advanced materials, nano-technology and biotechnology.

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A closer look at China's import-processing zones

Is China really opening up consumer markets?

Tristan Kenderdine
21 July 2017

Policy Forum

China is enacting reforms to normalise the importation of goods for domestic consumption. Yet any opening of the Chinese market will be selective and will serve state industrial policy, Tristan Kenderdine writes.

China's 2016 e-commerce 13th Five-Year Plan was a signal to the domestic economy that was largely ignored by international firms. It would, however, cause complications for companies in developed economies that have been profiting from grey market cross-border trade with China.

The business model for such firms was simply to let overseas Chinese buy products off the shelf in Europe, Australia, Japan, Korea and the US and ship the goods back to China using personal networks loosely organised through WeChat. As it becomes a net-importer and consumer of higher value-added goods, China is moving to regulate this trade.

China's second-wave trade and investment regime is developing a network of 'free trade zones' with an explicit plan to attract inward manufactures for domestic consumption. Although they may be 'free trade zones' by name, they are more accurately described as 'import-processing zones', and they represent an exchange between foreign manufactured goods and access to the world's largest consumer market, a reversal of the export-processing zones of the 1980s.

China's import-processing zones are the latest phase of a spatial trade game which started with the unequal ports treaties with the European industrialising powers.

The new free-trade zone plans also clearly intersect with wider domestic reforms for national e-commerce distribution systems, global e-trade institutional infrastructure, and the development of logistics firms capable of coping with the China-scale of cross-border point-to-point package delivery.

January's foreign trade development 13th Five-Year Plan sought to visualise the transition to an import-driven economy. It plans 'five optimisations' for the Chinese economy: international market structure, domestic market structure, commodities structure, building internationally competitive firms, and trade innovation. It is worth noting that 'trade innovation' is mostly about drawing global commerce towards an international Chinese investment system, without truly opening China's consumer or capital markets.

In April, the locations of the third batch of import-processing free trade zone pilots were confirmed: Liaoning, Zhejiang, Henan, Hubei, Chongqing, Sichuan, and Shaanxi. These seven add to the initial pilot at Shanghai and the later addition of Guangdong, Tianjin and Fujian.

Trade giants Hangzhou and Qingdao will be the first cities to enact new regulations on cross-border e-commerce, expected to come into effect on 1 January 2018 with most items treated as duty-free personal goods. Hangzhou's cross-border e-commerce pilot is set to become the world's first 'electronic world trade platform' experimental zone — this new e-commerce infrastructure will affect every part of the global supply chain.

The open market framing of these zones belies wider state industrial policy. As shown in the chart below, co-located with the zones are 18 'Torch' industrial research and development parks. (*see chart*).

Combining the locations of the import-processing zones, the industrial research Torch zones, and the government-administered New Areas paints a clear pattern of a state industrial policy. The free trade zones are far from a test-run for an eventual nationwide liberal trade environment — instead, each zone is to intersect with specific state industrial policy goals.

The import-processing zones all have explicit policy goals. For example, Liaoning aims to reform advanced manufacturing SOEs, while Zhejiang's role will be to establish international maritime logistics bases. Henan is slated to improve land and river logistics channels, with Hubei responsible for upgrading the Yangtze River Delta Economic Zone. Chongqing and Sichuan provide a nexus for integrating inland Belt and Road projects with the coastal Yangtze River Delta Economic Zone. Shaanxi is to explore modern agriculture and expand cooperation with countries along the Silk Road Economic Belt and 21st-century Maritime Silk Road.

China's Ministry of Commerce recently transmitted a revised version of the *Foreign investment industries guidance catalogue* to the public, after drafting by the Central Party Leading Group on Deepening Reform. The catalogue relaxes imports on industries in which China already has a technological advantage and where it hopes to attract cheaper inputs.

While ostensibly relaxing requirements for foreign firms and promising domestic and foreign firms equal representation under the Made in China 2025 industrial policy, in reality the government is hoping to push foreign investment away from more developed coastal consumer markets and towards central and western regions through the *Advantageous industries for foreign direct investment in central and western regions* policy document.

China importing more from the world and becoming a net importer is a good thing. Yet there are serious strings behind these innovations – what may look like an opening of the Chinese market will most certainly serve the state first.

Coordinating China's satellite constellations

A new era in the space race begins

Tristan Kenderdine
20 July 2017

Policy Forum

China is rapidly gaining ground to close the satellite technology gap. Tristan Kenderdine looks at the likely trajectory for the country's space race.

The *Satellite Navigation Regulations* will legalise China's strategic positioning in the satellite navigation sector and facilitate the application and industrial development of the *Beidou* Navigation Satellite System (BNS). *Beidou* is China's domestic answer to the US' Global Positioning System (GPS), Russia's globalnaya navigatsionnaya sputnikovaya sistema (GLONASS) and Europe's Global Navigation Satellite System (GALILEO). The new regulations are among a host of other peripheral legislative affairs being pursued as the development of China's space communications strategy gathers pace.

To ensure communications along its Belt and Road project, China is planning to launch satellites to cover Central Asia, the Middle East and greater Eurasia.

New launches will begin in 2018 with China pushing the expansion and development of satellite technology, particularly ground stations, in countries along the route. To build a global satellite navigation system that will rival GPS, China aims to launch 18 satellites to expand network coverage and enhance system performance. China has also cooperated with a number of countries and regional alliances, including Pakistan, Saudi Arabia, Myanmar, Egypt, Iran, Indonesia, ASEAN, and the Arab League, on technology exchange, technology transfer and training, systems performance monitoring, and high-precision application services development.

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A relatively comprehensive domestic industrial chain has been completed for the first stage of market development for the BNS, including basic navigation products, application terminals and operational services. Commercial applications of the BNS are set to follow in mass consumption areas such as communication, transport, emergency response, smartphones and car navigation. An intelligent information industrial cluster is to be formed by combining smart cities, big data, networking, cloud computing, and mobile Internet. Mergers, together with the integration of small players in the industrial chain, are expected to help the industry successfully develop.

But China's satellite ambitions extend beyond the terrestrial. Alongside the development of orbit-to-ground satellite communications networks, the Chinese scientific bureaucracy is working to construct a marine underwater monitoring observation system and parallel networks of submarine communications cables.

The National Satellite Ocean Application Service is developing a floating 'ground station' system in order to construct a maritime-based satellite system and support China's wider maritime interests. China also aims to build and improve its marine disaster forecasting and

early warning systems and to accelerate and improve its underwater observation system.

The planned marine underwater observation system is likely to be developed along similar lines to those used in aerospace engineering, with the whole national industrial infrastructure behind it. Participation in the global ARGO project gives China the technological capacity to expand and set up its own underwater monitoring system. Such capacity building is crucial as China's current underwater technology is almost exclusively manufactured abroad, being forced to import many underwater instruments.

China has, in recent years, increased its offshore and underwater industrial presence with facilities and equipment to expand its capacity for seabed mining, deep-sea hydrocarbon drilling, for the establishment of deep-sea stations and submarine energy transmission.

The US and Europe still dominate the physical submarine cable communications network. China, therefore, will continue to lay a parallel system of submarine fibre-optic cables to ensure access to intercontinental Internet infrastructure.

China has already laid an intercontinental cable between South America and Africa but faces a host of United States dominated fibre-optic networks in its near sea territories. National domestic cybersecurity and the triple bloc of outer space, international seabed and polar regions are considered important non-inhabited geographies under the 2015 *National Security Law*.

The *100 National Science and Technology Research Projects* also have a clear aerospace agenda and reveal future industrial space policy trajectories. The first and second priorities are aircraft engines and gas turbines, as well as deep-space stations. Also in the top ten are deep space exploration and putting space vehicles into orbit, developing servicing and maintenance systems and earth integrated information networks. Other space technology research projects in the top 50 include: the accelerated development of large aircraft, development of a new generation of heavy launch vehicles, satellites, space platforms and new payload technologies; commercial applications of remote sensing satellites; and the construction of high-speed, large-capacity optical communication transmission systems.

The immediate objective of China's space program is centred neither on manned space flight nor on resource extraction but rather on establishing the satellite networks necessary for orbit-to-ground communications and later orbit-to-deep space communications. China's space program is designed to close technology gaps with the United States and Europe.

However, as China sets its sights on deep-space stations and exploration, it's important that the country ensures that it works with NASA and the ESA to make the scientific achievements of one accessible for the use of all. We are witnessing a time of competing state-sponsored capitalist interests in space. The space race is becoming mercantilist and China is setting the pace.

A challenge for the world's policymakers is to shift thinking towards uninhabited geography: outer space, cyberspace, the subsurface of our oceans and the poles.

We are entering a new period of institutional rule setting where the balance of legitimacy is re-centring on the Eastern Hemisphere. Any growth in the outer space and submarine human communications network should be welcomed, but it should be standardised for the benefit of humanity, not reserved as the tool of any single nation state. If we consider the global benefits of interconnected and interoperable satellite and submarine communication networks against the alternative, insular state-controlled networks working in opposition to each other, it is clear which course will deliver the bigger wins from this race.

This piece is based on the author's article in Asia & the Pacific Policy Studies, China's Industrial Policy, Strategic Emerging Industries and Space Law.

China's industrial capacity policy is a one-way street

Tristan Kenderdine
8 June 2017

South China Morning Post

As Xi Jinping visits Kazakhstan this week for Expo 2017 and deepening Shanghai Cooperation Organisation talks in Astana, it is important to understand the underlying state-to-state industrial policy at work underneath the hood.

China's geo-industrial Capacity Cooperation policy is reshaping its domestic economic architecture. But for Kazakhstan, and other Central Asian economies, Chinese capital on the Belt and Road is a one-way street, exporting China's policy banking and project-system model, without reciprocal opening of China's consumer or capital markets.

Capacity Cooperation is an attempt to bring whole industrial clusters to China's external geographies to develop the industrial bases of its trading partners, while offshoring its current cyclical overcapacity problem. The policy was launched in 2015 through the Ministry of Commerce and now pervades every aspect of China's external industrial policy.

A forthcoming International Capacity Cooperation 13th Five-year Plan will list Kazakhstan as China's 'main axis' to Africa, the Middle East and Central Europe. The nature of the industrial cooperation policy is to offshore production clusters. Industries China is offshoring include steel, nonferrous metals, building materials, chemicals, automotive, agriculture, construction machinery, and aerospace technologies. And the intent is to bring in manufactured goods to China, from Europe, African, the Middle East and Central Asian production bases as inputs to a Chinese consumption-driven economy. It is China's answer to Japan's APEC.

China's trade and investment strategy in external geographies is the practical industrial policy matrix through which its local industries, local governments, and policy banks are to intersect with partner economies as part of the wider geoeconomic Belt and Road strategy. However this combination of policy bank loans and industrial overcapacity export is effectively China offshoring its local debt problem to unwitting trading partners.

Central funds are distributed to provincial governments, which have their own Capacity Cooperation policies playing to geographic, industrial infrastructure and competitive advantage strengths. For example Gansu province is paired for investment with Tajikistan, Kyrgyzstan, Turkmenistan, Iran, Kazakhstan, and Azerbaijan, in the fields of mineral resources, non-ferrous metals, and energy. While Qinghai province is paired with Turkmenistan for capacity cooperation in water resources, electricity and textiles.

It has been billed by Beijing not as an outpouring of China's excess industrial capacity but rather an alternative form of technology transfer and foreign direct investment. As China engineers a state-driven innovation strategy to lift its manufacturing quality up the global value chain, Capacity Cooperation partners can benefit from taking up the slack in old industries, bringing steel, cement and glass industrial clusters to Central Asia.

Kazakhstan's Bright Path, 100 Concrete Steps and Strategy 2050 industrial policies have been planned to intersect with China's Belt and Road since 2013. 50 joint Kazakh-China industrial Capacity Cooperation projects were agreed to in 2015 to be worth USD25-30 billion over five years to create industrial cluster cooperation zones in transport infrastructure, manufacturing, construction, and agriculture. But China's trade and investment strategies for Kazakhsan treat the country as a node its larger Belt and Road geoindustrial policy.

Existing China-invested industrial projects in Kazakhstan include Kazakhstan Aluminium, Kaz Minerals copper mine in Aktogay, and Petrochina's petcoke project in Pavlodar, all of which are at least partly funded by Beijing policy banks: the Export-Import Bank of China, and China Development Bank.

In February, Kazakhstan's Ambassador to China, Shahrat Nuryshev met with Xu Weihong, chief economist at China's Aviation Industry Corporation Securities, to discuss construction of a mining and chemical-metallurgical complex in Zhambyl and the development of a special economic zone in the industrial city of Pavlodar. The investment in the Kazakh industrial cluster would output metal alloys for use in China's production of aircraft. And in March, representatives of China's aluminium industry met in Beijing with central government officials to form the China Nonferrous Metals International Capacity Cooperation Enterprise Alliance.

Kazakhstan's Minister for Investment and Development, Zhenis Kasymbek, was also recently on a working visit to China, where he met with China's Ministry of Transport and representatives of state-owned enterprises in agroindustry, food, biotechnology, heavy industry, transport infrastructure, construction, insurance and finance.

Chinese fixed-capital investment in the Central Asian republics' traditional industrial bases is a geoeconomic gift they cannot afford to spurn. Central Asian states have been left for decades with partially functioning or unclosed industrial complementarity loops due to being peripheral nodes in Russia's Soviet Union continent-wide state industrial planning. Present-day water resources, transport networks, energy networks, and a variety of traditional industrial bases remain dysfunctional or isolated due to the economic destructure from Moscow.

China's Capacity Cooperation policy will bring investment to Kazakhstan's aluminium and non-ferrous metals industries, agroindustry, and transport, machinery and equipment industries. But while China's trade with Europe will be a two-way channel, investment in Central Asia will be strictly on China's terms, effectively extending China's industrial matrix into Kazakhstan for re-export to China, without opening China's deeper markets.

This is the Chinese domestic development model applied to external geographies. And it effectively establishes a parallel trade and investment system, one that is tied to Chinese state-driven projects and the financial risk associated with unaudited Chinese state capital and dysfunctional local government bond markets. And it carries the seeds of a future Central Asian financial crisis as unaudited Chinese debt could just as easily disappear back over the Trans Ili-Alatau mountains in the case of declining asset prices in a Chinese debt-deflated economy.

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Fewer boxes on more boats

The global shipping trade slump and death of the Asian goose

Tristan Kenderdine
27 January 2017

Policy Forum

The current global trade slowdown began eight years ago in China, and it is China that will redefine the global trade order through the rise of parallel trade, Tristan Kenderdine writes.

From 2008 China's stimulus spending flowed into the shipbuilding sector as a strategic investment in an attempt to make China number one in the industry, as Japan and later Korea had been number one before it. Had China become the world's largest shipbuilder in 2013, its boastful elation would have been uncontainable.

However, it wasn't until two years later, in 2015, that China became the world shipbuilding leader with, globally, 38 per cent of deadweight tonnes built, 34 per cent of new shipbuilding orders and 36 per cent of on-hand shipping orders.

According to the flying geese theory of economic development, this holds to the pattern of 'co-prosperity' that Japan, Korea and China were expected to enjoy in Northeast Asia as the third co-terminus of globalised capital.

However, 2016 witnessed only a meek scramble to clear excess shipbuilding capacity as the number one crown came to China on the wrong side of stagnating, 'new normal' industrial growth rates, debt-deflation scenarios in the financial architecture and a turn away from free trade to parallel trade.

With Chinese domestic industrial output entering a glut as global trade slumps, 2015-16 saw a panicked return to industrial policy. The decline in industrial output in China is part and parcel of the decline in global trade and makes the 'number one' shipbuilding spot an empty tag.

International howls of alarm throughout 2015 at the collapse of the Baltic Dry, a global measure of dry commodity freighting prices, signalled a structural decline in Asia-Europe containerised throughput. Post-Keynesian permabears at *Zero Hedge* in August 2015 popularised the shipping decline with the quip 'if only central banks could print trade' and linked the decline to both overcapacity in the Chinese shipbuilding industry, fed on soft loans, and the slowdown in containerised freight throughput in major Asian ports.

As international trade appears headed for the Keynesian growth-accounting equivalent of a recession (international trade cannot have a 'recession' only a national industrial economy can), we should be mindful that China's industrial capacity is not disappearing, and that the current international trade regime is not fulfilling China's globalisation ambitions.

The antithesis of free-trade is all around us. Australia, Indonesia, Brazil and Ghana's iron ore prices were for years set by the China Iron and Steel Association, effectively the 'bureau of ferrous complex in the ministry of steel'. Most grain commodities are shipped bulk point to point on government memoranda of understanding, particularly Thai rice.

Many sectors do not enter formal markets at all, and the informal trade sector is not simply a few small tuna smugglers; it represents massive trades between massive economies.

Orthodox trade theory would assume that markets can entice these sectors into formal trade frameworks by operating markets in customs unions with zero tariffs and diligently enforcing non-tariff barriers. Formal markets should then appear more attractive than informal markets, economies of scale should emerge and governments are then able to regulate labour, environment, and safety.

The integration of China into the world economy was supposed to be the 'end of development' in East Asia, the final goose in the flock to conform to the capital order in Northeast Asia and the one to lead Akamatsu's flock into Africa, Central Asia, Southeast Asia and Latin America. However, China's upset of the global trade order represents nothing short of a new chapter in development economics.

It has meant not the end of development, as China struggles with a middle-income trap and a disenfranchised peasantry, but the decline of the globalisation agenda and the beginning of the end of an unprecedented period of trade and prosperity. As China flexes its institutional voice in global international law, it is important to remember that there never was a China model. It was state mercantilism all along, a play straight out of the Anglo-Dutch wars.

The Rotterdam Rules for carriage of goods by sea are awaiting ratification to replace the Hague-Visby rules as the global legal norm for trade shipping. With China at the helm of international law in drafting the next generation of international trade norms, let Europe, Japan and the United States be there with them rather than see the development of a parallel trade agenda subvert the shipping balance of power.

But as a political, geographic concept – which was policy re-commissioned to rebuild the Japanese economic bloc as a trading institution, the flying geese pattern of economic development is dead in the water and Beijing is preparing to roast it.

China: From Superclusters to Supercarriers

China's local industrial policies reveal national strategies.

By Tristan Kenderdine
June 13, 2015

The Diplomat

One of the most important public intellectual debates in China during 2014 centered on the industrial structural impasse that currently confronts the country. The reliance on industrial policy in heavy industry has given China both the industrial infrastructural base on which its tertiary industry has been built, and an industrial overcapacity headache that continues to output more steel, cement, and glass than can justifiably be absorbed as inputs by other sectors of the economy.

Still, it is hard to imagine China achieving its future macro industrial, technological, and strategic goals without recourse to industrial cluster theory or state techno-industrial policy guidance.

Emerging from the planned period of heavy industry prioritization, existing industrial infrastructure, regional development strategies, and techno-industrial policies have produced a series of industrial superclusters. Future state-directed industrial development strategies will naturally make use of the unique industrial complementarities present in each, creating strategic opportunities for a convergence of national technological, industrial, and military policy.

Six superclusters have emerged with idiosyncratic industrial complementarities: the northeast industrial belt, the north China plain, the Yangtze delta, the southwest, central Wuhan, and the Pearl River Delta. All have unique political economies and their own industrial geographies.

Under the 12th Five-Year Plan, three sub-national policies guide industrial policy at the provincial and municipal levels: The *Revitalization of the Northeast Industrial Base*, the *Great Western Development Strategy*, and the *Rise of Central China*. Each sub-national industrial policy has its own agenda, industrial infrastructure base, and development path dependency. These three policies define China's future technological trajectory.

The industrial complementarities of the six clusters reveal the industrial development trajectories of the component technologies and systems that would be required as inputs, not only for domestic economic development but for strategic objectives such as, say, a future aircraft carrier. The most important developments will be in systems engineering and processes, such as electronics, avionics, and communications systems.

In terms of industrial geography, China can be broken into six distinct industrial clusters, each of which yield their own industrial complementarities.

The northeastern traditional heavy industry cluster makes advanced hardware. Power generation and transmission systems in Harbin, electronic systems being developed in Changchun, military aviation development in Shenyang, and large vessel shipbuilding in Dalian will provide the intelligent equipment manufacturing and large-scale hardware for future aircraft carrier development.

The southwestern cluster produces advanced weaponry and communications systems. Guangdong's nuclear power generation, Fujian's satellite communications systems, and Wuhan's photoelectronic systems and future micro-optical-electro-mechanical integration will enable mobile power solutions and communications hardware and systems development.

The aerospace cluster of Xi'an, Chengdu, and Chongqing will deliver advances in aero engines, avionics, rocketry, military aircraft, helicopters, and traditional weaponry. This cluster forms the test bed for future naval borne aircraft technologies.

Around the Bohai sea, Dalian and Tianjin are focused on developing super large vessels, while Shandong is involved in joint ventures with South Korean shipping firms. Integrating organizations and technologies will help China challenge the shipbuilding industries of Japan and Korea.

Meanwhile, key military aircraft factories in Shenyang and Chengdu, the commercial aviation center in Shanghai, and commercial aviation factories in Tianjin and Harbin constitute a geographically dispersed but organizationally integrated system.

Multisector industrial integration and the transition from foreign technology transfers to domestic innovation will determine the success of China's future industrial policy strategy.

In 2014, China experienced a marked slowing of growth in the northeast and widespread industrial overcapacity throughout the economy. Both trends have highlighted the need for an industrial upgrading and restructuring. Policy updates this year have focused on improving industrial complementarities while exploring public and private routes to innovation and R&D.

Commercial technology transfers have been integrated with state industrial policy and military strategy. Current policy pushes into advanced R&D are focused on engineering a transition from technology absorption to genuine innovation.

But the key to watching the growth of industrial technologies that would be of use for aircraft carriers is not geopolitical or military research analysis, but rather analysis of industrial geography, industrial complementarities and clusters, and the various levels of techno-industrial policy directed through them. Infrastructural analysis allows far more accurate projections of future technological path dependencies than waiting for innovation or entrepreneurship to deliver critical technological upgrades.

Expect the 13th Five Year Plan's techno-industrial policy to focus on technology clustering of benefit to aircraft carrier-related industries: advanced avionics, electronic systems, communications systems, advanced transportation systems, mobile nuclear power systems, and advanced aerospace technologies.

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Geofinance

China's Policy Banks Are Lending Differently, Not Less

How Chinese policy and commercial banks are behaving operationally in their foreign lending activities is shifting, but not necessarily diminishing.

By Tristan Kenderdine and Niva Yau
December 12, 2020

The Diplomat

China's policy lending in Eurasian Belt and Road economies is facing a raft of debt relief requests and a slowdown in bilateral government-to-government loans. However data analytics that focus solely on policy bank lending through bilateral agreements miss the wider geoeconomic picture. China's policy banking environment in Central Asia is shifting, but the loan books of the future will be more heavily weighted to Chinese enterprises operating in host economies and host economy state-owned enterprises (SOEs).

The financial model underpinning Belt and Road investment is a combination of public finance vehicles, all essentially drawing on China's sovereign wealth currency reserves. The most common pattern is "three banks, one insurer" comprising the joint operations of the Export-Import Bank of China, China Development Bank, Industrial & Commercial Bank of China, and Sinosure. Other commercial banks are also incentivized to participate in the Belt and Road public finance model with access to China's foreign currency reserves and with overseas operational risks underwritten by Sinosure.

The Financial Times among other outlets this week reported a sharp drop-off in China policy bank lending to Belt and Road economies based on a Boston University Global Development Policy Center dataset on China's Overseas Development Finance. However, there are serious flaws in using this particular dataset as an exhaustive list of China's policy lending in the various Belt and Road regions.

The Boston University interactive based on the dataset took a geospatial approach in examining China's overseas development financing, focusing on biodiversity and indigenous lands. Loans not attached to a specific project with a geographic location were omitted from the original public data. This means ignoring multimillion dollar loans issued for non-greenfield investments, such as China's 2010 $10 billion loan to the Kazakhstan sovereign wealth fund, Samruk-Kazyna, and a similar but smaller "no strings attached" loan to the National Bank of Uzbekistan.

Kazakhstan is a good example of why relying on this dataset as an exhaustive list of China policy loan books is fallible. The Boston University interactive lists only seven projects in Kazakhstan from 2008 to 2019, totaling $5.7 billion *[Editor's note: This count has been updated after Boston University released updated figures]*. But the list of joint projects under the latest China-Kazakhstan bilateral agreement alone is 56 projects, totaling $24.52 billion. Regionally, the Boston University dataset estimates China's total lending to Central Asia at $19.3 billion for 2008-2019; however this figure is at least $41 billion, according to the author's unpublished database. This means a huge amount of projects are unaccounted for.

Disaggregated data on specific China policy bank investments in Kazakhstan are also available. China Development Bank's Kazakhstan loan book goes beyond the bilateral agreement and in 2018 totaled $28 billion across 32 projects. Examples of China policy bank loans in Kazakhstan omitted from the Boston University database include a $500 million loan to Kazakh Development Bank to modernize the Shymkent refinery. Export-Import Bank of China has

loaned $808 million to the Kazakh National Highway company for two highways, and another $300 million to Kazakh Finance Ministry for border modernization. These are all examples of policy bank loans with geospatial footprints.

More importantly, some media analyses based only on the Boston University dataset, which only covers sovereign loans by policy banks, fail to examine how Chinese policy and commercial banks are behaving operationally in their foreign lending activities. China Development Bank, Bank of China, ICBC, and CITIC have all opened branches or subsidiaries in Kazakhstan, issuing a variety of loans to Kazakh businesses outside of the government-to-government loan scheme. These China bank operations are directly tied to China's domestic banking superstructure and thus operate in an ambiguous space between state and market.

For debtor economies, the types of projects that Central Asian states can choose from for China policy bank investment are also directly tied to China's domestic economy. Projects must serve China's geoeconomic purposes. This means most projects are in low-end industrial and agro-industrial sectors, or infrastructure construction or maintenance. This has the potential to create genuine opportunities for positive economic cooperation. However, it also means that many policy bank debtor economy projects serve Chinese interests more than they do debtor economy interests. Development of a Kazakhstan oilseed processing plant may serve a Chinese geoeconomic interest to diversify supply away from Pacific Ocean economies, but the financial risk of the project's feasibility falls entirely upon the debtor.

Nevertheless, Central Asian economies such as Kyrgyzstan are still requesting more policy bank investment, even while struggling to maintain existing obligations. For debtor countries, Chinese capital investment is still the only viable short-cut to modernization. For China, the political risk of investing in Kyrgyzstan's semi-industrial economic structure is serious. The recent political reset in Bishkek grew out of a disappointing election in which the status quo came out on top despite extensive public dissatisfaction. The Matraimov scandal, and its linkages to the Belt and Road system, cannot be ignored either. Former deputy customs head Raimbek Matraimov captured the customs system, enriching his entourage by skimming the cream from external trade. There are thus serious political and financial risks to China's policy lending in the region that go beyond the single dimensionality of the debt-trap diplomacy analysis.

For a geoeconomic project with serious financial and political risk, China has little competency in investing in external economies. China's public finance architecture does not have a functioning country risk model with which to gauge the operations of policy bank lending. This leaves the entire public finance structure, in both domestic and foreign operations, essentially flying blind on sovereign risk. With the sizable financial and political risk underpinning China policy bank investments in Belt and Road economies still being largely guesswork, this leaves the policy banks open to the possibilities of huge default losses.

As well as the Chinese public finance system's exposure to sovereign risk, all China policy bank loans in Belt and Road economies directly expose debtor economies to China's domestic financial systemic risk. This means that a debt-deflation scenario in China would impact all overseas assets, projects, and liabilities. The risk of a debt deflation scenario in China is now high. This means that any policy bank loan in any country on the Belt and Road is tied directly to China's local government bond market and its institutional peculiarities. The risks then for the policy bank loans are equally exposed to debtor non-payment as they are to policy bank insolvency.

In practical geoeconomic development terms, China's Belt and Road policy in Eurasia is failing. But the policy banking system is already in an advanced state of deployment. While China's policy bank model and the Belt and Road project have taken a geoeconomic hit through poor lending practices, backlash against increased China influence in Eurasia, and the effects of the pandemic, lending will continue. However it is more important to understand the changing

dynamics and shifting motivations of China's policy lending, particularly in Central Asia.

China is now shifting policy bank lending down the public finance hierarchy to more intra-country loans and more loans to SOEs. China's policy bank lending in Central Asia, Eurasia, and Middle East economies have been policy-driven to directly target China firms operating in Belt and Road host economies that help to develop China's offshore production system. According to the author's unpublished database, 23 out of 44 Central Asian loan deals with public agreement terms require the participation of Chinese firms.

Analyses of Belt and Road public finance tend to measure only bilateral deals that develop new infrastructure. However China's wider underlying banking system in Belt and Road economies is fundamentally policy-driven, centrally coordinated, and targeted toward developing China's offshore production system. This is still very much policy lending, not commercial lending. As the first phase of Belt and Road completes and even retracts, expect stronger lending in the pseudo-commercial and SOE space as Belt and Road policy banking becomes more distributed to match the economic activities of China enterprises in the region.

This piece has been updated to clarify the arguments made. An earlier version of this piece listed a $1.5 billion loan to Kazakhmys and a $278 million loan for the construction of the Moynak hydropower station as omitted from the dataset; both loans fell outside the dataset's scope. The Diplomat regrets the error.

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Red-state tax reform and Xi's fiscal Reaganomics

Tristan Kenderdine
09 November 2018

East Asia Forum

In Brief

China's income tax system is undergoing an administrative overhaul. In the ongoing opera of China's reform, the leitmotif is again re-centralisation, the refrain is of small and medium enterprises (SMEs) and individuals driving Chinese productivity, and the bridge is meaningful fiscal administrative reform.

China's State Administration of Taxation is currently overseeing a transitional period from the beginning of October until the end of 2018 to raise the tax-free threshold from 3500 to 5000 yuan per month (US$500 to US$700). A full transition to the new tax system will take place from January 2019.

The amendment to the Individual Income Tax Law passed by the National People's Congress (NPC) is designed to widen the tax base and centralise tax collection. In widening the tax base, the NPC hopes to increase payments of social security taxes, better align tax incentives with techno-industrial policy, force more economic agents into the productive economy, and push both individuals and local governments away from property speculation.

The two main structural reforms in the amendment aim to consolidate national and local tax collection systems, and to reintegrate the collection of income tax and social security taxes. These were split in 1990, with the central government collecting income tax and local governments collecting the five social security taxes (for pensions, healthcare, unemployment benefits, maternity leave and workplace injury insurance). The new system recentralises this division.

The new system also includes a range of incentives and disincentives to encourage more people to pay tax at the individual and SME level. These include heavier taxes on property to spur more people into entering the workforce and spending their disposable incomes rather than investing in real estate.

China's prevailing fiscal ideology mimics Reaganomics — the economic policies adopted by former US president Ronald Reagan. This tax cut and loan deleveraging mantra first appeared in 2015 as a supply-side reform to China's industrial policy — a clear indicator of the Reaganomics ideology to follow. Supply-side economics was the mantra of the Reagan era: tax less, regulate less, and private enterprise will invest more and produce more goods. In turn, the aggregate in both economic output and the tax base will grow in real terms.

The added bonus of Xi's version of Reaganomics is that the surface is amenable to Western, reform-hungry and China-exposed business. In the ideal world of Reaganomics, if the system is made more attractive the cowboys will come home — a lower tax-rate encourages more businesses to actually report, which translates into a wider tax base for government.

The problem is that China's tax reform does not deliver tax relief to the majority of taxpayers. It actually increases the tax burden on many enterprises. The main complaint of taxpayers is that the new system will force the collection of the five social insurances onto firms as a secondary form of taxation, avoidance of which had allowed them to grow in the first place. In attempting to solve a tax evasion problem, the latest reform places more pressure on the entities that it

is designed to help: the SMEs and micro enterprises that the government sees China's future productivity depending on.

The new system does have some industry-specific tax incentives though, which aim to support China's techno-industrial policy by promoting industrial upgrading, growth of science and technology firms, and venture capitalism. The clearest incentives are research and development offsets. These include one-time offsets for research and development equipment, ongoing pre-tax offsets for commissioned research and development expenses, and enterprise employee education expenses.

The big winners from China's tax reform are science and technology companies, along with start-ups and venture capital firms. Losers include equity fund managers, real estate developers and local governments. SMEs face short-term pain but long-term support.

Yet the attempt to clean up the institutional dependencies of China's past seem to be laying the foundations for those of the future. Subsidising SMEs and private enterprise will help China to transition into an innovation and techno-industrial power. But it will also create new space for subsidised enterprise behaviour that might prove difficult to budge when the inevitable reforms of the 2030s arrive.

Like many central reforms, the Chinese population sees more problems with the new tax system than the government anticipated during its drafting. Expect more tweaks to come as the new system rolls into operation to accommodate aspects of the tax overhaul that the government has not planned for.

Ultimately, the new system continues Beijing's impossible friction with local governments. Given that most tax had previously been collected at local levels, the real reaction to watch is that of the local tax collection agencies and the governments that they represent. It is local government more than the taxpayer whose reactions to this latest fiscal reform will matter most.

Rise of China's Export Credit Policy Insurance in Eurasia

Tristan Kenderdine
July 6, 2018

Russian International Affairs Council

Much speculation has focused on the Asian Infrastructure Investment Bank (AIIB) as a threat to the multilateral development bank order, but it is actually the multilateral bank order itself that threatens its own existence. The AIIB is a shadow puppet, it is what you are supposed to look at, but it is not the principal agent. Rather China is aiming to build institutional strength in the real-engine room of international development finance — export credit agencies. The spearhead of China's globalization 2.0 export credit agencies is China Export & Credit Insurance Corporation, Sinosure. Sinosure is moving into Belt and Road economies such as Azerbaijian, Kazakhstan and Uzbekistan with a clear mandate to underwrite state lending activities in the region. However lacking competition and without transparency, Sinosure can effectively write its own rules of the game, and ensure that China's renminbi (RMB) is the currency of choice. While greater overseas direct investment (ODI) from China in the Central Asian and Caucasus economies may be welcome, it is important to understand that with the lack of any competition, and without transparency, Sinosure can effectively write its own rules of the game.

Sinosure was formed in 2001 as a merger of a branch of the People's Insurance Company of China, the first insurance company in China spun out of the *danwei* system, and a branch of the Export-import Bank of China, now the key policy bank charged with guiding state ODI. Colloquially known as *Xinbao*, Sinosure is quietly building a bilateral banking and insurance network across the Belt and Road economies that renders the Bank of International Settlements irrelevant in this corner of globalisation 2.0. In China, Sinosure supports the deployment of the Belt and Road through three core operations: 'infrastructure interoperability; international capacity cooperation; and trade and economic cooperation zone development.' This is the Belt and Road in microcosm: state capital ODI, industrial transfer to external geographies, and new trade blocs to run parallel to the global open market system.

As the only policy-oriented export credit insurance institution in China, Sinosure advertises itself as lending a 'Sovereign Seal' to legitimise China's ODI investment. Basically every state investment in the Belt and Road is underwrittern by Sinosure, from electricity projects in Egypt, Pakistan, Jordan and Lao, to equipment manufacturing in Saudi Arabia and Iran, to commodities processing in Kazakhstan and Uzbekistan. Sinosure insurance covers around 25 percent of China's exports, in January-June 2018, coverage was to US$ 257.39 billion, underwriting 1,379 international capacity cooperation projects, with an insured amount of US$ 129.1 billion.

Insurance is a key component of international trade and investment and export credit agencies, as an essential institutional part of international trade, are extant in all open, transition and communist economies. Under Belt and Road, Sinosure is guiding the export credit cover necessary for China's firms to go abroad. This is particularly important in SCO countries where the normal trade and investment financial architecture of globalisation 1.0, dominated by the Bretton Woods institutions and their legacies, is weak. Since 2001, Sinosure has supported Chinese enterprises to export and invest more than US$179.64 billion in SCO economies, paying compensation of nearly US$358 million, and underwriting 420 major projects, such as the Central Asian Gas Pipeline project, steel rolling mills in Kazakhstan and gold mining in Tajikistan.

Sinosure's operations are building public finance institutional legitimacy in China's external geographies such that China's firms may invest abroad with confidence, and without having to exit China's closed capital acount. 'Insurance + Financing' is the wider policy guidance of linking China's state-owned banks with the state-owned insurance operator while 'Internet +

Credit Insurance' is the proposed online safety net extended to encourage SMEs to go global with direct investment into new markets. China's ODI in Eurasian economies can then remain in a closed loop of Chinese institutions, without ever touching a foreign currency. Ministry of Commerce and Sinosure are backing the 'World Tradelink' to dovetail with an 'SME Credit Insurance E-Plan'. This aims to extend the Alibaba model of domestic logistics and trade network integration to external geographies. But this globalisation 2.0 e-WTO model is a closed Chinese system: Jeff Bezos is not invited to this party.

Through such operations, Sinosure is underwriting China's RMB internationalisation agenda in Eurasia, often itself being the key corresponding institution for bilateral state agreements. Since 2013, Sinosure has, in the SCO alone, penned agreements with Russian Export Credit and Investment Insurance on reinsurance cooperation; Russian Federation Savings Bank on export credit insurance cooperation; framework cooperation agreements with Russia's traditional trade bank Vneshtorgbank (VTB); with Kazakhstan State Holding Group; and with both the Assaka Bank and Uzbekistan National Bank for Foreign Economic Affairs (Uznitsbank) .

Sinosure President Wang Yi does more diplomatic business than his namesake Foreign Minister Wang Yi. Agreements with Azerbaijian's International Bank of Azerbaijian in May, along with meeting state oil company SOCAR President Rovnag Abdullayev to discuss joint projects are solidifying Sinosure's position as China's key state public finance institution in the Caucasus, paving the institutional way for investment from the three policy banks Export-Import Bank of China, China Development Bank and the Agricultural Development Bank of China.

Sinosure is also working closely with the policy and commercial banks to ensure a cohesive state-directed ODI financing model. In the China-funded upgrade of Egypt's electricity grid a new public finance governance model has emerged: 'Three Banks, One Insurer'. Exim Bank, China Development Bank and ICBC provided funding, under the guidance of NDRC and MofCOM, and underwritten by Sinosure. And this institutional pattern of Three Banks One Insurer is set to be replicated in future industrial transfer projects. From a China perspective, this is simple financial risk mitigation, ensuring three separate lines of credit by one guarantor. For open economies however, it looks like the death of competition on the Belt and Road.

It is this kind of institutional risk underwriting that allows the policy banks to move so easily into external geographies in Eurasia. At the SCO meeting in Qingdao in June 2018, Uzbekistan set up a US$ 750 million line of credit with China Development Bank and Exim Bank. While the Exim US$ 500 million is a blank cheque for Uzbekistan to spend however it wishes, the 250 million with CDB for support Chinese SMEs to bring technology transfers to Uzbekistan. This development is mirrored in the recent creation of a new US$ 500 million Kazakhstan-China Eurasian Nurly Fund and the Russia-China Investment Fund, a US$ 225 million fund denominated in RMB established principally by the sovereign wealth fund Russian Direct Investment Fund and China Investment Corporation. These funds are designed to support the industrial transfer strategy under International Capacity Cooperation and they supplement Sinosure's direct investment underwriting. So Chinese state-owned enterprises can choose to draw down on RMB either from national funds, provincial ICC funds, bilateral funds or to borrow directly in China and invest abroad under the umbrella of Sinosure. For China it means that all investment in the Belt and Road is effectively backstopped by the state and denominated in RMB. For host economies, there is nothing wrong with letting the China side take the financial risk if the project is of direct benefit to the host economy. But if the RMB denominated risk is on the Eurasian side, and the project is to the benefit of Beijing, such as with Uzbekneftgaz's pipeline construction, then who is really win-winning?

As the major underwriter for China's key industrial transfer policy, International Capacity Cooperation, puts Sinosure at the end of a financing paper trail across major industrial clusters — electricity, aluminium, steel, cement, communications, photovoltaics, shipping, minerals, and textiles. Such ODI institutional linkages go hand in hand with direct state development projects, such as US$ 10 billion in investment recently agreed between China Development Bank and

Russian's state development bank Vnesheconombank.

The development of Sinosure into external geographies changes the fundamental dynamics of international trade and investment. Its underwriting activities in Central Asia and the Caucasus reveal the shadow of China's future external industrial policy in Eurasia. Policy insurance underwriting policy banking is the guiding institutional factor in international development finance in China's Belt and Road geoeconomic strategy. But the ability of China's banking system to price and effectively respond to risk in external geographies is at least as questionable as the open economy financial institutions. This means that creditor risk in China is actually a much darker and deeper risk than debtor risk in external economies. Much analysis has focused on the debtor risk of smaller economies being caught in a China debt-trap. But the endogenous risks in the larger China creditor economy being exported to external economies is a little understood risk. For Russia, disregarding the actions and agendas of Sinosure would be to cede legitimacy and economic gravity to China's economic development agenda in the Eurasian heartland.

China Set to Tackle Overseas Investment Risk

Tristan Kenderdine
June 2018

Financial Times

Two risk metaphors have been a lietmotif of China's financial governance since the change of leadership in 2017, Black Swans and Grey Rhinos. Black swans are improbable unforeseen risks that arise from the blue, a business and finance application of the induction fallacy — if you have never experienced something then it is impossible to experience, until of course, you do. Grey rhinoceroses are persistent and obvious threats that are routinely ignored. China's state-owned commercial bank books are already a textbook example.

These popular market metaphors outline the shadow of China's inherent domestic financial instability. In that shadow is Minsky, the financial theorist being discussed in China's higher financal governance circles, with a Minskian debt-deflation the clear grey rhino lurking in China's domestic financial architecture. However as China's outward direct investment program takes shapes through the International Capacity Cooperation policy, China is facing a range of external credit risks in addition to its domestic financial fears.

The Belt and Road project is exposing China's domestic finance structures to political, financial, credit, and geopolitical risks in over fifty countries, with public credit rating still at best an instiuttionalised guessing game. While there is a tangible fear of debt-trap diplomacy in debtor countries, the fear of financial instability in China's creditors may yet be stronger.

Against this backdrop, Hu Xiaolian is emerging as the leader of China's state capital aproad. Zhang Gaoli's vacant portfolio of policy responsibility was always going to be split up and variously reassigned, rather than taken over wholesale. In terms of financial governance of International Capacity Cooperation though, we have in Hu the successor to Zhang.

Hu Xiaolian is Chair and Party Secretary of the China Export-Import Bank, one of three policy banks responsible for the state financing of China's domestic industrialisation and urbanisation process. In international operations, they are slated to be the institutional equivalent of unilateral development banks to run parallel to the multilateral development finance architecture. 2017's realignment of policy bank core operations gave Exim Bank a clearer mandate to lead China's state capital ODI operations.

Exim Bank already has more than 1200 creditor projects in over fifty Belt and Road economies with debtors exceeding ¥700 billion. Projects are diversified across transport, electricity, water, communications, high technology manufacturing, equipment manufacturing, and energy resources.

Before heading Exim, Hu spent nearly 35 years in central financial policy and governance, first at State Administration of Foreign Exchange and later at the People's Bank of China, rising to vice-governor. She is a member of the Financial and Economic Affairs Leading Group, the most powerful economic planning institution in China. She also serves on the CPPCC Economic Committee and has been an alternate member of the 17th and 18th CCP Central Committees.

Domestically she has been forced to focus on overleveraging and the structural shift towards non-financial institutions. Hu has interpreted the 2017 Central Economic Work Conference financial risk governance focus as three systemic risks: abrupt changes in market, regulatory and policy environments, categorisng these as cross-market, cross-institution and cross-jurisdiction risks.

For external finance governance though she is tasked with whipping ODI into shape, targeting more rational investment in the Belt and Road real economy. Hu categorised 2017's advances in external finance as moving towards higher quality of foreign investment. Curbing individual preferences for buying hotels, and other quick turnaround investments, Hu emphasises ensuring that state capital reflect state goals of investment in technology-intensive projects that expand China's industrial chain abroad. This centres on the continued expansion of the Overseas Economic and Trade Cooperation Zones, essentially moving China's reform era export processing zones abroad. Hu has said explicitly that the construction of these overseas industrial parks 'is to drive China's equipment, technology and standards to go abroad.'

Hu is also heading both cross-institutional and central-local government institutional linkages. In January Commerce Minister Zhong Shan and Hu signed a cooperation agreement to promote institutional complementarity in taking state investment abroad. While on local government, Exim Bank has recently signed stategic cooperation agreements with both Hunan and Hubei provinces to expand state capital support for industrial upgrading and going out activities.

Exim has pledged ¥150 billion for Hunan's construction machinery, rail transit, hybrid rice, non-ferrous metals, advanced equipment manufacturing, modern logistics, agricultural modernisation, and new energy. While Hubei's pocket money is to go towards integration of the Yangtze River Economic Belt with Belt and Road, as well as financial facilitation of industrial transfers under International Capacity Cooperation.

A a core policy architect of China's reform era financial governance, Hu's leadership in taking China's state capital abroad looks to be competent, a safe pair of hands. But avoiding systemic financial risk at home will take more than a safe pair of hands, and the two-way exposure of China's domestic debt system to debtor economies and to China itself is less a swan or a rhino than an unkown unknown in Rumsfeldian parlance.

Why is China Building its Own Domestic Credit Ratings Architecture?

China has zero intention of opening more than it needs to.

By Tristan Kenderdine
September 12, 2017

The Diplomat

While international media focuses either on the Party cadre social-ranking aspect of China's new credit rating system or the politics of sovereign credit ratings, many have missed the more substantial development of domestic Chinese credit rating agencies and their battle to price local government debt.

Rather than allowing foreign competition in to improve its debt instruments, China is seeking to institutionally strengthen its own credit rating system, inviting foreign credit ratings agencies into the system in order to attract technology transfers in services. However, deeper structural problems in China's local government bond architecture are unlikely to be solved by simply allowing U.S. firms in without deeper structural reform of local government debt instruments.

China's recent opening of its domestic bond markets to the U.S. credit ratings triopoly of Fitch, Moody's, and Standard and Poor's will not mean better bonds. Foreign firms will still not be able to issue debt in China and the structural local government bond problem shows no sign of abating despite various accounting experiments such as center-local debt swaps, debt-for-equity swaps or the expansion of the asset management debt-cleaning model to the provincial level.

China has been struggling with a local government debt problem and wider underlying center-local fiscal issues for around four decades. Under the command economy line-ministry system, provincial and prefectural governments simply borrowed money from commercial banks for fiscal spending. This is quite extraordinary accounting practice. Due to financial repression in China's deposit savings system, the commercial bank network still effectively operates as another form of taxation, and state institutions — government as well as enterprise — can simply take loans from state-owned commercial banks for government services spending.

China's Ministry of Commerce and State-owned Assets regulator SASAC have jointly overseen the development of national credit rating agencies since the reform of the banking system in the early 1990s. However credit ratings agencies were largely ignored by both government and market debtors in the subsequent development of China's capital markets. The state-owned banking system offered such easy credit that there was no need for ratings. And most outside critique of endogenous risk in China's capital markets centered on the dominance of the banking sector or of these banks' non-performing loan books, with little heed paid to the lack of institutional development in credit rating.

Since it has become clear that there is no credible plan to clean up the local government debt obligations that have piled up over the past 20 years of investment-driven growth, desire for a viable credit ratings system has emerged in central government policy circles. However rating local government debt is as sensitive as opening public procurement markets, China has zero intention of opening more than it needs to. China is currently refurbishing its existing domestic credit ratings system to shore up the credit risk of bond issuances by provincial, prefectural and township governments. At the provincial level, governments are being empowered to develop a modal system to rate local firms and governments, independent of the central government.

Asset management companies are being used to clean existing provincial debt, replicating the model of the four asset management companies established to clean the non-performing loan books of the four state-owned commercial banks. Devolving this model to the provincial level in 2016 saw a proliferation, with effectively one established for each province, effectively airlocks for principal government debt. But asset management Ccmpanies are not private equity, and the closed-loop of China's bond system means there is no clean way to dispose of existing debt while new local government debt is being constantly pumped into the system.

Wenzhou, Zhejiang is leading the local credit reform pilots with a prefectural level asset management company and a highly developed provincial credit rating agency network. It is currently the policy testing ground for a comprehensive national credit rating system slated to be deployed by 2018. The local pilot in Wenzhou is organized under the "Construction of Wenzhou social credit system 2016-2025." Wenzhou itself is a progressive independent polity operating more like a city-state. It benefited early from the household responsibility reforms but was later sent down to the sea to sink or swim under Zhu Rongji's enterprise reforms, resulting in huge speculative asset bubbles developing in the private economy.

Credit rating developments in Wenzhou include the local Development and Reform Commission developing a prefecture-wide credit black list and an information-sharing platform to consolidate existing credit data into a single accessible platform. Wenzhou also pushed to establish a local city government asset-management company, despite national regulation limiting the asset management model to the provincial tier of government. China Everbright Asset Management Company was licensed by the banking regulator in late 2015, the first for a prefectural city. With 293 prefectural cities in China all mired in local government debt, expect a blossoming of asset management companies to obfuscate past debt obligations and repackage them into creative "wealth management" products.

However, even if the new credit rating system were to effectively rate new provincial and prefectural bond issuance, two huge problems remain: the existing debt pool and the fiscal constraints of the provincial and prefectural governments. Local government debt problems stem from unorthodox borrowing and off-budget bookkeeping. New fiscal responsibilities and revenue sharing powers are now rolling out across all levels of local government, but the changes are not deep enough to shift the structural problems of center-local tax arrangements, where local government lose most of their tax revenue to the center, but are forced to hold all the risk from bonds issued to cover the shortfall between tax and spending.

Opening China's domestic credit ratings market to international competition is good for the global economy. But focus on credit rating reform in China should not be blinded by the red herring of Party social credit ratings or sovereign credit ratings competition by U.S. firms. Rather, the importance lies in the internal audit and development of a vast domestic Chinese credit ratings system at the local government and local state-owned enterprise level. And unfortunately for the global economy, China's local government credit rating system is likely to be as methodologically hollow as the current U.S. rating system.

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The PRC's international capacity cooperation exports both industrial capacity and financial risk

By Tristan Kenderdine
Posted July 27, 2017

Asia Pathways
The Blog of the Asian Development Bank Institute

International capacity cooperation (国际产能合作 guoji channeng hezuo) was a 2014 addition to the "Go Global" policy suite that the People's Republic of China's (PRC) central bureaucracy expanded throughout 2016. It is the result of seeking a way forward from "new normal" low industrial growth rates and is a novel solution to the industrial capacity utilization problems the PRC has suffered since the 2008–2009 spending stimulus flooded into traditional industries. Steel, cement, aluminum, paper, glass, and everything from pork production to robots are in 2017 mired in cyclical overcapacity.

International capacity cooperation projects are supported through dedicated funds, such as the Silk Road Fund, the China-ASEAN Investment Cooperation Fund, the China-Latin American Fund, the China-Africa Industrial Cooperation Fund, and others. These funds range from $2 billion to $40 billion in capital stock. As infrastructure investment funds, they are vehicles for leveraging the PRC's foreign exchange reserves to offshore state-driven investment.

The People's Bank of China, State Administration of Foreign Exchange, and China Investment Corporation distribute funds through the policy banks, China Development Bank, Export Import Bank of China and Agricultural Development Bank of China, as well as the big four commercial banks, to the geographically aligned bilateral and multilateral financing vehicles.

These vehicles then direct state investment in industrial plants offshore. Projects exist or are planned for Africa, South America, Eurasia, Europe, and ASEAN, often promoted under the Belt and Road geoindustrial macrostrategy. Project investments are directly invested by state-owned enterprises, such as the China Railway Group and China Railway Rolling Stock Corporation in developing industrial economies, and the China Nuclear General Group and Hualong International Nuclear Power in developed economies. China National Cereals, Oils and Foodstuffs Corporation leads agroindustrial capacity cooperation in South American soy producing markets, while Yongkang Aiju Trade and Industry Cooperation has branched into the Eurasian Economic Union.

The first major capacity cooperation plan was issued to lower levels of government in May 2015 through the State Council's Guiding Opinions on the Promotion of International Capacity Cooperation and Equipment Manufacturing, aiming to build on the PRC's existing technological complementarities and industrial base to offshore sophisticated equipment plants. The document outlined 12 key sectors for cooperation: steel, nonferrous metals, construction materials, railways, electricity, chemicals, textiles, automotive, information and communications technology, engineering machinery, and aerospace and marine engineering. Fifteen months later, according to official Ministry of Commerce statistics, non-financial overseas direct investment stood at $130 billion for the first 3 quarters of 2016, with outward investment in the equipment manufacturing sector recording a 350% year-on-year increase.

Provincial governments are the principal state actors in the international capacity cooperation policy. The National Development and Reform Commission (gosplan) is coordinating capacity cooperation and has signed agreements with multiple provincial-level governments, including Hebei, Hubei, Shandong, Jiangxi, Anhui, Gansu, Yunnan, Jiangsu, Henan, Sichuan, Liaoning, and Guangxi, to develop cooperation mechanisms.

For example, Jiangsu is paired directly with the China Development Bank and matched with Indonesia, Cambodia, Ethiopia, and the Russian Federation to offshore industrial clusters in engineering machinery, rail transportation, new energy, shipbuilding, and marine engineering. Meanwhile, Gansu has been instructed to draw funds from the China-Africa Development Fund and to pair with Iran, Zimbabwe, Ghana, Indonesia, and Thailand to offshore production chains in mineral resources, textiles, non-ferrous metals, traditional energy, and photovoltaic energy.

Considering the policy banking infrastructure, and the geographies and industrial sectors targeted by central and provincial government policy, it is difficult to assert that state-owned enterprises are making firm-level decisions in their non-financial outward direct investment.

International capacity cooperation is the PRC's outward direct investment strategy. It is essentially a state-capital strategy designed to allow capital export and consumer goods imports without reciprocal opening of the PRC's capital and consumer markets to foreign competition. However, it is presented in the form of capital investment and technology transfer opportunities to middle-and low-income developing countries.

This has broad appeal for states in Africa and South America, and a more strategically balanced appeal for states along the New Silk Road in Central Asia, the Eurasian Economic Union, Iran, Turkey, and ultimately Europe.

However, taking whole industrial chains abroad simply offshores the PRC's project system and avoids domestic reform. The Keynesian capital-works driven model had demonstrable success in delivering steel, cement, and glass in the PRC's development drive. The result, however, was chronic industrial overcapacity and a local government debt burden that now totals over CNY18 trillion.

Extending the lifespan for reform in the PRC's industrial economy by offshoring production from industrial-policy-protected provinces into the global system is a novel solution to the country's industrial slowdown. However, the financial ramifications of continuing to avoid standard accounting and competition principles mean the bitter pill is yet to be swallowed.

But the policy of international capacity cooperation is not a sinecure for the PRC's industrial investment architecture. It extends the lifespan of the country's Keynesian project-system model of investment-driven industrial policy, but does not transform the PRC's domestic productive capacity or the state finance system upon which industrial production is dependent.

The underlying financial structure of the PRC's export of excess industrial capacity to strategic partners in Africa, Eurasia, and South America is essentially uncharted waters. However, as the PRC struggles to audit its own local government debt, there could be serious financial risks present in the export of industrial capacity.

China is exporting risk to the Asia Pacific

Tristan Kenderdine
09 August 2017

East Asia Forum

In Brief

China's fevered property market is a growing liability to China itself and to its trading partners. A slowdown could trigger a debt-deflation scenario which would impact not just China but all Asia-Pacific economies that China's capital touches.

Local government debt is now mostly raised on land collateral, and local government budgets have been funded by commercial banks that are effectively inseparable from the state. The property boom that has followed China's urbanisation drive has resulted in low-quality apartments in major Chinese cities being priced to match Vancouver, London and Sydney. In such conditions, it is not hard to imagine that debt-deflation could spread should asset prices fall.

Now consider that, in China, almost all banking units have implicit government guarantees in their debt-issuing and asset-ownership positions, while government and bank are effectively lending to each other.

Combine these two factors and it is easy to understand why global risk merchants are starting to fret over Chinese local governance — a matter that was conveniently ignored throughout the growth boom of the past two decades.

It does not matter if it is called 'government debt' or 'corporate debt'. In China, the firm and the state are both lender and debtor at the same time, and any truly private capital still comes back to the commercial banks, which are again the state.

When agricultural and urban wages begin to converge and China's urbanisation nears completion, there will be no radical increase in demand for housing — so where will the asset price growth come from to support the yields?

Chinese property price growth has the added stimulus that capital cannot, or at least is not supposed to, leave China's shores. Capital cannot easily escape, and the floor of urbanisation keeps pushing upwards to make Chinese property, and the industrial sectors that build it, into a 'sure bet'.

This key feature of the Chinese economy is a straightforward case of financial repression. Capital cannot go anywhere except either the savings account or property, and the commercial savings account is lent to the local government to speculate on more apartments. So earning interest below inflation or speculating on property are the only capital outlets. But the closed capital account means even a successful property speculator cannot exit the market and must instead plug the gains back into the same loop.

For the past decade the international trade community has carefully courted China in the hope that once the mainland became a net importer it would open its trading institutions and capital account to outsiders. Yet despite China moving to drastically increase its imports, it shows no signs of opening its capital institutions. Instead China has turned to international capacity cooperation, where China exports its 'excess capacity' to help develop other nations' infrastructure and industrial capability.

International capacity cooperation is the financial mechanism for the Belt and Road Initiative (BRI). It effectively reorganises local government bond debt, which is recommissioned for relending via international investments.

This operating model is a quasi-sovereign wealth fund, with provincial government midstream and state-owned enterprises (SOEs) at the front end. It is being used to export China's industrial policy, circumventing the established trade and investment architecture, without reciprocal opening of Chinese capital or consumer markets. This means exporting the same systemic financial risk from China's capital markets to external ones.

Any future debt deflation contagion could spread beyond China's own borders if it continues to export capital in this way while failing to reform its domestic institutions. China's BRI partners are exposing themselves to what is essentially local government debt with unpriced risk — and to a serious chance of a debt-deflation scenario.

Without an open capital account, this specific form of investment is not interchangeable with other capital — it is effectively a parallel trade and investment architecture. But China is institutionally ill-prepared to develop a parallel bond and credit rating architecture to match, since its banking sector is immature and its local government financing mechanisms are weak. And financial SOE reform lags far behind the many excellent policy reforms China has achieved over the past two decades.

To finance its overseas operations, China itself maintains two pools of capital for the renminbi — an offshore pool and an onshore pool. Perhaps it is time for economies deeply integrated with Chinese capital to consider a similar airlock to prevent a debt-deflation contagion spreading throughout the worlds' markets.

Until China allows private capital to compete with Chinese capital, protected local governments and their local SOEs will continue to roll in the mud of cheap credit. For China to take this risk is its sovereign right, but to export such debt-deflation risks to its trade and investment partners demonstrates an immaturity in both policy and financial circles.

China returns to 'bird in the cage' economic policy

Tristan Kenderdine
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East Asia Forum

In Brief

With the world's attention still focused on the United Kingdom and the United States going dark on international trade, many have overlooked another crucial shift. Throughout 2016, China pulled back from financial liberalisation reforms.

The Xi Jinping–Wang Qishan administration is now in the position many feared a Bo Xilai–Zhou Yongkang presidency would be: tightening central control over economic policy. 2016 has signalled a winding back of the market liberalisation agenda of Zhou Xiaochuan — Governor of the People's Bank of China — and former finance minister Lou Jiwei and the rise of a new era of 'bird in the cage' policy narrative.

When the People's Bank of China devalued the renminbi (RMB) in 2015, the world flinched at the power of Zhou Xiaochuan. But in February 2016, the political gravity swung back to Liu He's Economic and Financial Affairs Leading Group, a core Party policy institution.

Liu He headed the counter-attack on Zhou by calling for a tightening of the money supply in a pivotal February 2016 document. The following period between the 5th and 6th Plenums truly belonged to Liu and the mantle of Chen Yun he has appropriated.

The cacophony of opposition from the market-liberal camp that followed was muffled under the sway of 'collective leadership'. Whatever the Party politics of 2017, Zhou's eventual retirement will mean a different guiding ideology for the central bank. While on 7 November 2016, Xiao Jie finally replaced Lou Jiwei as finance minister — a decision conveniently overshadowed by the US election the following day.

The lurch back towards industrial policy and the emergence of a parallel trade regime through Eurasia is the price of the market-liberals failure to connect the RMB to the global financial architecture. Expect tighter core Party control in 2017 over China's monetary and fiscal policy.

China's trade agenda is taking advantage of its geography. Securing trade routes through former Soviet countries to China's west. This 'New Great Game' in Central Asia is allowing China to outflank ocean-trading institutions as global shipping collapses under the weight of overcapacity in shipbuilding and weak Chinese industrial output.

China will continue to develop ocean-based trade infrastructure with its partners across the Pacific through the Regional Comprehensive Economic Partnership. But China's trade and investment agenda across the new Eurasian Economic Union — as well as the Common Market for Eastern and Southern Africa and Mercosur — will likely bypass many of the traditional trade powers. And its capital investment will mostly be unaudited state mercantile debt.

China's international capacity cooperation funds mushroomed in 2016. This also shows the extent of local government debt being exported to unwitting economic partners as asset price-inflated government finance is transferred to Belt and Road economies.

Financial repression — where bank deposits earn returns below inflation — and demand constraints in China have combined to create both a secondary form of taxation and a 'riskless'

investment architecture. This iron deposit bowl of the state-owned commercial bank model in China is coupled with a system of captured bond buyers, where state banks purchase the debt they raise in a closed 'risk-free' loop.

But real debt deflation risks are being devolved into obscurity to local governments. The implicit and explicit institutional guarantee that policy banks, the central bank, the Ministry of Finance and state-owned commercial banks do not carry endogenous risks of debt deflation is largely psychological.

Rather than face audits, China's answer has been to bury government liquid capital debt even further down the administrative hierarchy and to export the fixed capital production capacity in a parallel trade and investment policy branded 'international capacity cooperation'.

Political risk in the Asia Pacific will be increasingly determined not on the prosperity of greater ocean trade alliances but the risks of regional financial contagion. Against the retreat of the United States' Pacific and Atlantic trade pacts, China's pushing of debt offshore to Africa, Latin America and Central Asia risks creating a parallel trade and investment architecture.

Looking past the 19th Party Congress to the 20th Party Congress, consider the economic infrastructure that the ascendant sixth generation of leadership will inherit in the 2020s. Short-term policy changes in 2017 China will have lasting consequences for the greater Asia Pacific long-term economic forecast.

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Agriculture

Rural China's Impossible Policy Trinity

Tristan Kenderdine
12 March 2020

East Asia Forum

In Brief

Last month, the Chinese Communist Party's (CCP) Central Committee began China's annual policy cycle by releasing the 'No 1 Central Document'. The focus of the document is directed towards 'three rural issues' — agricultural production, rural development and peasant income — and the work needed 'to achieve a comprehensive and well-off society on schedule'. The document consolidates and expands the national strategy on rural revitalisation for translating China's urban growth model to the countryside. But it was weighed down by Chinese President Xi Jinping's insistence on the signature rural policy clusters of poverty alleviation and rural governance building.

Poverty alleviation is important in 2020. This is a benchmark year — China's socialist experiment is supposed to deliver a 'moderately well-off society' in 2020 before making the big push towards a 'modern socialist country' by 2035 and a 'modern socialist power' by 2050. 2020 also sees the end of the 13th Five-Year Plan period, with next year marking both the beginning of the 14th Five-Year Plan period and the centenary of the CCP. These two years are significant milestones in the context of the economic development story of rural China.

The tone of this year's document reverts to aggregate thinking. This is unlike documents of previous years which had shown real policy innovation in proposing small solutions to tackling soluble rural problems.

'Rural' in China does not simply mean 'agricultural'. The CCP land administration system makes a clear distinction between urban and rural land, resulting in a vast nationwide zoning system analogous to crown land and private property in common law jurisdictions.

In 2018, a national strategy on rural revitalisation emerged in that year's 'No 1 Central Document' and has since become the guiding rural development ideology. The goal of the strategy is to move the urban economic growth model from coastal cities into rural hinterlands. This requires transforming the economic and legal basis of half of China's population — currently classified as 'rural' — who do not have property rights or access to social services under the current system. This rural–urban public administration divide means that another country effectively exists within China.

But the ambitious expansion of industrialisation into the hinterland has been proffered with rhetoric-laden policy bereft of innovation or practical solutions to the rural–urban divide. This year's 'No 1 Central Document' papers over institutional gaps left from 'reform era' policy and fails to articulate what 'new era' policy will look like. Further, the major themes of poverty alleviation and rural governance detract from important rural land and finance reform issues.

Unfortunately for the rural population, meaningful reform is dependent on land and finance reform, which have stalled. There is currently no indication of how future land reform would operate under a pricing model. And there is still no plan for extending the industrial economy's financing system into rural areas.

Central bank monetary policy in China generally conforms to an impossible trinity. It dictates that a government can choose any two of three policy options: fix the exchange rate, open the

capital account or engage in independent monetary policy. China's rural policy faces a similar impossible trinity: maintaining growth, ensuring stability and guaranteeing prices.

Reading this year's document through the prism of rural growth, stability and prices, an underlying policy tension emerges. This tension represents a modern economic reconception of the original 'three rural issues' of agricultural production, rural economic underdevelopment and peasant incomes.

Historically, while urban China centred its attention on growth, rural China was mired in stability and price control problems. Urban China abandoned price controls to shore up stability and growth during the reform period but now faces an asset-price correction of global proportions. The national strategy on rural revitalisation is an attempt to move the urban growth model to the countryside. But due to this urban growth model and existing rural price controls, the government risks letting go of stability.

Indeed, rural stability supported the development of urban China through the reform period, both as the agricultural base and as a steady source of cheap labour.

Last year, stability was a major governance theme as the CCP struggled to articulate its legitimacy in the face of lower economic growth figures and the creeping possibility of a no-growth future. Growth was the legitimacy mantra of the CCP throughout the 40-year reform period. But where growth has succeeded in delivering urbanisation, industrialisation and a new consumer class, it has also bred an apathy in the cities that economically developed first. That means that growth is no longer sufficient to ensure political legitimacy. And to the rural world it represents their separation from the economic development narrative.

The pricing reward for rural areas was that land and food remained accessible to all. From cabbages to housing, prices remain the greatest single source of legitimacy in China and the greatest risk for legitimacy collapse. The rural revitalisation policy model is set to break this status quo by bringing the industrial growth model down to the countryside, but at this stage there is no clear policy plan for shoring up stability or prices for rural people. There are no easy policy fixes for China's 'three rural issues' or the trilemma of stability, growth and prices. But widening the policy debate to include a range of solutions is surely better than narrowing the scope for possible success.

Tristan Kenderdine is Research Director at Future Risk.

China running low on ideas in rural policy

Annual policy document cagey against backdrop of looming milestones

Tristan Kenderdine
14 February 2020

Policy Forum

The distinct party colouring of China's 2020 Document Number One shows it is bereft of ideas, and signals a coming year of stalled rural policy in China, Tristan Kenderdine writes.

On 5 February, the Central Committee of the Communist Party of China (CCP) released the latest instalment of the annual rural China policy blueprint. Despite a hoax release in January, the real document, the first central policy document of the year, known as Document Number One, was released, titled *Opinions on Prioritising 'Three Rurals': Key Work to Achieve a Comprehensive Well-off Society on Schedule*.

'On schedule' refers to the policy timeline of delivering measurable economic milestones on China's development trajectory to 2035, with 2020 being the end of 13th five-year plan period and 2021 the beginning of the 14th five-year plan period. 2021 is also the Centenary of the Communist Party of China.

Both dates should represent significant milestones towards the economic development of rural areas, but at the aggregate level, numbers are unlikely to be flattering to the CCP. This partly explains why this year's document is slightly muted in terms of policy innovation and promises.

Some of the document was released as part of the Central Rural Work Conference, held in Beijing from 20 to 21 December, and its Discussion Draft, in conjunction with 2018's Rural Revitalisation Five-year Plan, which currently acts as China's major rural economic blueprint. The rhetoric in this year's Document Number One, though, has shifted distinctly from environment, rural finance, and land reform to poverty alleviation and rural governance.

Poverty alleviation is core to Xi Jinping's rhetoric, and achieving lower poverty has been the backbone of the CCP's legitimacy – although sometimes to the ridicule of outside observers.

If there were voting in China, then this would be the vote-buying policy of rural support and the shoring up of red-voting heartland. As such, it is no surprise that poverty alleviation is crucial to 2020 Document Number One. Disappointingly though, it takes up five full articles, sidelining other important issues.

2020's Document Number One consists of just 27 articles in five sections, coming in much shorter than recent years. 2020's document is also shorter on words, coming in at around 9,500 words, whereas 2015 was nearly 15,000 and 2017 was 12,000 words.
It's in this context that the strong focus on poverty alleviation and rural governance is disappointing. By focusing heavily on poverty alleviation and rural governance, the document loses nine of its 27 articles to hollow policy rhetoric – something usually limited to the opening paragraphs of central documents. Thus two full sections feel like a waste of an already short document.

Along with being heavy on rhetoric, even the more practical policy dissemination was disappointing. The CCP trotted out its standard stuff: "benchmarking the well-off society", "addressing rural infrastructure shortcomings", and trying to "empower the village", but nothing new that moves away from the past three years.

On one hand, rural water supply is highly prioritised, but in a party-prescriptive manner, nothing like the bold visions of 2016. It seems either policymakers are scared to take chances, or that senior people with good ideas have been sidelined by heavier-handed policy scribes.

Section five is the only area with any real policy meat, but rushes through rural finance and the balance of rural incomes, rural production and rural production reform, and land reform. It touches on developing high-quality rural talent, extending the science and technology economy into the rural areas, and addressing rural land and homestead contract systems. Small enterprises also make a significant appearance.

All of this should have been the main structure of the document. If these perennial issues had been sidelined by something important, like a bold environment plan, then that would have been fair enough, but no such plan exists. Instead, the document is heavy with party rhetoric, and any meaningful policy was hastily stuffed in at the end.

Despite its shortcomings, there are a number of interesting pilot programs promised by the document. They include a rural water system improvement pilot, a national digital village pilot, a number of rural finance initiatives, and five policy pilots on rural land reform.

Other innovations include the development of an agricultural cold-chain logistics network, which comprises a backbone of spatially planned logistics bases. This too is good to see.

In policy-making, small changes often mean that big-ticket items can become easier goals. In this year's document, small, practical solutions are gone, replaced by big, intractable problems.

Unfortunately, 2020's Document Number One reads more like a Soviet policy prescription than a set of innovative policy descriptions. This is in contrast to previous years, which brought forward policy innovations in rural governance, finance, productivity, and connectivity.

If the CCP has a plan to solve China's rural problems, then it is not being communicated effectively. For the rural population, who need policy progress, 2020's Document Number One feels like it is still standing on the edge, too afraid to jump in the policy pool.

"To succeed in 'Three Rurals' work, the party is key" is the opening line of the conclusion of the document. Ultimately, the CCP missed a chance this year with this blunt application of Xi Thought. In an hypothetical election, the rural community would likely still vote for Xi's party, but they would be voting against their own interests.

Observers can only hope, for the sake of rural China, that this year is a blip, and that there are many people within the policy formulation machine who are willing to take risks on genuine rural policy innovation in the future.

China's agricultural paradigm shift

Moving away from agricultural subsidies with an eye on global markets

Tristan Kenderdine
30 May 2018

Policy Forum

China's government is ending a decade-long policy of buying grain from farmers, with potentially global ramifications, Tristan Kenderdine writes.

China's agricultural support policies are moving towards marketised institutions, after a decade of state subsidies for direct production resulted in oversupply. A new framework of indirect support will focus on two measures: developing crop insurance for farmers, and developing futures markets for price discovery.

These 'Insurance plus Futures' policy pilots currently underway in China represent a giant paradigm shift for global grain and oilseed production. China is simultaneously ending state procurement on much of its agricultural product, while also opening the processing industry to imports.

There are four systemic reforms currently underway to transform China's agricultural production system from state-procurement to market-priced production: agro-industrial upgrading, agricultural credit, agricultural insurance, and futures price-setting on agricultural commodities.

Agro-industrial upgrading will remain state subsidised, and agricultural credit has proven too difficult to effectively reform. But insurance and futures reforms are soon to move out of the pilot stage and into mainstream policy.

The government will no longer purchase grain directly from peasants, instead replacing state procurement with a new form of agricultural crop insurance. Insurance reforms will gradually step in to replace the social policy function of state procurement guaranteeing peasant incomes. The alliance of peasants and workers is enshrined in the Chinese constitution, and the Chinese Communist Party has an overt yet derogated governance obligation to the peasantry.

As an interim price-setting measure, a 'target-price' mechanism is designed to work towards the development of futures contracts, commodities exchanges, and other price formation institutions in China. A target-price is a floor-price at the provincial level on a single commodity, such as corn. Each province may set different prices for the same commodity, introducing some variability into national pricing. However, a range of institutional upgrades are necessary for the upgrade to full-scale futures markets in order to be able to create and transmit credible price signals to buyers and sellers.

These previously hollow institutions, sidelined for decades from actual agricultural production, are to become effective agents in the new pseudo-market model. The government will support the development of futures exchanges to attract technical transfers in human capital and know-how from foreign institutions in order to promote effective institutional integration with global markets. However, rapidly developing the market institutions necessary to form and transmit commodity price signals will take time.

On the international front, opening to imports does not mean a wholesale opening to foreign capital. China's Pacific Ocean market-import strategy will be markedly different to its Indian Ocean state-import strategy. Kazakh oilseeds and grains and African fish will come under a

very different trade arrangement than rapeseed and soybean imports from North America.

This all means that in the area of international commodities, the gravity of institutional legitimacy is shifting to China, as China's leaders move the country towards becoming a net importer in a range of commodities. Just as institutions such as the Chicago Board of Trade or the London Metals Exchange have enjoyed institutional legitimacy before it, China hopes that the commodities exchanges in Dalian and Zhengzhou could entice global markets to take signals from China.

This is part of a wider move in China towards greater imports – not just in agriculture. For China, the incentive is not a sudden urge to align with global agricultural commodity trade institutions and practice. Rather, increasing imports is a way for China to expand its leverage over the price-setting institutions of global commodities.

The gravity of China's agricultural trade is also shifting to the Indian Ocean trade arrangements and away from the Pacific. China opening to more Pacific imports will really be liberalisation after the geo-economic paradigm has already shifted.

While the short-term Trump tariffs will dominate soybean news this year, China ending its policy of state procurement on staple crops is a paradigm shift for global agricultural commodity production.

The long-term move to a market model on domestically produced agricultural commodities and the opening of China's consumer markets to imports of agricultural commodities would be a massive benefit to China as it sources cheaper grains and oilseeds to service its food needs. For agricultural exporting countries though, if China does open to greater imports, future political risk lies in the institutional legitimacy of price-setting, indices, and exchanges.

Global political factors will likely slow down China's international import strategy for agricultural commodities. These include the ongoing trade dispute with the United States, exclusion from the Trans-Pacific Partnership, and wider institutionalised global trade uncertainty. However, China is genuinely moving to open agricultural markets while maintaining control of an agro-industrial policy complex.

This is quite an extraordinary situation for China's agro-industrial development, as it is the opposite of the pattern of other rapidly industrialising East Asian economies. Historically, state-capitalist economies tend to open their manufacturing sector before agriculture.

However, the end game is not convergence with open market economies, but establishing the legitimacy of institutions. Bringing China's domestic agricultural commodities into market-based production systems should be applauded, yet the financial and social vacuum of doing so while maintaining an essentially peasant population must still be questioned.

This article is based on the author's piece in the Asia & the Pacific Policy Studies journal 'Insurance plus futures' — agricultural commodity price reform in China'. All articles in the journal are free to read and download.

China's rural revitalisation strategy underwhelms

Can the country reinvent the countryside?

Tristan Kenderdine
8 February 2018

Policy Forum

China's new agricultural policy trajectory is disappointing. Finance and price reform are barely tackled while land reform struggles to find first gear, Tristan Kenderdine writes.

This week saw the launch of China's first major policy announcement of 2018 – the annual agricultural work plan 'Document Number One'. The plan spells out the major direction of not only agricultural production, but rural finance and regional market integration. A focus in 2018 on county, township and village-level governance systems signals an attempt to create a framework to ensure Chinese Communist Party (CCP) control of rural development while maintaining coercion through managed levels of autonomy.

This year's plan – 'CCP Central Committee and State Council Opinions on Implementing the Rural Revitalisation Strategy' – is focused on developing and implementing a rural revitalisation, centred on local governance reforms.

The expected rhetoric of supply-side reform, poverty eradication, and ecological civilisation all make early appearances as well as the more practical professionalisation of farmers, high-quality farmland development, agricultural high-tech industrial zone systems, and increasing rural healthcare infrastructure and access.

'Rich Peasants' (富农) is a recurring phrase, as the 2018 Document attempts to construct a policy framework to 'make farming an attractive job.' The key to this strategy is a slated reinvention of the village, a policy-orchestrated countermovement to rural empowerment fused with rural capitalist productivity.

The 2018 Document reiterates the policy direction agreed upon at the Central Economic Work Conference and lays out a path to staged rural revitalisation with milestones in 2020, 2035 and 2050. The Document also adheres to the 'Two Centenary Goals': the centenary of the Party in 2021, and the centenary of the People's Republic in 2049.

For rural revitalisation, the 2018 Document is a roadmap for China reaching three goals: by 2020, to establish the institutional and governance framework to achieve a rural revitalisation project; by 2035, to complete the modernisation of rural areas and agriculture; and by 2050, to have equalised the countryside with urban areas, completing the rural revitalisation project.

The policy standout from this year's Document is the 'front-line commander' system. County-level Party and State cadres are to be empowered to become the vanguard of rural revitalisation. There are 2,862 county-level divisions in China, three levels below the centre, but above township and village. As well as the County-level governance incentive reform, the 2018 Document details an expected pilot project on village self-government.

However, this is not a bold move towards greater local autonomy. Rather, it is an attempt to duplicate the industrial GDP-focused cadre promotion metrics in coastal jurisdictions. The message from the Party centre is this: rejuvenating the countryside is now your metric to promotion, let the rural tournament system begin.

Agricultural collectively-owned land reform moves glacially ahead in the plan with four

major land reform developments: extending rural contract land leases; rural contract land management rights legalisation; separation of the Three Powers; and moving towards a land circulation regime.

Extending rural contract land leases is big news for encouraging small-scale agriculture development.

The agricultural land tenure system is currently operating on 30-year leases from the state. The new plan announces that this system will persist for an additional 30 years, meaning that agricultural land-holders will have another 30 years of security, and cumulatively will have had 75 years of 'reassurance.'

The Three Rights Separation (ownership, contract, and management rights) is a long-needed step towards the legalisation of agents involved in the collectively-owned land system. Separating these would relax Party control. It would also more clearly define the proper legal status of institutional actors as well as the rights to operate and manage agricultural land.

Zhang Xiaoshan, a researcher at the Chinese Academy of Social Sciences, wrote that the *Rural Land Contract Law* should be amended to clarify the legal status of the rural collectives that nominally own rural land. Zhang also recommended amending the *Land Administration Law* to allow for the unification of rural and urban construction land, which currently prohibits rural land to enter and circulate as a market good.

Ultimately, reform of collectively-owned land means moving towards a land circulation system for agricultural land. Steps towards this wholesale reform are already being taken through the careful marketisation of collective-owned construction land and rural homestead land mortgage reform.

The Document also sees more trade policy for agriculture. However, the focus is on one-way trade metrics and China's trade competitiveness, rather than the opening of China's markets to agricultural imports.

Section 3.4 of the Document discusses developing an agricultural trade system with China's Belt and Road partner economies, as well as export promotion and the international competitiveness of Chinese agricultural products. It also calls for China's large grain importers and agribusiness State-owned Enterprises to play a greater role in setting the international trade order.

Price-reforms are conspicuously absent, though State procurement will not return as China progresses through an interim policy of 'market-oriented acquisition plus subsidies.'

The 'Insurance plus Futures' pilot is continued without being expanded, though it gets a parallel pilot partner in 'Contracts plus Insurance plus Futures.' This new project aims to explore a policy mechanism to reinvent contract farming and integrate it into the domestic production and pricing system. Rather than blindly chasing government procurement, the market will be encouraged to develop contracts for the supply of agricultural commodities.

The move to contract farming is at least a step away from government procurement and towards market allocation of demand. However, as most agricultural finance half-measures in China, the seed of a future institutional path dependency has likely just been planted.

The 2018 Document says, "without the modernisation of agriculture and the countryside, there is no national modernisation". The forthcoming 'Five Year Plan on National Revitalisation of the Countryside 2018-2022' will codify this new policy direction. It will centre on re-empowering 'the village' as part of China's modernisation agenda – a village that has so far been left behind by the aggregate development project.

But the Party cannot simply use policy rhetoric to magically equalise China's two great economic imbalances – the debt of the coastal to the inland, and the debt of the urban to the rural.

By not tackling the hard rural financial reform, not transitioning to a full-blooded price reform, and only flirting on the edges of land reform, this big middle-classing of the countryside is in danger of remaining toothless.

China's agriculture trade policy full of beans

Tristan Kenderdine
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East Asia Forum

In Brief

Trade policy may be easy to change quickly, but trade practice is institutionally sticky. The reality of bilateral trade is not the simple fungibility of share or futures markets but the deep structural issues: port logistics, shipping and transport, commodities contracts and productive capacity lagging supply and demand factors. Despite Beijing's intent to impose tariffs on a range of agricultural products including soy and sorghum from early July 2018, institutional reform in China's trade policy is opening China's market to more agricultural commodity imports.

From 2014, high-level agricultural policy documents show China clearly moving towards opening agricultural trade in grains and oilseeds. Policymakers have had to face the fact that the state had spent too much on state procurement and were stuck with stockpiles and distorted markets. Further motivation was the fact that domestic grain and oilseed prices have been as much as double international prices. Without being able to increase domestic yields due to land, water and technology constraints, the inexorable move has been towards imports.

China is slowly becoming a net importer of grains and oilseeds. The so-called 'Insurance Plus Futures' agricultural price reforms are only pilots at this stage. But the pilot policies are designed to build the institutional capacity upon which to later expand China's import regime.

The domestic debate in China on the issue of imports has already been resolved. The recent trade frictions with the United States simply mean that deciding from whom to import has become politicised. The real variable is the ease or difficulty involved in switching suppliers at the national level. Can China really switch to Brazilian or Russian beans to replace US imports at such short notice to carry through on trade threats?

Brazil has had a bumper soy harvest which has naturally eaten into the traditional US export season4¥\@D'%. As Brazil harvests from February to June, while the US harvests from September to November, it is always cyclically cheaper to buy fresher Brazilian and Argentinian beans in the February–June period. Then US exports take off again from September.

This year the chips fell China's way, but it is normally not so simple to change the industrial chain of commodity imports based on political will. There is a structural element to grain and oilseed imports that is not so easy to change in the short term. And since most of this trade is not done on futures but on contracts, trade is generally slow to respond to price changes.

In a straight war of attrition of political legitimacy between US primary producers and Chinese peasants, the United States will lose out first. The Chinese and US governments and the big four so-called 'ABCD' agricultural commodities traders can all weather big hits. But in a war of attrition, the Chinese government can run their producers into the ground with impunity.

In Japan, Australia, Canada and the United States the economic and legal status of primary producers are fundamentally different, with landholders having greater commercial-bank borrowing power and able to heavily lobby government. In Japan for instance the governing Liberal Democratic Party is politically beholden to Japan Agricultural Cooperatives members, preventing the government from liberalising rice imports.

The Chinese Constitution is 'based on the alliance of workers and peasants' and there is strong rhetorical value placed on the peasantry and on the obligations of governance legitimacy to rural China. But Chinese farmers have extremely limited access to commercial banks and agricultural credit cooperatives, and do not own their land. China's farmers do not have anything close to the institutionalised voice that primary producers in Australia have, for example, through the prominent federal National Party of Australia.

So it will always be the US producer that breaks first, which will lead to political pressure on the US senate agriculture committee. China's tariffs on soy and sorghum are a very calculated political move targeting US producing states, as any US agricultural states that are not major soy producers are major sorghum producers. China was always going to win this particular fight, but Brazil's successful harvest helped hand China an early trade battle victory.

US agricultural producers will suffer the consequences of the escalating trade battles, and China's moves will help shift agricultural price-setting legitimacy towards the West Pacific. For other agricultural exporting countries like Canada, Australia, Brazil and Argentina, there may be a temptation to see US self-destruction as a short-term windfall. But the institutional legitimacy that the United States has lost will likely prove damaging in future negotiations with China. China can continue to play different suppliers against each other, while US trade protectionism will only Balkanise the global soft commodities trade.

Replacing Pacific trade partners through agroindustrial investment in the Eurasian hinterland is not without significant costs and serious political risk for China. But in the long term, China is busy investing in agroindustrial capacity in Russia, Kazakhstan, Ukraine, the Middle East and East Africa to ensure future supply without having to rely on Pacific trade partners.

Tristan Kenderdine is Research Director at Future Risk. This article is in part a synopsis of 'Insurance Plus Futures: Agricultural Commodity Price Reform in China' in Asia and the Pacific Policy Studies.

Calm the alarm on Antarctic krill fishery

China's threat to the Southern Ocean krill fishery is overblown.

Tristan Kenderdine
9 Jan 2018

Lowy Interpreter

There is periodic hyperbole surrounding the future use of the Southern Ocean krill fishery, often sensationally blaming a future threat from China. Yet krill are in no danger of being overfished. China's krill take is currently a miniscule portion of catch limit under the present international arrangements.

The biomass for *Euphausia superba*, or the Antarctic krill, has been estimated at around 379,000,000 tonnes for the entire Southern Ocean. Catch limits are managed under the Convention for the Conservation of Antarctic Marine Living Resources (CCAMLR), and last year was 3,705,000 tonnes, or around 1% of the total. China's take in 2014, the latest record, was 54,303 tonnes: 1.4% of the catch limit and 0.00014% of the fishery. A fishery this size and this under-utilised anywhere else in the world would not attract any attention for being harvested. So alarmist reports of China planning to increase its krill take need a little perspective.

A good example is the Ross Sea region Maritime Protection Area, first proposed by US and New Zealand, which recently entered into force under CCAMLR. Western media continually frame the Ross Sea region MPA (RSrMPA) as a victory of conservation over China's krill fishing, however the reality is a little more sober. This MPA means little for the future of industrial krill harvest in the Southern Ocean and also means little for the chances of the future adoption of the East Antarctic MPAs.

Touted as the world's largest marine reserve, the RSrMPA at first glance seems a significant legal instrument for the protection of marine ecosystems yet in practical terms does little more than current CCAMLR arrangements. Even before the RSrMPA there has been little to no krill fishing in the Ross Sea since 1999, thanks to effective conservation management by CCAMLR. All commercial krill fishing is on the opposite side of the continent, concentrated in the Weddell Sea and Lazarev Sea.

China initially opposed the Ross Sea region MPA over a disagreement between rational-use and zero-take conservation, but under US pressure eventually conceded to the consensus vote required to establish the protected area. China sees the area as fair game for harvesting while conservation-centric countries want to see the whole Ross Sea region as a no-take area. But again, the Ross and Amundsen Seas were already CCAMLR protected areas managed under sustainable use.

Irrational fears still persist though. An oft-repeated line of China planning to increase its Southern Ocean krill take to two million tonnes per season comes back to a single statement made by Liu Shenli in 2015. Liu is chair of state-owned China National Agricultural Development Group and his statement is much better read as domestic policy rhetoric rather than international policy directive. His statement was never supported by the Ministry of Agriculture, which regulates China's onshore, near shore and distant water fisheries. If Liu's audience is read as domestic, then it is a cry of paucity, not a threat of strength. China has nowhere near the capacity to increase its take to two million tonnes, and even if it did manage to harvest two million tonnes of krill, this would still be well within the CCAMLR catch limit of around 1% of the total fishery.

China's distant water fishing operations in the CCAMLR area do pose a problem. The targeting of Patagonian Toothfish and Southern Bluefin Tuna present a far more compelling case of China's institutionalised illegal, unregulated and unreported fishing. But on krill, China is playing by the rules.

Despite fears of China's krill fishing, CCAMLR is perfectly capable of regulating the Southern Ocean krill fishery. Norway is still far and away the largest krill harvester, and China has every legal right to access global commons protein, nutraceuticals and genetic resources. The real geo-economic question for marine living resources near Antarctica is genetic resources, and any future international legal arguments will likely centre on rights to access and process these resources in the Southern Ocean.

Fish futures can provide new financial tool for China

Tristan Kenderdine
3 May 2017

Nikkei Asian Review

Fish futures can provide a new financial tool for China

Exchanges ponder hedging of seafood risks

China saw an influx of speculative capital into commodities exchanges in 2016. Such hot-money rushes are caused by a dearth of alternative investment options. But if the central government were to allow sensible speculation, a planned Chinese seafood futures contract for trade on the Dalian Commodity Exchange could provide a new asset class for investors and a hedging tool for the industry.

The current investment environment is uninspiring. Savings in commercial banks earn less than inflation, and the housing market is bubbling over as closed capital accounts prevent convertibility to foreign currency. Investors are left with the casino-like securities markets and the trusty mattress.

However, if Beijing approves plans for a regulated fish futures market, it would allow the standardization of production and processing of an important commodity. Major producers would adhere to price benchmarks, and minor producers would be forced into regulated markets.

The benefits of futures contracts in agricultural commodities are well established, allowing price formation and the hedging of risk. However, while futures contracts derived from underlying assets in agricultural commodities are widely traded on exchanges, futures derived from seafood commodities have usually failed to attract the necessary liquidity to function as a price formation mechanism.

A futures contract is a standardized financial contract traded openly on a public exchange. It is simply a promise to buy or sell a good at a predetermined price at a specified time in the future. Standardized exchange of futures contracts can occur either on a cash or physical delivery basis.

The principal benefit of well-functioning futures exchanges is that responsibility for price-formation and uncertainty bearing is effectively transferred to speculators, freeing suppliers and distributors to focus on supply-side and demand-side pressures respectively.

Agricultural commodities markets are usually centered on grains and oilseeds -- rice, wheat, corn, soybean and rapeseed. In order to function as an effective underlying asset class, a commodity must have uniform or standardized properties, for example, 100 tons of unbroken free-on-board Hom Mali Grade B rice needs to be of uniform quality. However, shipments of horticultural and seafood products are more difficult to standardize than grains and pulses because of their varied sizes and shapes.

Limited attempts in other countries to develop seafood-based futures have failed to take off because of a lack of liquidity. The Minneapolis Grain Exchange in the U.S. offered a shrimp

futures contract for a few years, and Japan's Osaka Dojima Commodities Exchange still does. Norway's Fish Pool has standardized a salmon contract, but has struggled to become a price-setter in the market.

Unfamiliar risk

This is largely because not enough people know the market exists, while those who do may not understand it well enough to invest, or may consider the risks involved too high. However, in China, financial technology and shadow banking are combining to allow individual investors to take risks that might deter institutional buyers.

Dalian Commodity Exchange is currently exploring the possibility of a standardized contract for seafood. This is likely to result in it piloting a tilapia contract, as the fish -- widely reared in China's freshwater ponds throughout the coastal provinces -- yields an easily standardized fillet, and has little variation in production quality or size.

In China, rural finance development faces an important institutional bottleneck. The state has an obligation based on historical governance legitimacy to support peasant incomes in grains. However, in seafood, the livelihoods of fishing villages are sociologically different to the patron-client relationship of land farmers.

China's fishing communities have traditionally dwelled on the fringes, and are isolated from centralized state power. Yet the economies of scale required for large-scale farming in grain-based agriculture already exist for seafood in the massive state-owned fisheries enterprises such as China National Fisheries, Dalian Zhangzidao Fishery Group, and Shanghai Fisheries General.

These large state-owned enterprises mostly collect seafood from small companies or fishermen. The fish is of varying quality and compliance with live-catch quotas. Historically, there is less planned-economy institutional control in primary producers in coastal areas, especially in the southern provinces of Zhejiang, Fujian and Guangdong. Therefore, reforming the financial institutions required for centralized and standardized seafood prices is easier because the production system is already more marketized than that for commodities such as grains and oilseeds, for which the state provides guarantees.

Since 2015, the government has been keen to push its "futures plus insurance" initiative as a financing mechanism to replace state procurement. Target prices have been introduced on soy and cotton. They will soon be brought in for rapeseed, and will eventually be extended to rice, corn and wheat. Allowing provinces to set target prices introduces an element of price variation as an interim measure, preparatory to full market trading and price-setting. And agricultural insurance provides a social safety net that replaces state procurement.

In seafood, there is less institutional baggage to overcome than in land-based agriculture. And with China's increasing protein demands being met by rising fish consumption, a seafood futures price-setting mechanism is likely to attract the liquidity it needs to function properly.

Currently, Zhengzhou Commodity Exchange offers contracts on cotton, sugar, rapeseed oil and meal, three types of rice and two types of wheat, while Dalian Commodity Exchange has contracts on corn and corn-starch, soy beans and soy oil, eggs and palm olein (liquid palm oil). Commodity futures markets are expected to be further liberalized, according to Fang Xinghai, vice-governor of the China Securities Regulatory Commission, which oversees Zhengzhou Commodity Exchange and Dalian Commodity Exchange.

That said, the futures and spot markets face regulatory uncertainty because of the rise of financial technology. New central bank controls introduced in February 2017 limit finance and

trading by microtraders (*weipan*). Such shadow microtrading platforms include CNGold and Baibei, which offer futures and spot trading on soybeans, gas, coal and precious metals via WeChat, a Chinese messaging app. The platforms partner with trading houses such as Harbin Precious Metals Exchange, Guangdong International Commodities Exchange and Heilongjiang COSCO Commodities.

These "exchanges" are really enterprises approved by provincial governments to promote price-formation in regional or specialized commodities such as jade in Guangdong or pine nuts in Heilongjiang. The provincial trading centers partner with third-party platforms to offer online trading using WeChat finance and Union Pay, a Chinese bank card service, to connect to user capital in the traditional banking system. Such platforms have flourished and their popularity with retail investors has worried the government, which has been cracking down on the wider shadow banking industry.

Apart from that, the central government is also struggling against two anti-market principles. China's communist legacy means that many people see speculation as a capitalist endeavor for personal profit, devoid of social functions such as the provision of market liquidity. The other legacy is central planning, which has left authorities terrified of the prospect of foreign capital controlling the means of food production.

However, change is occurring in both areas as China relaxes its food security fixation and seeks international legitimacy for its capital institutions. Reforms encouraging the use of futures markets were reiterated in an important announcement in January by the central committee of the Chinese Communist Party and the State Council, China's cabinet, which signaled the introduction of a price-setting mechanism into domestic agricultural production and the beginning of an increased reliance on foreign food to feed its population.

A seafood futures contract traded on the Dalian Commodity Exchange would be in line with broader developments in financial and agricultural markets, and would likely attract the liquidity necessary to make it sustainable. Reliable price-signals on seafood would also help policy-makers across the Asia-Pacific to better gauge China's likely demand for fish-based protein in the future.

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China's Agroindustrial Capacity Cooperation in Central Asia

By Tristan Kenderdine
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There are two major policy shifts occurring simultaneously in China which will open new markets for Central Asian agroindustrial development and exports. The first is monumental. China is not only relaxing subsidies on domestic agricultural production while promoting the market mechanisms required to import more grains, it is genuinely letting go of domestic production as a food security ballast, and will begin to let other nation states feed its populace. The second is industrial international capacity cooperation, the policy solution to China's overcapacity malaise. The program envisions moving whole production chains offshore, essentially shifting Chinese industrial capacity to external geographies.

BACKGROUND: In 2014 China began movements towards a market price system for agricultural production. Since 2008 the state had guaranteed the purchase price of key grains, oilseeds and cotton, creating a differential between international and domestic prices, and allowing both corruption and inefficient overcapacity to creep into the agricultural sector. China is currently part-way through a three-year plan to marketize the price of domestic agricultural production. However, this reform is not simply changing the mechanism by which China produces grain. It is designed to connect China to world markets and, crucially, to allow imports to service its food security needs. China currently imports around 80 percent of its soy beans. With new markets opening to foreign export such as rapeseed, sugar, cotton, corn and even eventually rice and wheat, the price of grain in China should now be a core policy concern for China's neighbors in Central Asia. In China there is active talk of shifting cotton production to Kazakhstan, Uzbekistan, and Tajikistan; Kazakhstan is targeted for investment in agroindustrial capacity with eastward grain and oilseed shipments expected to increase as rail logistics improve.

Industrialization of agriculture has gained policy traction throughout the past five years of the Xi administration. Boosting production capacity in other countries is increasingly being accepted as a solution to feeding China as it relaxes its previously tight definition of food security. Politburo agricultural policy has been active in establishing partnerships in agricultural production with neighboring countries, particularly in Russia and Central Asia, with dedicated sovereign wealth seeded industrial investment funds specifically for both Russia and Kazakhstan in agroindustry.

China's Central Asian and Russian strategy is the state arm of a state-market solution: on the one hand opening domestic markets to foreign grain imports, while on the other establishing agroindustrial policy in post-Soviet markets. International capacity cooperation is China's industrial policy to internationalize and complement domestic economic reforms and industrial restructuring. China has been plagued by low capacity utilization rates in almost all sectors of the industrial and agricultural economy, due to overinvestment by state capital. International capacity cooperation aims to avoid restructuring China's state-market investment-driven industrial model by simply shifting industrial chains to external geographies. Plans exist for every continent on Earth, and for Central Asia and Russia the focus is clearly on energy equipment, machinery, and agroindustrial manufactures.

China's foreign exchange surplus fueled sovereign wealth funds are seeking domestic partners

to increase investment abroad and to restructure domestic agroindustries towards international standards. The vanguard of China's state-owned agroindustrial enterprises "going global" into Central Asia are giants COFCO (Cereals, Oils and Foodstuffs Corporation) and smaller Yongkang Aiju Trade and Industry Corporation.

IMPLICATIONS: For the rest of the world, this is a seismic shift as China transitions from an export-oriented economy into a net importer. And for grains and protein there can be no larger market than China. For Central Asian states with existing industrial bases such as Kazakhstan and Uzbekistan, or for countries which can trade on the cleanliness of their water, soil and air, such as Kyrgyzstan, this is a significant shift, opening up new export markets and possibilities to develop new value chains.

Dry-port development to connect the international trade of land-powers is moving forwards quickly with the development in Khorgos and China state funding for the Kazakh-China rail project. And UNESCAP's Intergovernmental Agreement on Dryports provides the institutional framework to encourage development of port infrastructure in other economies dependent on land routes for international trade. China has also invested heavily in upgrading its dry-port facilities in border crossings with Russia and Mongolia at Manzhouli and Erenhot. And a bold new intercontinental rail plan is designed to facilitate international trade with block-train services from China set to expand to nearly fifty one-way and two-way services from Chinese terminals.

China's government has established specific agroindustrial investment funds, targeting sovereign wealth investment in Russia and Kazakhstan. With the Russian Far East agricultural industry development fund, China is moving away from renting or purchasing agricultural land abroad, a policy that has proven to be a public relations disaster from Kazakhstan to Australia. The development fund will finance grain production and processing in Russia, while introducing Chinese agricultural equipment as part of the capacity cooperation strategy. This is demonstrative of a strategy moving away from land ownership and towards fixed-capital ownership.
Given domestic constraints, capacity cooperation is a rising priority in China's agriculture policy. And the reality is that Chinese investment in Central Asia is not about land or agriculture, it is about cement, steel, and glass; energy equipment, agroindustrial machinery and equipment, construction machinery, railway and transport equipment, and services in transport, logistics and port services through which China hopes to establish whole industrial clusters in external geographies. China plans to export industrial chains to Central Asia, and to own the resulting industrial cluster infrastructure. This is not simply an export opportunity or a land-rights issue, it is a huge fixed capital project-based investment system. While Central Asian economies should be wary of Chinese state-capital, development of agroindustrial chains and opening of export markets are exactly the kind of capital investment that the economies of the region need.

However, despite Central Asia's need for capital investment, China's concept of the Eurasian land bridge has struggled to gain traction in host economies in the Eurasian Economic Community. Inefficiencies persist in connecting Asia and Europe through Central Asia with high transport costs, low volumes and differing industrial standards leaving many transport and shipment routes heavily dependent on state-subsidies. Poor coordination with both market and government actors also remains an obstacle. It is difficult enough for China to coordinate its centrally planned domestic hierarchical economic structure, leaving little room for lateral engagement with Central Asian states, local governments or private enterprises. While China's central government will play an increasingly stronger role in identifying its own industrial investment and agricultural import needs, developing genuine international relationships and private capital business networks will not be so simple.

CONCLUSIONS: Price support policies in China are rapidly marketizing previously protected agricultural production. The development of finance mechanisms to take some of China›s

agroindustrial investment into Central Asia and Russia is already a reality, with Kazakhstan as the lynchpin for China›s wider Belt and Road geoeconomic strategy. International Capacity Cooperation is likewise bringing Chinese fixed capital and investment capital to Central Asian states. This means the doors to the largest consumer market in the world are opening for Central Asia›s agricultural exporters. While Chinese capital is always linked to state-owned enterprises, the chance to develop agroindustrial production bases is a huge opportunity for Central Asian states. Coupled with assured export markets, agricultural commodity exports to China and investment in agroindustrial machinery, cement-steel-and-glass, and factory systems could develop new agroindustrial sectors for Central Asian economies, and provide the basis for greater economic integration under the China-funded Belt and Road initiative.

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Seeding risk in Chinese agricultural insurance

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In Brief

China's agricultural sector is undertaking risk remodelling. A widely republished Economic Daily editorial in late 2015 refined China's domestic policy arithmetic in the agriculture sector from 'banks, futures and insurance' to simply 'futures and insurance'.

According to this new policy, insurance companies will offer agricultural insurance based on prices in the futures market — which ensures farmer incomes — and then take out reinsurance through options outside of the futures market. Risk management companies then repeat this process in other markets, further spreading risk until it is minimised.

China's agricultural insurance reform is based on the United States' Crop Revenue Insurance model. The US model provides income support to primary producers based on financial mechanisms such as average insurance yields, forecast prices, moving averages of previous annual output, and harvest prices derived from futures contracts.

Hu Hengyang, an inspector at the National Development and Reform Commission's Rural Economy Department, announced in September 2015 that all food commodity markets were to move away from the engrained state procurement system to a new target pricing system. Target pricing allows for the government to subsidise producers when the market price falls below the 'target price' and avoids some of the issues under the state procurement system such as prohibitive costs, overcapacity and oversupply. Target pricing also acts as an interim solution between state procurement and market pricing. Already target pricing has been adopted for oilseeds, cotton and corn, with rice and wheat likely to follow suit.

China's provinces will set target prices, providing the market signals that the futures markets are not yet capable of. By improving food prices and market regulation mechanisms, the government hopes to reduce farmers' reliance on centralised purchasing and allow for the market to take on a larger role.

Agriculture sector insurers are also now launching target price insurance. This will mean that government subsidies to supplement rural incomes can be replaced by target price insurance, essentially paving the way for insurance to perform the social policy function previously served by guaranteed state purchases. Target price insurance also acts as a price floor, protecting producer-set prices from falling below those set by provinces.

While some argue that traditional insurance cannot meet the needs of modern agriculture, China's target pricing system engineers still face major challenges. First, designing a price setting mechanism is difficult. Futures markets do not yet properly understand how to gauge future prices and the systemic risk is too high because insurance markets are tightly integrated and the nascent reinsurance market is unwilling to bear risk.

For the system to avoid failure, futures market reform is needed to allow commodity exchanges to independently set prices against the insurance firms that offer policies. This would ensure that primary producer incomes are secure and that, if insurance firms reinsure against potential loss, the risk of falling agricultural product prices is mitigated.

Second, small-scale farming, institutional bottlenecks and emerging financial risk may stymie implementation. While the Chinese Communist Party has an implicit social contract to support

farming households, the extension of market risk to these farmers without land collateral is potentially too exhaustive a drain on government resources. What's more, peasants' political weight is highly dispersed meaning that their interests are unlikely to prevail in any disputes. But with insurers enjoying policy support, farming households will have greater protection against risk than they would in an open market.

China's futures markets are yet to prove they can accurately set prices. Without genuine price-setting mechanisms and reinsurance markets, insurers remain unable to price risk. Currently neither the commodities exchanges at Zhengzhou nor Dalian enjoy sufficient market confidence or liquidity for their contract prices to serve as market signals. Futures exchange reform is likely a step too far for 2016, but without it target price insurance may falter.

Target price insurance is an unattractive risk for all but policy-supported insurers. The pattern set by Henan state-owned enterprises (SOEs) forming the Zhongyuan Agricultural Insurance Company will repeat as provincial governments and local SOEs unite to form local insurance blocs. The move towards household farmers becoming insured will be a huge positive for the sector. But more reform is needed, such as in the current system of rural workers depending on rural credit cooperatives rather than commercial banks.

Extending market risks into an under-resourced sector, without the benefit of market-driven price signals, introduces new forms of financial stress to agricultural communities. But agricultural insurance also underpins rural social policy. If successfully deployed, institutional development of futures contracts and commodity exchanges can begin to truly set accurate prices and improve agricultural production in China.

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Why China is abandoning state soy reserves?

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In Brief

Chen Xiwen, deputy director of the Central Leading Group on Rural Affairs, has long admitted that many countries produce soybeans more efficiently than China. So how can agricultural policy makers reform China's soy industry?

Soy is a core oilseed product of the Northeastern China plain and the Inner Mongolian steppe. Soy bean production in China results in three staple goods: soy beans processed for human consumption in various forms; crushed soy beans, which are used to make soy oil for human cooking use; and soy meal, which is used as edible animal fodder.

As a core staple for both direct human consumption and meat production, soy beans have long been a sensitive commodity in China's agricultural circles. But China is heavily dependent on international trade to service its soy needs. China already imports the bulk of internationally traded soy beans — around 65 million tonnes in 2013. In the same year, domestic production was estimated to be only 12 million tonnes.

In 2008, a state stockpiling program for soy, sugar, maize and rapeseed was implemented, following a rise in international prices and a domestic inflation problem. This program is currently being phased out. Under the state stockpiling system, the State Grain Administration guaranteed set prices to farmers above market prices in an attempt to ensure domestic production levels were maintained and to stabilise consumer prices. But the attempt to set domestic market prices resulted in unintended market, institutional and production distortions.

The state procurement mechanism has delivered suboptimal outcomes for two principal reasons. The first is corruption in the state oilseed reserve, resulting from the allure of arbitrage on the price differential between the guaranteed domestic price and the fluctuating international price.

The second is production distortions as farmers overproduced more heavily subsidised crops such as maize. As the domestic price set for maize was higher than soy, many famers found it prudent to switch production to corn, creating a shortfall in domestic soy production and, consequently, an increased dependence on imported soy.

Under the state procurement mechanism government institutions purchased soy through the key players in the soy industry, the crushers. As production of soy dropped, third-party crushers simply increased imports. And with lax enforcement of tariff-rate quotas, they were able to effectively circumvent the system.

Market reactions to the state procurement system have resulted in increased consumption of imports and not, as was intended, increased domestic production. There is now both an economic and a political imperative to reform the state procurement system.

China has two options in addressing its oilseed supply problem. The first is to promote existing institutional norms on domestic commodities exchanges and accept fluctuations of non-essential agricultural product prices in line with international prices. The second is to continue outward foreign direct investment policies in agriculture. This entails creating whole system value chains, where food-producing state-owned enterprises (SOEs) invest in agricultural production that is destined for domestic consumption.

It is likely that China will bet both ways on the future of its agricultural commodity consumption, by developing domestic commodity exchange institutions as well as directly securing international supply chains.

The development of domestic price setting mechanisms through the consolidation and institutional development of modern agricultural commodity markets should send positive messages to advocates of market liberal reform.

But a genuine integration into global commodities trading markets is likely to progress slowly. And China will continue to also directly secure offshore commodity production chains.

The expansion of China National Cereals, Oils and Foodstuffs Corporation into global markets with its 2014 acquisition of controlling stakes in Noble Agri and Nidera, is indicative of the continued role of SOEs in state development strategies. China's state grain security is being moved offshore, as China bypasses international commodity markets in the quest for stable supply. This global strategy should be neither feared nor ignored.

Soy reform is not simply a case of market reform for its own sake. It is tied to the historically sensitive nature of soy bean production, the failure of the state reserve system, and a growing shift in China's agricultural policy towards seeking to secure whole value chains of agricultural production by investing abroad rather than protecting at home.

One lesson from China's oilseed procurement system is that domestic protectionist policies cannot react as quickly to global agricultural changes as price mechanisms can.

China cannot possibly service the growing food demands of its citizens with the limited arable land at its disposal. China's state procurement mechanism was distorting trade and price in the name of domestic protectionism. While there is an undoubted state strategy in securing offshore agribusiness chains, the expansion of Chinese agricultural investments in the open economies should be a welcome challenge to a global agribusiness industry fuelled increasingly by China's demand.

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Audience

Magazines

2017-2025

Magazines

2017-2025

This work is the closest to the type of consultancy documents that I have developed under confidentiality agreements. In the magazine format, you want to use visuals and engaging writing to ensure that your argument and point is transmitted to the reader. It takes a huge amount of conceptual and theoretical work to arrive at a place to be able to present something so deceptively simple. These works are the closest yet to the ideal of Dali's position of 'master the art to subvert the form.'

Global Asia

— **Southeast Asia's Policy Paralysis on China**, Global Asia, Vol. 19, No. 4, December 2024
— **Security Diplomacy Takes Center Stage for China in Central Asia**, Global Asia, Vol. 18, No. 3, September 2023
— **Reimagining Trade Routes: China's Eurasia Hedge Amid the War in Ukraine**, Global Asia, Vol. 17, No. 3, September 2022
— **Third Kazakh-China Rail Crossing is about Geoeconomics not Development**, Global Asia, Vol. 16, No. 4, December 2021
— **China's Inland Civil Nuclear Strategy: Making the Case at Home First**, Global Asia, Vol. 13, No. 4, December 2018
— **Cadre Calculus — Making Sense of the 19th Party Congress and Beyond**, Global Asia, Vol. 12, No. 3, September 2017

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ENTER 'BELT AND ROAD'

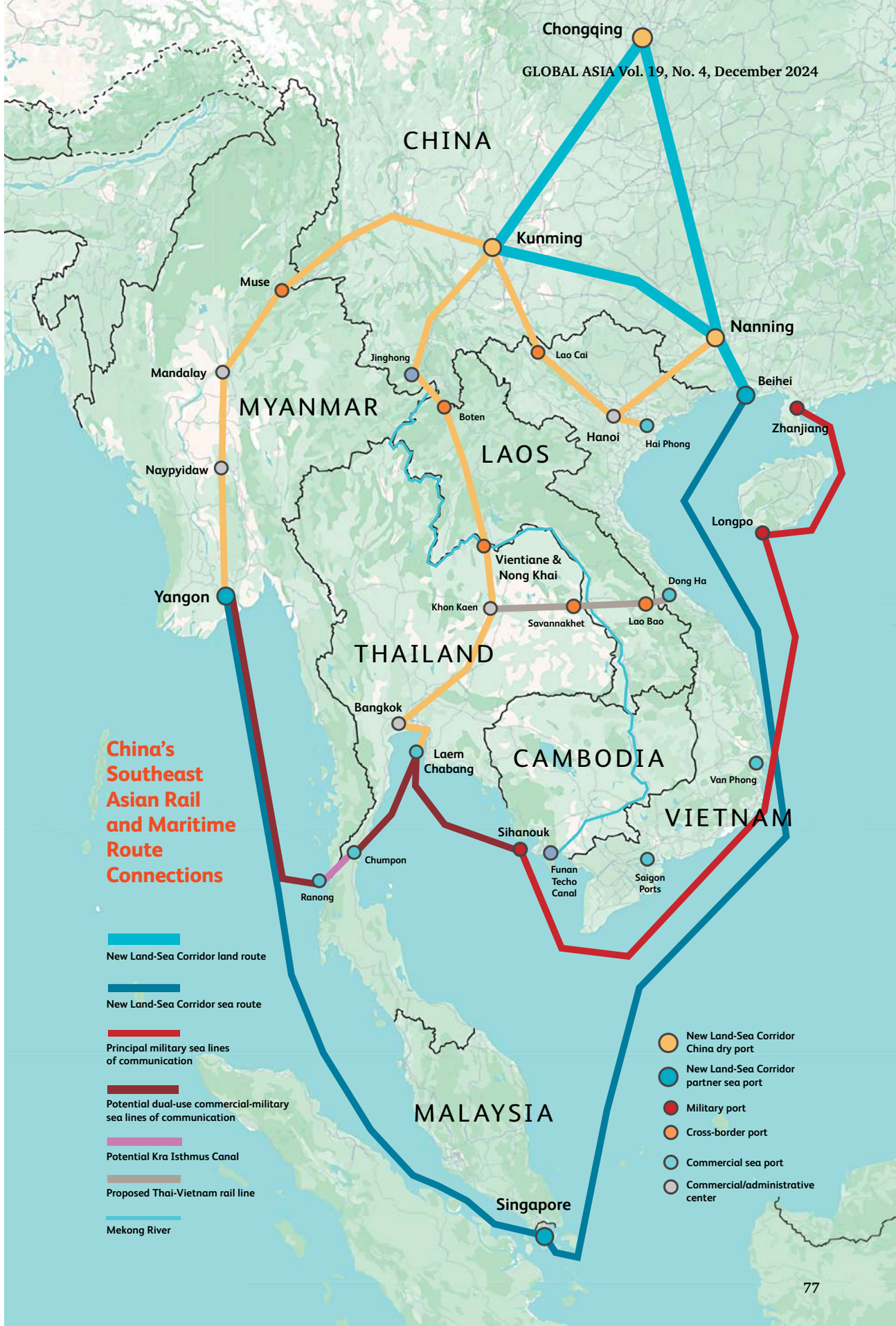
China's buildout of the Belt and Road Initiative in Southeast Asia, and particularly in Thailand where economic integration is most advanced, is reminiscent of the shadow expansion of Japan's regional production system in the 1980s. Move excess industrial capacity offshore, shift wage constraints to other economies and look greener by moving domestic industries offshore. The cherry on top of the system is to then export product back to China and transform China into an import consumption-driven economic model focused on tech platforms and newly developed digital technologies. This was welcome news for Thailand, Vietnam, Malaysia and Singapore, because whether Chinese state-owned enterprises spend their offshore capital poorly or wisely, the capital stays in the country. Major players in Southeast Asian business did not accumulate such vast wealth without the acumen to consume someone else's poor investment decisions.

China's shadow of Japan's offshore production system from an economic standpoint made sense for China and economic historians, and also made sense for those capital recipient countries that had increasingly and noticeably been left out of Globalization 1.0. More free global capital flows during the China boom were not bringing economic development to Southeast Asia. So, for various countries in Southeast Asia, when China started offshoring industrial production with investment capital in skilled and semi-skilled industries, it looked like 1985 all over again, especially for Thailand. China was able to keep its capital account closed, to develop offshore pools of renminbi capital, which then served as inputs into new offshore industrial clusters, building out infrastructure demand to connect to China's close regional neighbors. Except China's foreign policy is not benign. Chinese fixed capital investment comes to the region, not like Japan's, constrained by the peacenik politics at home, but girded by the historical revisionism of what increasingly appears to be a determination to fight for a better yesterday.

SOUTHEAST ASIAN AGENCY — THE APATHY OF CHAOS

The China-Indochina Peninsula Economic Corridor as a macro concept has largely fallen flat. But a variety of smaller dependencies have developed and key sub-corridors remain geo-economically important to China's regional ambitions, including securitized pathways to the Indian Ocean. For China in Southeast Asia, there is very little difference in terms of comparative advantage in labor or economic inputs. Any number of poorer Chinese provinces could equally offer anything that Southeast Asia can offer Chinese capital. The value for Chinese firms pushing into Southeast Asia is the lack of competition, the power of capital in frontier economies, and the state subsidies for industry and infrastructure that accompany outgoing firms' realist geostrategic activities.

The strategic and analytical worlds focused on China's global and regional policies have now rightly shifted to the "security of everything." There are clear dual military-civilian uses of China's maritime and land connections through its various economic corridors in Southeast Asia, yet what could be concerning for the US, is unlikely to be a problem for Thailand — technically a US treaty ally. Thailand agreeing to acquire Chinese submarines, the strategic importance of a potential Kra Isthmus Canal and ongoing developments at Cambodia's Ream naval base open up wide strategic space for China's Indian Ocean ambitions.[5] While Thailand eventually pushed back on the extraterritoriality of China's Ministry of Public Security operating directly in Thailand, the institutional space for such future extraterritorial operations is clear.[6]



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Four key geo-economic vectors for China

Myanmar Vector (Indian Ocean)
Increasingly defined by subnational foreign policy, China's Myanmar policy is enacted and now largely formed and deployed in Kunming. Comprising hard realpolitik access to critical mineral resources and the Indian Ocean.

Thailand-Laos Vector (Indo-Pacific)
Thailand is China's dual rail and maritime vector in Southeast Asia. Through the China-Laos rail line, the Cambodia-Laem Chabang Port highway, and the geopolitical potential of the Kra Isthmus.

Guangxi-Singapore-Myanmar Maritime Vector (Indian Ocean)
Singapore's China policy is the most defined, but the most problematic, going full-force into multipolarity, and relishing in Middle Power delusions. The reputational hit of the financial system banking both the Belt and Road and the Kyar Phyant crime syndicate gangs that are bringing misery to Southeast Asia might be long-lasting.

Vietnam Vector (Pacific Ocean)
Vietnam's central leadership is undergoing wild upheaval ahead of the 2026 Communist Party of Vietnam Congress. But the palace intrigue is unlikely to alter Vietnam's China policy.[4] The wider geo-economic trend is China's 'Re-Northification' of Vietnam's northern industrial base and port system.

For China strategists, the possibility of linking the Guangdong, Hainan and Guangxi naval and maritime bases with the Indian Ocean via Southeast Asia looks much closer with Sihanoukville now militarized and Chinese naval maintenance crews working onshore in Thailand. Work beginning on the Funan Techo Canal in Cambodia also has the potential to divert maritime trade away from Vietnam, and the more fanciful geostrategic use would be to connect Yunnan militarily to the Pacific and Indian Ocean vectors via the Mekong.[7] The heavy focus, though, seems to be on getting Chongqing out to the ocean while also connecting the city to Russia, Iran and Turkey via Central Asia. The Southeast Asian vector of the Chongqing strategy would give China's southwest industrial base new export and investment markets where domestically, development of the "New International Land-Sea Corridor" is much more aimed at local companies.[8] Chongqing as the nexus of both the land-bridge to Central Asia and the sea lane to the Indian Ocean thus has obvious strategic functions in a future conflict scenario: Chongqing is shaping up to be China's new international resources hub in the event of a Pacific Ocean blockade.

While most maritime states in the Western Pacific are correctly focused on the security threats emanating from China, the Southeast Asia land-vector remains transfixed on capital and human investment. This has resulted in confused foreign policymaking. China's geo-economic policies deployed against each country in Southeast Asia are very much bilateral rather than regional. Each of these bilateral relationships has its own historical path-dependencies through which contemporary policy is leveraged. In both security and geo-economic spheres, Thailand is emerging as a China "swing-state" — the Pennsylvania of China's East Asian regional leadership ambitions. Having drifted away from the US and Europe through the 2010s due to its long political crisis, Thailand's openness to Chinese investment has seen property prices surge, a huge influx of new residents and a tourist market that is now central to the economy. Both Thailand and Vietnam, the two largest industrial economies in Southeast Asia, could have readied themselves to absorb some global manufacturing production bases as international supply-chains de-risk and decouple from China.[9] Yet with most investment continuing to come from China itself, and with elite polity capture embedded in their domestic political systems, both Thailand and Vietnam are struggling to form foreign policy independent of China's interests. Singapore is embracing the multi-polarity delusion, with

TABLE 1 MAINLAND SOUTHEAST ASIAN STATES' ROLE IN CHINA'S REGIONAL MARITIME AND OVERLAND VECTORS

China policy	China gravity	Belt and Road vector	Key state	Belt and Road model	Belt and Road position	China relations scenario
CLMV, land-sea corridor	Kunming, Chongqing	Indian Ocean	**MYANMAR**	Cage of instability	Partial policy capture	If junta, stable dependency. If NLD, untenable influence projection. If civil war, warring states scenario
CLMV	Kunming, Nanning	Near seas, Near abroad	**VIETNAM**	Unco-operative authoritarian rule	Xi-ification of CPV Politburo	Re-Northification of Vietnam's industrial economy
Capital integration	Kunming	Indo-Pacific crux, Kunming-Singapore	**THAILAND**	Betwixt and between	Chinese capital Chinese tourists Chinese security	Continued turn to China Salami-slicing sovereignty risks Public security extra-territoriality
CLMV	Kunming	Near abroad	**LAOS**	Captured polity	Debt trap	'From the Lancang to the Sea' Offering ocean access
Capital integration, land-sea corridor	Chongqing, Kunming	Indo-Pacific crux, Kunming-Singapore	**SINGAPORE**	Multipolarity embrace	Searching for rent-seeking opportunities	Avoid becoming the next Hong Kong Wary of CCP extra-territoriality
Capital integration	Kunming	Indian Ocean	**MALAYSIA**	Policy catchup	Reactionary	Elite capture Economic stagnation
CLMV	Hainan	Mekong	**CAMBODIA**	Captured polity	Debt trap	Military sea lines of communication integration

long-term damage to its reputation as a reliable financial stakeholder the likely result. Cambodia and Myanmar, meanwhile, are the vanguards of China's militarization and resource strategies. Taken from a macro viewpoint, China's Southeast Asian state strategies are layered dependencies of financial, geo-industrial, geo-economic, and geo-security considerations. This then creates a policy-capture model, where states risk the ability to set policy in one area because they are constrained in another area.

POLICY INERTIA

Southeast Asia is really the home of the development state model. It is also perhaps the greatest exponent, along with the Pacific Island economies, of why globalization has failed to develop any new national economies outside of China. Through the China boom, Southeast Asia was largely abandoned by globalized capital, leaving middle income countries such as Thailand, Malaysia and Vietnam to experience a double lost decade, with a whole generation now having lived and worked in "developing economies" that have never fully developed. Worse still, Cambodia and Laos remain in much the same economic state now as at the end of the Cold War. International development organizations, obsessed with climate and global governance by stealth, have abandoned development altogether. Three decades after the triumphalism of the US in the 1990s, and now four decades on from Japan's Plaza Accord that released productive capital into Southeast Asia, no country other than China has industrialized since South Korea.

Despite a close global economic connectedness, for the US, Australia or France, China is at least one ocean away. For mainland Southeast Asia, countries that have exercised centuries of flexibility to solve security problems, the simplicity of a China pushback approach is unlikely to either be adopted or effective. This will be difficult for the advanced Western economies to navigate as they have done little to solidify a global governance order in East Asia where the status quo remains simply a "post-war order" nearly a century later. This failure to establish accepted international norms, institutions and international law in Southeast Asia leaves negative institutional space for new actors to fill. Where much of the world is now preparing for a shift from strategic competition to security strategy regarding China, Southeast Asia's business elites and policymakers cannot be expected to follow any Western lead. Whatever comes next from China, whether the long decline of Belt and Road represents an economic flop, or if China begins new hard security conflicts in the region, Southeast Asian countries cannot opt out of the China relationship. Against such thorough interdependency, these states clearly need to have deeply layered foreign-policy responses to China. Yet it remains places such as the United States, which could live without China, and without Southeast Asia, that has the stronger, deeper, more layered policy responses, while countries in Southeast Asia seem to have their China policies stuck in first gear.

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As China's once-vaunted Belt and Road Initiative takes a back seat to three new global initiatives, much institutional structure remains in Central Asia. The integration of China's domestic security apparatus with the five Central Asian security councils is a form likely to come increasingly to the fore in the region's foreign policy.

This shift from the economic to the security sphere toward Central Asian states is indicative of a wider change in Beijing's foreign policy, yet it has acute manifestations unique to China's political ambitions in the region, writes Tristan Kenderdine.

Security Diplomacy Takes Center Stage for China in Central Asia

By Tristan Kenderdine

THERE WAS plenty of focus on relations between China and Central Asia this year surrounding the inaugural in-person Central Asian leaders' summit in Xi'an. Though billed as a milestone, nothing new was announced. It came on the back of regular high-level meetings since 2020 in China's 5+1 format involving the foreign ministers of Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan and Turkmenistan. And yet a quieter institutional engagement has developed for China in Central Asia in the security sphere, where increasingly codified and institutionalized relations have focused on coupling the five Central Asian states' national security systems not with China's national security system, but rather with its secondary domestic, internal security apparatus. The slow institutional creep of this hard power establishment now coincides with a series of evolutions in China's varied foreign-policy typologies for the region and amid the unfolding umbrella of China's revisionist interpretation of history and civilization.

Beijing's Belt and Road Initiative in Central Asia has changed, but China's approach to the region remains much the same. While geoeconomics still overtly dominates the rhetoric of the relationship, failed and rescinded geo-economic agendas are being folded back into fresh policy. Belt and Road takes a step back, the industrial capacity program has been retrograded to "Going Global," and we now have the Global Development Initiative (GDI), which takes a more development-aid approach to international development, finance and industrial co-operation. Packaged along with it, though, is a more assertive focus on security and on civilization through the more important Global Security Initiative and the Global Civilization Initiative, collectively the "Global Initiatives." Civilization management has been a core theoretical undertaking for the Chinese Communist Party for decades, with specialized bureaus and policies that embed civilization as a core value in the Chinese political system. Along this line, Xi Jinping's speech at the China-Central Asia Summit in Xi'an focused mainly on institution-building and security guarantees within a discourse rooted in historicism and the assertion of civilization.[1]

Institution-building is the main mechanism for developing China's vision of a civilization-based regional form of its global-order ambitions. This now seems to be taking on a more assertive role, taking what had until recently been mostly domestic policy and party ideology and bringing it into the narratives of China's three Global Initiatives. Yet there are distinct differences in China's global foreign-policy voice and the voice, mechanisms and structures in China's Central Asian foreign policy. Central Asia is a prime testing ground for the new types of civilizational policy that China will begin promulgating, so catching developments early here will be important for understanding China globally, and also for being able to see what works and what fails for China in a highly localized regional foreign policy environment. In China, multiple layers of bureaucracy, competing ministries and pseudo-independent provinces and municipalities all make their own foreign policy toward Central Asia. While the top-level policy and ideology from Beijing is worthy of attention, to understand China in Central Asia, it is important to stop looking at leaders and statements and start looking at the lower tiers of Chinese institutions that make and enact foreign policy. A prime subnational regional foreign policy example has been the slow internal security integration between China and Central Asia. This integration means that China has effectively devolved security authority on Central Asia to its internal security architecture, which now plays a more important role than national security institutions, both bilaterally and through the Shanghai Cooperation Organization (SCO).

1 "Full text of Xi Jinping's keynote speech at China-Central Asia Summit," Xinhua, May 19, 2023, english.news.cn/20230519/dd60639aea014738a2c0f62cbe3a1076/c.html

There are distinct differences in China's global foreign-policy voice and the voice, mechanisms and structures in its Central Asian foreign policy. Central Asia is a prime testing ground for the new types of civilizational policy that China will begin promulgating, so catching developments early here will be important for understanding China globally.

DOMESTIC SECURITY INTEGRATION WITH CENTRAL ASIAN SECURITY COUNCILS

Despite academic overtures to ignore the legacy of the Soviet Union, its institutional remains still dominate governance in Central Asia. This is clear in the replication of the Russian Security Council model, where the five Central Asian states all operate national security policy through a uniform peak body inherited from the Soviet era. The security councils of each state are composed of roughly the same mix of executive, legislative, internal security and military seats. The integration of these security councils with each other and with China is the foundation of the SCO. Yet there is an interesting twist in China's engagement with these security institutions. Where the 5+1 format is a meeting of peer foreign ministers, and the China-Central Asia Summit is a meeting of peer executive government leaders, the security apparatus integration is not peer to peer. When meeting Central Asian security councils, China sends not only a much lower, but also a very different type of political leader.

The natural point of contact between the national security apparatus of sovereign states would be between security councils and China's central National Security Commission. However, the two most important posts in China for Central Asian security engagement now are not the peer Director of the General Office of the National Security Commission nor a Central Military Commission vice chair. Rather, the institutionalized conduit between China's security state

2 Max Weber, *Politics as Vocation* (Munich: Duncker & Humblot, 1919), web.archive.org/web/20130319092642/anthropos-lab.net/wp/wp-content/uploads/2011/12/Weber-Politics-as-a-Vocation.pdf

FIGURE 1 INTEGRATION OF CHINA'S DOMESTIC SECURITY ARCHITECTURE WITH CENTRAL ASIAN SECURITY COUNCILS

Central Asian nations' security councils*

	Kazakhstan	Kyrgyzstan	Uzbekistan	Tajikistan	Turkmenistan	
Security Council Chair	Kassym-Jomart Tokayev	Sadyr Japarov	Shavkat Mirziyoyev	Emomali Rahmon	Serdar Berdimuhamedow	To SCO
Parliament Chair	Nurlan Nigmatulin	Nurlanbek Shakiev (Speaker of the Jogorku Kenesh)	Tanzila Narbayeva	Rustam Emomali		
Senate Chair	Mäulen Äşimbaev		Nurdinjan Ismailov	Mahmadtohir Zokirzoda		
Prime Minister	Alikhan Smailov		Abdulla Aripov	Kokhir Rasulzoda		
President's Executive Office	Yerlan Koshanov		(abolished 2023)	Ozoda Rahmon		
Security Council Secretary	Asset Issekeshev	Marat Imankulov	Viktor Makhmudov	Nasrullo Mahmudzoda	Begench Gundogdyev	
Internal Affairs Minister	Erlan Turghymbaev	Ulan Niyazbekov	Pulat Bobojonov	Ramazon Rahimov	Muhammet Hydyrov	To PLC
KGB Successors' Chiefs	Yermek Sagimbayev	Kamchybek Tashiev	Abdusalom Azizov			
Foreign Affairs Minister	Mukhtar Tleuberdi	Jeenbek Kulubayev	Baxtiyor Saidov	Sirojiddin Muhriddin		
Defense Minister	Murat Bektanov	Baktybek Bekboloto	Bakhodir Kurbanov	Sherali Mirzo	Begench Gundogdyev	
Lower Members Specific to Country						
Foreign Intelligence Service Director Issatai Sartayev	Emergency Situations Minister Boobek Ajikeev	National Guard Commander Rustam Jo'raev	Supreme Court Chair Begenç Hojamgulyýew			
	Prosecutor General Otkurbek Dzhamshitov	Prosecutor General Nigmatilla Yuldashev	National Security Minister Colonel Nazar Atagarayev			
		Investment, Industry and Trade Minister Kudratov Shavkatovich	State Border Service Chief Yazgeldi Nuryyev			
		MoD Defense Industry Agency Director Ibodullaev Gapporovich	Justice Minister Merettagan Taganov			
		National Centre for Human Rights Director Akmal Saidov	Presidential Security Service Chief Dovletgeldi Meredov			
			Junior Counselor of Justice Serdar Mälikgulyýew			
			Customs Service Chair Maksat Hudayberdiyev			
			Migration Service Chair Amanmuhammet Sazakow			

* Indicative possible makeup based on previous institutionalised positions and current political developments

China's National Security Commission 中央国家安全委员会

To SCO	Xi Jinping (习近平)	Chair
	Li Qiang (李强)	Vice Chair
	Zhao Leji (赵乐际)	Vice Chair
	Cai Qi (蔡奇)	Vice Chair/Director General Office
	Standing Committee*	
	Wang Huning (王沪宁)	CPCCC Chair
	Li Shulei (李书磊)	Central Propaganda Director
	Wang Yi (王毅)	Central Foreign Affairs Commission Office Director

China's Politics & Legal Affairs Commission (PLC) 中央国家安全委员会

Chen Wenqing (陈文清)	PLC Secretary	Chen Wenqing (陈文清)	PLC Secretary
Wang Xiaohong (王小洪)	PLC Deputy Secretary as Minister of Public Security	Wang Xiaohong (王小洪)	PLC Deputy Secretary, Minister of Public Security
Zhang Jun (张军)	Supreme People's Court President & Party Secretary	Chen Min'er (陈敏尔)	Tianjin Party Secretary
Ying Yong (应勇)	Supreme People's Procuratorate Procurator General	Yuan Jiajun (袁家军)	Chongqing Party Secretary
Yin Bai (闫柏)	CDIC Standing Committee	Huang Kunming (黄坤明)	Guangdong Party Secretary
Chen Yixin (陈一新)	Minister of State Security	Yin Li (尹力)	Beijing Party Secretary
He Rong (贺荣)	Minister of Justice	Chen Jining (陈吉宁)	Shanghai Party Secretary
Wang Renhua (王仁华)	CMC Political & Legal Committee Secretary	Wu Zhenglong (吴政隆)	Secretary-General of the State Council
Wang Chunning (王春宁)	People's Armed Police Commander	Zhang Youxia (张又侠)	CMC Vice Chair
Wang Yixing (王贻星)	MPS Research Office Party Secretary	Liu Zhenli (刘振立)	CMC Joint Staff Department Chief of Staff
Sun Xiaofang (孙晓芳)	Appointed September 2023	Miao Hua (苗华)	CMC Political Work Department Director
		Zhang Lin (张林)	CMC Logistics Support Department Director
		Xu Xueqiang (许学强)	CMC Equipment Development Department Director

and Central Asia are the Secretary of the Politics and Legal Affairs Commission (PLC) and the Minister of Public Security (see Figure 1).

The PLC is an important political and security institution in China, effectively the peak body for internal and domestic security. It pulls together various institutional elements of China's party, state, military and the People's Armed Police paramilitary, an internal security force that boasts a standing army of more than 1 million personnel and full administrative control over the China Coast Guard, which is itself comprised of naval hardware and capabilities analogous to the navies of smaller states. The Minister of Public Security, meanwhile, is the head of China's police force, leading a regular public security state police force that is likely the most expansive and sophisticated domestic monitoring and control institution currently in operation on the planet. If we use Weber's analysis of police forces as manifesting the state's legitimacy to a monopoly of violence, then the combination of the People's Armed Police and the Ministry of Public Security under the governance of the PLC represents a policy commissariat presiding over a monopoly of monopolies on internal state violence.[2]

The integration of this internal security system with Central Asian states' internal affairs and national security systems is already well advanced. The institutionalization of China's internal security relationship with Central Asia began to ramp up from 2011 with a flurry of activity in 2012, Xi Jinping's first year in office. In 2012, in-person meetings between China's Minister of Public Security with heads of state of Central Asian countries began to occur more frequently, with both visits of China's internal security leaders to Central Asia as well as Central Asian leaders being received in Beijing. The discerning feature is that presidents from Central Asia have been meeting with China's Minister of Public Security, not the expected peer-to-peer meetings, which would have been with the Minister of Internal Affairs for Central Asian states.

In their capacities as China's Minister of Public Security, successively Zhou Yongkang, Meng Jianzhu, Guo Shengkun, Zhao Kezhi, and now

Wang Xiaohong have all built successively tighter integration with Central Asia's executive governance. Meng Jianzhu's tenure in particular saw a series of meetings in late 2014 into 2015 where senior security officials from Uzbekistan, Tajikistan, Afghanistan, Kazakhstan and Kyrgyzstan all successively traveled to Beijing to meet with Meng.[3] These early internal security peer-to-peer meetings likely paved the way for the higher-order role we see today of Public Security Minister meetings with more senior Central Asian executive government leaders. This process elevated the role of Central Asian governance in China's international security diplomacy, secured for China a system of devolved responsibility where sovereign states engage with subnational institutions, and also elevated China's own National Security Commission beyond the regional co-operation architecture, becoming freer to focus on other theaters. Within the Central Asian region, though, the Politics and Legal Affairs Commission has now effectively gone international.

This also demonstrates the political trajectory and importance placed on Central Asia, as a "near abroad" extension of China's domestic security policy from Xinjiang into China's neighbors. This security integration with Central Asia looks very different to anything seen in China's Pacific or Indian Ocean foreign policy. And the extension of China's domestic security apparatus into these external but peripheral geographies represents both a slow paramilitary creep and an institutional extension of domestic government reach into international jurisdictions. These internal security institutions, though, are only a conduit for China's foreign policy. The form of foreign policy that will flow through them into Central Asia is still dependent on policy trends and political machinations in the national foreign policy and national security worlds.

NEW-ERA DIPLOMACY

The main trends to watch in this transition from Belt and Road to Global Civilization will be the degree to which China builds on the existing institutional frameworks that have been established by recent political and economic history. Any new, expanded or planned Chinese foreign-policy interventions in Central Asia must be squeezed through existing competing political and policy forms. Outlined below are eight different types of Chinese foreign policy in Central Asia. These often conflicting foreign policies and their institutional representation exist in combination with region-specific foreign-policy goals for Central Asia, for each of the five Central Asian states and for trans-regional policy frameworks. All of these collide and coalesce, creating a complex and busy foreign-policy and political-diplomacy space.

The typology (see Figure 2) categorizes eight distinct types of China's political diplomacy and ranks them in order of importance as applied to the Central Asian region. While the Ministry of Foreign Affairs and the Ministry of Commerce directly enact foreign policy through the embassy system, a variety of foreign policy streams are directed at Central Asia from Beijing. Of these subsets of political diplomacy, though, "civilization construction," "domestic security in the near abroad" and "subnational-to-national bilateral relations" are the most important in Central Asia. While national security and great-power politics are the pre-eminent foreign-policy discourses emanating from China in the Pacific, they are arguably the least important form of foreign policy in Central Asia. Where geo-economic and geo-financial political diplomacy dominated the foreign policy rhetoric of the Belt and Road era, Xi Jinping's "new era" foreign policy in Central Asia is already dominated by civilizational narratives, while the undercur-

3 Travel and meeting data is available in the China Vitae database maintained by the Carnegie Endowment for International Peace. For example, on Meng Jianzhu, see www.chinavitae.com/biography/Meng_Jianzhu/travel

FIGURE 2 TYPES OF POLITICAL DIPLOMACY USED IN CHINA'S RELATIONSHIP WITH CENTRAL ASIA

Types of political diplomacy	Guiding institution	Receiving institution	Purpose	Key people
Civilizational construction	Central Guidance Commission on Building Spiritual Civilization	Select States, General Populace	Development of global governance legitimacy discourses based on unique civilizational indicators	Wang Huning, Cai Qi
Domestic security in the near abroad	Central Politics and Legal Affairs Commission	Central Asian Security Councils	Cross-border integration of domestic mechanistic institutions of control and power projection	Chen Wenqing, Wang Xiaohong
Subnational-to-national bilateral relations	Provincial and Municipal Executive Governments	Central Asian National Executive Governments	Self-sufficiency governance model for China local government units to conduct pseudo-independent foreign policy	Numerous
Geo-economic policy	Belt and Road Leading Group, Ministry of Commerce, NDRC	Central Asian National Executive Governments	Global, regional and bilateral macroeconomic planning policies across finance, trade, industry, energy and agriculture. Orchestrating Belt and Road and Going Global	He Lifeng, Wang Wentao
Geo-financial policy	Belt and Road Leading Group Policy Banks, Sinosure, Commercial Banks, AIIB	Samruk Kazyna, O'zmilliybank, various local and localized banks, local governments and projects	A complex piece of political economy to export pools of renminbi capital to third countries without opening China's domestic capital account	Leadership vacuum in 2023
Politics of the everyday	People to people transfer	Individual people, companies and schools	How most people in Central Asia experience China — as a foreign student, with a business partner, or through tourism. Small people matter big-time in China's diplomacy. Enacted by people, driven by policy	Numerous
Great-power politics	Central Foreign Affairs Commission	Domestic Audience, Select States	Attempt to move global governance discourses to bilateral-centric mechanisms, away from multilateralism, plurilateralism and legalism	Xi Jinping
National security	Central National Security Commission	Central Asian Security Councils	Arguably the most important political diplomacy nationally and in the Pacific and Indian Oceans. In Central Asia though, domestic security architecture dominates	Xi Jinping, Cai Qi

After a decade of Belt and Road, there is a litany of analysis of the 'it's too early to tell' style, waiting for a heavenly anointment from Beijing to bestow illumination. We now seem destined to embark on another endless quest of tail-chasing, waiting to be illuminated on what the Global Initiatives really mean. Yet there is evidence abounding.

rents of internal security and subnational relations are likely to come increasingly to the fore.

There are mixed messages, though, on who is doing what and who is in charge. The previous vanguard of geo-financial policy is now bereft of leadership after reforms to China's domestic financial system and a redeployment of policy duties for Belt and Road institutions. While diplomats in the Ministry of Foreign Affairs (MFA) such as the Special Representative on Eurasian Affairs, Li Hui, and the vocal ambassador to Kazakhstan, Zhang Xiao, continue to play important functional roles, their intellectual contribution to policy formation is effectively nil. The MFA makes almost no foreign policy and enacts only a fraction of China's foreign policy. Every Chinese embassy houses both an MFA section and a Ministry of Commerce (MofCom) section, with the ministry's diplomats being the dominant political force, being the drivers of the Belt and Road geo-economic policy. The principal source of foreign-policy data emanating from the embassy system through Xi Jinping's tenure has consistently been MofCom's embassy-based Economic and Commercial Offices. These offices were always about much more than simply geoeconomics. As well as serving as China's geoeconomic policy outpost and disseminating trade and economic wire services for Chinese enterprises operating abroad, the MofCom embassy offices through the Belt and Road period served as a centralized point for the Foreign Economic Cooperation (FEC) system of foreign-contracted projects, industrial parks and foreign labor co-operation. Once the vanguard of industrial transfer policy, the MofCom FEC system has now been wound back to "Going Global" with a softened foreign policy approach.

The embassies' economic information system, though, has had a new website rollout in recent years, updating the style and content offered, and hinting at preparation for possible future uses. MofCom's FEC portal centralizes all these sites for every country under a categorization system that borrows from the MFA macroregional typology, but was designed with Belt and Road, International Capacity Cooperation and Going Global in mind. For a visual representation of who is making foreign policy in Central Asia, simply compare the websites of the MFA embassy and the MofCom Economic and Commercial Offices. The MFA country websites for all countries, not just Central Asia, are ancient.[4] MofCom, by contrast, established economic information bureau websites around 2013, and these were updated around 2020, bringing in more static content and reducing the amount of political and economic information updates. The same FEC pattern is replicated across each state in Central Asia, with well-maintained and updated MofCom websites for Kyrgyzstan, Uzbekistan, Tajikistan and Turkmenistan.[5] Interestingly, for Kazakhstan, two parallel web portals are in operation, yet as the public face of the foreign Economic and Commercial Offices, the first Kazakhstan website stopped issuing economic information updates in May 2023, and the newer site stopped issuing information in July 2023. As Kazakhstan was the vanguard of the Belt and Road geo-policy, this is likely a significant indicator of imminent changes in policy direction. If change is afoot in China's administration of geoeconomic policy in Central Asia, though, it remains to be seen whether the institutions established while MofCom was the leading form of China's governance in Central Asia will remain, be repurposed or be replaced.

To guide regional-specific foreign-policy goals in the broader context of Central Asia, wider China peripheral land-border zones, and the rollback of Belt and Road, the three cumbersome global foreign-policy frameworks of the Global Civilization Initiative, Global Security Initiative and Global Development Initiative are being rolled out.

THE GLOBAL INITIATIVES IN CENTRAL ASIA

Of these three, the Global Civilization Initiative (GCI) is the core. Civilization theory has been central to Chinese Communist Party ideology since Deng Xiaoping introduced the "Two-in-One" Material and Spiritual Civilization as core values of both the CCP and of the concept of socialist civilization. This core was built upon by successive leaders as the third Political Civilization under Jiang Zemin, fourth Social Civilization under Hu Jintao, and the fifth Ecological Civilization under Xi Jinping's first term. Had Xi left office in 2022, then a sixth Civilization would have been expected to be passed to the incoming general secretary as the "Six-in-One" to provide continuity and guidance. As Xi took an unprecedented third term, this sixth civilizational form has not been directly manifested in CCP documents and remains extant only as vague and convoluted practical policy applications. Instead, internal developments center on "New-Era Civilization" institutions, conforming with Xi's policy agenda to construct a post-Deng China that is more assertive in manifesting China's institutions abroad.[6] Essentially what is New-Era Civilization at home becomes Global Civilization abroad. Civilizational policy formulation is formalized in the top-level Central Guidance Commission on Building Spiritual Civilization. Previously chaired by civilization theory guru Wang Huning until 2022, the commission now chaired by Cai Qi is as high ranking as the National Security Commission.

Where civilization and security as applied

4 China's Ministry of Foreign Affairs websites are found on this pattern: kz.china-embassy.gov.cn, kg.china-embassy.gov.cn, Tajikistan is a particular highlight: tj.china-embassy.gov.cn. (Most Chinese government websites still use the http protocol rather than the more secure https.)

5 Each country's MofCom Foreign Economic Cooperation (FEC) website uses the abbreviation for the country to prefix "mofcom.gov.cn," e.g. Kazakhstan is kz.mofcom.gov.cn (and hzs.mofcom.gov.cn), Kyrgyzstan is kg.mofcom.gov.cn, Uzbekistan is uz.mofcom.gov.cn, Tajikistan is tj.mofcom.gov.cn and Turkmenistan is tm.mofcom.gov.cn. The main FEC portal is fec.mofcom.gov.cn and the country guide list page is fec.mofcom.gov.cn/article/gbdqzn

6 Jessica Battke, "A vast network of 'New Era Civilization Practice Centers' is Beijing's latest bid to reclaim hearts and minds," China File, Jan. 31, 2022, www.chinafile.com/reporting-opinion/features/vast-network-of-new-era-civilization-practice-centers-beijings-latest-bid

through the Global Security Initiative (GSI) is really just a thinly veiled attempt to codify China's ambitions for global multipolarity and revisionist global-governance forms, its application in Central Asia does present some unique characteristics.[7] The foreign-policymaking power of China's provinces and subnational governance units was evident in the Belt and Road geoeconomic policy. The country-provincial system, for example, demonstrates a policy area where geoeconomic institution building can be readily remolded into a subnational bilateral internal security relationship. The expanded security architecture can also piggyback on additional subnational institutions left over from Belt and Road, where Central Asia's subnational relationships pair Gansu with Tajikistan, Shaanxi with Kyrgyzstan, Henan with Uzbekistan, Hebei with Kazakhstan, and Qinghai with Turkmenistan. Expanding to the Indian Ocean, Guangzhou is paired with Pakistan and Gansu again with Iran, creating quite an enticing series of subnational bilateral relationships through which to potentially funnel future foreign and security policy. The Global Security Initiative will also be able to provide China with cross-regional policy tools likely to be seen in disparate geographies connected by their proximity to China's borders. Tajikistan thus becomes much closer to Myanmar in this formulation of China's foreign and security policy. In Central Asia, though, China is still Xinjiang as far as most states are concerned. The potential exists here to combine institutional elements of China's Xinjiang policy along with the export of internal security institutions to Central Asian states to enact differing aspects of China's varied foreign policy typologies. For example, the Central Asia-China Digital Data Security Cooperation Initiative that was announced at the Xi'an summit would enable space where internal security integration could come to the fore, potentially treating China's monitoring of mobile communications within Central Asian states, the same as in Xinjiang.[8] While the rhetoric and slow institutionalization of the Shanghai Cooperation Organization edges towards an integrated China Eurasian foreign policy, the reality on the ground in situations such as Kazakhstan's 2022 *Qandy Qantar* is that all security politics is local, and the potential for macroregional policy tends to manifest rapidly in microregional settings.

Representing the decline of China's "development as foreign policy," the Global Development Initiative (GDI) is China's new geo-economic foreign policy, which will inherit the governance architecture developed under Belt and Road. The overhauled GDI takes over the largely failed foreign policy portfolio of Foreign Economic Cooperation and absorbs the two strands of geoeconomic policy that proliferated under the Belt and Road regime with the foreign investment and economic co-operation department model run by MofCom and the development aid model run through the reformed China International Development Cooperation Agency. Bringing these two strands of foreign economic activity together helps the CCP to streamline operations and also to rebrand activities. The foreign economic co-operation model was a grand design incorporating industrial transfers, forming new pools of renminbi abroad, and the wholesale export of China's economic system to third countries. The replacement GDI still needs to grow into its new skin, but the packaging alongside the GSI and GCI is a strong indication that economic development is taking a back seat to civilization and security. Importantly, though, the institutional legacies created through the foreign economic co-operation period will continue to be utilized by all three new Global Initiatives, meaning security will likely be more overtly linked with economic co-operation.

7 "The Global Security Initiative concept paper," Ministry of Foreign Affairs of the People's Republic of China, Feb. 21, 2023, www.fmprc.gov.cn/mfa_eng/wjbxw/202302/t20230221_11028348.html

8 "China-Central Asia Summit Xi'an Declaration," Ministry of Foreign Affairs of the People's Republic of China, May 19, 2023, www.fmprc.gov.cn/web/zyxw/202305/t20230519_11080194.shtml

PROJECTING DISCOURSE CONTROL, NOT POWER

Security, diplomacy, foreign policy and bilateral relationships are all separate forms of political thought. In China's conception, we see a series of divergences and coalescences. After a decade of Belt and Road, there is a litany of analysis of the "it's too early to tell" style, waiting for a heavenly anointment from Beijing to bestow illumination. We now seem destined to embark on another endless quest of tail-chasing, waiting to be illuminated on what the Global Initiatives *really* mean. Yet there is evidence abounding in policy and people, finance and form, meetings, places, structures and institutions. Analysis makes the abstract tangible, and the China-Central Asia political diplomacy landscape is rich with tangible assets.

The institutional spaces formed between Central Asian political geographies and China are also rich policy-testing grounds for Beijing. This means that what happens in microcosm in China's Central Asia policy could be seen to flourish in other fields at later times. However, the current regional diplomatic landscape is filled mostly with negativity. Thankfully, the military-backed Russian world is now failing, instead of leading an alternate history of Beijing's desired multipolarity. The Belt and Road's promise of an outside force taking the Central Asia region seriously for investment, development and genuine wealth-creation has lost its political luster, and its economic failures will take decades of state finance to cover over. And China's new Global Initiatives seem to be embarking on another road to foreign policy mediocrity, in an attempt to reshape global governance without much of a vision and with a conspicuous absence of any inclusivity beyond China's own interests. Russia's and China's failures in Central Asia may well have averted looming catastrophes in global-governance revisionism. But what do these failures mean for the people of Central Asia?

Both Xinjiang and Central Asia will continue to feature in China's higher-level policy dialogues, institutional architectures and foreign policy. These internal and external geographies of China are no longer peripheral. And China's political diplomacy in the region will become more institutionalized, more overt and more multiplicitous. But will it become more sophisticated or more effective? The China pattern of codifying existing practice into grand design, enumerating broad policy paths, and then folding the dough back into the mix to produce new foreign policy will likely continue. But where does this leave the Central Asian states? Are they once more entrapped by the gravity of floundering foreign political ambitions, or can they deftly navigate the wreckage of these failed external political expansions? Without the requisite skill in governance present, there seems little hope for the adept and lithe movement needed to negotiate beneficial paths through the institutional wreckages of external ambitions. But an opportunity presents itself, if the waves of imperial ambition continually crash on the shores of Central Asia, how can internal forces best manage the sea that is brought to them, and how can they let the unwanted jetsam flow back out with the tide?

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Reimagining Trade Routes

China's Eurasia Hedge Amid the War in Ukraine

By Tristan Kenderdine

The Trans-Caspian rail-freight trade route between China and Istanbul is being politically reimagined in the wake of the Ukraine war. This geo-economic hedge against a China-Russia trade squeeze has the potential to come into its own as Russia retreats from the global economy at the same time that China doubles down on its strategic connection to Turkey. But the geopolitical benefits may not justify the expense, writes Tristan Kenderdine.

MIDDLE CORRIDOR is the brand name given to the Trans-Caspian International Transport Route (TITR), linking eight countries from Turkey to Poland and involving six Chinese provinces — Xinjiang, Gansu, Shaanxi, Henan, Anhui and Jiangsu. It also connects five seas: the East China Sea, Caspian Sea, Black Sea, Mediterranean Sea and Baltic Sea. In developing this trade channel, China's geo-economic policy in the region has so far been mostly a hedge against the geopolitical risk of reliance on Indo-Pacific maritime trade.[1] While the geopolitical goals of a Eurasian rail-freight line to connect the Pacific and Atlantic Oceans is Beijing's policy, the economic policy work to make it happen falls on the Caspian and Black Sea states themselves.

The geopolitical development of the route is but one arm of China's expanding China Railway Express (CR Express), the inter-continental network of Belt and Road-driven rail freight lines aimed at Eurasia. The foresight in developing rail-freight lines focused on Russia and Turkey is now acutely highlighted by the war in Ukraine and the wider political risks posed to both Turkish and Russian trade in the Black Sea. China's rail-freight development hedged continental geopolitics with a series of localized political fail-safes: China-Russia; China-Kazakhstan-Russia; China-Kazakhstan-Azerbaijan-Turkey; China-Kazakhstan-Iran and the tentative China-Kyrgyzstan-Uzbekistan-Turkmenistan. This series of interlocking connections means that western China's Xinjiang can remain open to trade even if either Russia, Turkey, Iran or Kazakhstan experience political problems that might interrupt Chinese supply lines.

Economically, the Middle Corridor never made sense. But as a political-risk mitigation tool, it does still have political value. Connecting Istanbul to Lianyungang in China via the Central Asian states now entirely avoids both Russian territory and the Indo-Pacific. The attractiveness of the Trans-Caspian is that it is a containerized transport route, with solid logistics support. This means that all kinds of manufacturers, producers, exporters and importers can use the service, not only the bulk commodity freight users that have historically used these freight tracks. However, containerized freight means that logistics hubs become bottlenecks, where twenty-foot equivalent unit (TEU) boxes must be lifted and moved between train carriages and ports and dry-ports.

The brunt of the logistical and infrastructural development, though, falls on the in-between countries, without much recourse to easy Chinese capital or the state subsidies that the CR Express system enjoys. A recently signed quadrilateral agreement on co-operation on the Middle Corridor between Georgia, Azerbaijan, Turkey and Kazakhstan highlights a growing intra-regional governance dynamic along the transcontinental trade route.[2] While rail-state co-operation is one of the few areas where regional co-operation has developed, the wider trade integration and mutual bargaining potential with China has largely failed to materialize, much less be institutionalized. The major weaknesses of the Middle Corridor remain economic — it costs around four times as much to send one container box from China to Europe via the Trans-Caspian route compared with maritime shipping.

CHINA'S GEO-ECONOMIC RAIL-FREIGHT HEDGE

A China-Istanbul overland rail route would not be any economist's first choice. But even considering the newer trans-Kazakhstan rail-freight routes, China's existing Europe-facing rail infrastructure still mostly crosses Russia. The majority of China-Europe trade is not on the new CR Express routes but on older, already established routes connecting the car-manufacturing industrial bases of Manchuria with Central Europe. This reliance on Russia was always a political risk for China, though, and the heavy push into subsidizing alternative rail routes to Europe has resulted in the development of logistically if not economically reliable connections with Turkey and Iran through the Central Asian and Caucasus countries. Naturally, the origin of China's choice to develop inter-continental rail routes was to avoid the possibility of strategic trade being shaped by outside actors on the global oceans — the Indian Ocean in particular. Russia's latest war has now vindicated the expense that China put in to insulate itself from this geopolitical risk by developing this alternate route through Turkey.

There were, however, also domestic dynamics necessitating this change. China's economic development through the Deng Xiaoping era was centered on export-driven growth. Xi Jinping's "China in the world" era is more centered on import strategy than export strategy. Both strategically and commercially, imports now play a much more crucial role in China's geo-strategy. While much has been made of China's investment in infrastructure, in Kazakhstan, China's investments have been in agriculture, industrials and energy. While the trade war with the United States targeted soybeans, among other products, China was strategically diversifying soy production in Kazakhstan. Such investments and supply lines serve two strategic purposes: first, to ensure raw material

1 John Calabrese, "Setting the Middle Corridor on Track," Middle East Institute, Nov. 18, 2019, www.mei.edu/publications/setting-middle-corridor-track

2 "Georgia joins declaration on Trans-Caspian East-West Middle Corridor," *Agenda*, March 31, 2022, agenda.ge/en/news/2022/1012

3 Tristan Kenderdine and Péter Bucsky, "Middle Corridor-Policy Development and Trade Potential of the Trans-Caspian International Transport Route," Asian Development Bank Institute, Working Paper 1268, May 2022. www.adb.org/sites/default/files/publication/705226/adbi-wp1268.pdf

4 Astrid Pepermans, "Economic Nationalism in All Its Variety: The Case of China's Construction and Railway Equipment Industry," *Journal of Contemporary China*, 29 (123), 2019, doi.org/10.1080/10670564.2019.1645491

5 Navbahor Imamova, "Uzbeks, Kyrgyz see Railway with China as Potential Economic Boost," *Voice of America*, Aug. 3, 2022, www.voanews.com/a/uzbeks-kyrgyz-see-railway-with-china-as-potential-economic-boost/6685906.html

6 Robert M. Cutler, "Is Trans-Caspian Corridor Ready for Prime Time?" *Asia Times*, June 2, 2022, asiatimes.com/2022/06/is-trans-caspian-corridor-ready-for-prime-time/

7 Wilder Alejandro Sánchez and Kamila Auyezova, "The Trans-Caspian Corridor: Kazakhstan's Silk Road?" *The Diplomat*, May 12, 2022, thediplomat.com/2022/05/the-trans-caspian-corridor-kazakhstans-silk-road/

supplies, but second, to ensure supplies of consumer goods. With demand for clean food and rising energy demands, China has a lot of consumers who must be kept comfortable if they are to remain apathetic to the Chinese Communist Party.

For China's economic supply lines, although maritime shipping is cheaper, the intercontinental rail system is designed to help inland Chinese cities reach European markets — for goods moving from Chongqing to the Pacific Ocean to utilize existing maritime infrastructure, goods must already spend many days on congested rail routes, adding to the cost of trade. On top of keeping Central Asia connected, a new dynamic has been emerging with a concerted effort in China to begin serious economic development of Xinjiang, and to treat the two main economic centers of northern and southern Xinjiang as geo-economic hubs. Xinjiang becoming an import hub for Belt and Road trade means that the distances to the Indian Ocean via Pakistan and to the Mediterranean via Kazakhstan and Turkey are much shorter and more strategic than the traditional maritime connections to China's Pacific Ocean ports.

China already has an array of vertically integrated spatial plans and geo-economic policies that promote this potential for Eurasian trade-policy convergence. The wider CR Express is an expression of domestic industrial policy deployed in an external geography.[3] And there is a high degree of co-ordination between domestic and foreign economic policy, with deep industrial-policy support.[4] The existing Chinese domestic transport and economic corridors are key to the development of the Middle Corridor and the carrot shown to the Caspian and Caucasus states is economic access to China's existing rail system and seaports. While the rail route may not be economical for China, for the land-connected economies in Central Asia there is little choice except to prioritize the cheapest land routes. Access to Lianyungang on China's Pacific coast is certainly an economic good justifying development of the Middle Corridor system from the perspective of Central Asia, the Caucasus and Turkey.

These lines are purely political for China. But for the Middle Corridor economies, there is some demonstrated opportunity for structural transformation. Turkey and Azerbaijan both stand to be major beneficiaries.

POLITICS AND ECONOMICS MEET

As the recent revival of the China-Kyrgyzstan-Uzbekistan rail line demonstrates, economics was never a consideration. These lines are purely political for China.[5] However, for the Middle Corridor economies themselves, there is some demonstrated opportunity for structural transformation. Turkey and Azerbaijan both stand to be major beneficiaries of China's increased attention on the Middle Corridor.[6] And for Kazakhstan, its own logistics hedge of China-Kazakhstan-Russia and China-Kazakhstan-Turkey increasingly has the ability to realign its geopolitical priorities to match geo-economic conditions.[7] For the Caucasus states of Azerbaijan and Georgia, any increase in connectivity can only result in economic gain.

For Turkey to maximize its geo-economic opportunity, though, the main problem remains infrastructure. The three main infrastructure bottlenecks of the Middle Corridor are Istanbul, Eastern Turkey and the Caspian Sea. The rail infrastructure in Eastern Turkey is underdeveloped and poorly connected across the country. It is not in world-class shape to be able to facilitate intercontinental trade between Istanbul and China. On the western Turkey side there remain persistent capacity bottlenecks, although the rail infrastructure is much better. Freight trains just do not have enough track to operate on close to Istanbul, and the crossings into Europe are severely limited. If this were to become a true China-to-Europe cargo route via Turkey, then crossing the Bosporus becomes a serious problem. There is not enough capacity on existing rail infrastructure

for large-scale increases in Asia-to-Europe trade. However, if the geopolitical agenda was only to connect Beijing with Istanbul, then the problem of connecting with mainland Europe is not quite so consequential. The physical infrastructure priorities for Turkey, then, are the connections with Georgia and the Caucasus states.

For the Central Asian states, in contrast, the major bottlenecks are institutional, not infrastructural. Apart from the sovereign economic risks, Kazakhstan has a series of interlocking political risks in pursuing Middle Corridor development. Kazakhstan serves as the friction pivot between Russia's Eurasian Economic Union and China's Belt and Road. Kazakhstan's own domestic political pivot is also governed by Russia's security provision for the country, as demonstrated in the latest bloody uprising in January. A third major source of political friction is domestic anti-China sentiment, which is at odds with the elite commitment to the China-Europe transport system and increased Chinese investment in Kazakhstan's industrial economy. Any Black Sea to Pacific Ocean connection depends on the political connection between Kazakhstan and Xinjiang. The current utilitarian transformation of Xinjiang has seen a systematized and distributed process of repression against ethnic minorities there, including the population of around one million ethnic Kazakhs. Development of the Middle Corridor and the wider Kazakhstan-China railway integration depends on at least acquiescence with what is happening in Xinjiang. So far, the elites and the government have not broken ranks with China, but there is serious resentment and an undercurrent of discontent among the general population.

Across the wider region, it may prove difficult for the Central Asian states to co-ordinate the electronic, physical, customs and trade systems necessary for free-flowing trade and logistics development. Kazakhstan's rail corporation and Turkish State Railways are being proactive in leading the institutional development of the Middle Corridor. At the moment, however, the Trans-Caspian route also faces a capacity ceiling of around 1 million container boxes per year. The recent quadrilateral declaration on the Trans-Caspian East-West Middle Corridor focused on increasing the throughput on the Baku-Tbilisi-Kars railway. However, if the Middle Corridor is to be successful, it fundamentally depends on China's terms of trade with both Turkey and Europe. Without increasing supply and demand, there is little point in focusing on capacity development.

CHINA PULLED INTO RUSSIA AND TURKEY'S GEOPOLITICAL GRAVITY

Geopolitically, Middle Corridor development is playing out against a new set of proxy conflicts between Russia and Turkey that encompass sea, land and hydrocarbon trade geographies across the Caspian, Black and Mediterranean Seas. But China itself has little appetite for political risk in the region and has been very slow to develop institutions capable of geo-economic policy projection into the Caspian and Black Seas. In a geo-economic crisis, China would likely struggle to orchestrate the institutional changes needed to serve its interests. While development of the Middle Corridor itself mostly complements China's wider Belt and Road policy, it is the geo-economic and geopolitical policies of Russia and Turkey that are likely to dominate its outcomes. China's relations with both Russia and Turkey follow very different strategies, although the imperial revivalism within the domestic political ideologies of the competing regional powers is not so markedly different.[8] China's national rejuvenation policy somewhat mirrors Turkey's revivalism under Recep Tayyip Erdoğan, just as there are synergies between China's Eurasian trade ambitions and Russia's neo-Eurasianism. However, the ideology and institutional development needed to dock these big-ticket policy items into a continental strategy have failed to materialize on the Chinese side.

China fundamentally lacks the institutions to codify an economic hedge in Turkey and Central Asia. In the Caucasus, China is practically absent from investment and infrastructure, except for a few small-scale projects in Georgia.[9] Likewise, China's Turkey and Turkic states policy is largely malformed. It is mostly centered on energy diplomacy with Turkmenistan, where China actually competes with both Turkey and Russia. It is difficult to see the institutional synergies in the China-Turkey-Russia dynamic without the institutions to develop the outcomes clearly articulated by the policy. Without much talent left in the foreign affairs or foreign economic governance departments of a Chinese bureaucracy ravaged by Wolf Warrior diplomacy and already under-delivering on Belt and Road outcomes in Central Asia, it is difficult to see China catching up to a viable China-Turkey policy anytime soon. Contrary to the narrative that war in Ukraine creates geo-economic opportunity for the Middle Corridor, a serious threat to development of the Middle Corridor is the political risk surrounding any escalating Russia-Turkey geopolitical frictions.

For the Chinese and Central Asian economies, the political risk of reliance on Russian transport infrastructure is now obvious. Beyond the war in Ukraine creating the conditions for the Middle Corridor to strengthen, the Caucasus leg of the Middle Corridor was itself exposed to a major war between Azerbaijan and Armenia in 2020 over Nagorno-Karabakh. Under terms of the peace, Russia is now militarily present through the heart of the Middle Corridor, with either peacekeepers, bases or occupation forces in Nagorno-Karabakh in Armenia and also in South Ossetia and Abkhazia in Georgia.[10] Russia also has internal conflicts within its foreign policy-making apparatus to formulate and deploy policy within previously controllable domains. Belarus, Kyrgyzstan and Azerbaijan have all been idiosyncratic flashpoints in recent Soviet revivalist ideology and foreign policy.[11] Kazakhstan hosted a Russian military intervention, and Turkey's Bayraktar TB2 drones are used by Ukraine to attack Russian infrastructure in the Black Sea region.

While the Ukraine war has halted a range of supply chains dependent on rail, road and sea connections, this does not necessarily mean a geopolitical boost for the Middle Corridor. Ongoing regional frictions, an unclear geopolitical future for the Black Sea, and the wider economic impacts of Russia and Belarus being cut off from the global economy can all impact trade dynamics. China successfully built infrastructure and logistics hedges on both Turkey and Russia, but trade is a bigger game than simply building a road. Mutual trust, long-termism, stable supply lines and ultimately consumer demand will determine the success or failure of a Turkey-centric Middle Corridor trade route between Europe and China. Once companies find new import and export routes and partners, they tend to become sticky institutions, but the development of such trade lines requires people and companies to trust each other's prosperity. A logistics disruption due to a war is not likely to fill an export company with confidence to rush into a short-term market.

Ultimately, though, China's own domestic economy has not been robust enough to fully support this great push into Going Global, which was needed to develop the Middle Corridor into a viable trade channel. China has already rolled back some of the underlying geo-economic policy architecture of the Belt and Road, and the potential of Central Asia's geo-economic transformation is not yet playing out according to policy plans or obvious economic potential.[12] While the

8 Norman Stone, "Erdogan's Dreams of Empire are Perilous for Turkey," *The Guardian*, Dec. 6, 2015, www.theguardian.com/commentisfree/2015/dec/06/erdogan-turkey-russia-syria-foreign-policy

9 Tristan Kenderdine, "China Political Risk Architecture Exposed in South Caucasus," Russian International Affairs Council, March 3, 2021, russiancouncil.ru/en/blogs/tristan_kenderdine/china-political-risk-architecture-exposed-in-south-caucasus/

10 Emil Avdaliani, "Russia's Unenviable Position in Karabakh," *Caucasus Watch*, Nov. 26, 2020, caucasuswatch.de/news/3288.html

11 Dmitri Trenin, "Moscow's New Rules," Carnegie Moscow Centre, Nov. 12, 2020, carnegie.ru/commentary/83208?utm_source=carnegieshare#_=_

12 Daisuke Kitade, "Central Asia Undergoing a Remarkable Transformation: Belt and Road Initiative and Intra Regional Cooperation," Mitsui & Co., Global Strategic Studies Institute, August Monthly Report, 2019, www.mitsui.com/mgssi/en/report/detail/__icsFiles/afieldfile/2019/08/27/1908e_kitade_e_1.pdf

reasoning for China hedging Russia and Turkey is clear; less clear is China's ability to navigate the foreign policy necessary to play this geo-economic game. In practical diplomacy, foreign policy and foreign investment management, China still seems ill-prepared for the localized regional geopolitics required to engage with either Turkey or Russia in the Caspian and Black Seas.

REGIONALLY, NOT GLOBALLY, TRANSFORMATIVE

The Middle Corridor has never had much potential for economically viable China-Europe trade. However, as a China hedge against Russia, and as an intra-regional political hedge, it does hold value not only for China but for Turkey and for the Central Asian and Caucasus economies. Each of the three — Turkey, Central Asia and China — can derive some element of economic and political gain from developing the route, so it could become a political-institutional reality. Whereas for China-Europe trade, there is really no benefit to Europe, which can happily rely on ocean trade. The intra-institutional agencies of the political players in the Middle Corridor all play games that incentivize their singular participation in a game that overall strengthens China's engagement with the growing reality of a Eurasian geo-economic sphere.

For transregional China-Europe dynamics, most trade remains centered on transiting Kazakhstan to enter Western Europe via Poland. With Russian sanctions closing the gate to China-Europe freight trade, there is less opportunity for the Turkey vector and more indications of the hastened demise of China's trans-continental rail experiment. The potential is there for the institutional development of the Middle Corridor, but there is a mismatch between the economic gravity to pull toward the European Union and Turkey, and reactionary policy formation that is still China policy-dependent. An ongoing and emerging Turkey-Russia rivalry is more likely to dominate the Black Sea area, not China's emerging geo-economic trade policy.

China's peculiar policy mix of industrial policy, spatial planning and industrial capacity offshoring is a sophisticated and integrated transcontinental geo-economic plan. However, industrial policy-driven economic corridors such as China's have historically been successful in national economic systems but not in transnational multilateral systems, where the reliance on institutional actors requires high degrees of agency, with low degrees of central control. On current evidence, the economic risks across multiple economic geographies are not matched by state-level geo-economic policy support from either China or any of the participating Middle Corridor economies. The possibility of institutions within these states integral to developing a trans-continental geo-economic system suffering from localism and policy-capture then becomes a new form of political risk that China would likely find difficult to manage.

In practical diplomacy, foreign policy and foreign-investment management, China still seems ill-prepared for the localized regional geopolitics of either Turkey or Russia in the Caspian and Black Seas. While China has led with its own brand of geo-industrial policy exported as trade development, the Middle Corridor economies do not have the level of industrial policy integration to replicate the China model in microcosm. The Middle Corridor and China's increased hedge on Turkey against Russia in the region might excite geopolitical analysts, but the economic institutions involved are more a political risk than a political masterstroke.

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Third Kazakh-China Rail Crossing Is Geo-economics, Not Development

By Tristan Kenderdine

A new rail link completed in late 2020 opens a third cross-border rail connection between Xinjiang in China and Kazakhstan. Connecting the marginal northern Xinjiang city of Karamay through the small trading posts of Tacheng and Bakhty, though, makes little economic sense.

It appears that Beijing is using infrastructure development as a way to serve its own domestic goals with regard to Xinjiang. This geo-economic rationale is not a good bargain for China's partners or multilateral banks, writes Tristan Kenderdine.

CHINA IS CURRENTLY embarked on a number of rail development hubs with Kazakhstan, some of which make virtually no economic sense given the isolated settings. Building rail lines through remote trading posts such as the town of Tacheng only make sense in terms of geo-economic strategy linked to China's overall policy in its northwestern Xinjiang region. The use of these remote areas for rail and logistics development seem difficult to fathom until we realize this is not about Central Asian integration and development but China's own domestic industrial policy being played out in a regional international realm.

China's ethnic policy in what is officially termed the Xinjiang Uygur Autonomous Region toward both Uyghurs and Kazakhs is the likely explanation. Beijing appears to want to transform Xinjiang's borderlands into an import hub for industrial and agricultural goods produced in Belt and Road offshore production bases in Central Asia. This would require pulling commodities or products toward these new hubs and using them as transport centers. This is at least a material explanation for connecting the South and northern Xinjiang railways and developing other import channels linked to mainland China.

China maintains five border crossings with Kazakhstan; two are only accessible by road, and Tacheng is the third dual road-rail link between the two countries. The major crossings at Alashankou and Khorgos are used for long-haul Europe and Central Asia connections with mainland China, Tacheng-Bakhty and Jeminay-Maikapchagai are regional crossings with limited economic potential. While northern Kazakhstan's Nur-Sultan, Karaganda, Pavlodar, Semey and Ust-Kamenogorsk are already connected with Xinjiang by rail at the Dostyk-Alashankou crossing, the development of new international rail connections seems more focused on developing the northern Xinjiang hubs of Tacheng, Karamay, and Altay for distribution deeper into China.

Northern Xinjiang is the industrial and commercial heart of Xinjiang. While southern Xinjiang is home to the more populous city of Kashgar with its mostly Uyghur population, northern Xinjiang is closer to the settler-colonial population, a forced compromise between Kazakhs and Han Chinese. A linear strip of development in the Dzungar Basin is the agricultural and industrial heartland of Xinjiang under Chinese rule and runs from Turpan to Ürümqi to Shihezi and Kuytun, with economic branches north to Karamay and south to Ili and a transport trunk directly onto the Alashankou-Dostyk crossing. Facing east, Turpan is the logistics center connecting northern Xinjiang with the rest of China.

Ürümqi, Turpan and Hami remain the most important administrative districts for the continued development of China's trade and industry in Xinjiang. However, the Ili Kazakh Autonomous Prefecture is a sub-provincial level administrative jurisdiction that controls the neighboring prefectures of Altay and Tacheng, meaning all but one of the westward-facing border crossings from northern Xinjiang are under Ili's jurisdiction. Orphaned from the main rail trunk lines, the newly opened Karamay-Tacheng branch line and the Tacheng-Bakhty rail border crossing is part of the wider and ongoing development of the northern Xinjiang railway.

In an international trade context, this Tacheng-Bakhty rail connection makes zero economic sense. But in the spatially planned industrial development of Karamay, the connection is part of a development plan linked to Chinese national strategic goals. Karamay is the terminal of a major water diversion project, Project 635, bringing water from Altay via a desert canal to Karamay for future residential and industrial development. Karamay is a strategic area for China's public administration, a Han majority prefecture wedged between Kazakh, Mongol and Hui ethnic autonomous jurisdictions. While these ethnic regions are autonomous in name only, Karamay, Hami and Ürümqi form a cluster of Han majority industrial cities that are not even nominally under ethnic autonomous public administration.

NORTHERN XINJIANG'S KAZAKH CONNECTION

Of northern Xinjiang's eight extant and historical border crossings, all but one are in ethnic Kazakh-governed public-administration units. The main rail and road crossing to Kazakhstan and onward to Europe, Russia and Turkey is Dostyk-Alashankou, in the Mongol Autonomous Prefecture, but the administrative governance at this border crossing is directly under the Xinjiang Production and Construction Corps, which is controlled firmly by Beijing. The Ili Kazakh Autonomous Prefecture directly or indirectly controls the other seven border crossings with Kazakhstan, one of which, at Dulat, is closed. The Irtysh inland waterway has been closed since the 20th century, and the crossing to Mongolia from Altay is seasonal and local only. Two border crossings between Mongolia and northern Xinjiang also fall in ethnic Kazakh areas, a seasonal mountain crossing only for locals yet manned by a Chinese outpost with two helipad ports, and the Lao-Myao border crossing, an iron ore artery between Mongolia and mainland China via the Barköl Kazakh Autonomous County. The international

political trade power is, however, manifested in the government of the Ili Kazakh Autonomous Region through which trade and industrial integration with Kazakhstan is managed.

The new Tacheng-Bakhty crossing is not a conventional trade hub. The older Dostyk-Alashankou and Altynkol-Khorgos border hubs were designed to service both inter-continental rail between China and Europe and more national-level trade between China and Kazakhstan, Uzbekistan and Kyrgyzstan. But the Tacheng border crossing is a local facility, connecting northern Xinjiang with northern Kazakhstan. The Tacheng transport loop connects to Bakhty on the Kazakhstan side, which is already serviced by a road, the A356, which eventually connects to Omsk in Russia. Harsh conditions make it difficult to maintain year-round rail or road services, and both freight and passenger border crossings often close with little notice. Most cross-border trade from far northern Xinjiang is either small-scale local transit or strategic iron ore and coal imports. Mongolian border crossings are similarly difficult due to frequently changing conditions and the lack of significant trade volume.

The northern Xinjiang loop connecting the settlements of the Altay range in the northern Dzungar Basin with the industrial heartland in the southern Dzungar Basin is a strategic economic development priority for Beijing. The Karamay-Tacheng route was announced in 2014 at a cost of US$840 billion,[1] and it was opened in May 2019.[2] A 2014 State Council Information Office document lays out the directive for a Central Asian Economic Corridor,[3] originally contained in a 2012-2030 development strategy.[4] Tacheng has been designated a pilot border zone since 2015.[5] The Tacheng border crossing is billed as a hub of the Central Asian Economic Corridor, which mainland Chinese businesses are being incentivized to explore. Chinese state media, though, bills the Tacheng-Bakhty dry-port trade center as targeting locals and small consumer goods.[6]

Tacheng itself faces the Northeast Kazakhstan industrial cities of Semey and Pavlodar. But northern Kazakhstan's industrial production is small, and the border crossing does not link to the far northern Xinjiang industrial cluster centered on Beitun and Altay cities, which might have some justification in terms of economic integration. Rather, this third rail connection is vectored to a natural transport and industrial hub in Karamay, a strategic city embedded in Tacheng prefecture and surrounded by the ethnic autonomous prefectures of Ili, Bortala, Bayingolin and the Chanji Hui. Developing Karamay is thus a greater geo-economic priority.

A fourth rail crossing is planned to link Mongolia to Kazakhstan directly by connecting Maikapchagai with the Burenkhaikhan crossing into Mongolia, traversing far northern Xinjiang with trunks to Altay and Fuyun. The Maikapchagai road crossing's future upgrade to a rail connection is odd, though, given there is no rail line on the Kazakh side. Similarly, the border connection with Mongolia in east Altay connects only to impossible terrain with one small road. Four rail connections between Xinjiang and Kazakhstan — Khorgos, Dostyk, Tacheng and Maikapchagai — is economic folly. For captured Chinese taxpayers to accept this inefficiency is a cost of Communist economic planning, and no protest is likely, but neither the multilateral development banks nor the Republic of Kazakhstan should be funding this.

REGIONAL TRANSPORT DEVELOPMENT AS A GEOECONOMIC STRATEGY

Xinjiang is built around Han industrial cities, a Kazakh north and a Uyghur south, making developing international road and rail connections with Kazakhstan through Ili Kazakh Autonomous Prefecture jurisdictions a natural fit. As the world struggles to penetrate China's ethnic public policy in Xinjiang toward both Uyghurs and Kazakhs, there remains an unexplored dimension as to why China is clearing the way in the first place. Transforming the Xinjiang border into an import hub for industrial and agricultural goods produced in Belt and Road Initiative offshore production bases is the geoeconomic rationale for connecting the southern and northern Xinjiang railways, as well as expanding the cross-border trade capacity with Kazakhstan.

Ethnic Kazakhs in Xinjiang are co-opted into this as part of the economic development drive, both through the Ili prefectural and Xinjiang government structures as well as through the natural connection with counterparts in Kazakhstan. Developing a third rail crossing in Tacheng makes little sense for facilitating mainland China exports or north Xinjiang exports. However, as a primarily import-driven zone for bringing in commodities, semi-finished and finished industrial products from Kazakhstan and China's other industrial bases in Central Asia, the investment is more sound. South Xinjiang import channels are more focused on strategic Indian Ocean imports through Pakistan and the geoeconomic hedging of different routes to Iran, Afghanistan, and the Fergana Valley, which

1 "Karamay-Tacheng Railway Opens," *Railway Gazette*, June 6, 2019, www.railwaygazette.com/asia/karamay-tacheng-railway-opens/48653.article

2 "New Railway under Construction in Xinjiang," Embassy of the People's Republic of China in the United States of America, April 12, 2014, www.china-embassy.org/eng/zt/Xinjiang/t1149236.htm

3 "Xinjiang's Investment in Infrastructure Exceeds 800 billion [yuan] to Build New Silk Road Economic Belt Transportation System" (新疆投资基建超8000亿 建设新丝绸之路经济带交通体系), State Council Information Office, June 27, 2014, www.scio.gov.cn/ztk/dtzt/2014/31055/31066/Document/1373906/1373906_1.htm

4 Zhang Xiaolong, " 'Central Asia Trade Corridor' Ushers in Major Development Opportunities" ("中亚商贸走廊" 迎来重大发展机遇), *China Trade News*, Jan. 6, 2021, www.chinatradenews.com.cn/content/202101/06/c125193.html

5 Relevant Persons in Charge of Ministry of Commerce and National Development and Reform Commission Interviewed by Central Media on "Opinions of the State Council on Several Policies and Measures to Support the Development and Opening up of Key Border Regions" (两部门有关负责人就《国务院关于支持沿边重点地区开发开放若干政策措施的意见》), China Central Government Portal, Jan. 12, 2016, www.gov.cn/zhengce/2016-01/12/content_5032274.htm (English translation of the regulation in question available at lawinfochina.com/display.aspx?id=25895&lib=law

6 "In Pics: Border Trade Center of Bakti Port in Tacheng, NW China's Xinjiang," Xinhua, Sept. 5, 2019, www.xinhuanet.com/english/2019-09/05/c_138368324.htm

includes parts of eastern Uzbekistan, southern Kyrgyzstan and northern Tajikistan. The northern Xinjiang import hub strategy seems directly focused on importing products made in China's factories in Kazakhstan, the Kyrgyz Republic, Uzbekistan and Tajikistan as a form of investment co-ordination under Beijing's international capacity co-operation policy.

The rail and road spending to link these small northern Xinjiang cities with the Ürümqi-Turpan industrial-center mainline logistics route to mainland China then makes geo-economic sense. While the new rail crossing does not appear economic, the Asian Development Bank funded US$150 million of a US$300 million technical assistance project for Tacheng road upgrades and border crossing improvement.[7] China's annual railway budget is around US$124 billion.[8] Much of this was taken up by high-speed rail in the 2010s, but Xinjiang is a key investment priority for conventional rail. For China's investment-driven economic growth model, built on infrastructure, industrial and housing construction, everything appears to be a nail looking for a hammer. For Tacheng, it is hard to ignore the domestic-industry functions of developing the northern Xinjiang rail network. This economic development is entirely within established state spatial-planning paradigms and funding mechanisms that China has used to develop its domestic industrial economy.

However, is it in the interest of the multilateral development banks to upgrade China's geo-economic strategic capabilities? Should Kazakhstan institutions organize the domestic logistics industry to accommodate this rail connection when the existing rail connections can so easily be targeted with geo-economic blockages? For bilateral economic growth and integration as a political legitimacy strategy, both China and Kazakhstan might be better off integrating across Xinjiang, Kazakhstan, the Kyrgyz Republic, Uzbekistan and Tajikistan. If economic development were at the heart of this, Chinese investment should be going into developing rail linkages between Kazakhstan and Southern Central Asian consumer centers in the Fergana Valley. But the clearer reality is that this is Chinese domestic industrial policy being played out in a regional international realm.

While central spatial planning may appear to be a competent geo-economic strategy, the disjointed realities at the subnational level show how difficult co-ordinating a Eurasian regional industrial policy is. The trade carrot for Kazakhstan has always been ocean access via the busy Lianyungang port in Jiangsu between Beijing and Shanghai. This has been chosen by Beijing as a key strategic port for foreign throughput, offering the Kazakh government, and by extension Middle Corridor partner economies, access to the ocean. In this context also, the third rail crossing at Tacheng makes no sense for Kazakhstan. China's trade and industrial policy is to develop northern Xinjiang as an import hub for more China-invested industrial projects produced in Kazakhstan. The expanded transport network then has clear benefits for the northern Xinjiang economy. But for Kazakhstan, a third rail connection that at best only serves China's Xinjiang development policy and at worst is simply geo-economically strategic for China is of little practical use.

ECONOMIC DEVELOPMENT AS A LEGITIMACY NARRATIVE IS WANING

The Belt and Road Initiative, of course, was never about infrastructure. Any infrastructure development attached to it has mostly occurred within China, to prepare provinces such as Xinjiang to become import hubs or to plan for other geo-economic transitions. Actual Belt and Road investment in Central Asia has been in factories and industrial plants to develop an offshore production network for China. Transforming the China model from an export-oriented paradigm to an import-oriented capital archipelago model is simpler in a province like Xinjiang, which throughout the reform and opening period had been little more than an afterthought or a source of labor for mainland development. Now that Xinjiang is an import hub for land-based geo-economic and strategic trade, the dynamics of its political, economic, industrial and transport governance change. The ongoing ethnic policy against Uyghurs and Kazakhs is a manifestation of this change in industrial policy, not a policy goal in itself.

However, while Beijing's central spatial planning and geo-economic policy may appear to be grand strategy, the disjointed realities at the sub-national level demonstrate how difficult coordinating a Eurasian offshore industrial policy will be. For Central Asian economies wishing to export goods to Xinjiang and mainland China, does China's export of its regional subnational spatial planning model benefit the host economy? Where a dynamic international trade and industry strategy is needed, on the Kazakhstan borderlands, Beijing appears to have little in the geo-economic policy toolbox aside from the "engineering as economic policy" model. Overlaid on this is that different regions of China currently have different macro regional spatial planning policies. These different regions have very different local governance structures and state-market institutional relationships, as do the Central Asian and Eurasian economies they are policy-incentivized to interact with.

China's Communist Party appears to be pinning its foreign economic strategy on developing new forms of legitimacy. In trying to offer an alternative to the loose Bretton Woods system of globalization, Beijing clearly seeks a multipolar alternative, a legitimation narrative, and a challenge to the liberal international order. China policymakers have tried hard to develop a foreign economic policy distinguishable from the late-stage Soviet Union and the easy critiques of imperial overstretch. Yet the evidence from the Kazakhstan-China border shows more white elephant than geo-economic dragon, more economic policy misstep than grand strategy.

The Tacheng-Bakhty rail opening is geo-economically strategic, but it is a manifestation of a weak geopolitical strategy. It is easy to draw nice lines on the map, but this does not necessarily convert to cost and time savings for container transport or the consumer. In geo-economics, though, is anyone really thinking about cost-effectiveness? In northern Xinjiang, China's economic development as a political-legitimacy argument is dead. While there are already two rail links to Kazakhstan, one of them heavily underutilized, there is no economic rationale for a third crossing. This is no longer economic development. For China's planned economy model to absorb such loss-making endeavors is a choice Beijing can make, but neither Central Asian states nor multilateral development banks should be funding China's loss-making geostrategic infrastructure.

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7 "Xinjiang Tacheng Border Cities and Counties Development Project-Procurement Plan," Asian Development Bank, Aug. 26, 2021, www.adb.org/sites/default/files/project-documents/46063/46063-002-pp-en.pdf

8 "China Plans to Spend 800 bln Yuan on Railway in 2020," Xinhua, Dec. 30, 2019, www.xinhuanet.com/english/2019-12/30/c_138666820.htm

China's Inland Civil Nuclear Strategy

Making the Case at Home First

In the past several years, there has been a monumental shift in China's energy policy toward nuclear power. In particular, inland expansion of the country's nuclear network is slated for the Yangtze River, from Sichuan to the nuclear hub in Zhejiang.

But Beijing's ambitions aren't limited to its own borders, Tristan Kenderdine writes. Its 'Made in China 2025' blueprint envisages vastly expanding China's role in nuclear power generation in developing economies worldwide.

By Tristan Kenderdine

New generation: The dome is installed on No. 3 unit of Fangchenggang nuclear power plant in China's southwest Guangxi Province in May 2018. **Photo courtesy of CGN**

WESTERN ENVIRONMENTAL and energy policy communities have long berated China for refusing to abandon its reliance on thermal coal, the lifeblood of its industrial economy. But China's commitment to expanding renewables has actually been extraordinary. Solar energy only became a viable solution in most OECD economies in 2013, after China had poured into the market and made cells affordable. A similar story occurred in 2016 with batteries for electric vehicles and hybrids; these only became a reality once Chinese component-makers could produce batteries cheaply enough to create economies of scale.

But China's coal emissions have not peaked. While renewables are taking a larger share in China's energy mix, they are still mired in curtailment and subsidies, both upstream and downstream. Fossil fuels are slated to dominate China's energy generation until at least 2030.

But one important policy change will affect not only China's emissions targets, but also the future energy options of less developed countries: China's subsidized inland nuclear power reactors. Nuclear is set to expand from 43 gigawatts electrical (GWe) in 2018 to as much as 281.8 GWe by 2030 (see Figure 1). This would take nuclear-generated electricity from 2 percent to up to 20 percent of China's energy mix.

Inland civil nuclear systems require river water for coolant, a problem China is solving by using the Yangtze River basin. The deployment of next-generation nuclear reactors using river water for coolant, though, has no precursor in terms of scale. However, if China's model proves successful, I expect to see it replicated across river systems throughout the developing world. China is planning to expand energy equipment capacity transfers and energy equipment exports. This means both exporting nuclear energy components and equipment as well as exporting the factories and technologies to manufacture them. While initial nuclear exports have targeted advanced economies such as France and the United Kingdom, the majority of the rollout will be directed toward the Middle East, Africa and South America.

This essay builds on emerging literature from energy-policy scholars and practitioners working on China's energy policy landscape (Wu 2007, Qin et. al. 2015, Zhu and Krantzberg 2014).[1] It looks at China's expansion of civil nuclear energy capacity and the weighting of inland capacity in the expanded energy mix of 2020-30. It then considers the extant policy of exporting energy equipment and capacity, and the possible effects of this current policy and possible future additions to it. Finally, I consider the role of domestic Chinese standards and safety in the development of a Chinese civil nuclear policy that will shape global energy capacity and, in particular, the energy outcomes for less developed countries.

CHINA'S RIVER-BASED INLAND CIVIL NUCLEAR PROGRAM

China nearly doubled its nuclear-generated electricity output between 2013 and 2016.[2] China has surpassed Japan to become the world's fourth-largest nuclear-power country, with total operating installed capacity of 42.9GWe in 2018.

Policy priorities frequently shift, and there is frequent disharmony between the International Atomic Energy Agency and the China Atomic Energy Authority on future projections. China has projected 2030 nuclear-power generation capacity to be anywhere from 120 GWe to approximately 320 GWe. The industry association World Nuclear Association, though, provides a breakdown of firmly planned and loosely planned nuclear plant construction by plant site, unit number and MWe capacity. By aggregating these disaggregated figures, we get a much firmer picture than central policy announcements.

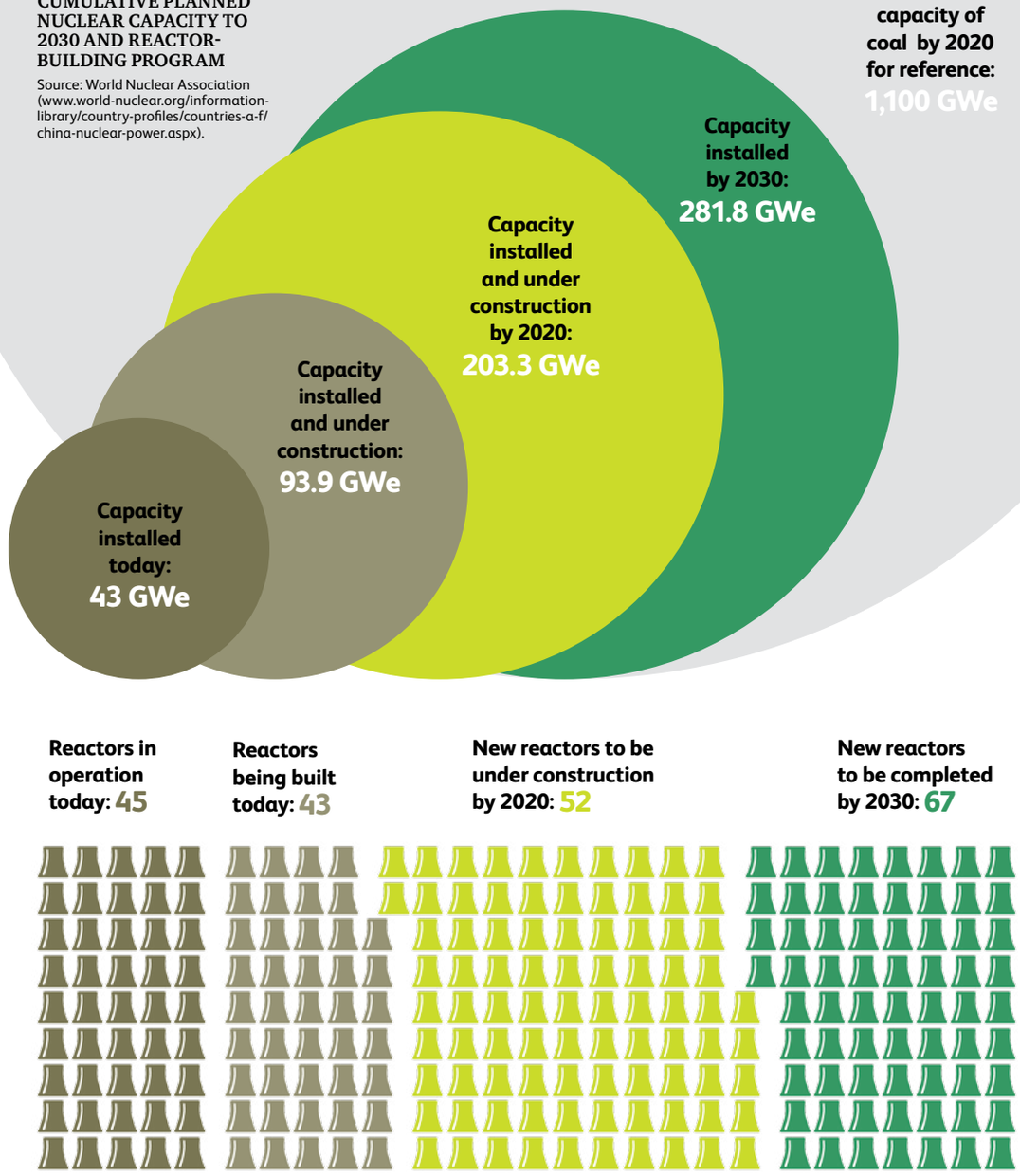
By April 2015, 23 reactors with total installed

1 For contemporary policy discussion, see Yican Wu, "Public Acceptance of Constructing Coastal/Inland Nuclear Power Plants in post-Fukushima China," *Energy Policy*, Vol. 101, 2017 pp. 484-491; Ying Qin, Elizabeth Curmin, Grant M. Kopec, Julian M. Allwood, Keith S. Richards, "China's Energy-Water Nexus: Assessment of the Energy Sector's Compliance with the '3 Red Lines' Industrial Water Policy," *Energy Policy*, Vol. 82, 2015, pp. 131-143; and Jinxin Zhu and Gail Krantzberg, "Policy Analysis of China Inland Nuclear Power Plants' Plan Changes: From Suspension to Expansion," *Environmental Systems Research 2014*, Vol. 3, No. 10.

2 Ma Jingjing, "Inland Nuclear Power Station in the Pipeline," *Global Times*, Feb. 20, 2016, at www.globaltimes.cn/content/1033974.shtml

FIGURE 1 CHINA'S CUMULATIVE PLANNED NUCLEAR CAPACITY TO 2030 AND REACTOR-BUILDING PROGRAM

Source: World Nuclear Association (www.world-nuclear.org/information-library/country-profiles/countries-a-f/china-nuclear-power.aspx).



capacity of 21.4 GWe were operating and 27 units with total installed capacity of 29 GWe were under construction.[3] By the end of that year, equipped capacity for operational nuclear units had already reached 28.6GWe, with 29.5GWe under construction, and by 2018 it reached 43 GWe operational with 50.9 GWe under construction, demonstrating a significant rate of growth.

Expanding on the 45 current reactors, China has 43 more under construction, with a further 92 slated to begin construction by 2020, and an additional 67 to be completed by a longer-term 2030 projection (see Table 1). This would take China's operating capacity from 42.9 GWe in 2018 to a massive 281.8 GWe in 2030.[4] China's 13th 5-year plan, covering 2016 to 2020, aimed to reach 58 GWe by 2020 with 30 GWe under construction. China plans to reach a total of 56 working reactors by 2020, to be the world's second-largest nuclear country.[5]

To achieve these goals, investment of around 540 billion yuan ($77.6 billion) is needed, according to Zhefu Holding Group, a private company that makes nuclear equipment. Equipment-making is currently dominated by Shanghai Electric, Dongfang Electric Corporation, and China First Heavy Industries, whose production capacity can meet demand of 12 to 15 plants per year.

Beijing's inland plans, mostly concentrated in central China along the Yangtze, Hubei and Hunan will be home to the most reactors outside the coast, with plans also for Jiangxi, Anhui, Henan, Sichuan, Chongqing, Guizhou and northern Guangdong (see Table 2).[6] Domestically, three inland nuclear sites, Taohuajiang in Hunan, Xianning Dafan in Hubei, and Pengze in Jiangxi, have been approved by the National Development and Reform Commission (NDRC), and are now awaiting central government response, with 10 provinces planning inland nuclear sites. Traditional coastal nuclear powerhouses Guangdong and Zhejiang will also massively ramp up capacity. On 2017 projections, Guangdong is to get nine new nuclear sites with 28 reactors totalling 36 GWe. Zhejiang will add 15 GWe to its existing 6.141 GWe to remain the heartbeat of the Yangtze Delta. And the Bohai Bay industrial cluster of Liaoning-Hebei-Shandong is to become the third coastal civil nuclear hub, with Shandong moving from no nuclear presence to over 20GWe.

TABLE 1 PROJECTED GROWTH IN NUMBER OF COASTAL AND INLAND NUCLEAR REACTORS

Source: World Nuclear Association (www.world-nuclear.org/information-library/country-profiles/countries-a-f/china-nuclear-power.aspx).

	Operational now	Being built now	In build by 2020	Ready by 2030	2030 total
COASTAL					
Guangdong	12	10	12	10	42
Zhejiang	11	4	4	8	26
Fujian	8	6	10	3	26
Liaoning	4	4	6	10	22
Shandong	2	6	8	2	16
Guangxi	2	6	8	-	16
Jiangsu	4	2	2	-	6
Hebei	-	2	2	2	6
Hainan	2	4		-	6
Shanghai	-	-	-	2	2
INLAND					
Hunan	-	4	8	6	18
Jiangxi	-	2	10	-	12
Henan	-	-	10	-	10
Anhui	-	-	4	4	8
Chongqing	-	-	4	4	8
Sichuan	-	-	4	2	6
Hubei	-	2	2	-	4
Jilin	-	-	2	2	4
Heilongjiang	-	-		2	2
Guizhou	-	-		2	2

TABLE 2 CHINA'S INLAND NUCLEAR-REACTOR DEVELOPMENT PLAN

Source: World Nuclear Association (www.world-nuclear.org/information-library/country-profiles/countries-a-f/china-nuclear-power.aspx).

Province	Being built now	In build by 2020	Ready by 2030	MWe total
Jiangxi	Pengze 1-2	Pengze 3-4		4x1250
Jiangxi		Ningdu 1-2		2x100
Jiangxi		Yanjiashan/Wanan/Ji'an 1-2		2x1250
Jiangxi		Yingtan 1-4		4x1250
Jiangxi			Hengfeng 1-2	2x100
Jiangxi or Fujian		Ruijin or Wan'an 1-2		2x600
Hubei (inland)	Xianning (Dafan) 1-2	Xianning (Dafan) 3-4	Xianning 5-6	6x1250
Hubei			Guangshui 1-4	4x1250
Hubei			Zhingxiang 1-4	4x1250
Hunan (inland)	Taohuajiang 1-4			4x1250
Hunan		Changde (Chenzhou, Hengyang) 1-4		4x1150
Hunan		Xiaomoshan 1-4	Xiaomoshan 5-6	6x1250
Hunan			Xiangtan 1-4	4x1250
Henan		Nanyang 1-6		6x1250?
Henan		Xinyang 1-4		4x1150
Anhui		Wuhu 1-2	Wuhu 3-4	2x1250
Anhui		Jiyang/Chizhou 1-2	Jiyang/Chizhou 3-4	2x1250?
Chongqing		Fuling 1-2	Fuling 3-4	2x1250
Chongqing			Shizu 1-2	2x
Sichuan		Nanchong (Nanchun, Sanba) 1-4		4x1150
Sichuan			Yibin 1-2	2x1250
Guizhou			Tongren 1-2	2x1250
Jilin		Jingyu 1-2	Jingyu 3-4	2x1250
Heilongjiang			Jiamusi 1-2	2x1150

In order for this expansion to be viable, a technological gap must be breached, with the rollout of China's third and fourth generation nuclear reactors. Two reactors at the China Guangdong Nuclear Power Company Hongyanhe power plant in Liaoning, east of Bohai Bay, will use China's endogenous third-generation nuclear technology, ACPR1000.[7]

There is obvious opposition to inland nuclear centers on environmental and nuclear-safety grounds,[8] particularly given China's infamous inability to connect investment in electricity generation with regional electricity grids. Currently, coal-burning provinces send electricity to the coast, so they are paying the environmental price for the coast's economic development dividend. Chinese provincial governments have recently been paying a double price: once for polluting air through

3 http://news.sciencenet.cn/htmlnews/2015/5/319600.shtm

4 World Nuclear Association, at www.world-nuclear.org/information-library/country-profiles/countries-a-f/china-nuclear-power.aspx

5 Guo Guanghao, "Of 2015's ten new nuclear power plants, eight are in China," *Guangcha*, April 26, 2016, at www.guancha.cn/Project/2016_04_26_358261.shtml

6 Zhang Qiasu, "China will use peaceful nuclear energy on land, sea and outer space" — Wang Yidong, deputy director of the National Defense Science and Technology Bureau, talks about the new highlights of the '13th Five-year Plan' for the nuclear industry," *Xinhua*, Feb. 14, 2017, at http://news.xinhuanet.com/tech/2017-02/14/c_1120466822.htm; April Ma, "China Moves Ahead with Inland Nuclear Power Plants," *Caixin Global*, Feb. 13, 2017, at www.caixinglobal.com/2017-02-13/101054690.html; Yan Ying, "Site Selection of Inland Nuclear Power in the Thirteenth Five-year Plan," Feb. 14, 2017, at www.yjbys.com/gongwuyuan/show-544896.html

7 http://energy.people.com.cn/n/2015/0312/c71661-26679872.html

8 King, Amy & Ramana, MV, "Moving nuclear reactors inland is a bad idea," *China Dialogue*, Jan. 11, 2016, at www.chinadialogue.net/article/show/single/en/8525-Moving-nuclear-reactors-inland-is-a-bad-idea

the use of thermal coal, and once again through the cost of investing in photovoltaic and wind capacity which has sat unused, curtailing the grid. Nevertheless, China aims to finish transitioning from a large to a strong nuclear country during the 13th 5-year plan, stressing high safety levels.

EXPORTS TO DEVELOPING COUNTRIES

Beijing's ambitions for nuclear power-generation go well beyond its domestic economy. Internationally, exports of China's domestic Hualong 1 and CAP1400 nuclear reactors to Belt and Road economies are designed to replicate the export-oriented development policies of countries such as Germany, Japan and South Korea. Nuclear power plants have much the same follow-on industrial effects as the automotive industry or the high-speed rail manufacturing cluster.[9] A single nuclear plant generates approximately 30 billion yuan in economic output value, the export equivalent of 300,000 vehicles.[10] This is, therefore, a clear industrial policy objective to replace the role that automotive manufacturing played in other East Asian economic development scenarios. If China is serious about nuclear power, then the spillover effects of cheap energy equipment manufacturing will push peripheral countries into China's nuclear orbit. Co-operation in energy equipment capacity is already a staple of China's external industrial policy. Countries such as Saudi Arabia and Iran are already in line to benefit from cheap Chinese electricity generating equipment. The effect on global productivity and living standards would be dramatic if Africa, Southeast Asia, the Middle East and Central Asia had access to the cheap, abundant and reliable electricity that Chinese equipment would bring. According to Xie Zhenhua, China's energy policy envoy, China must embrace inland nuclear power to meet its COP21 commitments.[11] But to extend the economic prosperity that cheap electricity brings, China will need to break technological and regional governance barriers to ensure the safe operation of inland nuclear power plants.[12]

As part of its "Made in China 2025" plan, the country is targeting energy equipment manufacturing, including advanced nuclear power. The plan calls for developing a government-led innovation system; increasing financial assistance through, for example, a special development fund; selecting competent enterprises and eliminating backward ones; inducing private capital to promote technological upgrades; facilitating the Belt and Road initiative and "going global" campaigns; and establishing domestic industry standards.[13] The "China Energy Technology Innovation Action Plan (2016-30)," issued jointly by the NDRC and the National Energy Administration (NEA) points the way for investment in energy technology. On the nuclear side, this includes deep, unconventional uranium resource exploration; high-temperature gas-cooled, and molten salt reactors; and nuclear fuel disposal. Electricity technologies include advanced storage for renewable energy and the electricity industry; advanced and cheaper power grid technology; global energy interconnection; and energy saving in architecture and transport.[14]

The "Made in China 2025" blueprint is the vehicle for China's nuclear power industry to go global through the promotion of technological development for advanced nuclear power equipment. This will lead to several major developments: two indigenous large-sized pressurized water reactors — CAP1400 and Hualong One — have been selected as the leading technology to facilitate the global strategy;[15] the development of high-temperature reactors (HTR) and fast-neutron reactors are also seen as important for the industry's global influence; the development of small modular reactors (SMR) is planned to allow China to acquire intellectual property rights in the area of civil nuclear power ship technology and produce a 100 billion-yuan market for offshore oil drilling; and the further development of nuclear recycling technology. Armed with third-generation nuclear power technology AP1000, CAP1400, and its own HL1000, China has already signed contracts or is discussing cooperation with 20 countries including Argentina, Egypt and the UK.[16]

However, cooperation with developed economies in civil nuclear power will likely have geopolitical strings attached. These token projects in the UK and France would mean that the two UN Security Council members could make no complaint if other countries accepted similar offers for China to build civil nuclear projects. Will France or the UK oppose transfer of civil nuclear technologies to Iran or Egypt if they had themselves been beneficiaries? Chinese enterprises developing nuclear power will also experience enhanced market competitiveness with other nuclear powers—Russia, US, France, Japan and South Korea—if Hualong One is successfully built in the UK. China also has signed agreements with Saudi Arabia and Iran to provide energy equipment plants to feed into the countries' planned nuclear plants. Internationally, exported nuclear plants along the Belt and Road are expected to reach 100 by 2030.

In less developed economies, China has already begun administrative processes to export nuclear equipment and nuclear equipment capacity plants. A civil nuclear memorandum of understanding with South Africa is designed to tap into China's experience, especially in personnel training, technical support and nuclear facility monitoring. [17] Elsewhere, the China National Nuclear Corporation (CNNC) is to build Argentina's fourth nuclear power plant under a $6 billion deal. China will take a 38 percent stake in the project, 85 percent of which will come from its own financial institutions. And a framework agreement has been signed with Argentina that commits it to use Hualong technology in its next power-plant project. China General Nuclear Power (CGNP) will also build four Hualong One nuclear reactors in Kenya, to be operational by 2030.[18] China and Slovakia have signed an MoU on developing the nuclear fuel cycle supply chain, while China General Nuclear Power Group (CGN) and Romania's national nuclear company signed an MoU for Cernavoda nuclear power plant units 3 and 4. It covers the whole life cycle of the nuclear plant, including development, construction, operation, and decommissioning.[19]

CONCLUSION

If China's policy to export its civil nuclear program is to be successful, it must first demonstrate industrial and environmental policy coordination at home. The new inland nuclear program could bring river-based civil nuclear-generated electricity to new areas of the Middle East, Africa and South America.[20] If China intends to sell nuclear equipment abroad, it must first understand the technological and safety risk in its own backyard and ensure that its technology is dependable. A domestic nuclear accident coinciding with a flood on the Yangtze River could be catastrophic. It must also ensure that it promotes effective safety protocols and standards alongside its exports of energy equipment. For civil nuclear power to solve China's environmental policy woes, it must be policy-complete enough not to export environmental risks to the Middle East, Africa, South America or Eurasia.

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9 Zhou Mengge, "Strengthen construction standards to promote nuclear power 'Going out'" *China Economic News*, Feb. 17, 2017, at www.cet.com.cn/nypd/dl/1893804.shtml

10 Xiao Yang, "Bun fight over nuclear materials 'Going out' strategy increasingly clear," China Environmental Protection Online - Environmental Protection Industry 'Internet +' Service Platform, May 20, 2016, at www.hbzhan.com/news/detail/107168.html

11 Xie Hongchen, "Thirteenth Five-year Plan to Restart Inland Nuclear Power," *National Business Daily*, Oct. 21, 2015, at www.nbd.com.cn/articles/2015-10-21/954998.html

12 Huang Ye, "Nuclear Power Expands Inland," *Qiushe*, April 15, 2014, at www.qstheory.cn/jj/qyzh/201404/t20140415_340422.htm

13 National Development and Reform Commission, Ministry of Industry and Information Technology, '"Made in China 2025' and Energy Equipment," June 12, 2016, at www.ndrc.gov.cn/zcfb/zcfbtz/201606/t20160620_807810.html

14 "Energy Technology Revolution," *China Energy News*, April 28, 2016, at www.zhgny.org.cn/Detail.aspx?newsId=3238&TId=343; National Development and Reform Commission and National Energy Administration, "Notice on Issuance of Energy Technology Innovation Action Plan (2016-2030)," April 7, 2017, at www.ndrc.gov.cn/zcfb/zcfbtz/201606/t20160601_806201.html; full plan available at www.ndrc.gov.cn/zcfb/zcfbtz/201606/W020160601304245143804.pdf

15 www.yicai.com/news/5030769.html

16 http://news.sciencenet.cn/htmlnews/2015/5/319600.shtm

17 http://nnsa.mep.gov.cn/zhxx_8953/gzdt/201511/t20151116_317077.html

18 http://news.xinhuanet.com/politics/2015-09/08/c_128204950.htm

19 www.jiemian.com/article/434469.html; www.thepaper.cn/newsDetail_forward_1393186

20 Zhu Rui, "Inland nuclear power security is assured," *Qiushi*, April 29, 2015, at www.qstheory.cn/zoology/2015-04/29/c_1115134593.htm

Cadre Calculus

Making Sense of China's 19th Party Congress and Beyond

By Tristan Kenderdine

On October 18, China will open its 19th Party Congress, an institutionalized gathering every five years in which the Chinese Communist Party reveals personnel changes in top leadership positions that are closely watched for signs of China's future policy direction.

President Xi Jinping has been maneuvering for months to ensure an outcome that leaves him even stronger as he enters his second five-year term. Tristan Kenderdine explores the many scenarios that could play out.

CHINA IS BIG but not so complex. The political-administrative structure only becomes complicated because of the magnitude of the polities involved. Wishful Western analyses over the past two decades have argued that industrial development and global economic integration would somehow transform China into a democratic state. This rosy view leaves out the persistence of institutional forms in China. It also omits two important ideological undercurrents of Chinese political thought that exist alongside, underneath and around the dominant ideology of Confucianism and its current Communist manifestation: Daoism and Numerology.

China's collective leadership machine will crank forward regardless of external pressures. Changing the career paths already set in motion by the cadre system of the Chinese Communist Party (CCP) is too huge a shift to entertain. Slight variations around the edges, albeit constrained by predetermined institutional paths, are more likely. As such, most of the personnel movements that will take place at the 19th CCP Congress — which starts on October 18 — will mostly be in-system horse trading, with perhaps a few institutional changes that don't rock the boat too much.

ANALYZING A PRE-INDUSTRIAL FORM

China's Grand Unity system is a pre-industrial form of national governance overlaid with Russian political and economic institutions of Russian origin. But we can use the multi-level governance theory of the European Union to analyze China's Grand Unity as if it were a federated system, a customs and monetary union and a distributed power-sharing arrangement. This allows us insights into an otherwise mundane party political hierarchy.

The administrative branch of government is the key to understanding executive branch party politics in China. Political philosophy in the social contract tradition gives us the analytical tools to split the state into four institutions: the executive, administrative, legislative and judicial branches. While often overlooked by many political analyses of state power in general, it is particularly important to treat the administrative branch of government seriously in China.

A table of the CCP's institutional leadership matrix — far too big to reproduce here, but viewable at http://ftrsk.com/map/cadrecalculus/ — demonstrates the many moving parts involved in any leadership change within a cadre-driven system. While we can look at the Politburo Standing Committee as the principal policy-setting mechanism, in reality the monumental power of the executive branch in China far outweighs both the legislative and judicial power structures. The administrative power structure, though, holds the balance of power in the CCP.

Xi Jinping's problems now are how to: return the Politburo Standing Committee to a majority for him; create the institutional path forward for his successor; put the young liberal faction of Hu Chunhua, Sun Zhengcai, and Li Keqiang in a box; and — as always, above all else — ensure that he can retire without too much fear of retribution. In the October Congress, Xi will lose State Council workhorse Zhang Gaoli, on whom so much of the practical reform agenda of Xi's first term fell. And playing by the "67 up, 68 down" rule — which requires officials to retire once they reach 68 years old — he would lose his "doer," Wang Qishan, director of the Central Commission for Discipline Inspection, the country's anti-corruption watchdog, and a member of the Politburo Standing Committee. However, it does clear out a rumored toxic 5-2 split on the standing committee, the top of the collective leadership pyramid.

Speculation that there will be a reduction from seven to five members on the standing committee, though, belittles how big a move cutting the committee from nine to seven already was. Faced with a leadership challenge from Bo Xilai and Zhou Yongkang, the earlier cut was an in-system attempt to restrict future power structures emerging from the same nexus of the Politics and Legal Commission. But that was to stem the power whence a palace coup might come, and it returned the standing committee number to a conventional, institutionalized one. Despite rumblings from party "splittists," there is no existing threat to Xi that justifies cutting the size of the standing committee to five. And to make that cut would mean removing the weakest institutional positions, which are exactly the positions Xi can use to bolster support. The vice chair of the Party Central Committee and the Central Secretariat Secretary would be the logical slots to remove — but they are party avenues to empower loyalty, such as that of Wang Huning, who is likely to join the standing committee at the Party Congress.

STANDING COMMITTEE IMPORTANCE

Dropping the standing committee completely is out of the question without risking institutional collapse. Already running a Russian system of governance, without the pervasive committee system, China has no governance fallback short of imperial institutions.

So, let us say that the "67 up, 68 down" rule applies to all party officials except for Wang Qishan in 2017. It is possible that keeping Wang on the standing committee will mean the rule disappears entirely, although this is unlikely given the complexity of the system and no other clear rule for leading cadres to step aside. This, though,

TABLE 1 SCENARIOS FOR THE 19TH PARTY CONGRESS PERSONNEL CHANGES IN 2017

	My Friend Wang	A Li Ke coup	Out in the Cold	Keep 'em close
Party Secretary	Xi Jinping	Xi Jinping	Xi Jinping	Xi Jinping
SC Premier	Li Keqiang	Wang Yang	Li Keqiang	Li Keqiang
NPC SC chair	Zhao Leji	Zhao Leji	Li Zhanshu	Zhao Leji
CPPCC chair	Li Zhanshu	Li Yuanchao	Li Yuanchao	Hu Chunhua
Central Secretary	Wang Huning	Wang Huning	Zhao Leji	Wang Huning
CCDI	Wang Qishan	Wang Qishan	Wang Huning	Chen Min'er
First Vice-Premier	Wang Yang	Guo Shuqing	Wang Yang	Wang Yang
Out	Hu Chunhua Li Yuanchao	Li Keqiang Hu Chunhua	Hu Chunhua Sun Zhengcai	Li Zhanshu Li Yuanchao

would give Xi's successor, and the group surrounding him, a precedent for breaking the 67 up, 68 down rule to further their political calculus in the 20th and 21st Party Congresses.

The age rule helps outside observers thin out potential future leaders. Most party cadres in the executive or administrative branch will retire before they can reach Politburo level. But looking at the ages of those who have already achieved the cadre rank of *zhengbu* (正部), or minister, is indicative of immediate future leadership potential. This is the current worry of the Xi administration, given the incredibly young Hu and Sun, and the established *jeunesse* of Li Keqiang.

The last piece of the cadre calculus is the local-government party secretaries and mayors. These are the politicians waiting for their time in the Politburo, hundreds coming through the ranks at the city level, and around 100 with a cadre rank of *zhengbu*. A minister of the State Council has the same cadre rank as a Party Secretary of a province, a mayor of a provincial-level city, or the leader of a state-owned enterprise.

19TH CONGRESS HORSE TRADING IN ORDER TO SECURE THE 20TH

The Zhou and Lou show of market liberalization was well and truly sidelined through 2016, along with Li Keqiang and the rest of the administrative power apparatus. Many CCP watchers tend to ignore the State Council positions, but the two in the standing committee are crucial. The elevation of Wang Yang as first vice-premier to replace Zhang Gaoli is a near certainty.

Xi's agreement with Hu Jintao to allow Hu Chunhua to grow into a future leader is in doubt, though, as Xi sidelines future opposition. Wang Huning is the key figure, particularly as he moves to safeguard Xi's legacy in the 20th Politburo Standing Committee. Wang Huning is not only a loyal "red factionite," but is also a man-to-man marker on Hu Chunhua. The Wang Huning and Hu Chunhua dynamic will be the one to watch throughout the 19th Party Congress and the frenzied build-up to the full leadership change in the 20th Party Congress. Wang is too old to be the next party chairman, because he would only really have one term. However, he is the perfect candidate to smooth the way for Xi's successor, and guard against the Hu and Sun ticket.

With those dynamics in mind, and playing the game as if Xi wants to ensure as red a backing as possible and sideline the market-liberal camp, while playing within the loose institutional lines set by history, we have the following scenarios laid out for the 19th Party Congress (see Table 1) — with the caveat that Zhongnanhai-watching is often little more reliable than reading tea leaves.

1) My Friend Wang. Widespread speculation exists that Xi plans to subvert the existing age restrictions to maintain Wang Qishan on the Politburo Standing Committee. The triple-Wang faction of Qishan, Huning and Yang, though, may be overkill. Xi plus triple Wang makes the other three members irrelevant in a 4-3 majority on the standing committee.

2) A Li Ke coup. An outlandish scenario, except that Li Keqiang's age means he not only qualifies for the 19th but also the 20th Congress, making him a danger to shepherd through a cohort of Hu Jintao acolytes. Explicitly removing Li would break an array of Party conventions. Even sidelining him into the lame duck role of NPC chair would be quite astonishing, though more likely.

3) Out in the Cold. The least extreme of the radical scenarios, this retires Wang Qishan, keeps Li Keqiang, but blocks the path forward for Sun Zhengzai and Hu Chunhua. While this may keep the road clear for Xi's successor in the 19th Congress, it is likely to result in a counter movement in the 20th. The scenario is conservative in other respects, with Li Keqiang remaining, Wang Qishan departing and Wang Huning entering, albeit in a role as chair of the Central Commission for Discipline Inspection. Li Yuanchao, Zhao Leji and Li Zhanshu are Xi-sided but unobtrusive picks.

4) Keep 'em Close. This introduces Chen Min'er into the mix with a minimum of other

Wang Huning

Wang Huning is not only a loyal 'red factionite,' but is also a man-to-man marker on Hu Chunhua. The Wang Huning and Hu Chunhua dynamic will be the one to watch throughout the 19th Party Congress and the frenzied build-up to the full leadership change in the 20th Party Congress.

Hu Chunhua

TABLE 2 SCENARIOS FOR 20TH PARTY CONGRESS IN 2022

	Xi Stack	Zhijiang Rules	Hu's Return	New Jack City
Party Secretary	Chen Min'er	Chen Min'er	Hu Chunhua	Wang Huning
SC Premier	Wang Yang	Guo Shuqing	Li Keqiang	Wang Yang
NPC SC chair	Li Keqiang	Xia Baolong	Sun Zhengcai	Zhao Kezhi
CPPCC chair	Liu Cigui	Bayanqolu	Guo Shuqing	Che Jun
Central Secretary	Li Xi	Zhao Kezhi	Han Zheng	Zhao Leji
CCDI	Wang Huning	Wang Guosheng	Liu Yunshan	Li Xi
First Vice-Premier	Guo Shuqing	Li Qiang	Wang Yang	Lou Qinjian

disruptions. Wang Qishan is out, Li Keqiang is in, Hu Chunhua is in, and Wang Huning is there to keep order, as a placeholder to shepherd Chen Min'er as successor. It is a very conciliatory scenario, with Xi on the surface giving up almost everything and allowing a Hu-loyal Politburo Standing Committee to form around him. It would restore the world's faith in China's economic liberalization agenda, but will probably only occur if Xi has bartered this for protection of his successor in the 20th Congress.

There are also a host of rising governors, party secretaries and ministers who will vie for Politburo positions, both from the so-called Zhijiang New Army and the market-liberal camp. The trick is to look for personnel who are eligible to serve in both the 20th and 21st Congresses due to their age.

For the 20th Congress (see Table 2), we see the rise of Chen Min'er, Liu Cigui and Li Xi under the tutelage of Wang Huning, and the steady loyalty of Wang Yang running the State Council. The vanguard of 6th Generation leadership is currently either in Guizhou and Zhejiang, or have recently served in one of those places. Chen Min'er, the Guizhou party secretary, will likely rise to the Politburo in 2017 and the standing committee in 2022 and is a serious contender for the chairmanship. Zhao Kezhi was in Guizhou before him, and is a good bet to move up from Hebei to one of the provinces with a Politburo seat, probably Beijing. Guiyang Party secretary Chen Gang is also likely to climb to Politburo level by the 20th Congress. Dalian Party Secretary Tan Zuojun is only 48 years old, the youngest of his cohort of provincial city leaders. While Liaoning Party Secretary Li Xi is also a contender for the 19th Congress Politburo, especially considering the dramatic decline of Party politics in rival Tianjin and the need to shore up Party support in the key province where the fallen Bo Xilai is still immensely popular.

The fate of the Hu-Sun 2022 ticket and its followers may be determined by the throes of international capitalism, if the Beijing-led Belt and Road Initiative falls flat and there is a resurgent market-liberal order. The alternative to a strengthening of the core to usher Xi into the safety of retirement in 2022 is the resurgence of a market-liberal camp, a countermovement to rekindle the Hu Jintao and Shanghai-led global market order. However, with the United States and the European Union likely to remain preoccupied with domestic politics during the 19th Congress, the 20th Congress may throw up some surprises that few would have predicted even in 2013, when the talk was of global economic integration.

THE WORLD ENGAGES THE CADRE SYSTEM

There is much cognitive dissonance among intellectuals and government officials who spend time in the graces of Beijing. There is a tendency to suspend commitments to liberal democracy, only for the counter-movement to come back even stronger once they have left China — think of David Shambaugh's dire predictions of regime collapse in *The Wall Street Journal*. The People's Republic of China is not going anywhere except forward. For the West, wishful thinking about a transformation to liberal local government must take a backseat. But likewise, there is no honor in toadying up to power in Beijing when one is in the country, but engaging in China-bashing when one is outside. A mature engagement with a super power with differing political, philosophical, governance, legal, and moral systems from the dominant global ideology begins with taking the governance institutions of that super power seriously.

China's governance problem is not its elite collective leadership — that is working quite well. The problem is local governance. And helping to solve institutional problems in-system, without widespread political-philosophical change is a challenge that the liberal democracies and China can work on together.

The EU and the US have done with local governance what China has done with a top-down Grand Unity system — that is, create an industrial state in a transcontinental monetary and customs union. Federalism is the thought that dare not speak its name in China due to the legacy of Sun Yat-sen. But multi-level governance theory and public administration theory can help solve many of China's local governance problems without tackling historical institutional dependencies left over from the Chinese Civil War, and without challenging the ingrained religious-ideologies of Confucianism and Daoism.

Expecting a scenario where a lifetime of sacrifice to public service is suddenly discounted is a continuity break that is more anathema to China's in-system officialdom than a change in how local governments — and therefore central government institutions — are managed. The short-term policy shifts implied by the personnel changes in October 2017 will grab the headlines. But we should look for the finer touches if we wish to imagine what the sixth generation of Chinese leadership will look like when it takes the reins of power in 2022, and — more importantly — how the nascent seventh generation leadership currently studying abroad and moving into capitalist leadership positions reacts.

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Note: Between authorship and publication Sun Zhengcai was removed from all party positions pending discipline inspection.

F3

Book

Reviews

2017-2025

Book Reviews

2015-2025

PhDs do literature reviews at the start of the thesis that only the three people on their panel will ever read. D Litts publish 40,000 words of book reviews, review essays, and create working networks with the world's great university publishers (ANU-Press not included by the way).

Some of my best writing is here. When I recently applied for an international affairs editing job, I submitted the two reviews from Journal of Historical Geography as my writing samples. The Global Asia review on Dexter Roberts' Myth of Chinese Capitalism goes beyond what the author has written and engages with the text, mixed with my experience and analysis, to create something new, higher than either of us could produce alone.

Some academics may say that no one cares about book reviews. They do not get cited, they do not engage readers, they are a cheap way into the gate-locked journal system. My book reviews generate citations, I think that is the single most important piece of legitimacy for the academy to consider, that other scholars read my reviews and review essays and cite them as original works, which they are.

The breadth of scholarship demonstrated here is important for the D Litt panel to consider. Some academics silo themselves into such a narrow field that they really cannot comment on as wide a range of topics I have shown here. I am engaging with area studies across Central Asia, the Arctic, China, Eastern Europe the Middle East, and Southeast Asia. I am engaging in works of anthropology, political science, political economy, international law, security studies, history, geoeconomics, and public policy. Putting together a portfolio that encompasses Uzbekistan's Sufism, and Russia's Cosmism from an original PhD project on China's industrial policy. This is a widely read scholar.

Sometimes I think to stop doing these. I am not a professor, I do not have any stable income, and most of these do not pay. But they are becoming one of my favourite forms of writing, as I get to engage with something new and timely, and I can bring enough self-expression to the pieces that make what I produce mine, not simply an addendum to the authors' works.

While most of these do not pay, Gobal Asia does. And I wonder if any of the academics involved in this D Litt review process could say that they could make money in a free market environment from their publications without the shelter of the university that I have not been afforded.

Book Reviews

— **Enduring Relevance in Buddhist History**, Global Asia, Vol. 19, No. 4, December 2024
— **Ming Historiography Beats a New Path**, Global Asia, Vol. 19, No. 1, March 2024
— **Tales from the Borderlands: Making and Unmaking the Galician Past by Omer Bartov**, Journal of Historical Geography, 2024
— **Understanding Wa from the Inside Out**, Global Asia, Vol. 18, No. 4, December 2023
— **More Silk than Road in Medieval Chinese History**, Global Asia, Vol. 18, No. 3, September 2023
— **Succeeding in Thai Kinship Politics**, Global Asia, Vol. 17, No. 4, December 2022
— **Nuclear Nostalgia — Legacy Soviet Weapons Systems in Kazakhstan Memory**, Hansa Review of Books, December 2022
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— **Lviv's Uncertain Destination: A City and Its Train Terminal from Franz Joseph I to Brezhnev by Andriy Zayarnyuk**, Journal of Historical Geography, 2022
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— **Triple Axis: Iran's Relations with Russia and China, By Ariane Tabatabai & Dina Esfandiary**, Middle East Journal, Vol. 74, No.1, Spring 2020
— **Baseline of Russian Arctic Laws**, by Paul Berkman et al., Polar Record, Vol. 55, No. 6, 2020
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— **Russian Cosmism**, Utopian Studies, Vol. 30, No. 2, 2019
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— **Russian Foreign Policy in the Middle East**, The Middle East Journal, Vol. 73, No.1, Spring 2019
— **China's Arctic Ambitions and what They Mean for Canada**, Polar Record, Vol. 55, No. 1, January 2019
— **Lev Gumilev's Eurasianism and Ethnonationalist Misappropriation of Historical Geography**, Central Asian Survey, Vol. 39, No. 2, 2018
— **China's Political Economy Under the Microscope**, Global Asia, Vol. 13, No. 4, 2018
— **The Central Asia-Afghanistan Relationship: from Soviet Intervention to Silk Road Initiative**, by Marlene Laruelle (ed.), Central Asian Survey Vol. 37, No. 4, 2018
— **Carl Schmitt and Leo Strauss in the Chinese-Speaking World: Reorienting the Political, by Kai Marchal & Carl K. Y. Shaw (eds.)** Journal of Chinese Political Science, Vol. 23, No. 3, 2018
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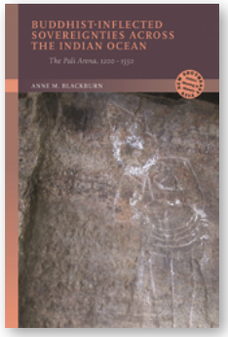
Enduring Relevance in Buddhist History



Buddhist-Inflected Sovereignties Across the Indian Ocean: The Pali Arena, 1200–1550

By Anne M. Blackburn

University of Hawai'i Press, 2024, 236 pages, $68.00 (Hardback)

Reviewed by Tristan Kenderdine

WHAT IS PRESENTED here is a fine work of religious political history. But the shadow of what is here is deeply important to the modern politics of Southeast Asia and the Indian Ocean region. The form of functional geography that the author explores holds the keys to a great many solutions in the current geopolitics of the Indian Ocean. The interrelated histories of Buddhist polity formation and state-building in Sri Lanka, Myanmar and Thailand presented here are deep primary-source work. But the picture built up of a "Bay of Bengal Plus" delivers a functional geography construct that both underpins and overlays contemporary views of the Eastern Indian Ocean region.

The overt theme is contested forms of sovereignty in the Pali world of what is now Sri Lanka, Myanmar and Thailand. The framework is one of functional geography: The functional geographies explored here of Sangha — Buddhist collectives — work because they joined together naturally and formed the bases for polity formation that would become the foundation for later states and statecraft. The Pacific at this time is non-navigable, so the edge of the Indian Ocean and the land masses of Southeast and East Asia represent the end of the world. This creates the entrepot for Buddhist institutions to flow into and take hold, constructing a trans-sea *mandala* system of city-states joined by maritime trade routes and shared values. Religiosity in early state formation determines the ideal form of ruling houses, which in turn determine the form of the states that later emerge. This is critical to understanding contemporary politics in Buddhist-formed polities.

The functional geography presented is valuable not only for its own sake but as a set of archetypes to counter future forms of historical revisionism and co-optation. The real value beyond religious scholarship is as a marker against nationalist claims to the continuity of state formations. A crucial theme that cuts across time is where are the commonalities between contemporary forms of sovereignty in Buddhist states? The three old polities were joined across Tai, Mon and Burmese languages in the mandalic sovereignty system, the Sangha system, and Thailand's trinity political system. The tidal flows of culture pushed upon the Sangha Mandalas then formed new maritime-connected communities with political structures formed from the religious undertones. This becomes crucial in hard-power history assertions now emanating from China towards both Southeast Asia and South Asia.

This work is in essence a history book, but it could be used as a jumping-off point to discuss the possible uses of histories and historiographies such as this in future political directions in the Indian Ocean region. Here we have a stress point where China's state interpretation of history can co-opt unclear agendas into future strategic goals. China's Belt and Road goals of a "coming out" through the Mekong and Chao Phraya are strategically closer to Indian Ocean access than to the Pacific. Such contemporary political maneuvers, though, require historical justification. Reasserting competent source-based histories to pre-empt the contemporary historiography can help to guard against such historical co-optation. In contrast to how deeply connected both Sri Lanka and Thailand are to this medieval religious Bay of Bengal Plus, could superficial power and cultural projections from China ever attempt to pre-empt the first-mover Buddhist thought-inspired state, social and cultural structures?

At heart, the book itself is at times a dry account of historical Buddhist texts. Blackburn is clearly an expert, but for the reader honestly to get the most from this would require one to be engaged in the field. Not many lay readers are going to wade through this cover to cover. As a reference and as a foundational text, however, I could see new histories of one of the time-place cases being constructed from this work, Sukhothai scholars, for example, keeping this Buddhist source book handy. For that, though, this should have a better referencing and appendix system. The book really would have been improved by having more cross-referencing and the inclusion of charts, indices and tables, especially considering the work is not really narrative in form, meaning there is little need to enforce a strict linear reading. The lack of narrative structure is both a weak point and also a disappointment for the reader. The chapters are huge, and there are few waypoints to guide the reader along.

The concept of trans-oceanic 13th-century Buddhist polities is not merely academic. In an era of Chinese assertiveness around the Indian Ocean and history wars across both China and Russia, the problem is acute.

The concept of trans-oceanic 13th-century Buddhist polities is not merely academic. In an era of Chinese assertiveness around the Indian Ocean and history wars across both China and Russia attempting to redetermine the narratives of popular politics in order to force realist political geography changes, the problem is acute. Formations of functional geography like those presented here are important, and future functional geographies built upon such works could prove decisive. How the world considers the history of the Bay of Bengal Plus could have lasting and serious consequences on contemporary politics.

Beyond the geopolitics of binary games, this work highlights the absolute importance of having serious, considered historians produce high-quality histories. This book is certainly that. And the value of these works should really begin to be elevated beyond the control of nation states or national agendas, neither of which have any claim on the Sangha histories of the polities of the Bay of Bengal Plus.

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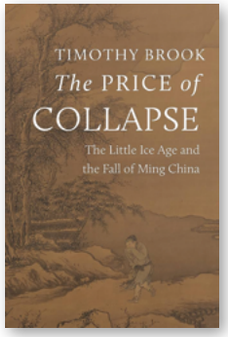
Ming Historiography Beats a New Path



The Price of Collapse: The Little Ice Age and the Fall of Ming China

By Timothy Brook

Princeton University Press, 2023, 256 pages, $29.95 (Hardback)

Reviewed by Tristan Kenderdine

THIS IS AN ELEGANT if unconvincing history, a fun application of a novel idea and an interesting repurposing of historical records to solve new historical questions. Despite the gravitas of Brook's credentials — he was the editor of the Harvard University Press *History of Imperial China* series and author of *The Troubled Empire: China in the Yuan and Ming Dynasties* — the author himself seems unconvinced of the final argument, and the reader is left with much detail without ever having closed the circle on the original premise.

With his credentials and legacy secure, Brook is here branching out and taking chances on histories and methods on the fringes of Chinese historiography. The result is an interesting hypothesis, and a pleasing narrative, but ultimately not an argument that can easily be accepted. Brook's two main areas of enquiry are prices and climate. The economic history of the end of Ming, though, paints an altogether terrifying picture, not so much on climate, but more of the tenacious underlying economic peril that historically passes for times of political peace.

Throughout, we keep coming back to the argument whether the Ming was simply politically inept, whether the silver money supply argument still holds, or whether there was a climate factor in the collapse of the Ming. On the climate link, it remains difficult to separate out the dependent from the independent variable, making the macro argument consistently underwhelming. But as a price history of a dynasty, as the link between economic factors and political turmoil and as the connection between agriculture and the social fabric of Ming China, this is an excellent resource. Where the climate connection does not quite land, the core contribution of the work is more a reassessment of the economic factors around the Ming collapse. Particularly where dynastic Chinese historiographies had traditionally been influenced by Chinese philosophical notions of the ever-quest for political stability punctuated by sharp periods of conflict and calamity, the movement here back towards material factors as underpinning social and political life is a welcome return of the practical, where Chinese economic history is too often sequestered from the political. Assessing Chinese dynastic history through the ability of governance to deliver economic goods helps to move away from *Tianxia* ("all under heaven") tropes and the more simplistic histories of political stability determining state outcomes.

The real value of Brook's main argument is not that climate resulted in price pressures, which in turn brought down the Ming, but more that the dominant economic history arguments of the silver money supply thesis as the cause of the collapse is somewhat unsatisfactory and should be revisited. The traditional economic history argument for the price pressures and ultimately the decline of the Ming was that this trans-Pacific silver trade between Peru and China, facilitated by the European mercantilist powers, resulted in a rapid expansion of the Ming's M1 monetary supply, which altered China's economy to such an extent that later supply events, such as the subsequent contraction of silver supply from South America into the Chinese economy, resulted in price catastrophes caused by layers of silver hoarding that destabilized the Ming economy, causing its ultimate collapse. While Brook does lay out some strong arguments against the silver thesis, the evidence fails to adequately convince that the climate argument should replace it.

Brook focuses, in particular, on prices for grain and works up the economic ladder to anything else that was effectively priced in grain. The silver money supply argument becomes important here as it creates a distinct barrier between the national agricultural product and national wealth derived from trade, and the interplay between the two. Brook starts with a wonderful source of Ming prices from a county noble and attempts to scale up this regional and holistic data source to the national level. This is a huge methodological problem for the historian. The sheer lack of price data combined with lack of fungibility on the extant data makes any conclusions about the Ming state economy over time quite speculative and the results ultimately underwhelming. The difficulty in establishing holistic national price data-sets over time then makes the lack of depth in environmental-history exploration problematic. This is a shame, because it is a genuinely great concept presented here. While the commitment to replicability in source work is admirable, it perhaps needed the guidance of a more solid theoretical framework. Despite not creating a holistic data source or being wholly convincing on the climate impact, the journey is well worth it, with a feel for art, grain and everyday items yielded from reading this history contributing to a huge improvement of our understanding of the daily life of the time. While it is a good critique of the existing historiography and a novel climate idea well explored, perhaps reading this work more as a social history grounded in the theory of the everyday might yield the reader greater meta findings than the climate speculation.

Throughout, we keep coming back to the argument whether the Ming was simply politically inept, whether the silver money supply argument still holds, or whether there was a climate factor in the collapse of the Ming.

This remains a very nice piece of history even if it feels unconvinced of its most aspirational climate argument. Examining the price regime of any period in Chinese history is likely to reveal a thinly brittle everyday reality. Where we can say quite confidently that the Ming was already brittle, this history of the underlying price data shows the economic fragility of the day-to-day. This history is asking all the right questions, and openly showing the reader all the tools at the historian's disposal, although neither the position staked out nor the tools used in the dig seem to have extracted the artefact needed to crown the argument.

The legacy of this history, though, is likely not the work itself but the questions it opens up for others to explore. The Brook price regime makes it much easier for those who come after to replicate the procedure and to find further materials valuable to Ming historiography. The price of this history itself is perhaps the cost paid to create the value of those histories to come after it.

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Review

***Tales from the Borderlands: Making and Unmaking the Galician Past*, Omer Bartov. Yale University Press, New Haven (2022). 384 pages, US$30.00 hardcover**

This is a geography of memory, an architecture of identity, constructed from an array of sources used as a prism to refract personal and social experiences into a finite narrative arc which delineates a spatial and temporal journey through eastern European lands. Omer Bartov has written a history of times in places which no longer have a prescience in the modern mind, but which were acutely critical to so many families and individuals who fortuitously migrated outwards into other dimensions before the catastrophe. Rather than a national, geographic, linguistic or ethnic history, Bartov describes a history of the ephemeral. He explores the shadow of a space in between the more conventional historical forms. Yet he also carves out a dimension unto itself for his history to inhabit. The primacy is the memory of a people who have moved, and who have been moved, to capture the essence of memory and movement in meta-space, in place and times within geographies of memory not captured in any cartographic or social science sense.

The structure of this book is beautifully constructed. A good deal of thought has gone into this aspect of the study and the results are satisfying. The author uses different sources of knowledge and memory capture as both the source material for the chapter content as well as the themes of each chapter. For example, a chapter on the development of Jewish religious town-life is told through architecture; a chapter on the period 1648–1848 discusses the literature produced through this period; the chapter on the multitude of family stories swept up by history is narrated through the author's own family history. The result is a series of sophisticated reflexologies, working together like a complex set of cubes to create a tesseract of the final book as a whole. However, this structural device is not overused and never outweighs the narratives explored. It moves through time and evolves as the principal prism through which to view the slideshows that the author's mechanical narrative slots chunks into place. This device exists like an omniscient referee, noticeable mostly for allowing the narrative to flow rather than calling attention to its own role in structuring the whole.

The ostensible geographic subject of the book, Galicia as a political-legal-material concept, no longer exists. Yet in Lviv, Ivano-Frankivsk and in the author's centre of Buszacz, the memory of Galicia endures and holds on to a past not represented in either the contemporary social structure, nor the structures of national histories. This is widely true for the memory-architecture of not only the Jewish diaspora but also a large part of the North American population with roots in the Polish, German and Ukrainian-speaking peoples who emigrated from Galicia and similar geographic structures artificially formed to fit Central European imperial structures. The poignancy of the leitmotif is apt, that we often can never return to the places that made us. Each chapter is a new viewpoint of Jewish life, and then in sequence the chapters work to show a narrative of a people, a place, and times, through which co-development alongside competing and complementary spatial and temporal forms coexisted.

The layout of the chapter by theme rather than chronology makes this a highly readable history. There is a nice foundation to the origin myth of Busczacz, using the town as a prism for the wider landscape of both the walled towns and shtetls to which the author's family experiences can easily be mapped along a daisy-chain of others' family histories. Bartov's history is very family oriented and personal, yet still deeply rooted in the history of the time, while searching acutely into past times and also broadly across the range of Central European, Polish-Lithuanian Commonwealth, diaspora and Levant Jewish history. The decline and collapse of the Polish-Lithuanian Commonwealth is shown to mirror the massacres and survivals of the Jewish people. Across this history the presence of the author's grandfather is constantly felt, creating a dual layer prism through which the family history is refracted first through the author, then the grandparents' telling, and onto the historical and geographic realities against which the stories take place. It feels like a long bedtime story from a coalition of grandparents, with the ever present moral that there is always danger, that everyone who survived was always lucky, and that it can also happen again anywhere.

Yale University Press has produced a beautifully constructed volume here. The process was, undoubtedly, also helped by the author's mastery of materials. The price is reasonable for a book of this quality, a classical hardback at a trade book price. Any small criticisms are softly focused on content choices as the narrative veers close to subjective personal family history at times. However, this is clearly a conscious choice and it does not detract from the other elements of history presented here. This style is not really overdone either, more baked into the system employed. Overall, this book is fairly flawless in its conception, construction, content and execution. By setting out essential memories, Bartov's book comprises a skilful, deep and heartfelt history of a geography which no longer exists.

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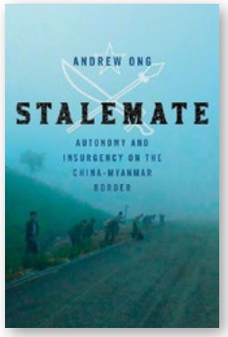
Understanding Wa From the Inside Out



Stalemate: Autonomy and Insurgency on the China-Myanmar Border

By Andrew Ong

Cornell University Press, 2023, 276 pages, $29.95 (Paperback)

Reviewed by Tristan Kenderdine

THIS IS A LOVELY work of political anthropology, replete with excellent local narrative writing. Thematic and evocative, it narrates Andrew Ong's own embeddedness in a social system, the Wa State of northeast Shan State Myanmar, a region beyond the control of lowland Burmese state-making since pre-colonial times, and bordering China, with which Wa is engaged in a deep patron-client relationship. Ong's writing feels green, moist, like the misty mornings and the humid evenings; his everyday locations and interactions place the reader firmly and comfortably within Wa territory. Centered on Pangkham, where the author spent years writing and developing the personal network required to write this sophisticated piece of political anthropology, the work is both limited and empowered by the author's level of local access, and it is engrossing for the reader to have this verdant, socially rich world opened and conveyed.

Wa, a well-armed, self-governing autonomous region situated across two territories on the China-Myanmar-Thailand border, remains in arrested development, neither state nor non-state. The largest and most powerful of Myanmar's ethnic-armed organizations, its military arm, the United Wa State Army, has not joined the current anti-junta conflict, instead holding to an armistice with lowland Myanmar since 1989. The military and political organs of Wa, while providing security and power, are not used for offense and serve instead to further the political, economic and social goals of the proto-state. Against tropes of a wild land of mountain warlords, Ong instead demonstrates a Wa that stands as quite a stable and prosperous region that continues to navigate an all-around hostile environment with deftness and confidence. While much of contemporary Myanmar is in flux, Wa is a mountainous island of political stability.

Rather than a political history of the armed resistance forces, though, Ong leads the reader on a journey of political anthropology, encompassing the state-formation of bureaucracy, the political geography of transport, and the philosophy of borders. Throughout, we get a sense of two very different polities, of the Wa region and of Pangkham city, where descriptions of Pangkham convey a very culturally Chinese town outside of China, while the up-country Wa region feels like a completely Shan State, a remote mountain polity.

Throughout, though, Ong consistently makes the argument that Wa is not a "diminished mimicry of statehood," and this philosophical *ying-yang* of state-not-state entangles all the thick description of the lives of Ong's interlocutors. Ong's own well-developed voice writes evocatively of place and people, confidently on macro-abstract concepts emanating from the region, and humbly of his own role within the events he portrays. This highly idiosyncratic work explores established areas of inquiry such as "region-making" but also consciously expands the theoretical reach into Ong's applied field, where it feels like he is genuinely making new political discoveries.

The whole book is structured so cleanly that it could be written in a formulaic: locative; personal; structural space; relational capital; political space. Ong employs an excellent system of anonymizing names of people and small places, making this a serious work of scholarship with fictitious village names, a great commitment to the protection of sources while maintaining legitimacy in the pursuit of communicating truth. Chapter Four, on the peculiarities of Wa capitalism, is a highlight. We can really see the fabric of society here when exposed to the frictions involved in capital accumulation, economic risk and social-transaction costs. Whenever Ong delves into the personal to use the source material to reveal a wider social truth, the join is seamless, a personal conversation relating to the hotel business or a river-border crossing reveals nuances in relational autonomy, periphery capital formation and political geography.

Perhaps the most important vein that Ong reveals running through the bedrock is that social brokerage is the most precious commodity of the region. At the personal level, that can mean a Chinese businesswoman with no connections hitting the social wall; at a wider social level it can mean that during financial or legal crises, accumulated capital in Pangkham cannot rejoin formal markets. Capital in Wa is not transmitted perfectly due to local social restraints, meaning covering local debts or repatriating streams of liquid capital back to China encounters impassable objects and must alter course, much like the actual rivers in the physical geography of the region. Capital assets then again become the landscape, such as in the case of the half-built condos in the hills, the capital cannot progress and is thus folded back into the landscape to become part of Wa. Thus, the Wa authorities have little incentive to strengthen existing property rights, because the locality as a whole benefits from the existing weak property-rights system, which results in more loose and abandoned capital. This creates a form of political stasis, where progress towards state structures and institutions is stalled due to local incentive structures. Everything thus remains intermittent and transient, whether administrative law, transport, economic activity or political security.

Stalemate is for anyone who has traveled upcountry in Southeast Asia and thought to stay and learn how a region really works. Ong stayed and learned, and he distils effectively and sincerely for the reader a narrative that wholly imbues agency to the metropole of an ethnic-armed organization beyond the reach of the Myanmar state. Pangkham feels like the center of the universe in this political anthropology, not in opposition to either Myanmar or China, but in its own right.

Ong places Wa in the middle of a new space, one that feels wholly natural, the socially constructed borders of which are brought into sharp focus, making sense away from the state-centric geographic maps and analyses that insist this place is a borderland, and not a realm legitimately formed unto itself. Polities such as the Wa are not situated on any fringe, they are just where they are and they are exactly where they mean to be. Wa is not remote, Wa is not a borderland or a buffer zone, not a Chinese puppet state nor a fringe hill tribe. Wa is simply Wa.

This highly idiosyncratic work explores established areas of inquiry such as 'region-making' but also consciously expands the theoretical reach into Andrew Ong's applied field, where it feels like he is genuinely making new political discoveries.

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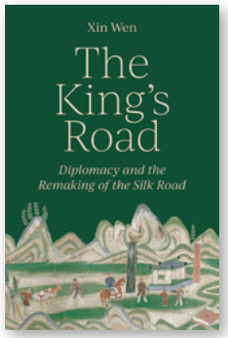
More Silk than Road in Medieval Chinese History



The King's Road: Diplomacy and the Remaking of the Silk Road

By Xin Wen

Princeton University Press, 2023, 400 pages, $49.95 (Hardback)

Reviewed by Tristan Kenderdine

THIS IS A DEEP and illuminating monograph, a disciplined piece of history. Xin Wen's work is less concerned with populist contemporary imaginings of the Silk Road and is instead a serious history of medieval Dunhuang, which makes for a much more enjoyable book. The geographic focus is roughly Khotan to Kaifeng across the years 850-1000, reflecting the source work which is founded on the Dunhuang Library Cave manuscripts. The expected tropes of Silk Road writing are all here — silk, camels, Buddhism, language and geographies all intertwining. But instead of a simplistic story of crossroads or gateways, we are treated to a serious historiography of a region with a deep and documented history that is unfortunately and consistently distorted to serve presentist state interests.

Wen examines the envoy system of medieval Chinese and Inner Asian states, piecing together a vivid history from the journeys of diplomats coming together in a geography where already established practices of diplomacy met, connecting the small but powerful states that intersected around modern-day Gansu and Xinjiang. This focus gives a very state-centric feel to an area usually dominated by tropes of commercial travelers. This is less the Sogdian merchant traveling to the Tang capital in a modern imagining of the tribute system, and more the diplomatic entanglements of Khotan and Dunhuang during the flux of the Five Dynasties period. A great comparison is made here, that the Dunhuang state lasted 188 years, longer than both the Northern Song and the Jin, and also that the Turfan Kingdom's longevity of over 300 years means it outlasted the Tang, Ming and the Qing. Quite amazing then that this part of Chinese history is not more prominent in the national memory. The intertwined histories that come together in Dunhuang though pull both history and historiography back towards reality and away from the constructed narrative of a singular and unformed China state existing throughout the ages. Dunhuang is the history China deserves, not the revisionist historiography often currently served.

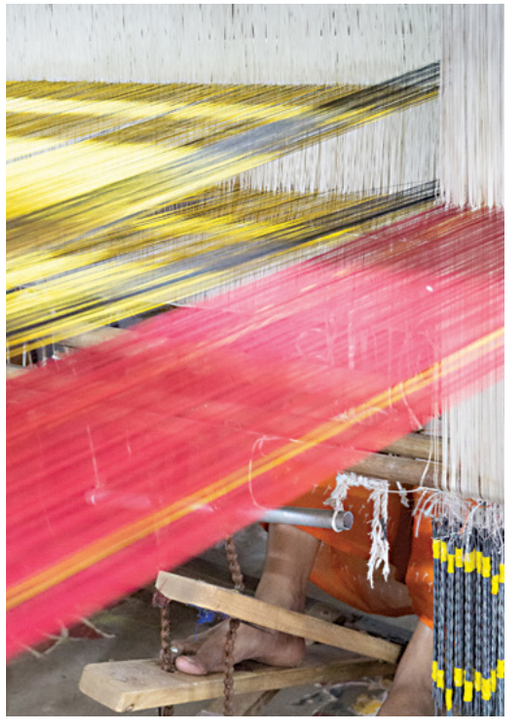
The tropes of post-Tang cosmopolitanism and of imagined Silk Roads are deliberately avoided, and Wen sees more the silk and the road than the Silk Road. Examining the envoy culture limits the mercantile trope, though one cannot avoid the material influence of silk and exchange, of trade, culture, materialities and people in any of the journeys described here. The pure practicality of silk as a lightweight store of value consistently comes to the fore in the practical details of who traveled where carrying what. And while there are nods to the conceptual Silk Road of Ferdinand von Richthofen, the German geographer who is said to have coined the term, this book is very much grounded in the historical materialities — Wen attributes agency to animals and objects as much as to states and diplomats. He is almost anthropological in the treatment of "things" as they were and as they were perceived: food, luxury items, clothing, texts. Agenting these material and natural objects shows us a mirror reflecting the human world that carried them. Turning such source work into narrative often results in clunky prose due to a forced lack of depth and the impossibility for character development or action. But we get a good feeling for "characters" in this narrative, as people, places, as well as the materials, animals and destinations all feel alive and willing agents in the story.

The chapters are nicely organized, and this feels genuinely designed for the reader, not for the ease of the author's research or writing phases. The text is adorned with a long series of photographs of the Dunhuang manuscripts which keeps the reader connected to the beautifully aesthetic linguistic sources. Chinese characters abound and there are many nice transliterations of Khotanese, Uyghur, Tibetan and Sogdian languages throughout. The maps are adequate, but perhaps represent a missed opportunity with somewhat uninspired graphic design.

Overall, though, the structure is excellent, and for quite deep source-dependent work the chapter length and writing style is quite manageable. The readability has the feeling of the Harvard History of Imperial China series, but perhaps without quite the flair or editorial skill of some in that series. Conclusions and introductions are still very formulaic and read as remnants from the original academic manuscript. Wen's voice somehow struggles as well: It feels sometimes as if trying too hard to sound scholarly, whereas his scholarship is not in question. While both the work and the writing are genuinely good, perhaps the inner monologue could run a bit more freely, considering that the spirit of the writing already runs quite deep. This is not a pop history page-turner, but it strikes the balance of solid historiography, reference work, syllabus go-to and sensible long-read.

Wen catches a distortion of light being carried from the past. Much like an illuminated manuscript carrying a depiction of a Kalavinka, the scripts from the hidden Buddhist library chamber shining through from the past have transmitted travelers' and envoys' personal stories, hopes and materialities on the light of words and paper. This illumination remains tangible and the world brought to life here is not a Chinese or Tibetan or a Uyghur world. Dunhuang was a world unto itself, and we are privileged to be able to see, hear, taste and sense the world as it was through the sources that were left to modernity. We are similarly privileged to receive Wen's rendition of these known sources, orchestrated into a new work that transforms the paper, the text and the map into a living and vibrant memory.

Wen sees more the silk and the road than the Silk Road ... The pure practicality of silk as a lightweight store of value consistently comes to the fore in the practical details of who traveled where carrying what.



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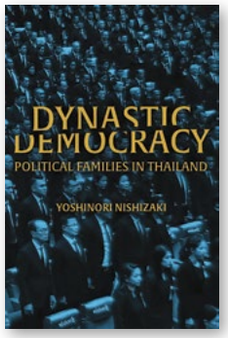
Succeeding in Thai Kinship Politics



Dynastic Democracy: Political Families in Thailand

By Yoshinori Nishizaki

University of Wisconsin Press, 2022, 308 pages, $79.95 (Hardback)

Reviewed by Tristan Kenderdine

THAILAND'S DOMESTIC politics are perennially caught between the ties involved in the pull and counter-pull of the country's major dynasty and the aggregate force of the minor dynasties. Yoshinori Nishizaki breaks through tired political science cliches about corruption, development and party-political analysis, and cuts straight to the only unit of analysis that matters in Thai political, economic and social life: the family. How families are and should be considered the principal unit of analysis in institutional political analysis in Thailand is not for Nishizaki an argument, because he is already convinced. This is instead a grand work of applied theory, expanding a provincial power-structure analysis across the whole Thai nation.

Expanding on his original and acclaimed work on the central province of Suphan Buri and the political clan of former Thai prime minister Banharn Silpa-archa, which dominates local politics there, Nishizaki applies the methodology used to explore the Suphan political family to look at all of Thailand's political families both at the national and provincial level. The highlight of the study is the near endless series of charts of Thai political families' interrelationships, the intensely complicated, dense and interwoven intergenerational connections, all neatly planned, with none expanded beyond a single page. Nishizaki's methodology for defining and exploring these political families' relations is innovative, convincing and likely to become a standard going forward. Nishizaki has constructed a study here that is unique, highly engaging and that pushes Thai studies forward.

The author, an associate professor in the National University of Singapore's Southeast Asian Studies department, is mostly concerned with two things: how political families not associated with the ruling Chakri dynasty have evolved into viable political units in post-1932 Thailand (the year in which the country was transformed from an absolute monarchy to a constitutional monarchy); and how such families have held power over time. The origin of the familial dynastic system is the interplay between the old families connected peripherally to the Chakri dynasty and those empowered by the emergence of the national bureaucracy and the possibility to develop intergenerational access to familial power through it. In the provincial periphery, dynasties formed and farmed their own forms of familial regional power. Political-power families today then store and control these local sources of power like water in a dam. Once established, the process becomes one of legitimizing and replicating political power in a symbiotic relationship between the local political fiefdom and the centralized national power. The intergenerational nature of this source of power is then institutionalized, allowing families access to national levels of power maintained over much longer periods than single parliamentary terms, and yet still able to draw political legitimacy from parliament itself.

Nishizaki's attempt to trace these sources of power through intergenerational familial connections is an ambitious project but done so well as to assume that success was guaranteed. Well-researched and a great example of applied theory, Nishizaki goes through the life records in the Cremation Volumes of prominent community members. This is such a great source that it is as if it were precisely designed for the author's purpose. The second major source is the Liability Declaration Accounts, an anti-corruption document introduced this century to keep track of the sprawling asset empires of elected parliamentarians. Through these two sources alone Nishizaki covers essentially all his field subjects equally well, seeing both familial relationships and familial assets. With these two complete data sets, Nishizaki is able to examine the innate inter- and intra-familial relationships of Thai political families, their initial and continued material power foundations, and, through this process, their relationships to each other.

Close readings of cremation volumes, a unique Thai funeral tradition, underpinned the author's research.

Nishizaki's methodology for defining and exploring these political families' relations is innovative, convincing and likely to become a standard going forward. Nishizaki has constructed a study here that is unique, highly engaging and that pushes Thai studies forward.

The bibliography and list of works cited is excellent, and Nishizaki's sources and notes are immaculate. Kudos to the University of Wisconsin Press here on a range of levels and small touches. The decision to publish titles of original sources in Thai script is wonderful for the specialist wanting to revisit the original material and perhaps to go deeper.

Nishizaki examines contemporary Thai politics from the perspective of a series of multiple interlocking mini royal families, each drawing their legitimacy from different sources and different conceptions of "state." A lovely Thai expression is introduced early in the book in explaining the differing paths taken to be able to *gin mueang*, "eat the state." Outside the formal institutions of national state power, a range of differentiated but complementary power structures have evolved to facilitate and maintain family power in the city, province, bureaucracy and family formations of state. These old social ecological niches for dynastic politicians exist in the shadow of institutional spaces created by overlapping historical kingdoms, city states, and bureaucratic fiefdoms, with the power families having evolved politically to inhabit the niches created by these institutional spaces.

Ultimately, Nishizaki speaks to the rural issue of representation. Where lack of respect for pluralism and representative democracy exists in Thailand, it is not due to institutional capture or to corruption of functioning systems, but more basically because the conventional constituent parts of parliamentary political society simply do not exist. In a land of industrialists, royalists, urban elite, rural poor, Chinese capital, Thai labor and provincial power structures, where is the institutional power of the polities that these dynastic families purportedly represent? Who holds them accountable for political and economic failures? The unfortunate reality is that individual politicians within these dynastic dynasties exist because of the weak polities that they represent in contemporary Thai society, not in spite of them.

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Polar Record

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Book Review

Industry, War and Stalin's Battle for Resources; The Arctic and the Environment, Lars Rowe, (2021) London: I. B. Tauris, 240 pp. Pbk $39.95, Hdbk $120, Ebook 35.95 ISBN: 978-1-78453-7951 (Hdbk).

This is a study about nickel and the political geography of the extractive commodities industry in the High North. Through the acute of the nickel industry in Pechenga/Petsamo Nikel/Kolosjoki Lowe explores a series of competing political geographies which defined the legitimacy of an Arctic space of ocean, mountain, tundra and of substrate space of nickel ore, of the built geographies of industrial node and network – of mine, refinery, production complex. Lowe explores overlapping claims of legitimacy on localised spaces and connects the extractive industry and political manoeuvring to international capital and the operating theatre of the global nickel market in the networked sense. The book explores an interesting series of inversions, a Finland geography granted but then coveted by Russia, a Canadian capital investment in a state then hostile to Allied powers, an opening to the ocean for Finland now closed. Each chapter opens and closes doors such that the essentially empty, constant geography of the Petsamo valley becomes a revolving door of inverted state, capital and material interests, constantly changing orientation and outcome while remaining anchored to the most immobile of human geographies, the mining of ore.

The prospect historically of Liinakhamari ice-free port giving Finland a genuine naval, maritime, mercantile access to the Arctic Ocean is the maritime geography underpinning all inland operations. This dependence opens a series of overlapping interests making this a section of the Arctic cartography which is wholly satisfying to no one state. Rowe navigates this complex geography of a northern circle mountain port betwixt contemporary Norway, Finland and Russia. Lowe explores a geographic utilitarianism of industry in the Arctic through Finnish exploration, Canadian investment, German appropriation and finally forced development under Stalinist Russia. Petsamo then conforms to that Soviet production trope of foreign capital, captured territory and foreign technology all undergirding the Soviet production system.

While iron and steel take the limelight in 20th Century industrial analyses, the role of nickel in the development of hardened steel and stainless steel is an unsung protagonist. In an era of supply-chain risk and semiconductor mineral risk, the nickel of the early 20th Century played an analogous role to rare earth minerals in the contemporary world. Lowe's work focuses on the differing ownership structures and corporate entities through which the built environment of the extractive industry was controlled. Here, we see the development of a form of physical geography, reshaping the natural geography around it, while the ebbs and permeations of human governance and ownership structures placed their own labels on the structure throughout differing era of its lifespan.

We follow the development of the industrial interest itself alongside the institutions which shaped it, first development by the International Nickel Company of Canada INCO, then exploring the corporate nature of the Canadian-British enterprise as an instrument of economic warfare. A 40-year exclusive rights deal to the mineral output disrupted by the Second World War and the various possible state actors claims on the resource German IG Farben then used the pretence of Finnish nationalisation of the complex through the war effort as a chance to expand into it as a corporate owner. Then the slow rot setting in of Sovietisation as *Gorno-metallurgicheskii kombinat Pechenganikel* was formed under *Glavnikelkobalt* with a power station built by Finnish Imatran Voima and transferred to *Kolenergo* a subsidiary of *Minelektrostantsii*. Ultimately the Soviet ministries of Metallurgical Industry and Non-Ferrous Metals presided over the final facility. There are shadows here of Norilsk and Nornikel, as the development of the formerly Finnish at Kolosjoki site served as a prototype for the in-demand metal through the Cold War and the form of production that the Soviet Union was to take in the extractive industries, reflected in other industrial sites across the Russian Arctic.

An excellent history of nickel in the High North, the reader though may not have picked up this book without seeing the word 'nickel' in the title. The book itself is short, but attends to its subject matter well, in good detail and with strong analytical and narrative form. The narrative does go a bit too quickly in places, rushing into the next segue before properly exploring the subject matter. Perhaps the commitment to the Soviet part of the history though left the author

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less room to explore other spatialities which emerged from the text and which often yielded promising tangents never explored. Without the limitation on Soviet history, the study could have followed a path towards global commodities and international capital analyses of the metal and its Arctic surrounds. Mostly though this is a good exoneration of the expense in Nordic states to fund individual monograph projects and to constantly revisit history as an ongoing, reiterative process of refining understanding. The author's delving into archives here reveals new perspectives on a war-time industry that became a Cold War power play. Looking back on this period from the perspective of 21st Century environmentalism, of post-industrial European development and from the position of the constructivist European experiment on one side coexisting with the stubborn Russian immobility on the other demonstrates the persistent balancing act of the Nordics.

The dual-sovereign, quasi-state-capital nature of the built environment of the town of Nikel, like much of the actualities of economic life in the Arctic, demonstrates that the realities of interstate cooperation are often more realistic than the neat nationalist lines of cartographers in their respective capitals. Centring on the material nickel industry, we end up with a refractive quadrilateral structure of states competing over the narrative construction of legitimacy playing really a secondary spatial game underneath the physical resource and global commodity network–node relationship. The focus on spatiality of the physical mineral geography, of both the metal material and of the space surrounding the metal give way to an odd history where the mineral is aligned with the company, the state aligns with the geography and the two then meet in an awkward quad embrace, segmented by the rivers and the ocean which ultimately made life and industry there possible. As the book concludes though, the physical geography is the reality, and the Soviet façade could never compete with reality.

Straddling geographical essentialism and geographic determinism in industrial resources and metallurgical commodities, the nickel valley coalesces states, institutions and competing histories, such that the nickel more controlled them than they controlled the nickel. There is much here to parallel with Arctic development and mining capital in the contemporary Arctic. The manner in which the materiality of the mined metal determines the social policy and built environment outcomes of those whose lives are directly impacted by the environment. There are also many parallels here with contemporary geopolitics and geoeconomics, the resources determining greater state, post-state and supra-state games, and with the persistence of Russia's 19th Century state institutionalism coexisting in the Arctic with the post-nationalist European economies of Finno-Scandiwegia. (Tristan Kenderdine Hansa Press, Lviv, Ukraine (tristan@hansa.press))

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Go East!: A history of Hungarian Turanism

by Balázs Ablonczy, Bloomington, Indiana University Press, 2022, 294 pp. US $80.00 (hbk), US$35.00 (pbk), US$34.99 (ebk), ISBN 978-0253057419

Tristan Kenderdine

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BOOK REVIEW

Go East!: A history of Hungarian Turanism, by Balázs Ablonczy, Bloomington, Indiana University Press, 2022, 294 pp. US$80.00 (hbk), US$35.00 (pbk), US$34.99 (ebk), ISBN 978-0253057419

This history grounds the reader in a macro-ideology which had grown, morphed, cell-divided and evolved over many decades in many different incarnations in Turkey, Central Asia and post-Soviet polities, but which had lain largely innocuous in Central Europe after 1990, only to be revived and repurposed for domestic politics in contemporary Hungary. Against the backdrop of a very current form of political thought, Balázs Ablonczy brings to the audience a deeply grounded study in the long history of Hungarian Turanism, a European Turanism that had been present and purposeful at every stage of Hungarian history from the late 19th century to the present. While contemporary Hungarian Turanism presents as less radical than the Turkish and Central Asia forms, it is yet deeply in opposition to contemporary European Union values and forms the ideological core of the populist right in contemporary Hungary.

Here is a very solid work of history, taking its time, solidly based in primary source work, piecing together a broad social and political movement which directly impacts modern Hungary, the modern European Union and the contemporary place of European regionalism in the world. This is a history of a movement, not of an institution, a group of people or a state. The strength of this history is remarkable coming from a discipline that has, in recent times, looked like a dying art, not only because of the universalist triumphalism over historicism, but by the hollowing out of the Western academy and the institutional decay of history as a discipline. There may be some hope for global scholarship in the revival, reanimation and voicing of scholars such as Ablonczy working away from the limelight of the hollowing Atlantic institutions.

Ablonczy traces Pan-Turanism as a movement through a long 20th century, encompassing the lead-in of the late 19th century and the political uncertainties of the 21st century. While the initial chapters cover the proto-formation of the Turanian idea from 1836 onwards, the century of Turanism is really from the 1890s to the 2020s. Hungarian Turanism was a form of historical revisionism at the time, not a geography-based memory, but rather a rediscovery of the origins of Hungary through the historiography and ethnography of Hunic settlement in Europe. Hungarian Turanism ideologically was not looking back to Savitsky and Trubetskoy and the Eurasianism which narrowed through the Soviet period to the single manifestation of Gumilev. Rather, the multitude of people, publications, streams of thought and political repurposing of Turanism in contemporary Hungarian history meant Hungarian Turanism was strong enough to be independent of any dominant group, but still subordinate enough to have to fight to survive in each political climate through Hungary's mostly survival-centric century. Hungarian Turanism, while widespread as Ablonczy shows, was always a reactionary ideology, its existence and political purpose was in opposition to existing political structures. Despite waxing and waning through historical events largely determined by external factors, the Hungarian Turanist movement maintained much internal force, through which it underwent a series of renewals and reapplications to differing political forces throughout Hungary's modern history.

This is an excellent, well-written history that uses appropriate sources. Each chapter has a theme and can stand alone, but is also cogently woven into a longer narrative. The voice can be a little casual and journalistic at times though, with overly dramatic crescendos and finales. This is at odds with the author's style of carefully built personal narratives constructed throughout, the grand narrative voice tends to undo the painstakingly built-up collage of individual stories. The strength throughout is the breadth of the array of characters the author has assembled. Agenting so many historical persons combined with the focus on the evolution of Turanism means that the big-picture-history seems to happen almost in the background, in the soft focus of the cinematographic lens. We do see the impact of the macroscopic historical junctions such as the Treaty of Trianon or the transitionary period of the Second World War, but because the camera remains always fixated on Turanism, the more conventional aspects of Hungary's political history tend to fade in and out to the soft periphery captured by the lens.

Everything one would expect from a classical history is here, yet the reader is not bombarded with academics. Its nine, tight chapters read as flowing and forcefully as a trade book. And yet all the extras are also here, original maps, photographs and strong indices of both names of persons and of terms. The name index in particular is a great source and also demonstrates the methodological solidity of the project: people make history. The list of Turanist periodicals is also a great jumping off point for the specialist to follow into deeper research, and the bibliography is its own library, a treasure trove of original sources, which have not been Anglicized into obscurity. Here the publisher treats the reader with respect. This is the type of solid, well-thought-out secondary history that has largely disappeared from academic publishing under the publish or perish model. There is also a persistent theme of publishing throughout Ablonczy's history. That books and periodicals kept being written and published exploring Turanism and its relation to Hungarian society despite the difficulties in establishing and maintaining a body of Turanist thought. This was not a fringe religious or pamphleteer movement, but the fortunes of the ideological movement were tied very closely with the ability of key people to maintain funding and audiences for their works. The Turanist movement persisted with each solid brick of thought added to the wall by a serious work published in books, magazines and newspapers.

Ablonczy trying to find 'The East' in Hungary is reminiscent of anthropologies that focus on a particular commodity in human history, such as the depiction of pineapples in Renaissance art or the sociology of the soy supply chain: once we are looking for Hungarian Turanism, we suddenly see it everywhere. Ablonczy's masterful history walks through what could have remained a black box of contemporary Central European ideology buried within wider structures. He guides us patiently through a long century with the attention to detail of a cinematographer crafting a series of long shots. Through his framing of the entirety of the Turanism structure he captures and illuminates the joints, cross-beams, hidden passages and brittle walls of a Turanism which is embedded within the larger frame of Hungarian 20th-century social and political history.

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Go East!: A History of Hungarian Turanism

Reviewed by Tristan Kenderdine
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The scholarly origins of ethno-linguistics is always a fascinating framework of inquiry. The rapidity of any findings in this field though, being appropriated into far right nationalism devoid of scholarship and formed on superficial bullying polities of power is consistently disturbing. Balázs Ablonczy's scholarship shines through in this history of people shaping an interesting and refined idea. Ablonczy's is an excellent history, far deeper and broader than the contemporary Hungarian political narrative which has been captured from the same sources that it is constructed from. Turanianism in this Hungarian form was less about linguistic and geographic ethnology and more about finding a polity-defining theory to base a political push into the future on. In that sense, its appropriation by Viktor Orbán and Fidesz in the age of the European Union is more understandable as an interrelationship between the right element in the Hungarian polity seeking not a return to Turanian origins, but a return to the legitimacy of Turanism as political thought through the 20th century. This is the dangerous element of revising this already revisionist history for a modern populist movement.

Ablonczy here though offers an impartial, apolitical and genuinely authoritative history of a political thought through a mosaic of smaller people, actions and institutions within the historical record. Ablonczy details the loose collection of personalities and the formal institutions which formed the foundation of the Hungarian Turanist movement. Natural for the time, most institutions took

the form of business and social groups such as the freemasons, the Hungarian Eastern Economic Center, the Turanian Society (later the Hungarian Eastern Cultural Center); or the formal scientific and philanthropic societies such as the Hungarian Academy of Sciences and the Orientalist Institute, though these were more often formal academic manifestations of the lobbying power of the members of the stronger Hungarian Eastern Economic Center. The grand mosaic of Ablonczy's history is mostly tiled from the falling institutional debris of the collapse and dissolution of the Dual Monarchy. Hungarian elites watched the development of European nationhood in modern Turkey while still cultivating connections with Balkan and Ottoman groups based on the shared institutional confusion of Hungarian Easternism. Against the reality of institutional decay, the need for a replacement Central European political ideology conflicted with contemporary ideas of statism.

'The East' of the Hungarian Turanists shares much with the émigré White Russians of Eurasianism in the 1920s, struggling with the problems of geographic determinism, linguistics and ethnography. The Russian Eurasianist émigrés were working in Central and Eastern Europe at the same time period as the development of Hungarian Turanism, exploring the same call to nature and geographic determinism which was later built out into an ethnic minority ideology in the Soviet Union through a combination of cooptation and genuine interpretation of Gumilev's work. Both Eurasian and Turanism though veer dangerously into the ethno-identitarianism that destroyed 20th century Europe, and of which the 21st century polities are still rightly wary. For Hungarian Turanism though, the core impetus for a sustained attempt at ideology formation throughout the long 20th century was the concept of Turanic peoples as an identity in opposition to other European identities, and an identity also at odds with either the small industrial nationalism emerging in Western Europe or the large decaying multi-ethnic Empires of the Dual Monarchy and the Ottoman.

The history as a whole though is a smooth narrative. Perhaps Ablonczy could have connected the reader more clearly with the changing tapestry of Europe at the time, we often feel fully buried in domestic Hungarian people and institutions and then force ourselves to remember what else was happening in Europe at the time. Throughout, the ideas of Turanism as they developed also always seem sequestered within a sand box. The exploration of Eastern historiographic, ethnographic, anthropological and linguistic origins was developed by a society which was overwhelmingly European, an Austro-Hungarian society of periodicals, artistic and scientific societies, Hungarian Turanism was developed by the elites and the inheritors of an advanced European empire. Perhaps here is the book's key fault, largely ignoring the Turanist movement's impact on any of the early 20th century wars which shaped the internal form of the Hungarian state

and society. Concepts of ethnonationalism and economic nationalism were intertwined in the 20th century, resulting in devastating industrial nationalist wars. Hungary's internal political frictions developed alongside the ethnographic tradition of Turanism, and the interplay between conflicting national identities must have been formative through the First and Second World War periods. Instead, we skate over both wars, as if they were merely 19th century imperial border skirmishes, not bothering the coffee house Turan elites in Buda.

This is a thoroughly good history though, it is not sensationalist, not rushed and not politicised in its findings or arguments. It is a calm, reasoned, well thought through and cogent narrative based on each part being in good enough form to allow each moving part to be disassembled and reassembled to examine for functionality. Ablonczy has constructed a miniaturised version of history here, populated with a cast of hundreds of characters, each built up competently from source work. This is the type of sweeping history which accurately delivers the macroscope of grand historical narrative simply by animating all the small human personalities who actually created their history. In terms of publication standards, Indiana University Press here is outdoing some of the larger imprints in quality, and a well-priced paperback version is most welcome. The endnotes are in good order, neither excessive nor unnecessarily clipped. Early and mid-career scholars should take note that university imprints like this do such a good job that there is no need to use the lower-tier Routledge or IB Tauris publishers when such great university presses are still doing real work.

Ablonczy's history is like a cathedral in Mittel Europa, the architectural façades full of detail which adds to the overall beauty, the structure itself solidly planned out. This book is well founded and structured, each piece whether ornamental or functional can be disassembled, examined and appreciated on its own, and the functional usefulness of describing the political motivations, structures and future signposts of a theory of pan-ethnonationalism which cuts to the heart of the European political identity in the 21st century is monumentally useful.

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Review

Lviv's Uncertain Destination: A City and Its Train Terminal from Franz Joseph I to Brezhnev, Andriy Zayarnyuk. University of Toronto Press, Toronto (2020). 389 pages, US$88.00 hardcover

Infrastructure is not a materiality removed from human experience. The built environment is, rather, interwoven with human geography, locked in an inter-relationality where one shapes the other. Zayarnyuk here has written a history of a railway station, in a city, in a place in time, but the approach is one of gateways, of terminals, windows, boulevards, and arcades, where the Lviv railway terminal is a two-way mirror, a proxy for urbanity, industrial history, built-space geography, and historical political geography which both shaped and was shaped by the city Lviv.

Zayarnyuk uses Henri Lefebvre's concept of 'social space' and Walter Benjamin's Arcades Project as inspiration with nods to Edward Soja and David Harvey, suggesting a very well-defined theoretical understanding of space and social life within historical capital frictions. This promising use of theory results in a modern historiography merged with urban political geography, exploring both modernity and capitalism through the built environment. This is a new type of history, a modern, thoughtful use of theory with strong commitment to primary sources, but not overwritten and not too dense in detail to alienate the prospective reader. Framing the everyday experiences of people through a historical materiality is a good approach to this type of historiography. Zayarnyuk animates the particularities of everyday life, fixating on the materialities through which actual people lived, worked, and undertook both banalities and urbanities. This is a history not of wars and big social movements but of infinitesimally small experiences locked in pieces of time, compiled and iterated, only rarely punctuated by large historically significant events. Through the history, geography, architecture, and materiality of everyday life, Zayarnyuk pulls together sources from very different fields to form a holistic picture of a city.

Zayarnyuk's history of the everyday does though exist against a backdrop of immense historical proportions. The necessary scramble for the railway as a new technology was a social process which would define the wider course of mercantile, communist, capitalist, and now functionalist Europe, and wholly defined smaller political entities of Central European and Carpathian cities through the political realities of connectivity and trade. His prism of the railway station is not arbitrary, the historical fortunes of regions, states, peoples, ideas, and all manner of social structures from renting classes, labor unions, mercantile guilds, and communist bureaus developed in the lea of Lviv's railway station. Seeing historical geography jumping off points where Lviv could have been a Vienna or a Berlin, a New York or a Philadelphia, Zayarnyuk examines the materiality and capitalist urbanism of a city which stands now more as a relic of the twentieth century within the stasis of nineteenth century potential. Throughout the book an analytical form emerges of history and people examined through architectural objects: there is a transmutational force between built environment and the social, one defining the form of the other. In twentieth century Lviv, the rail terminal institutionally overtook the church as the primary source of social transmutation, yet while the new built materiality of the terminal became more socially transformative, it occupied a similar architectural materiality as the abundance of churches extant in the city.

The idea of multicultural Lviv's rising and falling fortunes as a city connected to continental and global systems yet shaped by various nationalisms is also well explored. Zayarnyuk makes the point that Lviv is not simply a crossroads of continental geography and history, but also of historiography – few study this messy period of interwar Poland or Soviet Ukraine, much less the older histories of the Polish-Lithuanian Commonwealth or Austro-Hungarian Galicia or any twentieth century ideas of an independent Western Ukrainian state. With the physical industrial infrastructure of the railway comes the default bordered economy of economic nationalism: the otherwise socially constructed political unit of Galicia emerges with the railway into an economic entity in earnest and is immediately confronted with under-industrialization and underdevelopment. Zayarnyuk describes the class, demographics of living districts, and the political economy of the city through the prism of the rail terminal as a single manifestation of built environment, capturing the forces of reflexive inversion, of an inter-relationality between decay and renewal and between the human and material.

Zayarnyuk is clearly intimately familiar with Lviv as a local, but he avoids the trap of autoethnography aside from a few poignant personal stories. Wary of the traps of anthropology, he remains disciplined throughout the book, faithful to both theory and sources, and yet wields an ultimate ace, this is his city, and his terminal and everyday life is intersected with this historical space and the materiality it imbues to the city of his youth. Zayarnyuk's English voice is strong and sources in Ukrainian, Polish, and German are a testament to the learnedness underlying the work. University of Toronto Press has also done a good job; this is not a cheap book, but it is of high quality. The lists of archive details and the acronym list, including details on rail departments and contemporary political parties, are great resources. A highlight is the excellent maps and figures throughout, including the use of color. The book is filled with handsome monochromes, color reproductions of old maps, reproductions of color postcards from a private collector, and photographs of city architecture and the terminal. The rich use of these visual sources adds much to the narrative which explores the materiality of space: to take visual space seriously, leaving the prose narrative behind and looking at postcards, architecture, and cartography adds layers of depth and breadth to the historiographical argument and allows the reader to explore not only the core spatial argument of the text but to also build up an imaginary of layered

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0305-7488

spatial analyses. The index is good, and it is comforting in the bibliography to see faithful pointers to actual archive pages rather than to have them hidden for the sake of simplicity. Bibliographers and publishers though need to learn to represent IPv6 html addresses in human language rather than printing the mess of hexadecimal conversion that forms the computer language hyperlink.

The window of the built environment to the ephemeral is a prescient closing, arriving at the Lviv terminal in 2021, the same goddess of commerce still looks out over a city with nineteenth century architecture, twentieth century transport, and twenty-first century commerce. The people who live and work in Lviv mirror the social framework from when the terminal was built, still reflecting the human built environment inter-relationality of labor, commerce, transport, and an essentially European urbanism. From the terminal, straight tram lines extend in a boulevard transmitting and transmuting people to the city, carrying them directly into a complex urban environment defined by layers of historical geography. An overlay of fragile borderlands being written and rewritten into constructed historical time, Lviv and its rail terminal are the outcome of an iterated historical palimpsest, time living manifested in a material building. Where often anthropologies center on the interplay between natural and human environment, this history uses theoretical geography to agent the railway station as an institutional prism through which the history of people occurs. Capturing the reflexivity of the human-built environment of Lviv's terminal, Zayarnyuk's history is looking into urban history as if through a terminal darkly, that through the dim mirror of this human-built environment a series of historical images may be illuminated.

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BOOK REVIEW

Sören Urbansky, Beyond the Steppe Frontier: A History of the Sino-Russian Border

(Princeton University Press: Princeton, 2020), 392p. $39.95 hardback; $27.95 paperback

Tristan Kenderdine[1]

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This is a region characterized as a borderland, and often viewed through the historically projected lens of Beijing or Moscow, as a side show to European powers' trading posts in China seaboard ports. Urbansky instead creates an oil painting of a history, framing the geographic area around Transbaikal but with soft focus on adjacent landscapes, replete with multiple small stories told on the details, with the main landscape remaining a well-constructed panorama. Urbansky's loci is the Aga steppe and the political history of Transbaikal and its adjacent political units. Through the boundary he explores the Russian imperial zone which grew into a hardened border, and multiple polity and temporal perspectives on the political, economic and cultural scenes of the bordered space. This offers an outside perspective on the development of China's northern borders by the people who shaped them.

This is a history very much grounded in geography. And while Urbansky's broad canvas is perhaps not a succinct study of the totality of the very large China-Russia-Mongolia border region as a whole, the targeted, focused histories he has woven together on the important borderlands from a human geography perspective create a mosaic from which a holistic analytical structure of the wider natural and built geographies emerges. Steppe, river, treaty, railway, metropole, borderland, the human, built, and natural geography of the area are interwoven into a thick description grounded in excellent primary source work. Exploring the people of the region though is the strength in Urbansky's treatment, the frictions and overlays between peoples here yielding stories which develop from the changing historical demographics over time.

The time span of the history is also impressive, Urbansky runs from the Cossack creation of a space, the allowed influx of nomadic ethnicities to create a viable population, and the development of the Kiakhta North China trading system. He covers development of the frontier around this built environment, the early Amur Russian dreams

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and the railroad diplomacy of Manchuria. Moving through the well-worn historical matter of the Soviet period, the strength is the continued analysis from the perspectives of people living in the area, both settler and autochthonous. Into the contemporary China development era Urbansky captures a friction between state and people still caught between security and trade, development and control, agricultural promise and state industrial realities. Throughout, Urbansky is thoroughly grounded in the space and time of the borderlands themselves and the people who lived there, not the power-projecting capitals or the grand narratives they controlled. There is particular attention throughout to the concepts of *inorodtsy* and autochthony and the symbiosis which developed as peoples, states, civilizations, and systems formed new wholes from the frictions between the components parts of conflicting political institutions as they developed.

The book is based on the author's PhD dissertation and at times this shows, detracting from the exercise as a stand-alone book. The structural system of short sections interconnected into chapters and further interconnected into a book do work well, but they also leave the reader a little dissatisfied, often waiting for a point which never materializes. Urbansky also seems to still be feeling for a voice which he does not yet possess, the type of authoritative historian with insightful side comments forking off the main trunk-line narrative. The preference for pretentious over precise language could be improved to avoid unnecessary ambiguity and some multi-form linguistic source-work finds its confused way into the final manuscript with 'Oirat' and 'Oriat' interchangeable throughout. But, such few small criticisms not-withstanding, this is a very good book, an excellent history, which feels complete and rich and fertile enough for future studies to grow from it.

The professionally outsourced cartographic maps are well presented and the author's other visual sources are well displayed throughout: the page of the Russian borderland passport is beautiful and the Chinese map of Manzhouli is both very clear and useful, both to the modern reader, and as a primary source. The use of pictures throughout is a highlight of the book, well-produced and consistently adding to the narrative.

This is the book that so many map-gazers and trans-Manchurian travelers have dreamt of writing, and we are all richer now for Urbansky's broadly researched study now published as a readable paperback. Urbansky's history is a narrative emerging from outcomes defined by the landscape, not as the landscape as an object of state interventions and instrumentalities. The author has a microscopic view of the minutiae of a small region, but still captures the greater externally formulated narratives which ran through the wider region. Autochthony is a leitmotif of the work, with the concept of the borderland landscape being drawn over iteratively as Urbansky animates the different peoples who created space, delineated unspace, intermingled, excluded, and reformed the political geography of this constructed borderland. Trans-autochthony could be the meta theme, of the creation of a habitus from a dry-steppe reminiscent of two oceans of humanity of opposing currents running up against each other to create a political geographic institution.

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Japan's Abandoned Islands of Labor in the Soviet Far East

Eleven Winters of Discontent: The Siberian Internment and the Making of a New Japan

By Sherzod Muminov

Harvard University Press, 2022, 384 pages, $45.00 (Hardback)

Reviewed by Tristan Kenderdine

THIS IS A BOOK of forgotten histories, isolated, excluded and almost forced into forgetfulness. The internment of Japanese prisoners of war in Soviet Union labor camps after the Second World War comprises hundreds of thousands of human stories that have mostly been lost to collective memory. Muminov here gives voice to the thin thread by which this history is hanging in historical and national memories. The uncomfortable memories explored here were of a double abandonment: Prisoners who were interned for years or died in labor camps in foreign lands, and those who were repatriated, returned to a state that no longer existed. Japan was newly embarked on a new form of national consciousness for which the memory of the imperial repatriates was an inconvenient truth. Hidden from history, trapped by geography, adrift and abandoned by their state, and at last not reaccepted by the new Japanese state, the internee experiences formed under physical capture were islands of individual abandonment against a backdrop of state-captured narratives of remembering and forgetting.

While the centerpiece of the work is the human voices, the institutional setting is the GUPVI, the system of forced labor camps which operated in conjunction with but separate from the GULAG. GUPVI was the institutionalization of forced labor of prisoners of war never sent home from the Second World War, mostly Japanese from Manchukuo and Germans from the Eastern front, who were used as slave labor in manufacturing camps and infrastructure projects by the Soviet state. The difficulty in combining archival work on the Russian side and memoir work on the Japanese side has meant that many of the stories of the surviving returnees have remained untold. While the Aleksandr Solzhenitsyn reference is forced, Muminov's archipelagoes of linguistic histories is a strong analogy. These are memories existing as stories isolated in the Russian state archives, isolated in individual Japanese memoirs, both distant from the mainland of English language historiography. Reconciling these Russian, Japanese and English language histories is a powerful undertaking.

Rarely are historiography methods a highlight of a work, but Muminov's source work is a strength here, drawing from archives as well as post-repatriation publications but most strongly from the personal memoirs of the repatriated themselves. Muminov explores a leitmotif of a people without a purpose, a past or a future. These are not stories of individual prisoners whose labor was abused, this is the history of a group of people who left a state and were transformed through great personal hardship into a polity so completely alien that no return was ever possible. While many hundreds of thousands of individuals were repatriated to Japan, their historical memory, and contemporary legitimacy, was largely discarded. What does it mean to have left Manchukuo as a settler, be subject to the trinity suffering of cold, hunger and labor in the Soviet Union and then to be repatriated to a Japanese state that had been transformed beyond recognition and without capacity for acceptance?

Throughout, the strength of the historiography is in the breadth of historical voices that Muminov animates. The chapters are a little disjointed, but each is so strong that taken together they form a cogent narrative. Muminov explores the historiographical place of the repatriated prisoners and the gaps in the knowledge created by linguistic determinants to knowledge creation and memory preservation. We are introduced to the Soviet indoctrination system, and the internal friction internees faced being both a living embodiment of Japanese imperialism, while being reeducated in anti-imperialist communist sentiment. Muminov's memoir-driven approach makes the middle chapters on the prison camp life and the institutional history of the GUPVI system the load-bearing wall that the book hangs upon. The core of the work is here in the memoirs of hardship, suffering, survival, reform and repatriation. The later explorations of the various group and individual identities developed within the ideological and global political systems all depend on these formative experiences in the camps, which Muminov fills in with great detail. With no legal definition separating the repatriates from the millions of others displaced by the implosion of the Japanese Empire, the Soviet internees struggled to find their place in modern Japan, and were abandoned and isolated anew. The exploration of this legal challenge to contemporary Japan in the later chapters probably has enough material for its own book.

Muminov explores a leitmotif of a people without a purpose, a past or a future. These are not stories of individual prisoners whose labor was abused, this is the history of a group of people who left a state and were transformed through great personal hardship into a polity so completely alien that no return was ever possible.

The legacy of the Japanese Empire embodied in these prisoners, irreconcilable with the Japan which had so rapidly remade itself, had created voices that slowly became false memories and reminders of an imaginary in the national consciousness of collective forgetting. Uncovering and lightening the stories of individual internees is only one part of the history, exploring the reality of why they were buried in the first place is the greater contribution. Muminov here enlightens the personal histories of individuals who existed in some cases for over a decade without a state, against the backdrop of a human-natural geography of labor and transformation in Russia's Far East. These internees were the embodiment of the changing nation state structure of Northeast Asia, and for those abandoned by, orphaned from, coopted into and ultimately alienated from nation states, this book highlights that neither the beginnings nor ends of wars are in any way under control, plannable or orderly at the human level. Once a state lets slip into war, the human cost even for able-bodied survivors can be decades in the making and decades more in the unravelling.

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Polar Record

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Book Review

'Observing' the Arctic; Asia in the Arctic Council and Beyond, Chih Y. Woon and Klaus Dodds (eds.). 2020. Cheltenham: Edward Elgar Publishing, Hdbk, 256 pp., $135, ISBN: 978-1-83910-8204; eISBN: 978-1-83910-8211 (eBook).

It is good to see academic analysis rise through the mist of tired 20th century geopolitical analysis, the haze of contemporary government policy edicts and the journalistic hype on the scramble for Arctic resources. The Arctic multilateral state, intergovernmental organisation and indigenous institutions and discourses which have developed, at great iteration and time cost, are now having to accommodate wholly external fields of vision and foreign policy ambitions from Asian state actors. Analysis of non-Arctic states' policy positions towards the Arctic is an important area of research. So too is considering various Asian states' differing Arctic Council engagement policy agendas. However, this book is not particularly about Asian states' engagement with the Arctic Council and not even really about Asian states' policies towards the Arctic.

Part 1 is a good piece of scholarship, with macroregional perspectives, theoretical contributions and institutional analysis. Part 2 is conceptually and structurally more vague, simply running through the formula of *Asian country x in the Arctic* or *Arctic state x view on Asian observers*. To have three dense chapters and six light chapters is not a bad structural form for a book, but non-research writing should be a chance to explore new ideas and to present new possibilities for taking research forwards. There are notably strong chapters here from Sebastian Knecht and Nadezhda Filimonova. Knecht explores science as policy and the increasing politicisation of science in the Arctic. His approach is analytical and source-based, being the chapter which connects most strongly with actual Arctic Council documents, a trend notably absent in many other chapters. Filimonova tackles a great inversion: China's Arctic policy as viewed from Russian sources where she explores the potential for inverted frameworks of institutional analysis. Her use of Russian academic sources also adds depth to form an image of the discourse. Medby's chapter working from the Nordics states' perspective is also a useful vision, Bennet brings in the non-state indigenous permanent participants' view, while Park's chapter on Korea as a non-China East Asian Arctic Council observer perspective rounds out the book's distributed visions approach. Not having a chapter on Japan is a weakness though, particularly given there are some excellent Japanese scholars working on both the Arctic space and Japan's Arctic policy. Also the institutional fragility of the connections between Arctic littoral states, Asian states and indigenous polities remains thinly explored.

The approaches of most chapters though are either theoretically withered, generically geopolitical or pseudo-anthropological, none of which are particularly convincing in assessing the efficacy of Arctic Council institutions. Public administration, international relations, political science or public international law approaches could all have been useful here, but are absent. Only Knecht's chapter takes the political institutional subject matter seriously and considers the subjects as institutions, state bureaucracies and sources of international legal agency. Most other chapters, by treating the subjects through socio-anthropology or geopolitics lenses weaken their analyses. Would we really take the same tired Mackinder or Brzezinski geopolitical approaches or patronizing narratives of the historical 'othering' to analysis of Spain or Italy joining the Arctic Council as observers? Consider the counter-factual analyses of the 'geopolitical potential of Spain's Arctic maritime ambitions' or the 'critical anthropology of Southern Italian economic networks and their incompatibility with public international law and multilateralism in the Arctic'. Despite many of the authors' anti-Orientalist frameworks, a distinct unwillingness to treat state actors as institutional agents emerges from this set of supposedly state analyses.

One chapter stands out as especially egregious. Chaturvedi attempts to explore ecological, social and geopolitical connectivity, but his insubstantial writing struggles for long paragraphs to find someone else's definition of globalisation and connectivity and then awkwardly wedges in the trendy Anthropocene trope of 'imagination.' He gets to the end of the chapter still undecided on his terms citing 'so-called ecosystem services.' For a paper against Orientalist scramble, Chaturvedi's becomes simply that, a source-less generalisation of China's *Belt and Road*, where a cottage industry of academics have spent seven years making hay on a topic left unresearched, instead opting for 'it's too early to tell.' Chaturvedi claims that 'Beijing has eschewed producing cartographic mappings of the BRI so as not to conjure up misconceptions' which is odd given

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my collection of China state publisher produced *Belt and Road* maps. This hand-waving approach is indicative of the wider book where a persistent theme of anti-Orientalism sometimes degenerates into outright anti-Europeanism, and yet the authors in individual and as a group systematically ignore primary Asian sources and many barely touch the Arctic Council primary sources. Relying on Bruno Maçães or Parag Khanna in an analysis of Asian states' engagement with the Arctic negatively impacts the status of geopolitics as a serious sub-discipline. Chaturvedi like many of the authors in this volume also falls back on the easy pseudo-history that all European colonial history including that in the Arctic was fundamentally driven by racism. This is a plague of lazy thinking that has infested universities across the world and contributed to the significant hollowing out of institutional reputation and intellectual strength. Throughout the book, there are constant references to 'the other' 'Orientalism' and 'Anthropocene' without any scholarly engagement with the philosophies underpinning them, Said, Foucault, Derrida and the Frankfurt School critical theorists are eschewed, presumably unread certainly uncited, to engage in academic trendyism.

The topic of Asian state observers in the Arctic Council is hugely important. But this unfortunate book presents mostly tired tropes and uninventive thinking and is ultimately only really a stocking-stuffer for the academics' publications lists. The chapter list feels disjointed and unsystematic, but that is a generic fault of the genre. The $135 market valuation by the publisher is patently ridiculous, but is not limited to this volume. At this price on this imprint, this will be a volume which is institutionally collected by Arctic and polar specialist libraries and will remain largely unread there. With little research in this book, it reads more like the indulgent notes of a conference, where academics in a small pond have simply referred to their own conversations as qualitative data or autoethnography.

Asian state policy in the Arctic Council is serious, and it should have deserved a serious treatment. However, the result of this book is a series of essays written from the ensconcement of the high-castle without much thought of connecting to the practical institutional realities of the Arctic Council. While almost every chapter in the book decries the lack of expert nuanced opinion on the five Arctic Council observer states introduced in 2013 the topic remains largely unexplored. Unfortunately, this volume does not help the specialist in deepening an understanding of the Arctic region and the Arctic institutional actors and state processes, nor provide any useful overview or introduction to examining how external actors' domestic policies and regional spatial concerns determine the dialogues, discourses and institutional norms which govern the patterns of behaviour for Arctic Council institutional actors. (Tristan Kenderdine, Future Risk, Almaty, Kazakhstan. (tristan.leonard@ftrsk.com)).

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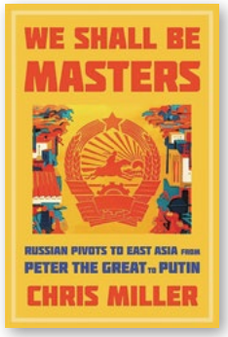
Russia's Enduring Pacific Ocean Dream



We Shall Be Masters: Russian Pivots to East Asia from Peter the Great to Putin

By Chris Miller

Harvard University Press, 2021, 384 pages, $26.95 (Hardback)

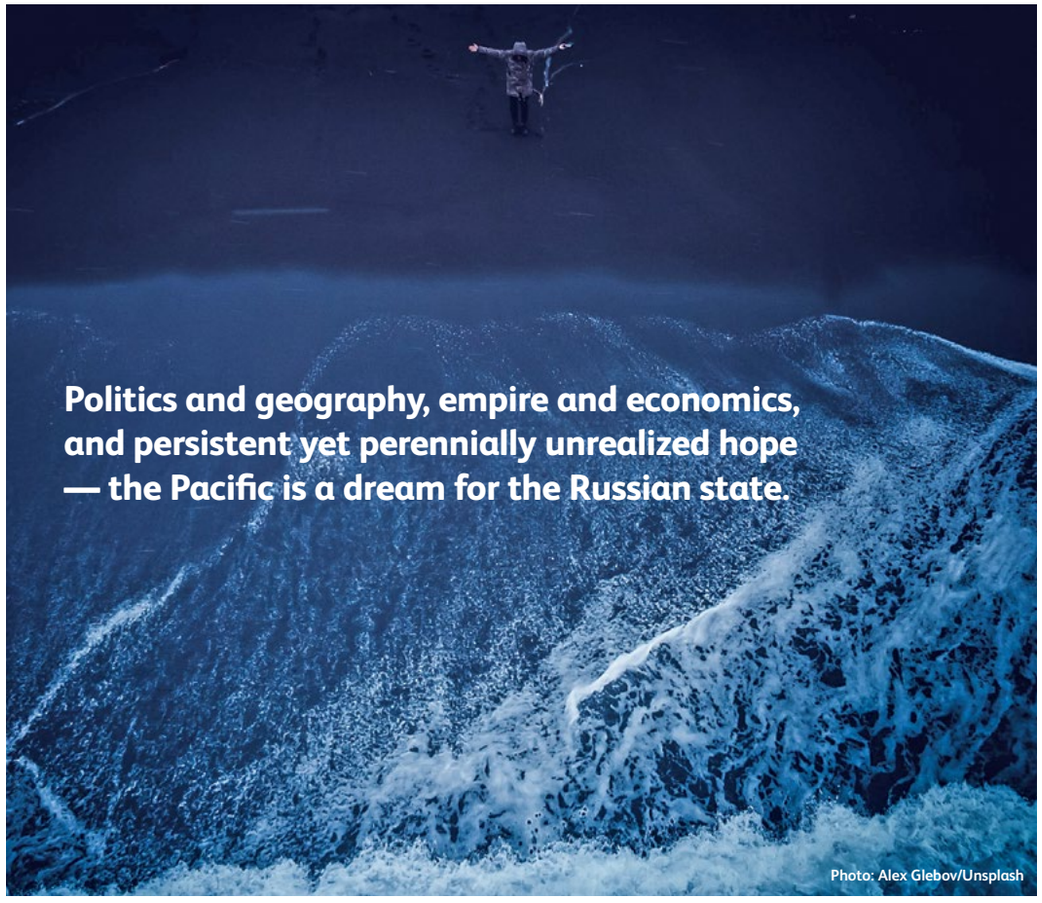
Reviewed by Tristan Kenderdine

RUSSIAN STATE POWER in the North Pacific and East Asia is an historical dream spanning four centuries that yields only a single-celled concept without ever achieving the replication, growth and natural mutation necessary for a viable Russian political and economic hold on the physical, economic and political geography of the Pacific Ocean rim. The Pacific gently lapped at the early Russian Asian dream-state as Peter the Great closed his eyes on the world and Russia awakened to the possibilities of the East. Yet still in Vladimir Putin's 21st century, the commerce, regional integration and state-power projection of Russia's East remains ephemeral and subject to reiterative dreamings.

This history traces Russia's politics and economic geography through the oscillations and transmutations in its Asia policy from 1697 to the present. Beginning in earnest, though, with Alexander I in 1801, the reader is invited to share in historical Russian dreams. The potential for a trading settlement in Kodiak invites the reader to fill in whole centuries of alternate history of a Russian North America. Dreams of a Russian North Pacific exclusivity, dashed by a complete retreat to mainland Eurasia, are replaced by alternating dreams of an agrarian Amur valley, a mercantilist Russian Manchuria and an industrialized Northeast Asia without European influence; all are woken before they ever deepen.

The geographic locus of the book starts in the North Pacific and Alaska, comes back to center on Northeast Asia first through conquest, trade and mercantilism, and then through industrialization, war and Soviet struggles with postcolonialism. Through these series of false starts in Russia's East, though, contemporary Russian policy is framed as still struggling to articulate into reality its dreams of Russia in Asia. The chapters each take a separate but linked geography in the story of Russia's fumbling and ultimately failing attempts at empire. These linked narratives follow a pattern of demonstrating sources, and agenting historical voices, before expanding into wider narratives and original analysis. This source-work in the early chapters results in a tight focus on a small cast of characters as each chapter constructs a narrative centered on one or a small number of Russian officials. Thus we get the stories of Alexander Baranov and Nikolai Rezanov struggling to hold on in the Russian-American colonies, Nikolai Muravev's daring conquests in Amur, Nikolai Przhevalsky's misadventures in Central Asia and Sergei Witte's policy battle with Nicholas II in the conflict between industrialization, trade and territorial expansion in the Silver Age.

The second half of the book, though, loses this intimacy with character-driven narrative, instead falling back on wider views of grand narrative, and the middle sections on Russia-China relations from Sun Yat-sen to the close of Korean War do not add much that the specialist does not already possess or that the generalist cannot get elsewhere. The great imagination of the transcontinental railway, the Soviet Union's initial backing of the Nationalists in the Chinese Civil War and then dealing with the geopolitical realities after the Pacific War and through the Cold War alignment of post-colonial Asian states are all adequately covered, but seem forced. We do, though, get a feel for the commodities, geographies, polities and politics at play as differing conceptions of a Russian Far East vie over time in constant friction with domestic politics and the people who shaped them in European Russia. Mikhail Gorbachev's late and ultimately impotent attempts to re-engage trade with the Northeast Asian industrial miracle economies and Putin's plan to impose the regional commercial policy that Peter the Great had imagined developing organically from the early 18th century round out for the reader centuries of half-starts, unrealized policies and an immaterial Russian Asia-Pacific dream.



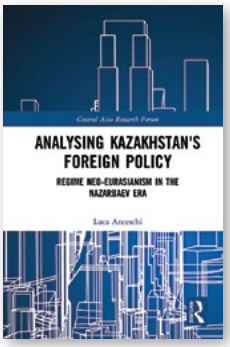
For all the geographic adventures of this highly readable history, it is let down by some very bad maps. One, of contemporary Russia, relegates Lithuania to the interwar capital of Kaunas, removes any capital from Kazakhstan and Russifies Kishinev for Chișinău, Semipalatinsk for Semey and makes some undiplomatic choices in its romanizations of Kharkiv, Kyiv and Sofia. Another map of Russian expansion in 1850s-1890s Central Asia shows the modern borders of Azerbaijan, which not only did not exist as a state but which, as the Khanate of Baku, had already been incorporated into the Russian Empire. Akmolinsk, which did exist, is labelled Astana, and Islamabad, not built until the 1960s, takes the place of Rawalpindi. Asia and the Arctic fare little better, with the archipelago of Novaya Zemlya rendered as a single island in one map, while another labels Dalian as Lüda in the 1850s when this was an administrative name only from the 1950s.

Politics and geography, empire and economics, and persistent yet perennially unrealized hope — the Pacific is a dream for the Russian state. But it remains as ephemeral now as in the 17th century, caught between a Moscow policy mentality not reconciled with Russia's continental economic geography and a 21st century European Russia retreating from modernity into cultural traditionalism, with the Far East still facing many of the same institutional hurdles to realizing its potential as one, two, and three centuries ago.

"Peter the Great to Putin" is a good subtitle, because the over-ambitious, over-committed and over-confident policies of modern Russia through the globalization period and the rise of Asia in the 21st century mimics the hubris of Petersburg's historical Pacific Ocean ambitions.

Tristan Kenderdine is Research Director at Future Risk.

Myth and Reality in Kazakh Ideology



Analysing Kazakhstan's Foreign Policy: Regime neo-Eurasianism in the Nazarbayev Era

By Luca Anceschi

Routledge, 2020, 196 pages, $124 (Hardcover)

Reviewed by Tristan Kenderdine

This study intertwines two narratives: Kazakhstan's state policy of continuing union state politics with Russia, and independent state appropriation of an ideological narrative to legitimize the Nazarbayev regime. The contrasts between the deep ideological forms of Eurasianism, the complexities of independence, unionism, and multivector foreign policy, and the self-aggrandizing use of theory, history and state by the ruling family are all woven together into a cogent narrative.

Ultimately what Anceschi uncovers here is a "frailty policy" — too useful to abandon, too brittle to be used for much longer. Mostly the work is an examination of the appropriation and application of old excuses to new problems. Regime neo-Eurasianism is for Anceschi an excuse for Russian unionism, masked in independent state mythmaking, ethnonationalist justification, and a shadow pluralism poorly constructed as multivectorism. What is missing from the study though is any future projection of what form regime neo-Eurasianism will morph into once its usefulness has been fully extracted by the state.

A series of dichotomies are explored in this appropriation and deployment of ideology as policy. Kazakhstan's Russia "one-way dependency" is good analysis, as is the friction between ethnopolitics and Kazakhstan's foreign policy. These are together contrasted with the USSR's "centralized pluralism" and the revisionist Soviet historiography used to rewrite colonial spaces into a Russified narrative. For the Soviet Union, Eurasianism was ideological mythmaking, but for independent Kazakhstan it is political state mythmaking. This contemporary friction is expressed in the reemergence of unilateralism and ethnonationalism in Russia and the nominal emergence of Kazakhstan's pluralism and multivector foreign policy. The multiplex of Kazakhstan's relationship with regime-legitimizing ideology thus descends into fractals the closer the level of examination.

The book follows Kazakhstan's post-Soviet political history across 1991-2020, an ambition that ultimately falls short due to its reliance on Soviet historiography methods and the limitations of examining only political and not ideological forms of Eurasianism. Anceschi does engage with the Khanate histories and the contemporary government appropriation of historiography for mythmaking. And he constructs a narrative around national myths creating longer-term path-dependencies to solve short-term political problems.

But for a book on Eurasianism it actually spends very little time on Eurasian ideology. A book on Kazakhstan's indigenous forms of Eurasianism as political legitimacy with no mention of "non-regime Eurasianism" is a bit thin. Similarly, the formation and application of Eurasianism in Kazakhstan in relation to either Islam or Tengrism remains unexplored. The central thesis of classical Eurasianism was that the Turkic influence was important in forming the political institutions of Russia and Eurasian countries that later became Russian speaking. For Russia, this means taking Turkism, Islam and to a lesser extent Buddhism seriously in political constructions in Eurasia that include polities of Buryat, Tuva, Oirat, Kazakh, Uzbek, and Tatar. Kazakhstan's regime interpretation of neo-Eurasianism inhabits the same landscape. But Islam is only mentioned twice by Anceschi, both times as a threat, while Tengrism is not even mentioned. In defense, Anceschi does note that the concept of Turkestan and appeals to Turkicness have played no part in Kazakhstan's regime neo-Eurasianism, which has been almost wholly divorced from intellectual Eurasianism. Exploring this lack of Tengrism, Turkology, or Islam would have been interesting though. Without serious engagement with the social structures that Kazakhstan's neo-Eurasianism finds itself in friction with, our

understanding of forces that will shape its future political institutions remains weak.

The sections applying political institutions to economic developments are the more interesting. Anceschi explores the failures of monetary integration under the ruble zone, which Kazakhstan at first supported and then abandoned. The development of the Eurasian Economic Union is covered, and the failing and projected failing examined. Overall, Anceschi pushes for an analysis that early Kazakh independence politics lacked Eurasianism, was outward looking and state-building, but that elements institutionally within it could be contrived to be Eurasian, and were later co-opted into a regime-legitimizing narrative.

The problems with the book are the same problems of scholarship within the region: historical methods that have not been updated from Soviet academics, little modern political science methodology, and tired state-centric and chronological methods of enquiry and historiography. The writing reminds one of Harold Laski, a target of Orwell's *Politics and the English Language*: double negatives, poor use of dependent clauses, and devolution into jargon. The phrase "to all intents and purposes" occurs 14 times in a book of only 150 substantive pages. Similarly, expressions beginning with "inevitable" occur 14 times. With such historical determinacy one may wonder why the book was written at all if the developments described were so inevitable. Heavy reliance on contemporary secondary sources on other regional states contrast with extensive tangents on the author's specialization in Turkmenistan. And the proliferation of latinized Russian expressions (*evraziiskaya strategiya*) is neither cute to the specialist nor helpful to the generalist. Ultimately, this short book feels unformed, like a series of introductions and conclusions, of bread and salad without the lamb shashlik.

Anceschi, though, does peer into a future of Kazakh Eurasianism that itself may not have enough light to see into the looming darkness of the mid 21st century. Kazakhstan's regime neo-Eurasianism has been now so sanitized to serve regime purposes that its countermovement may result in a nationalist resurgence, rather than what so many visitors to post-Soviet Kazakhstan have witnessed: an open, pluralistic, tolerant, secular, progressive and inspiring social landscape. The ideology that has helped the regime to maintain control, stifle social innovation, repress the economy, and black out political opposition, though, is one that it is hard to see surviving due to its inability to undergo renewal. Regime neo-Eurasianism has served its purpose for one generation of political power. For Kazakhstan's future, though, a revision of both political ideology and political institutions is needed if the spirit of pluralism embedded in Eurasianism is to be a useful guide to Kazakhstan's future.

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Book Review

BRI and International Cooperation in Industrial Capacity: Industrial Layout Study
Edited by XU SHAOSHI
London and New York: Routledge, 2020
xvii + 590 pp. £120.00
ISBN 978-0-367-19274-7 doi:10.1017/S0305741020001149

This is an important book, but not because it is readable, timely or prescient. Its importance is as a policy snapshot of senior policymakers in Beijing planning the geo-economic architecture of the Belt and Road Initiative (BRI). International Capacity Cooperation (ICC) was China's international trade, industry and finance geo-policy blueprint. The policy had huge implications for the global economy as well as for the regional economies of Central Asia, Eastern Europe, Middle East and East Africa. This book is a translation of the 2017 publication by China Machine Press (*"Yi dai yi lu" yu guoji channeng hezuo: guobie hezuo zhinan*), now marketed in English as *The Countries' Cooperation Guide of the Belt and Road Initiative and International Capacity Cooperation*. ICC was launched in 2014 as the practical economic architecture underpinning Xi Jinping's BRI. It had built on Jiang-era "Going out" and "Bringing in," which together had become colloquially known in English as "Going global." In 2020 though, the ICC foreign geo-industrial policy has at least temporarily been wound down and folded back in to "Going global."

The study is important not for the attempts at global command economy planning, but for who has written it. The book is an exercise in collective authorship by senior National Development and Reform Commission (NDRC) officials, and it is best read as a codification of policy which had been incubated, developed and deployed to Belt and Road economies. Xu Shaoshi was director of the NDRC at the time of the book's Chinese release. Co-editors of the book are He Lifeng who has been NDRC director since 2017, Ning Jizhe, National Bureau of Statistics director and Wang Xiaotao, China International Development Cooperation Agency director. The younger ranked authors of the book – Guo Jianmin, Zheng Qi, Liu Shen and Chen Chao – will also maintain policy relevance into the 20th Party Congress and beyond. This is highest-level policy making, and the coordination between "aid," trade and industry here is indicative of coordinated state industrial policy. This higher-level policy-making is made clear when we see a whole chapter on the Middle East "1+2+3 Cooperation Pattern," which had previously been released by Ministry of Foreign Affairs as the "Middle East White Paper." This book makes clear who is really making China's foreign, trade, industrial and finance policy. What is missing from the study though is any genuine policy prescription, analysis or integration of the policy banks' role in this global geo-policy.

A key piece of spatial planning rhetoric that the English reader should internalize is the macro-layout of BRI through ICC as a "main axis" through Eurasia, a "West wing" comprised of the Middle East and extending into East Africa, and an "East wing" of Latin America. This is the hierarchy of priorities for Belt and Road through ICC: Central Asia, Russia and Eastern Europe, followed by Middle East and East Africa, with an auxiliary of Latin America. Part five is probably of most use to contemporary researchers, focusing on high-technology transfers in high-speed rail,

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nuclear power, and equipment. This section would have reached a much larger audience as a standalone booklet. Section 39 on forming overseas industrial clusters is also useful, demonstrating the structure behind the deployment of overseas Special Economic Zones (SEZs) to mimic the domestic SEZs which had been the backbone of China's capital import model. These overseas SEZs are being deployed as the institutional architecture for a distributed overseas production base model. The acute focus of this policy is explored in China–France third-party market cooperation, which leveraged China's mid-tier and France's high-tier technology into a techno-industrial policy of joint development and capacity cooperation in Belt and Road economies for export to the global economy.

Ultimately this book, like the policy, is a shadow of what could have been. The goals expressed here were to develop a China-led global industrial value chain. Unfortunately for the NDRC, China has only the industry, and neither the value nor the global access to create an effective chain. This does not come across as cutting-edge 21st-century techno-industrial policy, but more like a continuation of the GOELRO to GOSPLAN to NDRC institutional development and feels like 1920s policy being repackaged for 2020. What was prescribed here will not eventuate, but neither will it be completely abandoned. This is a codification of policy wreckage, and it joins the Soviet industrial institutions which already litter the Eurasian landscape.

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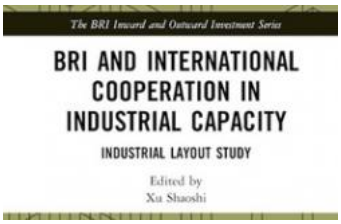
Book Review - BRI and International Cooperation in Industrial Capacity: Industrial Layout Study

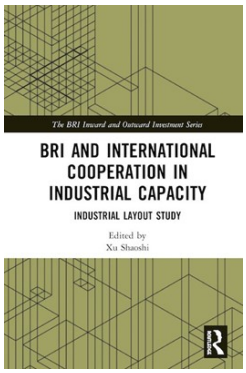
By Tristan Kenderdine - 01 October 2020

WORLD ECONOMY, TRADE AND FINANCE (/ARTICLES/BROWSE/SUBJECT/LIST/26)



***BRI and International Cooperation in Industrial Capacity: Industrial Layout Study (file:///C:/Users/tomki/Downloads/BRI%20and%20International%20Cooperation%20in%20Industrial%20Capacity:%20In* edited by Xu Shaoshi. London and New York: Routledge, 2020. 590 pp., 67 b/w Illust, £120 hardcover 9780367192747, £33.29 e-book 978042901523**

This book is a codification of economic planning policy from the National Development and Reform Commission of China. As such it represents the highest-level and most complete attempt at planning economic development in third countries since the Soviet Union. This is the economic blueprint for the Belt and Road geopolicy. International Capacity Cooperation is the practical trade and industry policy underpinning the political policy. However the institutional realities are that China is less exporting its economic model and rather exporting its political model, and for this, the policy looks doomed to falter in its current form.



(https://www.routledge.com/BRI-and-International-Cooperation-in-Industrial-Capacity-Industrial-Layout/Shaoshi/p/book/9780367192747)The book was first published in Chinese by China Machine Press in 2017 as '一带一路"与国际产能合作：国别合作指南', now marketed as 'The Countries' Cooperation Guide of the Belt And Road Initiative And International Capacity Cooperation'. But the most important variable in this study is the authors themselves. Xu Shaoshi was, at the time of Chinese publication, director of the National Development and Reform Commission, the highest economic planning body in China and the successor organisation of the GOSPLAN-mirror, the State Planning Commission.

The array of co-editors and actual authors of this book are also either top-ranked Party Cadres or promising policy specialists. While Xu has now been put out to pasture on various CPPCC and NPC committees, He Lifeng has taken over as NDRC director, Ning Jizhe is director of the National Bureau of Statistics, and Wang Xiaotao is China International Development Cooperation Agency (CIDCA) director. CIDCA is China's new 'foreign aid' agency that emerged from the 2018 public administration reshuffle. But in reality, there is no foreign aid from China: foreign economic cooperation is entirely state-directed foreign direct investment, industrial policy, industrial capacity transfer, and policy banking. This ICC system that the book describes is a new trade and investment architecture which presents a dual challenge to both Bretton Woods and the archaic Western aid regime.

International Capacity Cooperation as a policy itself was launched in 2014 as the practical geoindustrial economic architecture for Belt and Road and an upgrade to the Going Global foreign economic policy of 'Going out' (走出去) and 'Bringing in' (引进来) that had guided China's foreign policy since 1999. ICC emerged from Going Global via Party and State leading groups in 2014, meaning it was likely in development in 2013 alongside Belt and Road, probably within the State Belt and Road Leading Group while it had been driven by the excellent policy mind of Zhang Gaoli.

The early ICC policy trail included a major State Council announcement in 2015, Guiding Opinions on Promoting International Capacity Cooperation and Equipment Manufacturing and later the more holistic 13th Five-year Plan on International Capacity Cooperation. This sectoral ICC Five-year plan has remained classified, but the shadow of it was visible through its use within other documents and systems within the public administration. The first Xi administration was counterintuitively characterised by an oversupply of transparent policy – the administration was releasing so much policy that it was impossible for any institution to read it all. This now appears to have been a deliberate political manoeuvre. Running a command economy needs a huge amount of public administration communication, both horizontally and vertically. It is impossible then to run a clandestine foreign economic policy, but it can be obfuscated by sheer volume of data.

ICC was actually quite a good idea. Industrial overcapacity in China's national economy had meant that too many factories were sitting idle, not producing anything. But from a global economy perspective, there cannot be too much cement, glass, steel or aluminium, because so many countries still have preindustrial or under-industrialised economies. The policy idea with ICC was to reduce China's low to mid-range stock of factories, freeing up capital to be reallocated to chase higher-end technology chains and clusters. This would also bring much needed industrial infrastructure down the global economic value chain to countries whose economies were hungry for investment in low and mid-tier industrials. Bringing whole industrial clusters and economies of scale to these countries would help them to kick-start their own industrialisation drives and mimic the roaring Manchester-style state-capitalism of China's development program through the reform era.

There were some problems though. China is still a two-speed economy: coastal China is approaching OECD-level incomes while rural and Western China remain deep in the 20th Century. China had for decades tried to use industrial policy and spatial planning policies to move productive economic forces into Central, Northeast and Western regions. But industrial policies such as Develop the West had not worked. Moving internal industrial and commercial policy to international trade and geoindustrial policy could leverage Ricardian comparative advantages into the mix. But

treating the countries of Central Asia, Middle East, East Africa and Eastern Europe as economic units analogous to China's domestic provinces was a political risk. It was not lost on host economy governments that China was using ICC to avoid reform of its domestic economic development program and to foist the same institutional problems onto them.

The publication of this book now in English is a great time capsule, to see what was being published on ICC by the NDRC in 2017 when ICC was fresher and there was real optimism in China's foreign economic policy-making. Ultimately, reading the policy prescriptions in retrospect from 2020 we see an exercise in poor policy communication and failed spruiking of damaged goods as investment opportunity. The publication, mirroring the policy deployment, is also quite messy, with the inside cover copyright for 2021, despite being published in 2020. 67 illustrations may conjure images of well-presented maps of geoeconomics and geopolicy. Unfortunately almost all figures are poorly produced excel-generated graphs. And the few maps produced here are closer to a 1950s Soviet textbook than a 21st Century geoeconomic masterplan. The prose is bad and cumbersome to read. And the brick structure of the book is reminiscent of China Development Bank's bond market reform doorstops of the early 2010s. There were many exciting, simple to understand, and grand-vision policies coming out of China throughout Xi's first term, but this attempt at holistic codification so smoothes the track that any interesting variation is lost on the new reader. Overall, this is one for the libraries: a useful reference book for future historians, but not an incisive view into the contemporary policy-making process in 2020 China.

Like other political waves that have reached into the heart of Eurasia before receding again, this International Capacity Cooperation policy will likely only add to the marks left by external grand strategies in the region. Bringing techno-industrial policy development to countries that have economically drifted through the past three decades of globalisation was a great idea. But the whole-of-government approach to a Eurasian continental industrial complex has all the hallmarks of another GOSPLAN failure.

Tristan Kenderdine is Research Director at Future Risk (https://ftrsk.com/)

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(https://www.addtoany.com/share#url=https%3A%2F%2Fwww.globalpolicyjournal.com%2Fblog%2F01%2F10%2F2020%2Fbook-review-bri-and-international-cooperation-industrial-capacity-industrial-layout&title=Book%20Review%20-%20BRI%20and%20International%20Cooperation%20in%20Industrial%20Capacity%3A%20Industrial%20Layout%20Study%20)

Recommended

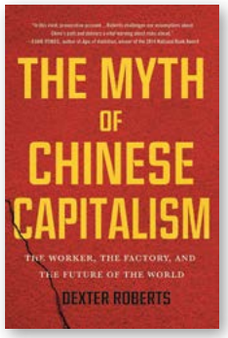
Coronavirus Is Not Killing Globalisation (/blog/25/06/2020/coronavirus-not-killing-globalisation)

Drones in Times of Pandemic: Caution behind the Hype (/blog/22/04/2020/drones-times-pandemic-caution-behind-hype)

(/articles/world-economy-trade-and-finance/rise-foreign-direct-investment-regulation-investment)

The Rise of Foreign Direct Investment Regulation in Investment-recipient Countries (/articles/world-economy-trade-and-finance/rise-foreign-direct-investment-regulation-investment)

China's Real 'One Country, Two Systems'



The Myth of Chinese Capitalism: The Worker, The Factory, and the Future of the World

By Dexter Roberts

St Martin's Press, 2020, 288 pages, $28.99 (Hardcover)

Reviewed by Tristan Kenderdine

THIS BOOK is about the other China, rural China. Administratively, China is two countries, a rural state and an urban state. They are both within the confines of the national borders, all citizens are eligible to serve in the military, the state and the Communist Party, and all carry the torch of China's civilization, and often another embedded civilization, ethnicity or religion as well. But this rural-urban divide is the state-within-a-state that allows for the internal slavery that the reform era growth period was predicated on. Dexter Roberts here lifts the lid to examine what we all knew was happening but that many had hoped would be a temporary sacrifice to achieve successful industrialization and economic development.

The book almost reads as an alternate history. Against the pandering and exonerations of globalization economists since China's accession to the World Trade Organization in 2001, Roberts instead takes 2001 as a departure point into a parallel universe. The "myth of China's capitalism" is that it was achieved in one country, and without Manchester-style capitalist labor exploitation. But the reality is that it was in between the institutional friction of the urban and rural polities left over from the Mao era where "China's growth miracle" occurred. Roberts takes this rural polity as his object of analysis, entering China's second world through a rural village in landlocked Guizhou, an ethnic minority area. Villages, especially ethnic minority villages, are administratively and culturally outside even this rural China. If rural China is adjacent and subservient to urban China, then non-Han ethnicity and village-level administration is divorced from and underneath even the rural polity. An ethnic village in China is not governed by the state, only by the Party, and is also an institutional holdout of an incomplete internal colonization process.

This urban-rural divide is at the very core of China's economic development story. It is the institutional bottleneck through which no meaningful economic reform can pass, and which ultimately limits China's future economic growth trajectory. The idea that Shanghai's Pudong skyline is simply a vanguard for what can follow across the whole of China is a fallacy. And the institutional airlock to the countryside and the village means that the urban capitalist bubble is as far away from many Chinese people today as the Hong Kong administration was from the mainland in the past. China's capitalist myth was this same Hong Kong-Guangdong hinterland system expanded nationwide and with the state administering both urban-capital and rural-labor systems simultaneously. This is the real "one country, two-systems" model.

"Archipelago" is a word Roberts uses carefully, and only once, but the mental unfolding that this word elicits is probably not far from Solzhenitsyn's Gulag reality manifested in China. The prism through which Roberts explores the vast shadow-country of rural China is a Buyi minority village in Guizhou, but it could have been anywhere among a vast archipelago of villages, ethnicities, rural labor polities and provinces decoupled from the coastal capitalist growth experience.

Roberts has a writing skill in transporting you from Guizhou to Guangdong to Shaanxi to Henan seamlessly. And he really gets down into the institutions that underpin modern China: the village, the sweatshops, the dormitories and the school system. Roberts' example of vocational school students being fed into a local auto-parts manufacturer shows the formation of an institutional welding that can be difficult to rust off. Here he gets quickly to the core, that the political drift into institutions that hurt people is not simply a case of path-dependency, poor policy or corruption. Rather it is a series of human choices taking paths of least resistance. Perhaps the saddest example in the book highlights the futility of so many rural *hukou* (household registration) holders even trying to access the rigged education system, making it economically more rational to continue the labor cycle than to aim toward breaking out, thus reinforcing the new class mold.

Roberts' book is also timely. The greatest political economy factor in any restart of China's economy in 2020 is whether rural migrant labor returns for another round in the meat grinder. Their decision to either stay away or come back will cause China's policymakers to face either an inversion or completion of the "Lewis turning point," the time when surplus rural labor is fully absorbed into the manufacturing sector. The pandering of the "poverty alleviation" policy rhetoric will become meaningless if 300 million rural migrant workers do not come back to work.

This is a well presented and attractive book. The bibliography, notes and index are all in good order and well presented, a welcome change from most Routledge or IB Tauris imprints. The modest price of the book also adds to its readability — the Routledge crowd could take note that paperback books priced over US$100 are quite ridiculous when excellent trade books such as this are published in the same market. The author is a journalist, and that comes with a certain voice. While a journalist's voice is often better than an academic one, there is probably some as yet undiscovered narrative form for trade books that is deeper in substance but smoother in voice — though this is not to fault the author for failing to discover this formula.

The book almost reads as an alternate history. Against the pandering and exonerations of globalization economists since China's accession to the WTO in 2001, Roberts instead takes 2001 as a departure point into a parallel universe.

The chapter on land is arguably the weakest, where it should have been the load-bearing wall to support the book's entire structure. Roberts misses a chance to build the lived experience, journalistic approach into a deeper theoretical abstraction on the political and legal underpinnings of the institutions he is investigating. The legal-institutional structure here is key, and instead we get lost in disjointed evocative vignettes. But Roberts does get right the intractable problems of the dual exploitation collusions between official-capital and official-land. Similarly, the party chapter falls back on firsthand accounts of workers and is more about the shadow of an impotent union system than it is about the party itself.

Roberts' profiling of Minister of Industry and Information Technology Miao Wei's early work, though, is excellent, and demonstrates a clear understanding of China's industrial policy. Roberts also highlights China's macroregional problem — that stagnation and unemployment in one area is disconnected from other areas, making national aggregate statistics meaningless. In the aggregate, though, China has pulled hundreds of millions out of poverty. Its global economic integration policy has brought the Chinese state newfound economic, political and cultural strength, and China's voice on the international stage is now more important than ever. But to achieve this, the Chinese state has extracted labor from a portion of its own people who now have zero stake in the capital created from it.

Roberts quotes Alexis de Tocqueville saying that poverty does not create unrest, inequality does. The institutional friction between absolute and relative poverty is a finely poised balance. Roberts closes with the same balancing act. Party, state, rural labor and urban capital are four magnets in constant danger of repelling each other. Without the reforms needed to bring rural China into line with urban China, there will remain an exhaustive failure of human potential, and of the human relationship with the future of China's capitalism. The worker and the factory were essential to reform-era growth, but they were always a shell, the used husks that were destined to be thrown away. Roberts lets us see these people's stories before they are discarded from history.

Tristan Kenderdine is Research Director at Future Risk.

Journal of Chinese Political Science
https://doi.org/10.1007/s11366-020-09694-4

BOOK REVIEW

J. Michael Cole, Cross-Strait Relations since 2016: the End of the Illusion (Routledge: London and New York, 2020) 202p. $35.96 Paperback; $124 Hardback; $35.96 Ebook

Tristan Kenderdine[1]

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This book is a reply to the author's 2016 work *Convergence or Conflict in the Taiwan Strait—The Illusion of Peace?* Read together, the two works bookend Tsai-Ing Wen's first term as Democratic Progressive Party (DPP) president. The work is timely, as the demise of the 'One Country, Two Systems' model in Hong Kong means a likely increase in Beijing-Taipei tensions in the coming short-term political horizon. J. Michael Cole's treatment is a very good compendium of primary sources and an excellent historical record.

The book firstly updates PRC policy and rhetoric towards Taiwan since Tsai's taking office, examines PRC efforts to influence domestic Taiwan politics and the pan-green DPP movement, looks at the military and strategic realities facing Taiwan over the past four years, and the domestic political reality of the United States and what the leadership transition there has meant for Taiwan. Cole also examines Japan's perspective of the first Tsai term, before returning to the PRC perspective and the continued policy of isolating Taiwan from international institutions. Cole concludes with three chapters assessing the efficacy of multiple policy discourses of the Tsai administration, presenting some strong political scenarios for the near future, and examining possible future trajectories.

Cole brings a wealth of sources to light such as Tsai's political speeches in English, as well as providing Chinese character names of laws, speeches and policies. Through this approach, he gives a very good account of the political and policy developments over the course of the administration. The book straddles several worlds: political science, Sinology, journalism, and history—Cole weaves a cogent and engaging narrative, this is an excellent primer for the past four years of Taiwan elite politics.

Cole also shows how Kuomintang and other unification parties continue to contribute to the fabric of democracy in Taiwan, including the New Party, the China

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Unification Promotion Party and also indigenous policy voices. Policy and popular sentiment from across the local and minority polities and policy-making processes are contrasted with the grand strategic narrative chapters on the Mainland, Japan and the United States.

The use of characters in the text for major historical events, policies, and sources is very welcome and a publishing standard that should become more widespread. For a primary source-based work of political science, endnotes directly referencing the sources would have been cleaner for the reader rather than having to navigate the parentheticals and source list at the end of each chapter.

The chapters using primary sources are very good. But some other chapters are light on sources and stray into unsupported argumentative narrative. A deeper literature review of the extant commentary which voiced the diverse actors within Taiwan's domestic policy landscape could have made this a truly excellent record of the period.

Tsai-Ing Wen and the DPP are now charting a course through the headwinds and rough seas of the coming four years. Continued policy and commentary source analysis such as Cole's will be indispensable in the future.

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BOOK REVIEW

Hu Bo, (Trans. Zhang Yanpei; Ed. Geoffrey Till) Chinese Maritime Power in the 21st Century; Strategic Planning, Policy and Predictions (Routledge: London and New York, 2019) 274 p. $124.00 hardcover; $46.36 e-book

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This is a translation of *China's Maritime Power in 2049* originally published in 2016 by the Development Research Centre of the State Council. Hu covers the principles, policies and theatres of China's current and future projected maritime power. The 'First and Second Island Chain' strategic policy is ever-present, while 'stepping out' to the 'Two-ocean strategy' remains the guiding macropolicy, with Hu advising a Pacific carrier group to operate beyond the First Island Chain, and a second carrier group to operate around the Horn of Africa and the Middle East. Near seas policies remain centred on the equation of: 'stabilise the north' (Yellow Sea), 'harmonise the south' (South China Sea), and 'contest the east' (East China Sea). Less well-studied policies include development of satellite communications priorities in the South America cone and Namibia upon which to open power projection capacity in the South Atlantic; the 'Changjitu' Changchun to Tumen logistics and supply corridor which could open a permanent presence in the Sea of Japan; and the presumption of future permanent supply and communications bases in various South Pacific island states.

Hu explains well China's maritime problems with the Korean peninsula and the South China Sea, and examines China's power frictions with regional maritime powers in the Indian and Pacific Oceans. The most detailed and technical chapter is on the East China Sea as the principal ground for contest and engagement in response to the US AirSea Battle system paradigm. Hu notes that A2/AD is not explicit China maritime policy but a China appropriation of a US interpretation. These chapters on the near seas and two-oceans demonstrate well the multi-layered approach of China to maritime power—a series of overlapping policies in both depth and breadth encompassing passive and active power, operational power, international law, and differentiated regional policies.

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However while the technical, policy and strategic focus of the book is good, the overriding intellectual premise is questionable. Hu contends that China should become the world's second maritime power. Rather than positioning China as a secondary challenger to United States maritime hegemony, a more interesting study might have been to examine China's prospects of becoming second against both past and present second-placed maritime powers, especially considering the historic challenges faced by an aspirational secondary maritime power. France administers the world's largest EEZ jurisdiction and is arguably the world's second maritime power with a significant navy by displacement, technological sophistication, and strike capability – China displacing contemporary France as the second maritime power is no *fait accompli*. Equally, assessments against the historic failings of the previous two seconds, the Soviet Union and Germany, may have been more illustrative of China's current strengths and possible future weaknesses. To ignore the maritime power projections of the historical Soviet Union and Germany as well as contemporary France is a large oversight which makes the book more a myopic work on China-United States political rivalry rather than an objective academic study.

Ultimately lacking from Hu's maritime policy analysis is what China hopes to achieve by displacing the world's second maritime power. There is nothing that China need accomplish in the oceans that it cannot currently do. Becoming the secondary power would only be necessary for servicing overseas territories, militarily guaranteeing permanent overseas economic interests or as a platform for denying open access to sea lines of communication that have been free thoroughfare since customary international law established in the Anglo-Dutch maritime rivalry. Hu's analysis also begins at 1840, meaning that all that follows is a response to the revisionist 'humiliation' narrative, an approach which ultimately weakens its findings.

Hu does shed light on contemporary China debate on developing a maritime power as either a post-Mahan-style power projection or as a maritime soft power access policy coupled with a Mackinder style continental power. However this implicit argument of joining China's future maritime power to a new Eurasian continental land power is the unhinging of China's power policies. The historical domestic policy friction between maritime and continental schools of security in China have never been reconciled and the attempt to weld a two-ocean power strategy with a Eurasian continental power strategy appears more likely to result in a blunder than a grand power project.

There is a wealth of knowledge in this book, but extracting it can be a painstaking process. This is not the greatest scholarly work on maritime power, and perhaps it is not particularly objective in its findings. The maritime power policies currently being formulated in China's universities though will shape the course of the coming quarter century in the global maritime space, and for that, this work is more than deserving of attention.

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Mohammad Reza Shah's self-description as a modern "spiritual" man who adopted a postmodern reconstruction of Iran's history by engaging the discourse of opposing *gharbzadegi* and spiritual Islam had devastating consequences for his political survival (pp. 167–68). Mirsepassi could have done well to explain yet another problematic aspect of the shah's rule: given that the shah regained the throne via a coup engineered by foreign powers, he had to seek domestic legitimacy by acknowledging the centrality of Shi'ism in Iranian culture.

The final chapter provides a study of Ahmad Fardid's idea of *gharbzadegi* within its commonly antagonistic variants. The mutual affinity between the state's new ideology of "spiritual Islam," nativist identity politics, and the opposition of the masses to *gharbzadegi* combined to create an antimodern ideology. The intellectual elite of the Pahlavi state were driven by the antimodern and antidemocratic impulses of this new national imagery that eventually undermined them politically and strengthened their adversaries.

The book concludes with a central assertion: there is no such thing as the "authentic anti-modern" largely because what we call liberalism or modernism is subject to the circularity of ideas and discourses (p. 222). One can argue, in response to Mirsepassi's inference, that Iran has always had a synthetic culture and that no exclusive Iranian culture has ever existed, thus making the issue of authenticity all the more problematic. Moreover, the author's conclusion raises several questions in the reader's mind: How can a person be described as "authentic" in the modern age? How does one falsify or verify what is considered authentic antimodern? What paradigm of authenticity does the author have in mind?

While numerous studies, including Mehrzad Boroujerdi's *Iranian Intellectuals and the West* (Syracuse University Press, 1996) and Ali Gheissari's *Iranian Intellectuals in the 20th Century* (University of Texas Press, 1998), support Mirsepassi's claim that Iranian intellectuals used Islam as a tool to confront the West, they seem to have assigned far greater weight to authentic identity and local nativism than to the mystical Islamic matrix and authoritarian populism. Also conspicuously missing from this volume are any references to the seminal works of Sepehr Zabih, *The Left in Contemporary Iran* (Routledge, 1986), and Maziar Behrooz, *Rebels with a Cause* (I. B. Tauris, 2000), both of whom provide a thorough analysis of the Left's strategic blunders and its marginalization by the Islamists. Also little attention is given to the way in which Iran's rentier oil economy weakened the resistance to modernization (perhaps with the possible exception of the Left) in the face of significant economic growth and change under the Pahlavi state.

On balance, however, Mirsepassi refines, in vivid and engaging prose, our understanding of the prerevolutionary decades that set the stage for the downfall of the Pahlavi state. The book is a notable and welcome addition to the current literature on the subject and will be a valuable resource for scholars and students alike.

Mahmood Monshipouri is the author of Middle East Politics: Changing Dynamics *(Routledge, 2019).*

Triple Axis: Iran's Relations with Russia and China, by Dina Esfandiary and Ariane Tabatabai. London: I. B. Tauris, 2018. 256 pages. £22.50 cloth; £27 E-book.

Reviewed by Tristan Kenderdine

This book is about attempts to construct narrative discourses within a political philosophy negative space. It is about differing constructions of legitimacy and three different, interlocking struggles to articulate an ideology in the shadows of its opposition. The three states under examination are united by a common cause, not a unified ideological framework, and yet this book is about the internal logical conflicts of Iran's, Russia's, and China's attempts to construct a narrative of legitimacy for an idea that barely exists: the "not West."

This alternative to the West is the core thread that weaves these countries together, and it comes from something deeper than simple opposition to the Western system of international order. Iran, China, and Russia

have legitimacy rooted in civilizational genesis — a system of thinking, a group identity, and a collective identity that are at least as deep and as old as the germination of Western civilizational institutions. China's characteristic as a civilizational state is now a cliché in political science. Russia is the self-appointed successor state to the Eastern Roman Empire and deacon of Orthodox Christianity. Iran's civilizational legitimacy is both as Persia and as self-nominated carrier of its own politically revisionist Islam into the region and the world. All three have ambitious, revisionist, revivalist, and restorative foreign policies.

Ariane Tabatai and Dina Esfandiary explore this political-institutional connection, how all states involved are playing multiple games in multiple dimensions. However, for all the development of the Iran-Russia and Iran-China vectors, the relationship that this book actually highlights as being incredibly important is the one between the Iran and the European Union. This trade and security vector is given much more emphasis in the book than the "institutional flankings" of the book's eponymous Russia and China relationships. For Iran, the European Union is an alternative counterweight to the United States, representing both an in-game and out-game institutional relationship.

For foreign observers of Iran, disaggregation is important. To be able to identify and hear multiple competing voices and factions without resort to monolithic policy, ideology, or governance analyses of Tehran is key to understanding Iran's various motivations. The authors make this point well in relation to Iran. In addition to temporal linear changes in narratives from Mohammad Khatami to Mahmoud Ahmadinejad and back to Hassan Rouhani, there is an institutionalized transfer of policy and ideology in the power structure in Iran — not a consistent overarching narrative — that is neither antagonistic nor open to dialogue with the West.

Iran is presented as multifaceted and multilayered. However, Russia and particularly China remain monolithic and monotone in the authors' analysis. If Russia and China are a two-part epoxy that solidifies Iran's geo-economic policy, then this book should be binding multiple smaller connections into a contiguous whole. Instead, we get the top-down big-picture analysis, but without sufficient depth.

The chapter layout of the book is logical if somewhat formulaic. The Iran-Russia-China nexus is introduced as a concept in the international system; domestic political relations with Russia and China are explored. The authors then cover economic relations, defense and security; and offer a concluding chapter on the future of Iran after the Joint Comprehensive Plan of Action. It may have been more useful to have more in-depth Iran-China and Iran-Russia analyses — whole chapters that examine the political personnel and policy-making processes and changes. Inasmuch as the authors appear to be much more comfortable with Iranian domestic political history and how it intersects with Russia, a purely domestic Iran policy–focused book that examined the China or Russia influences on domestic economy, political, military and social affairs would have been preferable. The final product could have been a really incisive examination of international, national, and subnational policy-making in Iran with regards to both Russia and China. The great power diplomacy approach does not really land.

The lack of an acronym list is frustrating at times, while the select bibliography seems to highlight the thinness of the research. The notes are in good order, apart from some strange indents. However, in the main body there are a number of typesetting, spelling, and grammatical errors that have slipped through the proofing process (e.g., "aircrafts" for "aircraft"). Though no fault of the authors, the I. B. Tauris imprint is quickly making a name for itself as the fast food of academic publishing.

Though maybe not definitive in its own right, Esfandiary and Tabatabai's book is great as the start of a longer conversation. We are all richer for being able to engage in the discussion of the political, economic, social, and theoretical space surrounding the convergence of interests of Iran, Russia, and China. This book helps to facilitate this conversation.

Perhaps the book only struggles to articulate that which the powers examined are themselves still trying to construct: a theoret-

ical basis, a political philosophy and a narrative discourse to define an axis that is only really formed by external institutional pressures. Nothing in this book seems to suggest that any of the three powers have anything more sophisticated or developed than a "me too" attitude toward US hegemony.

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IRAQ

Familiar Futures: Time, Selfhood, and Sovereignty in Iraq, by Sara Pursley. Stanford, CA: Stanford University Press, 2019. 320 pages. $30.

Reviewed by Peter Wien

Sara Pursley's excellent book is full of insights and in-depth reflections. It is a demanding read and difficult to do justice to within a short book review. However, the reader will not find sensational claims and shifts in the existing narrative of Iraqi history. In fact, the playing field of Pursley's investigations is familiar, as she addresses the foundations of British colonial politics, discourses about education and popular discipline, women's issues and family politics, as well as state designs of national development. All these are topics that Iraq researchers have dealt with before. Yet, Pursley's book is still a game changer as she reworks a number of established paradigms in Iraq scholarship with surprising results. Questions about development in state and society and its gendered consequences constitute the basic line of her inquiry. Her critique of a conventional modernization paradigm assigns agency and intellectual independence to actors who usually do not receive a great deal of positive coverage by Iraq historians. One section of the book presents, for example, what appears like a vindication of the Iraqi educator Sati' al-Husri, who usually features in the historiography as a forerunner of authoritarian nationalism and even fascist tendencies. Pursley paints a much more nuanced picture of his educational policy, questioning some basic assumptions about the paternalism of so-called British liberalism that Iraqis were said to have rejected in favor of totalitarian models. In this, Pursley's work is in line with recent scholarly criticism that many Middle East historians have not seriously engaged with the Arab thought of the 20th century on its own terms. Pursley, in contrast, is evidently among the few Western researchers who have actually thoroughly read some of the texts and documents that past historians have referred to without more than a cursory reading of the originals.

Pursley's critique of the Iraqi development narrative starts with its creation in the context of the British mandatory regime, which imposed a paternalistic Western chronological imaginary based on the image of the child as an embodiment of the colonized society. The child stood for future's potential, but the image also fixed Iraqi society in a childlike developmental position, continuously depraved of sovereignty. For colonial administrators, children needed to be disciplined and acted upon to release their potential, but as if in a circular movement, the goal of education, as propagated by British advisers and missionary pedagogues, was to raise better fathers and, in particular, mothers of future children. They would congregate to form the core of modern society in the nuclear family. When Iraq achieved independence, the new state authorities adopted the same argument and its gender binary, cementing the submission of women more rigorously than ever before and keeping all Iraqis in a permanently adolescent status.

Pursley shows that the conditioning of Iraqi educational and development policies initially met the resistance of Iraqi intellectuals and politicians. In the late 1920s, Iraqi educators were vehemently opposed to the corporal punishment that the British authorities prescribed for secondary school students who participated in political protests. Likewise, Pursley highlights the patronizing designs of the Monroe Commission, which was invited to Iraq in the early 1930s to review schooling in the nascent state. Its report is often used as evidence for the antiquated methods and nationalist biases of the national system of education that Husri had established in the 1920s. Pursley's close

Polar Record

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Book Review

Baseline of Russian Arctic Laws. Paul Arthur Berkman, Alexander N. Vylegzhanin, and Oran R. Young (eds.). 2019. Cham: Springer Nature Switzerland AG, Hdbk, 734 pp., 3 Illst. €149.99, ISBN 978-3-030-06261-3 ISBN 978-3-030-06262-0 (eBook).

This is such a monumentally useful book that its title should sell it alone. As promised, it is a compendium of Russian laws related to the Arctic. International treaties, bilateral and multilateral political agreements, and domestic law and regulation are all covered.

The book is a direct translation of "Volume 3: Applicable Legal Sources" (Том 3. Применимые правовые источники) of the three-volume "The Arctic Region: Problems of International Cooperation" (Арктический регион: Проблемы международного сотрудничества) published by the Russian International Affairs Council through the Aspect Press in Moscow in 2013. As such, the book was originally conceived as a compendium of Arctic law in Russian, for Russian scholars and legislators, so that it constituted a one-stop shop to codify the Russian conception of the contemporary legal regime in the Russian Arctic. As a result, the parts that are most useful to Russian speakers are not the same parts as are more useful to English readers in this translation.

As primarily a collection of laws, formulaically laid out, there is little to analytically engage with, although the translated original Russian introduction by Alexander N. Vylegzhanin, Head of the International Law Department at MGIMO University, is excellent and reads more like an essay or stand-alone journal article in its scope and depth. It is authoritative, well-written and holds gravitas. It is also astutely political, embedding language in support of particular positions and of the State that its laws represent. Policy sensitive words are italicised to ensure their encoded meanings are transmitted. This is a political document to accompany a systemic choice in the collection of laws presented, and both the laws and the political directive accompany each other finely. Vylegzhanin's essay clearly orders, interprets and proposes how these constituent domestic, bilateral and multilateral laws form a consistent legal regime. To this end, the book is essentially political and projects its acute interpretation to a wider application. From a Russian perspective, it is strong. From a Western perspective, it is worryingly subjective. The sarcasm of the author also belies how difficult any future international cooperation is going to be though, for example, taking offence at the suggestion of the North Sea route being in disrepair or the ubiquitous Russian derision of the global universalism of Western values.

Unsurprisingly, Vylegzhanin's macro interpretation is one of Russia as *sui generis*: the implication is that Russia is special and so does not have to engage with the international legal norms of the "West". The Russian political bias in this text is unashamed. But that does not lessen the impact of the interpretation or the legal regime it describes. The frustrations of anyone working to extend the cordial and cooperative international legal frameworks of the North American and European Arctic States will not be assuaged by this legal position. Its political position is from the first page establishing itself as defending a Russian legal regime between two "extreme" positions, sovereignty extended from the sea bed as an Arctic sea bed governance regime and UNCLOS (United Nations Convention on the Law of the Sea) as an ocean governance regime. It may surprise some Western readers to see UNCLOS listed as an "extreme" argument.

If the original Russian introduction is hard fought, bared down and arms ready, then the English Preface is as flaccid as warm lettuce. Poorly written, archaic and pompous, the Preface is by parts self-congratulatory for providing a basic translation service and worse, shoe-horning in extraneous or irrelevant research, ideas and arguments. This detracts from, rather than builds confidence in, what follows as a fine set of translations. Why the Preface author's funding arrangements in his home university are published on page *viii* is simply bewildering. And the "possible uses of the book" suggestions as organised into research questions belong in the author's undergraduate class notes, not this publication. Spruiking his own research projects only cheapens the work. This is a book of translations that should serve the English-reading audience in government, policy-making and academia, as with the original Russian audience. We are talking about maritime and international laws of the highest importance, across a geography that encompasses the littoral United States, Russia and Europe and is increasingly accommodating China. This is a very important book and commercially advertising your research project is entirely inappropriate in this context.

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The main contrast is again that the Western translators of this collection have seemingly no reason for doing so, while the original Russian compilation has very deep and multifaceted motivations behind it. The English editors seem oblivious to this, at least in writing. Not only is the Russian original written with purpose, it is written with depth of scholarship, conviction and weight of history, institutions and legal regimes.

The main body of the book is simply a compendium of laws, both international and domestic, that apply to Russia in the Arctic. For this it is a hugely useful reference book, though for its price and weight, is probably confined to a readership of specialists. There is nothing here for the generalist or casual reader—this is a book to either refer to often, or not at all.

Chapter Three is probably the most useful to the English reader, being a translation of selected Russian national domestic legislation. The domestic legal architecture in Russia being one of the key obstacles to greater international cooperation in the Eastern Arctic. This collection going back to 1821 Tsarist Russia solidifies a legitimacy claim of long legal custodianship of multiple sectors of the Arctic. The internal Russian legal system of laws and regulations, building on the Socialist Law of the Soviet Union, is extraordinarily important for those from Common Law or Civil Law jurisdictions to understand. For Russia, and increasingly China, internal regulations with roots in Socialist Law will determine much future activity in the Arctic space.

For the Russian reader of the original, probably Chapter Four is the most useful, being translations into Russian of major political and legal documents of the other Arctic eight states. This section covers the policy documents and national strategies of the Arctic states that proliferated in the latter part of the first decade of the 21st century.

The Chapter One treaties are obviously individually available in English originals. Though the selection of which laws were included in the collection is significant in understanding the construction of Russia's Arctic law regime. The long memory of Russia's institutionalisation of Arctic law is telling here, with the inclusion of the *Anglo-Russian Treaty of St Petersburg* of 1825 regarding North America. However, the order of listings (presumably order of importance to the Russian state) was confusing.

Chapter Two is also interesting as a composition. It covers the institutional development of Arctic legal regimes and rules in international law. Internal Russian regulations, Joint Statements and Memoranda of Understanding between States, and the series of multilateral Declarations of the 2000s from Tromsø to Fairbanks are all presented as a contiguous system of increasing internal legal and institutional complexity, and legitimacy.

The problems with this book are mostly typesetting and mostly occurring near the front of the book in the Preface and the Introduction. The seemingly random hyphenation is both ubiquitous and distracting, for example, page *v* "of-the". It is seemingly a hangover of Russian English creeping into the editing process, but to the modern English reader, it is extremely distracting. The price of the book is also a bit ridiculous. For something as important as this, we would think that this could be an affordable reference book rather than priced for specialists and libraries.

On a more positive note, it has a two great index sections, one index on the laws included and an index on people and places mentioned. This is a classical book, where unfortunately many publishers of late have succumbed to cheapening their products; this one should stand bound in libraries for decades to come.

This book is as important for what it is to the English reader as what it represents to the Russian-speaking Arctic scholars. The choices in this compilation, and the need for its construction in Russian, are telling. The interpretation and reception of the book in English should be hugely welcomed, but its very existence and the choices of its formation should be studied closely by scholars outside Russia. (Tristan Kenderdine, Future Risk, Almaty, Kazakhstan (tristan.leonard@ftrsk.com))

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China's Economic Reform Reboot

The State Strikes Back: The End of Economic Reform in China?

By Nicholas R. Lardy

Peterson Institute for International Economics, 2019, 200 pages, $16.63 (Paperback)

Reviewed by Tristan Kenderdine

THIS SHORT BOOK captures an historical junction in contemporary China's economic governance that has taken the world a surprisingly long time to digest. Although the book dispels the hyperbole, its opening paragraph chimes the cliché that threatens to drag the global economy down, the near-endless parroting of "China's inexorable rise." This praise must come to an end. Lardy's is one of the first voices in what must surely become a choir of more sophisticated analyses of China's economy as it matures.

Lardy elegantly floats to the top of the China economic analysis souffle, offering a vantage point from which many have attempted to speak, but few have succeeded with credibility. From the start, he straddles the real danger facing the global economy: China's continued success is dangerous; China's failure would be a disaster. Against the hyperbole, though, Lardy takes huge economies and complex economic relationships and makes them as simple as joining together large pieces in a global jigsaw puzzle. He comes across as a reassuring political economy professor talking about the global economy: don't panic, someone sees the whole picture and is not scared.

Lardy's work covers several key junctures in the contemporary Chinese economy. He identifies a new pole of global economic gravity, arguing that China's asset prices and exchange rate policy can both now infect exposed economies, the way that previously only the United States could. He runs the reader through seven Chinese economic rebalancing scenarios. The only part of the scenarios that is not variable is that China is in the midst of an economic rebalancing. However, the greatest meta-narrative in this study is the testing of the economic convergence narrative. This convergence myth has fueled international economic animal spirits for decades. Overlooking the potential for non-convergence, though, is a key reason a China slowdown under current institutional structures is so dangerous. China in the world will be different from Japan in the world, and not many are prepared for what an idiosyncratic China really means.

Lardy also walks the reader through the series of failed reforms in the state-owned enterprise sector. For those who have followed that process, there is nowhere left to lay blame. The government has tried several different ways, but all forms of SOE reform have flopped, and outsiders, insiders, the markets and the government are all looking at an intractable problem that is bigger than any government in the world, even the Chinese Communist Party. There are simply not enough incentives to change, and meaningful reform that leads to genuine competition, where domestic Chinese firms can fail to the benefit of foreign firms operating in China, appears to be light years away. In contrast, having Deutsche Telekom running the United States' second-largest telecommunications network 70 years after Germany and the US were at war is a triumph of economic convergence and a shared belief in competition. It is unlikely that a firm from Japan, Russia, France, Germany or the US could hold and operate critical Chinese infrastructure anytime this century.

The Peterson Institute, the publisher of Lardy's book, does excellent work and it is great to see them publishing book-length works. But perhaps this study would have been much stronger as simply the book's opening section as a standalone policy paper. The remaining sections of the book fill in the blank spaces, but feel as if they are just that. China's convergence potential and the narrative surrounding it should really be a standalone study, and it is not deeply enough covered in this short work. Likewise, the state-owned enterprise section feels like treading water. Lardy knows the ground, and demonstrates a clear understanding and commitment to policy sources. All the right elements are there for a strong intellectual and analytical push forward, but instead, we do not really move at all.

Ultimately, the title belies the book's content. Lardy has identified the end of the reform era, but is still struggling to describe the post-reform era. The book sums up the end of a period of economic history, but it is not yet a window into the economic future of China.

Lardy's work is grounded, though, in strong metrics, measurable outcomes and a strong analytical ability to question conventional wisdom or loose thinking in the policy and economic sphere outside the neoclassical economics framework. There is, though, as with every economic agent, a purpose and a bias. That the objective findings of the book are a call for China to engage in more market liberalization policies is unsurprising. The policy prescriptions for a "path back to market-oriented reforms" are, however, a little naïve and uninspired. *The State Strikes Back* is a title that sums up the gravity shift as China's economic governance moves into the 2020s with a new economic power dynamic and a new role in the global economy, and yet Lardy's policy prescriptions sound like formulaic World Bank-speak from 2010.

Ultimately, the title belies the book's content. Lardy has identified the end of the reform era, but is still struggling to describe the post-reform era. The book sums up the end of a period of economic history, but it is not yet a window into the economic future of China. Lardy, though, is alive to the economic realities of contemporary Chinese economic governance, where many in the global convergence world have been asleep at the wheel.

This book could be seen as the last economic book written during China's growth era, and perhaps the first book to take seriously a global economy with China at either low growth, or even no growth. A collective suspension of disbelief at the highest levels of China watching has meant that a massive impending shift in the size, growth rate and productivity levels of the global economy has largely flown under the radar. The glad-handing is over. The real work begins now for the global economy's accommodation of China, and for Asia-Pacific economic integration. For any aspect of the world economy affected by China's falling economic growth rate, the proxy effects are sobering. For those directly tied to the Chinese industrial economy, or for anyone with exposure to the financial system behind China's growth legacy, dangerous straits lie ahead. Lardy's thinking and insight can help to navigate these new global economic dangers.

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Boris Groys, ed. *Russian Cosmism*.

Cambridge: MIT Press; and London: e-flux, 2018. 264 pp., 1 illustration. Cloth, $27.95, ISBN 9780262037433.

Reviewed by Tristan Kenderdine, Australian National University, College of Asia and the Pacific

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This collection of translations is interesting, useful, and enjoyable. It introduces a philosophy little known in either English or the Western world. Russian Cosmism was a progressive movement in late nineteenth-century and early twentieth-century Russia. It was an intellectual counter to the rational Futurism that would eventually take hold as the guiding functionalist art and scientific ideology of the Soviet Union. Cosmism sought to understand the totality of human civilization with the universe as the basic unit of analysis. Sunspots, cosmic rays, and interstellar interactions with planet Earth could and did have an impact on human societies and political, economic, social, and artistic structures. It may seem far-fetched to the modern reader, but in a world where the Syrian War was brought about by climate change drought, where Russia's and China's reemergence into Arctic geopolitics has been brought about by warming seawaters and melting ice, and where Pacific Island nations are changing entire nation-state structures around rising ocean levels, a philosophy with a planetary perspective on human-nature interrelationality might be equally relevant today.

The book presents a series of translations of the key exponents of Russian Cosmism. There are original essays here in English translation from Alexander Chizhevsky, Nikolai Fedorov, Alexander Svyatogor, Valerian Muravyev, Konstantin Tsoilkovsky, and Alexander Bogdanov. Most of the authors are represented by multiple essays, making this a really excellent compendium of primary sources of Russian Cosmism in English. Under the umbrella of the science and art futurism of Cosmism, the collection covers astronomy, architecture, mathematics, anarchist politics, and science fiction. Such is the scope of the philosophy that it would be useful for anthropologists, historians,

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political scientists, visual artists, cultural theorists, and Russian area studies experts. Particularly given the renewed attention on Eurasianism in contemporary Russian political ideology, there should also be quite an interest in a revival of the understanding of Cosmism from the perspective of Russia's political and cultural reemergence.

Cosmism was really about technology transforming society and art. Much of it seems science fiction to the contemporary reader, but Cosmism is the philosophical basis for much twentieth-century science fiction that later did become reality, in the development of space travel, modern medicine, global economic systems, and the melding of technology with everyday human life. Cosmist ideas were some of the first to take space travel as a serious engineering project, and ideas of immortality and resurrection through advanced biology are evidenced today in cloning, species revival, molecular medicine, and biochemistry. Culturally, Cosmism is the guiding philosophy behind science fiction, and from a cultural tradition that yielded so much science fiction that it helped to shape the present reality, perhaps global problems of climate change, clean energy transitions, food security, and oceans management could benefit from a reimagining of Cosmism, which had a strong influence in both cultural and scientific spheres and politically was also a forerunner of the transhumanist movement.

There are some truly outlandish ideas represented here though, for example, the Tektology of unifying all scientific systems as a means of conquering death and bringing in immortality through the human resurrection of anastasis. Whole-Earth command-economy structures are a foreshadow of the worst manias of the Soviet economic system. There are also the concepts of panpsychism, where atoms have feelings and therefore everything in the universe has consciousness derived from the atomic level, and Chizhevsky's heliobiology, where sunspots influence political movements through mass psychology. And in the "biopower" of Cosmism, we get the foreshadow of Eurasianism and the Gumilevian biopolity. Bogdanov brings it all back down to Earth on a more practical sociological level, arguing that if Cosmism is to be applicable to humanity, then humanity must converge into a monist unitary bloc. Therefore throughout all of this Cosmist thinking weaves the singularly Russian formation of monism and messianism, almost ensuring that Cosmism could only ever remain in the Russosphere and never achieve the planetary acceptance it would need to flourish.

Criticisms are mostly for the sake of criticism, and this is a fine and valuable book. The only thing I would have liked to see more of would be the poets and artists who developed Cosmism, as the volume tends toward the

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scientific and philosophical spectrum. As much of the online e-flux material is focused on the art side of the science-art meld, it could have been interesting to see more of it presented here. There are misprints in Tsoilkovsky's "The Future of Earth and Mankind," with *are* instead of *acre* occurring multiple times. Wider criticisms are of taking Cosmism itself too seriously. The usual criticisms of Russian political philosophy apply here; there is always talk of "the masses" and of "workers" or "great armies" but little conception of where these people should come from sociologically or where they should fit into the new Cosmist society. Taking a mass of people for granted was the failure of most twentieth-century political philosophical thinking. And it seems indelible to Cosmist thinking too.

While the arguments are barely scientific and not particularly convincing to typologize the entirety of global human history into a single causal factor on the scale of the universe, these are all interesting essays that, if nothing else, help deepen our understanding of Russian social and art history. Something essentially Russian is here—that in the pursuit of the rational in the 1920s and 1930s scientific and futurist movements, the Russian avant-garde came up with some novel ideas, which evolved independently of anything in Europe and persist through to today in institutional legacies within Russian social and political systems and theories. This is important to understand for anyone seeking to gain insight into contemporary Russian society or the wider Eurasian Russosphere. And as much as this book should celebrate the authors of Cosmism, there should also be a celebration and recognition of the translators who have brought these works into English: Ian Dreiblatt, Thomas Campbell, Caroline Rees, Anastasia Skoybedo, and Anastasiya Osipova.

The ideas expressed in this volume are radical and utopian. And they are one hundred years old, from a time of far less technological sophistication than today. But the writers' ability to dream and imagine better futures is a kind of vision that carried science and art through the twentieth century, and it is one that we have often given up on and delegated to a social strata of scientists and technologists. Atomic energy sounds fanciful when put in nineteenth-century science-fiction terms. But to read Muravyev reason out and feel out a way toward harnessing atomic energy makes us believe in the future again and in imagining yet better futures. Perhaps that is the utopic element, that dreams and visions make our artistic, scientific, and social realities. Cosmism, for all its practical faults, was a vision—a gaze into a future where humanity could control more than it could then and can now. If only as a reminder of what creative vision can accomplish in science and material reality, Russian Cosmism

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maintains relevance today. Our technology is our defining feature, and it is through technology that our visions and arts are now seen. Cosmism itself presented many faults; most ideas would be infuriating to serious scientists of the twenty-first century. But presented as an inspiration to new generations of futurists, Cosmism still has a lot to offer our collective imagination.

Alison Alexander. *"Duck and Green Peas! For Ever!" Finding Utopia in Tasmania*.

Hobart, Australia: Fullers, 2018. 202 pp. Paper, $45.00, ISBN 9780648218050.

Reviewed by Bill Metcalf, Griffith University and University of Queensland, Australia

doi: 10.5325/utopianstudies.30.2.0358

This book's quirky title and strikingly beautiful cover will grab attention on any bookshelf. The image comes from an old watercolor tourism advertising poster, dreamily evocative of paradisiacal pristine lakes and towering mountains. The title comes from a supposed quote by an early nineteenth-century female convict who declared that what would make her life perfect would be "Duck and Green Peas! For Ever!" (2).[1]

There is much to enjoy about this book. It is written in a nonacademic, at times humorous, manner; is well illustrated; and follows a logical format.

The book opens with early explorers' fantasies of the lives of indigenous Tasmanians. While some regarded them as debased, not-quite-human, others thought that they epitomized the utopian South Sea native, "happy children of nature," a common trope in European mythology. Late eighteenth-century French explorers such as Bruni d'Enrecasteaux thought that so-called civilized Europeans "who boast about the extent of their knowledge [could] learn from this school of nature" (7). François Peron, his botanist, who came to know the "natives" rather than just look from afar, came to see them as "the miserable horde inhabiting these lands" (11).[2]

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Journalistic Takes On a Toxic Culture

Dark Shadows: Inside the Secret World of Kazakhstan

By Joanna Lillis

I.B. Tauris, 2018, 288 pages, $25.00 (Hardcover)

Reviewed by Tristan Kenderdine

DARK SHADOWS promises to shed light on the under-researched and still largely secretive political world of Kazakhstan. While a great introductory read for the casual observer, the light shed is dim, and rather than being led on an enlightened narrative journey, the reader is left largely scrambling in the same darkness as before.

This is not an academic book, nor really a book about contemporary Kazakh politics, but more an attempt to paint a broad social landscape. For a primer on Kazakh political history and institutions, one would be much better off with Bhavna Dave's excellent *Kazakhstan Ethnicity, Language and Power*, even though it is already more than a decade old. In *Dark Shadows*, we get potted political histories of the Nazarbayev autocracy and the human-interest side of social journalism along with eyewitness political journalism from Lillis' more than a decade following Kazakhstan, from where she has written for publications including *Eurasianet*, *The Guardian* and *The Economist*.

The book is divided into three thematic parts: Making of a Potentate; Identity Crisis; and Stories from the Steppe. Without an overriding narrative, though, the many chapters are only loosely connected vignettes. Part one is supposed to be about Nazarbayev, and yet it avoids its subject; part two is supposed to be about state formation, and yet remains as disjointed and opaque as the Kazakh political history it grapples with. The third section feels like a collection of human-interest stories collected by a journalist, which is what they are. Awkwardly stuffed into this manuscript, they are the cheap cuts that somewhat spoil the sausage.

While the first section on the rise of Nazarbayev covers a lot of ground, it fails to properly explore his actual rise. The Gorbachev-Kunaev-Kolbin-Nazarbayev nexus is the elephant in the room: the political history that has never been written. Instead, we again get a side-step, a history of the leader's "inexorable rise" rather than any challenge to the official history. Lillis does, though, introduce many of the minor players in opposition and dissent. For an introductory history, and an introduction to the country, the book is fine.

Reliance on interviews as source material is both the best and worst thing about the book. Few journalists or academics cover Kazakhstan, and Lillis at least has a wealth of on-the-ground interviews to draw from. But constructing political history or political anthropology from a few disparate conversations is not a systematic approach.

The chapter on the Kazakh Khanate is a conversational repeating of oral history, without any exploration of the Golden Horde, the complex history of Khanates in the Turanic geographies, or the impact of external empires on Kazakhstan's state formation. Historical rigor is eschewed for evocative language, sometimes at the expense of accuracy: Lillis refers to the 18th-century Kazakh *ru* and *zhuz* swearing allegiance to "The Kremlin" as Russian rule, rather than St. Petersburg rule. Kazakh official history is itself only a loose interpretation that is constantly appropriated for political purposes. But Lillis' attempt could have done with a more thorough treatment. Instead, we get another vignette of a populist film based around horse fighting rather than political history.

As the chapter on migration and ethnic control shows, the Slavic majority regions are sometimes hanging on by a thread — millions of Russians, Germans and Jews left the land in the years after the Soviet collapse, and there has been a concerted central government effort to strengthen the ethnic majority Kazakhs. Again, Lillis captures the most peculiar aspect of Kazakhstan as a modern state: it is living in the 20th century and playing tired ethno-nationalist games. Where most 21st-century countries look backwards on nationalism, Kazakhstan never had nationalism to look back on. Mongolian Khanates, tribal fealties to Tsarist Russia, loyal stalwart of the Soviet system, and now emerging into the 21st-century as an independent country for the first time in its entire ethnic history, the appeal of nationalism can be understood. It does not, however, make it any less tiresome for the outside observer or any more dangerous for the individuals and families that must live among it.

For all these faults, though, Lillis does write an engaging series of narratives that sum up the feelings of the interlocutors and systems explored. She gets the friction between political dissatisfaction and economic satisfaction right. The emerging and aspiring middle class in Almaty and Astana are the sources of legitimacy for the political class. The oil price dives of 2014 and the devaluation of the tenge in 2015-2016 have been greater political threats to the establishment than any nascent political opposition. The Kazakh rural-urban divide, petro-wealth and stagnation in traditional professions of teaching and doctoring, a repressed political underclass to accompany an economic underclass, and a bevy of families ravaged by the horrors of the political prisoner system, which is little removed from the Soviet *gulag*, contrast with Astana's determination to remain faithful to Russia while plotting an independent foreign policy. Lillis' description of the Kazakhstan political system as a "Clan State" is a good one, capturing the tribal nuance more than simple neo-authoritarianism. To the casual observer, Kazakhstan has all the trappings of a state struggling to bridge development and modernity. But scratch the surface and there is rank tribalism, clanism, secrecy and the persistent threat of violence — not just from the ruling clan, but from all levels of Kazakh society. This makes for a disparaging political history: if any opposition were to succeed the current ruling class, they would themselves likely fall into the same patterns of violent repression.

Ultimately, what Lillis uncovers in this book sheds light on a 21st-century Kazakhstan still struggling with problems solved long ago in the 20th century.

Throughout the book, one theme persists: a sad and ultimately impotent culture of violence.

The Ablyazov chapter is a nice history of the most important opposition leader in contemporary Kazakhstan, and the role he has assumed as political dissident in exile is reasonably juxtaposed with the reality of self-aggrandizement needing political victimhood to avoid extradition. Ablyazov's alleged financial dealings are at the heart of this, and it must not have been hard to find out the court details of his alleged crimes. Instead, Lillis falls back on tropes of "dodgy dealings and off-shore accounts." Here Lillis could have described the details and let the reader see into the heart of the matter. Instead, we get exactly the problem with all political reporting and protesting in Kazakhstan: "everyone already knows, so there is no need to say it directly." Lillis has a real chance to get granular and describe the details behind the story, instead we get innuendo, half-truths and speculation. Something a book like this should be putting to rest, not perpetuating. However, given the dearth of coverage, it is still useful that this section on the texture of Kazakh politics reaches a wider audience.

Ultimately, what Lillis uncovers in this book sheds light on a 21st-century Kazakhstan that is still struggling with problems solved long ago in the 20th century. Throughout the book, one theme persists: a sad and ultimately impotent culture of violence. Rule of Law is an expression of the monopoly on violence in developed countries, but in Kazakhstan, we see a persistent expression of violence that is a mix of 20th-century Soviet institutional thuggery and 19th-century Steppe survivalism. Murder of opposition leaders, riot police shooting and beating protesters, torture by public prosecutors, and common street brutality used to silence journalists and citizens is terrifying for those forced to play this political game. For outsiders, it is perhaps just tiring, boring and lame. For those in the middle with the means, leaving the country and the system behind looks increasingly more attractive than to stay and try to force political reform to emerge from this toxic stew of violence.

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Geopolitics

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Geoeconomics of Natural Gas in Eurasia

Tristan Kenderdine

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BOOK REVIEW ESSAY

Geoeconomics of Natural Gas in Eurasia

Agnia Grigas (2017), *The New Geopolitics of Natural Gas*, Cambridge, MA: Harvard University Press, 416 pages, ISBN: 978-0674971837 (Hbk. $35.00).

Alexandros Peterson (2016), *Integration in Energy and Transport: Azerbaijan, Georgia, and Turkey*, Lanham, MD: Lexington Books, 264 pages, ISBN: 978-1498525534 (Hbk. $90.00).

These books are about structural and institutional development of the natural gas sector, particularly the three main axes of geopolitical development in Eurasia: Western Siberia to Europe and increasingly across the Arctic Ocean; the Caucasus east-west towards Europe, and Central Asia west-east towards China. The shale gas revolution brings in the United States' and China's production into the global calculus and introduces an institutional friction in the rise of ocean-borne liquefied natural gas (LNG) exports. Yet, whether this challenges the continued structural development and institutional integration of the land-power Eurasian natural gas supply-lines is still an uncertain prospect.

The books both touch on themes of commodity extraction and transport, physical infrastructure development, institutional complementarity, integration of disintegrous regions and disparate economies, the geoeconomics of resource access, and conflict between traditional land powers within Eurasia as well as the wider Atlantic and Pacific ocean actors. Both works explore the spaces where technical, economic, transport, and institutional progress are actually creating institutional space for geopolitical risk and where technical advances can be coopted to interests and even subsumed or inverted. Rather than smoothing international production and consumption into easier institutional patterns, greater economic and institutional capacity for resource extraction and transport is perversely creating more space for access geopolitics.

Grigas introduces a theoretical framework for analysing different countries' natural gas strategies according to their place in a global energy supply system paralleled from conventional in-country energy streams: upstream producing countries, midstream transit and transfer countries, and downstream consuming countries. This is a useful framework for bringing the United States into the global commodity system that has traditionally been centred on Eurasian and Middle East supply to European and Asian demand. She makes the important distinction between the boom in gas production and the boom in the international gas trade, and focuses on the twin technological developments of shale extraction and liquefaction, which has created a seaborne trade in liquefied natural gas. Grigas focuses on the possibility of these technical advances causing a future shift from structural trade to trade based on price signals. Breaking the state-dominated system of contracts and moving away from oil indexation would open a new world of market-based gas transport and supply, breaking the old monopolies of structural supply and demand whereby pipelines are controlled by government interests.

Petersen's book, by contrast, is less concerned with technology, infrastructure, transport and consumption, and more with the potential of institutional economic integration. Most of his work tests a null hypothesis, demonstrating why the South

Caucasus and Turkey are not integrated in terms of security, energy, transport and economic institutions. Petersen's main argument is that there is little in the domestic polities to create an integrated economic area, and that any integration would continue to depend on transnational actors. He presents a nice juxtaposition of energy integration in the Caucasus under the transnational actors of European Union institutions, while Central Asian pipeline developments towards China have not resulted in similar economic integration. Most of his work is testing theoretical models. He uses three main theoretical traditions: Deutsch's security communities 'we feeling'; Mitrany's functionalism; and Keohane's neoliberalism. Much of the work explores the friction between European Union institutional functionalism, where technical institutions and standards harmonisation result in highly integrated regional economies, and neoliberal institutional complex interdependence, where a simple state-level mutual economic dependence creates economic institutional integration.

Institutional complementarity, economic integration and geopolitical access are well covered in both authors' thematic approaches to the changing structural dynamics of Eurasian land and sea gas exports. Theoretically, however, Grigas' argument gets lost in the detail. It could perhaps have benefited from treating the industrial infrastructure as an institution, agenting the pipelines, railways, liquefaction ports and ships in an industrial institutional analysis, rather than the theoretically loose geopolitical analysis presented. Petersen uses a much more theoretically robust framework of assessing regional integration and institutional complementarity. He assesses the roles of the institutional agents of the European Union that are deployed in the Caucasus and Central Asia. He argues that neither the Caucasus nor Central Asian energy institutions are fully legal-rational, that they are not independent and responding to market forces, and consequently do not easily lend themselves to functional integration. However, he does find enough institutional complementarity to suggest that transnational actors in the Caucasus and Central Asia have laid the groundwork for China's Belt and Road to pave over with an energy supply route to retrace the Lianyungang to Batumi corridor to create an integrated east-west and west-east network.

Such east-west and west-east geopolitical axes are emerging in the greater Eurasian region mostly as a result of increased consumption demand by outside powers in the European Union and China. This changes the institutional dynamics of the Eurasian hydrocarbon exporters—Turkmenistan, Azerbaijan, Uzbekistan, and Kazakhstan; as well as the transit economies of Georgia and Turkey. Petersen argues that the west-east axis of Turkmenistan-Uzbekistan-Kazakhstan suffers from lack of foreign investment and is dependent on national oil companies, or their gas subsidiaries. China as a 'hegemonic integrator' along this gas corridor would, Petersen argues, result in an integration process defined by weak institutional penetration into the region and, consequently, weak regional economic integration. Turkmenistan with its avowed foreign policy of neutrality and isolation contributes most strongly to this fragmented Central Asian gas region as China works to open the west-east corridor. Conversely the South Caucasus gas fields, transport and market opening are more diversified and responsive to outside markets with many smaller institutions than simply the national oil companies and a greater level of transnational actor integration.

Grigas argues that transcontinental LNG shipping has the potential to revolutionise global consumption and change the global geopolitical dynamics. Her argument on natural gas is that the rise of LNG carriers combined with increased US shale production will help to make a global commodity of natural gas. Effectively the US entering the export market, coupled with expansion of the pipeline systems in Central Asia and Caucasus allowing those states to diversify exports away from Russia, would start to

marketise gas export prices. This would spread the geopolitical risk of natural gas supply and demand dynamics, which had previously allowed for infrastructure chokepoints which in turn became natural geopolitical clinches which ultimately meant that the price of gas was regionally dependent and controlled by states, rather than set by markets at a regional hub as a fungible global commodity.

Grigas' main argument is that liquefaction plants, regasification terminals and LNG shipping are creating a much cheaper transport system than the Eurasian pipeline system. She links the change in US shale gas expansion with a paradigm shift in the global production and consumption patterns, arguing that this LNG development could finally make gas a global, fungible commodity. Perhaps a pipedream, but the argument is hardly solid. The Yamal Nenets project, the Kamchatka LNG transshipment port project, the development of the Northern Sea Route for Arctic shipping transport, and the possibilities of Greenland gas production are all important to contributing to a global gas price and commodification. But they, too, are likely to fall into the point-to-point contract system and perpetuate the state control of gas supplies into the new LNG shipping transport sector, rather than move towards market price-setting that the US entering the export and shipping industry might result in. And simply opening more infrastructure from the Caspian Sea economies will strengthen traditional gas production and export. Considering also that the largest LNG transit corridor is already Qatar to Japan on government contracts, the idea of marketised LNG remains caught in a world of institutionalised land and sea power relationships in Eurasia. This is more likely to play into a Russian reconceptualization of Eurasianism and an Eurasianist economic integration than to benefit the US, EU or China.

The demand-side is also more heavily weighted towards Chinese institutional transformation than US-led transformation on the supply-side. While the China-Russia-US traditional energy geopolitics looks to simply move into new geographies and oceanographies, increased economic integration in the Caspian Sea economies has the potential to subvert the New Great Game in the region and instead turn the regional economies themselves into serious players capable of marketising traditional gas by simply having more buyers to choose from.

China's entry into Eurasia via the Arctic Ocean, Gulf of Ob' and the Kara Sea, and the increased output from the Caspian Sea rim economies effectively creates four main axial arcs, south to north to Russia, east to west to the Black Sea and Europe, west to east to China's Xinjiang and north to south to the Indian Ocean. The east-west Azerbaijan-Georgia-Turkey axis, the Russia-Georgia-Armenia-Iran-Turkmenistan axis, the west-east Turkmenistan-Uzbekistan-Kazakhstan axis as well as the wider China-Russia, Russia-Europe and US-Eurasia frictions all come together along a meta axis from the Gulf of Ob' to Turkey's Aegean Coast and the Persian Gulf. This land-power gas-producing axis joins the four major gas-consuming regions of Europe, Russia, East Asia, and the Indian Ocean economies. The omnidirectional Ob'-Aegean-Persian Gulf gas region developing and opening to wider markets has at least as much power to change global gas geopolitical dynamics as the shale gas and LNG revolutions, beyond the influence of the US, Russia or China.

China's demand of both shipped LNG across the Northern Sea Route into its northeast seaports and traditionally piped natural gas from Turkmenistan-Uzbekistan-Kazakhstan to Xinjiang is likely to change the dynamics of the Eurasian production and supply system, determining the future development of institutional, infrastructural, supply and prices of natural gas. Contra Grigas' argument, this means LNG would still be heavily influenced by states and state economic factors such as national oil companies, and consequently many non-market prices would affect both producers and consumers.

However, the opening of west-east pipelines from Turkmenistan-Uzbekistan-Kazakhstan to China does have the potential to create a gas pole centred on the Caspian Sea which can begin to more clearly connect to global markets and become freer from the older south-north axis of patron-client relations with Moscow. Chinese demand was already the factor driving Turkmenistan to shift gas exports from the poor state-driven price offered by Russia to the better state-driven price offered by China. This means that the Caspian Sea natural gas producing economies can now begin to seriously choose to supply south-north to Russia, east-west to Europe, west-east to China and possibly soon north-south to India through Iran and the Persian Gulf. Opening these gas geographies to multiple buyers is more likely to result in a commodification of natural gas than the United States entering the LNG sector.

But building extraction, pipeline, refining and liquefaction infrastructure is not simply a geographic or economic challenge. Markets are connected through institutions and polities are formed, maintained and changed by virtue of the resultant institutional interrelationality. China State-owned Enterprises (SOEs) like China National Petroleum Corporation are likely to have much weaker integrative force than institutions on the east-west axis from the Caspian rim economies towards Europe. This weak institutional integration on the China demand-side, and the inherent structural problems with the separate South Caucasus and Turkish economic institutions, mean that it is very difficult to think of a contiguous economic integration in energy transport and security in the Caspian Sea region. So while the Ob'-Aegean meta axis still has greater potential to marketise the global gas market, inherent institutional limitations are likely to slow any possible economic integration necessary for this to happen.

There are problems with the authors covered here. The criticism of Petersen's work is simply that it is a PhD thesis. The author does seem to have been a promising figure in Eurasian energy and policy studies before his untimely death. However, it is hard not to see this as a PhD thesis in a nice cover. We can almost see the review panel. Likewise Grigas' volume could have benefited from much tighter editing. The book feels like an elongated policy proposal rather than evidence-based research and the research that is there is written over the top of the work of a dozen researchers. There is a lot of conversational great power politics with many unverified assertions about the motives of state actors. Overall, the book feels like a twentieth century map of Russia, all the meat in the West and a thinly trailing area of competence the farther East it stretches. Grigas could have stayed on US-Europe-Russia and have had a stronger, tighter book. The book also really needs a series of tables, charts and maps to more clearly demonstrate to the reader the infrastructure it is engaging with. The author is clearly looking at tables of data and maps of pipelines; readers would also benefit from seeing this rather than having it explained in often awkward prose. It does feel like Grigas has nearly squared the circle on the production, consumption and transport of global natural and liquefied gas, but lots of isolated figures suggest an inconsistent dataset making comparison of different regional metrics difficult.

However, for such an important international commodity, and one that is changing the geopolitical landscape in Eurasia, there is scarce scholarly attention paid to the practical aspects of continental and global natural gas and LNG. Grigas' book is a very welcome addition, and seems like only the beginning of a larger geopolitical and geoeconomic research agenda set to unfold. Likewise Petersen's work is more of a groundwork for future hydrocarbon economic institutional integration research in both the Caucasus and Central Asia. This is incredibly important work on massive structural economic changes that carry huge geopolitical and global market ramifications. The field is certainly open for more books such as these. If readers are interested in the deeper institutional forms that will shape the future of the Eurasian LNG axes, east-

west, west-east, north-south and north-north across the Arctic, then these two volumes exploring the institutional dynamics at play behind the infrastructure build would be a good primer.

There is not only huge potential for scholarly work here, there are great power games afoot. There is much institutional space for China to come into these geographies and both help to build and to exploit the shadow spaces left by retreating Empires, as well as the new spaces created by globalisation 2.0 in advanced logistics, smart inventories, and traditional transport and communications infrastructure. In both the Caspian-Black Sea area and the Arctic Ocean area, China has the potential to fill these geographic spaces with institutional and infrastructural space. For Russia, the continued development and interrelatedness of the West Siberian hydrocarbon fields with its European integration agenda, and its wider Eurasianist and isolationalist agenda, will be tested by both China's advance into these geographies, as well as increased globalisation of traditional soviet spheres by improved communications, transport and pipeline infrastructure.

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"American intelligence excels at the technical collection of data but it often fails to understand human behavior. As a study by the National Research Council noted, 'Open sources can be particularly useful when analyzing human behavior, such as economic, political, religious, and cultural developments'" (p. 58). A deeper treatment of how grievances are framed and manipulated by elites to mobilize and inspire is precisely what could then be used to frame intelligence efforts and to give meaning to the richness of open source intelligence. This book is a good read, sprinkled with valuable insights, but needs deeper and stronger thematic cohesion that would, perhaps through applying social mobilization theory, more crisply foreground the dynamics of grievance manipulation.

Dr. W. A. Rivera is the Director of the Laboratory for Unconventional Conflict Analysis and Simulation (LUCAS).

Russia's Middle East Policy: From Lenin to Putin, by Alexey Vasiliev. Abingdon, UK: Routledge, 2018. 554 pages. £100.

What Is Russia Up To in the Middle East? by Dmitri Trenin. Cambridge: Polity Press, 2017. 144 pages. £9.99 paper.

Reviewed by Tristan Kenderdine

Russia has a deep and institutionally embedded history in the Middle East — as the self-styled successor state to the Eastern Roman Empire, as the protector of the Orthodox Church in the Middle East, as a Soviet expansionist power, and now reemerging on the world stage generally and in the Middle East specifically. The two books under review are likely a vanguard of a reawakening to and new courses to understand Russia's reemergence in a region that it is indelibly connected to.

Both Dmitri Trenin and Alexey Vasiliev tackle Russia's reemergence as a global geopolitical force in the Middle East. To be sure, Russia's extensive involvement in Syria and its resurfacing as a major external power in the region more generally deserve close attention. However, neither of these books clearly articulates what Russia is doing in the Middle East nor how Russia's Middle East policies have evolved.

Trenin's work, *What Is Russia Up To in the Middle East?*, is concerned with direction, weight, and balance. It focuses on state forces external to the Middle East and their impact on each other, rather than on the region itself. It essentially explores the uneven weight of various state actors in pursuit of their respective interests.

Trenin argues that Russia misses the imperial great power dynamic in which it had vied for power and influence in the region with France, Britain, and Germany. Ultimately Trenin argues that the world needs to acknowledge that Russia is again a major world power and thus a key external player in the Middle East.

Trenin's is not so much a book as a good essay. Trenin is insightful and his perspective elucidating, but this is an afternoon read that can be strolled through as a primer for a new government posting or a graduate school class on Middle East policy. References are scant, with the first chapter's citations double-printed by the publisher. The "case studies" in diplomacy are really vignettes; the view of a well-versed watcher of Russia–Middle East current affairs but not academically rigorous. The "war" chapter is light on detail, but full of indulgently broad statements. Here was a real chance to put forward Russia's foreign policy credentials and to analytically defend them against the frame of the United States' position on Syria.

Good political research brings a clarity that does not shy away from stating that which seems too obvious to say. And yet Trenin misses the opportunity here to live up to the book's title: what are Russia's policy motivations in the Middle East? How has Russia come down on the side of state sovereignty against separatism? The brevity and lack of source material turn a potentially light treatment into a shallow one. This book needed a stronger, perhaps even a courageous editor. And the research design of the project needed to be clearer and tighter at the start.

Nevertheless the book is enjoyable, useful, and a good entry to the subject matter. In *What Is Russia Up To in the Middle East?*, the read-

er does get a very nice overview of the current affairs and contemporary history of Russia's reemergence on the regional stage. It feels like tea with an old diplomat friend and catching up on current events from a new perspective.

If Trenin's account is too broad, Vasiliev's treatment is encyclopedic. In *Russia's Middle East Policy*, Vasiliev offers up a condensed history of Russian Middle East policy–making, focusing on the states that have occupied the major geopolitical ground for both the Soviet Union and the Russian Federation: Turkey, Iran, and Afghanistan. Vasiliev's scope and mastery of detail create an impressive compendium of history peppered with personal interviews.

Vasiliev does not promise a holistic examination of the inner workings of the Russian foreign policy apparatus but instead frequently offers his personal insider knowledge of the individuals and personal networks involved — a unique source and one with the potential to be highly elucidating. However, he fails to systematically analyze the people and institutions of the Russian foreign policy–making machine.

What the reader wants to see here is either a critical engagement with the core of the Russian foreign policy–making process or a reasoned argument for Russia's contemporary interventions in the Middle East more generally and in Syria in particular. But Vasiliev's perspective is always of the world stage looking back on the Soviet and later Russian state response. A better approach might have been to articulate the range of actors involved in policy-making and the interplay among them.

Vasiliev's study is a dense source of historical research and covers so much ground that it cannot help but be useful to a variety of different scholars. He surveys the landscape of Russian foreign policy perspectives from the elite leadership vantage point, methodically walking through each Soviet and Russian leadership's approach to the region. He also writes from the perspective of the geographies involved, looking back at Moscow from Afghanistan, Iran, Turkey, and Syria. While the potted histories usefully introduce a Soviet perspective on 20th century Middle East history, they mostly cover ground that is best covered elsewhere.

As a history of Soviet Middle East policy, Vasiliev's work is a useful encyclopedia. But its narrative discourse means the reader must closely follow the monotone monologue to extract any information. There are no charts, timelines, or maps. The notes seem in order, but many of the hyperlinks are either broken or truncated, making them useless. Given that so much of the source material is in Russian, many readers would have preferred to see Cyrillic in the notes alongside the roman letters. The book though does contain an excellent index, a seemingly dying art in Western academia.

If you are working in government or academia and have a new posting in unfamiliar geographic terrain, then Trenin's is a good primer and Vasiliev's work is likely to be useful as a general history. However, we do not yet have a good academic text in English on Russia's policy motivations in Syria or the wider Middle East, despite these worthy attempts.

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Polar Record

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Book Review

China's Arctic Ambitions and What They Mean for Canada. P. Whitney Lackenbauer, Adam Lajeunesse, James Manicom, and Frédéric Lasserre. 2018. Alberta: University of Calgary Press, Paperback, 274 pp., 18 Illustrations, $34.99, ISBN: 978-1-55238-901-0

This volume is an early grasp towards something that will attract increasing attention over the coming decades. China's foreign policy in the Canadian Arctic would have been a barely noticeable 'what if?' only twenty years ago. Now, however, China in the Arctic is already a policy, security and economic reality. How Canada responds politically will be a test of policy-making in the shadow spaces of the future, applying policy tools to remote geographies where governance holds much less power, competence and recognition than in unfrozen jurisdictions.

Sovereignty is the underlying maxim throughout both the book and Canada's wider Arctic policy, and all arguments should be read with a mind to the idea that the authors, funders, publisher and likely intended audience wish to bolster the Canadian institutional responses to strengthening this unchallenged but perhaps weakly enforced sovereignty. The book tackles Canadian institutional weight across the many Arctic fields – territorial, maritime, living resources, transit and transport, resource, capital, indigenous rights, resources and development. This is balanced against an increasing interest in the Circumpolar North from both Chinese international capital and the geopolitical state. The book is a step along an ever-widening path towards greater Arctic access by non-Arctic states and what this means across a range of fields for the established and coastal Arctic states.

China's overwhelming interest in polar affairs is still the Antarctic, not the Arctic. But China's political and economic interest in the Arctic contributes to a revivalism of state-centric thinking and geopolitics whereas, with the exception of Russia, all other Arctic stakeholders have moved into 21st century models of transnational institutionalism. This means that Arctic states like Canada are increasingly drawn back in to statist thinking in response to China.

The book is structured around six key themes: China's Arctic Strategy, scientific activities, shipping, resources, governance and the future of China's Arctic policy. The book's strength is the scope of its survey; it is basically an English language literature review of everything related to China and the Canadian Arctic. But that only highlights its weakness; while the Chinese policy-makers and policy implementation institutions are well covered there is little novel China policy research or methodological engagement with the Chinese sources.

Shipping is the principal driver for China's Arctic policy, considering its Malacca Strait dilemma, and the authors offer a good breakdown of the potential of Asian markets to connect to Europe and North America through Arctic routes. This is tempered though with sober statistics demonstrating that the trade potential is far from realised. The authors reiterate that Arctic shipping will probably remain destinational, not intra-Arctic or trans-Arctic, which would only strengthen Canada's sovereignty and the international system. China abiding by the Polar Code and complying with Canadian internal pollution and transit regulations makes China more likely to align with the international system than to redesign it.

The resources chapter again dampens the sometimes rife speculation of a potential resources boom, with realistic appraisals of just how difficult and expensive it is to establish and maintain economically viable mining operations in the Arctic. The allure of geopolitics is always there, but the authors prudently stick with markets which more often than not reveal a graveyard of failed ambitions than a transformative economic good. Overall, the authors paint a picture of a Canadian Arctic resources frontier that is only being taken seriously due to outside interventions. Minerals, hydrocarbons, fisheries and continental shelf resources are slowly coming into higher resolution focus as a result of outside pressure. In this instance for Canada we could be saying that the external forces have resulted in a radical introspection. Bringing Canada's focus on domestic solutions to international pressures is a positive outcome from a potentially negative external stimulus.

The authors repeatedly argue that inclusion is the best manner to deal with China in Arctic affairs. Less big state geopolitics and stronger local government decision-making has been the way forward for effective Arctic governance in both North America and the European Arctic. As always though, there is little attention paid and few solutions offered for strengthening indigenous governance and integrating with the new macroregional paradigms.

Where China, is concerned there is still legitimate worry that all actors are ultimately state coordinated. Yet states like Canada with a firm commitment to international law, private

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enterprise, local and indigenous governance and responsible custodianship can take strength from their own institutions rather than being afraid of Chinese institutions.

The Arctic opening to more state players only really means that the rhythms of economic and social life are beginning to develop and diversify in the Arctic. For Arctic states, this only means a new level of complexity of governance. The only challenge is how to best govern this development to reach maximum potential. No one would want the Arctic to stay unapproachable, undeveloped, and unresourced. The burden of Arctic affairs is being lowered down the economic hierarchy, to firms and individuals, and away from the sole responsibility of the state. Coastal states and Arctic states will only strengthen their positions with the increased interaction of non-Arctic states as institutions developed to allow greater roles for all actors while maintaining ultimate state hegemony within territorial jurisdictions.

The premise of the book seems to be a geopolitical threat narrative, and yet the authors consistently approach the problem from constructivist and institutionalist perspectives of inclusion and legitimacy building. For Canadian policy-makers this book is a great primer. There is enough in here for the rest of us too, but the narrative is naturally pinched to magnify the Canadian aspect. It is also more like a reader for a postgraduate course on Arctic politics or international law than a narrative argument or a research monograph with a clear set of goals and outcomes. It is a bit light, only skimming the surface of China in the Circumpolar North. Four authors make the narrative seem disjointed; it could have done with a stronger voice throughout, one strong edit to make sure that the reader is following a single train of thought. And naturally for the non-Canadian reader, more focus on implications for the greater Circumpolar North would have made a more rounded book, as much of the research on China's Arctic policy applies equally to the Nordics and other states. There are also no institutional or organisational charts in the book. For the casual reader, and particularly for the Canadian government official, a couple of diagrams showing the important institutions and how they interrelate would have been useful. Overall, against the periodic hyperbole of Arctic geopolitics, this work is refreshingly boring. The authors balance a real and persistent problem in accommodating China's rise in the Arctic with the incredibly slow political, economic and social realities of the region. Nothing changes quickly in the Circumpolar North, and this sober treatment is a good reminder of the slowness of any change in Arctic public administration, political and economic research, and scientific institutions. China's policy in the Arctic though is everyone's business and this work only begins to scratch the surface of the China–Arctic–Canada dynamic. Volumes like this will help to guide the way of future scholars as the linkages between China and Canada in the Arctic grow denser and more convoluted in the future.

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Lev Gumilev's Eurasianism and ethnonationalist misappropriation of historical geography

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REVIEW ESSAY

Lev Gumilev's Eurasianism and ethnonationalist misappropriation of historical geography

The Gumilev Mystique: biopolitics, Eurasianism, and the construction of community in modern Russia, by Mark Bassin, Ithaca, NY, Cornell University Press, 2016, 400 pp., $89.95, ISBN 978-0-8014-4594-1

The politics of Eurasianism: identity, popular culture and Russia's foreign policy, edited by Mark Bassin and Gonzalo Pozo, Lexington, KY, Rowman & Littlefield, 2017, 384 pp., $138.00, ISBN 978-1-7866-0162-9

Black wind, white snow: the rise of Russia's new nationalism, by Charles Clover, New Haven, CT, and London, Yale University Press, 2017, xii + 384 pp., $35.00, ISBN 978-0-3001-2070-7

The books discussed here represent works of ownership, and appropriation, of an ownership narrative. Who owns the historical and geographic concepts of Eurasianism, Russian Traditionalism and Turkicness, and who inherited the institutions of the Mongolian Empire? Claims of ethnic genesis have natural outcomes in frames of inheritance, family struggle and misappropriated legitimacy. Such is the case with the legacy of Gumilev's work on the ethnogenesis and sociocultural development of Eurasian peoples in the historical-geographic sense.

Lev Nikolayevich Gumilev's work is both a simplistic proto-theory of human geography and a lifetime of thick-description anthropology on Eurasian and Steppe history. It is also a body of work on the institutional interrelationality between peoples and nations, between sociological institutions and political institutions, and the anthropology of human–nature interrelationality. Gumilev's work has been used by both Turkologists and Russophiles; by the peoples of Central Asia as works empowering self-determination; and by Russian ethnonationalists as a theoretical framework upon which to build a nationalism to succeed the Tsarist Empire and the Soviet Union.

This review examines three volumes that attempt to reconcile Gumilev's Eurasianism and contemporary Russian neo-Eurasianism. Such works in English are a rarity for such an important body of theory which is shaping contemporary Russian politics on the right, as well as taking on new life in the Turkology and Central Asia spheres. Ultimately the form of Eurasian ideology defines contemporary relations among the former Soviet republics and with the Russian Federation. For the English-speaking audience, Gumilev's understudied body of work could begin to unlock a post-Soviet political geographic theory that has been buried by the triumphalism of post–Cold War neoliberalism.

Gumilev changed the shape of the historical geography of Russia. His work forced a paradigm shift from the orthodox historiography of Russian survival of the Mongol invasions, to a view of Russian history that better reflected the institutional interactions between Russia and Turkic and Mongol peoples on the Eurasian landmass. It was in this 'Turanic element' of Central Asia and Tartary that Gumilev saw the power and legitimacy of the Soviet Union.

Gumilev viewed the Russian Empire as the inheritor state of the Golden Horde. Not only did the political institutions of the Mongol Empire not disappear, but they played an integral role in

the development of medieval Russia through the Golden Horde, of Kazakhstan through the Chagatai Khaganate, of the modern Chinese state through the Yuan Dynasty, and also of contemporary European states, such as Hungary, as the final sedentary resting place of the Xiongnu. Perhaps Gumilev's greatest contribution to steppe history is the thesis that the Xiongnu of Chinese imperial history were the Hungarians of modern Hungary. Gumilev connected the Xiongnu disappearance from the north China plain and Mongolian steppe with the arrival of the Huns in the East European steppe. There is a pattern of this historical geography in China-steppe history. The Manchurian Liao dynasty – the ethnic Khitans, whence the Russian word for 'China' comes – fled from China to take up as the Western Liao beyond the Trans Ili-Alatau mountains, forming the Qara Khitai which in turn laid the institutional basis for the Mongol Chagatai Khanate.

Rather than the Mongol state being simply a war machine in a political and social vacuum, Gumilev argued that Muscovy owed much of its early development to close proximity to the Golden Horde and other khanates, and to the institutional transfers that must have taken place. In terms of both territorial and institutional space, Russia is the successor state to three fifths-of the Ghengis Empire: the Kipchak Khanate (Golden Horde), Chagatai Khanate (Central Asia) and much of the Great Khanate (Siberia).

Gumilev's work was a revisionist history that argued persuasively that modern Russian history owed much to the institutions of the Mongolian Empire. The macro-argument is that Russia is the successor state to the Mongolian Empire, inheriting its institutional forms, rather than the more established Kulikov narrative of European Russians defending their civilization from a 'barbarian' other, and extending a European state eastwards to fill in the map from a vacuum.

Gumilev was here wrestling with the problems of Russian exceptionalism and Russian historical revisionism, and the deeper problem of the Russian state's institutional origins. Gumilev argued that this relationship between the Golden Horde and Muscovy was the defining feature of the development of not only Russia but also Russianism and Eurasianism. He also argued that this Eurasian element in Russian history had been muddied by post-Enlightenment Russian historiography which saw Russia as a European, not a Eurasian civilization. Any vestigial Mongolian institutional forms had been overtly rejected and then subverted by appropriating them into a Russianism to legitimize control of lands in the West Siberia, Volga and Dnieper regions, and peoples both past and present in those geographies. The rewriting of Russian history to include the Mongol influence on the political-geographic foundation of Russia is the founding contribution of Eurasianism.

Eurasianism is usually typologized into early classical Eurasianism of the end of the Russian Civil War, Gumilevian radical Eurasianism in the Soviet Union, and the contemporary neo-Eurasianism of the ethnonationalist movement in the Russian Federation. Classical Eurasianism first developed in White Russian émigré circles in the 1920s and 1930s. They sought to reinterpret 'Russia' as a polity symbiotically interrelated with Eurasia, and to reinterpret the formation of the institutions of the Russian State with the history of the nomadic steppe peoples that was bound up with Russian medieval history.

Both Bassin and Clover give good treatments of the classical Eurasianists. Clover introduces us to the personal histories of Trubetskoy, Jakobsen, Suvchinsky, and Savitsky. The genesis of classical Eurasianism is well covered, and we are introduced to Jakobsen's *Prehistory of Slavic Languages*; Danilevsky's Romano-German ideology, expressed in *Europe and Mankind*; Petr Savitsky's writings in *Ruskaya Mysl*; and the touchstone work of Eurasianism, Florovsky's *Exodus to the East*.

Classical Eurasianism has its basis in the structural linguistic and the ethno-linguistic determinism of geography. The defining underlying ideology is of linguistic structuralism. It rejects

Russia's being a Slavic country (a European descriptive concept) and also its being a European country. To explain the Turanian (Central Asian) element in the formation of the Russian state, the classical Eurasianists engaged in a kind of political anthropology to explain the unconscious expression of linguistic interrelationality. This linguistic structuralism gave rise to the concept of both ethnolinguistic zones and basins of ethnic biopolities, where geography forced peoples into closer and more frequent contact and consequently into cultural-linguistic convergence.

The Eurasianists made the argument that these cultural-linguistic basins of convergence mark out natural delimitations for broader socio-political institutional integration. From these linguistic zones, unique social and political institutions would form, all determined by geography. Bassin gives a fascinating example of the concept of a Eurasian convergence zone formed in the area east of a line running between Murmansk, Brest and Galati. In this area, Russo-Finnic-Turkic folk-songs demonstrate convergence of musical style in their use of the pentatonic scale.

Clover also introduces a parallel that runs through all of the one hundred years of Eurasianism, of an ideology formed in the shadow of the Russian secret police. From Cheka to NKVD to OGPU to KGB to FSB, there is a parallel shadow of institutional engagement by Moscow with Eurasianism as an underground ideology. Because at its heart Eurasianism is revisionist historical geography, it has always been a threat to the political legitimacy of the Russian centre, and hence its continued popularity in Central Asia.

However, both classical and Gumilevian Eurasianism have suffered the fate of being taken up as a standard of Russian ethnonationalism by a contemporary political reading of Eurasianism, first as a defence of ethnonationalism by ethnic Russians, and then as a policy tool of the Russian Federation in forming a continental power theory. Russian ethnonationalists have welded Gumilev's Eurasianism with MacKinder's geopolitical Eurasian Heartland theory and Dugin's livid 'fourth theory' of neofascism to create quite a monster in contemporary Russian geopolitical discourse.

Clover's treatment is the one most acutely focused on the Eurasianist re-emergence from the 2000s and the misappropriation of Gumilevian ideas by contemporary Russian ethnonationalism. His linkage of the political institution of the 'Russia Party' through the Soviet collapse and the re-emergence of a movement without an ideology is incisive.

Bassin's best contribution is the identification of Kozhinov's 1981 essay as the bridge between Gumilev's Eurasianism and contemporary Russian ethnonationalism. Vadim Valerianovich Kozhinov's essay 'And All Her Languages Shall Speak My Name … Notes on the Spiritual Peculiarities of Russia' (*I nazovet menia vsiak suschhii v nei iazyk … zametki o dukhovnom svoyeobrazii rossii*), written in 1980 and published in 1981 in *Nash Sovremenni,* is the beginning (and intellectual end) of the Eurasianism of Dugin. Clover also expands on Kozhinov's appropriation of Gumilevian Eurasianism and his influence on its reception and development, first through *Literaturnaya Gazeta* and later through *Nash Sovremenni*.

The essence of Kozhinov's essay and the ideological foundation of Russian contemporary neo-Eurasianism was to invert the Gumilevian celebration of Tatar and Turkic contributions to Russia. Kozhinov's Eurasianism instead asserts that ethnic Russians can be the only true bearers of Eurasianism because it is solely Russians who can be both European and Asian and neither European nor Asian. According to Khozhinov's thesis, all the other constituent nationalities of the Russian states, from Kievan Rus' to Tsarist Russia, the Soviet Union and now the Russian Federation, are only either European or Asian (Baltic, Non-Russian Slavic, Tatar, Turkic). Likewise, these constituent ethnicities are bound together by the Russian language as well as the Russian state, such that it is not simply a political bond but an ethno-linguistic bond. This is the basis for Russia as a 'traditionalist' power, a non-European

power and a Eurasian power. And it represents a dialectic in appropriating Gumilev's thesis of Central Asian empowerment and turning it into an ideology of Russian power.

Bassin argues that Kozhinov's essay, while controversial at the time, quickly faded from public consciousness, but that the link between Eurasianism and Russian ethnonationalists that remains became attributed solely to Gumilev, not Kozhinov. Bassin argues that the resulting Russian ethnonationalist ideologues have in fact reacted against Gumilev. They learned Eurasianism and its concept of *ethnos*, then used that concept to attack the Golden Horde thesis. They stripped the Turkic, Tatar and Finno-Ugric *ethnos* history from Russia's state formation, and then used the remaining acid-washed concept of Russian *ethnos* to abstract and defend a thesis of Russia as hyper-European. Contemporary Russian ethnonationalism thus appears more Leo Strauss than Lev Gumilev. Concepts of traditionalism and answers from ancient mystics are used to circumvent the institutions and ideologies of the European Enlightenment. This traditionalism is in search of justification for 'unique' status and the ideological backdoor of exceptionalism.

Torbakov, in the edited volume, argues that the Russian ethnonationalists are essentially searching for an ideological base to reconstruct the Russian Empire. He argues that the debate is really about whether nation or state is more important. Bassin's chapter in the edited volume argues that because Russia received both empire and state at the same time, it lacked a separate time and space to imagine 'nation' as a concept separate from state. In this sense both classical and Gumilevian Eurasianism in contemporary Russian ethnonationalism are concerned with appropriating the false shadow of imperial inheritance, and of attempting to define both nation and state in structures that predate them both: historical and political geography.

Against this contemporary misappropriation of Eurasianism as an ethnonationalist ideology, the work of Gumilev comes across primarily as a revisionist rewriting of Russo-centric Eurasian history. His work should really be working against contemporary ethnonationalism, just as his body of historiography worked against a Russo-centric view of the history of the Eurasian continent. He agented the vast geography of the Eurasian steppe, from Eurasian Arctic to Kazakh desert. And he found the mark of landscape upon the development of peoples whose own development in turn shaped the historical institutions of first Tsarist Russia and later the Soviet Union. From these three books we would hope to see a revival of a neo-Gumilevian Eurasianism, a reappraisal of Gumilev's core theses in opposition to the misappropriation of his ideas by contemporary Russian ethnonationalist ideologues.

Bassin's *Gumilev Mystique* is a very good book, a history of intellectual history. At times, however, it feels like the author is perhaps forcing too much of his own research into the time period, and not transmitting enough of Gumilev directly to the reader.

Clover's is a populist work of post–Cold War reportage dressed in spy-fiction tropes. His use of sources is excellent, and his story is great reading and plausible, but is it history? He often creates Dugin's conspiracies for him: Gorbachev is complicit in the coup; Yeltsin is the butcher of Ostankino; and Putin is the false flagger bombing Russia as a pretext to quell Chechnya and restore the ranks of the *soloviki* who are threatening to secede into the provinces, taking the intercontinental ballistic missiles with them. Great stories, but are they only stories? Clover's work does though shed great light on the ideological foundations of Dugin and the influence of ethnonationalism in contemporary Russian political discourse, a terribly understudied field.

The edited volume is a mixed bag that ultimately underdelivers. Anceschi's chapter gives a good account of Eurasianism in Kazakhstan, while Laruelle runs through a competent history of the intellectual foundations of Eurasianism. Klinke's chapter on the German Russophile Alexander Rahr is enlightening, and Trencsenyi's attempt to connect Russian Eurasianism with

Hungary's rightist movement opens the door to further research. Overall, though, as a collection, it is undercooked.

While we can see the misappropriation of Gumilev in Russian nationalist politics, Gumilev should not be read as antithetical to either postnationalist functionalism or multiculturalism. And ethnocentric historical geography and ecological interrelationality remain useful for the Eurasian polities that his work focused on. Gumilevian Eurasian ideology is a deep, undrunk well, a lake hidden in Tartary or Kazakhstan, a landscape untouched by twentieth-century political ideologies, and a set of ideas suspended in protozoic form. For the English reader, Gumilev's writings and ideas remain a Siberian landscape, locked up in the history of human–nature interrelationality in the Russian Arctic, the great rivers of the West Siberian plain, the steppe grasslands of the still largely unwritten nomadic histories, and the Taiga woodlands carving through which formed the modern Russian state. Gumilev argues that those landscapes, if left to reforge new human civilizations, would yield very similar human social structures as exist today. Despite the power of individualism, there remains an indelible mark of geography on peoples and states. Gumilev saw this entanglement of human–nature interrelationality in political geography and the mark of the landscape left on society. His *ethnos*, *biopolitics* and *passionarnost'* [challenge] are not a simplistic clarion call to misappropriated ethnonationalism. Rather they are a call into the dark wilderness, that we might hear the echo of the landscape in our collective consciousness.

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China's Economic Reform Reboot

The State Strikes Back: The End of Economic Reform in China?

By Nicholas R. Lardy

Peterson Institute for International Economics, 2019, 200 pages, $16.63 (Paperback)

Reviewed by Tristan Kenderdine

THIS SHORT BOOK captures an historical junction in contemporary China's economic governance that has taken the world a surprisingly long time to digest. Although the book dispels the hyperbole, its opening paragraph chimes the cliché that threatens to drag the global economy down, the near-endless parroting of "China's inexorable rise." This praise must come to an end. Lardy's is one of the first voices in what must surely become a choir of more sophisticated analyses of China's economy as it matures.

Lardy elegantly floats to the top of the China economic analysis souffle, offering a vantage point from which many have attempted to speak, but few have succeeded with credibility. From the start, he straddles the real danger facing the global economy: China's continued success is dangerous; China's failure would be a disaster. Against the hyperbole, though, Lardy takes huge economies and complex economic relationships and makes them as simple as joining together large pieces in a global jigsaw puzzle. He comes across as a reassuring political economy professor talking about the global economy: don't panic, someone sees the whole picture and is not scared.

Lardy's work covers several key junctures in the contemporary Chinese economy. He identifies a new pole of global economic gravity, arguing that China's asset prices and exchange rate policy can both now infect exposed economies, the way that previously only the United States could. He runs the reader through seven Chinese economic rebalancing scenarios. The only part of the scenarios that is not variable is that China is in the midst of an economic rebalancing. However, the greatest meta-narrative in this study is the testing of the economic convergence narrative. This convergence myth has fueled international economic animal spirits for decades. Overlooking the potential for non-convergence, though, is a key reason a China slowdown under current institutional structures is so dangerous. China in the world will be different from Japan in the world, and not many are prepared for what an idiosyncratic China really means.

Lardy also walks the reader through the series of failed reforms in the state-owned enterprise sector. For those who have followed that process, there is nowhere left to lay blame. The government has tried several different ways, but all forms of SOE reform have flopped, and outsiders, insiders, the markets and the government are all looking at an intractable problem that is bigger than any government in the world, even the Chinese Communist Party. There are simply not enough incentives to change, and meaningful reform that leads to genuine competition, where domestic Chinese firms can fail to the benefit of foreign firms operating in China, appears to be light years away. In contrast, having Deutsche Telekom running the United States' second-largest telecommunications network 70 years after Germany and the US were at war is a triumph of economic convergence and a shared belief in competition. It is unlikely that a firm from Japan, Russia, France, Germany or the US could hold and operate critical Chinese infrastructure anytime this century.

The Peterson Institute, the publisher of Lardy's book, does excellent work and it is great to see them publishing book-length works. But perhaps this study would have been much stronger as simply the book's opening section as a standalone policy paper. The remaining sections of the book fill in the blank spaces, but feel as if they are just that. China's convergence potential and the narrative surrounding it should really be a standalone study, and it is not deeply enough covered in this short work. Likewise, the state-owned enterprise section feels like treading water. Lardy knows the ground, and demonstrates a clear understanding and commitment to policy sources. All the right elements are there for a strong intellectual and analytical push forward, but instead, we do not really move at all.

Ultimately, the title belies the book's content. Lardy has identified the end of the reform era, but is still struggling to describe the post-reform era. The book sums up the end of a period of economic history, but it is not yet a window into the economic future of China.

Lardy's work is grounded, though, in strong metrics, measurable outcomes and a strong analytical ability to question conventional wisdom or loose thinking in the policy and economic sphere outside the neoclassical economics framework. There is, though, as with every economic agent, a purpose and a bias. That the objective findings of the book are a call for China to engage in more market liberalization policies is unsurprising. The policy prescriptions for a "path back to market-oriented reforms" are, however, a little naïve and uninspired. *The State Strikes Back* is a title that sums up the gravity shift as China's economic governance moves into the 2020s with a new economic power dynamic and a new role in the global economy, and yet Lardy's policy prescriptions sound like formulaic World Bank-speak from 2010.

Ultimately, the title belies the book's content. Lardy has identified the end of the reform era, but is still struggling to describe the post-reform era. The book sums up the end of a period of economic history, but it is not yet a window into the economic future of China. Lardy, though, is alive to the economic realities of contemporary Chinese economic governance, where many in the global convergence world have been asleep at the wheel.

This book could be seen as the last economic book written during China's growth era, and perhaps the first book to take seriously a global economy with China at either low growth, or even no growth. A collective suspension of disbelief at the highest levels of China watching has meant that a massive impending shift in the size, growth rate and productivity levels of the global economy has largely flown under the radar. The glad-handing is over. The real work begins now for the global economy's accommodation of China, and for Asia-Pacific economic integration. For any aspect of the world economy affected by China's falling economic growth rate, the proxy effects are sobering. For those directly tied to the Chinese industrial economy, or for anyone with exposure to the financial system behind China's growth legacy, dangerous straits lie ahead. Lardy's thinking and insight can help to navigate these new global economic dangers.

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The Central Asia–Afghanistan relationship: From Soviet intervention to Silk Road initiative

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BOOK REVIEW

The Central Asia–Afghanistan relationship: From Soviet intervention to Silk Road initiative, edited by Marlène Laruelle, Lanham, Lexington, 2017, xv + 266 pp., $105.00, ISBN 978-1-4985-4654-6

This is a book of multiplex perspectives on Afghanistan. The authors explore varied perspectives on Afghanistan from post-Soviet Central Asia as well as Afghanistan perspectives on its northern neighbours. Through a prism of multiple geographies, states, institutions and individuals, these perspectives on and from Afghanistan help to develop a geopolitical depth perception of the region.

The book examines the Central Asia–Afghanistan relationship from the perspective of multipolarity. On foreign policy and international relations, Antonio Giustozzi offers Afghanistan's policy towards Pakistan, India, Iran and China. We get multiple perspectives from Moscow including a full chapter on Russia–Afghanistan foreign policy from Ekaterina Stepanova. In addition, two chapters examine the borderlands of Afghanistan–Tajikistan–Uzbekistan–Turkmenistan, one from the Central Asia side and the other from the Afghanistan side. The highlight of the book, though, is a selection of interviews with Kazakh, Uzbek and Tajik *Afgantsy* veterans of the Soviet–Afghan War (1979–89).

This research on the oral history of Central Asia's 'soldier-internationalists' represents an English selection of a much wider study published in Russian through the Kazakhstan Institute for Strategic Studies (KISI). The veterans' testimonies present a real glimpse into the valleys and cities of Afghanistan in the period 1979–89. The only criticism is that most of the published interviews are from the intervention stage of the war (1979–81), with a few from the institutionalization of the war (1981–85) or from the crisis and withdrawal (1986–89). However, the authors explain that the study is limited by access only to those interlocutors who were less critical of the Soviet regime, meaning mostly veterans who served two-year tours early in the war. Despite the noted limitations, these are excellent transcripts of interviews giving voice to veterans who had, at least for a short time, been a part of a shadow history, a war from which the Soviet state had sought to distance itself. These interviews are clearly the outstanding contribution of the book, and rightly comprise the whole first section.

The middle section of the book is a good transition for exploring one of two axial perspectives. A view from Central Asia into Afghanistan, shaped by the post-Soviet institutional architecture, and the other from Afghanistan outward through its prism of state and pseudo-state relations within the concentric circles of Russian, European, US and Chinese influence. Stepanova's multiple Russian perspectives remind us there is never a simple singular narrative emerging from Moscow. The variety of Russian policy perspectives on Afghanistan is explored through the twin nexus of security politics and drug politics. Both represent a symbiotic lock between Russia and Afghanistan, a powerful metropole and a peripheral borderland. Stepanova's contribution on the Russian opiate policy contains some startling statistics. A total of 2% of Russia's population are heroin users, and since the 1990s Russia has moved from being mainly a transit country to Europe to itself absorbing almost the same level of opiates as Europe.

Marlène Laruelle's fluent chapter on Tajikistan and Uzbekistan's foreign policy on Afghanistan assesses both the spillover into and from Central Asia. Bruce Pannier follows with perspectives on insurgencies' effects on the Central Asia–Afghanistan borderlands. He argues persuasively that Tajikistan, Uzbekistan and Turkmenistan's internal policies and military–security dynamics, including the continued presence of Russia's 201st Division in Tajikistan, mean

that any security spillover from Afghanistan could not extend beyond the borderlands. The cumulative result is being able to see, by the end of the second section, a view of Afghanistan from inside out, against all major borders and regional powers as well as from outside in.

Alexander Diener, conversely, explores Central Asia being caught in the friction of mobility, transnationalism and territorial statehood. Here we get an added temporal and spatial dimension to the book's multiplex, a dialectic of borders and transnationalism: of people, goods, ideas and other mobilities explored through vectors of connectivity, encouraging the reader to adopt perspectives of parallax views and to move beyond simple static state border analyses.

This nicely aligns with the final section of the book that examines outside perspectives on the intra-regional relationships. This final section on multiplicitous Silk Roads rounds out the three themes of the book: lingering Soviet institutional influence, intra-regional dynamics and US re-entry through the New Silk Road policy. The axial perspective of interlinkages are examined and regional powers Turkey and Iran are brought back in, as well as the current three Great Gamers: the United States, Russia and China. In this section, though, Afghanistan does somewhat fall into soft focus as the studies fall back on the comfortable narratives of Silk Roads and external actors' perceptions of Central Asia.

Sebastien Peyrouse and Gaël Raballand, however, give a solid piece of analysis that treats the trade numbers seriously, presenting an argument on the growth of intra- and extra-regional trade considering the geo-economic poles of the United States, Russia and China. They categorize the United States as a shadow pole, arguing that its trade strategy in the region is simply for the region not to trade with Russia, China or Iran. Whereas Russia has a stronger trade pole in the region, the authors analyse it as complacent as the default trade pole. China is also introduced as the trade partner that disrupts the structure of these regional geo-economic poles.

The book has some weaknesses. Most chapters have numerous typographical errors that should have been caught by a proof-reader. The middle chapters on multiple geographical perspectives on Afghanistan tend to be disjointed and express more the personal research agendas of the contributors rather than the vision of the collection. Diener's chapter on parsing mobilities is also a little indulgent and in need of stronger editing: it feels like a stand-alone journal article including unnecessary descriptions of the Central Asian states.

Overall, for a region essentially marginalized from the global development agenda, collections such as this guard against historical revisionism and ultimately against state-historical appropriation. The collected research here aims for a horizon beyond common media treatments of the area of historical–geographical reductionist Great Games and Silk Roads. The volume presents Afghanistan as both a multifaceted polity and a multiplex geography, not simply as a vessel to be filled in from the outside. The study is also a welcome reminder that regional historical and geographical research is a necessary counterweight against the hollowing out of area studies within the academy.

Much contemporary geopolitical discussion quickly sidelines Afghanistan through cultural, historical, sociological and linguistic reductionism in order to rush into great power politics and geopolitical regionalism. This study is clearly welled from a deep source of post-Soviet area specialists, demand for whom is sure to grow as geopolitics re-emerges into international politics after the hiatus of globalization. From it we learn about Afghanistan's complex relations with the various Central Asia states, and the regional powers, and begin to see the development of a new institutionalization of a regional international relations that is not defined by the Great Powers. The study is not only a case of serious scholarship on Afghanistan but also a warning against the reductionist Silk Road mania of the wider Central Asia region.

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BOOK REVIEW

Kai Marchal & Carl K. Y. Shaw, eds., *Carl Schmitt and Leo Strauss in the Chinese-Speaking World: Reorienting the Political*

(Lanham, MD: Lexington Books, 2017), 290 P. $105.00 Hardback

Tristan Kenderdine[1]

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This is not a volume about political philosophy, it is rather about political philosophy appropriated for a political purpose. The book tackles Chinese academic attempts to legitimise the radical antiliberal ideas of Schmitt and Strauss into a practical theory of governance. The book's focus is not so much the scholarship, but rather a warning of the ongoing legitimation of this political theory spreading throughout institutions and into national value systems, eventually to be used as a tool of the executive government. In Schmitt and Strauss, China's contemporary political theorists are looking for something in classical political philosophy to negate liberal democracy or something in post-enlightenment political philosophy to circumvent it.

The unversality of the Hegelian-Kantian-Rawlsian hegemony, is challenged as a normative institutional order. The appeal to China is not simply the rejection of the universalism of Western liberalism, but also the blending of legal and political in Schmitt, and the rejection of the Enlightenment as Eurocentric by Strauss. The important link is to the traditional, to an ancient set of social institutions, where Greece, Persia, Russia, Eurasia, and China could hope to challenge post-Roman Europe on sociological and anthropological history older than Englightenment institutions. The embedding of the Chinese concept of the Confucian gentleman-scholar provides an easy alignment for both the Schmittian political-legal meld, and even closer fit with Straussian veneration of ancient scholarship. The Confucian multiplier in Chinese scholarship then transforms this marginal this philosophical trickle into a mainstream political force of nature.

Much of the book centres on engagement with China's public intellectual teaching of political theory. Schmittian radical left historicist Zhang Zudong, and Straussians Liu Xiaofeng and Gan Yan are identified as the leaders. And joined by Straussian Wang Hui,

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Liberal Xu Ben, and Schmittian Ding Yun. However while Marchal does provide a nice list of contemporary Straussian thinkers, the book fails to engage with less prominent scholars, and apart from the signature chapters from Marchal and Shaw, the book often fails to link the teaching of Schmitt and Strauss to branches of contemporary Chinese political thought such as the New Left, Confucian Constitutionalists, Democratic Constitutionalists, Maoist Left, or Market Liberals. We are instead left with a few scholars at Peking, Renmin and Tsinghua Universities and not much idea of how their interpretation and transmission of Schmitt and Strauss is received either within the rest of the university hierarchy or within the various branches of government that actually deploy political theory.

Shaw's theoretical chapter is strong, with a clear understanding of both Schmitt and Strauss' contributions to constitutional political theory and a solid link to contemporary Chinese political theorists. Likewise, Marchal's chapter is the strongest of the Straussian section, including connections to the wider Chinese intellectual debate on the nature of the State, the legal legacy of Han Fei, and the Straussian freedom through autocracy. Marchal's Chinese Straussianism sees a return to an idyllic pre-modern Chinese civilisation that escapes both the Hegelian-Marxian CCP as well as the dissatisfaction with post-Enlightenment liberal institutions.

Wenning's chapter connects the broader teaching of Schmitt in China to the domestic debate on values and valuism. Invoking post-colonialism in China's values discourse, he argues that Schmitt is a tool with which China can construct a civilisational, cultural, historical-sociological response to Western liberalism. Wenming argues that it is natural for China to search for a Schmittian telluric partisan or absolute partisan to legitimise a political values pushback against global institutions. Frohlich simlarly links the use of Schmitt back to the deception of the post-War period implanting Western ideology into nominally 'global' institutions. This has culminated not in universal values but rather a rational and actual universal blindness to legitimate challenges to the hegemony of Western liberalism. The tyranny of values provokes a natural response from China's scholars: 'We never agreed to this!'

This is not the strongest book, but then neither Schmitt nor Strauss were the strongest thinkers. The book could have done with a chapter on the actual theories and interplay between Schmitt and Strauss, explaining the historical institutional context under which Schmitt and Strauss wrote. Instead most chapters cover very similar ground, and some take Strauss' focus on the classical over the modern as an invitation to themselves study Xenophon and other classics. Han Liu's chapter is too casually conversational and, and some of the chapters have incomplete reference lists and are unprofessionally published.

Overall the reader feels introduced to a problem, yet left wanting to see how Schmittian and Straussian political philosophy is being more widely transmitted and used in China. Yet the study has identified a serious problem in contemporary Chinese political thought and brings this deep undercurrent to light in an important volume of work in English. The warning is not what Schmittian and Straussian dialogues mean for China's contemporary political philosophy, but rather what China's transmission of anti-liberal discourses to a future global political philosophy will mean given embedded Schmittian and Straussian theory.

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A couple of chapters could have used more thought. Chapter two, by Pál Nyíri, is a condensation of a longer article concerning the sovereignty and governance of global spaces of exception. The cases concern casinos in Laos where wealthy Chinese can enjoy gambling, prostitutes and drugs. The author focuses on global dynamics rather than the particular relationship between China and Laos, meaning that this version of the paper is not entirely successful. The chapter on Kazakhstan and Kyrgystan includes too much detail with too little theorization, making it hard to follow.

There is a serious lack of reference to scholars, primarily from North America, who have done excellent work on cross-border relations between China and its neighbours. These include, among others, Sara Davis (China–Thailand); Michael Hathaway (China–Japan); Ann Maxwell Hill (China–Burma–Thailand); Kevin Woods (China–Burma); Ralph Litzinger (China–Thailand); Sara Turner (China–Vietnam); Danielle Tan (China–Laos); and my own work over two decades (China–Burma, China–Laos). The authors in this volume could also have cited the special edition of the *Singapore Journal of Tropical Geography* (2013) on ethnic minority cross-border relations in the Greater Mekong sub-region and the special edition of *Eurasian Geography and Economics* (2016) on China's cross-border relations in Central Asia. These omissions reveal a lack of "neighbouring" with North American scholars who have provided a rich literature on China's bordering.

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China's Eurasian Century? Political and Strategic Implications of the Belt and Road Initiative
NADÈGE ROLLAND
Seattle, WA, and Washington, DC: The National Bureau of Asian Research, 2017
xi + 195 pp. $34.95
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China's Eurasian Century is very much about gravity: political gravity, economic gravity and geographic gravity. The book, like the policy, is not about Eurasia at all. It is about the gravity of power, and how that gravity is being fundamentally altered by power dynamics on China's periphery. Nadège Rolland frames China's *Belt and Road* as a concerted domestic policy attempt to shift regional and global political and economic gravity, and considers where China's strong and weak forces will either pull or push peripheral economies into or away from their current geo-economic orbits.

Rolland argues that much commentary on the *Belt and Road* is still blinded by maritime East Asia and Pacific Ocean analyses which weigh maritime over land power. Rolland instead tries to capture the institutional development of an international financial architecture to fund the *Belt and Road* and explores China's changing of the rules of international trade. Behind the pan-Eurasian dream that captures the imagination in maps and lines is an economic and financial integration reality, which is a serious challenge to the post-Bretton Woods global financial order.

There is a lot here for the generalist, though less for the specialist. Chapter three is the strongest, covering the institutional drivers of China's grand strategy. Though the following chapter on the intellectual foundations of the policy feels like only scratching the surface. Rolland identifies and engages with New Confucianism and neo-*tianxia*, as well as the civilizational ring and the neo-tributary state-system. But the

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research gets pulled into the gravity of the military–security nexus, leaving many questions on the underlying contemporary political philosophy unasked.

The macroscope of Rolland's work, the dialectic of land–maritime power in contemporary China, is a good one. However there remain many connections to China's imperial history that should be explored. For example, Rolland identifies the contemporary domestic policy debate between the maritime school of Zhang Wenmu and Ni Lexiong and the continental school of Ye Zhicheng. But this debate is not placed in relation to what was essentially the same debate in 1874 between Li Hongzhang's maritime defence and Zuo Zongtang's frontier defence against Ya'qub Beg. There is a huge space for connecting the Han, Tang and Qing threads of historical institutionalism in contemporary Chinese geo-economic policy. Yet they remain loose.

The study also feels like it is looking over an ocean towards China, where Eurasia itself is then lost over the horizon. It seems not so much a study of China's Eurasian policy but rather a study of the United States' perceptions of China's Eurasian policy.

Eurasia itself is barely touched and not even defined for the purposes of study. A book squarely focused on Central Asia or Eurasia as the prism with the impact of China's domestic policy as the variable would have been preferable. Eurasia as the focal point, rather than American global interests, may have made for better primary source data collection and ultimately a study more focused on the China–Eurasia relationship. The people and states of Central Asia are not empty vessels waiting to be filled by China, though this is China's foreign policy failing, not the author's.

The book tackles a huge foreign policy with massive implications and it is only natural that there be some omissions. However, the reliance on English-language sources ultimately lets it down. Rolland also somewhat misses the opportunity to range out from geo-politics and geo-strategy to untangle the domestic geo-political, geo-economic, geo-industrial policy nexus. It is also disappointing to not see any Chinese characters. The Romanization trend in publishing feels quite old-fashioned when writing for a China-literate audience. And no index for a very broad book touching on multiple geographies and multiple economic sectors is a little frustrating.

Overall though, this is an engaging work of geo-politics, well written and produced, and it is exciting to see full-length works being published by the National Bureau for Asian Research in Seattle. Rolland adeptly applies geo-political and geo-economic theories of control of Eurasia to the contemporary global economy. His book is a very solid attempt to holistically engage with the geo-economic institutions that will shape the coming decade, and an early attempt to square a Chinese foreign policy circle that itself has not yet been drawn.

Rolland's study is focused on a reconception of the gravity formed in the continental negative space of the Eurasian steppe and what this means for China's *Belt and Road* geo-economic strategy. But ultimately, the book's takeaway is the implication for US foreign policy in the Pacific and Indian Oceans. As Rolland argues, the *Pacific Century* is over before it has begun and the *Belt and Road*, nominally redefining a land–power axis on the Eurasian New Silk Road, is really a counterweight to rebalance the maritime power of the 21st century's international economic order.

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discussion on the psychology behind the passionate response of Islamists after any criticism of Islam works in his favor.

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Reviewed by Tamanna Ashraf
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***The Political Economy of the Agri-Food System in Thailand—Hegemony, Counter-Hegemony, and Co-Optation of Oppositions*. Oxford: Routledge. 216 pages. ISBN 978-1-138-28841-6. $58.80. Praphimpan Chiengkul. 2017.**

Praphimpan Chiengkul uses neo-Marxist and Gramscian modes of economic analyses to study the evolution of Thailand's agri-food production through the period 1990–2014, when global and transnational capital played a larger part in determining Thailand's cropping, production, and processing agro-industrial matrix. The author brings new light to the study of Thailand's agri-food and agro-industrial development by using Thai language primary sources and extensive interviews across the country's varied regional production areas. There are, however, some problems with the author's theoretical exposition and presentation as a book.

The book has a broad temporal, spatial, and institutional focus which includes the high-growth period of the 1990s, the financial crisis, the International Monetary Fund (IMF) mandated policy era, the Shinawatra era, and the years of civil strife from the 2006 coup to 2014. The book also covers the slow obsolescence of World Trade Organization trade rules, which have been particularly important to agriculture, in the face of China's growth and an increase in bilateral trading arrangements. As such, there is a broad remit to challenge the globally dominant neoliberal agenda in food production which has directly affected Thailand and the resulting institutionalization of various forms of monopoly and monopsony. The book, however, does not fully engage with the rise of the Association of Southeast Asian Nations trade bloc, moves toward a common market, and the possibilities for a common agricultural policy. Nevertheless, the case studies are very well-defined and focused on domestic policy and legal institutions which lead Chiengkul to identify two major sociopolitical counter hegemonic movements in Thailand—the Sustainable Agriculture Movement and the Land Rights Management reform.

The book's principal theoretical contribution is its willingness to confront a largely unchallenged dominant ideology (i.e., neoliberalism) which shapes Thai economic institutions and, by extension, the country's agri-food production. Chiengkul presents the dominant ideology and institutions as a Gramscian hegemony and argues that various opposition actors constitute a counter-hegemony. The anti-neoliberal bias of the argument is a good way to view Thailand's agri-food production as a node in the monopoly capital global food production system, and it opens policy possibilities to address obvious structural flaws of the global food system. Throughout the book, the author argues

that the "narrow, reductionist, unrealistic neoliberal ideology" results in a paradox—markets may be "freer" but there are greater monopolies and monopsonies because developing countries are exposed to institutions more powerful than their production networks. Neo-Marxist and Gramscian concepts of hegemony and counter-hegemony help expose the ideological bases of the global agri-food production network and frame alternative economic policies that can be developed at multiple levels of government. While other theoretical explanations, such as poststructuralist and feminist/gender analyses, are a welcome addition to the literature on Thai agricultural production and social systems, they tend to distract from the main argument of hegemony and counter hegemony.

One of the strengths of the book is Chiengkul's commitment to employ Thai language sources and in-country interviews in order to build a multifaceted, evidence-based argument. Many volumes in area studies, political science, political economy, and modern history do not use as much Thai-source materials as this book and it should, therefore, be commended for adding to the scant extant literature on Thai political economy. Moreover, the author focuses on an understudied, but crucial, concern of developing countries, namely, the interplay of domestic and global processes, including the social-capital-production systems in developing countries.

The third chapter, on the extant hegemony of global and transnational capital in the Thai agri-food system, is the strongest in the book. It presents a well-articulated and deep knowledge base of the monopolistic and monopsonistic practices in Thai agri-food production institutions. Charoen Pokphand and Thai Beverage are correctly highlighted as archetypes—control of the land, production networks, mills, and retail chains means that a single company can control prices along the value-chain. Chiengkul also highlights the monopolistic practices of the milling industry where greater access to capital and knowledge of international markets means that most of the profit from agri-food exports remains with millers and exporters, with little returning to producers.

Chiengkul also shows how long-term taxation and price manipulation, which are intended to produce policy goals in industrial labor and international trade, lead to government monopoly. The author highlights problems in the control of seed policy (e.g., determining procurement and usage), as well as in requisitioning agricultural land for biofuel production. Chiengkul argues that in the wake of the 1997 financial crisis, international organizations and transnational capital manipulated Thai government law and policy. IMF loans forced the Thai state to cut investments in agricultural infrastructure, thereby aiding transnational capital monopoly in Thai agri-food. Chiengkul also examines the difficulties that the principal government agri-food institution, the Bank of Agriculture and Agricultural Cooperatives, has faced in breaking up buy-side monopoly networks and the resulting difficulty for small-scale farmers to enter Chinese markets. These are all excellent examples of how monopolistic practices can result from neoliberal hegemony and the subsumption of agricultural labor to transnational capital.

The book, however, has several weaknesses. First, the other chapters tend to be weaker than the third chapter and they even seem to trail off, or return to

the core themes expressed in this chapter. Second, the Gramscian-based counter-hegemony argument is underdeveloped. The author misses the opportunity to look more deeply into the social fabric of this politico-economic divide. In terms of patron-client relations, readers only get a brief introduction to Thai Rak Thai and Phua Thai as necessary background and nexus through which to view the hegemonic and counter-hegemonic movements. Elucidating the institutions and personalities at the subnational governance or production levels would have been of interest to nonspecialists.

Third, populism and cooptation of the agrarian counter-hegemonic movement are also treated very briefly. The author glosses over two main social ruptures—the capital-agrarian and the Thai capital-foreign capital dichotomies. In both cases, we come up against counter-hegemonic movements that have institutional bases but with little representation or recourse in policy or law, necessary for the cooptation of actors into institutional change. The two chapters on the counter-hegemonic movements of Sustainable Agriculture Movement (essentially small-scale organic farming) and Land-Reform Movement (peasants rights and traditional collective-owned land vs. private capital land ownership) feels ethnographic and the author sometimes relies too heavily on single-interview anecdotes. She equates the food production model with the localist and traditionalist, Buddhist, and other alternative small-scale farming practices in opposition to the Sakdina hierarchical tradition of central government extraction of agricultural labor and production. In many places, the narrative feels divorced from the main topic, which is food production and peasant rights.

Fourth, the author could have more clearly articulated that the counter-hegemonic movement and the cooptation of oppositions suffer from a lack of clear institutional frameworks. Throughout the book, Chiengkul struggles to separate the concept of peasant from agricultural production. She argues that hegemonic neoliberal ideology ignores small- and medium-scale farming practices, yet offers no practical economic alternative to large-scale agro-industrial production. Likewise, agricultural commodity speculation is blamed for playing with the prices that affect the livelihoods of small-scale producers, but no alternative is offered for a price setting or price discovery mechanism. Again the problem is professionalization of farming and food production versus embedded social structures, customs, practices, and norms. Concepts of rural society, agricultural production, agri-food production, and peasant class should have been deconstructed and examined as distinct institutions before the author looked at the impact of neoliberal hegemony on either the social or production aspect. This would have paved the way for a clearer analysis of the agents of counter-hegemony and their possible cooptation.

Finally, notwithstanding the strength of the author's main argument, the final product under-delivers. It still reads like her PhD dissertation where there are introductions and conclusions after every ten pages, and where subchapters can be found every two to three pages. For her next book, the author should consider breaking free into meta-structure and range a bit more freely into full-bodied chapters. Formal methodology could also be condensed for non-academic readers.

Overall, the author presents a solid study of an area that remains under-researched, or at least under-presented, and she shows that neo-Marxist and Gramscian analyses can be applied to studying other agri-food producers by posing serious questions about global food production and agricultural labor systems under an institutionalized neoliberal hegemony. This could result in developing both a theoretical and practical body of knowledge with which to challenge this hegemony.

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***China's Asian Dream: Empire Building Along the New Silk Road*. London: Zed Books. 292 pages. ISBN 978-1-78360-924-6 (Cloth), 978-1-78360-923-9 (Paper). Hardcover, $94.98. Paperback, $16.85. Tom Miller. 2017.**

China's Asian Dream, by Tom Miller, provides a snapshot of Beijing's rapidly evolving strategic relations with the Asian giant's regional neighbors. Miller, a senior analyst at Gavekal Research and a former journalist, brings his 14 years of living in China and extensive travel in the surrounding region to bear in analyzing China's strategy for creating "a modern tribute system, with all roads literally leading to Beijing" (p. 18).

The book begins with an overview of Chinese President Xi Jinping's Belt and Road Initiative (BRI), which is designed to knit together transportation and infrastructure networks that stretch from Southeast Asia to Europe. Miller describes BRI not as a unified plan, but a series of loosely connected projects financed, wholly or in part, by Beijing and often employing the enormous engineering and productive capacities of its state-owned construction firms. Funding for BRI projects is being funneled through both bilateral (e.g., China Development Bank, the China Import-Export Bank) and multilateral (e.g., the China-led Asian Infrastructure Investment Bank) channels.

The scope and ambition of the BRI signals Xi Jinping's determination to discard Deng Xiaoping's advice that China should lie low in world affairs in favor of a "pro-active" foreign policy focused on creating a sense of "common destiny" among China and its neighbors (p. 27). China's goal, according to Miller, "is to create a web of informal alliances lubricated by Chinese cash. As its neighbors become evermore economically dependent on it, China believes its geopolitical leverage will strengthen" (p. 11).

While this vision provides evidence of China's growing confidence and power, Miller's survey of Chinese relations with its bordering countries also offers insights into the complexities and pitfalls that confront China as it seeks to shape a strategic environment favorable to its own interests and susceptible to its influence.

An overarching challenge for China is the global reach of a declining, but still powerful, United States. Miller points out that while the United States provides its Asian partners with security through a vast set of formal and informal alliances, China instead must rely on "economic diplomacy because it lacks political leverage" (p. 240). Precisely because China has risen so rapidly, many

F4.1

Post Road

Living in the Field Works

2020-2025

Writing from the Field and Road

After my PhD period was over and I was expelled from ANU College of Asia and the Pacific, I went back to the field, working from Kazakhstan and following the political and geoeconomic unfolding of the Belt and Road in Central Asia. I was unfunded, building my Future Risk company and personal brand name, and had little carrying me forwards but self-belief and self-respect.

During this time I became interested in the Middle Corridor rail system and began working towards a research agenda that would result in four journal articles published with Peter Bucsky. The work we did for the Asian Development Bank put us ahead of the world, and we were first where later came other multinational development banks in our footsteps. Again, the ANU name is not on any of this, my research company Future Risk's is, where this could have been College of the Asia-Pacific.

Journals

Kenderdine, Tristan & Buscky Peter, '**China's Belt and Road Rail Freight Transport Corridors — The Economic Geography of Underdevelopment**', Die Erde - Journal of the Geographical Society of Berlin, Vol. 152 No. 2, 2021

Kenderdine, Tristan & Bucsky, Péter, '**Middle Corridor — Policy Development and Trade Potential of the Trans-Caspian International Transport Route**' Asian Development Bank Institute Working Paper 2021.

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China's Belt and Road rail freight transport corridors – the economic geography of underdevelopment

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Abstract

Traffic volumes between China, Europe and Central Asia through China's 'CR Express' intercontinental rail freight system remain intransparent. We sought new methods of data collection to better understand the significance of this novel trans-Eurasian transport mode. Cumulative causation economic theory can explain how positive industrial development can occur in both linear transport corridors and industrial cluster development in node cities. However on current economic metrics, it is difficult to accept the China narrative of structurally transformative economic development resulting from the intercontinental rail system policy. This paper expresses doubt as to the underlying institutional factors behind the intercontinental rail system being developed by China and its surrounding Eurasian transport policy. We detail the economic theory underpinning the development of the 'CR Express' policy through examination of China central level transport policy sources and their horizontal integration with other central-level spatial planning policies, and we examine the deployment of China's model of intercontinental rail development in the 'Middle Corridor' between the Kazakhstan border and Eastern European ports. Both theory and practice point to supply-side development of greater containerised transport capacity resulting in complementarity-driven economic growth clusters. However, without adequate demand, industrial investment in Eurasian clusters, or transparent statistics with which to gauge either the rail freight logistics development or the economic development spill-over effects, we expect to find the initial practical economic results in the Eurasian economies underwhelming. We argue that China's Eurasian transport policies are not multifaceted enough to result in future growth.

Zusammenfassung

Das Verkehrsaufkommen zwischen China, Europa und Zentralasien über Chinas interkontinentales Schienengüterverkehrssystem „CR Express" bleibt undurchsichtig. Wir haben neue Methoden der Datensammlung erörtert, um die tatsächliche Bedeutung dieses neuen transeurasischen Verkehrsmittels zu ergründen. Die ökonomische Theorie der kumulativen Verursachung kann erklären, wie eine positive industrielle Entwicklung sowohl in linearen Verkehrskorridoren als auch bei der Entwicklung industrieller Cluster in Städten, die Verkehrsknotenpunkte darstellen, stattfinden kann. Angesichts der aktuellen Wirtschaftsindikatoren ist es jedoch schwierig, Chinas Narrativ von einer strukturell transformativen wirtschaftlichen Entwicklung zu akzeptieren, die sich aus der Politik des interkontinentalen Schienengüterverkehrssystem ergebe. Dieser Beitrag äußert Zweifel an den institutionellen Faktoren, die mit dem von China entwickelten, interkontinentalen Schienengüterver-

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kehrssystem und seiner generellen eurasischen geoökonomischen Politik einhergehen. Wir erläutern die Wirtschaftstheorie, die die Basis für die Entwicklung der „CR Express"-Richtliniendokumenten bildete, indem wir die Quellen der Verkehrspolitik auf zentraler Ebene der öffentlichen Verwaltung Chinas und deren horizontale Integration mit anderen Raumplanungsprogrammen auf der zentralen Ebene untersuchen. Wir untersuchen ebenfalls die Umsetzung des China-Modells der interkontinentalen Schienengüterverkehrsentwicklung im „Mittlere Korridor" zwischen der Kasachstan Grenze und der osteuropäischen Häfen. Sowohl Theorie als auch Praxis deuten auf die Möglichkeit einer angebotsseitigen Entwicklung größerer Schienengüterverkehrskapazitäten hin, die zu Komplementarität getriebenen Wirtschaftswachstumsclustern führen könnte. Ohne ausreichende Nachfrage, industrielle Investitionen in eurasische Cluster oder transparente Statistiken, anhand derer entweder die Entwicklung der Schienengüterverkehrslogistik oder die Auswirkungen der wirtschaftlichen Entwicklung beurteilt werden können, erwarten wir jedoch, dass die praktischen wirtschaftlichen Ergebnisse in den eurasischen Volkswirtschaften nicht überzeugend transformativ sein werden. Wir behaupten, dass Chinas eurasische Verkehrspolitik nicht vielfältig genug ist, um zukünftiges Wachstum zu erzielen.

Keywords geoeconomics, geoindustrial policy, cumulative causation, transport policy, Belt and Road

1. Introduction

The *China Rail Express* (*CR Express*) system is the logistics management institution through which intercontinental rail freight between China and Europe as well as China and Central Asia is organised. It is a central policy-planned model which is part prescriptive command economy, part co-option of existing and continuing subnational rail freight lines and policies, part subsidy organisation mechanism, and part national champion State-owned Enterprise. The development of the *Belt and Road* rail corridors under *CR Express* is institutionally independent and potentially transformative in a Kaldorian cumulative causation economic analysis. We explore the use of Kaldorian cumulative causation in developing Eurasian transport infrastructure and transport economic potential arguing that *CR Express* is fundamentally supply-side driven by China's Eurasian rail development policy, yet dependent on European demand-side drivers. Given that the detail of the freight volumes between China, Europe, and Central Asia remain intransparent, it is difficult to either accept the hype of the intercontinental rail system or to wholly dismiss the system as a China central government attempt at geoeconomics.

There has been little critical engagement with the use of transport infrastructure in Eurasia along the *Iron Silk Road*. Much *Belt and Road* analysis discusses infrastructure investment, ignoring that most infrastructure investment and development in Central Asia was done by the countries themselves or that the European Union (EU) had a more important role than China (*Bucsky* and *Kenderdine* 2021). Most importantly, almost all *Belt and Road* research has ignored that China's investment in the Eurasian region has been driven by industrial capacity transfers, not by new infrastructure investment (*Kenderdine* and *Ling* 2018; *Kenderdine* and *Lan* 2019; *Kenderdine* 2018a). Where China has institutionally developed the use of existing infrastructure under *CR Express*, data is difficult to obtain and few studies have tried (*Bucsky 2019*; *Bucsky* and *Kenderdine* 2020a). There needs to be a greater research emphasis on transnational capital in Central Asia from geoeconomic, geoindustrial, political geography and economic geography perspectives, although there is an emerging scholarship on *CR Express* and China's *Belt and Road* rail policies (*Pepermans* 2019; *Tambellini* 2018; *Pomfret* 2019). However there remain few theoretical papers on the *CR Express* system from political economy, political anthropology or political geography perspectives. Many serious studies still Orientalise the Central Asian field with lived-experience autoethnographies being published as if they were genuine research (*Grant* 2020; *Joniak-Lüthi* 2020).

Missing from most analyses of all aspects of China's *Belt and Road* are qualitative datapoints sourced from the China public administration. China's transition economy retains many elements of the communist planned economy. This means that the central government coordinates huge regional agglomeration industrial complementarities into a national system of industrial development. This is highly coordinated horizontally across ministries, sub-ministerial agencies and other Party-State organs, as well as vertically down the provincial, prefectural and county

level public administration structure. This makes analysis of China's geoeconomic policy in external geographies highly visible through analysis of public policy documents. Where this public administration of geoeconomic policy fails though is in policy communication horizontally with external host economies. For example, in Central Asia, where a China provincial geoeconomic policy mechanism between provincial and prefectural levels of government might be well-orchestrated and integrated into larger spatial plans, horizontal coordination with national or subnational governments in Kazakhstan, Uzbekistan or Kyrgyzstan are underdeveloped and lack functionality. China's export of this domestic industrial policy system to its external geographies through a geoindustrial policy public administration architecture has thus failed to develop into a cogent international economic institutional system. This political failure to develop institutional infrastructure is a bigger failure than the shaky economic foundations of the intercontinental containerised rail freight system on the *Belt and Road*.

The paper is organised into an examination of the theoretical basis for regional industrial development strategies using a stylised model of Kaldorian cumulative causation. We then establish a China public administration policy discourse path-dependency analysis of the ongoing development of the *CR Express* rail freight system and wider Eurasian transport policy integration under China's national and subnational industrial and transport policy. The following section comprises statistical analysis of traffic by mode of transport along the *Middle Corridor*, known interchangeably as the *Trans Caspian International Trade Route (TITR)*, which is the most institutionally developed international rail freight corridor within the *Belt and Road* macropolicy due to the large number of states involved. The final section adds some textual analysis of academic literature related to the Eurasian rail project and related policies, arguing that incoherent policy narrative transmission from China to local Eurasian economies adds to the intercontinental rail plan's political obfuscation and the intransparency of other *Belt and Road* projects. We conclude with scepticism about any actual cumulative causation effects under current political and economic institutional structures, however accept that under better institutional settings that economic integration and cumulative causation industrial development could occur in regional economies along the *Belt and Road* corridors.

2. Policy management of Kaldorian expectations

Theoretical economic contributions to understanding state and regional industrial restructuring have come from many sources since the beginning of nation-state industrialisation (*List* 1856; *Gerschenkron* 1962). *Friedrich List's* national system of political economy is generally regarded as the key contributor to remodelling the European industrialisation experience in new geographies (*Johnson* 1982; *Chang* 2002). *Thorsten Veblen* (1915) also began to identify institutions within national and imperial systems of industrial economic development as the key unit of analysis. There is some continuity between *List* and *Veblen* in attempting to untangle the institutions of economic development of European states, especially considering the role of railways. But it was *Gunnar Myrdal* (1954, 1957) and *Nicholas Kaldor* (1970; 1975) who began to conceptualise economic growth, economic decline and economic history in terms of the institutions of cumulative and cyclical causation. Contemporary development economic practice has largely forgotten this theoretical contribution to institutional and geographic growth models and regional economic development, aside from a few contemporaries (*Fujita* 2007, *Toner* 1999).

Kaldorian and Myrdalian circular and cumulative causation theories segue broadly with post-Keynesian economic growth theories and institutional economic analyses of structural economics (*Palley* 2002). There remain conflicting typologies within economic theory on growth, growth models, endogeneity, exogeneity and the impacts of supply, demand, external technology inputs and external capital inputs. *Argyrous* (1996) considers endogenous growth models within industrial economies, arguing the universality of path-dependent industrialisation as economic development. Cumulative causation theory explains the path-dependent industrial growth models of Japan and the northeast Asian industrialised economies, and *Skott* and *Auerbach* (1995) attribute the application of non-equilibrium growth models with positive government intervention in the economic development of industrial states. 21st Century economic development theory must also consider leap-frog strategies of technological development being integrated into the known-path industrial development experience, but this can also be theorised into post-Keynesian endogenous models of growth without recourse to exogenous actors (*Araujo* 2013). Myrdalian cumulative causation considers the structural economic ex-

perience of industrialisation in terms of uneven geographic development (*Myrdal* 1954, 1957), however the Kaldorian model is more easily intersected with classical positivist economics. The Kaldorian contribution on uneven development based on economic geography explains in positivist terms multivariate causation of different economic agents' outcomes within nations, within bordered economies such as the EU, and uneven development within cross-border geoeconomic zones like China's *Belt and Road*.

Applying cumulative causation to China's *CR Express* and *Middle Corridor* rail freight system means considering a multivariate causality model of economic development and endogenous growth. For a practical demonstration of how *CR Express* and *Middle Corridor* could result in localised endogenous growth in Central Asian economies, we employ a modified form of *O'Hara's* (2008) model of combined Myrdalian and Kaldorian cumulative causation. *O'Hara's* model combines three aspects of *Myrdal* (1954, 1957) and *Kaldor* (1970, 1975): circular causation or interrelated variables; cumulative causation, or variables with positive or negative feedback loops; and institutional path-dependence, a way of bringing in both time and space to the analysis of historical change. *O'Hara's* model also considers the possibilities of both accumulation and decumulation. The phenomenon which we are primarily concerned with in our stylised model of the *Middle Corridor* case study is of a period of initial accumulation from an exogenous policy intervention but which then becomes a cumulative cause of decumulation once the exogenous stimulus is removed and no endogenous growth takes place.

In *O'Hara's* stylised four-segment cumulative causation cultural and socioeconomic axes are effectively Finance Capital, Social Capital, Asocial Capital, and Human Capital, represented as Y, N, A, H, and where four segments of human activity occur at YH, YN, NA, HA (cf. *Fig. 1*). The change represented in Y/N1-Y/N0 in panels 1 and 2 would be a positive change which stimulates economic growth (endogenous accumulation), for example a new factory or a new transport line being built. The change represented Y/N1-Y/N0 is an initial positive change (endogenous accumulation) followed by a negative change (endogenous decumulation), for example a new factory being built but then closing down or a government subsidy being introduced but then removed. We incorporate political science theory to define and label the points of change as 'critical junctions' in the tradition of historical institutionalism (*Skocpol* and *Pierson* 2002; *Steinmo* 2008; *Thelen* 2002); for example, a policy intervention from Beijing in a Central Asian state is a critical juncture. However, through both the stylised model and the wider study, we still consider the institution as the basic unit of analysis in the economic sense of *North* (1989).

To expand the model to demonstrate simultaneous multi-variate causality in panel 4, we simply imagine simultaneous critical junctures occurring within *O'Hara's* four-segment cultural and socioeconomic model, creating their own cumulative causative functions, both idiosyncratic and interacting with and affecting processes in the other four segments. In the fifth model, we substitute stylised variables for our real-world case study of the *CR Express* policy and its institutional impact on the development of the *Middle Corridor*, the Trans-Caspian International Trade Route.

Cumulative causation theory yields a holistic yet fuzzy definition of how structural changes in multivariate economic systems work. *Myrdal* (1954, 1957) and *Kaldor* (1970,1975) were concerned with explaining the processes of the multivariate causes of growth and contraction which equilibrium economics does a poor job of explaining in terms of agglomeration versus dispersion; accumulation versus decumulation, and virtuous cycles versus vicious cycles. Cumulative causation's multivariate causality epistemology is a major economic theory for exploring processes of economic development outside the orthodox Keynesian framework, helping to explain endogenous growth, capital agglomeration, uneven regional economic development, and the combinatory role of industrial complementarity clusters as poles of regional economic development. It explains the geographic institutionalism of regional variations both within and across bordered economies, and shows how decumulation can occur not only as a result of supply-demand mismatch but by such things as technology supersedence, industrial overcapacity, or superfluous infrastructure builds. Cumulative causation gives primacy to the structural and institutional nature of the economic system within which the agents of endogenous or exogenous growth act.

Cumulative causation can explain how new markets, institutions, trade routes, and industrial infrastructure develop within uneven geographic economic systems. For the purposes of this paper, applying cu-

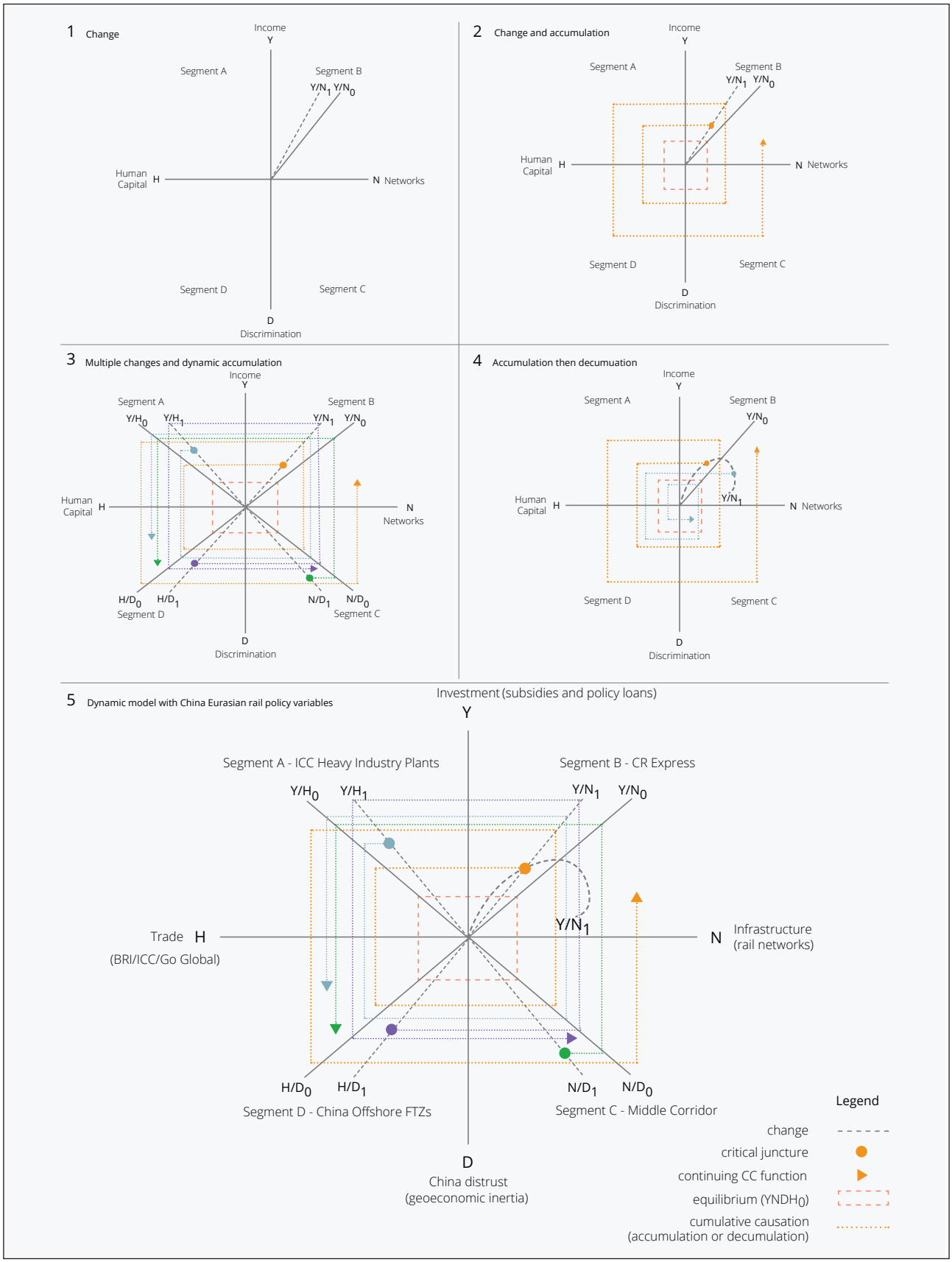

Fig. 1 Kaldor stylised cumulative causation processes with historical institutional junctures and Eurasian rail policy variables. Source: adapted from O'Hara (2008), and expanded by the authors

mulative causation theory to China's policy interventions in Eurasia allows an analysis of economic systems, physical networks, and policy instruments as institutions. We consider the policies of China's central government as institutions, that *Belt and Road*, *CR Express*, and *Middle Corridor* exist discretely within a spatially defined institutional environment. That the railway network itself is a physical geography institution, that cross-border intergovernmental mechanisms and subnational policy instruments are political institutions. As such we analyse China's *CR Express* rail freight policy as an institution operating within the human geography of competing institutions within the constraints of physical industrial geography. Employing cumulative causation theory for this study, we consider the China-Europe international railway as both a passive physical geography institution facilitating international trade between states and as an active human geography institution directly formed, maintained and guided by China government policy, local Central Asian political economy actors, and the economic geography factors of regional underdevelopment.

3. Development of China's Eurasian transport policy

China has a series of spatial plans for taking its command economy institutions into the global economy (*Kenderdine* 2017). The two most important of these for the *Belt and Road* containerised freight policy are *Maritime Power* and *Transport Power* (*PRC Ministry of Transport* 2017). The *Maritime Power* policy came into public first from State Council's 2003 "National Maritime Economic Development Program". While *Transport Power* was only more recently codified into central policy in 2019 after initial transport policy, priority was shifted to international logistics in 2016 (*PRC Ministry of Transport* 2016). This has allowed for both the *Maritime Power* and *Transport Power* policies to be developed and to maintain institutional integrity independent of the central policy apparatus so that they may change, alter course or be abandoned while embedded within the constituent macro policies of *Maritime Silk Road* and *New Silk Road Economic Belt* and the hyperpolicy of *Belt and Road*. From the initial *Maritime Power* concept, China in 2019 flowered a system of 'power' policies, including China as a *Transport Power*, *Manufacturing Power*, *Internet Power*, *Biotechnology Power*, and *Basic Research Power*. *Maritime Power* and *Transport Power* form 'thread' macro policies which weave into both *Going Global* and *International Capacity Cooperation*, two macro policies of the *Belt and Road* (*Bucsky* and *Kenderdine* 2020a). This Matryoshka nesting of central level policies allows for temporal waxing and waning of policy strength given the longer time horizons of communist political power structures, for example 1999's *Going Global* evolved in to 2015's *International Capacity Cooperation* and then retreated back in to *Going Global* again in 2020 (*Kenderdine* 2020).

In 2017, the Ministry of Commerce, the most important foreign-policy institution for the *Belt and Road* project, released a policy statement calling for China to become a *Transport Power* (*Zhang* and *Ye* 2017). In 2018, Ministry of Transport Party Secretary *Yang Chuantang* and Deputy Party Secretary *Li Xiaopeng* co-authored the policy prescription "Strive to Open a New Journey to Build a Strong Transport Country", published in the Party theory journal *Qiushi* and replicated at People's Daily and Ministry of Transport (*Yang* and *Li* 2018). The transport policy plan was to move China from being an 'important transport country' (交通大国) to a *Transport Power* (交通强国). The plan echoes other sectoral industrial policies in calling to transform from high-speed growth to high-quality growth as China attempts to orchestrate a state-driven response to naturally decelerating industrial economic growth rates, environmental protection measures and consumer quality controls. By September 2019, the policy has been codified into a central party policy document titled "Outline for Construction of a National Transport Power" (*Communist Party of China Central Committee* 2019).

The *National Transport Power Plan* is an important document underpinning the continued development of the intercontinental rail freight system. From our close reading of the document we provide here some policy highlights. The plan provides that from 2021 to 2050 *Transport Power* construction should be completed in two stages from 2021 to 2035 and from 2035 to 2050 – this is conventional and in line with other central government policy directives to achieve China's *Twin Centenary Goals*. The plan is that by 2035 the basic domestic and internationally integrated transport network should be completed and that China will have caught up to other big industrialised transport powers such as the United States, EU and Japan (*CCP Central Committee* 2019). The plan centres around a double 1-2-3 system – one for people and one for logistics. For people, 1-hour commute within metro-

politan clusters, 2-hour commute within greater conurbations and 3-hour commutes to cities across the country; for logistics, 1-day domestic delivery, 2-day delivery in near-abroad countries and 3-day delivery to global economy cities. The plan also specifies that by 2025 both passenger and cargo intermodal national systems should be operational and that domestic transport and special equipment manufacture should have improved to best safety quality, both are highly ambitious given China's position in 2021. The less clear plan between 2035 and 2050 is for China to become a global leader in transport and logistics, to become internationally competitive in technological equipment and technological innovation and for the *Transport Power* development to dovetail with other 'power' doctrines (*CCP Central Committee* 2019).

For intercontinental rail freight, the most important clause in the *National Transport Power Plan* is section 8 titled "Opening Global-Oriented Cooperation, Mutual Benefit and Win-Win". The three subclauses focus on developing interconnected and global transport networks along the six economic corridors of the *Silk Road Economic Belt*, including physical network development of railways, waterways and pipelines (*PRC National Development and Reform Commission* 2019a). The primary focus is on intercontinental railway freight but the policy also targets aviation logistics hubs and conventional maritime shipping. The plan also sees greater integration between transport infrastructure and industrial infrastructure outside China, with a specific target to integrate transport logistics with China's growing network of overseas free trade zones and free trade ports. Subclause three indicates intention to integrate global best practice by both bringing in international expertise into China's transport system and also by allowing China to start setting global governance standards in transport.

Wider integration between the *Transport Power* doctrine and the intercontinental containerised rail freight system is also taking shape with central level policy guidance to supplement the initial ideological and ministerial-level policy developments. In 2016, the National Development and Reform Commission (NDRC) released a *CR Express* development policy to bring together the disparate Eurasian rail services offered by local governments, rebrand them into a single product, and help to coordinate the national intercontinental rail system (*Kenderdine* 2018b). However, many of these intercontinental rail projects are uneconomical, do not result in clear cumulative causation economic potential and are better analysed as state power geoeconomic policies rather than as conventional economic development (*Bucsky* and *Kenderdine* 2020a).

China's domestic logistics, rail freight development, industrial decapacity, and industrial transfer policies are all also interrelated and centrally coordinated. Most of China's industrial economy was subject to the Supply-side Reform to restructure the economy away from industrial overcapacity, financial overleveraging, and reliance on investment-driven real estate (*Naughton* 2016). This policy-driven structural reform of China's domestic economy occurred from 2015 until 2020 when the dual circulation model was introduced (*Blanchette* and *Polk* 2020) and had reasonable success in industrial decapacity. However, against this trend, in rail freight development, transport in general and intercontinental rail freight in particular, China has been directly subsidising expansion of infrastructure, services and institutions, effectively creating a stimulus bubble within the rail transport sector, while much of the rest of the economy slowed and restructured under China's tighter austerity-like policy measures. Expansion of the railway equipment manufacturing sector in particular is an advanced manufacturing policy goal that supports both domestic industrial development as well as facilitates outward FDI into manufacturing hubs in *Belt and Road* economies (*Pepermans* 2019). This demonstrates a synergy between national level industrial policies, with transport equipment manufacturing being a centrepiece of both Made in China 2025 as well as International Capacity Cooperation.

To guide this stimulus and policy development of the transport sector bubble, a series of central level regional spatial plans run alongside the 2019 *Transport Power* policy which coordinate the development of conventional rail, high-speed rail, air and water networks in a pattern of arterial and local cluster networks (cf. *Fig. 2*). The joint NDRC and Ministry of Transport 2018 "Layout and Construction Plan of National Logistics Hubs" intersects with transport and industrial policy and provides for the development of 30 national logistics hubs by 2020, to serve as the base for 150 hubs by 2025 (*PRC National Development and Reform Commission* 2019b). The hub-channel-network system is designed to support both the *Sky Silk Road* and the *New Eurasian Landbridge*. China's national logistics development is further guided by "Opinions of the Development and Reform

Commission and Others on Promoting Development of High-quality Logistics and Promoting the Formation of a Strong Domestic Market" (*PRC National Development and Reform Commission* 2019b,c) which includes an addendum of ten main tasks for logistics development. A key component of the national logistics plan is to improve multimodal infrastructure and to integrate national spatial planning with the macroregional hubs of the Yangtze River Economic Belt, Yangtze River Delta, Pearl River Delta (redubbed 'Greater Bay Area') and the *Jingjinji* cluster of Beijing, Tianjin and Hebei. Lower-level subnational logistics spatial planning naturally intersects with both central policy and these macroregional hubs, such as the "Changsha Modern Logistics Industry Development Plan 2011-2020" and the "Implementation Plan of Henan Province's Modern Logistics Operation System Layout and Construction" and Guizhou's "Guiyang City's Implementation Opinions on Promoting the Improvement and Development of the Logistics Industry" (*Changsha Government Portal* 2014; *Henan Provincial Development and Reform Commission and Henan Provincial Department of Transportation* 2020; *Guiyang Government Portal* 2020). These lower political geographic implementation plans interpret and apply central-level policy to local structural conditions. Interrelated plans include the "National Mid- to Long Term Science and Technology Development Plan (2021-35)" which replaces the 2006-2020 plan and which is relevant to transport equipment manufacturing, new materials and a range of other relevant technologies.

Subnational multimodal development integration with the *National Logistics Hub Plan* occurs through technically lower-tier but still massive spatial planning policies such as the "New Western Land-Sea Corridor Master Plan" *(Western Corridor Plan)* (*Liu* 2019). This *Western Corridor Plan* is a clear indication of how lower subnational industrial clusters are spatially

Fig. 2 Chongqing logistics and multimodal transport integration under "New Western Land-Sea Corridor Master Plan" (西部陆海新通道总体规划). Source: PRC National Development and Reform Commission (2019a)

planned to link up and contribute to both domestic and intercontinental rail plans yet are themselves examples of multi-regional spatial planning (cf. *Fig. 3)*. The *Western Corridor Plan* aims to strengthen the international economic corridor between Singapore and Chongqing while integrating the domestic Southwest China industrial hub with *Maritime Silk Road* ports in Guangxi's Beibu Gulf, and multimodal connections eastwards to the Yangtze River Economic Belt and westwards to the Silk Road Economic Belt via the *CR Express* system (*PRC National Development and Reform Commission* 2019a). Chongqing is the natural industrial geography epicentre of the *CR Express* intercontinental rail system, and is also the major air freight hub for Southwestern China and the closest major China airport to Europe. China's intermodal and cross-country industrial policy is to connect the upriver section of the Yangtze River Economic Belt with four coastal ports, the Beibu Gulf Deepwater Port, Guangxi Beibu Gulf International Gateway Port, Hainan Yangpu Port and Guangdong 's Zhanjiang Port (*PRC National Development and Reform Commission* 2019a). These ports face the Indian Ocean as part of the *Maritime Silk Road* and are designed to serve as an alternate connection to the Chongqing mega-city cluster, alongside the ocean connections to Shanghai downstream and the emerging Eurasian intercontinental rail system (*PRC National Development and Reform Commission* 2019a). Thus interlinkages between Chongqing become maritime south to Singapore, domestic multimodal transport east via the Yangtze River Economic Belt to the Yangtze River Delta Economic Zone, and intercontinental rail northwest to both the *Central Corridor* to Russia and the *Middle Corridor* through Central Asia to Turkey (*PRC National Development and Reform Commission* 2019). The *Western Corridor Plan* provides that by 2025 Chongqing logistics should be connected with Beibu Gulf Port in Guangxi and Yangpu Port in Hainan and that this rail-sea inter-model container transport corridor should reach a volume of 100,000 TEU (*PRC National Development and Reform Commission* 2019a).

The problem though is that for all China's central guided spatial plans, traffic volumes between China and Europe via the Kazakhstan-Russia *Central Corridor* are not showing the levels of growth needed for the system to become economically viable without China subsidies (*Bucsky* 2020). Policy development

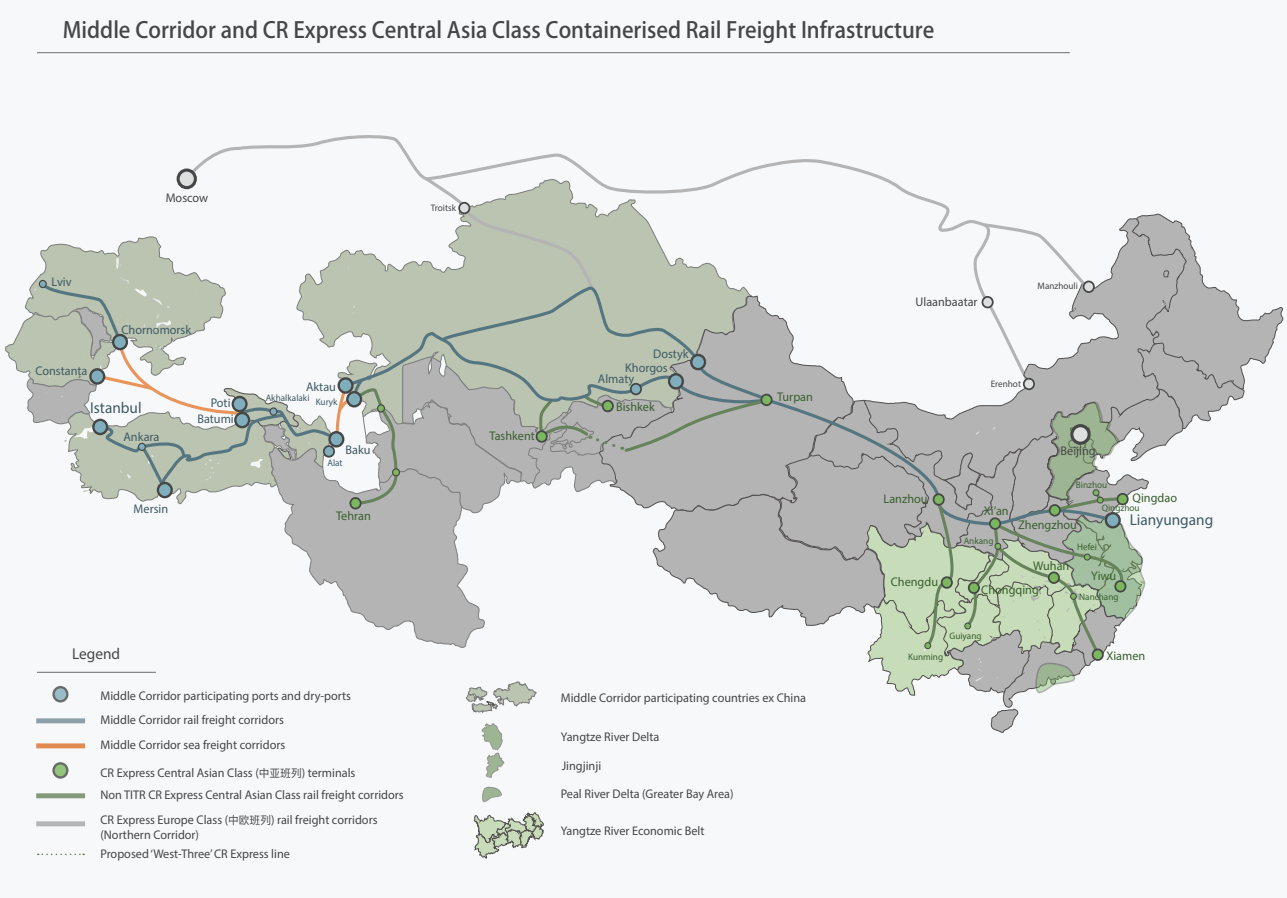

Fig. 3 Middle Corridor and CR Express Central Asia Class containerised rail freight infrastructure. Source: authors

at the central level can result in a positive cumulative causation feedback loop, but it can also have no affect or have a deleterious effect. The Eurasia Rail Alliance (UTLC) of the railways of Kazakhstan, Russia and Belarus shows traffic growth of only 4% in 2019 with 333,000 TEU transported, far off the 1 million TEU per year envisaged by China policymakers for 2020 (*Vinokurov* et al. 2018). Meaning that the development of the system using China subsidies and then allowing natural economies of scale to develop is not occurring, or at least not occurring sufficiently quickly. In the following section we examine statistical evidence of Eurasian containerised rail freight throughput and consider the prospects of the TITR *Middle Corridor* through Central Asia and the Caucasus to the EU via Turkey.

4. Measuring traffic by mode of transport along the *Middle Corridor*

The *Iron Silk Road* and the *New Eurasian Landbridge* policies both predate the *Belt and Road* macropolicy. These demonstrate the practice of policy-legitimation by the Centre in China, co-opting extant policies into a broader policy coalition (*Bucsky* and *Kenderdine* 2020a). *The New Asia-Europe Landbridge* through the Alashankou border crossing was floated in China academic circles as early as 1997, with the infrastructure in place in the 1990s for a Lianyungang to Rotterdam corridor (*Xu* 1997). The *Middle Corridor* policy itself as a Central Asia to Lianyungang transport corridor is simply an appropriation of a policy designed by the Asian Development Bank and the Central Asia Regional Economic Cooperation organisation which had a designated Caspian Sea to Lianyungang rail corridor as early as 2008 (*Asian Development Bank* 2008). We take this *Middle Corridor* transport route as a proxy institution for the entire *Belt and Road* freight, trade and industrial integration system, as it is the most international and most developed of any intercontinental transport integration development program. We examine some problems with rail freight statistical data in the national economies of the *Middle Corridor* countries and compare the throughput data with infrastructural limitations on future growth. Despite investment-driven structural development from both sides of the *Middle Corridor*, we remain sceptical of any large-scale intercontinental rail freight system development, with infrastructural bottlenecks in Turkey a particular concern.

External rail freight from Central Asia began in 1906 with the Trans-Aral line, and later expanded by the Turkestan-Siberia line in 1929 which connected the Russian Turkestan region to both industrial Russia and to Europe, and with China via the Trans-Siberian line. While Russian rail infrastructure construction continued, the Sino-Soviet split meant that the Xinjiang railway was halted at Urumqi in 1962 and never connected to the Soviet Union. Even in the 21st century, traffic flows and freight volumes between China, Europe and the Central Asian countries has remained low. The first connection was opened in 1992 after the extension of the North Xinjiang Railway connecting Urumqi to the Alashankou/Druzhba border crossing, with the second Jinghe-Yining-Khorgas line operational from 2012[1], this line is electrified to Ili, close to the Kazakhstan border. The new Khorgos dryport was developed as a hub for this line, but most freight traffic still crosses the more Europe-direct line at Alashankou. However, the major development in this 21st century rail freight dynamic was not infrastructural but logistic, the introduction of container block trains with significantly lower transit times. The first trial container train between China and Europe was the Chongqing–Duisburg line in 2009, which became a regular service from the following year for Foxconn (*Besharati* et al.2017).

Container block trains and economic, trade and geopolitical effects have been analysed in detail (*Blanchard* and *Flint* 2017; *Li* et al. 2018; *Vinokurov* et al. 2018). Data on traffic volumes though is scarce. While freight volumes have increased and are significant, deeper analysis of available data sources does not support the claims of rapid growth cited in China state media reports. The Coordination Committee for the development of the Trans-Caspian International Transport Route (TITR) publishes transport volume data on its website (*Middle Corridor* 2020), which we can compare with China-Europe rail volumes through the main *Central Corridor* through Kazakhstan, Russia and Belarus (*Table 1*). This shows that the *Central Corridor* attracts higher traffic volumes by scale, however both the Russian Central Corridor and the Turkey *Middle Corridor* have seen rapid growth rates. Traffic volumes published by TITR are not easy to interpret though. The published aggregate data does not differentiate between intercontinental and international freight carriage, meaning it is difficult to know whether the transport volumes measured are only China-Europe throughput volumes, or simply all international or even national transport along the

Table 1 China-Europe rail freight volumes via the Russian Central Corridor. Source: Rail Freight (2020)

Year	Total TEU ('000)	Westbound (%)	Total tons ('000)	Average ton/TEU			Average travel time in days
				Total	Westbound	Eastbound	
2016	100.5	-	-	-	-	-	-
2017	175.1	64%	775	4.4	4.7	4	9.7
2018	288.8	58%	2,264	7.8	10.5	4.2	13.8
2019	302.6	63%	1,420	4.7	4.9	4.2	13.3

route. To better understand these transport volumes, other national and international data sources need to be utilised and analysed.

Of the countries with institutions participating in the *Middle Corridor* only Turkey is not a member of the Organization for Cooperation of Railways (OSJD). However, all other states with institutions in TITR are OSJD member states, so we can also observe traffic on Turkish border stations in the OSJD annual statistics data (*OSJD* 2018). This means that the OSJD annual statistics effectively cover the entire TITR transport and logistics zone. Data on all border stations though is not differentiated into containerised freight and bulk freight, giving only data for all aggregate traffic. Containers are only a small fraction of total traffic. To demonstrate this, we can compare bulk tonnage with TEUs but recalculating volumes in tons with a ratio 12 tons/TEU net load (*Bucsky* 2018). It can be observed in *Table 2* that total traffic volumes are much higher on the border stations between China and Kazakhstan than with other countries and that most of that traffic is destined for the Central Corridor to the EU, not to the Middle Corridor (cf. *Fig. 4*). From Georgia to Turkey there was no traffic registered in 2018 despite the opening of the Baku-Tbilisi-Kars railway line.

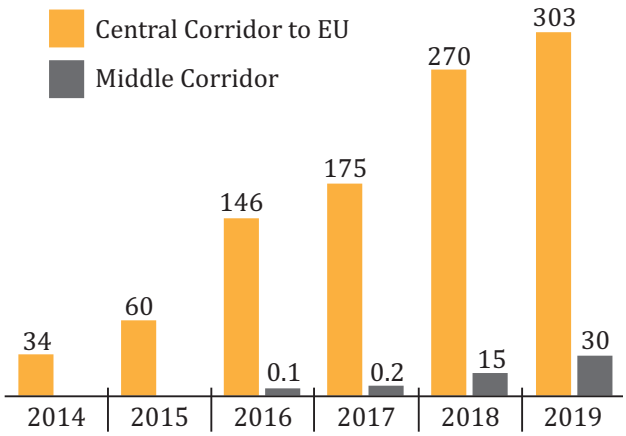

Fig. 4 Traffic volume of containers ('000 TEUs) on major China-Europe rail corridors. Source: Eurasian Rail Alliance Index (2020) and Morozov (2019)

Ferry connections on the Caspian Sea were already frequent before the development of the TITR transport integration policy. There are two to three weekly sails between Baku and Aktau, and four to five weekly between Baku and Turkmenbashi. There is however no timetable. The routes take 30 and 17 hours respectively, and the cost per TEU – without handling costs – is USD 500 and 600 (*Azerbaijan Caspian Shipping Company* 2021). No data is publicly available on traffic volumes between Kazakhstan and Azerbaijan from either state entities or the port operator companies.

Border crossing	From	To	'000 tons	'000 TEU
Khorgas	China	Kazakhstan	2,331	194.3
Alashankou (Dostyk)	China	Kazakhstan	3,147	262.3
Khorgos (Altynkol)	Kazakhstan	China	298	24.8
Dostyk	Kazakhstan	China	8,011	667.6
Poti port	Georgia	all	1,079	89.9
Batumi port	Georgia	all	969.1	80.8
Boyuk-Kasik (export)	Georgia	Azerbaijan	1,452	121
Böyük Kəsik (export)	Azerbaijan	Georgia	3,739	311.6
Baku Port	Azerbaijan	all	3.2	0.3
Varna ferry	Bulgaria	all	22.2	1.8
Svilengrad	Bulgaria	Turkey	640.8	53.4

Table 2 Rail traffic volumes on border station along the Middle Corridor 2018. Source: OSJD (2019)

However, from financial reports we can see no signs of traffic growth since either the *Belt and Road* or the *Middle Corridor* policy initiatives began. By contrast, state shipper Azerbaijan Caspian Shipping Company saw a decline in freight values from 180 million AZN (ca. USD 102 million) in 2017 to 171 million AZN (ca. USD 99 million) in 2018 according to its financial statement. If we estimate cargo volumes and divide by the approximate cost per TEU (USD 600), it shows 170 to 165,000 TEU. However, the vast majority of cargo was bulk carriage, not containerised.

More data is available on Georgia. There were 36,000 TEU containers transported by rail in 2016, 41,000 in 2017 and 57,000 in 2018. For 2019, 75,000 TEUs were projected *(Georgian Railways* 2019). Georgia has both great capacity and actual volume of maritime container transport service, through the Poti and Batumi ports. Three quarters of Georgian trade is transacted with only six major partners: the EU (28%), Turkey (14%), Russia (11%), China (9%), Azerbaijan (7%) and Ukraine (5%). Of which over half of Georgia's trade, that with the EU, China and Turkey, has the potential to shift at least some portion from maritime to rail transport.

Turkey would play a crucial role in any development of the overland *Middle Corridor* route, and the current TITR rail route faces major bottlenecks in the country. Container rail transport has grown rapidly in Turkey in the past decade, between 2011 and 2018 it saw 67% growth (*Table 3*). This growth rate however is almost identical to the 66% growth rate of containerised maritime transport volume. The reason for this is most probably that the growing number of containers handled in ports resulted in a higher domestic hinterland transport by rail volume.

Containerised rail transport in Turkey measured in TEU is reported by Eurostat, however no details are available there for destination or origin. The International Union for Road-Rail Combined Transport (UIRR) also publishes a country matrix of intermodal rail transport within Europe, we present the data for Turkey in *Table 4*. This is however not a comprehensive dataset, as it is data provided voluntarily by member corporations. Eurostat reported 17.3 million TEU for container transport in the EU in 2018, UIRR around half that at 8.6 million TEU (*UIRR* 2019). According to UIRR data, containerised transport in Turkey was only 7.3% of all rail intermodal transport (*Table 3*). From this we could then assume that EU-Turkey containerised transport by rail could make up to around 15% of the total intermodal transport volume. Again though, the potential for greater intermodal containerised rail transport is bottleneck-limited as essentially all rail freight passes through a single railway line to Istanbul.

Rail transport in Turkey generally is very domestic-oriented: cross border traffic in 2018 was only 7.2% of total measured by tons, and 4.5% measured by ton-kilometres (*Table 3*). This underpins the fact that EU-Turkey transport is concentrated on a relatively short section of the Turkish rail network. The *Middle Corridor* should serve not only international transport but intercontinental transport. But in the case of Turkey, the required transit transport is almost non-existent. The 2018 transit volume was just 21,000 tons, meaning 21 container trains with 82 TEU loaded at an average of twelve tons per TEU. Eurostat data shows that there was zero containerised transit transport in Turkey between 2016 and 2018. This all means that 'international' rail freight data, while already low, could

Table 3 National and international railway goods transport in Turkey. Source: TCDD (2019)

thousand tons	**2014**	**2015**	**2016**	**2017**	**2018**
Domestic	27,068	23,914	22,850	26,616	26,664
Export	675	801	781	849	919
Import	976	1,151	1,042	956	1,131
Transit	28	12	7	9	21
Cross-border share	5.8%	7.6%	7.4%	6.4%	7.2%
million ton-kilometers	**2014**	**2015**	**2016**	**2017**	**2018**
Domestic	11,497	10,032	11,208	12,338	12,193
Export	294	230	243	225	304
Import	163	197	202	184	254
Transit	4	15	8	11	22
Cross-border share	3.9%	4.2%	3.9%	3.3%	4.5%

Table 4 Container transport in Turkey by mode of transport in thousand TEU. Source: UIRR (2019)

	2011	2012	2013	2014	2015	2016	2017	2018
By rail (incl. swap bodies, TEU)	502	571	690	745	594	660	727	840
By sea, TEU	6,524	5,320	5,823	6,310	8,146	8,762	9,075	10,844
Ratio sea-rail	13	9	8	8	14	13	12	13
By rail (incl. swap bodies, TEU)	7,601	8,264	9,909	10,859	9,642	10,530	11,784	13,755
By sea, TEU	70,381	73,950	79,216	83,724	87,026	94,929	97,858	114,231

completely obfuscate the almost negligible amount of transit transport across Turkey which would be needed for a viable intercontinental rail freight system.

The Eurostat database has information on Turkey's international rail transport measured by unloading (Turkish export) and loading (Turkish import) country only for 2018. The data shows that Turkey's rail exports are heavily concentrated on Europe: 80% of all cargo was sent to and received from EU countries, of which two thirds was with Bulgaria, Hungary and Austria[2]. In comparison, Iran's non-EU international rail transport is considerable at 16% of total traffic. All other countries had a share of just 4% or less. There was no rail transport between China and Azerbaijan in 2018, as except from Kazakhstan and Turkmenistan no shipment was sent to the Central Asian countries. Total international rail transport volume was the equivalent of 2,074 container trains or 173 thousand TEU – but it has to emphasised, that this a theoretical calculation: only an almost certainly smaller part of total transport was containerised. The data suggests that from the Turkey rail network's planned development of rail transport to and from Europe, that Europe remains far more attractive than any eastward trade with Asia for Turkey.

Official statistics do not show any rail traffic growth impact due to the opening of the Baku-Tbilisi-Kars line in October 2017. However, Turkish media has reported that in the first two years the line attracted 275 thousand tons of rail freight transport, so an average of 137.5 thousand tons per year (*Daily Sabah* 2019). This also means that transport on this route is still lower than on the single line to Iran, the capacity of which is severely limited by the Van Lake ferry[3]. The mid-term goal of 3 million tons per year, and the long-term goal 6.5 million tons per year seems optimistic considering the non-electrified single-track alignment and the bottlenecks of the connecting infrastructure. The double-tracked electrified connection from Istanbul to Europe with much better connecting infrastructure had an operational capacity of 0.6 million tons from Turkey to the EU in 2018, meaning two-way trade of 1.2 million tons. For Turkey's eastward trade flow to be four times that of the EU given the infrastructure bottlenecks is almost unreal.

We can also analyse current trade flows by mode of transport from Azerbaijan, Georgia and Turkey with China and Central Asian and other *Middle Corridor* countries based on the United Nations International Trade Statistics Database (Comtrade database). However, data is not available on China itself. In this sense there is a higher potential to divert freight traffic from maritime to rail in the case of all three countries analysed, as rail currently plays an almost negligible role in all three cases. Trade amongst Azerbaijan-Georgia and Turkey is also currently mostly by road, which has a clear potential for at least partial diversion to rail with competitive transport costs and delivery schedules (*Table 5*). In particular, the Turkey-China trade volumes are high enough to expect sufficient growth in rail freight traffic volumes, but between Azerbaijan and Georgia to and from both Turkey and China, the trade volumes are very modest. Unfortunately, Comtrade data does not include volumes, only values, therefore this can only be used as an indication and no estimates for the number of containers or traffic volumes can be compiled.

From examining the current and historical containerised rail freight volumes along the *Middle Corridor* economies, we see a series of infrastructural and institutional blockages to future development. However, even this negative analysis is based on incomplete data. We recommend the development of more holistic databasing and statistical collection of Central Asian, *Middle Corridor*, Eurasian and Eastern European rail freight systems in order to better understand changes in both structure and flow of the developing intercontinental rail trade. China is maritime trade, export and import markets, and connectivity potential are highly attractive to the Central Asia, Caucasus, Turkey and Eastern European economies. The economic geography across the *Middle Corridor* rail zone does

Table 5 International railway goods transport from Turkey to the unloading country. Source: authors' calculation from United Nations International Trade Statistics Database (2020)

Azerbaijan 2018	China	Turkey	Georgia	Kazakhstan	Uzbekistan	Turkmenistan	Kyrgyzstan	Tajikistan	World
Road	51.5%	48.3%	26.7%	7.0%	89.0%	0.2%	66.8%	4.4%	21.1%
Sea	31.9%	5.4%	0.2%	1.4%	2.8%	0.1%	6.2%	0.0%	10.3%
Air	7.6%	0.8%	21.4%	70.7%	3.7%	15.7%	22.9%	37.1%	8.9%
Railway	3.1%	0.2%	0.0%	20.9%	4.5%	84.1%	4.1%	58.5%	1.3%
Pipelines	5.8%	44.1%	45.5%	0.0%	0.0%	0.0%	0.0%	0.0%	56.9%
Other	0.2%	1.1%	6.2%	0.0%	0.0%	0.0%	0.0%	0.0%	1.5%
Share of total trade	4.2%	11.0%	1.9%	0.7%	0.1%	0.4%	0.0%	0.0%	100.0%

Georgia 2018	China	Turkey	Georgia	Kazakhstan	Uzbekistan	Turkmenistan	Kyrgyzstan	Tajikistan	World
Road	6.8%	90.4%	54.7%	37.2%	82.3%	22.2%	53.8%	49.9%	44.0%
Sea	85.1%	7.8%	0.0%	0.9%	0.3%	1.0%	28.1%	19.9%	36.3%
Air	8.1%	0.8%	0.3%	5.1%	9.8%	0.2%	7.1%	13.1%	8.8%
Railway	0.0%	0.0%	14.3%	56.7%	7.5%	76.5%	10.9%	17.2%	7.9%
Pipelines	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other	0.0%	1.0%	30.7%	0.0%	0.1%	0.0%	0.0%	0.0%	3.0%
Share of total trade	8.3%	13.7%	8.8%	1.2%	0.7%	1.7%	0.2%	0.1%	100.0%

Turkey 2017	China	Turkey	Georgia	Kazakhstan	Uzbekistan	Turkmenistan	Kyrgyzstan	Tajikistan	World
Road	9.0%	91.3%	85.9%	24.6%	91.4%	86.6%	66.6%	70.6%	24.7%
Sea	71.3%	6.7%	6.0%	67.2%	6.6%	7.5%	1.1%	26.4%	55.0%
Air	19.1%	1.0%	7.0%	7.8%	1.8%	4.9%	32.1%	2.9%	13.1%
Railway	0.1%	0.0%	0.0%	0.3%	0.3%	1.0%	0.2%	0.0%	0.5%
Pipelines	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other	0.6%	1.0%	1.1%	0.0%	0.0%	0.0%	0.1%	0.0%	6.7%
Share of total trade	6.7%	0.4%	0.4%	0.6%	0.4%	0.4%	0.1%	0.1%	100.0%

hold potential for the agglomeration and economies of scale efficiencies for cumulative causation accumulation to occur. A China-led and China-funded subsidisation of rail would be needed for long-term development of the *Middle Corridor*, and the major obstacle remains the serious infrastructure bottlenecks in Turkey. However, on examination of the current data, the development of large-scale rail freight between Western China and Turkey seems unrealistic given current economic conditions.

5. China's regional policy transmission counterfactual

Despite rail freight data limitations, reading the policy intentions of states' future development plans is possible from policy documents even with the absence of data. And there is much space for understanding the China-Eurasia intercontinental rail, industrial and financial system development from theoretical and methodological perspectives. However, much extant analysis of the *Iron Silk Road* avoids data, policy and theory, instead relying on tired geopolitical tropes, open speculation and lived-experience travelogues. The proliferation of subjunctive analyses masks the real counterfactual of lack of institutionalised policy transmission from China to host economies. Transport industry website reports, China and Central Asia state media, private media, and academic research are all struggling to analyse the development of the *CR Express* intercontinental rail system. This is because the systems, industries and policies involved are deliberately opaque, and the policy transmission

mechanisms between China and host economies are closed, and in some cases classified state secrets. Many media outlets have remained dubious of the *Iron Silk Road* rail freight system and its chances for economic transformative effects (*Ruehl* 2019; *Sim* and *Aminjonov* 2020). While there have been credible and well-argued positive media analysis of *CR Express* policy and its implications for Europe (*van Leijen* 2020), most analysts have taken a cautious narrative and consistently argued against the hype (*Ruehl* 2019; *Shepard* 2020).

Academic research from China institutions on *CR Express* is focusing on network development, node selection and development and cross-border institutional integration. China researchers on *CR Express* and domestic transport policy integration have focused on developing and consolidating logistics node networks (*Zhang* et al.2020; *Murayev* 2020), international and domestic rail transport integration (*Jiang* et al. 2018) or optimising spatial layout (*Zhao* et al. 2020) or institutional integration (*Wei* and *Lee* 2021). However, there is little work done on rail system integration from either the local Eurasian policy research community or the European multilateral system. This leaves researchers and analysts prone to a reactive policy-discourse taking, the Eurasian states to a reactive policy-dependency while the China-side develops more sophisticated theory and policy to improve rail connectivity. The location of some proposed rail lines, to Iran, Azerbaijan, Turkmenistan and even remote possibilities of connecting the network to Afghanistan and Tajikistan demonstrate that for the China-state, this network development is strategic, not economic.

However, from the perspective of local Eurasian economies traversed by *CR Express*, there is neither an economic nor a political rationale, and generation of research and policy analysis within the region is hampered by lack of policy data. China's central policy planning model can leave local Central Asian, Eurasian and Caucasus economies dependent on their political relationship with Beijing and with the vagaries of policy and regulatory application from China (*Kenderdine* 2018c). This was evidenced in late 2020 with rail freight backups on the Kazakhstan border at Alashankou and Khorgos (*Kenderdine* and *Bucsky* 2021b). Not only the use of existing rail freight networks by *CR Express* but also the construction of new lines spivved by Beijing policy loosely coopts local elites into the projects with virtually no public oversight, particularly on the peripheral connections such as in Kyrgyzstan, Uzbekistan and Turkmenistan (*Pannier* 2020; *Bucsky* and *Kenderdine* 2020b). This broader policy-dependency applies equally to other network industries, such as pipelines and electricity meaning research and analysis of China's investment and use of fixed capital in the region is avoiding extant policy and institutional evidence. While macroregional overview approaches are useful (*Mardell* 2020), there is little research on China in Central Asia from a source-based policy analysis perspective, exceptions such as *Yau* (2020) demonstrate a lack of wider engagement with policy and operational realities of the *Belt and Road*, industrial investment in Central Asia or China network industries' development and use.

This lack of Eurasian regional research on *CR Express* not only means there is a significant knowledge gap but also makes future studies difficult because there will be so few secondary sources built from primary qualitative or quantitative data which could have formed the foundation for future study. As a result of this, so many studies are now idiosyncratic as they navigate this dearth of data in their own ways, often reducing themselves to lived-experience autoethnographic travel diaries rather than systematic analyses (*Joniak-Lüthi* 2020; *Grant* 2020). Many academics are caught in the middle without enough data to make informed analysis (*Tjia* 2020). This leaves policy-makers in both China, *Belt and Road* economies and third-party economies with incomplete research and analysis tools. In the *Middle Corridor* case study, we argue that the host economy governments themselves are often flying blind with little indication of the institutional arrangements that would be necessary to integrate local rail freight systems with China. There is clear political will and economic incentive for the *Middle Corridor* economies to unify their internal markets and to connect with China in the East and Europe in the West (*Kenderdine* and *Bucsky* 2021a). Yet poor policy transmission from China hinders this development. China's advanced spatial planning models and policy transmission domestically occurs within a clear public administration hierarchy. While China' national level policy making apparatus often takes the credit for policy successes, much practical policy is tested at the Provincial and Prefectural levels of government. It is these political economic institutions which are not connecting to their peers in the Eurasian state governments, and lack of analysis here leads to either light reports based on conjecture (*Sukhrob* 2020),

or the Tang-dynasty mythmaking and *neo-Tianxia* foreign policy (*Hückel* 2012) of China State media triumphalism.

This matters not only for China, Central Asia and Eurasia but for the EU too. The institutional practices of China in the Eurasian region and the policies adopted in Europe towards Eurasian rail integration will directly impact the economic lives of European citizens through projects such as the Budapest-Belgrade rail upgrade or increasing sales of rolling stock. The *CR Express* Eurasian rail policy as a trade facilitation, regional economic development, and macroregional economic integration policy is not radical. The problem is that so many elements of *CR Express* remain opaque, undisclosed or overtly classified. China running an intercontinental rail freight system in secrecy cannot result in optimal trading arrangements with the EU or with the *Middle Corridor* economies. A freight policy need not be secret and yet it appears that China is waiting to develop a new form of regional multilateralism before developing the institutions of rail freight logistics development. There are serious dangers in building bilateral and multilateral political and geoeconomic analysis and policy proposals after the economic development has already occurred. If the *CR Express* intercontinental rail system was truly booming and its transformative structural effects were resulting in spill-over industrial cluster node development along the rail line geography, then China could be leading economic development in Central Asia, and the China rail model could become an attractive development economics template (*Guo* and *Fidan* 2018). This is not happening.

This economic development spill-over hypothesis remains difficult to test without data. And where China Party-State discourses surrounding *Belt and Road* and *CR Express* can be controlled and tailored for both domestic policy consumption and pushed into Eurasian host economies, there can be no obfuscation of data when trading with the EU. For the *CR Express* intercontinental rail system to be successfully deployed, there must be two-way transparency in both freight usage and policy dissemination. Without EU involvement, a China-Central Asia rail freight network is plausible, but would be both politically and economically dependent on Beijing. This lack of policy transparency in *CR Express* development makes it difficult to avoid a dichotomy of narratives, as the dialectic of external institutional analysis pushes towards either a pro Party-State development economics propaganda narrative or anti-China geoeconomic threat narrative. We see more a 'China blunder' narrative where internal aspects of Party-State policy deployment hinder geoeconomic policy intentions. The formation of the narrative from Beijing itself creates this institutional impasse and leaves most subnational China and national Central Asian governments, as well as an array of financial institutions, logistics enterprises or research institutions without sufficient quantitative or qualitative data to make either informed political or economic decisions or research findings. This counterfactual of China's policy transmission, dissemination and deployment is ultimately the weakest institutional force in any potentially economically transformative effects which *CR Express* possesses.

6. Conclusion: *Iron Silk Road* fails to deliver on potential

State intervention in national economies, spatial planning, or strategic state geoeconomic policy, is not limited to the Communist planned-economy experiment. From industrialising Germany to the modern European Commission to the Japan or Korea industrialisation experience, there are many examples of successful state intervention in economic activity, resulting in endogenous growth. This is particularly true of investment in network industries such as railways, electricity and telecommunications which have clear cumulative causative spill-over effects on other aspects of economic activity. Cumulative causation is the fundamental economic development theory which should explain any success of China's *Belt and Road Initiative*, *Silk Road Economic Belt*, or the *CR Express* intercontinental rail policy. However, in practice, China's attempt at a holistic command economy approach to economic integration in Eurasia is failing to develop regions of endogenous accumulation. For *Belt and Road*, *Middle Corridor* or *CR Express* to succeed, the initial public policy economic intervention must result in local economies of endogenous growth taking hold. While the system relies on material transfers from Beijing, the intercontinental rail freight network cannot be considered an economic good, but only a policy-driven geoeconomic ideal.

We have demonstrated a primary-sourced historical institutional record of China's domestic and interna-

tional transport policy which shows the development and future trajectory of China's Eurasian transport policy based on institutional path-dependencies. We analysed core national and subnational China policy documents to construct a narrative of China's whole-of-government public administration response to developing the intercontinental transport, trade and industrial system. And we have offered a heterodox theoretical economic explanation for how China's policy intervention in the transport networks of Eurasia could succeed. But our case study on the *Middle Corridor* demonstrates the lack of data availability, the difficulty in producing data, and the known infrastructural bottlenecks within the intercontinental rail system. Coupled with the counterfactual unknown of central China policy calculus, we demonstrate empirical evidence that China's intercontinental rail project is not on sound economic policy footing.

CR Express policy sources demonstrate that China can neither project its institutional competence to cover its external economic operations nor inspire institutional development in host economies to integrate with China's domestic political economy model. Coupled with the lack of freight data, this leaves serious questions as to the institutional form that any Eurasian regional multilateral trade, transport or logistics system would take. We express doubt as to the underlying factors behind the intercontinental rail system being developed by China and its surrounding Eurasian policy and we have argued for an institutionalist approach to future analysis of trade, transport, governance, and political development in Eurasia surrounding containerised rail freight development. On what evidence we could derive on carriage volumes and capacity of the *Middle Corridor* case study, we find the evidence unconvincing that a cumulative causation event could occur in Eurasia as a result of the *CR Express* rail system development.

We contend that the multilateral institutional vacuum created by applying China's domestic planned economy approach in external host economies is a critical impediment to the successful deployment of the *CR Express* containerised rail freight policy in Eurasia. Without adequate institutional representation at the trade and industry levels, China's domestic industrial institutions are ill-prepared for economic governance of *Belt and Road* institutional trade architecture. Neither is there sufficient political will nor economic capacity of the Central Asia, Caucasus, Turkey or East European economies to create the *Belt and Road* trade bloc under which to adequately interoperate with Beijing's transport and industrial docking framework. The result of this is institutional bottlenecks, where policy transmission from Beijing is theoretically and institutionally possible in China, but not institutionally viable across the spectrum of the Eurasian *Belt and Road* economies.

The *CR Express* intercontinental rail freight institution that was policy-prescripted to vanguard China's Eurasian trade and industry agenda is not rapidly moving to accumulation and agglomeration not due to theoretical economic failings, but to practical political shortcomings. The greatest weakness of the *CR Express* rail system across Eurasia in general and the *Middle Corridor* in particular is China running bilateral geoeconomic policies as if they were domestic economic bureaucracies. *CR Express*, *Middle Corridor*, and *Belt and Road* are all institution manifestations of China's economic policy planning process being applied to economies external to China. The command economy model proved an inefficient yet sufficiently effective tool for China's own economic development. Applying this policy planning model to external economies though is a risk that can only be borne by China itself, and not foisted onto the peoples of the developing economies of Eurasia.

Notes

[1] *Khorgas* is the international romanisation for the China side of the border established by the 1881 Treaty of St. Petersburg, which is *Huo'erguosi* County (霍爾果斯) in contemporary China. *Khorgos* is the romanisation of the Russian Хоргос (Kazakh is cyrillicised as Қорғас).

[2] Export volume matches TCDD reported volumes in its annual report.

[3] Both directions (to and from Turkey) can be estimated at around 0.5 million tons.

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MIDDLE CORRIDOR—POLICY DEVELOPMENT AND TRADE POTENTIAL OF THE TRANS-CASPIAN INTERNATIONAL TRANSPORT ROUTE

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Abstract

The Trans-Caspian International Transport Route (TITR), known as the Middle Corridor, is a multilateral institutional development linking the containerized rail freight transport networks of the People's Republic of China (PRC) and the European Union through the economies of Central Asia, the Caucasus, Turkey, and Eastern Europe. The multilateral, multimodal transport institution links Caspian and Black Sea ferry terminals with rail systems in the PRC, Kazakhstan, Azerbaijan, Georgia, Turkey, Ukraine, and Poland. Trans-Eurasian and intra-Eurasian rail freight development remains fundamentally policy- and subsidy-driven on the PRC side, yet dependent on European Union demand-side drivers to create traffic flow volumes. The development of the Middle Corridor, though, is institutionally independent and potentially transformative for the economies of Central Asia, the Caucasus, and Turkey. We explore the institutional development of transport infrastructure and economic potential from three macroregional angles: policy- and subsidy-driven development, the Central Asia–Caucasus–Turkey physical industrial geography and political institution limitations, and lack of demand-side fundamentals from European Union market agents. The PRC's supply-side-policy evidence suggests that growth in transcontinental containerized rail transport is politically feasible. However, demand-side factors suggest that trade development potential is largely limited to greater extraregional connectivity from the Middle Corridor economies with little economic rationale for increased PRC–Europe transcontinental freight flows.

Keywords: transport policy, economic geography, geoindustrial policy, industrial policy, Eurasian economic integration

JEL Classification: B15, B27, B52, E02, E61, F1

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1. INTRODUCTION

The Trans-Caspian International Transport Route (TITR, Middle Corridor) is a rail freight corridor linking the People's Republic of China (PRC) and the European Union through Central Asia, the Caucasus, Turkey, and Eastern Europe. We examine the institutional development and trade potential of the Middle Corridor by weighing policy, statistical, and infrastructural evidence. We focus acutely on the institutional development of the Middle Corridor, arguing that the project is ultimately dependent on the PRC's foreign policy, domestic industrial policy, and geoeconomic and geoindustrial policies. The non-PRC Middle Corridor is composed of a coalition of port, logistics, and transport companies, many of them either state owned or with strong connections to state network monopoly industries. These institutions, their industries, and the states that they represent lie between the European Union and the PRC, forming a contiguous transport bloc from which it is possible to develop a new transport and trade macroregion. For the non-PRC, non-European states of the Middle Corridor, the project carries great economic development and trade facilitation promise. Yet the problems with development of the Middle Corridor containerized rail freight corridor are not within the non-China, non-Europe Middle Corridor states but rather with the incompatibilities in economic and political institutions on either side of the transcontinental rail system in the PRC and the European Union. For both the PRC and the European Union, with open ocean access, it makes little economic sense to engage in high levels of intercontinental rail trade. This leaves the economies in the middle of the transcontinental rail network with both the largest potential economic benefit and the highest risk of policy capture from the larger PRC and European Union institution-makers.

The PRC in particular uses the Middle Corridor to take domestic industrial bureaucratic competencies abroad as part of the wider Belt and Road program of geoindustrialization through the public administration and government-led economic development interventions that resulted in the PRC's domestic industrialization drive. Competent public administration systems are the principal institution behind Northeast Asia industrialized states' development history (Chang 2002). These national systems of economic development, though, create institutional path dependencies that shape the future of states' trade, industry, transport, and finance integration with regional, continental, and global economic institutions. The PRC remains a transition economy, with elements of both market economy and planned economy. For the PRC, partway through its transition economy experiment and still heavily dependent on public administration economic institutions, the Belt and Road, Iron Silk Road, and China Railway Express in Eurasia represent an attempt to effectively integrate with different economic macroregions without upgrading the PRC's domestic institutions that are responsible for trade, industry, and transport. Excepting Republic of Turkey, the Middle Corridor countries are all post-Soviet economies, and the development of a Middle Corridor institution ultimately connects the PRC through this post-Soviet economic geography to the advanced, developed markets of the European Union. It is thus important to consider the Middle Corridor from the perspective of the institutionalization of the three regions involved, the PRC, the European Union and the post-Soviet economies plus Turkey. A simple breakdown of the three regions that we examine presents the PRC as industrializing, the Middle Corridor economies as semi-industrialized, and Europe as post-industrial. Joining these three macroeconomic regions together by unifying the containerized rail transport system is as difficult from a political institutional perspective as it is from an economic institutional one. How these three macroregions institutionally dock with the Middle Corridor transport mechanisms,

political institutions, and trade functions will ultimately determine the success or failure of the project.

We contend that there are a number of impediments to the development of the Middle Corridor rail system and that these are both idiosyncratic to the institutional and physical geography of the countries that the rail system traverses and universal to all the corridors and lines on the PRC's CR Express intercontinental rail system. Private forwarding companies provide rail transport services, which means that these agents within the wider institutional network must be able to make economically rational decisions. The PRC's command economy institutions, with central and regional governments coordinating with private, semi-private, and pseudo-private enterprises to develop regional transport hubs, are able to artificially create traffic to fill the market that the central policy makers wish to create (Kenderdine and Bucsky 2021; Kenderdine 2018c). However, at the European terminus, neither the European Union nor the state governments directly intervene in the rail transport market, meaning that all international rail traffic must operate on market principles. For Central Asia, the Russian Federation, the Caucasus, Turkey, and Eastern European state economies, there is a policy incentive to organize domestic institutions and policy interventions to benefit from the PRC's expenditure, which drives network traffic; however, ultimately, the intercontinental rail network is entirely dependent on the PRC's policy, and fiscal, impetus.

The paper is organized into four substantive sections. We first explore and locate our study within the broader world of economic development, national industrialization strategies, and the role of public bureaucracies in executing industrial policy. We then examine the PRC's central and local government policy environment for establishing, developing, and spatially planning the CR Express intercontinental rail freight system. We follow this with an examination of some of the infrastructure and throughput realities of the Middle Corridor's built environment and natural geographies and identify firstly some institutional problems and secondly some major physical infrastructure bottlenecks in developing an economically viable transcontinental rail system to link the PRC and Europe via Turkey. Finally, we examine some European statistics and argue that the European Union side of the transport network is both the best indicator of the true container throughput and the potential for an intermodal shift to rail and the best indicator that the statistics do not justify the PRC's hype about the Eurasian rail project. We conclude with some policy recommendations for the Middle Corridor economies, for the PRC, and for third-party stakeholders, including multilateral development banks and the European Union.

2. POLITICAL INSTITUTIONS AND ECONOMIC GEOGRAPHY

We analyze the Middle Corridor from several different aspects. Firstly, as it is fundamentally a PRC-initiated transport corridor, we examine the policy background of the international rail freight corridors in the PRC following a public administration approach. State intervention in a catch-up economic development scenario (Gerschenkron 1962; Suehiro 2008; Puntigliano and Appelqvist 2011) is a well-accepted policy paradigm from the East Asian development model of industrialization (Johnson 1982; North 1989, 1990; Rodrik 2000; Chang 2002). The administrative arm of government is the principal policy agent in the PRC's domestic economy (Wübbeke et al. 2016; Heilman and Shih 2013). The methodology of working in such an analytical tradition is based on public administration theory which sees the administrative arm of

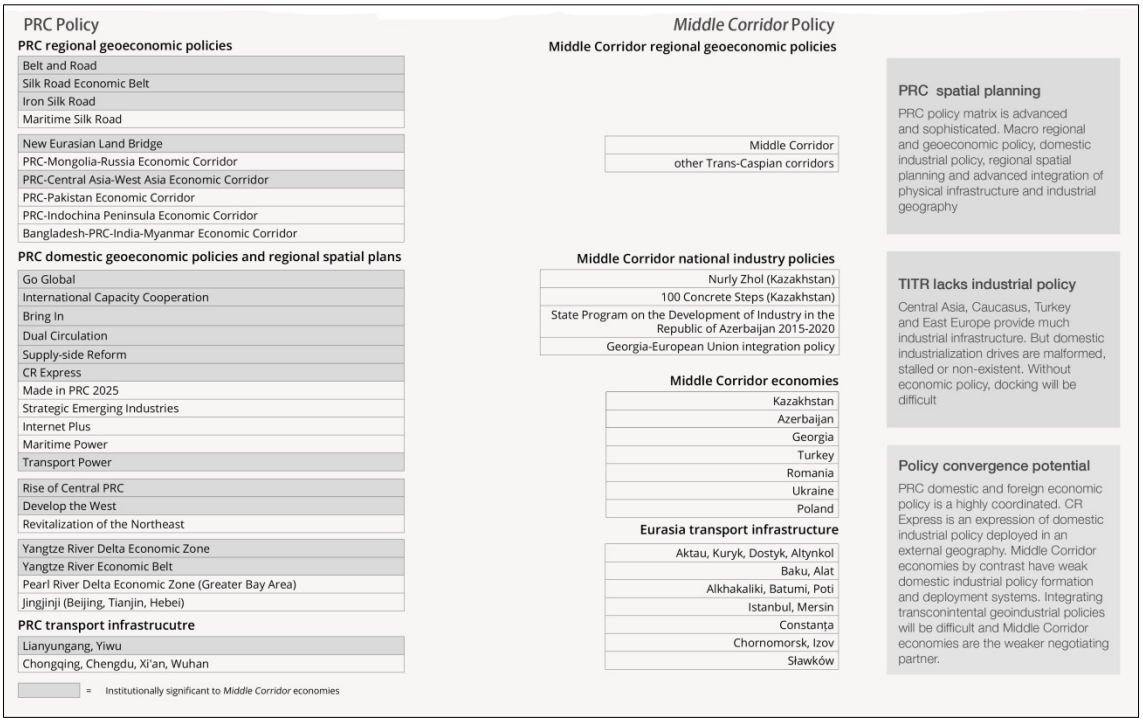
government as an extant institution of state governance alongside the legislative, executive and judicial arms of government (Wilson 1887). Taking this administrative governance institution as the basic unit of economic analysis, we obtain data on economic aspects of the PRC's public administration by collecting policy documents at the central ministerial and subnational levels and examine the motivations of agents within the bureaucratic system. We abstract and translate PRC external industrial policy documents into our database, which we analyze from an institutional perspective. (Kenderdine and Bucsky 2021a; Bucsky and Kenderdine 2020a; Kenderdine and Lan 2019; Kenderdine and Han 2018; Kenderdine 2018a; Kenderdine 2017a).

We created an historical institutional policy record to assess the discourse that the PRC state has established on the development of the Middle Corridor rail system to differentiate the trans-continental rail freight system from other forms of PRC domestic spatial policy and command economy policy functions. This policy analysis base focuses on qualitative methods of analyzing the PRC's public administration and policy apparatus. The qualitative approach assumes that a Listian national system of economic development process holds true for both the PRC and the Central Asian economies and then deploys historical institutionalist and institutional economic approaches to the PRC's public policy system (List 1856; Veblen 1915; Skocpol 1979). Ministerial policy analysis of the PRC as a semi-industrialized state with universalizable variables akin to European and Northeast Asian industrial states, combined with known path dependencies in structural economic development, means that we can understand the policy process and policy risk reasonably well through textual analysis of the PRC's extant policy documents. For this project, we examine policy documents from the Ministry of Commerce, Ministry of Transport, National Development and Reform Commission, and Ministry of Industry and Information Technology. Limitations exist, and a deeper analysis would require subnational policy analysis amongst the cities developing the actual CR Express rail lines and higher-level political party policy.

Our research also integrates statistical analysis from datasets from the European side of the PRC–Europe intercontinental rail governance institutions. This statistical analysis is necessary due to the overwhelmingly positive position that Chinese policy makers and statistics manipulation have taken, which invariably do not align with reality on the European side. For example, the number of trains and volume of TEU boxes that the PRC has reported as leaving the PRC for Europe do not match the number of trains and volume of TEUs arriving in the European Union (Bucsky 2020; Li, Bolton, and Westphal 2018). Given that the policy record in the PRC includes state media that are prone to propaganda and statistical manipulation, independent statistical cross-referencing is essential to any analysis of the efficacy of a trans-continental rail system. Our analysis combines statistical analysis with structural economic geography and a deep knowledge of rail freight capacity and the physical geography choke points of the Eurasian and European rail infrastructure (Bucsky, 2020; Bucsky and Kenderdine 2020a; Bucsky 2018; Vinokurov et al. 2018). This combination makes identifying physical bottlenecks and insincere statistical reporting obvious. Even ignoring policy misreporting and hard statistical anomalies, there remains a fundamental policy bottleneck in developing a two-way PRC–Europe Eurasian rail link as supply–demand dynamics govern the European Union economic agents, while the PRC side pursues a command economy approach to developing new markets, infrastructure, institutions, and ultimately services. This leaves the Central Asia, Caucasus, and Turkey state economic strategies for integrating transport connections with both the PRC and the European Union on unsure institutional footing.

By triangulating European Union statistics, extant physical economic geography between the PRC, Eurasia, and Europe, and policy developments that demonstrate future path-dependent behaviors of the PRC in developing the economic institutions surrounding the Middle Corridor, CR Express, and Belt and Road policies, we can gain quite a clear picture of future trade potential of the trans-continental PRC–Europe rail freight system. For example, a PRC policy from the central ministry to a subnational government to increase trade throughput via Istanbul is likely to lead to deployment on the PRC side and yet meet a physical geographic bottleneck on the shores of the Bosporus and a freight-forwarding industry in Poland with little incentive to ship containers back to the PRC via rail. The PRC's CR Express policy is thus caught between multiple policy frictions. Serious problems remain in analyzing the policy actions of the disparate actors of the non-PRC Middle Corridor economies. We consider the states in three macroregional categories: the PRC, the European Union as a whole and as an acute that Poland represents, and the Middle Corridor agent economies of Kazakhstan, Azerbaijan, Georgia, Turkey, and Ukraine.

Figure 1: Vertical Integration of the PRC's Macroeconomic Industrial and Geoindustrial Policies and Horizontal Institutional Docking with the TITR Middle Corridor State Economic Policy



Source: Authors' database.

Most Eurasian economic integration and development is PRC policy-driven, while most institutional, economic, and market inertia stems from the European Union. We can see a lack of institutional engagement or development from the remaining agent economies along the Middle Corridor either as individual states or as a contiguous economic unit. The organization of the Middle Corridor primarily takes place through the railroad and port institutions of the constituent economies. This means that little national-level state development of the economic corridors accompanies the rail freight development plans of the railroads, which are mostly state owned. We argue that this lack of transport and trade integration is a disadvantage to regional economic development when the PRC

side is command-economy coordinated, the European Union is operating on market principles, and the third states have neither well-marketized institutions nor an effective state industrial policy.

There remains a persistent erroneous narrative that the PRC is investing in railroad infrastructure in the Central Asia and Caucasus region, when the reality is that the CR Express system is simply a subsidized scheme to generate a greater containerized rail traffic flow between the PRC and Europe along the existing physical infrastructure corridors (Bucsky and Kenderdine 2021). The policy benefit to the PRC of opening these trade channels is extant, and the policy-making apparatus in Beijing has deemed the trade routes to have sufficient strategic value to subsidize them directly. However, the structurally transformative potential of the PRC's policy and fiscal intervention to create new markets of traffic flow faces the inertia of existing physical geography, political institutions, and real-world economic costs, which could slow or halt entirely the growth of such a system. Progressive PRC state interventions in regional economic development policy and real-world economic use of the rail freight lines are the two frictions at play in the development of all the PRC's CR Express intercontinental rail freight lines and the Middle Corridor in acute. For the transport channels to genuinely benefit the local economies, the Middle Corridor would need major infrastructure investments to overcome rail freight bottlenecks, long-term subsidized support from the PRC, and gains in efficiency and lowering of transit costs that still seem unrealizable. The benefit to the Eurasian economies is clear so long as the PRC subsidies create traffic volumes, but the value to the PRC is strategic, not economic, and there is virtually no long-term benefit to the European stakeholders.

3. INTERCONTINENTAL RAIL FREIGHT POLICY DEVELOPMENT

Connecting the PRC and the European Union overland with containerized rail freight transport via the Belt and Road and CR Express is an ambitious prospect (Kenderdine 2018c). In the period 2015–2020 most of the PRC's economy underwent Supply-side Reform to restructure the economy via decapacity in the industrial economy and deleveraging in the financial economy. However in rail freight development, transport policy, and intercontinental rail freight policy, the PRC increased subsidization for the expansion of rail freight infrastructure, services, and institutions (Kenderdine 2017b; Kenderdine 2017d; Kenderdine 2018b).

In September 2019, the Communist Party of China Central Committee released the *Outline for the Construction of a Transport Power* (Central Committee of the Communist Party of China 2019). The Transport Power policy is a standard PRC mid-to-long-term economic planning and governance instrument. It lays out policy guidance for developing national and international rail, road, intermodal, and logistics goals for two periods: 2021 to 2035 and 2035 to 2050. It intersects with other major planning documents, such as the joint *Layout and Construction Plan of National Logistics Hubs* from the National Development and Reform Commission (NDRC 2018). The PRC's supply-side policy development of the domestic Middle Corridor enabling transport infrastructure is built on an institutionalized spatial planning legacy. The ability to construct this transport network is not so much connected to the PRC's newer deployment of techno-industrial policy but far more complementary to the heavy industry planning policies of the past. The prospects of the Middle Corridor depend inherently on the PRC's domestic transport and industrial policy making, and that is

dependent on the PRC's national and subnational transport and industrial policy institutions, political–economic systems, and spatial planning policy.

The Belt and Road is already a domestic and international hyperpolicy that lays out Eurasian hyperconnectivity as an institutionalized economic good. Connection of the PRC and Russia's pan-Eurasian geoeconomic policies is referred to as the 'Grand Eurasian Partnership' on the Russia side and as the 'One Belt, One Union' on the PRC side (Fang, 2020). This hyperpolicy aims to cover the PRC's other umbrella macro policies that guide infrastructure investment, capacity transfers, and policy bank investment. These include International Capacity Cooperation, Go Global, Bring In, and the technology and capacity transfers under Made in China 2025 and Strategic Emerging Industries (Kenderdine 2017a; Kenderdine and Lan 2019). These macro industrial policies acutely intersect with the rail sector and with state-owned rail enterprises through national and international rail industrial policy development strategies (Pepermans 2019).

However, much of the PRC's Eurasian policy agenda has only weak alignment with that of the Russian Federation, and many Eurasian transport policies are simply codifications of existing multilateral development projects. For example, the key seaport for Middle Corridor development is Lianyungang in far northern Jiangsu. This is the designated terminus of the CAREC Central Asia connectivity corridor, which CAREC established long before the PRC's Belt and Road policy. Central PRC policy designates this as the key strategic port to open to Central Asia, offering the Kazakhstan government, and by extension the Middle Corridor partner economies, access to the Pacific Ocean via this port (Blanchard and Flint 2017). The transport corridor uses the Longhai railroad from Lanzhou (*Long*) to Lianyungang (*Hai*), one of the oldest and most important rail transport corridors in the PRC. Lianyungang is strategic for multiple agents for multiple reasons. Situated in Jiangsu province, it is at the extreme edge of the Yangtze River Delta cluster and its integrated transport plan, which pulls the Lianyungang port infrastructure into line with rail freight and intermodal services extending outwards from the *Yangtze River Delta Economic Corridor*. Jiangsu is also part of the *Yangtze River Economic Belt*, and Lianyungang is a northern port, in close proximity to the Rizhao and Qingdao port infrastructure cluster and therefore also closer to the *Jingjinji* Beijing area consumer and import market cluster and the advanced transport network infrastructure in the northeast of the PRC. Jiangsu, along with Zhejiang and Fujian, is also a primary designated province for *Maritime Silk Road* policy development. Lianyungang is thus located on a spatial planning policy pivot comprising the Middle Corridor, the Yangtze River Economic Belt, the Yangtze Delta Economic Zone, and the Maritime Silk Road. Its physical location at the terminus of the Longhai railroad makes Lianyungang an important geoeconomic hub in the PRC's spatially planned international transport system, with a large container capacity but without being as busy and potentially overloaded as nearby ports like Tianjin or Qingdao.

Table 1: CR Express Europe, CR Express Central Asia and Extant ex-Europe Containerized Rail Lines in Operation in 2020

Major Intercontinental Containerized Rail Freight Lines in Operation in 2020			
CR Express Europe		**CR Express Central Asia**	**Extant European–Eurasian Lines**
Yiwu–Madrid	Guangzhou–Moscow	Yiwu–Tehran	Varma–Minsk–Klaipeda "Viking"
Yiwu–London	Dongguan–Duisburg	Yiwu–Almaty	Talinn–Riga–Minsk–Ukraine Ports–Oknitsa "ZUBR"
Xiamen–Łódź	Suzhou–Warsaw	Lianyungang–Almaty–Tashkent	Duisburg–Brest–Moscow "Moscovite"
Wuhan–Dubice	Kunming–Rotterdam	Tianjin–Ulaanbaatar	Kaliningrad/Dragiste–Moscow "Merkury"
Wuhan–Lyon	Harbin–Ekaterinburg	Qingzhou–Almaty	Brest–Kaluga–Nizhny Novgorod "Volkswagon Group RUSS"
Zhengzhou–Hamburg	Harbin–Hamburg	Linyi–Almaty	Vessel–Brest–Vorotynsk "Peugeot-Citroen-Mitsubishi"
Changsha–Duisburg	Changchun–Schwarzheide	Binzhou–Tashkent	Mlada–Boleslav–Brest–Zaschita "SKODA"
Chongqing–Duisburg	Shenyang–Hamburg	Qingdao–Almaty, Bishkek	Zhilina–Brest–Zaschita "KIA"
Chengdu–Łódź	Yingkou–Warsaw	Hefei–Almaty–Central Asia	Malaszewicze–Brest–Yelabuga/Tikhonovo "FORD"
Lanzhou–Hamburg	Yingkou–Dobra	Kuytun–Tbilisi	Alashankou–Kena–Motskava "Saule"
Urumqi–Moscow	Yingkou–Lida	Xi'an–Almaty	Brest–Aktobe–Alashankou "Kazakhstan Vector"
Urumqi–Chelyabinsk	Yingkou–Moscow	Xi'an–Zhem, Kazakhstan	Panerial–Kostanai "Baltic Wind"
Urumqi–Duisburg	Yingkou–Kaluga	Wuwei–Almaty	Brest–Ulaanbaatar–Erenhot "Mongolian Vector"
Yining–Kupavna	Yingkou–Khovrino (Moscow)	Lanzhou–Almaty	Berlin–Moscow "Eastern Wind"
Shihezi–Chelyabinsk	Dalian–Hamburg		Leipzig–Shenyang "BMW"
Korla–Duisburg	Shijiazhuang–Minsk		

Source: Authors' database.

The development of the intercontinental rail system depends heavily on individual provinces and prefectures forging their own freight lines towards Eurasia. The principal terminals of the Central PRC provinces—Wuhan, Chengdu, Chongqing, Xi'an, and Zhengzhou—all had their own intercontinental railroads in operation that predated both the Belt and Road and the CR Express. The PRC–Europe rail freight volumes were also higher before, not after, the introduction of the Belt and Road policy (Bucsky and Kenderdine 2020a). The central-level policy CR Express system gathered together these different provincial and prefectural rail lines to Europe and Central Asia, which the provinces and municipalities had developed and subsidized, and created a national centralized plan under the coordination of the National Development and Reform Commission with new central subsidies. The CR Express trans-continental rail system is really the centralized marshaling of existing disparate city-level PRC–Europe and PRC–Central Asia rail freight services into a unified national system.

4. INFRASTRUCTURE REALITIES OF THE MIDDLE CORRIDOR

Compared with other transport modes, rail transport along the Middle Corridor has historically played a minimal role. However, even before the PRC's Iron Silk Road and Belt and Road policies, there had been long-term multilateral institutional transport integration development programs, the most prominent being the Transport Corridor Europe–Caucasus–Asia (TRACECA). The European Union initiated the TRACECA, and the EU, the five Central Asian republics, the three South Caucasus republics, Turkey, and Moldova signed multilateral agreements in 1993, with Iran and Ukraine subsequently joining. The development and use of the Central Asian and Caucasus transport corridors under TRACECA, though, has been underwhelming. The TRACECA Caucasus and Black Sea corridor is still slower and more expensive than routes connecting Central Asia and the PRC through Kazakhstan and the Russian Federation to Europe. High costs and slower transit times make it practically uneconomical for commercial use (United Nations Economic Commission for Europe UNECE 2017). The main problem with the corridor is that it involves slow and costly ferry legs to cross first the Caspian Sea and then the Black Sea from Georgia to the ports of Romania or Bulgaria or else utilizes an underdeveloped rail route through Turkey. Even though the EU has funded 14 transport projects in the region since 1995, they have had no significant impact on the development of regional corridors.

The rail transport corridors from the PRC to Central Asia via Kazakhstan to the Caspian Sea ports along the TRACECA corridors are well established, while a proposed new corridor via the Kyrgyz Republic does not seem feasible (Bucsky and Kenderdine 2020b; Kenderdine 2017c). The most important development of the past 25 years was the finalization of the Baku–Tbilisi–Kars railroad in 2017, which reopened direct rail transport between the Caucasus region and Turkey after the closure of the railroad between Armenia and Turkey due to the Armenia–Azerbaijan conflict in the early 1990s. Another major achievement was the finalization of the Trans-Kazakhstan railroad in 2014, a 988 km Zhezkazgan–Saksaulskaya–Shalkar–Beyneu line that cut the east–west transport route between the PRC border and the Caspian Sea port of Aktau by around 1,000 km (Rodemann and Templar 2014). This became important after the opening of the second Kazakhstan–PRC rail border crossing at Khorgos/Altynkol in 2011; however, this Khorgos crossing is still highly underutilized in normal economic operation and has also suffered from politicized bottlenecks (Ruehl 2019; Bucsky and Kenderdine 2020a; Kenderdine and Bucsky 2021b).

East–west from the PRC to Europe, the crossing of the Caspian Sea is a major bottleneck as ferry and port services are insufficient to balance rail throughput capacity on either side (Badambaeva and Ussembay 2018). The rail ferry to Baku has been operational for more than three decades, but it only introduced container services in 2019 (PortsEurope 2019). The roll-on–roll-off (RoRo) vessel fleet has expanded in recent years, and there are now 13 servicing the Baku–Aktau and Baku–Turkmenbashi routes (Azerbaijan Caspian Shipping Company [ASCO] 2019). Azerbaijan has built a new port in Alat, with a first-phase capacity of 10–11.5 million tonnes of general cargo and 40,000–50,000 TEU containers, with plans for further expansion. On the Caucasus rail side, the Baku–Tbilisi–Poti/Batumi main line is an electrified, mainly double-tracked line with heavy freight traffic capacity. Both Georgia and Azerbaijan have invested in rail track development over the past decade, meaning that this segment of the corridor is now in good condition. From Azerbaijan to the Georgian Black Sea ports, the line currently carries mostly hydrocarbon products, but container transport has become much more significant on the return route. A total of 45% of Georgian Railways' traffic

volume has consisted of oil products, while 38% has been transit—almost entirely to and from Azerbaijan (Georgian Railways 2019). 2021 was the scheduled completion date for the development of a new deep-water port in Anaklia with a projected capacity of 100 million tons per year, but Georgia pulled out of the contract in 2020 (Lomsadze 2020). From western Georgia, two routes are available, one by ferry across the Black Sea and one overland through Turkey. In both cases, reaching the targeted Central European markets is challenging due to the fact that the routes lead through either Ukraine or Romania, where the rail infrastructure is in a fairly poor state (Popa and Schmidt 2013; Miecznikowski and Radzikowski 2017).

Across the Black Sea by ferry to Varna in Bulgaria, the onward rail corridors pass through Serbia, which is not an EU member, meaning that crossing the border is much more time consuming due to customs procedures. The state of the Serbian transport infrastructure is also insufficient, the speed limits are sometimes as low as 20–40 km/h, and the network overwhelmingly consists of a single track. However, there is currently ongoing upgrading work along the whole of the rail corridor from the Bulgarian border to the Hungarian border, both to rehabilitate existing lines and to expand most lines to double tracks. Black Sea rail ferry services between Romania and Bulgaria to Georgia first ran in in 1978. The Bulgarian state-designated shipping company Navibulgar provides services from Georgia to both Bulgaria and Ukraine. Navibulgar operates under a special intergovernmental triple agreement between the governments of Bulgaria, Ukraine, and Georgia regarding the operation of direct rail ferry services between the ports of Varna (Bulgaria), Chornomorsk (Ukraine), and Poti and Batumi (Georgia). According to the timetable, there are monthly ferries between Poti and Varna. Navibulgar is the only company serving the Black Sea region with rail ferry services between Georgia and the European Union, and it has two vessels for this purpose, both built in 1978 (Navibulgar 2019b). The route of the ships forms a triangle between Varna, Poti, and Chornomorsk (Navibulgar 2019a). The rail ferry connection to the Romanian port of Constanța was already operational before 1990 and the infrastructure for rail ferries exists, but none currently operate. In 2003, there was a plan to start a new rail RoRo ferry from Constanța to the Georgian port of Poti, but this never transpired (United Nations Economic and Social Commission for Asia and the Pacific UNESCAP 2003). Despite this limitation, container transport between the two ports is currently available, but there is a need for transshipment at both ports. As the rail gauge systems are different anyway, this is not such a great problem as cheaper and faster loading is possible for containers than for rail wagons. The capacity for rail wagons on RoRo ferries is very limited though, with ships having a capacity of 50–106 wagons, which translates into one to two full trains (Viking Rail 2015).

Ukraine's Chornomorsk port has operational Black Sea rail ferry connections to Varna (Bulgaria), Batumi and Poti (Georgia), and Samsun (Turkey). There are, however, only four ships to service all the routes, so the frequency is around two to four per week. The costs are also high at $1,500–$2,000 per container (Viking Rail 2019). On routes connecting wide-gauge tracks, rail ferries can be more viable as they cut transshipment costs. It is notable, however, that, in practice, rail RoRo ferries transport special cargo, for instance tank wagons and dangerous goods, for which transshipment would be more costly. The turnover has been 6–8000 wagons per year in recent years on these routes (Ukrferry 2014). It is interesting to note that Ukrferry's fleet consists of ferry ships (the Greifswald, Kaunas, and Vilnius) that East Germany built between 1987 and 1989 for the Soviet Union–German Democratic Republic rail ferry between Mukran and Klaipeda (Retzlaff and Wingeß 2006). These ferry connections not only seldom run but are also slow. According to the timetable, the approximately 1,100 km Varna–Poti route takes 4 days, which means an average speed of 11.5 km/h or 275 km a day. This is much slower than the approximately 1,000 km per day by rail. Overland transport on

the Poti–Varna route via Turkey by rail became possible in 2017, but there are major limitations. Firstly, the railroad from Georgia to Istanbul is single track, and it is not electrified between the Georgian border and Ankara. Second, freight trains cannot use the direct Kars–Ankara–Istanbul line but have had to make a detour through Konya since 2016 due to the high traffic load of the Ankara suburban trains (Uysal 2019a). Only the first flagship PRC–Czech Republic train gained permission to use this direct corridor, demonstrating that, while the policy hype of the PRC–Europe rail connection can sometimes make media headlines, actual throughput capacities limit future upscaling potential.

From Ankara to Istanbul, there is a single-track conventional, mixed traffic line and a high-speed line (HSL). Although research has analyzed the possibility of using the HSL, freight trains still use conventional lines (Ertem and Özcan 2016). The major bottleneck, however, is the Greater Istanbul area: the rail lines from Gezbe on the Asian side to Halkalı were closed in part for reconstruction from 2004 to 2019. This meant that trains from Europe had to terminate in Halkalı, and from there the only option for crossing to the Asian side was to travel by road. The capacities of both Halkalı and Gezbe stations are limited. This is a highly constricting factor for the use of the Marmaray tunnel at night for regular freight traffic, and a portion of European container trains has to use Çerkezköy station due to insufficient space in Halkalı (UNECE 2017). Therefore, it is not realistic for more than two to four trains per night per direction to use the tunnel. Until 2017, Halkalı station, the busiest intermodal terminal in Turkey, could receive only two trains daily. Even after the completion of the upgrade in 2019, the suburban Marmaray trains still heavily use Halkalı. Their interval is every 8 minutes in peak hours, with the first trains departing at 6:00 a.m. and the last trains arriving at 00:12 a.m. at the terminus stations. Therefore, it is only possible to run freight trains at night. The first freight train to use the Marmaray tunnel was a magnesite train from Çukurhisar in Turkey to Austria in October 2019 (Uysal 2019b). However, the Railway Gazette (2019b) erroneously published that the first PRC–Europe train was the first train to be able to use it in November 2019. These, though, were both exceptional cases. For non-exceptional trains, transport is much more complicated. As the Marmaray tunnel is generally not open to freight trains, the possibility for rail transport between the Asian and the European side of the Turkish rail network only arose again after 2013 with the Tekirdağ–Derince rail ferry (Uluslararası Taşımacılık ve Lojistik Hizmet Üretenleri Derneği [UTİKAD] 2013).

However, this still serves as a bottleneck: in September 2019, the ferry closed for maintenance for 15 days, blocking all rail traffic between the two sides of Turkey completely (Uysal 2019c). There is also a proposal for a new project to start cross–Mamaray ferry services from Bandirma port, but the development has not yet commenced. The Tekirdağ–Derince rail ferry travel time is 8 hours, with an additional 2 hours for loading and unloading, and the cost is high: starting at €13.6/tonne, which means €300–400 per TEU or around €1,000 for a standard rail wagon. As the costs of PRC–Europe transport start at €5,000 per TEU, the Istanbul section becomes a particularly important cost element. Moreover, the ports and ships have since undergone privatization, and no usage statistics are available now.

Turkish State Railways (Türkiye Cumhuriyeti Devlet Demiryolları, TCDD) only kept the Haydarpasa–Sikerci terminal and Lake Van ferries. The first only plays a marginal role in special transport and mainly serves TCDD's internal needs——it only transported 1.3 million tons in 2018 (TCDD 2019a, 2019b). The Lake Van ferry though is crucial as it is the only means of transport from Turkey to Iran and beyond to Pakistan. Two ferries serviced traffic for the non-electrified single-track rail line, but the capacity of 15,000 wagons was a severe bottleneck. Therefore, new ships began operating in

2018, which increased the capacity to 115,000 wagons per year (TCDD 2018). This still only means a capacity increase from one train to seven to eight trains per day, which, while being a substantial increase, nevertheless considerably limits the cargo volumes and therefore potential international throughput capacity. 11,216 rail wagons used the Lake Van ferry in 2017 and 19,856 in 2018, which shows that the utilization of the Turkey–Iran line is still low. This all means that, even in the coming decade, there is no realistic chance for a rail freight connection between the Asian and the European side of Turkey. Furthermore, the Istanbul–Bulgaria border section, which is single track and non-electrified, began an upgrade in the second half of 2019 using EU co-funding of €1.2 billion (Railway Gazette 2019a). This will extend the already electrified line to a double-track line with modern signaling for mixed-use traffic, which will more than double capacity. However, the work is not likely to finish until 2022.

This all demonstrates that from Georgia to Europe neither overland transport through Turkey nor RoRo Black Sea ferries can be economically competitive on time and cost. It is more realistic to assume that in the future only one to two trains daily will be able to use the Black Sea route. Major physical infrastructure development is necessary along substantial segments of the Turkey rail system if Middle Corridor transport volume is to grow significantly. However, in the short to medium term, we cannot expect new investments to overcome these physical geography limitations. Therefore, the full transcontinental throughput capacity of the Middle Corridor will remain limited mainly due to the physical bottlenecks around the two Turkish metropoles of Istanbul and Ankara and the limited ferry crossing capacities on the Black Sea and the Caspian Sea.

Table 2: 2019 Freight Tariff Rates from Lianyungang, PRC, to Turkey and the Caucasus via the TITR Middle Corridor on Block Trains and as Single Carriages

Tariff Rate for Transport as Part of a **Block Train** on the Lianyungang–Altynkol–Aktau–Baku–Tbilisi/Poti/Istanbul/Izmir Route. SOC (Shipper's Own Container)

		(<24 t)	(>24 t, ≤28 t)	(≤28 t)	
Departure	**Destination**	**20'**	**40'**	**45'**	**Delivery Time**
Lianyungang	Baku (Azerbaijan)	$4,455	$2,760	$3,005	15–17 days
Lianyungang	Tbilisi (Georgia)	$4,515	$2,900	$3,145	16–18 days
Lianyungang	Poti (Georgia)	$4,615	$3,075	$3,320	18–20 days
Lianyungang	Istanbul (Turkey)	$5,485	$3,440	$3,685	21–23 days
Lianyungang	Izmir (Turkey)	$5,565	$3,470	$3,715	24–26 days

Tariff Rate for Transport of **Single Containers** on the Lianyungang–Altynkol–Aktau–Baku–Tbilisi/Poti/Istanbul/Izmir Route. SOC (Shipper's Own Container)

		(<24 t)	(>24 t, ≤28 t)	(≤28 t)	
Departure	**Destination**	**20'**	**40'**	**45'**	**Delivery Time**
Lianyungang	Baku (Azerbaijan)	$4,445	$2,920	$3,165	15–17 days
Lianyungang	Tbilisi (Georgia)	$4,875	$3,270	$3,515	16–18 days
Lianyungang	Poti (Georgia)	$4,975	$3,350	$3,595	18–20 days
Lianyungang	Istanbul (Turkey)	$5,895	$3,790	$4,035	21–23 days
Lianyungang	Izmir (Turkey)	$5,940	$3,820	$4,065	24–26 days

Source: Middle Corridor—direct translation.

Table 3: TITR Freight Rates for Transit through Kazakhstan from the PRC to the Caucasus and Turkey via Aktau Sea Port[1]

Transit through the Republic of Kazakhstan from the PRC. SOC (Shipper's Own Container)					
	20'	20'	40' DV/HC	Delivery Days	
	(<24 t)	(>24 t, ≤ 28t)	(≤28 t)	Block	Single
ex Altynkol (Korghos)			to Turkey		
Mersin	$2,129	$2,129	$3,324	15	22
Istanbul	$2,363	$2,363	$3,634	16	23
Izmit (Kosekoi)	$2,358	$2,358	$3,627	16	23
Izmir (Alsandzhak)	$2,375	$2,375	$3,650	16	23
ex Altynkol (Korghos)			To Azerbaijan		
Port Baku (Alyat)	$1,358	$1,358	$2,333	9	16
Zibat	$1,358	$1,358	$2,333	9	16
Kyshli	$1,358	$1,358	$2,333	9	16
ex Altynkol (Korghos)			To Georgia		
Tbilisi	$1,540	$1,540	$2,580	10	17
Port Poti	$1,584	$1,584	$2,656	10	17
Port Batumi	$1,591	$1,591	$2,661	10	17

Source: Middle Corridor—direct translation.

Table 4: TITR Freight Rates from Kazakhstan to Turkey

Exports from the Republic of Kazakhstan to Turkey. FOR Kazakhstan, FOR Mersin, COC (Carrier's Own Container) or SOC (Shipper's Own Container)					
	20'	20'	40' DV/HC	Delivery Days	
	(<24 t)	(>24 t, ≤28 t)	(≤28 t)	Block	Single
Zaayatskaya	$2,031	–	$3,179	–	17
Anar	$2,008	–	$3,136	–	18
Taincha	$2,043	–	$3,198	–	18
Culye	$2,052	–	$3,218	–	18
Novoichimskaya	$2,033	–	$3,183	–	17
Kostanay	$2,019	–	$3,155	–	17
Kokshetau	$2,028	–	$3,170	–	18
Kzyl-Tu	$2,072	–	$3,202	–	19
Kurort-Borovoe	$2,029	–	$3,170	–	18
Kairankule	$2,036	–	$3,186	–	18
Karagai	$2,036	–	$3,187	–	18
Pavlodar	$2,075	–	$3,257	–	20
Nur-Sultan	$2,025	–	$3,169	–	18

Source: Middle Corridor—direct translation.

[1] FOR stands for free on road, a variation of the more standard maritime free on board (FOB). COC stands for carrier's own container, while SCO means shipper's own container and SU stands for set up (ready for the next operation). The delivery times quoted are either for dedicated block trains, meaning quicker times, or for single TEU containers on mixed cargo trains, meaning slower times.

5. ASSESSING DEMAND-SIDE DEVELOPMENT FROM EUROPE

In 2018, the EU published a new policy on Europe–Asia connectivity, with rail transport a central element (European Commission 2018). The EU has invested heavily in regional connectivity: between 2014 and 2020, it allocated €1.1 billion to the Central Asian Development Cooperation Instrument. The European Investment Bank and the European Bank for Reconstruction and Development have also invested €11.3 billion in the region, an amount orders of magnitude higher than Chinese regional infrastructure investment (Russell 2019). Container traffic between Europe and each of the Middle Corridor countries by rail, though, is currently negligible (see Figure 4). In 2019, there were only 216 registered TEU transports to Kazakhstan and 32 TEUs to Uzbekistan. These country-specific statistics are available from the International Union for Road-Rail Combined Transport (UIRR)—the major intermodal transport association in Europe—with members that include one-third of total EU containerized transport (UIRR 2019). In 2018, the EU–Middle Corridor value of goods transported by rail had only a 2.3% modal share by value and 1.4% by volume (Figure 4). The largest Middle Corridor state share was that of double-landlocked Uzbekistan.

Table 5: 2019 TITR Freight Rates from Kazakhstan to Turkey and Georgia via Aktau Sea Port SOC (Shipper's Own Container)

FOR Akhalkalaki (Georgia), FOR Kazakhstan				
	20'	20'	40' DV/HC	
	(<24 t)	(>24 t, ≤28 t)	(≤28 t)	Days*
Kazakhstan	$1,511	$1,578	$2,461	13
Mangystau	$1,160	$1,180	$1,815	18
Almaty-1	$1,612	$1,716	$2,619	17
Aktobe-2	$1,427	$1,483	$2,307	12
Nur-Sultan	$1,647	$1,739	$2,702	16
Atyrau	$1,347	$1,392	$2,157	11
Balkash-1	$1,612	$1,704	$2,632	15
Taraz	$1,571	$1,659	$2,555	15
Karaganda	$1,597	$1,682	$2,610	15
Kokshetau-1	$1,650	$1,738	$2,713	15
Kostanay	$1,580	$1,657	$2,587	14
Kulsari	$1,300	$1,338	$2,072	10
Kyzlorda	$1,513	$1,580	$2,464	13
Pavlodar-Yzhnyi	$1,720	$1,827	$2,832	17
Semey-Gruzovoy	$1,742	$1,858	$2,864	18
Shymkent	$1,555	$1,638	$2,531	15
Taldykorgan	$1,691	$1,808	$2,762	18
Zhylaevo	$1,535	$1,606	$2,503	13
Oskemen-1	$1,897	$2,048	$3,072	18
Sairam	$1,556	$1,638	$2,532	14
Shetpe	$1,180	$1,203	$1,853	8
Kapshagay	$1,626	$1,733	$2,643	17
Temirtau	$1,614	$1,702	$2,640	15
Turkesten	$1,539	$1,616	$2,505	14
Medeu	$1,612	$1,716	$2,620	17
Zhezkazgan	$1,541	$1,612	$2,516	13

continued on next page

Table 5 *continued*

SU Port Poti (Georgia), FOR Kazakhstan				
	20'	20'	40' DV/HC	
	(<24 t)	(>24 t, ≤28 t)	(≤28 t)	Days*
Kazakhstan	$1,450	$1,517	$2,495	11
Mangystau	$1,099	$1,119	$1,849	7
Almaty-1	$1,551	$1,655	$2,653	15
Aktobe-2	$1,366	$1,422	$2,341	10
Nur-Sultan	$1,586	$1,678	$2,736	14
Atyrau	$1,286	$1,331	$2,191	9
Balkash-1	$1,551	$1,643	$2,666	14
Taraz	$1,510	$1,598	$2,589	14
Karaganda	$1,536	$1,621	$2,644	13
Kokshetau-1	$1,589	$1,677	$2,747	14
Kostanay	$1,519	$1,596	$2,621	12
Kulsari	$1,239	$1,277	$2,106	9
Kyzlorda	$1,452	$1,519	$2,498	11
Pavlodar-Yzhnyi	$1,659	$1,766	$2,866	15
Semey-Gruzovoy	$1,681	$1,797	$2,898	16
Shymkent	$1,494	$1,577	$2,565	13
Taldykorgan	$1,630	$1,747	$2,796	16
Zhylaevo	$1,474	$1,545	$2,537	12
Oskemen-1	$1,836	$1,987	$3,106	17
Sairam	$1,495	$1,577	$2,566	13
Shetpe	$1,119	$ 1,142	$1,887	7
Kapshagay	$1,565	$1,672	$2,677	15
Temirtau	$1,553	$1,641	$2,674	13
Turkesten	$1,478	$1,555	$2,539	12
Medeu	$1,551	$1,655	$2,654	15
Zhezkazgan	$1,480	$1,551	$2,550	12
SU Port Batumi (Georgia), FOR Kazakhstan				
	20'	20'	40' DV/HC	
	(<24 t)	(>24 t, ≤28 t)	(≤28 t)	Days*
Kazakhstan	$1,450	$1,517	$2,495	11
Mangystau	$1,099	$1,119	$1,849	7
Almaty-1	$1,551	$1,655	$2,653	15
Aktobe-2	$1,366	$1,422	$2,341	10
Nur-Sultan	$1,586	$1,678	$2,736	14
Atyrau	$1,286	$1,331	$2,191	9
Balkash-1	$1,551	$1,643	$2,666	14
Taraz	$1,510	$1,598	$2,589	14
Karaganda	$1,536	$1,621	$2,644	13
Kokshetau-1	$1,589	$1,677	$2,747	14
Kostanay	$1,519	$1,596	$2,621	12
Kulsari	$1,239	$1,277	$2,106	9
Kyzlorda	$1,452	$1,519	$2,498	11
Pavlodar-Yzhnyi	$1,659	$1,766	$2,866	15
Semey-Gruzovoy	$1,681	$1,797	$2,898	16
Shymkent	$1,494	$1,577	$2,565	13
Taldykorgan	$1,630	$1,747	$2,796	16
Zhylaevo	$1,474	$1,545	$2,537	12
Oskemen-1	$1,836	$1,987	$3,106	17
Sairam	$1,495	$1,577	$2,566	13
Shetpe	$1,119	$1,142	$1,887	7
Kapshagay	$1,565	$1,672	$2,677	15
Temirtau	$1,553	$1,641	$2,674	13
Turkesten	$1,478	$1,555	$2,539	12
Medeu	$1,551	$1,655	$2,654	15
Zhezkazgan	$1,480	$1,551	$2,550	12

* There are no block trains on these services; all the quoted delivery days are for single-unit transport.

Source: Middle Corridor—direct translation.

Table 6: Major Trade Partners of the Countries in the Area of the Middle Corridor (2018)

Country/Partner	PRC	EU	Russian Federation	Turkey	US	Major Partner's Share	Trade Total (Million USD)
Armenia	9%	23%	31%	2%	0%	65%	6,195
Azerbaijan	3%	53%	8%	3%	6%	73%	31,390
Georgia	10%	27%	13%	6%	13%	69%	12,039
Kazakhstan	22%	35%	20%	2%	2%	82%	88,900
Kyrgyz Republic	52%	10%	17%	0%	4%	83%	10,882
Tajikistan	29%	5%	17%	0%	7%	58%	5,293
Turkey	6%	47%	7%	5%	0%	65%	383,980
Turkmenistan	68%	7%	4%	0%	6%	85%	12,365
Uzbekistan	23%	11%	16%	1%	7%	58%	26,776
Total	11%	41%	10%	4%	2%	68%	577,821
Total (without Turkey)	23%	30%	16%	2%	5%	76%	193,841
Total (without Turkey)	23%	30%	16%	2%	5%	76%	193,841

Source: IMF Direction of Trade Statistics.

Table 7: PRC–Middle Corridor Port Capacity Comparison (Unit: '000 TEU)

PRC Port Throughput				Central Asia and Caucasus Port Throughput		
Shanghai	40,233	Dongguan	3,910	Turkey	Ambarli (Istanbul)	3,132
Shenzhen	25,209	Rizhao	3,238		Mersin	1,592
Ningbo-Zhoushan	24,607	Nanjing	3,170	Georgia	Poti	173
Hong Kong, China	20,770	Fuzhou	3,007		Batumi	90
Guangzhou	20,370	Yantai	2,702	Azerbaijan	Baku	35
Qingdao	18,262	Tangshan	2,530	Turkmenistan	Turkmenbashi	19
Tianjin	15,040	Quanzhou	2,303	Kazakhstan	Aktau	16
Xiamen	10,380	Zhuhai	2,270			
Dalian	9,707	Dandong	1,866			
Yingkou	6,278	Haikou	1,640			
Taicang	4,514					

Note: Port container traffic measures the flow of containers from land to sea transport modes, and vice versa, in twenty-foot equivalent units (TEUs), standard-size containers. The data refer to coastal shipping as well as international journeys. We count transshipment traffic as two lifts at the intermediate port (once to off-load and again as an outbound lift), and it includes empty units.

Source: Lloyds List (2018); Port Aktau (2018a, 2018b); PortsEurope (2018); Port News (2020).

Due to the lack of any other data, only EU data has sufficient detail to be able to calculate a theoretical shift in traffic mode to rail. As Table 8 shows, we calculate a potential shift to rail traffic for EU–Middle Corridor transport. It is not easy to estimate the potential of current trade flows that could shift to rail, but the most important factors for transport mode choices are cost, travel time, and value of goods. If the rail connectivity improvements were to result in sufficient capacity and similar transport times to those in the EU and the Russian Federation, then rail transport would be competitive. That is, for rail to increase its intermodal share, the value by volume of goods must be lower than some other forms of transport that it could replace. To this end, we create an estimate based on the major product categories and the mode of transport: in all cases in which the value per volume (€/tons) is currently higher by sea than by rail, we assume that conversion to rail is possible (these figures do not include the PRC) (Table 8). In those cases in which products traveling by sea have a lower

value per volume than rail, we assume that the amount of difference is the same amount that could shift to rail.

In 2018, 124.4 million tons traveled between the EU and the countries along the Middle Corridor, but only 2.2 million tons traveled by rail. However, the maximum potential for conversion to rail is 84.4 million tons. This is a rather theoretical calculation, though, as a wide range of other factors influence transport mode selection; for example, from port region to port region, maritime transport will still be more efficient than rail by default. However, this analysis shows that a substantial portion of the current trade flows could in theory shift to rail. A principal goal of the development of the Middle Corridor is to encourage transit route traffic from the Russian Federation to transfer to this new corridor. It is therefore interesting to investigate the traffic volume development between the Middle Corridor economies in recent years. Table 10 shows that the traffic is almost non-existent: there is negligible potential to attract these volumes (we exclude Kazakhstan as transport to and from the PRC is already direct). The case of Turkey is interesting as it is the closest country to the EU, yet rail has a very small modal share due to the particularly underdeveloped rail freight infrastructure and services in the country. Turkey's political connections to the EU have also worsened over the past decade, but the two remain strongly economically interlinked: the EU is responsible for 47% of Turkey's trade, while, in the opposite direction, Turkey is responsible for 3.9% of the EU's trade.

Table 8: EU Trade with Middle Corridor Region Countries and the Potential of Trade to Shift to Rail

	Rail		Sea		Rail	
	EUR/Tons		EUR/Tons		Tons (1,000)	
	Imports	Exports	Imports	Exports	Imports	Exports
Agricultural products and live animals	596	292	961	554	5.4	41
Foodstuffs and animal fodder	874	472	1,177	828	64.6	184
Solid mineral fuels	80	259	86	226	105.8	18
Petroleum products	429	1,431	462	525	256.7	26
Ores and metal waste	75	256	674	243	18.7	31
Metal products	2,081	850	738	881	40.3	145
Crude and manufactured minerals, building materials	144	171	90	253	217	209
Fertilizers	232	741	208	296	0.3	3
Chemicals	1,488	1,390	532	1,011	128.9	228
Machinery, transport equipment, manufactured articles, and miscellaneous articles	2,919	5,296	4,641	4,044	156.9	286
Total	953	1,817	738	852	997.3	1,181

	Sea		Potential To Shift to Rail in %		Potential To Shift to Rail in Tons	
	Tons (1,000)					
	Imports	Exports	Imports	Exports	Imports	Exports
Agricultural products and live animals	784	1,297	100%	100%	784	1,297
Foodstuffs and animal fodder	1,479	1,558	100%	100%	1,479	1,558
Solid mineral fuels	1,159	125	100%	87%	1,159	109
Petroleum products	52,653	6,807	100%	37%	52,653	2,499
Ores and metal waste	1,253	14,372	100%	95%	1,253	13,642
Metal products	7,631	3,751	35%	100%	2,704	3,751
Crude and manufactured minerals, building materials	9,495	1,049	62%	100%	5,930	1,049
Fertilizers	546	348	89%	40%	488	139
Chemicals	3,871	5,866	36%	73%	1,385	4,267
Machinery, transport equipment, manufactured articles, and miscellaneous articles	5,618	3,511	100%	76%	5,618	2,681
Total	85,590	38,810	77%	47%	*66,240*	*18,191*

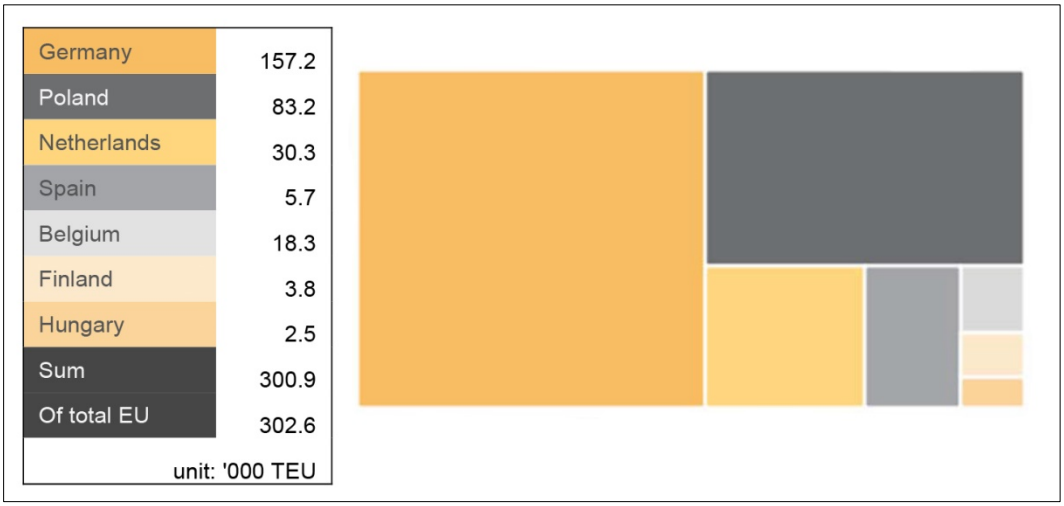
Source: Own calculations based on the Eurostat database.

Table 9: 2020 Comprehensive Tariff Rates for Universal Container Transport with Ferry Use on the TITR, USD per container

Route	Distance (km)	TEU SOC/ COC	FEU SOC/ COC	TEU SOC/ SOC	FEU SOC/ SOC
Altynkol–Aktau/Kuryk–Batumi/Poti–Istanbul and reverse direction (via Caspian Sea ferry; from Batumi to Istanbul by truck)	5,714	2,962	4,007	2,823	3,724
Altynkol–Aktau/Kuryk–Baku (Alat)–Kars–Istanbul and reverse direction	6,382	2,144	3,337	1,981	3,011
Altynkol–Izov–Sławków (Poland via Ukraine) and reverse direction	6,893	3,082	4,857	2,897	4,488
Altynkol–Vadul-Siret/Mostyska (Romania/Poland via Ukraine) and reverse direction	6,333	2,897	4,621	2,714	4,255
Altynkol–Chop (Hungary via Ukraine) and reverse direction	6,569	2,922	4,657	2,736	4,284
Altynkol–Uzhhorod (Slovakia via Ukraine) and reverse direction	6,597	2,840	4,578	2,653	4,204
Batumi–Saryagash (expedited) (Uzbekistan) and reverse direction	3,509	1,539	2,487	1,592	2,581
Kokshetau–Kars (Turkey) and reverse direction	4,851	1,719	2,514	1,621	2,515
Altynkol–Kars–Mersin (Turkey) and reverse direction	5,644	1,909	3,033	1,746	2,707
Karaganda (marshaling)–Batumi/Poti (ferrosilicon)	3,518	1,163	1,959	1,083	1,826

Source: Middle Corridor.

Figure 2: PRC–Europe Rail Freight Distribution in Europe
('000 TEUs, Both Directions)



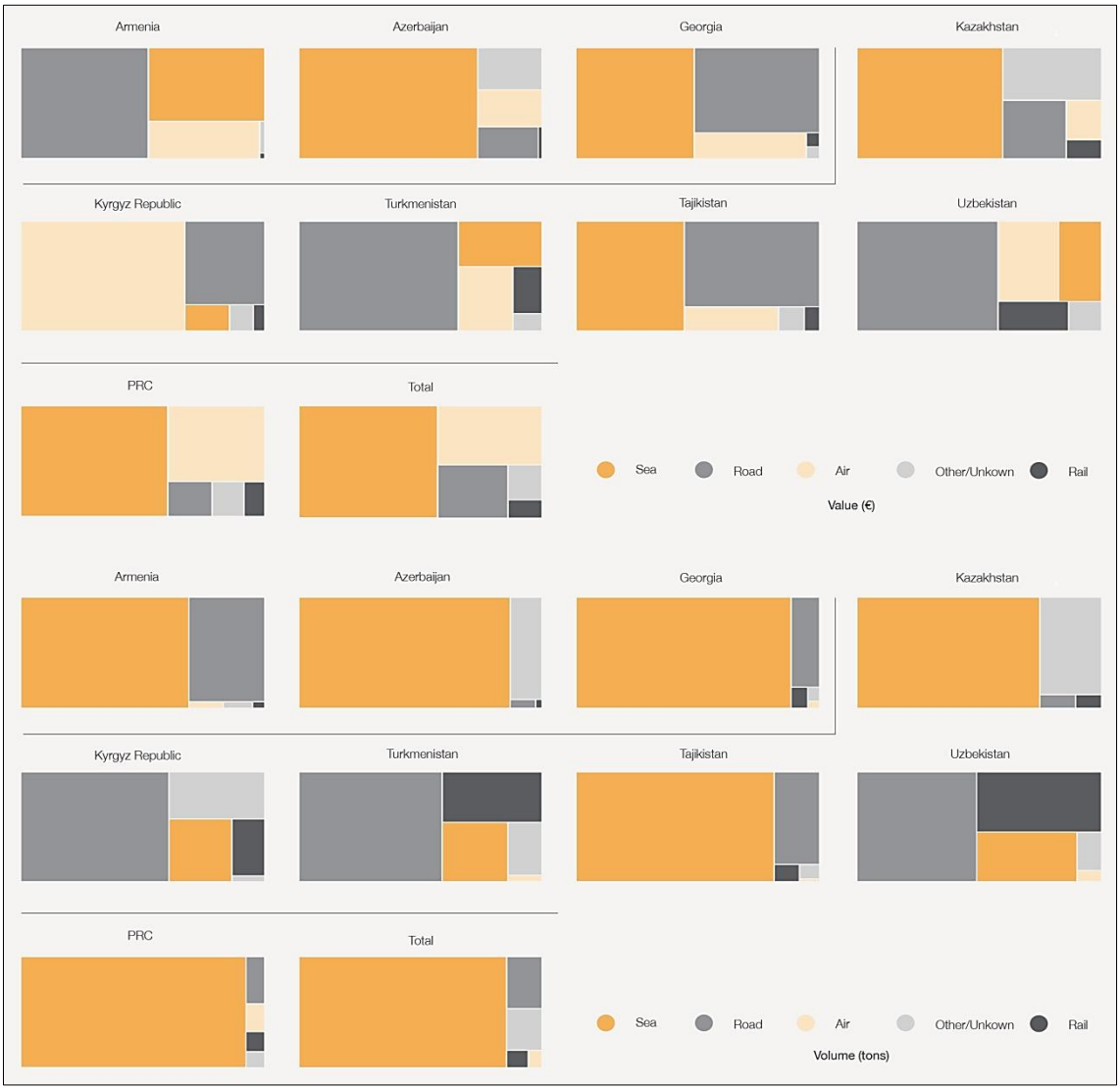
Source: Eurostat (2020).

Figure 3: Modal Share of EU Trade with Trans-Caspian Countries (2018 in Value (€) and in Volume (Tons))

Modal Split (2018)					
	Sea	Road	Air	Other/Unknown	Rail
Value (€)	48%	37%	9%	5%	1.5%
Tons	80%	10%	0%	9%	1.4%

Source: Eurostat (2020).

Figure 4: Aggregate Modal Share of EU Trade with Trans-Caspian Countries



Source: Eurostat (2020).

Table 10: Rail Transport between the PRC and Middle Corridor Countries via the Russian Federation (Thousand Tons)

Flow	**Imports**				**Exports**			
Year	**2016**	**2017**	**2018**	**2019***	**2016**	**2017**	**2018**	**2019***
EU	576.7	1,109.60	1,315.10	1,599.70	278.3	604.4	654.7	733.3
Azerbaijan	0.9	0.7	0.9	1.1	0.1	0.1	0.1	1.1
Georgia	0.6	0.1	0.1	0	0	0	0	0
Iran	0	0.2	0	0	0	0	0	0
Turkey	0	0	0	0	0	0	0	0

Source: Own calculations based on Cargo Report 2020. Remark: * indicates the December estimate.

The European Union has been developing transport corridors with Turkey, Central Asia, and the Caucasus for decades. Despite clear policy goals and concerted regional engagement, trade volumes between the European Union and the Middle Corridor economies remain low. The opportunity to increase rail share in the intermodal mix in these corridors is also limited due to structural economic geography limitations. Excepting landlocked economies that have no alternatives, we find only limited potential for increasing rail share in the regional intermodal mix. Trade overwhelmingly leaves the European economic zone by sea, later transferring to other forms of transport where necessary. Direct rail links for transcontinental containerized transport thus make little economic sense when regional trade between the European Union and the Middle Corridor economies by rail is negligible.

6. POLICY RECOMMENDATIONS FOR INSTITUTIONAL DEVELOPMENT

The PRC's regional economic development subsidization, initially for transport integration and ultimately for trade, industry, and investment integration in Middle Corridor economies through policy interventions and fiscal transfers, is plausible in economic theory. A major policy goal of the PRC's Belt and Road is the immeasurable market creation effects of broadening trade, investment, production, and investment networks which come with regional economic integration. The individual countries of the Middle Corridor project have already organized themselves, through effective policy measures, to act as a single economic unit for containerized rail freight transport, which has potential to facilitate this ambitious regional economic development project. Greater regional integration would benefit the individual states in the economic zone between the PRC and Europe and would also help to align the economically underdeveloped economies of the former Soviet Union with both the PRC's and the European Union's macroregional policies.

Institutional development of the Middle Corridor rail freight cooperation mechanism would seem to be an excellent mechanism for enhancing the effectiveness of both investment from the PRC and trade facilitation as a throughput between the PRC and the European Union. However, there remains a mismatch between expectation and reality. Regional cooperation for better transport corridors and economic corridor development is an economic, social, and political good. However, the PRC's subsidization of the Middle Corridor containerized rail freight channel alone will not facilitate intraregional trade between the Middle Corridor countries or extraregional trade from the region to the PRC or Europe. We propose some policy and institutional development recommendations for the three polities involved: the Middle Corridor states, the People's Republic of China, and third-party stakeholders, including the European Union and multilateral development banks and agencies.

6.1 Policy Recommendations for Middle Corridor States

- Liberalize trade to attract greater trade and transport volumes, and expand the Middle Corridor logistics grouping into a formal trade bloc.
- Develop a regional trade zone. A trans-Central Asia (excluding Turkmenistan)–Caucasus–Turkey trade area could engage more effectively with the PRC and European Union trade policy, practices, standards, and technical and legal developments.

- Develop stronger inter-governmental dialogue mechanisms. Practice inter-ministerial and cross-government engagement within domestic economies to develop integrated institutions for transport, trade, industry, and other economic forms of integration.
- Develop intraregional economic integration policies to harmonize industrial development in the Central Asia and Caucasus region.
- Develop extraregional economic integration policies to engage with both the European Union and the People's Republic of China in developing the Middle Corridor area economies into an attractive trade and investment environment.
- Focus policy on attracting freight volumes from the existing northern corridors connecting Europe and the PRC

6.2 Policy Recommendations for the PRC

- Communicate policy intentions more clearly and transparently.
- Engage local stakeholders more effectively.
- Become a more engaged stakeholder with the European Union and multilateral development banks in Central Asia and the Caucasus.
- Work more with existing multilateral stakeholders rather than practicing unilateral engagement policies.
- Transparently coordinate between central and local government and make clear to partner economy policy-makers which level of PRC government the partner economies should engage.
- Work within existing international systems, institutions, and paradigms to achieve world's best practice in institutional development across all Eurasian economic integration policies.

6.3 Policy Recommendations for the European Union, Multilateral Development Banks, and Other Engaged Stakeholders

- Pursue and foster greater operational transparency and policy communication with PRC central and local governments and the Middle Corridor states.
- Establish third-party institutions to better monitor development and coordinate policy responses to CR Express, Middle Corridor and wider transcontinental rail development
- Develop third-party institutions for setting and implementing trade and legal standards.
- Ensure that the European legal environment prevails in any trade and logistics disputes.
- Implement multilateral organization best practices for further Middle Corridor development.
- Engage more with provincial and prefectural-level governance stakeholders in the PRC.

- Clearly separate Belt and Road, Eurasian Economic Union, and Greater Eurasian Partnership policy from practical trade, transport, and logistics policy.
- Involve the European Union more as an engaged regional stakeholder and infrastructure investment leader.
- Engage multilateral development banks and local programs like CAREC and TRACECA to help implement best practice for the countries, economies, people, and institutions in the Middle Corridor states.

Middle Corridor is a voluntary initiative. The Middle Corridor states, excluding the PRC, are transparent, inclusive, expansionary, and progressive, and the Middle Corridor economically connects states that are not naturally economically integrated. Middle Corridor could have been the vanguard of a range of regional multilateral institutions representing a series of poles to uphold the Silk Road Economic Belt, the Iron Silk Road, the Greater Eurasian Partnership, and the CR Express Europe, and CR Express Central Asia class rail systems. For Belt and Road to have succeeded, it would have needed third-party independently evolved institutions to dock with these Middle Corridor host economies. If the PRC were policy-determined to support the land component of the Belt and Road program, then the intermodal Trans-Caspian International Transport Route could have been a lynchpin for possible future success.

However, against the PRC's supply-side development policy, we find serious limitations in both the economic geography structural capacity in Middle Corridor states and the Europe demand-side positions. The Central Asia and Caucasus Middle Corridor states' containerized rail freight infrastructure development exists in a vacuum in which the institutional agency is largely limited to reactionary policy emanating from the markets on either side of the region, in the PRC and the European Union. If the Eurasian states can only react to policy to create the most amenable conditions possible to facilitate investment and trade, though, the evidence to date indicates that these Middle Corridor states are coordinating institutions, governments, transport infrastructure, private enterprise, and both intraregional and extraregional cooperation well. However, against this positive institutional development, regarding economic utilization, we find that Middle Corridor states' economic policies will eventually face the development ceiling of demand-side factors from the European Union. For Middle Corridor economies, transparent pricing, openness to foreign investment, and transparent international agreements all point to a greater level of economic integration across the Middle Corridor economic area, with possibilities for future multilateral trade bloc integration. Creating a uniform transport bloc that could better facilitate trade with both Europe and the PRC is the best possible policy solution for these regional economies. However we ultimately find the prospects for continued economic development, transport expansion and institutionalized trade growth for the Central Asia, Caucasus and Turkey economies limited by lack of demand from the European side.

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Research Note: Central Asia Rail Development – Why China's Belt and Road Initiative Lacks Regional Importance

PÉTER BUCSKY AND TRISTAN KENDERDINE

Abstract

Rail transport between China and Europe via Central Asia has become a popular example of practical economic development possible under China's Belt and Road Initiative. However, the actual significance of rail transport between China and Europe or China and the Central Asian countries remains limited. China's contribution to the development of rail infrastructure in Central Asia has been overrated. Intra-regional concerns were dominant drivers for Central Asian rail development immediately after independence, and the post-Soviet development history of the Central Asian rail network demonstrates that both the European Union and Russia have had more influence on financing and developing regional transport corridors than China. Ultimately, we find that China's BRI investment model has had a negligible impact on Central Asian transport infrastructure development or rail freight volumes.

Keywords: *Central Asia; China; Development Banks; European Union; rail infrastructure; transport policy*

Introduction

China's Belt and Road Initiative (BRI) promised to stimulate economic growth with the creation of a new trade bloc spanning most of Eurasia and Africa (Solmecke 2016). Introduced in 2013, BRI also promised infrastructure development to facilitate trade between Europe and China and the Eurasian regional geographies in between them (Ramasamy and Yeung 2019). Rail freight transport development has become one of the central elements of BRI (Pepermans 2020). Substantial investment from China in transport infrastructure was anticipated as a result (Cai 2018). Research papers estimated trade facilitation

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effects between China and Europe (e.g. Li, Bolton and Westphal 2018), or evaluated theoretical capacity of railway lines connecting both regions (Vinokurov and Tsukarev 2017). The general analysis was that due to the development of roads and rail transit corridors, costs and times would reduce, hence front-loading economic growth. However, these transport infrastructure developments have, in fact, not clearly encouraged economic growth. As an analysis of the 65 BRI economies found, in countries of Central Asia and the Commonwealth of Independent States, the spatial spill-over effects of transport infrastructure development have actually been negative (Wang et al. 2020).

Despite the rapid development of China-Europe rail freight transport under the CR Express (China Railway Express, container railway services of China Railways Corporation) system, carriage volumes are still very low. In 2018, rail had only a 2 per cent share of all transport between the two regions, measured by volume (Bucsky 2020). Further growth potential is also limited due to infrastructure capacity. While trade has rapidly expanded to the current volume of approximately 500,000 20-foot equivalent unit containers (TEU) per year, without major infrastructure investments this can only improve to around one million TEU per year due to capacity bottlenecks (Vinokurov et al. 2018). The forthcoming phasing out of substantial China state subsidies also limits the sustainability of even the current freight volumes (Feng et al. 2020). There have been a wide range of analyses and publications on the China-Europe rail transport system from different perspectives. However, research on Central Asia's involvement is still scarce. The region of the five independent Central Asian states with a combined population of around 75 million people has been mostly neglected. This research note asks whether China's BRI has actually promoted rail transport and attracted investment in rail infrastructure to Central Asia. Our analysis focuses on the five former Soviet republics of Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan and Turkmenistan, and adopts a pan-Central Asian perspective that argues that BRI is less important for the region than policy or the media portray it. We also argue that the European Union (EU) and Russia remain more important actors than China for the region's economic development in general and for transport development in particular.

This research note is structured into four subsections. First, we present the regional trade and investment trends of the past two de-

cades. We then analyse rail transport volumes and the composition of intra-regional and extra-regional rail transport volumes. We assess regional infrastructure developments and their actual impact on international trade. Finally, we examine the role of international actors and regional cooperation in Central Asian rail development, particularly considering whether China's BRI could facilitate rail transport development in the region or not. We conclude with a discussion on which countries and international organisations play important roles in the development of transport-related infrastructure and cooperation in Central Asia.

Methodology and Data

Our research question is whether China's BRI has had any significant, measurable impact on rail freight transport volumes in Central Asia, either increasing intra-regional, extra-regional or trans-regional rail freight carriage. Our hypothesis was that China has only had a negligible effect on Central Asian infrastructure despite the media, policy and research hype on BRI, and that the demand-side determinants of GDP, foreign direct investment (FDI) and trade growth would not support growth in rail freight transport within the region. Indeed, we found that rail freight volumes have actually fallen since the introduction of the BRI, and that while China's share of trade and investment in the region has increased, it was coming from such a low base that it has only had a minimal effect on regional economic development and a negligible effect on rail freight transport volumes. To investigate our research question, we compiled statistical datasets on rail freight volumes, trade and investment within the five Central Asian republics, mostly treating the region as a contiguous economic area and often using aggregate datasets. We then compared our statistical analysis with institutional political economy analysis of international organisation involvement in rail freight development in the region.

A major challenge for BRI-related research is the accessibility of data. We wanted to analyse data on rail freight volumes, FDI and trade. Despite forces of globalisation, China, Russia and Central Asia have some of the most closed economies in the world, and statistical sources remain scarce and/or untrustworthy. International trade data was, however, available from the UN Comtrade database and was a reliable data source across all five Central Asian republics. FDI data was avail-

able in some countries from the national banks, but for a standardised whole-of-region dataset, United Nations Conference on Trade and Development (UNCTAD) was the only reliable source. These transnational investment statistics only counted transactions between corporations, not government-to-government transfers. However, to the best of our knowledge, there were no major intergovernmental projects in the region that could have influenced these statistics. While China's influence in the region is often analysed as a state actor, the institutions through which international trade and investment operates are limited liability companies, which show up in national current accounts.

For rail freight transport volume statistics, we used information provided by national statistics offices of the Central Asian countries with the exception of Turkmenistan, which barely provides any statistics publicly. We cross-checked the rail transport volume data with reports from international organisations, such as the Organisation for Cooperation between Railways (OSJD), United Nations Economic Commission for Europe (UNECE), and the Central Asia Regional Economic Cooperation Program (CAREC). The OSJD database was particularly useful for understanding international transport flows, as it provided detailed information on the transport volumes at every cross-border station of the member counties. Between the data from the national statistics offices and the international organisations (OSJD, UNECE), we could also see the major characteristics of railway infrastructure development (e.g. total network length, length of electrified sections). These were cross-checked against railway maps representing the changes of the network. This novel dataset helped us to highlight the rapid extension of rail infrastructure in the region.

Rail freight volumes of China-Europe transit through Kazakhstan were calculated in our previous studies and compiled from various data sources (see Bucsky 2020; Bucsky and Kenderdine 2020a). These sources yielded a good understanding of intercontinental rail freight traffic flows and served as the basis of our argument here: containerised rail freight traffic to and from China is realistically minimal when contrasted with other comparable traffic flows.

Central Asia's Economic and Trade Orientation

Central Asia has great potential for extra-regional cooperation in terms of trade, investment and transport. And yet, in general economic terms, Central Asia is one of the least connected economic macro-regions in

Eurasia (Gould, Kenett and Panterov 2018). It is geographically also one of the most isolated regions with the greatest distances to the global ocean and includes the doubly landlocked Uzbekistan. Central Asia is moreover economically the least 'open' region in Eurasia as measured by the World Bank trade to GDP ratio.

Despite these limitations, for the two decades from the independence until the 2008 financial crisis, the region enjoyed rapid economic development and since 2008, even moderate growth. As a contiguous economic region, between 1998 and 2008 Central Asia's GDP increased 356 per cent (World Bank measurement in current USD), while trade grew 698 per cent (IMF data measured in current USD). Between 2008 and 2018, however, GDP growth was only 31 per cent, while trade growth stalled at 1 per cent. Taking the period from the introduction of BRI (2013) to the latest available data (2018), the two figures are even grimmer: GDP declined by 30 per cent and trade declined by 19 per cent.

However, while there has been stagnant or negative economic growth over the past decade, there has been a definitive shift in the trade structure of the region. In 1998, the region's major trade partner was the EU (29 per cent) closely followed by Russia (28 per cent) with China only representing 5 per cent of extra-regional trade. By 2018, China had become the region's most important trade partner (29 per cent), displacing a slightly declined EU trade share (25 per cent) with Russia heavily declining to only 18 per cent of the region's external trade. Analysed in real terms though, China was not developing additional trade, but mostly substituting for Russian trade. Gravity modelling has predicted that China should have an even larger share of regional trade (Gharleghi and Popov 2018).

Nonetheless, as a source of FDI, China has not delivered any real development in the region. Kazakhstan is the region's greatest attractor of FDI and the flagship partner economy of China's BRI. In the third quarter of 2019, however, the EU accounted for 57 per cent of Kazakhstan's FDI stock, with 20 per cent from the United States and only 6 per cent from China, according to statistics from the National Bank of Kazakhstan. According to UNCTAD data for all five Central Asian republics, 51.5 per cent of total FDI stock was from the EU in 2009, growing to 54.5 per cent in 2018. China's investment role has increased in the region as a whole but remains limited. Starting at 3 per cent of GDP in 2009, China's FDI stock peaked in 2015 with 9 per cent but has since fallen back to 7 per cent in 2018. Chi-

na did oversee a 397 per cent increase in FDI stock in the five republics between 2009 and 2018. However, while this growth is rapid, it comes from a very low baseline, and is actually lower than Russia's regional FDI growth of 425 per cent in the same period. Therefore, the promise of a surge of new investment under the BRI framework has still not manifested in Central Asia in 2020, seven years after the advancement of the BRI policy.

Central Asia's Rail Transport Infrastructure Still Faces Russia

One of the promises of China's BRI investment was to build infrastructure that would facilitate trade between the region and China, replacing Soviet-era industrial infrastructure that favoured Russo-centric trade institutions and practices (Kitade 2019). However, the development of GDP and trade volumes discussed above are the main economic drivers for transport volume, not vice versa.

Rail freight naturally plays a more important role in Central Asia's intraregional transport and trade than it does in maritime economies. The region's modal share of rail transport was 45 per cent in 2019.[1] This is high compared to 11 per cent for the EU, and 33 per cent for the United States, but is still lower than the 59 per cent modal share of rail in Russia, an economy with maritime access. Central Asia shares many economic geography similarities with Russia, such as large distances to external markets and high volumes of natural resource exports. This means that Central Asia's globally high but regionally low intermodal ratio for rail transport shows not only that rail is the most important freight carriage mode, but also demonstrates capacity for expansion.

To be able to analyse the dynamics of rail transport within Central Asia and with major external economic partners, we created a database. Annual transport volumes in tonne-km and tonnes are available from the national statistics offices with the exception of Turkmenistan for which OSJD data was used, however the latest information is from 2015.[2] Regional rail transport is highly concentrated: measured by tonne-km, Kazakhstan alone accounted for 88.4 per cent of the region's total, Uzbekistan 7.2 per cent, and we can estimate that Turkmenistan only accounts for 4.2 per cent, while Kyrgyzstan (0.3 per cent) and Tajikistan (0.1 per cent) play only marginal roles in regional rail freight carriage according to data available for 2018.

Despite clear structural determinants that favour growth in rail freight, traffic volumes only grew moderately between 2014 and 2018, with only 1.3 per cent growth measured by tonnes and 1.2 per cent growth measured by tonne-km. Transport volume growth was actually higher between 2008 and 2014: 26 per cent in tonne-km and 31 per cent in tonnes. This demonstrates that rail freight growth actually *fell* after the introduction of the BRI.

To be able to calculate extra-regional traffic, we used the OSJD database of rail border crossings (OSJD 2019). The information presented by the OSJD was in volume of goods (tonnes); therefore, it was compared to national statistics. Comparing total Central Asian intra-regional traffic volumes in tonnes with cross-border rail freight traffic, Russian imports and exports accounted for 20.6 per cent of extra-regional traffic in 2018, whereas China's share was only 2.6 per cent. Rail freight transported across the Caspian Sea to Baku was 0.8 per cent of the intraregional total, and rail transport to Afghanistan had a 1 per cent share. Freight traffic statistics were not available for Iran, as Turkmenistan stopped reporting border crossing traffic volumes to the OSJD from 2014, but in that year the Turkmenistan-Iran cross-border rail freight traffic was 0.6 per cent of the intra-regional total, and it is highly unlikely that it has grown much beyond this.

The aggregated volumes of extra-regional rail transport was 24 per cent of total intra-regional traffic in 2008 which declined to 21 per cent in 2014 and grew to 26 per cent in 2018 (OSJD 2012, 2015, 2019). Total rail transport volumes grew by 4.2 per cent between 2008 and 2014, and by 1.8 per cent between 2014 and 2018, whereas extra-regional rail transport volumes declined in the first half of the last decade by 10.2 per cent and grew by 25.2 per cent in the second half. The highest growth was the transport to and from Russia with 30 per cent followed by 29 per cent growth for China for the 2014-2018 period. In this half-decade, Azerbaijan's total rail transport volumes declined by 44 per cent but increased 48 per cent with Afghanistan. Despite the fact that this was a period of China policy-leveraging BRI rail traffic into the region, Russia's extra-regional rail freight traffic increased 19.6 million tonnes, while China only added 2.3 million tonnes of goods transported by rail to and from the region.

The realities of regional rail freight transport are that Central Asia still overwhelmingly gravitates towards Russia, not to China. Compared to the size of the rail transport market, the 2.6 per cent share of total rail freight volume transported to and from China was only

slightly higher than Afghanistan's and Azerbaijan's combined two-way rail trade share of 1.8 per cent in 2018. China's CR Express train system to and from Europe also only plays a minimal role in the development of trans-regional rail freight transit transport: these trains account for only 14 per cent of border crossing traffic between China and Kazakhstan (Bucsky 2020).

In addition to the state of infrastructure, there are various institutional factors hindering the development of international rail transport in the region. Bureaucratic delays and customs clearance are very substantial bottlenecks. The average duration for crossing Central Asian rail borders grew from 22.1 hours in 2010 to 23.2 hours in 2018 (ADB 2019). The average cost of railway crossing clearance also increased in the same period from USD 160 to USD 196. The cost of transporting rail cargo grew significantly too: in 2010, transporting a 20-tonne cargo container on a 500 km section of a CAREC rail corridor was USD 464, while in 2018 the same trip cost on average USD 970. These factors all demonstrate that the BRI rail transport policy to connect Europe, Central Asia and China has played an insignificant role in the development of Central Asian regional rail freight transport.

Rail Infrastructure Development in Central Asia

Upon independence, the five Central Asian economies inherited Soviet-legacy infrastructure requiring huge investment to reconfigure to national industrial economy needs. Much was accomplished by the states themselves in this regard since independence, regardless of external assistance. Rail developments rarely attract the media and research spotlight, but the new border crossing of Khorgos at the Kazakh-Chinese border has gained a lot of attention (Kenderdine 2018b; J. Wang, Jiao and Ma 2018). However, there is very limited research on other rail infrastructure developments in Central Asia, which in fact has been substantial. The five Central Asian states have expanded the regional rail network substantially since 2010, with the network as a whole growing 14 per cent, and the length of electrified lines being extended by 27 per cent.

To understand the scale of new developments, we built a dataset based on railway maps of the former Soviet Union as a baseline and compared it with the current rail database of OpenSteetMaps and the maps of individual railway companies. This allowed us to identify rail

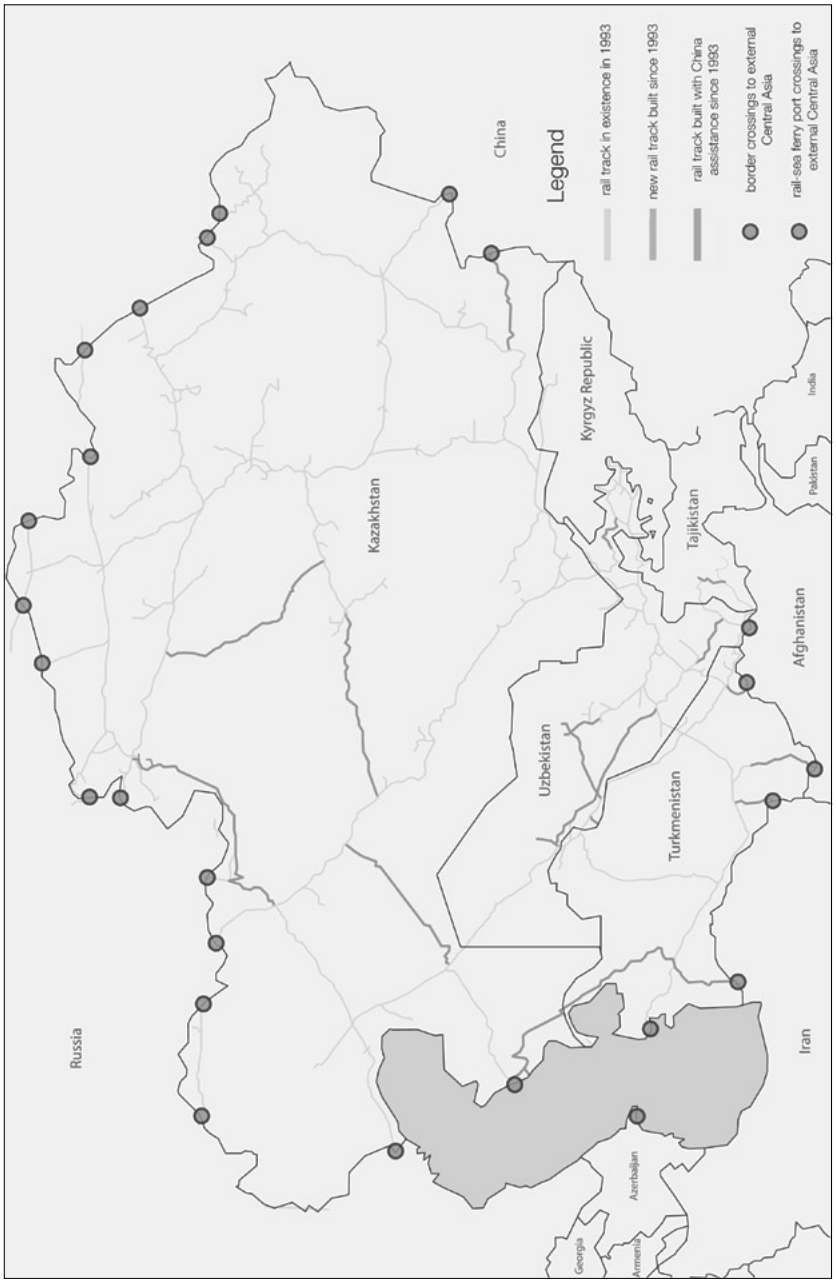

Figure 1. Railway network of Central Asia, new lines since independence and extra-regional border crossings.

lines that had been either newly built and/or electrified since the independence of the five regional republics. We compared this geographic data with policy documents on project funding across websites of transport ministries, railway companies, international policy banks, research papers and traditional news articles in order to identify sources of investment. The development of the regional rail network since 1993 is summarised in Figure 1.

China's CR Express containerised rail freight services to Europe and Central Asia are dependent on three Central Asian states: Kazakhstan, Uzbekistan and Turkmenistan. The most important rail line for any new trade development via Kazakhstan has been the East-West rail line between Aktau port on the Caspian Sea, connecting to the existing Central Kazakhstan rail network and allowing direct rail transport between Mangystau region and Karaganda region, creating a through-line to the Alashankou/Dostyk border crossing with China (Rodemann and Templar 2014). This was completed in 2013 after the almost 1,000 km long Zhezkazgan-Saksaulskaya and Shalkar-Beyneu sections were finalised (Yang and McCarthy 2013). These two sections create a contiguous rail corridor across the Mangystau-Aktobe-Kyzlorda-Karaganda regions, which eliminates the need to transit through South Kazakhstan, Zhambyl and Almaty. While this corridor has segued with China's geoeconomic policy goals, it has also brought a new axial orientation to Kazakhstan's domestic rail network, bypassing dependence on Russia on south-north carriage, and opening freight corridors to the Black Sea via the Baku-Tbilisi-Kars railway (Kenderdine 2018a). This East-West line project was initiated and financed entirely by Kazakhstan (Garibov 2016). Kazakhstan has also upgraded its Aktau Sea Port capacity with the development of a secondary port in neighbouring Kuryk (Chubarov 2018). But again, this was a national project undertaken by the Kazakh government without foreign investment. Kazakhstan has built an extensive new rail network that has facilitated China's Eurasian transport policy in the region but built and financed entirely within the region, independent of China's BRI framework. For example, the new 214 km south-north rail line between Shubarkol in Karaganda and Arkalyk in Kostanay was finished in 2014, and the 146 km north-south rail line from Uzen to Bolashak on the Turkmenistan border was finished in 2013. While COSCO and Lianyungang Port Group Co., Ltd. together hold a 49 per cent minority stake (24.5 per cent each) in Khorgos Gateway (Contessi 2018; Shepard 2017), Kazakhstan's state-owned

enterprise, Kazakhstan Temir Zholy's wholly-owned subsidiary KTZ Express (KTZE), holds the 51 per cent majority stake. The Kazakhstan government directly owns the Port of Aktau, with no Chinese ownership. China has allowed KTZE a 49 per cent minority ownership of Kazakhstan-China International Logistics Co. Ltd., which built a new logistics centre in the Port of Lianyungang to allow Kazakhstan freight access to the sea (Contessi 2018).

Uzbekistan has also advanced its national railway development project. Since independence, Uzbekistan has built over 1,100 km of new rail lines, with another 1,000 km of electrified track and nearly 4,000 km of upgraded track (Jafarova 2014). The 344 km Tashkent–Samarkand line was upgraded to 200-250 km/h capacity — the first and as yet only high-speed rail line in Central Asia. The 223 km Tashguzar-Boysun-Kumkurgan rail line was finished in 2007 to bypass Turkmenistan, opening direct access to Tajikistan and later onwards to Afghanistan. Due to the entanglement of Soviet industrial transport inheritance, Uzbekistan also built another Turkmenistan bypass, the 355 km Bukhara-Misken-Nukus line, which was inaugurated in 2017. In 2018, the 30 km Urgench-Khiva section was also finalised. Furthermore, the construction of the 119 km Angren-Pap section opened access to the Ferghana valley without the need to transfer through Tajikistan. This section was finalised in 2016, and it featured the 19.2 km long Qamchiq tunnel, which was one of the few rail developments with any Chinese input, being built by China Railway Tunnel Group (Reeves 2018). The total cost for the line was USD 1.9 billion, of which the tunnel itself was USD 500 million. However, China Railway Tunnel Group was simply a contractor on the Qamchiq tunnel project, meaning there were no state loans associated with the contract. Conversely, the ongoing electrification of the Ferghana rail link to Andijan is financed by Asian Development Bank (ADB). Similarly, a new line from Termiz to the Afghan city of Mazār-i-Sharīf was built in 2011. This was financed by a USD 165 million ADB loan. The line is operated entirely by Uzbekistan Railways.

Turkmenistan was the first Central Asian country to develop an extra-regional rail connection since the end of the Soviet Union, the Mashhad (Iran) to Tejen (Turkmenistan) 295 km line which opened in 1996 (Broujerdi 1996). This rail line was built with Chinese cooperation, but 17 years before the BRI. Iran signed a Memorandum of Understanding on the establishment of the Iranian section of the rail

link, and China sent railway experts and equipment to Iran for the project (Graver 2011). After this initial extra-regional link, however, Turkmenistan focused on solving internal Soviet-legacy rail transport problems. Turkmenistan did build a bridge over the Amu Darya river with the cooperation of the Ukraine company Dneprogiprotrans. Opened in 2009, it made the city of Kerkichi accessible by rail from Türkmenabat, bypassing Uzbekistan. Another Turkmenistan line to bypass Uzbekistan was the north-south corridor between Kazakhstan and Iran via Turkmenistan. This 594 km line was opened in 2014 (Zokhidov 2014). The new route made transport between China and Iran possible without the need to cross Uzbekistan. Turkmenistan thus also has received minimal direct input from China for rail infrastructure development.

Despite these developments, the five Central Asian republics as a contiguous economic region have very limited rail connections to their neighbours. There are operational rail border crossings to five external economies (Figure 1):

- Kazakhstan to Russia (nine operational crossings)
- Kazakhstan to China (two crossings)
- Turkmenistan to Iran (two crossings)
- Turkmenistan to Afghanistan (two crossings)
- Uzbekistan to Afghanistan
- Via rail ferry from both Kazakhstan and Turkmenistan to Baku in Azerbaijan.

China has also planned a third rail crossing into Central Asia, from China to Uzbekistan via Kyrgyzstan, but it is highly unlikely that it will be constructed (Bucsky and Kenderdine 2020b). Our research shows that BRI has not resulted in any substantial rail infrastructure developments in Central Asia. Another important conclusion of our research is that in the first phase of rail infrastructure development, the main motivation for the Central Asian states was the substitution of lines in order to bypass the newly created neighbouring states. Regional integration, international factors, trade facilitation and international connections have been historically less important in the national rail transport strategies of the Central Asian states.

International Cooperation

Since the independence of the five Central Asian republics, intra-regional cooperation between them has remained limited. In the field

of transport, the EU was the first, and for a long time only, active actor in regional integration. The EU was not only an important contributor to development, but also served as an institutional example for trade facilitation and the development of international transport corridors. For example, the Transport Corridor Europe-Caucasus-Asia (TRACECA) multilateral agreement focused on planning new transport corridors, with the EU co-financing 14 projects with funding of EUR 51 million. Since this initial institutionalisation, EU engagement with Central Asian transport has developed over three clear phases: integration planning, multilateral engagement and China containment. After the first phase of transport institutional engagement under TRACECA where the EU had official bilateral cooperation with the countries in Central Asia, in 2007 a new multilateral cooperation strategy was adopted (CoE 2007). Trade facilitation was prioritised through the active support of World Trade Organisation membership for countries of the region. This change to a multilateral macro-regional strategy was important at the time due to the Russia-Ukraine gas disputes and the security situation in Afghanistan. The third phase in the EU external strategy for the region was introduced through the 2018 *Connecting Europe and Asia* strategy, which was a policy response to China's BRI (EC 2018). The strategy focused on European investment by leveraging multilateral finance institutions. By 2020, the Investment Facility for Central Asia (IFCA) has invested EUR 1.1 billion in the region, while the European Bank for Reconstruction and Development has invested EUR 12.1 billion in Central Asia across 736 projects, with EUR 4.3 billion in ongoing projects (EC 2018).

A variety of external international actors have been involved in planning and financial initiatives to develop Central Asian rail freight including the United Nations, EU, ADB and the European Bank for Reconstruction and Development. Already in 1992, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) had formed the Asian Land Transport Infrastructure Development program, within which the Trans Asian Railways department deals with rail development (Chartier 2007).

The ADB also began transport project assistance to Central Asian economies in 1996, and the Central Asia Regional Economic Cooperation Program (CAREC) was formed within the ADB in 1997 (ADB 2000). CAREC is much more important for Central Asian economic development than China's recent BRI projects. By 2019, CAREC had

completed 341 projects and had 173 ongoing projects with a total value of USD 34.5 billion, of which USD 26.1 billion was transport-related.

Conclusion

China's introduction of the BRI has put a spotlight on Central Asian geoeconomic and geopolitical analysis. In this research note, we have shown that China has indeed become a more important trade and investment partner for the Central Asian region. However, despite less visible programs, media or research coverage, the EU remains the region's most important external partner notwithstanding the greater geographic distance. China's trade activities in the region could conceivably begin to displace Russia's regional trade share, but in terms of foreign direct investment, China still lags behind Russia, and both are far less important than the EU.

International trade patterns have had significant influence on regional rail freight development. The region's rail freight traffic has improved considerably over the past two decades. However, the major driver of this change was not traffic flows to and from China, but rather transport to and from Russia. New transport corridors were opened to Iran and Afghanistan, and the trans-Caspian rail ferry to Azerbaijan was modernised. Moreover, despite major investments in new rail corridors within the region, the vast majority of transport routes are the same as in Soviet times, and these still gravitate towards Russian trade – and beyond it towards Europe. The rail connections to China are underutilised, and the BRI flagship project CR Express plays only a marginal role in regional rail transport.

Rail infrastructure developments in Central Asia have largely lacked international institutional cooperation and coordination. The first attempts at trans-regional rail development initiated by the EU in the 1990s had little significant impact. The ADB brought greater funding and a common development framework, while the initiation of CAREC by the ADB in 1997 has played the most important role in the facilitation of rail developments in Central Asia. CAREC finally began to coordinate infrastructure development and to continuously track the state of major transport corridors in the region. CAREC's work has also included soft transport policy development such as simplifying custom procedures, streamlining bureaucracy and making border crossings faster and less costly – these are still the major challenges for regional transport development today.

China has thus far played a very limited role in regional rail transport infrastructure development, and even after the introduction of BRI, China has provided virtually no funding for new projects in the Central Asian region. Similarly, in the multilateral institutional field, China has had almost no influence, principally engaging within the region on bilateral bases. China has not helped to further regional cooperation, but has often worked in parallel to existing projects, as competitors for the same traffic flows, such as in the proposed China-Kyrgyzstan-Uzbekistan line, which would only divert traffic from the already underutilised Khorgos border crossing. In the past two decades, trade ratios have indeed shifted from Russia to China from the five Central Asian countries, but transport infrastructure development has not been facilitated by China. BRI has not financed, encouraged or had any substantial effect on Central Asian rail infrastructure development or traffic flows. The individual nations through their individual transport policies and multinational institutions such TRACECA and CAREC have led development of regional railway capacity since the five Central Asian states' independence.

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NOTES

1 Modal share refers to the share of freight carried by different modes of transport: ship, rail and road (measured by tonne-km).

2 Transport data is available from international databases for Turkmenistan up to 1998 by UNECE. National statistics are not available online. From

the OSJD statistical bulletin series data is available up to 2016. National statistics are public data for the other four Central Asian republics, Kazakhstan: https://stat.gov.kz/official/industry/18/statistic/8 Kyrgyzstan: http://www.stat.kg/en/opendata/category/229/; Tajikistan: https://www.stat.tj/en/database-real-sector; Uzbekistan: https://www.stat.uz/en/open-data.

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ИССЛЕДОВАТЕЛЬСКИЕ СТАТЬИ

Is the Iron Silk Road Really So Important? Rail Freight Use on China's "Silk Road Economic Belt"

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CR Express containerised rail transport between Europe and China is a flagship project of China's "Belt and Road". Yet operational and financial details of the project remain scarce. Due to poor governance and logistics transparency, the actual quantity of containers and goods transported is essentially unknowable. The authors doubt the efficacy of the *CR Express* intercontinental rail system and test its real and possible capacity throughputs. In the article they compare China public media statements with European Union statistics and reveal discrepancies between the number of trains supposedly departing China and the number of trains arriving in the European Union. This article provides numerous data sources and estimates on China–Europe rail freight traffic and demonstrates that the actual transported quantity of goods is probably lower than anticipated or reported. The article also analyses the political development of the *CR Express* rail freight system and China's wider "Transport Power" policy. It concludes that while the political concept of the *CR Express* rail freight system is progressive, and the economic development of creating new cumulative causation systems is theoretically possible, that the evidence for actual economic use is underwhelming. This research helps European Union, Russian, and Central Asian policymakers better assess the viability of participating in the continued rollout of China's *CR Express* intercontinental rail freight system. The authors warn that while the *CR Express* system has potential to be an economic good for Central Asian development it exposes the Eurasian economies to China's political and financial risk. For China the *CR Express* system fulfils only geopolitical and geoeconomic functions, and ultimately participation in the policy is of minimal utility to European Union economies.

Keywords: transport policy, economic geography, political geography, geoeconomic policy, railway infrastructure, containerised transport, industrial policy, Eurasian economic integration, CR Express, Belt and Road

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In 2011 The People's Republic of China (PRC) embarked on an ambitious national strategy to develop intercontinental rail links to Europe – the "Iron Silk Road"[1]. Faced with the prospect of declining industrial domestic production, particularly from 2012-2013 onwards, a need to transition to a consumption and import-driven economy, and faced with a hostile Pacific trade bloc policy interpreted by Beijing as containment, China sought to reignite transcontinental rail freight trade to diversify import sources, later co-opted into the "Belt and Road" Eurasian geoeconomic policy. Micro to macro, policy implementation was to be through the "Iron Silk Road" rail freight development policy, implemented in a grander vision of the "New Silk Road Economic Belt" (丝绸之路经济带 *Sichou zhi lu jingji dai*) across Eurasia and the wider still Eurasian-Indian Ocean trade and geoindustrial policy of "Belt and Road".

In 2016 the National Development and Reform Commission (NDRC) deployed a *China Railway Express* (中铁快运 *Zhongtie kuaiyun*) (*CR Express*) development policy to bring together the disparate Eurasian rail services offered by local governments, rebrand them into a single product, and help to coordinate the national intercontinental rail system[2]. The two new Eurasian rail classes introduced under *CR Express* were *China-Europe Class Rail* and *China-Central Asia Class Rail*. Both categories are clumped together into the intercontinental framework of *CR Express*, essentially a central government brand name and policy coordination framework that the intercontinental rail freight infrastructure is organised under. *CR Express* is marked on twenty-foot-equivalent container units (TEU) to look like iconic containers such as Maersk and Evergreen. This Eurasian rail link is branded under a central *CR Express* policy but in reality is deployed by provincial and prefectural level governments.

On the China side, rail freight has been in a Kaldorian cumulative causation reflexive feedback loop for 70 years as rail was used as part of the Mao-era heavy industry prioritisation economic development strategy, principally in a coal-electricity-steel feedback loop (Huenemann 1984, 1993, 2001). Turning China's domestic rail freight network to face abroad is not so difficult with political will but does involve significant domestic institutional reform. Development of the international *CR Express* system will mean major reorganisation of the domestic freight system, and there remains severe tangling of lines and services going east-west, whereas there is currently a freer flow in domestic south-north carriage, by institutional design.

China's central policy of a Eurasian rail freight macro-project spanning multiple geographies requires significant institutional and enterprise reorganisation and spatial

[1] China PRC Central Government Portal. 2011. Rail Freight from Port of Antwerp, Belgium to Chongqing, China Officially Opened. 10 May. URL: http://www.gov.cn/jrzg/2011-05/10/content_1860646.htm (accessed 12.03.2020); First Test of Chongqing-Xinjiang-Europe International Railway Corridor from Chongqing to Moscow in 11 Days. *Sina News,* 29 Jan. 2011. URL: http://news.sina.com.cn/c/2011-01-29/031121893620.shtml (accessed 12.03.2020) (in Chinese); van Leijen M. Duisburg-China Traffic Quadrupled Since Regular Silk Road Train. *Rail Freight,* 15 March 2015. URL: https://www.railfreight.com/corridors/2018/03/15/duisburg-china-traffic-quadrupled-since-regular-silk-road-train/ (accessed 12.03.2020)

[2] NDRC. 2016. China-Europe Class Rail Construction and Development Plan (2016–2020), 8 October 2016. URL: http://zfxxgk.ndrc.gov.cn/PublicItemView.aspx?ItemID=%7B6b49bf1d-ec80-4d08-8673-124fa15bed54%7D (accessed 12.03.2020) (In Chinese)

planning. While industrial organisation on the China side is a soluble policy issue, the long-term economic viability of the project is dependent on both import demand from Europe, and on European exports to China. This two-way trade dynamic with Europe means that China cannot plan centrally production and trade and must engage with open market institutions on the European Union side. The larger problem remains which goods to effectively transport on this rail corridor as it is not clear which classes of goods would benefit from a transport system quicker than ship but cheaper than air freight.

It used to be that China's trade policy was centred on exporting manufactures to Europe and the US. China is now attempting to transform into a net importer, aiming for greater two-way trade, with institutional development of import channels and presumably a diversification of exports as China rises up the global value chain. This does mean that in the long run there is policy space for additional rail freight carriage. However, in contemporary market reality, there is simply not the two-way trade demand to justify a Europe-China rail freight bridge.

Against the China state-media hype, the China policy record and various statistical collections on the European Union side might be examined. China state media claims that there are a lot of trains, a lot of cargo and a lot of potential capacity – a Schumpeterian expectation management technique designed to invoke a Myrdalian cumulative causation investment response (Schumpeter 1942; Myrdal 1954). We tried to test the realities of the rail freight throughput on the *CR Express* system.

The study is organised into an analysis of China's macro international rail policy and the tension between central economic control and local governance autonomy; an examination of the international drivers for Eurasian rail freight development; analysis of the development of the *CR Express* class of *China-Europe* and *China-Central Asia* class rail freight; a study of the efficiency problems in *China-Europe* rail freight throughput in practice; and an examination of the real value and quantity of China rail class freight to Europe. It concludes with some warnings about the state of play regarding China's international rail freight policy for Eastern Europe and Central Asia, arguing that, while China subsidising intercontinental rail freight is a gift horse for Eurasian economic development, institutionalising an economic reliance on China's domestic industrial policy, tax and transfer policy, and wider external geoindustrial policy is a dangerous path for Eastern European and Central Asian economies to tread. For Europe, it is little tangible benefit in China's expanded intercontinental rail freight system.

China international rail policy – towards a "Transport Power"

The "New Eurasian Land Bridge" concept far predates the "Belt and Road Initiative". For example, China completed the trunk line link to Kazakhstan in 1990[3]. At that time though there was little central policy ideology for a Eurasian transport strategy.

[3] Xi S. The New Eurasian Land Bridge Concept Far Predates the Belt and Road Initiative'. *Japan Railway and Transport Review,* December 1997, URL: http://www.jrtr.net/jrtr14/pdf/f30_xu.pdf (accessed 11.04.2020)

However, by 2017 the Ministry of Commerce had released a policy statement calling for China to become a "Transport Power". This rhetoric is not sensational, it is echoed through Party policy across a range of economic sectors. China is also policy-driven to become a "Maritime Power" (海洋强国 *Haiyan qiangguo*)[4]. The transport policy plan is to move China from being an "important transport country" (交通大国 *Jiaotong daguo*) to a "Transport Power" (交通强国 *Jiaotong qiangguo*). By September 2019 the policy has been codified into a central party document[5]. The timelines always match with wider Communist Party macropolicy: 2021, 2035 and 2049, i.e. a Five-Year Plan, a fifteen-year bloc of three Five-Year Plans and the centenary of the PRC. Contemporary policy is aligned with the "Twin Centenary Goals" (两个一百年 *Liang ge yibai nian*) of 2021 and 2049 – achieving a "moderately well-off society" by the centenary of the Communist Party in 2021 and "effectively achieving China as an economically developed power" by the centenary of the People's Republic in 2049. These twin goals are political legitimating factors for Xi Jinping's 40-year introduction of a "new era" of economic development from 2018, to sit on top of the 40-year reform period of 1978-2018. Compared with the domestic economic development policies bound up with the "Twin Centenary Goals", the "Belt and Road" project is not as "vast and ambitious" as Western media cliché copy would often make out (See Table 1).

Table 1. China's Transport Power Policy Matrix

'Two Steps'	'Four Forces'	'Eight Systems'
Step 1 2020 to 2035 To become a transport power to rival other powers	Become a transport power	Comprehensive transport infrastructure network system
		Transport equipment system
	Transform from high-speed growth to high-quality development	Transport service system
		Transport innovation and development system
Step 2 2035-2049 To become a global transport power	Serve people responsibly	Open transport cooperation system
		Transport support system
	Modern, open, green transport system	Modern transport governance system
		Transport safety development system

Source: Compiled by the authors

The Ministry of Commerce *Transport Power* policy is written in conventional China policy numerological terms: Two Steps, Four Forces and Eight Systems (两步走 *Liang bu zuo,* 四梁八柱 *Si liang bazhu,* 八大体系, *Bada tixi*)[6]. The plan echoes

[4] Zhang Y.Q. & Ye Z. 'China's Pulse' in the Era of Big Transport (From a Large Country to Powerful Country)' [大交通时代的"中国脉动"（从大国到强国）], *People's Daily,* 21 December 2017. URL: http://politics.people.com.cn/n1/2017/1221/c1001-29720395.html (accessed 12.04.2020) (In Chinese)

[5] Central Committee of the Communist Party of China. 2019. 'Outline for Development of Transport Power' Xinhua', published 19 September 2019. URL: http://www.xinhuanet.com/politics/2019-09/19/c_1125016261.htm (accessed 11.02.2020) (In Chinese)

[6] Ministry of Transport PRC, Transport Planning and Research Institute (2016) Rail-Based Intermodal Transport in China: Current Status and Challenges, United Nations Economic and Social Commission for Asia and the Pacific EGM. Bangkok,

other sectoral industrial policies in calling to transform from "high-speed growth" to "high-quality growth" as China tries to orchestrate a state-driven response to naturally decelerating economic growth levels and necessary environmental remediation and consumer quality controls.

As usual, it is possible to trace extant State Council ministerial policy back to an ideological essay in the Party journal "Qiushi". In 2018 "Qiushi" published an article giving guidance on the development of China as a *Transport Power*[7], with predictable Party doctrine rhetoric: "first, fully understand the great significance of building a strong transport country; second, accurately grasp the overall requirements for building a strong transport country; third, build a framework system for a transport power"[8].

One of the main macro policy challenges is to integrate the intercontinental rail strategy with the dynamics of China's changing economy. China ultimately needs the Belt and Road economic sphere of influence to encourage an import-driven Eurasian trade axis geoindustrial and trade policy (Kenderdine 2018a). As yet there are few trains coming back into China from Europe. Coupled with the *International Capacity Cooperation* policy of offshoring industrial production to external economies, there could be greater industrial commodity and manufacturing output along the Belt and Road economies to service imports back into China from Central Asia and the Middle East (Kenderdine and Han 2018). As long as China continues subsidising the return rail journeys, the European goods imported can begin to diversify and China can move away from the charge of running a "one-way trade policy" (Kenderdine 2017b). Cross-border e-commerce is slated to plug the export-import gaps in the current trade strategy[9]. Through development of smart logistics and electronic customs clearance systems, China also hopes to encourage greater volumes of small-scale cross-border trade. A planned rail-postal service for cross-border e-commerce combined with China's strengthened domestic e-commerce governance and Chinese electronic payment systems are designed to effectively expand China's trade influence into Central Asia.

Kazakhstan is the policy linchpin (Kenderdine 2018b), both to the *CR Express* rail freight project as well as the wider Belt and Road trade strategy. The Silk Road Economic Belt is the frontline trade policy for Xi Jinping's globalised China[10]. But ultimately the real challenge is that China is organising this cross-border rail freight in the same manner as it would spatially plan a new domestic industrial policy (Kenderdine

30-31 August, 2016. URL: https://www.unescap.org/sites/default/files/China_Rail-Based%20Intermodal%20Transport.pdf (accessed 23.02.2020)

[7] Yang C.T. & Li X.P. Strive to Open a New Journey to Build a Strong Transport Country [奋力开启建设交通强国的新征程], Quishi, 22 February 2018. URL: http://www.qstheory.cn/dukan/qs/2018-02/15/c_1122402281.htm (accessed 14.02.2020) (In Chinese). Note: Yang Chuantang was at the time Ministry of Transport Party Secretary and Li Xiaopeng was Deputy Party Secretary

[8] Там же.

[9] China-Europe Railway to Drive Cross-border E-commerce. *Xinhua News Agency*. 25 October 2016. URL: http://www.xinhuanet.com/english/2016-10/25/c_135780112.htm (accessed 24.02.2020)

[10] Chen Z.J., Liu Y.Q., Ji W., Miao Z., Ma M.L. & Li Y. 2016. „Belt and Road", When Dreams are Realised, Xinhua 24 January. URL: http://www.xinhuanet.com/politics/2016-01/24/c_1117875268.htm (accessed 12.02.2020) (In Chinese)

2017a). All the mechanisms seen thus far make the *CR Express* project look very much like previous domestic rail reforms, such as the Four Vertical, Four Horizontal rail freight line untangling reform or the Speed-up policy from the late 1990's.

While the central spatial planning may appear grand strategy, the disjointed realities at the subnational level demonstrate how difficult coordinating a Eurasian rail freight policy will be (for example, the principal geographic regions for two-way rail freight channels are in central China, Chongqing, Wuhan, Chengdu, Zhengzhou). For Central Europe it is convenient, while for Central Asian economies wishing to export goods to China and to onwards using China's seaboard, the inbound rail freight channels are optimised for transit to Liangyungang port in northern Jiangsu – effectively the opposite end of China's industrial geography. These different regions have very different local governance structures and state-market institutional interactions. Deregulation from the planned economy era has meant that different provinces have taken different institutional paths towards marketisation, generally the provinces with more immediate access to foreign markets have the most institutionally sophisticated public and private sectors. While the inland Central China provinces where the *CR Express* system is centred are stalwart command economy public structures. Overlaid on this is that these different regions of China currently have different macro regional spatial planning policies. The Central China core of the *CR Express* falls under the "Yangtze River Economic Belt" economic development plan, while the sea and land ports of Jiangsu and Zhejiang fall under the "Yangtze Delta Economic Zone". As these macro spatial plans develop over time, future institutional path-dependencies will be built into the industrial geographies that the *CR Express* system must work within. This will add to the institutional and government burden that the *CR Express* system has inherited from historical path-dependencies of industrialisation policy. Overcoming these local governance and industrial geography issues will be a greater problem in policy implementation than the trade and industry integration with the external economies in Central Asia, Eastern and Central Europe.

Ultimately though, replacing maritime trade with international rail transport is unlikely to occur in large volumes to warrant the money spent to subsidise a system that was only ever meant as a political mechanism to avoid containment trade blocs in the Pacific and to spread Chinese influence into new economic spheres through Eurasian continental trade policy. As China's industrial growth-driven economy has peaked and begun to slow, so too has the volume of domestic rail freight throughput, this should be an indication that intercontinental rail freight potential is limited by the same growth bottlenecks.

China's domestic drivers for Eurasian rail freight development

Untangling the domestic rail system and realigning newly created rail freight capacity as coal transport demand declines are both key policy drivers to developing an international rail system. The economic factors at play in China's domestic rail system

are important in understanding the drivers and limitations of the international rail freight policy.

China's domestic rail freight growth rate was reasonably steady through both the planned economy decades 1949-1978 and the reform period of 1978-2018. In other words, despite hyperbolic industrial growth rates through the "miracle industrialisation" after "Reform and Opening", rail freight throughput increased steadily as the coal-steel-rail nexus continued to expand under state control.

However, the past five years' domestic rail freight throughput in China has been changing. 2012 was really the high-water mark for the GDP-led growth model. 2013 also saw the high-water mark of the reform-era. Domestic rail freight volumes declined too, continuously from 2012 to 2017, ending a rail-freight growth trend much longer than China's "Reform and Opening" – dating back to essentially the reindustrialisation and re-railroading of China from 1949. From 2012 gross rail freight declined year on year for five years until it began to pick up again in 2017[11].

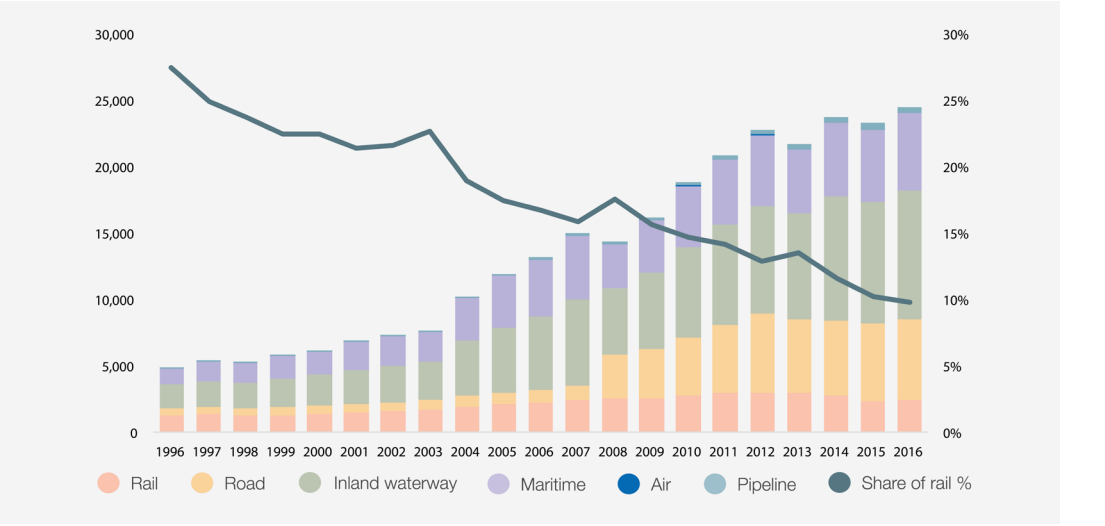


Figure 1. China freight by mode of transport; transport volume in ton-km (billion ton-kms)

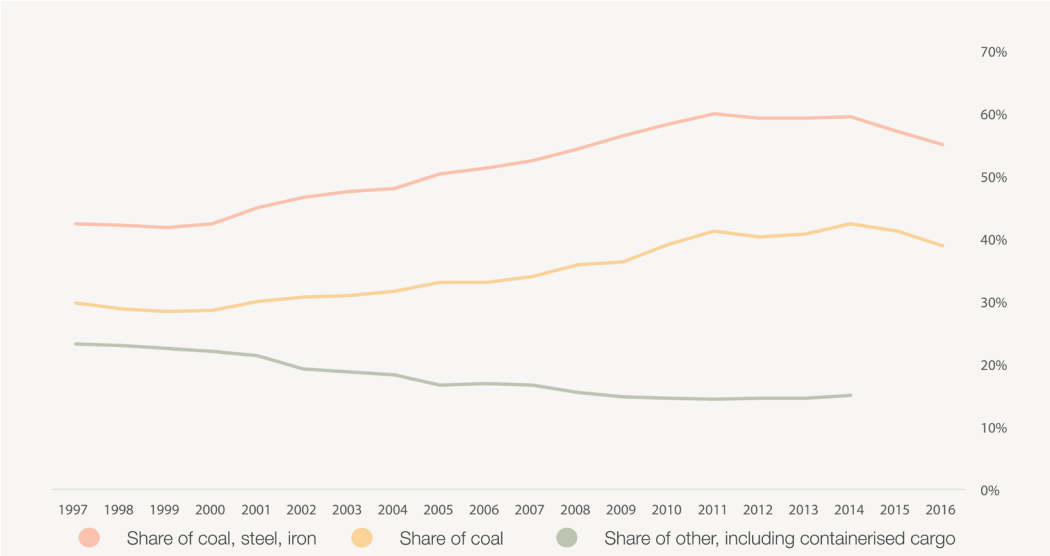
Source: National Bureau of Statistics

Another important institutional factor is that China's domestic rail freight has been concentrated in the transport of bulk cargo, not containerised cargo. Coal is the most important good transported by rail, making up around 39 % of total transport volumes. Intermodal transport has been so low that it is not even included in aggregate statistics (intermodal freight transport is moving containers on multiple transport systems e.g. road, rail, ship). In the case of China, intermodal transport can be fully

[11] Sun L.Z., Mo Y.L. Railway Operator Aims to Grow Freight Volume by 30%. Caixin, 4 July 2018. URL: https://www.caixinglobal.com/2018-07-04/railway-operator-aims-to-grow-freight-volume-by-35-101292633.html (accessed 14.02.2020)

interpreted as the transport of containers solely by rail, as other technologies – like piggyback transport, the transport of (semi) trailers and/or trucks by rail, etc. – are not in use in the country. The volume of bulk goods handled by China's ports in 2016 was 55 % of the total traffic whereas for rail it was 80 %. This demonstrates that the transport industry is focused on bulk goods and not on the more complex intermodal transport modes (See Figure 1).

The very high share of coal transport in overall transport volume in China has unique reasons. First, China is the biggest producer of electricity in the world, and coal power plants account for 58 % of installed electricity generating capacity. There is, however, a major mismatch between coal production and consumption: the main mines are in the inner part of the country, with consumption concentrated on the coast (Wang & Ducruet 2013). Coal production was still growing until 2017, but is expected to stagnate in the future, given declining industrial growth, a changing energy mix, and adherence to domestic and international climate change mitigation and remediation commitments. There are already bottlenecks in the transport system. 60 % of all coal is transported by rail, 30 % by water and 10 % by road – since the 1980s, dedicated rail lines have been constructed solely for coal transport (Wang & Ducruet 2013).



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Coal, steel, iron	52%	54%	56%	58%	60%	59%	59%	60%	57%	55%
Coal	34%	36%	36%	39%	41%	40%	41%	42%	41%	39%
Other	17%	15%	15%	15%	14%	15%	15%	15%		

Figure 2. China freight by commodity type; transport volume in ton-km (billion ton-kms)

Source: National Bureau of Statistics

The motivation for developing a Eurasian railway corridor network thus has numerous internal drivers on the China-side. Domestic rail transport output started declining after 2012 and never fully recovered; rail freight usage is heavily dependent on the transport of coal, which is falling; and other sectors of the economy tend to use other modes of transport (due partly to the lack of containerisation in the rail freight system). As such, domestic rail transport is declining in the modal split of the country, as more non-industrial enterprises use trucks, and the rail-port intermodal usage remains ridiculously low. International container transport by rail is a good way to measure rail transport output, but even with high growth rates it cannot compensate for the main driver behind the decline: shrinking demand for coal and so for coal transport. There is thus a monumental domestic policy driver which changes the fundamental dynamics of China's domestic rail transport. This shrinking coal transport demand creates new capacity to alter the utilisation of China's domestic rail system, hence the policy of rerouting rail freight throughput Westward towards the New Eurasian Land Bridge (See Figure 2).

However domestic container traffic and intermodal transport to ports have been underdeveloped in China. This is well understood by government, and in the 11th Five-year Plan in 2006 the development of intermodal transport became a key priority[12]. In 2011 five freight rail corridors between the inland and maritime ports were set up[13]. These transported 1.54 million Twenty-foot Unit Equivalents (TEUs) in 2015 – a very limited amount as 189 million TEUs were handled in China's seaports in the same year. In total, all intermodal rail corridors carried only 0.8 % of the containers handled by maritime ports. In a 2010 study it was calculated that 1.3 % of the total maritime container output was moved to/from ports by rail (Liu, Lee, Xiao, Wang & Jiao 2013).

This means there is a huge potential to change to more efficient, more environmentally friendly forms of transport within the country. There are only 39 major intermodal hubs in the country for railway container handling (Wei, Sheng, Lee 2017). The situation of the sea terminals is also striking: in 2010 there were only 10 ports nationwide using rail-waterborne intermodal transport operations from approximately 135 government-approved ports in the country (Blancas, Ollivier & Bullock 2015). In comparison, there are 385 intermodal rail terminals in the European Union[14].

In 2015, the World Bank carried out a study on the rail container market in China and concluded that there would be demand for intermodal rail transport, but that the supply-side is lacking the basic characteristics which would be needed (Blancas, Ollivier & Bullock 2015). China is, on the other hand, a world leader in containerised

[12] Yang J.Q. Towards the Restructuring and Co-ordination Mechanisms for the Architecture of Chinese Transport Logistics, unpublished PhD thesis Erasmus University, 2009. URL: https://repub.eur.nl/pub/14527/EPS2009157LIS9058921987JiaqiYang.pdf (accessed 15.02.2020)

[13] Ministry of Transport PRC, Transport Planning and Research Institute (2016) Rail-Based Intermodal Transport in China: Current Status and Challenges, United Nations Economic and Social Commission for Asia and the Pacific EGM. Bangkok, 30-31 August, 2016. URL: https://www.unescap.org/sites/default/files/China_Rail-Based%20Intermodal%20Transport.pdf (accessed 23.02.2020)

[14] Agora Intermodal Terminals Database 2018. URL: intermodal-terminals.eu (accessed 12.06.2020)

transport, but only internationally and by sea. The rail transport of containers was never a priority in China's domestic economy, and these trains would need reliable timetables and relatively fast travel times – neither really feasible in the current China Railway Corporation (CRC) structure. For the new international container services, private freight forwarding services cannot safeguard the quality of trains as they are all relying on the services of the state CRC subsidiary: *CR Express*.

Over the past decade, domestic policy priorities and resource allocation for rail development have been concentrated in the development of the massive, close to 30.000 km long, high-speed rail network. This means that freight transport received less funding and policy attention, but it also freed up substantial capacity on the existing conventional lines for freight transport. Overall though, the very fast rate of growth for high-speed rail has had negative effects on domestic freight systems. With the same amount of investment, more conventional lines could have been built with the value of freight time savings having more positive macroeconomic effects (Wu, Nash & Wang 2014). As China's rail network is one of the most utilized in the world and has serious capacity problems, for the transport of more goods by rail, less high-speed rail development would have been much more effective in developing rail freight infrastructure. In the case of long distances, even low-cost-carriers could have solved consumer travel needs in a more efficient way than high-speed rail (Wang, Xia & Zhang 2017).

All this means that there are now serious institutional blockages to the rapid development of a viable international rail freight system. Existing domestic rail freight throughputs were developed to maximise bulk coal carriage. Existing domestic rail networks are tangled, unreliable, and still mostly optimised for south-north carriage, not east-west carriage. Containerised rail transport is severely underdeveloped as bulk carriage was the preferred throughput. There are few intermodal hubs and poor port connections. And rail freight has received little government policy attention while high-speed passenger rail was the policy priority over the past ten years.

China–Europe and China–Central Asia class rail freight

In 2016, National Development and Reform Commission brought all Western outward rail container services from China under the common branding of *CR Express* (Zhao, Zhao, Hu, Li & Stoeter 2017). This intercontinental rail freight system is centred on two new classes of China rail freight carriage: *China-Europe Express Class* carriage and *China-Central Asia Class* carriage. Both are essentially part of the same policy and both mostly cross Central Asia, particularly Kazakhstan. The categories are *China-Europe Class Trains* (中欧班列 *Zhong ou ban lie*) often shortened to simply 中欧班 *Zhong ou ban;* and *China-Central Asia Class Trains* (中亚班列 *Zhong ya ban lie*), colloquially 中亚班 *Zhong ya ban*.

All *CR Express* trains and their containerised traffic are organised into these two rail freight classes. This is really a two-part consolidation process by the NDRC, one to organise the disparate local government processes for establishing and running inter-

national rail freight services, and also to integrate the international system with the domestic rail class system. As of May 2017, there were 51 lines of operation, with the number of participating China cities raised to 27, and 28 cities in 11 countries in Europe.

In terms of the international aspect of the *CR Express* system, China has laid out five routes on three trunk lines: An 'East' trunk line runs from the Eastern China provinces into Russia's Far East and then along the old Siberian railway. A 'Central' line runs from the Central China provinces north into Mongolia joining up with the Siberian route. And then the main 'West' trunk line splits into three separate routes: 'West 1' across Kazakhstan to Moscow, 'West 2' across Kazakhstan to the Caspian Sea to the Caucasus, and a planned 'West 3' from Kashgar to Kyrgyzstan and then through Uzbekistan to Iran and Turkey. The three most important lines for the *CR Express* China-Europe and China-Central Asia trade are the old 'East 1' and the new 'West 2'. The 'East 1' trunk line is simply the old Trans-Siberian railroad ex-Manchuria: Manchuria through Russia to Moscow to Berlin. The extant 'West 2' Khorgos/Alashankou to Kazakhstan to Moscow to Berlin line is the real testbed for the current *CR Express* system. While the 'West 3' is a planned ex-Kashgar route to the Fergana Valley though Kyrgyzstan and on to Iran, and ultimately Istanbul. This trunk line is the most geopolitically ambitious and potentially transformative. However, this West 3 line is also logistically the most difficult, requiring significant Chinese construction, investment and ongoing government coordination with Kyrgyzstan, Uzbekistan and Iran, making its future operational prospects slim and its utility limited (Buscky & Kenderdine 2020).

The two *CR Express* international rail freight classes are mostly clustered around Central China terminals. The principal Eurasian rail terminals are Chengdu and Chongqing, but along with the Wuhan transport hub, a Central China cluster emerges of Chongqing, Sichuan, Shaanxi, Henan and Hubei. Lianyungang and Yiwu are both naturally eastward facing sea and land ports respectively that have been policy re-commissioned to face west for rail container transport. The Lianyungang connection is part of a policy promise to open a sea port to the Kazakhstan government. From the *CR Express* terminals there is clear development of a Central China-Central Asia transport policy, with Lanzhou in Gansu naturally streamlining all Westward freight flow (See Table 2).

Table 2. Major West Trunk Line China-Europe and China-Asia CR Express Schedule Freight Lines

No.	Domestic Outbound	Border Crossing	International Inbound	Trunk
1	Chongqing	Alashankou, Khorgos	Duisburg, Germany	West
3	Zhengzhou		Hamburg, Germany	
5	Chengdu		Lodz, Poland	
6	Wuhan		Pardubice, Czech Republic	
7	Wuhan		Hamburg, Germany	
11	Yiwu		Madrid, Spain	
14	Lanzhou		Hamburg, German	

No.	Domestic Outbound	Border Crossing	International Inbound	Trunk
16	Lianyungang	Alashankou, Khorgos	Almaty, Kazakhstan	West
18	Qingdao			
19	Urumqi			
20	Xi'an			
21	Hefei			
22	Jinan			
23	Dongguan			
4	Zhengzhou	Erenhot	Hamburg, Germany	Central
15	Beijing—Tianjin		Ulaanbaatar, Mongolia	
2	Chongqing	Manzhouli	Cherkessk, Russia	East
8	Wuhan		Tomsk, Russia	
9	Suzhou		Warsaw, Poland	
10	Suzhou		Brest, Belarus	
12	Shenyang		Hamburg, Germany	
13	Changsha			
17	Yingkou		Baikal, Russia	

Source: Compiled by the authors

There are freight timetables from other major Chinese terminals too with an idea of how many trains would depart China, and a clear set of European terminals. The problem remains one of viable volume. The cost per TEU container is still too high to attract much interest without politicised subsidies, meaning that once central subsidies dry up, the system could remain economically unviable. US $6300 per container from Lianyungang to Istanbul via the 'West 2' line is still too expensive for most goods compared with maritime transport rates[15].

The most prominent international rail freight services to date have been developed by local governments, despite the nominally central coordination under the 2016 *CR Express* policy document from the National Development and Reform Commission[16] (See Figure 3). They have emerged more organically and practically than some of the more aspirational routes on the macro policy.

The *CR Express* policy essentially extends the domestic China railway system to external geographies, rather than developing a true international partnership model. Probably the most complicated part of the freight carriage reform is still reorganising the domestic Chinese rail network. China's railway network is very convoluted. There are dedicated channels that cross the country, such as the *Four Vertical-Four Horizontal* main channel system. But the reality on the ground is a lot of old track, and a lot of overlapping interests. Introducing two new international freight classes into this system is not simple.

[15] Kenderdine T. Caucasus Trans-Caspian Trade Route to open China Import Markets. East Asia Forum, 23 February 2018. URL: http://www.eastasiaforum.org/2018/02/23/caucasus-trans-caspian-trade-route-to-open-china-import-markets (accessed: 18.06.2020)

[16] China-Europe Class Rail Construction and Development Plan (2016–2020). 8 October 2016. URL: http://zfxxgk.ndrc.gov.cn/PublicItemView.aspx?ItemID=%7B6b49bf1d-ec80-4d08-8673-124fa15bed54%7D (accessed 19.04.2020) (in Chinese)

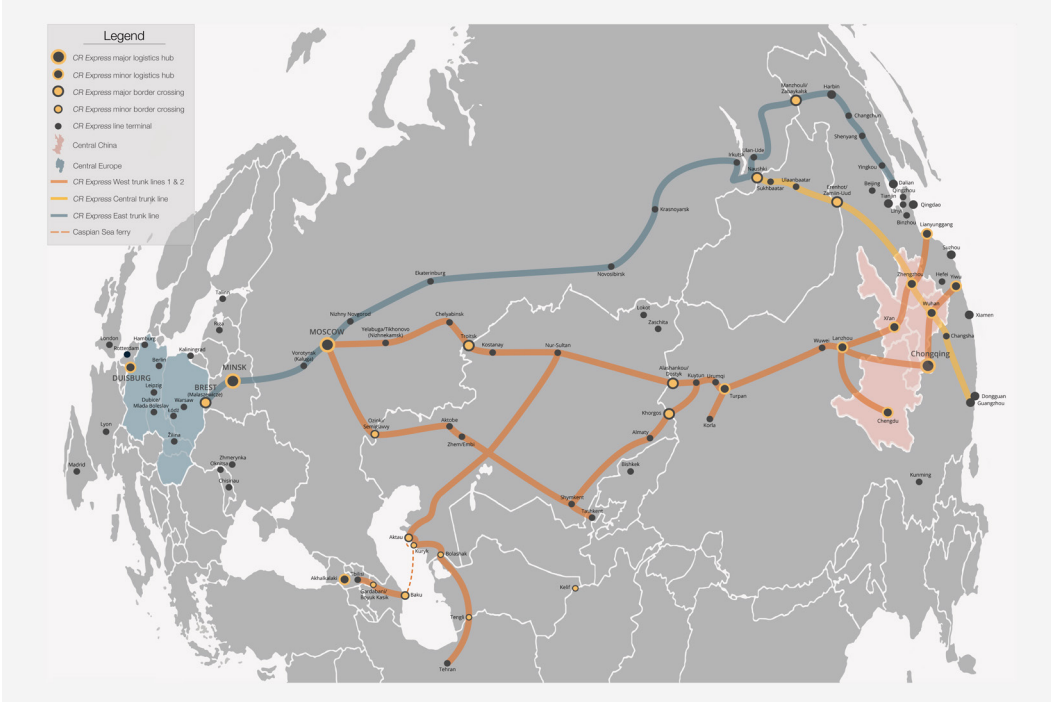


Figure 3. *CR Express* Europe and *CR Express* Central Asia trunk lines, terminals and major logistics centres

Source: Sino-Euro, Sino Asia Cargo Railway (2018). Central Asia International Rail Class. URL: http://cn.cetrains.com/post/services/logistic-service.html (accessed 15.09.2019)

In two-way trade terms, the biggest problem for China is not the subsidisation of domestic rail freight routes directed outwards towards new trade partners, but what to import back to make these routes even remotely viable as bilateral trade channels even with heavy government subsidies. Ultimately, China is hoping to transfer agroindustrial and industrial capacity to Central Asia, Caucasus, Russia, and the Middle East (Kenderdine and Lan 2019). China's long-term policy is thus to use these rail freight routes to reimport products from its "Belt and Road" industrial investments into China such as agricultural commodities, raw metals, semi-finished metal commodities, and finished manufactured products. However, for now the system remains heavily subsidised by both central and local government with little import value. To increase rail freight from 64.000 gross TEU boxes in 2014 to 500.000 in 2018 between China and Kazakhstan, or to develop the Trans-Caspian corridor from 100 TEU in 2015 to 300.000 in 2020 (both policy announcements) is going to take significant investment on the China side.

Ultimately the above policy commitments might be considered unconvincing, that the China-Europe *CR Express* rail class has long-term structurally transformative effects on host economies in Europe or on China itself. At the same time the development impact for Central Asian economies, if Chinese investment and government

subsidies are maintained, may be more promising given the lack of maritime transport alternatives. However, there remains the problem that "Belt and Road, Iron Silk Road, Silk Road Economic Corridor" and *CR Express* are all just Chinese central government policies. Without strong political communication between China and partner economies, any future trade integration on China's Eurasian periphery will continue to isolate China's trade partners rather than to meet them half-way[17].

Efficiency problems with current China–Europe trains

The introduction of the "Belt and Road" initiative in 2013 created a media spotlight for the intercontinental class rail freight system. However, most China media reports only communicated the number of new trains and new cities serviced. The low load factors and the low profit margins of *CR Express* trains are less well-known.

These trains receive state subsidies, not only at the national level, but also from provincial and prefectural city governments. This has led to competition between cities and already more than 30 cities have rail connections to Europe and Central Asia. This does not seem like an optimal situation in terms of industrial layout. In a consolidated cargo centre model it has been shown that fewer hubs would be more efficient. Hub terminals would be ideal in Xi'an, Taiyuan, Zhengzhou, Wuhan, and Suzhou – only a fifth of current hubs (Zhao, Zhao, Hu, Li & Stoete 2017). Zhao et al. also conclude that within China, road freight is usually preferable to rail, due to the shorter distances and also the problems with intermodal transport within China.

Unless freight forwarding, road transport and inland waterways transport are liberalised with numerous companies competing, the rail freight market is still in the hands of the state-owned China Railway Corporation. Ironically the flagship *CR Express* trains to Europe were able to be developed due to the fact that more and more private freight integrators approached the rail market, offering integrated, door-to-door services for consumers (Lam & Gu 2016).

In China, container trains are operated by logistics companies: these are usually owned by city or provincial administrations, but there are some privately owned companies. These corporations are in contact with consumers that can be either exporters or importers of goods both in China and Europe. These companies collect transport fees and buy services from railway corporations, dry ports, customs clearance companies, etc. The trains are then physically transported by China Railway and its subsidiary *CR Express*.

In Europe, different logistics companies and/or railway companies are partners of the China logistics companies. In Kazakhstan, Russia and Belarus the state-owned railway companies («Kazakhstan Temir Zholy» KTZ, «Российские железные дороги» RZD, «Белорусская железная дорога» BZD) and their subsidiaries are in charge of

[17] Kenderdine T. China's Multilevel Governance Problem – Policies Lost in transmission in Central Asia Policy Forum, 21 November 2016. URL: http://www.policyforum.net/chinas-multilevel-governance-problem/ (accessed 13.02.2020)

transport, which makes it easier to handle as less stakeholders are involved. In Russia too, «Transcontainer» is a major stakeholder in the transport mix.

These different stakeholders represent multiple interests. Countries outside China would like to see the higher value-added logistics processed within their country – the re-organisation of wagons to different destinations, and transhipment. Chinese cities are competing with each other to attract more traffic to their freight lines, and are not interested in the consolidation of trains from different origins within China. This is the opposite of what we would expect in a central spatially planned transport industrial policy. So China's hybrid of central planning and subnational competition can be read as the worst of both worlds.

Table 3. Example of TEU container rates offered ex-China by China logistics companies

												Domestic segment tariff reference	
			Wide track section (40')			European section (40')			Total foreign section (40')			Euro Oubound	Euro Inbound
Exit port	Terminal	Country	Distance km	Class price	Box price/ km	Distance km	Class price	Box price/ km	Distance km	Class price	Box price/ km	Box price/ km	Box price/ km
Alashankou	Duisburg	Germany	5692	3950	0,694	1350	950	0,704	7042	4900	0,696	0,6	0,55
Alashankou	Hamburg	Germany	5692	3950	0,694	1100	950	0,864	6792	4900	0,721		
Erenhot	Hamburg	Germany	7954	3500	0,441	1100	950	0,864	9054	4450	0,491		
Alashankou	Rhodes	Poland	5692	3950	0,694	315	860	2,73	6007	4810	0,801		
Alashankou	Warsaw	Poland	5692	3950	0,694	205	700	3,415	5897	4650	0,786		
Manzhouli	Warsaw	Poland	7739	3200	0,413	205	700	3,415	7944	3900	0,491		
Alashankou	Pardubice	Czech Republic	5692	3950	0,694	870	1490	1,713	6562	5440	0,829		
Alashankou	Madrid	Spain	5692	3950	0,694	3150	7300	2,317	8842	11250	1,272		

Source: based on Silk Road News website which is no longer available online (URL: http://silkroad.news.cn/tags/silubanlie.shtml (accessed 12.03.2020))

For a thorough understanding of the *CR Express* system, further research is needed on the central subsidy funds to the provincial and prefectural governments and their distribution to state and non-state enterprises that makeup the rail freight industry. Such systematic analysis of China's public procurement and state subsidy system is beyond the scope of this study. However the total annual amount of subsidies has been estimated at USD 300 million by Jakóbowski, Popławski, and Kaczmarski[18]. These subsidies are very important to the functioning of the system. The USD 300 million aggregate can be broken down to around USD 100.000 per train or USD 2.000 to 4.000 per container (on average USD 2.500). This is in line with information obtained by interviews by Bucsky in China: up to 50 % of the transport costs are currently reim-

[18] Jakóbowski Jakub, Popławski Konrad, Kaczmarski Marcin. 2018. The Silk Railroad: The EU-China Rail Connections: Background, Actors, Interests. *OSW Studies,* 28 February. URL: https://www.osw.waw.pl/en/publikacje/osw-studies/2018-02-28/silk-railroad-eu-china-rail-connections-background-actors (accessed 14.04.2020)

bursed by local governments. As transport of containers between Europe and China costs USD 5.000-6.000 on average[19], a very high portion of the costs are financed by subsidies. It is questionable if any of these transport connections would be financially viable without state subsidies (See Table 3).

According to Jakóbowski, Popławski, and Kaczmarski[20] inside information, Kenderdine private conversations with rail freight professionals in Almaty, Kazakhstan (in 2018, 2019) and Bucsky informal interviews in China (in 2018), these subsidies will be phased out in 2021-2022. According to expert interviews, this subsidy phase-out is expected to begin from 2020. As there is a high incentive to transport as much cargo as possible with the subsidies until that period, companies are incentivised to show as high a number of trains as possible. For instance: if two cities are sending cargo to Europe they can report two trains – even if these will be joined into one train on the Kazakh border or even within China.

The real value and quantity of China-Europe rail transport

There still remains a large amount of confusion and conflicting information from state media on which routes are actually in operation and what the overall logistic objective is. There is no official data available on container traffic from China, often leaving China media reports as the sole source. These reports only show the number of containers or trains, there is zero information about the value and quantity of goods transported. China media reports often give precise but isolated numbers, however the aggregates often do not add up.

Measuring the number of trains or containerised freight volumes is difficult without access to proprietary logistics systems. The Chinese data does not help and China's media reporting is disjointed and unreliable. For example, in the Chinese national media announcements for the past twelve months on China's rail freight statistics very incongruous reporting details are found (See Table 4).

A selection of media reports from "Xinhua State News Agency" gives the following information on rail trade routes: 28 Chinese cities and 29 cities in 11 European countries; 57 lines between China and Europe delivered to 121 cities in 24 countries in the European Union, Russia and Central Asia; 40 lines of China Europe rail trade; 57 routes since the China-Europe freight train services began in 2011; 43 transport hubs along the three East, Central and West routes with 43 railway

[19] Jakóbowski Jakub, Popławski Konrad, Kaczmarski Marcin. 2018. The Silk Railroad: The EU-China Rail Connections: Background, Actors, Interests. *OSW Studies,* 28 February. URL: https://www.osw.waw.pl/en/publikacje/osw-studies/2018-02-28/silk-railroad-eu-china-rail-connections-background-actors (accessed 14.04.2020); Kenderdine T. Caucasus Trans-Caspian Trade Route to open China Import Markets. East Asia Forum, 23 February 2018. URL: http://www.eastasiaforum.org/2018/02/23/caucasus-trans-caspian-trade-route-to-open-china-import-markets (accessed: 18.06.2020)

[20] Jakóbowski Jakub, Popławski Konrad, Kaczmarski Marcin. 2018. The Silk Railroad: The EU-China Rail Connections: Background, Actors, Interests. *OSW Studies,* 28 February. URL: https://www.osw.waw.pl/en/publikacje/osw-studies/2018-02-28/silk-railroad-eu-china-rail-connections-background-actors (accessed 14.04.2020

lines[21]. This disparate reporting creates a sense of scale and importance, without creating any reliable historical record.

Table 4. Communicated train quantities on the Europe-China railway connections by the Chinese state-owned news agency Xinhua

Reported China Rail Express Direct Freight Routes Between China and Europe								
Date	**News title**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
02.01.2018	Central China-Europe rail freight to surge in 2018	4000						
20/1/18	New China-Europe freight train route launched				3000	4000		
26/1/18	Over 6,200 train trips made between China, Europe in 6 years				3270	4000		
26/12/17	Cargo train service flourishes between Zhengzhou, Hamburg				3000			
13/12/17	Feature: Latvia greets first trans-Eurasia cargo train from China	2000						
11.06.2016	5,000 China-Europe cargo trains expected by 2020	1771						5000
25/10/16	Xinhua Insight: China-Europe railway to drive cross-border e-commerce	1881						
07.03.2016	Feature: China-Europe freight trains bring vitality to ancient Silk Road	580	817					
22/4/17	Seven countries to deepen cooperation on China-Europe freight rail services	3577						
04.01.2016	China Focus: Trains linking China, Europe on the fast track	970						
18/1/16	Facts and figures about China's railway development	815						

Russian Database	156	422	243	863
UNECE Database	344			1793

Source: Xinhua.net (multi-year quantities are represented in joined cells)

China-Europe rail freight classes were introduced in March 2011 linking Chongqing with Duisburg. In August 2018 there was media coverage in Chinese and English of the 10.000th China-Europe freight train arriving in Wuhan from Hamburg[22]. This means that presumably there were at least another 1050 trains in Q3 2018. However aside from waiting for state media updates of the grand success of so many trains, there is no publicly available database and little chance of this logistics system becoming transparent.

As most of the logistics channel development is left to provincial and prefectural-level governments, there is basically a tournament-system in place to develop intercontinental rail-freight capacity. The "Tournament System" was the characteristic governance model used to control centre-local government policy process through the

[21] Liang Y. 2018 Central China-Europe Rail Freight to Surge in 2018. *Xinhua*, 1 February 2018. URL: http://www.xinhuanet.com/english/2018-02/01/c_136940071.htm (accessed 15.03.2020); Xiang B. Over 6,200 Train Trips Made between China, Europe in 6 Years. *Xinhua*, 26 December 2017. URL: http://www.xinhuanet.com/english/2017-12/26/c_136852817.htm (accessed 15.03.2020); Zhou X. Cargo Train Service Flourishes between Zhengzhou, Hamburg. *Xinhua*, 13 December 2017. URL: http://www.xinhuanet.com/english/2017-12/13/c_136823016.htm (accessed 15.03.2020) (in Chinese); Hua X. 2016. Facts and Figures about China's Railway Development. *Xinhua*, 18 January 2016. URL: http://www.xinhuanet.com/english/2016-01/18/c_135021027.htm (accessed 15.03.2020); 5.000 China-Europe Cargo Trains Expected by 2020. *Xinhua*, 18 October 2016. URL: http://www.xinhuanet.com/english/2016-10/18/c_135763251.htm (accessed 15.03.2020)

[22] China-Europe Freight Trains Make 10,000 Trips. *Xinhua*, 27 August 2018. URL: http://www.xinhuanet.com/english/2018-08/27/c_137422376.htm (accessed 15.03.2020)

rapid industrialisation phase of China's economic development[23]. It essentially simply rewards Party cadres with promotions up the centralised public administrative hierarchy for achieving provincial and prefectural level GDP growth targets. Moving these targets from GDP growth to transport throughput is a simple enough matter. However it means that the central government has very little oversight of the details at the local government level – central government simply offers the reward of promotion and lets local government fight it out and figure out the details themselves (See Figure 4).

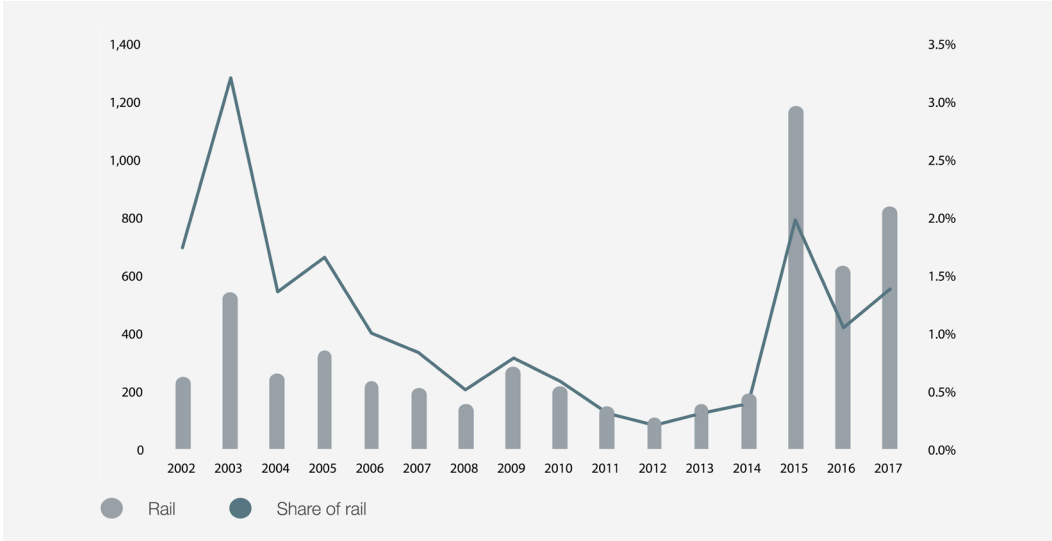


Figure 4. EU28 imports in tons by rail from China
Source: Compiled by the authors

Various sources have been used to calculate the number of trains travelling between Europe and China. The common consensus is that in 2017 there were 3.000 trains, and *CR Express* reported 6.000 trains for 2018. If we convert that to tons, we can analyse the significance of rail freight relative to total trade between the EU and China (Bucsky 2018)[24]. According to *CR Express* reported data, from 2011 to 2018 the annual share of railway transport between the EU and China grew from 0 % to 5.4 %. This would represent very rapid growth and support the China development position. It should be noted, however, that this figure is considerably higher than data from the EU's Eurostat trade database by mode of transport which lists 2018 January to November as only 1.3 %, up from 0.5 % in 2011 (See Table 5).

[23] Kelly D. Tournaments of a Regional Tiger, China Policy, 2015. URL: https://policycn.com/wp-content/uploads/2015/03/150326-tournaments-of-a-regional-tiger-focus1.pdf (accessed 19.03.2020)
[24] The maximum playload of a Twenty-foot Equivalent container (1 TEU) is 21 tons, on avarage 20 tons have been calculated as an assumption. One China-Europe Class train is traveling on avarage with 20 pcs. of 40 foot container, which eqals 80 TEU. A full trains can transport 1.600 tons.

Table 5. China's reported trains sent to Europe and Central Asia 2011-2018

China-Europe Rail Freight Class Out- and In-Bound Trains 2011-2018 (CR Express)									
	2011	2012	2013	2014	2015	2016	2017	2018*	Total 2011-2018
Number of trains	17	42	80	308	815	1 702	3 673	6 000	12 637
Number of TEUs	1 404	3 674	6 960	26 070	68 902	145 794	317 930	519 352	1 090 086
Share of total EU-China trade in tons	0,00%	0,00%	0,10%	0,30%	0,80%	1,60%	3,30%	5,40%	1,60%
China-Europe Rail Freight Class Out- and In-Bound Trains 2011-2018 (Eurostat)									
Share of total EU-China trade in tons	0,50%	0,40%	0,40%	0,50%	0,60%	0,90%	1,20%	1,30%	0,80%

*calculated from January-November figures

Source: Condensed from the government websites: Silk Road News, Silk Road News Silk Road Rail Classes, China-Euro China-Asia Cargo Railway, Foreign Economic Cooperation Office of the Ministry of Commerce

Given that the Eurostat figures as more accurate than the self-reported *CR Express* figures, the huge interest and hype around these trains is not economically justified. Especially considering that railway cargo between China and Europe was actually higher before the introduction of *CR Express* trains. For European trade, the mode of transport can be extracted from the European Commission Directorate-General for Trade database. The exported and imported tons from the EU by rail to and from China did grow in recent years, but a decade ago it was already higher. This is without any "Silk Road" policy or media hype (See Figure 5).

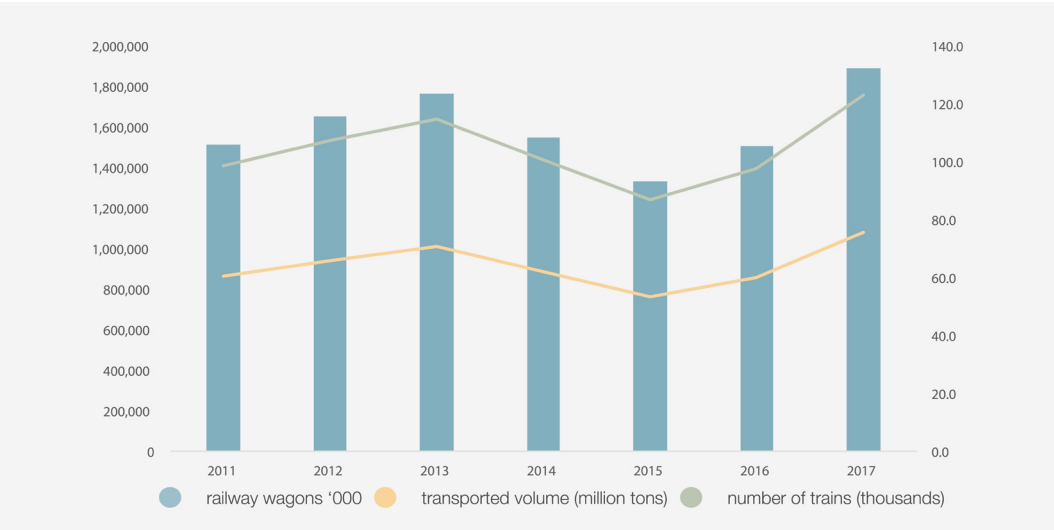


Figure 5. China Customs statistics of cross-border railway transport.
Source: based on General Administration of Customs of China. Compiled by the authors

These findings from Chinese sources could be double checked completely. The General Administration of Customs of China (GAC) provides information on the number of railway wagons crossing borders both ways. From these figures, the trans-

ported goods quantity and the number of trains crossing borders can be estimated. In real life, some of the wagons have to travel empty, but 40 tons/wagon for every wagon might be assumed. That way, the entire traffic crossing China's borders by rail can be estimated at 76 million tons or 7.5 % of China's total international freight traffic.

The OSJD provides better data, but the latest available information is from 2016. The total rail transport on China's 10 border crossing points was 37.8 million tons. This dataset helps in more detail as it includes transported value for all border stations. The total traffic to Kazakhstan – where most trains to Europe cross – is just 20 % of China's total cross-border traffic, and in 2016 it can be estimated that 4,663 trains crossed both borders (See Table 6).

Table 6. Freight transport on borders of the countries on the China-Europe rail route (total does not add up according to original OSJD data)

Country	Border Station	'000 tons 2016	% change 2015	Trains
Russia	Suifenhe	7 810	0,77%	4 881
Russia	Manzhouli	15 100	9,84%	9 438
Korea DPR	Dandong	130	-27,78%	81
Korea DPR	Tumen	100	66,67%	63
Korea DPR	Ji'an	30	50,00%	19
Mongolia	Erlian	9 830	18,86%	144
Vietnam	Pingxiang	300	-18,92%	188
Vietnam	Shanyao	390	5,41%	244
Kazakhstan	Alashankou	7 460	20,52%	4 663
Kazakhstan	Khorgos	820	-10,87%	513
Totals		**37 750**		**23 594**

Source: Organization for Cooperation of Railways (OSJD) data

On the China-Kazakhstan border, at least 90 % of trains crossing in Khorgos are not going to Europe, but to Central-Asia, with most of the trains through Alashankou being sent to Europe. In 2016 the cross-border trade between China and Kazakhstan was over nine times higher through Alashankou than through the media trap of Khorgos. According to the in-field expert interviews, carried out by the authors of the article, 70 % of trains from Alashankou are sent to Europe. This estimate yields around 3.300 trains being sent to Europe which is in accordance with other third-party estimates. The table 6 also shows that container trains to Europe are a small portion of total cross-border transport between China and its neighbours, around 14 % is delivered by this type of transport.

The reality is that there is simply too small a throughput for the China-Europe rail bridge to have any meaning as of yet. Neither China state media sources nor *CR Express* self-reporting figures match European data sources, which report significantly lower economic activity than the China numbers. Moreover, if the international rail volumes between China and Europe were expressed as a percentage of intra-China

or intra-European rail trade, the amounts would be miniscule – most rail freight is conducted within China or within Europe, with the inter-continental volumes tiny in comparison. Coupled with obvious deficiencies in China's domestic containerised rail cargo infrastructure and the unending dominance of maritime container transport, the potential development of a viable *Iron Silk Road* once subsidies are removed is, on current evidence, beyond weak.

Conclusion: evidence weak for transformative development

The article has covered the contemporary spatial planning and regional industrial policies that China has developed to formulate and deploy a domestic transport policy in an external geography. The *CR Express* rail freight transport system is exporting China's command economy railway planning into new economic geographies with two express objectives: to extend the lifespan of the command aspects of China's industrial and transport development system, and to expand China's trade policy into new spheres of economic influence in Central Asia, Central Europe and Eastern Europe.

Key takeaways from this study include the following:

- China cities competing for market share is an inefficient long-term model, but is unlikely to change due to domestic policy operations. Regional tournament systems are standard policy incentives in China's centrally coordinated economy.
- China's domestic containerised cargo infrastructure is undeveloped. Before expanding its container transport network to Europe and Central Asia, China has immense work to do to upgrade its containerised rail cargo systems.
- *CR Express* cargo throughputs are low and inefficient. From what little evidence is available, the economic reality is much more sober than the media hyperbole.
- Development of the *CR Express* system in the near future will remain dependent on subsidies and it is unclear whether a self-realising economic model will emerge from this China tax-payer investment.
- For Central Asian and European transport policymakers, as long as China continues to subsidise the system, the domestic benefits are worth participating in the program. But reciprocal subsidies to maintain the network would be neither efficient nor desirable.

The economic prospects of the "Iron Silk Road" are limited in both scale and investment. The trade corridor in its current form is not economically viable without massive Chinese investment and subsidisation. Given enough investment, it is feasible that China could scale the operation up to create a cumulative causation effect. However, the wider problems of China's intercontinental rail ambitions are not economic but political.

For the rail policy to be successful, China's international rail freight investment should serve both Eurasian and European interests, not just China's. A large part of the problem in implementing a trans-continental railway policy is the institutional friction between different macro and micro economic institutions. China is a transition

economy with still heavy state influence, making it difficult to align domestic political economy institutions with international trade, finance, and transport institutions.

The "Transport Power" macro policy does not exist in isolation and should be read alongside the "Maritime Power" policy and a range of other sectoral *Power* policies. This makes the uneconomic factor of the project clearer. Centrally coordinated planned economies are easily leveraged into nationalist foreign policy mechanisms. While the potential for cumulative causation factors in transnational economic development do exist, the national system of economic development within China's domestic economy prevails in any analysis of the "Iron Silk Road" as a trade strategy.

Domestically though, China's subnational rail subsidies and weak central control over provinces and prefectural cities mean that serious endogenous problems within the extant rail freight system will be institutionally transmitted into this new *CR Express* intercontinental freight system. While central government subsidies may soon be withdrawn from *CR Express,* it was the local governments who were first to push out into Eurasian rail freight transport, and their untransparent direct subsidies and cross-subsidies are likely to linger long after the central government withdraws support. This means that the success or failure of Eurasian class rail freight will lie with the future policy and transfer decisions of local governments, not the centre.

Ultimately the intercontinental rail freight lines only work if China puts up the capital directly, not if any loan burden or operational risk is left on Eastern Europe and Central Asia. If China continues to subsidise the intercontinental rail freight transport trade for political and geopolitical purposes, then industrial complementarity clusters along its route may develop to begin supporting the trade. Certainly, China's industrial capacity transfer policy for Central Asia, Central and Eastern Europe already supports this geoeconomic strategy. However without subsidies from the Chinese state or the unrealistically rapid development of industrial clusters along the Silk Road Economic Belt, the dream of replacing Pacific ocean maritime trade with Eurasian transcontinental rail trade may remain a policy objective of an aspirational land-power rather than delivering the trade channel opportunities promised to the peoples, industries and States along the China-Eurasian freight corridors.

The "Iron Silk Road" traverses range of varied post-Soviet economies, the independent states also being in varying states of transition away from planned economies and transitions towards economic bloc reintegration under the Eurasian Economic Union. The dubious southern route of the China-Europe rail class would also pass through Iran and Turkey, bringing in yet more economic institutional actors and agency. From the China side this means deploying an international rail strategy in external geographies that is more complicated than deploying a rail freight reform through domestic political economic institutions – this already involving many disparate polities and policy agents.

For China's *CR Express* transcontinental rail freight system to improve and expand, China-side subsidies need to be transparent, legal standards, contracts, and other logistics factors need to be integrated to European standards, and host economies

need to transparently understand which levels of Chinese government they are dealing with, and what their political and economic risk exposure is in engaging in transcontinental rail transport. Without institutional integration with the European Union, the *CR Express* rail freight system appears to be a Chinese white elephant from the European perspective, and from the Central Asia perspective a cynical geoeconomic ploy to diversity strategic import sourcing. For the *CR Express* system to be an economic good for Eurasia, data, development and policy should be transparent.

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Действительно ли так важен «Железный Шелковый Путь»? Роль железнодорожных грузовых перевозок в китайском проекте «Экономического пояса Шёлкового пути»

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Контейнерные железнодорожные перевозки «China Railway Express», связывающие Европу и Китай, являются флагманским проектом в рамках китайской инициативы Пояса

и пути. Тем не менее, технически проект остается слабо проработанным. Из-за низкого качества управления и проблем прозрачности логистики, даже фактический объём перевезённых контейнеров и товаров является неизвестным. В связи с этим, подвергая эффективность межконтинентальной железнодорожной системы критической оценке, авторы статьи анализируют реальную и возможную пропускную транспортную способность данной системы. Авторы сопоставляют заявления в китайских государственных средствах массовой информации со статистикой Европейского Союза и обнаруживают расхождения между количеством поездов, предположительно отправляющихся из Китая, и количеством поездов, прибывающих в Европейский Союз. Соответственно, в настоящей статье, с опорой на различные источники и данные по грузовым железнодорожным перевозкам между Китаем и Европой, выявляется фактическое количество перевезенного груза, которое оказалось меньше ожидаемого и декларируемого. Также, исследуется политическое содержание проекта железнодорожных грузовых перевозок «CR Express» в контексте превращения Китая в «транспортную державу». Данное исследование может быть интересным для исследователей и практиков Европейского Союза, России и Центральной Азии, поскольку предлагает материал для оценки реальной необходимости участия в продолжающемся развертывании системы межконтинентальных железнодорожных грузовых перевозок «CR Express». При этом авторы предостерегают, что, несмотря на потенциальные экономические выгоды, прежде всего для центральноазиатских государств, инициатива усиливает экономическую и логистическую, инфраструктурную зависимость от Китая. Для Китайской Народной Республики, «CR Express» является геополитическим и геоэкономическим инструментом и способствует консолидации её внешнеполитического влияния.

Ключевые слова: Транспортная политика, экономическая география, политическая география, геоэкономическая политика, железнодорожная инфраструктура, контейнерные перевозки, промышленная политика, Евразийская экономическая интеграция, «Экспресс CR», Пояс и путь, транспортная держава

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POLITICISATION OF DEPENDENCY HEDGING IN CHINA'S NATURAL GAS IMPORTS

Tristan Kenderdine

Abstract

China has institutionalised a state political hedging strategy on natural gas imports. By building out new infrastructure, reorganising domestic institutions and diversifying import channels between ocean-borne LNG and Central Asian and Russian pipeline gas, China has established a series of geoeconomic hedges. This paper examines China's state-market Eurasian gas and LNG access policy. It examines China's domestic pipeline infrastructure and import channels as well as the development of the new PipeChina state-owned enterprise and the prospects for developing new price-setting institutions. The paper then looks at the institutional architecture of Central Asia's gas exports, arguing that lack of proactive domestic political development means that the Central Asian exporters of Turkmenistan, Uzbekistan and Kazakhstan have only replaced one political dependency in Russia for a new dependency in China. The paper looks at China's hedging policies in the Russian Arctic and the Power of Siberia and at the prospects for strategic import policies to be implemented on LNG and piped gas, with particular regard to the Eurasian states. We find that China's import demands and institutional hedging strategies for gas imports are advanced but limited by unsophisticated institutionalisation of foreign, trade and industry policy, whereas the Central Asian exporters are institutionally limited by underdeveloped economic governance regimes.

Keywords: Belt and Road, China, energy policy, geoeconomic policy, geoindustrial policy, Kazakhstan, liquefied natural gas, natural gas, pipeline infrastructure, Russia, Turkmenistan, Uzbekistan

Политизация вопросов хеджирования зависимости от импорта природного газа в Китае

Аннотация: *Китай институционализировал государственную стратегию хеджирования импорта природного газа. Создавая новую инфраструктуру, реорганизуя внутренние институты и диверсифицируя каналы импорта между СПГ, центральноазиатским и российским трубопроводным газом, Китай создал систему геоэкономических гарантий. В данной статье рассматривается государственная политика Китая в области доступа на евразийский рынок газа и СПГ. В нем рассматривается внутренняя трубопроводная инфраструктура Китая и каналы импорта, а также развитие нового государственного предприятия PipeChina и перспективы новых ценообразующих институтов. Далее в статье рассматривается институциональная схема экспорта газа из Центральной Азии и утверждается, что в связи с отсутствием активного внутриполитического развития центральноазиатские экспортеры: Туркменистан, Узбекистан и Казахстан сменили политическую зависимость от России в пользу Китая. В статье рассматривается политика Китая при хеджировании газа из Российской Арктики и трубопровода «Сила Сибири» а также перспективы реализации стратегии импорта СПГ и трубопроводного газа из государств Евразии. Можно утверждать, что потребности Китая в импорте и институциональные стратегии хеджирования импорта газа достаточно развиты, однако ограничены в связи с институционализацией внешней, торговой и промышленной политики, в то время как центральноазиатские экспортеры институционально ограничены недостаточно развитыми режимами экономического управления.*

Ключевые слова: «Один пояс — один путь», Китай, энергетическая политика, геоэкономическая политика, геоиндустриальная политика, Казахстан, сжиженный природный газ, природный газ, трубопроводная инфраструктура, Россия, Туркменистан, Узбекистан

PIPELINE TIANXIA — CHINA'S INSTITUTIONALISATION OF HEDGING POLICY

China's energy mix has expanded to include more natural gas and liquefied natural gas (LNG). Combined piped gas and ship-borne LNG currently comprise around 8 percent of China's energy mix, half of which is imported. Import sources are roughly evenly split three ways between (1) the Central Asia Gas Pipeline (CAGP) crossing from Kazakhstan carrying mostly Turkmenistan gas, (2) the Russian Power of Siberia pipeline gas and (3) ship-borne LNG, with China having a long-term stake in Russia's Arctic Yamal LNG project. China's geoeconomic policy around natural gas imports has clear potential for politicisation, with impacts on both the supply countries and for other regional importing countries such as Japan. China has previously politicised the sell-side of strategic commodities, notably banning rare earth

exports to Japan[1] and has consistently politicised the buy-side of Australian iron ore under the China Iron and Steel Association cartelisation scheme.[2] Creating new buy-side dependencies in LNG and piped gas creates new forms of institutional power through which to exercise foreign policy via strategic price-setting and import volume control.

This paper explores the political economy and geoeconomic space between China's engagement with the global marketised LNG trade, the potential for closed-market LNG trade between Russia and China in the Arctic, and China's dual political hedge of land-based pipeline gas from both Central Asia and Russia. Ultimately, the paper argues that LNG is a proxy commodity for understanding the possible future institutional form of a China parallel strategic commodity import regime, dominated by geoeconomic political hedging rather than market fundamentals. This inversely impacts the market states operating in the global economy due to the gravity of the institutional negative space led by an alternate China import system as well as a series of institutional inversions where acute conflicts may arise where the dual trade systems disharmoniously converge.

CHINA'S DOMESTIC STATE-MARKET GAS INFRASTRUCTURE

International gas trade is measured in billion cubic meters, or bcm. China's 2019 natural gas consumption was 307.3 bcm,[3] with demand projected to almost double to 550 bcm by 2030.[4] Domestic production was around 170 bcm in 2019,[5] leaving around a 140 bcm reliance on imports in 2020 and market space for up to 380 bcm of imports by 2030. 133 bcm was imported in 2018, so this growth is on a smooth upward curve with China importing natural gas both from pipelines and from LNG with around 75 bcm in LNG imports in 2018, that is, roughly half of all imports come from ocean-borne LNG and half from overland pipes.[6] China's state gas policy is to diversify dependencies on all energy sources and also to provide an alternative to coal-burning in urban winter heating plans.[7] The technology of LNG was developed in the late 19th and early 20th centuries.[8] But a viable global trade in ocean-borne LNG tankers only really developed since the 1950s and has experienced a renaissance since the United States shale gas boom in the 21st century.[9] In recent decades, the technologies of liquefaction, ocean transit and regasification have been deployed at greater scale. While natural gas in European consumer markets is mostly used for heating and residential use, LNG, particularly in Japan and increasingly in China, is used for electricity generation. The global LNG supply market is diversified with large exporters such as Qatar, Australia, United States, Russia, Malaysia, Indonesia and Malaysia as well as a range of smaller Middle East and African exporters. However, Russia's Arctic-LNG Project creates the possibility of China importers and Russian exporters creating a closed trade model running parallel to the global competitively and open-priced ocean-borne LNG system. This is effectively the state contract pricing regime of an overland gas pipe applied to a commodity which should be fungible in international LNG markets. Arctic LNG Project I is a joint venture between China National Petroleum Corporation (CNPC, the listed arm of state-owned PetroChina), Total and Novatek.[10] Phase II will go into production soon. Arctic LNG (20 percent owned by CNPC and 9.9 percent Silk Road Fund)[11] has a current annual operating capacity of 24 bcm,[12] but the second project is planned with the future Novatek Arctic LNG development plans based on fields with 380 bcm and 1,800 bcm (total stock, not annual flow).[13] For perspective, Qatar, the world's largest LNG exporter, exported 104.8 bcm in 2018.[14]

Natural gas pipeline imports into China come mostly from Central Asia and more recently Russia, with a marginal pipeline from Myanmar.[15] The Power of Siberia pipeline from Russia has capacity for 38 bcm annually with gas distributed to nine north-eastern China provinces. The Central Asia Gas Pipeline has been operational in some form since 2009 with three lines A, B and C and a planned fourth line D. The combined gas pipeline network of Turkmenistan, Uzbekistan, and

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[1] *King, A. and Armstrong, S. 2013. Did China really ban rare earth metals exports to Japan? East Asia Forum. [online] Available at: https://www.eastasiaforum.org/2013/08/18/did-china-really-ban-rare-earth-metals-exports-to-japan/*

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[3] *BP, 2020. Statistical Review of World Energy. [pdf] Available at: https://www.bp.com/en/global/corporate/energy-economics/statistical-review-of-world-energy/downloads.html*

[4] *Clemente, J., 2019. China Soaring Past Japan In Liquefied Natural Gas Imports, Forbes. [online] Available at: https://www.forbes.com/sites/judeclemente/2019/11/01/china-soaring-past-japan-in-liquefied-natural-gas-imports/?sh=54f14a57626b*

[5] *Xu, M.Y. and Singh, S., 2019. UPDATE 1 - China's 2020 gas consumption to reach 320 bcm - CNPC research, Reuters. [online] Available at: https://www.reuters.com/article/china-gas/update-1-chinas-2020-gas-consumption-to-reach-320-bcm-cnpc-research-idUSL4N28M1VG*

[6] *Xu, M.Y. and Singh, S., 2019. UPDATE 1 - China's 2020 gas consumption to reach 320 bcm - CNPC research.*

[7] *Clemente, J., 2019. China Soaring Past Japan In Liquefied Natural Gas Imports.*

[8] *Chen, H.C., 2008. History of the Development of LNG Technology. American Institute of Chemical Engineers Annual Conference Proceedings. [online] Available at: https://folk.ntnu.no/skoge/prost/proceedings/aiche-2008/data/papers/P139095.pdf*

[9] *Grigas, A., 2017. The New Geopolitics of Natural Gas. Cambridge, MA: Harvard University Press.*

[10] *In Chinese, the projects are referred to as 北极LNG (Beiji LNG) but in Russian as Ямал СПГ (Yamal LNG). In English, Yamal LNG or Arctic LNG were interchangeable for Phase 1, but Phase II seems to be universally referred to as Arctic LNG 2.*

[11] *Xinhua, 2018. Yamal LNG project reaches full production capacity. [online] Available at: http://www.xinhuanet.com/english/2018-12/12/c_137666821.htm*

[12] *For reference, 1 billion cubic meters of natural gas equals 0.73 million metric tons of LNG, and 1 million metric tons LNG equals 1.38 billion cubic meters of natural gas.*

[13] *Staalesen, A., 2016. Novatek presents plans for new Arctic LNG, Barents Observer. [online] Available at: https://thebarentsobserver.com/ru/node/507*

[14] *Statista, 2019. Major liquefied natural gas exporting countries in 2019 (in billion cubic meters). [online] Available at: https://www.statista.com/statistics/274528/major-exporting-countries-of-lng/*

[15] *Liu, D., Yamaguchi, K., and Yoshikawa, H., 2017. Understanding the motivations behind the Myanmar-China energy pipeline: Multiple streams and energy politics in China. Energy Policy, 107, pp. 403–412.*

Kazakhstan has a total capacity of 55 bcm per year.[16] While the total operational capacity at the cross-border Khorgos gas pipeline metering station is 55bcm, the regional make-up and actual throughput vary.[17] In 2018, Turkmenistan gas exports to China were 33.2 bcm, Uzbekistan 10 bcm and Kazakhstan 7.1 bcm.[18] In 2019, only a combined 47.9 bcm was imported.[19] First fiscal quarter numbers for China in 2020 were down slightly on 2019 — 10.1 bcm imported in the first three months of 2020 through the CAGP compared with 11.5 the previous year.[20] This is against 2020 first quarter China domestic production of 47.8 bcm and total domestic consumption of 78.5 bcm.[21] Second quarter imports were around the same, with total 2020 first half imports reaching 19.88 bcm.[22]

China's domestic hydrocarbon energy production mix comprises serious capacity in both oil and gas domestic production, including a new gas field discovered by PetroChina in Xinjiang in 2020.[23] This will add to PetroChina's Changqing, Tarim, Sichuan and Qinghai gas fields which already produce over 100 bcm of natural gas per year.[24] PetroChina Western Pipeline Corporation originally operated the CAGP hub at the Khorgos Compressor Station as the China-side beginning of the domestic West-East pipeline. However, China's gas imports are increasingly coordinated by a single entity, PipeChina. Established in 2019, PipeChina has begun to absorb China's gas infrastructure from the three existing upstream oil and gas state-owned enterprises (SOEs) with the ostensible goal of marketising the midstream to promote market competition for downstream SOEs, local governments and private enterprises to lease capacity.[25] PipeChina now owns and operates the domestic pipeline infrastructure connecting to the CAGP, Power of Siberia and the Shwe pipeline from Myanmar. Currently, the Myanmar pipeline only imports about half its capacity, the gas from which is of poor quality, while the increase in the Central Asian pipeline capacity is dependent on the completion of Line D of the CAGP from Turkmenistan, which has no firm construction commitments.[26] China's natural gas import regime is thus hedged between domestic production, overland pipeline imports and ocean-borne LNG imports. This diversified market structure though is coming under increasing monopolisation on the import side by PipeChina.

DEVELOPMENT OF THE PIPECHINA MONOPOLY

The major institutional development in China's gas import strategy has been a domestic reorganisation of the midstream SOE distribution operation. National Petroleum and Natural Gas Network Group Co., Ltd (国家石油天然气管网集团有限公司), known as PipeChina (国家管网) was established on 9 December 2019 to assume the monopoly functions of China's oil and gas pipeline infrastructure.[27] As well as the backbone trunk infrastructure for distributing the Central Asian Gas Pipeline and the Power of Siberia pipeline, PipeChina has already taken over the majority of China's LNG regasification terminals, with three additional large regasification terminal projects to come under its control upon completion. When Shandong's Longkou Nanshan LNG facility comes online, PipeChina will control 35.6 bcm of coastal regasification facilities, more than three times the combined capacity of remaining LNG terminals. [28] How China's domestic pipeline and LNG infrastructure is institutionally organised will be increasingly significant to global market participants. Moreover, the price-setting mechanisms that China state buyers will use to determine China's imports will shape the global price of gas, both piped and LNG.[29]

PipeChina's policy is prescribed to develop a national domestic pipeline network of 163,000 km from the current 64,000.[30] This is a mandate to massively expand and consolidate the national integrated pipeline and LNG terminal network from the existing holdings of the national oil companies. The new pipeline infrastructure SOE breaks into the previous monopolies of PetroChina (China National Petroleum Corporation, CNPC as the listed entity), Sinopec (China Petroleum & Chemical Corporation) and CNOOC (China National Offshore Oil Corporation) to create a new monopoly

16 S&P Platts, 2020. Central Asian countries discussing shared cut in gas supplies to China: Uzbekneftegaz. [online] Available at: https://www.spglobal.com/platts/en/market-insights/latest-news/natural-gas/050520-central-asian-countries-discussing-shared-cut-in-gas-supplies-to-china-uzbekneftegaz

17 Shaban, I., 2020. Central Asian countries discussing shared cut in gas supplies to China, Caspian Barrel. [online] Available at: http://caspianbarrel.org/en/2020/05/central-asian-countries-discussing-shared-cut-in-gas-supplies-to-china/

18 Bhutia, S., 2019. Is new Russia-China gas pipeline a threat to Turkmenistan? Eurasianet. [online] Available at: https://eurasianet.org/is-new-russia-china-gas-pipeline-a-threat-to-turkmenistan

19 Xinhua, 2020. Central Asia natural gas pipeline transported more than 47.9 billion cubic meters of gas to China in 2019. [online] Available at: http://www.xinhuanet.com/2020-01/06/c_1125427050.htm

20 CNPC, 2020. Central Asia Natural Gas Pipeline transported more than 10 billion cubic meters in the first quarter. [online] Available at: https://www.cnpc.com.cn/cnpc/shudubk/202004/88b6cab564574a24a23445b1595f9af4.shtml

21 Xinhua, 2020. China's natural gas apparent consumption edges up in Q1. [online] Available at: http://xinhuanet.com/english/2020-05/04/c_139030092.htm

22 Zhou, F., 2020. Central Asia Natural Gas Pipeline transported 19.88 billion cubic meters of gas, Yicai. [online] Available at: https://www.yicai.com/news/100717387.html

23 Hydrocarbons Technology, 2020. PetroChina discovers large gas reserve in Xinjiang region. [online] Available at: https://www.hydrocarbons-technology.com/news/petrochina-gas-reserve-xinjiang/

24 CNPC, 2020. Natural Gas & Pipelines. [online] Available at: https://www.cnpc.com.cn/en/naturalgaspipelines/naturalgas_index.shtml

25 Xu, M.Y. and Manekar, S., 2020. PipeChina to take on $56 billion of pipelines to boost network access, Reuters. [online] Available at: https://www.reuters.com/article/us-china-pipeline-idUSKCN24O2BU

26 Xu, M.Y. and Manekar, S., 2020. PipeChina to take on $56 billion of pipelines to boost network access.

27 PipeChina, 2020. Group Profile. [online] Available at: https://www.pipechina.com.cn/gywm/jtjj.html; Xinhua, 2019. Promote High-quality Development of the Oil and Gas Industry — An Interview with the Leader of the National Pipeline Company. [online] Available at: http://www.xinhuanet.com/fortune/2019-12/09/c_1125324497.htm

28 Tank Storage Mag, 2020. Construction starts on 20m t/y Longkou Nanshan LNG project. [online] Available at: https://www.tankstoragemag.com/2020/05/19/construction-starts-on-20m-t-y-longkou-nanshan-lng-project/

29 'China' is used here and throughout as an adjectival noun, describing nouns in place of the more conventional 'Chinese'. This is to separate the ethnonym and demonym from the nation state of the People's Republic of China which is not wholly synonymous with the ethnicities, people or civilisation of China.

30 S&P Platts, 2020. Insight from Shanghai: China's grand plan for gas market competition at odds with dominance of NOCs. [online] Available at: https://www.spglobal.com/platts/en/market-insights/blogs/natural-gas/121520-china-natural-gas-market-competition-pipechina-co2-emissions

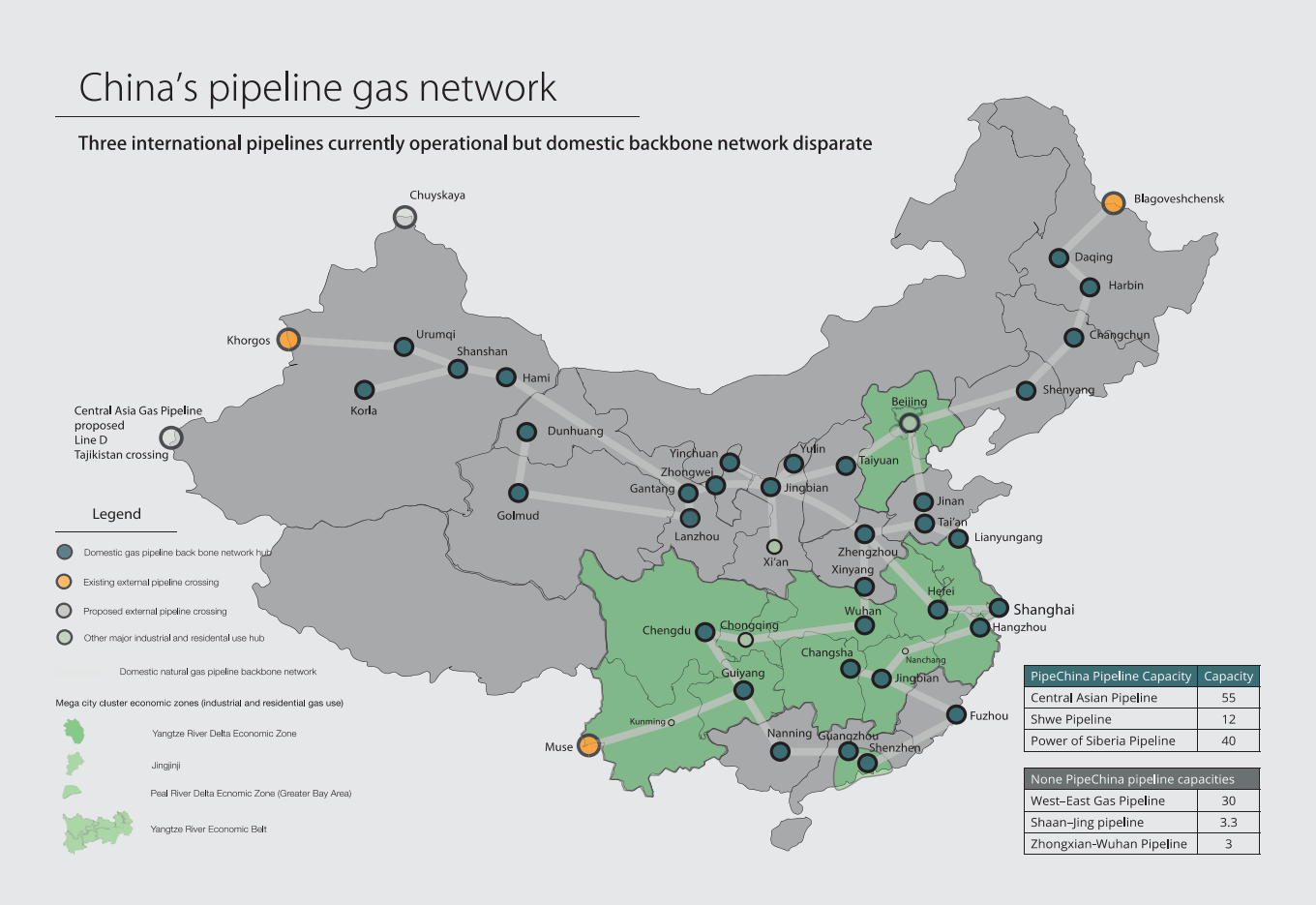


Figure 1. China domestic pipeline infrastructure
Source: Author

industry.[31] The three stated goals in establishing PipeChina were to firstly ensure separation of pipeline infrastructure from production and sales, creating the possibility for future market competition, secondly to develop a single integrated national pipeline network, and thirdly to plan and construct a national pipeline trunk network, to better service the national network.[32] This is the same approach that China central planners have taken to internet backbone infrastructure, state electricity grid planning and intercontinental railways development. The three upstream oil and gas SOEs have been moving infrastructure to PipeChina, and both upstream SOEs and downstream SOEs, local governments and private enterprises will compete to lease capacity. In July 2020, PipeChina bought 391.4 billion yuan[33] in assets from PetroChina and Sinopec.[34] PipeChina's other major acquisition of 2020 was the Yulin-Jinan pipeline, the Shaanxi to Shandong trunk line from Sinopec, essentially taking control of the Shaanxi-Beijing trunk pipeline.[35] PipeChina also absorbed a 75% stake in the Dalian LNG terminal and a 60% stake in Beijing Pipeline in late December 2020.[36] PipeChina charges public tariffs for using port infrastructure for LNG import at the seven existing terminals it now

[31] *Xin, Z., 2020. China's oil giants spin off pipeline assets, China Daily. [online] Available at: https://www.chinadaily.com.cn/a/202007/25/WS5f1b8ff8ba31083481725bffc.html*

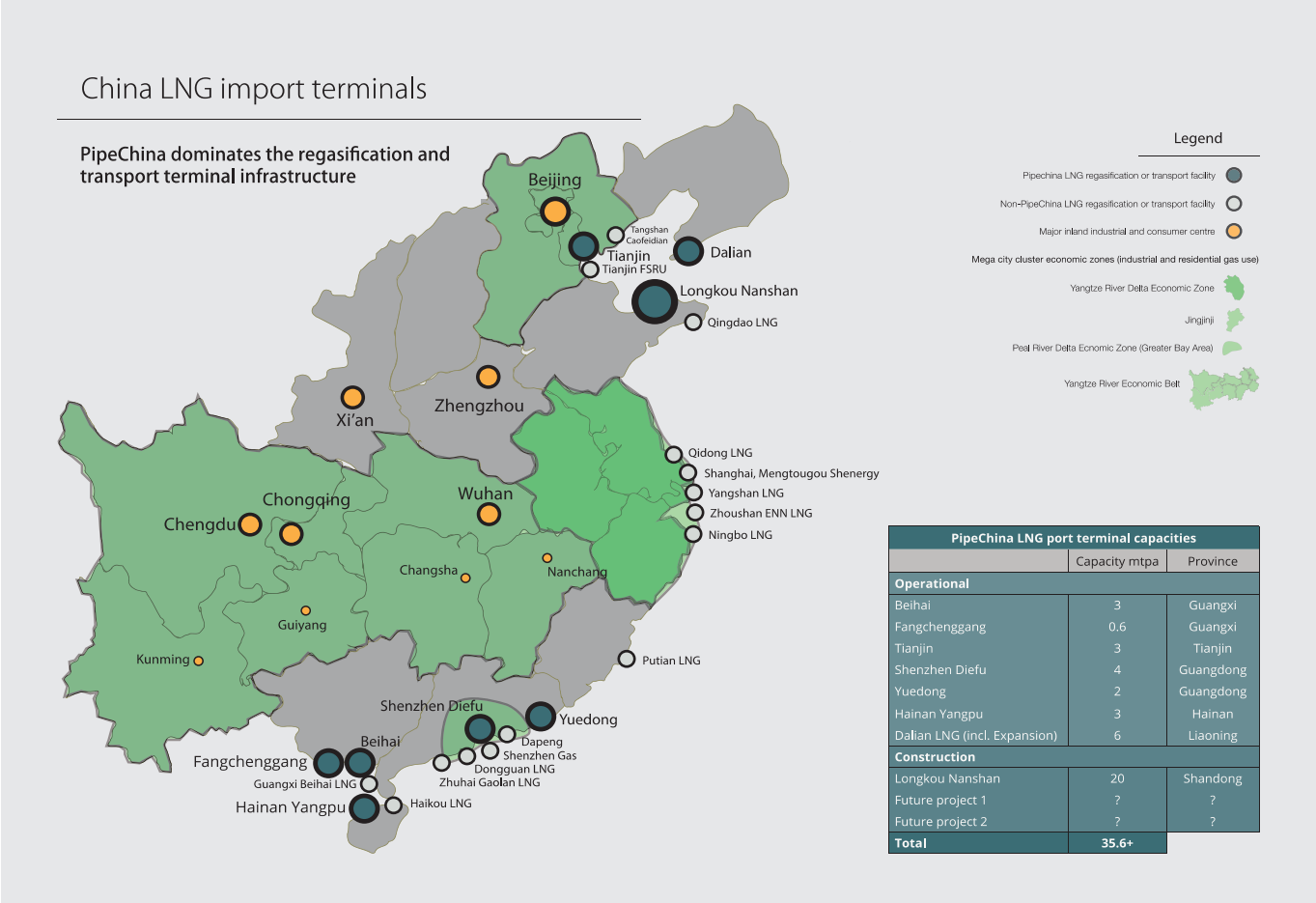
[32] *Xin, Z., 2020. China's oil giants spin off pipeline assets.*

[33] *Xu, M.Y. and Manekar, S., 2020.*

[34] *Tank Storage Mag, 2020. PipeChina offers access to LNG and crude infrastructure. [online] Available at: https://www.tankstoragemag.com/2020/10/15/pipechina-offers-access-to-lng-and-crude-infrastructure/*

[35] *Klass, C., 2020. Sinopec unit sells gas pipeline asset to PipeChina, Argus. [online] Available at: https://www.argusmedia.com/en/news/2125326-sinopec-unit-sells-gas-pipeline-asset-to-pipechina;*
Sinopec. General Information of the Pipeline Network and Sales of Sinopec Gas Company. [online] Available at: http://www.sinopec.com/listco/en/products_service/nature_gas/

[36] *Argus, 2020. PipeChina pays $6bn for Chinese LNG, gas assets. [online] Available at: https://www.argusmedia.com/en/news/2171615-pipechina-pays-6bn-for-chinese-lng-gas-assets*



PipeChina LNG port terminal capacities		
	Capacity mtpa	Province
Operational		
Beihai	3	Guangxi
Fangchenggang	0.6	Guangxi
Tianjin	3	Tianjin
Shenzhen Diefu	4	Guangdong
Yuedong	2	Guangdong
Hainan Yangpu	3	Hainan
Dalian LNG (incl. Expansion)	6	Liaoning
Construction		
Longkou Nanshan	20	Shandong
Future project 1	?	?
Future project 2	?	?
Total	**35.6+**	

Figure 2. China domestic LNG regasification infrastructure[37]

operates, with a further three under construction.[38] This leaves the rest of China with 16 LNG terminals with a combined capacity of 13.1 bcm, while PipeChina will hold ten LNG terminals with a combined capacity (including the new terminal under construction at Longkou Nanshan in Shandong) at 35.6 bcm. Sylvie Cornot-Gandolphe has argued that China's energy strategy could reach a combined import capacity of 300 bcm, evenly split between pipelines and LNG terminals by the middle of the 2020s; PipeChina's domestic infrastructure holding of both pipelines and LNG terminals is likely to grow both in gross terms and as a ratio of the national system.[39]

PipeChina's significance here is threefold: first in controlling the terminal assets for LNG imports, PipeChina can use price-mechanisms on LNG docking berth quotas to manipulate trade flows to more nationally strategic locations, such as Guizhou and Hainan.[40] Second, by managing the infrastructure of both LNG terminals and pipelines, PipeChina can effectively manage national policy on political hedging between the two import sources. And third, by creating a unified actor in the midstream distribution space, China's central government can more easily implement price controls on city-gate gas consumption through PipeChina. PipeChina has already demonstrated its geoeconomic policy implications in LNG port operations. In allocating quotas for 2021 imports, PipeChina made more regasification berths available in lower demand but higher strategic value southern Guangxi and Hainan ports while releasing fewer

[37] *S&P Global Platts, 2020. Analysis: China's new LNG regas projects delayed amid COVID-19 impact, financial strain. [online] Available at: https://www.spglobal.com/platts/en/market-insights/latest-news/natural-gas/070720-analysis-chinas-new-lng-regas-projects-delayed-amid-covid-19-impact-financial-strain; Cornot-Gandolphe, S., 2019. China's Quest for Gas Supply Security: The Global Implications.; Hellenic Shipping News, 2020. China to lead global LNG regasification capacity additions from new-build projects with 25% share by 2024, says GlobalData. [online] Available at: https://www.hellenicshippingnews.com/china-to-lead-global-lng-regasification-capacity-additions-from-new-build-projects-with-25-share-by-2024-says-globaldata/; Reuters, 2021. Sinopec to build $2.8 billion LNG terminal in eastern China. [online] Available at: https://www.reuters.com/article/uk-china-lng-sinopec-terminal-idUSKBN2341C2; Reuters, 2021. Factbox: China's LNG import terminals and storage facilities. [online] Available at: https://www.reuters.com/article/us-china-gas-terminal-factbox-idUSKCN1V60OA; Klass, C., 2020. PetroChina eyes end-2023 start-up for Jieyang LNG, Argus. [online] Available at: https://www.argusmedia.com/en/news/2117183-petrochina-eyes-end2023-startup-for-jieyang-lng; Farrer, G., 2020. LNG regasification: why there's still plenty of gas in the tank, Wood MacKenzie. [online] Available at: https://www.woodmac.com/news/opinion/lng-regasification-why-theres-still-plenty-of-gas-in-the-tank/*

[38] *Argus, 2020. PipeChina pays $6bn for Chinese LNG, gas assets.*

[39] *Cornot-Gandolphe, S., 2019. China's Quest for Gas Supply Security: The Global Implications. Institute Français des Relations Internationales. [pdf] Available at: https://www.ifri.org/sites/default/files/atoms/files/cornot-gandolphe_s_china_quest_gas_supply_security_2019.pdf*

[40] *Argus, 2020. PipeChina pays $6bn for Chinese LNG, gas assets.*

berths in the developed eastern and northern port centres. This signalled a clear intent from central government to use the SOE to develop spatial and strategic planning policy imperatives. Hainan is slated to be developed into a new free trade zone, and the Guangxi port clusters of Beihai and Fanchenggang are integral hubs in the Maritime Silk Road plan to connect deeply inland Chongqing with Singapore via the New Land-Sea Corridor spatial plan.

China's wider hydrocarbon and petrochemical geoeconomic access policies are also more internationalised than previous industrial commodities under the rapid growth era. China's petrochemical industry is organised into a cartel under the China Petrochemical International Capacity Cooperation Enterprise Alliance, effectively an attempt to cartelise both supply and demand-sides to create a whole value chain approach to achieving strategic access to energy resources through the Belt and Road economies.[41] Coordinating industrial park investment, leveraging policy bank capital and securing institutionalisation of commodity prices can ensure not only stable supply but also political control of offshore industrial production bases and their inputs. The ICC Petrochemical Industry Alliance consists of seventy major petroleum and chemical SOEs and semi-private enterprises, led by China's three major SOE hydrocarbon producers PetroChina (the share market listed arm of China National Petroleum Corporation), Sinopec and China National Offshore Oil Corporation (CNOOC). The structure and early operational processes of PipeChina seem to indicate that PipeChina is not part of the wider ICC Petrochemical Industry Alliance. While the three other domestic hydrocarbon SOEs and PipeChina are all nominally governed by the State-owned Assets Supervision and Administration Commission SASAC and the National Energy Administration NEA, PipeChina appears to have a more direct front-end facing international markets. The pipeline and LNG terminal monopoly is more complete for PipeChina than the pseudo-monopolies of the other major hydrocarbon SOEs, and the exporting countries that PipeChina will engage with are also more stable than the players in the global oil market. The combination of these institutional factors should mean that PipeChina is able to operate more independently in global gas markets and more efficiently in strategic operations domestically.

CENTRAL ASIA AND RUSSIA SUPPLY-SIDE INSTITUTIONS: A WEAK GEOECONOMIC LEVER

Structurally, China Eurasian pipeline gas import strategy centres on building out a trunk line system for natural gas connecting China with both Russia and Central Asia.[42] China's long term spatial plan for its Near Abroad envisions Eurasian trunk line connections, not only in gas but in Ultra-high Voltage (UHV) electricity networks, internet backbone and railways. In gas, there is clear policy potential for China to politicise the buy-side dependency by building strategic institutional levers for state price and volume import control. However, there has been little geoeconomic hedging policy from either the three Central Asian exporting states or Russia. China's import demands and institutional hedging strategies for non-market gas purchases are advanced but limited by its own internal institutional contradictions. However, political and policy architecture in the supply countries also have the potential to upset a China buy-side geoeconomic hedge. Whereas the Central Asian exporters are institutionally limited by underdeveloped economic governance strategies, Russia's foreign geoeconomic policy remains ambiguous.

The Central Asia Gas Pipeline from Turkmenistan, Uzbekistan and Kazakhstan to China comprises three parallel pipes, A, B and C, with plans for line a future line D. Line A and Line B are dedicated Turkmenistan lines inaugurated in 2009 and 2010, with a combined operational capacity of 30 bcm per year. While the gas exported through lines A and B are exclusively Turkmenistan to China, both Uzbekistan and Kazakhstan are integral strategic transit countries with the pipe crossing into China at Khorgos. Line C, inaugurated in 2014 is a combined Turkmenistan, Uzbekistan, Kazakhstan usage pipeline with a capacity of 25 bcm. Turkmenistan is allotted 10 bcm, Uzbekistan 10 bcm and Kazakhstan 5 bcm; operationally though, the Uzbek throughput is closer to 7 bcm per year. The as-of-yet incomplete Line D would theoretically carry 15 bcm of exclusively Turkmenistan capacity. Turkmenistan in particular highlights the one-way China dependency problem, with 90 percent of Turkmenistan's gas exports flowing through this single CAGP contract with China.[43] This is indicative of the political risk Central Asian gas exporters face with China-facing energy trade, a one-way dependency.[44] Despite the pandemic and the force majeure notices issued to major China LNG importers, China LNG imports actually increased through 2020 by around 10% to around 89 bcm.[45] This is from a total of around 131 bcm for all gas (pipe and LNG) for the whole of 2019, and a domestic production of 73.3 bcm of natural gas in 2019.[46] This 2020 glut scenario demonstrates that the possibility of export cuts from the Central Asian gas exporters are not as effective a political hedge as China's political hedge of not buying. The Central Asia-China framework has not been tested in a gas scarcity scenario, but the LNG hedge and reliance on international markets are a tested hedge in the case of a potential CAGP politicised shut-off.

[41] *Kenderdine, T., 2020. China's Petrochemical Enterprise Alliance and Iran Oil Trade, Middle East Institute. [online] Available at: https://www.mei.edu/publications/chinas-petrochemical-enterprise-alliance-and-iran-oil-trade*

[42] *Northeast Asian Gas and Pipeline Forum, 2000. a Long-Term Vision of Natural Gas Trunkline in Northeast Asia. [online] Available at: http://www.nagpf.info/research/1research.htm*

[43] *Hess, M., 2020. Central Asian Gas Exports to China: Beijing's Latest Bargaining Chip?, Foreign Policy Research Institute. [online] Available at: https://www.fpri.org/article/2020/06/central-asian-gas-exports-to-china-beijings-latest-bargaining-chip/?*

[44] *Foley, R., 2021. Can Central Asian gas exporters rely on China?, Eurasianet. [online] Available at: https://eurasianet.org/analysis-can-central-asian-gas-exporters-rely-on-china*

[45] *Chen, A.A. and Muyu, X., 2020. China on course for record LNG imports as industries recover, expand, Reuters. [online] Available at: https://www.reuters.com/article/us-china-gas-demand-winter/china-on-course-for-record-lng-imports-as-industries-recover-expand-idUSKCN26G0WI*

[46] *S&P Platts, 2020. China's 2019 crude imports up 9.5%, gas import growth slows. [online] Available at: https://www.spglobal.com/platts/en/market-insights/latest-news/oil/011420-chinas-2019-crude-imports-up-95-gas-import-growth-slows#:~:text=China's%20gas%20imports,latest%20data%20GAC%20data%20showed*

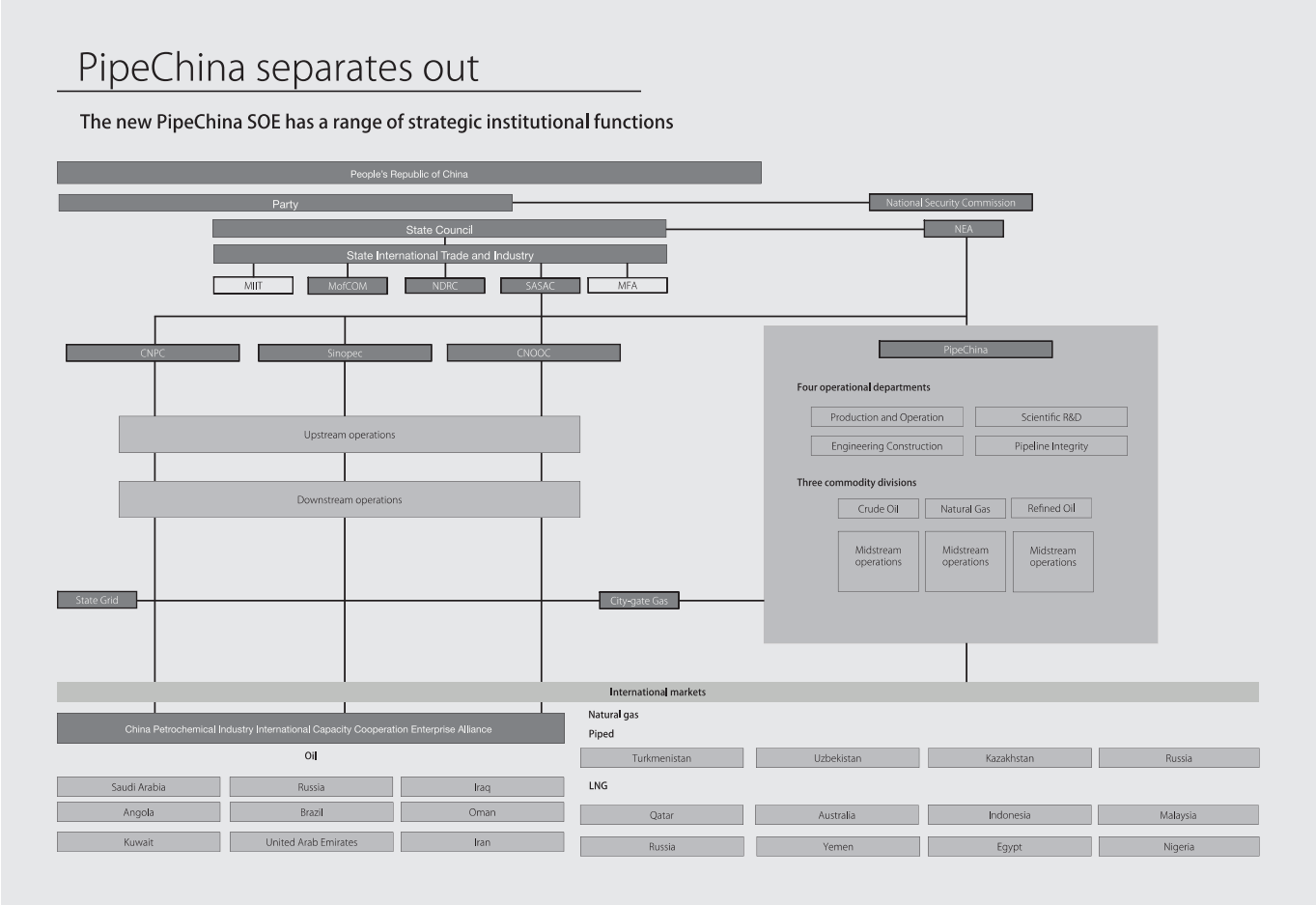


Figure 3. PipeChina's position in China's hydrocarbon import ecosystem[47]

As a result of the *force majeure* period in 2020 Kazakhstan did cut gas exports to China, and Uzbekistan has established a policy to halt gas exports altogether.[48] Both Kazakhstan and Uzbekistan's role in the Central Asia-China gas matrix is mostly as transit economies, allowing the transfer for gas from Turkmenistan to China. Kazakhstan's established domestic cross-country pipeline system connects Khorgos to Lianyungang port via China's domestic West-East pipeline system. Kazakhstan's own hydrocarbon exports remain mostly crude oil through a separate pipeline system connecting its Caspian oilfields with Dalian port infrastructure in northeast China. Despite potential in Kazakhstan's large hydrocarbon sector, it remains capital poor, with an absence of processing facilities, this despite the advance of China investment in the Kazakh industrial structure over the past decade.[49] The change in demand-side price pressures that China brings to the Eurasian piped gas export market still has the potential to bring marketised price-setting institutions to Central Asian exporters.[50] However, as the Kazakhstan piped gas is generally more expensive than LNG market prices, China's imports from Kazakhstan are a key China tool for variable supply politicisation.[51] While China's potential as the new westward gas axis for Central Asia remains great, the threat of economic dependence falls on the Central Asian side.[52]

Uzbekistan plans to stop exporting gas through the CAGP pipeline entirely and focus on value-added processing domestically. Uzbekneftegaz has developed a new liquefaction plant with a delayed expected operation beginning in July 2021 with a capacity of 3.6 bcm which is part-owned by

[47] *Sohu, 2019. Picture shows the status of domestic oil pipeline construction. [online] Available at: https://www.sohu.com/a/289746951_100941; Chen, Y.L., 2019. Organizational structure of National Pipeline Network Company determined, Sina Finance. [online] Available at: https://finance.sina.com.cn/roll/2019-12-09/doc-iihnzhfz4609553.shtml; PipeChina, 2021. Central acceptance of 2021 remaining National Pipe Network Group LNG receiving station capacity. [online] Available at: https://www.pipechina.com.cn/gpkf/tzgg/1794.html; PipeChina, 2021. Announcement on central acceptance of 2021 LNG receiving station window. [online] Available at: https://www.pipechina.com.cn/gpkf/tzgg/1763.html*

[48] *S&P Platts, 2020. China's 2019 crude imports up 9.5%, gas import growth slows.*

[49] *Yau. N., 2020. Tracing the Chinese Footprints in Kazakhstan's Oil and Gas Industry, The Diplomat. [online] Available at: https://thediplomat.com/2020/12/tracing-the-chinese-footprints-in-kazakhstans-oil-and-gas-industry/*

[50] *Kenderdine, T., 2020. China's Demand Impact on Eurasia Gas Pricing. ENERPO Journal, 8(1), pp. 11–14.*

[51] *Marzec-manser, T., 2020. Expensive pipeline gas to support China's LNG demand, Independent Commodity Intelligence Services. [online] Available at: https://www.icis.com/explore/resources/news/2020/06/23/10522287/expensive-pipeline-gas-to-support-china-s-lng-demand*

[52] *Kenderdine, T., 2019. Geoeconomics of Natural Gas in Eurasia. Geopolitics, 24(2), pp. 523–527.*

China.[53] Platts reports that Uzbekneftegaz is to invest in the Oltin Yo'l gas to liquid project and expand the Shurtan gas chemical complex.[54] Uzbekistan's national gas production was 60 bcm in 2019 with a planned expansion to 72 bcm by 2030.[55] The Uzbekistan policy shift would reduce exports of unprocessed gas to zero by the end of the 2020s. However, while Uzbekistan's move towards gas processing in-country may improve ability to service domestic consumers, it is unlikely to have any impact on regional dynamics as export levels were so low. Uzbekistan is thus caught between self-reliance and geoeconomic dependency.

Russia is less affected by China's international hedging strategy due to its natural gas relationships with Europe and Central Asia. Russia's dynamic relationship with European and China pipeline export markets, Arctic LNG exports and the continued arbitrage on the import-export spread from Russia's Central Asian pipeline gas supply allow Russia some political leverage in gas exports.[56] The Power of Siberia is the third cross-border gas pipeline into China after the CAGP and Myanmar pipeline, giving Russia a hedge against China import politicisation.[57] Power of Siberia complements the Arctic LNG complex which is an all-in-one extraction, liquefaction and transport facility. Stage 2 of Arctic LNG will tap a field of approximately 380 bcm, or 10 years of full capacity of Power of Siberia,[58] with another major undeveloped field nearby containing around 1.8 trillion cubic meters, or nearly 50 years' capacity of the Power of Siberia pipeline.[59] The ability of Russia to export both piped and LNG gas to China without using international markets gives Russia an effective hedging strategy for the coming decades of China's likely increased politicisation of gas imports.

The biggest factor in any change in demand remains China's central government policy priorities in energy mix. The China Central Asia Gas Pipeline was a political opportunity for the Central Asian gas exporting economies to diversify exports away from Russia and thus create an institutional environment to allow for a better pricing regime. However, the Central Asian gas exporting states have failed to develop their own national strategic hedge against China buy-side dependency. China has now successfully built a pipeline supply into its national strategic energy dependency hedge.[60] Central Asian gas exporters remain essentially reactive and waiting to take both policy signals and price signals from Beijing. Thus, the institutional framework of China introducing more competition into the regional hydrocarbon exporting mix has only really resulted in trading a dependency on Russia import markets for China, without the institutional development needed to hedge political risk by the exporting economies. Whatever the future importance of Central Asia pipeline gas in China's energy mix, the economic geographic structure favours China's politicisation over any strategic policy outcome of Russia or the Central Asian exporters. To maintain a permanent counter to the dependence on Central Asia and Russia piped gas, China is likely to continue development of an import strategy of importing roughly equal amounts of pipeline gas and LNG and roughly equal amounts of LNG gas through the global markets and through the semi-closed Arctic LNG project. China's geoeconomic hedges thus balance imports between piped gas from dependent Central Asian exporters, piped gas from Russian exporters, Russian LNG which can act more like a monopoly during a political crisis, and global LNG markets. Ultimately, China's strategic leverage on both Russian and Central Asian pipelines remains the LNG trade and vice versa.

CHINA'S POLITICAL HEDGING POSES PARALLAX EURASIAN GEOECONOMIC RISK

The policy implications of China's political hedging of energy import policy for Eurasian states are more acute than any geopolitical risk posed by China's Belt and Road foreign trade and industrial policy. For exporting states in Central Asia and Russia, there is as yet no great political risk in developing greater export capacity with China or with allowing China to invest in upgrading domestic industrial structures in host economies. In LNG, China's import dependency strategy is beginning to mirror Japan's, and yet a new array of China policies and institutions are emerging to manage this buy-side dependency in novel ways. The gravity of global institutional rule-setting and price-taking behaviours, though, are now shifting from Japan to China in the LNG trade and solidifying a China import advantage in overland pipeline trade. China's strategic import dependency hedging of both LNG and piped natural gas through PipeChina is perhaps the clearest indicator of future policy institutionalisation across a wider range of strategic energy commodities.

In terms of practical policy development, China's Belt and Road policy, Eurasian geoeconomic expansion policy and natural gas political hedging strategy mimic China's domestic strategies in other network industries such as rail and

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[53] *S&P Platts, 2020. Central Asian countries discussing shared cut in gas supplies to China: Uzbekneftegaz. [online] Available at: https://www.spglobal.com/platts/en/market-insights/latest-news/natural-gas/050520-central-asian-countries-discussing-shared-cut-in-gas-supplies-to-china-uzbekneftegaz; Afanasiev, V., 2021. Uzbekistan Reveals New Deadline for $3.6bn Gas-to-liquids Project, Upstream. [online] Available at: https://www.upstreamonline.com/production/uzbekistan-reveals-new-deadline-for-3-6bn-gas-to-liquids-project/2-1-942900*

[54] *Idem.*

[55] *S&P Platts, Central Asian countries discussing shared cut in gas supplies to China.*

[56] *Ehsan, R., Taghizadeh-Hesary, F., Yoshino, N. and Sarker, T., 2020. Russian Federation–East Asia Liquefied Natural Gas Trade Patterns and Regional Energy Security. Asian Development Bank Institute. [pdf] Available at: https://www.adb.org/publications/russian-federation-east-asia-liquefied-natural-gas-trade-patterns-security*

[57] *Hydrocarbons Technology, 2020. PipeChina opens another section of Russian natural gas import pipeline, 4 December. [online] Available at: https://www.hydrocarbons-technology.com/news/pipechina-opens-another-section-of-russian-natural-gas-import-pipeline/; China National Petroleum Corporation. Overview of the Myanmar-China Oil & Gas Pipelines. [online] Available at: https://www.cnpc.com.cn/en/myanmarcsr/201407/f115a1cc6cdb4700b55def91a0d11d03/files/dec09c5452ec4d2ba36ee33a8efd4314.pdf*

[58] *Staalesen, A., 2016. Novatek presents plans for new Arctic LNG, Barents Observer. [online] Available at: https://thebarentsobserver.com/ru/node/507*

[59] *Staalesen, A., 2016. Novatek presents plans for new Arctic LNG.; Gazprom, 2020. Power of Siberia, The largest gas transmission system in Russia's East. [online] Available at: https://www.gazprom.com/projects/power-of-siberia/*

[60] *Fazilov, F. and Chen, X.M., 2013. China and Central Asia: a Significant New Energy Nexus. European Financial Review. [online] Available at: https://core.ac.uk/download/pdf/232742424.pdf*

electricity and in other strategic import commodities such as soy and iron ore. This domestic institutionalisation of geoeconomic hedging will not simply result in international price frictions between states competing for imports from global markets. In times of extreme glut or scarcity, China's institutionalisation of political hedging in strategic import commodities can become a geoeconomic tool of convenience or malice. For both the small Central Asian gas exporting states and Russia, overreliance on China as purchaser and a reactionary energy policy from domestic governments is both a geopolitical and a geoeconomic risk, which could be mitigated with a policy of pursuing open market operations, global market-derived pricing and delivery systems protected by international law.

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apart from politics – are largely scrutinized and at times threatened by third parties. This does not imply that future German-Russian energy relations are doomed to fail. In 2020 and beyond, Germany and Russia will need to continue to navigate tricky waters if their energy partnership is going to grow. The final implementation of Nord Stream 2 will be evidence of the success of mutual cooperation in the fields of gas and energy. If 2019 is any indication of the future to come, the German-Russian relationship will benefit from increased bilateral cooperation, even in the face of systemic challenges and opposition from all sides.

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CHINA'S DEMAND IMPACT ON EURASIA GAS PRICING

Tristan Kenderdine

Abstract

China's investments in both Yamal-Nenets and Turkmenistan have the potential to transform global gas production into market-forced and commoditised trade. But ultimately China's and Russia's continued state dominance will mean that gas prices will remain a shadow commodity for the foreseeable future.

Key words: Arctic Ocean; China; Central Asia; Caspian Sea; Eurasia; LNG; Natural Gas

Natural gas is a product highly amenable to commodification. And yet everywhere its extraction, transport, and consumption is structurally determined and structurally priced. Without markets to set prices, producers are stuck with end-to-end contracts that usually favour the buy-side. China entering the Eurasian gas buy-side market has the potential to change the way that gas is priced, and consumed, globally.

China's entry into Eurasian gas fields via the Arctic Ocean and Gulf of Ob', effectively creates five main natural axial arcs in Eurasia, centred geopolitically on the Caspian Sea Rim economies. The four extant gas axes from the Caspian are i) south to north to Russia, ii) east to west to the Black Sea and Europe, iii) west to east to China's Xinjiang and iv) north to south to the Indian Ocean.[1] The Yamal Nenets LNG project adds a fifth, a lateral axis across the Arctic Ocean.

China's Caspian Sea pipeline developments along the west to east axis already dramatically change the structural calculus for regional gas delivery. Economies like Turkmenistan had to previously rely on prices set by the Russian buy-side, meaning Russia could, and did, buy Turkmenistan gas cheaply and sell Russian gas to Europe at a premium.[2] The introduction of China to the mix gave Turkmenistan the possibility of a better deal, even if trade is still point-to-point contracts with state-owned enterprises.

Development of a parallel north to east gas axis across the Arctic Ocean could also serve to further marketise the price of gas. The existing Yamal LNG operation and the expanded Arctic LNG 2 project create a new gas pole in the Eurasian energy architecture.[3] If previous Eurasian gas axes were dependent on landlocked geographies, the Arctic project and advances in LNG transport technology bring Eurasian gas to Asian markets across a new ocean.

1 Petersen, A. 2016. Integration in Energy and Transport: Azerbaijan, Georgia, and Turkey. Lanham MD: Lexington Books.
2 Grigas, A. 2017. The New Geopolitics of Natural Gas, Cambridge MA: Harvard University Press.
3 Novatek. 2020. Arctic LNG 2 is another LNG production-related project of NOVATEK. Available at <http://www.novatek.ru/en/business/arctic-lng/>.

This has the potential to bring the Eurasian gas pole more into line with Qatar and Australia, the other two global LNG export players. The Arctic investment developing multiple new gas corridors from the Caspian Rim and Eurasian Arctic economies should move natural gas closer to becoming a fungible commodity. Opening the Caspian Sea and Eurasian Arctic gas fields to China and Europe and wider maritime LNG fleet development also has the potential for global gas market integration.

The effect of marketising a price for fungible LNG could open new price-setting mechanisms for the existing Eurasian land-power gas-producing axes. Price institutions on ocean-transport LNG would serve to smooth prices across all the four major gas-consuming regions of Europe, Russia, East Asia, and the Indian Ocean economies. This would change the institutional dynamics of the small Eurasian hydrocarbon exporters—Turkmenistan, Azerbaijan, Uzbekistan, and Kazakhstan—as well as the transit economies of Georgia, and Turkey while completely transforming the economic extraction industrial institutions and architecture of the Eurasian Arctic.

The east-west Azerbaijan-Georgia-Turkey axis, the Russia-Georgia-Armenia-Iran-Turkmenistan axis, the west-east Turkmenistan-Uzbekistan-Kazakhstan axis as well as the wider China-Russia, Russia-Europe and US-Eurasia frictions all come together along a meta axis from the Gulf of Ob' to Turkey's Aegean Coast and the Persian Gulf.

The development of this omnidirectional Ob'-Aegean gas axis has at least as much power to change global gas geopolitical dynamics as the shale gas and LNG revolutions in the United States and China. Considering that the largest gas transit corridor is already Qatar to Japan—beyond the influence of the US, Russia or China—the Eurasian gas meta axis does not have a natural monopoly. Multiple gas poles and multiple transport axes are more likely to result in eventual commodification of gas prices.

The opening of west-east pipelines from Turkmenistan-Uzbekistan-Kazakhstan to China demonstrate the possibility of creating a gas pole centred on the Caspian Sea which can begin to more clearly connect to global markets and free itself from the older south-north axis of patron-client relationships with Moscow. Chinese demand was the factor driving Turkmenistan to shift gas export-dependency away from Russia. This means that the Caspian Sea natural gas producing economies can then begin to think seriously about being able to choose to supply south-north to Russia, east-west to Europe, west-east to China and possibly soon north-south to India through Iran and the Persian Gulf. Opening these gas geographies to multiple buyers is likely to result in greater commodification of natural gas and movement towards a market price.

Building extraction, liquefaction, refining, pipeline and shipping infrastructure is not simply a geographic or economic challenge though. Markets are connected through institutions, and polities are formed, maintained and changed by virtue of institutional interrelationality. China[4] SOEs like China National Petroleum Corporation are likely to have much weaker integrative force than institutions on the east-west axis from the Caspian Rim economies towards Europe. This weak institutional integration on the China demand-side and the inherent structural problems with the separate South Caucasus and Turkish economic institutions mean that it is very difficult to think of a contiguous economic integration in energy transport and security in the Caspian Sea region. So while the Ob'-Aegean meta axis still has the potential to marketise the global gas market, inherent institutional limitations are likely to slow any possible economic integration necessary for this to happen.

Central Asian gas suppliers on the old south-north axis to Russia are tired of dependence on Gazprom. Gazprom's refusal to offer the European price of gas, at which it resells Central Asian gas remains a sore point in the region. And Russia's perceived use of geopolitical control of infrastructure to ensure supply or to deny purchases pushed Turkmenistan to look for a better deal in China. Uzbekistan and Kazakhstan followed suit and the pipeline infrastructure which had been built to transit through Russia and eventually to Europe, was turned towards the East, and Asian markets. This supply to China is crucial to China's energy security and regional development goals in Xinjiang, thus the stakes for China are higher, and hopefully for Central Asians, so will the price be.

Turkmenistan with its avowed foreign policy of neutrality and isolation contributes most strongly to this disintegrous Central Asian gas region as China works to open the west-east corridor. The west-east axis of Turkmenistan-Uzbekistan-Kazakhstan suffers from lack of foreign investment and is dependent on national oil companies, or their gas subsidiaries such as Gazprom Stroitransgaz, CNPC, and Kaztransgaz.[5] China institutional integration along this gas corridor could help to develop a regional institutional infrastructure, where Central Asian energy developed has been defined by weak institutional penetration and consequently weak regional integration. Conversely in the South Caucasus gas fields, transport and market opening are more diversified and responsive to outside markets and demonstrate a greater level of transnational actor integration. Central Asian gas institutions becoming more Caucasus-like would be beneficial to a future regional trade architecture.

Ultimately though, the demand-side is now heavily weighted towards China's institutional transformation. China's demand of both shipped LNG across the Northern Sea Route into China's northeast seaports and traditionally piped natural gas from Turkmenistan-Uzbekistan-Kazakhstan to Xinjiang is likely to change the dynamics of the Eurasian production and supply system, determining the future development of institutional, infrastructural, supply and prices of natural gas.

China's domestic policy developments though point towards an institutional path to marketisation reform.[6] There is ongoing institutional friction there between the downstream consumer delivery system and the upstream structural system. This includes establishing a new state-owned enterprise to oversee the gas pipeline infrastructure previously owned by the big three hydrocarbon SOEs, CNPC, Sinopec and CNOOC[7], and the opening of new west-to-east pipeline infrastructure such as the Power of Siberia pipeline. [8] There is also considerable institutional innovation in the midstream storage and transport systems on the China side. But ultimately, the trend of gas price reform in China points towards a market price developing in China's own domestic consumer markets, rather than in any international contract competition. Such a development would likely fold back upstream and impact point-to-point pricing contracts.

While China-Russia-US traditional energy geopolitics looks to simply move into new geographies and oceanographies, increased economic integration in the Caspian Sea economies has the potential to subvert the extant regional geoeconomics and turn the regional economies themselves into serious players capable of marketising traditional gas supplies by simply opening their markets to more buyers.

The idea of marketised LNG pricing though is really caught in a world of land-sea power geopolitical relationships in Eurasia. [9] This is more likely to play into a Russian reconception of Eurasianism and a Eurasianist economic integration than to benefit China, the EU or the US.[10] The Yamal Nenets project, the Kamchatka LNG transshipment port project[11], the development of the Northern Sea Route for Arctic shipping transport, and the possibilities of Greenland LNG production are all important to contributing to a global gas price commodification. But these developments too are likely to fall into the point-to-point contract system and perpetuate the state control of gas supplies into the new LNG shipping transport sector, rather than move towards market price-setting.

Gas should be a commodity that responds to international prices. This would benefit exporting countries like Turk-

4 'China' is used here and throughout as an adjectival noun, describing nouns in place of the more conventional 'Chinese'. This is to separate the ethnonym and demonym from the nation state of the People's Republic of China which is not completely synonymous with the ethnicity, people, or civilisation of China.

5 Petersen, A. 2016. Integration in Energy and Transport: Azerbaijan, Georgia, and Turkey. Lanham MD: Lexington Books.

6 Liu, YX. Feng YL. & Yu XH. 2018. Gas Supply, Pricing Mechanism and the Economics of Power Generation in China. Energies 11(5).

7 Shepherd, C. 2019. China launches state enterprise to manage oil and gas pipelines. Financial Times. Available at: <https://www.ft.com/content/4c2a8e50-1a59-11ea-97df-cc63de1d73f4>

8 Economist Intelligence Unit. 2019. Russia opens Power of Siberia gas pipeline to China. Available at: <http://www.eiu.com/industry/article/348791418/russia-opens-power-of-siberia-gas-pipeline-to-china/2019-12-10>

9 Bassin, M. 2016. The Gumilev Mystique: Biopolitics, Eurasianism, and the Construction of Community in Modern Russia. Ithaca: Cornell University Press

10 Clover, C. 2016. Lev Gumilev: Passion, Putin and Power—The Ideas of the Soviet Historian are Influencing a New Generation of Hardliners, Financial Times. Available at <https://www.ft.com/content/ede1e5c6-e0c5-11e5-8d9b-e88a2a889797>.

11 Staalesen, A. 2019. Government approves €1 billion natural gas terminal on Kola coast. The Barents Observer. Available at <https://thebarentsobserver.com/en/industry-and-energy/2019/05/government-approves-eu1-billion-natural-gas-terminal-kola-coast>

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Eurasianism and Post-Soviet Political Geography

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Future Risk

Abstract: Books review: Bassin M. The Gumilev Mystique: Biopolitics, Eurasianism, and the Construction of Community in Modern Russia. Cornell University Press, 2016. 400 p.; Bassin M., Pozo G. (eds). The Politics of Eurasianism: Identity, Popular Culture and Russia's Foreign Policy. Rowman & Littlefield, 2017. 384 p.; Clover Ch. Black Wind, White Snow: The Rise of Russia's New Nationalism.Yale University Press, 2017. 360 p.

The review considers three works on Eurasianism, the theoretical geography of Lev Gumilev and contemporary Russian ethnonationalism. It places the reviewed works in the context of the historical ideological evolution of Eurasianism. The principal argument in all three reviewed texts is that there are three forms of Eurasian ideology: classical Eurasianism, Gumilevian Eurasianism and neo-Eurasianism. This essay argues that instead of a rank appropriation of Eurasian ideology into contemporary Russian ethnonationalist discourses, there remains a great intellectual and theoretical power in Gumilevian Eurasianism that could yet be applied to contemporary Eurasian and Russophere geographies in a more positive and empowering manner than the current misappropriated form of Russian ethnonationalist Eurasianism. While neo-Eurasianism is a misappropriation of Gumilevian Eurasianism, a revival of a new fork of neo-Gumilevian Eurasianism could diffuse the contemporary Russian misappropriation and return to a more objective and inclusive Eurasian ideology.

Keywords: Eurasianism, Gumilev, Political Geography, Ethnonationalism, Soviet Union, Russia, Central Asia

Andrew Foxall recently wrote of Central Asian geopolitics that Central Asia has been uncritically written into global space as an object of multiple and intersecting geopolitical discourses since the region's five states gained their independence (Foxall 2018). But how did Soviet historians, geographers and ethnographers imagine the space of these Soviet geographies and the wider conceptions of Eurasia? And how are the ideas of Russian-language political geography, geopolitics and ethnogeography continuing to shape contemporary discourse in Russia and the Central Asian republics on a Eurasian political space?

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Lev Gumilev's Eurasianism is alternate to any orthodox Western geopolitical discourse. The three books reviewed help us to understand Gumilev's own work, the misappropriation of Gumilev's ethnogenesis theory by the contemporary Russian Right, and some of the more positive ways that Gumilevian Eurasianism is being practiced by various polities both within Russia and more importantly by the contemporary states which have formed around Central Asian geographies.

Failing to understand the theoretical basis of Eurasianism, Western political geography is likely to be blind to future political geographic formations emerging from the extant political constructions of Russia and Eurasia. Failure to critically engage with Eurasianism as an ideology of space on a distinct tangent from Western political geography theory turns out to be a danger, particularly as China emerges into the Eurasian geographies and Russia is politically redefining its own engagement with Eurasia and Eurasianism.

Most authors in the works surveyed (Bassin 2016; Bassin, Pozo 2017; Clover 2017) treat the subject chronologically, from classical Eurasianism, to Gumilevian Eurasianism to neo-Eurasianism. It is neo-Eurasianism and the appropriation of Gumilevian ideas into nationalist discourses that should most worry contemporary Russia and Central Asia scholars and policy-makers.

The review is based on three assumptions. Firstly, Lev Gumilev's conception emerged as a Soviet form of historical and theoretical geography, and his works have been just recently correctly understood in the Western academic circles. Secondly, Gumilev's ideas of Eurasianism is the basis for Russia's Eurasian geopolicy, and this is a powerful theoretical underpinning of legitimacy which ensures that the Russian ideology behind its continental political geography is organically more advanced than any geopolitical interests of Europe, the United States, or China in the Eurasian region. Thirdly, Aleksandr Dugin and the new Russian Right are using Eurasianism as a race policy and a crutch for right wing nationalism. In other words, there exists a post-Soviet critical geography theory, and it might be used in the state strategies and multilateral processes of a constructed Eurasianism.

Classical Eurasianism and linguistic structuralism

Eurasianism is generally typologised into three historical branches: early classical Eurasianism of the end of the tsarist silver age, Gumilevian radical Eurasianism of the Soviet Union, and the contemporary neo-Eurasianism of the ethnonationalist movement in the Russian Federation.

Classical Eurasianism first developed in Russian white émigré circles in the 1920's and 1930's, who sought to reinterpret "Russia" as a polity symbiotically interrelated with "Eurasia", and to reinterpret the formation of the institutions of the Russian State with the history of the nomadic peoples that Russian medieval history was betwixt and between. The rewriting of Russian history to include the Mongol influence is the founding contribution of Eurasianism. Jakobsen's "Prehistory of Slavic Languages";

Danilevsky's Romano-German ideology expressed in "Europe and Mankind"; and Petr Savitsky's writings in "Ruskaya Mysl" were early works which ultimately culminated in the founding work of Eurasianism, Florovky's "Exodus to the East". These works sought to reorient Russian historical geography towards its East, its Steppe, its nomadic and Mongol history, as a reaction against the default European axial perspective which at the time was seeking to define Russia as solely integrated with, or separated from, Western Europe.

This early classical Eurasianism was really rooted in linguistics and was characterized by the ethno-linguistic determinism of geography. The underlying ideology is of linguistics structuralism which rejects Russia being a Slavic country in the European sense. In an attempt to explain the nomadic Turanian element in the civilisational formation of Russia, the classical Eurasianists engaged in a kind of political anthropology to explain the unconscious substrates of language which linked huge disparate human geographies into a proto-state. This linguistic structuralism gave rise to the concept of ethnolinguistic zones and basins of ethnic biopolities where geography forced peoples into closer contact and consequently a cultural-linguistic convergence. The political and historical geography of the peoples of Eurasia was thus influenced by linguistic geographical determinism, giving a form of legitimacy to a traditional civilisation which existed before the State. Physical boundaries created convergence zones wherein it was easier for language and culture to flow inwards and mingle than it was for memetic language and culture to cross natural boundaries. It is essentially a way of explaining the formation and development of Uralic, Siberian, Central Asian, Altaic, Volga and European Russian civilizational areas by circumventing the dominant orthodoxy of European Enlightenment Statehood. Essentially, geography forms linguistic structures which in turn form social structures and further – nations, and these nations of Eurasia do not easily fit into the Westphalian Statist model.

Neo-Eurasianists argue that since Russia is setup as a patchwork of nationality-based administrative units, there is no actual "homeland" for Russians the same way as for Buryats or Kazakhs, and conversely, many ethnic Russians are now stranded outside the Russian Federation as a result of the dissipation of the Soviet Union. There is a gap in Western political geography here, the ethnography of the post-soviet space does not fit the mould.

Classical, Gumilevian and neo-Eurasianism are all really struggling with a redefinition of the political state, not as the Westphalian legal construct, but as a biopolity, to find something in traditionalism and natural geography to explain the development of human geographic institutions of the proto-state. To achieve this State exceptionalism they look to political geography, linguistic geography and natural geography and seek to create a political theory founded in historical geography. Eurasianism argues that the European states themselves were biopolities that had been politicised, that the nation state is not the founding historical institution, but that ethnogenesis runs deeper than the political state into earlier forms of political geography. Initially for the classical Eurasianists and later for Gumilev, biopolities are not an excuse for ethnonational-

ism, rather the concept is a circumvention of an institutional construct which is alien to most peoples of the world: European statehood.

Gumilev's theory is championed in places of strong biopolities but weak states like Tartary and Kazakhstan, while in states with both strong biopolities and strong polities can misappropriate his ideas. Biopolitics offers alternative paradigms of belonging and yet everywhere it seems bound by concepts which transform it into a crude nationalism. Think of the subjugation of political geography to the nation state in England-Scotland-Wales; the four medieval regions of France; or the Bismarckian German nationalist project to bring together Prussia, Bavaria, Baden, Ruhr etc. These multi-ethnic and multilinguistic geographic structures were flattened and homogenised by the formation of the industrial state. The truce of ethnicity and ethnonationalism resulted from these socio-religious-ethnic amalgams that stabilised through the 18th and 19th centuries in the industrial states of Europe, are now seen as the prototypical ethno-state formation: explicitly relying on concepts of political state, yet implicitly relying on concepts of a "biological state".

Gumilevian Eurasianism as Soviet political geography

"Environmental Complementarity", is the crux of Gumilev's biopolitics. That if industrial complementarity results in institutionalisation of economic geography, that human-nature interrelationality also should be naturally represented by an institutionalisation of environmental-linguistic-social complementarity. Gumilevian Eurasianism expanded on the classical, linguistic structuralism by bringing in organic, biological geographic factors into the determination of human institutions. Bassin's monograph thoroughly explains the key concepts that define Gumilevian Eurasianism (Bassin 2016).

We should though consider Gumilev's work as isolated from the Western political geography at a time which was moving through a period of positivism and leaving geographic theory behind. Reading Bassin's "Gumilev Mystique" (Bassin 2016) next to Edward Soja's "Postmodern Geographies" (Soja 2011) really highlights this juncture. Gumilev's political geography in the Soviet Union was a real break from the Western theoretical geography. Therefore the contemporary post-Gumilev geography is on a different tangent to the post-modernist geographies of the West. Soja's "Postmodern Geographies" explains this intellectual history of geography, particularly as geography in the West lay ideologically dormant for twenty years through the positivism of the 1950's and the 1960's (Soja 2011). To understand the impact of Gumilev's theory on contemporary Russian politics then, we really need to appreciate that something special happened intellectually with Gumilev, and that there is an institutional path-dependency on an intellectual tangent parallel to anything in Western geographic theory.

We could position Gumilev in hypothetical opposition to Lefebvre and Gramsci and perhaps in alignment with Ernest Mandel's regional economic geography and critical human geography. Gumilev's ideas never made it to critical social theory and

are virtually unknown to the Frankfurt School, however the relationship of regions to economic development, and the process of legitimation of the concept of state through political geographic theory overlap here.

This is not an argument for Soviet exceptionalism, simply that throughout the Cold War this theoretical geography of Gumilev evolved, promulgated, took root, and flourished in an intellectual space that was sequestered from the western academic circles. However, with Russia idealising itself as the inheritor of Rome and Byzantium through the Orthodox Church, we have a specific space where the intellectual concept of geography is not easily othered away into orientalism, and neither is it integrated with the Western science. It has therefore largely escaped critique, by lying in the fault lines of multiple theoretical traditions. This makes Gumilev's theories at once extraordinarily powerful, and at the same time unbridled, running free in the post-Soviet space. From there it is all too easy for theoretical revisionists in Russia to appropriate the ideas, mould them to their contemporary wishes and weld them onto something entirely new. Much like the Steppe geographies that Gumilev's anthropological work describes, the wilderness is appropriated into a political narrative, and Central Asia is pulled towards Moscow.

Gumilev's theories suffer from a series of disconnects: from the Russian orthodoxy in their inception, from the Western theoretical sphere during their Cold War incubation, and again in contemporary theory a double disconnect in post-Gumilevian thought exists: evolution in isolation from Western geographic theory and then also appropriation into a Russian political narrative far removed from the original theses of Gumilev.

Gumilev's major theoretical contributions centre around a series of idiosyncratic words and ideas through which his wider work explored the linkages between natural geography, anthropology, linguistic history, and political geography. At the core of the Gumilev thesis is the intellectual struggle to explain the origins of the ethnic groups which historically clearly defined civilisational and nation state development. *Ethnos* and *ethnogenesis* is from where the appropriation of Gumilev into nationalist ideology stems. While individualism in post-Enlightenment European states may create better social structures, the concept of where did we come from still echoes unanswered. For Gumilev, it was impossible to rule out the group identity of tribal, ethnic, and race structures in human civilisational development. All modern nation states are comprised of patchworks of smaller ethnic groups, France has many ethno-linguistic subgroups all pushed into a unitary state; Germany is derived from the independence of multiple subnational units of the Holy Roman Empire into a federal system, and Russia is a complicated series of *ethnies* comprising many European and also many Asian ethnic subgroups. Gumilev was concerned with how these early ethnic groups determined the development of political identities and less interested in how those political identities were to be used in contemporary political philosophy.

If we take Gumilev's *ethnos* as the basic unit of analysis, then he offers a series of complementary ideas through which to place this unit. Gumilev argued that physical

geography was the principal determinant of social structures; that wherever humans settled, the imprint of the surrounding landscape on their civilisational, linguistic, political, economic and social institutions was indelible. Bassin gives the example of Norse fisherman settling in lower European lands, those in Normandy became landworking peasants, while the same peoples who settled in the Scottish lowlands became shepherds (Bassin 2016: 41). For Gumilev, his time in the Arctic in Norilsk affirmed this thesis that geography determined human structures, not vice versa.

The biological force driving these human institutional rises and falls Gumilev termed *passionarnost'*. *Passionarnost'* is the collective energy of an *ethnos* that is driving the historical process of civilisational development. *Passionarnost'* introduces and explains time to the Gumilevian spatial model. So that if the landscape determines the ethnic structure of peoples, and the interrelation between ethnic peoples and landscape determine social structures, then *passionarnost'* drives this ethno-landscape institution forwards so that it evolves, develops, burns brightly and then eventually burns out. It is an attempt to explain why an *ethnos* might outshine and displace another, more established *ethnies*. The answer for why peoples in history rise and fall, and yet the landscape and human habitation remain the same.

Gumilev takes these concepts and tries to develop them. With the ethnos as the basic unit of analysis and the biopolity and the core institution driving human political structures forwards, Gumilev tries to weld it all into an *ethno-landscape totality,* by simply putting the two concepts of *ethnos* and *biopolity* together. If the landscape determines the ethnic structure, and if ethnic structure is the principal unit of analysis for the development of human cultures, then the combination of landscape and ethnicity yields the institutional interrelationality which drives individual human cultures forwards through history. The landscape forms the *ethnies*, but it also limits them, so that Steppe peoples develop along one course, while taiga forest and river peoples develop along the another. Once this historical process is set in motion, then the institutions determined by geography simply play out over time and result in idiosyncratic human social structures, i.e. different "nations".

Superethnos is probably the most controversial and even "dangerious" concept of Gumilev because it seems a reactionary justification of the Russian state. The argument is that *subethnies* and *ethnies* can combine to form *superethnies* but that *superethnies* cannot combine with each other. Thus we get Russian as a *superethnos*, and perhaps a modern European Union identity as a *superethnos*. This "mosaic totality" though seems perfectly designed to justify first the Russian Empire and later the Soviet Union's amalgamation of ethnic minorities into a strong State. It remains difficult to see Gumilevian ideas of ethnic identity and macro ethnic analysis in neofunctional or constructivist senses, and instead Gumilev falls easily to the ethnonationalists who can "strip" the mosaic, and "leave" the totality.

These Gumilevian modes of ethnic interaction are really like accounting for the processes of institutional change. The inability to engage with the ethnic, linguistic and cultural identities at play in the Eurasian Heartland would be to yield ideological

supremacy to Russia. Instead there is something in Gumilev that could nourish and develop a sense of self in the various Eurasian polities that independence movements, neo-authoritarian post-Soviet governance, and limited access to globalisation 1.0 have yet to build.

Ideas need to be challenged, an idea in isolation will wither and die. Gumilev's biosphere has survived and flourished within the wider stream of Eurasian ideology is testament to the core strength of his ideas. However the closed nature of the wider Soviet and post-Soviet intellectual spaces in which his ideas have been forced to compete, have stunted its growth, not pruned them. These ideas will not easily disappear either, and without adequate critique to strengthen them, they will receive instead inadequate critique and continued misappropriation into lesser ideological purposes. Gumilev's ideas, at the same time, deserve better than misappropriation into nationalist ideologies, they deserve a wider audience and a braver critique that they might renter the contemporary geographical theory debates, and realign with the future of human, linguistic, and political geography.

Neo-Eurasianism's ideological misappropriation

The difference between describing an object and describing a self-reflexive subject is huge. Classical Eurasianists wrestled with the idea to define themselves as "other" from the Europeans they lived amongst as white Russian émigrés. This is a reflexive use of Eurasianism to define themselves as "not European". Gumilev used Eurasianism not on his own background, but on an object, the Mongol, Xiongnu, and other nomadic peoples that had impacted the historical development of the Russian state.

However the neo-Eurasianists of the contemporary Russian ethnonationalist far right have reinvented Eurasianism to redefine and relegitemise their own subjective position. This is the fundamental flaw in the neo-Eurasianism of contemporary Russian ethnonationalism: it is self-serving and thus ideologically defunct. Classical Eurasianism challenged an existing paradigm, a theoretical challenge which was forcibly put down by Bolshevik political security. Gumilevian Eurasianism challenged an existing paradigm, that of the mythologisation of the Battle of Kulikovo as a victory of the Russian Principalities over the Mongol Golden Horde which had ended Russia's subjugation to the "East". Gumilev instead argued that significant institutional interrelationality existed between the Mongols and the Russians before and after Kulikovo, essentially that modern Russia, geographically and institutionally, is the successor state to the medieval Mongolian Empire. For this, and many other reasons, he was semi-ostracised from the Soviet Academy of Sciences. Conversely, neo-Eurasianism seeks to strengthen an existing paradigm, that of a Russian ethnonationalism, of which its main proponents and adherents are a part, and for which the movement and people involved are rewarded and inculcated into the existing State-sanctioned paradigm. This is why neo-Eurasianism is fundamentally a weaker idea than either Classical Eurasianism or Gumilevian Eurasianism.

Gumilev's work has since the end of the Cold War become a controversial lynchpin in a secondary countermovement – appropriation into a new Russian right ethnonationalist movement to reclaim the spirit of Eurasianism for the Russian "ethnos" – as a tool for Russian exceptionalism rather than a holistic redefinition of historical geography. The nucleus of both a movement to strengthen the Turkic and Mongol peoples in the history of Eurasia, as well as the restrengthening of the Russian claims to historical geographic legitimacy in Eurasia.

Bassin argues that what is left of Gumilev in contemporary Russian ethnonationalism is more like a crude, malformed, coarse monster, the rotten heart of Frankenstein's monster (Bassin 2016). This ground is also well covered by Bassin's edited volume, with the first two chapters in particular focused on this search for identity in post imperial Russia (Bassin, Pozo 2017). Laruelle's introductory history chapter also goes a long way to covering the ground needed to examine the entry onto the stage of Aleksandr Dugin and the appropriation of first neo-Eurasianism and later the contemporary version of the Russian ethnonationalist agenda.

Bassin's best contribution is the identification of Vadim Valerianovich Kozhinov's 1981 essay as the bridge between Gumilev's Eurasianism and contemporary Russian ethnonationalism, although Clover also expands on Kozhinov's appropriation of Gumilevian Eurasian and his influence on its reception and development, first through *Literaturnaya Gazeta* and later through *Nash Sovremennik*. Kozhinov's essay "And All Her Languages Shall Speak My Name…' Notes on the Spiritual Peculiarities of Russia", written in 1980 and published in 1981 in *Nash Sovremennik* is the beginning (and intellectual end) of the Eurasianism of Dugin. It was Kozhinov who first appropriated Gumilev's Eurasianism as a defence for Russian ethno-nationalism. But while Khozinov faded into history, the link between Gumilev and Russian ethno-nationalism remained – a gross misappropriation of Gumilev's core thesis. It was this misappropriation of Kozhinov that Dugin has seized upon and expanded in his "fourth theory".

Ultimately both Gumilev and Dugin are wrestling with the same problem: Russian exceptionalism, Russian historical revisionism, and the deeper and thornier problem of Russia's origins. There is a political philosophical inertia in both the latent ethnonationalism across the Eurasian sphere, and in the post-Cold War soviet space. Eurasianism is essentially a rejection of orthodox Russian historiography, which had placed ethnic Russians as the centerpiece of Eurasian development. While Gumilev's historical geography has been misappropriated by Russian nationalists, his own work still offers much for the states, societies and individuals of Eurasia. Far from condemning Central Asia to a simplistic cooptation into Moscow's Grand Strategy, Gumilev's Eurasianism can still be read by contemporaries as offering an alternative to both Russian ethnonationalism, and "Atlantic" liberalism.

Gumilevian Eurasianism as a universal historical geography

Eurasianism is not simply Russo-centric historical geography and historical revisionism. There is a real genesis of a universalisable historical geography in Gumilevian

Eurasianism. There is still much to be discovered through thinking in terms of *ethnies, ethnogenesis, biopolities,* and even *passionarnost'*. Continual adaptation of the *ethnos* to its landscape is a process not a stasis, where ethnonationalism seems everywhere concerned with conservatism, stasis, and reactionary responses to "outside others". The progressive process of Gumilevian Eurasianism is readily integrative with contemporary institutional theory, Schumpeterian capitalist creative destruction, and anthropological human-nature interrelationality.

Gumilev is neither the intellectual property of Russia nor of Russian ethnonationalists. Gumilev articulates the ethnography of Eurasia, the geographical *ethnogenesis* universal to the human condition and the relationship between peoples, states and landscapes. For that his work should be celebrated, not denounced as a tool of a radical group of Far Right. Eurasianism itself represents not only a way of thinking about post-Soviet geographies, it is itself a form of theoretical Soviet political geography, distinct from any Western geography theory.

Bassin argues that some institutional forms are dependent on the ethnos which is determined by the landscape, and that if these institutional forms are incompatible with a foreign universal social construct, then the foreign must give way, the *ethnos* cannot break its symbiotic relationship with the landscape (Bassin 2016). *Ethnies* may take on universal social constructs, but only where they do not invoke a logical cognitive dissonance. It helps to understand the limitations of globalisation, and why some elements of universal, pan-human culture succeed while others encounter stern resistance and fail.

On Russia, post-Soviet geographies, and Eurasia, Western academia continues to persist in a 20th century mindset of geopolitical theory with little theoretical basis, while the ideology of Eurasianism has one-hundred years of theoretical use within the geographies themselves. The English-speaking world has thus really missed something important with Gumilev's influence on Russian political geography. Fundamentally, the interpretation and transmission of Gumilevian Eurasianist thought can be a positive post-Soviet political geography, not simply a tool of neo-Eurasianist revisionist ethnonationalism. Gumilev's works highlights the connection between peoples and nations, humans and landscape, history and geography.

In terms of macro critiques of the works covered, Clover relies heavily on the English-speaking Western reader to fill in the backstory with Cold War mystique (Clover 2017). Yet in requiring this historical backlog, it also requires the reader to stop there – no understanding of the Golden Horde, of Tsarist history, of Cossack Eastern migratory exploration, or national minority development in Dzungaria, Qara Khitai, or industrial landscape projects in Western Siberia are needed. The Bassin monograph is excellent but does often dwell on the author's own understanding of Eurasianism rather than fully agenting Gumilev and his sources (Bassin 2016). The edited volume is the weakest of the three books reviewed, a volume full of promise to explore the application of Eurasian ideology in multiple geographies attached to Eurasianism either by steppe ethnicity (Hungary), post-Soviet space (Kazakhstan) or majoritarian ethnog-

raphy (Russia). In reality, it underdelivers and instead of a coherent understanding of Eurasianism in contemporary politics, we instead have a series of disparate, disjointed and ultimately unfulfilling essays (Bassin, Pozo 2017). The ground that all three works cover though is sparsely populated, and if these first attempts have not quite landed, then there is ample space for further studies of an ideology, geography, and ethnography position that needs to be understood by the Western academy more broadly if geopolitics, geoeconomics, governance, public policy, neoliberalism and globalisation studies are to integrate analyses of the geographies of Eurasia and the ideologies of Eurasianism into their studies.

* * *

Eurasianism does not belong to Gumilev, but it also certainly does not belong to the Russian ethnonationalist Right. There is much positive agenda in Eurasianism that can benefit the peoples of post-Soviet spaces and which could help to construct post-nationalist identities and new political geography. To engage with Gumilev's work is not to abandon the gain of multiculturalism or individual agency, it is rather to reinforce the power of peoples over states, and of cultural institutions over national ones.

Can we not reread Gumilev and instead of a Russian ethnonationalism find something closer to the imagined communities of Benedict Anderson? To see something of worth for ethnography and ethno-centric interpretations of historical geography? A European Union *superethnos* identity is certainly embedded with some ethnic feeling. Could a genuine Eurasian Economic Union tap into the Turkic, Mongol and Russian *ethnies* to create a post-nationalist identity, political order and economic integration? Not destroying the ethnic heritage of the *biogenesis* of peoples from landscape, and treating ethnogenetic drama seriously could result in a more nuanced, powerful and useful form of post-ethnic identity and post-nationalist political economic structure. However, the continued misappropriation of the concept could equally create a reversion to ethnic islands of nationalism and the degenerative effects of small state protectionism.

Nobody in an industrial economy would want to go back to ethnocentric thinking, and the power of the individual in the modern multicultural and globalised world is clear. But that nagging question of where did we come from, has some element of both ethnicity and geography that remains unsatisfied by liberal individualism and contemporary political geography. We are all stronger for a better understanding of the ethnogenetic drama that Gumilev would lay out for us, particularly as it comes from an area of historical geography that we have little historical record of, the Eurasian Steppe. Gumilev is a light from a distant world, both Soviet and Eurasian, that might help to reform and renew the study of historical geography, ethnogeography and anthropogeography, ultimately asking questions of ethnogenesis and development that none of these disciplines can answer alone.

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Future Risk

Аннотация: Рецензия на книги: Bassin M. The Gumilev Mystique: Biopolitics, Eurasianism, and the Construction of Community in Modern Russia. Cornell University Press, 2016. 400 p.; Bassin M., Pozo G. (eds). The Politics of Eurasianism: Identity, Popular Culture and Russia's Foreign Policy. Rowman & Littlefield, 2017. 384 p.; Clover Ch. Black Wind, White Snow: The Rise of Russia's New Nationalism.Yale University Press, 2017. 360 p.

Ключевые слова: евразийство, Гумилев, политическая география, этнонационализм, Советский Союз, Россия, Центральная Азия

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Конфликт интересов: Автор заявляет об отсутствии конфликта интересов.

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Bassin M. 2016. *The Gumilev Mystique: Biopolitics, Eurasianism, and the Construction of Community in Modern Russia.* Cornell University Press. 400 p.

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Clover Ch. 2017. *Black Wind, White Snow: The Rise of Russia's New Nationalism.* Yale University Press. 360 p.

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The OG

Thesis Works

2017-2018

This is the original PhD thesis

I was a PhD Candidate at Australian National University from 2015-2018. During this time I developed and published a variety of works, but the core thesis was not allowed to be submitted for evaluation. As a protest, I published each chapter of the unitary thesis as a stand alone journal article in the period 2017-2018, with five of the seven chapters successfully published by the end of the nominal PhD period of three to four years.

The thesis cannot go to a publisher as a book project now, as too much of it has been published. So, I am punished twice by ANU for this work's success: I published it and was not granted a PhD by Publication, and now I cannot publish it as a book project.

The theoretical chapter at the start and an applied chapter on subnational structures still exist, and at some point if I attain an academic post, I would reform these chapters and try to publish them as well.

No one should be punished for publications.

These are the original publications punching through into the world of academic journal articles, they made a name for myself, have generated citations, and carried forwards both theory and applied politics where I definitely found a niche and found new evidence unfolding in the Belt and Road project. With a long-term academic place, I would rewrite this whole period into a stand alone book , but that would require a lot of work, which means time, which means money, which means I need an academic qualification to continue.

PhD-by-Publication Journal Articles

Kenderdine, Tristan and Lan Peiyuan, '**China's Middle East Investment Policy**' Eurasian Geography and Economics, Vol. 59, Nos. 5-6, 2018
Kenderdine, Tristan '**Kazakh Land, China Capital — Exporting China's Project System to External Geographies**', Central Asian Affairs, Vol. 5 No. 3. 2018
Kenderdine, Tristan and Ling Han, '**International Capacity Cooperation — Financing China's Export of Industrial Overcapacity**' Global Policy, Volume 9, No. 1, February 2018
Kenderdine, Tristan '**Death of the East Asian Goose and the Rise of China's Geoindustrial Policy**' Journal of Chinese Political Science, Vol. 23, No. 1, 2018
Kenderdine, Tristan '**China's Industrial Policy, Strategic Emerging Industries, and Space Law**' Asia and the Pacific Policy Studies, Vol. 4, No. 2, May 2017

Journal article for funsies:

Because I found something new and wanted to share, is not that what research is about?

Kenderdine, Tristan '**Insurance plus Futures — Agricultural Price Reform in China**', Asia Pacific Policy Studies, Vol 5, No. 2, 2018

Original Thesis

These five first-author or sole-author journal articles are five of the eight chapters of the original thesis.

The thesis is structured and drafted as this:

China's Geoindustrial Foreign Policy

Death of the East Asian Goose and the Rise of China's External Industrial Policy 2012-2022

CONTENTS

Introduction: Processes of Institutional Interrelationality and Change in the Rise of China's Geoindustrial Policy

I China's policy institutions and political theory

1. Historical Institutionalism and East Asian National Industrial Policy Systems
2. Death of the East Asian Goose and the Rise of China's Geoindustrial Policy

II Institutional interrelationality in China's national industrial structures

3. China's Regional Industrial Policy External Geoindustrial Policy
4. China's industrial policy and strategic emerging industries
5. Capacity cooperation — financing China's export of industrial overcapacity

III Exporting the national industrial system to external Eurasian geographies

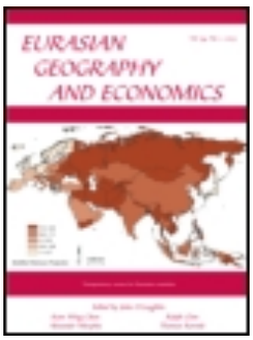
6. China's capacity cooperation strategy in Central Asia
7. China's capacity cooperation strategy in the Middle East

Conclusion: The Future of techno-industrial advances and the contestation of uninhabited geographies

---

I would like to put it out as a standalone book, but as so many of the chapters are published already, it's not a very viable prospect for publishers. The first two unpublished chapters still need work to be publishable as stand alone journal articles on institutional theory. The final unpublished chapter only really fills the gaps in this work. A more advanced version of a similar argument is present in a later book project.

If there had been a mechanism for me to submit for a PhD based on this thesis, I could have submitted in late 2018, early 2019.



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China's Middle East investment policy

Tristan Kenderdine & Peiyuan Lan

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China's Middle East investment policy

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ABSTRACT

China's greater Middle East geoeconomic strategy is centered on an external trade and industry policy. This trade and industry policy combines geopolicy and geoeconomic policy to export industrial capacity bases in what amounts to a geoindustrial policy and a parallel trade strategy. Practical coordination is under the umbrella of the central *International Capacity Cooperation* macro-policy. China's provincial governments are then tasked with offshoring China's industrial capacity to Middle East economies through specialized *International Capacity Cooperation* funds, which are then coordinated by sectoral industry associations: *International Capacity Cooperation Industry Enterprise Alliances*. The final industrial policy is then deployed by matching China's provinces and prefectures to external geographies. This amounts to a State Outward Direct Investment Strategy. This paper uses primary sourced Chinese policy documents from central and provincial state administrative agencies to build a historical institutional record. We then employ a Polanyian analysis of the embeddedness of State functions in China's external investment activities and industrial transfers, analyzing China's external trade and industry policy in the Middle East in terms of state–market institutional interrelationality.

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China policy; geopolicy; Middle East policy; geoeconomics; geoindustrial policy; institutional economics

Introduction

China's Greater Middle East geoeconomic strategy is focused on a central coordination between foreign, trade and industrial policy. This domestic trade and industry policy as foreign policy is centered on the public administration's coordination of a neo-mercantilist Outward Direct Investment (ODI) strategy to export industrial capacity (People's Daily 2015). *International Capacity Cooperation* (ICC) (guójì chǎnnéng hézuò) is the practical policy measure by which China is organizing this industrial transfer under the wider *Belt and Road* geopolicy. This study treats China's trade and industry policy towards external geographies as a contiguous government policy, coordinated under the umbrella of *International Capacity Cooperation* (ICC) (Zhang 2016).

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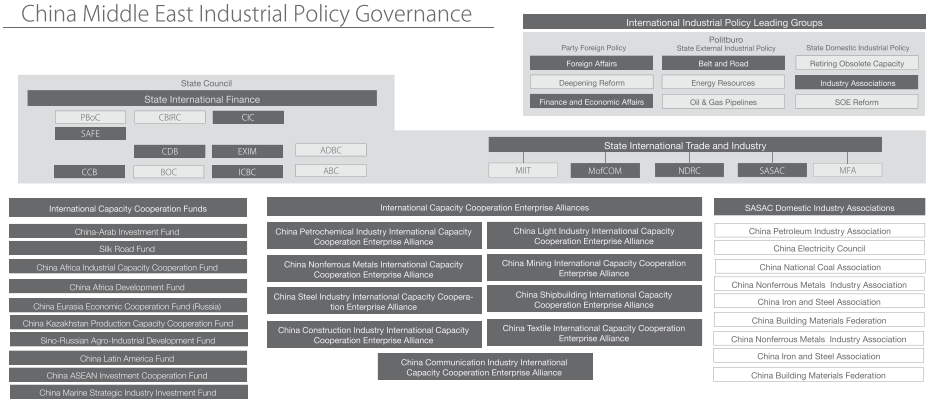
State ICC Finance Institutions

Ministerial Agencies	Government Financial Institutions	Capacity Cooperation Funds
MofCOM–Outward Investment and Economic Cooperation	China Investment Corporation (sovereign wealth fund)	China-Arab Investment Fund
NDRC–Department of Foreign Capital and Overseas Investment	China Exim Bank (policy bank)	Silk Road Fund
NDRC Department of Fixed Assets Investment	China Development Bank (policy bank)	China Africa Industrial Capacity Cooperation Fund
MoF Department of International Financial Cooperation	China Agricultural Development Bank (policy bank)	China Africa Development Fund
MoF Department of International Economic Relations	Bank of China (state bank)	China-Eurasia Economic Cooperation Fund
People's Bank of China (Central bank)	Industrial and Commercial Bank of China (state bank)	China Kazakhstan Production Capacity Cooperation Fund
State Administration of Foreign Exchange	China Construction Bank China (state bank)	China Marine Strategic Industry Investment Fund
MFA Department of International Economic Affairs	Agricultural Bank of China (state bank)	
MFA Department of West Asian and North African Affairs	Sinosure (export insurance)	Non Middle East related ICC Funds:
MFA Department of European-Central Asian Affairs		Sino-Russian Agro-Industrial Development Fund
		China Latin America Fund
		China ASEAN Investment Cooperation Fund

Figure 1. Matrix of public finance *International Capacity Cooperation* funding.



State Directed Industrial Transfers

	Target Economy	Principal Province	Secondary Province	Prefectural City	ICC Fund	Policy Bank	ICC Enterprise Alliance	Industrial Sectors
Middle East	Pakistan	Guangdong	Shandong, Sichuan			CDB, Exim, ADBC	China Light Industry ICC Alliance	Solar, Infrastructure Construction
	Iran	Gansu			Silk Road Science Foundation Fund		Petrochemical ICC Alliance, Steel ICC Alliance	Steel, Petroleum, Chemicals, Automobiles
	Saudi Arabia	Fujian	Yunnan		China-Arab Investment Fund		China Construction ICC Alliance	Civil Nuclear, Oil Refining
	Egypt	Hubei	Gansu		China-Arab Investment Fund		China Textile ICC Enterprise Alliance	Infrastructure Construction, Food
	Oman	Ningxia				CDB		Infrastructure Construction
	Dubai	Hainan			China Marine Strategic Industry Investment Fund			Marine Industries
Central Asia	Kazakhstan	Hebei		Shijiazhuang, Xingtai	China Kazakhstan Production Capacity Cooperation Fund		China Nonferrous Metals ICC Alliance	Infrastructure Construction, Coal, Nonferrous Metals
	Uzbekistan	Henan	Jiangsu,Sichuan,Shandong	Luoyang, Zhengzhou		CDB, Exim, ADBC	China Mining ICC Alliance	Solar, Communication
	Turkmenistan	Qinghai	Gansu, Hubei			CDB, Exim, ADBC		Petroleum, Gas, Investment
	Kyrgyzstan	Shaanxi	Shandong			CDB, Exim		
	Tajikistan	Gansu						

Figure 2. Matrix of China's domestic trade and industry institutions, governance units and external target economies.

The financing mechanisms behind this external industrial policy are coordinated firstly through the central policy banks and then deployed through specialized regional *International Capacity Cooperation* funds (Kenderdine and Ling 2017). These regional-specific *International Capacity Cooperation* funds are organized at the central government level to channel policy bank capital to local governments which then use the funds to transfer industrial bases from their jurisdictions to the matched external economy in a given sector. This local provincial and prefectural government coordination of State ODI is then coordinated through specialized sectoral ICC industry organizations. This is

China Middle East Industrial Transfer Agreements 2016

State to State Agreements

Government to government cooperation agreements in the Iran-Saudi-Egypt nexus

Date	State	Agreement
Jan 2016	China-Iran	Memorandum on Strengthening Cooperation in Production, Minerals and Investment to expand mutual investment and cooperation in transportation, railways, ports, energy, trade and services
Jan 2016	China-Iran	Memorandum on Strengthening Cooperation in Investment to strengthen bilateral trade and investment exchanges by deepening investment in deepen cooperation in economy, banking, mutual investment, finance, agriculture, water conservancy, environmental protection, food security, combating desertification, desalination, promoting peaceful use of nuclear energy and renewable energy
Aug 2016	China-Iran	Iranian Ministry of Finance and the China Development Bank signed a cooperation agreement for economic projects, infrastructure projects to provide financing
Aug 2016	China-Iran	Minister of Commerce Gao Hucheng and Iranian Finance Minister Tabuniya co-chaired the 16th China-Iran Economic and Trade Cooperation Joint Committee meeting in Beijing (China-Iran Joint Commission on Economic and Trade Cooperation is the major form of China-Iran bilateral economic and trade consultation mechanism)
Jan 2016	China-Saudi Arabia	Memorandum on Promoting Silk Road Economic Belt, 21st Century Maritime Silk Road and Capacity Cooperation between People's Republic of China and the Kingdom of Saudi Arabia
Jan 2016	China-Saudi Arabia	Memorandum on Capacity Cooperation signed by PRC Ministry of Commerce and Ministry of Commerce of the Kingdom of Saudi Arabia. Two countries will improve their cooperation in petrochemical, automotive, home appliances, logistics, oil equipment, halal food areas
Jan 2016	China-Saudi Arabia	Memorandum of Understanding on the Cooperation of the Saudi High-temperature Gas-cooled Reactor. Confirming cooperation on construction of fourth generation advanced nuclear energy technology
June 2016	China-Saudi Arabia	Agreement on Strengthening Cooperation in Infrastructure, two countries will cooperation in design, installation, construction, production, disposal, supply and equipment manufacturing
Sep 2015	China-Egypt	Draft Framework on Capacity Cooperation, listing project priorities in electricity, transportation and industry
Jan 2016	China-Egypt	Memorandum on Promoting Silk Road Economic Belt and 21st Century Maritime Silk Road
Jan 2016	China-Egypt	Memorandum on Developing Suez Canal Corridor
Jan 2016	China-Egypt	Agreement on Cooperation of Suez Canal Economic Zones
Jan 2016	China-Egypt	Memorandum on Providing Assistance for Egypt's Development from 2016-2018
Jan 2016	China-Egypt	Memorandum on Aviation Cooperation, Memorandum on Cooperation of Science and Technology
Jan 2016	China-Egypt	Agreement on Cooperation of Economy and Technology
Jan 2016	China-Egypt	Memorandum on Countering Climate Change

Projects

Projects funded by Chinese capital in the Iran-Saudi-Egypt nexus

Iran	
105,000-hectare farmland rehabilitation and leveling project in three northern Iranian provinces	China Hydro Engineering Group International Construction Co., Ltd
Iran Amax Commercial and Cultural Center Project	CITIC International Cooperation Co., Ltd
Oil drilling service project and CNOOC 15 Platform in Iran	CNOOC Ocean Engineering Co. Ltd.
Saudi Arabi a	
Arabian American Oil Company and PetroChina jointly invest USD 10 billion to build the Saudi Aramco PetroChina Yanbu refinery project. Completed in 2014, it was put into operation with annual refining capacity of 20 million tons	Arabian American Oil Company and PetroChina
High-temperature gas-cooled reactor project by using fourth generation of advanced nuclear energy technology	China Nuclear E&C Group, King Abdullah City for Atomic and Renewable Energy
Egypt	
Egypt's Ministry of Transport signed memorandum with China Railway Group Limited and AVIC International Holding Corporation to construct the first electrified railroad in Egypt, a USD 1.5 billion investment for 80km of track	China Railway Group Limited and AVIC International Holding Corporation

Figure 3. Projects funded by Chinese capital in the Iran-Saudi-Egypt nexus and government to government cooperation agreements in the Iran-Saudi-Egypt nexus, 2016.

effectively a policy to offshore China's industrial capacity to Middle East economies by leveraging China's foreign exchange reserves to shift state-driven investment to an external geography (PRC State Council 2015). Although ICC is used primarily to offshore backward and excess heavy

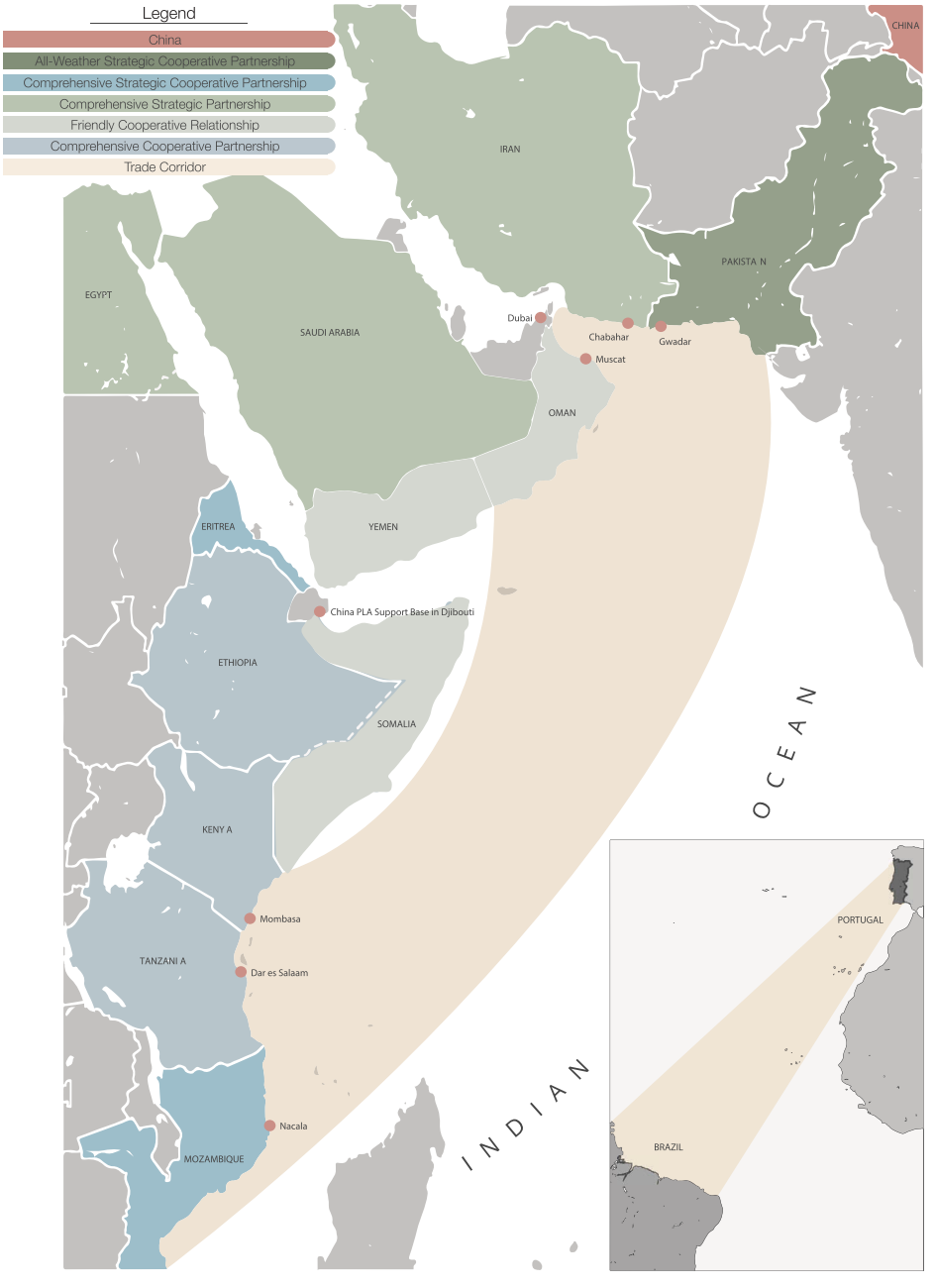


Figure 4. China West Indian Ocean geoeconomic strategy. China's geopolitical position in Oman and Pakistan is to East Africa as Portugal was to Brazil in the age of exploration.

industrial capacity, there is ample evidence in the Middle East case to suggest China's state-directed investment towards the region is in higher-end sunrise technologies such as civil nuclear equipment and satellite technologies. Three key state economies in China's Middle East strategy are Iran, Saudi Arabia, and

Egypt, in the strategic sectors of civil nuclear, space industries and both traditional and new energy.

This paper uses primary sourced Chinese policy documents from central and provincial state administrative agencies to trace historical institutional developments in the China–Middle East geoeconomic relationship. We collected data from two main sources: the annual trade briefings on the target country economies from China's Ministry of Commerce (MofCOM) Chinese Academy of International Trade and Economic Cooperation unit, and the political and economic monitoring operations of central MofCOM through both the Foreign Economic Cooperation website and through the specific China embassies' websites in target countries. This was monitored for six months, being abstracted and translated into a wider relational database focusing on China's domestic trade and industrial policy in external geographies. The documents were then assembled into loose data points from which macro geoeconomic policy narratives clearly emerge. These primary sources are supplemented with attention to Chinese media, both state media and non-state media, for guidance on interpretation of policy measures.

We apply a Polanyian analytical model to the policy data, examining the policy narratives extracted from the documentary evidence from the perspective of "embeddedness". We question the degree of state–market institutional interrelationality and coordination of trade and industry institutional actors and motives. The paper contends that state public administrative functions are embedded in all ICC operations and that therefore all Chinese capital carries an embedded state policy element, even if ultimately deployed through private enterprises.

The paper is organized into first, a theoretical justification of applying a Polanyian framework in the analysis, then examining China's domestic macro policy architecture for greater Middle East investment, including introducing the core *2016 China–Middle East Policy White Paper*. We then introduce the role of policy banks in China's State-coordinated ODI before examining policy evidence of *International Capacity Cooperation* in the three major target economies of Iran, Saudi Arabia, and Egypt. The final section examines China's Indian Ocean trade strategy and the geoeconomic and geopolitical implications of China's increased industrial transfer to the Middle East.

Ultimately the paper represents an institutional economic analysis of China's external trade and industrial policy, agenting the Ministry of Commerce, the policy banks, the local government units, and the industry coordinating bodies, to extrapolate the shadow of China's greater Middle East geoeconomic strategy.

A Polanyian approach to China's outward direct investment in the Middle East

This study is neither focused on the politics of the Middle East nor on Great Games in a wider Central Asia–Middle East nexus. Rather, the methodology,

data collection, and analysis are focused on China's domestic public administration in the tradition of Weberian and Wilsonian theories of public administrative law and regulation (Wilson 1887; Weber 1946; Sager and Rosser 2009). We focus on the central apparatus of the China Communist Party governance model, and the trade and industry policy that emanates from China's administration, from both Party-State, and central-local governments. We focused the policy and regulatory data collection process on China's State Council trade, industry and public finance administration. We then use analytical principles from institutional economics in the spirit of Thorsten Veblen and Karl Polanyi (Veblen [1915] 2003; Polanyi 1944; Dale 2010). From component institutional economic State actors, we construct a picture of a coordinated whole, of a systemic State industrial policy in external geographies as the practical policy measures of a wider geoeconomic strategy.

Analysis of China's external trade and industry policy towards the Middle East must consider a wide range of domestic political agents. For example, foreign policy in China is rarely formed by the Ministry of Foreign Affairs (MFA). Rather, foreign policy formation is at best a case of collective leadership between Party and State, and at worst a siloed ministerial turf battle between State Council ministries including but not limited to the National Development and Reform Commission (NDRC), Ministry of Commerce (MofCOM), State-owned Assets Supervision and Administration Commission (SASAC), Ministry of Industry and Information Technology (MIIT), Ministry of Science and Technology (MoST), along with relevant Communist Party of China (CCP) and State Leading Groups (Hatton 2013). Bringing in powerful industrial provinces and their local government units only confuses the foreign policy-making process further, essentially many local governments run their own foreign policy. China's *International Capacity Cooperation* geoeconomic policy in the Middle East though is clearly coordinated through the central Ministry of Commerce. Deployment of foreign economic policy is coordinated in partnership between MofCOM and MFA. While the wider geoeconomic strategy is coordinated by NDRC and the policy banks, ultimately local provincial and prefectural governments deploy policy.

Much of this domestic and international economic policy formation in China can only be understood in terms of state–market relations and state–market institutional interrelationality. Douglass North defines institutions as "the humanly devised constraints that shape human interaction" (North Douglass 1990, 2005). From North, we can also say simply that institutions are people repeatedly coming together to form patterns of behavior that over time are both transmissible to iterative processes and also prone to change (North Douglass 1990). In applying an institutional analysis to economic history and contemporary China policy, we examine the institutional interrelationality between China's central level ministries, central policy banks, *International Capacity Cooperation* sovereign funds, provincial and prefectural executive

and administrative arms of government, *International Capacity Cooperation* industry enterprise alliances, and ultimately their relationship with target host economies and the sovereign States that govern them. Analyzing these State (née Party) institutions as economic agents allows us to build a model of analysis that can track the transmission of the political from the Party to the State, and the transmission of state capital from China to host economy states.

Ultimately our analysis of China's domestic trade and industry public administration policy in external geographies invokes the institutional economic theory of Karl Polanyi, and in particular the concept of embeddedness (Polanyi 1944; Dale 2010). Through the concepts of fictitious commodities, embeddedness and the double movement, Polanyi's thought continues to shape contemporary dialogue on the nature of state–market interrelationality and the role of markets within human societies (Polanyi 1944). Polanyi has been successfully appropriated in the field of anthropology, but we employ a Polanyian analysis here in the original political economy sense, applied to the transitive effect of industrialization on states and state institutions.

Polanyi's framework was principally concerned with the social and institutional processes of industrial revolution. Polanyi argued that the markets for capital, labor, and land were fictitious commodities, embedded in already existing social institutions which actually governed their use (Gemici 2006). He argued that permanent disembedding of the political, religious, and social from the economic was impossible (Block 2001). We apply a Polanyian framework here to China's catch-up industrialization, arguing that the economic history of China's industrial transformation manifests unique institutional complementarities, making foreign policy, foreign trade and industrial policy and domestic trade and industrial policy institutionally interrelated with China's domestic capital formation and allocation (Suehiro 2008).

Where Polanyian analyses are often applied to labor as a fictitious commodity, we are here applying the concept to capital (Dale 2010; Block 2001; Paton 2010). We argue that China's domestic capital accumulation has resulted in a fictitious quality to China's international capital – it has not been disembedded from its local governance institutional genesis and consequently it is not fungible with "clean" capital from economies with strong auditing practice, open capital accounts and clear administrative separation between local governments, state banking systems and industrial enterprises. Essentially, China's capital is not a fungible commodity on international markets; it instead contains an embedded State function and is inherently connected to the local governance institutions which formed it, often through dubious debt-finance instruments (Sanderson and Forsythe 2013). Infrastructure investment serves China's greater geopolitical goals, and finance capital is drawn down from unaudited local government debt-financed banking institutions (Lan 2017a, 2017b).

Our argument throughout this paper is that econometric models or firm level or sectoral analyses are insufficient to understand the level of State

embeddedness in China's capital investment strategy in the Central Asian and Middle East region. China's continued use of state capital controls under which to pursue a State investment strategy in external geographies, in conjunction with China's industrialization investment offshoring its domestic project system, essentially amounts to a state-capitalist Outward Direct Investment economic model.

China's policy architecture for Middle East investment

While the Ministry of Foreign Affairs may transmit policy to lower levels of government, China's actual foreign policy is formed in the space between Party and State Leading Groups and the Central Politburo. Leading Groups are simply committees of high-ranking cadres, a system inherited from the Bolshevik political organization in the Soviet Union and analogous to Senate Subcommittees in the United States. Foreign policy competency for specific geographies within the central China leadership is difficult to ascertain at Party Leading Group level but may be understood as it is transmitted down through the State Council public administration hierarchy. Various State Council ministries have remit to create and deploy foreign economic policy, and ultimately many state-level foreign economic policies are left to provincial and prefectural governments who are tasked with actually transferring industrial capacity and coordinating foreign economic policy (Kenderdine 2017e). While Party Secretary Xi Jinping ultimately guides the macro foreign policy for the Party Leading Group for Deepening Economic Reform, through the first Xi administration 2012–2017 State Council First Vice Premier Zhang Gaoli guided the *Belt and Road* policy deployment, and its external *International Capacity Cooperation* policy in Central Asia and the Middle East through the State Leading Group for *Belt and Road* (Kenderdine 2017a).

In January 2016 a major foreign policy paper was handed down to the State public administration: the *China–Middle East Policy White Paper* (literally the "China-Arab Countries Policy Paper" – zhōngguó duì ālābó guójiā zhèngcè wénjiàn) (PRC Ministry of Foreign Affairs 2016). The policy narratives expressed in China's Middle East Policy White Paper centered on the development of an 'Asia–Middle East-Africa axis of economic cooperation' and China's State-coordinated ODI for greater *Belt and Road* industrialization (Xi 2016). It set out China's national policy towards the Middle East centering on *International Capacity Cooperation*: exporting production bases in advanced manufacturing industries, and in agriculture and aquaculture (Zhang 2016).

For the Middle East, the industries to be transferred to China's external geographies are clearly laid out: civil nuclear, space and satellite industries and both traditional and new energy. The *Policy White Paper* clearly defined China's trade and investment strategy as a '1 + 2 + 3' policy (Xinhua 2016c; PRC Ministry of Foreign Affairs 2016). '1 + 2 + 3' is classic Chinese numerology

policy shorthand for cooperation in six key areas (Xinhua 2016; PRC Ministry of Foreign Affairs 2016). 1 is energy cooperation; 2 is infrastructure development + trade & investment development; and 3 is nuclear energy + satellites + new energy. So one plus two plus three equals six policy priorities in three key areas: energy; industry & trade; and in the three industrial sectors of civil nuclear; space industry and new energy. Secondary strategies introduced in the *Policy White Paper* are in agriculture, aquaculture and traditional construction in port and trade logistics infrastructure (China Youth Net 2016).

To facilitate the development of China's civil nuclear strategy in its external geographies, China in 2016 merged its two civil nuclear State Owned Enterprises (SOE), China General Nuclear Power Plant Corporation and China National Nuclear Corporation to form Hualong International Nuclear Power Technology Corporation. This allows the Chinese State to be able to better take its domestic Hualong I fourth-generation reactor technology abroad. Saudi Arabia's Vision 2030 domestic industrial policy has been identified as an institutional dock for China's external civil nuclear industrial policy (Kingdom of Saudi Arabia 2018).

Space industry cooperation is high on China's wider industrial transfer agenda. In the Middle East, China has particularly targeted satellite ground stations supporting China's "*beidou*" geosatellite constellation system, which aims to replicate the US GPS for China domestically and to challenge GPS service use in the Middle East, Central Asian and other Eurasian economies. To this end, the Arabian Peninsula is an important strategic geosatellite location for China, offering geosatellite opportunities akin to Turkey's ground stations which serve the US GPS. Aside from satellite communications, The *Policy White Paper* does also target traditional mobile telecommunications infrastructure.

In energy, China is seeking to develop traditional petrochemical industries in the Middle East, including oil exploration, production, transport, and refining, as well as oilfield engineering services and equipment trade (Wang 2016). However, China's new energy strategy in the region centers on plans to strengthen investment in solar, wind, hydropower and other renewable energy. Completing the Gulf Cooperation Council Free Trade Agreement would also open gates to China in traditional construction activities in railway infrastructure, roads, ports, aviation and electricity generation and transmission.

The principal secondary investment priorities identified in the *Policy White Paper* are in agricultural production cooperation. The *Policy White Paper* calls for agriculture and aquaculture cooperation in agribusiness, rainfed agriculture, irrigation, halal food, food safety, animal husbandry and veterinary sciences (China Middle East Policy). A science and technology transfer center, covering China and the Middle East countries, is hoped to integrate technology transfers and foster collaborative scientific networks (China Middle East

Policy). Other secondary capacity cooperation strategies are in traditional construction in port and trade logistics infrastructure (Xinhua 2016d).

In order to achieve these primary and secondary sectoral industrial policy goals, China central government agencies are taking an economic spatial planning approach to investment in its external geographies. With three principal industrial sectors identified, China is developing a trade and industry strategy targeting the three largest economies in the region, Iran, Saudi Arabia and Egypt with a secondary geoeconomic interest in Oman and Dubai.

However, China's investment in strategic industries across the Middle East such as transferring energy equipment capacity production is the vanguard of the much broader *International Capacity Cooperation* plan, including transferring obsolete and outdated overcapacity in traditional industries such as steel, aluminum, cement, plate glass, and textiles. Funding the transfer of industrial capacity though is devolved from central government to specialized institutions, which are introduced in the following section.

Policy banks coordinate state outward direct investment

China's domestic use of industrial policy is well documented (Kenderdine 2017a). Moving this policy bank funded model abroad is simply picking up China's domestic semi-planned industrial development and transplanting it to an external geography (Kenderdine 2018b). The ICC policy is thus a circumvention of China's closed capital account to perpetuate the domestic state industrial policy in a host economy. Essentially the goal is to move China's industrial production offshore, to then import the outputs of these externally based factories, or else export them to third countries thus avoiding anti-dumping regulations. In arguing that China's trade and industry policy is effectively its foreign policy, we examine the key institutions in the deployment of state capital funds to the Middle East, which are coordinated through the policy bank foreign direct investment regime (see Figures 1 and 2).

China State-owned Enterprises often lack equity to make international investments without government support and are highly dependent on credit lending (Xing 2016). Having alternative channels such as bonds, funds, export insurance and access to a variety of state-held foreign currencies is designed to provide State support to SOEs in the ongoing "Go Global" geoindustrial strategy and its attendant policy architecture (Pan 2014; Xinhua 2017b; Kenderdine 2018b).

Multiple *Belt and Road* infrastructure investment funds have been established as vehicles for leveraging China's foreign exchange reserves to offshore state-driven investment (Ningxia Daily 2016; Zhao 2015). People's Bank of China (the central bank) and China Investment Corporation (one of China's sovereign wealth funds) leverage against central foreign currency reserves and distribute funds through the China Development Bank (CDB), Export-Import

Bank of China (Exim Bank) and Agricultural Development Bank of China (ADBC) to a variety of purpose-built bi- and multilateral financing vehicles. Preferential loans, export credit, and foreign investment insurance is organized and distributed directly through these funds as well as with cooperation with the five major state-owned commercial banks (PRC Ministry of Foreign Affairs 2015; Kenderdine 2018c).

The main Belt and Road multilateral financing instrument for China's investment in the Middle East is the China–Arab Investment Fund. Its USD 10 billion in seed capital was joint-financed by the UAE's state-owned Mubadala Development Company in conjunction with China Development Bank and State Administration of Foreign Exchange. Asian Infrastructure Investment Bank (AIIB) initiatives (with an initial capital stock of USD 40 billion) also target Middle East economies Iran, Israel, Jordan, Kuwait, Oman, Qatar, Saudi Arabia, Turkey, UAE, and Egypt. While peripheral funds for African and Eurasian economic development and industrial transfers will fund the lateral economies that China intends to connect with through the Middle East.

Capital from these central funds is distributed to Chinese provincial and prefectural governments which have their own *International Capacity Cooperation* policies playing to geographic, industrial infrastructure and competitive advantage strengths. For example, much of the initial Middle East trade and industry funding has been coordinated through Ningxia province, drawing down on the centrally funded China–Arab Investment Fund (Ningxia Hui Autonomous Region People's Government 2016; Jie 2016; Ningxia Hui Autonomous Region Development and Reform Commission 2016). This pattern of central funds, and geographic and sector-specific ICC funds being allocated to provincial and prefectural governments who are in turn matched with host economies in the Middle East and Central Asia, is beginning to take shape and will emerge as a major institutional economic phenomenon in the near future.

Across Central Asia and the Middle East, China's Ministry of Commerce has already stated it will work with relevant departments for *International Capacity Cooperation* with host economies through a "One Country, One Province" system, focusing on key projects and integrating industry and finance policy (Jie 2016; Gansu Provincial Overseas Affairs Office 2016). China's local provincial and prefectural governments are in the process of being matched to specific external geographies, for example, Hebei province with Kazakhstan in steel and Luoyang Prefectural Government with Bukhara in Uzbekistan in aluminum (Kenderdine 2018f). In the Middle East, Saudi Arabia is paired with Fujian province – a major petrochemical import and refining complex – and Iran is matched with Gansu province – a strategically located province as the last Han ethnic majority province on the land-route to the New Silk Road (Ding 2016; China National Petroleum Corporation 2017). Hainan province is developing economic linkages with Dubai in the UAE funded by the *China Marine Strategic Industry Investment Fund*.

Sinosure – China Export and Credit Insurance Corporation, the state export credit agency – is in also an advanced state of financial risk policy deployment in the Middle East, working closely with both the policy and commercial banks to ensure a cohesive state-directed ODI financing model. For example, in the China-funded upgrade of Egypt's electricity grid a new public finance governance model has emerged: "Three Banks, One Insurer" (Wang 2018). Exim Bank, China Development Bank, and Industrial and Commercial Bank of China provided funding, under the guidance of NDRC and MofCOM, and underwritten by Sinosure. This institutional pattern of Three Banks One Insurer is set to be replicated in future industrial transfer projects (Meng 2018). From a China perspective, this is simple financial risk mitigation, ensuring three separate lines of credit by one guarantor. For open economies, however, it looks like the death of competition on the *Belt and Road*. This chart is necessarily incomplete– it is still impossible to accurately map every geographic fund and sectoral transfer with aChina local government and host external geography. This data will become more complete in time (Yang 2018; Jia 2018; Sina Finance 2018; He 2017; Hao 2017. Tao 2017; China National Petroleum Corporation 2017; National Development and Reform Commission 2015; Sanpower 2017; Soho 2017; Yanze 2017; Youqing 2017; Zhang 2016; Meng 2017; Zhengzhou Municipal Bureau of Commerce 2018).

Coordination of funds through the central policy banks, matching local governments with target country economies is supplemented with the formation of various *International Capacity Cooperation Industry Enterprise Alliances* in steel, non-ferrous metals, cement, light industry, mining, shipbuilding, textiles, etc., to coordinate firm level transfers to external recipient economies (PRC Ministry of Commerce Foreign Economic Cooperation 2017; PRC Ministry of Land and Resources 2017; Ningxia Construction Industry Federation 2017; China National Light Industry Council 2017; China Petrochemical Industry Association 2018; International Online 2016; Cheng 2017; China State Shipbuilding Corporation 2017; Xinhua 2017a; China Government Network 2017; PRC State Council Information Office 2017). For example, while funding for industrial transfers destined for Saudi Arabia is drawn from the *China–Arab Investment Fund*, industrial enterprise organizations are to be coordinated by the *China Construction Industry International Capacity Cooperation Enterprise Alliance*. This follows the patterns established with aluminum in Kazakhstan where the ICC policy is more mature (Kenderdine 2017d). While these institutional linkages are still tenuous, there is a clear pattern of systemic economic organization emerging. Matching Hainan province with Dubai city is macro strategic planning. Matching them with a *China Marine Strategic Investment Fund* and a *China Shipbuilding Industry International Capacity Cooperation Enterprise Alliance* is microeconomic planning (PRC Ministry of Science and Technology and Hainan Provincial Department of Science and Technology 2015). For China to be deploying its domestic industrial planning model in

external geographies like this is effectively a geoindustrial policy. While the ICC Enterprise Alliances are partially simply a loose organization of enterprises matched to a foreign geography, they are also clearly orchestrated by multiple levels of government. For example, a precursor to the ICC Enterprise Alliances were provincial coordination committees such as the *International Productivity and Equipment Manufacturing Cooperation Committee Provincial Coordination Mechanism* established through coordination between the National Development and Reform Commission and Hebei provincial government (National Development and Reform Commission 2015). Policy bank lending and industrial transfer is framed as development financing. However, the geostrategic nature of the plan is being effectively overseen by the central government.

This industrial transfer for economic development very much follows the policy pattern of domestic Chinese fiscal transfers for economic development particularly in the 1995–2015 period, after the coastal provinces had already begun to outpace the industrial development of the interior, playing into conventional resource abundance regional economic development narratives (Zhang et al. 2008). The major policy parallel is with the inter-regional poverty relief partnerships which tried to create a mechanism for lateral provincial, prefectural and county level fiscal transfers (Lahtinen 2005). China's fiscal system is one of a centralized collection and regional redistribution, so it has been difficult to create a system of direct lateral East–West "Two Pictures" province to province transfers (Tianjun 2017).

More conventionally in China's economic development, provinces are compelled to compete with one another in a tournament system, replacing the process of competition in free-market capitalism with the cadre promotion system in a command or transition economy (Kelly 2015; Luo 2017). Luo Xiaopeng was a vocal critic of this "Chongqing model" of development and the institutional dependencies it would leave behind (Luo 2011). Nevertheless, the provincial tournament system, central "collective learning capacity" (Luo 2010) and limited reiterative policy divergence combined to create a central policy of domestic, lateral, fiscal transfers for economic development.

To make provincial tigers of Guizhou, Qinghai, Inner Mongolia, and Xinjiang – some of the great underdeveloped provinces – the Central government used first a Partner Assistance Program in Xinjiang to directly reallocate tax revenues. The 2010's macro *Greater Western Development* regional industrial policy, to run alongside the *Rise of Central China* and the *Revitalization of the Northeast* expanded the scope for lateral transfers. The "poverty alleviation" or industrial transfer mechanism was formalized under the *East-West Partnerships for Poverty Alleviation*, and in Xinjiang more specifically as the *Partnership for Assistance Program*. (Hu 2010; Wu and Zuo 2018). This regionally planned industrial transfer for development policy was again recently piloted again in Guizhou, seeking to reduce regional inequality by pairing richer

coastal cities with poorer counterparts in Guizhou. Donor cities were Shanghai, Dalian, Suzhou, Hangzhou, Ningbo, Qingdao, Guangzhou, and Shenzhen, contributing at least C¥30 million per year, under the guidance of central NDRC.

While the China State-coordination of policy banks, commercial banks, sovereign wealth funds, and export credit insurance do paint a picture of a cohesive State-financing model for the externalization of China's industrial development model, less clear is the inherent financial risk that soft Chinese state-bank loans pose to the Middle East region. The process is less akin to a Japan or a Germany rejoining the international trade and industrial production community after a period of protectionism, state-finance and industrial policy development in relative isolation, and more like the Soviet Union overextending itself to attempt to expand its model of production in far-off geographies (Fickling 2018).

For China, the State-ODI strategy comes in the guise of audited capital being invested by private firms chasing factor endowments in less-developed economies. However, the institutionally connected nature of the capital allocation mechanism means that the host economy is exposed to a chain of financial risk that remains unbroken all the way back down to China's provincial and prefectural local government revenues. Local Government Financial Vehicles also engineered a domestic capital accumulation in China via a local land-finance development system (Sanderson and Forsythe 2013). Essentially, a Chinese loan for an energy equipment factory in Saudi Arabia contains unaudited risk traced directly back to non-productive fixed assets on the China mainland. If, and when, the prices of those assets collapse in a domestic financial crisis, Chinese capital at work abroad will also collapse.

International Capacity Cooperation in Iran, Saudi Arabia, and Egypt

Industrial capacity transfers in Kazakhstan and Central Asia are an early indication of how China's international industrial transfer policy will likely be applied to the Middle East (Kenderdine 2018b). In 2016 *International Capacity Cooperation* agreements were signed with more than 20 states (Li 2016). China–Middle East, China–Africa, and China–Central Asia bilateral funds are already in operation with a large number of major international capacity cooperation projects having started construction (PRC Ministry of Commerce 2016; Zhang and Sun 2016).

In the Middle East, China's strategy clearly centers on Iran, Saudi Arabia and Egypt (People's Daily 2016). In 2016, Party General Secretary and State President Xi Jinping took a three-country tour to set the stage for increased state to state industrial and financial transfers (Xinhua 2016a). Bilateral agreements are already in place in Iran, Saudi Arabia and Egypt to facilitate early transfers in more advanced sectors such as the early ICC industries civil nuclear electricity generation, space industries, and traditional and new energy.

China's Ministry of Commerce Chinese Academy of International Trade and Economic Cooperation (CAITEC) annually publishes individual policy documents for each country in West Asia (PRC Ministry of Commerce, Chinese Academy of International Trade and Economic Cooperation 2015a, 2015b, 2015c, 2016a, 2016b, 2016c, 2016d, 2016e, 2017). These published trade and investment strategies disseminated by CAITEC in conjunction with the embassies to the countries concerned, clearly demonstrate the Chinese State's plans in the wider Middle East. Excerpts from MofCOM CAITEC reports and Foreign Economic Cooperation policy and regulation excerpts on Iran, Saudi Arabia, and Egypt paint a picture of China laying the foundations of a state-controlled industrial matrix in the region (see Figure 3).

The important aspect to note is that trade agreements between nation-states usually create state to state frameworks for private trade and investment. In China's case, the trade and investment strategy being agreed is a State-capitalist one. In particular, the *International Capacity Cooperation* policy is not the State creating a favorable investment climate for private capital, it is rather the State directly investing in external geographies. This is effectively a parallel trade strategy, maintaining a closed capital account and controlling labor and capital inputs into industrial production, only offshoring the land factor to another state as part of China's closed model of production.

Iranian cooperation is critical to China's land and sea infrastructure, building routes to Europe. MofCOM's foreign economic cooperation website does not list Iran in its "West Asia and Africa" section. Instead, Iran appears with both Pakistan and Turkey on the "Asia including Taiwan and Hong Kong" section, demonstrating the importance of both Iran, Pakistan and Turkey to China's "near abroad" foreign, trade, and industry policy.

In 2015, Chinese enterprises in Iran signed 251 new contracts worth USD 1.52 billion. And Iran has since become a major market for China's overseas exports of engineering, technology and complete sets of equipment – in essence, a host economy for the transfer of Chinese factories. China's major contracting projects in Iran include energy, transport, iron, steel, electricity, chemicals, mining, communications, automobiles, motorcycles, and home appliances. Iranian rail network development, the Caspian Sea Trans-Caucasus logistics route, and the Tehran–Istanbul rail link are all trade logistics strategies which can develop alongside an industrial capacity transfer policy which shifts the production of infrastructure inputs to Central Asia and the Middle East (Kenderdine 2017c, 2017b, 2018e). Essentially, if China can move the factories that produce cement, steel, aluminum, glass, and energy production to the Middle East, then China can continue its state-capitalist development model in an external geography – merely pouring the cement for new infrastructure from Iranian cement factories powered by Iranian energy. Ultimately China's Central Asia–Middle East-Caucasus strategies are linked with Iran as China's land bridge to Europe through the *Belt and Road* strategy

where a logistics strategy through The Black Sea and Turkey could successfully circumvent the Suez Canal.

MofCOM CAITEC does audit Saudi Arabia as the largest trading partner for China in "West Asia and Africa". Both countries are seeking to develop industrial complementarities beyond petrochemicals. Saudi Arabia's Vision 2030 for industrial and economic reform has two energy strategies, an external oil strategy and a domestic civil nuclear strategy. Saudi Arabia plans to produce 9.5 million kilowatts of non-fossil fuel derived electricity by 2030 and has plans to build 16 new nuclear power plants. This dovetails with China's export of civil nuclear equipment manufacturing plants. To this end, China Nuclear E&C Group and King Abdullah City for Atomic and Renewable Energy signed a Memorandum of Understanding for cooperation on Saudi high-temperature gas-cooled reactors – that is, fourth generation nuclear electricity generating reactors. The two countries have confirmed a range of cooperation measures on the production and implementation of fourth generation advanced nuclear energy technology. In traditional and new energy, China will seek capacity cooperation in oil exploration, production, transport, and refining and promote oilfield engineering services and equipment trade. China also seeks to strengthen cooperation in solar, wind, hydropower and other renewable energy (Kenderdine 2018).

For Egypt, China provides economic assistance under the annual "Economic and Technical Cooperation Agreement" to determine the specific amount of assistance. For China, Egypt is the geoeconomic lifeblood of the Europe–Middle East-Africa trade nexus. Newly signed large-scale contract projects include Egyptian telecommunications infrastructure built by Huawei, the Egyptian national rural sanitation project by Gezhouba Cement Group and an Egyptian national electricity grid upgrade project by China Power Technology Equipment. The China–Egypt relationship buys China a friend in the most populous Middle Eastern state and naturally positions China on the Suez Canal and Red Sea as part of a wider Indian Ocean trade strategy.

Targeting the three major economies of the Middle East provides China with stable trade partners to produce goods for reimport back into China. China is negotiating a Gulf Cooperation Council Free Trade Agreement and hopes to expand investment in traditional infrastructure–railways, roads, ports, aviation, and electric power to facilitate this future import trade strategy (Kenderdine 2018; PRC Ministry of Commerce, Chinese Academy of International Trade and Economic Cooperation 2015a). However, an expanding China geoeconomic presence in the Middle East also provides a geopolitical foundation for challenging United States and Russian spheres of influence and geoeconomic poles in the Middle East. Particularly with regards to Iran, a polity ostracized by the United States foreign policy in the region, China's trade and investment strategy will likely transform the Middle East geoeconomic and geopolitical paradigms.

China's Indian Ocean import strategy

China's trade policy in the Middle East is really one of the multiplicities framed as bilaterals. This trade and industry policy in external geographies is building an Indian Ocean import-focused trade network to transform the Western Indian Ocean and strengthen the international connectivity of China's Western provinces. A regional breakdown of investment targets from MofCOM's foreign economic cooperation policies clearly demonstrates China's strategy of combining its Middle East and African strategies. Or rather, that the Middle East strategy is a "wing to Africa" as part of China's greater African or greater Indian Ocean strategy. Despite the clear geopolitical implications, there has still been little attention paid to China's *International Capacity Cooperation* policy in the Middle East outside China's own government organs (China Youth Net 2016). While there has been a much broader academic and media focus on the Russian arc of the China-Eurasian industrial docking being undertaken through the *Belt and Road*, the Middle East will be key to China's future global trade and industry regime (Liu Xiaoyin 2015). This is in part evidenced by the quality of industrial transfers China is offering to Middle East economies. China is offering the Middle East higher value industrial transfers than it is offering to Central Asia. Civil nuclear energy equipment factories put China–Iran and China–Saudi Arabian industrial transfers much higher up the global value chain than, for example, China–Kazakhstan old heavy industrial transfers in steel and aluminum production facilities. This wider geopolicy is preparing for the transition of China into a net-importing country.

Naturally, strengthening geoeconomic ties with Iran and Egypt serves its own purpose of pulling economic gravity towards a Chinese pole and away from the US pole. But China building a maritime sphere of influence in the Northwestern Indian Ocean is impossible to ignore. China, practicing an unaligned diplomatic policy of zero alliances, is constructing a hierarchy of strategic relationships with geoeconomically important economies as part of a wider macro policy (Sun and Lin 2015).

It is clear both from the extant policy evidence presented here, as well as analyses of formal diplomatic relations between China and Indian Ocean economies, that a considered emphasis is being placed on the region and a hierarchical order imposed by China's economic strategy in the region (Wood 2016; Cowhig 2017). China's diplomatic and trade relations with the economies of the Western Indian Ocean align clearly with a Western Indian Ocean geoeconomic strategy centered on Pakistan, and connecting to strategic East Africa via the "wings" of the major and minor Middle East economies.

Empirical categorization of China's diplomatic and trade relationships is elusive. But some categorization is illustrative. Pakistan has the highest level of relations in the China diplomatic system: an "All-Weather Strategic Cooperative Partnership"

(*quántiānhòu zhànlüè hézuò huǒbàn guānxì*). The following two most strategic economies in the region for China are in Africa: Eritrea and Mozambique both have third tier "Comprehensive Strategic Cooperative Partnerships" (*quánmiàn zhànlüè hézuò huǒbàn guānxì*), the same level as South Korea and Thailand – very important economies to China. The three big Middle East economies of Iran, Saudi Arabia and Egypt that form the primary focus of this paper enjoy a fourth tier relationship status, "Comprehensive Strategic Partnership" (*quánmiàn zhànlüè huǒbàn guānxì*), while the peripheral ocean frontage peninsular economies of Oman, Yemen and Somalia have lower status "Friendly Cooperative Relationships" (*yǒuhǎo hézuò guānxì*). The lowest diplomatic and trade relationship status in our West Indian Ocean analysis falls to the three East African economies of Ethiopia, Kenya, and Tanzania, as Comprehensive Cooperative Partnerships. However, Somalia, Ethiopia, Kenya, and Tanzania are strategic trade corridor economies for China to transfer industrial capacity for future reimport of industrial outputs through the Pakistan corridor.

While Iran is a strategic *Belt and Road* bridge, critical to China's land and sea infrastructure construction for building routes to import from Europe into Western China, the China–Pakistan Economic Corridor opens China's main import route from East Africa (Kenderdine 2018). The five Middle East Indian Ocean economies of Pakistan, Iran, Saudi Arabia, Egypt, and Oman are then on a direct route from China to East Africa's Kenya, Tanzania, and Mozambique – sites of significant Chinese investment capital (Chatora 2017). China as an eventual net-importer will begin to pull the gravity of international rule-setting into its orbit. The prospect of China's geoeconomic power in the Persian Gulf and the Red Sea means opening the Indian Ocean to a new world of geoeconomic opportunities, expanding China's Indian Ocean trade options (Xu Yamin 2016).

This network of international trade opens China to manufactured imports from East and Central Africa and allows it a serious space for asserting itself as a trade pole in Central Asia and the Middle East. "West Asia and Africa" is MofCOM's spatial planning term for this geographic region of overseas direct investment. Aside from Pakistan and the targeted three large economies of Iran, Saudi Arabia, and Egypt, the fifth spoke in China's Middle East geoeconomic policy is Oman. All five countries face the Indian Ocean (see Figure 4).

China's wider investment strategy in the Middle East is part of even larger geostrategies to connect China to import markets from Europe and production markets in East Africa. And China's interest in Oman shows China's larger international trade and industry policy to cultivate frontage access to the Indian Ocean. For example, a *Belt and Road* Map from the China–Arab Investment Fund website shows China utilizing the Strait of Hormuz as a path to Istanbul through Iran, demonstrating China's intent to circumvent the Suez Canal choke point (Silk Road Fund 2017).

While Iranian cooperation is critical to China's land logistic routes to Europe, Oman lies at the crossroads of China's Indian Ocean maritime strategy (Zambelis 2015; ONA 2016). Oman lies at the crossroads of two China Indian Ocean maritime strategies with the *21st Century Maritime Silk Road* route from Eastern China seaports to the Western Indian Ocean connecting Karachi to Istanbul. As more Maritime Silk Road funding is institutionalized, more fixed capital investment is expected for ocean-frontage economies in the Middle East, particularly for Oman (Xinhua 2016b). China sees an institutional right to global ocean protein sources with the Western Indian Ocean as key (Xinhua 2016). China has a huge demand for quality, safe, standardized food, and China's distant water fishing fleets operate on the coast of East Africa and major Chinese industrial and agribusiness investment is earmarked for East Africa.

For China, the game in the Middle East is much wider than simply using the Persian Gulf to access the Indian Ocean, to offshore its own industrial overcapacity, or to disrupt the United State's balance of power in the region. It is too simplistic to project a nefarious image of a Grand Strategy on China's Middle East Policy, much less to expect that China has the governance and institutional infrastructure to either make it work or make it work well. But we can say clearly and surely that China's geoeconomic strategy in the Middle East is centered on developing an Indian Ocean trade and investment architecture. We can also say that Pakistan, Iran, Saudi Arabia, Egypt, and Oman are the core countries targeted in this Indian Ocean international trade and industry policy.

Conclusion

The *Belt and Road Initiative* is China's trade policy. And it exports the same types of institutional risks to its trade partners as are extant in China's domestic economy. As such, we need to deploy institutional economic analyses to better prepare both China and the world economy for these risks. Neither international relations analyses of China's *Belt and Road*, nor econometric analyses of China's Outward Direct Investment are sufficient to understand the state–market institutional interrelationality in China's Middle East geoeconomic policy. We have presented an evidence-based narrative derived from primary China public administrative policy and regulatory documents. Through a close examination of this public, transparent historical record, coupled with a Polanyian concept of embeddedness, we have demonstrated a clear industrial policy and industrial transfer strategy.

China's CCP is well accustomed to, and adept at, formulating and deploying spatially planned economic policy, regional industrial development strategies, and political incentive-based growth targets. China's public administrative architecture is now refocusing its trade and industry strategy towards China's external geographies in the Middle East.

However, Beijing is much better at making plans than implementing them, and China's domestic economic institutions do show a high degree of discoordination and regional incentives for distorting behavior, in opposition to the ideal of *Zhongnanhai* controlling a perfectly coordinated economic polity. To consider the central CCP political organs as in control of even China's own domestic political economy, would be either a gross overstatement or an exercise in willful oversight. To assume that Beijing can effectively control industrial output in external economies would be a gigantic leap of faith – a blind jump into the darkness. However, to ignore the institutional factors of China's State-integrated ODI policy would be equally fallacious. China's central public administration has formed and is deploying a clear economic development plan to match China's domestic State industrial institutions with its industrial investment policies in the Middle East, as well as in other geographies along the *Belt and Road*, especially in Central Asia and East Africa.

This paper has demonstrated that China has clear and transparent international economic cooperation agendas centered on the macro trade policy of *International Capacity Cooperation*, and the offshoring of China's domestic industrial capacity. China's state-directed outward direct investment through *International Capacity Cooperation* and *Belt and Road* will likely strengthen the industrial economies of the Middle East and provide new sources of both finance capital and fixed capital as Chinese plants are moved offshore. However, it would be naïve to think that a country with such a developed industrial policy, operating behind a closed capital account, would treat external loans as capital independent of its tightly controlled domestic public finance architecture. China's trade and industry institutional actors will continue to plan firm, state, multi-state and regional industrial policy in its external geographies.

There is a tendency to analyze the Middle East region as simply a node in a wider regional conception of the economic spheres of either the United States, Russia or increasingly China. The rise of China in the Middle East is not so much an upset of the geopolitical order, as a subversion of extant institutional actors, which requires new methods of geoeconomic analysis. While most international attention on China's *Belt and Road* is drawn to the executive arm of politics, the administrative arm of government has been steadily building a publicly transparent suite of policies for a wider trade and industry strategy for the Middle East. China's rise in the Middle East and Africa need not be a threat. But let us employ the right tools to analyze state power games both through analysis of international capital at the firm level, and the technology and industrial transfers that are most definitely being deployed as a matter of state capital coordination and state–market institutional interrelationality.

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Kazakh Land, China Capital: Exporting China's Project System to External Geographies

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Abstract

China's Belt and Road geoindustrial policy is dependent on upgrading transport logistics throughout the Middle East and the former Soviet Republics of Central Asia. However, the key International Capacity Cooperation policy also aims to move industrial plants abroad in support of China's wider import strategy. Planning this industrial offshoring not only requires significant domestic industrial policy governance coordination, with policy being formed at the center and transmitted to lower levels of China's administrative hierarchy, but also involves traversing largely unmapped policy territory, namely international multilevel governance cooperation with host countries in Central Asia. Taking the International Capacity Cooperation policy as its focus, this paper examines China's geoeconomic industrial policy in Kazakhstan, arguing that greater public administration interdependence is needed to develop China's foreign policy into genuine regional economic cooperation.

Keywords

China – Kazakhstan – geoeconomics – Belt and Road – International Capacity Cooperation

Introduction

International Capacity Cooperation (ICC) is the practical policy mechanism by which China is implementing its Belt and Road geoindustrial policy—and there is ample documentary evidence to explore. This paper examines the People's Republic of China's state bureaucracy and its domestic transmission

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of industrial policy, arguing that a coordinated attempt is being made to extend China's industrial restructuring to external geographies. It explores China's trade and industry policy toward the Republic of Kazakhstan during Xi Jinping's first term (2012–2017) by examining the International Capacity Cooperation policy, its formation and transmission within the Chinese state bureaucracy, how it extends the lifespan of the domestic Project System model of economic growth, and how it is dependent on the extension of China's "policy banking" model to external geographies. Kazakhstan was chosen for analysis because it is central to Beijing's wider Belt and Road geostrategy.

The paper looks at three aspects of China's geoindustrial policy: industrial capacity transfer; agroindustrial capacity transfer; and transport and logistics development. First, it examines the evidence of Kazakhstan's import of Chinese capital in the industrial sector and considers future institutional developments. As agricultural imports are a key sector within China's geoindustrial policy, the second section considers agroindustrial capacity cooperation as part of China's wider strategy in Kazakhstan. Finally, the much-speculated-about but little-researched spatial planning documents that guide China's investment in railways and logistics infrastructure are examined and discussed.

Theories of national systems of economic development in the Listian tradition are used to examine China's extant industrial policy and spatial planning for the external geography of Kazakhstan. Building on the existing literature on Kazakhstan's post-colonial experience, the paper takes Kazakhstan as the agent in China's principal-agent game in Central Asia. Moving beyond simplistic New Great Game or post-colonial narratives, however, it treats Kazakhstan (and Central Asia more broadly) as a serious geoeconomic player rather than a passive agent.[1] The paper also employs European Union (EU) public administration concepts of multilevel governance to argue the counterfactual that effective federalist local-government-to-local-government relations are lacking in China's external industrial policy. Given that most Belt and Road and International Capacity Cooperation policy measures fall to provinces and prefectures within China's centrally orchestrated hierarchical bureaucracy, coordinating an external industrial policy will require significant investment by China in both its domestic and foreign bureaucracies, as well as a strengthening of the policy autonomy of China's local governments.

1 B. Dave, *Kazakhstan—Ethnicity, Language and Power* (London and New York: Routledge, 2007); D. Hiro, *Inside Central Asia—A Political and Cultural History of Uzbekistan, Turkmenistan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkey and Iran* (New York and London: Overlook Wentworth, 2009); M. Laruelle and S. Peyrouse, *Globalizing Central Asia: Geopolitics and the Challenges of Economic Development* (Abingdon and New York: Routledge, 2013).

Primary Chinese sources were collected from the People's Republic of China State Council Ministry of Commerce, relevant Ministry of Commerce offices within the China embassy network, the National Development and Reform Commission, and other central trade and industrial policy-coordinating ministries. By examining these government plans, the paper triangulates an analysis of China's export of the policy process and political risk in industrial capacity transfer.

China's Institutionalized External Industrial Policy

China is constructing a parallel trade and investment architecture, circumventing the plurilateral trade system in order to run a state investment strategy from behind a closed capital account. In order to understand this, it is essential to examine the domestic institutions, rhetoric, and levers of industrial policy within the Chinese bureaucracy.

To examine China's industrial capacity transfer policy, this paper takes a broadly comparative international political economy approach, comparing the national economic systems of China and Kazakhstan using Listian theories of national systems of economic development.[2] This is essentially an historical institutionalist approach to analyzing national systems of economic development, taking the institution as the basic unit of analysis and examining it from the perspective of institutional change over time.[3] It is concerned with path-dependencies determining economic outcomes, sticky institutional legacies in the government-economic nexus, and the nature of cumulative causation and the results these have on economic development, collectively known as the German Historical School of Economics.[4] This approach has

2 F. List, *The National System of Political Economy*, trans. G. A. Matile (Philadelphia, PA: J. B. Lippencourt & Co, 1856); A. Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge, MA: Harvard University Press, 1962); J. Weiss, *The Economics of Industrial Development* (Abingdon and New York: Routledge, 2010).

3 T. Skocpol and P. Pierson, "Historical Institutionalism in Contemporary Political Science" in I. Katznelson and H.V. Milner (eds.), *Political Science: State of the Discipline* (New York: W.W. Norton; 2002), 693–721; S. Steinmo, "Historical Institutionalism," in D. Della Porta and M. Keating (eds.), *Approaches and Methodologies in the Social Sciences: A Plurali* (Cambridge: Cambridge University Press, 2008), 118–138.

4 J. Zysman, "How Institutions Create Historically Rooted Trajectories of Growth," *Industrial Corporate Change*, 3, no. 1 (1994): 243–283; H. Rosovsky, *Capital Accumulation in Japan 1868—1940* (New York: The Free Press, 1961).

been used extensively to analyze the interactions of state and market in East Asian industrial development strategies of the twentieth and twenty-first centuries,[5] as well as to explain both the economic logic of China's industrial structure under the command economy and the economic history of the Soviet Union.[6]

In examining the Chinese bureaucracy as the principal institution in a principal-agent relationship, the paper employs theories of multilevel governance in the tradition of Western bureaucracy studies to disaggregate China's industrial policy apparatus. On bureaucracy, the paper employs public administration theory to argue for greater analysis of the institutions within the state bureaucracy in historical institutionalist analyses of East Asian and Chinese industrial development, arguing that public administration policy formation and transmission institutions within central and local bureaucracies in China are the key institutional actors in a national system of economic development and consequently in China's emerging geoindustrial policy. Public administration institutions in this study refer to the institutions within China's State Council, representing a power structure distinct from the legislative, executive, and judicial power structures of the state, and nominally separate from the Communist Party of China. These theories ultimately trace back to Weber in Europe and Wilson in the United States.[7]

I argue that the hierarchical nature of China's public policy apparatus makes it difficult for sub-national-government-to-sub-national-government policy transmission to take place between China and Kazakhstan. The principal focus of the paper is the vertical central-to-sub-national policy transmission within China's industrial policy-making bureaucracy, and I question how the two countries expect to effectively dock their industrial development strategies. There is significant scope for future scholars to examine the Kazakhstan

5 G. Myrdal, *Economic Theory and Underdeveloped Regions* (London: Harper Torchbooks, 1957); R. Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton, NJ: Princeton University Press, 2004).

6 C. Riskin, *China's Political Economy—The Quest for Development Since 1949* (Oxford: Oxford University Press, 1987); A. Zauberman, "Soviet and Chinese Strategy for Economic Growth," *International Affairs*, 38, no. 3 (1962): 339–352.

7 W. Wilson, "The Study of Administration," *Political Science Quarterly*, 2, no. 2 (1887): 197–222; M. Weber, "Bureaucracy" (1922), in H.H. Gerth & C.W. Mills (eds.), *From Max Weber: Essays in Sociology* (London: Routledge and Kegan Paul, 1948), 196–205; F. Sager and C. Rosser, "Weber, Wilson, and Hegel: Theories of Modern Bureaucracy," *Public Administration Review*, 69, no. 6 (2009): 1136–47.

side of bureaucratic industrial policy and the potential for economic integration between Kazakhstan and both China and the Eurasian Economic Union (EEU).

Multilevel governance is a European integration theory born of the multilateral complexities of uniting first the continental steel and coal institutions and later more institutions and public administration of the industrial bureaucracies of EU member states.[8] By contrast, China's Grand Unity governance system is a preindustrial form of national governance overlaid with Russian political and economic institutions through the Chinese Communist Party. Using EU multilevel governance theory to analyze China as though it were not a Grand Unity but a federated system, a customs and monetary union, and a distributed power-sharing institution allows us to disaggregate economic actors and consider their future reintegration into China-EEU-EU trade integration. In focusing on China's central, provincial, prefectural governance, China's state-owned enterprises, and the national and subnational governments of Kazakhstan, we are asking what a multilateral trade and industry architecture between China and Central Asia would look like and how it would differ from the current Washington Consensus form of globalization.

International Capacity Cooperation and Industrial Clusters

Kazakhstan was ground zero for China's Belt and Road geopolicy. Chinese Communist Party Chairman Xi Jinping visited Nazarbayev University in Astana to lay out the plan in September 2013, accompanied by now-Politburo Standing Committee members Wang Huning and Li Zhanshu.[9] Since then, flesh has continuously been added to the policy bones. International Capacity Cooperation, released as a policy in 2015, is the practical industrial policy matrix through which industries, local governments, and policy banking are planned to intersect with external geographies as part of the wider Belt and

8 A. Smith, "Multi-Level Governance: What It Is and How It Can Be Studied," in B.G. Peters and J. Pierre (eds.), *SAGE Handbook of Public Administration* (Thousand Oaks, CA: SAGE Publications, 2003); L. Buonanno and N. Nugent, *Policies and Policy Processes of the European Union* (London: Macmillan Education UK, 2013).

9 Ministry of Foreign Affairs, "President Xi Jinping Delivers Important Speech and Proposes to Build a Silk Road Economic Belt with Central Asian Countries," September 7, 2013, http://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpfwzysiesgjtfhshzzfh_665686/t1076334.shtml (accessed November 14, 2017).

Road strategy.[10] ICC is China's answer to comparative advantage, a vast state planning policy to coordinate China's trade and investment strategy in external geographies.[11]

Key indicators of the initial 2015 document are clauses 1 and 6. Clause 1 lays out the domestic industrial structural reason for the policy, while Clause 6 clearly explains its function and intent.

(1) To promote international cooperation in production capacity and equipment manufacturing is a major move to maintain China's high economic growth toward the mid-to-high end. At present, our country's economic development has entered a new normal and necessitated new requirements on transforming the mode of development and adjusting the economic structure. Actively promoting international cooperation in production capacity and equipment manufacturing is conducive to promoting foreign cooperation through the construction of superior capacity and forming a new point of economic growth in China, which is conducive to promoting continuous improvement of the levels of technology, quality, and service among enterprises; enhancing overall quality and core competitiveness; and promoting economic restructuring and industrial upgrading, to achieve the benefits of upgrading from exporting products to exporting industry.

(6) The main goal. Efforts will be made to establish a production capacity cooperation mechanism with key countries by 2020, and to make significant progress on a number of major capacity-production cooperation projects, forming a number of offshore capacity cooperation demonstration bases. The institutional mechanisms for promoting international capacity and equipment manufacturing cooperation are to be further improved, supportive policies are to be more effective, and service support capabilities are to be comprehensively improved. A group of internationally competitive key enterprises more capable of market expansion will

10 National Development and Reform Commission and Ministry of Foreign Affairs of the People's Republic of China, "Vision and Action On Jointly Promoting the Construction of the Silk Road Economic Zone and the 21st Century Maritime Silk Road," March 28, 2015, http://fec.mofcom.gov.cn/article/fwydyl/zcwj/201511/20151101193007.shtml (accessed May 14, 2017); unofficial English translation at http://www.china.org.cn/chinese/2015-09/15/content_36591064.htm.

11 State Council, "Guiding Opinions on Promoting International Capacity Cooperation and Equipment Manufacturing, 2015, No. 30," May 16, 2016, http://www.gov.cn/zhengce/content/2015-05/16/content_9771.htm (accessed September 30, 2016).

> be formed. The economic and social benefits of international capacity and equipment manufacturing cooperation will be further enhanced, and the promotion of domestic economic development and industrial restructuring and upgrading will be significantly enhanced.[12]

Within China, ICC has been billed not as an outpouring of China's excess industrial capacity but rather as a form of technology transfer-inducing foreign direct investment—that is, a chance for external economies to attract high-technology manufacturing plants from China.[13] Thus far, however, most ICC transfers in Kazakhstan have been in low-end industries: aluminum, plate glass, and machinery. China's ICC plan in Central Asia fulfills three Chinese geoeconomic policy goals: firstly, to offshore China's excess industrial capacity; secondly, to export the "Project System" model of policy bank-fueled Keynesian capital works projects; and thirdly, to build a trade and investment architecture parallel to the Washington Consensus global institutions.[14] As China engineers a state-driven innovation strategy to raise its manufacturing output up the global value chain, capacity cooperation partners are being encouraged to take up the slack in old industries, bringing steel, cement, and glass industrial clusters to Central Asia.[15]

International Capacity Cooperation is effectively an upgrade of the "Go Global" policy, an explicit move from an export strategy to a "'going out' and 'bringing in'" import strategy.[16] Although principally an external trade and industry policy of the Ministry of Commerce (MofCOM), ICC is coordinated by the National Development and Reform Commission (Gosplan) in conjunction with the Ministry of Industry and Information Technology (MIIT), the Ministry of Science and Technology (MoST), the State-owned Assets Supervision and

12 Ibid.

13 H. Xing, "International Capacity Cooperation Is Not Offshoring Outdated Production Capacity," *Qiushi*, June 15, 2016, http://www.qstheory.cn/dukan/qs/2016-06/15/c_1119023667.htm (accessed January 13, 2017); Ningxia Daily Staff Writers, "Ningxia and Belt and Road," *Ningxia Daily*, October 2, 2016, http://www.nx.xinhuanet.com/newscenter/2016-10/02/c_1119659230.htm (accessed October 18, 2016).

14 T. Kenderdine, "13th Five-Year Plan on International Capacity Cooperation—China Exports the Project System," *Global Policy*, October 17, 2017, http://www.globalpolicyjournal.com/blog/17/10/2017/13th-five-year-plan-international-capacity-cooperation%E2%80%94china-exports-project-system (accessed November 14, 2017).

15 T. Kenderdine, "China's Industrial Policy, Strategic Emerging Industries, and Space Law," *Asia and the Pacific Policy Studies*, 4, no. 2 (May 2017).

16 L. Yueh, "A New Era of Geo-Economics: Assessing the Interplay of Economic and Political Risk," IISS Geo-Economics and Strategy Conferences, March 25, 2012.

Administration Commission (SASAC), and the Ministry of Agriculture (MoA), and ultimately transmitted through the Ministry of Foreign Affairs (MFA). MFA, although nominally in charge of China's foreign policy architecture, is generally considered a weak ministry in the Chinese central bureaucracy; in terms of China's Central Asia industrial policy, it is simply a conduit for NDRC, MofCOM, MIIT, and MoA policy. While the Belt and Road policy is largely a catchall foreign policy grand strategy coordinated from within central Party organs, International Capacity Cooperation is a distributed network of policy solutions transmitted to and deployed by local provincial and prefectural governments.[17] Guidance comes from the central Party, but actionable policy comes from central SOEs, provincial SOEs, provincial governments, and prefectural governments, with the central National Development and Reform Commission (NDRC) coordinating overall ICC strategy.[18] NDRC has signed agreements with multiple provincial-level governments to develop bi- and multilateral cooperation mechanisms and major provincial capacity cooperation funding is throughputting Hubei, Yunnan, Jiangxi, Gansu, Anhui, Hebei, and Shandong.[19]

The policy apparatus is funded and supported by a central policy bank system which leverages foreign exchange reserves into geography-specific capacity cooperation funds, which are then made available for SOEs to draw down loans for foreign investment.[20] China is in the process of rolling out massive and sophisticated institutional mechanisms for financing ICC across the globe and in Central Asia in particular. Essentially exporting the policy bank model, these financing vehicles, leveraged against sovereign wealth foreign exchange reserves, direct state investment in infrastructure offshore, bypassing traditional capital account controls. Central funds are distributed to provincial governments, which have their own Belt and Road capacity cooperation policies playing to geographical, industrial infrastructure, and competitive advantage strengths. Ultimately, these funds are coordinated and administered by the

17 T. Kenderdine, and H. Ling, "International Capacity Cooperation—Financing China's Export of Industrial Overcapacity," *Global Policy*, 8, no. 4 (November 2017).

18 Ningxia Hui Autonomous Region People's Government, "Government Work Report of Ningxia Hui Autonomous Region, 11th People's Congress, 5th Meeting," February 3, 2016, http://www.gov.cn/guoqing/2016-02/03/content_5042937.htm (accessed September 30, 2016); Ningxia Hui Autonomous Region Development and Reform Commission, "National Development and Reform Commission to Promote the Construction of 20 International Capacity Demonstration Zones," March 29, 2016, http://www.nxdrc.gov.cn/info/1022/7915.htm (accessed September 30, 2016); Ningxia Daily Staff Writers, "Ningxia and Belt and Road."

19 Kenderdine and Ling, "International Capacity Cooperation."

20 Ibid.

central policy banking apparatus of the China Development Bank, China Export-Import Bank, and the Agricultural Development Bank of China, supported in monetary and fiscal policy by the central bank (PBOC) and its State Administration of Foreign Exchange (SAFE), as well as by the Ministry of Finance (MOF).[21] While the Asian Infrastructure and Investment Bank (AIIB) and the Silk Road fund are the most visible of these institutions, there are an array of funding mechanisms, including the Kazakhstan Capacity Cooperation Fund (US$2 billion seed capital) and the Middle East Investment Fund (US$10 billion seed capital).[22]

This is a giant exercise in exporting the Keynesian capital works-driven Project System to external geographies through the international capacity cooperation plan.[23] The Project System refers to the hierarchy of property rights in the Chinese political apparatus, which has meant that central industrialization projects dominate the lesser rights of local governments and individuals; that industrial development is constantly viewed in the aggregate; and that peripheral, resource-rich jurisdictions are exploited by the center. This has prompted both utilitarian governance and rent-seeking behavior on the part of the central government.[24] For International Capacity Cooperation to be the external Project System policy, China's center envisages firms finding

21 China Development Bank, "China Development Bank and the Hebei Provincial Government Sign Agreement to Help Construct 'Strong Economy, Beautiful Hebei,'" April 12, 2016, http://www.cdb.com.cn/xwzx/khdt/201604/t20160412_2989.html (accessed November 14, 2017); China-ASEAN Fund, http://www.china-asean-fund.com/ (accessed November 14, 2017); C. Dai, "More Local Versions of the 'Silk Road Fund' Launched to Accelerate 'Belt and Road,'" *21st Century Business Herald*, February 16, 2016, http://m.21jingji.com/article/20160216/c53090166dboc9deb3691babe657fba6.html (accessed November 14, 2017).

22 China-Arab Investment Funds, http://www.cafunds.net/html/en (accessed September 30, 2016); China-ASEAN Fund, http://www.china-asean-fund.com/ (accessed September 30, 2016).

23 X. Luo, "The Chongqing Model as the China Model is a Disaster," *Major Events*, 3 (April 2011): 1–10. I owe a great deal of this synopsis to conversation with Professor David Kelly, Research Director at China Policy in Beijing, with whom I worked on these issues for three years. His knowledge and articulation of the Project System far surpasses my superficial treatment.

24 X. Luo, "Regional Competition and Property Rights: Economic Logic of China's Reform," China Value, 1995, http://www.chinavalue.net/Finance/Blog/2008-12-23/394372.aspx (accessed November 14, 2017); X. Zhang, L. Xing, S. Fan, and X. Luo, "Resource Abundance and Regional Development in China," *Economics of Transition*, 16, no. 1 (January 2008): 7–29; X. Luo, Z. Huang, and W. Qian, "China's Land (Re)Distribution and Economic Development," World Bank Working Paper, https://sarpn.org/documents/d0002690/China_land_redistribution.pdf (accessed November 14, 2017).

developing-economy partners and transferring China's industrial capacity (including Chinese finance, labor, and technology) to external geographies holistically, effectively transplanting a whole Chinese industrial cluster to an external geography. Perpetuation of the Chinese model of industrial development through this wholesale export is China's primary goal when making infrastructure investments in Central Asia; the ability to connect to European and African commodities markets is very much a secondary concern.[25] Reducing overcapacity in China's industries by moving its traditional heavy industrial and agroindustrial output abroad is designed to allow the country to move up the global value chain by investing in higher-technology manufacturing in its developed coastal cities.[26] This is state-planning subversion of the principle of comparative advantage among interdependent economic states.

If International Capacity Cooperation is to work, however, the host nation must be able to adequately prepare to dock the two industrial matrices. Yet China's experience of foreign policy and regional economic integration in Central Asia is extremely limited. Post-Soviet governance structures, core-periphery power relations with Moscow, and complex post-colonial state relations mean that China's simplistic foreign economic development policy of "south-south" cooperation and "win-win" is unlikely to be sophisticated enough to achieve China's industrial geography goals.[27] On the Kazakhstan side, this makes it difficult for the capacity-receiving nation to prepare its regulatory and financial systems for the new industrial influx, and leaves business—which must adapt to new input-output matrices—with little idea of the structural changes about to take place. Given the difficulty of coordinating governance structures within China, the endogenous risk in China's finance system, and China's non-performing loan problem, the International Capacity Cooperation model would export to Kazakhstan the same risks China is trying to solve.

The pattern of a Chinese province being paired with a sovereign state as effective economic equals is typical of International Capacity Cooperation efforts.[28] Hebei province is the local province paired with Kazakhstan for

25 J. Wang, "China-Africa Economic Cooperation Facing New Opportunities," *Economic Information Daily* (2015), http://www.jjckb.cn/2015-12/03/c_134878875.htm (accessed September 30, 2016).

26 Kenderdine, "China's Industrial Policy."

27 J. Xi, "Towards a Community of Common Destiny and A New Future for Asia—Full Text of Chinese President's Speech at Boao Forum for Asia" (speech given at Boao Forum for Asia Annual Conference 2015, Boao, 28 March 2015), http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/zyjh_665391/t1250690.shtml (accessed November 14, 2017).

28 Kenderdine and Ling, "International Capacity Cooperation."

industrial capacity transfer. Hebei province surrounds the municipal provinces of Beijing and Tianjin on the North China Plain opening into the Sea of Bohai. It is due to become a super-province, absorbing the Beijing and Tianjin municipalities to form *Jinjingji*. Hebei is also the most concentrated steel production complex on the planet. At an International Capacity Cooperation conference in Astana in 2017, Hebei sent provincial representatives of the Development and Reform Commission, Department of Commerce, and Department of Agriculture to meet with Kazakh officials and leaders of Chinese enterprises to discuss deepening production cooperation.[29] The Chinese enterprises represented included agriculture and agri-foods, machinery, new energy, construction, building materials, and pharmaceuticals. This followed a meeting in Beijing which saw Hebei pledge to focus on four areas of exporting factory capacity—steel, cement, glass, and photovoltaic cells and equipment manufacturing—as part of International Capacity Cooperation.[30] Following China's State Council "Opinions on Steel and Coal Overcapacity" in 2016, Hebei must shut down 240 of its 400 steel mills by 2020. Both coking coal steel mills and thermal coal electricity plants must close or move in a bid to curb coal use. At present, Hebei's steel mills are slated to move to Central Asia. That being said, each Chinese province is paired with more than one external geography, and Kazakhstan could be competing for investment with Nigeria and Serbia, Hebei's other capacity cooperation partners.[31] Hebei will continue to seek avenues for offshoring industrial capacity and labor costs as it transitions into higher value-added sectors such as advanced manufacturing, cross-border services, warehousing and logistics, and high-end services.[32]

As China's domestic industrial policy is transmitted within the vertical axis of the state planning bureaucracy, however, it will likely struggle to develop the lateral institutions necessary to transmit International Capacity Cooperation to host economies. China's ever more sophisticated spatial planning and local

29 "Hebei—Central Asian Countries International Capacity and Import and Export Commodities Fair Held in Astana," *Hebei News*, July 14, 2017, http://hebei.hebnews.cn/2017-07/14/content_6558286.htm (accessed November 14, 2017).

30 "Hebei Province Holds International Capacity Cooperation Project Docking Expo," *Xinhua*, May 19, 2017, http://www.he.xinhuanet.com/jujiao/20170519/3712880_c.html (accessed November 14, 2017).

31 MofCom Foreign Economic Cooperation, "International Capacity Cooperation, Hebei Promising," May 17, 2017, http://fec.mofcom.gov.cn/article/tjgjcnhz/xgzxhlj/201705/20170502576427.shtml (accessed November 14, 2017).

32 "International Capacity Cooperation, Hebei is Promising," *Sina*, May 15, 2017, https://news.sina.cn/gn/2017-05-15/detail-ifyfecvz1403977.d.html?vt=4&cid=57929 (accessed November 14, 2017).

government industrial policy is likely to result in a foreign policy transmission gap that would leave senior policymakers in Central Asia unclear on smaller policy details. Chinese Communist Party General Secretary Xi Jinping and State Council First Vice Premier Zhang Gaoli have led high profile meetings with Kazakhstan and other Central Asian states, yet lower government levels have been slow to take similar steps.

100 Concrete Kazakh Steps Made from Chinese Cement

Kazakhstan's rising international profile as a trading center and major energy provider, as well as its centrality to the Belt and Road initiative, make it a key target for China's International Capacity Cooperation policy. Zhang Gaoli, first vice premier of China's State Council (2012–2017) and chair of the Sino-Kazakhstan Cooperation Committee, has been transparent and forthright in extending China's International Capacity Cooperation strategy to Kazakhstan.[33] There have also been plans for Kazakhstan's "Bright Path" (Nurly Zhol) industrial policy to intersect with Belt and Road since 2013.[34] In December 2014, China's NDRC and Kazakhstan signed a US$230 million capacity cooperation agreement covering 63 sectors, including rail, cement, energy, mining, agriculture, and food.[35] In March 2015, the two sides signed a Joint Communiqué to deepen economic relations, with plans for 50 joint Sino-Kazakh capacity cooperation projects worth up to US$23.6 billion over

33 L. Hou, "Zhang Gaoli and Kazakhstan's First Deputy Prime Minister Ma Ming Hold a Meeting of Chairman of the Sino-Kazakh Cooperation Committee," *Qiushi*, November 29, 2016, http://www.qstheory.cn/yaowen/2016-11/29/c_1120009178.htm (accessed May 14, 2017).

34 NDRC, "Cooperation Plan between the Government of the People's Republic of China and the Government of the Republic of Kazakhstan on the Construction of the 'Silk Road Economic Belt' and the New Economic Policy of the 'Bright Road,'" *China Economic Review,* October 13, 2016, http://xbkfs.ndrc.gov.cn/gzdt/201610/t20161013_822490.html (accessed October 18, 2016); Embassy of the Republic of Kazakhstan to China (Beijing), "100 Concrete Steps" (multilingual Chinese, English, Russian, Kazakh), 2016, printed 2017. Available in Russian online at Ministry of Internal Affairs of the Republic of Kazakhstan, http://mvd.gov.kz/portal/page/portal/mvd/mvd_page/mvd_100_steps/100%20%D2%9B%D0%B0%D0%B4%D0%B0%D0%BC.pdf (accessed May 14, 2017); Kazakhstan Strategy 2050 Central Government web portal, https://strategy2050.kz/ru/news/?date=06.2016 (accessed May 14, 2017).

35 X. Li, "China and Kazakhstan to Sign Framework Agreement on Capacity Cooperation in 2015," *China News*, December 26, 2014, http://www.chinanews.com/gn/2014/12-26/6916347.shtml (accessed September 30, 2016).

five years, creating industrial cooperation clusters in transport infrastructure, manufacturing, construction, and agriculture.[36] Since these executive-level ICC agreements, investment has been slow to flow into Kazakhstan's petrochemical and metallurgy industries. China's demand for copper is waning, yet its demand for cobalt is just beginning, as its battery and aero-engines industries are being aggressively developed by the state.

Kazakhstan is to be China's "main axis" to Africa, the Middle East, and Central Europe. The forthcoming 13th Five-Year Plan on International Capacity Cooperation lists Kazakhstan—the lynchpin to Europe—as a key strategic partner alongside Indonesia and Malaysia, the gatekeepers of the Malaccan route to Europe.[37] The industries China is targeting for offshoring are steel, nonferrous metals, building materials, chemicals, automotive, agriculture, construction machinery, and aerospace technologies. China's International Capacity Cooperation policy will bring investment to Kazakhstan's non-ferrous metals industry, offshoring its excess aluminum capacity. But whereas China's trade with Europe will be a two-way street, investment in Central Asia will be one-way and on China's terms, simply extending China's industrial matrix into Kazakhstan for re-export to China.

China's formal trade and investment strategy is spelled out in annual reports by the Ministry of Commerce, Chinese Academy of International Trade and Economic Cooperation (CAITEC), and Department of Investment Promotion.[38] The NDRC also often releases central-level documents on inter-state economic cooperation.[39] Much of China's interest in industrial capacity transfer with Kazakhstan can be read as a rejection of attempting the same with

36 "China, Kazakhstan Sign 33 Deals Worth 23.6 Billion U.S. Dollars," *Xinhua*, March 27, 2015, http://news.xinhuanet.com/english/2015-03/27/c_134104187.htm (accessed November 14, 2017); "Kazakhstansko-kitaiskii proekt na 2.3 milliarda dollarov obsudili v Pekine," *Informburo*, February 15, 2017, https://informburo.kz/novosti/kazahstansko-kitayskiy-proekt-na-23-milliarda-dollarov-obsudili-v-pekine.html (accessed May 14, 2017).

37 "International Capacity Cooperation 13th Five-Year Plan Development," *Economic Information Daily*, October 26, 2016, http://jjckb.xinhuanet.com/2016-10/26/c_135782137.htm (accessed May 14, 2017).

38 Ministry of Commerce, Chinese Academy of International Trade and Economic Cooperation (CAITEC), Department of Investment Promotion, Economic and Commercial Counselor's Office, Chinese Embassy in Kazakhstan, "Foreign Direct Investment Cooperation Country (Region) Guide—Kazakhstan (2016 edition)," July 2016, http://fec.mofcom.gov.cn/article/gbdqzn/upload/hasakesitan.pdf (accessed January 13, 2017).

39 National Development and Reform Commission on the Issuance of the Government of the People's Republic of China, "Notice on the 2015–2020 Kyrgyz Republic Cooperation Plan on the Adjacent Areas of the Two Countries, Serial No. 2241," http://www.sdpc.gov.cn/zcfb/zcfbghwb/201510/t20151012_754234.html (accessed May 14, 2017).

the Russian Federation. Liu Xiaoyin of the Shanghai University of Finance and Economics' Marxist Research Institute wrote an influential 2015 essay in the Party ideology journal *Qiushi* outlining Sino-Russian investment in traditional industries—steel, aluminum, and petrochemicals—but noted strong barriers to two-way capital investment.[40] The Sino-Russian Investment Fund was the policy solution to traditional trade barriers; a similar Sino-Kazakhstan Capacity Cooperation fund, with US$2 billion in capital, has been set up to lend to targeted industries focusing on offshoring traditional industry overcapacity and to build an agroindustrial base in Kazakhstan. China is in the process of rolling out a variety of institutional mechanisms for financing capacity cooperation throughout the Belt and Road. Essentially exporting the policy bank model leveraged against sovereign wealth, a variety of purpose-built financing vehicles direct state investment in infrastructure offshore, bypassing capital account controls. Central funds are distributed to Chinese provincial governments, which have their own Belt and Road capacity cooperation policies playing to geographic, industrial infrastructure, and competitive advantage strengths.

Aluminum capacity has developed clear importance to the industrial transfer strategy. On March 31, 2017, Beijing-based representatives of the aluminum industry met with officials of the NDRC, SASAC, and the China National Nonferrous Metals Industry Association to form the China Nonferrous Metals International Capacity Cooperative Enterprise Alliance.[41] China National Nonferrous Metals Industry Association Communist Party Secretary Chen Quanxun said that the combination of Going Out, International Capacity Cooperation, and Belt and Road had produced increased foreign direct investment in non-ferrous mines, mineral rights, and plants in 2016. China cited Kazakhstan, India, Azerbaijan, and Mongolia as key investment destinations for Chinese aluminum capital, working in conjunction with partners from the United States, Germany, and Russia. Industrial projects with Chinese investment in Kazakhstan include Kazakhstan Aluminum, a Kaz Minerals copper mine in Aktogay, and Petrochina's petcoke project in Pavlodar, all of which are

40 X. Liu, "The Influence of the 'Silk Road Economic Belt' on Sino-Russian Trade and Investment Facilitation," *Qiushi*, June 27, 2015, http://www.qstheory.cn/llqikan/2015-06/27/c_1115741448.htm (accessed May 14, 2017).

41 MofCom Foreign Economic Cooperation, "China Nonferrous Metals International Capacity Cooperation Enterprise Alliance Established," April 1, 2017, http://fec.mofcom.gov.cn/article/tjgjcnhz/xgzxhlj/201704/20170402544938.shtml (accessed November 14, 2017).

funded at least in part by Beijing's two biggest policy banks: China Development Bank and the Export-Import Bank of China.[42]

In the other direction, Kazakhstan's Minister for Investment and Development, Zhenis Kasymbek, visited China in February 2017, where he met with members of China's Ministry of Transport.[43] The delegation also met with representatives of China National Machinery Import & Export Corporation (CMC), Cereals, Oils and Foodstuffs Corporation (COFCO), Gezhouba Cement (construction), Cathay Industrial Biotech (biogenetics and biotechnology), Shandong Hi-Speed Group Corporation (transport infrastructure), Norinco (China Northern Industries—diversified defense, vehicles, machinery, and construction), Sinosure, the Export-Import Bank of China, and the Silk Road Fund.[44]

On the Kazakh side, most Chinese aluminum investment roads lead back to Alexander Mashkevich's Eurasian Resources Group (Evraziiskaia gruppa), which is 40 percent owned by the Kazakh government.[45] Benedikt Sobotka runs the Natural Resources Corporation arm, which owns one-third of Kazakhstan's mining and metals sector, including Kazakhstan Aluminum, Kazakhstan Electrolysis Plant, TNC Kazchrome, Sokolov Sarbai Mining, and the Eurasian Energy Corporation.[46] Sobotka, like the rest of the world, has his eye on the 19th Central Committee of the Chinese Communist Party, expecting to see rising demand for cobalt and copper and hoping for positive signals on iron ore.[47]

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42 "Building a Monument to International Capacity Cooperation-Documenting China's National Interests in Kazakhstan," *People's Daily*, December 29, 2017, http://finance.people.com.cn/GB/n1/2016/1229/c153577-28986777.html (accessed November 14, 2017).

43 "Volume of Chinese Investment in Kazakhstan Grows Sevenfold," *Forbes Kazakhstan*, January 26, 2017, https://forbes.kz/news/2017/01/26/newsid_133690 (accessed May 14, 2017).

44 S. Akizhanov, "Kazakhstan i Kitai realiziruiut bolee 50 proektov v techenie piati let," *Kazinform*, February 28, 2017, http://www.inform.kz/ru/kazahstan-i-kitay-realizuyut-bolee-50-proektov-v-techenie-pyati-let_a3003583 (accessed May 14, 2017).

45 A. Abdullina, "Kompaniia Mashkevicha vykhodit na rynok Kitaia," *365info.kz*, March 28, 2017, https://365info.kz/2017/03/kompaniya-mashkevicha-vyhodit-na-rynok-kitaya/ (accessed May 14, 2017).

46 D. Serikov, "Analysts Discuss Possibility of ERG Borrowing ERG in China," *Kursiv*, March 30, 2017, https://www.kursiv.kz/news/industry/erg-planiruet-vyjti-na-kitajskij-fondovyj-rynok/ (accessed May 14, 2017); Yicai Global, "China's Belt and Road Initiative Benefits Kazakhstan and Eurasian Resources, Mining Firm's CEO Says," March 24, 2017, http://www.yicaiglobal.com/news/50054989.html (accessed May 14, 2017).

47 D. Serikov, "ERG Expects Strong Dynamics of Commodity Prices in First Half of 2017," *Kursiv*, January 6, 2017, https://www.kursiv.kz/news/industry/v-erg-ozidaut-silnuu-dinamiku-syrevyh-cen-v-pervoj-polovine-2017-goda/ (accessed May 14, 2017).

ERG has partnered with China Nonferrous Metals Industry Group, the Export-Import Bank of China, the Industrial and Commercial Bank of China, and China Export & Credit Insurance Corp to complete a US$800 million copper and cobalt project in the Democratic Republic of Congo, which will come online in 2018 to supply China with 20,000 metric tons of cobalt, enough to make batteries for 500,000 electric vehicles.[48] ERG is also seeking Chinese funding to double the capacity of the Kazakhstan Aluminum plant, which currently produces 300,000 metric tons per year, a project that would require around US$3 billion of Chinese capital.[49] It has reached a separate agreement with the China Development Bank, the major policy bank in the Chinese state lending system, for at least US$2 billion in financing for three projects in Kazakhstan in the aluminum, iron ore, and power sectors. The Eurasian Resources Group, however, is unhappy about the presumed obstacles to it reciprocally raising capital on the Shanghai Stock Exchange and thus making it beholden to policy bank capital. Maxim Khudalov, director of the corporate ratings group of the Analytical Credit Rating Agency, argued that being domiciled in Luxembourg entitles ERG to list in Hong Kong under English Common Law and that the Hong Kong-Shanghai Stock Connect means it is then eligible to raise capital in Shanghai, following the model set by Rusal in 2010.[50]

In other sectors, in February 2017, Kazakhstan's Ambassador to the People's Republic of China, Shahrat Nuryshev, met with Xu Weihong, chief economist at Aviation Industry Corporation of China (AVIC) Securities. They discussed the construction of a mining and chemical-metallurgical complex in the Zhambyl region and the development of a special economic zone in Pavlodar.[51] The projects, with Chinese partners China Metallurgical Group Corporation, China Machinery Engineering Corporation, and AVIC Corporation, are worth US$2.3 billion. The investment will provide titanium dioxide, silicon dioxide, and vanadium pentoxide to China for use in the production of aircraft. China has huge capacity in photovoltaic energy, but it has overinvested and currently suffers from both production overcapacity and curtailment of the electricity

48 "ERG Taps China For More Than $2.5bn of New Project Financing," *Financial Times*, October 2, 2015, https://www.ft.com/content/bbc32922-5189-11e5-b029-b9d50a74fd14 (accessed May 14, 2017).

49 "Beijing Should Let Foreign Firms List, Says Kazakhstan Metals Firm Seeking Chinese 'New Silk Road' Money," *South China Morning Post*, March 24, 2017, http://www.scmp.com/business/companies/article/2081929/beijing-should-let-foreign-firms-list-says-kazakhstan-metals-firm (accessed May 14, 2017).

50 Serikov, "Analysts Discuss Possibility."

51 Akizhanov, "Kazakhstan i Kitai realiziruiut."

supply. As such, JA Solar Holdings Limited is considering investing in photovoltaic energy generation in steppe regions of Kazakhstan. Other recent investments include the Astana Industrial Park Phase II project, US$200 million to establish machinery-producing industrial parks in North Kazakhstan's Petropavl, and China Glass Holding Limited's move to take over a 600-ton-per-day floating glass production line.[52]

The implications of China's investment trajectories are obvious. The external industrial policy underway in Kazakhstan is to dovetail with domestic Chinese industrial policy centered on upgrading its manufacturing base under Made in China 2025, Internet Plus, and Internet of Things digitization while simultaneously chasing higher-technology manufacturing in aircraft and aircraft engines, high-speed rail, satellite technologies, and nuclear energy equipment.[53] In order to achieve these domestic industrial policy goals, China needs to both offshore old industrial capacity and secure commodity and manufactured inputs. Essentially, Kazakhstan is slated to become part of China's continental industrial complex, putting it in much the same position as it held under the Soviet Union.

China's Agroindustrial Capacity Transfer Strategy

Promoting ICC in the Eurasian region corresponds closely with China's domestic industrialization needs and China's Central Asian agroindustrial capacity transfer strategy is the state arm of a dual state-market solution: China is opening domestic markets to foreign grain imports while establishing agroindustrial capacity in post-Soviet economies for re-export back to China. This extends the state agroindustrial complex in China's western provinces and in Central Asia while opening the eastern provinces to market mechanisms and the international grain market. China is not only relaxing subsidies on domestic agricultural production while promoting the market mechanisms required to import more grain, but it is also letting go of domestic production as a food

52 H. Zhao, "China Enterprises Plan to Invest Nearly 1.3 billion in Kazakhstan's North Kazakhstan Industrial Park," *21st Century Business Herald*, August 30, 2017, http://m.21jingji.com/article/20170830/herald/54148ae3fce2f7dd602cc7f8704a2fc5.html (accessed November 14, 2017); China Triumph International Engineering Co., Ltd. Bengbu Design & Research Institute for Glass Industry, "CCTIEC Signs EPC Contract of First 600t/d Float Glass Production Line in Kazakhstan," July 4, 2017, http://www.ctiec.net/news/en_news/2017/7/4/1499150059662.jsp (accessed November 14, 2017).

53 Kenderdine, "China's Industrial Policy."

security ballast and will begin to allow other nation-states to feed its populace. Kazakhstan is targeted for investment in agroindustrial capacity, with eastward grain and oilseed shipments expected to increase as rail logistics improve. Domestic industrialization of agriculture gained policy traction during the first Xi administration, with boosting production capacity in other countries increasingly accepted as a solution to feeding China.[54]

International Capacity Cooperation priorities for shifting industrial chains to external geographies are clearly centered on energy equipment, machinery, and agroindustrial manufacturing.[55] While Chinese capital is always linked to state-owned enterprises, the chance to develop agroindustrial bases of production is a huge opportunity for Central Asian states. Agricultural commodity exports to China and investment in agroindustrial machinery, cement-steel-and-glass, and factory systems, coupled with assured export markets, could develop new agroindustrial sectors for Central Asian economies and forge the basis of greater economic integration under Belt and Road.

China's Ministry of Commerce has stated it will work with the relevant domestic Chinese government institutions to strengthen International Capacity Cooperation planning across Central Asia, implementing a "one country, one policy" system, focusing on strategic projects, and presenting an integrated industry and finance nexus.[56] China's investment growth in 2015 was US$3.3 billion from direct investment in the Eurasian region. Such investments are mainly in mining, manufacturing, agriculture, forestry, and construction.[57] When the Belt and Road's flagship Eurasian Land Bridge rail project is completed, the volume of Kazakhstan's cross-border goods transfer is expected to increase five-fold.[58] Kazakhstan's soy production has long been part of China's

54 CCP Central Committee and State Council, "Opinions on the Implementation of New Ideas to Develop and Accelerate Agricultural Modernisation and Achieve a Moderately Prosperous Society," January 27, 2016, http://www.grain.gov.cn/Grain/ShowNews.aspx?newsid=66750 (accessed October 31, 2016).

55 State Council, "Guiding Opinions"; Ministry of Industry and Information Technology, "'Made in China 2025' Series of Plans to Promote Energy Conservation and the Development of New Energy Vehicles," MIIT Equipment Industry Division, May 22, 2015, http://www.miit.gov.cn/n1146285/n1146352/n3054355/n3057585/n3057589/c3617217/content.html (accessed Novomber 14, 2017).

56 MofCOM, "Ministry of Commerce Regular Press Conference, 5 May 2016," May 5, 2016, http://www.mofcom.gov.cn/article/ae/slfw/201605/20160501311842.shtml (accessed September 30, 2016).

57 Ibid.

58 C. Shi, "Shi Chi: Nazarbayev Arrives in China So Early, Does Putin Know?" *Guangcha*, September 2, 2017, http://www.guancha.cn/shichi/2015_09_02_332712.shtml (accessed November 14, 2017).

aspirational plans for its external geographies. In July 2017, Kazakhstan signed an agricultural exports agreement with China worth US$160 million in contracts for 200,000 tons of grain and 100,000 tons of oilseed (soybeans) to head east through June 2018.[59] China also aims to invest heavily in a range of domestic Kazakh agroindustrial complexes—including oilseeds, meat, grain, and vegetables—with major investments from China's AIJIU, COFCO, and Rifa.[60]

The agroindustrial International Capacity Cooperation policy envisions moving whole agroindustrial production chains offshore to environmentally clean areas with access to good soil, clean water, and fresh air. In 2014, China also began movements toward a market price-setting system for agricultural production and is currently part-way through a three-year plan to marketize the price of domestic agricultural production.[61] The development of finance mechanisms to take some of China's agroindustrial investment into Central Asia and Russia is already a reality, while International Capacity Cooperation is bringing Chinese fixed and investment capital to Central Asian states.

With new markets—such as rapeseed, sugar, cotton, corn, and even eventually rice and wheat—opening to foreign export, the price of grain in China is now a core policy concern for China's neighbors in Central Asia. In China, there is talk of shifting cotton production to Kazakhstan, Uzbekistan, and Tajikistan.[62] For Central Asian states with existing industrial bases (such as

59 MofCOM, "Kazakhstan Food Company Signs Export Agreement for Agricultural Products such as Feed Grain and Flour with China," July 12, 2017, http://www.mofcom.gov.cn/article/i/jyjl/e/201707/20170702608621.shtml (accessed November 14, 2017); "Kazakhstan, China to Sign Agr'ts Worth $160M in Agrarian Sector," *Kazinform*, July 11, 2017, http://lenta.inform.kz/en/kazakhstan-china-to-sign-agr-ts-worth-160m-in-agrarian-sector_a3044332 (accessed November 14, 2017).

60 "China Wants to Invest USD 1.9 Billion in Kazakhstan Agriculture. Chinese Companies Interested in Oilseeds, Meat, Production of Tomatoes and Tomato Paste," *Kapital*, May 5, 2016, https://kapital.kz/economic/50154/kitajcy-hotyat-investirovat-1-9-mlrd-v-selhozproekty-rk.html (accessed September 30, 2016): J. Farchy, "China Plans to Invest USD 1.9bn in Kazakh Agriculture," *Financial Times*, May 9, 2016, https://www.ft.com/content/9c84a0f4-15d3-11e6-9d98-00386a18e39d (accessed September 30, 2016).

61 W. Wang, "Agricultural Insurance, Careful Consideration," *Qiushi*, December 8, 2013, http://www.qstheory.cn/jj/jsshzyxnc/201312/t20131208_299884.htm (accessed October 31, 2016); W. Chen, "Some Thoughts on Perfecting an Agricultural Insurance System," *Qiushi*, December 23, 2013, http://www.qstheory.cn/jj/jsshzyxnc/201312/t20131223_305067.htm (accessed October 31, 2016).

62 S. Ni, "Academic Wu Kongming: Seize 'Belt and Road Initiative' as a Solution to the Agricultural Problem," *Science Net*, September 15, 2015, http://news.sciencenet.cn/htmlnews/2015/9/326955.shtm (accessed November 14, 2017).

Kazakhstan and Uzbekistan) or for countries which can trade on the cleanliness of their water, soil, and air (such as Kyrgyzstan), this is a significant shift. The doors to the largest consumer market in the world are opening to Central Asia's agricultural exporters, and their new export capacity is likely to be developed with Chinese capital.[63]

Politburo agricultural policy has been active in establishing partnerships in agricultural production with neighboring countries, with dedicated sovereign wealth agroindustrial investment funds for both Russia and Kazakhstan.[64] With the Russian Far East agricultural industry development fund, China is moving away from renting or purchasing agricultural land abroad.[65] The development fund will finance grain production and processing in Russia, while introducing Chinese agricultural equipment as part of the capacity cooperation strategy.[66] This is indicative of a move away from land ownership and toward fixed-capital ownership.

To support agroindustrial capacity transfer and agricultural reexport, China has invested heavily in upgrading its dry-port facilities in border crossings with Russia and Mongolia at Manzhouli and Erenhot.[67] Dry-port development to connect land-powers is making strides, with the development of Khorgos and

63 NDRC, "Notice on Printing and Distributing the Cooperation Program (2015–2020) between the Governments of the People's Republic of China and Kyrgyzstan on the Adjacent Areas of the Two Countries," NDRC Notice No. 2241 (2015), October 8, 2015, http://www.ndrc.gov.cn/zcfb/zcfbghwb/201510/t20151012_754234.html (accessed November 14, 2017). Full report available at www.ndrc.gov.cn/zcfb/zcfbghwb/201510/W020151012366637683466.pdf.

64 X.Y. Liu, "The Influence of the 'Silk Road Economic Belt' on Sino-Russian Trade and Investment Facilitation," *Qiushi,* June 27, 2015, http://www.qstheory.cn/llqikan/2015-06/27/c_1115741448.htm (accessed September 30, 2016); Russian Direct Investment Fund (2015) .

65 "RDIF, China-Eurasia Economic Cooperation Fund, and Vnesheconombank Agree to Make Joint Investments in Russia and China," press release, https://rdif.ru/Eng_fullNews/1584/ (accessed September 30, 2016).

66 Global Government Network, "A Study on the Government Policy of Sino-Russian Agricultural Cooperation," http://www.govinfo.so/news_info.php?id=18360 (accessed September 30, 2016).

67 W. Shepard, "An Inside Look At China And Kazakhstan's 'Absurd' Cross-Border Free Trade Zone," *Forbes*, July 26, 2016, https://www.forbes.com/sites/wadeshepard/2016/07/26/an-inside-look-at-icbc-khorgos-china-and-kazakhstans-cross-border-free-trade-zone/#3beac4565c8f (accessed November 14, 2017); W. Shepard, "Big Changes In The Gobi: China And Mongolia's Cross-Border Economic Zone Gets Underway," *Forbes*, July 26, 2016, https://www.forbes.com/sites/wadeshepard/2016/09/21/big-changes-in-the-gobi-china-and-mongolias-cross-border-economic-zone-gets-underway/#28fab0257f93 (accessed November 14, 2017).

Chinese state funding for the Kazakh-China rail project, and UNESCAP's Intergovernmental Agreement on Dryports provides the institutional framework to encourage the development of port infrastructure in other economies dependent on land routes for international trade.[68]

Given domestic constraints, International Capacity Cooperation is a rising priority in China's agricultural policy, and the reality is that Chinese investment in Central Asia is just as concerned with agroindustrial investment as with cement, steel, glass, machinery, and equipment. Investment in plants producing agricultural machinery, construction machinery, and railway/transport equipment will help China to establish whole industrial clusters to reexport to China, as well as build the transport and logistics infrastructure necessary to achieve wider Belt and Road geoindustrial goals.

Planning China's Kazakh Silk Railroad

China's Leninist executive policymaking apparatus may remain opaque, but the policies of command economy institutions are transparent. Most major economic plans are still transmitted through the National Development and Reform Commission—the successor to the State Planning Commission, which was China's answer to Gosplan—laterally to other ministries in the State Council, as well as vertically to the 31 provincial and 291 prefectural governments and their subnational ministries, which deploy industrial policy. This three-tiered vertical policy nexus represents the industrial economy of China. In October 2016, the NDRC released the China-Europe Class Rail Construction and Development Plan (2016–2020), a document with three significant maps and several rail freight logistics tables, a selection of which are reproduced below.[69]

The style and content of the maps clearly mirror the maps produced by the Shaanxi Bureau of Surveying and Mapping Geographic Information Atlas

68 UNESCAP, "Intergovernmental Agreement on Dry Ports Comes into Force," press release, April 26, 2016, http://www.unescap.org/news/intergovernmental-agreement-dry-ports-comes-force (accessed November 14, 2017).

69 NDRC, "China-Europe Class Rail Construction and Development Plan (2016–2020)," October 8, 2016, http://zfxxgk.ndrc.gov.cn/PublicItemView.aspx?ItemID=%7B6b49bf1d-ec80-4d08-8673-124fa15bed54%7D (accessed May 14, 2017). Full plan at http://www.sdpc.gov.cn/gzdt/201610/P020161017544178660107.pdf (accessed May 14, 2017). Public announcement at http://www.sdpc.gov.cn/gzdt/201610/t20161012_822364.html (accessed May 14, 2017).

produced in March 2015 in *The Atlas of the Core Regions of the Silk Road Economic Belt*.[70] This Shaanxi Bureau atlas, the first official state geography of the Silk Road Economic Belt, included a full World Island map sketching out the various routes to Europe and contiguous maps of the "Fifteen Core Countries of the Silk Road," comprising the five Central Asian republics, Pakistan, Afghanistan, Iran, Iraq, Syria, Turkey, Ukraine, Moldova, Romania, and Bulgaria (with the Caucasus notably absent).

The NDRC China-Europe Rail Class development plan has three trunk lines running through Central Asia: West 1, West 2, and West 3. West Channel 1 runs from the ports of Xinjiang Alashankou and Khorgos across Kazakhstan to join with the Russian Trans-Siberian Railway, passing through Belarus and the EU to terminate in Germany. West Channel 2 begins at the ports of Xinjiang Alashankou and Khorgos and passes through Kazakhstan, crossing the Caspian Sea into Azerbaijan, Georgia, and Bulgaria, and likewise arriving in Europe. West Channel 3 connects Kashgar to Osh through the Irkeshtam pass, passes through Uzbekistan, Turkmenistan, and Iran, and terminates in Istanbul. East Channel 1 departs from the Inner Mongolian port of Erenhot and journeys along the Trans-Siberian Railway to Europe.[71]

The rail export/import terminuses and border crossings, both existing and planned, are detailed below. Three main economic corridors are planned within China to facilitate outbound trade via rail. The West corridor encompasses the northwest, southwest, central, and southern regions, utilizing the Lanzhou-Urumqi railway transport network. The North corridor encompasses the north, central, and southern regions of China and utilizes the south-north Beijing-Guangzhou rail axis. The East corridor encompasses the northeast, east, central, and other regions, utilizing the Beijing-Shanghai and Harbin-Dalian railway clusters.

70 "Atlas of the Silk Road Economic Belt Core Area Officially Published," *Xinhua*, March 2, 2015, http://news.xinhuanet.com/expo/2015-03/02/c_127533670.htm (accessed November 14, 2017); Shaanxi Surveying and Mapping press release at http://www.shasm.gov.cn/detail.asp?id=14052. The main map, "Core Areas of the Silk Road Economic Belt," is reproduced by Baidu at https://baike.baidu.com/pic/%E4%B8%9D%E7%BB%B8%E4%B9%8B%E8%B7%AF%E7%BB%8F%E6%B5%8E%E5%B8%A6/10172695/0/aa18972bd40735fa30a7791b94510fb30f240838?fr=lemma&ct=single#aid=0&pic=aa18972bd40735fa30a7791b94510fb30f240838.

71 "V 2017 Kitai budet narushchivat' investitsii v Tsentral'nuiu Aziiu," *Forbes Kazakhstan*, January 9, 2017, https://forbes.kz/news/2017/01/09/newsid_131898 (accessed May 14, 2017).

图 1　中欧铁路通道规划图

FIGURE 1　*NDRC map of proposed rail corridors*

China's NDRC released this map of proposed rail corridors in October 2016. It is the most sophisticated plan to date, detailing the Central Asian trunk lines connecting China to Europe. Kazakhstan and Kyrgyzstan are both China's hedge against Russia, with the Middle East trunk line bypassing both Kazakhstan and Russia and a secondary trunk line running to the Caspian Sea also bypassing Russia.[72]

72　NDRC, "China-Europe Construction and Development Plan (2016–2020)."

Railway Terminals Connecting to the Various Trunk Lines Between China and Europe[73]

Established Direct Railway Routes Between China and the EU

No.	Domestic outbound city	Border crossings	International inbound city	Direction
1	Chongqing	Alashankou, Khorgos	Duisburg, Germany	Two-way
2	Chongqing	Manzhouli	Cherkessk, Russia	Outbound
3	Zhengzhou	Alashankou, Khorgos	Hamburg, Germany	Two-way
4	Zhengzhou	Erenhot	Hamburg, Germany	Two-way
5	Chengdu	Alashankou, Khorgos	Lodz, Poland	Two-way
6	Wuhan	Alashankou, Khorgos	Pardubice, Czech Republic	Two-way
7	Wuhan	Alashankou, Khorgos	Hamburg, Germany	Two-way
8	Wuhan	Manzhouli	Tomsk, Russia	Two-way
9	Suzhou	Manzhouli	Warsaw, Poland	Outbound
10	Suzhou	Manzhouli	Brest, Belarus	Two-way
11	Yiwu	Alashankou, Khorgos	Madrid, Spain	Two-way
12	Shenyang	Manzhouli	Hamburg, Germany	Two-way
13	Changsha	Manzhouli	Hamburg, Germany	Outbound
14	Lanzhou	Alashankou, Khorgos	Hamburg, Germany	Two-way
15	Beijing - Tianjin	Erenhot	Ulaanbaatar, Mongolia	Two-way
16	Lianyungang	Alashankou, Khorgos	Almaty, Kazakhstan	Two-way
17	Yingkou	Manzhouli	Baikal, Russia	Two-way
18	Qingdao	Alashankou, Khorgos	Almaty, Kazakhstan	Outbound
19	Urumqi	Alashankou, Khorgos	Almaty, Kazakhstan	Outbound
20	Xi'an	Alashankou, Khorgos	Almaty, Kazakhstan	Two-way
21	Hefei	Alashankou, Khorgos	Almaty, Kazakhstan	Outbound
22	Jinan	Alashankou, Khorgos	Almaty, Kazakhstan	Outbound
23	Dongguan	Alashankou, Khorgos	Almaty, Kazakhstan	Outbound

73 "V 2017 Kitai budet narushchivat' investitsii v Tsentral'nuiu Aziiu," *Forbes Kazakhstan*, January 9, 2017, https://forbes.kz/news/2017/01/09/newsid_131898 (accessed May 14, 2017).

Planned Direct Railway Routes Between China and the EU

No.	Domestic outbound city	Border crossings	International inbound city	Direction
1	Shijiazhuang - Baoding	Alashankou, Khorgos; Erenhot	Minsk, Belarus	Two-way
2	Kunming	Alashankou, Khorgos; Erenhot	Rotterdam, Netherlands	Two-way
3	Guiyang	Alashankou, Khorgos; Erenhot	Duisburg, Germany	Two-way
4	Xiamen	Alashankou, Khorgos; Manzhouli	Lodz, Poland	Two-way
5	Korla	Alashankou, Khorgos	Duisburg, German	Two-way
6	Taiyuan	Alashankou, Khorgos; Erenhot	Almaty, Kazakhstan; Moscow, Russia	Two-way
7	Nanchang	Alashankou, Khorgos; Erenhot	Almaty, Kazakhstan; Moscow, Russia	Two-way
8	Nanjing	Alashankou, Khorgos; Manzhouli	Almaty, Kazakhstan; Moscow, Russia	Two-way
9	Nanning	Erenhot; Manzhouli	Ulaanbaatar, Mongolia; Moscow, Russia	Two-way
10	Harbin	Manzhouli	Biklan' (Nizhnekamsk), Russia	Two-way
11	Changchun	Manzhouli	Schwarzheide, Germany	Two-way
12	Dalian	Manzhouli	Hamburg, Germany	Two-way
13	Yinchuan	Alashankou, Khorgos	Tehran, Iran	Two-way
14	Xining	Alashankou, Khorgos	Almaty, Kazakhstan; Duisburg, Germany	Two-way
15	Baotou	Alashankou, Khorgos; Erenhot	Tehran, Iran; Ulaanbaatar, Mongolia	Two-way
16	Linyi	Alashankou, Khorgos; Erenhot	Almaty, Kazakhstan; Ulaanbaatar, Mongolia	Two-way
17	Wuwei	Alashankou, Khorgos	Almaty, Kazakhstan	Two-way
18	Yiwu	Alashankou, Khorgos	Tehran, Iran	Two-way
19	Lianyungang	Alashankou, Khorgos	Istanbul, Turkey	Two-way
20	Tianjin	Alashankou, Khorgos, Manzhouli	Moscow, Russia	Two-way

As with the Trans-Siberian Railway through Mongolia, much of the infrastructure has been present on the Chinese side for decades; it has just been in a negative feedback loop, as rail was used as part of domestic industrial clusters. Given the current political will, turning this domestic infrastructure to face abroad is now feasible. Of course, it will mean major reorganization of the domestic freight system, and there is severe tangling of lines and services going east-west. China undertook similar domestic rail freight reforms under the "Speed Up" campaign to improve freight times on north-south and east-west rail corridors.[74] Yet the main determinants of the continued development of China's east-west rail system will be China's demand for exports from Europe and China's ability to upgrade its governance and diplomacy architecture and institutional trust throughout Central Asia.

It is also worth noting that inefficiencies persist in connecting Asia and Europe through Central Asia, with high transport costs, low cargo volumes, and differing industrial production and customs standards leaving many transport and shipment routes either underutilized or heavily dependent on state subsidies. Poor coordination with both market and government actors also remains an obstacle. It is difficult enough for China to coordinate its centrally planned domestic hierarchical economic structure, let alone engage laterally with Central Asian states, local governments, or private enterprises. While China's central government will play an increasing role in identifying its own industrial investment and agricultural import needs, developing genuine international relationships and private capital business networks will not be as simple as drawing lines on a map. Kazakhstan's Minister for Investment and Development, Zhenis Kasymbek, said that Kazakhstan hopes that by 2020 the volume of container traffic will exceed 1 million containers a year, with two-way trade projected to be worth US$1.2 trillion, including US$800 billion in China-EU trade. Yet in January and February 2016, China shipped only 62,816 TEU containers in 725 trains to Europe, while Europe shipped 30,187 containers to China.

Geopolitically, China's 2016 intercontinental rail policy is the clearest signal yet of the planned geopolitical split of the Eurasian Land Bridge concept. It aims to isolate Russia by running trunk lines through both the Middle East and the Caucasus. The West 3 trunk line is China's main counter to the Moscow route. If China's West 2 trunk line is operating, it will increase the political incentive in countries on the West 3 trunk line to Turkey to open to more Chinese investment. To balance geoindustrial power between dependence on Russia and political risk in the Central Asian republics, it is entirely sensible for China to have two roads to Europe, one through the Russian world and one through the Turkic world.

74 B. Naughton, "The Third Front: Defence Industrialization in the Chinese Interior," *China Quarterly*, 115 (September 1988).

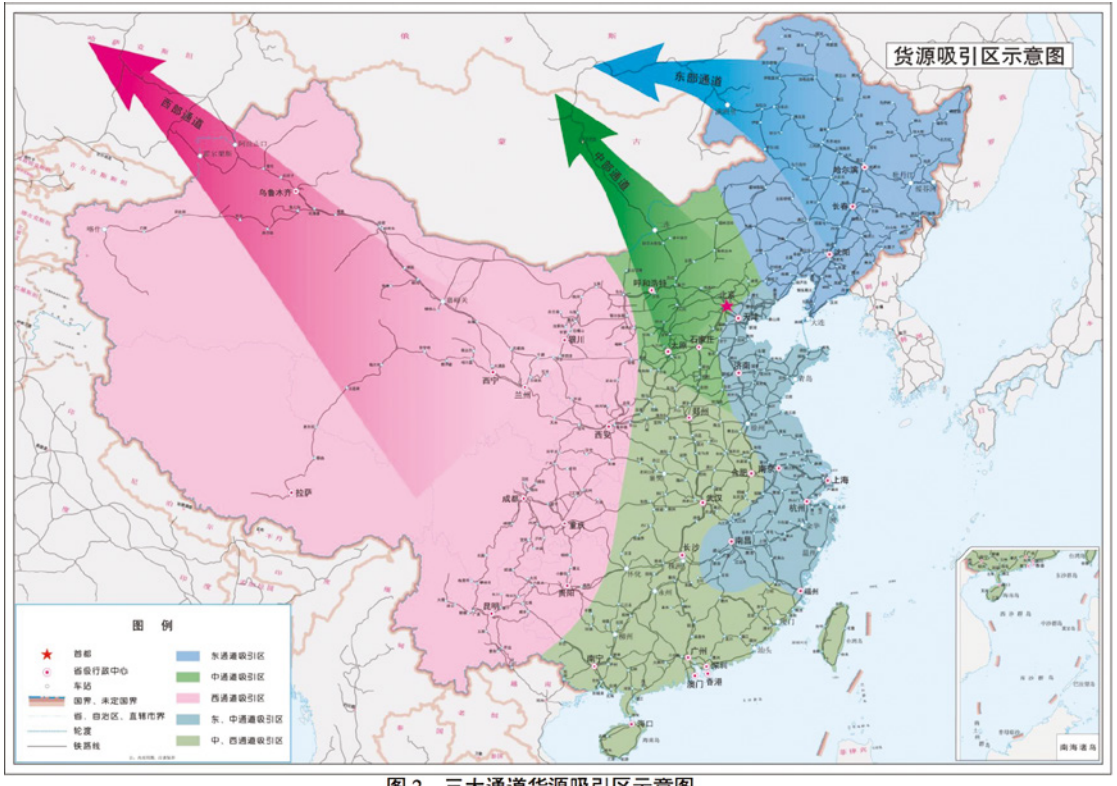

图 2　三大通道货源吸引区示意图

FIGURE 2　*NDRC map of the three main corridors*

NDRC's 2016 China-Europe Economic Corridor Plan coordinated the export and import strategies of China's provinces into three main corridors. Developed coastal provinces are to use the south-north axis to Russia; Southern and Central provinces are to use the south-north axis via Mongolia; and Western provinces are to use the three trunk lines through Central Asia. Notably, the western provinces being opened to Central Asian exports represent only tiny consumer markets.[75]

75　NDRC, "China-Europe Construction and Development Plan (2016–2020)."

From a Kazakh perspective, however, the combination of Belt and Road and International Capacity Cooperation looks very much like Chinese capital and labor with Kazakh land. For China's strategy to be successful, it must engage with the linguistically, culturally, and economically diverse states along its path to Europe.

Conclusion

There continues to be serious misunderstanding of the nature and intent of China's geopolitical, geoeconomic, and geoindustrial policy ambitions in Central Asia. Since China's foreign policy in Central Asia and post-Soviet space more broadly is building on a basis of low levels of communication and trust, it is important not simply to examine leaders' statements and executive-level agreements, but to look closely at the policymaking apparatus within the domestic public administration. This paper has examined China's extant trade and industry policy toward the Republic of Kazakhstan over the course of the first Xi Jinping administration (2012–2017). In demonstrating that the International Capacity Cooperation policy aims to offshore industrial production clusters, it reveals a wealth of intentions and plans worthy of further analysis.

Sino-Kazakh industrial policy coordination and development remains firmly a Chinese domestic policy. International Capacity Cooperation is an attempt to bring whole industrial clusters to China's external geographies. This serves the twin goals of developing the industrial bases of China's trading partners for re-export back to China while simultaneously offshoring China's current problem of cyclical overcapacity in heavy industry. This Chinese capital investment offshores China's Project System and state-driven investment model. This has clear and significant repercussions for the industrial upgrading of Kazakhstan's industrial and agroindustrial production infrastructure. It means that while China's trade with Europe will be a two-way channel, investment in Central Asia will be one-way and on China's terms, simply extending China's industrial matrix into Kazakhstan for re-export to China.

China's wider policy of industrial transfer to Central Asia is an important and emerging trend that will merit significant research as economic institutional integration between China and the EEU increases. China's foreign, trade, and industrial relations with all five Central Asian states require much deeper analysis to understand what appears to be a movement toward economic integration and industrial production coupling.

Yet a policy transmission gap remains, one that will necessitate upgrades to China's public administration communications infrastructure and protocol.

Much of the external industrial policy is shouldered by lower levels of China's government, which are not connecting with lower levels of government in the governments of their economic partners. Chinese investment in geographies, industries, and technologies that Western globalization has ignored should be welcomed. There is no such thing as too much steel, cement, glass, paper, or aluminum as far as Central Asia is concerned. But one should be clear that this is an application of the Chinese domestic development model to external geographies, and it will therefore import a series of political and economic risks to Kazakhstan's economy.

International Capacity Cooperation—Financing China's Export of Industrial Overcapacity

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Research Article

Abstract

International capacity cooperation (国际产能合作) exports China's Keynesian project system, offshoring its excess industrial capacity as fixed-capital investment. Leveraged against foreign exchange reserves, the central policy banks and sovereign wealth funds push credit through a variety of purpose-built infrastructure investment funds to provincial governments, state-owned enterprises and ultimately to offshore projects. This paper explores the historical institutional development of funds used to channel central government funds through China's financial bureaucracy into target countries. We explore the export of the policy bank model, provincial implementation and recipient regional industrial policy, and examine the role of international capacity cooperation in China's international trade and investment strategy and its implications for China's domestic industrial policy. We conclude with post-Keynesian analyses of China's export of industrial overcapacity while maintaining a closed financial model which is likely to introduce excessive risk to the global capital pool.

Policy Implications

- Global policy makers should integrate analyses of international capacity cooperation into public finance and international trade operations.
- Chinese policy makers should better communicate and engage with China's trade partners. Industrial capacity transfer is not a bad idea, but host countries should be engaged stakeholders.
- African policy makers should welcome Chinese investment but understand the financing mechanisms, and risks, behind it.
- European Union and United States policy makers should consider their perpendicular sovereign risk exposure to a parallel capital architecture.

Introduction

This paper analyses primary-source Chinese policy documents issued at the State Council, administrative level of government in the People's Republic of China during the first Xi Jinping administration 2012–2017. In China, the administrative bureaucracy is the key power structure in both the state and the economy, the executive arm of government's legitimacy rests on mastery of the bureaucracy, while it is the disaggregated institutions within the public administration arm of government where policy transmission, promulgation and coordination really make or break Politburo level ideas and ideals. The paper argues that *international capacity cooperation* (ICC) offshores China's excess capacity as investment through a variety of purpose-built infrastructure investment funds that mushroomed at the top of China's financial architecture throughout 2016. ICC uses the Keynesian capital works project-system, with policy bank support, to export industrial overcapacity via construction of a parallel international trade and finance system, avoiding opening domestic capital markets while effectively dumping factories into external geographies. ICC is the result of a political narrative seeking a way forward from 'new normal' low industrial growth rates and is a novel solution to China's industrial capacity utilisation problems (State Council, 2013). The institutionalised policy-operating model is quasi-sovereign wealth fund, provincial government midstream, with state-owned enterprise (SOE) frontend. Through exporting the capital-works project model under the 'Belt and Road' brand, ICC is effectively an acceptance of a reversal of the 3rd Plenum market reforms, avoiding the hard transition to a consumption-driven economy.

The paper employs historical institutionalist methodology to trace the institutional developments within the Chinese governance and state-finance architecture in order to examine disparate policy moves as a coordinated whole. There is little extant literature on China's economic development which employs a genuinely historical institutionalist approach, the core concept being that path dependencies in institutional structures determine the future behaviour of

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agents within systems and systems themselves (Chang, 2003; Gerschenkron, 1962; Johnson, 1982; Suehiro, 2008). The paper further places this institutional analysis alongside broadly post-Keynesian critiques of China's financial development, in the tradition of Kaldorian spatial analysis and Minskian financial fragility (Kaldor, 1970; Myrdal, 1961; Minsky, 1986, 1990, 1992). We argue that placing the institutional form of the policy banking/policy financing mechanisms as the primary unit of analysis that a holistic, systemic understanding of ICC and its international implications is possible.

Structurally, the paper first examines the development of ICC central government funds as a result of heterodox capital accumulation in China's state-capitalist system. It then argues that ICC funds are an effective way for China's domestic policy bank system to operate in external geographies while maintaining state control over the means of production. Third, it examines the role of provincial governments in coordinating central liquid capital funds with local fixed-capital SOEs, and finally connects this institutional development, the central capital funds, and the provincial government implementation to China's wider geoindustrial policy goals. We conclude by arguing that the ICC finance model is being used to cynically export China's industrial policy, circumventing the established trade and investment architecture, without reciprocal opening of Chinese capital or consumer markets. We further argue that as the capital being exported is essentially local government debt with unpriced risk, that a debt-deflation scenario is being exported to China's trading partners, and end with a warning on introducing unaudited systemic risk to the global capital pool and the possibility of a parallel investment architecture developing.

Heterodox outward direct investment from heterodox capital accumulation

ICC was a, 2014 addition to the 'Go Global' policy suite which China's central bureaucracy expanded and implemented throughout, 2016 (Chen, 2015). ICC was issued to lower levels of China's government bureaucracy in May, 2016 through State Council's *Guiding Opinions on the Promotion of International Capacity Cooperation and Equipment Manufacturing* aiming to build on China's existing technological complementarities and industrial base and to offshore sophisticated equipment plants (State Council, 2015). It outlined 12 target sectors: steel, non-ferrous metals, construction materials, railways, electricity, chemicals, textiles, automotive, information and communications technology, engineering machinery, and aerospace and marine engineering (Guo, 2015, Lin, 2016; Liu, 2015; Liu 2016, State Council, 2015, Chen, H. Y., (ed.) 2016).

China's enterprises have been encouraged to 'Go Global' for some two decades. The emphasis was initially on securing resources for domestic consumption, with SOEs supported to serve production back to the domestic population. With China's foreign currency reserves rising, there was a tendency to acquire whole value chains and majority holdings abroad. China's outward direct investment (ODI) then began to impact both developing and developed economies. By, 2010, however the risks of the policy were brought home by a growing number of losses, and by political friction in many target countries. The handover to the Xi-Wang administration in 2012 coincided with a rethinking of the 'Go Global' policy. The policy result was a series of measures that sought to lower risks and address political blowback, often by presenting projects in the language of 'win-win cooperation' and 'south-south' partnership, setting up joint, bilateral and multilateral platforms for investment, reducing overt Chinese ownership, taking minority holdings and avoiding whole value-chain acquisition.

Examples of the kinds of projects targeted both by 'Go Global' and now ICC are the China-Kazakh rail project in Central Asia, the China-Russia soy bean project (Liu, 2015; Zhang, 2015; Global Government Network 2013); the China-Indonesia high-speed rail project in ASEAN, and nuclear energy equipment cooperation projects in France and the United Kingdom in Europe. High-speed rail and nuclear power have been key targeted high value-added 'Go Global' strategies. NDRC initial policy deployment promoting ICC was limited to equipment manufacturing (Chen, 2015). CPPCC National Committee spokesperson Wang Guoqing has said that China's advantage in equipment manufacturing is strong enough to withstand China's industrial-led economic downturn (Zhang & Sun 2016).

The ICC state-driven investment model is directed to further the investment-driven economic model, not to retire it. Policy bank investment responds to industrial strategies and policy from the centre, not from market cues, commercial bank capital adequacy ratios or firm-level risk analyses (Sanderson & Forsythe, 2013; Hess, 2015). While Japan's catch-up industrial development was centred on state-driven industrial policy, the economic agents which responded to rising labour costs as Japan industrialised were private capital agents, albeit with access to credit similar to China's policy banks through Japan's 'main bank system' (Aoki, 2001; Johnson, 1982). The mark of China's capital accumulation has rather been control; China created its development capital not from inward FDI as in the Japan-led Asian tiger model but engineered a largely domestic primitive capital formation. It is this capital and its engendered accounting and banking practices which are now being pushed on the world economy through the ICC parallel trade and investment architecture. The widespread policy pull-back from renminbi internationalisation therefore presents an unpriced risk to any economies these loans may touch. The continued stalled transition in China from an investment to a consumption-driven model by exporting industrial overcapacity financed by state strategy-driven policy loans introduces an assured but unpriced level of risk not only to China, but to all China's trading partners and indeed for international capitalism.

The ICC state-driven investment strategy is a departure from traditional East Asian capital accumulation models in two important ways: a closed capital account at the state level and lack of private capital direction at the firm level.

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The now over 50-year old 'flying geese' theory described a geopolitical as well as economic phenomena which is not repeating in China's outward direct investment. There is no 'capital cascade' into economically neighbouring middle-income countries as Japan's overseas direct investment flowed to Korea Republic, Taiwan, China, Thailand, and Southeast Asia (Akamatsu 1962). To see outward capital investment from China into less industrially developed economies as a natural response to capital accumulation would be a mistake. The driving force behind the state ODI strategy is rather the non-convertibility of the renminbi as a result of the persistently closed capital account and failure to internationalise the renminbi. The failure of a China version of the Plaza Accords to emerge over the course of the 2015–2016 domestic and international economic downturn has left the world slowly decoupling from Chinese capital and China turning its capital accumulation strategy towards a parallel trade and investment architecture, rather than an integration with global trade and capital norms. Greater levels of state control in finance and economic planning throughout, 2016 have seen the 'supply-side reform' policy narrative further sideline market reforms and renminbi internationalisation strategies (Ministry of Finance, 2016).

'Belt and Road' capital junction

ICC and 'Belt and Road' (B&R) are separate but connected policy goals. ICC is simply the funding and production method for moving China's excess industrial capacity offshore. It is unencumbered with the political goals of Belt and Road, which encounter a wide array of geopolitical and political economy challenges. ICC has a simple mandate: solve China's capacity utilisation problem in the industrial sector by moving plants offshore in the absence of capital account liberalisation. Effectively, create a policy face for dumping factories into external geographies rather than continue to dump manufactured goods into international markets. In order to achieve this, a suite of funding mechanisms have been established, and a variety of multi-level governance procedures are in train for a clear policy transmission channel from Politburo Leading Group, to central bureaucracy, to central finance, to provincial governments, to provincial state-owned enterprises and thence abroad to recipient countries.

ICC is not Belt and Road. Belt and Road is part of a wider attempt to recreate complex interdependence while circumventing the Washington consensus (Keohane and Nye, 1977). But by integrating China into the 'world economy' of Africa, Latin America, and the Eurasian Economic Union it creates the closed capital account equivalent of economic interdependence. Secondly, ICC performs the economic function which the Western capitalist economies achieved with colonialism, and the Japanese economy achieved with regional production networks: it offshores industrial production to geographies with cheaper commodity inputs and feeds the manufactures (industrial and agroindustrial) back to the mainland for consumption. While Belt and Road provides the macro geopolitical setting, it is a much broader canvas, one which China hopes to use to smooth its longer term integration into both the world economy and the global security apparatus. ICC though is at its core a policy solution to a cyclical economic problem, the current glut in industrial capacity. It is a temporary cure for the capacity utilisation problem in steel, cement, aluminum, glass and shipbuilding caused by overinvestment during the years following the Keynesian stimulus in, 2008–2009 (State Council, 2013). Belt and Road by contrast is a long-term structural geopolitical strategy.

Unlike Belt and Road, which is a linear geopolitical concept, capacity cooperation is rather a practical financial measure for shifting China's excess industrial plants offshore to perpetuate the investment-driven project system model of economic development. It is less focused on geostrategic infrastructure funding and cultivating international institutional voice than the Asian Infrastructure Investment Bank, but rather promotes China as a partner of technologically advanced nations such as France and the United Kingdom, and an agent of technology transfer in the case of Central Asia, the Middle East, Africa and ASEAN (Farchy, 2016; Hua, 2015; Kapital, 2016; Li, 2014; MofCOM, 2015; MofCOM and CAITEC, 2015; NDRC, 2016; Pang, 2016; Song, 2015;Wang, 2015; Xinhua News Agency, 2016). A key focus of the policy is ensuring that the productive capacity that China cannot provide for itself is facilitated abroad, particularly in food and energy security. The export destination for goods produced under ICC will increasingly be China itself, especially in industrial food production and energy production. Simply put, rather than rely on international trade to supply goods that China does not have a comparative advantage in and thereby forego food and energy security, ICC plans to replicate the cheaper labour and fixed capital inputs of moving factories to external geographies, while maintaining Chinese state control of the capital and supply chain.

Capacity cooperation represents a structural change for the global economy. Moving China's industrial capacity offshore at its current stage of middle-income development and rise up the global manufacturing value-chain means a tailing off of the China export-oriented model and the beginnings of China as a net importer. As the world witnesses China's answer to the Japanese export-oriented regional production network model, China represents a large enough domestic market with a rising middle-income population to lift itself over the middle-income trap. The gamble for China though is to do this in a closed system, for the renminbi to fund this industrial expansion without facing capitalist account-keeping scrutiny and to avoid both critique and consensus from the extant international financial bureaucracy.

Sovereign wealth exporting policy bank model

In assessing the China's financial bureaucracy as a hierarchical capital architecture underpinning the transmission of the ICC policy we employ a Minskian analysis which treats every unit within a capitalist economy as a financial unit (Minsky, 1986). ICC projects are supported through dedicated funds

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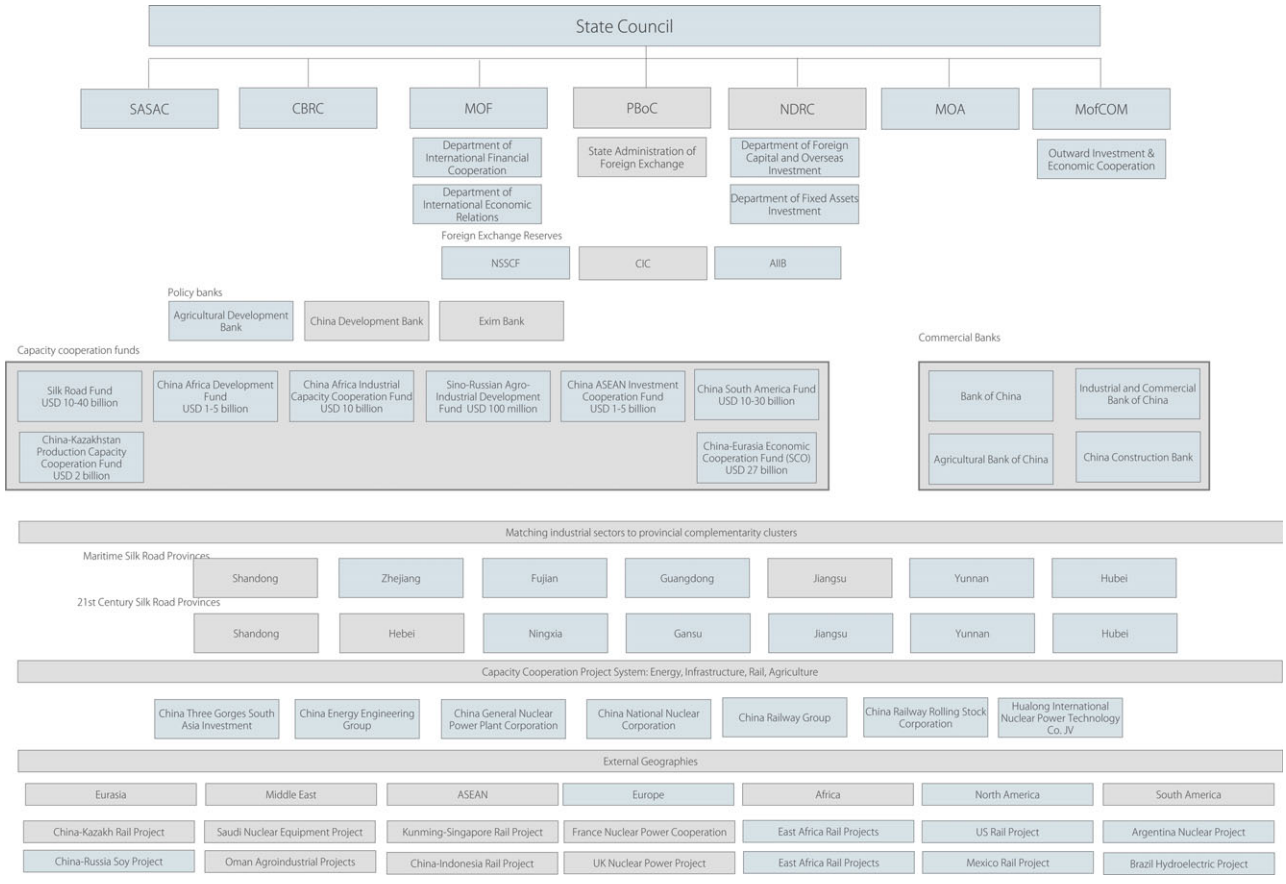
such as the Silk Road Fund, the China-ASEAN fund and the China Africa Industrial Capacity Cooperation Fund. (China-Arab Investment Fund 2016; China-ASEAN Fund, 2016; Silk Road Fund, 2016) These funds range from US$2 billion to US$40 billion in capital stock. As infrastructure investment funds, they are vehicles for leveraging China's foreign exchange reserves to offshore state-driven investment. People's Bank of China (PBoC), State Administration of Foreign Exchange (SAFE) and China Investment Corporation (CIC) collectively leverage against China's foreign exchange reserves and distribute funds through the policy banks China Development Bank (CDB), Export Import Bank of China (Exim), and Agricultural Development Bank of China (ADBC) as well as the commercial banking nexus to a variety of purpose built bi- and multilateral financing vehicles (Dai, 2016). These vehicles then direct state investment in industrial plants offshore, bypassing capital account controls. Projects exist or are planned for Africa, South America, Eurasia, Europe and ASEAN, often promoted under the Belt and Road geopolitical macrostrategy.

Figure 1 shows the central government funds, and how they are directly drawn down from the nexus of State Council financial institutions, the policy banks, and the commercial banks. It demonstrates the capital flow from the specific ICC funds to provincial governments, which administer the capital to align with regional industrial policy strengths. The capital is then targeted for export to specific geographies matched with industrial complementarities paired at the provincial level.

ICC uses the project-system and policy bank growth model to achieve the dual aims of exporting industrial overcapacity and internationalising the renminbi. The model thus perpetuates the same risks as the growth model it is trying to export. While PBoC Chair Zhou Xiaochuan has encouraged the world to see capacity cooperation funding as 'private equity', in reality the funds operate less like private equity firms or multilateral development banks and more like international policy banks or quasi-sovereign wealth funds (PBoC, 2015). The financial architecture for the globalised China capital model is a hybrid of functions traditionally filled by central bank, treasury, policy bank, commercial bank, provincial government executive, and state-owned enterprises. Party drafted and approved plans and guiding opinions issued by ministerial level agencies in the State Council central bureaucracy empower the lending facilities of the policy bank-sovereign wealth fund-commercial bank nexus. The policy banks issue debt on the principal of the foreign exchange reserves hedged in the sovereign wealth funds. China in, 2016 has four sovereign wealth funds, but for international investment purposes the China Investment Corporation is authorised to release foreign exchange for foreign investment. Naturally this chain-lock system is

Figure 1. Public finance bureaucratic structure of capacity cooperation funds



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necessary because of the closed-capital account. China practises a dual-currency system, an onshore renminbi and an offshore renminbi – they are effectively two separate pools of capital. The offshore renminbi rate is dependent on direct state to state currency swaps and institutional debt issuance. China practises very tight capital controls on the onshore renminbi, however enthusiastically encourages off-shore renminbi use, particularly through policy banking bonds for infrastructure and international financial integration.

ICC funds are distributed to provincial governments which have their own capacity cooperation policies playing to geographic, industrial infrastructure and competitive advantage strengths. Major provincial capacity cooperation funding is currently throughputting Hubei, Yunnan, Jiangxi, Gansu, Anhui, Hebei, and Shandong (China Development Bank, 2016). In early, 2016 mostly land-route Silk Road funding has institutional financing architecture in place, while in later, 2016 coastal provinces such as Fujian, Zhejiang, Guangdong and Jiangsu have increasingly engaged with the central policy as more Maritime Silk Road funding is made available (Securities Daily, 2015).

ICC as China's outward direct investment strategy is essentially a state capital mercantilist operation designed to avoid facing the transition from an investment to a consumption-driven economic structure. However, presented as capital investment and technology transfer opportunities to middle and low income developing countries, it has broad appeal for states in Africa and South America, and a more strategically balanced appeal for states along the New Silk Road in Central Asia, Eurasian Economic Community, Iran and Turkey, and ultimately Europe (Liu 2016). China's direct infrastructure investments in Sri Lanka and Myanmar are being matched by India unilaterally creating industrial infrastructure through its economic corridor investment programme (Long, 2016; Sabyasachi et al., 2016).

The various geographic funds which have been established to fund the capacity cooperation initiative are detailed in Table 1 (Russian Direct Investment Fund, 2015; Ling; 2016). Where there is a range, the low figure is paid-up capital and the high figure is the expected expansion of seed capital.

Table 1. Centrally administered ICC funds

Fund	Acronym	Capital stock
Silk Road Fund	SRF	US$ 10-40 billion
China ASEAN Investment Cooperation Fund	CAF	US$ 1-5 billion
China South America Fund	LatAm Fund	US$ 10-30 billion
China Africa Industrial Capacity Cooperation Fund	CAICCF	US$ 10 billion
China Africa Development Fund	CADF	US$ 1-5 billion
China-Arab Investment Fund	CAIF	US$ 10 billion
China-Eurasia Economic Cooperation Fund (Russia)	CEECF	US$ 27 million
China Kazakhstan Production Capacity Cooperation Fund		US$ 2 billion
Sino-Russian Agro-Industrial Development Fund		US$ 100 million

Specific geographic funds capitalised with foreign exchange reserves leveraged through the policy banks are pushed to the provincial governments. Provincial governments each have specific capacity cooperation plans which are essentially lower-level implementations of central ICC funding plans. For example the Middle-East Capacity Cooperation plan is financed through the China-Arab Capacity Cooperation Fund, and implemented by the Ningxia provincial government. In Ningxia the provincial government matches funds to eligible SOEs with sufficient technological and capital expertise to conduct mega-projects in foreign countries (Zhao, 2016, Jie, 2016, Ningxia Hui Autonomous Region Development and Reform Commission, 2016).

Provincial capacity cooperation funds

Provincial governments are the principal state actors in the ICC policy. The National Development and Reform Commission (NDRC) is taking point on coordinating capacity cooperation and had by end of 2016 signed agreements with multiple provincial level governments including Hebei, Hubei, Shandong, Jiangxi, Anhui, Gansu, Yunnan, Jiangsu, Henan, Sichuan, Liaoning, and Guangxi to develop cooperation mechanisms (Zhang, 2016). The central plan for ICC is to bring together key provinces, state-owned enterprises (SOEs) and industry associations to coordinate moving industrial plants abroad. The early stages of ICC witnessed in 2016 will deepen and catalyse a structural change in the nature and role of China's economic interaction with the world.

Provincial capacity cooperation funds are essentially a subset of China's national-level development funds. They come from a mix of China's policy banks. Each of these provincial funds are earmarked for capacity cooperation projects in strategic industries specific to the provincial industrial complementarity. The provincial funds tend to be drawn down from the state level fund that is aligned with the province's regional and geographic focus. For example, both Liaoning and Anhui are funded by the China-Africa fund as Africa is the main ICC target region. However, not all provinces that have investments in Africa will draw down from the China-Africa Fund. Jiangxi has been allocated the Silk Road Fund and Asian Infrastructure and Investment Bank (AIIB) for its investment activities in Ethiopia and other African states. The internal bureaucratic method for assessing allocations is unclear. However decisions allocating resources and investments are likely made within NDRC.

Through provincial capacity cooperation funds, the central NDRC (the principal economic ministry and direct successor to *gosplan*) hopes to align provincial development interests with overall national development strategies. From December 2015 there was a surge in reporting of domestic agreements between NDRC and the provinces. Anhui, Yunnan, Shandong, Gansu and Hubei issued variations of provincial policies to act as coordination mechanisms for ICC in their

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Table 2. Provincial capacity cooperation industrial investment matrix. This matrix is neither exhaustive nor complete. It will grow in time as ICC policy is transmitted to provincial governments and capacity cooperation funding finds more investment channels (National Development and Reform Commission, 2015; NDRC International Economic Cooperation Office Information Centre, 2016; NDRC Department of Foreign Investment and Overseas Investment 2015; NDRC Department of Foreign Investment and Overseas Investment 2016a; NDRC Department of Foreign Investment and Overseas Investment 2016b; NDRC Department of Foreign Investment and Overseas Investment 2016c; NDRC International Economic Cooperation Office Information Centre, 2016d; China Development Bank 2016; CGG Thinktank 2016; Dai C, 2016; Xinhua News 2016b; Shaanxi International Economic Cooperation Office Information Centre, 2016; Xinhua News Agency 2016b; Zhang, 2016; Li J, 2016; Li G 2016; Dai CC 2016)

Province/Cluster	Fund	Target countries	Target Industries
Vanguard			
Shandong		Pakistan, Indonesia, Japan, Korea	machinery, building materials, pharmaceuticals, electricity, agriculture, mining, light industry, shipping
Henan		Belt and Road countries	transport, energy, equipment manufacturing, agriculture
Hebei	China Development Bank	South Africa, Serbia, Asia, Africa and Central and Eastern Europe	iron and steel, cement, glass, photovoltaic, electricity, equipment, textiles
Hubei	China-Africa Fund	African countries	iron, steel, cement, photovoltaic, glass,
Yangzi			
Shanghai			energy development and power equipment, automotive manufacturing, steel, ports and port equipment, marine and marine engineering, communications equipment, building materials, light industry, textiles
Jiangsu	China Development Bank	Indonesia, Cambodia, Ethiopia, Russia	engineering machinery, rail transportation, new energy, shipbuilding and marine engineering, light industry, textiles, petrochemicals, metallurgy, building materials
Jiangxi		Turkey, Ethiopia, Indonesia, Malaysia, Asian and African countries	transport, energy, equipment manufacturing, agriculture, mineral resources, textiles, non-ferrous metals, new energy, photovoltaic
Anhui		Zimbabwe, Laos, Ecuador, Brazil, Mozambique, Hungary, Asia, Europe, Africa and South America, Central and Eastern Europe, United States	building materials, automobiles, new energy vehicles, NEV equipment, iron and steel, nonferrous metals, photovoltaic, construction machinery, agriculture and chemicals
Go West			
Chongqing		Russia, Australia, Africa, Middle East, Central and Eastern Europe	automotive, motorcycles, non-ferrous metallurgy, equipment, building materials and chemical industries
Gansu	China-Africa Development Fund	Tajikistan, Kyrgyzstan, Turkmenistan, Iran, Kazakhstan, Azerbaijan, Zimbabwe, Ghana, Indonesia, Thailand	mineral resources, textiles, non-ferrous metals energy, photovoltaic
Yunnan		Lao PDR, South Asia, ASEAN, North America, Africa and Central and Eastern Europe	electricity, equipment, metallurgy, chemicals, building materials, light industry, logistics, nonferrous metals, railways, electric power, textiles, communications, automotive, construction machinery, aerospace, marine and marine engineering, advanced manufacturing, computer numerical control machine tools
Ningxia	China-Arab Fund	Oman, West Asia, Africa	construction, equipment,
Qinghai		Turkmenistan	water, electricity, textiles (wool/cashmere)
Shaanxi	Shaanxi-Africa Industrial Development Fund	Latin America, African countries, Central Asia, South Asia, Southeast Asia	energy, chemical industry, non-ferrous metallurgy and building materials, aerospace, textile, electric power, communications, agriculture planning
Sichuan		Africa	railway, electric power, equipment, agriculture, Internet finance
South Coast			
Zhejiang	Exim Bank	Asia, Africa, Central and Eastern European Countries	Offshore bases, wind power, steel, offshore fishing, maritime engineering, automobiles, photovoltaic power
Fujian		Indonesia, Kenya, Papua New Guinea	mining, non-ferrous metals, automobiles, fishery, building materials, shipbuilding, textile, information and

(continued)

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Table 2. (continued)

Province/Cluster	Fund	Target countries	Target Industries
			communication, engineering machinery and environmental protection equipment
Guangdong	Guangdong Silk Road Fund	Malaysia, Pakistan, Vietnam, Thailand, Southeast Asia, South Asia	Industrial park development, electricity, non-ferrous metals, petrochemicals, agriculture
Guangxi	Guangxi Silk Road Fund	(different model from that of other Silk Road Funds)	Appears to be more domestic-focused. Funds to target urbanisation, infrastructure development, public service
Hunan			
Northeast Upgrade			
Jilin		Asia, Africa, Central and Eastern European countries	automotive, rail transportation, steel, non-ferrous metals, electric power, chemicals, cement, agriculture, forestry, animal husbandry
Liaoning	China-Africa Development Fund	Asia, Africa, Central and Eastern European Countries	electric power, machine tools, engineering machinery, ship building, ocean engineering, oil equipment, rail transport equipment

Table 3. Timeline of policy development of capacity cooperation (Zhang & Wang, 2015, direct translation)

Timeline	Region	Key policy developments	Details
June 2015	Europe	Premier Li Keqiang visited Europe and signed agreements worth US$70 billion on over 70 cooperation projects. Seen as a mega sales push for China's industrial capacity cooperation	Signed 50 deals worth US$50 billion with France Signed deals worth US$20 billion with Belgium
May 2015	Latin America	Li Keqiang visited Latin America and introduced the "33" capacity cooperation model. Established a US$ 30 billion China-Latin America Capacity Cooperation Fund. Signed cooperative agreements with four Latin American countries for over 70 projects	Signed agreements on 35 projects with Brazil Signed agreements on 12 projects with Colombia Signed agreements on 10 projects with Peru Chile became the first Latin American country to receive US$ 50 billion under RQFII
May 2015	Russia	On Xi Jinpings visit to Africa, both countries agreed to further industrial and investment cooperation	Strengthen cooperation in the fields of infrastructure development, industrial manufacturing, construction, mining, oil refinery, car manufacturing and agriculture
March 2015	Asia	Kazakhstan Premier (Karim Massimov), signed a Memorandum of Understanding with Chinese Premier Li Keqiang to bolster Sino-Kazakhstan industrial and investment cooperation. Indonesian President Joko Widodo visited China, both sides agreed to further cooperation in infrastructure development and capacity cooperation	Both countries signed a total of 33 documents to establish cooperation in the fields of steel, non-ferrous metals, oil, hydropower, car manufacturing etc. Projects worth US$ 23.6 billion. Encourage Chinese and Indonesian businesses to cooperation on infrastructure projects that involve roads, highways, ports, harbours, airport construction. Encourage cooperation on industrial projects that involve electricity production, steel, non-ferrous metals, ship manufacturing, construction manufacturing etc. Agreed to establish the Bitung Special Economic Zone Signed *China-Indonesia Infrastructure and Capacity Cooperation Memorandum of Understanding* and *Memorandum of Understanding on China-Indonesia Cooperation on Jakarta-Bandung high speed rail*
Since, 2014	Asia-Africa	China has already begun international capacity cooperation pilot projects in some countries. Projects in Kazakhstan, Indonesia and Ethiopia have achieved the most progress	

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respective provinces. NDRC has signed ICC agreements with at least, 19 provinces: Fujian, Guangdong, Hebei, Jiangxi, Hubei, Anhui, Yunnan, Gansu, Shandong, Jiangsu, Henan, Sichuan, Liaoning, Guangxi, Jilin, Zhejiang, Shaanxi, Hunan and Ningxia (Zhang, 2016).

This aligns with the growing decentralisation of China's economic development initiatives. The various provincial cooperative mechanisms allow NDRC to align provincial development interests with overall national development strategies. Most provincial level ICC funds and mechanisms are coordinated through provincial 13th 5-year plans. For the provinces, the central NDRC financial backing considerably safeguards all ICC initiatives. This is essential given the scale of investment required to implement capacity cooperation goals. The centre thus assigns provinces with roles in the national strategy. Hubei has emerged as the most aggressive province in promoting outward capacity cooperation investments. By the end of 2015, Hubei had more than 620 firms investing in capacity cooperation projects in more than 70 countries and regions. It hosted the Inaugural Forum on Global Production Capacity and Business Cooperation and has set up a dedicated fund, the Yangzi River Industry Fund, with an initial funding of C¥40 billion. The Yangzi River Industry Fund appears to be solely funded by Hubei Provincial Government. Hubei's exuberance in promoting capacity cooperation is driven by the pressing need to resolve internal overcapacity issues.

Provinces with more established industries and investment frameworks have established their own capacity cooperation funds by pooling local enterprises, government agencies, provincial banks and in most cases, state-level development funds. However, the exact funding framework varies from province to province. For example, Shaanxi has established the Shaanxi-Africa Industrial Development Fund, a joint venture between China-Africa Development Fund, Shaanxi local enterprises and local government agencies (Shaanxi International Economic Cooperation Office Information Centre 2016). A flagship venture between the China-Africa Development Fund and a provincial level government, this fund aims to support Shaanxi businesses investing in Africa. In Guangdong province however, the provincial capacity cooperation fund appears to comprise solely of provincial-level commercial banks. The Guangdong Silk Road Fund is a joint venture between Bank of China (Guangdong), Industrial and Commercial Bank of China (Guangdong) and Bank of Communications (Guangdong). It has an initial fund of C¥20 billion (CGG Thinktank, 2016).

Table 2 shows the provincial governments, funds, target recipient countries, and target industries planned through the ICC policy. For most provinces, state-owned enterprises are the principal agents to actually go abroad. Table 3 shows the development of the ICC policy over 2015-2016.

Many of the provinces involved in the capacity cooperation projects are being 'policy recommissioned' as bridges for ICC rather than the direct recipients of the state-investment they were planned to be under the older domestic industrial policy plans of *Develop the West*, *Rise of Central China* and *Develop the Old Industrial Base of the Northeast*. (China National Petroleum Corporation, 2016; Wu, 2016). The ICC plan is to leverage industrial restructuring to benefit central and western regions in China. The previous West, Central and Northeast industrial restructuring plans have largely failed to reinvigorate industrial production through investment-side government support. Developing the central and western regions calls for ICC to expand to key and pillar industries to overcome disadvantages in geographic location and poor labour, land and resource endowments.

Exporting domestic industrial production capacity

ICC is not simply a case of exporting China's excess industrial infrastructure and perpetuating the investment-driven economic model. The various strategic economic goals China is pursuing through this policy will serve both to advance China's technological rise through the global value chain and service the growing consumer demands of its citizens. Capacity cooperation narratives will dovetail with the domestic industrial policies of strategic emerging industries and Made in China, 2025 (NDRC, 2016). Strategies in fixed-capital investment centre on port and logistics infrastructure, industrial food production, energy equipment, and satellite, aerospace and global communications.

Energy and energy equipment are major strategic industrial focuses and capacity cooperation heavily targets the offshoring of energy equipment manufacturing. China's nuclear power generation plan is taking the lead in its energy strategy and a variety of nuclear equipment, reactor technology and plant systems are being developed and deployed both domestically and internationally. Infrastructure projects are mainly a measure to continue investment in steel, cement and glass while building access to global commons and global commodity resources. China's investments already include rail and port infrastructure projects to open logistics hubs in Central Asian and Mongolian dry-ports; Indian Ocean port infrastructure in Sri Lanka, Myanmar and East Africa; and developing alternative logistics infrastructure in Central America, The Caucasus, Central Asia and the Middle East. Refrigerated shipping logistics will also expand as China's domestic cold-chain logistics system develops. Demand for a variety of commodities from China's interests in South and Central America will see increased demand for both soft and hard commodities shipping.

NDRC and other ministries have a variety of policy plans and implementation strategies for further developing the financial architecture to promote the export of China's industrial capacity through the ICC strategy (NDRC, 2015; Securities Daily, 2016; Tian, 2016). As the domestic challenges of policy development and transmission increasingly affect global markets and middle-income countries, China's domestic inter-ministerial and centre-local government relations hold the keys to understanding its global industrial policy which is expected to see China's external investments increase from US$ 120 billion in, 2015 to US$ 160 billion in, 2018 (Lin, 2016; Xing, 2016).

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Conclusion

Taking whole industrial chains abroad is designed to simply offshore the China model. The Keynesian capital-works driven model had demonstrable success in delivering steel, aluminium, cement and glass to China's urbanising population. However it also resulted in chronic industrial overcapacity and a local government debt burden which has not yet been fully accounted. ICC grants a stay of leave for China's industrial economy to move into legitimate competition with Europe, the US and its trading partners in Northeast Asia and the Asia Pacific. The advanced economies can continue to weather China's state capitalism in favour of the infrastructure and capacity development that China's capital investments will bring to other middle and low income countries.

China's industrial development has delivered material benefits to millions of its citizens and lifted one of the most important nation states in the world out of poverty. The Party-State-policy bank-SOE nexus has delivered an effective catch-up strategy for industrial development. For this model to be exported to the similarly developing low and middle income countries is not such a bad thing considering the decades of failure of the international development bureaucracy. China's global investment strategy will mean more electricity, steel, cement, glass, and food for the world and particularly for those countries struggling with industrial development and neglected by both the current system of international capitalism and the failed development aid doctrine of the past thirty years.

But the policy of ICC is no sinecure. It extends the lifespan of China's industrial policy state capitalist investment-driven model. It does not transform China's domestic productive capacity, does not integrate with the global trading regime, and is essentially incompatible with global public finance best practice and international capital norms. Offshoring production from industrial policy protected provinces into the global system is a novel solution to China's industrial slowdown. Ultimately though, it simply extends the lifespan of the Keynesian capital works-driven investment development model which has resulted in industrial overcapacity and an endemically indebted closed financial system.

Development of a parallel trade, industry and investment architecture threatens stable global industrial development and social growth. While exporting China's policy banking model to external geographies introduces excessive financial risk to recipient countries. Delaying reform in China's domestic industrial economy is harmful to China's long-term growth prospects and has negative flow-on effects to the global economy and development of parallel global institutions undermines globalisation and presents developing countries with binary rather than pluralist options. This capital export should neither be viewed as traditional 'outward direct investment' of a rising middle-income industrial economy, nor as a convertible and fungible addition to global capital stock. It is a debt-export ploy which leverages both China's immature financial architecture and over-invested industrial infrastructure.

The expansion of China's policy financing model to external geographies represents serious endogenous risks to international capitalism, with the levers to China's industrial economy both at home and abroad remaining firmly in control of the mercantilist Party-state. If ICC is exporting the excess factories of China's investment-driven state capitalist model, then financing capacity cooperation exports the tainted capital leveraged from this state capitalist system of cross-subsidies and inefficient capital allocation. For this capital to dilute the international capital stock will mean every nation engaged in international trade and capital transfers will be touched by the phenomenon of China's financing capacity cooperation strategy. As China domestically struggles to contain the local government debt built up, export of the investment-driven industrial model, which is what ICC represents, will inevitably export the lax banking standards and endogenous risk to other middle-income countries which do not have the financial infrastructure to survive a collapse. Chinese policy bonds are coming to middle-income banking structures throughout the global economy, we wonder whether the global financial architecture is prepared to handle the risk.

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REVIEW ESSAY

Death of the East Asian Goose and the Rise of China's Geoindustrial Policy

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Abstract China's *Belt and Road Initiative* and its associated domestic industrial policies represent a parallel trade and investment strategy that challenges the Akamatsu principle of the Flying Geese pattern of industrial development in East Asia. This paper is positioned against the dominant orthodox theory of national systems of industrial development in East Asia. It argues that China's trade and industry policy in the 2012–2017 period has demonstrated that government will expand its industrial policy market intervention rather than retract, moving away from the regional economic integration order by moving industrial production and import trade away from the Asia-Pacific along a Westward axis to the Indian Ocean and Eurasia. Implications are that the emergence of China's geoindustrial policy will subvert multilateral trade norms as China begins to institutionalise its external trade and industrial policies.

Keywords Flying geese · Development economics · Industrial policy · Belt and road · International capacity cooperation · Parallel trade

Introduction

The Flying Geese Paradigm (FGP) was the dominant trade and industry theory of East Asian economic development in the second half of the twentieth Century. But the Flying Geese theory of industrial economic development in East Asia [1] was essentially an historical and geopolitical theory, not at economic one. It was a Keynesian economic theory and was the political tool through which a regional industrial growth model was shaped by Japan. For much of the second half of the twentieth Century, it was the defining economic historical paradigm through which the rise of East Asia, the global shift in economic gravity to the Pacific Ocean, and the economic rationale

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behind catch-up industrialisation in less developed economies of the region was viewed. It rested on the assumption that outward foreign direct investment (ODI) chasing factor endowments such as cheaper labour inputs and raw materials gradated into less developed economies in the region would carry with it industrial and technical transfers, and thus would create a de facto homogenous and hierarchical regional economic trading bloc. The theory was first used as a justification for the Greater East Asian Coprosperity Sphere, then to explain Japan's reindustrialisation and springboard into Asian markets, and was finally codified into the Asia Pacific Economic Cooperation free trade area.

However the scale of the Chinese state means that it may reset paradigms rather than conforms to them. China's rise through the East Asian industrial development phase has revealed that its outward direct investment patterns are not conforming to Flying Geese theory and instead are building towards an Indian Ocean trading bloc to rival the Japan-US Pacific Ocean trading bloc. China's export of industrial capacity to Central Asia, Middle East and Africa represents a serious challenge to the Flying Geese theory of East Asian regionally integrated industrial manufacturing and trade. The multilateral trading blocs of the second half of the twentieth Century were built on ocean transport lines with traditionally powerful ocean powers, but by contrast China's *Belt and Road* geoindustrial strategy is establishing a parallel direct investment regime in Central Asia, the Middle East and East and Central Africa, crucially behind a closed domestic capital account, which makes this nominally outwards investment essentially investment in China's internal domestic industrial economy that is spatially located in an externally.

Unlike Japan's and Korea's ODI in the 1980s and 1990s, China's domestic capital accumulation and uneven development means that there is no reason to seek out cheaper labour inputs abroad [2]. Fixed industrial capital can flow from developed regions in China to undeveloped regions in China. This means that Chinese capital chasing cheaper inputs is going inland due to unequal development, so when it does go abroad is determined by geoeconomics more than factor endowments. State-owned Enterprises (SOEs) are directed to invest strategically, not to chase lower wage inputs with an appreciated currency. With China eventually transforming into a net-importer, the closed nature of its capital investment through special financing instruments to structure its geopolitical policy ambitions through the *Belt and Road* policy means that capital outflows from China will have markedly different outcomes on East Asian industrial states than did Japan's earlier industrial rise.

The paper first analyses the theoretical framework of Historical Institutionalism and catch-up industrialisation in the tradition of the German Historical School of economics. It then argues against the prevailing orthodox argument in East Asia that China will conform to the Flying Geese hierarchical regional economic order, arguing instead that China's domestically-formed capital does not conform to FGP. This means that China will not rise through the regional order but instead set its own regional and global trade patterns [3]. The paper then explores the proto-policy and ideological foundation supporting China's global geoindustrial strategy and examines how institutionalised cross-ministerial industrial policy is being deployed to upgrade China's science, technology and innovation industrial complex. We conclude with an assertion that China is in the process of construction a parallel trade and investment architecture designed to alter the course of globalisation.

Historical Institutionalism and Catch-Up Industrialisation

Flying Geese theory and the East Asian development model is characterised by product cycle development, rising through the globalising value chain accompanied by updated concepts of competitive advantage [4, 5]. Akamatsu's Flying Geese Paradigm takes a Gerschenkronian historicity of economic backwardness approach, with the national state as the basic unit of analysis and a competitive industrial policy-led strategy designed to game neoclassical free-market economics [6, 7]. Gerschenkron argued that industrial backwardness and the history of capital are the determining factors in moving towards manufacturing, continuing the German Historical School of Freidrich List, wrestling with similar problems to Marx's primitive accumulation [7–9]. Gerschenkron's arguments ultimately derive from Alexander Hamilton's advocacy for a policy of infant industry protection for the United States of America [10]. Gerschenkron argues for a mode of analysis that compares countries' relative backwardness in industrialisation, that historical forces of capital will push all nations towards industrialisation and that the peculiar circumstances of Germany's catch-up industrialisation can be generalised and applied to other states. Gerschenkron's analytic models are comparative backwardness and absolute backwardness, where a nation either has no features of industrial development or those with such a dearth of industrial development and capital that essentially different institutions of industrialisation can be seen to have emerged. Gerschenkron gives the examples of Denmark as comparatively backward and Russia as absolutely backward, whereas through the second half of the twentieth Century in East Asia the Gerchenkronian model identified Korea and Taiwan as comparatively backward and China absolutely backwards. Now we can describe China as comparatively backwards, and Mozambique as absolutely backwards in terms of developing complete industrial chains and national systems of industrial output.

Gerschenkron argues an agrarian country will remain so until a large enough inertia forces it to industrialise, but that once the process begins, a series of industrial complementarities emerge so that there is a predetermined path for catch-up nations to follow [7, 11, 12]. Rather than free trade resulting in increased productivity in a Ricardian sense, Gerschenkron argues instead for history, capital and nationalism providing the framework through which industrialisation emerges, and that once the initial capital formation has occurred then 'the industrially more developed country presents to the less developed country a picture of the latter's future' [9]. This Listian model was used in contemporary examples of state industrial strategies by the Republic of Korea and the Republic of China (Taiwan) under protectionist export oriented models of catch up industrialisation in the latter half of the twentieth century [13–16] And to a lesser, and more ideologically aspirational sense, the big four ASEAN economies [17–19].

In addition to backwardness, the FGP relies on industrial policy. For catch-up industrialisers, state-invested export-oriented indsustrialisation is a more effective engine of growth than opening a nation's product to global free trade in goods and services. Korea and Taiwan in the post war period as examples of nations with comparative backwardness, had little initial capital formation and few natural resources that benefitted immensely from state protectionist strategies. Both Rodrik and Weiss agree that state industrial policies greatly aided their industrialisation and economic development [14, 15]. Korea and Taiwan followed strong government interventionist

policy frameworks aimed at macroeconomic stability and public investment in infrastructure and human capital, the results of which were rapid industrialisation and development. Korea and Taiwan both followed import substitution policies in the 1950s with multiple exchange rates, high levels of trade protection, and repressed financial markets. As part of the prevailing Cold War climate they were both recipients of US foreign aid, which provided the necessary foreign exchange in the 1950s and US consumer demand underpinned their strategies. Significantly, through the 1960s they both had other sources of foreign exchange: Korea from Japanese investment capital after Japanese wages experienced real growth and the yen began to appreciate, such as the Japanese financing of the Pohang Steel Company; and Taiwan from China's gold and foreign currency reserves after the Guomingdang fled to the island nation following the Civil War. They grew from this initial stage of comparative backwardness into first newly industrialised and later post-industrial developed economies as a direct result of active government intervention and industrial policies aimed at fostering infant industries and export markets.

The integration of China into this East Asian regional economic hierarchy was supposed to be the 'end of development' in East Asia in the Fukuyama tradition [20], a major goose to conform to the capital order in Northeast Asia, and the one to lead Akamatsu's flock into Myanmar, Cambodia, Lao, Viet Nam, and even Bangladesh. However China's revision of the regional economic trade order means that its investments are moving not to Myanmar but to East and Central Africa, Central Asia, and the Middle East. China is indeed kicking away the ladder as Chang predicts [6], but like the Anglo-American historical institutional economic growth in Germany and Japan, it is doing so on its own institutional terms [12, 21].

The clearest distinction between the economic development trajectories of the East Asia economies comes in land law. That Taiwan, Korea and Japan all had private landholding reforms immediately or shortly after the Pacific War dramatically determined their future capitalist growth trajectories. China has not accepted Anglo-Dutch-French-Prussian style property rights [22]. However simply reversing the path dependencies of land reform in China would not align it with the FGP. China also will not allow outsiders to set the price of its currency in a policy that is by parts protectionist, and by parts simply wary of the *soroi* of global capital [23, 24].

Suehiro skillfully challenged some misinterpretations and simplifications of the Flying Geese Paradigm, misinterpretations that have been used to undermine the industrial policy of East-Asian catch-up industrialisations [12], ultimately building on Bela Belassa's work on development economics [25–27]. While other scholars have sought to go beyond the simplcity and Japan-centric nature of the Flying Geese Paradigm [28, 29]. Now as East Asian manufactured export growth slows, and the region moves to become a net importer of goods and exporter of capital, many scholars are challenging the political economy fallacies of the international trade order [30]. The Flying Geese Paradigm of economic development was a political geographic concept to rebuild the post-war Japanese economic bloc as a trading institution, but neither the current international trade regime nor the current regional trade order is fulfilling China's globalisation ambitions. China is currently going through the industrial production equivalent of Japan's industrial destructuring before the Plaza Accord [31]. However, China's currency and its economy remain behind a closed capital account, with the same overcapacity and rising wages problem that forced Japanese capital offshore. Moreover

China's capital is agglomerating vertically and horizontally differently from Japanese capital did at a similar stage of development [32, 33]. As such, China's capital is not seeking cheaper factor-inputs abroad. China's capital *is* going abroad, but under very different circumstances to Japan's Flying Geese.

China's Domestic Capital Challenges the Flying Geese Paradigm

When Ezra Vogel discussed the prospect of 'Japan as Number One' in the 1980s, the world worried what it meant for Japan to be at the top of the global industrial order [34, 35]. The next great pivot in international trade is the potential of China revising the global trade order, and instead leading a parallel global trade system. Although there are obviously many institutional similarities between Japan's and China's industrialisation models and moves into regional ODI, China's ODI pattern does not follow FGP predictions.

From 2008 China's stimulus spending flowed into the shipbuilding sector as a strategic industry in an attempt to make China number one as Japan and later Korea had been. 'World's largest shipbuilder' has been a mantle consecutively worn by England, Germany, United States, Japan, and Korea. The Flying Geese theory of economic development predicts this pattern. China became the world leader of global shipbuilding in 2015 with 38% of global deadweight tons built, 34% of global new shipbuilding orders, and 36% of global on-hand shipping orders [36].

Parallels also exist in the institutional nature of Japan's regional fixed capital investment. Yang Yiyong notes much of China's ODI in along *Belt and Road* economies resembles Japan's in Southeast Asia [37]. Investment in a series of free trade zones and sectoral specific industrial parks are to integrate with the developing of economies along *Belt and Road* economic corridors, similar to the model of Japan's regional production networks [38, 39]. China is thus envisioning a sub-regional economic cooperation docking with its broader *Belt and Road* geoindustrial policy [40].

Wang Xiwen has argued a direct parallel between China's *International Capacity Cooperation* policy and Japan's offshoring of industrial capacity from the 1970s [41]. Wang argues that China's policy does conform with the typical Japanese model in that Japan's industrial growth and post-war rebuilding faced similar industrial constraints to contemporary China and solved them through domestic restructuring of heavy industry, moving into innovation-driven technologies and offshoring labour-heavy production [41]. Wang argued that to overcome the urban concentration of industrial complementarities, Japan passed a series of laws to regulate the structure its industrial economy, such as the '*Factory Construction Law*' and the '*New Industrial City Construction Law*', '*Industrial Development and Promotion Law*' and the '*Industrial Re-allocation Promotion Law*'[41]. These laws resulted in capacity transfer away from cities into fifteen newly developed industrial clusters in Japan, which allowed for cheaper inputs and greater complementarity and decentralisation [41]. To move Japanese industry into higher value-added manufacturing and restructure away from heavy, polluting industries, the '*Science and Technology City Law*', created 26 local cities in the high-end manufacturing industry, and the '*Knowledge Industry Promotion Law'* to promote 26 local cities to develop software services [41]. Wang's argument mirrors the arguments of economists such as Dani Rodrik and Suehiro Akira who work from the historical

institutional nature of economic restructuring and the state's role in reforming both markets and institutions to aid economic development [12, 42, 43].

However, despite these similarities, the geoeconomic pattern of China's ODI does not correspond to the Pacific-centric allocation of capital under Japan's industrial rise and predicted for regional geese by the Flying Geese theory. FGP may well have begun in Japan in the 1950s, but it will not end in Myanmar, at least not if current trends in Chinese investment persist.

The following table and map detail Japan and China's corresponding ODI over the period 2005–2017 aggregated by country and region. It shows that China's ODI is not driven by chasing lower costs of labour in regional economies but rather by global geoeconomic strategies. Data for Japan is taken from Japan External Trade Organization (JETRO) based on Japan's Balance of Payments net and flow. Data from China is taken from the The American Enterprise Institute and The Heritage Foundation's *China Global Investment Tracker* [44] which measures firm-level project investment (Table 1).

Japan's ODI is roughly balanced three ways, 30% in developed Europe, 30% in developed North America and 30% in developing Asia. While China's investment in Asia and North America is roughly half of Japan's, its investment is spread across five geographic sectors: roughly 20% in each of Africa, Europe, and Eurasia—conforming to its *Belt and Road* geoindustrial strategy—and 15% each in East Asia and North America. A number of interesting patterns emerge here, including the focus on the big three Middle East economies, the rapid increase in Chinese investment in Kazakhstan, and the preference in Southeast Asia for investing in ethnic Chinese polities in Malaysia, Singapore and Indonesia. However the most important are the recentering of the economic gravity to the Indian Ocean at the expense of the Pacific Ocean, and the dearth of investment in the regional low-labour cost economies that the Flying Geese Paradigm prescribes: Myanmar, Thailand, and Cambodia. The fact that China's ODI is about half that of Japan in the East Asia and APEC areas somewhat belies a wider truth: that first Japan and now China invest a greater proportion of their ODI in mature economies than developing economies. China's outward direct investment flows to advanced economies and economies of geoeconomic importance to China, not to developing East Asian economies where labour inputs, raw materials and transport factor endowments would yield a cost advantage. International trade and investment is not a zero-sum game, and competitive investment from China should be a welcome addition to the global capital pool. However, the strategic deployment of China's ODI signals that something is different with Chinese capital (Fig. 1).

China's *Global Civilisation* Geoindustrial Proto-Policy

If not conforming closely to regional Flying Geese patterns of economic development, how should we frame China's regional economic policy, outward direct investment, and ultimately its geoindustrial policy? To answer this we need to examine China's domestic trade and industrial policy architecture.

The period of the first Xi administration (2012–2017) saw a decided swing to industrial policy and policy banking practices to orchestrate both China's domestic rise up the global manufacturing value chain and to facilitate the movement of fixed-capital to external geographies. However, in terms of WTO commitments to integrating with

Table 1 China's outward direct investment patterns favour developed economies and geopolitical strategy. (Note. Switzerland is inflated because of one single huge acquisition: Syngenta)

China State-capital Outward Direct Investment 2005–2017

Regional Aggregates		Top 20		Post-Industrial	
W. Asia, Mid East, Nth Africa	$390,250	USA	$172,400	USA	$172,400
Europe	$291,890	Australia	$100,800	Australia	$100,800
Sub-Saharan Africa	$271,960	Switzerland	$58,410	Switzerland	$58,410
North America	$239,130	Brazil	$52,210	Canada	$47,670
South America	$144,730	Pakistan	$49,090	Britain	$48,300
Australia	$100,800	Britain	$48,300	Germany	$24,440
	1,438,760	Canada	$47,670	Italy	$22,920
		Russia	$44,650	France	$19,480
Ex Asia	**$1,438,760**	Nigeria	$43,660	Israel	$13,620
Belt and Road	**$662,210**	Malaysia	$40,390	Netherlands	$11,330
East Asia	**$214,010**	Indonesia	$38,530		**$519,370**
		Saudi Arabia	$30,080		
		Kazakhstan	$29,400	BRICS	
		Argentina	$27,460	Brazil	$52,210
		Germany	$24,440	Russia	$44,650
		Ethiopia	$22,960	India	$21,320
		Italy	$22,920	South Africa	$12,070
		Algeria	$22,880		**$130,250**
		Angola	$22,540		
Belt and Road				East Asia	
(On East-West Axis)		(On North-South Axis)			
Belt and Road Core 15		East Africa		ASEAN Geese	
Kazakhstan	$29,400	Djibouti	$1720	Malaysia	$40,390
Turkmenistan	$6800	Ethiopia	$22,960	Indonesia	$38,530
Uzbekistan	$4910	Tanzania	$9480	Laos	$22,500
Kyrgyzstan	$4190	Uganda	$8550	Viet Nam	$21,990
Tajikistan	$1610	Kenya	$14,850	Cambodia	$9890
Afghanistan	$3480	Mozambique	$10,590	Thailand	$7550
Pakistan	$49,090	Zambia	$13,340	Myanmar	$7250
Iran	$20,540	Madagascar	$1720		**$148,100**
Iraq	$18,560	Malawi	$810		
Syria	$4060	Mauritius	$1150	East Asian NIEs	
Turkey	$13,500		**$85,170**	Singapore	$17,910
Bulgaria	$330			South Korea	$10,470
Romania	$2520	Central Africa		Japan	$3690
Moldova	$-	Chad	$8280	Taiwan	$140
Ukraine	$7360	DR Congo	$14,310		**$32,210**
	$166,350	Congo	$12,190		
		Rwanda	$730		

Table 1 (continued)

China State-capital Outward Direct Investment 2005–2017

Mid East Core 3		Nigeria	$43,660
Iran	$20,540	Cameroon	$11,460
Saudi Arabia	$30,080	Angola	$22,540
Egypt	$14,730	Sao Tome	$950
	$65,350		**$114,120**

Unit: Million USD

world trade, China's reform period is over. The end of the reform period (1979–2017) was announced in the quinquennial China Communist Party Congress Report in October 2017. *Xi Thought* declared a New Era in Chinese policy, drawing a close to the 40-year reform period of China's economic history.

The core meta-policy of the 2012–2017 five-year policy cycle has been *Ecological Civilisation*. This guiding ideology is proto-policy. It exists in a space above top-level geoindustrial policy such as *Belt and Road Initiative*, *Made in China 2025, International Capacity Cooperation*, and *Supply-side Reform* [45, 46]. Party proto-policy is deeply embedded in these top-level policies and also in every macro to micro policy transmission down the entire Party and State structure. The proto-policy of the 18th Party Congress which guided Xi's first term was *Five in One* [47], comprising economic, political, cultural, social and ecological construction. This is China's modernisation

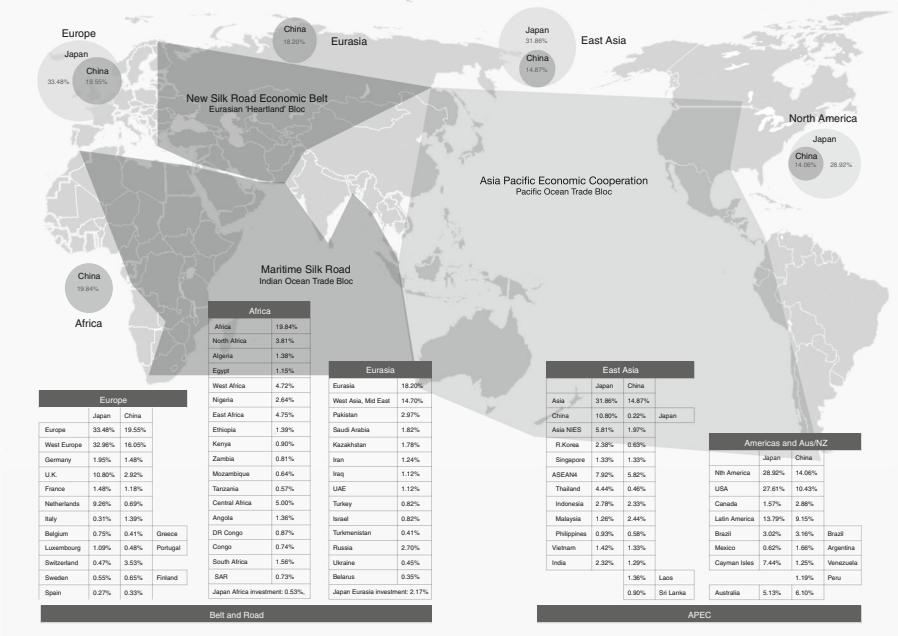

Fig. 1 Japan's Regional Production Network model and China's Parallel Trade Network. Japan's regional economic order created the Flying Geese Paradigm and legitimised it through APEC. China's investment axis is clearly centred on the Indian Ocean

agenda, not simply 'economic development' along the Flying Geese economic paradigm. China's modernisation agenda is a multifaceted national rejuvenation. This rejuvenation proto-policy is guided by Party ideology, and the second half of the Xi administration (2018–2022) will hand down a new guiding ideology to shape China's globalisation agenda, its geoindustrial policy, and its global trade strategy (Table 2).

The combination of the 'end of the reform period' and the beginning of a Chinese proto-policy direction of a *global civilisation* means that the future of the globalisation agenda will be shaped by Chinese domestic policy, further diverging from the Flying Geese model. The 13th Five-year plan period (2018–2022) will likely codify China's external trade and industrial policy under the *International Capacity Cooperation* umbrella, along with a concert of domestic science, technology and innovation industrial policies and an effort to retire outdated capacity under the *Supply Side Reform* agenda. The domestic industrial policies transforming China's trading relations with the world through the Xi Jinping period are the *Belt and Road Initiative (BRI)*, *Made in China 2025*, *International Capacity Cooperation* and *Supply-Side Reform* (Table 3).

Made in China 2025 is the central coordinating industrial policy. It is principally deployed by Ministry of Industry and Information Technology (MIIT). Key policy targets include improving industrial parts, processes, materials and standards, while macrostrategies remain large aircraft, aircraft engines, gas turbines, energy equipment, high-speed rail and other high-end equipment. MIIT Minister Miao Wei has promised to establish a number of national manufacturing innovation platforms, launch new intelligent manufacturing pilot projects and intelligent industry transformation projects [51]. In 2016, China started developing manufacturing innovation clusters, developing intelligent manufacturing, strengthening the traditional industrial base, and developing capacity in green manufacturing. The policy goal is to move China into an Industry 4.0 manufacturing model by 2025, by upgrading manufacturing capacity through strategic emerging industries [52].

Supply-side Reform is a Party policy coordinated through Politburo but largely left to the National Development and Reform Commission (NDRC) to enact. NDRC has been given the Herculean task of curbing capacity in traditional industries such as steel, coal, aluminium, cement, and paper. In 2016 NDRC achieved targeted reductions in production capacity, by cutting steel and coal production and resettling close to 1 million workers in institutional transition. NDRC still has to achieve targets set in 2015 to

Table 2 China's guiding ideology for social and economic development. Five in One of the Xi Jinping era, building on the Hu Jintao expanded Four in One [49], Jiang's Political Civilisation and the Spiritual and Material Civilisation of the Deng era [50]

Guiding Ideology as Proto-policy in Central Chinese Leadership					
Introduced	Applied	English	Chinese	Theory	Guide
Xi Jinping	2012–2022	Global Civilisation?	全球文明?	Xi Thought	5 in 1 五位一体
Hu Jintao	2002–2012	Ecological Civilisation Social Civilisation	生态文明 政治文明	Scientific Development	4 in 1四位一体
Jiang Zemin	1989–2002	Political Civilisation	社会文明	Three Represents	3 in 1三位一体
Deng Xiaoping	1979–1989	Material Civilisation Spiritual Civilisation	物质文明 精神文明	Deng Theory	2 in 1两位一体

Table 3 Guiding industrial policies of the 2017–2022 period in China

English	Chinese	Guidance	Industrial policy type
Belt and Road Initiative	一带一路	Politburo	Geoindustrial Policy
Made in China 2025	中国制造*2025*	MIIT	Industrial Policy
International Capacity Cooperation	国际产能合作	MofCOM	Trade and Industry Policy
Supply-side Reform	供给侧结构性改革	Politburo	Industrial Restructuring Policy

reduce crude steel capacity by 100–150 million tonnes and coal by 500 million tonnes over five years. Hebei province is to shut down 240 of its 400 steel mills by 2020 under this plan, although the policy sweetener to achieve this is that Hebei is the vanguard of the *International Capacity Cooperation* policy, enjoying policy clarity and widespread central support to help it move outdated capacity to Kazakhstan and farther afield via the BRI [71].

International Capacity Cooperation is China's trade policy, dominated by the Ministry of Commerce [53, 54]. This is essentially a domestic industrial policy which affects the global economy, effectively offshoring China's industrial capacity to external geographies. Against accusations that China is merely attempting to offshore low-end industrial plants such as steel, cement, aluminium, glass, and paper. The real test for *International Capacity Cooperation* to replace the Flying Geese Paradigm: can China deliver higher value added production capacity to its peripheral economies that serve both China's and the host economies development goals?

Replacing Japan's *Flying Geese* with China's *Bird in the Cage 2.0* [55] in external geographies is essentially an attempt to recreate the China domestic industrial development model in external geographies, without having a freely convertible currency. There have already been clear signs from the central Party apparatus and State Council public administration of a policy narrative for domestic banks to finance offshore industrial production while maintaining a closed capital account [56]. The implication is the rise of a parallel trade infrastructure. China's sovereignty in monetary policy is of paramount importance to the legitimacy of the Party-state. However, pushing China's debt offshore to Africa, Central Asia, Middle East and Latin America risks the construction of a parallel trade and investment architecture. *Bird in the External Geographic Cage* economic policy and the Party and State policy, personnel, and processes over the 2012–2017 period clearly demonstrate this trajectory (Fig. 2).

Institutionalised Industrial Policy

Domestic trade and industrial policy organs, processes, and personnel in China exist in the spaces between Party and State, and constitute a coordinated whole. Policy transmission in the Party-state command economy reduces incentives to obfuscate policy direction, and a variety of formal and informal power structures define policy design and transmission. China has replicated some aspects of Japan's Ministry of International Trade through the policy interplay between Party and State [57]. China's industrial policy is largely coalesced at the State Council level, yet it is naturally formed

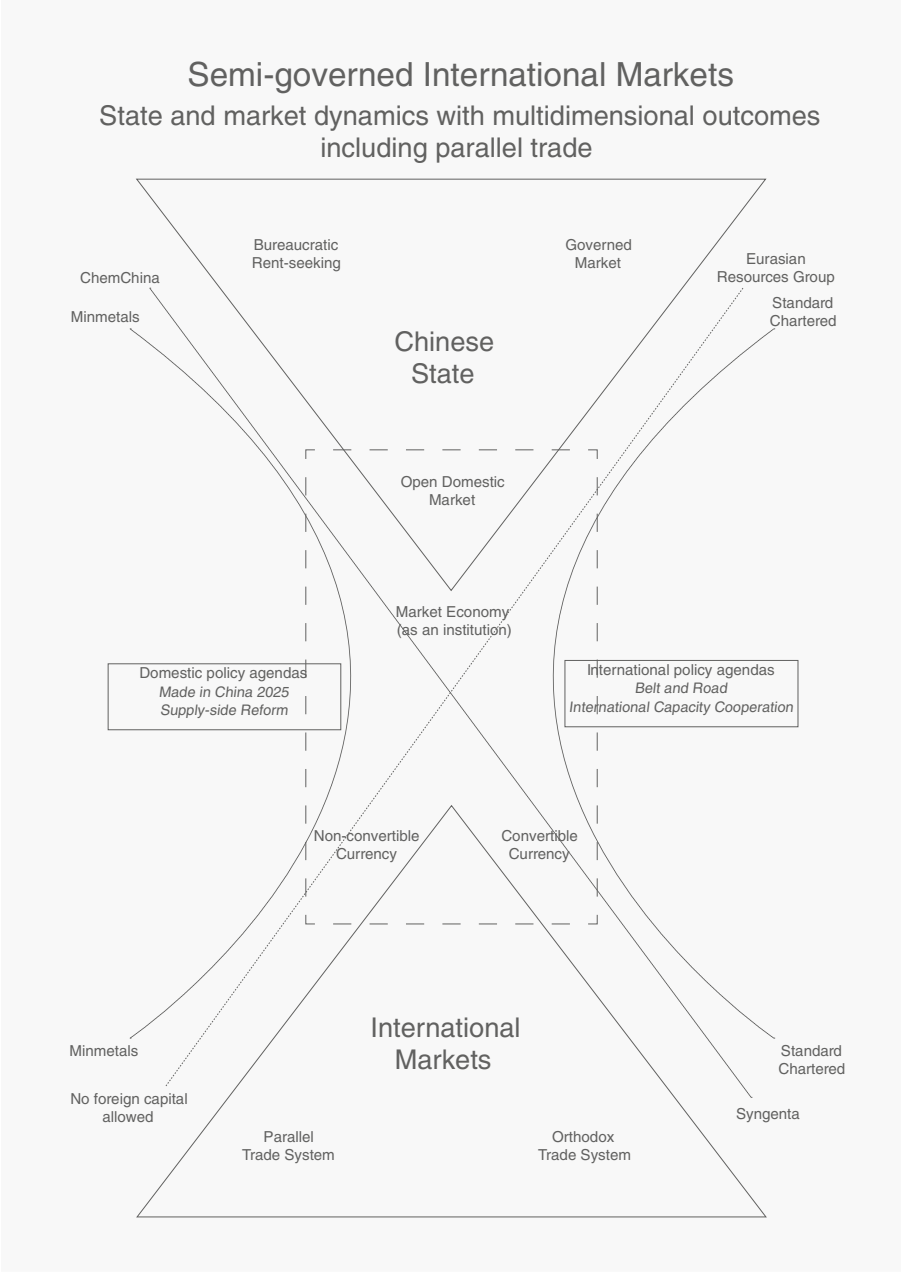

Fig. 2 China's international semi-governed market model is multidimensional: it serves state industrial policy goals while simultaneously serving quasi-open market policy goals

through Party policy process and also must be piped like icing down to regional economies through spatial planning. In essence, Party, State and Local Government recreates the 'Iron Triangle' of MITI within quasi-open market system with central and local SOEs as the agents [58, 59].

Party Industrial Policy

At the core is a hierarchic system of committees, or leading groups (领导小组), with roots in the Leninist Party structure [60]. The committee system fulfils the function of the legislature in common and civil law systems of governance. These leading groups are institutionalised from the highest organs of power to the lowest village organisation. Party leading groups, over State leading groups, are the preeminent trade and industrial policy-making fora. For example Xi's Comprehensively Deepening Reform Party leading group is now most powerful and Liu He's Financial and Economic Affairs Party leading group sets key economic agendas. State leading groups, setting functional policy, were dominated by Zhang Gaoli, State Council first vice-premier, through the 2012–2017 period, and will necessarily morph and institutionally evolve through the 2018–2022 period as new personnel staff the central trade and industry policy apparatus to define the subnational government and SOE production system. Policies are interpreted and implemented vertically, from vagaries in proto-policy to specifics in production catalogues. The differing trade and industry policy agendas of a central administration are remoulded according to changes in the domestic political, economic and social discourse [61, 62]. So too are the implementation strategies at all levels of the State.

State Industrial Policy

The policy functions equivalent to Japan's Ministry of International Trade (MITI) are shared across five main State ministries in China: National Development and Reform Commission (NDRC), Ministry of Commerce (MofCOM), Ministry of Industry and Information Technology (MIIT), Ministry of Science and Technology (MoST), and State-owned Assets Supervision and Administration Commission (SASAC). Ministry of Commerce coordinates *International Capacity Cooperation* as well as the other major trade and industry policy. The *13th Five-year Plan of Foreign Trade Development* which aims to mirror this secondary aspect of Japan's industrial restructure, that is to open foreign markets to Chinese capital and labour inputs and to develop the innovation industries at home to increase value-added advanced manufacturing output [63].

Ministry of Science and Technology's *13th Five-year Plan on Science, Technology, and Innovation* calls for advances in Chinese technology in high-end computer numerical controlled machine tools in the fields of aerospace and automotive industries [64]. It plans to strengthen trade and industrial policy coordination, and to enhance competitiveness in innovation-driven development. China's science and technology research and developing financing is rapidly approaching and surpassing technological horizons on the way to restructuring its domestic industrial production, while *International Capacity Cooperation* develops the industrial clusters abroad to manufacture and reimport into China.

At the Ministry of Industry and Information Technology, Minister Miao Wei is tasked with policy implementation of the strategic emerging industries of biotech, new energy, new materials, new energy vehicles, advanced manufacturing, high technology services and digital creative industries [65]. The policy challenge for him will be to coordinate these with the macro *Made in China 2025* industrial policy and the subnational regional industrial policy clusters that implement national-level strategy [66].

China is already planning to become a net-importer of manufactures and an exporter of technology. A new wave of State leading groups are beginning to emerge to achieve these industrial policy goals [67]. For example, the Leading Group for the Development of the New Materials Industry, led by Ma Kai, State Cuncil fourth vice-premier. The key central industrial policy committees during the 2012–2017 period were largely split between Miao Wei, Xu Shaoshi, Ma Kai and Wang Yong. Ma controlled the industry 4.0 advanced technology agenda, while Wang was tasked with reforming 'old' industry, by engaging the Industry Associations, the institutional remnants of the *danwei* line ministry production system [68, 69]. Carved out as independent institutions from coal, metallurgy, electricity and building materials ministries, they form a membrane between state and market, representing the interests of industrial assets, capital and labour at the vice-ministerial level (Fig. 3).

Regional Industrial Policy

Industrial policy in China is heavily regionally, spatially and provincially driven. For example, MIIT and the Inner Mongolia provincial government signed a strategic cooperation framework agreement in 2017 focused on building industrial complementarities in seven industries: new energy, new materials, energy saving, environmental protection, high-end equipment, big data, cloud computing, biotechnology and traditional Chinese medicine [70]. The goal was to build a stable industrial base in energy, chemicals and non-ferrous metals. Individual provinces and modular industrial clusters are also planned to pursue separate foreign trade policies, with certain provinces paired with sovereign states to either export product or offshore productive capacity [56]. China's industrial economy is more like a loose collection of institutions rather than a

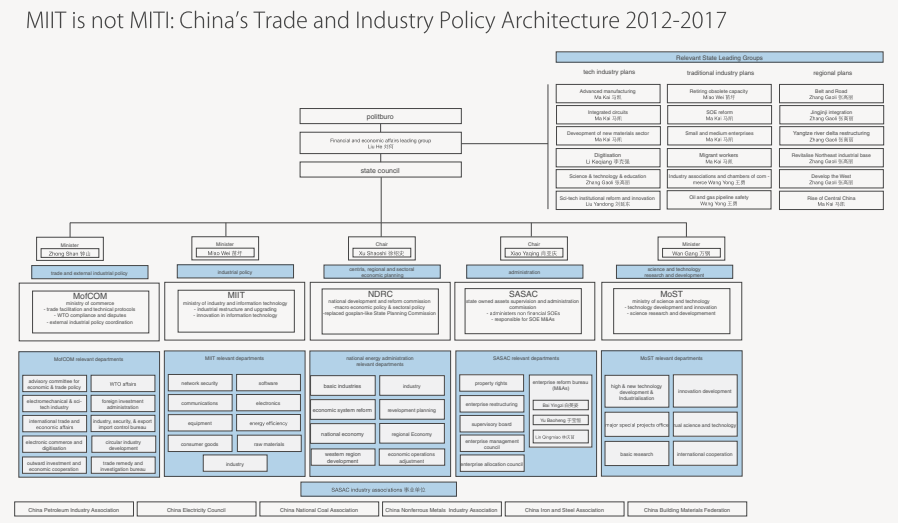

Fig. 3 MIIT is not MITI: China's international trade and industry bureaucratic model is coordinated across multiple Central ministries

holistic system. This is very important to understand in any analysis of China's ODI behaviour.

Future Geoindustrial Policy

In the next planning period (2018–2022 period), China's industrial policy will likely continue to diverge from Japan's Fying Geese Paradigm. The major difference between China and Japan's development, especially its promotion of regional production networks to facilitate the offshoring of its capital, is that Japan was a regional power. Japan's industrial redevelopment funadementally shaped the economic history of East Asia. Whereas China will be a global geoeconomic, geoindustrial and geopolitical power. China's industrialisation will shape the economic history of the globe [71]. The European Union, the United States, the former Soviet Union, and now the People's Republic of China possess sufficient economy gravity that their movements both set the game and play the game set. By contrast, regional or middle Powers such as Japan, Korea or Taiwan cannot alter the rules of the game that they must play. This is the fundamental difference between Japan and China's industrial development, and it is why China's development project does not conform to a Flying Geese Paradigm that was an intellectual basis for its increased political and economic role in East Asia.

For East Asia industrial powers such as Japan, Korea and Taiwan, an early catch-up industrialisation, reindustrialisation or post-industrial policy can only strengthen an economy so far before integration with global trading structures becomes more beneficial than not. However, China has the potential to reset the rules of global trade, by realigning the dominant trade and financial architecture that has evolved from Bretton Woods into the WTO. China's industrial policy is not fading as it integrates with the global trade, industry and finance architecture, but is instead strengthening to create a parallel to the international trade regime where the existing rules do not meet China's globalisation ambitions.

Conclusion

Akamatsu's flying geese theory describes Japan's ODI in first the East Asian NIEs and later ASEAN, but cannot be applied universally across the East Asia region. China has missed its jumping off point in state-led industrialisation, missed its prescribed role to lead the East Asian geese flock, and instead has turned to parallel trade networks rather than open its capital account. This pattern effectively buries the Flying Geese pattern of economic development in East Asia.

China's arrival as the third largest economy in the world, behind the United States and the European Union, means an increase in global trade volumes as China produces more exports, its consumers demand more imports, and capital begins to exit the country in search of cheaper factor inputs. However, China's ODI is not chasing factor endowments in cheaper East Asian economies, but is rather combining a geoeconomic strategy with offshoring its domestic industrial economy and maintaining a closed capital account. 2016 marked the end of the 15-year transition period to become a market economy under its WTO obligations, which China has failed to achieve. China's investment in *Belt and Road* economies surrounding its Indian Ocean axis represent a shadow system to the World Trade Organisation and to a stagnating APEC, and the closed capital account

outward direct investment denominated and settled in renminbi defines a new parallel trading system for a post-Bretton Woods, post-WTO global paradigm.

The Flying Geese Paradigm was an historical and geopolitical pattern, not an economic theory. While China's state capital continues to make politico-strategic decisions in its capital allocation, it would be unwise to continue to use a paradigm that fails to explain the evidence in front of us. China is able to shape the future of global rules, norms, and institutions. However, China is also capable of subverting the international trade order through developing a parallel trade system outside the current international system. China has taken the first steps towards a parallel trade system through the *Belt and Road* and *International Capacity Cooperation* policies, though it remains to be seen is how successful China's geoindustrial policy and parallel trade system will be. It is clear that we are seeing the beginning of a realignment of twenty-first Century economic history from the Pacific to the Indian Ocean.

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Original Article

China's Industrial Policy, Strategic Emerging Industries and Space Law

Tristan Kenderdine *

Abstract

China's transition economy experiment continues to rely heavily on state-driven industrial policy to structure the economy. In 2016, five-year plans on strategic emerging industries were formed by State Council ministries and transmitted to lower levels of government bureaucracy. Building on existing industrial geographic complementarities and technology clusters, developments were expected to dovetail with broader 13th Five-Year Plan and Made in China 2025 industrial policy trajectories. This article explores the policy program of industrial upgrading and innovation in national strategic emerging industries, regional innovation and industrial cluster plans, space and ocean industrial strategies and places China's policy trajectories for industrial development, technology innovation and upgrading in context of institutional economic analysis.

Key words: industrial policy, institutional economics, industrial clusters, China politics, space policy, ocean policy

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1. Introduction

The 2016 strategic emerging industries catalogue is the clearest indication of China's industrial upgrading and technological development blueprint for the coming 5-year plan period. Industrial catalogues are the policy transmission method that coordinate the planned/transition economy in China. Institutionally, a Soviet industrial planning tool, industrial catalogues pervade the state-capital industrial sector in contemporary China. They are top-down, hierarchical command mechanisms, replicated in increasingly finer detail down the line ministry bureaucratic structure to the lowest levels of government.

Made in China 2025, the 13th Five-Year Plan and the strategic emerging industrial catalogue segue with existing industrial clusters and industrial policies. Clear technological upgrading and production progress is expected in the energy equipment sector, with a civil nuclear energy program that will double China's nuclear power bases to nearly 50 by 2020 (Staff Writers 2016c); satellites, aerospace and associated technologies, which will use the *capacity cooperation* policy to develop China's global reach; and Internet of Things (IOT) and cybersecurity upgrades, which will put China's network and backbone infrastructure at the forefront of global cyberspace. Other industrial upgrades, including in robotics, new materials and new energy may prove aspirational as the necessary industrial complementarities fail to develop in harmony. Regional industrial clusters may also prove unable to upgrade to a Chinese version

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of Germany's *Industrie 4.0*, deindustrialising 'dirty' industries and promoting innovation in technological development in advanced manufactures.

Three macro techno-industrial strategies define China's future technological trajectory, *Revitalisation of the Northeast*, *Develop the West* and *Rise of Central China*. Added to these domestic-focused capital reallocation and technological upgrading plans are the *Belt and Road* geopolicy and *capacity cooperation* industrial policy that are designed to offshore excess industrial capacity. Current industrial planning mechanisms are reminiscent of Japanese 'destructuring' in the 1970s as China has struggled with *New Normal* low industrial growth rates as a result of stimulus investment in the period 2008–2013. However, where Japanese capital left in search of cheaper labour inputs (Johnson 1982; Wade 2004) Chinese capital will remain in an investment-driven paradigm for another decade as industrial policy is set to persist much longer than it did in the German or Japanese models of industrial development. China is not letting go of state-driven product-cycle development as entrepreneurship continues to be state funded and technological innovation guided along industrial policy rails.

This article first analyses China's technological and industrial policy from a Kaldorian economic geography perspective, citing regional industrial policy and institutional economic theory and reviewing the geographic industrial clusters responsible for enacting state industrial (Argyrous 1996; Toner 1999; Fujita 2004). Applying a Kaldorian method (Kaldor 2013) of regional economic analysis combined with the historical institutionalism of China's industrial policy (Martin & Sunley 2006), we see from the policy evidence in 2016 a clear trajectory to move past catch-up industrialisation strategies and push techno-industrial policy into global innovation and science-technology research and industrial development. The contemporary state of China's industrial policy is then examined from three perspectives: the 2016 national strategic emerging industries from extant and expected policy and regulatory evidence, the policy setting and legal apparatus in elite Chinese politics and policy transmission from executive to administrative organs of power, and finally, the satellite and communications industrial policy trajectory in geopolitical context and in relation to other industrial complementarity policy goals.

2. Industrial Policy, Cumulative Causation and Capacity Utilisation

In 2008, the Global Financial Crisis gifted Chinese capital a position in the global economic order for which its industries were unprepared. As a result, 2016 plans for the coming 10 years of industrial development will affect the post-industrial innovation structure of Europe, North America and Northeast Asia more than they otherwise would have. Where China should, by Akamatsu (1962) principles, be letting go of industrial policy and offshoring capital under labour and balance of payments contraints, it is instead doubling down, relying on industrial policy to generate next generation innovation. The strategic emerging industry policy trajectory laid out in 2016 will be returned to, not only through the Xi administration but well into the 2020s and the first few years of the 6th generation leadership.

China's economic planning apparatus through its economic transition utilises aspects of Kaleckian and Keynesian aggregate demand economic theory, while maintaining heavy state-investment policies inherited from Fel'dman, Preobrazhensky and Leontief (Carr & Davies 1971). Its industrial policy trajectory is in part path dependent on the history of Stalinist 5-year planning cycles and a centrally planned economy coordinated by China's version of *gosplan*, the State Planning Commission, later the National Development and Reform Commission (NDRC). Analysis of contemporary industrial policy centres on the administrative power structure responsible for transmitting policy decisions to first central then local governments, the State Council, and the nexus of industrial policy central line ministries, the NDRC, the Ministry of Industry and Information Technology (MIIT), the Ministry of Science and Technology and the

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State Administration of State-Owned Assets. Ministry of Industry and Information Technology 2015a, 2015b, 2015c; National Development and Reform Commission 2015, 2016a, 2016b, 2016c, 2016d, 2016e; State Council 2016).

China's institutional legacies in industrial policy do not always follow a straight path. Heilmann and Shih (2013) argue that overt industrial policy only emerged as a result of reform and opening, while Chen and Naughton (2011) offer analysis of a Chinese techno-industrial policy from a perspective inherited from Johnson (1982). For industrial policy studies in the earlier phases of China's economic spatial planning, Naughton (1988) examines an early form of industrial policy before the need to calve it from holistic state economic plans after reform and opening. The treatment of Riskin (1987) of the institutional political economy of the heavy industrialisation period from 1949 to the eve of reform also demonstrates the industrial policy function within the first incarnation of China's Leninist bureaucratic administration. Contemporary domestic theoretical justification for the transition's blend of state investment and export-oriented development has recently been packaged as 'new structural economics' by Justin Lin Yifu and surrounding academics in the centre of the policy-making process in China (Ju *et al.* 2013; Lin *et al.* 1995)

Throughout the decade of the 2000s, there was widespread speculation that China would follow a similar pattern to the industrial development trajectories of Japan, Korea and Taiwan during their industrial policy-driven catch-up industrialisation periods, using industrial policy as a crutch to leverage itself into Organization for Economic Cooperation and Development per capita income rates before conforming to the global trade regime (Johnson 1982; Wade 2004; Chang 2002; Suehiro 2008). However, the persistence of industrial policy into a 13th Five-Year Plan and into bleeding edge industries such as cybersecurity, satellite communications, gene industrialisation and deep-sea electricity transmission mean that China is unlikely to let the crutch go anytime soon. Indeed, the nature of China's geopolitical position and its use of domestic primitively accumulated capital rather than foreign direct investment mean that it is in a very different economic development scenario to the trade and industrial development of other East Asian economies before it. This means that Akamatsu's flying geese model of capital accumulation fails to hold true for China and also means that China will likely continue to overinvest in the capital goods sector for much longer than industrial policy advocates in the Hamiltonian tradition would justify (Hamilton 1793, List 1856, Gerschenkron 1962).

The investment-driven economic model problem in China is one of Keynesian macroeconomic accounting where a two-sector economy is either investment (capital) or consumption (wages). In a command economy, this is not such a problem due to the Fel'dman model of growth accounting that relies on reinvestment in the capital goods sector (Halevi 1992). This is, very crudely, what happened under China's first heavy industrialisation drive in the 1950s. Peasants and workers had incredibly limited consumer goods in order for the state to be able to invest capital surplus into the heavy industry sector.

The theoretical problem that emerges from such a planned economy (apart from obvious shortages in consumer goods) is a misallocation of industrial capacity without a mechanism to redress it. The need for industrial restructuring in China is no longer theoretical. Acute slowing growth in the industrial bases of the Northeast and North China plain from 2013 and widespread industrial overcapacity have highlighted the need for industrial upgrading and restructuring (Staff Writers 2016e). Policy updates have focused on improving industrial complementarities while exploring public and private routes to innovation and research and development. To drive economic growth and deliver future industrial upgrades, the centre is maintaining a planned heavy industry strategy.

Capacity utilisation is an essential feature of capitalist industrial production that allows for the increase and decrease of output to match consumer demand. It is simply the ratio between actual production and potential

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production in an industrial economy, but it is a supply/demand gauge that allows plants to increase and decrease their productive output relative to potential output to match market price signals (Prior & Filimon 2002). In a socialist planned economy, we can expect full employment and full capacity utilisation at both the firm level and the national aggregate. In a capitalist economy, the capacity utilisation rate should fluctuate somewhat below full capacity, around 80 per cent is a common target. However, in China's transition economy, plant capacity across a range of core industries between 2008 and 2016 has been drastically underutilised, with ratios as low as 50 and 60 per cent (European Union Chamber of Commerce in China (2016)). That is, nearly one in two factories in some sectors have been producing nothing, or else dumping what they do produce. As such, China's overcapacity problem—too many factories, too much factory output and not enough consumption—is a problem only exacerbated by industrial policy investing in national strategic emerging industries.

3. China's National Strategic Emerging Industries

In 2016, a host of industrial policy plans has emerged in the wake of the central 13th Five-Year Plan. Eight strategic emerging industries are highlighted: energy-saving environmental protection, next generation IT, biotechnology, advanced manufacturing, new materials, new energy vehicles, digital creative industries and high-tech services. While creative industries and high-tech services seem aspirational, the other six industries dovetail with the broader Made in China 2025 10 strategic industries plan. Both plans fit the macro 13th Five-Year Plan that centres on a few core industrial upgrades: integrated circuits and new information technology, biotechnology and genetic industrialisation, green energy and nuclear power, and advanced equipment and new materials (Staff Writers 2016a). As the national manufacturing upgrading strategy reaches implementation stage, a series of supporting policies to facilitate 'Made in China 2025' will be rolled out (State Council General Office 2015; Hou 2016a; Staff Writers (2016a)).

All three macropolicies rely upon further development of sectorally integrated industrial bases. Specific manufacturing sectors have completed 5-year industrial upgrading plans in line with the wider Made in China 2025 program. NDRC and MIIT have launched major industrial upgrading packages for promoting manufacturing industries between 2016 and 2018. The implementation of

Figure 1 Matrix of State Industrial Policy Sectoral Plans

Strategic Emerging Industries	Made in China 2025	13th Five-year Plan
biotechnology	biopharmaceutical and high-end medical equipment	gene industrialisation
energy saving equipment	energy equipment and technology	green energy and nuclear power
next generation information technology	integrated circuits and new generation IT	integrated circuitry
new materials	new and advanced materials	advanced equipment and new materials
new energy vehicles	new energy vehicles	advanced manufacturing
advanced manufacturing	advanced rail and equipment	
	agricultural machinery and technology	
	aviation and aerospace equipment	
	advanced marine equipment and high-tech vessels	
	advanced manufacturing control equipment and robotics	
high technology services		
digital creative industries		

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these policy packages is to coordinate a series of strategic industrial complementarities (Figure 1).

3.1. Robotics

Targeted industries include computer numerical control devices, advanced manufacturing, new materials and robotics. Integration of robotics and Industrial Internet is also an important strategy as China pushes for industrial upgrading in traditional manufacturing clusters (Liu & Qiao 2016a). Industrial Internet chains are needed to develop IOT clusters. However, the rapidly expanding the robotics sector has been flooded with lowend investment and faces overcapacity if local subsidies fail to force mergers and acquisitions (Du 2016). Local governments have rushed to spend central fiscal subsidies and have sown the seeds of future overcapacity, as local governments opt to invest in production capacity at similar technology levels.

3.2. High-Speed Rail

Advanced rail has been a case study in technology transfer and advanced manufacturing led growth. It is a Made in China 2025 key industry, but stalled capacity cooperation operations abroad and an uninspired domestic production strategy are likely to leave this sector mired in overcapacity. A new national railway plan is to have all cities over a population of 200 000 covered by 2030 with a total length of 200 000 km (Chen J 2016). Although the plan aims to facilitate industrial upgrading and urbanisation, it also risks overcapacity in rail manufacturing and places the financial burden of subsidies on multiple levels of government. New electric multiple unit trains will promote China's standards internationally as intellectual property promotion increases in importance (Wang 2016b). China's high-speed rail technology is likely to soon be adapted to freight carriage and deployed across Belt and Road logistics lines over the coming decade.

3.3. Aerospace, Satellites and Communications

In aerospace engineering, capacity is being built in regional airports, advanced and general aviation aircraft, civil aviation industrial upgrades, upgrading navigation reference stations, commercial aerospace product development and satellite platforms and application innovation. Forthcoming aviation industries policies will include special focus on aircraft engines, completion of *Civil Aviation Development 13th Five-Year Plan* and the *National Layout Plan for Civil Transport Airports* and strategic five-year development plan for the aviation industry (Hou & Lin 2016).

Aviation and aerospace equipment is focused on the development of space flight and satellite technologies. The industrial chain for the *beidou* 北斗 (compass) navigation system continues development with stress on service provision as commercial end-use rolls out across China (Liu J 2016; Staff Writers 2016i, 2016j). While awaiting satellite regulations announced in the 2016 legislative work agenda, the system is being integrated with *Belt and Road* as China's outward foreign direct investment strategy matures (Suo 2015; Liu X 2016). China's capacity cooperation fund plan for the Middle East highlights geostrategic positioning in satellite ground stations and satellite technologies. Development of private sector satellite technology and satellite launches is expected to continue (Chen M 2016). More clarity in the satellite development trajectory will come with the passage of the *Spaceflight Law* and *Satellite Navigation Regulations*, expected to come out of deliberative committee and go before the National People's Congress Standing Committee in early 2017.

3.4. Integrated Circuits, Internet of Things and Cybersecurity

The decade 2010–2020 is finally seeing the upgrade of the world economy to ubiquitous computing. The size of China's economy is likely to push the IOT into mainstream affordability on the pattern of photovoltaic

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technology. However, inducing widescale development of the IOT involves massive industrial chains covering many sectors and geographic industrial clusters. Ministry of Industry and Information Technology will pursue development of an internationally competitive industrial system and deepen the integration of IOT and socio-economic development. Ministry of Science and Technology will also promote the IOT to enhance technological research and industrial application through technological, institutional and policy innovation.

Alongside upgrading the Industrial Internet is a parallel policy narrative in cybersecurity (Yu 2016). Critical information infrastructure has been a high-profile national priority, with a *Cybersecurity Law* currently in draft and a Critical Information Infrastructure Protection Working Committee (Yin 2015). The working committee will provide support in developing technological research and cooperation and preferential policy formation for cybersecurity firms and industrial chains. Current basic IT infrastructure is not equipped to safeguard the growing attacks on industrial control and information systems, says the MIIT Cybersecurity Bureau (Zhang 2015). The development of advanced information technologies will be accompanied by improvements in cybersecurity built on domestic innovation, because of the impracticality of technology transfers in matters of national security (Yang 2016, Staff Writers 2016d).

3.5. *Energy Equipment*

Expansion of the energy equipment industry is expected following the release of the Made in China 2025 energy equipment plan. Foreign mergers and acquisitions are to be supplemented with central fiscal support. Development of smart grid technology and ultra-high-voltage transmission systems will integrate and upgrade the existing domestic transmission network, with an eye on developing intercontinental transmission networks. Renewable energy generation is particularly promoted for the three megapolis clusters of Jingjinji, Pearl Delta and Yangtze Delta. Following guiding opinions on promoting Internet + smart energy issued by NDRC, China's nuclear power generation plan is leading its energy strategy. With reactor technology AP1000, CAP1400 and HL1000, China has embarked on an *international capacity cooperation* agenda focusing on nuclear power equipment manufacturing plant transfers. China Shipbuilding Industry Corporation (CSIC) also announced in 2016 beginning construction and assembly of China's floating nuclear power stations (Yang 2016; Staff Writers 2016d). The floating power stations are designed to use China General Nuclear Power Group's ACPR50S reactor technology, with 20 reactors slated for construction.

3.6. *New and Advanced Materials*

The development of the new materials industry will play a crucial role in accelerating the industrial upgrade of traditional industries, developing high-end manufacturing and nurturing strategic emerging industries. The plan is to upgrade basic materials in advanced iron and steel, advanced non-ferrous metals, advanced petrochemicals, advanced light industry, advanced materials and advanced textiles; target key strategic materials in high-end equipment with special alloys, high-performance separation membranes, high-performance fibres and compound materials, new energy materials, a new generation of biomedical materials, advanced semiconductors and rare earths (Staff Writers 2016f). China will prioritise new materials such as graphene, three-dimensional printing, superconductive materials and intelligent bionics. The 13th FiveYear Plan for new materials has been completed and China has set up a graphene industry association to coordinate the industry's development.

3.7. *New Energy Vehicles and Batteries*

Government policy directions for promoting new energy vehicles are designed to tackle technological, institutional and political barriers facing the industry (Staff Writers 2016g), Qinghai is to build an international-focused

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lithium-ion battery industrial base by 2020, and a National Battery Power Innovation Centre has been established to promote technical collaboration in the industry (Wang 2016c). However, batteries are likely to follow the overcapacity path of photovoltaic and wind. Subsidy-driven overinvestment in renewables led to widespread overcapacity and extensive energy curtailment. Overinvestment in the battery sector is following the robotics and numerical control industry into overinvestment in low-level technology, led by local government subsidies (Du 2016). New energy vehicles although are a clear objective across all plans.

3.8. Pharmaceuticals and Medical Equipment

Biotechnology is to focus on biopharmaceutical, biomedical engineering, biotech farming (including livestock breeding, pesticides, fertilisers, feed and veterinary medicines), marine biomedical, medical imaging devices, medical implant technologies, and conventional chemical and medicine manufacturing. A new *Pharmacy Law* is expected early 2017. Inclusion of marine bioactive substances and biological products in the strategic emerging industries catalogue is indicative of China's oceans strategies and targeting of marine living resources. China's wider gene industrialisation policy stretches from seeds, feeds and animal husbandry to industrial cloning, marine bioresources and innovation in genetics. The 2016 Legislative Work Plan includes *Human Genetic Resources Management Regulations* for domestic technology as well as *Access to Genetic Resources Management Measures draft* for access to global commons genes State Council General Office (2016a). While not on the strategic emerging industries list, China's development of the chemicals industry is chasing deep processing and advanced heavy chemical industrial chains (Duan 2016; Wang 2016a). The end game in the chemicals and gene industries is both absorption of foreign gene technology and domestic gene industrialisation. Foreign mergers and acquisitions are being targeted to import industrial chains in integrated research and development, manufacturing, maintenance systems and complex digitisation (Feng 2016).

3.9. Marine Energy and Seabed Mining

With rapid development of floating nuclear power stations, deep-sea research stations, seabed electricity transmission and submarine telecommunication cables, China's science and technology presence on the ocean surface, subsurface and ocean floor is set to shape international legal and institutional norms in ocean governance (Staff Writers 2016k). The forthcoming *Basic Ocean Law* will spell out China's geopolitical and industrial strategy for the wider oceans. Passage of the *Seabed Law* in 2016 was pushed through the legislative work agenda quickly to catch up to other nations' domestic seabed laws in line with updated International Seabed Authority regulations concerning contracting firms' responsibilities to third countries. China recently renewed a 15-year exploration lease over the Clarion Clipperton Fracture in the Eastern Pacific. The forthcoming *Mineral Resources Law draft* revision is also expected to define offshore mineral exploitation measures.

4. Industrial Policy Coordination

Success of China's strategic emerging industries plan over the course of the coming 5 years is largely dependent on the industrial complementarities of all sectors upgrading at a uniform pace. Some sectors, such as satellites, aerospace, artificial intelligence, IOT and cybersecurity are likely to succeed given such strong state support. However, creative industries and high-tech services are likely to fall flat, and new energy vehicles, robotics, wind and energy-saving environment protection will be prone to familiar cycles of overinvestment and overcapacity. The marginal calls are in chemicals, biomedicines, gene industrialisation, agricultural machinery, new materials and medical devices. If China can win these line-ball industries and leapfrog the value chain, its industrial policy will have a stronger base for the 14th Five-Year Plan

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due in 2021 before the 20th Party Congress that will set the course for the 6th generation of political–economic leadership.

Government policy in China is set by leading groups, or 'steering committees', in both party and state at all levels of government. Policy is formed by the party, set into administrative regulation by the state bureaucracy and finally molded into legislation for passage through the National People's Congress. While widely derided in the past as little more than a rubber stamp, the National People's Congress has in the recent years become a more transparent institution for transmitting state legislative and political agendas. Key party leading groups during the Xi–Wang administration although have exercised more direct control over government than in previous administrations.

Core party leading groups on Deepening Reform and Financial and Economic Affairs set state agendas on broad economic, financial and social issues (Figure 2). Directly or indirectly, Zhang Gaoli now runs key state leading groups on infrastructure, energy, resources and environment (Figure 3). As the first Xi administration has evolved, Zhang has assumed many of Li Keqiang's roles. Zhang sits on the most important energy and environment leading groups, balancing energy and environment security on a continental scale. However, his wide remit will create a policy vacuum as he is due to retire at the 19th Party Congress under age restrictions.

Key state leading groups for industrial policy are led by Ma Kai and Wang Yong. Ma drives Industry 4.0 advanced technology through the groups for retiring obsolete capacity, advanced manufacturing, integrated circuits, state-owned enterprise reform, small and medium-sized enterprise development and migrant workers. Wang Yong cleans up old industry through the industry association reform leading group. Mergers and acquisitions in the industrial sector have clear headway in the 2016 'supply-side reform' agenda pushed by the party leading group for economic and financial affairs.

Institutionally, there are factional and ideological divides within the caucus of the party, and there are a host of ideologically opposed institutions of national importance.

Figure 2 Key Party Leading Groups and Leadership of the First Xi Administration

Key Party Leading Groups

Part Leading Groups	Chair	Key driver
Comprehensively deepening reform	Xi Jinping	
Financial and economic affairs	Xi Jinping	Liu He
Internet security and digitisation	Xi Jinping	
Foreign Affairs	Xi Jinping	
National Security Commission	Xi Jinping	
Propaganda and Ideology	Xi Jinping	
Taiwan Affairs	Xi Jinping	
Government restructuring	Zhang Gaoli	
Hong Kong and Macao	Zhang Gaoli	
Rural affairs	Wang Yang	
Party Building	Liu Yunshan	
Xinjiang Affairs	Yu Zhengsheng	
Tibet Affairs	Yu Zhengsheng	
Political and legal commission	Meng Jianzhu	
Stability maintenance	Meng Jianzhu	

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Figure 3 Key State Leading Groups and Leadership of the First Xi Administration. SOE, state-owned enterprise

Key State Leading Groups

Industrial Policy	Chair	Key driver
Belt and road	Zhang Gaoli	
Retiring obsolete capacity	Miao Wei	
Jingjinji integration	Zhang Gaoli	
Advanced manufacturing	Ma Kai	
Energy resources	Li Keqiang	Zhang Gaoli
SOE reform	Ma Kai	
Yangtze river delta restructuring	Zhang Gaoli	
Small and medium enterprises	Ma Kai	
Science & technology & education	Li Keqiang	Zhang Gaoli
Integrated circuits	Ma Kai	
Revitalise northeast industrial base	Li Keqiang	Zhang Gaoli
Oil and gas pipeline safety	Wang Yong	
Migrant workers	Ma Kai	
Rural affairs	Lou Jiwei	
Develop the west	Li Keqiang	
South-North river project	Zhang Gaoli	
Industry associations and chambers of commerce	Wang Yong	
Development of the services sector	Ma Kai	
Digitisation	Li Keqiang	
Science & technology institutional reform and innovation system building	Liu Yandong	
Three gorges dam	Zhang Gaoli	
Intellectual property and counterfeit goods	Wang Yang	
Civil military relations	Wang Yong	
Poverty alleviation	Wang Yang	
National energy commission	Li Keqiang	Zhang Gaoli
Climate change, energy pollution reduction	Li Keqiang	Zhang Gaoli

However, despite periodic gravity shifts between market liberals and state planners, techno-industrial policy has never been off the table. The manifest policies that emerge from these leading group debates ensure that spatial and structural planning is to remain a critical feature of China's economy.

5. Legislative Agenda and Space Policy for Scientific Research

Laws for the development of satellite technologies and wider aerospace development currently in committee include the *Spaceflight Law* drafted by the State Administration of Science, Technology and Industry for National Defence, forthcoming *Satellite Navigation Regulations draft* by the Central Military Commission Equipment Development Department, the *Telecommunications Law* being developed at Ministry of Industry and Information Technology and the new *Aviation Law* drafted by the Central Military Commission Joint Staff Department, Ministry of Transport and the Civil Aviation Administration.

The *Satellite Navigation Regulations*, listed on the 'State Council Legislative Work Plan 2016' (Figure 4), are to become the first in the navigation satellite area, providing a legal

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Figure 4 Key Legislative Agendas Affecting Industrial Policy and Aerospace. AQSIQ, General Administration of Quality Supervision, Inspection and Quarantine; CAA, Civil Aviation Administration of China; CMC, Central Military Commission; GAC, General Administration of Customs; MIIT, Ministry of Industry and Information Technology; MoE, Ministry of Education; MofCOM, Ministry of Commerce; MoHRSS, Ministry of Human Resources and Social Security; MoST, Ministry of Science and Technology; MoT, Ministry of Transport; NDRC, National Development and Reform Commission; SAG, State Grain Administration; SAIC, State Administrtion of Industry and Commerce; SASAC, State Administration of State-Owned Assets; SASTIND, State Administration for Science, Technology and Industry for National Defence; SAT, State Taxation Administration; SOA, State Oceanic Administration

2016 Legislative Work Plan

Spaceflight Law	SASTIND	draft
Aviation Law	CMC Joint Staff Department, MoT, CAA	draft
Satellite Navigation Regulations	CMC Equipment Development Department	draft
Astronomical Products and Export Administrative Measures	SASTIND	draft
Opening the Defence Technology Industry to Foreign Investment Management Measures	SASTIND	draft
Civil Aviation Security Protection Regulations	MoT, CAA	draft revision
Basic Ocean Law	SOA	draft
Civil Aviation Law	MoT, CAA	draft revision
Telecommunications Law	MIIT	
Standardisation Law	AQSIQ	revision
Metrology Law Revision	AQSIQ	draft
Human Genetic Resources Management Regulations	MoST	
Maritime Transportation Safety Law	MoT	draft revision
Customs Inspection Regulations	GAC	
Maritime Environmental Protection Law	SOA	draft revision
Environmental Protection in Offshore Oil Exploration and Exploitation Regulations	SOA	
Regulations on National Awards for Science and Technology	MoST	revision
Vocational Education Law	MoE, MoHRSS	revision
Rare Metal Administration Regulations	MIIT	
Nuclear Energy Administration Regulations	NDRC, Energy Administration	
Grain Law	NDRC, SAG	
Energy Law	NDRC, Energy Administration	
Price Law	NDRC	revision
Anti-Monopoly Law	MofCOM, NDRC, SAIC	revision
Commodity Circulation Law	MofCOM	
Resource Tax Law	MoF, SAT	
Tariff law	MoF, GAC	
Railway Law	MoT, Railway Administration	revision
Export Control Law	MofCOM	
State-owned Assets of Enterprises Basic Management Measures	MoF, SASAC	draft
Port of Entry Administration Regulations	GAC	draft

basis for the *Beidou* Navigation Satellite System (BNS 北斗卫星导航系统) (Song 2016). *Beidou* is China's domestic answer to the US Global Positioning System, Russia's GLONASS (*globalnaya navigatsionnaya sputnikovaya sistema* ГЛОНАСС) and Europe's GALILEO (Global Navigation Satellite System). The forthcoming regulation will legalise China's strategic positioning in the satellite navigation sector and facilitate the application and industrial development of *Beidou* (State Council Information Office 2016). Other peripheral legislative affairs affecting the development of China's space

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communications strategy are the *Astronomical Products and Export Administrative Measures*, *Opening the Defence Technology Industry to Foreign Investment Management Measures* and the *Civil Aviation Law revision* at the Civil Aviation Administration and the *Basic Ocean Law* being drafted by State Oceanic Administration.

The latest legislative work plan specifies laws going through the drafting, revision and legislative process. Laws are passed by National People's Congress standing committee at special sessions, after coming through specialised committees such as the Financial and Economic Affairs Committee or the Agriculture and Rural Affairs Committee. These are similar to United States Senate subcommittees. Laws are drafted and revised over several years with wide academic, legal and government input usually under the jurisdiction of a ministry-level State Council institution. Laws in China are often the culmination of policy practice, regulatory testing and pilot programs—the law codifies what has already been 'live policy' for years.

The *100 National Science and Technology Research Projects* (Figure 5) also have a clear aerospace agenda and reveal future space industrial policy trajectories (Staff Writers 2016h). First and second priorities are aircraft engines and gas turbines, and deep-space stations. Priorities 6 and 9 are deep-space exploration and space vehicles in orbit, servicing and maintenance systems and earth integrated information networks. Other space technology research projects in the top 50 include the accelerated development of large aircraft, development of a new generation of heavy launch vehicles, satellites, space platforms and new payload technologies; commercial applications of remote sensing satellites; and the construction of high-speed large-capacity optical communication transmission systems.

Figure 5 Top 10 and Satellite Communications Relevant National 100 Science and Technology Projects

National 100 Science and Technology Projects

Top 10
1. aircraft engines and gas turbines
2. deep-space station
3. quantum communication and quantum computers
4. brain science and research
5. national security in cyberspace
6. deep space exploration and orbital space vehicle servicing and maintenance systems
7. seed industry innovation
8. clean coal
9. integrated satellite communications network
10. new materials and applications

Satellite communications industrial policy relevant
24. accelerate the development of large aircraft
25. new generation of heavy launch vehicles, satellites, space platforms and new payloads
34. IC foster industrial system, foster artificial intelligence, intelligent hardware, the new display, mobile intelligent terminal, the fifth generation of mobile communication (5G), advanced sensors and wearable devices have become a new growth point.
36. accelerate *beidou*, commercial applications of remote sensing satellites
38. develop a shape-memory alloy, self-healing materials, intelligent materials, graphene nano-materials, super-high-end materials and other functional materials
40. construct high-speed large-capacity optical communication transmission systems
42. support public cloud services platforms, the layout of cloud computing and large data centers. Guizhou and other large data push comprehensive experimental zone construction
49. build new Beijing airport, add more than 50 civil transport airports
79. gradually form a three-dimensional view of the global ocean monitoring measurement system

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Following the science and technology research agenda naturally places analysis upstream of future industrial deployment State Council General Office (2016b). Liu Yandong, State Council 2nd Vice-Premier, leads science and technology institutional reform and innovation system building.

Traditional satellite communications arrays will be gradually supplemented with a three-dimensional global ocean monitoring system (Wang 2015). While massive expansion of China's airport infrastructure will develop the traditional aerospace base and provide new spaceport infrastructure.

Industrial complementarities in other areas relevant to space policy include development of shape memory alloys, self-healing materials, intelligent materials, graphene and nanomaterials, super-high-end materials and other functional materials; and fostering the wider IT industrial system through artificial intelligence, intelligent hardware, new displays, mobile intelligent terminals and fifth generation mobile communications (Liu & Qiao 2016b). Support for public cloud services platforms is set to increase, with government supervising the layout of cloud computing and large data centres in Guizhou and Zhejiang under the Big Data Five-Year Plan (Hou 2016b; Staff Writers 2016b).

Development of China's domestic Global Positioning System rival *beidou* and advances in mobile communications standards will deliver material benefits to China's citizens (Liu J 2016). However gegional spaceport infrastructure is undeveloped and unnetworked (Figure 6). Catch-up industrial policy in space infrastructure would allow China to pursue ever more complex acience and technology agendas in aerospace, materials, communications and robotics. A space Infrastructure backbone will serve multiple purposes in future techno-industrial policy. And an extremely important economic geography that we must all shift towards understanding is uninhabited geography: outer space, cyberspace, subsurface oceans and poles. China has an increasingly sophisticated approach to domestic legal architecture governing uninhabited geographies and an institutional right to be heard in international law and governance (National Security Law of the People's Republic of China 2015). The development of rival communications systems, competition in space technologies and innovation in aerospace and satellite

Figure 6 Regional Space Infrastructure

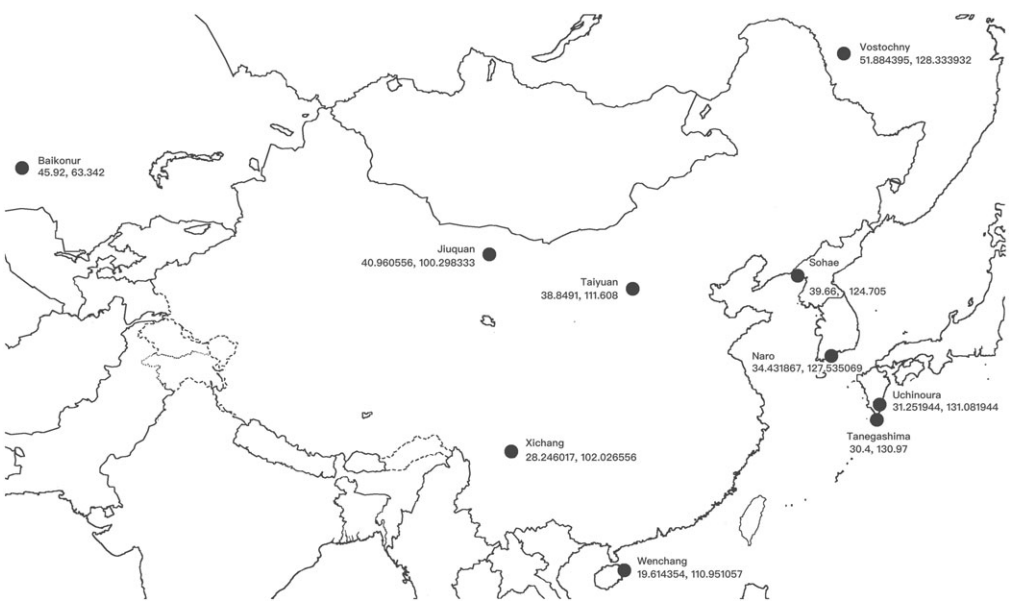

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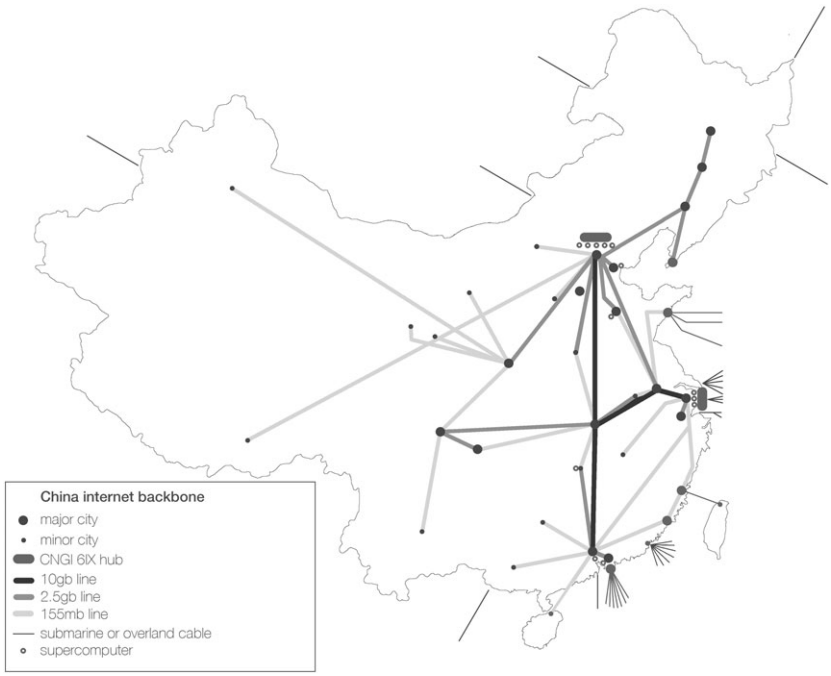
Figure 7 Regional Internet Backbone Architecture



technologies pushes human knowledge and ability to the bleeding edge. An advanced internet backbone has already been constructed (Figure 7). However, further expansion and upgrading would be Improved with greater international interoperability. Advances in supercomputing, artificial intelligence, cybersecurity, communications standards, satellite craft, satellite ground stations and submarine communications and construction all feed into mutual industrial complementarities. For China to be leading the world into deep space stations and deep ocean technologies is fundamentally positive. However, as we look past fifth generation development, satellite constellations and cloud computing infrastructure, consider the benefits of global interconnected and interoperable satellite and submarine communication networks. And consider the alternative of parallel capacity in state-controlled networks working in opposition to each other. Beggar thy neighbour not only hurts industrial economic growth, it inhibits effective research and limits, rather than broadens, human scientific progress.

6. Conclusion

Techno-industrial policy has never been off the policy table, and as China continues to pursue regional industrial development strategies, the manifest policies that emerge from central party leading group debates and national legislative processes ensure that spatial and structural planning is to remain a critical feature of China's economy. A firm-level market analysis of China's industrial and technological development is grossly insufficient to understanding the causal relationships between China's institutions and ultimately its sectorally integrated responses to macroeconomic problems. The nexus between techno-industrial policy, policy banking and national strategic industries is not going to disappear; rather, much as Listian scholars have successfully defended the industrialisation strategies of other East Asian

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national economies, it is likely to redefine the institutional framework of modern industrial economics and persist in national systems of economic analysis and policy strategy for as long as states like China persist with the concept of the nation.

Industrial policy is not an answer; it is a manifestation of a structural economic system. In analysing key industrial sectors of China's national strategic importance and the subnational state–market nexus in which they operate this article has presented a Kaldorian regional economic analysis as well as a cumulative causation sectoral integration analysis under the framework of a Listian model of national system of economic development. Such institutional economic analysis broadens our understanding of national systems of political economy to encompass history, social and political institutions and change, while cumulative causation and industrial cluster theory gives us a clearer understanding of the material nature of economic development, its limitations, and presents possibilities for planning future stages of unknown economic activity.

China's approach to domestic and international law means a new institutional legacy is being formed. Chinese legislative and policy affairs should be taken seriously and are as capable of breaking new institutional ground as the science and technology base is of pushing human knowledge into the next frontier. Integrating China's domestic legal architecture with international law and institutional norms will create new forms of institutional goods. China's development of law for uninhabited geographies is extremely progressive and the legislative architecture to support research and technology for communications in outer space, oceans and cyberspace are perhaps masked by the persistent use of national industrial policy. However, the world is entering a new period of global institutional rule setting where the gravity of legitimacy recentres on the Eastern Hemisphere, where Northeast Asia is a growth pole in industry, technology and consumption. Any growth in scientific research, post-industrial development, outer space, space-to-earth and submarine communications networks should be welcomed, but standardised for the benefit of humanity, not as a tool of any nation state.

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Original Article

Insurance Plus Futures: Agricultural Commodity Price Reform in China

Tristan Kenderdine *

Abstract

China's agricultural support policies are moving towards market institutions through a quasi-market transition. Ten years of direct minimum purchase price procurement on agricultural commodities resulted in overcapacity, oversupply, mixed-market signals and grey-market imports. The Insurance Plus Futures (保险 + 期货) policy pilot in agricultural price reform is a leading indicator of reform in China's agricultural production and rural finance architecture. State procurement of staple crops is now ending, and an interim governance structure is in place for the transition to market prices. This article assesses the historical institutional development of three key economic institutions in Chinese agricultural production: agricultural prices, insurance and futures. It examines government plans to move from a centrally procured to a provincially variable agricultural production model, examines the provincial sectoral target-price mechanisms constructed in 2016–2018 as interim price-setting mechanisms, looks at the emergence of government mandated agricultural insurance as a measure to cover the subsidy previously served by the minimum purchase price system and assesses the prospects for institutional development of futures contracts, commodities exchanges and price formation institutions in China.

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Key words: China agriculture, futures markets, agricultural insurance, agricultural subsidies, agricultural commodities

1. Introduction

Since 2004, China's central government has been buying agricultural commodities at above international market prices directly from farmers and putting it into storage, while domestic processing firms have been largely importing the commodities that are actually entering consumption chains (Gale 2005; Gale et al. 2006; Lohmar et al. 2009; Gale 2013). Following a period of high international agricultural commodity prices in the 2000s, China's central government established price supports and state purchasing institutional infrastructure across core agricultural commodities. State procurement was established on oilseeds, cotton, corn, rice and wheat. Soon enough though, falling international commodity prices and shipping costs attracted imports that had become significantly cheaper than state procured commodities, see Figure 1. The resulting distorted market meant that crushers and processors were importing cheaper foreign commodities while the state was supporting high domestic prices and purchasing commodities, which were not entering circulation (Naughton 2016). Black market imports of agricultural commodities coupled with state minimum purchase price plans meant that crushers and processors did not buy from the State, and stockpiles grew, sitting in state granaries. This system is now being dismantled and replaced with an interim system of provincially set

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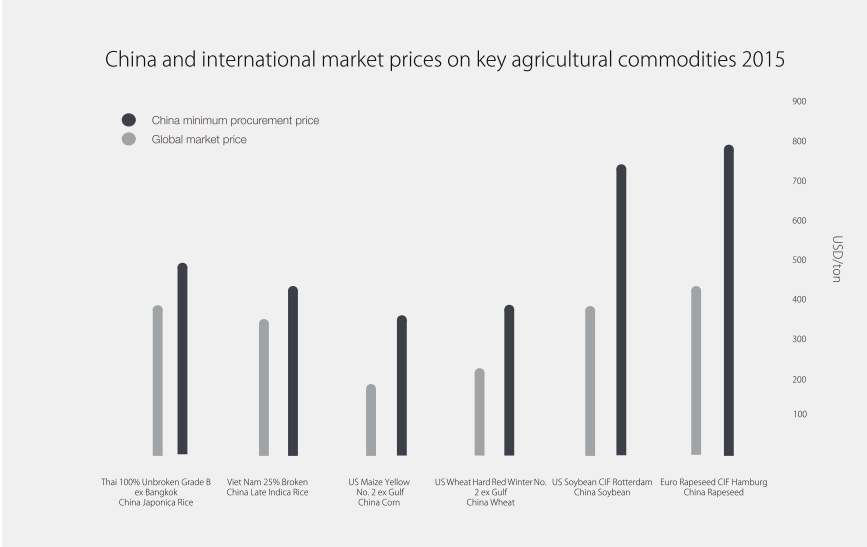
target prices coupled with state support for the development of both agricultural income insurance and agricultural futures contracts.

This article takes a historical institutionalist approach to assessing the policy trajectories of three key agricultural reforms in China and analyses them as a contiguous whole. The article analyses primary sources of government policy to demonstrate the causes and divergence in agricultural policy discourse in the period 2014–2017 and to form a central narrative which encompasses agricultural commodity production and rural finance. The article first looks at the extant state procurement system and how the 2015–2017 *Central Documents Number One*, the core policy direction for agricultural policy, have changed the trajectory of China's wider agricultural policy by introducing the '*Insurance plus Futures*' policy pilots. The article explores the challenges and evolution of rural policy reform considering the institutional bottleneck of the centralised state production of agricultural commodities and then analyses the extant institutional rural financial system and challenges to reforming it. The article then examines the three pillars of the agricultural commodity production reforms through, first, the introduction of an interim provincial target-price quasi-market system on state procurement; second, the development of an agricultural insurance market and how farmer incomes and revenues will be secured by state subsidised insurance at the provincial level as a replacement to the income support previously served by state procurement; and finally, articulates the challenges of establishing and maintaining institutional trust in a market price-setting mechanism through the further development of futures contracts on China's commodities futures exchanges. It concludes with praise for the movement of China's domestic agricultural commodities into market-based or at least quasi-market production systems, yet hesitation over the resultant social policy vacuum and persistent rural poverty problem confronting China's social legitimacy mandate with its essentially peasant rural population (Qin 2003, 2005) (Figure 1).

2. *Insurance Plus Futures*: Emergence of a Policy Solution

In 2015, China's central government rhetoric was already pushing for target prices, agricultural insurance and agricultural subsidy reform.

Figure 1 China 2015 International Market Prices on Key Agricultural Commodities. Global Agricultural Commodity Prices Have Been Below China's State Procurement Prices for Years, Creating Clear Arbitrage Opportunities. Oilseeds in Particular Have a Large Spread in Domestic and International Price Differentials



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Despite agreement on the need for price reform away from state procurement, a variety of policy options were still present. Wu Xiaoling at the National People's Congress Financial and Economic Affairs Committee had been outspoken in March 2015, when she put her weight behind target-price insurance as a transition policy to eventual market-driven prices on all agricultural commodities in China (Zhang 2015b). And later in 2015, policy consensus coalesced around Wu with a policy solution centred on *Insurance plus Futures* (保险 + 期货), a simplification of the previously floated *Insurance plus Futures pus Banks* (保险 + 期货 + 银行) as the policy formula to tackle the *Three Rurals*.[1]

The policy transmission from central government to lower levels of government and the public ran initially from Economic Daily in August 2015, a key state media organ under the CCP Central Committee and the State Council. This was quickly replicated at People's Daily and a variety of agriculture-related news outlets (Wang 2015). In December 2015, *Futures Daily* disseminated a widely republished editorial echoing this decision to pursue *Futures plus Insurance* (期货 + 保险, with the arithmetic flipped). The editorial spelled out the policy and related it to the market and institutional reforms that it would entail (Li 2015). The *Futures Daily* article argued China's agricultural insurance reform should mirror the US Crop Revenue Insurance model. The US model provides subsidised revenue insurance to a portion of primary producers' revenues, derived from a combination of 5-year average crop yields and prices derived from Chicago Mercantile Exchange futures contracts.

By the 2016 Central Number One Document in January, the policy arithmetic was codified. The *Insurance plus Futures* policy was designed to offer government subsidies to insurance companies to offer agricultural income insurance policies based on fluctuating futures prices, to be trialled in small-scale pilots The policy consensus across central government was to abandon state procurement, moving all agricultural commodities through a staggered interim target-price policy system before moving towards full marketisation of agricultural commodity prices (CPC Central Committee Policy Research Office of Economic Affairs 2015; Lin 2016).

Provincial policy pilot programs were to be the key regional testing grounds for new target price, insurance and futures system (Securities Times 2015). The policy narrative embodied an acceptance of futures markets as a necessity in price formation and planned to shield the rural population from crop-derived revenue risk with agricultural income insurance (Xinhua 2015).

Agricultural income insurance based on commodities futures prices and marketised production would eventually replace the newly established interim target-price system (Chen 2013). Meaning that government support for agricultural production would no longer centre on price controls and central purchasing, but rather shift to government subsidised agricultural insurance. And the interim quasi-market target-price structure would eventually be replaced with state support for credit (General Office of Sichuan Provincial People's Government, 2015), insurance and futures markets, which would in turn support agricultural production while allowing the market to set commodity prices.

3. Rural Finance Policy Reform Matrix

Any rural, agricultural production or agricultural finance reform in China is a very top-down driven policy process. Opaque Party Leading Group discussions on policy direction become more transparent as they move through both National People's Congress working committees and State Council ministerial directives to provincial and lower levels of government. Knowing China Communist Party internal policy debates is close to impossible, but following the legal and regulatory documentary evidence as it trickles from

1. The *Three Rurals* (三农问题) or 'three rural issues' is the historical and political shorthand in China for the interrelated problems of agricultural production, rural area backwardness and guaranteeing peasant incomes. They are literally the three '农's of 'Agriculture', 'Rural' and 'Peasantry'—农业, 农村 and 农民 (Qin 2003, 2005).

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the Central Party Leading Groups down to rural village-level governance gives an extraordinarily clear idea of what government is planning, how it plans to do it and what the institutional consequences will be.

The central policy basis for the expansion and integration of an agricultural insurance architecture to replace direct subsidies to farmers came in Section 25 of the *2016 Central Number One Document—Opinions on the Implementation of New Ideas to Develop and Accelerate Agricultural Modernisation and Achieve a Moderately Prosperous Society* (CCP Central Committee and State Council 2016), while Section 22 of the *2016 Central Number One Document* described the continuing use of the target-price system reform to create the price basis on which to move away from subsidies and towards operation of an agricultural insurance system (CCP Central Committee and State Council 2016).

The previous year's *2015 Document Number One* had already laid out policy trajectories for developing insurance for primary producers of staple crops on the central government subsidy lists and pushed for agricultural price insurance pilots. May 2015's later *Guidelines for Adjusting and Improving the Three Agricultural Subsidies* from the Ministry of Agriculture (MoA) and Ministry of Finance (MoF) delivered the policy framework for restructuring the agricultural subsidy system (MoA 2016). The guidelines cited a need to adjust the system of subsidies for crop seeds and addressed long-term goals of upgrading and upscaling agricultural production (MoA 2016). These guidelines promoted provincial financial service pilots and agricultural credit and insurance systems that could be used to later leverage production into upscaled farms, from the current mainly small plots of family-held and worked agricultural land (MoA 2016). The 2015 Central Rural Work Conference stressed the structural problems with the prevailing price differential of domestic and imported agricultural products, with high domestic prices and increasing production costs (Farmer's Daily 2015). The wider 2015 Central Economic Work Conference also promoted agricultural modernisation, with key agricultural policy narratives to maintain subsidies while reforming pricing and financial services (CCP Central Committee and State Council 2015; Yang et al. 2015).

2016 *Document Number One* proposed to set up a provincial agricultural credit guarantee system in 2016 and a national credit guarantee system by 2018. Other highlights included the development of futures and options pilots and a call for rural bond development to be part of a multi-tiered rural capital structure (CCP Central Committee and State Council 2016; Ek & Kenderdine 2016). Other agricultural financial reform measures and pilots included a provincial rural credit cooperative reform pilot; a rural contracted land management and operational rights mortgage pilot; an agricultural futures and options pilot; pilots on target-price insurance, income insurance and index-based weather insurance; and provincial rural land contract right registration and certification pilot. Insurance and ownership rights reforms were already at pilot stage, and funding was introduced to support new farming entities to professionalise and to upscale agribusiness and to push commercial, policy and postal banks to increase rural lending and reform rural credit cooperatives (Ek & Kenderdine 2016).

To smooth the transition arrangement, February 2016 State Council *Opinions on Developing Institutions for Accountability of Provincial Governments for Food Security* delineated a greater role for provinces in setting agricultural production levels and price setting while continuing to move towards a variable provincial price model (State Council 2016). The policy required provincial governments to take a greater governance role in the production of agricultural commodities (Figure 2).

Figure 2 makes clear the four systemic reforms currently under operation in order to transform the agricultural production system from a state-procurement system to a market-priced production system while simultaneously reforming the rural finance system to ensure primary producer livelihoods. Overall subsidies will naturally be nominally reduced as state-procurement ends; however, a wide array of direct and indirect subsidies will continue to

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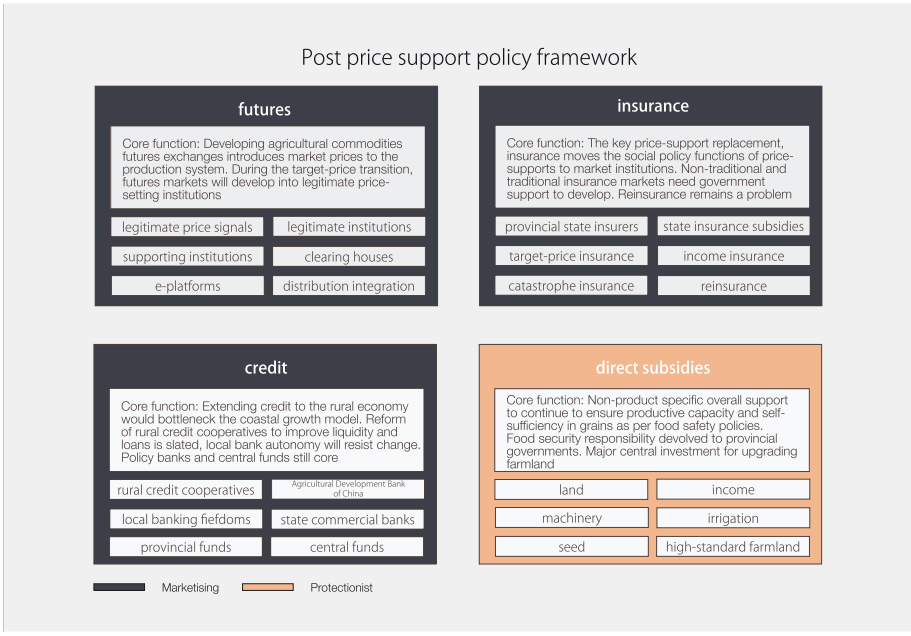
Figure 2 China 2016 Agricultural Production Subsidy Reform Matrix. Rural Banking and Credit Reform Have Been Dropped From the Central Narrative as Too Hard, While Many Direct Subsidies Are to Remain or Expand. 'Insurance' and 'Futures' Are the Two Institutional Reforms to Develop Under the Current Policy Framework



support primary producers through machinery, seed and irrigation subsidies.

Insurance reforms will gradually step in to replace the state procurement guaranteeing peasant incomes; however, the industry is currently too nascent to shoulder this burden or even to operate effectively. In order for a cluster of agricultural insurance firms to develop according to market principles, there must be market incentives to enter the market and offer insurance, as well as market-based prices on which to hedge risk. The Government is incentivising agricultural insurance firms to form, mostly at the provincial level, by both direct subsidies from the provincial governments backstopping the new firms, as well as offering insurance firms a 'sure bet' allowing them to issue insurance policies on target prices which enjoy a state-guaranteed floor. Perhaps the greatest institutional obstacle to the development of the agricultural insurance industry is the lack of a sufficient domestic reinsurance market for firms to resell policies and spread risk. International reinsurers could shoulder this responsibility, but China is unlikely to open its domestic market and will likely try to develop a domestic reinsurance market behind the closed capital account.

The third quadrant of the table represents the development of futures markets in order to be able to create and transmit credible price signals to buyers and sellers. A range of institutional upgrades are necessary for these previously hollow institutions to become effective agents in the agricultural production system. Sidelined for decades from actual agricultural production, the futures exchanges will be dependent on government support to attract technical transfers from foreign institutions in order to establish best practice in clearinghouse operations and effective institutional integration with wider markets.

The final quadrant is the field of policy reform most likely to fail, or at least to stagnate. A system of less subsidies, strengthened insurers and viable futures markets is ultimately dependent on a banking system. China's rural finance system has been shambolic since reform and opening. Many agricultural communities left behind and institutionally hollowed out as the main commercial bank system operates only tangentially in agricultural sectors

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and geographies, while rural credit cooperatives have failed to establish a viable alternative to central state finance and remain institutionally hamstrung by the *danwei* system they emerged from. Rural finance reform remains the greatest barrier to reforming prices and incomes in the agricultural sector in China (Girardin 1997; Kumar et al. 1997; Ayyagari et al. 2007; Cheng & Degryse 2010). Dependence on rural credit cooperatives, unclear policy banking mechanisms, disincentives for commercial banks to enter or operate and local banks operating as regional fiefdoms all contribute negatively to the prospects for developing market prices in agricultural commodities or rising wages among primary producers.

While the insurance and future reforms are discussed in more detail in the succeeding texts, without adequate strengthening of the rural finance system to support the nascent insurance and futures industries and to provide adequate loans for producers and purchasers, the real policy pill in rural finance is yet to be swallowed. Wu Xiaoling, a former deputy chair of the People's Bank of China, has argued that China should maintain existing rural credit cooperatives and mutual funds which allow farmers not only to access to bank loans but also to promote other financing institutions to create a holistic alternative to subsidy-based farmer support by acting as access points for rural bank loans. Wider challenges are even more obviously the problem of the peasantry and the land rights system in China's agricultural production (Qin 2003, 2005). China has not yet untangled agricultural production from the peasant class system. The shifting of financial risk from taxpayers to farmers entails a twin political risk of ostracising the small-holder peasant and further decoupling the rural from the urban development experience in China.

4. Target Prices as Interim Support Measure

Decoupling prices from subsidies and moving towards a target-price (目标价格) system has been on China's central agricultural agenda since 2014. State Council, China's central administrative power structure, moved in 2014 to decouple support from prices and to set up a target-price support system. A target price is simply a price floor below which the market price cannot fall; it is essentially a quasi-market price to replace the minimum purchase price system for staple crops in the interim years until allowing market prices into the mix. Thus, staple crop subsidies implemented since 2008 over the period 2016–2018 are being replaced by provincially set target prices, which replace the central minimum purchase price but do not come with the guarantee of state procurement.

There had been widespread agreement in central policy circles on decoupling price-based subsidies from production targets. Han Jun, director of the Office of the Central Rural Work Leading Group in May 2015, confirmed the policy trajectory towards devolving purchase price setting powers to provincial governments (Shao 2015). And persistent policy support from Chen Xiwen, vice-director of the Central Rural Work Leading Group, and Lou Jiwei, Finance Minister and director of the Rural Reform Leading Group, signalled the central government's imperative to adjust agricultural support in accordance with central budget constraints (Li 2016). Chen Xiwen had consistently argued since 2012 that the international/domestic price spread made reform of the minimum purchase price system inevitable.

The years 2014–2016 were critical years for the policy agenda which has aimed to wean prices off the state and into the market. The *2015 Document Number One—Opinions on Deepening Rural Reform to Accelerate the Modernisation of Agriculture* argued for the 'gradual establishment of an agricultural target-price system' and for 'target-prices to explore agricultural insurance pilots' (CCP Central Committee and State Council 2015, see also CCP Central Committee and State Council 2017). The *2015 Central Document Number One* further instructed government 'to actively carry out agricultural price insurance pilots' starting with the Northeast and Inner Mongolia soy price subsidy pilots and the Xinjiang cotton price subsidy pilot and ' to explore food, pig and other agricultural product target-price

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insurance pilots' while continuing to implement the rice and wheat minimum purchase price policy and the corn, rapeseed, and sugar temporary purchasing and storage policy (CCP Central Committee and State Council 2015).

Target prices set by provinces were thus being introduced as an interim solution between state procurement and market pricing through the 2016–2018 period, see Figure 3. Minimum purchase prices for soybean, cotton and rapeseed had in 2016 already been replaced by target prices. Prices are free to fluctuate with the market above the floor, and as each province will be able to set its own target prices, a semivariable price model is being introduced, with multiple provinces proposing target prices on multiple crops. The variable target-price model means that rather than one centrally set price for the nine key food security commodities (soy, rapeseed, cotton, sugar, early indica

Figure 3 China 2016 Pilot Target Prices and Central Minimum Purchase Prices (National Development and Reform Commission, Ministry of Finance, Ministry of Agriculture, State Grain Administration, Agricultural Development Bank of China 2015, SGA 2015, 2016; NDRC 2016; Ningxia Provincial Government 2016; China Chemical Fertiliser Network 2015; China Feed Information Network 2016) Central State Minimum Purchase Prices Remain on Sugar, Rice, Corn and Wheat Although Policy Consensus Is to Phase Them Out. Soy and Cotton Provincial Target Prices Are Being Piloted in the 'Three Northern' Regions: Northeast, North and Northwest. Target Prices on Rapeseed Are Expected to Begin in 2017

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rice, late indica rice, japnic rice, corn and wheat), each of the nine commodities will have a different price in each province, reflecting local cost and efficiency factors. It is simply devolving state pricing and procurement to the provincial level in order to begin to operate a national system with geographically different prices.

The target-price system is really a quasi-market price. It is basically the central state procurement price model but devolved to the provincial governments. The target-price policy is already being piloted in soybean, cotton and rapeseed. Sugar and corn will follow. Wheat and rice, as national food security core grains, will be the last to be marketised, assuming the successful deployment of the target-price system in the other commodities (Yun 2015). From this provincially governed target-price (quasi-market) model, China can move towards open market transactions setting prices. By the end of 2018, the target-price policies will have replaced the central minimum purchase price in place since 2008 (Yun 2015), making it easier to transition to a fully market-based pricing mechanism (CCP Central Committee and State Council 2014).

Allowing for provincial target-price variation within a centrally state-controlled model allows insurance and futures industries to begin to form, while the state maintains macro control over production. So insurance and futures policies and contracts are developed on provincial prices, strengthening the institutional environment before introducing market prices, to avoid a shock therapy situation.

5. Agricultural Insurance as Social Policy

Target-price insurance is to be the backbone of the state subsidy system as target prices become the default interim measure between state procurement and market pricing. The core of the triple policy pillars of target prices, insurance and futures is the social policy function previously performed by the minimum purchase price procurement, ensuring farmer income. Agriculture insurance as social policy is thus a core part of the wider agricultural financial remodel. And the state will begin supporting insurers to sell policies to currently state-subsidised farming households.

Discussion of agricultural income insurance as a response to the agricultural overcapacity caused by the stimulus and price controls largely stems from a 2013 article in *Qiushi*, the China Communist Party journal for political ideology and theory (Wang 2013). In the agricultural income insurance debate, the *Insurance plus Futures* argument was that insurance companies should offer insurance based on fluctuating futures prices to replace the minimum purchase price. Insurance companies then take out reinsurance, and risk management companies repeat the process on the markets, further spreading risk until it is minimised. With insurers enjoying solid government backing and at least initial subsidies, farming households would thus be protected against income and revenue risk and the state could begin to withdraw from direct procurement.

In advanced economies, there is a clear distinction between revenue insurance and income insurance. In the context of China developing a rural insurance mechanism to move agricultural commodities into a price-based production model, there is as yet no such distinction, with central policies referring only to 'income insurance.' Xie (2017) writing for People's Daily asserts that that 'farmer income insurance' should protect farmers holistically from 'natural risks, market risks, and policy risks'. But if the China model is to develop to mirror advanced economies, the concept of crop revenue insurance needs to be separated from rural household income insurance (Figure 4).

After a *National Insurance Ten-point Plan* was released in 2014, Chen Wenhui, China Insurance Regulatory Commission (CIRC) vice chair, said in 2015 that agricultural income insurance was essential for rural development. State Council's 2015 *Opinions on Expediting Transforming the Agricultural Development Model* called for major state financial infrastructure to support the development of new rural financial systems (State Council General Office 2015). Also, in 2015, the

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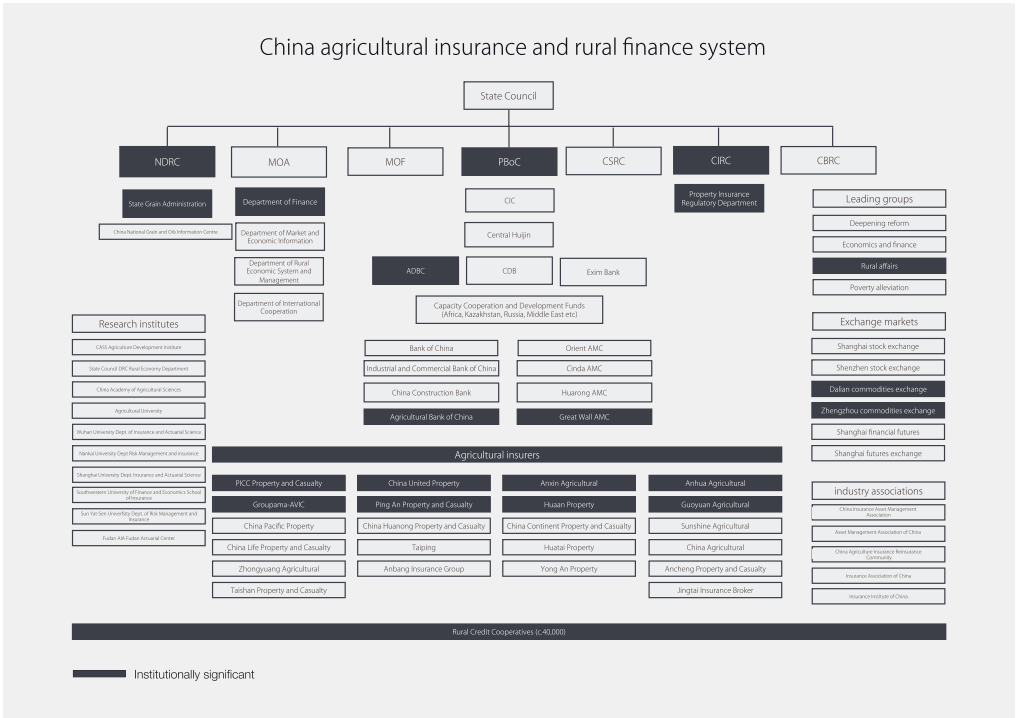
Figure 4 China 2016 Agricultural Insurance and Rural Finance System. Development of Agricultural Insurers at the Provincial Level Is Expected to Rapidly Increase. Institutional Linkages Among Different Aspects of the Rural Financial System Remain Weak



MoF, MoA and the China Banking Regulatory Commission issued *Opinions on Guiding the Establishment of an Agricultural Credit System* designed to overcome the institutional banking shortfall in rural areas (MoF, MoA and CBRC 2015). CIRC in February 2015 released an upgrade of the agricultural insurance rules, which included regulation for 15 agricultural commodities and six kinds of breeding species. 2016 CIRC *Interim Measures on the Management of Insurance Underwriting Agriculture* then provided clearer guidelines for farming policies under the *Insurance Law* (China Insurance Regulatory Commission 2016, State Council General Office 2015, Pacific Insurance Online 2015). CIRC, MoF and MoA later issued *Notice on Further Improving the Drafting of Clauses on Agricultural Insurance Products Receiving Insurance Premium Subsidies* which encouraged insurance companies to develop agricultural products tailored to specific production and risk factors (CIRC, MoF and MoA 2016). This ultimately built on State Council's *Opinions on Financial Services for the Development of the Three Rurals* (Zhang & Liu 2015). This insurance industry makeover of 2015 directed agricultural insurers to launch target-price insurance policies. However, offering target-price insurance is currently still unattractive for all but policy-supported insurers.

Developing provincial agricultural insurance institutions was then devolved to provincial government, enacted through local government pilots (He 2016). Perhaps the most important aspect of the agricultural reform process generally and the agricultural insurance system specifically is the devolution of administrative power to provincial governments. Provincial-level governments across the nation are to establish credit organisations within 3 years (MoF, MoA and CIRC 2015), i.e. by 2018. Lack of insurers in the market led Henan State-owned agricultural enterprises

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to create their own with provincial government support: Zhongyuan Agricultural Insurance Company, see Figure 4. The pattern set by Henan state-owned enterprises (SOEs) forming Zhongyuan will likely repeat as provincial governments and local SOEs unite to form local insurance blocs. Provincial governments will subsidise the development of provincial state insurers that will provide target-price insurance, catastrophe insurance, agricultural income insurance and reinsurance.

Also at the central level, institutional development is needed if the reforms are to be taken up via market incentives (Lu & Li 2015, Jia 2016). Currently, the regulatory agencies have disparate administrative power networks and little real-world experience with open market operations (Ouyang 2016). Reforms to the wider insurance, banking and exchange regulatory systems are likely to result in stronger central oversight of both the insurance industry through CIRC Commission and the futures industry through the China Securities Regulatory Commission (CSRC) and the development of more empowered micro institutions such as the newly formed China Insurance Asset Management Association.

6. Developing Price Signals With Futures Exchanges

Agricultural futures exchanges had existed in China since the early 1990s but have traditionally suffered from limited liquidity and lack of price-setting legitimacy. Throughout the target-price transition, China's central government has intended to revitalise the agricultural futures exchanges in Dalian and Zhengzhou which have not been effectively transmitting price signals, given the state was practicing arbitrary procurement and price setting. The failure of the futures exchanges to develop is probably at least partly as a reaction from contemporary central governments against the championing of the futures exchanges since purged China Communist Party Secretary General Zhao Ziyang in 1989. Redeveloping the futures exchanges throughout the target price and agricultural income insurance reform though will eventually allow for transition from the quasi-market target prices to genuine market prices.

Developing agricultural commodity futures exchanges into legitimate price-setting institutions is intended to eventually allow the introduction of market prices to the agricultural production system. However, a range of institutional developments are still needed, including clearing houses, distribution integration, e-platforms and other price-signal supporting institutions. Neither the commodity exchanges at Zhengzhou nor Dalian currently have enough liquidity to provide legitimate signals on major commodities, let alone introducing new contracts, although this is not surprising as most international commodity exchanges struggle to attract the necessary liquidity to set effective prices on peripheral commodities such as seafood and meat. Where commodity exchanges do provide effective domestic price signals, there often exists significant arbitrage between differing geographical price centres, such as between Indonesian spot prices and Malaysian futures prices in palm oil, or consider that many developed economy agricultural commodity markets operate completely without recourse to futures exchanges such as Australian wool or Norwegian salmon and that in many middle-income countries such as Thailand, almost all seafood operates on a point-to-point basis. Futures contracts and exchanges are *not* an inevitable institutional development (Phillips 1966).

However, developing futures exchanges for price discovery would allow China's central government to eventually transition from target prices to market prices. The benefit of operating within a market with a futures exchange to set commodity prices is that the burden of price setting is moved to speculators and hedgers, leaving producers free to concentrate on supply, and processors to concentrate on demand (Phillips 1966). In a transition market such as China's, futures contracts to set prices for agricultural commodities have a unique role to play, not only increasing transparency of price discovery in opaque markets but also completely creating prices where before prices were set centrally by the National Development and Reform Commission Price

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Department. Attracting more speculators in China should be easy as the closed capital account means investors are desperate to speculate on anything from postage stamps to steel rebar futures, but attracting hedgers, and the invaluable role they play in smoothing prices, will be more difficult given that almost all agricultural producers are currently SOEs (Black and Scholes 1973, Hirshleifer 1998, Natenberg 2014).

Zhengzhou Commodities Exchange currently trades contracts in cotton, japonica rice, late indica rice, early indica rice, wheat, rapeseed oil, rapeseed, rapeseed meal and white sugar. While Dalian Commodities Exchange trades contracts in corn, corn starch, soybeans, soybean meal, eggs and palm olein (Dalian Commodities Exchange 2016, Zengzhou Commodities Exchange 2016). Each commodity has clear standards and around 6 contracts per commodity. However, the Zhengzhou exchange has existed since 1990 and Dalian since 1993, with little success serving price signals. Lack of liquidity and lack of knowledge on futures contract functions have meant that the prices discovered by the market are not transmitted to producers. Various regimes of government agricultural support policies have also made the futures exchanges hollow institutions for decades.

Yet China has recently redeveloped a taste for agricultural futures contracts. Protein commodities, such as pork, most seafood and chicken, currently have ceiling prices to protect consumers, as opposed to grain price floors which guarantee income for producers. But pork futures and apple futures contracts have recently been launched, and a variety of other soft commodity futures are slated for development (Xinhua 2017; Patton 2017; Kenderdine 2017).

In May 2016, rising financial policy architect Fang Xinghai, CSRC vice minister, made an influential speech on the possibility of opening futures markets to foreign speculators (CSRC 2016). Where previously only locally registered non-financial firms are allowed to trade China-listed futures through brokers, Fang said measures would be taken to allow both foreign-invested financial institutions to deal in futures contracts while domestic commercial banks would be encouraged to participate in commodity futures trading as a hedge-risking mechanism (CSRC 2016). Zhengzhou Commodities Exchange had already indicated plans to open trading to international speculators in an attempt to align domestic prices with international ones, by opening up an overnight trading window in rapemeal in December 2016.

Dalian Commodities Exchange in 2016 approved 12 '*Insurance plus Futures*' projects on corn and soy (Song 2016). However, most commentators agree that futures markets are as yet too immature to serve as adequate price signals for agricultural insurance and reinsurance markets (Zhang 2015a). Encouraging more individuals and enterprises to speculate on futures contracts would introduce the elements of liquidity and transparency needed for stable price discovery and transmission (Mao et al. 2016). And institutional development of exchange clearing houses are also needed to bridge gaps between buyers and sellers in different markets (Xu 2016).

Overall, the policy direction of China's central government in developing futures markets and adjacent institutional support should be a welcome direction for international grain producers seeking to enter the Chinese market, for the Chinese taxpayer who will no longer have to burden the cost of subsidies and for the Chinese farmer who should be able to vary agricultural production based on reliable price signals, allowing for a scalable and variable production model. However, the three-step institutional reform that China's central government is planning comes with its own inherent policy risks. To move from a state procurement system set by the central government, to a target-price system set by provincial governments, to a market-price system set by individual buyers and sellers means that each step must move seamlessly into the next and that individuals, families, communities and firms are not overtly disrupted as they would in a shock therapy transition. Development of viable futures exchanges will go a long way towards creating and transmitting viable

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price signals, but this alone is not enough without wholesale reform of the rural financial system.

7. Conclusion

Reforming a price mechanism in a transition economy is difficult. Reforming a price mechanism in a transition economy the size of China is a highly delicate policy operation. To reform the price mechanisms defining grain production in a country which struggles to produce enough food under severe land and water constraints and in which agricultural production is the subsistence livelihood of a large rural polity is a severe test of political legitimacy and policy competence.

Absence of market mechanisms for setting price signals in China is now accepted by the policy community and central government establishment as harmful to both agricultural production, wider social goals, and food security. Under a state procurement system designed to ensure food security and guarantee peasant incomes, grain production increased only slightly while stockpiling policies left the government with years' worth of commodities it is struggling to sell. Clear arbitrage points were exploited by the processors, and China was de facto importing agricultural commodities for consumption while stockpiling domestic production.

The entire agricultural commodity production system in China is currently being overhauled with target-price mechanisms the flagship of a reform process that will reach deep into the countryside. The new framework of indirect support will ensure central government maintains at least limited control over a variable output model, a half-way measure between state procurement and market prices. While broad policy consensus has been reached, interim systems will take 2 to 3 years to form. After which, transition from interim agricultural support mechanisms to conventional market mechanisms will again be a thorough institutional undertaking. The key price-support replacement, agricultural insurance, moves price supports to market institutions. And yet no viable government policy for strengthening the required rural credit system has emerged.

And despite policy gains and institutional reform through *Insurance plus Futures*, modern agricultural production remains a far cry from the persistent structural problem of China's peasantry. For agricultural insurance to be a viable policy solution to China's agricultural production, distribution and trade strategy, it must face the *Three Rurals* head on and move towards a land reform and ownership system while simultaneously extending commercial bank credit to an area of industrialisation that 40 years of *Reform and Opening* has left behind: agroindustrialisation.

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Public outreach works

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Television and Radio Interviews

These were never sought after, media outlets came to me to ask for expert opinion. While they have often been short pops, the preparation required for such television preparations is quite intense. My first appearance in the Beijing studios of BBC for a live television interview was daunting, and that experience prepared me to face future challenges. In 2018 I was scheduled to do a 30-minute video interview with the Wall Street Journal on China-Central Asia, but Trump's meeting with Kim Jon Un distrupted the news cycle. In 2022 I had a reasonable studio setup and was close to launching a video podcast on Eurasian politics and geoeconomics, but the Ukraine War disrupted that endeavor.

Written Interviews

These have largely been conducted over email, in person in Central Asia, or on video online through the pandemic. They have often either been the result of a body of research, or the culmination of different strands of research coming together. As a work of consultancy, these interviews serve to get my name and my company name in the media spotlight. Early on in my PhD candidacy at ANU I realised that many supposedly smart people were really doing a lot of free PR branding for a university that gave less than a fig about them. So, I thought why not promot my own company rather than the university. Now that I am looking to transition back into an academic role, these interviews, both written and video, take the place of conference presentations that conventional academic accumulate without leaving the walled garden, and in most cases, without anyone ever actually listening to them.

Translations

These were translated unknown to me, I simply write and publish in English and someone, somewhere decides that the ideas I was describing were worthy of a larger audience in a new language. Of all my work, I am most proud of these translations and the manner in which they have ocurred, someone trying to amplify my work into Vietname, Japanese, Russian and Chinese audiences, and reaching peripheral readers in Arabic and Persian is a huge bonus and deeply satisfying. My translations have turned up in books, online and print media.

Quotes

Through this ten-year PhD/D Litt period, there have been two times that I have really pushed ahead of the news cycle: once on China's Belt and Road in Central Asia and once on the leadup to China's 2022 leadership transition. Both times journalists started coming to me for insights, and I developed good relationships with the media. I was off the record on the New York Times, and on the record to Wall Street Journal, Bloomberg, Reuters, the Atlantic and Voice of America Mandarin. Work was republished in the Japan Times, Straits Times, Wall Street Journal and Newsweek in Japanese.

Being quoted and published in Chinese, Japanese, and Korean news outlets is a personal highlight for me - that audiences in Northeast Asia are reading what I have to say about their political and economic systems. Publishing in the Australian Financial Review about Japan is easy, any idiot at College of Asia and the Pacific can speak to an Australian audience about Northeast Asia. But for Chinese readers in Chinese to read my quotes about Chinese politics, that means something.

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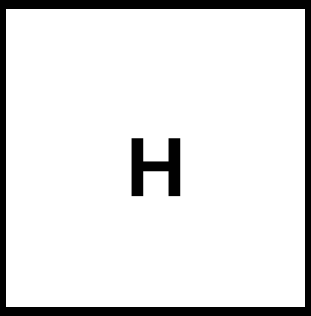

Nobody Reads These

Acknowledgements

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But three groups of people do stand out for thanks

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Friendships
The only thing that matters in life is relationships

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Places as Persons

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Honest Coffee, Bogenbai Batyr, Almaty
Warsteiner, Sulkhan Tsintsadze, Tbilisi
Promin, Akademika Hnatyuka, Lviv

Starting at the Kazakhstan National Library and ending at the Library of the Institute of Ethnology of the National Academy of Sciences of Ukraine makes this sound far more proper a study than reality. The work was done in cafes, but under the shadow of great institutions.

The Biggest One for the Smallest Person

Starting and ending in an anthropology transmitted to me from someone deep and wise. A forever thank you to the person who taught me the most about theory, PhD life, structure, and thought. Only through understanding her PhD project, was I able to construct my own project. From Latour, Le Febvre, Benjamin, to contemporary anthropology trends to her own thought and original creativity, the best philosophy I learnt from her, and the person I most wished had been able to accompany me on this journey, the person I do wish had somehow been there at the end of it all, the person that I abandoned. You mean more to me than you'll ever know, and I'll be forever sorry that my darkness came in between our light.

Dedication

for

M. R. K.

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