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Sunetra GHATAK

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THE INDIAN PERSPECTIVE ON CONNECTIVITY CORRIDORS WITH SOUTHEAST ASIA: FROM BARRIER TO BRIDGE

Sunetra GHATAK¹

Abstract: Any discourse on regional economic integration is incomplete without the discussion of the importance of connectivity. Enormous opportunities and growth generated by Asia in the recent past may stop at their international borders in the absence of adequate connectivity. Therefore, the paper is set to review the overall presence of the transport corridors which connect India with Southeast Asian countries. Hence a brief examination of India's initiation of connectivity corridors, like the Trilateral Highway (TH), the Kaladan Multi-modal Transit Transport Project (KMTTP), the Bangladesh–China–India–Myanmar Economic Corridor (BCIM-EC), and the Mekong India Economic Corridor (MIEC). Their impact on the regional economy at the national level and on the economic development of the connected areas is at the heart of this paper. Second, it attempts to find out the potential determinants of the existing freight over the economic corridor. Findings from the paper recommend that GDP and road density are positively related to the volume of freight. Once these corridors are operational, the connected region will reap more economic benefits than the non-corridor countries.

Keywords: connectivity, South Asia, corridor, growth.

INTRODUCTION

The key to understanding economic convergence and cohesion between India and Southeast Asia to facilitate the investment environment for economic growth mainly lies in endorsing logistics and infrastructure development. Efficient and improved infrastructure such as intra-regional corridor-based connectivity development is expected to join economies by bridging the geographical space and narrowing down the economic disparities between two regions by reducing

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transportation costs and time (Ghosh and De 2005; De 2013; De and Iyengar 2014; Sen 2014; De et al. 2018, 2019). Logistics infrastructure improvement and development as a form of transport corridor can further increase the overall competitiveness of the region and allow the benefits of economies of scale by providing regional cooperation, clustering economic activities by connecting the region's nodal centres, etc. Several studies have recognised spatial agglomerations as well as economic growth behaviour in the context of logistics infrastructure improvement and development (Fujita et al. 1999; Kumagai et al. 2009, 2011). A study by the Economic Research Institute (ERIA) on calculating the cumulative rise in gross domestic product (GDP) of the ASEAN countries which are connected through newly made corridors argued for 5 percent and above cumulative GDP gains for countries like Thailand, Cambodia, Myanmar, and Vietnam, and more than 2.5 percent of cumulative GDP gains in the case of India.² A recent study by the Research and Information System for Developing Countries (RIS) from New Delhi (De et al. 2018) suggests that the completion of current and proposed infrastructure projects like the East-West Corridor (EWC) and other international projects could herald greater economic growth for the connected region and increase its geopolitical importance. The EWC is predicted to increase freight volumes in India's states by up to 90 percent because the corridors are expected to provide cost-effective and efficient logistics services to promote trade and development.

In the case of India's infrastructure development activities on upgrading and creating new roads and highways, railways, airports, inland waterways, and ports, etc., are expected to provide more trade activity, bring people closer, and integrate the economies. Several studies have found that states with improved connectivity and access to neighbouring markets via improved corridors may benefit from intra- and inter-state economic activities as well as from neighbouring countries (De and Iyengar 2014; De et al. 2018, 2019). On the other hand, the states which have less proximity to the transport corridors might face more connectivity challenges and relatively little access to the international market (Pal 2016). India's connectivity with Southeast Asia has been designed predominantly in two ways: through intra-regional connectivity, such as the Golden Quadrilateral (GQ) projects, the Delhi–Mumbai Industrial Corridor (DMIC), and the Dedicated Freight Corridor (DFC); and through inter-regional connectivity, such as the Trilateral Highway (TH) along the Asian Highway (AH) No. 1, and the Mekong India Economic Corridor (MIEC)

² Kumagai and Isono (2011) used in their paper the Institute of Developing Economies (IDE)/ERIA Geographical Simulation Model to calculate the impacts on the cumulative increase of GDP of countries in the two subregions from 2010 to 2030, including the Mekong–India Economic Corridor (MIEC), the Kyaukphyu deep sea port in Myanmar, and the India–Myanmar–Thailand Trilateral Highway (IMTTH).

to name a few. India's connectivity with Southeast Asia is at an initial stage and is expected to guarantee the time-bound construction of a world-class transport network in the country. In recent years, the Indian government, along with the Asian Development Bank, the World Bank, and the Japanese government, has initiated many infrastructure projects to develop transport corridors to neighbouring countries, including the Trilateral Highway (TH), the Kaladan Multi-modal Transit Transport Project (KMTTP), the Bangladesh–China–India–Myanmar Economic Corridor (BCIM-EC), and the Mekong India Economic Corridor (MIEC), which are expected to bring potential economic benefits to the region. These corridors are significant for India. Especially in the light of the ambitious “Act East Policy” (AEP) that aims to strengthen connectivity between India with Southeast Asia. From this point of view, this paper wants to review the overall presence of the transport corridor which connects India and Southeast Asian countries. This paper discusses opportunities under and current progress of India's connectivity projects with Southeast Asia. The rest of the paper is organised as follows. Section 2 assesses the economic opportunity that lies under the connectivity juncture. Section 3 discusses India's recent international connectivity initiations. Section 4 frames the theoretical model along with the empirical model. Results and discussions are given in section 5 and section 6, respectively. The policy recommendations of the present paper are provided in section 7. Conclusions are briefed in Section 8.

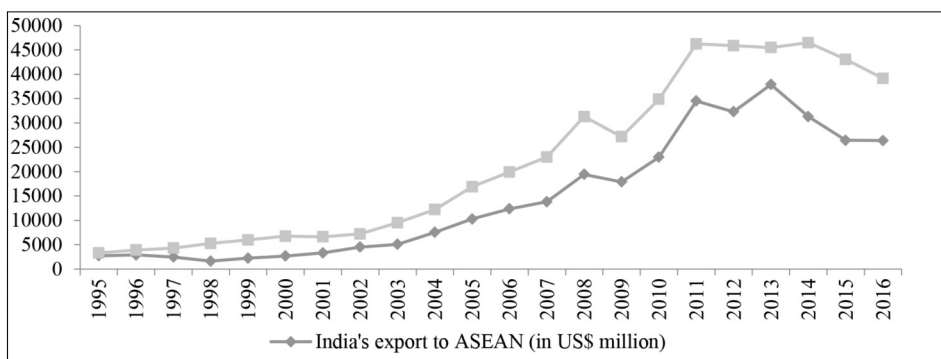
CONNECTIVITY INDUCED OPPORTUNITY BETWEEN INDIA AND SOUTHEAST ASIA

In the 1990s, the Narasimha Rao government introduced the “Look East Policy” (LEP), intending to encourage economic and strategic relations with the Southeast Asian member countries to counterbalance the influence of the People's Republic of China and also secure India's regional power across Asia. In 1992, India joined ASEAN as a sectoral partner, realising that the Southeast Asian member countries were gradually becoming the most promising regional block for international cooperation from the beginning of the 1990s. In the early 1990s, India was following a relatively inward-looking economy, and after becoming a sectoral partner, ASEAN-India relations were firmly implanted in economic, cultural, and strategic areas, and it marked a strategic shift in India's position and perspective in the global market. After more than two decades, the “Act East Policy” (AEP) was consequently adopted under the aegis of the Narendra Modi government to effectively implement the LEP, with ASEAN at its core.

Under the AEP, India's economic relations with Southeast Asia have great potential to emerge as a focal point for international trade since bilateral trade between these two has grown at an 11.9 percent Compound Annual Growth Rate

(CAGR) from 1995 to 2016, with total trade reaching nearly US \$64.3 billion in 2016. In recent times, India's export has grown faster than its import from Southeast Asia. India's export to Southeast Asia as a percentage of total world trade accounted for 10.97 percent in 2016. The import share was 10.55 percent of total global trade in 2016. India's export to and import from Southeast Asia have been reported in the following Figure 1.

Figure 1: Trends in Indian Exports to and Imports from Southeast Asia, 1995-2016



Source: UNCTAD 2019.

India's main bilateral trading partners within ASEAN are Thailand, Malaysia, and Singapore (see Table 1). In the year 2005-06, Singapore accounted for more than 50 percent of India's total export to ASEAN, followed by Indonesia, Malaysia, and Thailand with a market share of 13 percent, 11 percent, and 10 percent, respectively. In the year 2016-17, export shares in the ASEAN market have experienced a major alteration where Singapore, Vietnam, Malaysia, and Thailand stand with a share of respectively 31 percent, 21 percent, 15 percent, and 12 percent in India's total exports to ASEAN. In the case of imports, the aggregate share of Singapore, Indonesia, Malaysia, and Thailand as a share of the total imports from ASEAN continues to be high (though it has declined from 92 percent to 88 percent during 2005-06 to 2016-17). Singapore was the main source from where 31 percent of total imports took place in 2005-06, which was overtaken by Indonesia, securing the share of 34.1 percent in total imports in the year 2016-17.

Table 1: India's Bilateral Trade with ASEAN countries

Country	2005-06		2016-17 (P)		CAGR (2005-06 to 2016-17)	
	Exports	Imports	Exports	Imports	Exports	Imports
Brunei	43	1	38	571	-1.12	78.08
Cambodia	24	1	115	39	15.31	39.52
Indonesia	1380	3008	3306	13872	8.27	14.91
Lao PDR	5	0	29	172	17.33	0.00
Malaysia	1162	2416	5219	8716	14.63	12.37
Myanmar	111	526	1096	1001	23.14	6.02
Philippines	495	235	1524	573	10.76	8.44
Singapore	5425	3354	9105	7441	4.82	7.51
Thailand	1075	1212	3175	5613	10.35	14.95
Vietnam	691	131	6510	2693	22.62	31.63
ASEAN	10411	10884	30117	40691	10.14	12.74

Note: Figures are in US\$ million; P: Provisional; Source: MCI DC 2021; MCI DGCIS n.d.

Here comes the question of efficient trade logistics, which indicates the competitiveness needed to participate in the world economy. The logistics performance index (LPI) of the ASEAN countries along with India, China, and Bangladesh are presented in Table 2. The rank of the LPI is calculated by taking the weighted average of the following six key indicators: “(i) efficiency of the clearance process (i.e., speed, simplicity and predictability of formalities) by border control agencies, including customs; (ii) quality of trade and transport-related infrastructure (i.e., ports, railroads, roads, information technology); (iii) ease of arranging competitively priced shipments; (iv) competence and quality of logistics services (i.e., transport operators, customs brokers); (v) ability to track and trace consignments and (vi) timeliness of shipments in reaching the destination within the scheduled or expected delivery time” (<http://lpi.worldbank.org/>). Table 2 indicates that in terms of logistic connectivity, Myanmar is glowing underneath the average of regional logistics performance and shows the lowest position in ASEAN. Bangladesh is also in a lower position in terms of logistics services. Countries like Singapore, China, etc. are in a better position, followed by Thailand and Vietnam. Therefore, it is expected that, as these countries are connected with physical connectivity and soft infrastructure or institutional connectivity, the

development will come simultaneously. The extending and deepening of connectivity would strengthen all surrounding countries' ability to participate in trade and economic activities in the near future.

Table 2: Logistics Performance Index (LPI)

Int'l LPI Rank	Country	LPI	Customs	Infra-structure	International shipments	Logistics competence	Tracking and tracing	Time lines
80	Brunei	2.71	2.62	2.46	2.51	2.71	2.75	3.17
98	Cambodia	2.58	2.37	2.14	2.79	2.41	2.52	3.16
46	Indonesia	3.15	2.67	2.89	3.23	3.10	3.30	3.67
82	Lao PDR	2.70	2.61	2.44	2.72	2.65	2.91	2.84
41	Malaysia	3.22	2.90	3.15	3.35	3.30	3.15	3.46
137	Myanmar	2.30	2.17	1.99	2.20	2.28	2.20	2.91
60	Philippines	3.90	2.53	2.73	3.29	2.78	3.06	2.98
7	Singapore	4.00	3.89	4.06	3.58	4.10	4.08	4.32
32	Thailand	3.41	3.14	3.14	3.46	3.41	3.47	3.81
39	Vietnam	3.27	2.95	3.01	3.16	3.40	3.45	3.67
44	India	3.18	2.96	2.91	3.21	3.13	3.32	3.50
26	China	3.61	3.29	3.75	3.54	3.59	3.65	3.84
100	Bangladesh	2.58	2.30	2.39	2.56	2.48	2.79	2.92

Note: 1 is the lowest score and 5 is the highest score; Source: WB 2018.

A REVIEW OF INDIA'S CONNECTIVITY CORRIDOR WITH SOUTHEAST ASIA

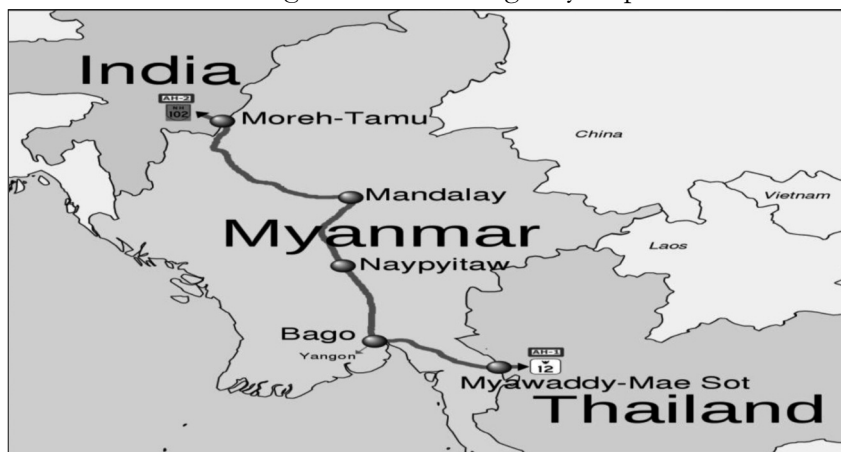
Initially, the cross-border linkage between India and Southeast Asian countries has been restricted to only the ocean and the air. Later, there has been a realisation that the economic relationship between India and Southeast Asia enormously depends on effective road transport links. Therefore, India, along with the Asian Development Bank, the World Bank, and the Japanese government, has initiated many modes of connectivity projects to bind Southeast Asian countries on one

hand and to boost the unexploited economic potential of both regions in terms of trade and investment on the other. Some of the most significant and prominent regional connectivity projects between Southeast Asia and India are namely, the Trilateral Highway (TH), the Kaladan Multi-modal Transit Transport Project (KMTP), the Bangladesh–China–India–Myanmar Economic Corridor (BCIM-EC), and the Mekong India Economic Corridor (MIEC), which connect India with the neighbouring countries in the east, namely, Bangladesh, China, Myanmar, Thailand, Cambodia, Vietnam, and beyond. There are other proposed and ongoing connectivity projects, the Tiddim-Rih-Falam Road, the Stilwell Road, India-Nepal Connectivity, India-Bhutan Connectivity to name a few. This section will try to review selected projects one by one in this paper.

The Trilateral Highway

In April 2002, the India-Myanmar-Thailand Trilateral Highway (TH) was primarily proposed at a Trilateral Ministerial summit, Yangon. This international project was designed to connect Moreh, in the Manipur State of India, to Mae Sot in the Tak Province of Thailand via Myanmar. It is proposed to link two border crossings, namely India–Myanmar, and Myanmar–Thailand, and then cover four customs check-points, three international time zones, three customs EDI systems, two different vehicle-driving standards, and three different motor-vehicle laws. This cross-border transportation network is financed by the governments of India, Myanmar, and Thailand (see Figure 2).

Figure 2: Trilateral Highway Map



Source: https://en.wikipedia.org/wiki/India%E2%80%93Myanmar%E2%80%93Thailand_Trilateral_Highway.

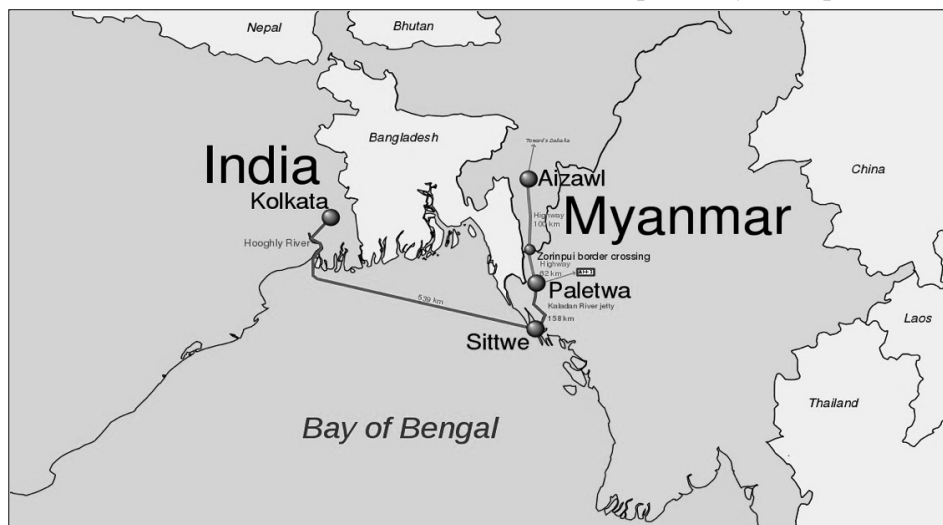
The approximate length of this highway would be 1,360 km. Under the proposed transportation network, India is committed to building 78 km of missing links, repairing 58 km of existing roads, and upgrading a further 132 km of roads in Myanmar. India has also taken the responsibility of improving 69 bridges on the Tamu-Kalewa Friendship Road and upgrading 120 km of the Kalewa-Yargyi, broadening to a highway pattern. In terms of project completion, India is said to have completed approximately 132 km towards the Myanmar side. Myanmar has finished the expansion of the Yargyi to Monywa part of the highway.

The objective of this highway project is to establish land road connectivity between India, Myanmar, and Thailand, which should be completed by 2020. Furthermore, it has proposed to expand the road connectivity to Lao PDR, Vietnam, and Cambodia to attach greater impetus to the growing trade and investment linkages between Southeast Asia and India.

The Kaladan Multi-modal Transit Transport Project

In 2008, India and Myanmar signed two protocols (namely, Protocol on Transit Transport and Protocol on maintenance) and a framework agreement on the Kaladan Multi-modal Transit Transport Project (KMTTP). It is a multi-modal transportation connectivity project jointly recognized by India and Myanmar to construct shipping of freight from the north-eastern parts of India to Myanmar to give an alternate mode for transportation of goods and services. It envisions connecting roads and inland waterways between the north-eastern ports of India and the Sittwe port in Myanmar. It is committed to improving two major components of the current connectivity between India and Myanmar, such as (a) development and improvement of the port and Inland Water Transport (IWT) between Sittwe and Paletwa (Myanmar) along with the Kaladan River, and (b) construction of about 129 km highway from Paletwa (Myanmar) to Mizoram (India). Further, the project includes (a) building and dredging of an integrated port and IWT terminal at Sittwe in Myanmar; (b) construction of about 158 km of the navigational channel along the Kaladan River from Sittwe to Paletwa in Myanmar; (c) upgrading of the highway transshipment terminal at Paletwa in Myanmar; (d) construction of six IWT barges (each with a capacity of 300 tonnes) for transportation of freight on the Myanmar side between Sittwe and Paletwa; and (e) construction of a 109 km highway from Paletwa in Myanmar to Zorinouri on the Mizoram border in India (see Figure 3).

Figure 3: Kaladan Multi-modal Transit Transport Project Map

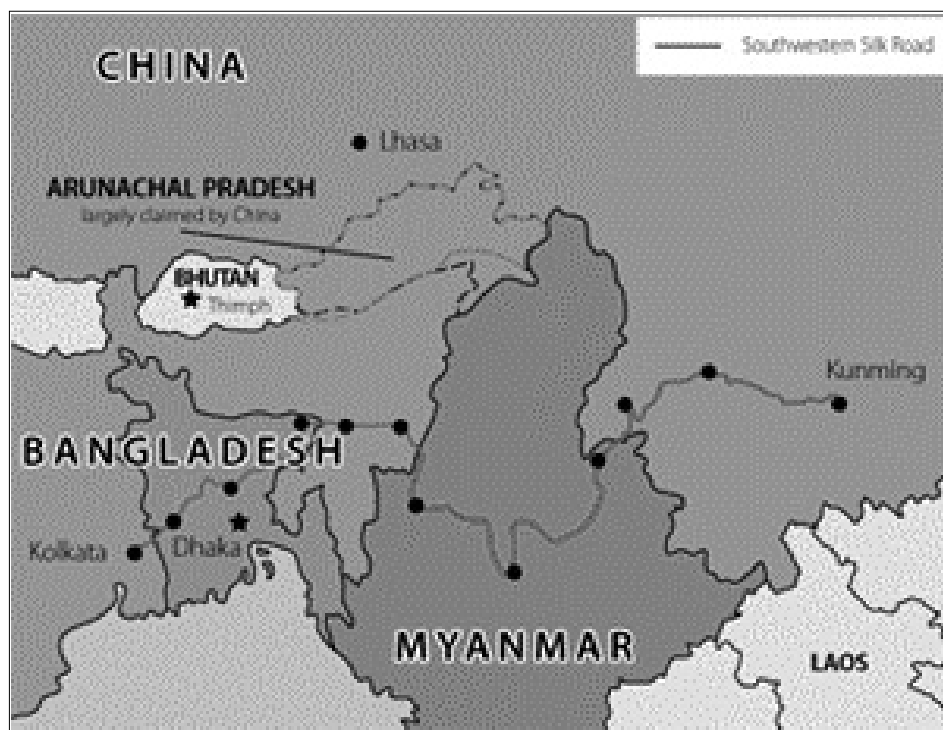


Source: https://en.wikipedia.org/wiki/Kaladan_Multi-Modal_Transit_Transport_Project.

The construction has been completed for the integrated port-IWT jetty at Sittwe in Myanmar. This corridor is expected to connect the NER of India, thereby reducing the traffic load on the Siliguri Corridor. In the absence of a substitute route, the development of this project would not only provide economic, marketable, and strategic benefits but also contribute to the overall development of India and its economic integration with Myanmar.

The Bangladesh-China-India-Myanmar Economic Corridor

This is an important connectivity project where Bangladesh, Myanmar, and India are going to be connected with China by road. The Bangladesh-China-India-Myanmar Economic Corridor (BCIM-EC) is aimed at connecting these four major economic hubs in Asia. The BCIM-EC includes Kolkata in India and then passing through Myanmar via Bangladesh to Kunming in China's Yunnan Province. This connectivity is supposed to cross four border crossings, which are between China – Myanmar, Myanmar – India, and two in India – Bangladesh. It is expected to cross eight customs check-points, four international time zones, two different working weeks, four customs EDI systems, two different vehicle-driving standards, and four different motor-vehicle laws. The proposed corridor would cover 2,800 km, encompassing the route of Kolkata, Dhaka, Silchar, Imphal, Mandalay, Tengchong, and Kunming (see Figure 4).

Figure 4: Bangladesh-China-India- Myanmar Economic Corridor Map

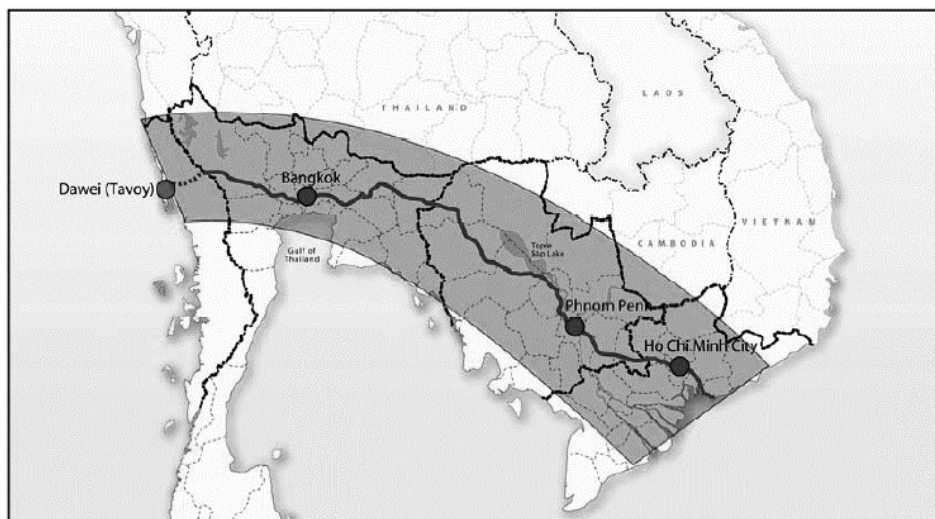
Source: Asia Briefing n.d.

The 2,490-km route of the K2K Highway is already constructed, connecting through Kolkata, Dhaka, Imphal, Mandalay, Lashio, Muse, and followed by Kunming. It also connects Ledo in Assam (India) through the old Stilwell Road (Myanmar). It is expected to be in operation very soon.

The Mekong-India Economic Corridor

The Mekong Countries of MIEC announced an ambitious corridor project in which the four Greater Mekong countries, namely Myanmar, Thailand, Cambodia, and Vietnam, will be connected with the Mekong-India Economic Corridor (MIEC) from end to end in its east coast region with India. It will connect Ho Chi Minh City (Vietnam) with Dawei (Myanmar) through Bangkok (Thailand) and Phnom Penh (Cambodia) and further connect to Chennai in India. Incorporation with India will likely add impetus to corridor development with the growth of trade and investment associations between India and four Mekong countries (see Figure 5).

Figure 5: Mekong-India Economic Corridor Map



Source: ERIA 2009.

The completion of this corridor is expected to enhance the trade and investment scenario between India and four Mekong countries by minimising the distances and time by removing the supply-side blockage. The corridor is expected to boost opportunities for four Mekong countries, viz. Myanmar, Thailand, Cambodia, and Vietnam, along with India, by constructing a world-class transport infrastructure to create a stronger economic and industrial base for all the countries. The emphasis is put on the corridor expanding the manufacturing base of the Mekong countries with the rest of the world, particularly with India. This is also expected to be operational in a few years.

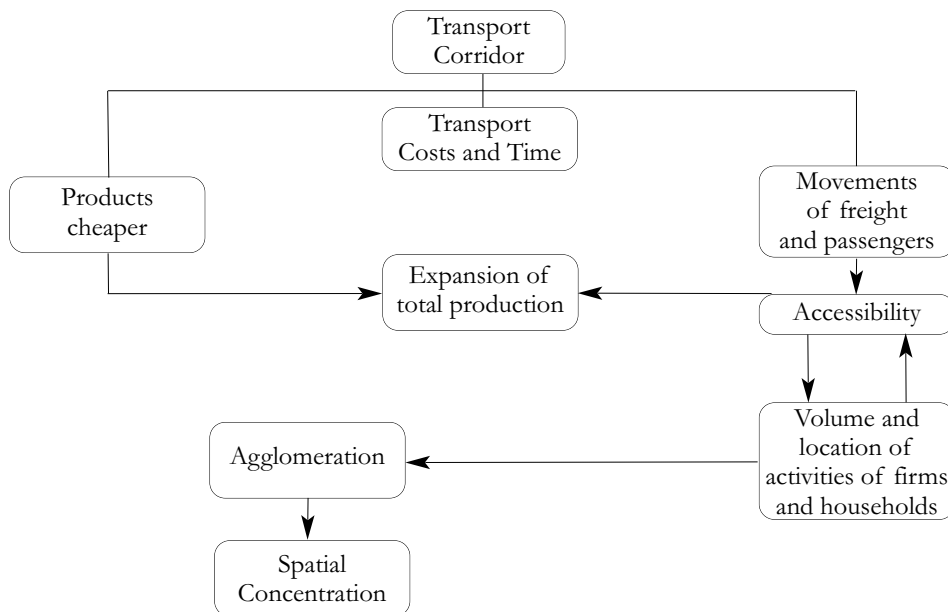
India, along with ASEAN, has been working on several integration and cooperation initiatives over the years. India attaches high importance to these connectivity projects, particularly the Trilateral Highway and the Kaladan corridor, which are currently under implementation. India's perspective on connectivity corridors with Southeast Asia is the main theme of the paper since South and Southeast Asia together form a significant geographic zone in continental Asia. South Asia is an economic bloc comprised of the world's largest group of people, with a population of 1.752 billion (as of 2017, Penn World 9.1). It represents 40% of Asia's total population, allowing it to influence global market demand more than any other regional bloc. Not only did this bloc contribute 10% of Asian GDP in 2016 (United Nations, 2018), but it goes without saying that India is the most important player. Southeast Asia (ASEAN), on the other hand, has 647 million inhabitants and contributed 8% of total Asian GDP (as of 2017,

Penn World 9.1), and ASEAN is expected to become a major player on the Asian continent, after China and India. Therefore, connecting Southeast Asia with India is an important agenda under the ambitious AEP to utilise the economic power and to counterweight the economic and strategic influence of the People's Republic of China.

THE MODEL

The promotion of a connectivity corridor is essential for a country as high transportation costs and low connectivity across regions are detrimental to trade and investment. Therefore, there is a bivariate association between income and infrastructure. This is because any form of infrastructure development can boost the country's output by improving production and consumption linkages. Literature-based on the economic impact of transport facilities discusses three approaches. The first approach believes in the social cost-benefit analysis with consumer surplus as the main object. This approach has been widely used in many countries with the objective of welfare economics. More recently, a second approach has been evolved which is based on productivity rather than consumer surplus. The outcome of this approach is mainly based on the travel time savings of households, which do not have direct implications for GDP. The third approach is far away from the above two views and is mainly based on employment. In this approach, investments in the transport road and rail network have spatially differentiated impacts on employment. Although these approaches are inter-linked and partially complementary, they are insufficient to discuss the macroeconomic impact in terms of change in GDP. To fulfil this gap, this paper tries to develop a relationship between connectivity corridors with regional economic development (see Figure 6) and further tests that model empirically.

Figure 6: Model on the relation between the transport corridor and its economic impact



Source: Drawn by Author.

Improvement of transport corridors influences production and household consumption through lowering transportation costs. This may generate a redistribution effect among economic groups and also among regions. The relationship between transport corridors and their impact on regional development is illustrated in Figure 6 while considering more than one sector. Improved and efficient transport infrastructure can minimise transportation costs and time by increasing the average speed of the transport system. This directly influences the movements of freight and passengers by making the production process cheaper. This reduction helps a firm to increase productivity and accessibility. Therefore, this increase in efficiency and accessibility in a certain region (or country) may result in an expansion of economic activities. This further influences the number of movements of freight and passengers as a result of the relocation of economic activities. For instance, the government invests in infrastructure to develop the associability of each region with a relatively positive economic expansion to defeat congestion. Overall, these improvements in transport infrastructure help other sectors (like technology, demography, the economy, and environmental and public policy) directly or indirectly.

To test this framework empirically, the estimation will be based on the following baseline equation:

$$X_{it} = \alpha_0 + \alpha_i + \beta_1 Y_{it} + \beta_2 \tau_{ij} + \beta_3 I_{it} + \beta_4 C_{ki} + \beta_5 Z_i + \varepsilon_i \quad (1)$$

where i represents a country, t time, and ε_i is the error term. The dependent variable is total freight movement via land, air, and sea routes. Total freight is calculated by aggregating the freight movement via land, air, and sea routes in billion tonnes. The data on freight has been collected from different sources like the Directorate General of Civil Aviation, the Ministry of Civil Aviation, Road Transport Year Book, Transport Research Wing, the Ministry of Road Transport & Highways, the government of India, and the World Development Indicators. Our independent variables include Gross Domestic Product (GDP), trade costs, road density, vehicle speed, and different corridors. Y is the real expenditure where GDP has been taken and is the trade cost. The GDP at current prices is taken in US\$ million, and the data sources are the Reserve Bank of India and the World Development Indicators. Trade cost measures are based on the aerial distance between India's capital Delhi and the respective country's capital in km. Distance data has been collected with the help of Google Maps. I is a vector of other independent variables such as road density and vehicle speed, which are taken to proxy the infrastructure, particularly those that will give the essence of accessibility and quality of physical connectivity. Road density is calculated as a ratio of the total road length in km to the total area in square km of that country. The data sources for this variable are the Ministry of Road Transport and Highways, the government of India, Statistical Year Book India, 2016, Census of India, 2011. The speed of vehicle data has been collected from different kinds of literature and denotes the average speed of a vehicle in km per hour (see Appendix 1). C captures the effect of transport corridors on freight movement, wherein corridor (k) is the Trilateral Highway, the Kaladan corridor, the BCIM-EC, and the MIEC respectively. All the corridors are a categorical variable in the model, where it takes '1' when the corridor (k) crosses the respective country or '0' otherwise. Z is the series of interaction variables to capture the effect of economic corridors on freight movement. All regressions include country-fixed effects.

To carry out the future projections over a long time horizon, the growth rate of freight movement i has been obtained using equation (2), where an interaction term between GDP and freight has been taken.

$$\ln X_{it} = \sigma + \delta_{it1} \ln Y_{it} \quad (2)$$

Differentiation of the demand equation (1) for freight movement i with respect to time would yield the relation (where a hat (^) on the top of a variable denotes its rate of growth):

$$\hat{X}_{it} = \delta \hat{Y}_{it} \quad (3)$$

This simpler equation can be used to project future freight demand by using the income elasticity of the freight demand and the expected future growth rate, g , of GDP.

$$X_{it} = \alpha_0 + \alpha_1 + \beta_1 Y_{it} - \beta_2 \tau_{ij} + \beta_3 I_{it} + \beta_4 (C_{ki} * \hat{Y}_{it}) + \beta_5 Z_i + \epsilon_i \quad (4)$$

The paper employs a panel data model to analyse the relationship between GDP and freight concerning corridors based on India, China, Thailand, Myanmar, Cambodia, Vietnam, and Bangladesh for the period 2010 to 2017. The definitions of variables and their corresponding data sources are given in Appendix 1.

FINDINGS AND ANALYSIS

To find the impacts of specific infrastructure projects on the regional economy at the national level, i.e., how these transport corridors are likely to impact the economic development of the connected countries, this paper has taken four corridors that are expected to connect India with the neighbouring countries. The paper estimated the generalized least squares (GLS) technique as the Hausman test (1978) rejects random effects and the selected fixed effects. GLS also provides a higher R-square compared to Ordinary Least Square (OLS). Therefore, this technique is expected to fit better for our case to find out the potential of the existing freight over the economic corridor with the help of important explanatory variables. The estimated results are presented in Table 3 where only the significant results are reported to examine the estimated relations between the variables concerned.

Table 3 investigates the impact of different economic corridors on freight movement to capture the individual corridor effect in the regression models. Model 1 includes a dummy for the Trilateral Highway, Model 2 includes the Kaladan corridor, and Model 3 and Model 4 include the BCIM–EC and the Mekong India (MIEC), respectively. It is evident from Table 3 that the coefficients of the core variables are robust and consistent in all models. The good fit shows that GDP positively influences the freight of the regions that have a corridor. Further results point out that GDP and road density (a proxy for infrastructure development) are the important determinants of freight flow. The existing Trilateral Highway shows a positive and significant coefficient, thereby suggesting that the countries connecting with the Trilateral Highway are expected to perform better than the countries not having that particular corridor. For every percent increase in GDP, total freight in the region is expected to increase by 0.8 percent over time (see Model 1 in Table 3). The dummy for the Kaladan corridor shows negative and insignificant estimates, whereas the dummy for the BCIM-EC shows negative and

significant results. This can happen when the growth of freight is considerably higher across the countries compared to the corridor connecting countries. For the last corridor of the Mekong India, the dummy shows positive and significant signs suggesting that this will positively influence the countries' freight. The positive and significant relationship between road density and freight implies that the higher the road density, the higher would be the flow of freight between and within the countries. The trade cost has had mixed results.

Table 3: Estimated Results for fixed effect model

Independent Variable	Model 1	Model 2	Model 3	Model 4
Log of GDP	0.8** (-2.02)	0.5** (1.5)	0.3* (1.8)	0.4*** (2.8)
Trade Cost	-0.5 (1.2)	-0.1 (2.7)	0.4 (0.5)	-1.1* (1.3)
Log of Road Density	0.3*** (3.1)	0.4*** (2.8)	0.5** (3.6)	0.3*** (2.2)
Log of Speed	0.4 (0.4)	0.7* (0.5)	1.2* (1.1)	0.9** (2.3)
Trilateral Highway	1.2*** (-3.5)	-	-	-
Kaladan Corridor	-	-1.9 (-3.7)	-	-
BCIM-EC	-	-	-1.6** (2.1)	-
Mekong India	-	-	-	1.1* (1.8)
Constant	-1.9 (-0.2)	-1.5 (0.6)	0.8 (-0.7)	0.2 (0.1)
N	35	35	35	35
R ²	0.718	0.802	0.813	0.689
Wald chi ² (Prob> chi ²)	309.34 (0.00)	534.71 (0.00)	563.39 (0.01)	461.93 (0.00)
Country fixed effect	Yes	Yes	Yes	Yes
Time fixed effect	Yes	Yes	Yes	Yes

*Notes: ***statistical significance at 1%, **statistical significance at 5%, *statistical significance at 10%; parentheses show standard error*

It is evident from the table (Table 3) that GDP has a positive influence on freight. Therefore, an investigation is being conducted to see the contribution of GDP growth in corridor countries compared to non-corridor countries. Table 4 shows the interaction effect of GDP with a dummy for each corridor along with other core variables. The estimated coefficient of GDP shows the expected results. This has come out to be positive and significant in all the models. Again, trade cost comes out to be negative and significant in most of the models. The coefficient of road density has come out to be positive and significant in every model, thereby implying infrastructure is crucial to increase freight movement. The coefficient of speed shows mixed results. The coefficients of the speed without GDP interaction (see Table 3) were mostly positive and significant, although they changed after the interaction (see Table 4, in model 3). This is only possible if there is congestion on the road and traffic hampers the speed of operation.

Interestingly, in terms of GDP interaction, Models 1 to 4 in Table 4 clearly show that the coefficients of corridor countries and GDP interaction variables are positive and statistically significant. The size of the coefficient of the interaction variable with GDP has come out to be greater than that of the coefficient of GDP in non-corridor countries, implying that the countries connected by corridors would gain relatively higher freight compared to others. For instance, the coefficient of the interaction effect of GDP with a dummy for the Trilateral Highway shows that a one-percent rise in GDP growth in the corridor countries would lead to a 0.8-percent rise in freight, compared to non-corridor countries. Similarly, the interaction effect of GDP with the Kaladan corridor, the BCIM-EC, and the Mekong India shows a significantly higher impact on freight movement. Therefore, in the future, after the completion of all corridors, all these countries will have higher freight movement, which is expected to increase economic activity in the entire region.

Table 4: Analysis Results of Corridors with GDP interactions

Independent Variable	Model 1	Model 2	Model 3	Model 4
Log of GDP	0.4* (1.2)	0.3* (0.4)	0.3* (1.4)	0.2* (1.1)
Trade Cost	-1.3*** (4.3)	-0.9** (5.6)	-2.1*** (2.4)	0.8 (1.9)
Log of Road Density	0.4*** (2.9)	0.3*** (3.04)	0.5** (2.9)	0.5*** (2.9)
Log of Speed	1.6** (2.4)	2.3*** (4.4)	-0.2 (0.1)	0.6* (1.6)
Interaction of TH*GDP	0.8*** (2.9)	-	-	-
Interaction of Kaladan*GDP	-	1.4*** (3.4)	-	-
Interaction of BCIM-EC*GDP	-	-	1.3*** (6.1)	-
Interaction of Mekong India*GDP	-	-	-	0.9*** (3.8)
Constant	-38.4*** (0.8)	-21.6*** (6.8)	0.6*** (4.2)	0.4 (0.9)
N	35	35	35	35
R ²	0.818	0.792	0.690	0.634
Wald chi ² (Prob> chi ²)	592.81 (0.00)	687.74 (0.00)	713.94 (0.00)	811.49 (0.00)
Country fixed effect	Yes	Yes	Yes	Yes
Time fixed effect	Yes	Yes	Yes	Yes

Notes: ***statistical significance at 1%, **statistical significance at 5%, *statistical significance at 10%; parentheses show standard error.

DISCUSSION

The role of connectivity corridors has been assessed through the Trilateral Highway (TH), the Kaladan Multi-modal Transit Transport Project (KMTTP), the Bangladesh–China–India–Myanmar Economic Corridor (BCIM-EC), and the Mekong India Economic Corridor (MIEC). Also, we investigated their impact on

the regional economy at the national level, i.e., how these corridors impact the economic development of the connected areas. The empirical model tried to assess the development impact of the aforesaid corridors on connecting regions with special emphasis on India with the economic geography framework. The aforesaid four corridors are the entry into the international market beyond the eastern borders of the country.

The paper reviewed the overall presence of the transport corridor which connects India with Southeast Asian countries. It considered the existing volume of freight as an independent variable along with GDP, trade costs, and other important infrastructure variables (such as road density and vehicle speed) as independent to understand the relationship between corridor development and the regional economy. The findings from the paper support the view that the building of a corridor can boost the freight movement when there is an increase in GDP. The interaction with GDP in the model shows that GDP growth further stimulates the investment environment for infrastructure development in corridor countries compared to non-corridor countries. The size of the coefficient of the interaction variable with GDP has come out to be greater than that of the coefficient of GDP in non-corridor countries, implying that the countries connected by corridors would gain relatively higher freight compared to others. Therefore, in the future, after the completion of all corridors, all these countries will have higher freight movement, which is expected to increase economic activity in the entire region.

The paper has recognised that countries' GDP is the main determinant for freight. Also, it talked about important determinants like road density (a proxy for infrastructure development). Findings from this paper have shown that there is a positive and significant relationship between road density and freight, which implies that the higher the road density, the higher would be the flow of freight between and within the countries. The paper assessed that the current status of freight along with the current GDP can stimulate economic activities of the region if corridors are operational anytime soon compared to non-corridor countries. Furthermore, the paper focused on India's relationship with Southeast Asian countries and identified the ongoing and upcoming connectivity corridors that are going to increase the freight of this region, which will enhance the economic activities of the whole region.

POLICY IMPLICATIONS

The paper is set to examine the impact of India's initiation of connectivity corridors, like the Trilateral Highway (TH), the Kaladan Multi-modal Transit Transport Project (KMTTP), the Bangladesh–China–India–Myanmar Economic Corridor (BCIM-EC), and the Mekong India Economic Corridor (MIEC) on the

regional economy at the national level. The empirical model results show that India is likely to benefit more in terms of freight growth from the Trilateral Highway and the Mekong India, while the impact of the Kaladan corridor and the BCIM-EC remains to be seen. Now, here are some policy implications.

First, the development of the corridor would promote economic activity that, in turn, would enhance inter- and intra-regional trade within and between the participating countries and across the neighbouring countries.

Second, building roads in terms of corridors indirectly influences the infrastructure development of those regions, which would minimise the geographical space and narrow down the economic disparities within the region through reducing transportation costs and time.

Third, better connectivity thereby can enhance the competitiveness of regional, national and international production and consumption activities across the region.

Fourth, regional and national connectivity would help better access to domestic markets and the production process, thereby stimulating further investment, trade, and economic growth in connecting areas.

India and ASEAN have been working together on many integration and cooperation initiatives under the AEP where high importance has been given to these connectivity projects. As analysed here, these corridors are likely to facilitate new economic activities in South and Southeast Asian countries in general and India in particular. Completion of these corridors should be a priority.

CONCLUSIONS

The advantages of better and upgraded connectivity are enormous for both India and its neighbouring countries. This paper has analysed the importance of connectivity corridors. The paper empirically tried to see the impact of corridors, like the Trilateral Highway (TH), the Kaladan Multi-modal Transit Transport Corridor (KMTTC), the Bangladesh–China–India–Myanmar Economic Corridor (BCIM-EC), and the Mekong India Economic Corridor (MIEC) on the economic developments, which are supposed to connect India with the neighbouring countries. Findings suggest that when these international corridors become functional, there will be a boost in the freight movement. The paper has found that GDP and road density are positive and significant, which has a significant impact on freight movement. Countries having corridors will get the benefit of freight with a higher flow of connectivity. For example, with better connectivity, countries can become involved in the regional production network in an open economic framework. Cooperation in the production network would enhance trade and investment, and thereby intensify the Southeast Asian integration process in the future. In the long run, India's connectivity with Southeast Asian countries

would help it to become an economic hub and to unlock the tremendous potential of Asia.

Apart from land and road infrastructure projects, air and maritime connectivity are also critical in deepening linkages between India and Southeast Asian countries. Furthermore, the need for not only physical connectivity but also digital connectivity has been emphasised. India's regional connectivity with Southeast Asia requires the implementation of strong policy initiatives. South and Southeast Asia together form a significant geographic zone in continental Asia. India and ASEAN have been working together on some integration and cooperation initiatives over the years. Therefore, connecting Southeast Asia with India is an important agenda under the ambitious AEP to utilise the economic power and to counterweight the strategic influence of the People's Republic of China. Development and completion of connectivity projects with Southeast Asia will bring significant opportunities for the creation of a functional single market in Asia.

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Appendix 1: Data Sources and Definition

Sl. No.	Variable Name	Description	Sources
1	F (Freight)	Total freight is calculated by aggregating the freight movement via land, air and sea routes in billion tonnes.	(i) Directorate General of Civil Aviation, Ministry of Civil Aviation (ii) Road Transport Year Book, Transport Research Wing, Ministry of Road Transport & Highways, Govt. of India (iii) World Development Indicators
2	Y (Gross Domestic Product)	Gross Domestic Product (GDP) at current prices are taken in US\$ million.	(i) Reserve Bank of India (ii) World Development Indicators
3	Trade Cost	Trade cost measures based on aerial distance between India's capital Delhi and respective country capital in km.	(i) Distance data has been collected with the help of the Google Map
4	Road Density	Ratio of total road in km to the total area in square km of that country. Road Density = $\frac{\text{Total available road in km in the respective country}}{\text{Total area in square km in the respective country}}$	(i) Ministry of Road Transport and Highways, Govt. of India (ii) Statistical Year Book India, 2016 (iii) Census of India, 2011
5	Speed	Average speed of the vehicle in km per hour	Based on literature.

INDIJSKA PERSPEKTIVA KORIDORSKIH VEZA SA JUGOISTOČNOM AZIJOM: OD BARIJERE DO MOSTA

Apstrakt: Rasprave o regionalnim ekonomskim integracijama nisu potpune bez rasprava o važnosti povezivanja. Velike mogućnosti i rast, koje je Azija ostvarila u skorašnjem periodu, mogle bi se zaustaviti na međunarodnim granicama azijskih zemalja usled nedostatka odgovarajuće povezanosti. Stoga je cilj rada da sagleda celokupno prisustvo transportnih koridora koji povezuju Indiju sa zemljama jugoistočne Azije. Otuda kratak pregled iniciranja Indije u povezanost koridora, poput Trilateralnog autoputa (TH), Višemodalnog tranzitnog transportnog projekta Kaladan (KMTTP), Ekonomskog koridora Bangladeš – Kina – Indija – Mijanmar (BCIM-EC) i Mekong – Indija ekonomskog koridora (MIEC). Njihov uticaj na regionalnu ekonomiju na nacionalnom nivou, kao i na ekonomski razvoj povezanih područja, u središtu su ovog rada. Pored toga, pokušavaju se otkriti potencijalne determinante postojećeg tereta koji prelazi preko ekonomskog koridora. Nalazi u radu pokazuju da su BDP i gustina puteva pozitivno povezani sa obimom tereta. Kada ovi koridori budu operativni, povezani regioni će imati više ekonomskih koristi od zemalja koje nisu uključene u koridore.

Ključne reči: povezanost, južna Azija, koridor, rast.

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GEOECONOMIC CONCEPT AND PRACTICE: CLASSIFICATION OF CONTEMPORARY GEOECONOMIC MEANS

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Abstract: In this research, geoeconomics was analysed separately, as a theoretical concept and as a strategic practice. The aim is to conduct detailed analysis, systematization, classification and explanation of different types of geoeconomic means, as a key part of geoeconomic practice. The basic hypothesis is that in the mass *of economic means used by states in international relations, there are natural lines of their demarcation and inner logic, which allow them to be classified and to explain their different purposes.* The research has resulted in the classification of geoeconomic means into *forced, penetrating and protective* means. It provides the basis for a deeper analysis, explanations, and predictions of the geostrategies of participants in international relations. The explanation of the groups of geoeconomic means indicates the expediency of the suggested classification and implies that it can be a useful tool for authors of geoeconomics, but also for planners in creating consistent geoeconomic strategies.

Keywords: geoeconomics, geoeconomic means, international relations, political realism.

INTRODUCTION

“Geoeconomics is still a concept under construction” (Perez, 2021). The term was coined by Edward Luttwak back in 1990, implying a change in international relations (IR) in which the use of economic power takes the place of military and political ones. Geoeconomics, as well as geopolitics, implies the assumptions of *political realism* about competitiveness and conflict as the basis of international relations. Political realism traditionally involves the assumption of *zero-sum*

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competition from game theory, which implies that the gain of one participant in IR is based on the loss of another.

The concept of geoeconomics did not develop in the period after 1990, due to the new global order and the Washington Consensus supporting the opposite concept of IR: the hope for a more cooperative international system, based on the concept of liberalism in international relations (which need not be related to liberalism within the state) and the mutual benefits of countries and regions, which would eliminate the need for serious conflict, either by military or economic means.

However, in a very short period of time, more precisely with the first challenges the global order faced after the Cold War, a wide and growing gap between these theories and reality manifested itself. Since the beginning of the twentieth century, every economic, social, and, more recently, migrant and health crisis has prompted strong action by nation states, aimed precisely at protecting or promoting national interests while marginalizing supranational institutions and the liberal international order. Reality itself has indicated that competition and conflict *are* structural parts of IR. Contemporary international relations themselves have created the conditions for a revival of the principle of realism in theories, which involves analysing *what is*, instead of *what should be*.

The fragility of the liberal concept of international relations, however, is just one of the causes of the geoeconomic revival. Another important factor is the modern, remarkable ascent of China. Contrary to the previously successful strategies of big powers, which based their influence on military power, China achieved its global position using mostly economic means. This country does not exert political pressure, threaten with weapons (except in its territorial disputes), interfere in the internal or international affairs of partner countries, or even use harsh statements in diplomatic relations. Nevertheless, in a very short time, it became one of the most influential world powers. Moreover, China's new geopolitics and geoeconomics is "reshaping old meanings of land and sea power, colored by the economic means of emerging domination" (Šekarić 2020, 371). That gave a strong impetus to renewed interest in geoeconomics as an application of economic means in IR. "China has begun to exert a form of 'geo-economics' influence that is changing the way we think about the nature of international relations in the 21st century" (Beeson 2018, 1).

These circumstances have opened a new chapter in the study of geoeconomics, with a significant increase in the number of authors and organizations researching geoeconomic topics. Given the short period of the geoeconomic revival, "geostrategic aims remain an understudied aspect of contemporary international relations" (Scholvin and Wigel 2019, 1). The number of authors who have analysed this concept is still relatively small, geoeconomic

means and goals are not classified, and analytical tools to identify and compare geoeconomic strategies are generally lacking.

Geoeconomic means can and should be classified according to many criteria: according to the goal they want to achieve, their purpose, the subjects to which the funds are directed, the nature of the means themselves, and on other grounds. Therefore, the goals of this paper are aimed at supplementing, expanding, and developing the concept of geoeconomics through classifications of modern economic means used by states in their international interactions.

The main hypothesis is that in the mass of economic means used by states in international relations, there are natural lines of their demarcation and inner logic which allow them to be classified, systematized and to explain their different purposes.

In this paper, geoeconomics is seen as an analytical framework, but also as a strategic practice (Scholvin and Wigell 2019). Therefore, geoeconomics as a concept is analysed in the first chapter, while the second chapter deals with geoeconomics as a practice of states, as key subjects of IR. The second chapter is divided into two parts: geoeconomic means and geoeconomic goals. In the first one, the classification of the most often used economic means according to their purpose is proposed. They are classified into *forced*, *penetrating* and *protective* geoeconomic means. The third chapter is a case study of the application of quite different groups of geoeconomic means by the EU and the US in response to the same challenge – China’s geoeconomic expansion.

Classifications of geoeconomic means should greatly contribute to the understanding of geoeconomics as a practice. They enable the differentiation of strategic directions of states and the anticipation of the intentions and goals of actors in IR on the basis of applied measures.

GEOECONOMICS AS A THEORETICAL CONCEPT

As an analytical framework, geoeconomics is strongly based on the theory of political realism in international relations, as a theoretical concept that stresses the competitive and conflictual nature of international relations. According to representatives of realism, the international system is unregulated (the word “anarchic” is often used), since those supranational creations and systemic rules are ineffective. The main subject of IR is nation-states, and their interests are the main driver and motivating force of international relations.

Representatives of political realism consider their concept to be the *natural view* of international relations, resulting from ordinary and intuitive perception of *the way things are*. Thus, “political realism requires neither philosophical foundation nor rational justification; it simply articulates the common sense truths of everyday political life” (Spegele 1996). Political realism is, in several forms, dominant in the

political thought of Thucydides, Machiavelli, and Hobbes, and then in the works of the representatives of classical realism, Hans Morgenthau, Raymond Aron, and George Kennan, an American diplomat who had a key influence on US international politics during the Cold War. The most prominent newer authors are: neo-realist Kenneth Waltz, “defensive” realists Robert Jervis, Stephen Walt and George Quester, as well as “offensive” realist John Mearsheimer.

The disintegration of the Eastern Bloc and the end of the Cold War encouraged the aforementioned theories of democratic peace and international cooperation. After the disappearance of the division of the world into two conflicting poles, the competition between the states had moved from military-strategic to economic grounds (Babić 2009, 40). The rivalry between the states has not disappeared, but it has been characterized by the application of methods of non-military warfare. The supporters of political realism did not give up competitiveness and conflict as the basic content of international relations.

The antipodes to the concept of realism in international relations are liberalism in IR, as a set of theories separate from the concept of liberalism within states. These theories tend to emphasize cooperation in international relations, diminish the role of nation-states in IR, and advocate the idea that supranational institutions, behaviours, systemic rules and economic connections can overcome the need for conflict, even competitiveness in IR, and soften the violent power of states. Realists do not dispute the nobility of these ideas, but simply deal with international relations in real time, space and circumstances.

However, there are newer authors who advocate the idea that geoeconomics is not opposed to the liberal idealistic concept of cooperation. Among them are Wigell (2016) and Perez (2021), who advocate the thesis that liberal institutionalism *can be* a part of geoeconomics. According to Wigell, liberal institutionalism can be seen as one type of geostrategies². Perez goes far beyond realism, believing that the mobilization of economic resources, with a geoeconomic focus, could contribute to maintaining the welfare of a state through responsible cooperation rather than sheer competition.

This brief dwelling on the concept of realism in international relations was necessary because its more practical and less theoretical perception of international relations is the core of both concepts: geopolitics and geoeconomics. The theoretical background of geoeconomics is, in fact, the principles of realism in IR applied to the economic means and/or economic goals of states.

² Although the term “geostrategy” appears in many articles, it has not been defined or explained so far. The term should represent the analysis and synthesis of means and goals both geoeconomic and geopolitical, in various combinations, due to the prefix “geo: refers to both. This would be a significant addition to geoeconomics as a theoretical concept.

Goeconomics and geopolitics

Geopolitics is a theoretical concept that explains how states use *their political and military power* to achieve their political goals, which means the control of a certain aspect of some geographical area (territory, population, natural resources, economic capacity, military resources, etc.). Goeconomics, on the other hand, is “geostrategic use of *economic power*” (Wigell 2016).

Most explanations of the concept of goeconomics are based on bringing it into relation to geopolitics, whether emphasizing similarities or differences. At the same time, the evolution of the concept goes in the direction of separating goeconomics from geopolitics. With each new work, a certain aspect of this concept is defined, while the common basis remains permanently the state and its interests as the subject of IR.

Luttwak, Huntington and others have analysed the use of goeconomic power as just another means in the geostrategic toolbox, applied alongside other more traditional geopolitical ones. These authors place goeconomics closer to geopolitics, emphasizing only changes of strategic means from political to economic, as well as the absence of violence. The transformation of the way conflict was being played out “with disposable capital in the field of firepower, civilian innovation in the field of military-technical advancement, and market penetration in the field of garrisons and bases” (Luttwak 1990, 18). In his later work in 1999, Luttwak added the supremacy of capital over diplomacy. “Capital for investing in industry provided or directed by the state is an equivalent to fire weapons and market penetration, which with the help of the state takes place from military bases and an army on foreign soil as well as diplomatic influence” (Luttwak 1999, 128-129). Huntington stands on the same line, pointing out that “economic power will be increasingly important in determining the primacy or subordination of states” (Huntington 1993).

Although his term “goeconomics” is the most widely accepted, Luttwak’s concept of goeconomics is not dominant in contemporary goeconomics. The first group of criticisms is directed at Luttwak’s reduction of goeconomics to the application of a different kind of means. Contemporary authors, such as Wigell and Vihma (2016) and Scholvin and Wigell (2018), suggest a broader understanding of “goeconomics as a foreign policy strategy and an analytical framework, focused on states as key actors in international relations and foreign policy” (Scholvin and Wigell 2018, p. 15).

Another group of criticisms relates to an overly “linear and consequential change from geopolitics to goeconomics” (Perez 2021, 161). Namely, Luttwak makes a sharp time distinction between geopolitics and goeconomics, and he views them as different phases of geostrategy. His simplified understanding of the historical shift from geopolitical to economic means would mean the end not only

of military interventions, but also of political pressures or alliances, which is clearly not a tendency in international relations. This criticism is joined by Csurgai (2017) and Cowen and Smith (2009). Csurgai (2017) emphasizes that geoeconomics does not substitute geopolitics. Geopolitics and geoeconomics are not diametrically opposed in their historical evolution or in their spatial and geographical application (Cowen and Smith 2009, 24).

Also contrary to Luttwak's basic setting of geoeconomics, there is a small group of authors that includes the application of non-economic, political means in geoeconomics if the goal is clearly geoeconomic. The leading author of this concept is Baru (2012), who extends the concept of geoeconomics by including national power as a means of achieving geoeconomic goals. This extends the concept of geoeconomics to the use of all political non-violent means, such as political pressures, conditioning, interference, etc. According to Baru (2012), geoeconomics can be viewed as "the geopolitical consequences of economic phenomena or as the economic consequences of trends in geopolitics and national power".

Although it seems that in this approach there is no significant difference between geopolitics and geoeconomics, in contemporary, highly layered IR, there are examples in which a clear boundary line cannot really be drawn. When the EU puts political pressure on the countries of the Western Balkans to abolish customs duties or when Germany uses political influence on smaller countries to give up the construction of gas pipelines directly from Russia, but to buy the same gas at higher prices through the EU, are they geopolitical or geoeconomic strategies? It is indisputable that this is a geopolitical strategy, but the economic factor cannot be ignored because it is actually the key driver of the whole strategy.

The prevalence of economic means in international relations is obviously a common element of the concept of geoeconomic. In contrast, the attitude towards geoeconomic goals is the main line of demarcation of different concepts of geoeconomics. There are several different understandings of the goals that states want to achieve using their economic power. These differences in perceptions are also a reflection of the differences in the interpretation of the relation between geopolitics and geoeconomics. The following is an overview of all these varieties of geoeconomic concepts, based on differences in perceptions of geoeconomic goals.

Luttwak, Huntington and other authors put geoeconomics closer to geopolitics, believing that the state's geopolitical goals are the same for geopolitics and geoeconomics, and the difference is only in the means.

Other authors place geoeconomics closer to international economics, distinguishing only clearly economic goals from the stated geoeconomic ones (penetration into foreign markets, access to natural resources, etc.), whereby

economic means are implied. A group of authors places geoeconomics closer to economics, emphasizing the realisation of strategic economic goals using geoeconomic means. Lorot (2001) defines geoeconomics as “the analysis of economic strategies” which, in addition to economic means, also has economic goals “to protect their own economies or certain well-identified sectors of it, to help their national enterprises acquire technology or to capture certain segments of the world market relative to production or commercialization of a product” (Lorot 2001). The following authors can also be classified here: Cowen and Smith (2009), Csurgai (2017), Kim (2019) and many others. When economic goals are introduced into geoeconomics, the question arises: “What separates geoeconomics from the international economics?” The usual economic goals of countries are economic growth, full employment, positive trade balance, technological progress, security of supply and the like. The geoeconomic approach to the realization of these goals includes specific geopolitical conditions and power relations, political and economic influences of various IR entities, which may or may not be in favour of achieving a specific economic goal of the states. The economy, even the international economy, does not take such fluid and immeasurable factors into account when analysing economic goals.

The third group includes both geoeconomic and political goals in the geoeconomic concept. Blackwill and Harris (2016) put the national interest at the forefront as a goal, thus avoiding limiting it to geopolitical goals. These authors give a comprehensive definition of geoeconomics as “the use of economic means to promote and defend national interests, and to produce beneficial geopolitical results; and the effects of other nations’ economic actions on a country’s geopolitical goals” (Blackwill and Harris 2016, 20). They further explain that their definition “does not necessarily imply that there are only geopolitical objectives at stake. States design geoeconomic policies that simultaneously advance multiple interests—geopolitical, economic, and otherwise” (Blackwill and Harris 2016, 27). Perez (2021) clearly includes economic and political goals in the geoeconomic concept, not giving preference to either. “Geoeconomics focuses on how states use material foundations ...to achieve goals such as accumulating wealth or pursuing political ends” (Perez 2021, 154).

Although some of these different approaches will encounter a number of disagreements over whether they can be considered geoeconomic or not, this paper does not aim to evaluate these geoeconomic concepts, but takes them all as a valid theoretical basis of geoeconomics. The imposition of a sharp distinction between geoeconomics and geopolitics diminishes the ability to understand the strategies of states in international relations.

GEOECONOMICS AS A PRACTICE IN INTERNATIONAL RELATIONS

Goeconomics, being based on realism, is not a mere theoretical framework, a scientific discipline, but a key area of practical action for nation-states. States have broad goeconomic, as well as geopolitical strategies, despite the fact that these terms are almost never used in political practice. Each country's geostrategies involve the application of some of a wide range of goeconomic and geopolitical means, and have more or less clear goals that they want to achieve. According to previous analysis of theoretical approaches, it can be argued that goeconomics as a practice is *the application of economic and political means by countries with the aim to achieve the desired geopolitical and economic goals*.

Before explaining and classifying goeconomic means and goals, it is necessary to emphasize the asymmetry among states as to what means are available to them and what goals they can include in their strategies in general. Shifting the emphasis from military and political methods to economic ones has not diminished the power imbalance at all. Great powers still have "the ability to wield influence at a global level, and act independently even in defiance of the hegemon" (Diesen 2021, 2).

Goeconomic means

Although the term of goeconomics is relatively new, and the theoretical concept is still in its infancy, goeconomics, as a practice of using economic means in international relations, has existed for centuries. Several examples that are generally known or described in scientific papers and have indisputably the same nature as modern goeconomic assets are listed below. Probably much older examples can be found, but with controversial comparability with modern goeconomic means.

The practice of imposing *economic sanctions by the state* against other states is more than two centuries old (US Embargo of 1807 against France and Britain). The first *sanctions imposed by an international organization* date back to the founding of the League of Nations in 1919, with the most widely known sanctions against Mussolini's Italy in 1935. The biggest effect of *blocking access to natural resources* was the oil embargo, introduced in 1973 by OPEC members to the largest Western powers in response to their support for Israel in the Yom Kippur war. The oil embargo led to a 300% rise in oil prices, which had dramatic consequences for the global economy. The application of different customs duties depending on the country of origin, that is, *discrimination in trade policy*, has been well-known since the 19th century. For instance, "Canada adapted a double column of tariffs after 1846, Spain in 1877, and Switzerland in the 1880–1890s" (Becuwe and Blancheton 2014). *Trade protectionism* aimed at preserving the trade balance (not discriminatory towards a

particular country) was associated with 18th century mercantilism and the works of Adam Smith. The prevalence of dumping prices in international trade was the subject of an article by Jacob Wiener published in 1922 (Wiener 1922).

History abounds in small “wars by other means,” as do modern international relations. Geoeconomic means are numerous, diverse and widely known, which greatly facilitates the development and elaboration of geoeconomic as a theoretical concept. Despite that, the lack of their systematization, classification and comparison is emphasized. Although they are a key topic in a growing number of geoeconomic scientific papers, economic means are listed and sorted in only a few papers.

Blackwill and Haris (2016) cite the following, a rather unsystematized list of seven major economic means: “trade policy, investment policy, economic and financial sanctions, cyber, aid, financial and monetary policy, and energy and commodities”.

As an economic organization, the World Economic Forum (WEF 2016) offered the most complete list of economic means used in IR. The emphasis is on economic sanctions, but they also listed: trade embargoes, boycotts, tariff discrimination, freezing of capital assets, visa bans, suspension of aid, the prohibition of investment and other capital flows and expropriation, increase in import/export inspections. The term geoeconomics is not mentioned in this WEF report, but the entire report is dedicated to *coercive means*, which does not make the classification of *all* geoeconomic means, but comprehensively and logically explains one type, which is currently the largest contribution to the classification of geoeconomic assets.

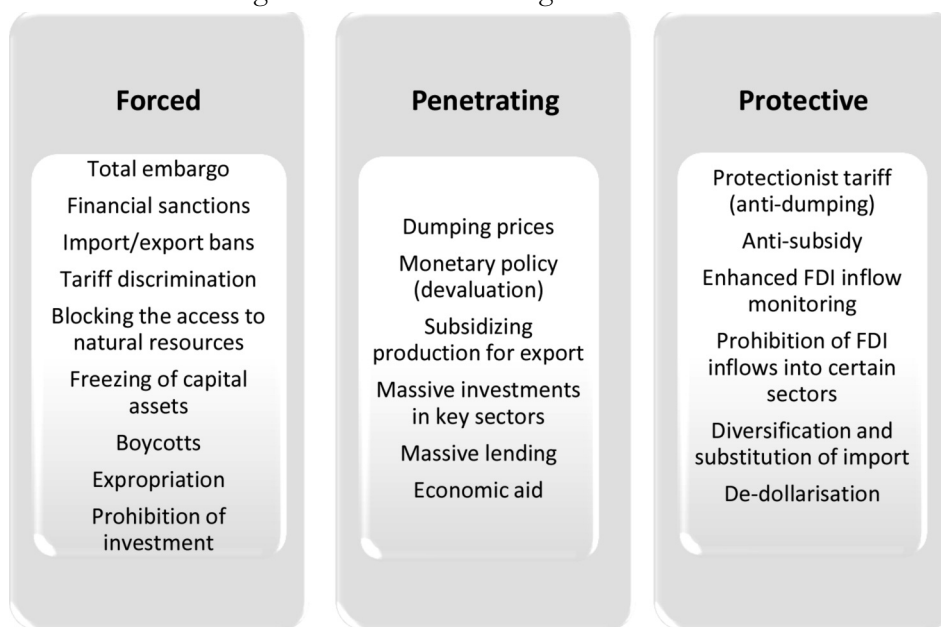
An attempt to classify all geoeconomic means was made by Troxell (2018), who classified standard economic instruments into two groups: positive and negative. The means are not classified according to the author’s own value judgment, but by labeling positive instruments as “carrots” and negative actions as “sticks”, he explained the realistic feature of rivalry and competitiveness in IR from the perspective of geoeconomic means. The weakness of the Troxell classification is that economic instruments are not grouped into some logical wholes, but individual instruments are listed. Given the large number of geoeconomic means used in modern IR, they cannot all be listed, and without classifying them into broader groups, the enumerated twenty economic instruments show a high degree of arbitrariness. Also, some of the listed instruments cannot be considered geoeconomic because they are not used by states. For example, among the “positive” instruments there was the contribution of an international financial institution, as well as a private contribution in the field of financial assistance.

Geoeconomic means used in international relations can and should be classified according to many criteria: the goal they want to achieve, their purpose, the subjects to which they are directed, the effects on other players, the nature of

the means, and others. In this study, the classification of forced, penetrating, and protective economic means based on their purpose was proposed (figure 1).

As shown in Figure 1, depending on the objective, trade restrictions (increase in customs duties, the prohibition or restriction of imports or exports) or protective measures may be forced. If the goal is political, to punish another country or force a political act, then these means are forced by purpose. If the goal is economic, to protect one's own economy, sector, or capital at the expense of other countries, then the same means belong to the group of protective geoeconomic means.

Figure 1. Classification of geoeconomic means



Source: author

Most geoeconomic means are not completely harmless to other participants in international relations. Still, some are obviously more harmful than others. *Forced means* are most clearly aimed at harming competing countries. In general, forced economic means are not even aimed at the economic prosperity of the country that uses them. In this set of measures, the economic benefits for the subject are secondary, while the primary achievement is geopolitical goals. The typical action of this type, with the application of most of the mentioned measures, was carried out by the US towards Iraq, today towards China and Iran. The abuse of economic power is no longer just a means of the Western powers (although the introduction of economic sanctions is emphasized by the Western tool of coercion) but a global phenomenon. In addition to the usual suspects, the US and the EU, the WEF

(2016) examined how Brazil, China, India, Iran, Japan, Russia, South Africa, South Korea, and Turkey make use of and respond to economic coercion.

In contrast, *penetrating geoeconomic means* are strongly oriented to the economic benefits of the IR entity, which is achieved by penetrating the markets of competing countries. Unfavourable effects for competing countries can potentially be huge, but by nature, they are only a possible side effect of using means from this group. China's economic rise is a typical example of the application of all these measures, although not at the same time. The competitive value of China's currency, the yuan (RMB), was one of the most important factors in the successful growth of its economy during the 1990s. Namely, "China's growth was largely based on exports, while exports were based on competitiveness due to the *low value of domestic currencies*" (Stanojević 2021, 11-12). The US and the EU have often criticized China for the depressed value of the yuan at an undervalued level but also for *dumping prices* that have no source in the low value of the currency, but in direct state subsidies. China no longer has a low-value currency and occasionally engages in price dumping, but the modern dominant geoeconomic tool for gaining an advantage over competitors is the incredible expansion of *investments* abroad within the Belt and Road Initiative (BRI).

The focus of this research is not the effects of geostrategies on partner countries, which has so far been the subject of research in a mass of scientific papers, but only the explanation of different types of geostrategies. However, it must be emphasized here that penetrating measures are not opposed to China's goals of mutual benefit in partnership. Some of the penetrating means, such as dumping prices and the devaluation of the domestic currency, have had detrimental effects on competing economies. These geoeconomic tools have particularly affected the developed countries of Western Europe and the US, whose industry, on which they have risen, has completely lost its primacy in the world economy under the pressure of Chinese competition. On the other hand, modern Chinese penetration into all parts of the world through huge investments has mixed, but more often positive effects on host countries. Since 2013, China has invested hundreds of billions of dollars overseas, mostly in infrastructure and energy projects. It offers investments that are really necessary for the host country, and which cannot be financed from internal financial and other resources. Sometimes, Chinese energy investments are very controversial in terms of environmental standards, while others are controversial in terms of labor relations. In several cases of investing (through loans) in small countries, China has been the target of accusations of imposing "debt slavery". However, in general, all countries in the world, even competing ones, are very interested in Chinese investment, which gives a benign connotation to its penetrating means.

In the group of penetrating means, there is also *foreign aid* (economic or development in another way). One of the most interesting examples of using

economic support to achieve geopolitical goals is the work of the United States Agency for International Development (USAID). This important global actor promotes economic and political development in developing states in line with US foreign policy objectives. Economic aid itself is not a goal but a means. The organization is an instrument which pursues American political goals mainly by funding opposition political parties, NGOs, pressure groups, media and all other social entities that it estimates will pursue foreign policy in line with American interests. It is not excluded that these will be the parties in power. In this case, USAID is working to improve the “political atmosphere” (Essex 2013, 51). “Anti-communist allies and movements in Africa and Latin America” were funded through USAID (Essex 2013, 52), as well as “promoting the transition to and consolidation of democratic regimes throughout the world” (USAID 1999), that is, in East and Southeast Europe.

Protective means, as the name itself explains, are naturally aimed at protecting the subject’s economy from competitive penetration. While penetrating mechanisms are a strong support for the interactivity of states, i.e., globalization, protective measures are defensive and, if it is a mass phenomenon, they stop the process of globalization and lead to the strengthening of nation-states.

Within this group, the strongest effects have come from trade protectionism measures, which relate to an increase in tariffs, a ban or a reduction in exports or imports. Although the word protective sounds less harmful than penetrating, for the countries targeted by these means, protective measures can have much more detrimental effects. There is no example of a country that implements all measures classified in this group, but there is no country that does not apply at least some of these protective mechanisms. The first of these measures, which relate to trade and investment protectionism, are currently being implemented by the European Union countries. Their protectionism is a response to Chinese geoeconomic expansion, that is, the application of penetrating geoeconomic means and an attempt to preserve part of their previous global influence.

Other measures from this group, diversification and substitution of imports, are generally more economic than geoeconomic means. They gain prefix geo only if they are aimed at protection from very specific import partners, on whom they want to reduce dependence. If it were only economics, the substitution of imports would not make sense, because existing imports are always cheaper than starting new production. So, there are always some geopolitical or geoeconomic reasons for that. This was an important geoeconomic means for the countries of the former Eastern bloc, but today it is very rare and has a significantly different context. These measures do not have as strong defensive nature and purpose as the previous ones. Countries that want to diversify their economies and develop their own production are trying to reduce the degree of import dependence.

However, since this is a long-term and very slow process, these geoeconomic strategies and means have very little negative impact on import partners.

De-dollarisation is a relatively new geoeconomic tool, reflecting the attempt of large and powerful economies (Russia, China, Turkey) to prevent them from becoming “targets of Western economic coercion” (WEF 2016, 9). They are hedging against dependence on the West (WEF 2016). The one of the interesting examples of de-dollarisation as protective measures are “numerous bilateral agreements on trade in local currencies that China has concluded with Russia, Japan, Iran, Brazil, Australia, Chile, and many African countries” (Stanojević 2020, 30). Another example is the BRICS agreement (Brazil, Russia, India, China, South Africa) from 2012, which stipulates that BRICS member development banks can grant loans in national currencies. Arrangements on mutual loans and borrowings in national currencies were then established more precisely, regardless of whether they were convertible or not (Milenković and Spalović 2013). This geoeconomic tool has clear economic goals: easier and cheaper trade between partner countries, and the harmonization of prices with the markets of these countries, instead of the conditions in the US economy.

On the other hand, the same instrument had a pronounced geopolitical connotation in cases when the leaders of oil-rich countries (Iran, Iraq, Libya and Venezuela) took action or announced that they would sell oil in non-dollar currencies.³ Venezuela, under Hugo Chavez, has established barter deals to trade its oil with Latin American countries, and Iran announced back in 1999 that it would accept other convertible currencies besides the dollar. Both countries have been declared by the United States as a global enemy. In 2009, Moammar Gaddafi suggested to the States of the African continent to switch to a new currency, independent of the American dollar: the gold dinar. He was overthrown in 2011 after 42 years of rule. Saddam Hussein converted all its oil transactions under the *Oil for Food* program to euros in November 2000. He was overthrown in the *Iraq war* started by the United States in March 2003 after 24 years of rule. Numerous international experts are still writing about the *currency* background of the overthrow of Saddam Hussein and Muammar Gaddafi. Thus, a completely financial, seemingly politically neutral instrument played a central role in the major reshaping of the global political scene.

³ The introduction of petrodollars (OPEC and other oil exporters oil revenues denominated in U.S. dollars) in the early 1970s represented an exceptional advantage for the American economy. The dominance of the dollar on the world market provides a constant demand for this currency, which significantly prevents inflationary pressures, which would have any other country that would try to issue the currency to that extent.

Geoeconomic goals

The original idea of the essence of geoeconomics, as it was stated, was the application of economic instead of geopolitical means. This implied that geoeconomics dealt mainly with geopolitical goals, while the economic goals of the states were the area of the international economy. The complexity of the geoeconomic reality after the Cold War division naturally led to the upgrading and expansion of its theoretical concept. Thus, a kind of revival of geoeconomic is marked by a much broader theoretical approach that includes geopolitical means (Baru 2012) and geoeconomic goals (Lorot 2001; Cowen and Smith 2009; Wigell and Vihma 2016; Csurgai 2017; Kim 2019).

The need to look at economic goals in a geopolitical context is the result of the excessive interdependence of states achieved in the last three decades due to the intense process of globalization. The emerging interdependence, begun as a noble attempt at collective progress, very quickly proved to be extremely asymmetric, re-establishing dominance as an important factor in international relations. “Interdependence can manifest itself as dependence of one party on others” (Fjäder 2019). Modern geoeconomic goals are full of terms of political realism, such as: achieving a *dominant position* in global value chains, market *conquest*, *gaining control* over strategic sectors of competitive economies, *strengthening influence* in an international financial organization that creates rules for international trade for the whole world, *increasing the competitive strength* of the domestic economy in the world market, or *economic power* as a goal in itself. These goals can, and often are, formulated in a slightly different way, but this does not change the rivalry in the essence of each of them.

The asymmetry of power has always existed, but not in combination with this degree of interdependence. Prior to globalization, smaller countries were able to achieve many, if not all, of their economic goals without the involvement of a significant number of other international actors. Today, every international economic activity, which goes beyond the regular framework, draws dozens or hundreds of links with other international entities, many of which are in a position to influence the outcome of that activity. Thus, the realization of the economic goals of the state largely depends on whether its geopolitical position is dominated by relations of competition or cooperation.

Although geoeconomics is the scene of the conflicting interests of the actors of IR and still has a solid foundation in political realism, it cannot be disputed that many liberal goals of cooperation and mutual gains are indeed being achieved. The idealistic visions of the common progress of the EU countries have failed many tests (WFC, refugee crisis, the COVID-19 crisis) as stated in the introduction. However, numerous development projects (more often in the field of science, innovation, culture, education, than the economy) within the EU, but

also independent European countries, are really focused on joint benefits as a geoeconomic goal. However, the symbol of such geoeconomic goals in the 21st century is not the EU, but China. China has already been cited as an example of using purely economic means, and is now emerging as an example of implementing joint benefits goals. China is the global supporter and successful implementer of the so-called *win-win* strategy, an economic agreement and projects in which all parties win. Although China's geoeconomic means are classified as penetrating, its goals are mutual benefits of partners and realization of long-term interests in a particular country or region. Hundreds of scientific papers and case studies published over the past decade have shown more favorable effects of Chinese investment on host economies than the usual effects of FDI. The rise of China, based on proclaimed and realized *win-win* goals, has shown that *zero-sum* is not a necessary ingredient of IR, and that some liberal ideals are also an integral part of reality.

CONCLUSIONS

The research has shown that contemporary international relations, despite the fact that geopolitical means, especially military power, have been significantly replaced by economic ones, are essentially still deeply immersed in political realism, with the prevalence of competition and rivalry. On the other hand, the analysis did not support the assumption of a zero-sum game, according to which it is necessary for one participant to be at a loss in order for another to achieve its goals, and which is often included as a structural segment of political realism.

One of the more important conclusions of this research supports the findings of several recent authors that the geoeconomic concept is not opposed to economic liberalism. As long as common-good goals exist and are realized, the zero-sum cannot be accepted as the rule in international relations. China has shown that economic liberalism and realism are not necessarily opposed. In order to develop further, geoeconomics as a concept requires expansion by recognizing the existence of liberal values in the practice of international relations.

Another extension of geoeconomics that emerges from this research is the inclusion of geopolitical means (other than armed ones) in cases when its goals are to increase or maintain economic power. Examples from modern geoeconomic practice show that some strategies of powerful states cannot be clearly classified as geopolitical or geoeconomic. Therefore, excluding all strategies involving geopolitical means can only result in an unjustifiably reduction in geoeconomics commercial realism.

This research gave a special contribution to the concept of geoeconomics by providing a classification of geoeconomic means into forced, penetrating, and

protective, made on the basis of their purpose. The classification made it possible to avoid labeling all geoeconomic means and geoeconomics as concepts of the harsh reality of international relations. The given examples of the application of geoeconomic means indicate that forced means are always unwanted by the countries to which they are applied. Protective ones can have negative or neutral effects on other participants since some sorts of penetrating means usually enable mutual benefit.

The proposed classification reflects the internal logic of the choice of means in accordance with the goals and intentions of the state that pursues them. It can be a useful tool for the authors of geoeconomics to have a clearer picture and provide deeper explanation and prediction of the geostrategies of the participants in international relations. Besides, it can make it easier for strategists to create consistent geostrategies.

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GEOEKONOMSKI KONCEPT I PRAKSA: KLASIFIKACIJA SAVREMENIH GEOEKONOMSKIH SREDSTAVA

Apstrakt: U ovom istraživanju geoekonomija je analizirana zasebno kao teorijski koncept i kao praksa država, kao ključnih aktera međunarodnih odnosa. Cilj je da se sprovede detaljnija analiza, sistematizacija, klasifikacija i objašnjenje različitih vrsta geoekonomskih sredstava, kao ključnog dela geoekonomske prakse. Osnovna hipoteza je da u masi ekonomskih sredstava koje države koriste u međunarodnim odnosima, postoje prirodne linije njihovog razgraničenja, unutrašnja logika, koja omogućuje da se ona klasifikuju, sistematizuju i objasni njihova različita svrha. Istraživanje je rezultiralo klasifikacijom geoekonomskih sredstava na prisilna, prodiruća i protektivna. Klasifikacija daje osnovu za jasniju analizu, objašnjenje i predviđanje strategija učesnika u međunarodnim odnosima. Objašnjenje navedenih grupacija geoekonomskih sredstava ukazuje na svrsishodnost predložene klasifikacije i implicira da može biti korisno oruđe za autore geoeonomije, ali i za planere u kreiranju konzistentnih geoekonomskih strategija..

Ključne reči: geoekonomija, geoekonomska sredstva, međunarodni odnosi, politički realizam.

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ASSESSING THE POLITICAL RISKS IN EURASIA IN THE WAKE OF THE FIFTH CHINA'S “GRAND STRATEGY”

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Abstract: Political risk assessment (PRA) is usually performed at the national polity level. With a novel and globally significant reality exposed in the Belt and Road Initiative, the vast Eurasian space has risen high on the political risk assessment agenda. This has especially become dominant in Western academic narratives. How the various PRAs find their place in practice is an issue that constitutes a significant scientific void. This study aims to supplement such vivid endeavours by reviewing the current state of research and applying its findings to three regions: China's geographical neighbourhood, Southeast and Central Europe, and Central Asia and the Middle East. Firstly, the findings of several major studies into the fifth so-called “Grand Strategy” of the People's Republic of China as a major driver of its security policy will be contextualized. This will be followed by two segments, one which will stress the rudiments of PRA both in terms of the geographical realm and the *modus operandi* of the process. The second segment is devoted to contemporary scientific endeavours that include Big Data and deployment of artificial intelligence tools to determine the level and nature of political risk across the BRI space. After the findings are systematized, their implications for the BRI countries in the wake of the latest challenges will be underlined, such as the investment critiques and the decline in euphoria about the format “17+1”. The results demonstrate a significant change in the components of political risk for most of the Eurasian countries, which will consequently influence the process of reformulation of China's foreign and security policy preferences.

Keywords: political risks, foreign policy, China, Belt & Road Initiative, Grand Strategy, Big Data

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CONTEXTUALIZING THE BRI'S POLITICAL RISK INTO THE FIFTH GRAND STRATEGY OF CHINA

With the tremendous rise of China, its presence across a wide range of geographical areas has recently intensified. China's quest to benevolently participate in global affairs has spilt over the last two decades. What made this Asian country further emerge on the global stage was its "rivalry for global dominance", on which the US has insisted.³ This has become a pivotal topic, especially in a setting in which the system of international relations maintains extreme turbulence in multifaceted crises globally. In parallel, China articulates its political-economic interests across the Eurasian space, which culminated in 2013 with the Belt and Road Initiative (BRI) establishment. A formalized initiative that initially compounded more than 65 countries populated with more than 2 billion people has grown in the years to come. The main penetrating tools were concretized in economic means of presence, such as the foreign direct investments (the FDIs) – both the Greenfields and the Brownfields, acquisitions, mergers, and loans. Besides the economic sphere, China's companies (and the state's leadership) are naturally interested in internal political and social occurrences within the country targeted by the potential investment. That is why political risk analysis (PRA) takes an important place in the corps of various analytic tools of the foreign and security policy of PR China, thus making it worthwhile for academic study.

Most of the PRA processes were focused on discovering the association type between internal political stability and the decision to invest. Such PRAs lack a concrete perspective as they are *actor-centric*. But what if the analysis of political risk is oriented towards the end-state (i.e., the target) of a specific foreign policy initiative? Is the foreign policy similarity positively correlated to state fragility? What are the main components of political risk that might impede China's Grand Strategy (re)formulation towards the BRI space? This paper intends to provide clearer answers to these questions. The BRI space in terms of this research is split into three parts: China's nearest neighbours, Central Asia, the Middle East, and Southeast and Central Europe.

³ Notwithstanding China's relatively inert policy towards the US, the latter side expands its national and global security concerns over the recent "malign rise of China" in its doctrinal documents such as the Interim National Security Strategic Guidance issued in March 2021. The Biden administration identified "growing rivalry with China...and other authoritarian states" as a strategic challenge the US is facing, which creates an environment of "unprecedented challenges" and also an "unmatched opportunity" (White House 2021). The document classifies China as the "only competitor capable to combine its economic, diplomatic, military, and technological power to mount a sustained challenge to a stable and open international system" (White House 2021). For an in-depth analysis of US-China relations over the specific geographic regions, see: Shambaugh 2018; Scobell et al. 2020.

China's quest to "catch up" with global affairs over the last few decades is causing its endeavours to formulate and codify its newest Grand Strategy. As some authors point out, the international system experiences the "fifth" Chinese Grand Strategy nowadays (Scobell et al 2020). That is specifically why the contextualization of the area compounded by the BRI is important within the setting of political risk assessment. Scholarly debates over the different "Grand Strategy periods" in modern China's history that shaped its foreign and security policy are usually coherent. Scobell and associates (2020) enumerate revolutionary (1949-1977), state-centric (1978-1982), national comprehensive power (1982-2003), and rejuvenating (2003-onwards) phases of China's foreign and security policy. Each of these phases has left a special emphasis on its views on global affairs. While the first, revolutionary phase covered the period between the establishment of the People's Republic of China (1949) and the beginning of the "great opening", which followed the establishment of Deng Xiaoping at the helm of the Party in 1977, the second phase (state-centric) contributed to China becoming what it now is in the first two decades of this century – a world superpower.

The third evolutionary phase of China's security policy (and thus its Grand Strategy) covers the period when Jiang Zemin played a crucial role and lasted between 1990 and 2003. In the literature, it is known as a phase of strengthening the "Comprehensive National Power".⁴ The fourth and last Grand Strategy, posits the "rejuvenation" of China's nation through the achievement of four great ideals: a great project, a great struggle, a great cause, and a great dream (Xi Jinping 2017). In the meantime, China has made great progress and achieved all four set ideals by establishing itself as a relevant global player. Now is the time for a somewhat more assertive role of this country in international relations, which raises the question of the emergence of a new, fifth Grand Strategy, and the need for its systematic study. These endeavours could be facilitated through analysis of doctrinal acts and actions that China's leadership is undertaking in the wake of emerging global political issues, but also with the inclusion of the political risk matrix into the analytical framework.

Thus, the aim of this article is twofold. We first want to point out the rising academic significance of PRA as a contemporary analytic toolkit for the BRI and/or China's foreign policy preferences. Not only are foreign policy preferences

⁴ Comprehensive national power (capacity) is a measure that quantifies the potential of a state at a given moment. This measure most often includes economic and natural resources, military resources, the level of technological development and human resources. This concept is immanent to Chinese political thought, and is believed to have been first developed by Deng Xiaoping. During 1992, the concept of CNP was recognized as an element of the official foreign and security policy of the People's Republic of China at the XI Congress of the Communist Party of China. During 2013, Xi Jinping re-actualized this concept in his notable speech.

in the analytical framework, but the investment policy is in the game also. Since the BRI has been dominantly built on foreign direct investments (and other means of economic presence), we will derive specific premises that will be insightful in further analyses of these phenomena. Second, this review will yield specific outlooks for contemporary risk assessment along the BRI route, which will be used as a case study in this paper. Thus, this article is an initial instance that serves as a potential base on which further PRA could be done. The data that will be compared, to some extent, indicate a decreased political risk level one year before the BRI's establishment in 2013 to data that describe the same variables in 2020. Following the vast consensus in the literature (Sotttilotta 2013; Leverett and Bingbing 2017; Zhang et al. 2019), in this paper is initially assumed that political risk has significantly changed within the BRI space over the course of a decade.⁵ Besides, it is claimed that by reviewing the most notable examples of such analyses, this paper contributes to a growing analytical potential of the given space in the IR science, which is the second aim of this study.

The paper's structure proceeds as follows. Firstly some preliminary elaborations on the political risk notion and methodologies of PRA are offered. Following the evolution of this concept, the review of PRA is split into two main segments. The first one tackles the rudimentary stages of scientific PRA. The second elaborates on the main achievements of contemporary scientific PRA based on the Big Data and artificial intelligence tools deployed for their processing. In the end, the main characteristics from both analytic traditions are identified and applied to the complex reality of China's instrument of political-economic global rise – the space of the Belt and Road Initiative. In that respect, four variables are added into the descriptive analysis: the dynamics of the political regime type, GDP growth, political instabilities, and FDI dynamics. The discussion provides deeper insights into the findings and puts the future vectors of China's foreign and security policy in the context of a complex matrix of contemporary debates.

SOME PRELIMINARIES ON PRA AND ITS METHODOLOGIES

Political risk is a hugely debated issue among the IR scholars since the literature abounds with conceptual models of political risk (Kobrin 1978; Chevalier and Hirsch 1981; Robock and Simmonds 1983; Chermack 1992; Jarvis 2008). Most academic papers in the earlier phases of PRA thematization stress the importance of the term *economic* within the political risk concept (Robock and Simmonds 1983). Among the early scientific considerations of the political risk literature, Stephen

⁵ Of course, the high possibility that these changes in variables could also be significantly influenced and caused by other factors or processes are not excluded, on the contrary, they will be further elaborated in the discussion of this article.

Kobrin stands out for his association of political risk to international business (Kobrin 1978). His working paper published in 1978 puts economic first, as he argues, “much of politics is economics, and most of economics is politics” (Kobrin 1978). This author cites the reciprocal relations between *political* and *economic* and acknowledges that in some cases of PRA, this association might be statistically (or even qualitatively) independent (1978, 12). Stating that “abstract phenomena”, as it refers to the sphere of economics and politics, significantly influence the formation of political risk, Kobrin treats PRA as “the degree of stability of the environment that affects the company’s operations at a given time” (Kobrin 1978). He concretizes the relationship between the environment and the company’s business activities through three factors of affection: the uncertainty, then the degree of “objective uncertainty” (as this author described it), and the bounded subjective uncertainty (Kobrin 1978, 16). Kobrin further illustrates his allegations with the example of the election of American presidents during the pre-electoral campaigns. In this process, it is never completely clear who will become the next president and have a significant influence on the economic policy of foreign companies operating in the United States. Such environmental influence is referred to by Kobrin as “uncertainty” (1978, 17). However, if researchers thoroughly examine the election campaign as well as the history of all previous campaigns in which statistical regularities in the election of the president can be observed, the winner of the election can be predicted, and such an influence of the political environment on the economy takes the form of objective uncertainty. Finally, if uncertainty is limited by the absence of possible outcomes and statistical probabilities, but only by partial attitudes, then such an attitude of the environment towards risk is characterized as bounded subjective uncertainty (Kobrin 1978). Such voices from “traditionalists” have vastly been supported by other “old-school” authors who observed the analytical framework as well as the theoretical aspects of political risk.

Anaam Hashmi and James Baker (1988) have put forward PRA into the matrix of the analytical frame of the investment activities of multinational corporations (MNCs). They identify two problems that each (corporate) researcher of PRA is facing: the absence of historical data that shed light on the environmental influence on the socio-political conditions within a specific state, and the specific orientation of the variables that are used as predictors (1988, 188). In an empirical study conducted in the late 1980s, these authors sought to identify which political risk assessment techniques were most appropriate for the size of corporations (clients of these analyses) and investment decision-making. In a sample of over 50 companies, they found that quantitative techniques showed prevailing statistical significance when it comes to the relationship of corporations to PRA. However, they concluded that large corporations that generate more than 20% of their foreign sales operations were combining the two techniques (1988, 200). Robock

and Simmonds consider that the general division of risks into macro and micro risks is the most adequate. According to their view, the first group of risk manifests when companies and business activities are affected by the political events that prevent their further continuation (Robock and Simmonds 1983).

On the other hand, micro risks are manifested when the business processes are affected only in one part of the sector or business area (1983, 23).⁶ Political risk was also defined as any “contingency that arises from the political environment which takes the form of constraints imposed on operations” (Kobrin 1982 [Frei&Ruloff1988]). The traditional wave of the literature suggests the importance of some distinctive risks, such as sovereign risk, which indicates the foreign governmental debts of the countries, country risk, which involves both economic and political occurrences, the so-called “transfer risk”, which refers to the financial activities of the governments, as well as pure political risk, which is associated with governmental preferences over some FDI decisions by the third countries (Frei and Ruloff 1988).

Some more contemporary distinctions of the political risk methods are widely recognized in the literature. Mortanges and Allers (1996) advocated quantitative and qualitative methods of PRA while setting the latter ones into two sub-groups: structured and unstructured. Under the unstructured methods, they enlist the judgment and intuition of managers and experts’ opinions, while under the structured methods, they involve the Delphi technique, standardized checklist, and scenarios (1996, 307). Llewellyn Howell provided a view on political risks as all the “political or societal events occurring within the single state that will affect the business climate in such a way that investors will lose money or not make as much money as they expected when the investment was made” (Howell 2001, 4). Further advances in the field were made by Cecilia Emma Sottilotta, who systematized modern academic discussions of political risk. This author cites a summary of the five technical meanings of political risk. The first among them is the political risk as a non-economic risk (Sottilotta 2013). This is the initial phase in which companies, but also the state that implements foreign policy, notice “on-sight” disturbances (2013, 4). Another meaning of political risk treats this term as “unwanted interference of local governments” in business processes (2013, 3). This presupposes unnecessary interference by the governments of the “target” state in business, and this author also refers to Kobrin’s view that local governments are the cause of political risks (Kobrin, 1978 [Sottilotta 2013, 4]). The third meaning of political risk in Sottilotta’s matrix treats this phenomenon as the possibility of disrupting the security of multinational corporations by political violence or high-

⁶ As examples of macro risks, these authors cite civil wars, revolutions, and protests, while they see discriminatory tax policies, import restrictions, and sanctions that affect only individual companies as micro risks (Robock and Simmonds 1983).

intensity political events (2013, 3). For this definition of political risk, this author argues that it is the most accurate because it treats risk as a probability calculated in each individual case (2013, 4). When the political risk is viewed as a discontinuity of business of companies resulting from political changes “that has the capacity to influence business”, then it is referred to the fourth definition of political risk proposed by Cecilia Emma Sottilotta. The author argues that this category of political risk is somewhat broader because it includes the entire business environment and not just one specific company for whose security PRA is performed (2013, 4). The last in a series of political risk operationalization by this author is the observation that risks are equal entities to political instability and radical political changes in target states (Sottilotta 2013). This definition of risk is cited by this author as crucial in bridging the gap between the science of international relations and economics. She cited the contribution of Green, who focused on studying the influence of the type of political regime on political risk in 1972 (Green 1972 [Sottilotta 2013, 5]).

PRA IN PRACTICE

As stated earlier in the text, political risk is a domain that holds exclusively the notion of *economic*, especially in early research stages, while in parallel neglecting the political occurrences in the analysed states. This segment of the paper is divided into two sub-segments, of which the first initially presents the rudimentary PRA attempts. The second part continues with a description of modern research endeavours that involve Big Data and artificial intelligence usage within PRA. Such a systematic review will strengthen the basis on which further academic attempts can be made. In essence, advanced and scientifically grounded PRA was developed during the decade of the eighties of the last century. Cengiz Erol was among the ones who advocated the usage of PRA in the framework of the decision-making process of FDI, developing a specific exploratory model on PRA (Erol 1985).⁷ However, this and similar models remained “below the radar” of the IR sciences. It suffices to say that the most notable ones are purely quantitative and require complex mathematical knowledge to satisfy the minimum criteria of PRA, which will be discussed later.

⁷ The model assumes the existence of three systems that coexist in parallel. The decision to make a foreign investment is based on one of three potential “systems”: *System A* which eliminates all the nations with high political risk from the investments; *System B* in which, due to the high instabilities or state fragility, the investments are done but with higher requesting revenues; and *System C* which assumes that the decision on investment is made solely on the specific country’s PRA (Erol 1985, 78).

The use of complex data sets in political risk assessment as a significant segment of foreign policy has also been recognized among the “traditionalists”. Daniel Frei and Dieter Ruloff (1988) were the first to systematically describe the (then available) database usage for political risk analysis. Among the most notable, as the most fruitful, they identify the following ones: the Biography Master Index, Scisearch and Social Scisearch, produced by the Institute for Scientific Information (ISI), GLOBE Global Lending and Overseas Banking Evaluator, F&S Political Risk Letter, and NEXIS data, which is used to index media coverage of political occurrences (1988, 10).⁸ Such an academic stance on political risk was the rudiment of the contemporary political risk analyses based on Big Data and supported by emerging tools of artificial intelligence.

Nowadays, researchers have at their disposal numerous data collection tools that might help them to successfully build estimates of political risks across the globe. In principle, these tools can offer a wide range of data solutions, but without high data accuracy, they become quite inadequate for scientifically rigorous analyses. In systematic research conducted at the end of the eighties, Hashmi and Baker (1988) confirmed that arising hardware technology favoured quantitative over qualitative risk assessments. They surveyed MNCs which intended to invest overseas and concluded that corporations are more confident in the quantitative data that they collected over time, which is why they trusted more to the quantitative risk analyses (1988, 200). To support the “traditionalists” claim, many models demanding strong software arose. Two of them stand out due to their widespread usage: the Economist and ICRG model. The most adequate of them is the International Country Risk Guide – ICRG, developed by the International Reports Group – IRG. Their product, Political Risk Services (PRS), provides a model with 3 forecasts at the micro risk level. According to the Methodology Codebook, the PRS system forecasts risk in 2 stages – “first identifying the three most likely future regime scenarios for each country over two periods and then by assigning a probability to each scenario over each period, 18 months and five years” (PRS 2021). For such scenarios, PRS’s experts then establish likely changes in the level of political turmoil and 11 types of government intervention that affect the business climate (PRS 2021, 1).

The Economist political risk index methodology deploys ten different risk categories: labour market risk, tax policy risk, infrastructure risk, financial risk, foreign trade risk, legal risk, macroeconomic risk, government effectiveness risk, political stability risk, and security risk (GAR, 2013). It assesses 10 criteria on a scale of 0-100, in which 0 demonstrates very little risk to business profitability,

⁸ These authors labelled all available systematized datasets at the time as “inevitable infrastructure for political risk assessment” (1988, 20).

while 100 shows very high risk. Each of the 66 indicators within the main criteria is scored on a scale from 0 (very little risk) to 4 (very high risk) (GAR 2013).

Besides these models, many datasets offer systemic data on this issue. The Armed Conflict Location & Event Data Project (ACLED) is a specific project that indexes and maps data on political violence across the globe. This huge dataset involves variables that describe fatalities, types, locations, and involved stakeholders in all the cases that satisfy the definition of political violence according to its methodology (ACLED 2021). ACLED collects disaggregated data, and, from 2020, its methodology differs a bit from region to region. The database involves available data (with some exceptions) back to 1997 and is indexing all the events that are occurring in real time. With all the critiques addressed to this project (Eck 2012), ACLED has managed successfully to be widely used by the scholarly community in political risk assessments (Raleigh et al. 2010). Similar to this, there is another project, the Global Database of Events, Language, and Tone – GDELT, which monitors the world's media from almost every part of each country in print, broadcast and web formats in over 100 languages. The data span from January 1, 1979, to the present, and the database consists of a quarter of billion geo-referenced records covering the entire world over 30 years.

DIVERGING POLITICAL RISK TO FOREIGN POLICY PREFERENCES MATRIX: COMPONENTS OF THE BRI'S POLITICAL RISK

In an article published in 1996, Llewellyn D. Howell and Donald Xie were the first to analyse the political risk of the Asian continent systematically. They proposed that the composition of political risk should consist of political instabilities, economic dynamics, and bilateral ties between the analysed entities (Howell and Xie 1996). Authors accept Green's (1975) notion of the political constituents of political risk, i.e., political regime type, political instabilities and state fragility, and bilateral ties between the implementing and end-state (Green 1975). In this sense, they deployed the political regime type measure, the state fragility index measure, GDP growth, and the FDI's dynamics as four variables that constitute a political risk. For the purpose of this analysis, data for three specified regions will be presented: China's neighbourhood,⁹ Central Asia and the Middle East,¹⁰ while the third region of Southeast and Central Europe comprises 16

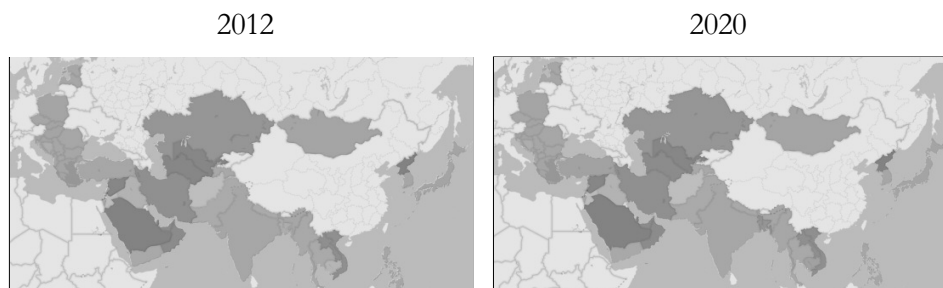
⁹ Namely: Japan, South Korea, North Korea, Mongolia, Cambodia, Vietnam, Laos, Thailand, Philippines, Myanmar, Bangladesh, India, and Nepal.

¹⁰ This region comprises the following states: Kazakhstan, Uzbekistan, Tajikistan, Turkmenistan, Iran, Iraq, Afghanistan, Pakistan, Israel, Syria, Lebanon, Jordan, Saudi Arabia, UAE, Qatar, Oman, Yemen, and Turkey.

countries that form the “16+1” Initiative.¹¹ Depending on the available data, the findings for around 50 Eurasian countries are presented. The results proceed as follows: initially, specific datasets that are the sources of our analysis are deployed. For most of the identified variables, data was used specifically for the years 2012 and 2020. The political risk indices across Eurasia are mapped by selecting the most notable constituting variables identified by the scholarly literature.

The authors efforts are aimed at identifying possible deviations and differences in the same variables just before the BRI was established in 2013, as well as in 2020, which will mark the initiative’s tenth anniversary. Political regime type data is measured by the Polity IV project. The total score ranges between -10 and +10, where -10 stands for a closed autocracy and +10 denotes full democracy. Figure 1 presents the level of the type of political regime in the Eurasian area covered by the BRI during 2012 and 2020.

Figure 1: Political regime type dynamics in the Eurasian space covered by the BRI¹²



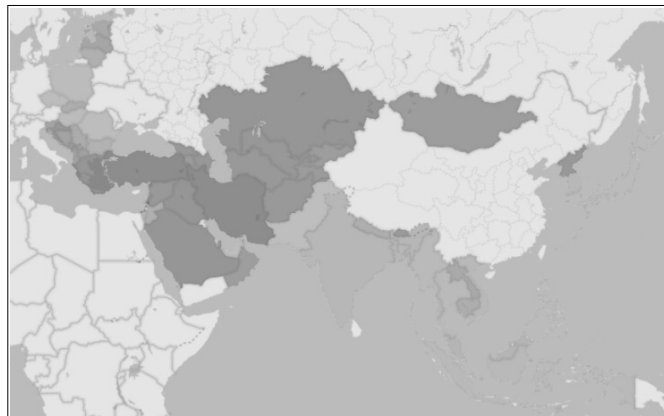
Source: Marshall 2020.

Overall, the political regime type has slightly changed within eight years. According to displayed data, five countries (Turkey, Thailand, Cambodia, Myanmar, and Bangladesh) experienced political-regime type’s change towards autocracy (Figure 1). Generally speaking, there is a measurable trend of autocratization in this measured space between 2012 and 2020. The following variable refers to the analysis of the achieved gross domestic product. Subsequently, the following graph presented the changes in GDP that the countries of this area achieved between 2012 and 2020. For the years 2012 and 2020 the data were taken from World Bank Data, while the difference was shown in Figure 2.

¹¹ Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Greece, Hungary, Latvia, North Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, and Slovenia.

¹² Figure 1 displays democratic states (light grey) and autocratic ones (dark grey) according to the Polity IV data. The graphics were calculated and created by the Microsoft Power BI analytical software.

Figure 2: Differences in national GDPs between 2012 and 2020
(current US dollar) in Eurasian space¹³



Source: World Bank Data 2021.

Of 55 sampled countries, 39 had positive GDP growth between 2012 and 2020, with an outstanding figure referring to Japan, India, South Korea, Bangladesh, Israel, and Indonesia, which achieved incredible growth over the measured period. The largest decline in GDP, by far, was registered for Iran and Turkey, followed by Greece, Iraq, Karat, Kazakhstan, Saudi Arabia, and Azerbaijan (Figure 2).

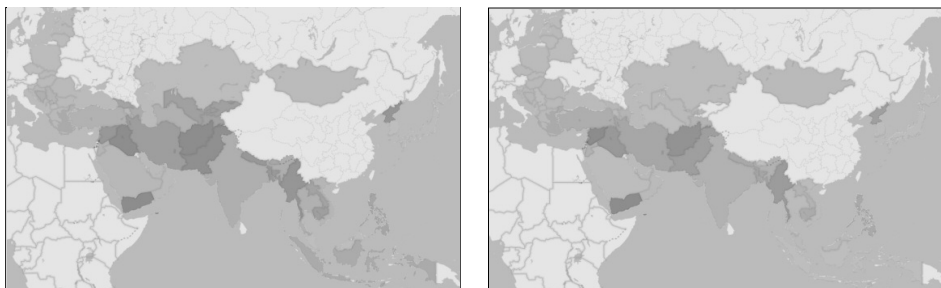
The next variable of political risk is operationalized in the concept of the Fragile State Index (FSI), issued by the Fund for Peace. The FSI is essentially linked to one project that was implemented during the 1990s – the Conflict Assessment System Tool CAST. Based on this project, the FSI collects data through three different channels: content analysis (which includes over 50 million analysed articles and reports in English), then the use of quantitative data (through available databases such as the UN, the World Bank, and the WHO), as well as a qualitative analysis that should complement the previous two techniques (FSI 2021). Such “three streams”, as the FSI stands for, confirm the quality of the analysed and provided data.

¹³ Figure 2 displays the highest positive changes in GDP (light grey), maintaining the same or similar level (grey), and GDP decline (dark grey) in 2020 compared to 2012, according to the World Bank Data. The graphics were calculated and created by the Microsoft Power BI analytical software.

Figure 3: Fragile State Index in Eurasian space¹⁴

2012

2020



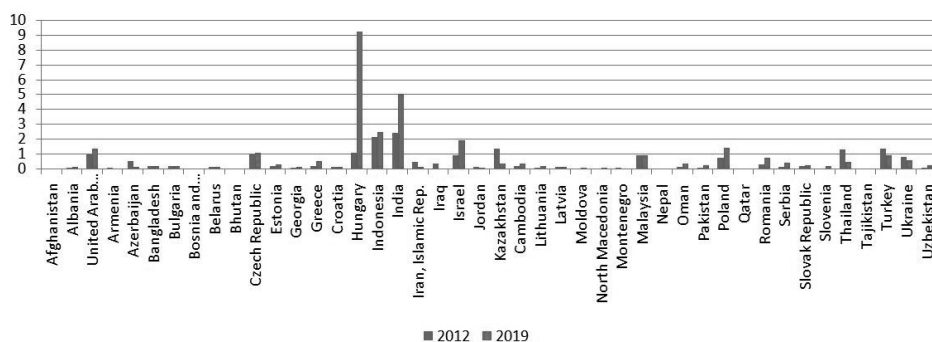
Source: The Fund for Peace 2021.

Like the previous two variables, Figure 3 also presents a slight difference in the fragility of the national institutions. It increased between 2012 and 2020, albeit slowly, but some quantitative marks are observable. This area has experienced a vast number of challenges over these years, which is why it registers with less efficient overall governance.

FDIs possibly take the most important place within PRA, especially in the space covered by the Belt and Road Initiative. Many authors recognize the significance of observing the FDIs' dynamics in the same space over time, as a segment of political risk (Chevalier and Hirsch 1981; Erol 1985; Mei 1999; Sottilotta 2013). Thus, the last variable displayed in this paper is the FDIs dynamics in the Eurasian space covered by the BRI. For 2012 and 2019 were used the World Bank Data, and the results are shown in Figure 4.

¹⁴ The FSI index is calculated as a composite figure from the following variables: security apparatus, factionalized elites, group grievances, the economy, economic inequality, human flight and Brain Drain, state legitimacy, public services, human rights, demographic pressures, refugees and IDPs, and external intervention (FSI 2021).

Figure 4: Foreign Direct Investments in Eurasian space¹⁵



Source: World Bank Data 2021.

The data in Figure 4 show that, in general, the FDIs' amounts are more consolidated and focused on specific regions. Unlike in 2012, when the FDIs were dispersed across Eurasia, they were concentrated in only a few countries in 2019. Relatively unexpectedly, investments were grouped in the macro-region of China's neighbourhood surroundings during 2019, which was not the case with the 2012 data. India, Hungary, Indonesia, Japan, and Nepal managed to perform a high ratio of the FDIs within their territories (Figure 4).

POLITICAL RISK FEATURES OF THE EURASIAN BRI

Having in mind the huge corpus of knowledge acquired in this area, it could be beneficial to select and elaborate on several major outcomes for the "modernistic" application of political risk that each analysis of the BRI space and China's role must take into account. In this segment, the inevitably changing segments of PRA as seen from China's Grand Strategy postulates will be discussed and justified. In this instance, several dilemmas arise.

First, what does the Grand Strategy offer to PRA? Jisi Wang (2011) proposes a set of analytical questions putting forward the Grand Strategy "to respond" to what are the vital national interests; what external threats may endanger the identified national interests; and what does the state leadership do to preserve such national interests? China's white papers on defence do not offer a clear answer to the very last issue. In the mid-1990s, China initially codified its own security policy. China's "new security concept", as characterized by Kerry Dumbaugh, was

¹⁵ The measure indicates the total amount of FDIs a single country receives in a given year. This measure is then calculated through the World Bank Data formula which involves GDP, territory size, population, and annual national budget into the equation. World Bank Data's latest registered year was 2019. Thus, this year's data is included in this analysis.

supposed to convince other countries that economic and military growth did not pose a threat to international security (2008, 5). In several published White Papers, China has defined the post-Cold War global environment as an area that requires a “more pragmatic security policy based on mutual equality, cooperation and trust” (White Paper on Defense 1998). Theresa Fallon believes that China’s Grand Strategy does not distinguish countries based on their internal political (in)stabilities, but rather with the willingness to “mutually engage” with them in economic and political spheres (Fallon, 2015).

Some authors rightly pose several dilemmas about possible conductors of PRAs. Although they are considered “traditionalists”, Frei and Ruloff prophetically identify issues that are significant even in contemporary studies of political risk. According to them, the analysis of political risk should be performed by both so-called “insiders” and “outsiders” (Frei & Ruloff 1988).

In terms of the analysis of the foreign policy preferences of China, the role of insiders is played by the representatives of state institutions and agencies that propose, adopt, and ultimately implement the policy towards the Eurasian region. However, as pointed out at the beginning of this article, the response of the “targets” – the states that are the end-state of this process – is of great importance. This completes what Mei Jianping calls “political risk cyclicity” (Mei 1999) since the analysis of the success of foreign policy and economic investment in each individual country along the route is improved with inputs obtained from the field.

China’s foreign and security policy is also heavily oriented towards the distinctive regions: Southeast Asia, Central Asia, the Middle East, Central Europe, and Southeast Europe. That is why this discussion encounters with four major variables for these regions: the dynamics of the political regime type, GDP growth, political instabilities, and the FDI dynamics. The political regime type dynamics takes an extremely important place in the IR and Security Studies. It could arguably be declared that the political regime type measurements are the most developed part of the area. This article’s comparative findings confirm that, in general, the Eurasian space tends toward further autocratization. However, because China does not view its partner countries through the lens of political regimes, this should not pose a major issue in its relations with the BRI states. Since the region tends to autocratize, other major superpowers (US) might use it to diminish China’s role in this part of the globe as an “autocratic influential player” (White House 2021).

There is also an additional issue that should bring attention to China’s quest to be politically *omnipresent*. In early 2000, Harms and Ursprung raised an intriguing hypothesis which denied common knowledge that political repression was a factor that increased FDIs (2001). They inspected causal mechanisms between the political regime types, human freedoms and liberties on one side, and the FDIs inflows on another side. In their empirical study, they statistically confirmed that

the higher political liberties level were, the more FDIs these countries attracted (2001, 11). If the general trend of autocratization is ongoing, China's Grand Strategy principles must take into account that the competing western superpowers will invest more in more stable and politically democratic societies rather than in autocratic ones. Figures 3 and 4 reveal geographically less dispersed FDIs and more fragile state apparatuses in 2020 than in 2012. That might be the outcome of the most complex factors but important for the evolution and planning of China's new security policy for Eurasia.

Lastly, it is worthwhile to demystify what makes PRA of the space covered by the Belt and Road Initiative so specific. Three characteristics make this PRA so unique. Eurasian space is the most dynamic macroregion in the world. Although the political changes and dynamics of relations between the states in this area seem to be slow, a more thorough analysis reveals many layers that could point to structural problems in maintaining peace and political stability in Eurasia. The relatively sudden and escalating armed conflict between Armenia and Azerbaijan over the disputed Nagorno-Karabakh territory in 2020, the withdrawal of US troops from Afghanistan and the re-establishment of the Taliban regime, the armed conflict between Palestine and Israel in 2021 are just some indicators of significant "potential" for violating the security situation in this part of the world. Although all these events have deeper roots in the history of their own conflicts, their sudden manifestation was not inherent in previous decades, as is the case in modern times.

In addition to the sudden occurrence of a phenomenon that might shape political risk, the following specificity of PRA refers to the exceptional diversity of countries, the types of political regimes, cultures, religions and other national peculiarities that inhabit this area.

Although Eurasia is a region *per se*, as noted above, it is made up of very heterogeneous socio-political contexts. Unlike the security policy advocated by the so-called regional approach, which was established by the United States during the 1990s, the People's Republic of China still does not (officially) have a codified policy towards the single regions of the world. That will probably become an important asset in the new fifth Grand Strategy outlook.

The third important feature of the political risk in the BRI area concerns the geopolitical code of the nation in which the economic forms of the presence of China are conducted. In an effort to thwart China's overall growth, the United States and other major powers in the system of international relations are treating the area as a proxy for possible competition with China. The most notable example occurred at the beginning of April 2021 when Lithuania officially left the "17 + 1" format and thus became the first country to openly oppose this type of formalized cooperation with China in the past decade. This act was applauded by

the Western world as “a sign of trans-Atlantic solidarity in the XXI century” (DW 2021). Lithuanian leaving also opened up issues raised by academic authors through “the end of China’s benevolence”, while a group of other authors believed this would only strengthen China’s efforts to intensify cooperation with European countries (Oxford Analytica 2021). Due to such problems, China’s investment in Eastern Europe may be slowed down by complex rules imposed by the European Union for which Chinese companies are not yet ready. In addition, some of the investments have been deliberately suspended or even thwarted due to “concerns about excessive Chinese influence”. Similar problems can occur in other countries along the route, especially those having a divided geopolitical code or whose society does not agree on a clear foreign policy orientation.

CONCLUSION

This article introduced the novel idea of shifting the thesis from the purely economic to the political moment of PRA. Authors tend to involve political risk in the so-called fifth Grand Strategy of the People’s Republic of China, which, unlike the previous ones, will aim at the wider political promotion and China’s presence in all parts of the world. In such a complex matrix, authors have included the modern concept of risk analysis in one of the central geographical areas on which the foreign and security policy of China is focused – in the area of Eurasia covered by the Belt and Road initiative. Presenting data for four indicators of political risk – the dynamics of the political regime, FDI dynamics, GDP growth, and political instability – authors noticed significant differences in the period before and after the establishment of this Initiative. That is why further and more concrete political risk analyses must be performed to explain the growth of China’s influence in this part of the globe.

Literature on the PRA concept and methodology is abundant. Within the several identified waves of academic thought on PRA, two distinctive branches have emerged as important. Their distinction is based on the temporal domain of publishing. Thus, all of these are classified as traditionalists who favour economic in PRA and prefer to perform the analyses exclusively based on quantitative techniques. In this paper authors represented models (Economist, BERI, and ICRG) and data sources, which authors believe to be the most used in the literature and empirical research – ACLED and GDELT. After a comparative presentation of the constituents of the political risk in the BRI space, they conclude that some of them, such as political regime type, might not deeply interfere with the newest Grand Strategy of China. However, FDI distribution, GDP growth, and internal political instabilities such as poor governmental apparatus functioning may have a significant impact on China’s foreign and security policy preferences in the future. It remains to be seen whether or not China will choose the *sui generis* path towards

establishing itself as a global player. The certain fact in this process is that its own foreign and security policy will be formulated based on more systematic political risk assessments done both by its own civil servants and policy (decision) makers, as well as externally by the scientific community.

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PROCENA POLITIČKIH RIZIKA NA PROSTORU EVROAZIJE U SVETLU PETE KINESKE „VELIKE STRATEGIJE“

Apstrakt: Procena političkih rizika se obično sprovodi na nivou nacionalne države. Sa novom i globalno značajnom stvarnošću izloženom u Inicijativi „Pojas i Put“, ogromni evroazijski prostor se etablirao visoko na agendi procene političkog rizika, što je posebno postalo dominantno u zapadnim akademskim narativima. Način na koji različite procene nalaze svoje mesto u praksi je pitanje koje predstavlja značajnu naučnu prazninu. Cilj ovog članka je da dopuni takve poduhvate pregledom trenutnog stanja istraživanja uz primenu nalaza na tri regiona: geografsko susedstvo Kine, jugoistočnu i centralnu Evropu i centralnu Aziju, kao i na Bliski istok. U radu će prvo biti kontekstualizovani nalazi nekoliko velikih studija o takozvanoj petoj „Velikoj strategiji“ Narodne Republike Kine kao glavnog pokretača njene bezbednosne politike. Nakon toga će uslediti prikaz dva segmenta, prvog koji će naglasiti osnove procene političkih rizika, kako u pogledu geografskog područja, tako i samog procesa. Drugi segment je posvećen savremenim naučnim poduhvatima koji uključuju *Big Data* i primenu alata veštačke inteligencije za utvrđivanje nivoa i prirode političkog rizika širom prostora Evroazije. Nakon sistematizacije nalaza, biće pružene implikacije političkih rizika za zemlje obuhvaćene Inicijativom „Pojas i Put“ u svetlu najnovijih izazova za Kinu, poput kritika povodom ekonomskih ulaganja, kao i pada euforije o formatu „17+1“. Rezultati pokazuju značajnu promenu u komponentama političkog rizika za većinu evroazijskih zemalja tokom poslednje decenije, što posledično utiče na proces reformulacije kineskih bezbednosnih i spoljnopoličkih preferenci.

Cljučne reči: politički rizici, spoljna politika, Kina, Inicijativa „Pojas i Put“, Velika strategija, *Big Data*.

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NEW DEVELOPMENT PARADIGM WITHIN THE CHINESE 14TH FIVE-YEAR PLAN – CHINESE VISION OF MODERN CHINA

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Abstract: “Dual Circulation” is the new Chinese development paradigm introduced in the latest 14th Five-Year Development Plan. The author of this article explains the origin of the paradigm, how it will be implemented, as well as the main challenges that present an obstacle to achieving the planned goals. “Dual Circulation” is the logical step in the evolution of the Chinese economy, and the planned results are ambitious. The main challenges in the implementation of the new development concept will be to expand the domestic demand, have more equal regional development, increase the domestic income, implement changes within *hukou*, increase the high skilled labour force, change the culture of savings, reform the state-owned enterprises, and have innovative development. The main expected changes within the world economy will be regionalization, increased self-reliance, and changes within global production and supply chains.

Keywords: New development paradigm, China, 14th Five-Year Plan, Dual circulation, challenges, changes

CHINA: CHANGES AND CHALLENGES

Chinese five-year development plans have a long and successful tradition. Established in 1953, they have been the main source of information on the future economic development and a guideline for Chinese provincial governments, enterprises and citizens for almost seventy years. The plans reflected the time and circumstances in which they were established. The Chinese leadership had formulated some of the most known campaigns, development models, strategies, and policies through those plans. Some of the prominent ones were the Great

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Leap Forward (1958), the Open Door Policy (1978), the Going Global Policy (1999), the New Normal (2014), Made in China 2025 (2016), etc.² They all announced changes in development phases that lead to a more developed and prosperous society.

In 2010, China became the number two economy in the world. Today, China is the number one economy in the world in regards to GDP in purchasing power parity, global exports, and percentage of global manufacturing. Almost 800 million people in China have been lifted from poverty so far, and there are constant plans to further improve the economy. All those improvements were achieved due to careful and thoughtful planning.

Until two decades ago, the plans were centred on the so-called *quantitative* development, while the situation changed in recent years, and *qualitative* development became the new focus. The aim is to achieve economic progress that will result in a better quality of life for Chinese citizens.

According to the 14th development plan, China will endeavour to reach the goal of becoming a moderately developed country and achieve a US\$ 30,000 GDP per capita by the end of 2035 (Vision 2035). At the end of 2020, the GDP per capita in China was US\$ 10,500.396 in current US\$ (The World Bank), so the plan is to increase the GDP per capita by approximately US\$ 19,500 in the next 15 years.

While completing the 13th FYP at the end of 2019, China faced the most serious challenge so far – the COVID-19 pandemic. The first three months of 2020 were especially devastating for China since some provinces were in lockdown. Navigating through the unfortunate events proved to be demanding, but China managed to recover. It carried out strong health measures that gave efficient results, and the economy was on the road to recovery. At the end of 2020, China was among the few countries that achieved positive economic results in that year.

Summarizing the results of the 13th FYP, the Chinese Government stated in the newest plan that the China's GDP exceeded 100 trillion RMB, that 55.75 million people have been lifted out of poverty, more than 60 million jobs have been created in urban areas, and basic health insurance covered more than 1.3 billion people and provided basic pensions (CSET 2021). Judging by these results and despite the vast economic, political and health uncertainties, China managed to fulfil the tasks planned five years ago.

The main aim of this paper is to analyse the new development paradigm presented in the new Plan, look into its origin, see potential challenges in achieving the plans, and provide some predictions of the effects the new development

² More on the analysis of Chinese development phases and policies: Bramall Chris. 2008. *Chinese Economic Development*, London and New York: Routledge, Taylor and Francis Group.

paradigm will have on the world economy. The main tool of the assessment was content analysis, and both scientific and empirical resources were used as relevant sources of information.

The first part of the article explains the centennial goals and their connection to the new Chinese development plan. The second part explains the concept, the origin and reasons for the introduction of “Dual Circulation” defined in the Plan. The third part describes the main challenges China will face in the fulfilment of the planned goals. Finally, the article will elaborate on what kind of changes we can expect in the world economy due to the changes in the Chinese economy.

ON THE ROAD TO CHANGE – ACHIEVING CENTENNIAL GOALS

Before the official introduction of the 14th FYP, the Government made several announcements regarding the plan. The main emphasis was on two aspects. The first one was to achieve two centennial goals, and the second one was to implement a dual circulation development paradigm.

The centennial goals were incorporated into the Party’s Constitution in 2012 at the 18th National Congress of the Chinese Communist Party, and they followed Deng Xiaoping’s “Three Step Development Strategy” (Lu 2016, 80). Lu pointed out, that during his famous South China Inspection Tour, Deng expressed his views on China’s future, that would involve three steps (phases) in achieving them: 1) to double the size of the economy during the 80s; 2) to once again double the size of the economy during the 90s, thus making China a moderately prosperous society; and 3) making China a moderately developed country by 2049 (ibidem 81). Those plans were changed later on, and renamed as two centennial goals. The first centennial goal is to build a moderately prosperous society in all respects by 2021, when the Communist Party of China will celebrate its 100th anniversary. That meant that China would double the level of GDP per capita from the 2010 level by 2021, and reach the level of development China called a *moderately prosperous society* (ibidem). The second goal is “to build a *modernized socialist country* that is prosperous, strong, democratic, culturally advanced and harmonious until 2049”, on the 100th anniversary of establishing the PRC (Xinhua 2017).

Those plans did put pressure both on enterprises and on the Government to achieve them. The first goal will be fulfilled by the end of 2021, and that is a testament that the plans were formulated in a good way. At the same time, those goals were hard to achieve since the final year of the 13th plan was conducted during the pandemic. The second goal is an ambitious one as well, since GDP per capita needs to almost triple in the next 15 years, and that is the so called Vision 2035. Having in mind that the pandemic is still not over, that the GDP growth

rates of China are lower than in previous periods, and that many competitive advantages China had so far are not so competitive today, it will be a challenge to achieve it³.

The “Dual Circulation” development model was the second main point in the announcements of the new Plan. In those first announcements, it was stated that this model would rely on “internal circulation”, which will be simultaneously supported by the “external circulation”. The internal circulation is focused on creating better and advanced domestic production, distribution and consumption, driven by domestic innovation. The external circulation is the continuation of the pre-existing model concentrated on the internationalization model, which was export-oriented. The official explanation before the plan was completely announced was concise, which opened the door for many speculations regarding China’s ultimate intentions. Western media reports and analysts saw it as decoupling from the USA, but also as decoupling from international trade or supply chains (Pettis 2020, Blanchette & Polk, 2020, Sheng 2021, Aglietta et al. 2021). However, Chinese colleagues⁴ offered their vision and understanding of the new development paradigm, insisting that this is a normal and logical phase in the Chinese development, which will enable necessary adjustments in its economy needed to achieve the second centennial goal (Hong 2018, Lin and Wang 2021, Shusong and Bai, 2020, Liu 2020, Saad et al 2021, Kwan 2021). All of them provided evidences for their conclusion, but this research aims at finding its argumentation by reviewing all of them.

CHINESE VISION OF MODERN CHINA – IMPLEMENTING THE NEW DEVELOPMENT PARADIGM

The Chinese 14th Five-Year Development Plan consists of 19 parts, and each part is dedicated to a specific topic that will be in focus in the upcoming five years (see Table 1).⁵ All parts have several articles in which the Chinese Government expressed main intentions and measures that will be implemented in order to achieve their goals. In some cases, there are specific data (numbers) that are set as targets for 2026, but in many cases targets are given in a descriptive way. The trend of not giving specific targets in the Plan is in a line with Hu’s findings (2013). Hu stated that starting from the 6th Five-Year Plan, the proportion of economic

³ Such as price of the labour, productiveness, mass production, cheap products, etc.

⁴ Mainly, but not only them.

⁵ Note: In this research, the translation of the Chinese 14th Plan in English, published by the Center for Security and Emerging Technology, a policy research organization within Georgetown University is Walsh School of Foreign Service, USA, was used as a reference. All explanations and terms used in this part of the paper are relying heavily on the text, pages 32 to 38.

indicators have been dropping, and that was especially evident in the 12th Plan, where the usual ratio of economic versus non-economic indicators of 60% to 40%, dropped to 12.5% to 87.5% (Hu 2013, 631). “Moreover, most of the economic indicators are no longer mandatory plan targets but rather prognostic indicators.” (ibidem)

Table 1. Contents of the Chinese 14th Five-Year Development Plan

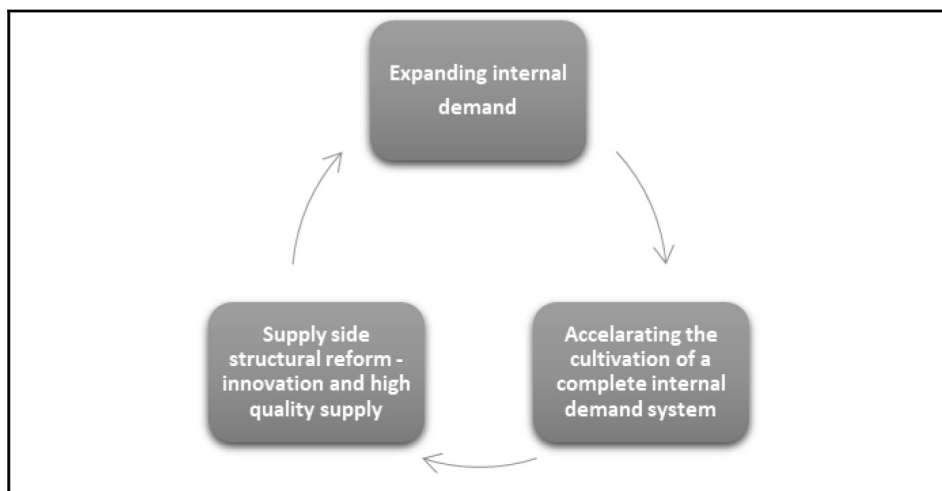
Part One: Embarking on the new journey to build China into a modernized socialist country in an all-round way	Part Ten: Develop advanced socialist culture and enhance national cultural soft power
Part Two: Adhering to innovation-driven development and comprehensively fashioning new development advantages	Part Eleven: Promote green development and facilitate the harmonious coexistence of people and nature
Part Three: Accelerate the development of a modern industrial system and consolidate and strengthen the foundation of the real economy	Part Twelve: Put high-level opening up to the outside into practice and exploit new situations for win-win cooperation
Part Four: Forming a strong domestic market and building the new development pattern	Part Thirteen: Improve the quality of citizens and promote comprehensive human development
Part Five: Accelerate digitalization-based development and construct a digital China	Part Fourteen: Enhance the people’s livelihoods and well-being and raise the level of co-construction, co-governance, and sharing
Part Six: Comprehensively deepen reform and build a high-level mechanism for the socialist market economy	Part Fifteen: Coordinate development and security to construct a more peaceful and secure China
Part Seven: Insist on prioritizing the development of agriculture and rural areas and comprehensively promote rural revitalization	Part Sixteen: Accelerate national defense and armed forces modernization and achieve the mutual unity of a rich country and a strong military
Part Eight: Improve the New Urbanization Strategy and Improve the Quality of Urbanization Development	Part Seventeen: Strengthen the construction of socialist democracy and rule of law and improve the Party and state supervision system
Part Nine: Optimize regional economic layouts and promote coordinated regional development	Part Eighteen: Adhere to “One Country, Two Systems” and promote the reunification of the motherland
Part Nineteen: Strengthening Plan Implementation Assurance	

Source: Center for Security and Emerging Technology, 2021. “Outline of the People’s Republic of China 14th Five-Year Plan for National Economic and Social Development and Long-Range Objectives for 2035”, English translation of the Chinese official document published on the website of Xinhua on March 12, 2021. https://cset.georgetown.edu/wp-content/uploads/t0284_14th_Five_Year_Plan_EN.pdf

As the Table 1 shows, the Plan has a comprehensive outlook of China's future in the field of economy, society, law and politics. Nevertheless, we can identify the main priorities of the Government. In the field of economy, besides implementation of the new development concept, the main strategic focus will be on innovation, modernization of the industrial system, digitalization (of the economy), further implementation of economic reforms, agricultural and urban-rural development, more coordinated regional development and enhanced green development. In other parts of the plan, the focus is on making a better society for Chinese citizens especially in regards to the quality of life, such as better health and social systems, improvement of living conditions in rural areas, less pollution in cities (and country in general) and more sustainable development. The last part of the Plan is political, and provides more information about the main political issues China wants to pay attention to within the next five years. The most important one is the safety of its citizens and providing enough military defence to this purpose, remaining strong in promoting and living in "one country, two systems", and finally, strengthening the construction of socialist democracy and the rule of law, and improving the Party and state supervision system.

The explanation of the new development paradigm – dual circulation, was given in part four, titled *Forming a strong domestic market and building the new development pattern*. The introduction part dedicated to the dual circulation states: "We will persist in expanding internal demand as a strategic basis, accelerate the cultivation of a complete internal demand system, and organically combine implementation of the internal demand expansion strategy with supply-side structural reform, using innovation-driven, high-quality supply to lead and create new demand (CSET 2021, 32)." The introduction explains that *demand and supply within domestic market* are the focus of reforms. According to the text, both of them require changes that will start with the better utilization of resources, lead to a better supply, and finally steer higher level of demand. The Government plans to achieve this through innovation and high-quality supply, which will thus generate high-level of demand. Graph 1 presents this process as a circular process, since one change will cause another, and so forth.

Graph 1. Domestic great circulation reforms

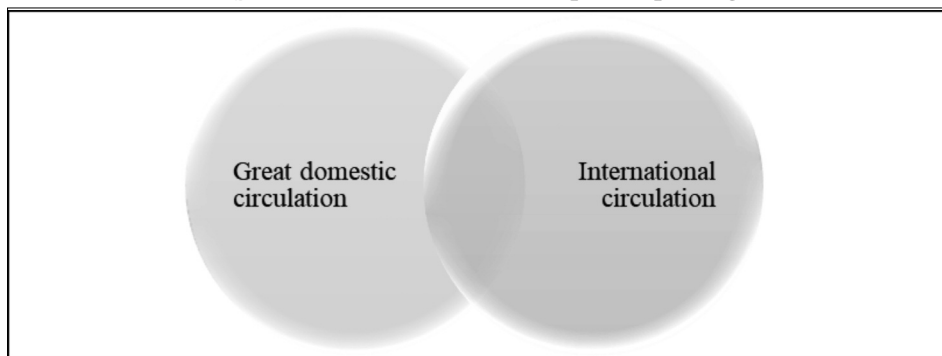


Source: Author

So, the domestic circulation is the part that Government can reform, improve and have control over. The second part of the dual circulation, and that is the part of the international circulation, is the part in which it will be more difficult to control, since China will rely on other international actors to achieve its reforms.

How will China achieve the reforms in the domestic market and change its relation with international market at the same time? The Plan contains three articles that explain the logic of this development concept, and also provide information about the future reforms.

Graph 2. Dual circulation development paradigm



Source: Author

Article 1 is titled “Facilitate domestic great circulation”, and it provides information on the ways to transform the supply and economic means that will provide prompt changes. In total, four main guidelines were given for these reforms:

1. Increase the adaptability of the supply system – the supply will be transformed in a way so that it will be better adjusted to the demand within the domestic market, which will be more quality driven, whether it being the demand for consumer goods or services. Agriculture, manufacturing, service industry and energy sources are emphasized as important in those regards. Also, it is evident that China wants to create strong Chinese brands that will be competitive both on domestic and international market, and one of the ways to achieve this will be to implement international quality standards in a better way than thus far.

2. Promote the smooth flow of resources and factors – the Chinese Government is aware that there are distortions within its market that can be changed so the market is utilized in a better way. The Plan identifies the following “blockages”: flow of factors of production, capital supply to the real economy, real estate market, quality of employment, salaries, and disparity between urban and rural development.

3. Strengthen the supporting role of the circulation system – here the main aim is to provide additional help to domestic market by enabling the system to function more efficiently. In that sense, the Government will apply measures that will unify the domestic market by eliminating local protectionism, monopolies or market segmentation. Besides this, there will be changes in supply and logistic chains.

4. Improve policy systems that promote domestic great circulation – this is the final part of the article dedicated to the supply aspect of the reforms. It encompasses measures aimed to improve the tax system, R&D investments and income distribution. The Government will maintain adequate liquidity, take care of the growth rate of the money supply and scale of social financing.

Article 2 is titled “Promoting domestic-international dual circulation” and it gives an overlook on the way China wants to change its interaction with the international market, and that is by taking care of trade and investments.

1. Firstly, China will promote measures aimed at imports and exports, so that it can have a more coordinated development. The main targets are laws and regulations that will improve some parts of Chinese export and import. In regards to import, the Government will reduce import tariffs, increase import of high-quality products, technology, equipment and energy resources. Export will be altered so that quality and the structure of export would lead to the increase of value-added exports. The aim is also to stabilize the markets in which China is already established and improve the exports to the neighbouring countries.

2. Raise the level of international two-way investment – China will not stop with overseas investments, neither will it stop the inward FDI in China. On the contrary. The Plan highlights several sectors in which China wants to attract foreign investors such as telecommunications, internet, education and healthcare. Besides this, the Chinese Government is aiming to invest in the mid to high-end manufacturing, high technology and modern services. It is stated that investments will be welcomed in the central and western China, which is in line with China's long-term policy for more equal development. Regarding Chinese overseas investments, they will be more risk aware and risk proactive, meaning that Chinese companies will be instructed to improve risk prevention and the level of profitability, while concurrently working on creating recognizable Chinese brands.

Article 3 is titled “Accelerate the cultivation of a complete domestic demand system” and it consists of two parts:

1. Comprehensively promote consumption – this is a very important part of the Plan because it will enable the whole circulation process to function according to the new paradigm. The emphasis is on consumer consumption, but there will be changes in the public consumption as well. Modifications are expected in products and services that have higher quality and that will provide better quality of life for Chinese citizens, such as education, medicine, elder care and childcare, tourism and sports. Furthermore, the Government will support the development of new types of consumption – custom, experiential, intelligent and fashionable consumption. The aim is to expand the middle-income group so that their increase in demand can push the supply aspect further.

2. Broaden the space for investment – China has identified major areas in which it wants to invest in the upcoming cycle: major strategic projects in infrastructure⁶, agricultural and rural areas, public security, ecology and health.

CHALLENGES IN THE IMPLEMENTATION OF THE DUAL CIRCULATION

“Dual Circulation” is a new development paradigm that will enable China to progress from a middle-income to a high-income country. As such, it is a very ambitious concept and it does put a lot of pressure on all involved parties to achieve planned goals. On that road to change, there will be many challenges that China will need to overcome. In papers published thus far, there is more or less of a consensus on the things that will be difficult to achieve. Nevertheless, we should also be aware that the third year of the COVID-19 pandemic is approaching, and

⁶ Sichuan-Tibet railway, New Western Land-Sea Corridor, the national water network, hydropower on the river Yarlung-Tsangpo, interplanetary exploration, BeiDou commercialization (CSET 2021, p. 38).

we still cannot see the end of it. Because of that, it is necessary to bear in mind that there are so many uncertainties that will occur during the next five years which will impact the final results of the 14th Development Plan.

Compared to the previous plans, the new Plan has a key difference regarding circulation in the domestic market and that is a steady and increased level of domestic demand. The concept of improving domestic demand within China is a logical step in China's development because there is room for it. According to The World Bank data, final consumption expenditure in % of GDP in 2019 was 56.02% in China, 72.8% in Germany, 83.12% in the UK, 81.8% in the USA, and 75.3% in Japan (TWB a). If we look more carefully and check households and NPISHs final consumption expenditure in % of GDP in 2019, we will see that the data for China was 39.25%, Germany 53.39%, United Kingdom 64.04%, United States 67.86%, and Japan 55.24% (TWB b). Hence, while all these countries differ, they are current economic leaders, and by comparing China with them, we can see how much private (household) consumption can increase in China. Previous development phases in China had a different notion and development relied on exports and investments⁷. Nowadays, those economic opportunities are not as powerful as they were before. China is correctly returning to the unfulfilled opportunities in the domestic market.

Even though China is the number two economy in the world, it still has a lot of development potential on the domestic market that has not been realized so far. The progress in China has not been equal in all regions, and there is a vast potential for them to improve their economic progress and expand domestic demand. However, that first step will not be easy to achieve because it will take time to develop them and improve the economic situation of their citizens. Those people will then spend their money instead of saving it.

As Liu pointed out: "China has a population of 400 million in the middle-income group, and strives to double it to 800 million in about 10 years, letting them truly become the majority of the society. At present, there are still 600 million people in China with monthly income less than RMB1,000, which mainly concentrated in the rural areas. Therefore, it is a must to expand the channels of employment and profit-gaining for farmers. Of the RMB 41.16 trillion in the total retail sales of consumer goods in China in 2019, rural consumption only accounts for 1/7..." (Liu 2020, 2)

According to these data, the potential of the domestic market is vast. However, the reality is that the income in rural areas is still low. Aside from rural areas, the western and some of the northeast provinces are lagging behind the eastern development, and this did not change much since Jiang Zemin's reforms. Even though all of Deng Xiaoping's successors tried their best to have a more balanced

⁷ Inward FDI in Special Economic Zones and outward FDI due to the Going Global Policy.

regional development, the east part of the country is still the leader within the Chinese economy.

Map number 1 shows the distribution of rural poverty in China, according to the official Chinese Statistics Bureau (UNICEF). This distribution is in a reverse relation with the regional development – those provinces that are highly developed have lower rural poverty rates. Once again, it showcases that western provinces such as Guizhou, Xinjiang, Gansu, Tibet and Yunnan have much higher rural poverty rates than eastern and northern provinces.

Additionally, it should be noted that the pandemic in China affected low-income families the most. That was expected, as something similar happened in the rest of the world. Many breadwinners have families living in rural areas while they are temporarily working in big cities. Many of them lost their jobs due to the pandemic and could not find another job. Their position and future are very complex and uncertain. According to Grieger: “63.35% of migrant workers surveyed in 2020 stating that they had no job prospects if they returned to their rural home towns, against 35.3% during the 2008 financial crisis (Grieger 2021, 4).” Moving forward, it will be important to secure continuing development of rural and agricultural areas so that the labour force can stay in their hometowns and provinces and provide income for their families.

Map 1. Rural poverty rate in %, in China in 2017
(Chinese National Bureau of Statistics)



Source: UNICEF, Rural poverty rate, by province, 2017, <https://www.unicef.cn/en/figure-211-rural-poverty-rate-province-2017>

It will be important, as well, to change the social registration system that provides social benefits to Chinese citizens. Hukou is the registered status of the individual Chinese citizen in the official state system. So far, the system has recognized urban and rural residents, and each group had its rights and responsibilities. Before the reforms in 2014, urban citizens had better status than rural regarding pensions, educations and health care. Since the pressure of rural workers in big cities was constant, the Government decided how many migrant rural workers can come to big cities. In addition to this restriction, those workers had limited social benefits that did not provide enough security. Since one of the strategic goals in the new Plan is to provide more social security to the rural population, the local provinces with mainly rural citizens will have a leading role in addressing this issue. Besides them, provincial leaders in big cities also need to address the reforms, so that they can provide better working and health conditions for migrant workers.

Since one of the main drivers of the economic development in the new Plan is the domestic demand, according to the documents, the demand needs to be accompanied by a supply that is more innovation-driven. If China wants to have a more innovative production of goods and services, this means that it will need to have a more highly skilled labour force. So far, due to the structure of the manufacture industry and services, there was no high demand for high-skilled workers in China. Since there is a sincere orientation towards the changes within the IT industry and industry in general, China will have a higher demand for them, but currently, China does not have enough of them.

One of the things that will be difficult to change is the cultural habits of Chinese people, and one in particular – savings. For many decades, Chinese people were immensely into saving. It was the same with the Government and enterprises. China is in the top 10 countries in the world in regards to gross domestic savings rate (percentage of GDP), and besides households, it includes corporate and government savings. In 2019, the gross domestic savings rate in China was 44%, while the world average was 25.31% (TWB c). Asian nations are usually more oriented towards savings than, for example, European nations. Such economic behaviour, deeply rooted in the nation's culture, is complicated to change. Even if the Government and corporations increase spending, there still would be a need to have an increase in household spending.

Chinese demographic situation is currently not bright. Due to the “One Child Policy”, the number of children and the labour force will start to significantly decrease after 2035. The reforms in this field started in 2016 with the change of law, which allowed two children per family. In May 2021, it was announced that China would allow three children per family to achieve better birth rates. Even though first changes started in 2016, it will take a while for policies to have substantial effects on the number of new-borns. The Chinese National Bureau of

Statistics (NBS) published reports in 2021 in which it was evident that despite the new laws, the numbers are not increasing, on the contrary, they are decreasing. In 2020, there were 12 million births, while in 2019, they were 14.56 million (Global Times 2021). According to the NBS, year 2020 is the fourth consecutive year in which the number of new-borns is declining. At the same time, the fertility rate is decreasing. Zhao and Zhang (2021) wrote that in 2020, the fertility rate was 1.3, and in 2017 it was 1.6. They argue that the third child policy can bring the increase of the number of new-borns in the short term, which would not be sufficient to improve the number of the labour force. They suggested that this policy should be supported by: “Improving population health (especially at older ages), postponing the retirement age and raising the productivity of workers are more effective and complementary long-term strategies that should be considered (*ibidem*).”

On the supply side, two main challenges can be identified: reforms of state-owned enterprises (SOE) and push for the innovation development. SOEs are truly the trademark of Chinese reforms that started in 1979, and without them, the development achieved so far could not be accomplished. However, there is always room for improvement. Due to their favourable position, some of them were not utilizing their resources in the best way⁸, and they were lacking ability to keep pace with the rapid changes that were happening on the Chinese market. The organizational structure in SOEs is rigid and hierarchical, and does not allow the organizational culture to be flexible, fast or in many cases innovative. Nonetheless, like the rest of the Chinese society, they also need to change.

Private companies in China are the champions of today’s China development, since their contribution to the GDP is 60% (Zitelmann 2019). According to the World Economic Forum: “The combination of numbers 60/70/80/90 are frequently used to describe the private sector’s contribution to the Chinese economy: they contribute 60% of China’s GDP, and are responsible for 70% of innovation, 80% of urban employment and provide 90% of new jobs. Private wealth is also responsible for 70% of investment and 90% of exports (*ibidem*).” It is evident that the success of the new paradigm will be deeply connected and related to the private sector since they are the leaders in the field of innovation. China will carefully balance the potential of innovation with the need to protect national security. Recent examples of unsuccessful IPOs on the international financial market of internet companies such as Alibaba (Alipay) and Didi Chuxing, are showing that even though the companies have big success and potential for growth, the data that they have in their hands is too worthy to be in the hands of private investors from foreign markets. That does mean that if these kinds of

⁸ Sometimes due to objective reasons, but many times due to inefficiency.

companies want to gather capital for future investments and innovations, that capital must come from domestic investors. Therefore, between the need to innovate and rely on private companies, and the need to achieve strategic goals within new development paradigm, there will be a narrow space to utilize the opportunities and the ability to allow the development of private companies.

WORLD AND CHINA – EFFECTS OF THE 14TH FYP ON THE WORLD ECONOMY

China's domestic and international circulation discussed above will have various effects on the functioning of the world economy. Even though the reforms are within the domestic market, China, as one of the global economic leaders, influences global economic trends. For this reason, it should be explained in which ways the international economy will change due to the changes in the Chinese market.

Zhu, in her analysis of Dual Circulation, points out a simple fact: "An economy based on 'domestic circulation', expects domestic demand to grow faster than foreign trade, while an economy 'based on international circulation' expects foreign trade demand to grow faster than domestic demand growth or GDP growth (Zhu 2020, 4)." Therefore, due to the changes in the domestic demand and production, Chinese reforms will have a substantial impact on its imports and outward FDI.

At the beginning of this article, it is stated that many Western scholars see Dual Circulation as *decoupling* from the world, whether we analyse trade or investments. In accessing this observation, let us look at some previous facts. Dependency of the Western markets on China's export grows slowly over time, and Western economies wanted that kind of cooperation due to cheap Chinese export products, which enabled their economies to focus on the production of high-quality products, with more added value and with much higher price tag than Chinese. Seeing that this kind of cooperation benefited both parties, and while there were no external economic shocks, no one was complaining about the division of labour, export-import rates or global supply chains. However, the global financial crisis (GFC) in 2008-2009 changed the perspectives of the West. Since the crisis affected Western economies the most, and since China used this time to pursue its Going Global Policy even more and bought many companies, Western countries realized that existing economic relations were not benefiting them. With that, protectionism measures started to increase world wide. In her recent article, Stanojević pointed out that European protectionism measures increased after the GFC and COVID-19. She used data analysis to prove that trade barriers, shortening of global supply chains and restrictions for FDIs in Europe are growing in recent years (2020, 419-420). It is also interesting that, in terms of trade, the EU has trade restrictions that exceed those of the US (*ibidem*). China is no exception to these EU policies,

especially knowing that the Foreign Direct Investment Screening Regulation that the EU adopted in 2019 further pushed down the volume and number of Chinese FDIs in the EU (Zakić 2021, 455–456). At the same time, the US and China are still in a state of a trade war that is not resolved. Having all this in mind, is China really decoupling from the world? The answer is yes and no. As Grieger points out: “However, China is not de-coupling from the world. The signature of the Regional Comprehensive Economic Partnership (RCEP) by China and 14 negotiating partners in the Asia-Pacific on 15 November 2020 is testimony to China’s continued global economic integration, committing it to trade rules it has shaped from the outset (2020, 9).” In other words, China will be more oriented towards economic cooperation with neighbouring countries, as well as with countries that are a part of the Belt and Road initiative. We can find those references even in the 14th Plan. Still, China is aware of the uncertainties in the world, protectionism measures, and public opinion in the Western countries towards China. It will not go into decoupling full force as the US and the EU did, but it will find opportunities elsewhere.

Regionalization is probably the term that will be, as time goes by, used more to describe events that will happen in the world economy. Orientation towards relatively closer countries that share the same objectives and views regarding the world economy and politics will be more pronounced⁹. The pandemic only sped up the process of regionalization that was slowly starting to develop pre-pandemic. As opposed to the glory days of globalization, where the global community was advocating for free movement of capital, goods and people, nowadays things are changing. Due to the pandemic, countries realized their vulnerability in many ways. Notably, regarding global supply chains, health, food and energy security. This will inevitably lead to more *self-reliance*, as much as countries can manage in their specific situation. China will do so as well. Energy security in China cannot be much improved, but health and food security can. In addition, due to China’s vulnerable position in regards to semiconductors, China will be focused on developing technologies that will enable it to become more advanced so that it could depend less on other countries.

According to the new Plan, China will slowly put down protectionism measures regarding inward FDIs. Those policies will enable foreign companies to invest more in some sectors in China they could not invest so much before (e.g. health sector, tourism, IT). China will still protect certain parts of its industries and services that it recognizes as strategic. Companies that want to invest in the Chinese market should carefully follow new instructions, especially those given by provincial

⁹ Such as RCEP, ASEAN, EU, NAFTA etc.

governments, because they will have precise information regarding the type of industry or services open for outward FDI.

Global production and supply chains are currently restructuring due to the pandemic, and it will be interesting to see how much time and financial resources are countries willing to spend to gain more independence over China. Decoupling from China will unquestionably lead to an increase in prices in some types of products, and probably in some cases to market shortages.

Western countries will be faced with a decision – how much they want to aggravate their situation with China, and what is the price that they wish to pay, both in an economic and political sense. Looking ahead, it is difficult to see if the US will change its recent course towards China. So far, President Biden did not change the narrative or policies that former president Trump introduced. We can observe the continuing process of decoupling with China. The US will start to cooperate even more with countries in Asia that are its allies, as well as with the EU and Latin America. The trade war with China will probably continue with many more negotiation phases in between. Judging by the results of the trade war so far, the winners were third countries, such as Argentina, Brazil, Mexico, South Korea, Thailand and Vietnam. Those countries benefited the most due to the trade war, and they seized a great opportunity. If the US further continues to pressure China in the economic sense, that will probably lead to further decoupling, but at the same time, some other countries will benefit from that process.

The EU and China have a more complicated situation to discuss and solve. The number of states within the EU that have completely different opinions about cooperation with China is significant. While Hungary is very pro-China, Baltic States are not. The German Government views on the cooperation with China differ from its citizens. While the Government is thinking strategically, and is pro-China, German citizens do not share the same sentiment. In 2020, China became EU's number one trading partner, and that trend did not end in 2021. Trade relations are on a record high level, while Comprehensive Agreement on Investments (CAI) is still not officially signed, and investments are not as high as they were. However, most EU countries are not satisfied with their large trade deficit with China and want to change this. In addition, the pandemic showed that the supply chains are too long and that the countries within the EU need to think about shortening the supply chains and becoming more self-reliant. The EU, like China, has some unused opportunities within its market, as well as the countries in process of joining the EU. At the moment, many countries in Europe are probably considering how to change and utilize this situation and gain a market advantage. Balkan countries can also potentially have more business opportunities, because they are close to the EU market, the labour force is highly skilled with salaries well below those in the Union, they have good environment for outward

FDI, laws are mainly in accordance with the EU's, political environment is relatively stable and national and corporate culture is familiar to the EU's companies.

CONCLUSION

“Dual Circulation” as a new official development paradigm is a logical and practical step in the next phase of Chinese development. Previous development models and policies that relied on exports and foreign direct investments (both inward and outward) were successful and enabled China to become a modern economy. China altered its development patterns and development policies so that they are in line with the times and circumstances. Each phase was contemplated with great attention, and time proved that they were the right choices.

This development model is considerably different, and it reflects new circumstances both inside and outside China. Previous opportunities are not sufficient anymore in order to allow China to progress from a middle to a high-income country. The so-called *middle-income trap* is a real problem, and many countries failed in their efforts to transition from middle to high-income countries. China is in a unique position in those regards because it has unused opportunities in the domestic market. Reforming the domestic market, especially domestic demand, will enable China to continue with other reforms. For the first time since the Open Door Policy, China will shift its focus from foreign markets and concentrate its efforts on the domestic market. Also, it will need to continue with the planned activities and put emphasis on innovative development. A significant amount of resources (material, financial and human) should be placed in advanced science and technology (S&T) and information technology (IT) in order for the model to function.

Not much will change regarding international circulation. China will still invest abroad, but in different projects than before. More outward investments will go into the IT sector, sustainable development, health services and research. China's neighbouring countries and those being a part of the Belt and Road initiative will become the preferred destination. Regarding inward FDIs, there are sectors in which China will allow more investments, and it will adjust legal regulations allowing easier access of foreign FDI to its market. Exports will be an important part of the economy, but not as before. China is aware that its products are not so cheap anymore and that protectionism measures are increasing, so it will change its policies according to these trends. Imports will be slightly modified as well. The structure will be altered so to better suit the needs of the Chinese market.

The main challenges in the implementation of the new development concept will be expanding domestic demand, having more equal regional development, increasing the domestic income, implementing changes within hukou, increasing

high skilled labour force, changing the culture of savings, reforming the state-owned enterprises, and having innovative development. Each challenge is equally important in the grand scale of things, so careful planning, realization and adjustment will help achieve necessary reforms and successful implementation of “Dual Circulation”.

Of course, many opportunities within the Chinese market could be the reason why a new development model is successful. There is vast domestic potential, such as the size of the market and the population that can increase their income, which can be utilized in a better way. China has gained experience and is working a lot on IT and S&T development. In the recent years, China holds the first place in the world when it comes to the number of patents. In terms of investing in green development, China is also in the first place in the world. The resilience of the Chinese economy was evident during the pandemic in 2020. China quickly responded to and embraced new circumstances, and ended that year as one of the rare countries with positive economic results. There is no doubt that the Chinese experts and Government took into every possible scenario account in formulating the Plan and the development paradigm. This development phase was the logical and pragmatic step in the evolution of China and the right way to achieve centennial goals, even though it will not be an easy task.

The main expected changes within the world economy will be regionalization, self-reliance and changes within global production and supply chains. Those changes will not solely happen because of China’s new paradigm. On the contrary, they were happening already, but on a smaller scale. Nowadays, especially due to the pandemic, and of course due to China’s new development model, things will change. For some countries, there will be plenty of new opportunities, and for some new difficulties to overcome. However, changes are an integral and a necessary part of the economy, and the main task is to detect and embrace them. Those that do not succeed in this will not be a part of the success story.

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NOVA RAZVOJNA PARADIGMA U KINESKOM

14. PETOGODIŠNJEM PLANU – KINESKA VIZIJA MODERNE KINE

Apstrakt: Dualna cirkulacija je nova kineska razvojna paradigma koja je prezentovana u posljednjem 14. petogodišnjem planu. Autor ovog članka objašnjava razlog njenog nastanka, način na koji će se sprovoditi, kao i glavne izazove koji su na putu postizanja ciljeva definisanih u planu. Dualna cirkulacija je logičan korak u evoluciji kineske ekonomije, a planirani rezultati su ambiciozni. Glavni očekivani izazovi u njenoj implementaciji su uvećanje domaće tražnje, ravnomjerniji regionalni razvoj, povećanje domaćeg dohotka, promene unutar *hukou* sistema, povećanje broja visoko kvalifikovane radne snage, promena kulture štednje, reforma državnih preduzeća i inovativni razvoj. Glavne očekivane promene u svetskoj ekonomiji su regionalizacija, samodovoljnost, kao i promene unutar globalnih lanaca proizvodnje i ponude.

Ključne reči: nova razvojna paradigma, Kina, 14. petogodišnji plan, dualna cirkulacija, izazovi, promene

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BOOK REVIEWS

ERDOGAN AND GULEN: A FORMER FRIEND IS WORSE THAN AN ENEMY

Recep Dogan, *Political Islamists in Turkey and the Gülen Movement*, Palgrave Macmillan, 2020, pp. 267.

Ever since the end of the 1990s and the publication of the first articles on the growing power of the new Islamic movement Hizmet, led by the charismatic leader and influential theologian Fethullah Gulen, this organization has been attracting increasing attention from the Islamic and world public (Cingilioğlu, 2017). The most intensive phase of its activities took place after 2002 and the coming to power of the Justice and Development Party (AKP). During this period, the two organizations continuously, subtly, and very successfully undermined the political, legal, and social foundations of the Kemalist order. The peak of interest in the Hizmet movement, which well-informed people describe as the Islamic version of Opus Dei, was noticed after the attempted military coup in Turkey in 2016 (Đurković 2013). The authorities, led by Recep Tayyip Erdogan, identified Hizmet first as the inspirer and organizer of the coup and then as a terrorist organization. Soon after, the authorities carried out the largest-scale replacements and arrests in Turkey's modern history. At the same time, the authorities deployed a variety of instruments on a global scale to entirely limit this movement's political and economic influence.

For these reasons, but also for the unique principles on which it is based, the special vision of Islam it preaches, the specific methodology it follows, the branched structures and extraordinary powers, the research of the Gulen movement and its relationship with Turkey's ruling structures is an area of particular scientific interest not only for those familiar with Turkey's internal affairs, but also for researchers who follow the country's foreign policy. In this light, the study by Recep Dogan represents an important contribution to elucidating the complex relationship between the AKP and Hizmet, seen in the context of the broader relationship between political and civil Islam.

In the introductory part of this study, Dogan identifies the basic traits and manifestations of political Islam. Then, he provides a concise genesis of its social and political rise in Turkey, from the introduction of the multiparty system to the AKP's ascension to power. Political Islam, according to the author, is one of

the interpretations of Islam that does not recognize the distinction between religious and political sectors, which is why it continually insists on a more or less direct and stringent application of Islamic teachings in political and social life (pp. 9-11). Special attention is given to the Islamist policy and rhetoric of the AKP, which, with a skilful approach, managed to maintain the key principles and direction of the previous Islamist parties while also successfully applying and adapting their (tough) experience to accomplish their aims (pp. 17-23). Although the author assumes that Islam is an integral part of Turkish identity, he also notes the continuous process of re-Islamization, which began after the Second World War and intensified due to Islamist goals and the complex engagement of the AKP (pp. 17-34).

Dogan devoted two extremely informative chapters to Hizmet leader Fethullah Gulen and the period of the movement's origins and development, from the early 1990s, through the establishment of an alliance with the AKP (2002-2010), the first serious disagreements after accusations that Gulen was behind the trial against members of Erdogan's family (2013), to the culmination of the conflict after the failed coup in 2016. In this part of the study, the author criticizes simplified interpretations that reduce the struggle between the AKP and Hizmet to a predominantly ideological, political or interest factor, assessing them as inadequate and incomplete. In order to overcome the limitations of these explanations, Dogan adds a new religious dimension to the understanding of the problem, which, according to him, can be reduced to a simplified but essential distinction between political Islam advocated by the AKP and civil Islam preached and promoted by Hizmet.

Although he points out the common foundations and Islamic character of these organizations, the author draws attention to the significant difference between the two versions of Islam, which are characterized by different natures and scopes of goals, as well as the way of their realization and action. While the author defines civic Islam as an inclusive and liberal model that seeks to promote Islamic values, return the Islamic tradition to the social sphere, and remove legal and other restrictions inherited from the Ataturk period, he considers political Islam as an exclusive and authoritarian concept, predominantly focused on the policy field in which it strives to realize its Islamic conceptions and dogmas. This chapter presents a concise overview of the most significant achievements of the AKP-Hizmet strategic alliance (2001-2010). Pointing to the mimicry character of this relationship, the author illustrates the sophisticated ways in which this alliance weakened and almost abolished military and judicial restrictions and the political "tutoring" of the Kemalist order (pp. 54-62).

The central part of the study is Dogan's analysis of the complex dynamics and the increasingly intense conflict between the AKP and Hizmet. The first period of "silent confrontation" (2010-2013) was marked by growing

disagreements over fundamental political issues and the necessary level of democracy, while in the following years they took the form of open confrontation (2013–2016), which culminated after the failed coup, and attempts at systematic and complete extinction of Hizmet by the AKP at the domestic and international level (2016–2019). Dogan rightly does not place this rivalry, in which the author sees the conceptual, organizational and personal aspects, exclusively in the domestic political context, but brings its influence and consequences into direct connection with the opposing visions of Turkey's social development and state system and the key directions of its foreign policy orientation.

Special attention and the whole two chapters are devoted to the relationship between religion and politics, or as Dogan points out, “political theology of two key and opposing concepts”: political and civil Islam. Unlike Gulen's model of civil Islam, which is characterized by a tolerant approach limited to social space, the concept of political Islam is characterized by an exclusive and authoritarian model. In this context, Dogan believes that political Islam, through Islamist rhetoric, the introduction of a presidential system, and complete control of the political, media, and social spheres, seeks gradual re-Islamization in order to create an Islamic community or union similar to the Ummah. The author perceives the foreign policy of Turkey after the coup attempt in a similar way and points out that it is characterized by a stronger turn towards Islamic centres and a general strengthening of the (pro) Islamic factor (p. 66).

In a separate part of the study, Dogan places special emphasis on forecasting the tendencies and perspectives of the development of the Turkish political order. Starting from the above assumptions and the basic distinction between the two versions of Islam, the author warns that in the coming period, Erdogan's Turkey will be characterized by an even greater degree of authoritarianism and disrespect for human rights and freedoms, pervasive antagonism and national and religious exclusivity, which will significantly complicate already burdened political, ethnic and religious relations. From the point of view of the Balkan peoples, forecasts of the gradual and continuous return of the Ottoman heritage to political and social discourse and the consequent strengthening of the neo-Ottoman identity are of particular interest, which, in cooperation with re-Islamization, will have significant consequences for the political order and foreign policy orientation of modern Turkey (Tanasković, 2010).

Vuk LAZIĆ

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EUROPE IN CHANGES: THE OLD CONTINENT AT A NEW CROSSROADS

Katarina Zakić and Birgül Dimirtaş eds., *Europe in Changes: The Old Continent at a New Crossroads*, Institute of International Politics and Economics and Faculty of Security Studies at the University of Belgrade, 2021, pp. 482.

During its history, Europe has faced many crises and challenges that profoundly affected the future development of the continent. The most recent of these is the coronavirus pandemic, which spread at an unprecedented scale, profoundly altering the normal functioning at the global, regional, state and intrastate levels. However, Europe is not only confronted with this new threat but also with ones that existed long before the pandemic and have manifested in new and unexpected ways. This new crossroads for Europe is both a challenge to overcome the many difficulties it faces and an opportunity to redefine and transform itself for the new post-pandemic era. The collection of papers, *Europe in Changes: The Old Continent at a New Crossroads*, published by the Institute of International Politics and Economics and the Faculty of Security Studies, the University of Belgrade, makes a significant contribution to this subject by offering a thorough analysis of diverse factors which influence both Europe as a continent and the European Union (EU). The collection of papers is edited by Katarina Zakić and Birgül Dimirtaş, who carefully curated the 23 works the collection encompasses and divided them into four parts. Contributing authors include: Richard Sakwa, Miroslav Glišić, Branislav Đorđević, Dejan Stojković, Uroš Ćemalović, Nevena Šekarić, Mihajlo Vučić, Elena Ponomareva, Dušan Proroković, Birgül Dimirtaş, Branko Krga, Duško Lopandić, Jelica Gordanić, Iulia Monica Oehler-Şincal, Ana Jović Lazić, Ivona Lađevac, Marek Hrubec, Miloš Petrović, Miro Haček, Vladimir Trapara, Andrey Fursov, Stephen Baskerville, Rastislav Kazansky, Anton Hrubon, Nataša Stanojević, Sanja Jelisavac Trošić, Katarina Zakić, Meixing Sun, and Ivan Dujjić.

The first part is titled *European Relations and European Security in the 21st Century: Trend and Transformation* and consists of eight papers that explore different evolving facets of European politics with a focus on security and its meaning in the 21st century. The authors zero in on the key elements that shape European security in different areas, ranging from the traditional sector of military security, through the energy security sector, the role of law and the influence of religion,

and finally to the cybersecurity sector that presents new security challenges for the globally interconnected world of today. One of the main aspects of the analysis is NATO's post-Cold war reinvention as a core of the New Atlanticism, a military hand of liberal hegemony which promotes regime change and humanitarian interventions, thus contributing to the constant decline in relations between the EU and Russia. This leads to another paper that explains the competition between NATO and Russia in the Balkans and the renewal of Moscow's influence in the region as a response to the increasingly aggressive NATO tactics. By comparing the role of EU institutions and that of the individual Member States in the defence domain, the authors conclude that the Member States, particularly France and Germany, have primacy (Glišić, Đorđević, and Stojković 2021, 57). However, in some areas, the EU is being rather proactive and tackling the rising challenges accordingly. This subject is explored in the paper on the EU's potential for further integration of the Member States through the idea of the Energy Union and the recent energy security dynamics on the continent. Another paper analyzes the European Union's pursuit of digital sovereignty through the implementation of the General Data Protection Regulation (GDPR) and the two recent legislative proposals, the Digital Services Act (DSA) and the Digital Markets Act (DMA). On the other hand, yet another author argues for a greater balance between the concept of EU law supremacy and national legal systems through a more restrictive use of the concept of constitutional identity by national courts and better formulated EU law. Furthermore, the scope of this collection of papers goes beyond the EU, tackling the important security issue of global migration and the case of Turkey, which instrumentalizes the Presidency of Religious Affairs, the Diyanet, to support its migration policies. Zeroing in on Serbia, the first part concludes with a detailed comparison between the EU Global Strategy from 2016 and the National Security Strategy of the Republic of Serbia.

The seven papers of the second part, titled *Global Europe: The Position of European Countries in World Politics*, shift the perspective to the diverse ways in which European countries face internal issues or act as global actors, whether through the EU or individually, with varying degrees of success. Firstly, it is given a comprehensive overview of the main regional challenges the EU faces and its potential and limitations as a global actor caused by its reliance on US military power. The EU's global aspirations lead to greater involvement in the Indo-Pacific region, but its role remains rather limited without a comprehensive grand strategy for the region. On the other hand, the Trump administration's actions contributed to the decoupling of the economic interdependence of China and the US, affecting the EU as well. Going to the state level, the relationship between the US and Germany, as one of the key European countries, was greatly affected during the Trump administration, caused by their

confronting understandings of multilateralism and the disagreements in bilateral relations due to issues such as the construction of the Nord Stream 2 gas pipeline (Petrović 2021, 276). Another article discusses the internal implications of Slovenia's EU membership, as well as the country's decline in democracy and trust in the EU after its entry. Moving eastward and concentrating on the EU–Russia relationship, the authors offer a convincing argument on how their differences regarding NATO and Ukraine can be overcome in the future to cooperate on issues of common interest, such as climate change, terrorism, or the Iran Nuclear Deal. Finally, the Belarusian position between the EU and Russia is explored, with the author arguing that its unique development since independence is caused by “the mentality of the Belarusian people, who prefer political stability and personal safety and well-being to democracy and a stronger national identity” (Trapara, 2021, 320).

Numerous threats to the unity of the European Union, which affect solidarity between the Member States and the Union's ability to function as a single actor, are the subject of four articles in the third part, titled *Two Faces of Europe: Unity or Division*. Firstly, an interesting perspective on the geocultural aspect of European security is examined. The author examines how the concepts of multiculturalism, tolerance and political correctness influence the new state of affairs in Europe, using examples of France, Sweden, Germany and other countries. Another author zeroes in on Central and Eastern Europe and gives a unique take on the evolution of radical ideologies, especially religious ones, focusing on Islamism and New Puritanism. Taking the case study of Spain to analyze separatism as one of the key dividing factors in Europe, the next paper convincingly argues that Catalan separatism will have better prospects in the future than Basque separatism, concluding that the deepening of Catalan autonomy seems to be the most likely resolution of this issue (Kazansky 2021, 376). Finally, an insightful analysis of another important aspect, the use of fake news by neo-fascist organizations, is presented, using the case of Slovakia, with the author pointing out the alarming rise of this kind of rhetoric in Slovakian mainstream politics.

The fourth and last part of the collection of papers, titled *New Trends on the Economic Horizon in Europe*, is focusing on the economy and developing tendencies regarding trade, foreign investment and economic cooperation. The first paper explores the growing number of EU trade restrictions, highlighting the screening process of potential foreign investments and the general shortening of European value chains. This also affects the EU–China economic relations, whose development during the COVID-19 pandemic is the topic of the next article. The authors explain how the trade relations suffered expectedly during the first half of 2020 but point out that “in the first ten months of 2020, China was the EU's main trade partner” due to the subsequent recovery (Zakić

and Sun 2021, 452). On the other hand, as a key international economic actor, the EU is one of the most important drives for the reform of the World Trade Organization (WTO). Another author gives an overview of EU proposals in this regard and contrasts them with those of the US, China, Japan and Canada, concluding that although the reform is needed, the suggested ideas are very different. The final paper in this collection analyzes the EU economic relations with Latin American countries. The author explains the rise and fall of the EU's investment in this region and focuses on the effects and opportunities created by the Fourth Industrial Revolution.

Finally, with a diverse set of issues and subjects covered and a clear and logical structure, *Europe in Changes: The Old Continent at a New Crossroads* is an insightful collection of papers that offers new perspectives and in-depth analysis of important security, political, and economic aspects that influence and will continue to influence the Old Continent's future.

Pavle NEDIĆ

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(Jabri 2007; Herman 2004; Rohrbach 2020)

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(Jabri 2007, 2011; Gregory 2014a, 2014b)

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