

Title: *International Journal of China Studies*

ISSN: 2180-3250

Publisher: Institute of China Studies, University of Malaya
50603 Kuala Lumpur, Malaysia

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ISSN 2180-3250



9 772180 325006

International Journal of China Studies

Volume 10, Number 1, June 2019

International Journal of China Studies

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ISSN 2180-3250

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Typeset by Ivan Foo Ah Hiang

Printed by University of Malaya Press
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International Journal of China Studies, Vol. 10, No. 1, June 2019

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Editor's Foreword

The *International Journal of China Studies (IJCS)* began publication in 2010 as a triannual academic journal. Despite challenges, it has grown to be a recognized journal in the field. The inclusion of the journal in several important indexing bodies has testified to its quality. In order to better maintain the quality of the journal given the limited resources of the Institute of China Studies, it is decided that starting in 2019, *IJCS* will shift to a biannual academic journal. *IJCS* is also currently at the stage of exploring for a partnership with a reputable academic publisher. Given the growing interest in the studies of China, *IJCS* believe that it can continue to provide good-quality and relevant academic studies of China to its readers.

Research Articles

Structural Change, Rebalancing and the Danger of a Middle-Income Trap in China

*Helmut Wagner**

Center for East Asia Macroeconomic Studies
University of Hagen

Abstract

China is currently experiencing a structural change toward tertiarization and an implied growth slowdown associated with it. The paper investigates whether this growth slowdown is merely cyclical or a negative trend, and further what China is doing or should do to avoid falling into a “middle-income trap”, a problem many emerging economies have experienced in recent decades. The pitfalls of the current “soft” rebalancing policy in China are analyzed in the context of this development.

Keywords: *structural change, rebalancing, middle-income trap, development, China*

1. Introduction

Present-day China can be characterized by the following stylized facts: (1) China is an emerging middle-income country; (2) China wants to continue catching up to the leading industrialized countries (fast convergence); and (3) China has followed (at least so far) an unbalanced fast convergence path that has led to high, ever-increasing multi-sectoral imbalances.

There are three major questions discussed in this paper. First, how can China find (or return to) a balanced and sustainable, yet fast, convergence path? Second, how can it avoid a rebalancing that ends up in a middle-income trap (MIT)? And finally, is “Xiconomics”, the policy strategy of China’s president Xi Jinping, an effective way of achieving this?

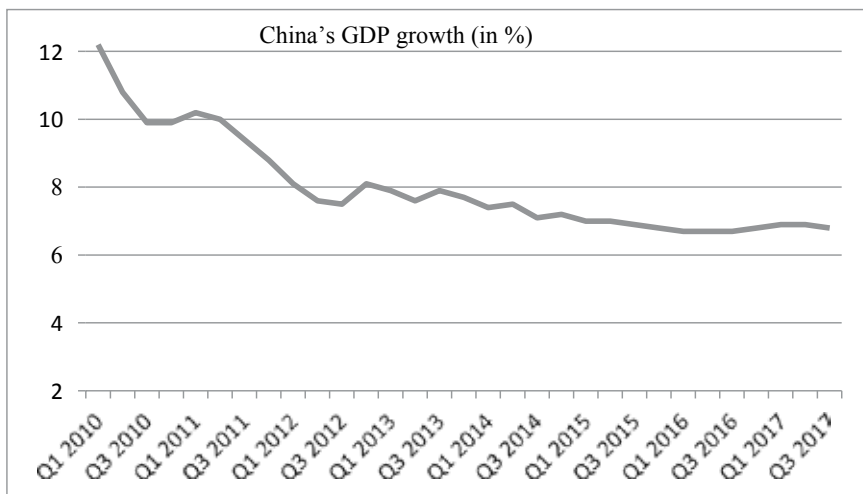
The rest of the paper is structured as follows. Section 2 describes China’s recent growth slowdown and the fear of an MIT in China. Subsection 2.1 lists the various determinants of the recent growth slowdown with a special focus on structural change, while subsection 2.2 analyzes the MIT concept in detail. Section 3 investigates the danger of falling into an MIT as a result

of the current “soft” rebalancing policy in China. Sections 4 and 5 analyze the necessary policy reforms China has to accomplish in order to avoid or overcome an MIT. Section 6 contains concluding remarks and suggests a potential avenue for further research.

2. China’s Recent Growth Slowdown and the Fear of an MIT

Over the past seven years, a major concern of the Chinese government has been China’s economic growth slowdown (see Figure 1).

Figure 1 China’s GDP growth, 2010-2017 (percentage)



Data source: National Bureau of Statistics of China (2017).

This growth slowdown has created the fear that China may get caught in an MIT.¹ After decades of extraordinarily high (on average, double-digit) growth rates, the recent growth slowdown has made China anxious about whether this growth slowdown would follow a strong negative trend so that the aspirational fast convergence toward the income level of a rich developed country would become impossible, or at least slow significantly.

2.1. Growth Slowdown: The Sum of Multiple Determinants and Structural Change

The growth slowdown in China since 2010 is the sum of various determinants:

- a) After-effects of the global financial crisis
- b) Expansionary counter-policies
- c) China's "rebalancing" policies
- d) Structural change

Determinants (a) and (b) describe short-term effects, whereas (c) and (d) stand for long-term effects (although (a) and (b) can trigger some hysteresis effects, thereby also affecting the mid- to long-term). Whether the recent growth decline will form a structural trend largely depends on the last two factors. While (c) is a policy determinant, (d) is a general or deep development determinant. The determinants (b) and (c) are country-specific factors (which can be directly influenced), whereas structural change is an unavoidable development stage in the development path of any developing country.

In this paper, I focus on the above long-term effects. The first issue is modelling the growth effect of "structural change", generally and specifically in the case of China. Structural change means the change in dominance of sectors. Over time, the economy transitions from an agriculture-dominated economy to a manufacturing-dominated economy to a services-dominated economy (see van Neuss, 2018). The transition from agriculture as the leading sector to manufacturing as the dominant sector is called "industrialization". The second transition, from manufacturing as the dominant sector toward services as the leading sector is usually called "tertiarization" or de-industrialization. This structural change is a common feature of development in all countries.² There are at least three major explanations for this process:³

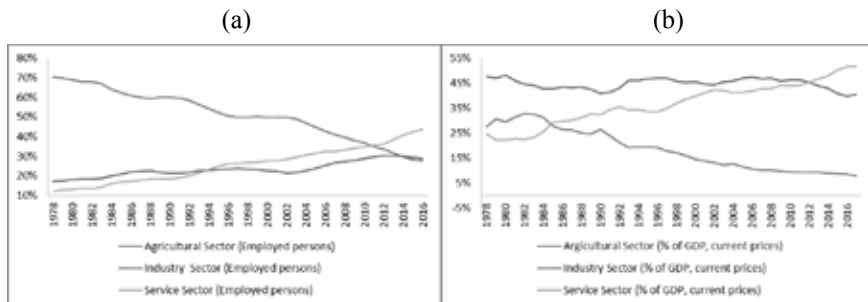
- *High income elasticity of services demand* that increases private demand for services in countries with rising income levels (see Kongsamut, Rebelo and Xie, 2001);
- *Sectoral differences* in total factor productivity (TFP) growth, factor intensity and the elasticity of substitution between factors (see e.g. Baumol, 1967; Ngai and Pissarides, 2007; Acemoglu and Guerrieri, 2008; and Alvarez-Cuadrado, Van Long and Poschke, 2017); and
- *Significant negative side-effects of industrialization* such as increasing income disequilibria and other undesired distortionary effects that cause governments to take counter-measures that favour tertiarization (see Wagner 2013 and 2015 for details).

Regarding the second explanation, theoretical and empirical studies suggest that productivity growth in the service sector is lower than productivity growth in the manufacturing sector (Wagner, 2013 and 2015). One reason for this is "Baumol's cost disease", a phenomenon identified in the seminal studies of Baumol and Bowen (1965, 1966) and Baumol (1967). These studies, which show that wage increases generally outpace corresponding

productivity increases in the service sector, conclude that overall productivity growth and overall economic growth eventually slows in a society with a growing service sector (tertiarization).^{4,5}

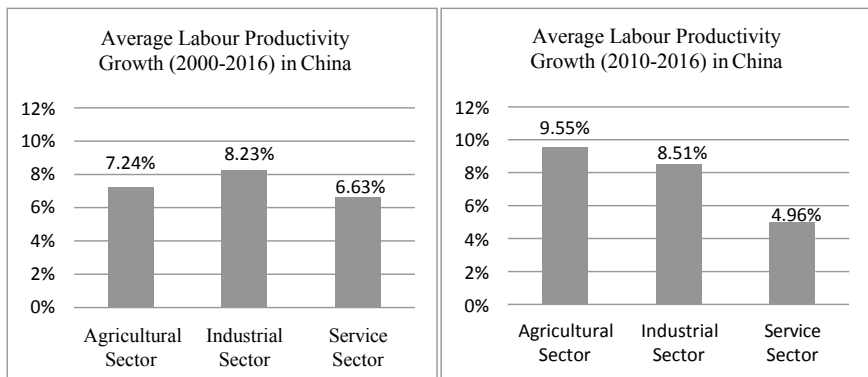
When we look at structural change in China since 1978 in terms of both value added and employment, we see that the service sector only began to dominate the other two sectors (manufacturing and agricultural in terms of both employment and value added) in 2011-2013 (see Figure 2). Thus, China appears to be at the very beginning of its tertiarization phase. Furthermore, we can see from Figure 3 that the average labour productivity growth in China from 2000 to 2016 was lower in the service sector compared to the other two sectors. The difference even widened after 2010.

Figure 2 Sectoral Shares in Total Employment (a) and GDP (b) in China



Data sources: Datastream, Ministry of Human Resources and Social Security, China.

Figure 3 Average Labour Productivity Growth in China



Data sources: Datastream (National Bureau of Statistics of China, Ministry of Human Resources and Social Security, China), GDP per employed person.

Thus, given a relative increase in the sectoral share of the service sector, the growth rate in an economy, and the Chinese economy in this case, will decrease *ceteris paribus* (again, see Wagner 2013 and 2015 for details).

This phenomenon became a major concern during the first half of the 2010s as it raised apprehension that China might slip into an MIT.⁶ In section 3, I argue that the recent growth slowdown may intensify as rebalancing proceeds.

2.2. MIT Concept

The term MIT refers to countries that have experienced rapid growth and thus quickly reached middle-income status, however then fail to overcome that income range to further catch up with the developed countries (Glawe and Wagner, 2016).

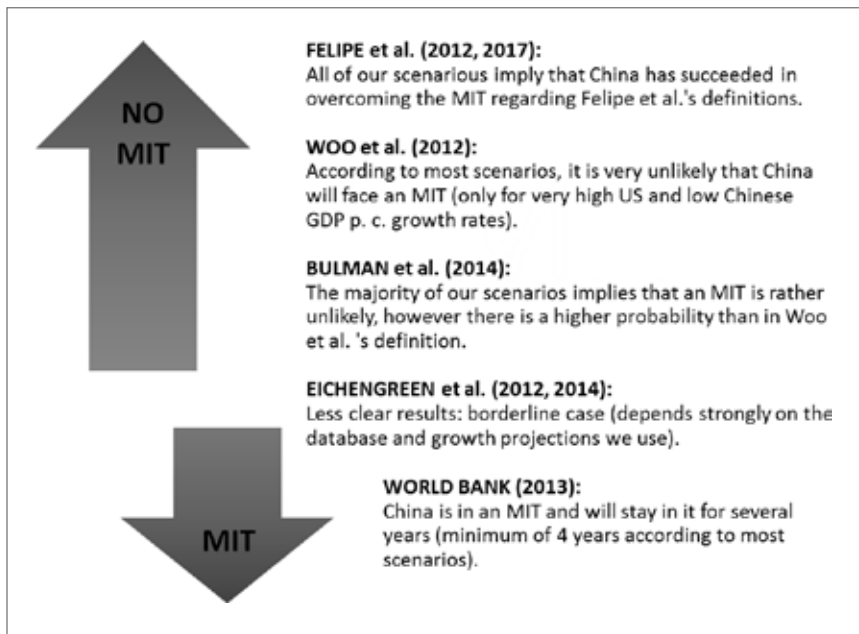
There are many empirical MIT definitions in the literature referring to either absolute or relative middle-income thresholds. The definitions of Eichengreen, Park and Shin (2012, 2014), Felipe, Abdon and Kumar (2012) and Felipe, Kumar and Galope (2017) are examples of absolute definitions (referring to absolute middle-income thresholds), whereas the definitions of the World Bank (2013), Woo et al. (2012) and Bulman, Eden and Nguyen (2014) belong to the group of relative definitions (referring to the per capita income relative to the US).

Glawe and Wagner (2017a, 2017c, 2019), apply the absolute and relative MIT definitions to China, extend the data and use various growth projections to make MIT forecasts. For the growth forecasts, they use the projections of the Conference Board (2010, pessimistic scenario), OECD (2012), World Bank (2013), Albert, Jude and Rebillard (2015), Bailliu et al. (2016), Zhang, Xu and Liu (2015), Barro (2016), and various versions of the IMF's *World Economic Outlook* forecasts.

Depending on which definition, database, and growth projections are used, one can say it is possible to find empirical support for any possible case, i.e. China is or is not in an MIT; China will or will not fall into the MIT. Indeed, it is relatively easy to produce or manipulate a desired outcome. In Figure 4, we see a brief overview on the Chinese MIT probability implied by the different definitions, taken from Glawe and Wagner (2017c, p. 4). An extensive discussion is provided by Glawe and Wagner (2017a and 2019).

Nevertheless, certain consistencies stand out. The majority of these scenarios imply that China is not yet in an MIT, and most scenarios imply that China is or will soon be in the middle-income range (MIR), but not trapped in an MIT. In most scenarios, China enters the MIT only if the Chinese growth rate drops to 3-4% p.a., a scenario predicted only by the most pessimistic growth projections (e.g. Barro, 2016).

Figure 4 Implications of the Different Definitions for the Probability of an MIT in China



Source: Modified version of Figure 2 in Glawe and Wagner (2017c, p. 4).

As a whole, one can state major weaknesses of the empirical definitions mentioned. There are, on the one hand, the standard problems associated with cross-country growth regressions, e.g. measurement and specification errors, and sample selection bias. On the other hand, there are some conceptual problems, including the varied definitions of MIR and GDP data discrepancy across (different versions of) databases. For an extensive discussion of the weaknesses of the empirical MIT definitions, see Glawe and Wagner (2017a and 2019).

We have focused so far on empirical definitions for determining whether a country is “trapped” in middle-income purgatory, but there is another major concept in the literature for identifying an MIT. It involves searching for “triggering factors” (such as export structure) that speed up or decelerate growth.

Glawe and Wagner (2017a, 2017c, 2019) perform a meta-analysis of triggering factors identified in the basic MIT literature and apply them to China. Based on their literature survey, they find 18 factors relevant for identifying an MIT. Among these triggering factors, the most widely

mentioned are export structure, human capital, and TFP. They concentrate on these three aspects in Glawe and Wagner (2017a, 2019), and after thorough investigation find that China shows a catching-up tendency with respect to the export structure measured by high-tech exports as percentage of GDP, its export sophistication index (EXPY), and its product space profile.

Regarding TFP, the picture is less clear. While the R&D expenditure (% of GDP) index shows a catching-up tendency, they cannot assess the TFP index correctly due to data problems (TFP data varies widely across studies). However, they discover that China lags behind regarding education (measured as secondary and tertiary average school years, secondary and tertiary education completed, Programme for International Student Assessment (PISA) results, and access to education). Thus, further improvements regarding human capital accumulation and education, as well as a reduction of the widening (rural-urban) educational inequality, seem to be necessary measures to avoid an MIT.

In the following section, I focus on the demand-side triggering factors applied to China. Concretely, I shall ask whether the practiced “soft” rebalancing, which tries to make the costs of reforms bearable by delaying fast and harsh reforms and by conducting stimulative macroeconomic (counteracting) policies, can be regarded as a triggering factor of an upcoming MIT in China.

3. MIT as a Result of Ineffective Rebalancing in China

A major challenge for China is the build-up of imbalances that fuels the need for more rebalancing. I distinguish here between two development waves or sources of imbalances, and thus two rebalancing needs in China since 1978 (see Wagner 2017a). The first wave of imbalances occurred between 1980 and 2010. These imbalances were the result of the prior unbalanced and overambitious convergence path that created the need for the first type of rebalancing (“rebalancing 1”) in China. From 2010 to the present, there has been a second wave of imbalances. These new imbalances are the result of expansionary macroeconomic policies to counteract the slowing growth associated with “rebalancing 1”. They created the need for additional rebalancing (“rebalancing 2”).

3.1. The First Wave of Imbalances

The first wave of rebalancing was the result of the Deng-development strategy or “Dengonomics”. It was characterized by the following strategic objectives (see Wagner, 2019):

- (1) Stepwise regional development of the country;

- (2) Prioritization of maximizing economic growth while “neglecting” the effects on the social and ecological environment in China’s boom regions;
- (3) An export-led, industry/manufacturing-supporting growth path;⁷ and
- (4) Political “decentralization” (a partial shift of power from the central to the local governments in the regions).

Dengonomics produced ever-increasing imbalances such as

- Income inequality
- Environmental pollution
- Overcapacities
- Political and cultural instability (“historical nihilism”) (see Wagner, 2017a and 2019)

Since about 2010, the Communist Party of China (CPC) has accepted the need for “rebalancing”, i.e. a new development policy. This paved the way for Xi Jinping’s new policy, which was introduced in 2012.

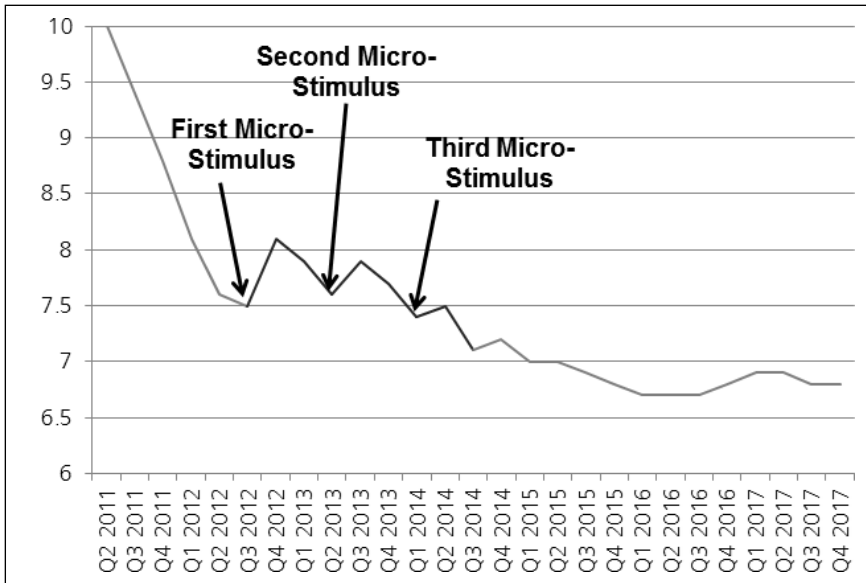
3.2. The Second Wave of Imbalances

Additional imbalances have been built up as the result of the political answer to the growth slowdown in China since 2010. As argued above, the growth slowdown since 2010 has been caused by a sum of various determinants, among them external factors, structural change, and not least by the kind of “rebalancing” policy followed under Xi Jinping (see below). The political answer to this growth slowdown has been expansionary stimulus programs allowing gradual delays of rebalancing 1-type reforms, to make the costs of the policy change acceptable for the public (“stop-and-go structural reforms”). These expansionary stimulus programs led to ever-increasing new imbalances, particularly:

- Expansionary credit growth
- Rising debt levels
- Boom-bust cycles in asset prices (Wagner, 2017a and 2019).

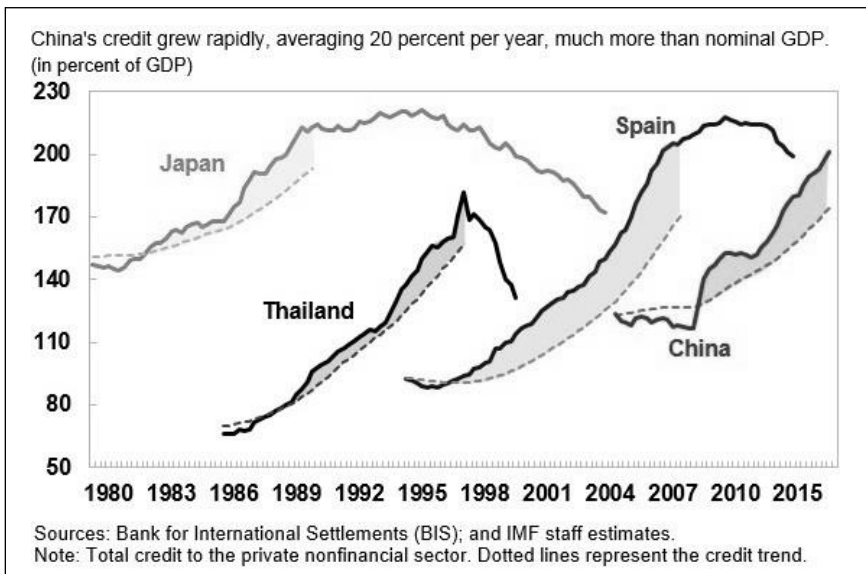
Figure 5 illustrates “micro-stimulus” programs from 2012-2014. The micro-stimulus programs could be seen as desperate attempts to control the costs of structural change and rebalancing (and the associated growth slowdown and increase in unemployment). The challenge for policymakers is making them palatable to the public. If they are too onerous or cause too much suffering among the general populace, they could damage the political legitimacy of the ruling government and the CPC. While the first micro-stimulus programs were initiated by the central government, during the last couple of years the quasi-autonomous attempts of the local authorities to

Figure 5 Micro-Stimulus Programs (GDP growth in percent)



Data source: National Bureau of Statistics of China (2017).

Figure 6 Widening Credit Gap



Source: IMFBlog, available online at <<https://blogs.imf.org/2016/12/16/china-must-quickly-tackle-its-corporate-debt-problems/>>.

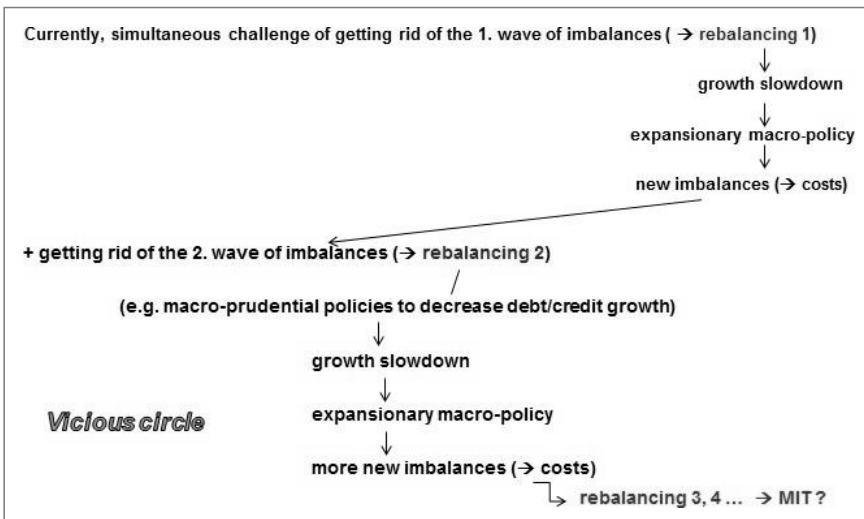
protect local firms and local workers, and to maintain high economic growth in their regions,⁸ have created regional growth-increasing (particularly infrastructure) investments. The financing of these investments has been ensured more and more by “shadow banks”. This led to the mentioned credit expansion and the debt increase of firms and local governments.

Figure 6 describes a new kind of imbalance, a widening credit gap, triggered by various stimulus programs. China’s credit gap, which emerged only over the past ten years, looks quite threatening when we compare it to those of Japan, Thailand, and Spain earlier. Those credit gaps triggered soon-following financial crises/busts.⁹

3.3. Need for Simultaneously Reducing the Old and New Imbalances

Today, we see in China the simultaneous challenge of eliminating the old first-wave imbalances (→ rebalancing 1) and the new second-wave imbalances (→ rebalancing 2). Both rebalancing courses have led to slowing growth. In order to limit the costs for the public, the government has used expansionary macroeconomic policy and in this way created new imbalances (costs). Reducing the above-mentioned new imbalances has required counter-measures such as macro-prudential policies to decrease credit expansion and debt. This, in turn, has exacerbated the danger of a growth slowdown that must again be countered with expansionary macroeconomic policy, creating more new imbalances (see Figure 7).

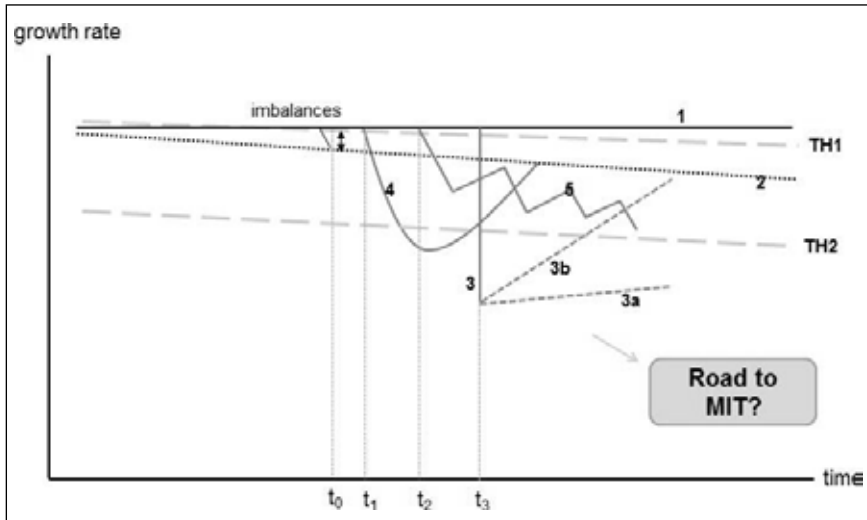
Figure 7 The Vicious Circle of New Imbalances



With such danger arises the possibility of a vicious circle of new imbalances followed by growth-slowing rebalancing or regulation measures, each time countered by expansionary stimulus programs that generate new imbalances and the need for further rebalancing programs (3, 4, ... and so on). The growth slowdown continues, but so does the credit expansion and debt increases. Eventually, China finds itself ensnared in an MIT or a slower growth/convergence path (see Figure 8).

Figure 8 contains seven lines or curves. Line 1 stands for the unbalanced growth path, representing China’s overambitious growth/convergence policy over recent decades. Line 2 presents the theoretical balanced growth path. Lines “TH1” and “TH2” present two threshold lines: TH1 for the economic costs of imbalances acceptable by the public and thus politically palatable, and TH2 for the political legitimization threshold regarding the accepted suffering of austerity effects. Curve 3 pictures the option of a benign-neglect reaction of politics to the imbalances. Curve 4 delineates the effects of a sharp proactive policy reaction to the imbalances. Curve 5 illustrates the actual “soft” rebalancing (stop-and-go proactive) policy of China’s government over the past six years.

Figure 8 Alternative Growth Paths



Notes: TH1: economic threshold line. TH2: political threshold line; Line 1: unbalanced growth path. Line 2: balanced growth path. Line 3: benign-neglect policy leading either to a significantly lower (balanced) growth path (Line 3a) or a (stepwise) return to the old balanced growth path (Line 3b). Curve 4: strong reaction (shock therapy). Curve 5: stop- and-go proactive policy (soft rebalancing).

Figure 8 is based on a scenario, whereby, in t_0 , a new government considers which policy it intends to adopt for the next few years to tackle and offset existing imbalances. The government (acting under uncertainty) has two general options, each with multiple sub-options:

- (1) The government follows a *policy of benign neglect*, which is comparable to the central bank policy approach of many countries before the global financial crisis. Here, the government waits and continues down the unbalanced growth path until it determines:
 - (i) whether the imbalances will actually do serious damage. The government's hope is that they do not, and therefore there will not be a crash (occurring with probability $x < 1$), or
 - (ii) if serious damage looks inevitable (i.e. when with ever-increasing imbalances and thus ever-increasing economic costs, depicted by the gap between line 1 and 2, line 1 overshoots the economic threshold TH1 in Figure 8), whether the damage is sufficient to trigger a crash. In this case, the government's hope is that the mess (the effects of the crash) can then be cleaned up quickly and with manageable costs.

Choosing the benign-neglect option (1), depicted in Figure 8 as line 3, could be rational or acceptable for an independent central bank, particularly if it has committed mainly to stabilizing the price level. For the CPC, however, such a strategy would have been seen as too risky as a crash (occurring with a probability of $1-x$) would have created a recession so deep that the political legitimization threshold TH2 would surely have been undershot and thus posed a threat to the power of the CPC.¹⁰

Therefore, the Chinese government chose the second option, namely:

- (2) The government follows a *proactive policy*, whereby the government acts to reduce the imbalances in a timely fashion, e.g. by hiking interest rates significantly or cutting back on public investment. Here, the government again has two sub-options. It can either:
 - (i) move ahead with a painful reform (shock therapy), hoping to eliminate the imbalances very fast. This is depicted by curve 4 in Figure 8. However, such a strong policy reaction is likely to produce large transition costs and undershoot the political legitimization threshold TH2. With probability z , the undershooting of TH2 will only be short, but with probability $1-z$ it can also take a long time.¹¹ The government may not find such a risk acceptable, because it could mean being swept out of power or banished from the political scene.
 - (ii) the government can alternatively adopt a "soft" proactive policy reaction, represented as a stop-and-go policy (curve 5 in Figure

8). As soon as the transition costs get high so that the growth path approaches the TH2 threshold, the government temporarily returns to an expansionary policy reaction (thus stimulating the economy for a while). By doing this, the imbalances grow again, the government returns to the restrictive reform course, but only until growth threatens to fall below the TH2 threshold. The cycle is then repeated.

This “soft” rebalancing policy comes with its own risks. In the case of China, it is associated with the repeated use of corrections to counter the negative effects of restrictive policy measures by conducting credit-financed stimulus programs as soon as the growth slowdown approached the political threshold line (TH2). Growth may be stabilized (or even increased) for a while with the increase in imbalances associated with this stimulus policy. Eventually, the restrictive policy measures have to be re-initiated, however. This process can be repeated several times even as growth slowdown gets deeper and deeper. Ultimately, despite all transitory stimulative counter-measures, the policy may threaten to undershoot the political legitimization threshold – exactly what the government originally sought to avoid with this strategy option. The advantage of the soft rebalancing option is that it may buy the government time to allow technological and other innovations to save the day. It would allow time, for example, to make the shift to Xiconomics (see below) and draw the growth trend back toward the balanced growth path (line 2).¹² Therefore, the chosen policy strategy in China in the current decade cannot be assessed as irrational, only as probably over-optimistic.

3.4. MIT Concept vs. Low Convergence Concept

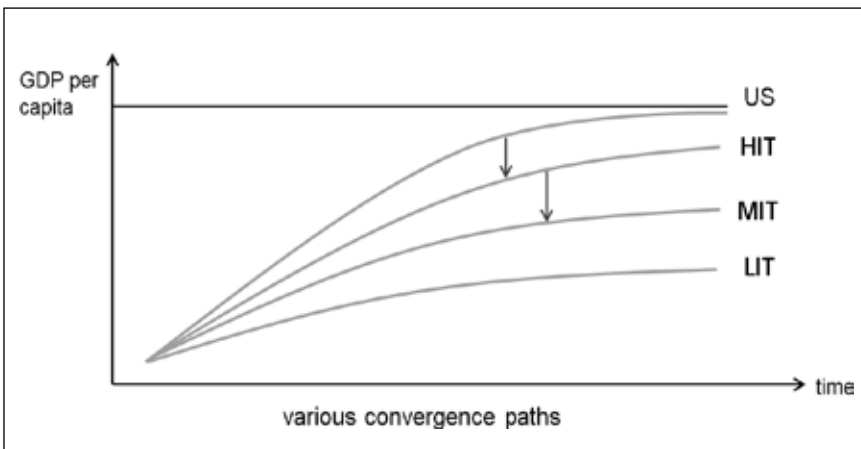
Despite misconceptions, falling into an MIT does not mean the economy will stagnate (growth rate of zero), but only that convergence occurs so slowly that even after decades of catching up a country remains mired in middle-income territory. Thus, while MIT avoidance is the popular theme, this potential misunderstanding may not make it the most appropriate concept for analyzing China’s current challenges. For China’s leaders, after all, the issue is not whether the country is trapped in an arbitrarily defined middle-income range for an arbitrarily defined period of time, but whether China risks falling back to a much slower convergence path so that the convergence expectations of the government and in particular of the people are disappointed and a political legitimization crisis emerges. As mentioned at the start of this discussion, China wants to catch up to the leading industrialized countries and experience fast convergence. Xi Jinping has reiterated this goal, stating that he wants to lead China until 2049 to a state where China is at eye level with the United States and then goes on to become the world-wide frontrunner in major

technological branches (“Made in China 2025”). This economic view is paired with the hope of regaining the political “soft” power of former times (“Make China great again”). Not reaching these goals will lead to disappointments and can trigger a political legitimization crisis dangerous for the CPC.

In this context, it has to be emphasized that technological innovations are insufficient in themselves to avoid a steady growth (convergence) slowdown triggering an MIT. China also needs to create incentives for a market-friendly, open environment (entrepreneurial spirit). This again requires steady new institutional reforms. Furthermore, it needs a macroeconomic policy that effectively manages the reduction of the old and new imbalances. Otherwise, the country may fall back from a high to a low convergence path ending up on an MIT-convergence path (see Figure 9). Figure 9 assumes that countries that want to catch up and join the ranks of rich, developed countries (here the US) need to get on a rapid or very-high-convergence path. Indeed, China earlier was on such a very-high-convergence path. Due to structural change, however, China fell back to a lower convergence path (here described as HIT, high-income trap path), and threatens to shift to the low-convergence MIT (middle-income trap) path.¹³

Why? The reason is the above-described delay of necessary structural reforms and the imbalances built up by the associated credit-financed stimulus programs. Only by steadily creating both, new technological innovations (at the highest level) *and* institutional reforms, can a country avoid getting stuck on an MIT path and return at least to the HIT path.¹⁴

Figure 9 Various Convergence Paths (1)



Note: HIT, MIT, and LIT stand for high-income trap, middle-income trap, and low-income trap, respectively.

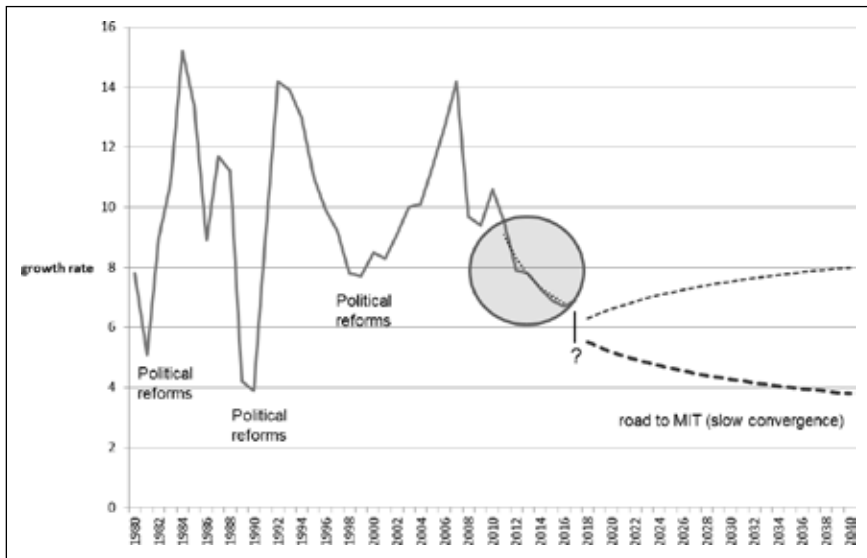
4. Growth Slowdown (after 2010) Cyclical or Trend? – Revisited

At the start of this discussion, I posed the question of whether the growth slowdown between 2010 and present was a cyclical or structural trend. I assess this by looking back four decades to 1978 when China’s major reforms began.

Figure 10 shows that China has experienced several sharp up-and-down fluctuations over the past 40 years. These are not business cycle fluctuations, but growth fluctuations. Each deep growth trough (1981, 1984, 1990, 2001) could only be reversed by comprehensive political reforms. Glawe and Wagner (2017b) describes this in detail using a neoclassical growth model based on the multi-sector modelling literature (Laitner, 2000; Kongsamut, Rebelo and Xie, 2001; Ngai and Pissarides, 2007; Acemoglu and Guerrieri, 2008). Here, a market-exogenous MIT explanation is suggested, whereby Chinese growth since 1978 has been created by a series of reforms:

Phase 1. During 1978-1984, reforms mainly occur in the agricultural sector. This phase is highlighted by an increase in agricultural goods prices around 1979, the implementation of the household responsibility system (HRS) reform (1981-1984), and the increase in arable land (1982-1985).

Figure 10 Growth Fluctuations



Data source: Datastream (National Bureau of Statistics of China), GDP (constant, % YoY), dashed lines at the right-hand side of the figure are own calculations for illustration purposes.

Phase 2. During 1985-1992, the policy reforms happen primarily in the manufacturing sector. We see the emergence of a dual-track system in the manufacturing sector, and creation of a favourable policy environment for township and village enterprises.

Phase 3. From 1992 to present, the policy reforms are introduced via FDI and trade. Highlights include Deng Xiaoping's southern tour in 1992 (commitment to open-door policy), further liberalization of trade (WTO accession in 2001), and nationwide implementation of FDI-enhancing policies.

All these reform phases generated a series of *transitory* growth phases.

In 1978, China had a large potential for transitional growth-generating reforms and by gradually exploiting the growth potentials of the reforms, it accomplished the middle-income range in a relatively short amount of time. However, if this potential for simply enforceable reforms is exploited, China's growth slows, and there is a danger of an MIT.

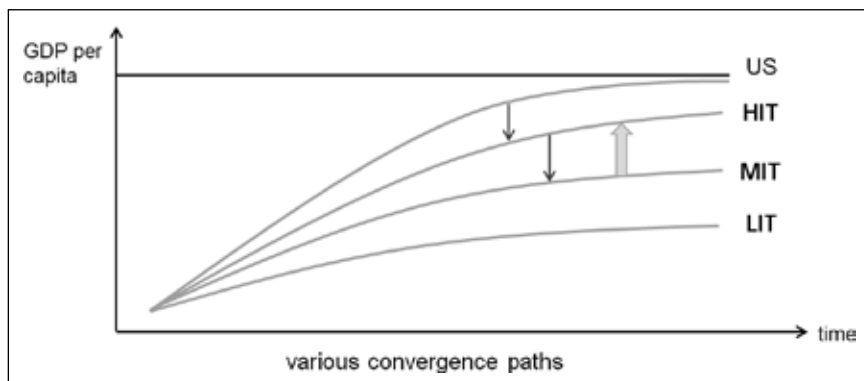
Among all the reforms, the third-phase reforms could also trigger relatively high growth rates over subsequent decade(s) if China manages to (a) accumulate further capital via FDI and (b) exploit the technological progress embodied in FDI.

In addition, the reform of the service sector appears to be a necessary sequel to the reforms since 1978: According to the above-mentioned model (and the standard literature), services will account by far for the largest share of the Chinese economy in the future. Hence, future total factor productivity will depend increasingly on service sector productivity. This is also the result of the growth-projection studies in Wagner (2015) and Murach and Wagner (2017).

5. How to Avoid an MIT/Slow Convergence in China?

Against the background of the above argumentation, implementing the following political measures in China may be helpful in avoiding an MIT:

- (1) Sharpen and speed structural change reforms (rebalancing 1) – and accept the associated long-term decrease in the growth rate.
- (2) Decrease the credit expansion, the high level of bad loans on bank balance sheets, and the high debt level (particularly corporate debt) built up in the current decade – and accept the associated short-term decrease in growth rate.
- (3) Increase technological innovation, particularly in the service sector.
- (4) Increase institutional reforms and innovation, acknowledging that measure (4) is a precondition for making (3) more productive.

Figure 11 Various Convergence Paths (2)

By implementing (and only by implementing) both measures (3) and (4), a sustainable return movement from the MIT convergence curve to the HIT convergence path and beyond is possible (see Figure 11).

One major pitfall of China's present development strategy appears to be a lop-sided fixation on technological innovation, most notably the "Made in China 2025" program.

Although "Made in China 2025" and the "One Belt, One Road" initiatives are important steps toward strengthening the country economically and as a global political power, this probably will not be enough to ensure further fast convergence (sufficiently high growth). What China also needs to do is install institutions that (i) promote entrepreneurial spirit in business and administration, and (ii) trigger creativity in education.

The question here arises as to whether China's current policy strategy, called "Xi-strategy" (Wagner, 2019) or Xiconomics (European Central Bank conference, 2018¹⁵), is appropriate for addressing these needs. Wagner (2019) argues that the set of policy pillars of the Xi presidency, i.e. "Xi-strategy", comprise four elements:

- (1) An attempt to integrate the western regions of China into China's development strategy.
- (2) An emphasis on improving the social and ecological standards within China.
- (3) Rebalancing the economy toward a consumption- and service-led growth path.
- (4) An attempt to (re)stabilize society by re-authorizing the political system (refocusing on central control) and rejection of Western values.

This strategy, elsewhere referred to as Xiconomics, is here understood as the policy strategy of Xi Jinping that tries to achieve his goals of rapidly

catching up – economically, technologically, and politically – with the world’s leading developed countries. The adequacy of this strategy for reaching these goals can be discerned to some extent with what I call China’s “magic triangle.”¹⁶ To my understanding, China’s president Xi Jinping seeks to simultaneously achieve three major political-economic goals (see Figure 12):

Goal 1: (Re)stabilize the economic and social system (“rebalancing”).

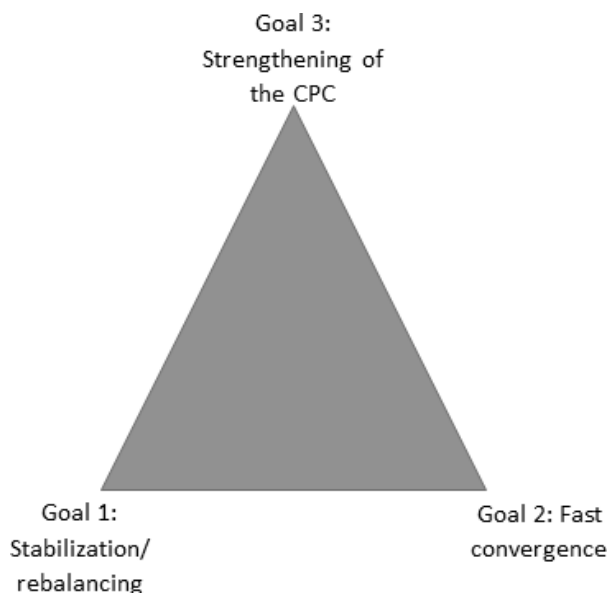
Goal 2: Maintain high, sustained growth and fast convergence.

Goal 3: Maintain and strengthen the political power of the CPC.

The latter could be extended to a fourth goal of attaining world power status.

There is a fear that Xi-strategy, and its policy pillar (4) of hardline authoritarianism in particular, may thwart the mid- to long-term Goal 2 of high growth and fast convergence. Authoritarianism hinders the building up of institutions that foster entrepreneurial spirit and creativity in education. On the other hand, Xi-strategy makes it easier to meet Goal 1 (stabilization), China’s most pressing challenge over the next five to ten years. Last, but not least, it best ensures the power of the CPC (Goal 3) over the coming decades, which in turn supports China’s efforts to gain world power status. However, whether sufficiently high sustained growth for fast convergence (Goal 2) can be achieved in China with this strategy depends mainly on whether

Figure 12. China’s “Magic Triangle”



president Xi Jinping and the CPC are willing to give up some power (reduce authoritarianism) and allow further liberalization once stabilization (Goal 1) has been achieved.

6. Concluding Remarks and Further Research

In this paper, I first described the recent growth slowdown and fears of an MIT in China. After enumerating various determinants of this growth slowdown, I next focussed on the growth effects of structural change. After explaining the MIT concept, I showed that the current “soft” rebalancing policy in China, which delays structural reforms and instead conducts credit-financed stimulus programs, can lead the country into an MIT, or, respectively, put the country on a slow MIT convergence path. Finally, I listed the policy reforms I think China needs to implement to avoid or overcome an MIT. In this context, I asked whether “Xiconomics” (the policy strategy under Xi Jinping) can help achieve the three pillars of what I call China’s “magic triangle.”

In order to correctly assess the growth possibilities of China for the future, one new research route emerges as the most promising and useful to follow: i.e. research on the “deep determinants” of China’s growth path.

Neoclassical growth theory generally confines itself to input factors (TFP, physical capital, and human capital) to derive growth development projections. The deep determinants approach looks at underlying factors of economic growth and development that determine such proximate factors:

deep determinants → proximate determinants → economic development
(institutions, trade, geography) (input factors) (growth)

In two new papers, Glawe and Wagner (2017d, 2017e) aim to provide a specification of the debate on the deep determinants of growth with a special focus on the MIT concept.

The first paper (Glawe and Wagner, 2017d) uses simple statistical hypothesis testing to analyze whether the deep determinants have positive or negative impacts on the probability of a country experiencing a prolonged stay within the middle-income range. It shows that not all findings of the deep determinants literature can be easily transferred to the MIT phenomenon, especially regarding institutional variables.

The second paper (Glawe and Wagner 2017e), applies the studies by Acemoglu, Johnson and Robinson (2001), Rodrik, Subramaniam and Trebbi (2004), and Easterly and Levine (2016) to the MIT phenomenon. The deep determinants (especially institutional quality) are shown to play important roles in determining whether a country falls into an MIT. However, some

differences compared to the results of the standard literature become apparent, particularly regarding transmission channels and inter-relationships.

Another research project (Glawe and Wagner, 2018) looks at the deep determinants of economic development in China from a provincial perspective. Here, it is shown that institutional quality plays an important role in provincial economic success, trumping geographical factors and integration (which only have indirect effects through influencing institutional quality).

A tantalizing research theme involves investigating the lessons China can draw upon from successful transition countries in East Asia that managed to avoid the MIT and catch up successfully. This is not a small challenge. Even the most notable examples, Japan and South Korea, each have their own specific constraints to consider, and those constraints have evolved and change over time. In Wagner (2015) and Murach and Wagner (2017), the lessons from the recent history of these countries were used to conduct growth projections for China.

Lessons from other advanced economies may also be useful. For example, Wagner (2013) compares the structural change patterns of Germany many decades ago with the structural change patterns of China during the past four decades and finds surprising similarities between China and Germany. In both countries, the industrial sector overwhelmingly dominated the service sector for relatively long periods of time (compared to OECD countries and India). The German industrial sector accounted for a greater share in GDP and total employment than the service sector for about 100 years. Nonetheless (or perhaps because of this), Germany managed to maintain its competitiveness within the world economy for a very long time.

Acknowledgements

This paper is based on a keynote speech given on invitation of the European Central Bank (ECB) at the conference “Xiconomics: a new direction for China?” The conference was organized by the European Central Bank and the Bank of Finland, and held in Helsinki in 2018. I thank the participants for their helpful comments. I am also grateful to the participants in my “China in the Middle-Income Trap” seminar at the IMF in Washington, D.C. in 2018, as well as fruitful discussions with participants of seminars and lectures given on related topics at Harvard University, the Bank of International Settlements (BIS) Hong Kong, the University of Xiamen, China, and the Second World Congress of Comparative Economics in St. Petersburg over the past three years. They have helped to sharpen some arguments of this paper. I also would like to thank Linda Glawe and Michael Murach for their research assistance and contributions as my co-authors to a slew of recent papers on China.

Notes

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1. This concern was already expressed by scholars at universities and international organizations such as the IMF in the second half of the 2000s. Numerous publications have since taken up this concern. The *Economist* titled its April 5, 2011 edition, “The middle-income trap: China’s economy may soon face a slowdown.” A Reuters item in the *New York Times* on April 29, 2013 was entitled, “I.M.F. Warns of ‘Middle-Income Trap’ in Asia.” The March 12, 2016 edition of *Foreign Policy* asked, “Can China Avoid the Middle-Income Trap?” Chinese politicians have also addressed this issue. For example, in 2015, China’s premier Li Keqiang emphasized at the World Economic Forum in Davos, “As long as we succeed in doing so [focus on structural reform, encourage mass entrepreneurship and innovation, increase supply of public goods and services], the Chinese economy will successfully overcome the ‘middle-income trap’ and move ahead along the path of sustainable and sound development.” In the same year, China’s then-finance minister Lou Jiwei warned, “China has a 50/50 chance of falling into an MIT within the next 5 to 10 years.”
 2. De-industrialization is a relatively new phenomenon. To my knowledge, it first occurred during the last century. De-industrialization first affected the world’s economically most successful countries, but later also a number of low- and middle-income countries. See van Neuss (2018) and Herrendorf, Herrington and Valentinyi (2014) for comprehensive surveys of the theoretical and empirical structural-change literature.
 3. For a more detailed analysis, see Wagner (2013). For a valuable discussion of the first two explanations, see van Neuss (2018).
 4. See Murach and Wagner (2017) for an empirical demonstration with respect to China, South Korea and Japan.
 5. Productivity growth in China’s agricultural sector was long lower than in the manufacturing sector. In recent years, however, it started to surpass the growth rate of the manufacturing sector. See Figure 3.
 6. This concern seems to have slightly diminished in China in 2018. China’s former finance minister Lou Jiwei stated in 2017, “I can speak with full confidence that after the sweeping reforms we’ve been carrying out since 2½ years ago, China is likely to become a high-income country in three to five years.” This optimism, as I argue here, is based on the effects of the expansionary macroeconomic counteracting measures of the Chinese government in the current decade that are unsustainable. Instead, they create ever-increasing imbalances.
 7. This describes a development strategy where investment in physical assets and exports are the primary sources of growth.
 8. The reason for this was that there have been wrong incentives over the past decades rewarding individual and regional growth-maximizing behaviour in China (see in more detail Wagner, 2019).

9. See e.g. IMFBlog, available at <<https://blogs.imf.org/2016/12/16/china-must-quickly-tackle-its-corporate-debt-problems/>>.
10. In other words, allowing the economy to get outside the two thresholds (into the areas above the TH1 line or, respectively, below the TH2 line in Figure 8) would have been dangerous for the CPC, as these areas above and below these thresholds are “instability areas”. Above the TH1 line, the economic costs of the imbalances rise and the probability of experiencing a crash is positive and increasing the further one deviates from the threshold. Below the TH2 line, the probability of experiencing a political legitimization crisis is positive and becomes greater the larger and longer-lasting the undershooting of TH2. For the basics and pitfalls of stabilization policy, see Wagner, 2018. For a discussion of central bank policy reactions before the global financial crisis, see Wagner, 2010).
11. The economy then would fall onto a lower balanced growth path (corresponding to the MIT convergence path in Figure 9).
12. Line 2 in Figure 8 corresponds to the HIT convergence path in Figure 9.
13. This concept of various convergence paths accords with the neoclassical conditional convergence theory (see Barro and Sala-i-Martin, 1992). While the existence of a global convergence path would require that the only difference between all the economies regarded is their initial per capita level of capital, conditional convergence allows for structural differences in geography, colonial heritage, culture, etc. as initial conditions among economies (see Ito, 2017, who also favours a similar multiple convergence-paths concept). Therefore, different groups of economies can be on different convergence paths at the same time; or, respectively, one country can be on different convergence paths over time, due to changing structural conditions in this country.
14. Sometimes the convergence path is presented in terms of a reduction of the technology gap vis-à-vis the US (see e.g. Acemoglu and Zilibotti, 2001).
15. This paper is based on the keynote speech for this conference.
16. For example, this could be investigated with the help of system-theoretical analyses. The basics of this system-theoretic analysis are treated in Wagner (2017b) and Stijepic and Wagner (2018).

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China's Belt and Road Initiative (BRI): India's Concerns, Responses and Strategies

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Abstract

The rise of China in the era of globalization is significant due to its global implications and is attributed to various factors like rapid economic growth, strategic modernization, reconnecting with the Chinese Diaspora, particularly in the west, modernization of its military, and vibrant maritime trade strategy and so on. In the process of sustaining its rise, China has initiated several ambitious plans like the Asia Infrastructure Investment Bank (AIIB) and Belt and Road Initiative (BRI). The BRI is a combination of Silk Road Economic Belt targeting Central Asia and Europe and Maritime Silk Road (MSR) focussed on Southeast, South and North Asian regions. To make this a reality, the Chinese government has already made tremendous efforts to mobilize political, economic and diplomatic resources. However, BRI will not yield great results without the critical role of India. In this context, the paper attempts to identify the guiding factors for China to initiate BRI and its impact on its peaceful rise and the regions. India's response and strategies to BRI is critically analyzed. Finally, the paper also explores the mutual benefits and challenges for both India and China for successful implementation of BRI.

Keywords: BRI, China, India, South Asia

1. Introduction

China, in the process of sustaining its peaceful rise, has surprised the world with the One Belt, One Road Initiative (OBOR). Many regard this as a "Game Changer", a "project of the century", China's "big play to seek world dominance" not just for China, but the world." Apparently, Chinese President Xi Jinping first talked about the "Silk Road Economic Belt" in Kazakhstan (September 2013), and went one step further and mooted the idea "Maritime Silk Road" in Indonesia (October 2013). Both these ideas are termed as Belt and Road Initiative (BRI), which is assumed as a grand geo-economic vision

as well as a long term geopolitical strategy for China (Hu, 2017: 108). To keep up the momentum of BRI, President Xi continues to emphasize on the implementation of BRI at international forums, such as the APEC summits in Beijing (2014 and 2018), Shanghai Cooperation Organization (SCO) Summits in Uzbekistan (2016 and 2018), G-20 Summit in Hangzhou (September 2016), China and Central and Eastern European 16 plus 1 Summit (November 2016), the World Economic Forum (January 2017) and so forth. At the World Economic Forum, Xi delivered a speech at the opening session and pitched for a win-win situation among the nations for cooperation, as the global economy was facing downward pressure (Tekdal, 2018: 375). Furthermore, in September 2018, China also announced new projects under BRI for the African region during the China-Africa Summit.

Generally, the Chinese government argues that the main aim of BRI is to deepen the cooperation and enhance development in the regions, by connecting more than 60 countries along the ancient silk roads right from Asia-Pacific to Europe (Clarke, 2017: 71). The connectivity would be through trade, several infrastructure projects and economic linkages. Moreover, the vision document of the BRI elaborates on the aim i.e., mutual consultation to meet the interest of all the governments; and it is not just about roads and railways, but is meant to be a comprehensive interaction process between China and the other countries involved (Hu, 2017: 113). Overall, BRI moves beyond infrastructure projects to policy coordination, facilities connectivity, trade and investment, financial integration and cultural exchange. Thus, the Chinese Government continues to emphasize that the BRI is built on three principles – negotiation/talks, construction/building and sharing results.

In addition, BRI covers 63 per cent of the world population, 32 per cent of the world's GDP, and 29 per cent of global merchandise trade (Kohli, 2018: 3). The six core economic corridors to realize the objectives of the BRI are – China-Pakistan Economic Corridor (CPEC), Bangladesh-China-India-Myanmar (BCIM) Economic Corridor, China-Indochina Peninsula Economic Corridor, China-Central Asia-West Asia Economic Corridor, New Eurasia Land Bridge Economic Corridor, and China-Mongolia-Russia Economic Corridor (Aoyama, 2016: 6). These corridors attempt to create more jobs and reduce the wide regional disparities as the counties along the BRI are low-income economies. At the same time, BRI is backed by financial support from China's state-owned banks and the Silk Road Fund (SRF), which was created in December 2014, where China promised a capital of US\$40 billion (Clarke, 2017: 71). Subsequently, the Asian Infrastructure Investment Bank (AIIB), National Development Bank (NDB), Association of South East Asian Nations (ASEAN) foundation and Eurasia foundation are funding some of the BRI projects (Yu, 2017a: 353-368). Thus, the region covered through the

economic corridors with adequate finance backing seems to be heading for transforming the world order.

Ironically, some of the policy makers and critics of BRI tend to argue that the main motives of BRI initiative could be: (a) Generally, the evolution of BRI is linked to the thinking of Chinese foreign and security policy since the 1980s, like the Chinese foreign policy that sought to “bide time and build capabilities” with multiple objectives like developing multiple regional and global linkages to increase economic growth; resolve the long-standing disputes with neighbours, and to challenge US predominance in the region (Gill, 2010: 22). Moreover, President Jiang Zemin, pitched for “cooperation, multilateralism and regionalism” and later on President Hu Jintao, went one step ahead from Deng’s approach of ‘peaceful development’ to “strategic opportunity” for China (Clarke, 2017: 76). Thus, BRI is a result of strategic thinking of successive Chinese Presidents to ensure China’s peaceful rise. (b) Given that China has been successful in pursuing its soft power strategy in most of the region, BRI will be a big boost and obviously allow China to play more pro-active political and economic roles at the global level. (c) Every strategic move by China is always seen as to counter US dominance. In this regard, BRI is regarded as a response to former US President Barack Obama’s ‘Pivot Asia Policy’ (March 2013), and provide an alternative model and leader to US global hegemony (ibid). (d) BRI is not just to fulfil China’s global aspirations, but also its domestic needs like overcoming China’s energy dependencies, addressing the under-development of western China, reducing the over-capacity in manufacturing, stagnating exports, promoting the go global, internationalizing the RMB, and reforming the global economic governance (Tekdal, 2018: 378). (e) India’s analyst Mohan Guruswamy, argued that “China has accumulated foreign exchange reserves of US\$3.5 trillion and the capital it claims is prepared to subscribe for the NDB, AIIB and SRF, which would amount to only around 7 per cent of its total foreign exchange reserves invested in western banks. Moreover, the China-promoted institutions will be providing infrastructure lending rather than grants, the return on capital from these investments could be significantly higher than the returns China is getting from its foreign exchange reserves currently invested in low-yielding US government bonds” (Guruswamy, 2017). (f) Some even argue that China’s initiative is not like the normal expansionist, but packaged and promoted as BRI. Thus, BRI is guided by addressing both China’s domestic and global ambition.

Overall, despite BRI receiving mixed signals from the international community and analysts, it has gained legitimacy to a certain extent through holding of the BRI forum on 14-15 May 2017 (the second BRI forum was held in April 2019) at Beijing. This was attended by major powers, 29 heads of state and 130 delegations and 70 international organizations. As of now,

more than 68 countries have signed the initiative and despite countries like the US, France, UK, Germany and Japan expressing their concerns over the BRI, had sent representatives for the BRI Forum (Rana, 2017: 12). On the contrary, India did not even send any representative, signalling its position over BRI. Nevertheless, India's non participation of BRI continues to be widely debated.

2. India Joining BRI: *Why Not?*

Some policy makers and academicians in India have been arguing that there is lot for India to gain through BRI, such as: (a) India will get access to new markets, resources and commodities from Central Asia and the Middle East. Moreover, for decades India has been making all efforts to integrate and connect with both Southeast Asia and Central Asia. In this regard, the BRI provides a golden opportunity to realize these objectives. (b) The BRI is beyond road and rail connectivity, as it also includes connectivity and building digital and cyberspace infrastructure. Given India's strength in information and communication technology (ICT), it will be advantageous for India. At the same time, BRI will be domestically beneficial, as India's quest for becoming the manufacturing hub of Asia can be realized, through the "Make in India" campaign, and creating more job opportunities. Moreover, it will not just provide business opportunities for the public sector, but also for the private sector. (c) Except Bhutan, all the other South Asia countries are officially part of BRI (Das, 2017: 130-133). Days before the 2017 BRI Forum took place, China signed fresh agreements with Pakistan, Sri Lanka, Bangladesh, Nepal, Myanmar and Afghanistan. In addition, the head of states of these countries in their respective speeches at the forum went on to congratulate President Xi Jinping for his regional leadership and welcomed Chinese investments in their respective countries. This clearly underlines the countries backing of BRI and India's failure in providing such kind of development model/project for the growth of the region. Moreover, India is yet to match action with words when it comes to its neighbourhood first policy. Even the Southeast Asia countries along with Central Asia have expressed their desire to be part of BRI (Kohli, 2018: 3-11; Yu, 2017b: 117-122). In addition, despite the US, EU and Japan expressing concerns about BRI over issues like transparency, public procurement, environmental standards, reciprocity in trade and other issues, they did not hesitate to send their representatives to the BRI Summit (May 2017). Overall, more than 100 countries and international organizations have supported BRI, even some of the resolutions in the United Nations General Assembly (UNGA) and Security Council (Aoyama, 2016: 8) are connected with BRI. Even European countries like the UK are keen on engaging with China. In this context, India

remaining aloof will be unable to come up with any alternative model of development led by Asia. Hence, it is better for India to be a part and benefit from the BRI. (d) India can assert its interest with regard to CPEC only by being part of it, rather than remain outside. Moreover, India has been pushing for the Bangladesh, Bhutan, India and Nepal (BBIN) Initiative and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), but so far its results are mixed, hence by being part of BRI, it will be a big boost for BBIN and BIMSTEC. (d) India is one of the co-founder of AIIB and is the second largest contributor to the AIIB, which has also allocated US\$100 billion for BRI. Hence, when India can be a part of AIIB and BCIM and be successful in protecting its economic and strategic interest, why can't India do the same by being part of BRI? (e) Overall, India by joining BRI can reclaim its glory and place on the Silk Road, which it has lost over the centuries (Saran, 2017).

3. India's Concerns over BRI

More than the Indian government's pitching for BRI, its opposition has been more vocal and visible. As a result, India is disappointed with China's failure to address the former's concerns which are four folds.

3.1. Security Concerns on Economic Corridors

One of the foremost concerns of the Indian government's opposition to the BRI is the CPEC, which is regarded as a big investment project, for which China has pledged US\$54 billion until 2030 (Small, 2017: 81). This corridor attempts to connect China's Xinjiang autonomous region with Pakistan's Balochistan Province. Although, this is a welcome move, but the corridor runs through the Pakistan Occupied Kashmir (POK), which Pakistan claims as 'Azad Kashmir'. Subsequently, it is alleged that in addition to Pakistan's 15,000 security personnel, China is likely to deploy around 30,000 security personnel for the CPEC, in a way a security concern for India (Singh, 2017a: 2). Apart from this, the Line of Control (LOC) is not yet accepted by both India and Pakistan as international boundary, thus by giving consent to CPEC would naturally be suicidal for India. Moreover, it will not only undermine India's sovereignty claims on disputed border territories, but put India in a disadvantageous position in future negotiations on boundary and other security interests *vis-à-vis* China and Pakistan.

Apart from the CPEC, the Bangladesh-China-India-Myanmar (BCIM) economic corridor has also serious security concerns for India, as attempts are made to connect China's Yunnan province with India's Northeast region and it is assumed that China will enhance its influence in the northeast region

– which is already a major security concern for India. Moreover, India through BCIM wants to connect its northeast region with Southeast Asia but with China pitching for the merger of BCIM with BRI, India thus feels that already the progress of BCIM is lukewarm and merger would further slowdown the progress. In addition, the Maritime Silk Road (MSR) attempts to develop and enhance China's presence in the Indian Ocean region, which is already happening through the so-called 'string of pearls strategy'. China has continued to argue that more than 70 per cent of its oil imports go through this region, hence its aims are for refuelling, commercial purpose and sea lane security, rather than to contain India. However, India is not convinced by these arguments as it threatens India's future naval power projects and its influence in the region. In this context, during the 2018 BOAO Forum for Asia, President Xi stated: "BRI is not a Chinese plot, neither is it the post-World War II Marshall Plan, nor is it a Chinese conspiracy"¹ and China is willing to address the apprehensions of other countries regarding the BRI and maintained that it is not targeted towards any country. But these statements have yet to convince the Indian government.

3.2. A Debt Trap of Smaller Nations

Apart from CPEC issues, the Indian government (Ministry of External Affairs in May 2017) from time to time has expressed serious concerns about the possibility of BRI resulting in unsustainable debt burdens. For example, in some recipient countries like Sri Lanka the increasing Chinese debt is a cause of concern not just for the country, but has implications for the region (Darshana, 2018: 7). As a result, in December 2017, the Hambantota port was handed to China for a period of 99 years lease while China holds 70 per cent stake in this strategic port. Thus, this remains the best example of unsustainable loans, which ultimately are allowing China to gain significant economic and strategic advantages in the Indian Ocean region. Furthermore, some of the news reports and studies have shown that through BRI there is a possible risk of Chinese companies grabbing host countries resources, with unsustainable loan practices leading to high levels of debt and weakening the economy of the recipient state. In this context, it is rightly pointed out by one prominent European commentator that BRI is nothing but "One Belt, One Road and One Trap", as the projects could push smaller countries on the road into a crushing debt cycle, destroying the ecology and disrupting local communities.

The question of debt repayment to China by Ukraine, Zimbabwe, Cambodia, Pakistan and Sri Lanka remains a questionable concern. According to the 2016 International Monetary Fund (IMF) report, out of Cambodia's USD3.9 billion bilateral public debts with China, 80 per cent is owned by

China (Singh, 2018). Similarly, this has been the case with Pakistan; it is estimated that by June 2019, Islamabad's financial debt to Beijing would reach US\$19 billion, which could be one fifth of total formal debt. Moreover, it is argued that CPEC loans will add US\$14 billion to Pakistan's total public debt (Chansoria, 2018). However, some of the Chinese tend to argue that these debts are less than 10 per cent of their total debts, but the big question remains whether these countries – Ukraine, Zimbabwe, Cambodia and Pakistan – can repay their debts, given their fragile economic conditions. To address these concerns, at a forum organized by the IMF and the World Bank in Bali, Indonesia in October 2018, China's Vice Minister of Finance, Ms. Zou Jiayi, reassured the international community about China's commitment to solve possible debt issues. Ms. Zou emphasized that projects developed under the BRI are primarily commercial projects and host countries are free to develop them or not.² Nevertheless, the debt trap of smaller nations such as Sri Lanka, Pakistan and Nepal is one of the concerns for India not being part of BRI.

3.3. BRI is Unclear

Similar to some of the European countries, the Indian government's frequent statements has emphasized on the prevailing ambiguity about the BRI. For instance, on 13 May 2017 it stated that BRI is not based on principles such as good governance, rule of law and transparency. It further stated that "we are of firm belief that connectivity initiatives must be based on universally recognized international norms, openness and equality, and must be pursued in a manner that respects sovereignty and territorial integrity" (MEA, 2018). Overall, India argues that lack of detail and insufficient discussion of the BRI proposal, prior to its launch is the reason for its silence. At the same time, India also regard that BRI has been a unilateral decision without any consultation with partners. Although, China tends to argue that it is open for joint development and implementation of projects, but in reality it tends to control projects. In this context, former Foreign Secretary S. Jaishankar in 2015 had argued that "[BRI] wasn't a multilateral initiative that they discussed with the world, that countries are interested or affected ... hence need of the hour is discussion, that has not happened" (Pant and Passi, 2017: 90). At the same time, whoever are investing in BRI still remains unclear, however it is alleged that 90 per cent of funding comes from Chinese banks and companies. As a result, India is so far cautious and reticent.

3.4. India's Natural Sphere of Influence

Generally, India has always considered the South Asian Region as its natural sphere of influence. However, in recent decades the region has witnessed

increasing political, economic, and cultural influence and presence of China. This has intensified particularly in Nepal, Bangladesh, Sri Lanka and Maldives. For example, China has already invested US\$14 billion in infrastructure in Sri Lanka since 2005, it has pledged US\$38 to Bangladesh and planned to invest and provide US\$8 billion credit for Nepal (Wagner and Tripathi, 2018: 3). Moreover, Pakistan's Prime Minister Imran Khan is taking Pak-Sino relations to the next level following his visit to China (in September 2018) and attempting to rope in Saudi Arabia to join the CPEC as the third "strategic partner".³ These developments constitute a major concern for India due to China's greater geopolitical influence.

With the BRI initiative, India's fear is intensifying, as apart from Bhutan, all the other neighbours are now officially part of BRI. The three corridors – CPEC, BCIM, the Trans-Himalayan Economic Corridor and the MSR linked to South and Southeast Asian regions and the infrastructure projects associated with them have a direct bearing on India's strategic interests (Chung, 2018: 317). For instance, they run close to India's continental and maritime borders and are affecting its security interests and strategic environment. It also alters the existing power dynamics in the region. Although, India is not opposed to infrastructure development in the region, it is concerned about the strategic implications of certain Chinese-led initiatives, also through BRI. A primary concern for New Delhi is that Beijing will use its economic presence in the region to advance its strategic interests. One notable example is the strategically located port of Hambantota, which the Sri Lankan government was forced to lease to China in December 2017. The port was built on Chinese loans and labour with high interest rates. Sri Lanka was unable to repay the loan and incurred a debt burden. Thus, India does not see the Chinese projects as just an economic project, but as a latter grand strategy making its hegemonic foreign policy goals and security policies (Darshana, 2018: 7).

Although Pakistan's pro-active approach to BRI is not surprising, however in recent times, there are concerns raised now and then in Pakistan, for example in the *Dawn* newspaper which emphasized, "Pakistan is on the verge of becoming an economic and military outpost of China". According to a recent Pentagon report, "China most likely will seek to establish additional military bases in countries with which it has a long-standing friendly relationship and have similar strategic interests, such as Pakistan" (Kaura, 2017). In this context, India cannot afford to lose sight of this dimension as it directly impacts its security interests. If China emerges as Pakistan's sole trade window to the world, this will have repercussions for India. In addition, the BRI is promoted as a process of connecting the South Asian region through joint and complementary projects, but it undermines the role of the South Asian Association for Regional Cooperation (SAARC), BBIN and also India.

3.5. Other Concerns

Apart from the above, some other possible concerns are: (a) The critics of BRI term it as China's Marshall Plan, but a vital difference is that the Marshall Plan was created in the aftermath of WWII, but BRI aims at regaining and connecting China to the globalised world, which India cannot take lightly (Hu, 2017: 110). (b) China will gain an advantage over India in the neighbourhood and extended neighbourhood and India has to play a secondary role to China, thus with some suggesting India will have no alternative but to prefer a US-orientated world order. (c) India is unhappy with China over the latter's blocking of India's entry into the Nuclear Supplier Group (NSG), United Nations Security Council (UNSC), Asia-Pacific Economic Cooperation (APEC), and opposed UN sanctions on Pakistan based terrorist organizations. In this context expecting India to support BRI without any assurances is not diplomatically viable. (d) Despite India's objection, China continues to oppose any welfare or infrastructure project in Arunachal Pradesh, a state in India. China has even gone one step further by advising India to exercise "restraint" on the Bhupen Hazarika Bridge in Arunachal Pradesh. This kind of response from China is uncalled for. (e) Furthermore, the unresolved border disputes following the 1962 war, and the existing trade deficit of US\$63 billion as of July 2018, continues to curtail bilateral ties (Bhoothalingam, 2016: 49). Thus, critics argue that China may use its economic power (BRI) to increase geopolitical leverage and by doing so intensify the existing security concerns for India.

4. India's Response and Strategies

Although, India has decided not be part of BRI, but it needs to response and evolve strategies to BRI. Some of its response and strategies are as follows.

4.1. Continues to Express its Concerns at all Forums

From time to time, India has been consistent in expressing its displeasures and concerns over the BRI at all forums. For example, despite the invitation from China to attend the BRI summit in May 2017 and April 2019, India did not even send a representative to the forum. At the SCO Summit in June 2018, India became the only member of the SCO that did not endorse the BRI in the declaration issued after the summit. Prime Minister Narendra Modi, went one step further and emphasised that "connectivity with the neighbouring countries is India's priority. We welcome the connectivity projects which are sustainable and efficient and which respect territorial integrity and sovereignty of the countries" (Sengupta, 2018). Apart from India expressing its concerns, it has ensured that its reservation over BRI features in bilateral meetings like

the India-US bilateral meeting (June 2017). The joint statement noted that both sides “support bolstering regional economic connectivity through the transparent development of infrastructure and the use of responsible debt financing practices, while ensuring respect for sovereignty and territorial integrity, the rule of law, and the environment; and call on other nations in the region to adhere to these principles” (Darshana, 2018). Similarly, in September 2017, PM Modi and Japanese Prime Minister Shinzo Abe issued a joint statement indirectly criticising BRI’s “quality infrastructure – which, among others, ensures alignment with local economic and development strategies, safety, resilience, social and environmental impacts, and job creation, as well as capacity building for the local communities”.⁴ Thus, India has been pro-active in opposing BRI as and when opportunities arise.

4.2. Efforts to Counter MSR/BRI

India has made efforts to counter the BRI like establishing the International North-South Transport Corridor (INSTC), a trilateral projects initiated by India, Iran and Russia. As result, India reached an agreement with Iran in May 2016 to develop the Chabahar port in Iran, and allocated US\$500 million to develop it. The port city is only about 70 km from the Pakistani port of Gwadar, where China’s “new Silk Road” and “maritime Silk Road” meet. In October 2017, India shipped its first load of wheat to Afghanistan via Chabhar (Wagner and Tripathi, 2018: 3). This port is vital for India’s trade and commerce with West Asia and Central Asia by avoiding the land route through Pakistan. A major advantage of INSTC is that, little investment is needed to establish new trading routes as the infrastructure is already in place. The development of the Chabahar port in Iran, only 500 kilometres away from ports in Gujarat (especially Kandla), opens up opportunities for Indian businessmen to export not only to Iran but also to markets in Afghanistan, Central Asia, Russia and even Europe (Conference Proceedings, 2016).

Chabahar’s proximity to the Indian port cities of Kochin, Kandla and Mumbai also provide many lucrative trading opportunities for India. This route will be beneficial not just for India, but also for Iran and Afghanistan. India has also initiated a project connecting the northeast region of India with the Chittagong port in Bangladesh to enhance trade and commerce (Das, 2017: 136). Thus, India has been successful in exploring the possibilities of achieving its economic and strategic interest through trilateral arrangements.

To counter China’s MSR, India is being pro-active in strengthening bilateral ties with countries in the Indian Ocean region. This has received a big boost with India launching the Mausam project (2014). The Mausam project is projected by India as a cultural one, as it is the initiative of the Union Ministry of Culture and implemented by the Archaeological Survey of

India (ASI) as the nodal agency with research support from the Indira Gandhi National Centre for the Arts (IGNCA) and National Museum as associate bodies. This project aims to “explore the multi-faceted Indian Ocean ‘world’ – collating archaeological and historical research in order to document the diversity of cultural, commercial and religious interactions in the Indian Ocean” (Press Information Bureau, 2017). It also aims to promote research on themes related to the study of maritime routes. Subsequently, the Mausam project is to inscribe places and sites identified as transnational nomination for inscription on UNESCO’s World Heritage List. But the project is not just cultural, it also has a strategic dimension as this project will provide an opportunity for India to re-establish its ties with its ancient trade partners and re-establish an “Indian Ocean world” along the littoral of the Indian Ocean, stretching from east Africa, along the Arabian Peninsula, past southern Iran to the major countries of South Asia and then to Sri Lanka and Southeast Asia.

Unfortunately, the Mausam project even after four years remains a distant dream, “primarily due to India’s unsure methods and uncertain strategies” (Seethi, 2018). Even though an amount of Rs60,039,297/- (i.e. Rs2,80,95,532 for 2018-19 and Rs3,19,43,765 for year 2019-20) has been approved and allocated for the project, but the expenditure for the project during 2017-18 and first three months of 2018-19 is Rs16,75,614 (Press Information Bureau, 2017). Furthermore, India should be the primary economic and security provider in the Indian Ocean Rim Association (IORA) countries, however it is likely to be outmatched by China, which is only an observer (Sidhu, 2015). Thus, the project has been very ambitious but is lacking on the implementation part.

In a similar direction, PM Modi during his visit to Mauritius (March 2015) mooted the SAGAR (security and growth for all in the region) concept with multiple objectives such as protecting maritime interests, enhancing economic and security cooperation in the littoral, promoting collective action to deal with maritime threats, building greater trust and promoting respect for maritime rules, norms and peaceful resolution of disputes (Swaraj, 2017). PM Modi went one step further and pitched for establishing an Indian Ocean University (IOU) by India and co-endorsed by Mauritius for which a preliminary study has been prepared by the IORA secretariat (Ibid). SAGAR is making progress, but not on the scale as it was anticipated.

In a joint effort by India–Japan, in May 2017 at the annual general meeting of the African Development Bank, both countries unveiled the vision document for an “Asia Africa Growth Corridor” (AAGC) with the aim to enhance growth and connectivity between Asia and Africa focussing on areas like development cooperation projects, quality infrastructure and institutional connectivity, enhancing skills, and people to people partnership (Singh, 2017b: 6). Overall, it seeks to synergize between India’s Act East Policy and

Japan's "expanded partnership for quality infrastructure to improve growth and interconnected between Asia and Africa" (Ibid: 7). However, this corridor is yet to take concrete shape. Overall, India has made efforts to counter BRI, but its success remains to be seen in the near future.

4.3. QUAD – Yet to Take Off

The quadrilateral grouping QUAD – the US, Japan, Australia and India has not been formally institutionalized since 2007 for various reasons such as: (i) India was not keen on it. The regimes in the US (2008), Australia and Japan (2007) were more inclined to view such coalitions as too provocative and unproductive in an Asia-Pacific security context; (ii) the US moved from pro-active to soft-peddling; Australia moved from Quadrilateral to Asia-Pacific Community; Japan from pro-active to lukewarm; and India from acceptance in principle to noncommittal; and (iii) China continued to express its unease over such a development. Moreover, all the four countries began to strengthen their ties with China. As a result, the quadrilateral grouping did not take off.

Nevertheless, there is rethinking about reviving the quadrilateral in recent years. For instance, in 2015, India hosted Japan and Australia for its first ever high-level trilateral dialogue in New Delhi. Some of the topics discussed were maritime security, including freedom of navigation patrols; they also suggested, "One idea to consider is initiating a Quad-lateral Security Dialogue between India-Japan-Australia and the United States (Chaudhury, 2016). Besides, with the successful trilateral dialogue of US-Japan-India, US-Australia-Japan and so on for collective exercises, the quadrilateral has gained momentum in recent years. Moreover, the QUAD got a bit boost with US Admiral Harry B. Harris Jr., commander of the US Pacific Command (PACOM), pitching for institutionalizing QUAD in March 2016 while speaking at an international security conference in New Delhi. On the sidelines of the ASEAN senior official meeting in Singapore (November 2017), senior officials from all the four countries held their second consultative meeting. The meeting was a follow up of the group's first meeting in Manila (November 2017) again on the sidelines of ASEAN summits. However, each of the four countries released a statement on the four-way consultations, without making any reference to the arrangement being a "quadrilateral." All four statements noted some variant of the countries each support a free, open, prosperous, and inclusive "Indo-Pacific region. But the Quad continues to move along slowly and steadily. The hint of regular meetings suggests that the four countries will continue to explore ways to operationalize a common cooperative agenda in the Indo-Pacific (Pande, 2018). The expectations were high for the forthcoming Quadrilateral grouping of India, Australia, Japan and the US meeting, on the sidelines of the East

Asia Summit in Singapore in November 2018. In a nutshell, there is a need for a quadrilateral alliance, although as of now it is on hold, however, it remains to be seen if geopolitical forces will push the arrangement forward.

5. Scope for a Win-win Situation in BRI

Although, China is making all efforts to take the BRI forward with or without India, however, there is still much scope for a win-win situation between both nations in ensuring the success of BRI.

5.1. Problems Aplenty

Apparently, the prevailing perception in India among some of the government, policy makers and academicians are that BRI has vast implications for India's strategic interest and it needs to be countered. However, BRI has plenty of problems, in anyway it will be an uphill task. For instance, the slowing down of the Chinese economy; most of the region that are part of BRI are confronted with challenges like weak economy, insecurity, political instability, uneven economic development, and the many countries which are part of the BRI are underdeveloped in the manufacturing sector (Das, 2017: 135-136). Moreover, the presence of terrorist organizations like ISI, Al-Qaeda and Pakistani based outfits might be a stumbling block for the successful implementation of BRI. At the same time, reservations from European nations, the US and Japan on issues like lacking transparency, no commitment from China on social or environmental sustainability are still unaddressed by the Chinese government. As a result, the full participation of these major powers remains a distant dream. Above all, given the lower level of returns on infrastructure projects, the possible construction delays due to political and security risks like in Sri Lanka, Maldives and Pakistan may have an adverse impact on the investment. Interestingly, critics will be closely watching the actual pledged and actual flow of Chinese investment, for example in the case of CPEC, an amount of US\$66 billion worth of Chinese investment was promised from 2001 to 2011, but only 6 per cent of these were actually realized (Small, 2017: 80). Thus, the success of BRI will depend on the actual flow of investment.

One of the prevailing narrative in India is that it has not been a huge loss in terms of investment by keeping away from the BRI, as Chinese investment is primarily through loans with significant interest rates and other conditions. Moreover, the host nations have to purchase and use Chinese equipment, technology and labour, which are already creating problems in host countries like South Asia and Central Asia. At the same time, Beijing is yet to mobilize a unified support among the countries for its ambitious BRI. For example,

despite the presence of many countries and organisations at the BRI Forum Summit in May 2017, China was unable to issue a joint communiqué signed by all nations present. Instead, the communiqué was signed by thirty nations like Russia, Kazakhstan, Thailand, Pakistan, Indonesia, Myanmar, Sri Lanka and so on. Ironically, the US, UK, France, Germany, Australia and Japan abstained from committing to the joint statement, which suggests that they too have concerns about the BRI and China's intentions (Darshana, 2018). Furthermore, China has been pushing the BRI as a grand global initiative, however ensuring its success remains an uphill task.

5.2. Improving Bilateral Ties

Despite the perpetuating security and border irritants in Indo-Sino relations, Prime Minister Narendra Modi and President Xi Jinping have met regularly like their informal summit in Wuhan (April 2018), during the SCO meeting in Qingdao (June 2018), at the BRICS summit (July 2018), and G-20 Summit (November 2018). Subsequently, economic ties are increasing. This was well reflected in a meeting (June 2018) between Jinping and Modi, where they agreed to enhance bilateral trade to US\$100 billion by 2020 (the present trade is US\$84 billion), and China agreeing to import non-Basmati rice and sugar from India. In return, India will allow China's state-owned Bank of China to open its branch in Mumbai (Sengupta, 2018). Moreover, there is an ongoing trade war between the US and China as the US carries out its threat to impose tariffs on all US\$507 billion worth of Chinese exports to the US. If this happens, then the Chinese economy will be severely hit with long-term annual GDP growth estimated to fall below 4.5 per cent (Merchant, 2018). In this circumstance, China will have to depend upon India to keep its trade and economy running.

Over the decades, conflict and cooperation have become important elements in India-China relations. The two countries have cooperated on strengthening bilateral political and economic ties. They have increased cooperation on transnational issues like terrorism (minus Pakistan-sponsored terrorism), global warming, economic crisis, piracy, drug trafficking, Islamist fundamentalism and other security issues. Both share common interests in maintaining regional stability like promoting economic growth and achieving energy security in the region (Panda, 2016). Both opposed the US use of military around the world, clearly indicating that they both want a multi-polar world. The relations was further enhanced with the signing of the China-India strategic and cooperative partnership for peace and prosperity in 2015. At the same time, China is also India's largest bilateral trading partner. Both states are also members of the BRICS group (Brazil, Russia, India, China, South Africa) and the SCO, among others; and they frequently take similar stances

towards industrialized nations in international trade and climate negotiations. However, there are many irritants which have the potential of snowballing into a major conflict like territorial and border disputes, river water disputes, Tibet issue, China's overwhelming economic, military, nuclear and political support to Pakistan, China's growing influence in South Asia and South East Asia, China's attempt to deny India a major role in Asia-Pacific and counter India's legitimate aspirations as a major maritime power in the Indian Ocean, and opposing India's strategic interests in the South China Sea. Furthermore, China continues to prevent India's entry into the NSG and UNSC and other economic, political and security forums and groupings. Hence, India-China relations have been a policy of containment, confrontation and cooperation, which will continue and is the same case in the Asia-Pacific. In this context, both the countries can explore the possibilities of working over a win-win situation with regard to BRI.

5.3. China should Consult and Provide Space for India

Although, China has frequently stated the BRI as open, equal and inclusive, but the CPEC running through Pakistan, also runs through POK, in a way ignoring India's sentiment. Further, neither the Chinese media nor the administration has made efforts to address India's concerns over CPEC despite India raising this issue at several forums (Jacob, 2017: 4). Moreover, Beijing instead of consulting New Delhi on BCIM before proceeding with CPEC, it went ahead with the latter without taking into consideration India's situation. Similarly, the connectivity projects do provide some benefit for India also, particularly the transport links in Afghanistan; however, Pakistan has refused to give transit access to India to reach Afghanistan and central Asia. Thus, instead of China taking the initiative in persuading its all-time friend – Pakistan, it continues to stress that this is a bilateral issue and it has no role. To ensure India is also part of the BRI, Beijing can explore possibilities of an alternative route to POK like Kolkata to Gandhinagar and develop a port of the coast of Gujarat, which will take care of India's security concerns. Thus, China needs to consult and also take India on board, particularly wherever there are shared interests.

5.4. India should Move one Step

It is not just China taking a step forward, but India also needs to walk along with China, that is: (a) as former Foreign Secretary Shyam Sharan stated "its worth giving a chance to BRI, given that India do not have capacity to provide an alternative in either scale or scope on the grounds that it might help India to regain some cultural and strategic leverage by advancing its

own SAGAR mala project and cotton and spice routes via the MSR” (Saran, 2015). (b) Given that this century belongs to Asia and both China and India have greater roles in shaping the destiny of Asia, hence both needs to balance the short-term and long-term goals and need to relook and reach a consensus where the interest of both are taken to build a better future for Asia. (c) India can explore the possibilities of adopting selective approach to projects connecting Iran, Afghanistan and other Central Asian countries and ignore CPEC. Moreover, the CPEC might enhance the debt of Pakistan and leave behind a host of white elephant projects and incomplete plans (Small, 2017: 83). Thus, India’s CPEC obsession can be condensed. (d) India has yet to find a credible/suitable response to China’s investment in the region. Moreover, not being part of the BRI is not a response or strategy and the BRI has reached a stage where India cannot ignore and stay isolated for long. There is hardly any scope for India in stopping the BRI or its implementation, but India not taking part also undermines the credibility, and not taking part is difficult for India. (e) India’s participation in BRI will enhance South-south cooperation, NDB and AIIB and the pro-active engagement of the two will complement the soft infrastructure, given India’s strength in the service sector. (f) The Indira doctrine emphasized and stipulated that all domestic political conflicts in the neighbouring states should be resolved with India’s help, and the Gujral doctrine stressed no reciprocity with neighbours, while Modi put forth the neighbourhood first policy. Despite all these vital policies, it has not prevented China’s entry and neighbours balancing India. Although, Modi’s neighbourhood first policy was welcomed, but in recent times, it has not yielded results as expected. Furthermore, compared to China, India has limited resources at its disposal to implement these concepts.

Hence, in this circumstance, India needs to relook its response and strategies towards BRI and China also needs to address India’s concerns so that both the powers are part of the game changer in ‘BRI’.

Notes

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The *Tionghoa*'s Position in the History of Indonesia-China Relations from 1950 to 1998: When Two Countries "Honour" is at Stake

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Abstract

The *Tionghoa* have a unique position in the history of Indonesia-China relations. Thung Julan analyzed their position within the framework of an "outsider within and insider without", in which the *Tionghoa* are expected to act as a "bridge" linking both nations. This view is interesting to discuss more deeply, especially due to some historical events pertaining to Indonesia-China diplomatic relations from 1950-1998. During those events, each country, but especially China, exploited the *Tionghoa* for their own benefit. This article uses a historical approach that includes heuristic stages, verification/criticism, interpretation and historiography to show the position of the *Tionghoa* in the relations between Indonesia and China. Subsequently, in that context, it considers to what extent the *Tionghoa* can act as a "bridge" that links both nations and countries, especially when "honour" is at stake. This analysis was conducted within the framework of the concept of *mianzi*, which in Chinese culture contains the meaning of "honour", including the dignity and sovereignty of the nation. Thus, this research shows that in some Indonesia-China relations historical events are related to the *Tionghoa* and that China has always made an effort to not "lose face" or *diu mian*.

Keywords: *Tionghoa, Indonesia-China relations, mianzi concept, honour*

1. Introduction

The diplomatic relations between the Republic of Indonesia and the People's Republic of China (RI-PRC/Indonesia-China) were officially opened in April 1950. In 1967 the relation was interrupted, but it was later recommenced in 1990. Two major problems burdened the RI-PRC relations in the early era and before relations were restored (1950-1990), namely, the communist ideology adopted by the PRC and the *Tionghoa*, that is Indonesians of Chinese descent.

Along with both internal changes and the developments of globalization affecting the two countries, especially in the last few decades, ideological problems do not become a major obstacle anymore. On the other hand, the *Tionghoa* problem is still a source of tension in the relations between Indonesia and China, and the *Tionghoa* are often perceived as an important asset by both Indonesia and China. The *Tionghoa* are Chinese descendants, so they are also part of *Huaqiao* – that is Chinese who live outside of China. These individuals still have strong ties to their ancestral lands, and the PRC government consciously makes frequent use of that emotional bond, urging the *Huaqiao* to support the development of ancestral lands (Thuno, 2001).

Indonesia is one of the most ethnically diverse countries in the world. Its diversity is enriched by ethnic groups who are descendants of other nations, such as Chinese, Arabians, Indians, Dutch and other nations. According to the results of the 2010 population census, the number of the *Tionghoa* was about 2.8 million people, equivalent to 1.2 per cent of the total population of Indonesia (Evi, Hasbullah and Pramono, 2016, p. 7). As is the case for the other ethnic groups living in Indonesia, the presence of the *Tionghoa* is important to consider due to their considerable population spread throughout Indonesia and their distinctive socio-cultural position and activity. Thus, this article investigates the following question: “Historically, what has been the position of the *Tionghoa* with regard to Indonesia-China relations?”

The original *Tionghoa* were Chinese immigrants who became legal Indonesian citizens (Warga Negara Indonesia/WNI). Thung Julian sees the *Tionghoa* condition in terms of the concept of “outsider within” and “insider without” previously used by Patricia Hill Collins to discuss the intellectual contribution of black female academics in the field of feminist sociology in the United States.¹ Based on the concept, Thung concluded the following:

For Indonesia, the *Tionghoa* citizens are politically an integral part of the Indonesian nation, while culturally, it is an outsider within. In contrast to China, the *Tionghoa* ethnic culture is part of Chinese society, but politically it is a “foreign citizen” (insider without)... The *Tionghoa* can act as a bridge connecting both nation and state, but with the position as above the *Tionghoa* must be careful in addressing the power relations between the two countries... and require special skills to enable the *Tionghoa* citizens to become insider within Indonesia and outsider within China. (Thung, 2008)

Thung Julian’s idea – *Tionghoa* citizens can become insiders within Indonesia and outsiders within China – is an ideal condition that might be possible to realize. However, Julian’s message to “be careful” and to use “special skills” shows that in practice this is not an easy thing. Among the many factors that will have a significant impact on this process, the “honour of each country” is a sensitive one. Based on this background, the central topic of this article is the position of the *Tionghoa* in Indonesia-China relations. In that context,

it is interesting to consider to what extent the *Tionghoa* can act as a “bridge” that links both nations and countries, especially when “honour” is at stake.

This study employs a historical research method that included four stages: heuristic, verification/criticism, interpretation and historiography. The heuristic and verification stage was done through a literature study, a number of books on *Tionghoa* and Indonesia-China relations were used as the main reference for this article, including Hong Liu (2011), David Mazingo (2007), Charles A. Coppel (1994), and Leo Suryadinata (1984; 2017). Although these books are recognized as valid by the world’s leading sinologists, their data are critically addressed in this paper by comparing data from various sources, including from secondary sources. The analysis in the interpretation phase is based on the concept of “*mianzi*” or “face” which is one of the important concepts in Chinese culture. Through this concept can be presented the reconstruction of several events related to the position of the *Tionghoa* in the history of Indonesia-China relations, as well as how the concept has influenced the attitude of each party. The historiography stage is performed using the rules of narrative history writing, which according to Lemon’s (2003) narrative is an account of “what happened”, does not deal with single happenings, and is different from a chronicle. History therefore revolves around narrative – that is, the apprehension of situations which change because of things that happen (pp. 298-301). In this article, the situation that will be apprehend is the position of the *Tionghoa* in the history of Indonesia-China relations.

2. “Honour” in the Concept of *Mianzi*

In Chinese, both *mianzi* (面子) and *lian* (脸) are nouns that mean “face”, and both words have figurative meanings related to honour, reputation, trust and dignity. Although the figurative sense of “face” exists in many cultures, this concept has unique characteristics in China and is more pervasive and more nuanced than in other societies. This uniqueness is due to the fact that Chinese society values hierarchy, social roles and interpersonal relations to a high degree. Therefore, “face” plays a key role in Chinese social contexts more than in other cultures. Moreover, *mian* and *lian* have specific meanings with subtle differences, as explained by Hu (1944):

Verbally the two sets of criteria are distinguished by two words which on the physical level both mean “face”. One of these, *mien-tze*, stands for the kind of prestige ... reputation achieved through getting on in life, through success and ostentation. This is prestige that is accumulated by means of personal effort or clever manoeuvring. For this kind of recognition ego is dependent at all times on his external environment. The other kind of “face” ... *lien* is the respect of the group for a man with a good moral reputation:

the man who will fulfill his obligations regardless of the hardships involved, who under all circumstances shows himself a decent human being. (Hu, 1944, p. 45)

These definitions illustrate that *lian* conceives of “honour” as related to morality and behaviour, which causes a person worthy of respect. According to *mianzi*, on the other hand, honour is related to the social image or reputation obtained based on achievement in certain fields.

As a cultural concept, *mianzi* is closely related to social pride, honour, dignity, reproach, shame, disgrace, humility, trust, distrust, respect and reputation. In social interaction, honour is closely related to the behaviour of individuals that is associated with trust, so is the honour of a country. The country’s honour is obtained or given by its people or other countries, based on their achievement and trust. Since most of the Chinese’s activities are based on “trust”, the fear of “losing face” is more of a psychological than physical burden. The widespread influence of *mianzi* in interactions among the Chinese is reflected in the many expressions that use the word *mianzi*. In this article, two such phrases are used as an analytical framework: *diu mian* (丢面) or “losing face” and *baoquan mianzi* (保全面子) or “saving face”.

Diu mian is a phrase that describes the loss of reputation due to reprehensible actions, such as cheating, corruption, infidelity. The Chinese want to avoid *diu mian*. For example, Lucian W. Pye (1992) said that “through a combination of devotion to parents and the fear of losing face, children learn self-discipline, and the Chinese pay attention to this subject more than any other culture” (Jacques, 2011, p. 232). When interacting, one should not make other people or the atmosphere uncomfortable by doing anything that could cause others or partners to “lose face”. This rule often results in an attitude that prioritizes the atmosphere as more important than honesty and truth (Ge and Toomey, 1998, p. 64). Moreover, interlocutors who do not understand Chinese culture well often make uncomplimentary statements or misunderstand the social context. In such situations, the function of the third party as mediator or liaison becomes important. *Baoquan mianzi* or “saving face” is a very closely related expression to *diu mian*. One must actively work to save face in order to avoid losing face. Such efforts of *baoquan mianzi* can also be reflected in the phrase *gu mianzi* (顾面子), which literally means “keeping face”, or paying attention to appearances and behaviours to enhance both dignity and prestige (Ning Yu, 2001).

3. The *Tionghoa* between Two Countries’ “Honour”

The *Tionghoa* are in fact an integral part of the history of the Indonesian nation. Their presence in Nusantara (i.e., the Indonesian archipelago) has been

recorded since the Han dynasty (Liang, 2012, p. 5). However, the *Tionghoa* position is often questioned due to their socio-cultural attachment to their ancestral land of China. Furthermore, since the era of dynasties, the Chinese government has implemented regulations to “bind” the *Huaqiao* – including the *Tionghoa* and to claim them as Chinese subjects.

While the *Tionghoa*'s socio-cultural attachment is understandable, suspicion in Indonesian society arises if it is coupled with a political attachment to China. That suspicion often turns into hatred, and in certain circumstances, it has even manifested itself in an anti-*Tionghoa* movement characterized by violence. Suryadinata (2017, pp. 54-55) revealed a number of factors that could trigger the emergence of conflict or anti-*Tionghoa* movement: the economic gap between the *Tionghoa* and indigenous Indonesians, the prejudice that the *Tionghoa* are unfaithful to Indonesia, and the existence of indigenous elites who use the issue of race or ethnic conflict to achieve their political objectives.

Moreover, the *Tionghoa* are expected to act as a “bridge” between Indonesia and China and to serve as a liaison and mediator in order to smooth their relations. Such mediators are especially needed when relations do not go well. In the early era of Indonesia-China relations and during the post-normalization period, several events related to the *Tionghoa* had a major influence on the relations between the two countries – namely, the Wang Renshu case, Presidential Decree Number 10 of 1959, the 30 September Movement events, the normalization of diplomatic relations, and the May 1998 riots. These five events are the focus of this research, particularly in terms of the extent to which the *Tionghoa* can act as a “bridge” that links both nations and countries, especially when ‘honour’ is at stake.

3.1. Wang Renshu Case²

On 15 January 1950, Prime Minister Mohammad Hatta sent a cable communicating Indonesia's desire to establish diplomatic relations with the PRC. Although China did not formally reply to the wire until 13 April 1950, shortly thereafter (in May 1950) the PRC appointed Wang Renshu as the first Ambassador to Jakarta to be deployed in August 1950. Immediately after arriving in Jakarta, Wang urged the Indonesian government to allow the reopening of seven consulates of the Republic of China (RoC/Taiwan). The reason for this request was to enable the PRC government to serve the interests of the *Tionghoa*, who were also citizens of China in accordance with articles 37 and 58 of the Common Program,³ which is the PRC's basic constitutional document and which essentially stipulates that all *Huaqiao* are PRC citizens. It declared that “the PRC government shall provide protection to their personal safety and assets” (Mozingo, 2007, pp. 90-91).

However, the Indonesian government did not accept the request for three reasons: First, the PRC can not automatically take over the assets left by the RoC. Second, the immediate opening of seven consulates in the very early stages of Indonesian-Chinese relations appeared irrational to the Indonesian government. Third, according to the provisions of the Round Table Conference, Chinese descendants born in Indonesia within two years of 27 December 1949 were considered Indonesian citizens, unless he/she personally chooses or has become another citizen (Suryadinata, 1984, p. 117). Especially with regards to the third reason, Indonesia considered the issue of *Tionghoa* citizenship to be relevant only after December 1951. Wang insisted that the consulates were needed to facilitate those who wanted to take care of their *Tionghoa* citizenship (Mozingo, 2007, p. 93). The negotiations were difficult until in March 1951 Indonesia allowed China to open its consulate in four major cities representing the major islands of Indonesia.

However, Wang's move to attract the *Tionghoa* did not stop there. The shift of orientation of the Bank of China from Taiwan to China/PRC was Wang's other success. This move disturbed the Indonesian government, and as a form of protest, on 22 July 1951, Indonesia rejected the arrival of 16 of the 20 PRC embassy staff members who would have been stationed in Indonesia (Mozingo, 2007, p. 98). Furthermore, Indonesia labelled Wang Renshu as *persona non grata* due to his provocation against the United States of America (USA) (Hong, 2011, p. 176).

The Wang Renshu case demonstrated that the PRC government initially tried to "make use of" the *Tionghoa* for its own advantage. However, Indonesia's strong stance showed China that it would be detrimental to PRC if relations with Indonesia deteriorated. Furthermore, it should be remembered that China's international position in the 1950s remained unstable – even isolated – because of the USA's containment policy. In that respect, good relations with Indonesia were crucial for the PRC not only because of the *Tionghoa* but also because of Indonesia's strategic position in relation to the USA. Moreover, if Indonesia took a more decisive action, such as severing relations with China, China would lose face (*diu mian*). The loss of Indonesian trust would make China lose prestige in the eyes of Southeast Asian nations, and make it more difficult to overcome USA containment policies. It would also make China lose the trust and support of the *Tionghoa* and perhaps even the trust and support of the *Huaqiao* in other regions of the world.

Thus, based on its desire to avoid the occurrence of *diu mian*, at the end of 1951, China recalled Ambassador Wang Renshu and replaced him with Huang Zhen. China's decision can be seen as a saving face or *baoguan mianzi*, which not only saved its relations with Indonesia but was also a first step towards better relations. On the other hand, this decision clearly

demonstrates that despite paying significant attention to the *Tionghoa*, when the honour of China was threatened, the PRC government could easily have left the *Tionghoa* behind.

3.2. Presidential Decree Number 10 of 1959

The position of the *Tionghoa* in the relations between the two countries had the potential to improve when it coincided with the Asian-African Conference of 1955, where Indonesia and China signed an agreement on dual citizenship. However, the agreement did not become effective yet. Moreover, Presidential Decree Number 10 of 1959 (PP 10 of 1959/*Peraturan Pemerintah nomor 10 tahun 1959*) banned retail trade in rural areas by foreigners (i.e., the *Tionghoa*) and obliged them to transfer their businesses to Indonesian citizens before 1st January 1960 (Suryadinata, 1984, pp. 140-141). In practice, only the *Tionghoa* were targeted by the regulation, resulting in acts of violence and riots that caused loss of material and casualties. The incident caused tension in Indonesia-China relations because China considered Indonesia to have violated the dual citizenship agreement (Coppel, 1994, p. 84). In fact, under the pretext of protecting the *Tionghoa*, China sent ships to Indonesia to bring (return) the *Tionghoa* to China, and more than 100,000 people gathered to leave Indonesia for China (Suryadinata, 1984, p. 142). Thus, according to Hong (2011, p. 177), Beijing intervened on behalf of its citizens by protesting against the regulations and repatriating 119,000 *Tionghoa* back to China. A research report conducted by the Indonesian Foreign Department and Universitas Sumatera Utara in 1989 revealed that China prepared Hainan island, a power plant, and a budget to accommodate the *Tionghoa* and provide them with employment (R. Tuty, 2015, p. 294).

China was clearly seen using its potential to engage in *gu mianzi* or *zengjia mianzi* or adding face, which was expected to increase its prestige in the presence of the Indonesian government and the *Tionghoa*. Responding to China's attitude, Soekarno's government did not budge, even asserting that Indonesia would not compromise in terms of repatriation. For the *Tionghoa* who wanted to leave Indonesia, the Indonesian government even "forced" them to get out, and they were only allowed to take items they could carry: "Jakarta denied them compensation for their confiscated property and prevented them from leaving the country with their capital and personal belongings" (Mozingo, 2007, p. 174). The *Tionghoa* who came out of Indonesia generally had no capital, and most of them were elderly and thus less productive. This fact, of course, disappointed China, and the event has often been interpreted as the "expulsion" of the *Tionghoa* from Indonesia.

President Soekarno's attitude was a hard blow for China because Soekarno's main supporter was the Indonesian Communist Party (PKI),

which was ideologically the same as the Chinese Communist Party (CCP). If the PRC continued to put pressure, it could have backfired. In addition, after learning of the US's role in the 1958 rebellion of *Pemerintah Revolusioner Republik Indonesia* (PRRI / Revolutionary Government of the Republic of Indonesia), China also saw that Soekarno had begun to direct his diplomacy to the Soviet Union (USSR). Nevertheless, since about 1956, tension between the PRC and the USSR had continued to increase. China and the USSR were even competing to develop their sphere of influence, especially in Southeast Asia. In this regard, Indonesia has an important position in Southeast Asia, if Indonesia fell into the USSR's sphere of influence, China would lose face or *diu mian*. Based on that consideration, China immediately stopped the *Tionghoa* repatriation and even encouraged them to comply with all regulations in Indonesia. Chen Yi, Foreign Minister of China at that time stated, "We are willing to maintain friendship with Indonesia, the overseas Chinese problem is just a minor issue and we hope it will not become bigger..." (Hong, 2011, p. 180). This event also showed that China would not lose face or honour just because of the *Tionghoa* problem.

3.3. *The Thirtieth of September Movement*

After the case of PP 10 of 1959 was completed, Indonesia-China relations entered a honeymoon era marked by the creation of the Jakarta-Peking axis. But this era lasted only about five years due to the 30 September Movement (G 30 S/*Gerakan 30 September*) in 1965, which led to the death of six army generals. General Soeharto emerged as the leader of Indonesia's New Order, who believed that the G 30 S was driven by the PKI and supported by the PRC. The accusation prompted the PRC to protest loudly, and it even refused to fly the flag at half-mast as a sign of sympathy for the deaths of the six generals. China's uncooperative attitude incited public anger, resulting in an attack on the PRC embassy in Jakarta and subsequently expanding into an anti-*Tionghoa* movement. The *Tionghoa* were the target of anger because they were believed to have supplied funds to the PKI (Suryadinata, 1984, p. 191). On 18 May 1966, Beijing announced that it would send a ship to "fetch" the *Tionghoa* who wanted to leave Indonesia, but only about 10,000 people left (Mozingo, 2007, p. 250). The lack of response from the *Tionghoa* seemed to be related to the conditions in China, where the Cultural Revolution was occurring. On the other hand, it appeared that both governments did not want a mass exodus. China was worried that accepting large numbers of migrants would cause difficulties, while Indonesia feared that an exodus could disrupt stability, especially economically (Coppel, 1994, p. 180).

Although the G 30 S was in fact a political and ideological conflict, the death toll of the *Tionghoa* nevertheless reached about 2,000 (Suryadinata,

2017, p. 56). Moreover, it froze diplomatic relations between Indonesia and China in 1967. At first, China showed superiority, but after seeing that the New Order government did not budge through all its pressure, the PRC realized that its position was on the verge of *diu mian*. The PRC had already reacted negatively to Indonesia's new ruler by not raising a flag at half-mast, by denouncing even strongly protesting mass demonstrations directed against him, and by avenging any attack on PRC representatives in Indonesia by doing the same to Indonesian representatives in Beijing. Moreover, Indonesia made its hostile stance against China clear by its closure and withdrawal of all staff from the Indonesian embassy in Beijing. The Indonesian attitude had caused China to "lose face", thus demonstrating Indonesia's prestige. A week later, China closed and withdrew all its embassy staff from Jakarta and branded the new Indonesian government as fascists. The *Tionghoa* also lost support from China and continued their life in the New Order era as part of the Indonesian nation.

3.4. Normalization of Indonesia-China Diplomatic Relations

The New Order government under President Soeharto came to power for 32 years, for 23 years of which Indonesia had no official relations with China. A number of policies that discriminated against the *Tionghoa* were enacted, including the closing of 698 Chinese schools (Coppel, 1994, p. 135). The *Tionghoa* were directed to totally assimilate with local communities and cultures, including changing their personal names (Coppel, 1994, p. 165). Bureaucracy and politics became barely accessible to the *Tionghoa*, while the economy and trade remained open to them. On the other hand, the government also established "economy as commander" in its development program. This program made the important role of the *Tionghoa* in the New Order economy undeniable because they had the most access to foreign capital, which Indonesia desperately needed at that time. In this respect, the *Tionghoa* contributed to building Indonesia's "honour". However, these developments also encouraged the spread of "*cukongisme*" (Wibowo, 1999, p. 59). The basic word of *cukongisme* is *cukong*, which is a term in the Hokkien dialect that means "boss". *Cukongisme* in this article refers to the practice of collusion, corruption and nepotism that occurs in the New Order era. In that process, some elite of the *Tionghoa* became the boss or *cukong*. The proximity of a number of *Tionghoa* conglomerates with Indonesian officials became a new trigger for anti-*Tionghoa* sentiments in society.

The process of restoring Indonesia-China relations was long and complicated. Individuals and community groups from both countries made attempts at reconciliation beginning in the late 1970s. The approach showed concrete results in 1985 – namely, the achievement of an agreement between

the Indonesian chamber of commerce (*Kamar Dagang Indonesia/KADIN*) and the China Council for the Promotion of International Trade (CCPIT) to conduct direct trade. Nevertheless, the full restoration of diplomatic relations was only achieved on 8 August 1990.

In the process of normalizing diplomatic relations, the role of the *Tionghoa* was clear. It was related to the success they achieved, which not only enabled them to become national businessmen but also to play a role in the global economy. The conglomeration they built made it impossible for China to ignore them. It therefore made sense that they were accepted to play a role in restoring the relations, and one of the key figures in this process was Tong Djoe (R. Tuty, 2015, p. 172). The presence and important role of Tong Djoe in the process of restoring relations between the two countries reinforces Ge Gao and Toomey's (1998, p. 64) opinion regarding the concept of *mianzi* – that “the role of mediator or liaison in negotiating with China is very important”. On the other hand, it is an example of the *Tionghoa* playing their role as a “bridge” or a mediator in restoring relations between China and Indonesia.

3.5. May 1998 Riots

Normalization of diplomatic relations did not automatically lead to a rapid improvement of Indonesia-China relations. Instead, Indonesia tended to refrain from such improvements, especially in developing political and security relations with China. Multilateral relations were more of an option than bilateral ones, such as through ASEAN or ASEAN Regional Forum. Relations in the economic sector were still limited to the field of trade and investment (Rizal, 2009, p. 143). Indonesia's reluctance to engage in diplomacy cannot be separated from the existence of community groups, including the military, which did not fully support the restoration of diplomatic relations with PRC. In fact, suspicion and sensitivity still colours Indonesia's attitude in dealing with China, especially with regard to the *Tionghoa*.

The position of the *Tionghoa* was relatively more relaxed after diplomatic relations with China were restored. A number of restrictions on allowing *Tionghoa* culture to be publicly expressed began to be relaxed. For example, in 1992 restrictions on importing and circulating printed materials using Han characters were abrogated, schools and courses in the Chinese language were allowed to operate, and since 1993 the *Tionghoa* can openly celebrate Chinese New Year (*Imlek*). The euphoria of the *Tionghoa* cultural performances also spread throughout the country, and the show “*barongsai*” or “lion dance” became one of the most prominent kinds of performance. On the other hand, in line with the increasingly questionable power of the Soeharto regime, economic inequality became a national issue that has the potential to cause

social conflict. With regard to these situation, the *Tionghoa* were the most vulnerable. News showing the wide gap between the *Tionghoa* and natives continued to increase. For example, the *Tionghoa* only composed 3 per cent of the population, but they controlled 70 per cent of the Indonesian economy. Moreover, of the 15 largest corporations, 11 belonged to the *Tionghoa* (Minorities at Risk Project, 2010). The Soeharto government sought to dampen the issue of the gap – for example, by calling for conglomerates to share their shares with cooperatives, to help small companies to exist, and so on.

The efforts of the Soeharto regime did not fully succeed. In April 1994, a labour demonstration in Medan (North Sumatera) developed into anti-*Tionghoa* riots. As a result, a *Tionghoa* businessman was killed, and a number of *Tionghoa*-owned assets were damaged. The PRC reacted strongly to the incident and asked Indonesia to immediately stop the riots. Foreign Minister Ali Alatas responded strongly to China's reaction and said that it was an internal affair of Indonesia and that China did not need to intervene in it (Rizal, 2009, p. 142). The PRC dampened the tension, even when President Jiang Zemin visited Jakarta in November 1994. Jiang also confirmed that "China will never take benefits of the Chinese descendants who live in Indonesia for their economic or political interests". Jiang also added that the PRC government appreciates Indonesia's efforts in simplifying the *Tionghoa* citizenship procedure that exists in Indonesia (Wang Yong, 1994).

Furthermore, China became more cautious when addressing various events involving the *Tionghoa* in Indonesia. From 1995-1998, a number of ethnic-based and religious-based conflicts occurred in various parts of Indonesia in which the *Tionghoa* were affected and even sometimes directly targeted, occurring in Banjarmasin (July 1995), Purwakarta (November 1995), and Pekalongan (November 1995). In subsequent years, conflicts also occurred in Situbondo (1996), Tasikmalaya (1996) and Sulawesi (1997) (Minorities at Risk Project, 2010). With regard to these events, the PRC did not show a strong reaction. This lack of intervention is understandable because the main causes of these conflicts were generally related to popular discontent with the Soeharto regime. China recognized that it needed to be careful because the anti-*Tionghoa* sentiment at that time was primarily related to the "game of politics" in Indonesia before the general election.

President Soeharto was re-elected as the President in March 1998. A monetary crisis that swept the world since 1997 caused Indonesia's economy to worsen: inflation was out of control, unemployment increased dramatically, and the country was unstable. Anti-government mass demonstrations occurred repeatedly in various regions in which anti-*Tionghoa* slogans were central. The peak occurred in May 1998. On 13-15 May, a major riot occurred primarily targeting the *Tionghoa* (Pattirajawane, 2001, p. 213). The violence

that occurred during May 1998 was not just destruction, looting and burning of assets but also rape. Death tolls were more than a thousand people. The incident caused President Soeharto to surrender his position to Vice President B.J. Habibie.

The condemnation of the perpetrators of violence came from inside and outside of Indonesia. Statements or demonstrations demanding that the government should take responsibility were issued from groups of Chinese descent in various countries, such as in Malaysia, Singapore, Philippines, Hong Kong, Taiwan, Australia, and New York. However, it is interesting to note that in China such a movement was not seen, with mass demonstrations at the Indonesian embassy in Beijing only occurring on 17 August 1998. Hughes (2000), who examined nationalism in Chinese cyberspace, found that in the context of the May 1998 event, the Internet provided information about what was happening in Indonesia, and it was a channel for publicizing information about the mass reaction, including the attitude of the authorities to the movement. More importantly, the Internet became a medium for expressing opinions after the Beijing authorities refused permission for mass demonstrations.

The official reaction from Beijing came slowly. Suryadinata (2017, pp. 60-64) found that the earliest reaction came from the PRC Ambassador in Jakarta on 6 July, declaring “regret for the occurrence of the event and he has submitted it to B.J. Habibie in his two meetings”. The comment, however, was the answer to a journalist’s question, not an intentional statement. The first official statement came from the Spokesman of the Foreign Ministry of China on 27 July 1998, followed by the emergence of critical comments in the daily *Renmin Rebao* on 3 August, which demanded that the perpetrators be sentenced. President Jiang Zemin himself, only in November 1998, expressed his regret for the incident to President B.J. Habibie in a meeting of APEC leaders in Malaysia.

The slow response from the PRC can be an indication of caution. Apparently, China did not want to repeat a “mistake” that would make it lose face. Furthermore, China was a rising geopolitical power at that time, and its rapid economic growth and its role in the region since the mid-1990s had increased the trust of ASEAN countries. According to Nabbs-Keller (2011, p. 27), “the political chaos provides an opportunity for a new era in the relations of Indonesia-China, where Beijing has positioned itself brilliantly”. Meanwhile, Shee Poon Kim as quoted by Suryadinata (2017, p. 63) believed Beijing’s attitude of restraint with regard to the Indonesian riots was related to their proximity with the events in Tiananmen on 4 June 1989. China feared that excessive reaction would have triggered a nationalist movement, which could have encouraged the emergence of the “anti-establishment/government movement”. On the other hand, Suryadinata (2017, p. 65) believed that

“Beijing’s hands-off” policy was intended to prioritize its current national interests, such as being more accepted by ASEAN and Indonesia, especially considering its position, which still faced diplomatic isolation after Tiananmen in 1989. From these reasons, it is clear that while defending the *Tionghoa* is important, China considers its national interests as the primary factor affecting its ‘honour’.

4. Conclusion

This analysis of the five historical events in Indonesia-China relations from 1950-1998 shows the position of the *Tionghoa*, especially from the Chinese point of view. In the early era, the *Tionghoa* were important for China. Therefore, Beijing’s efforts to protect the *Tionghoa* were often direct and emotional. However, such an attitude caused China to risk its “honour”, and thus it took a step “to save face” or *baoquan mianzi*. Conversely, in the post-normalization era, the PRC refrained from addressing issues pertaining to the *Tionghoa*, especially after the events of 1994. China’s refusal to address the events in May 1998 raised many questions. Nevertheless, China has provided assistance to help the Indonesian economy recover.

The position of the *Tionghoa* in China’s view is inseparable from the consideration of various national interests that were a priority of China. In the early era, China was in desperate need of financial support to build its country. Regarding the USA containment policy and China’s hostile relation with the USSR, China could not obtain support from either bilateral or multilateral cooperation. Its communist ideology also became one of the obstacles, causing many countries to be reluctant to get closer to China. As a result, China identified the most likely support as coming from the *Huaqiao* around the world. The sentiments and Chinese solidarity based on the doctrine of “devotion to the ancestors” became a powerful weapon to bind them. In return, the PRC should have protected the *Huaqiao* – including the *Tionghoa* when they were in trouble. However, in the post-normalization era of relations, especially in the mid-1990s, China was in a leading position: the economy was on the rise, and China needed a safe and friendly environment that allowed it to continue building its strength and positive image in the world. In this regard, good relations with Southeast Asia, and especially Indonesia, were crucial. On the other hand, the 1980 PRC nationality law affirmed that China did not recognize dual citizenship; thus, there was no obligation for the PRC to protect Chinese descendants who had become citizens of other countries. China certainly did not want to risk its honour to defend other citizens.

In Indonesia, the emphasis on the role of the *Tionghoa* has historically been in the economic field. Thus their existence was viewed more as an

“economic asset”, especially by the ruling elite of Indonesia. The position as “economic asset” led to the Tionghoa existence and autonomy as part of the Indonesian nation could not be prominent. These condition is partly formed naturally, but the existence of “intentions” is also clearly visible, especially in the New Order era which has issued a number of specific rules regarding the *Tionghoa*. These policies were later identified as discriminatory, and therefore many were abolished in the era of the Reformation. Coupled with the presence of prejudice, stigma and the existence of political elites who used racial and ethnic issues to create state instability as expressed by Suryadinata, the *Tionghoa* often became victims. The position as the “victims” of course would not give the opportunity to become state honour upholders.

Along with current reforms that promote democratization in various fields, the position as the “victims” is now beginning to change. Not only is there no more prohibition to show “contempt” regarding various things, but the *Tionghoa* can now take part in various fields. According to Setiadi (2016, p. 823), in the new era of cooperation and in China’s efforts to put forward its soft power approach in Southeast Asia, the *Tionghoa* individually and through their organizations play an important role as mediators of culture and trade. These developments provided hope for the *Tionghoa* and for other ethnic groups in Indonesia, as well as for both China and Indonesia. The *Tionghoa* can be honoured as bridges that enhance the relations and honour of the two nations, not merely as self-oriented brokers. Nonetheless, that is not an ideal long-term position because it remains overshadowed by the possibility of being “cast aside”, and in certain circumstances it can cultivate “suspicion” toward those who lead to conflict. The right solution for this will take time, goodwill, and sincerity from all parties.

Disclosure Statement

No potential conflict of interest was reported by the author.

Notes

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1. For further reading see Collins, Patricia Hill (1998), *Fighting Words: Black Women and the Search for Justice*, Minneapolis: University of Minnesota.

2. A detailed discussion about this case can be seen in Tuty, Enoch Muas, "Kasus Wang Renshu: Sebuah Kegagalan Diplomasasi RRC terhadap Indonesia", *Paradigma*, Vol. 3, No. 1, December 2012, Depok: FIB UI.
3. Common Program refers to 中国人民政治协会议 共同纲领 (*Zhongguo Renmin Zhengzhi Xiehuiyi Gongtong Gangling*/Common Program of the Chinese People's Political Consultative Conference). Adopted by the First Plenary Session of the Chinese People's PCC on September 29th, 1949, it was replaced in 1954.

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Reassertion of Control through Binding Joint Interpretation in International Investment Agreements: Recent Developments and Suggestions for China

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Abstract

Recent practice has shown that in cases of ambiguity or lacunae in international investment agreements (IIAs), arbitral tribunals have always come to divergent interpretations of identically or similarly worded treaty obligations. To limit tribunals' broad discretion over treaty interpretation and ensure that the treaty texts best reflect the intent of contracting states, a growing number of states have attempted to use the joint interpretation mechanism as an innovative solution to exercise their control over IIAs. The awareness of using the joint interpretation mechanism to address concerns regarding what it considers to be adverse interpretations by investment arbitration tribunals has been gradually formed in China for the last several years. Due to insufficient practice of the Chinese government regarding the use of the mechanism in investment arbitration, this article points out that China may rush into concluding IIAs containing template joint interpretation provisions with little consideration to controversial issues associated with implementation of the mechanism in arbitration. Subsequently, the article raises relevant factors to be taken into account by China and its counterparties along the "Belt and Road" while incorporating the mechanism into their upcoming IIAs.

Keywords: *Belt and Road Initiative, joint interpretation mechanism, investment arbitration, public welfare, regulatory autonomy, VCLT*

1. Introduction

International investment agreements (which include bilateral investment treaties and free trade agreements with investment chapters) (IIAs), as the products of compromise between or among sovereign states, inevitably contain

vague and ambiguous provisions (Methymaki and Tzanakopoulos, 2016: 6). In the determination of the true meaning to contentious IIA provisions, Article 31(3) of the Vienna Convention on the Law of Treaties (VCLT) explicitly requires tribunals to take into account any subsequent agreements or subsequent practices (subsequent agreements) reached by all contracting states after the date of conclusion of the IIA as authentic means of treaty interpretation (International Law Commission, 2013: 31). Although the above methods should be strictly complied by tribunals in deciding the meaning of vague provisions (UNCTAD, 2011: 2), the International Law Commission (ILC) clarified that such methods are not necessarily conclusive in the sense that they override all other means of treaty interpretation (UNCTAD, 2011: 2). Due to the non-binding effect of subsequent agreements, states may worry that even if a clear interpretative statement has been issued by them, arbitrators would choose to ignore or otherwise discount the statement (Gertz and John, 2015: 4). As pointed out by Professor Roberts, tribunals normally rely on awards rendered by prior tribunals¹ or academic opinions (Roberts, 2010: 179), with little consideration of the statements and practices of states in general or the treaty parties in particular (Gordon and Pohl, 2015: 12).

States frequently assign the power to competent tribunals to settle investor-state disputes through the arrangement contained in their IIAs, but this does not imply that the tribunals are granted the full interpretive power to determine the true intents of states (Roberts, 2010: 179; Gertz and John, 2015: 2). When arbitrators use the discretion to adopt expansive interpretations of state obligations, states may perceive that “investment treaties are being used by investors in ways governments didn’t intend or foresee” (Gertz and John, 2015: 4). Recent practice has shown that in cases of ambiguity or lacunae in investment treaties, arbitral tribunals have always come to divergent interpretations of identically or similarly worded treaty obligations (Jaime, 2014: 278). Those interpretations accomplished by the tribunals may in fact ignore the norm that the contracting states are the creators and masters of their treaties. After treaties are in force, the contracting states retain the power to shape their mutual understandings on contentious provisions (Gertz and John, 2015: 2). In practice, states can rely on several options, such as termination of the treaty, negotiation of amendment, or treaty interpretation, to ensure that the provisions of the treaty best reflect their intents. In practice, the former two options have been deemed as costly and time-consuming, so the interpretation option has been frequently used by states because it is lower-cost, faster and more feasible to avoid unpredictable arbitral rulings (Gertz and John, 2015: 4).

Whereas the VCLT does not adopt the practice that subsequent agreements would appear to be decisive of the meaning, subsequent agreements can be conclusive when all contracting states to the treaty impose a binding

effect on them (International Law Commission, 2013: 22).² In accordance with a recent report released in 2013, the ILC recognizes that: “subsequent agreements and subsequent practice establishing the agreement of the parties regarding the interpretation of a treaty must be conclusive regarding such interpretation when the parties consider the interpretations to be binding upon them” (International Law Commission, 2013: 22). In recent years, with the rise of treaty interpretation in investment arbitration, a growing number of states have started the practice to adopt the joint interpretation mechanism into their IIAs. Although the words describing the mechanism vary under different IIAs, such a mechanism equips a permanent organ set up by all contracting states or the states themselves with the explicit power to issue binding interpretative statements on contentious provisions; tribunals of ongoing or subsequent cases should strictly comply with the joint statements (Johnson and Razbaeva, 2014: 4).³

The adoption of a joint interpretation mechanism in IIAs is an innovative solution to address states’ concerns regarding what it considers to be adverse interpretations by investment arbitration tribunals. One of the earliest and relatively well-known examples concerning joint interpretation with binding effect is the North American Free Trade Agreement (NAFTA). Pursuant to Article 2001 of the NAFTA, the Free Trade Commission (FTC) composing cabinet level representatives of the NAFTA parties or their designees was set up. Any interpretations to the NAFTA provisions issued by the FTC shall be binding upon arbitral tribunals established under Chapter 11 (NAFTA, art 1131(2)). The joint interpretation provisions under Article 2001 are in no way unique. As pointed out by a recent study, “the percentage of IIAs containing such provisions has gradually increased and currently most of the ‘mega-regionals’, as well as many model Bilateral Investment Treaties (BITs) or newly concluded BITs and FTAs contain them” (Methymaki and Tzanakopoulos, 2016: 6; Kohler, 2011: 175-177). Through explicitly providing in the IIAs that joint declarations issued by the contracting states are conclusive, the states may “bypass procedural requirements imposed by domestic law that must otherwise be satisfied before states can enter into other binding international agreements like amendments or new treaties” (Johnson and Razbaeva, 2014: 5).

In 2013, China proposed to jointly construct the “Belt and Road” Initiative (B&R Initiative) (State Council of the People’s Republic of China, 2015), while the IIAs proposed to be concluded by China and its counterparties along the B&R will provide a robust source of potential investor protection, they must be easily understood among investors, states and international tribunals. Although recently concluded Chinese IIAs show that the Chinese approach towards the binding joint interpretation mechanism has gradually progressed, due to insufficient practice of the

Chinese government regarding the use of joint interpretation in investment arbitration, China may rush into concluding IIAs containing template joint interpretation provisions with little consideration to several controversial issues while including the mechanism into the upcoming IIAs. In this article, section 2 identifies that China has gradually incorporated the joint interpretation mechanism into recently concluded IIAs and examines the key different practices among the IIAs. Section 3 highlights the potential concerns associated with the use of joint interpretation during arbitral proceedings. To support the implementation of the mechanism in investment arbitration, the article raises relevant counterarguments to these concerns. Section 4 proposes China enhance its awareness of using interpretative statements as a legal tool to alleviate the risk of expansive arbitral rulings. In addition, in order to promote the rule of law through using joint interpretation mechanism during arbitral proceedings, several suggestions will be proposed.

2. Joint Interpretation Mechanism as an Emerging Phenomenon in the New Generation of Chinese IIAs

Infamously ambiguous languages, unclear provisions and unwritten understandings in existing investment treaties could give rise to “costly litigation and creates openings for tribunals to give unintended or incorrect interpretations to treaty provisions” (Johnson and Razbaeva, 2014: 1). As noted above, the joint interpretation mechanism creates special rules giving the contracting states’ subsequent agreement greater force than it might otherwise have under Article 31(3) of the VCLT (Gertz and John, 2015: 1).⁴ For instance, in *CME Czech Republic B.V. vs. The Czech Republic (CME)*, the contracting states submitted a submission (agreed minutes) to clarify certain issues on the interpretation and application of the disputed treaty. To decide the relevant issues involved in the dispute, the tribunal adopted the interpretations listed in the agreed minutes to support its holding (CME Award, para 27-28). Presently, China has concluded IIAs with nearly 140 states and regions (Investment Policy Hub, 2019). It is common place by now to say that the hundreds of IIAs, especially those negotiated throughout the 1980s and 1990s, inevitably contain broad standards and vague languages, leaving arbitral tribunals with insufficient guidance to decide investment treaty cases with substantial discretion.

2.1. Rise of the States’ Joint Power over Treaty Interpretation in China

According to a recent study conducted by a Chinese commentator, the Chinese approach towards the binding joint interpretation mechanism in the new generation of Chinese IIAs has progressed as well (Zhao, 2017:

152-154). To date, at least six Chinese IIAs, namely the IIAs concluded with Canada, Australia, Uzbekistan, Cuba, New Zealand and Tanzania have officially adopted the mechanism aiming to strike a better balance between the interpretative rights of contracting states and tribunals.

Pursuant to the China-Tanzania BIT⁵ and the China-New Zealand BIT⁶, the tribunal shall, upon the request of the respondent state, require the contracting states to issue a joint interpretation statement concerning the meanings of any provisions in dispute. Such a joint decision shall have a binding effect on the tribunal and the award made by the tribunal should strictly comply with the decision (China-Tanzania BIT, art 17; China-NZ FTA, art 155). To preserve the efficiency of investor-state arbitral proceedings, the states are bound to give their joint consent within 60 days of the delivery of the request. If the states fail to reach a statement within the time limit, the tribunal shall make the final determination on its own account. In addition, although the China-Uzbekistan BIT shares many similarities with the above two IIAs, two distinct rules are established by the China-Uzbekistan BIT. First, a joint interpretation statement shall have binding effect on both pending tribunal and subsequent tribunals established pursuant to the BIT. In addition, to assist arbitrators in the determination of their cases, the BIT grants the contracting states 70 days to reach their joint understandings on contentious provisions (China-Uzbekistan BIT, art 16(2)). Pursuant to the China-Cuba BIT Amendment (2008), the joint interpretation provision is much more general, Article 10(7)(5) only provides that, upon the mutual agreements reached by the contracting states, a joint declaration concerning the meaning of treaty provisions shall bind pending and subsequent tribunals (China-Cuba BIT Amendment, art 10(7)(5)). The BIT failed to go further to identify the time limit for the contracting states to submit their mutual understandings. In accordance with the analysis made above, the four IIAs are relatively general.

The China-Canada FTA also adopted the traditional practice that the contracting states themselves can issue a joint interpretation on general treaty provisions either in the contest of charged treaty negotiations or hostile arbitrations, such an interpretation will be binding on a tribunal established under the treaty (China-Canada FTA, art 30(1)). Besides the right of issuing binding interpretations on general provisions, the BIT allows the contracting states to issue joint interpretation on the reservation and exception provisions. In accordance with Article 30(2), where a respondent state asserts as a defence that the measure alleged to be a breach is within the scope of the reservations and exceptions set out in Article 8(1), (2) and (3), on request of the respondent state, the tribunal shall request both states to issue a joint interpretation decision (China-Canada FTA, art 30(1)). The states should submit in writing their joint decision to the tribunal within 60 days of delivery of the request, and the interpretation shall be binding only on the pending tribunal.

2.2. Groundbreaking Development of Joint Interpretation Mechanism under China-Australia FTA

The China-Australia FTA is identified as one of the most modern IIAs concluded by China so far. Even though it is not the first Chinese IIA adopting the joint interpretation mechanism, the provisions under the FTA shall be regarded as the most advanced ones regarding the states' binding interpretative power (Zhao, 2017: 147). First, the FTA restates that the tribunals are strictly bound to decide the issues in the dispute with this FTA as interpreted according to customary rules of treaty interpretation of public international law, as codified in the VCLT (China-Australia FTA, art 9.18.2). Also, one of the most essential creations of the FTA is that the Committee on Investment (CI) was set up by the two contracting states. Pursuant to Article 9.7.3(b), the CI may, in accordance with Article 9.18.2⁷ and Article 9.19⁸, adopt a joint decision of the contracting states, declaring its interpretation of a treaty provision.

Moreover, pursuant to Article 9.11.4, a measure of a contracting state is non-discriminatory and for the legitimate public welfare objectives of public health, safety, the environment, public morals or public order shall not be the subject of a claim under the FTA (China-Australia FTA, art 9.11.4). For the first time in Chinese IIA history, the FTA allows the respondent state, within 30 days of the date on which it receives a request for consultation made by the investor, pointing out that it considers a measure alleged to be in breach of an obligation set out in the FTA is of kind described as "Public Welfare" listed in Article 9.11.4. Under this scenario, the respondent state should deliver the investor and the home state of the investor a "public welfare notice" clarifying the basis for its position (China-Australia FTA, art 9.11.5). Upon receiving the "public welfare notice", a negotiation on the nature of the measure will be carried out by the CI or the states themselves within 90 days. During the negotiation, the dispute resolution procedure will be automatically suspended (China-Australia FTA, art 9.11.6). A joint statement reached by the states will have binding nature on a tribunal and any decision or award rendered by a tribunal must be consistent with the joint decision (China-Australia FTA, art 9.19.3).⁹

2.3. Key Differences

Based on the analysis made above, although China has increased its awareness regarding the goals promoted by states' binding interpretive power, different IIAs adopted distinct practices. To be more specific, there are at least four key distinctions among the six IIAs. First and foremost, two IIAs, namely the China-Canada BIT and the China-Australia FTA, grant the state parties the

power to issue joint interpretation on the reservation and exception provisions. Also, one groundbreaking practice established by the China-Australia FTA is that where the respondent state deems that a measure alleged by the investor falls into the scope of the “public welfare” provision, the tribunal can request both states to issue a joint statement on the nature of the measure. If the measure is deemed as a non-discriminatory measure by the states, it will not be the subject of a claim under the FTA. The second distinction is whether a permanent organ responsible for issuing joint interpretation is set up. Among the six IIAs, only the China-Australia FTA assigns the CI with the authority to issue a joint interpretation on behalf of the contracting states. The CI could enable the officials from China and Australia to regularly meet and discuss issues of mutual concerns. On the contrary, in the absence of a designated organ under other IIAs, when China has the intention to issue a joint interpretation with the counterparties, they are bound to plan meetings, send visiting delegations, etc., the heavier costs associated with the transaction will be increased. The third distinction is the time constraint applicable to the contracting states to reach their joint decisions. Among the six IIAs, only the China-Cuba BIT failed to set up a fixed period of time applicable to the contracting states to reach their joint interpretation statement. To preserve the efficiency of arbitral proceedings, all other IIAs established a time constraint requiring the states to issue their joint decisions in a timely manner. The last distinction is whether a joint interpretation decision reached by all contracting states binds pending tribunals or tribunals of ongoing and subsequent disputes among the IIAs. As indicated above, only the IIAs concluded with Tanzania and New Zealand adopt the practice that a joint interpretation decision shall bind the pending tribunal. In contrast, the other four IIAs adopt the practice that a joint interpretation issued by the contracting states shall have binding effect not only on pending tribunals but also on subsequent tribunals established pursuant to the IIAs.

3. Potential Concerns Associated with the Implementation of Binding Joint Interpretation

As studied above, China has started to adopt the practice of incorporating the joint interpretation mechanism into the contexts of a new generation of Chinese IIAs, indicating that such a joint interpretation should be binding on a tribunal of ongoing or subsequent disputes. Previously, the FTC of NAFTA, on 31 July 2001, jointly issued the Notes of Interpretation of Certain Chapter Provisions (Notes), aiming to present the three contracting states’ joint understandings on the minimum standard of treatment of Article 1105 of NAFTA. The Notes was issued at the time when several disputes were pending, which caused the following concerns.

One of the key arguments presented in these cases is whether the tribunals are authorized to review the nature of the Notes issued by the FTC. On the one hand, in *Pope & Talbot Inc. v. Canada*, the claimant investor argued that since the issue of minimum standard of treatment was not discussed among the three contracting states during the negotiation of NAFTA, the Notes is not a true interpretation but a modification of NAFTA. In the final award, the tribunal restated that Article 1131 of NAFTA grants a tribunal the right to decide the issues in dispute in accordance with the NAFTA and applicable rules of international law (NAFTA, art 1131(1)). If an issue regarding whether the FTC has acted in accordance with Article 2001 in issuing an interpretation, the tribunal has a duty to “consider and decide that question and not simply to accept that whatever the Commission (FTC) has stated to be an interpretation is one for the purposes of Article 1131(2)” (Pope & Talbot, para 23). In the final award, given the issue of minimum standard of treatment was not discussed during the negotiation of NAFTA, the tribunal chose to believe that the Notes is not an interpretation, but an amendment to NAFTA. On the contrary, in *Mondev Int’l Ltd. v. USA*, the tribunal accepted the Notes is not an amendment to the NAFTA but a valid interpretation (Mondev, para 122). In addition, the tribunal of the *ADF Group Inc. v. Canada* found that there could be no more “authentic and authoritative source of instruction on what the Parties intended to convey in a particular provision of NAFTA” (ADF Award, para 117). The tribunal further provided that nothing in NAFTA suggests that a tribunal may determine for itself whether a document submitted to it as an interpretation by the Parties acting through the FTC is in fact an “amendment” which presumably may be disregarded until ratified by all the Parties under their respective internal law (ADF Award, para 117).

Making a distinction between a true interpretation and a modification to an IIA aims to determine whether a states’ joint statement shall have binding effect on tribunals of ongoing disputes. An interpretation to a treaty clarifies the meaning of contentious provisions or what the norm has always been, so it has retroactive effect to state conducts made after a treaty entered into force. On the contrary, an amendment, as the agreement on any modification to an original treaty, creating new norms, has no retroactive effect to previous state conducts. In practice, the distinction between interpretation and amendment is “notoriously difficult to draw” (Methymaki and Tzanakopoulos, 2016: 22). As Professor Kohler suggested: “the conduct of the host state of the investment must be measured on the basis of norms in effect when the conduct occurred and not of newly created norms” (Kohler, 2011: 191-192). Hence, if a joint statement is indeed regarded as an amendment, such a statement rendered in the pendency of arbitration shall not have binding effect on the tribunal. Even though the Notes was believed to be an amendment of NAFTA by the *Pope* tribunal, the tribunal did not go further to engage in an analysis on the

binding effect of the Notes since the conclusion reached in the partial award would stand even under the regime of the interpretation contained in the Notes (Pope & Talbot, para 47).¹⁰

As noted above, the *Pope* tribunal took the view that the Notes itself is tantamount to an amendment to NAFTA, it is clear that the procedure of issuing the Notes is in contrast with the procedure of treaty amendment under NAFTA. In accordance with Article 2202,¹¹ any modification shall be regarded as a part of NAFTA when it is approved in accordance with the applicable legal procedures of each state. Since the Notes was issued without satisfying with the procedure provided pursuant to Article 2202, whether the Notes shall have binding effect on subsequent tribunals is in question because the issuance of the Notes violated the procedural requirement explicitly contained under Article 2202. On the contrary, Article 39 of the VCLT provides that states can modify their treaties by any means if agreed. Since the FTC is an emanation of the three states to the NAFTA, a commentator pointed out that “one may consider that an amendment by way of an FTC interpretation amounts to an amendment by the contracting states themselves and, therefore, is binding upon a Chapter 11 tribunal” (Kohler, 2011: 191). In *Methanex*, the tribunal took the view that the Notes is entirely legal and binding upon a tribunal. Even though the Notes constituted a far reaching substantive change, there would be nothing to support that “far reaching changes in a treaty must be accomplished only by formal amendment rather than by some form of agreement between all of the Parties” (Methanex, Part IV, Chapter C, Page 10).

In addition, the respondent state, as a contracting state to the treaty giving its understandings on contentious provisions, would undoubtedly contribute to the contents of the interpretation. Also, as a disputing party to the arbitration, the respondent state might benefit from the interpretation where the contents influence the outcome in its favour. The difficulty here lies in the “two hats worn by the respondent state” (Kohler, 2011: 192). So this appears to be “contrary to due process, specifically contrary to the principle of independence and impartiality of justice, which includes the principle that no one can be the judge of its own cause” (Kohler, 2011: 192). Furthermore, Article 1115 of NAFTA requires equal treatment to both disputing parties.¹² There are some voices against interpretative power on the basis that the interpretation is “out of the blue”, without any prior public consultation and giving any warning to investors to ongoing arbitration, which may violate the principle of equal treatment of parties (Kohler, 2011: 188-189).

Confronted with the above concern, different voices have been raised. First, as the masters and creators of their investment treaties, there is a strong legal basis for states to regain the role to shape their understandings on ambiguous provisions through issuing joint statements (Jin, 2017: 96). For

instance, in *Methanex*, the tribunal pointed out that it is perfectly proper for a legislature to clarify its original intent when if it, having enacted an IIA, feels that a tribunal implementing it has misconstrued its intention (*Methanex*, Part IV, Chapter C, Para 22.).¹³ Furthermore, as one commentator argued, a joint interpretation statement is issued by all contracting states rather than the respondent state. Upon carefully balancing the protection of foreign investment and public interests involved in investment disputes, the states come to an interpretation that can preserve the interests of all parties (Jin, 2017: 96). Moreover, a joint interpretation not only addresses the urgent demand of clarifying the meaning of contentious provisions in arbitral proceedings but also considers the interests of investors (Jin, 2017: 96). Due to the dual role as both capital-importing and capital-exporting state of the respondent state, the legitimate interests of their own citizens investing abroad will be taken into account while negotiating a joint interpretation with its counterparties. Given the binding effect of the joint interpretation on subsequent tribunals, it is reasonable to expect that both the respondent state and the home state will be more cautious and objective while developing their understandings on contentious provisions.

4. Reassertion of Control through Binding Joint Interpretation: Factors to be Considered by China

In practice, most states have refrained from reaching binding joint interpretation decisions to clarify contentious treaty provisions even though they are concerned about inconsistent decisions issued by tribunals (Gertz and John, 2015: 3). In addition, the findings of a commentator who previously conducted a survey on using subsequent agreement method to interpret ambiguous provisions, negatively showed that adjudicatory bodies had rarely relied on such a method and further concluded developing consensus among the states to a treaty for an interpretive agreement would be difficult (Murphy, 2013: 84-85). One key reason underlying the finding is that state officials may lack the relevant understanding in terms of the use of binding subsequent agreements outside of an established forum or a particular dispute (Gertz and John, 2015: 3). The recently concluded Chinese IIAs mentioned above, to some extent, shows that the Chinese government has reached the awareness concerning the important role played by the joint interpretation mechanism in constraining tribunals' broad discretion over treaty interpretation, but the limited number of IIAs containing the joint interpretation mechanism with binding force do not simply imply that China will positively engaged in the conclusion of IIAs containing such provisions in the future. Since most of the counterparties of the six IIAs have already adopted the mechanism into their previous IIAs before concluding the IIAs with China, the adoption of the mechanism in

the six IIAs may be led by the counterparties rather than positively promoted by China (Zhao, 2017: 148). China urgently needs to enhance its awareness of using binding interpretative statements as a legal tool to alleviate the risk of expansive arbitral rulings and be positively engaged in the negotiation of incorporating the mechanism into its subsequent IIAs. Indeed, enhancing the awareness is far enough. Due to the concerns involved in the issuance of a binding joint interpretation in the pendency of an arbitration illustrated above, if the concerns are not well addressed in subsequent Chinese IIAs, the rule of law will be definitely be hindered rather than promoted (Kohler, 2011: 194). Due to the insufficient practice of the Chinese government regarding the use of joint interpretation statements in investment arbitration, China needs to take into account the following factors while incorporating the joint interpretation mechanism into the upcoming IIAs.

4.1. Entrusting a Permanent Organ with Authority to Issue Joint Interpretation

In contrast with the China-Australia FTA, the other five Chinese IIAs containing the joint interpretation provisions failed to design a permanent organ to be responsible for issuing interpretative statements. Lacking a permanent organ is problematic due to the following concern. Under the NAFTA, the FTC enables the officials from the contracting states to regularly meet and discuss issues of mutual concern (UNCTAD, 2011: 11). On the contrary, in the absence of a specific organ, if a state has the intention to reach a joint interpretation with other counterparties, all of them are bound to plan meetings, send visiting delegations, etc. So the heavier costs associated with the transaction would hold the states back and leave the states without a focal point for initiating discussions on an interpretive statement (Gertz and John, 2015: 4). In addition, the six IIAs concluded by China explicitly require the contracting states to reach their joint interpretation within a specific time period. Even though the time constraint aims to ensure the efficiency of arbitral proceedings will not be undermined by the intervention, a commentator pointed out that it is difficult to spur their bureaucracies into action to pursue interpretative statements. As a finding stated:

The bureaucratic agencies responsible for international investment have many different priorities competing for their time, resources and political capital, and participants said that drawing attention to the relatively arcane issue of investment treaty interpretation would be an uphill battle. Explaining the complexity and nuance to busy ministers and high-ranking officials would be a challenge, and it could be difficult to justify action, particularly as there would not necessarily be an immediate payoff from issuing an interpretive statement. (Gertz and John, 2015: 5)

Confronted with the above concern, this article proposes China and its counterparties to set up an organ consisting of senior officials and investment law experts to be entrusted with the authority to issue joint interpretation statements in the upcoming IIAs. The organ, with the assistance of academics and NGOs, can work to “compile evidence of which states have asserted similar legal arguments in arbitration hearings, identifying commonalities across states and groups of states which may form the basis for joint interpretative statements” (Gertz and John, 2015: 5). In addition, during arbitral proceedings, when the tribunal needs to determine the true meanings of vague provisions, the tribunal shall request the organ to issue a joint interpretation statement. Upon receiving the joint decision, the tribunal will be more likely to view such an action as a good faith interpretation rather than an opportunistic attempt to avoid potential liability (Gertz and John, 2015: 4).

4.2. Ensuring the Binding Effect of Joint Interpretation

In terms of the binding effect of joint interpretation, two distinct practices have been adopted by the Chinese IIAs. Two IIAs chose the view that a joint interpretation will only bind tribunals of ongoing cases, while the other IIAs stated that tribunals of ongoing and subsequent cases should strictly comply with a joint interpretation while making the determination on the meaning of vague provisions. The first practice raises the concern that even if the contracting states have issued a clear statement on vague provisions, subsequent tribunals would choose to ignore or otherwise discount the statement. When subsequent tribunals use their substantial discretion to adopt expansive interpretations of state obligations, states may perceive that their investment treaties are being interpreted in ways they didn't intend or foresee. In light of this concern, China should strictly distinguish the terms “a tribunal” and “the tribunal”. To reduce uncertainty of treaty interpretation and restrict tribunals' power to give unintended interpretation, this article suggests that China adopt the practice that a joint interpretation on general treaty provisions should bind a tribunal of ongoing and subsequent cases established pursuant to a treaty.

As noted earlier, even if an IIA adopts the approach that a joint interpretation statement should have a binding effect on tribunals, based on the practice of the NAFTA, when a joint interpretation statement is issued at the time when an investment case is pending, the tribunal may tend to make the determination on the nature of the joint statement, namely whether the statement is a true interpretation or a disguised amendment. Indeed, when a tribunal holds that a joint statement aims to clarify the possible meanings that fall within the interpretative radius of a norm, there will be no difficulty for the arbitrators to take the statement as a binding instrument. On the contrary,

when the tribunal reaches the conclusion that the statement is actually modifying the norm and is constituted as an unlawful amendment, avoiding answering the binding nature of the statement would cause the concern of the legitimacy of award as the *Pope* case showed (Zhao, 2017: 150).

To solve the above concern, China and its counterparties need to provide for the permanent organ to have the power to debate and decide on the contents of the joint statement. When the organ holds that the joint statement aims to clarify the possible meanings that fall within the interpretative radius of a norm, both pending and subsequent tribunals should be strictly bound by the joint decision. On the contrary, if the understanding is in effect a modification to the treaty, the permanent organ, on behalf of the contracting states, may decide the joint statement shall have binding effect from a specific date. Since the EU also realized this concern, the above proposal has been incorporated into the newly concluded EU Free Trade Agreement, including the EU-Canada Comprehensive Economic and Trade Agreement¹⁴ and the EU-Singapore Investment Protection Agreement.¹⁵ The above proposal aims to serve two goals. First, it will avoid a disguised amendment to have binding effect on tribunals of ongoing cases since the norms of amendment have no retroactive effect. In addition, a joint statement may reflect the common understanding of all contracting states on key issues that have not been addressed before or have been brought into public spotlight recently, so issuing the statement aims to regulate states' future behaviours, which will contribute to the consistency of treaty interpretation by subsequent tribunals.

4.3. Setting up a Reasonable Time Constraint Applicable to the Issuance of Joint Interpretation

To preserve the efficiency of investment arbitration, it is important for China and its counterparties to confirm a reasonable time period for the states or the permanent organ to reach their mutual understandings on vague provisions during arbitral proceeding in their upcoming IIAs. If the permanent organ is requested by the tribunal or petitions the tribunal on its own account to issue a joint decision on vague provisions during arbitral proceedings, the organ should deliver its final and binding understandings to the tribunal within the time period. Based on the practice of the six IIAs, either 60 days or 70 days are set out to bind all contracting states or the CI. The time limitation provision aims to avoid arbitral proceedings to be delayed by the intervention of the contracting states. In addition, if the organ cannot reach a mutual understanding on the disputed provision, which implies a common practice between or among the states has not been formed yet. So such an issue is more appropriate to be addressed by the tribunals of ongoing cases rather than the permanent organ.

4.4. Protecting States' Legitimate and Non-discriminatory Public Welfare Regulation

The last decade has witnessed a growing debate regarding one of the key asymmetric nature of investment treaties, which imposes a number of obligations on states, but do not seem to hold investors accountable for the social, environmental and economic consequences of their investment activities (Fan, 2018). Faced with the concern, one attempt to protect states' legitimate and non-discriminatory public welfare regulation from investor-state claims is to provide "an innovative feature that goes beyond existing safeguards for protecting the regulatory autonomy of states by providing a mechanism for joint treaty party control" (Roberts and Braddock, 2016). Such an innovation was incorporated into the China-Australia FTA. The mechanism allows the respondent state to deliver the claimant investor and the non-disputing state a "public welfare notice" when it deems that the disputed measure falls within the scope of the carve-out. The notice will suspend the dispute resolution procedure and a 90-day consultation period is triggered between the states. When the alleged measure is confirmed as a non-discriminatory measure for legitimate public welfare objectives, it will not be subjected to investment claims. To recalibrate the balance between investor protection and state sovereignty, and between the interpretative power of tribunals and state parties, it is suggested that this innovation be adopted by China in negotiating IIAs with its counterparties along the B&R. The innovative approach would serve as a strong safeguard for China and its counterparties to regain their control over regulatory autonomy in the future. Indeed, if China and its counterparties are unable to reach the agreement on whether or not the measure falls within the carve-out, the tribunal shall decide the issue on its own account.

5. Conclusion

Recent years have witnessed the dissatisfaction of growing states with the way in which their IIAs have been interpreted by tribunals; so how to ensure that states will not end up being bound by obligations they did not assume has become an urgent task in the international investment law community. To date, a growing number of states have attempted to create the tool of binding joint interpretation to exercise control over their IIAs and ensure that the obligations they have undertaken are interpreted consistently by tribunals. It is without doubt that China will conclude more IIAs or amend the outdated treaties with its counterparties along the B&R in the near future. Even though China will be more careful in producing an IIA text completely free of ambiguity, as a product of compromise, the text will inevitably contain

vague and ambiguous provisions. Recently concluded Chinese IIAs evidence a rise in provisions that allow the contracting states or a permanent organ to issue an interpretation of the treaty that is binding on tribunals. But due to the insufficient practice of the Chinese government on the use of joint interpretation statements in investment arbitration, this article has raised the concern that China may rush into concluding IIAs containing template joint interpretation provisions with little consideration to the controversial issues involved in the implementation of the binding joint interpretation mechanism in arbitral proceedings.

The article proposes several factors to be considered by China while incorporating the mechanism into its upcoming IIAs. First, since the existence of a permanent organ to be responsible for issuing binding joint interpretation could facilitate the exchange of views and the formulation of common interpretations between the contracting states in a timely manner, it is suggested that a permanent organ should be established with the power to issue joint interpretations. Also, given the concern that arbitrators would choose to ignore a clear interpretative statement issued by the organ, China and the counterparties should set out an express regime for binding joint interpretative agreements in the IIAs, awards issued by the tribunals must be consistent with the interpretation. Furthermore, to protect the efficiency of arbitral proceedings, a reasonable time constraint must be determined for the organ to develop its consensus on contentious provisions under the newer-style Chinese IIAs. Moreover, to protect the legitimate and non-discriminatory public welfare regulation of China and its counterparties from investor-state claims, the article further suggests that measures of the respondent state that are non-discriminatory and for legitimate public welfare objectives shall not be the subject of a claim. When the respondent state believes that the measure falls within this exception, the respondent state is permitted to issue a “public welfare notice” specifying the reasons to the tribunal. If the treaty parties agree that the challenged measure fits within the scope of the carve-out, an award issued by the tribunal must be consistent with that decision. Such an innovation would serve as a safeguard for China and its counterparties to regain their control over regulatory autonomy in the future.

Acknowledgement

This article is an original research paper of the 2019 Humanities and Social Sciences Research Project of Chongqing Education Commission (“2019重庆市教委人文社会科学研究项目19JD008”) and the Base Project of China-ASEAN Legal Research Center, China Law Society.

Notes

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1. “Arbitral Panels, even if they do not create jurisprudence, nevertheless contribute to the accumulation of a body of thought on the meaning of investment treaty terms that influences other arbitrators’ decisions.”
 2. “It is, however, always possible that provisions of domestic law prohibit the government of a State from arriving at a binding agreement in such cases without satisfying certain – mostly procedural – requirements under its constitution.”
 3. The joint interpretation mechanism also reflects the clarification made by the ILC in 2012, “subsequent agreements and subsequent practice establishing the agreement of the parties regarding the interpretation of a treaty must be conclusive regarding such interpretation when the parties consider the interpretations to be binding upon them.”
 4. “Such interpretations offer a promising avenue for states seeking to regain control, and reorient, the international regime.”
 5. “1. In the dispute settlement procedure stipulated in Article 13, upon the request of the Contracting Party to the dispute, the arbitral tribunal shall require both Contracting Parties to interpret articles of this Agreement in relation to the dispute. The Contracting Parties shall submit in writing a combined decision of the interpretation to the arbitral tribunal within sixty days after the request was raised. 2. The combined decision made by both Contracting Parties pursuant to Paragraph 1 shall be binding upon the arbitral tribunal. The award shall be consistent with the combined decision. If both Contracting Parties fail to make such decision within sixty days, the arbitral tribunal will make a decision independently.”
 6. “1. The tribunal shall, on request of the state party, request a joint interpretation of the Parties of any provision of this Agreement that is in issue in a dispute. The Parties shall submit in writing any joint decision declaring their interpretation to the tribunal within 60 days of delivery of the request. 2. A joint decision issued under paragraph 1 by the Parties shall be binding on the tribunal, and any award must be consistent with that joint decision. If the Parties fail to issue such a decision within 60 days, the tribunal shall decide the issue on its own account.”
 7. “A joint decision of the Parties, acting through the Committee on Investment, declaring their interpretation of a provision of this Agreement shall be binding on a tribunal of any ongoing or subsequent dispute, and any decision or award issued by such a tribunal must be consistent with that joint decision.”
 8. “Where a respondent asserts as a defence that the measure alleged to be a breach is within the scope of an entry set out in Section A or B of its Schedule of Non-Conforming Measures in Annex III, the tribunal shall, on request of the respondent, request the interpretation of the Parties on the issue.”
 9. “A decision between the respondent and the non-disputing Party that a measure is of the kind described in Article 9.11.4 shall be binding on a tribunal and any decision or award issued by a tribunal must be consistent with that decision.”

10. “For the reasons, were the Tribunal required to make a determination whether the Commission’s action is an interpretation or an amendment, it would choose the latter. However, for the reasons discussed below, this determination is not required. Accordingly, the Tribunal has proceeded on the basis that the Commission’s action was an “interpretation””.
11. “1. The Parties may agree on any modification of or addition to this Agreement.
2. When so agreed, and approved in accordance with the applicable legal procedures of each Party, a modification or addition shall constitute an integral part of this Agreement.”
12. “Without prejudice to the rights and obligations of the Parties under Chapter Twenty... this Section establishes a mechanism for the settlement of investment disputes that assures both equal treatment among investors of the Parties in accordance with the principle of international reciprocity and due process before an impartial tribunal.”
13. “If a legislature, having enacted a statute, feels that the courts implementing it have misconstrued the legislature’s intention, it is perfectly proper for the legislature to clarify its intention. In a democratic and representative system in which legislation expresses the will of the people, legislative clarification in this sort of case would appear to be obligatory.”
14. “Where serious concerns arise as regards matters of interpretation that may affect investment, the Committee on Services and Investment may, pursuant to Article 8.44.3(a), recommend to the CETA Joint Committee the adoption of interpretations of this Agreement. An interpretation adopted by the CETA Joint Committee shall be binding on the Tribunal established under this Section. The CETA Joint Committee may decide that an interpretation shall have binding effect from a specific date.”
15. “Where serious concerns arise as regards issues of interpretation which may affect matters relating to this Agreement, the Committee, pursuant to subparagraph 4(f) of Article 4.1 (Committee), may adopt interpretations of provisions of this Agreement. An interpretation adopted by the Committee shall be binding on the Tribunal and the Appeal Tribunal and any award shall be consistent with that decision. The Committee may decide that an interpretation shall have binding effect from a specific date.”

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Effect of South Korean Corporate Culture on Employees at Subsidiary Firms in China

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Abstract

This paper investigates the organizational culture of subsidiary South Korean companies operating in China as defined by Denison's (1984, 1990) four "traits" of involvement, consistency, adaptability and mission. During the summer of 2016, a survey was conducted with indigenous employees working for South Korean companies in China to measure respondents' views, beliefs and values regarding Denison's organizational culture traits and their relationship to the respondents' organizational "commitments" of job performance, job satisfaction and job retention. A total of 373 responses were collected. Path analysis was used to test the effects of the four independent traits variables on the three dependent commitments variables. The results provide evidence that organizational culture (based on Denison's four traits) is measurable and correlates with the given job outcomes.

Keywords: *involvements, consistency, adaptability, mission, satisfaction, Chinese employees, performance, retention, culture*

1. Introduction

Contemporary companies manage and operate their businesses in very complex and competitive global environments (Kim, Park and Shin, 2018). To succeed in this business world, organizations need solid and operative internal cohesion. Much practical research has proved that one factor of strong and effective organizational cohesion is a company's organizational culture, which is an important element of organizational performance and success (Deal and Kennedy, 1982; Denison, 1990; Kim, Park and Shin, 2018). Therefore, company managers need to understand how employees perceive the organization and how employees behave toward that organization (Kim, Park and Ruy, 2018). Especially, business experts and managers

who own subsidiary companies in other countries need to understand how foreign employees perceive the mother company's organizational culture, because they may not perceive the mother company's organizational culture in the same way that employees from the mother country do (Kim, Park and Ruy, 2018). If foreign employees' perceptions of the mother company's organizational culture are different from those of the mother country's employees, they may develop negative attitudes towards their working environments, including their superiors and colleagues, and may show less committed citizenship behaviours toward their jobs. For this reason, experts and company managers need to understand employees' feelings and understand employees' experience of occupational stress and emotional distress (Kim, Park and Ruy, 2018). Studies of Korean companies' organizational culture have shown that based on the Competing Value Model (Kim, 2012), Korean companies have unique internal organizational cultures which are strongly group-focussed and hierarchical. On the other hand, according to Tsui, Wang and Xin (2006), the majority of organizations in China emphasize harmony, employee development and employee contribution. In the past, Korean hierarchical organizational culture positively affected Korean employees' organizational commitment; however, Korean organizational culture has become less hierarchical, so this culture might have less influence on employees today (Kim, Park and Ruy, 2018). In addition, recent organizational culture studies have shifted their focus from the functional and quantifiable aspects of management based on the Competing Value Model to the interpersonal and qualitative side of management based on Denison's model (Baker, 2002). Very few researchers have explored whether a company's organizational culture is perceived in the same manner outside its national culture. Therefore, it is worthwhile to find out how foreign employees perceive and behave in the organizational culture of a company that originated in a different country. Since many Korean companies have subsidiary companies in China, this study explores how Chinese employees perceive subsidiary Korean companies' organizational culture and investigates how their perception affects their job satisfaction, job performance and job retention. The study outcomes are compared with those of Korean employees from Kim, Park and Shin's (2018) previous study.

1.1. Concept of Organizational Culture

In order to understand organizational culture, it is necessary to first understand the general concept of culture. Taylor and Bowers (1972) defined the broad concept of culture as "that complex whole which includes knowledge, belief, art, morals, custom and any other capabilities and habits acquired by man as a member of society" (p. 1) as the sum of individuals' personality. Later

researchers defined culture as a system of country's values (Hofstede, 1980) and as "a relatively stable set of beliefs, values and behaviors commonly held by a society" (Lim, 1995, p. 16).

When we apply this concept to business, organizational culture can be seen as common values that individuals hold in the organization and that are adopted by the organization. Organizational culture has been widely studied since the 1980s (Smircich and Calas, 1987), and researchers have presented a variety of definitions of organizational culture. Organizational culture can be defined as a set of values that help "in unifying the social dimensions of the organization" (Peters and Waterman, 1982, p. 106); as "the shared understanding of an organization's employees—how we do things around here" (Wallach, 1983, p. 26); as the combination of basic assumptions and beliefs that organizational members share in common (Schein, 1980); and as values that lead to appropriate organizational behaviours in response to various and unexpected situations (Martin, 2002). Additionally, organizational culture can be defined as the pattern of shared and stable beliefs and values that develop within an organization over time (Gordon and Ditomaso, 1992). It encompasses "a set of structures, routines, rules and norms that guide and constrain behavior" (Schein, 2004, p. 1). Any identifying group with shared history and experiences can have a culture and include many subcultures (Schein, 1990).

Organizational culture influences managerial techniques which play a role in managing the whole organization and in aspects that a new member should learn and understand in order to adjust to the organization (Sriramesh, Grunig and Dozier, 1996). Schein (2004) mentioned that organizational culture consists of three levels: artifacts, belief and values, and basic assumptions. Artifacts come from an organization's physical forms and cultural expressions such as corporate architecture, symbols, ceremonies, and stories that present and reproduce shared organizational patterns of behaviour (Berg and Kreiner, 1990; Dutton, Dukerich and Harquail, 1994; Martin, 1993; Pratt and Rafaeli, 1997; Schein, 1990; Trice and Beyer, 1984). According to Schein (2004), "Belief and value involve the intrinsic meanings of behaviors and shared perception of the success and transformed process" (p. 28), and basic assumptions are "behaviors taken for granted within an organization and strongly held consensus and behaviors based on any other premises" (p. 31).

In addition, organizational cultures are neither standardized nor fixed (Kavanagh and Ashkanasy, 2006) because organizational culture focusses on the moment of events that happen in the workplace (Burke, 1994), or organizational cultures are interrupted by various events over time as cultural systems change (Weick and Quinn, 1999). Therefore, Hatch (2000) asserted that organizational cultures are continuously created and changed by organizational members. As such, organizations with a shared long-term

history or with longer membership can have a strong and highly consistent culture. Such a culture provides stability and positive outcomes for an organization (Deal and Kennedy, 1982; Schein, 1990). Ravasi and Schultz (2006) also emphasized that organizational culture can be a key factor in maintaining a distinctive and continuous organizational identity if the culture is strong and has unique characteristics.

In general, organizational culture is formed based on employees and superiors, products, processes and leadership's espoused values; hardened from the institution's experiences, general expectations, internal philosophy, and values that hold the work force together; and reflected in the organization's image, external interactions, and future plans (Belias and Koustelios, 2014). Likewise, if these shared meanings, values, assumptions, and beliefs of an organization can be identified and understood, it is possible to understand employees' various implicit and explicit organizational behaviours and intentions.

1.2. Dimensions of Organizational Culture

Many researchers have developed quantitative methods to measure and classify dimensions of organizational culture based on empirical data. Harrison (1975) classified four main types of organizational culture based on emphasis and extent of power, role, task and support. Later researchers have tested Harrison's instrument to identify organizational culture and confirmed its validity (Ashkanasy, Broadfoot and Falkus 2000; Ashkanasy and Holmes, 1995). Since 1980, Hofstede has studied organizational culture by investigating employees from ten different organizations to develop the Multi-Focus Model, which consists of six autonomous dimensions and two semi-autonomous dimensions (Hofstede, Neuijen, Ohayv and Sanders, 1990). O'Connor (1995) researched how organizational culture based on Hofstede's power distance influenced Singaporean-Chinese managers' budget participation. He concluded that power distance played a role in decreasing role ambiguity and enhancing superior/subordinate relationship. Deal and Kennedy (1982) also suggested four dimensions of organizational culture based on the organization's strategies and expectations from employees: Macho culture, Work Hard/Play Hard culture, Bet-Your-Company culture, and Process culture. Other researchers have used categories of organizational cultural values and norms such as the completion of work tasks, interpersonal relationships, and individual behaviour (Rousseau, 1990), and developed a measurement describing organizational culture values by using over 54 specific statements of cultural values (O'Reilly, Chatman and Caldwell, 1991). Gordon and Ditomaso (1992) examined organizational culture by using the Survey of Management Climate (Gordon and Cummins, 1979),

which found eight dimensions including clarity, communication, innovation, accountability, action, fairness, development and promotion. Sheridan (1992) studied organizational culture values in six public accounting firms using the Organizational Culture Profile (OCP) instrument originally developed by O'Reilly et al. (1991). Sheridan (1992) found seven common dimensions in the OCP value statements. His results indicated that organizational culture varied significantly across firms: for example, three firms focused on the interpersonal relationship values of team orientation and respect for people, while two other firms emphasized the work task values of detail and stability. Xenikou and Furnham (1996) emphasized one type of organizational culture oriented toward achieving goals, while Cameron and Quinn (2006) described a certain organization with an involvement-oriented culture focussing on relations among employees. Coleman (2013) has distinguished six common components of successful types of organizational culture: vision, values, practices, people, narrative, and place. Tsui, Wang and Xin (2006) analyzed organizational culture dimensions by comparing foreign-invested companies and state-owned companies in China. They found that foreign-invested companies emphasized standardization and communication more than other dimensions and that state-owned companies tended to emphasize employee development and leadership more than other dimensions. Cameron and Freeman (1991) examined three aspects of culture and their impacts on effectiveness based on data from 334 colleges and universities, and concluded that organizational culture has a significantly positive relationship with specific aspects of organizational effectiveness.

On the other hand, Denison (1984, 1990) and Denison and Spreitzer (1991) examined types of organizational culture based on four different characteristics: organization of work, emphasis on human resources, decision-making processes and co-ordination, and they explained each culture's characteristics in terms of effectiveness. In particular, Denison and his colleagues (Denison and Mishra, 1995; Fey and Denison, 2003) identified and validated four dimensions of organizational culture, including many different traits of an organization's subcultures: 1) Adaptability: creating change, customer focus, and organizational learning, 2) Mission: strategic direction, goals and objectives, and vision, 3) Consistency: core values, agreement, coordination, and integration, and 4) Involvement: empowerment, team orientation, and capability development. Zheng, Yang and McLean (2010) explored Denison's four dimensions of organizational culture. In their study, adaptability refers to the degree to which an organization has the ability to alter behaviour, structures, and systems in order to survive environmental changes. Consistency refers to the extent to which beliefs, values, and expectations are held consistently by members. Involvement refers to the level of participation by an organization's members in decision

making, and mission refers to the existence of a shared definition of the organization's purpose.

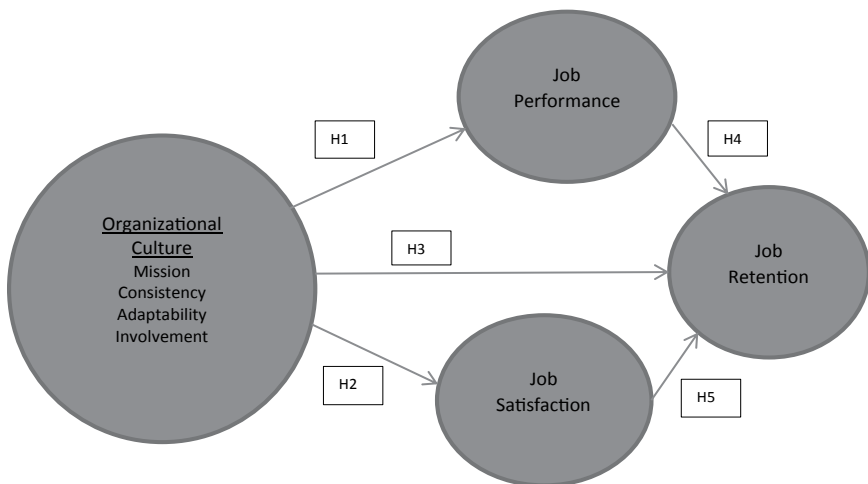
1.3. Relationship between Employees' Behaviours and Organizational Culture

Various researchers have investigated the relationship between organizational culture and effectiveness. Measures of organizational effectiveness have included an organization's financial performance (Denison, 1984), competence (Fleury, 2009), and employees' behaviours in the organization (Kravetz, 1988). For example, Denison (1990) contended that organizational culture is directly related to organizational performance. Gordon and Ditomaso (1992) investigated the relationship between strong corporate cultures and corporate performance and found that a strong culture was connected to excellent performance. They argued that if the organizational culture can adjust to external situations, the culture can have a significantly positive impact on organizational performance. Ogbonna and Harris (2000) examined the relationship between leadership style and performance and identified organizational culture as a mediator in this relationship. Ogbonna and Harris (2000) agreed that strong cultures with widely shared meanings, values and assumptions were positively associated with organizational success. They concluded that the bureaucratic form of culture was not directly related to performance, whereas the competitive and innovative forms of culture had direct, strong and positive relations with organizational performance. Denison (1984) studied 34 American firms over a five-year period, examining the relationship between organizational culture, based on the measure of employees' perception of the organization and their participation in the decision-making process, and the organization's financial performance. He found significantly positive relationships between employees' perceptions of an organizational culture and the organization's financial performance. Organizational culture also significantly impacts an organization's human resources management policies, such as selection processes, employment placement procedures, promotion policies, career development opportunities and reward systems (Kerr and Slocum, 1987; Kopelman, Brief and Guzzo, 1990). Organ and Ryan (1995) proved that job satisfaction is a critical element of employees' work attitude that leads to a favourable relationship with customers, and is strongly associated with some aspects of job performance, which has a significant impact on organizational effectiveness (Harrison, Newman and Roth, 2006). Sheridan (1992) found that the cultural values of an organization significantly influence voluntary turnover of newly hired employees. They examined voluntary survival rates, or the length of time that newly hired employees voluntarily stayed at their jobs, and found that

employees stayed an average of 45 months in cultures which focussed on interpersonal relationships but only 31 months in cultures which focussed on work values. Hansen and Wernerfelt (1989) also found a positive relationship between organizational cultural values and goal accomplishment based on the Survey of Organizations developed by Taylor and Bowers (1972). Therefore, organizational culture positively impacts employees' job satisfaction, job performance and job retention, which are important factors in improving organizational effectiveness by facilitating the quality of outcomes or decreasing labour costs (Kopelman, Brief and Guzzo, 1990). Keeping qualified employees is related to higher productivity. For this reason, this study examines the relationship between organizational culture dimensions and organizational effectiveness in terms of Chinese employees' job performance, job satisfaction and job retention (Figure 1). To achieve this goal, we hypothesized as follows:

- Hypothesis 1: Organizational culture dimensions of Korean companies positively influence Chinese employees' job performance.
- Hypothesis 2: Organizational culture dimensions of Korean companies positively influence Chinese employees' job satisfaction.
- Hypothesis 3: Organizational culture dimensions of Korean companies positively influence Chinese employees' job retention.
- Hypothesis 4: Employees' job performance positively influences Chinese employees' job retention.
- Hypothesis 5: Employees' job satisfaction positively influences Chinese employees' job retention.

Figure 1 Hypothesized Organizational Culture Model



2. Methods

2.1. Survey Procedure and Data Collection

A self-administered questionnaire survey was simultaneously conducted in China, South Korea and the USA during the summer of 2016. The purpose of the project was to find out how foreign employees perceive subsidiary Korean companies' organizational culture and behave toward their organizations. To achieve this goal, the authors selected companies which had branches in different countries from the 2010 edition of *Subsidiary Korean Company Directories* (KOTRA, 2010). The companies which met the criteria were mainly manufacturing companies. To collect an adequate and representative sample size, we narrowed down the locations to Tianjin in China. We contacted human resource managers at preselected subsidiary Korean companies in Tianjin and asked managers to help with the distribution of the survey. The human resource managers from about 10 manufacturing companies agreed to help with this study and distributed a survey questionnaire to local employees. Managers explained that participation in the survey was voluntary, responses were confidential, and nonparticipation or withdrawal from the survey would not jeopardize future relationships with the company. Chinese employees who participated in the survey consisted of supervisors, part-time workers, contract workers and others. Six hundred copies of questionnaires were distributed to Chinese employees working at subsidiary Korean companies, and a total of 372 responses, a response rate of 62.2%, were collected from the survey.

2.2. Measurement

To analyze how Chinese employees perceive subsidiary Korean companies' organizational culture and their behaviours toward their organization, we designed a questionnaire to solicit respondents' perception of Korean companies' organizational culture (mission, consistency, adaptability and involvement), job performance, job satisfaction, job retention and respondents' socio-demographic information. Respondents were asked to check responses on a scale from one to five that best reflected their perception of organizational culture and their behaviours toward the organization, with one being "strongly disagree" and five being "strongly agree". Measures assessing organizational culture were adopted from Denison and his colleagues' research (Denison, 1984 and 1990; Denison and Mishra, 1995; Denison, Nieminen and Kotrba, 2014; Denison and Spreitzer, 1991; Fey and Denison, 2003). These measures encompassed four functional dimensions: adaptability, consistency, involvement and mission. Each functional dimension was measured by nine items (Table 1) for a total of 36 items. For example, one item that measured

Table 1 Scale if Item-deleted of Constructs: Culture Dimensions

Dimension (Construct)	Index	Items	Scale if Item-deleted	Cronbach's alpha	Scale if Item-deleted	Cronbach's alpha	Mean
Mission	Strategic Direction and Intent	1	.796	.861	.905	.919	3.80
		2	.730		.904		3.89
		3	.879				
	Goals and Objectives	4	.825	.809	.910		3.92
		5	.685		.914		4.20
		6	.691		.911		4.21
	Vision	7	.804	.858	.901		3.90
		8	.806		.908		3.76
		9	.793		.906		4.02
Consistency	Core Values	10	.839	.860	.901	.911	4.03
		11	.771		.898		4.03
		12	.797		.899		3.96
	Agreement	13	.804	.822	.900		3.97
		14	.714		.900		3.87
		15	.741		.898		3.94
	Coordination and Integration	16	.755	.810	.904		3.71
		17	.678		.898		3.78
		18	.780		.903		3.73
Adaptability	Creating Changes	19	.724	.493		.905	
		20	.076		.898		4.09
		21	.066		.891		3.92
	Customer Focus	22	.843	.871	.888		3.92
		23	.790		.886		4.01
		24	.719		.890		3.96
	Organizational Learning	25	.621	.745	.891		4.03
26		.651	.901		4.08		
27		.695	.899		3.89		
Involvement	Empowerment	28	.792	.796	.900	.908	4.13
		29	.610		.902		4.02
		30	.734		.898		3.76
	Team Orientation	31	.789	.870	.896		4.04
		32	.826		.895		4.11
		33	.833		.898		4.01
	Capability Development	34	.818	.860	.895		4.03
		35	.771		.898		4.01
		36	.820		.901		3.90

goals and objectives, a sub-dimension of mission, was “There are short-term goals that help link what I do on a day-to-day basis to the strategy and vision of the company.” Measures assessing job performance consisted of seven items adopted from Babin and Boles (1998) which captured Chinese employees’ perception of the degree of their overall behaviour toward Korean organizations (Table 2). Measures for job satisfaction (four items) and job retention variables (four items) were adopted from Hartline and Ferrell’s (1996) study (Table 2). All items used in this study were carefully translated by bilingual professionals in Chinese and modified to fit the Chinese study population based on a pilot study.

Table 2 Scale if Item-deleted of Constructs: Employees' Job Performance, Satisfaction and Retention

Construct	Variables	Scale if Item-deleted	Cronbach's alpha	Mean
Job Performance (JP)	1 I work the hours I am contracted to work.	.561	.883	4.38
	2 I do a good job in terms of quality and quantity.	.916		
	3 I deal honestly with clients and with the organization.	.562		4.42
	4 I intend to continue this work at the company, guard its reputation and put its interests first.	.551		4.36
	5 I treat the company's property in a respectful way.	.553		4.43
	6 I dress and behave appropriately with customers and colleagues.	.564		4.38
	7 I am willing to go beyond my own job description, especially in an emergency.	.560		4.32
Job Satisfaction (JS)	1 Working for this company is very satisfying to me.	.761	.857	3.95
	2 I am satisfied with my job.	.790		3.99
	3 My work in this company has met my expectations.	.765		3.87
	4 My current work situation is not a major source of frustration in my life.	.908		
Job Retention (JR)	1 I often think about quitting this job.	.954	.961	2.29
	2 It is likely that I will actively look for a new job next year.	.949		2.33
	3 I will probably look for a new job in the next year.	.943		2.40
	4 I often think of changing my job.	.948		2.23

2.3. Data Analysis

It was hypothesized that Chinese employees’ perceived organizational culture dimensions of Korean companies would predict positive relationships among job performance, job satisfaction and job retention. Figure 2 shows a path diagram showing the direct and indirect prediction of organizational culture dimensions (mission, consistency, adaptability, and involvement), job satisfaction, job performance and job retention. The model can be expressed by the following equations:

$$JR = f(JP, JS, MI, CO, AD, IN) \tag{1}$$

$$JP = f(MI, CO, AD, IN) \tag{2}$$

$$JS = f(MI, CO, AD, IN) \tag{3}$$

where JP = job performance, JS = job satisfaction, JR = job retention, MI = mission, CO = consistency, AD = adaptability, IN = involvement

To verify the proposed model, we used a path analysis. Path analysis is a statistical technique for estimating the magnitude and significance (indirect and direct) of hypothetically causal relationships among sets of variables (Lleras, 2005). The arrow from the four exogenous variables depicts a progressive causal linkage between job satisfaction and job performance and job retention. Table 3 presents means, standard deviation and correlations of all variables for the sample. Figure 2 shows the path diagram, including the path coefficients. The coefficients are the standardized beta coefficient (β) of the exogenous variables of MI, CO, AD and IN on the three endogenous

Figure 2 Path Model with Significant Path Coefficient

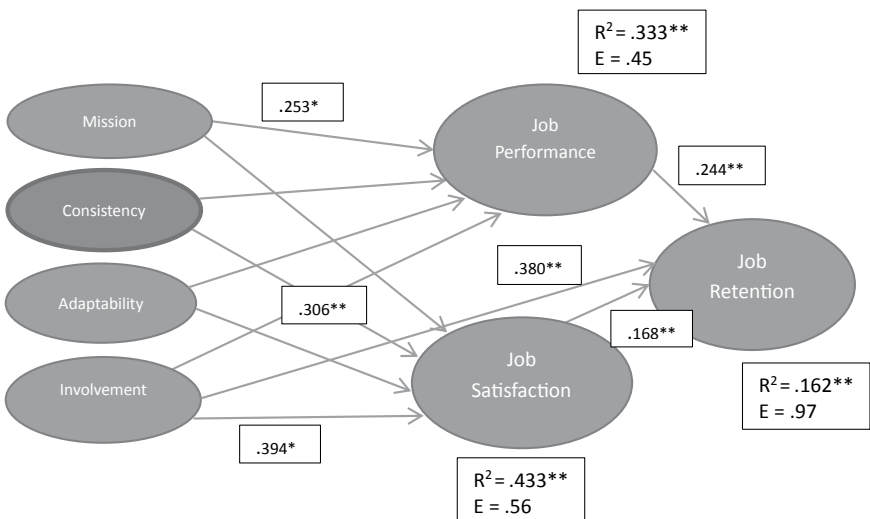


Table 3 Means, Standard Deviation (SD) and Correlations for Variables (N = 370)

Variable	1	2	3	4	5	6	7	Mean	SD
1. MI	1.000							3.963	.672
2. CO	.841**	1.000						3.892	.615
3. AD	.815**	.890**	1.000					3.999	.616
4. IN	.792**	.855**	.879**	1.000				4.006	.650
5. JP	.547**	.518**	.530**	.542**	1.000			4.381	.561
6. JS	.604**	.596**	.625**	.635**	.554**	1.000		3.936	.762
7. JR	.250**	.237**	.257**	.309**	.340**	.308**	1.000	3.689	1.058

Note: JP = job performance, JS = job satisfaction, JR = job retention, MI = mission, CO = consistency, AD = adaptability, IN = involvement, **p<0.01.

variables of JP, JS and JR because, according to Stage, Carter and Nora (2004), “Path coefficients (β) are standardized within a model because they are estimated from correlations” (p. 6). The total association between any two constructs may be decomposed into direct and indirect effects (Duncan, 1966). Prior to the path analysis of the proposed model, Cronbach’s alpha reliability test with scales if item-deleted was conducted for each construct. If the scale of item-deleted was bigger than the total value of Cronbach’s alpha of each construct, that item was deleted. Tables 1 and 2 show the value of Cronbach’s alpha for all seven constructs and reliability score for scale deleted-items for each constructs. Four items were deleted because the scale of item-deleted was lower than the Cronbach’s alpha value for these items: Item 3 of MI construct, Item 19 of AD construct, Item 2 of JP construct, and Item 4 of JS construct.

For further analysis, each construct after inappropriate items-deleted was summated and the summated value of constructs was divided by the total number of items in each construct. To obtain estimates of the path coefficients, each endogenous variable (JP, JS, JR) was regressed on those variables that directly affected it. Lastly, the four exogenous variables (MI, CO, AD, IN) and the two intervening job related variables (JP, JS) were regressed against the JR variable. The standardized beta coefficient that results from the regression equation is the estimated path coefficient for each linkage. Path coefficient is the same as beta coefficient and represents a direct relationship. The difference between regression and path analysis is that each variable that is considered to be caused by another variable is treated as a dependent variable in a separate regression equation (Wright, 1985). Based on the results of regression analysis shown in Table 6, Figure 2 shows only statistically significant path coefficients. The indirect effect is the part of a variable’s total effect that is transmitted or mediated by intervening variables between the cause and effect variables (Alwin & Hauser, 1975). To calculate indirect effect, we multiplied

the standardized path coefficient leading from each exogenous variable to each intervening variable by the standardized path coefficient that leads from the same intervening variable to its dependent variable. The total effect of a variable is the sum of the direct and indirect effects measured by the compound path (Jurowski, Uysal and Williams, 1997, p. 6).

3. Results

3.1. Profile of the Respondents

Table 4 shows all respondents' demographic characteristics. Among the respondents, 188 (50.5%) were males and 184 (49.5%) were females. The largest age group was 30–39 (51.9%) and the second largest age group was 20–29 (40.1%). One hundred and eleven respondents (29.8%) were single, about 16.7% of respondents were married without children, and about half of respondents (47.3%) were married with one or more children. About 62% of respondents reported that they graduated with a bachelor degree, whereas only 9.4% of respondents answered that they graduated with a high school diploma. Surprisingly, about 93.9% of respondents reported that they were working with the company as contract workers and about 46.6% of respondents reported that they were working less than 40 hours a week. Around 41% of respondents mentioned that their monthly salary ranged between ¥ 4,000 to ¥ 6,000, while about 31.1% of respondents reported that their monthly salary was between ¥ 2000 to ¥ 4000. Table 5 shows companies' profiles characteristics. In terms of organizational size, the average number of employees in each company was 1,258, but a majority of respondents (61.4%) answered that their companies had less than 1,000 employees.

3.2. Analysis of the Path Model

Figure 2 depicts the results of the previously explained regression equation and displays significant relationships between the exogenous and endogenous variables. The results showed that H4 (the relationship between job performance and job retention) and H5 (the relationship between job satisfaction and job retention) were statistically significant, implying that job performance and job satisfaction significantly impacted employees' job retention. Organizational culture as a whole significantly influenced job performance, job satisfaction and job retention; however, an individual dimension of organizational culture had a different effect. The mission dimension of organizational culture positively and significantly affected the perception of job performance ($p=.004$) but not job satisfaction ($p=.116$) or job retention ($p=.392$). Culture as a whole, job performance and job

Table 4 Respondents' Demographic Profiles

Sample size	Frequencies	Percent (%)
Gender (n=372)		
Male	188	50.5
Female	184	49.5
Age (n=372)		
19–29	149	40.1
30–39	193	51.9
40–49	29	7.8
Over 50	1	0.3
Marital status (n=372)		
Single	111	29.8
Married with no child	62	16.7
Married with children	176	47.3
Others	1	0.3
Educational level (n=371)		
Less than high school	25	6.7
High school	35	9.4
Two-year college degree	71	19.1
Four-year college	230	62.0
Masters	16	1.6
Ph.D.	4	1.1
Employment status (n=360)		
Contract workers	338	93.9
Full time	21	5.8
Part time	0	0
Others	1	0.3
Working hours a week (n=365)		
Under 40 hours	170	46.6
40 to 50 hours	120	32.9
51 to 60 hours	35	9.6
Over 60 hours	40	11.0
Working duration with a company (n=365)		
Under 5 years	205	56.2
5 to 10 years	108	29.6
10 to 15 years	30	8.2
15 to 20 years	17	4.7
Over 20 years	5	1.4
Monthly income (n=363)		
Under ¥2,000	2	0.6
¥2,000 – ¥4,000	113	31.1
¥4,001 – ¥6,000	149	41.0
¥6,001 – ¥8,000	68	18.7
Over ¥8,000	31	8.5

Table 5 Characteristics of Organization

	Frequencies	Percent (%)
Company size (n=365)		
Small	48	13.2
Medium	224	61.4
Large	93	25.5
Industry (n=356)		
Construction	1	0.3
Manufacturing	252	71.1
Transportation	1	0.3
Communication	7	2.0
Electric and gas	2	0.6
Wholesale trade	44	12.4
Finance, insurance, real estate	9	2.4
Services	19	5.3
Others	21	5.9
Employee population (n=361)		
Fewer than 100	0	0
100 – 500	179	49.6
501 – 1000	50	13.9
More than 1000	132	36.6
Years of company duration (n=357)		
Under 10 years	31	8.7
10.1 – 20 years	269	75.4
20.1 – 30 years	57	16.0
Over 30 years	0	0

satisfaction accounted for 16.2% of the variance in job retention ($R^2=.162$, Figure 2). The consistency and adaptability dimensions of organizational culture did not significantly influence job performance, job satisfaction, or job retention. The involvement dimension of organizational culture significantly affected all endogenous variables of the perception of job performance ($p=.004$), job satisfaction ($p=.000$) and the job retention ($p=.002$). Table 6 depicts the results of the decomposition of the correlation between exogenous variables and job retention through job performance and job satisfaction. The direct effect of organizational culture as a whole ($\beta=.299$) on job retention variable contributed 54.8% of the total effect ($\beta=.546$) of this variable, and the remaining effects ($\beta=.247$) were indirect effects on the job retention variable through job performance and job satisfaction. Mission had a significant and positive direct and indirect effect on job retention through job performance;

Table 6 Decomposition of Effects from Path Analysis

Effects	Unstandardized coefficient (β)	SE	Standardized coefficient (β)	t-statistics	R ²	Significance (p)	
Culture → JP (H1)	.515	.041	.568	12.673	.322	.000**	
MI → JP	.208	.72	.253	2.903		.004**	
CO → JP	-.048	.097	-.055	-.497		.620	
AD → JP	.092	.101	.105	.906		.366	
IN → JP	.258	.088	.306	2.941		.004**	
Culture → JS (H2)	.805	.563	.648	15.635	.420	.000**	
MI → JS	.143	.091	.127	1.575		.116	
CO → JS	-.018	.124	-.015	-.149		.882	
AD → JS	.220	.128	.183	1.712		.088	
IN → JS	.455	.111	.394	4.093		.000**	
Culture → JR (H3)	.526	.091	.299	5.761	.090	.000**	
MI → JR		.161	.087	.856		.392	
CO → JR	.138	.220	-.145	-1.118		.264	
AD → JR	-.247	.227	-.001	-.007		.995	
IN → JR	-.001	.197	.380	3.158		.002**	
JP → JR (H4)	.460	.111	.244	4.132		.000**	
JS → JR (H5)	.235	.083	.168	2.847		.005**	
	Culture Dimensions				Culture (whole)	Job Performance	Job Satisfaction
Standardized direct effects	MI	CO	AD	IN			
Job Performance	.253**	.055	.105	.306**	.568**		
Job Satisfaction	.127	.015	.183	.394**	.648**	.000	.000
Job Retention	.087	-.145	-.001	.380**	.299**	.244**	.168**
Standardized indirect effects							
Job Retention	.093	-.016	.056	.141	.247	.000	.000

Note: JP = job performance, JS = job satisfaction, JR = job retention, MI = mission, CO = consistency, AD = adaptability, IN = involvement, **p<0.01.

however, the direct and indirect effects of CO on job retention through job satisfaction were negative but not statistically significant. Among cultural dimensions, only IN had positive and statistically significant direct (β=.380) and indirect effects (β=.141) on job retention.

4. Discussion

The results of this research confirm many previous studies showing that organizational culture as a whole has significant direct effects on job performance, job satisfaction and job retention (Denison, 1990; Gordon

and Ditomaso, 1992; Harrison, Newman and Roth, 2006; Kerr and Slocum, 1987; Ogbonna and Harris, 2000; Organ and Ryan, 1995; Sheridan, 1992; Kim, Park and Shin, 2018). Hence, the results confirm the hypotheses that organizational culture as a whole predicts positive relationships between job performance (H1), job satisfaction (H2) and job retention (H3) among Chinese employees of subsidiary Korean companies. In addition, job performance and job satisfaction had a significantly positive relationship with job retention, confirming H4 and H5. Therefore, this study suggests that organizational culture as a whole has a significant indirect effect on job retention when mediated by job satisfaction and job performance (Lee, Sablinski, Burton and Holton, 2004). It should be noted that this result is slightly different from that of the authors' previous study of Korean employees (Kim, Park and Shin, 2018). In that study, organizational culture did not show any indirect effect on job retention when mediated by job performance. When aggregated organizational culture was divided into four different dimensions, each dimension showed a different result from those of Denison, Nieminen and Kotrba's study (2014), in which all four dimensions directly and positively affected job satisfaction and job performance. In our research, the mission dimension of organizational culture directly and positively affected job performance but had no direct effect on job satisfaction or job retention. The consistency and adaptability dimensions had no significant and positive effect, either direct or indirect, on any endogenous variables. Only the involvement dimension of organizational culture had a significant and positive direct and indirect effect on job retention. The findings of this study suggest that Chinese employees perceive the involvement dimension of organizational culture as the strongest predictor of job performance, job satisfaction and job retention, whereas Korean employees perceived the mission dimension as the strongest predictor of job performance, the consistency dimension as the strongest indirect predictor of job satisfaction, and the adaptability dimension as the strongest predictor of job retention, both directly and indirectly (Kim, Park and Shin, 2018).

5. Conclusion

The results of this study indicate that among dimensions of organization culture, mission and involvement can predict Chinese employees' job performance. The results suggest that employees understand their company's strategic direction, goals and vision, and based on their understanding of the company's mission, employees try to do a good job, in both quality and quantity, for the company. Therefore, the mission dimension of organizational culture directly impacts their job performance. The consistency and

adaptability dimensions did not predict Chinese employees' job satisfaction or job retention. It may be that Chinese employees do not perceive their company's core value or efforts to change, so employees' job satisfaction and performance are not affected by consistency and adaptability. Interestingly, involvement is the only dimension that can significantly predict employees' job performance, job satisfaction and job retention. This result suggests that when employees are empowered and have the potential for strong career development, they easily adapt to the external environment and look for new ways to do their job, and their willingness to leave the company decreases. It should be noted that the authors' previous study of Korean employees found that when Korean employees understood their company's strategy and followed its goals, their behaviours enhanced the company's value (Kim, Park and Shin, 2018). The findings of this study shed some light on the relationships between subsidiary Korean companies' organizational culture and Chinese employees' job performance, job satisfaction and job retention based on Denison's organizational culture dimension. Through clarifying the relationships, this study verifies that organizational culture, as based on Denison's four traits, is measurable and leads to important organizational outcomes. In a practical sense, the results of this study were significantly different from the authors' previous study of Korean employees (Kim, Park, & Shin, 2018). Therefore, subsidiary company managers need to emphasize the organizational culture dimensions to fit diverse employees (for example, based on nationality).

Acknowledgements

This work was supported by the Ministry of Education of the Republic of Korea and the National Research Foundation of Korea (NRF-2015S1A5A2A03048475).

Notes

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Adoption of Islamic Banking Services: Evidence from Western China

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Abstract

Islamic banking has been growing rapidly worldwide and is not only widespread in Muslim countries, but also in western countries as well. Even if Islamic banking services have been offered in Ningxia province since 2009 to serve about 23 million Muslims in the population, the development of Islamic banking in China has been almost stagnant. Notwithstanding this reality, this study seeks to examine the factors that influence Chinese Muslims' intention to adopt Islamic banking. Employing the theory of planned behaviour (TPB), the study investigates the effects of attitude, subjective norms, perceived behavioural control and religious obligation on intention to adopt Islamic banking services among the Chinese Muslims. Survey data was collected from 669 Muslim respondents across four major cities in western China namely Lanzhou, Wulumuqi, Xining and Yinchuan. The hypothesized relationships are examined by using Analysis of Moments Structures (AMOS). The results show that apart from the common determinants of TPB: attitude, subjective norms, and perceived behaviour control, religious obligation significantly influence the intention to adopt Islamic banking among Chinese Muslims in western China. This indicates that Chinese Muslims regard religious obligation as very important in deciding their choice of banking.

Keywords: *Islamic banking, theory of planned behaviour, intention, Chinese Muslims*

1. Introduction

At present, Islamic financing is growing rapidly worldwide. The growth is not only widespread in Muslims countries but also in non-Muslims countries as well. China, as the country with the largest population in the world and the third largest Muslim minority population, has also shown great interests in promoting and participating in Islamic finance. Hong Kong has launched two

Islamic bonds (Sukuk) in 2014 and 2015. On the other hand, Ningxia Bank of China has also set up three Islamic bank windows at Shizuishan, Ningxia in 2009.

Based on China's 2010 Population Census, 23 million Muslims live in China. They are mainly concentrated in the western region of China, including Xinjiang, Gansu, Ningxia and Qinghai. Ma (2012) also estimated that China has more than thirty million Muslims, and with this large number of Muslim population, China has a huge potential to operate Islamic banking. Recently, the "One Belt One Road (OBOR)" initiative introduced by the Chinese central government has further highlighted the importance of Islamic finance to China (Bo, Adawiah and Saiti, 2016). The infrastructure projects involved the development of economic areas along the ancient Silk Road, as well as linkages with the Muslim world, which have pointed to the need for China to offer more Islamic banking and finance.

Due to the above reasons, and the fact that quantitative research of Islamic banking in China is particularly rare, this study embarks to examine the intention to use Islamic banking among Chinese Muslims from the western region of China. The study adopts the theory of planned behaviour (TPB) and postulates that attitude, subjective norm, perceived behaviour control, face gaining and religious obligation are key determinants of intention to use Islamic banking among Chinese Muslims.

As such, the main objectives of this study are the following. First, the paper examines the influences of attitude, subjective norm and perceived behaviour control on the Islamic banking adoption. Second, it scrutinizes the effects of face and religious obligation on intention to use Islamic banking. And lastly, this paper evaluates the applicability of theory of planned behaviour on Chinese Muslims and Islamic banking.

2. Literature Review

The objectives of the "One Belt One Road (OBOR)" / "Belt and Road Initiative (BRI)" are to develop the infrastructure (and by implication increase trade) in Central Asia, Middle East and Southeast Asia, and to promote the development of the western region of China. The OBOR route covers a huge Muslim population area, especially the Silk Road Economic Belt, which links western China, Central Asia and the Middle East. Islamic finance plays a significant part in the implementation of the OBOR initiative. In recent years, a number of studies on Islamic finance has emerged in China, especially in the area of Islamic banking products and services, and its operations in China (Abuduli, 2010). However, analysis on the demand side of Islamic finance, i.e., the incentives to use Islamic banking among Chinese Muslims, is rare. To fill in this gap, this study adopts the theory of planned

behaviour (TPB), and inserts variables such as face gaining and religious obligation to the TPB model.

The theory of reasoned action (TRA) has been popularized by Ajzen in 1975 and since then has been used extensively to study the intention to act or behave in a certain way, particularly in adopting a product or service. Due to the fundamental disadvantages of TRA, however, Ajzen (1985) introduced the perceived behaviour control (PBC) variable to the TRA model, resulting into an extended theory of TRA, known as the theory of planned behaviour (TPB). According to TPB, the behaviour intention of an individual is jointly influenced by his attitude, subjective norm and perceived behaviour control (Ajzen, 1985). According to some research, TPB has been able to successfully predict and interpret human behaviour across a variety of studies (Ajzen, 1991, 2002). TPB has also been employed to study the intention of individuals to exercise (Rhodes and Courneya, 2003; Ravis and Sheeran, 2003), to purchase halal products (Hanzaee and Ramezani, 2011; Shah Alam and Mohamed Sayuti, 2011), to deal in online trading (Gopi and Ramayah, 2007; Ramayah et al., 2009), to choose online grocery shopping (Hansen, Jansen and Solgaard, 2004), and to adopt Internet banking (Al-Ajam and Md Nor, 2013). On the other hand, the TPB model has been widely used by researchers of Islamic finance, including Islamic banking services (Echchabi and Aziz, 2012), Islamic unit trust (Ali, Zani and Kasim, 2014), Islamic credit cards (Ali, Raza and Puah, 2017; Amin, 2012; Amin, 2013), and Islamic home financing (Alam et al., 2012; Amin, Abdul-Rahman and Abdul-Razak, 2009). Therefore, this study adopts the TPB model to explore influencing factors that affect Chinese Muslim intention to use Islamic banking.

Noting that TPB alone does not completely interpret the relationship between intention and behaviour (Conner and Armitage, 1998), Ajzen (2011) also recommended to add additional variables to expand the predictive power of the model in different contexts. Thus, this study adds two more additional factors, which are face gaining and religious obligation. The reason to add and examine religious obligation is due to the fact that this study is conducted among Chinese Muslims who are strongly influenced by their Islamic religion. On the other hand, face has significant influence in Chinese culture (Yau, 1988). Therefore, this study examines five factors, namely attitude, subjective norm, perceived behaviour control, face gaining and religious obligation to explain the rationality of Chinese Muslims in choosing Islamic banking.

3. Hypotheses Development

3.1. Attitude

Attitude is a significant element of a person's predisposition to respond and has been shown to have a significant relation to behaviours (Allport, 1935).

Fishbein and Ajzen (1975) defined attitude as the evaluative effect of positive or negative perception about the individual in conducting certain behaviour. A great number of studies have been conducted on attitude and behaviour intention, and these studies found that attitude and intention have a positive relationship. For instance, in the area of Islamic banking products, Taib, Ramayah and Razak (2008) examined factors that influence intention to adopt diminishing partnership home finance in Malaysia and found that attitude have a positive relationship with intention. A similar result was reported by Gopi and Ramayah (2007) and Ramayah et al. (2009) in their studies about the factors that influence intention to use online trading in Malaysia. This positive relationship between attitude and intention was also found among the customers of Islamic banking services in Morocco (Echchabi and Aziz, 2012) and Indonesia (Wahyuni, 2012). In this empirical study, attitude is proposed to have a positive relationship with the intention to adopt Islamic banking. The greater the attitude on Islamic banking, then the greater the intention to use Islamic banking among Chinese Muslims in western China. Thus,

H1: Attitude has a positive effect on the intention to use Islamic banking.

3.2. Subjective Norm

Subjective norm has been defined as an individual's perception that most people who are important to her or him should or should not carry out the target behaviour (Fishbein and Ajzen, 1975). The subjective norm shows that the influence of important people relate to an individual's behaviour decisions. In brief, when most important people such as parents, spouse and friends encourage a certain behaviour decision, a person is more likely to follow out and intent to take action.

Taylor and Todd (1995) discovered that subjective norm significantly influences consumers' intention to use innovative products. Similarly, Gopi and Ramayah (2007) and Ramayah et al. (2009) discovered that subjective norm has a significant positive effect on intention to adopt Internet stock trading in Malaysia. On the other hand, subjective norm was also found to be significant predictors in other different areas of studies, such as, halal goods (Lada, Tanakinjal and Amin, 2009). They examined the factors that influence the intention to use halal products among 485 respondents in Malaysia, and the study revealed that the subjective norm is the most important factor among Malaysian customers. Meanwhile, Echchabi and Aziz (2012) also found that the subjective norm significantly affect intention to adopt Islamic banking among Moroccans.

This study conducts the role of subjective norm on the intention to use Islamic banking among Chinese Muslims in western China. The subjective

norm is proposed to have a positive relationship with the intention to use Islamic banking. The greater the subjective norm on Islamic banking, then the greater the intention to use Islamic banking among Chinese Muslims. As such the study surmises the following hypothesis:

H2: Subjective norm has a positive effect on the intention to use Islamic banking.

3.3. Perceived Behaviour Control

In the theory of planned behaviour (TPB), not only attitude and subjective norm significantly influence intention, but also perceived behaviour control as well. Ajzen (1991) defined perceived behavioural control as an individual's behaviour is determined by one's ability to manage own decision, and he also concluded that the role of perceived behavioural control in the TPB model should not be neglected. In Islamic banking studies, a study conducted by Echchabi and Aziz (2012) found perceived behavioural control significantly influences intention to use Islamic banking services in Morocco. On the other hand, Alam et al. (2012) and Ali, Raza, Puah and Karim (2017) also found that perceived behaviour control has a positive relationship with Islamic banking products' adoption.

This study proposes that perceived behaviour control have a positive relationship with the intention to use Islamic banking services. The greater the perceived behaviour control, then the greater the intention to use Islamic banking services among Chinese Muslims in western China. Based on the extant research, the hypothesis is postulated as follows:

H3: Perceived behaviour control has a positive effect on the intention to adopt Islamic banking.

3.4. Religious Obligation

Religious obligation is the role of religion in effecting an individual's choices and activities (Amin et al., 2011). Omer (1992) examined Muslims in the UK and found that the fundamental motivation to engage with Islamic banking is religious belief. Metawa and Almossawi (1998) also revealed that the Islamic religion is the utmost factor influencing the use of Islamic banks in Bahrain. Ali, Raza and Puah (2017) who studied bank customers' attitude toward Islamic banks in Pakistan arrived at the same conclusion. On the other hand, studies by Haron, Ahmad and Planisek (1994) and Amin et al. (2011) on Malaysian respondents, concluded differently that religion was not an influencing factor for customers to use Islamic banking products.

On the basis of previous studies, the following hypothesis is proposed in this study:

H4: Religious obligation has a positive effect on the intention to adopt Islamic banking.

3.5. Face

“Face” is one of the important Confucius culture; it is universal among Chinese people and influence their interpersonal relationships (Yau, 1988). According to Goffman (1955), face is pride, dignity and positive social value of a person as a result of his or her social accomplishment and fulfilment of it during a particular contact. Lee (1990) conducted a study and found a causal relationship between face and intention.

Another relevant study by Chung and Dawn (2000) revealed that face significantly influence intention to purchase domestic products among Korean people. Huang, Davison and Gu (2008) investigated factors that affect knowledge sharing intention in China; they found that face significantly affected intention to sharing knowledge. Jin and Kang (2010) discovered that face significantly influence Chinese student’s intention to buy foreign brand jeans.

However, face is proposed to have a positive relationship with intention to use Islamic banking in this study. The greater the face then the greater the intention to use Islamic banking among Chinese Muslims in western China. Based on the discussion, we make the following hypothesis in this study:

H5. There will be a positive relationship between face and intention to adopt Islamic banking.

4. Methodology

4.1. Sample

The target population of this study are Chinese Muslims in the western region of China who are living in four cities in the Lanzhou Gansu province, Urumqi Xinjiang province, Xining Qinghai province and Yinchuan Ninxia province. Purposive sampling technique is used since it is impossible to list all samples and the difficulty to reach the exact population of study (Neuman, 2005). A total of 1000 questionnaires were sent out and 669 usable questionnaires were received, thus attaining a net response rate of 66.9 percent. The study was carried out between June to December 2015.

The demographic profile of the respondents is as shown in Table 1. The distribution of the respondents is 25.1% for Lanzhou Gansu province, 25.6%

Table 1 Demographic Profile of Respondents (n=669)

Demographic	Category	Number	Percentage
Gender	Male	363	54.3
	Female	306	45.7
Marital Status	Single	216	32.3
	Married	453	45.3
Age	Below 20	65	9.7
	21 to 30	192	28.7
	31 to 40	198	29.6
	41 to 50	135	20.2
	51 to 60	63	9.4
	61 above	16	2.4
Education Level	Below High School	265	39.6
	Diploma	192	28.7
	Degree	200	29.9
	Master/PhD	12	1.8
Employment Status	Student	138	20.6
	Government Employee	156	23.3
	Private Sector Employee	287	42.9
	Self Employed	88	13.0
Income per Month	Below 2000	138	20.6
	2001 to 3000	115	17.2
	3001 to 4000	233	34.8
	4001 to 5000	119	17.8
	5001 above	64	9.6
City of Residence	Lanzhou	168	25.1
	Wulumuqi	171	25.6
	Xining	179	26.8
	Yinchuan	151	22.6

for Wulumuqi Xinjiang province, 26.8% for Xining Qinghai province and 22.6% for Yinchuan Ningxia province.

4.2. Development of Questionnaire

All questionnaire items were adopted from previous studies and modified accordingly to reflect the context of this study. The constructs of attitude, subjective norm, perceived behaviour control and intention were adopted from Amin et al. (2009) and Gopi and Ramayah (2007). The questionnaire items for religious obligation construct were adapted from Amin et al. (2011) while

face construct were adapted from Huang et al. (2008) and all constructs were measured using seven-point scales, ranging from “strongly disagree (1) to strongly agree (7)” left to right which is consistent with the ideal seven-point Likert scale proposed by Bollen (1989) for structural equation modelling. At first, the questionnaire items were developed in English, then interpreted into Mandarin to accommodate the non-English speakers. This study applied the back translation technique, as recommended by former researchers and widely used in cross-cultural studies (Brislin, Lonner and Thorndike, 1973; Chapman and Carter, 1979).

5. Results of the Study

Based on Anderson and Gerbing (1988), the two-step approach was suggested for structural equation modelling (SEM) which are the measurement model and structural model. This study began with the measurement model by executing confirmatory factor analysis (CFA), and then continued with the structural model. AMOS 22.0 version was adopted in this study.

5.1. Measurement Model

This study conducted measurement model analysis which examines the convergent validity and discriminant validity. Meantime, the study assessed the reliabilities of the items to reduce biasness and error. According to Nunnally and Bernstein (1978) this can be reached when the value of the Cronbach alpha is more than 0.70. In this study all the values for the variables were higher than 0.8, thus the model was considered to reach adequate internal reliability. Furthermore, CFA was adopted to examine the convergent validity and discriminant validity. This study applied the three criteria suggested by Fornell and Larcker (1981) which are factor loading, average variance extraction (AVE) and composite reliability (CR). Table 2 displays the results of the convergent validity.

As shown in Table 2, the results of factor loading ranged from 0.627 to 0.812, which exceeded the recommended factor loading by Chin, Gopal and Salisbury (1997). The results of the AVE ranged from 0.562 to 0.601 which are consistent with the suggestion by Bagozzi and Yi (1988). The values of the CR were all above 0.8 which indicate convergence reliability among the variables (Gefen, Straub and Boudreau, 2000). Therefore, the results of factor loading, AVE and CR have reached the achievement of convergent validity. To assess discriminant validity, this study adopted the Fornell-Larcker (1981) criterion. Table 3 showed that the results of square root of AVE were higher than the correlations between the latent variable. Thus, the requirement of

discriminant validity was realized. In summary, the measurement model demonstrated satisfactory internal reliability, convergent validity, and discriminant validity.

Table 2 Confirmatory Factor Analysis

Construct	Items	Factor Loading	AVE	CR	Cronbach Alpha
Attitude	1	0.773	0.601	0.883	0.882
	2	0.759			
	3	0.746			
	4	0.806			
	5	0.792			
SN	1	0.784	0.569	0.868	0.867
	2	0.786			
	3	0.715			
	4	0.747			
	5	0.736			
PBC	1	0.812	0.562	0.864	0.860
	2	0.802			
	3	0.627			
	4	0.794			
	5	0.696			
RO	1	0.724	0.584	0.875	0.875
	2	0.745			
	3	0.770			
	4	0.799			
	5	0.780			
Face	3	0.790	0.601	0.858	0.857
	4	0.754			
	5	0.772			
	6	0.785			
Intention	1	0.759	0.582	0.848	0.846
	2	0.766			
	3	0.755			
	4	0.772			

Note: SN – subjective norm, PBC – perceived behaviour control, RO – religious obligation, AVE – average variance extracted, CR – composite reliability.

Table 3 Latent Variable Correlation Matrix

	Att	SN	PNC	RO	Face	Intention
Att	0.775					
SN	0.429**	0.754				
PBC	0.390**	0.408**	0.750			
RO	0.405**	0.400**	0.323**	0.764		
Face	0.084*	0.097*	0.071	0.003	0.775	
Intention	0.639**	0.600**	0.511**	0.530**	0.094*	0.763

Notes: Att – Attitude, SN – subjective norm, RO – religious obligation. Diagonal items (in bold) are the square roots of average variance extracted.

This study applied the most commonly used model fitting indicators to inspect the results of the study. These indicators were ChiSq/df (chi-square/degree of freedom), GFI (goodness of fit index), CFI (comparative fit index), and RMSEA (root mean square error of approximation). The results of the measurement model for all constructs are shown in Table 4. The values of ChiSq/df ratio were all below 5.0 which were within the value suggested by Bagozzi, Yi and Phillips (1991). All values of GFI were over 0.90 which indicated the acceptable model fit (Baumgartner and Homburg, 1996). Also, all results of CFI exceeded 0.90 which achieved the recommended value (Hu and Bentler, 1999). All results of RMSEA were under 0.08 which showed an absolute fit (Browne et al., 1993). Thus, this study achieved a reasonable overall fit between the measurement models and the measured data.

Table 4 Goodness-of-Fit Model for all Variables

	GFI	CFI	RMSEA	ChiSq/df
Attitude	0.993	0.996	0.044	2.307
SN	0.996	0.999	0.021	1.306
PBC	0.997	1.000	0.007	1.028
Face	0.994	0.995	0.066	3.936
RO	0.990	0.992	0.062	3.549
Intention	0.997	0.998	0.041	2.114

Note: SN – subjective norm, PBC – perceived behaviour control, RO – religious obligation.

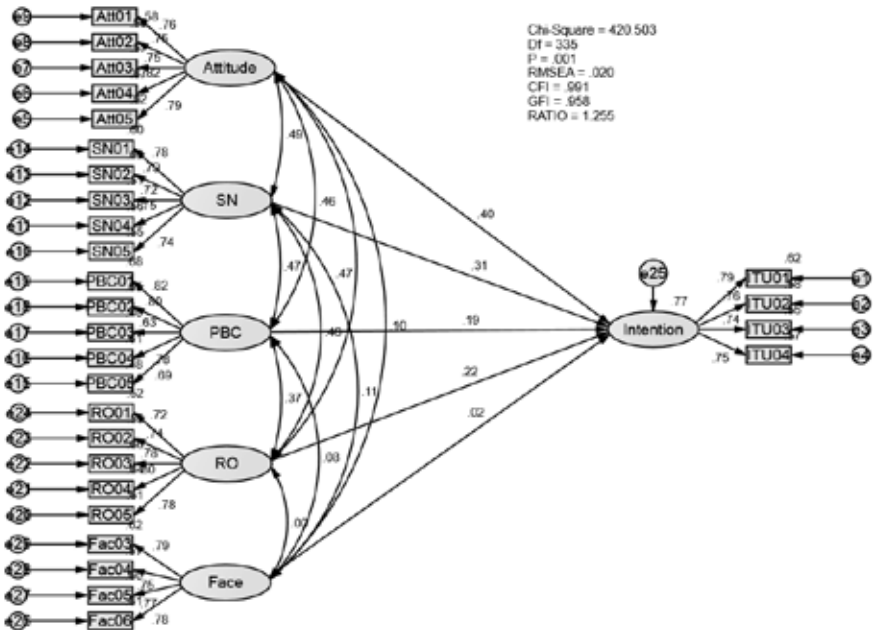
5.2. Structure Model

After conducting the measurement model, the study continued with an assessment of the structural model. Figure 1 is the structural equation model after running the AMOS software. As appeared in the figure, the value of Chi-Sq/df ratio is equal to 1.255 which is within the recommendation of Bagozzi et al. (1991). The GFI is 0.958, which illustrates an acceptable model fit (Baumgartner and Homburg, 1996), while the result of CFI is 0.958, thus achieving the recommended value (Hu and Bentler, 1999). The value of RMSEA is 0.020, below the recommended value of 0.08 which shows that there is an absolute fit (Browne et al., 1993). Thus, the proposed structural model demonstrated a good model fit.

In the TPB model, attitude, subjective norm and perceived behaviour control are the exogenous variables, while intention is the endogenous variable. This study introduces a new exogenous variable namely religious obligation and face. The values of correlation between the five exogenous variables are all below 0.8, indicating that all variables achieved discriminant validity and not redundant, as displayed in the AMOS graphic in Figure 1.

AMOS yielded the regression path coefficients for the structural model as shown in Table 5. All critical ratio (CR) values of variables are greater

Figure 1 AMOS Structural Model Results



Note: *p<0.01

Table 5 Results of Regression

Construct		Construct	SE	CR	P-Value
Intention	←	Attitude	.038	10.004	***
Intention	←	SN	.036	7.792	***
Intention	←	PBC	.042	5.307	***
Intention	←	RO	.033	6.098	***
Intention	←	Face	.026	.620	.535

Notes: Significant level: ** $p < 0.01$, *** $p < 0.001$. SN – subjective norm, PBC – perceived behaviour control, RO – religious obligation.

Table 6 Results of Structural Model

Construct		Construct	Hypothesis	Decision
Intention	←	Attitude	H1	Supported
Intention	←	SN	H2	Supported
Intention	←	PBC	H3	Supported
Intention	←	RO	H4	Supported
Intention	←	Face	H5	Not supported

Note: SN – subjective norm, PBC – perceived behaviour control, RO – religious obligation.

than 1.96, except for the variable face (CR=0.62); the rule of thumb is that if the CR value is $> \pm 1.96$, then the estimate is fitting (Chau, 1997). On the other hand, the model indicated that attitude has a significant relationship with intention ($\beta=0.40$, $P < 0.001$) at the 1 per cent significance level. The subjective norm has a significant relationship with intention ($\beta=0.31$, $P < 0.001$), while perceived behaviour control and intention has a significant relationship ($\beta=0.19$, $P < 0.001$) at the 1 per cent significant level. This indicates that three exogenous variables significantly affect intention to adopt Islamic banking. Therefore, hypotheses H1, H2 and H3 are supported, as illustrated in Table 6. Similarly, assessment of religious obligation on intention has a significant relationship ($\beta=0.22$, $P < 0.001$) at the 1 per cent significant level, thus H4 is also supported. On the other hand, it is observed that the path coefficient from face to intention is found to be insignificant ($\beta=0.02$, ns), hence H5 is not supported.

6. Discussion and Conclusion

This study empirically examines the factors that influence intention to adopt Islamic banking among Chinese Muslims in western China. To the best of

our knowledge, this is a pioneer study in using the TPB model as well as integrating religious obligation and face factors in the study to access Chinese Muslim's behaviour in Islamic banking settings. The empirical outcome demonstrates that attitude, subjective norm and perceived behaviour control have direct effect on Islamic banking adoption. The results of the study show that attitude is a significant predictor of the intention to use Islamic banking which is consistent with studies by Echchabi and Aziz (2012) and Wahyuni (2012). The study finds that subjective norm directly affects intention to adopt Islamic banking which is consistent with studies by Amin, Abdul-Rahman and Abdul-Razak (2013) and Taib et al. (2008). The results also illustrate that perceived behaviour control has a positive influence on intention to use the Islamic banking. This is consistent with the findings of Echchabi and Aziz (2012) and Ali et al. (2014). The outcome of this result verifies the original TPB. In addition, the current study illustrates that religious obligation also has a positive effect on intention to use Islamic banking among Chinese Muslims which is consistent with the findings of Ali, Raza, Puah and Karim (2017). On the other hand, one of the important Chinese Confucian factor "face" did not influence intention to use Islamic banking among Chinese Muslims which remains an interesting question for further study.

The main objective of this study is to examine the factors influencing intention to use Islamic banking among Chinese Muslims in western China. However, the study has proven the validity of a composite method by merging the TPB model, and found that attitude, subjective norm, perceived behaviour control and religious obligation directly influence intention to use Islamic banking. It is noticed that all exogenous variables examined are of utmost importance for Islamic banking adoption among Chinese Muslims except the Confucian face factor. Also, the present study can be a guideline for policy makers and bankers in understanding Chinese Muslims acceptance of Islamic banking services in China. Since the study has observed that attitude is the most important factor among all exogenous variables, it will be essential for bank managers to take certain actions that promote a good image of to gain potential customer attitude before promoting Islamic banking in western China. This study has observed that subjective norm is the second influential factor which affects intention to use Islamic banking. This illustrates that the individual's behaviour intention would be influenced by their family, friends and relatives; as such, bank managers should improve the influence of the subjective norm by building a social network through word-of-mouth, whereby Chinese Muslims will use Islamic banking based on their relatives introduction. Similarly, bank managers should consider the perceived behaviour control which is another important influential factor. This requires banks to create some awareness program for potential customers so that they can make better decisions towards Islamic banking services.

Most importantly, the study found that one of the important influential factor is religious obligation. Therefore, bankers should build the Islamic banking brand in western China and follow the principles of Islamic banking which is based on Islamic law (Shariah). Bankers ought to abide with the most important ideology of Islamic finance, complying with Islamic law, prohibiting interest, and sharing the profit and loss. Through building the Islamic banking brand, people will be aware about it and gradually adopt Islamic banking in the future.

Note

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Book Review

Book Review

Daniel Drache, A.T. Kingsmith and Duan Qi, *One Road, Many Dreams: China's Bold Plan to Remake the Global Economy*, London: Bloomsbury China, 2019; xii + 258 pages with bibliography and index. ISBN 978-9123-9204-9 (Hardcover)

One Road, Many Dreams is suitable for both academics and non-academics to start with on the doctrine of Belt and Road Initiatives (BRI). The book reveals the true extend of China's objectives, ambitions, impacts and the sustainability of the multi-trillion projects around the globe. The objective of the book is to introduce China's idea in utilizing its soft power to maximize its global position.

This book provides a comprehensive review and analysis based on a wide range of sources from official documents, academics' views and studies, including Chinese materials. Coverage by three prominent political economists from different regions, it looks at the projects from different angles including the opportunities and threats in each mega project of the BRI. The book offers a comparative framework and the overall picture of the motive of BRI which has always been questioned by policy makers and debated as part of the political agenda.

Efforts are taken to make readers understand well with the review of actual progress in various projects. The concerns of these mega-projects by the recipient countries in different regions are also presented in an easier way for non-academicians to understand. Daniel Drache himself travelled to Ethiopia, one of the African countries to study on the use of BRI by China to extend its influence to Africa. This inevitably contributes to real cases and outlooks on the outcomes of the BRI projects itself.

Given the huge account surplus in China and the vision for economic growth and international trade, China sees the opportunities it could reap from the BRI projects where most of the least developed countries are in need of funding for national development. The book shows to the world the implementation of trade theory in pushing the Chinese economy and member countries beyond the production frontier. Upon completion, the BRI is expected to cover more than one third of world trade and GDP with over 60 per cent of the world's population.

The BRI has been criticized for governance matters in terms of the rule of law and transparency. The argument that there is no single set of regulatory

framework among BRI members has been always in the top list of the world agenda. This includes lending extended by the Chinese government through BRI projects to the least developed economies has been suspicious as these countries are categorized as high-risk lenders. The authors address the efforts taken by China to overcome such a situation in this book.

The book is divided into two parts: the first part takes the readers through the introduction of BRI and the problems and possible challenges that may prevent the success of BRI. Part I generally gives the introduction and the roles of the players in BRI projects. This begins with Chapter 1 presenting the ideas of President Xi Jinping in his vision to connect the world through trade and investments using infrastructure connectivity. It describes in detail the vision and mission for trade extension through infrastructure connectivity to connect Asia with Europe using both land and sea connectivity. BRI gives hopes to the developing countries to obtain funding to improve their economic conditions not only on infrastructure but also in terms of better electricity, water supplies, healthcare and environmental issues.

Next, Chapter 2 introduces and reviews the industrial parks, railways, hydro plants and digital belt and road given comprehensive examples from the Asia and Africa regions. This is followed by the roles played by the banking system including the policy banks, state-owned banks and the Asian Infrastructure Investment Bank (AIIB) in Chapter 3.

Part II goes into details China's idea to maximize its global influence and position using soft power. Soft power is viewed as the major tool to gain local recipients and communities acceptance through the concept of a win-win situation as deliberated in Chapter 4. Chapter 5 brings up the issue of governance in BRI which includes the arrangement of agreements between member countries, environmental issues, religious tension and its impact on domestic politics. Chapter 6 provides the direct and indirect impacts over the success of BRI. This is then followed by doubts on the success and the time for success on the BRI projects in the same chapter. Chapter 7 highlights the international and domestic factors that may delay the success of BRI. The progress and realization of benefits from current projects with member countries are discussed. The commitment of China to ensure gradual improvement in governance to change the global economic trend has been highlighted in the book.

The book ends with further questions and insights on the viability and sustainability of the BRI projects to the world. The authors highlighted the challenges given the criticisms of the BRI especially in terms of debt distress, corruption and contracts heavily weighted to China's benefits. It is found that member countries have started their footsteps to negotiate the terms of contracts especially in the Asian region. The level of corruption especially the issue of transparency could lead to failure of the BRI project.

I consider this book a good starting point for non-China specialists, China specialists and businesses to gain different perspectives and discover the opportunities that BRI could bring to different countries in different regions. The discussions covered by this book contributes to the starting point from the international trade, banking and finance as well as developmental economic research on the role of BRI in each field of study respectively.

The authors further open up the eyes of their readers with the new definition of soft power from China's perspective in spreading its influences to the world. This includes the emphatic ways of China looking into the needs for development of the least developed countries not only to improve the productivity of the recipient countries' economy but also improvement in quality of life and environmental issues.

Besides that, the author has carefully organized each chapter to provide insights into China's standing in the world. The book also furnishes the readers with deep thoughts over the opportunities by prognostication of the success of the BRI to China in terms of trade, investment, healthcare, political and environmental issues that could be addressed.

Despite the comprehensive narration on China's role and the BRI to the global economy, there is a lack of empirical evidence to further support the remarks given. Missing pieces of empirical evidence and the efficiency of the BRI projects weakly support the discussion in this book given the argument of the BRI to the recipient countries for economic development through infrastructure and digital connectivity. Evidence need to be established on costs and benefits of BRI to the host economies.

I wish for more empirical evidences on the sustainability of the banking institutions given the re-emergence of the role of banking and financial institutions in giving infrastructure and developmental projects. This may put the banking institutions into higher systemic risk. Therefore, the risk and return of the banking institutions over recent years are crucial as more than 130 countries around the globe are now closely link to China not only in mega-projects but also trade; failure of banking institutions may be the largest economic crisis that will paralyze the economic system of the world.

In addition, there is minimal discussion on country governances such as rule of law and control of corruption which has been the major concern of BRI. These include discussion on country governance and the efforts taken to improve country governance in the member countries. Country governance and institutional quality such as the rule of law, control of corruption, bureaucracy, quality of the government, democratic quality and business regulation are important components in the success of any investment. Therefore, the role does not only come from China to improve governance for the sustainability of BRI but each of the BRI country as well. The infrastructure connectivity and economic corridors are crucial for

the recipient countries' economic development, yet governance of the host countries does matter to internalize the benefits of the BRI. Giving more analysis on this matter could be beneficial for the readers to understand better on this emerging topic of the BRI.

Despite the comments above, I strongly recommend this book to the business society, policy makers and even a public that would like to know more on BRI. This book can help readers that would like to know more on the BRI and the economic impact it can create to the world.

Acknowledgement

This work was supported by UM Research Grant RP060A-17SBS.

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