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PAPER

Four International Relations Pillars: Europe, China, US and Russia Reshaping Roles

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Abstract Until one-two years ago, the world relations were based on the former long lasting stability established at the end of the Nineties, after the Balkans conflict. Then the advancement of competitiveness of China, the difficulties of European Union, the stormy winds of populism and nationalism, the new leadership at the White House of "America First" Donald Trump start changing the full scenario of the international relations quickly arriving to tensions and antagonism in technologic sectors and direct investments specifically with China.

The emergence of a systematic meddling of Russia in the US presidential election of two years ago; the assertiveness of Chinese expansionism in East Asia with the building up of artificial islands and military compounds into a number of reefs close to Philippines, Vietnam, Singapore, Taiwan, Indonesia and Brunei; the Syria war quagmire of violence and horrible internal and external butchery mainly by ISIL terrorism and internally against the despotic Assad's brutal dictatorship over his own citizens; the North Korea nuclear crisis: all these titles of a destabilizing world contributed to shape in less than 24 months a total different scenario of antagonism and fragility in the world order.

Even the positive Chinese farsighted and welcome program BRI called New Silk Road, extending investments and support to development to all the East, South Asia, Near East, Mediterranean, Eastern Europe and Africa - as an "Oriental" inspired historic "icon"- interpreting the more institutional BRI-Belt and Road Initiative, the ambitious China program of utmost importance for Central Asia, Caucasus, Black and Caspian Seas, the Mediterranean bordering countries but also the whole European Union and the Central-Eastern-Baltic part in particular, in the frame of a millenarian background of the relations between Europe and Asia, is losing its capability to balance the high stake of the disputes around the world and among the main players: Europe, China, US and Russia.

Keywords: Trade disputes; New players; Silk Road; Thucydides's trap.

JEL classification: B; P; Z

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Three Millennium of History

A heritage much deeper and long-lasting than generally assumed, even in the scientific community, quite often too much focusing on the last pages of a long and never-ending romance, not to talk of the protagonists of the new events and developments often unaware of the sense of analysing the past for a better forecast of the future. Since Alexander the Great, the Greek role, the Roman Empire, the Republic of Venice, the Byzantine Constantinople and then Ottoman Istanbul, had been for centuries outreach terminals of trade, diplomatic relations, investments from all of Europe to China, with recurrent wars but long enough seasons of relatively constructive civilization and international relation building up. Collateral projects such as the Eurasia Economic Union lead by Russia, still in the "doldrums" (as the ancient maritime language called the low-pressure areas, where the prevailing winds were calm, too calm to proceed sailing fast) and many less ambitious but concrete initiatives by the connected institutions and organizations will soon modify not only the Central Asian role but directly the Europe Union, China and USA strategies and programs, in other words the international world order and its crucial developments.

This paper intends to propose an indispensable historical background to the ongoing new initiative, finding some robust correlations with the recent theories of International Relations and focusing on data to support the assumptions of the New Silk Road forecast and outlook both in terms of economic, trade, infrastructure, defence multilateral cooperation and 2030-2050 developments outlook. In relative terms, the past has brought a high-profile heritage to the entire European-Asian world and to China in primis. The "progress" and new discoveries have enlightened the world and imposed the reassessment of international relations, economy, finance, technology, military mighty, alliances and conflicts of interests.

The paper states and motivates the reasons why the era of the nationalistic, unilateral, populist policies, obsolete past structuralism - even more now as in presence of military mighty exhibits and enforcing, apparently gaining again ground in front of liberalism, reforms and sound trend to democracy-, has in fact definitively entered in the "sunset boulevard", the older ageing season, because the great failures accumulated in the last century (and even now in our contemporary age) are too much resulting in multiple crashes of theories and practices in International Relations but not at the end of the game in economics, finance, environment, new technology and investments. That is why we should better think beyond the blocs and the regime of permanent "cold war" as salvific, when in fact they were showing to be failing from all points of view. Not because of the will of "nations" but due to the pressure, the interference of economy, trade, investments, markets and first of all the geostrategic conditionality.

At the end, the pressure of very innovative defence technologies diffusion - where the continuous advancements are pushing the leading countries towards a neverending race, in an environment of scientific new generation weaponries, on earth and in the outer space - all these factors show to experts and specialized research centres an increasing, sophisticated differential among single powers than in the past (IISS Military Balance, 2017; SIPRI Yearbook, 2017). In other words, the most advanced innovative and high-tech actors are progressing in relative terms quicker than the followers. In an imaginative version, as in hunting, has a wild hare ever been reached by the dogs? Hardly ever.

New/Neo Theories and the Need for More Advanced Assumptions

This is the crucial point in Political Science or International Relations of the many "new" or "neo" theories trying to be only a transformist attempt to make "change everything so that nothing changes". We have relevant examples on stage and in presence of populistic and, illiberal thinking diffusing dangerously. The paper considers the contributions by Kenneth Waltz (1924-2013) - in fact the intellectual "father" of the most relevant works on neorealism, the mastermind of the theories accompanying "de facto" his precious contributions to the International Relations - who left a heritage of main works and researches in almost half a century, starting with "Theory of International Politics"(1959), a cornerstone introduction of neo-realism, a kind of post "realism" re-formulation and revision of the approach and theories supported by Hans Morgenthau in his "Politics Among Nations: The Struggle for Power and Peace" in 1948, when the world was divided in two blocks and a dramatic confrontation was building up. The change is on the way also now. The NSE - New Structural of Economy had been Professor Justin Yifu Lin's key remarks in a recent conference in Duisburg University and the contents of his last 2016 book "Going Beyond Aid: Development Cooperation for Structural Transformation" has really a great value added. As for realism and neo-realism, the former structuralism was in fact not only antagonist but even dangerous as hiding sometimes attempts to restauration of old failure political systems and statehood.

China March to West and Europe March to East

Literature is already wide on these perspectives. I would say that the book I am quoting, "China March to West" by Peter C. Perdue, inspires to me as a seduction but with rationality at the same time. The Author promises in his incipit: "China Marches West" is a tour de force that will fundamentally alter the way we understand Central Eurasia". I want to propose again some references to before mentioned aspects. "From about 1600 to 1800 – the Author continues - the Qing Empire of China expanded to unprecedented size. Through astute diplomacy, economic investment, and a series of ambitious military campaigns into the heart of Central Eurasia - wrote Perdue - the Manchu rulers defeated the Zunghar Mongols, and brought all of modern Xinjiang and Mongolia under their control, while gaining dominant influence in Tibet and in all Eastern Central Asia". (Perdue, 2005). We are talking of course of almost three-four hundred years ago. And the Author shows a neo-realistic approach to International Relations that is a bit static while those theories are very often not applicable to contemporary global governance and security issues.

Europe has been and will always be looking to the East in its history and really intensively with the European Union, on the fresh wind of the impressive events of the German reunification and the following openness of the policies of enlargement and further fair integration to the East, where Russia attitudes shifted back becoming not as clear as they were in the immediate post FSU “spring” beginning of the new post-soviet era. Remembering then the mentioned title of Perdue’s book, we could write that even so “Europe Looks East”, a really historic multipolar East as we have seen before, ending on the Pacific and Indian Ocean but passing as well through Central Asia, Middle East, Black and Caspian Sea up to Mediterranean and Baltic regions, where Russia is one of the players but together with fast growing surrounding main new actors and certainly not the first power as shown in the war movies of military drills style.

On the West side, if US President Trump’s policies will let us understand whether chatting will be substituted by strategies - as old fashion and populist ideas have been often flooding rather than analysis and strategies - we could be more confident in positive results for all the international community. Any further sound of drums and twitters showing nationalist drifts, skirmishes and antagonism among US or China or Russia or Japan or Europe, or India could have rather unpredictable developments and might compromise the final results and also affect negatively the New Silk Road/BRI. To containing and reducing pressures on this Asia-Pacific and TransAtlantic issues represents the best strategy in order to bring benefits to all the involved parties. The same could be applied for the Middle East, Africa, Latin America and Southeast Asia.

Heritage and Historic Factors of Partnership

The heritage is the composite accumulation of history and basic factors of economy, trade, scientific progress, culture and faiths, international relations, wars and peace among nations and regions. The future is the “cluster and drivers” of factors that might determine a set of scenarios and developments, some well-founded and widely debated but others assuming the character of unexpected outcomes.

We discussed encouraging aims and scopes, projects, investment feasibilities, possible geopolitical value added perspectives in the longer run, when this initiative will oblige the main players of international policy, investors and banks, regional actors like the European Union, China and East Asia, USA, Russia, ASEAN to compete more intensively in Central Asia. Collateral projects such as the EEU-Eurasia Economic Union lead by Russia (EU ISS, Chaillot Papers, 2014) are still in the “doldrums”, as I defined before in the abstract, while many less ambitious but concrete initiatives lead by connected institutions and organizations will soon increase not only the Central Asia role but directly the Europe Union, China and USA strategies and programs, in other words the international new world order and its crucial developments .

How were the great Central Asia, Persia and India bordering kingdoms in the almost 2500 years past history? I present to you a view from ancient history and I leave aside the modern time. And what about Europe’s contacts with China? Which heritage are we talking about? Since Alexander the Great, the Greek role, the Roman Empire, the Republic of Venice, the Byzantine Constantinople and then Ottoman Istanbul, with recurrent wars but long enough seasons of relatively constructive civilization and international relation building up had been for centuries outreach terminals of trade, diplomatic relations, investments from all Europe to China up today, with the New Silk Road (UNESCO Intangible Cultural Heritage of Humanity, 2017).

Global Governance is the Challenge of the Current Century

Already in BC time and then in all the AD times up to now, the concept of global governance existed in different forms of course in the known world and with the limits of the lack of recent centuries' scientific advancements never even imagined, amazing technologies, with an industrial revolution still ongoing. Infrastructures, economic growth, finance strategies and practices must continuously be implemented and reshaped in order to keeping competitive and growth paths.

With all the implications of the geometric expansion of military capabilities, in relative terms, the past has brought a high profile heritage to the entire European and Asian world and to China in primis. The "progress" and new discoveries have enlightened the world and imposed the reassessment of international relations, economy, finance, technology, military mighty, alliances and conflicts of interests. The absolute peace in some way has been an ethic value to be pursued but only in a permanent "estote parati" prerequisite, as the "irenistic" attitudes might unfortunately always give rise to fatal conflicts.

Not to find refuge only into the IR theories of realism and neo-realism is a farsighted approach to the future even if understandable how easy it was and it is to simplify the international relations in a world of sovereign states. But now we face the transnational world and the International Relations theories and practices must be reshaped. The era of the nationalistic, unilateral, populist policies, or obsolete structuralism, even more if accompanied by military exhibits enforcing, has "de facto" definitively entered the "sunset boulevard". It's true, we are facing a diffused perception and the provocative exhibits almost every day of the opposite. But let years to come show and restore the really long lasting tracks and trends, because the great failures accumulated in the last XX century (and even now in our contemporary early age of the XXI experiences as in Syria, Iraq, ISIL, North Africa), had been pushing the developed countries to de facto global wars and unpredictable conflicts, with high tolls of millions victims and biblical waves of refugees destabilizing the world. Have we to assist to new tragedies or go back to face again the already known lessons of history? We must admit, time has come to move in an opposite direction. And we need remember the unforgettable warning for the future launched, almost seventy years ago, by an intellectual who was a direct testimonial of the abys of inhumanity, the annus horribilis and the holocaust in the past Century (Hanna Arendt, (1951), "The Origins of Totalitarianism /Elemente und Ursprünge totaler Herrschaft". This is why we better start think beyond the blocs and the regime of permanent "cold war" presented as salvific when in fact it had shown to be a failure of International Relations from all points of view; a not sustainable financial burden for the public policies and economies around the world; any advantages or rewards but only devastation and crimes against humanity accountability; weakening United Nations to the point to transform the idealistic "crystal" symbol into an impossible institution for action and initiatives, good for moral suasion but not for any kind of governance. The lonely single powers risk soon or later to facing this bitter reality and fall victim themselves into a fatal trap syndrome of irrational militarism and internal set back that will leave them alone or aside. This is the destabilizing effect of slowing growth, weak civil society, cooling reforms, close economies, trade barriers, marginal welfare, collapsing environment, populist drift, with too high stakes assumed at international level and a lack of enlighten political and historic vision.

Multilateralism, regional strategic approaches, inclusiveness cannot then be left simply to the good will and the sweet hearts or generosity of the single countries and leaderships. Robert Jackson and Georg Sørensen, in their classic but innovative textbook" Introduction to International Relations Theories and Approaches", offered an open window on the many spin-off of approaches, traditional theories and new tentative innovative frames looking to the new world governance scenario and the IR available attempts to include the future landscape with the already known different school of thinking (Jackson and Sørensen, 2016). We just said that the differential in strategic mighty among the main powers is not narrowing but enlarging more and more. Paradoxically, this situation is the most effective and credible dissuasion against devastating global wars risks the world might experience again. That is why I rather prefer to be involved within the work-in-progress "constructivism" attempts to develop new paradigmatic frameworks, institutions and projects combining the national interests with the global governance.

New Theories, Past World and More Pragmatic Approach to IR

The New Silk Road project had appeared in the beginning a constructive attempt of new forms to shaping international relations and governance. But the results will come in the medium-long run while the possible cohabitation of national interests with a new push towards international opening and competiveness in growth is a new season of "wealth of nations". But "new" or "neo" have to be build up with the willingness to abandoning the past theories and doctrines if obsolete, as the simply change of the name cannot be a new drive but simply a camouflage to bringing back the reforms and openness uprising also in emerging and emerged countries. In some aspects, also China, India, Latin America, Middle East, Central Asia, not to talk of millennialist Russia, might become suffering a restorative temptation of old empires times. In all the countries there are nostalgic of the "old order" and they represent the enemies of any new development. It happens for theoretic approach as well as in the practice of daily governance. Competition and multipolar policies outside a shared frame and background of convergent, main strategies and rules cannot really produce the desired results in any part of the globe if not new conflicts and again possible terrific wars.

I partially share the deep conceptual results of Professor Richard Ashley's critical arguments and analysis on the neo-realism and his very assertive contribution. We have to quote again, as I had already mentioned in the introduction, Kenneth Waltz (1924-2013), in fact the intellectual "father" of the most relevant works on neorealism, the mastermind of the theories accompanying "de facto" his precious contributions to the International Relations, left main works and researches in almost half a century, starting with "Theory of International Politics" (Waltz, 1959), a cornerstone introduction of neo-realism, a kind of post "realism" re-formulation and revision of the vision and theories supported by Hans Morgenthau in his "Politics Among Nations: The Struggle for Power and Peace" (Morgenthau, 1948), when the world was divided in two blocks and hot confrontation was building up.

Richard K. Ashley, Arizona State University, School of Politics & Global Studies, stands out 25 years later with a massive scientific work on the "The poverty of neorealism" (Ashley, 1984), where he really analyzed in depth realism and neorealism in a profound and severe confrontation. "Speaking of a neorealism movement - he wrote - it is necessary to confront several issues. First, the name "neorealism" is not universally recognized by those I am calling neo-realists. Some no doubt assume that their work reflects no larger movement or trend they themselves did not consciously set into motion; they thus reject the application of general labels to their own work. Second, I recognize that the scholars here regarded as neorealist have many serious differences and quarrels among themselves. Third, I stress that my treatment here is with respect to the structure of an overall movement in its context and not the expressed pronouncements or conscious intentions of individual scholars whose work sometimes may, and sometimes may not, contribute to that movement".

A reference must be made to the essay by Robert Keohane "Neorealism and Its Critics"; "After Hegemony: Cooperation and Discord in the World Political Economy" for the openness of his comments and attempts to keep together scholars and experts of divergent theories and inspired by purely semantic disputes (Keohane, 1986 and 1984).2005). Of course Professor Ashley's contribution ignited fierce polemics and criticism. He had already taken into account this reaction in advance and dedicated a conclusive part of his main work to a preventive, very intense and intellectually substantiated answer. "In my defense, let me say that I am driven to these lengths by a combination of concern and hope. My concern is that, amidst the wrenching of economic, social, and epistemic crisis, social scientists who study international relations will mistake neorealism's anti-critical closure for a much needed pillar of certainty, security and, most of all, collective understanding. I am concerned - he underlined - that the faculties that above all distinguish science from non-science and practice the reflective exercise of criticism might being deadened at just the time when their potential is most needed and most likely to burst forth. I am concerned that, as a result, the scientific study of international politics in the United States is gravitating toward a reactionary pole rather than involving itself in the expansion of the field of political discourse and, with it, opportunities for the creative evolution of world society. And I am especially concerned about graduate students and younger scholars who are told to think critically and creatively but whose freedom to think critically in public depends, to a very considerable degree, upon their linking their accomplishments to collectively recognized foundations. Insofar as neorealist lore comes to occupy the collectively recognized foundations of the discipline, the urging of criticism-consciousness can only be a cruel hoax".

These issues inspired me to dedicate as I said before to the "constructivism" theories in International Relations, a provocative undertaking good enough to waken up the dormant international debate on international studies, European Union specific case of effective "non-statehood" and even United Kingdom choosing to going back to the past but in a total different situation and relative ranking of the Country worldwide.

"Constructivism: an Introduction" by Maysam Behravesh, Department of Political Science at Lund University, Sweden, offered a quite comprehensive abstract of the landscape around the new approach (Behravesh, 2011). Constructivism is a structural theory of the international system that makes the following core claims: (1) states are the principal units of analysis for international political theory; (2) the key structures in the states system are intersubjective rather than material; and (3) state identities and interests are in an important part constructed by these social structures, rather than given exogenously to the system by human nature [as (neo)realists maintain] or domestic politics [as neoliberals favour] (2011). Constructivist theory emerged in the mid-1990s as a serious challenge to the dominant realist and liberal theoretical paradigms.

Quoting mainly from the Lund University researcher references and literature: "The theory was not popularized until Alexander Wendt 1992 (a direct challenge to neorealism) and Katzenstein 1996 made it a staple of international relations (IR) syllabi around the world. The theory's relatively recent arrival on the scene makes a constructivist canon somewhat harder to identify and makes the inclusion or exclusion of particular sources in this bibliography a potentially much greater source of contention than in the articles on realism and liberalism. M.E. Sharpe produced an outstanding and comprehensive series on constructivism titled International Relations in a Constructed World. In that series Kubálková 1998 provides a general overview of constructivist theory. Klotz and Lynch 2007 published an extraordinarily useful volume about doing research using constructivist theory, which anyone using constructivism as the basis for their research should read. Fierke and Jørgensen 2001 focuses on the second wave of constructivist scholars and those scholars' takes on earlier constructivist scholarship. Debrix 2003 has a more narrow focus on the role of discourse in international relations (IR). In addition to the M.E. Sharpe volumes, Adler 1997 and Guzzini 2000 provided article-length overviews of constructivism. Adler focuses on how it fits into the wider IR theoretical context, and Guzzini deconstructs constructivism for the reader and attempts to build it back up in an instructive way. For the simplest explanation of constructivism, see Snyder 2004, which provides brief summaries of realism, liberalism, and constructivism and compares and contrasts them for the reader. Snyder's article is the easiest article to understand".

A choice representing rather a high stake in the present recurrent debate on theories of international relations, where realism and neo-realism seem to appear the fatal, never changing, unique possible approach to global governance. A really blind attitude from the scientific and research point of view. As colleagues and scholars don't take enough into consideration the completely new landscape of the economic structure, financial role, highly innovative deterrence in the arsenals, policy choices and new multilateral conditionality, I am always trying to take these factors into account and attribute utmost relevance to them. We talked before about heritage and its great push forwards a never-ending change in history and world system. The change is on the way also now, in the moment in which we are debating and discussing, even if the scenario seems foggy and compromised by populism and nationalism apparent irresistible rise. The NSE - New Structural of Economy had been Professor Justin Yifu Lin's scientific contribution in the last ten years. But there is a crucial point in Political Science and International Relations: too many “new” or “neo” theories risking to falling into a transformist attempt to make “change everything so that nothing changes”. It’s not the case of Professor Justin Yifu Lin, former Vice President of the World Bank, distinguish professor and honorary Dean of the National School of Development at Peking University, who is proposing his brand new “neo-structuralism” not only with reference to Asia and China governance but to all the world developing countries assuming their growing leading role in the future and then enlarging the horizon to the global policies and practices. His last book in fact has a very indicative title: “Going Beyond Aid: Development Cooperation for Structural Transformation” (YiFu Lin, 2016). The book has a focus on the “win-win” solutions and structural reforms in the developing countries. “Studying the successful economic transformation of countries such as China and South Korea through ‘multiple win’ solutions, based on comparative advantages and economy of scale, wrote the Author on the introduction, and presenting new ideas and different perspectives from emerging market economies such as Brazil, India and other BRICS countries”.

The World in Transition is Global

I have considered a large number of files with readings, fact sheets, reports, data and background information. My focus on heritage derives from the assumption that “history is not water” and leaves permanent signs and imprinting to countries, inhabitants, all citizens. I propose and invite you to update and refurbish continuously the “common ground” of the heritage vision and lessons impact referring to present situations and not to remote past. A good map it’s for sure coming from theoretic and intellectual fundamental contributions to governance and IR studies as Anne-Marie Slaughter did in her “International Relations, Principal Theories”. (Slaugther, 2011)

Now I have to come directly to the future ahead, to the outlook 2030 or 2050 of the New Silk Road, Central Asia and Eurasia. As you can perceive, the future is promising; all the indispensable actors are more and more involved; the transition and the complexity that it determines appear quite clear before our eyes, in Europe as in China, in the USA as in Russia, in the Pacific as in the Atlantic regions. But incredible to say, some of the main players are now feeling this assumption bringing under discussion their roles and the future as if the developments should have for main powers and emerging new players in a sort of fear to downgrading, of a too binding multilateralism, in a word of losing power.

Scientifically we observe less and less national states roles, even among the really superpowers as wide partnerships, regional alliances, multilateral organisations advance, compete and challenge for better governance, security and growth. But not in the framework of the old fashion “universalistic” and a bit utopian approach, with a unique formal common house of world institutions, the United Nations, in presence of a Security Council hand made in Yalta, with diversified rights and vetoes power of the five winners on the all the other ten rotation members. Nevertheless, the alternative for really new decisional formats, innovative levels of common interests, strategies and shared policies to pursue advanced, sophisticated international aims and scope are still lacking or advancing too slowly.

European Union for sure belongs to the antagonist front of this restoration of the XX Century. China as well had recently stated at the highest level that global approach, inclusiveness and regional multilateralism are the requirements for the future international order giving continuity to the growth and development of all parts of the world most suffering and weighed in terms of poverty, human and social drama due to the absence of tangible prospects and openness to opportunities, trade, investments and infrastructures.

A transition still not clearly perceived and adequately addressed even by the most influential players. Several reasons and domestic political forces seem to want to restore old-growth nationalist and populist views, erecting barriers and foreclosures to the free movement of people, trade and investments. The nineteenth century and the restoration of the last century had been not only anachronistic but a harbinger of possible scenarios of increasingly acute conflicts, in the absence of a credible counterweight to the isolationist temptations and ethnic-religious antagonism, even in the heart the liberal and democratic system. Wondering the reality of the global world dimension and supporting ideologies and denial policies or building walls and fueling contrasts so similar to the dark eras of racism, colonialism, dictatorships and regimes based on the division and collision among powers, all these reactionary temptations and irresponsible strategies must be contrasted and rejected in the name of the civilization and the transnational cultures we have in our roots and millenarian heritage.

Restorative Attempts of the Old Nationalism Will Fail

In a world that is now irreversibly changed into a reality still magmatic - but in any case driven by the third technological revolution of the modern history, by innovative, cultural, environmental and social repercussions that shakes all continents and really represents hope for all of humanity - what is happening is likely to become an antagonistic and restorative attempt to turn the clock back, with unpredictable political and economic opportunities.

The risk of a second Cold War is already palpable in Europe, where there are questions about appropriate responses to oppose the current drift in international relations. Recently, creeping transatlantic tensions emerged just as an unexpected and alarming symbol with the aggressively menaces of Russia towards the EU borders, from Baltics to the Black Sea, with an operative militarism deployed from the Arctic to the Mediterranean and the Middle East. The conflicts and horrible tragedies with Islamic terrorism and civil war in Syria have destabilized in these recent years the entire region, with direct repercussions in Europe, as I mentioned before through waves of terrorism and wild migrations, with the reminiscent of biblical escaping and the several holocausts just in the last century. To the fatigue of dialogue and detente we have seen now added the winds of the national-populist in America and in Europe syndrome, as the tensions in East and South East Asia will add up the confrontation with national sovereignty. The commitment to farsighted policies and the choice of the negotiations instead then the statements when negotiating policies will make profitable and safe relations among countries from Japan to China and now also India becoming an international actor of first magnitude towards the entire Pacific scenario. The role of Europe and China becomes even more essential and decisive to building up a new international scenario open to globalization and change as before mentioned.

But in any case we have to consider that European Union and China have confirmed the past commitment even if they introduced some "different" approaches on the foreign policies and in the South China Sea.

Silk Road Multiplicity

The debate on the New Silk Road, looking like a fresh initiative starting from the pragmatic assumptions that there are two main belts:

a) the maritime classic "road" touching the East Asia Sea, the Indian Ocean, the Persian and Red Sea spreading out via the Suez Channel to the connectivity hub with the big Mediterranean common "lake", a good example of successful settlement of navigations disputes, by the way;
b) on the other side, the traditional land route well known by Alexander the Great, Roman Emperors, Marco Polo and the Ottoman Sultans through Central Asia, the Caucasus, the Mediterranean, Southern and Central Europe up to Baltic Europe, with the integration of the spin-off to Russia as a corridor existing since the previous Century but in my view without the potentiality of the New Silk Road requirements, preconditions and targets.

An update on the BRI-New Silk Road had been done at the last recent Davos Forum, where a round table had updated the positive results until no achieved and the optimistic perspective ahead. (The BRI-Belt and Road Initiative impact, World Economic Forum 2018). The same attitudes had been expressed by Chinese experts and high ranking researchers, like Liu Youfa, Shanghai Institute for International Studies, in his recent interview "Riding the Silk Road: China's promises", 2017.

The implications are not simply infrastructures, great investments, environment, trade, the new AIIA Bank in Beijing widely endorsed by almost all the world crucial countries, border-crossing agreements, higher education and human capital increase, just to mention key factors. In fact, these are the new settings of the reshaped international relations among the main powers, the emerging ones and the long queue of new actors already crucial and competing fiercely in the waiting list. Just observe how the Bologna Process has identified a common ground for higher education and university cooperation. Again history "docet" and Central Asia is a specific case. We cannot underestimate the diffidence of these countries from Kazakhstan to the Black and Caspian Seas for too much binding international cooperation proposals. As well we cannot predict the South China Sea disputes outcomes and the future of the Korean situation as well as the Taiwan choice until now not to become part of the "One China", at least as integrated national part. All destabilizing issues if not faced with appropriate fine diplomatic and security tuning. A map of the results achieved until now by the BRI-New Silk Road are showing lights and still some shadows. But how could be in a different way if the results are already remarkable and other projects would be soon relaunched also with the support of the collateral support of a fan of

Chinese institutions and bodies as the State International Development Cooperation Agency-SIDCA activated in April 2018.

Europe Looks to Asia

Europe has been in its history and will be always looking to the East even more intensively with the European Union, celebrating this year the 60th Anniversary of the Treaty of Rome. On the fresh wind of the big events of the German reunification and the openness of the policies of enlargement and further fair integration to East, where the attitudes of Russia shifted back and are not as fair as they were in the immediate post FSU beginning of the past, in the Treaty of Helsinki, in the dialogue of NATO with Moscow, now even reawakening the spectrum of a destabilizing strategy in the Southeaster Europe after the aggressive role in Ukraine conflict and in Crimea annexation.

"Europe Looks East" a really historic multipolar East, as we have seen before, ending on the Pacific, Indian Ocean but passing through Central Asia, Middle East, Black and Caspian Sea regions, where Russia is one of the players but together with other fast growing main actors. Propaganda is rather poisoning public opinion than informing it. We Europeans learnt this dramatically and we will never be tempted again. Now we observe on the spot mainly the military dynamics and the shadow rumours coming of a kind of second Cold War as I before mentioned. We have to be ready to confront firmly this intellectual menace. A development to be considered as being very negative if the geopolitical situation does not enter soon into a dialogue and a diplomatic channel of appeasement. The absence of a "détente", in fact, will seriously disturb the best results desired by the European Union and its NATO military collateral pillar. I guess the same questions might rise and more attentively evaluated in China, for the unpredictable implications of these tensions and the military build-up ongoing in the world on vital foreign relations, economic, financial and investment projects from a multipolar point of view too.

What about Russia? If we should prepare a good title for the book of the great Russia, the largest country of the world, with its impressive dimension but few inhabitants - less than 150 million, 77% in the European part and only 6 millions in the Far East - following the Perdue style, we should write paradoxically "Russia Looks South". In fact, Russia's influential non-governmental Council on Foreign and Defence Policy stated recently, in a rather nostalgic way, that "economically, but also mentally, Russia should not be the Eastern periphery of Europe, but the Northern part of enormous Eurasia".

But I wonder: would the Eurasian countries and other main regional players really accept this strategy? Could EU and China simply assist to attempts of destabilising the crucial regions of Eurasia and Central Asia already affected by evolutionary long term events and complexity in governance? The European Union first of all, even if facing the Brexit concrete possible negative fate for UK follow-ups, had shown to be capable to manage the refugees crisis in Syria and North Africa, not as in the past staying at the window but implementing policies and actions. The impact on the last four years events and the terroristic attacks also in France, Germany and UK in any case had changed deeply the attitudes and the strategies in government and public opinions. Not to forget the war in Ukraine and the pending Crimea fate after annexation. But also recent statements of Chinese leading representatives on Taiwan and its independent statute assumed as untouchable both by US and EU are growing the tensions already high in the South East Asia.

A reason more not to afford superficially the complex geopolitical situation in all the Eurasian continent. As the dark perspective insinuated by Graham Allison, Director of Harvard Kennedy School's Belfer Center for Science and International Affairs and the bestselling author of his essay "Destined for War: Can America and China escape Thucydides's Trap?" must be considered less utopian and more politically alerting the antagonism of the two major economies and power worldwide.

China Eastern Asia Future Approach

China as well must be aware of the changing attitudes towards former not so critical issues. To use a paradigmatic scenario, the South and East China Sea dispute over the islands and the freedom of navigation must soon turn into a negotiation process. The positive steps on the backstage might bring to a general ASEAN/international framework agreement for the global dimension of the interests, the rights at stake and at the same time to specific bilateral formal agreements to take in the near future the format of real "state treaties", in the ways and the forms China will agree with the involved countries, more or less all the East Asian countries, on the base of the "freedom of navigation" indispensable acknowledgement.

The relations with US remains in any case a vital reciprocal need for both the Pacific powers, with the implication of the already high threatens present north-eastern Asia and waiting to see the developments of the Korea peninsula strategic and diplomatic follow ups to the recent positive top leaders of the two countries meeting in the border remembering the war and not yet enough the "one nation" as they said to have in the perspective ahead.

The last development, in fact, had been a kind of unexpected "rainbow" but the inspirer of the "coup de theatre" seems to have been aware of the "national" reconciliation itinerary that might characterize the two Koreas in the future if really a great Peace Treaty and denuclearization pact would be signed by the 2020. China and US are careful to avoid surprise or underestimation but at the end the diplomatic process has been activated.

The quite touchy "cahiers de doléances" in East Asia should be closed soon for the benefit of the more general security policies in the whole of the Asia-Pacific region. In diplomatic terms, the election of the of leadership in democracies are producing a different drive in key points of governance and specifically on the hot issues of foreign policy, a change that might be for better or for worse, depending on the winner. The case of US is rather peculiar and unprecedented. So we have to wait and see which will be the outcomes of the White House polices and strategies at the conclusion of this presidency mandate. The evidence is that we will see still many smoke signs at the horizon and random doses of cheap populism and antagonism with unexpected choices. But the American democracy, values of liberal trust, multi-ethnicity and "exceptionalism" will hardly leave in the medium term any room to a real changing of its historic identity and fundamental values. Even so the downgrading of relation with China had been signed by a trade dispute assuming months after months the tune of a typical trade war, usually eroding the fairness in international relations to all the contending parties and countries.

As before mentioned, specific consolidated data and detailed analyses on the economic, financial, environmental, technology, infrastructural and higher education developments in Central Asia, Caucasus, Near East, Central and Eastern Europe, Mediterranean, South Asia - the great regions applicable to the still very recent New Silk Road/BRI strategies and investments - are not yet available and we can just evaluate from the half picture we can observe now. We already know the basic trends emerging from existing data and forecasts: the EU and China will continue to increase their influence in the region, with Russia aside and still expecting further developments after the military intervention in Syria conflict to support Assad's regime. By the way, data shows Russia deluding share in value added trade and investments trends more or less with all the Central Asian countries, apart from personal remittance relevant figures. US as well had seen a reduction from the previous ranking data.

European Union and China are increasing their share on the global flows and stocks trade and FDI's to and from Central Asia even in these difficult years for the world economy and finance. More than this, China has a number of new platforms of international cooperation, like the CEEC 16+1 involving the Central Asian leaderships and major decision making protagonists, as well as those in the Caucasus and Black Sea region. There are great expectations of much higher developments with the two major external players in their own economy, environment and productive sectors as the Soviet era, in real terms, still negatively affects the attitudes, policies and tensions in the wide region. And the still lacking clear concrete really great numbers in the Silk Road-BRI may diffuse some wonderings on the span and horizons of the Chinese really challenging programs. But one thing is clear: for China, this is a pillar of the future foreign policy and economic-investment cooperation and in any case the results must be measured in the long run as based on investments and infrastructures not in a short term perspective.

The political aspects in any case are showing some dual attitudes of the EU and China. While on economic and Investments relations are moving on in a positive trend is in the foreign policy that clouds are at the horizon. South Sea tensions are reaching a too warm stage to be simply left aside, as it had been signaled by the G7 meeting recently convened in Toronto, Canada. In the last April 23 2018 joint communique released by foreign ministers from seven advanced economies that form the Group of Seven (G7) - Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States – the ministers expressed concern over the long-standing maritime row in the South China Sea, one of the issues they discussed in a meeting. The European Union was also represented in the meeting. "We reiterate our strong opposition to any unilateral actions that escalate tensions and undermine regional stability and the international rules-based order, such as the threat or use of force, large-scale land reclamation and building of outposts, as well as their use for military purposes," the G7 foreign ministers said".

They concluded saying that "diplomatic efforts should lead to demilitarization of disputed features" in the South China Sea. "We ask the relevant countries to respect facts, especially when it comes to maritime issues. They should also respect the efforts made by regional countries to uphold stability while focusing on cooperation and development, and refrain from stirring up troubles and making irresponsible remarks," Foreign Ministry Spokesperson Lu Kang said in a media briefing in Beijing Wednesday. It seems quite evident that in absence of a diplomatic solution and in front of growing military Chinese installation developments in the contended island and in absence of more diplomatic understanding tensions with the international community and with European Union will fatally grow, as its economic and strategic relations with the countries of the regions, at odds in the present controversial situation for the islands dispute and growing military relevance at global level. Never the less EU had not exasperated until now the scrambling of reciprocal very sharp statements, as the efforts are still done in the search of a more flexible diplomatic approach.

Last Bitter Cup

Last bitter cup to be drunk before concluding: Middle East is the real "conundrum" for the whole international community. The only point of reference in the region as a future player of stability is paradoxically Turkey - specifically after the failed domestic military coup, a failure that represents a sign of stability in the present situation - as it could become an accepted point of reference of a general settlement for all the parties at odds.

Day after day the need of an urgent commitment by the main powers to end definitively horrible civil war in Syria, with millions of refugees and innocent victims; to overcome the ethnic clashing in Iraq; to defeat the terroristic destabilization caused by the barbaric ISIL; to cease the fighting in all the theatres of conflicts in the Middle East, in Libya and in several countries of Africa; to search for a real negotiated solution for the conflict in Ukraine and the Crimea annexation; to avoid that the tension in Palestine and the pending Iran incumbent role in the Middle East region are keeping higher the incertitude. It's true that Russia presence aside Assad's regime is out of discussion but is not sure if this will be a value added for solution of reason for more instability and prolonged conflicts in Middle East. The same nuclear deal with Iran on nuclear status seems under evaluation in US for possible renegotiation but in absence of convergent views with the European Union and NATO most influent member countries. The cooling down process paving the way to reaching a sustainable, definitive conclusion of the conflicts in these strategic crucial regions must be assumed as a conditionality also for China and the New Silk Road success.

Conclusion

If the New Silk Road will be successful in the next decades, it means that many of the interrelated international negative factors would be already removed or on in the way to be resolved. A quick look to the summarized outlook of the situation of the economic relations, investments and other crucial indicators in Central Asia and Middle East will immediately show the conditionality of what this paper can assume in the present still fluid scenario. Whenever a pacification endeavour in the political and economic scenario will really be granted in all the regions affected by these destabilizing events, the results could be achieved.

European Union and China should take formal and visible political steps to push forward the process and the appropriate international consensus for the "game over" to all the parties responsible of the disaster of these last five years. As the pre-conditions of the absence of conflicts for a settlement of the millions of migrants and refugees will avoid a worst scenario of never ending revenge and hastily toward the international community. Where US and Russia didn't reach yet the really strategic targets, EU and China can favour the best conditions and the effectiveness of measures, policies, diplomatic deals and funding of projects in the Central Asia Region, the Middle East, the Persian Gulf and Indian Ocean destabilizing tensions, even supporting the East Africa aims of development.

A fresh upgrade of infrastructures and economies, an appropriate flows of resources from Europe and China might in the medium term normalize many of events in these focal regions. Central Asia is in fact the magic place where these events might be conceived and take place sooner than anywhere in different parts of the world, as we have seen the heritage history and the permanent factors of cultural and political relevance pushing in this direction. By the 2018-2019 we will see in which direction the international situation would move and how beneficial the new initiatives of cooperation and partnership will really move up and might bring the so-much-wait turning point in the all "one" Eurasian continent.

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PAPER

Macroeconomic Populism The Baltic Current Accounts

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Abstract The outstanding growth and the sudden stop of the Baltic economies in the 2000s arose the assumption that their textbook-like and disciplined economic policy had actually an expansionary and overheating impact on economic growth. A reinterpreted theory of political economy was assigned to this phenomenon. It is called macroeconomic populism. The following study tests the link between the current account imbalance and the real effective exchange rate. The methodology is an OLS regression analysis on current account balance including real effective exchange rate based on both HICP and unit labor cost. The hypothesis is that the real effective exchange rate has a significant impact on the current account balance. The results are significant and exclude autocorrelation. If the results are placed in the Baltic economic context, it can be concluded that the macroeconomic populism can be detected in the Baltic region.

Keywords: Baltic states; external imbalance; macroeconomic populism; real effective exchange rate; current account.

JEL classification: F32; F36; F41; G01

1. Introduction

The economic story of emerging Baltic countries seemed to be a success before 2007:small open economies with sustainable and low public debt, 5.11% permanent annual GDP growth rate, accession to the EU, and getting rid of the Soviet economic heritage. According to Benczes (2016), the transition economies had to cancel the laws of shortage economy, and create market economy by privatization, capital assets, fiscal and external balancing, and reform of the social services. Concerning the erosion of European growth potential, Halmai (2014) argued that while the growth potential of the USA was only temporarily hit by the global economic crisis in 2009, it made a durable negative impact for the euro zone. This analysis included the less developed EU member states. This region, too, has suffered long-term damage in their potential output capabilities as a result of the world economic and the European crisis. In the followings, we focus on the explanation of these damages in context of the Baltic case.

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The region seems to have been very disciplined in fiscal and monetary sense since they became independent. In the first half of 2000s they even produced a boosting economic growth and significant real convergence to the higher developed EU members. The region has proved to be attractive for capital investment. However, economic analyses have projected some structural problems in their external (im)balances. These countries with balanced policies suffered a sudden stop in 2007 which was even strengthened by the global crisis. If fiscal balance, debt sustainability and fixed exchange rate are secured, what else can undermine the growth potential? Behind the fine indicators considered to be important, the external imbalance of the Baltics showed increasing deficit year by year. Finally, the external indebtedness problem undermined the sustainable growth. Besides, the Baltic convergence signalized as well as the imperfection of the Baltic economic success. The currency-board-based economic policy produced more than excellent public finance and debt numbers which are directly under the influence of policy makers. But the inflation, as an indirect result indicator of policy, brought series of failure in monetary integration.

The study examines the political economy of current account imbalance in the Baltic countries, where the public finances seems to have meet the mainstream economics, and the pegged exchange rate has proved to be sustainable. All behind of the problem, the origin is assumed to be the macroeconomic populism. The Baltic states showed a weird form of populism, called ‘new kind’ in the study. In market economies without significant rent seeking opportunities from commodity resources, the private sector provides most of the income sources. In this way, the populist politicians will not be a generous spender, but an undisciplined delayer of restrictions. The commonality between the active generous spender and the passive delayer is that they want to favor electoral groups in the society by securing higher income, and none of them worry about long-term consumer and cost inflation undermining the sustainability of growth.

The study seeks the link between the current account imbalance and the appreciated real effective exchange rate (REER). The hypothesis is that the REER significantly determines the current account, and if this is considered in the Baltic economic context, the presence of macroeconomic populism can be established.

2. Political economy of external indebtedness

By concluding from their Latin American observations, Dornbusch and Edwards (1989:2-5 and 1991:7) understood the macroeconomic populism as the heterodoxy of economic policy making. Namely, when the economy gets wind for a while, the policy makers start to do such policy actions which make them popular in the short term. But it does not mean simply spending money. The paradigm of macroeconomic populism results in interim increase in living standards through macroeconomic stimuli-just like excessive fiscal and credit policy and overvalued currency. The core element of the paradigm is the redistribution to get development without social conflicts. Meanwhile, the populists neglect the importance of the risk of inflation, the risk from deficit financing, the external constraints and the reaction of global market actors on non-market-like policies. This approach can result in a short-term growth and a recovery period. Nevertheless, the policy makers ignore the fiscal and external constraints, and these bottlenecks cause recession and crisis in the medium term, as the constraints make the heterodoxy unsustainable. Finally, the long-term outcome of macroeconomic populism will be the '*plummeting of real wages*', '*severe*' difficulties in balance of payment, '*galloping inflation*', crisis and the '*collapse of economic system*'. These "developments" will enforce austerity and demand for external (IMF) aid. The authors emphasize the role of external imbalance (Dornbusch and Edwards, 1991:7-8).

Based on the observations by Darvas and Szapáry (2008) describing the economic trends and risks in the Eastern EU member states, Csaba (2008) discovered a similar but different kind of macroeconomic populism in the EU10 region. (Besides, the Southern members – Greece, Italy, Portugal, Spain – can be mentioned as bad practices of the Latin American kind of macroeconomic populism, as it was observed e.g. by Neményi and Oblath (2012: 596) that not only those countries who have been under excessive deficit procedure of the Community got into trouble. Baltic's sudden stop in 2007 or the Slovenian indebtedness problems in 2012 appeared in countries with sustainable budget balance. Divergences in inflation, competitiveness and relative wage cost were already observable among the euro zone countries.[1] Unlike the Latin American populist policy, Csaba (2009: 111-112) determines the '*new kind*' of macroeconomic populism as a policy making by delaying reforms and unleashing private demand financed by loan. Unlike, again, the Latin American heterodoxy, Csaba (2008:602) establishes, that the new kind correctly follows the simplified models of '*elementary economic textbooks*'. This characteristic is originated in the European economic circumstances, where typically there are no significant opportunities for rent seeking in public finances from natural row material resources. That is why, the European version of populism can mostly affect passively on living standards by not levying more taxes in the revenue channel or not blocking the private consumption in the regulation channel. This will result a short-term '*boom driven by the private sector and personal consumption*' (Csaba, 2008:603)

The initial condition of the macroeconomic populism is to have dissatisfaction from people and politicians about national economic performance in stagnation and to have expectations for better dynamics. Many times, public opinions connect the stagnation to earlier disciplined austerity in the spirit of conservative economics. In the first phase, as written by Dornbusch and Edwards (1991:11 and 1989:6-7) in their four phases model, the policy makers refuse the restrictive conservative paradigm and ignore the macroeconomic constraints, as there is a temporary possibility to loosen the policy conditions. The quick result of pegged foreign exchange, fiscal expansion, credit expansion, tax cuts etc. can be the high growth of real wages. Although, it ruins the export competitiveness, the government is not willing to devaluate the foreign exchange to avoid the inflation shock and the damage of living standards. But, in the second phase, the mentioned constraints as bottlenecks block the ongoing dynamic

[1] For example, the cumulated growth of ULC (unit labor cost) between 1999 and 2006 was 1,5% in Germany, but 25,2% in Greece, 23,2% in Spain, 27,7% in Portugal. (Neményi & Oblath 2012: table 1)

growth. The third phase is called the case when there are '*pervasive*' shortages, accelerating inflation and foreign exchange gap (overvaluation), characteristics initiating capital flight, demonetization in real economy transactions, increasing public deficit and after all unsustainable populist policy. Dornbusch and Edwards (1989) emphasize the role of external destabilization and vulnerability in the process of heterodoxy failure. Then comes the orthodox stabilization as phase 4.

The new kind of macroeconomic populism model can be implemented to the case of Baltic states. As Darvas and Szapáry (2008) argued about the Baltic countries, beside the high speed of growth of 2000-2006, they accumulated high annual current account deficit, their pegged foreign exchange strengthened the price convergence, and in 2007 they got into recession with high inflation. Also, it was recognized, that the euroization of their credit market (52-77%) got significant (Darvas & Szapáry, 2008:847). This characteristic severely reduced the influence of monetary policy on monetization, on the other hand, it proves the passivity of the populist policy. The euro credit got so popular, as it was based on the EURIBOR rate which was much below the Baltic rates. It also had positive economic results in form of interest rate convergence that could verify the policy makers' passivity. Darvas and Szapáry (2008:855) even supplement the origin of reduced monetary transmission by mentioning the competition in the banking sector in the years of 2000s which also lowered the credit rates.

The phases of macroeconomic populism described by Dornbusch and Edwards (1991) are valid for the Baltic countries too. The Soviet era and the first half of 1990s were the period of strongly repressed consumption, thus the households desired more. During the growth period of the region which global financial instruments made it possible, significant share of Baltic consumption and investment got financed from foreign sources. Of course, politicians did not want to obstruct the increase of welfare from external credit as it raised the placidity of people. Besides the toleration of low monetary transmission, the Baltic policies targeted low public duties. Csaba (2008) summaries the failure of macroeconomic populism in the Baltic (and East-Central European) region as follows: (1) cuts on public duties, (2) passivity in overheated economy, (3) focus only on fiscal balance, (4) delay of structural reforms, (5) no political consensus, (6) winner-takes-it-all behavior in politics, (7) elemental break-through of private demand after decades of repressed consumption. This process caused an enormous current account deficit and high inflation (see below Reveres Balassa-Samuelson effect). Finally, bottlenecks appeared in the Baltics, too.

After the collapse of the Soviet Union, one of the few advantageous heritages of Baltic countries was the very low level of public debt, around 5 percent of the GDP. This could have created a robust room for maneuver for fiscal populism, however, the Baltic governments avoided to use it to the fiscal easing and political populism. This opportunity was utilized to reform the system of social services and to shift the Baltic society and economy toward a liberal (Anglo-Saxon) social model with private financing.[2] Economic growth and the welfare were based on influx of foreign

[2] About liberal social model see: Sapir (2005)

direct investments and other capital sources. Nevertheless, the public balance and the monetary stability were not enough to bring along a quick success in the monetary integration, as they did not have enough impact on inflation. Since companies and households have accessed to cheap foreign loan, none of the budget surpluses and central bank rates could control and restrict the national consumption and investment and their impact on inflation. Constantly missing the inflation target criterion, the Baltic monetary integration slowed down. Meanwhile, their euroization reached high level through loans. In the end of 2006, the financial euroization of loan market was approximately 52 percent in Lithuania, 76 percent in Latvia and 79 percent in Estonia (Chitu, 2012:chart1). These data strengthens the thesis that monetary transmission has been very week in the Baltics.

The Baltic internal economic balances originated in the primacy of monetary policy which targeted exchange rate stability first of all. In case of Estonia and Lithuania, the currency board system has been applied, and the Latvian monetary policy also targeted pegged rate with some adjustment cases. The currency board is in a quasi-single currency position, as there is no exchange rate volatility at all (toward the euro), and actually the monetary policy is very strictly bounded without room for non-harmonized maneuver by the exchange rate target. Basically the currency board is credible if the national inflation keeps pace with the reference region. It is concluded from the interest rate parity model that the policy on interest rate and money supply must be subordinated to the rigid target of foreign exchange. Moreover, for the financial market equilibrium depending on GDP and real interest rate, the equilibrium of money demand and supply must be controlled by the fiscal revenue and spending items. As Baltic countries use strict pegging, their case has been very similar to the single currency zone members in sense of external adjustment without revaluation of foreign exchange. The latter eurozone accession[3] was just a technical shift for Baltic countries into the real single currency zone, since they were successful in sustaining the currency board.

As there has been neither an individual devaluation nor a federal bail-out mechanism, the unsolved external imbalance can result in divergence, regression and degradation of externally indebted countries. This is the so-called *reverse Balassa-Samuelson effect*. (see Grafe & Wyplosz 1997; Jakab & Kovács 2000:144, Kutasi 2013). The original Balassa-Samuelson effect derives the higher inflation of catching-up countries from the development of productivity in the catching-up tradable sector, causing a wage increase and thus inflation pressure in the non-tradable sector (Balassa 1964). The reverse Balassa-Samuelson effect, however, claims that the relative change of price leads to divergence of productivity in the following way: In the eurozone, the quick convergence of interest rates imposed an overheating in consumption in periphery economies of the eurozone. The expectations of households based on sharply decreasing interest rate were unfounded, and resulted in a quick private indebtedness particularly through the consumption of non-tradable services. This latter impact raised the wage demands in the local non-tradable sector that spilled over to the tradable (export) sector. Thus, the export competitiveness deteriorated, meanwhile the local inflation rose by the higher

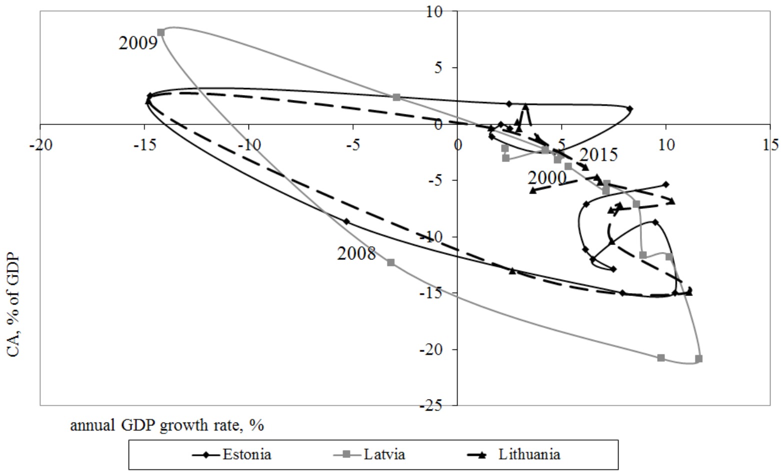
[3] Estonia in 2011, Latvia in 2014, Lithuania in 2015.

wage cost (Mongelli & Wyplosz 2008; Neményi & Oblath 2012).

In the Baltic case, where euroization of credit market was supported by policy makers and thus made a significant part of influence on monetary processes to be lost, the Baltic private debtors calculated with the euro rates. The multi-level inflation with a single interest rate of ECB has preferred the countries with higher inflation as a counter-selection in the loan market, but for their fate, this also has discouraged the private savings in these countries. The upward deviation from the eurozone inflation, Estonian value was between by 1% and 7.3% in each year of period 2004-2008 based on the Eurostat data. In case of Latvia, the deviation was between 2.8% and 4.7%. The exemption of Lithuania appears again in the Baltic group as her deviation from the average was negative and became positive only after 2009. This indicates already, that we should expect something different in case of Lithuania from the test results.

Figure 1 indicates the core symptom of macroeconomic populism in the Baltic countries: High economic growth companied with increasing current account deficit and then quick adjustment in both indicators. Between 2000 and 2006/2007 these countries had regionally outstanding economic growth apart from an extremely negative and deteriorating current account balance. Only the GDP contraction shock could have the Baltic economies to break the deteriorating trend of external imbalance. However, after the annual flow surpluses of contraction years, namely 2009-2010, as economic growth returned to the region, current account turned into a moderate deficit again. The thesis, i.e., that these economies were overheated by foreign money can be verified by output gap data. The Baltic output gap was massively positive (beyond the potential) before the global crisis, according to the AMECO database of DG-ECFIN.[4]

Figure 1. Baltic GDP growth rates and the balance of current accounts (% of GDP), 2000-2015



Source: IMF World Economic Outlook, 2015 April, download 09.07.2015, 2013 and later years are IMF estimation

[4] The impact of euro zone on Baltic growth and their business cycle harmonization is detailed by Fidrmuc and Korhonen (2006) together with several other Central and Eastern European economies.

3. Methodology and quality of data

Analyzing the processes of nominal effective exchange rate, real effective exchange rate, nominal unit labor cost (ULC) by country in database of Eurostat and DG-ECFIN AMECO, it is clear that the growth period of Baltic EU membership of 2004-2007 resulted in a measurable relative appreciation of Baltic prices and production costs. The crisis years made change in the trend. The same is true for REER based on ULC – except Lithuania (See Kutasi 2014).

In the following, the analysis concentrates on time series regression about current account and real effective exchange rate. The current account is determined by several factors. But now, the hypothesis is that there is a new kind of macroeconomic populism in the Baltic economies which can be indicated by the current account deficit deteriorated by the appreciated real effective exchange rate. Namely, if it can be proved that the REER determines the current account imbalances beside the path of Baltic current accounts and GDP growth ratios, then it can be concluded that the Baltic policy-making delayed the action to counterbalance the increasing prices and labor cost. The following regression function is applied:

$$CA_t = \beta_0 + \beta_1 * REER_{t-1} + \beta_2 * CA_{t-1} + \varepsilon \qquad (1)$$

where CA_t is the current account balance, CA_{t-1} is the lagged value of the dependent variable and $REER_{t-1}$ is the real effective exchange rate in the previous period.

The analysis uses two versions of REER. First version calculation is based on consumer price index ($REER_{hicp}$) by deflating with HICP which expresses the price competitiveness, the second one is based on nominal unit labor cost ($REER_{ulc}$) which indicates the wage competitiveness. Because of autocorrelation, the lagged dependent variable cannot be missed from the model, since Durbin's autocorrelation indicator signalized existence of autocorrelation in any calculation lacking the previous period variable. In case of REER, more periods were tested. The first lag (t-1) resulted in the best significance. Two different measures of current account balance against the rest of the world was used to confirm the test result: percentage of GDP and million euro in current prices. The REER data are from the European Commission, DG-ECFIN Price and Cost Competitiveness statistics, the current account data are from the Eurostat. All data are in quarterly breakdown. The time-period structure of the data is the following: all of the REER data, both in calculation base and in national base, are since first quarter of 1995 until the forth quarter of 2017. That is why the current account data are determinant for number of observation. All current account data series end in forth quarter of 2017. The current account to GDP starts in the first quarter of 1995 for Estonia, in first quarter of 2000 for Latvia, in first quarter of 2004 for Lithuania. The current account in million euro at current prices begins in the first quarter of 2004 for Estonia and Lithuania, and in the first quarter of 2000 for Latvia.

The model was tested for autocorrelation at 5% of significance. The indicator is Durbin's h. The null hypothesis is that there is no autocorrelation against the 2-sided alternative of autocorrelated errors, at a 5% level. If Durbin's h is $-1.96 < h < 1.96$, then we do not reject the null hypothesis, namely, there is no autocorrelation.

4. Analysis and results

The results of the OLS estimation are presented in tables 1 – 4. The lagged dependent variable is typically significant, namely the presence of path dependency is indisputable in the model. An interesting outcome is that, in the case of the Estonian current account to GDP, the significance prevails only at 10%. The Estonian coefficient of the lagged current account balance both in million euro and to GDP is less explanatory than the lagged REER both in any type of current account and in type of REER used in the analysis. From the lagged REER values, it can be established that it is always significant for Estonia and Latvia. It is valid for the other two countries, too, in case of current account in million euro, at 1% significance, except Latvian $REER_{ulc}$ at 5% significance. In case of Lithuanian REER coefficient, the HICP and the ULC case should be assessed separately: The $REER_{hicp}$ is significant in 1% in both cases. The $REER_{ulc}$ did not reach any significant level which is acceptable statistically. Nevertheless, in these cases, the coefficient of constant is neither significant. This result in the Lithuanian conclusion, that the wage cost did not affected on the current account and that is why the macroeconomic populism did not prevail through the wage policy.

In the regression of variables in million euro, the lagged REER coefficients are bigger with order of magnitude. Although, in the regression of values in GDP-ratio, the lagged dependent coefficients have advantage, but the scale is the same. Namely, the weight and importance of REER is comparable to the lagged current account balance.

The published function results meet the goodness of fit. The best adjusted R^2 values were achieved in case of the Latvian regression functions. All beyond 0.8 which means an excellent goodness of fit. In case of the Estonian R^2, the GDP-ratio analysis values are around 0.64, and the analysis in million euro resulted in 0.72 – 0.74, which still indicates good fit of function. The Lithuanian goodness of fit is acceptable, yet, although, its R^2 values move between 0.53 and 0.63. All the published results are free from autocorrelation in 5% significance according to the Durbin's h values.

It can be established from the regression analysis that the REER is decisive for the current account balance. In case of Estonia and Latvia, it is determinant in calculation based on both prices (HICP) and wages (ULC). Meanwhile, the Lithuanian regression analysis resulted valid REER coefficient only in case of HICP-base. If these results are placed in the Baltic context of the appreciating REER indices, the deteriorating current account, the robust economic growth, and finally the sudden stop and rapid, but sharp adjustment happened after all, the REER coefficients can be considered the sign of new kind of macroeconomic populism in the Baltic economies. However, the Lithuanian results in case of REER based on ULC enforce to distinguish the country in the region, and to maintain a degree of doubt about validity of macroeconomic populism in the country. As the calculations based on ULC failed to indicate the impact on current account, populism in wage policy cannot be concluded.

Table 1. OLS-regression test, dependent variable: current account to GD in %, lags = 1, coefficients, REER based on HICP

	Estonia	Latvia	Lithuania
constant	−8.00996 (−2.110) **	−24.7765 (−3.764) ***	−40.2235 (−3.293) ***
lagged $REER_{hicp}$	0.709493 (9.493) ***	0.246430 (3.692) ***	0.396025 (3.232) ***
lagged dependent variable	0.0702004 (1.788) *	0.763146 (12.35) ***	0.546916 (4.999) ***
number of observation	91 (1995Q1-2017Q3)	71 (2000Q2-2017Q4)	55 (2004Q1-2017Q3)
adjusted R^2	0.638320	0.823835	0.627775
Durbin's h	−1.806171	−0.540073	−0.659409

source: author's calculation from Eurostat data, using Gretl.

note: t-value in parenthesis. *, **, *** denote significance at 10%, 5%, and 1%.

Table 2. OLS-regression test, dependent variable: current account in million euro in current prices, lags = 1, coefficients, REER based on HICP

	Estonia	Latvia	Lithuania
constant	−1095.77 (−2.857) ***	−880.740 (−3.011) ***	−2312.52 (−2.738) ***
lagged $REER_{hicp}$	10.7694 (2.847) ***	8.84020 (2.941) ***	22.8638 (2.679) ***
lagged dependent variable	0.659719 (6.773) ***	0.834990 (14.98) ***	0.629423 (6.044) ***
number of observation	55 (2004Q1-2017Q3)	71 (2000Q2-2017Q4)	55 (2004Q1-2017Q3)
adjusted R^2	0.719720	0.813547	0.587779
Durbin's h	−0.771933	0.334843	−0.105022

source: author's calculation from Eurostat data, using Gretl.

note: t-value in parenthesis. *, **, *** denote significance at 10%, 5%, and 1%.

Table 3. OLS-regression test, dependent variable: current account to GDP in %, lags = 1, coefficients, REER based on ULC

	Estonia	Latvia	Lithuania
constant	−7.79797 (−3.179) ***	−7.87989 (−3.122) ***	−10.2268 (−1.031)
lagged $REER_{ulc}$	0.0728209 (2.858) ***	0.0732259 (2.966) ***	0.0910663 (0.9532)
lagged dependent variable	0.681719 (9.051) ***	0.864136 (16.31) ***	0.773787 (8.397) ***

	Estonia	Latvia	Lithuania
number of observation	91 (1995Q2-2017Q4)	71 (2000Q2-2017Q4)	55 (2004Q1-2017Q3)
adjusted R^2	0.646164	0.812744	0.560665
Durbin's h	−1.852182	−1.038044	−1.277836

source: author's calculation from Eurostat data, using Gretl.

note: t-value in parenthesis. *, **, *** denote significance at 10%, 5%, and 1%.

Table 4. OLS-regression test, dependent variable: current account in million euro in current prices, lags = 1, coefficients, REER based on ULC

	Estonia	Latvia	Lithuania
constant	−572.908 (−2.862) ***	−324.949 (−2.673) ***	−739.388 (−0.9719)
lagged $REER_{ulc}$	5.57179 (2.849) ***	3.10048 (2.532) **	6.65552 (0.9041)
lagged dependent variable	0.697795 (7.871) ***	0.902427 (17.14) ***	0.781130 (8.049) ***
number of observation	55 (2004Q2-2017Q4)	71 (2000Q2-2017Q4)	55 (2004Q1-2017Q3)
adjusted R^2	0.738385	0.807933	0.538126
Durbin's h	−1.274213	0.023178	−0.453475

source: author's calculation from Eurostat data, using Gretl.

note: t-value in parenthesis. *, **, *** denote significance at 10%, 5%, and 1%.

5. Conclusions

In this study, the political economy model of macroeconomic populism was presented by the case study of Baltic countries. The model was supported with the economics theory of the reverse Balassa-Samuelson effect. The Baltic economic context of the study was that the process of income growth and quick catching-up of the Baltic economies were established on external financing. This phenomenon heated non-tradable inflation, as foreign savings were mostly channeled through credits and loans toward the household and corporate sectors. Finally, the external credibility of the region exhausted independently from the global recession, but not independently from the global credit money shortage. This turn caused a sudden stop, which demanded a quick and radical public and/or private adjustment in all of the surveyed countries.

It can be established, that even an impressively catching-up economy with internal balance and without heavy burden of public crowding out can fall into a recession or depression. The reasons of disappearance of economic growth are many, such as the political motivation to heat the economy by leaving more room for private sector to spend, the appreciation of real wage due to the fixed foreign exchange rate, the increasing inflation from sharply growing income, and the permanently growing external imbalance.

For all three Baltic countries, the signs and effects of new kind macroeconomic populism can be detected, such as the balanced budget before sudden stop, the pegged foreign exchange rate and the deteriorating external imbalance during the impressive growth period. It was also concluded that before the sudden stop, the public indebtedness was low and stable, meanwhile private sector indebtedness was multiplied by the economic growth results. The inflation risk increased – except for Lithuania. The risk was increased by the external indebtedness and the share of foreign currency in total dept. Many indicators of export competitiveness showed deterioration before the sudden stop. The REERs indicated an appreciation of costs and prices of the Baltic production. Namely, the economic indicators of the Baltics strengthened the assumption, that the national economic policies postponed those actions which could have sustained the export competitiveness and the relative cost of regional workforce and production, even though, the public finance and monetary indicators were kept in balance. This way, the inflation of prices and wage cost gradually terminated the attractiveness of Baltic investment opportunities and export products. Meanwhile, the sharply increasing income and creditworthiness of Baltic households had negative impact on current account balance by increasing import and on wage competitiveness by pushing the wages up first in the non-tradable, then later on in the tradable sectors.

To prove the hypothesis, the analysis used OLS regression analysis on time series by countries about the correlation between current account balance and REER based on HICP and ULC of the three Baltic countries. The regression analysis confirmed that some REER indices strongly and significantly have determined the current account of Baltic countries. In practice, it means that the fixed foreign exchange rate caused overvaluation of Baltic prices and wages, and, thus, deterioration of competitiveness. Finally, the lost competitiveness kept on raising the current account deficit which enforced an austerity in welfare and income policies, namely, in the GDP, in the end.

The regression analysis resulted in significant coefficient and decisive power of lagged REER as a determinate component of current account balance. All of the models published in the study are meet the expectation of goodness of fit and freedom from autocorrelation. Placing the results in the Baltic economic context of the 2000s and 2010s, it can be concluded that the new kind of macroeconomic populism can be detected. In case of Lithuania, the wage channel did not prove to be significant, that is why, in her case, some degree of doubt should be maintained about the existence of macroeconomic populism.

This study focused on the Baltic region, however, the new kind macroeconomic populism as an explanatory factor can be extended to many emerging countries which build their growth on secondary and tertiary export and foreign direct investment among Eastern Europe and South-East Asia, which have suffered from sudden stop during dynamic economic expansion.

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PAPER

ASEAN-China FTA
Impact on Indonesian Manufacturing Industry

Mohamed Aslam

Abstract In November 2002, ASEAN and China signed a Free Trade Area (ACFTA) agreement. The rapid growth of China since the early 1990s had caused trade and investment diversions to ASEAN. The strong competition between the regions in the international commodity market and productive foreign capital has produced a great deal of stress within ASEAN economies. Theoretically only countries that have the lowest cost of production will gain in trading. With respect to Indonesia, the Business Chamber of Commerce Indonesia (KADIN) and industrialists, had complained that the ACFTA actually caused losses to local manufacturers and businesses. This paper investigates the impacts of the ACFTA on the Indonesian manufacturing sector, from producer and exporter sides, i.e supply side. Based on calculated trade performances indices such as revealed comparative advantage, intra-industry trade, and the Hillman index, KADIN complaint had a merit.

Keywords: ASEAN; China; Indonesia; FTA; RCA; Hillman Index; Intra-industry Trade.

JEL classification: F02; F13; F15; O57; N65; O24

ASEAN-CHINA FTA. A Brief Review

On 4 November 2002, in Phnom Penh, Cambodia 10 members of ASEAN and China signed the Framework Agreement on Comprehensive Economic Co-operation (CEC) to ASEAN-China Free Trade Area (ACFTA). The ACFTA was implemented on 1 January 2010. Tariff reductions under the FTA agreement were based on applied MFN rates as of 1 July 2003. By 1 January 2006, trade between ASEAN and China should have been operating under zero tariffs so that by 2006 goods traded between the regions would move across borders freely. Nearly 95% of the products on both sides have realized zero tariffs. Both sides had reduced tariff rates, but before the ACFTA was upgraded in 2015, the tariff rates in China were still quite high compared to members of ASEAN, except for Thailand and Vietnam (see Table 1).

From 1995 to 2015, trade between ASEAN and China grew approximately 20% on the average. ASEAN total trade to China has increased from 2.2% in 1995

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to 12.0% in 2010 and to 16.8% in 2015. Trading with China favours China. Before ACFTA was signed, trade deficits were $0.9 billion in 1995 and $3.9 billion in 2000. The deficits worsened after ACFTA was implemented where in 2010 the deficits were $13.4 billion, soaring to $87.3 billion in 2015 (see Table 2). China has become one of the major trade partners not only to ASEAN as a group but also to individual members of ASEAN. Under an upgraded agreement on ACFTA that was concluded in November 2015, ASEAN and China expect to raise bilateral trade to $1,000 billion in 2020. For instance, China is the fourth largest trade partner for Malaysia and Singapore and the third for Thailand. ASEAN's trade with Japan and the US remains higher since both of the countries are major trade partners to all members of ASEAN.

Although trade between ASEAN and China had increased substantially as stated above, this paper asserts that there would be stiff competition between ASEAN and China. The competition will occur in two aspects: (1) international market penetration, and (2) competition in terms of products. As the data shows, whatever product is produced and exported by ASEAN is also produced and exported by China. Since there are similarities between China's and ASEAN's production in the manufacturing sector and exports and given that the impressive expansion of China's manufacturing sector since the early 1990s, it is believed that the ACFTA will adversely affect industries in ASEAN and that trade growth of ASEAN members will eventually slow down (Lardy, 2002).

If there is a possibility of intense competition from China under the ACFTA, how will members of ASEAN ensure that their industries remain competitive? Using a case study, this paper investigates the impact of ACFTA on Indonesian manufacturing industries (producers and or exporters) with the question of: Is it true that the ACFTA has caused losses to the Indonesian manufactures? To examine the issue this paper employs a simple method to investigate the impacts utilising various trade performances indices such as revealed comparative advantage, intra-industry trade and the Hillman index. To a certain extent these indices are able to show the impact of ACFTA on Indonesia's manufacturing sector.

ACFTA and Indonesian Manufacturing Sector

The Free Trade Agreement with China will produce significant impacts on Indonesian domestic industrial sectors. The Indonesian government realised that there are certain industries that would be affected by the ACFTA (Kompas, 2010). As stated in Chandra (2005), in the case of Indonesia the government official from the Bappenas was sceptical about the studies conducted by government offices that assessed the impacts of various free trade deals including ACFTA on the economy.

Due to the lack of transparency and limited involvement of non-state actors in assessing the impact of ACFTA on trade and business environments, the establishment of ACFTA has subsequently led to public debate in Indonesia. Non-state actors question to what extent that ACFTA could provide good economic opportunities to local businesses and to what extent that the local industries could survive from the import of cheaper goods from China. The free trade deal with China would definitely generate a significant negative impact on certain Indonesian domestic industries (Chandra, 2005).

For example, in the case of the furniture industry, China is far more able to offer products that are cheaper and of a higher quality than Indonesia (Chandra, 2005). Before the date of the ACFTA implementation industry trade associations particularly the Indonesian Chamber of Commerce and Industry (KADIN – Kamar Dagang Indonesia), had voiced to the government the impact of ACFTA on Indonesian businesses. In general, business associations and other pressure groups in the country remain sceptical about benefits of the ACFTA. The government had been facing intense pressure from local companies who were fearful that competitive imports from China would force closure of their businesses. Some Indonesian business leaders complained that the government failed to consult them in the process of negotiating the Free Trade Agreement. Many sectors are already reeling from competition with low-cost Chinese clothes, toys and electronic goods that are often smuggled into Indonesia (Winarno, 2011). According to Sofjan Wanandi, Chairman of the Indonesian Employers Association, opening the borders will further hurt local businesses: "We're totally unable to compete and we'll have to close our factories," (Malini, 2010).

About two weeks after the ACFTA was officially launched in January 2010, the government asked the ASEAN Secretariat/ Council to renegotiate tariff reductions on 228 categories in 11 manufacturing sectors: steel, iron, textiles, electronics, basic inorganic chemicals, petrochemicals, furniture, footwear, machinery, cosmetics, and herbal medicines (The Jakarta Post, 2010). In return, the government offered to accelerate implementation of tariff cuts on 153 tariff categories. But the Indonesian government has indicated that it will maximise usage of safeguard measures. Safeguard measures would be implemented as soon as 30% of the domestic market for any product is controlled by China. Thus, the governments of Indonesia and China decided to proceed with the full implementation of the ACFTA. Renegotiation was considered much more costly because in addition to compensation, Indonesia will have to renegotiate with China and with other ASEAN countries (Kompas, 2015).

Local industry associations particularly the Indonesian Textile Association (API), the Indonesian Association of Iron and Steel Industries (IISIA) feared that their sectors would suffer unfavorable results due to ACFTA (AntaraNews, 2009). They believed that a Free Trade Agreement between ASEAN and China would likely threaten Indonesian textile, clothing, and steel producers when China dominates local market share. The two industries believed that they are the most likely candidates to experience a double competitive squeeze and great pressure due to intense competition from China. Furthermore, the Indonesian Employers Association (Apindo) is a group comprised of Indonesian manufacturers that feels uneasy with ACFTA. Since the impacts of ACFTA on Indonesia's economy are real, workers are also against the ACFTA. The Apindo and the Indonesian Labor Union for Prosperity (KSBSI) organized a National Bipartite Forum and demanded that the government take another look at the ACFTA and if possible delay the implementation of ACFTA in Indonesia (Mustaqim Adamrah, 2010). Imports data for January 2010 clearly reveal that since the implementation of ACFTA, there has been a surge of imports from China into the Indonesian market without import duties, including no charges for steel and textile and clothing (T&C) products. The imports accounted for 83% of 8,738 imports (Ocean, 2010).

There were many reports on losses and closures of local companies due to the inability of the firms to compete with cheap Chinese products (Winarno, 2011). The huge influx of imported Chinese products such as textiles, garments, footwear, electronics, toys, furniture, steel, chemicals, and machinery into the Indonesian markets has damaged a wide range of local manufactures and businesses (Winarno, 2011). In the furniture industry, Indonesian exports show significant improvements from $1.4 billion in 2002 to $1.6 billion in 2004, but the Indonesian furniture market is still controlled by the import of furniture from China (Chandra, 2005). The local textile and clothing sector was severely damaged by the ACFTA. The Indonesian Employers Association (Apindo), stressed that approximately 7.5 million workers (about a quarter of the country's 30 million strong formal sector workforce) could lose their jobs (Malini, 2010).

The textile and clothing industry in Indonesia plays an important role in economic growth and development. The industry is the second largest export earner after the oil and gas sector. Clothing and textiles is a strategic industrial sector and the industry has grown from being a small subsector to a major contributor to the Indonesian economy over the last three decades. The textile and clothing industry in Indonesia is ranked as the fourth biggest textile and clothing industry in the world (Hassen Saheed, 2006). Perhaps because of the lack of tariff protections, Indonesia is currently attempting to renegotiate its highly sensitive list with China. However, if items are to be included in the list others must be removed. This creates an inevitable trade-off among Indonesian domestic producers and China (Vanzetti et al, 2011). Based on the data from the Indonesia Textiles and Clothing Reports in 2009, the export growth of textiles and clothing that averaged 13.9% in 2008 will decline to 7.6% in 2013 (Linda Yulisman, 2015). In July 2015 the government planned to raise import tariffs on a broad array of consumer goods ranging from coffee to cars and clothing with an import tariff on clothing ranging from 15-20% depending upon the garment type. The tariff rate increase seems to have provided no relief to the local textile industry that had suffered in early 2015 as raw materials purchased in USD become more expensive due to a weakening Rupiah (IDR). In early 2015, the Indonesian Textile Association reported that 18 firms in Java closed down and about 30,000 workers lost their jobs (Linda Yulisman, 2015). The reduction in exports indirectly affected employment in the industry. There were estimates that as many as 2.5 million workers in the labour-intensive leather and clothing factories and agribusiness industries could lose their jobs because their firms cannot outperform China rivals. For the worst-case scenario, a budget of more than IDR1 trillion has been prepared in order to fund employees for termination claims (Lim and Kauppert, 2010). Therefore banks will be more cautions and reluctant in lending to the textile and clothing industry because the industry will became riskier in the long term. In a longer period, i.e. after the implementation of the ACFTA, the textile and clothing industry may hurtle forward to secure funding from the financial institution (Ardian Wibisono, 2010). A lesser number of or no loans from financial institutions means that growth and expansion will be retarded.

The agricultural sector has also been hit by the ACFTA. Although Indonesia maintains relatively high tariffs on certain agricultural commodities such as rice, meat, sugar, and several types of fruits and vegetables, the Indonesian government has more or less agreed to introduce tariff reduction measures to the agricultural sector. Despite its relatively high tariff level on rice approximately 30% for example, Indonesia has become one of the major rice importers in the world. Trade liberalisation under FTAs has undermined the Indonesian food industry.

Tariff Profiles: Indonesia versus China

Looking at Table 3, Indonesia's most favoured nation (MFN) tariff rates on average have declined from 5.6% in 2000 to 4.7% in 2013, while the average preferential tariffs rate offered by Indonesia also declined from 5.6% to 4.5% respectively. The decline in preferential tariff rates is probably related to the tariff concession that was given to members of ASEAN under the ASEAN Free Trade Area (AFTA) programme. The Indonesian economy has been relatively open since the economic crisis of 1997. In contrast, the tariff level in China is quite high compared to Indonesia. The average MFN tariff level in 2000 was 18.6% and approximately 12.4% in 2016. The preferential tariff that was offered by the Chinese government to FTA partners in 2000 was 18.6% and declined to 10.9% in 2016. This paper suggests that there are quite a number of goods or tariff lines by HS6 digits listed in the sensitive list. The Chinese government seems to be protecting some of the domestic industries wholly owned by local people or state enterprises.

Tariff by product group as depicted in Table 4 shows that tariff rates imposed by the Chinese government for agriculture products were quite high. MFN and preferential tariff rates for 2016 were 22.9% and 19.9% respectively. For non-agriculture products during 2016, the MFN rate was 11.6% while the preferential rate was 10.2%. The tariff rates offered by the Indonesian government for agriculture and non-agriculture products were much lower than China's rate. On average the MFN and preferential tariff rates for agriculture in 2013 were 11.9% and 11.7% respectively, while the non-agriculture MFN tariff rate in 2013 was 4.2% and the preferential tariff rate was 4.0%. Based on Table 5, the number of NTBs imposed by the Indonesian government on foreign goods was much lower than the number of NTBs imposed by the Chinese government.

Under the ACFTA and since tariffs on most goods were eliminated by 2010, this paper assumes that Chinese exporters enjoyed greater tariff-free access to the Indonesian market than Indonesian exporters accessing the Chinese market. Even though tariff eliminations under the ACFTA sought to further expand trade between the two countries (and to other members of ASEAN), a country would be facing a loss or trade diversion under ACFTA as mentioned earlier. The prior discussion above indicates a crucial question: Is Indonesia competitive enough to compete in the global economy, particularly in the ACFTA region? The Global Competitiveness Index (GCI) produced by the World Economic Forum shows that from 2011 to 2015 the GCI index score for Indonesia was lower than China's score (see Table 6). Based on Table 6, China is more competitive than Indonesia.

Methodology and Data

In looking at the impact of the ACFTA on Indonesian manufacturing industries, this paper calculates and utilises trade performance indices. To a certain extent, calculations of trade performance indices are able to show the level of competitiveness or incompetitiveness of certain manufacturing industries. The trade performance indices that will be used are the intra-industry trade (IIT) index, the revealed comparative index (RCA), and the Hillman index. The methodology of the indices are as follows:

Intra-industry Trade Index

The paper uses a standard (simple) Intra-industry trade index (IIT) formula proposed by Grubel and Lloyd (1975). The formula for the IIT index is given by the following equation:

$$IIT = 1- \{(X+M) – (I\ X-M\ I) / (X+M)\}$$

Where $(X + M)$ is the value of gross trade and $|X – M|$ is the absolute value of inter-industry trade, while the numerator of the equation measures intra-industry trade as the net value of total trade remaining after net exports, or net imports are subtracted. The net value of total trade is given in the form of a proportion of the value of total trade. The main intention of applying IIT to see if there is an intra-industry link between Indonesian and China by manufacturing industries classification.

Revealed Comparative Index (RCA)

For the RCA index this paper uses Balassa's version of the BRCA formula. The formula is as follows:

$$BRCA = (X_{ij} / X_{it}) / (X_{nj}/ X_{nt})$$

Where X is exports, subscript *i* is a country, *j* is a commodity or industry, *t* is a set of commodities (or industries) and *n* is a set of countries. BRCA estimates a country's exports of a commodity (or industry) relative to its total exports and to the corresponding exports of a set of countries. The BRCA index takes a value between 0 and $+\infty$. A country is said to have a revealed comparative (competitive) advantage if the value exceeds unity. If BRCA is less than unity, the country is said to have a comparative (or competitive) disadvantage in the commodity or product or industry. Hinloopen and Marrewijk (2001) have divided the theoretical range of the BRCA value into four classes as shown in Table 7. Widely criterion is used if a good sector or production sector has a value of BRCA> 1, so we assume that sector or industry has a comparative advantage. But a sector or industry can be classified as or contain high comparative advantage. Therefore, the rationale of dividing the BRCA into four classes as indicated in Table 7, is to look for and distinguish which sector or industry shows or gains high comparative advantage, and vice-versa.

This study has modified the BRCA formula to look at two or three other aspects: (i) the level of Indonesia's competitive advantage in the world; (ii) the level of Indonesia's competitive advantage region, i.e., ACFTA (Regional); and (iii) the degree of competition in China market vis-à-vis ASEAN. For China the RCA index is also calculated in respect to the World and by Region.

Table 7. BRCA Classifications

Class a	0<RCA<1	Industries with a comparative disadvantage
Class b	1<RCA<2	Industries with weak comparative disadvantage
Class c	2<RCA<4	Medium comparative advantage
Class d	4<RCA	Strong comparative advantage

Hillman Index

Hillman (1980) examines the relationship between the Balassa index (BRCA and pre-trade relative prices in cross-country comparisons for a specific sector under homothetic preferences by forming a Hicksian composite commodity for all other sectors (Hinloopen and Marrewijk, 2005; Ferto and Hubbard, 2003). As the concomitant transformation of the Balassa index has to be monotonic, Hillman's condition can be interpreted as a monotonicity condition for scaling a country's exports by a measure of its (sector) size index or condition. The Hillman condition can be summarized by the following equation:

$$\text{Hillman condition} = \{1-X_{ij}/W_i\} > \{X_{ij}/X_j(1-X_j/W)\}$$

Where X_{ij} is exports of commodity i by country j, X_j is total exports of country j, W_i is world exports of commodity I, and W is the world's total exports. The Hillman condition equation contains three main parts, all of which have a different economic explanation. The three combined are known as the Hillman condition (Hinloopen and Marrewijk, 2005), the major components of which can be described as follows:

a) *Market share,* as measured by (X_{ij} / W_i), is the share of a country's exports in a particular commodity, product or sector relative to the total exports in that commodity, product or sector of the reference group of countries (or world, W).
b) *Degree of specialisation,* as measured by (X_{ij} / X_i), is the share of a country's exports in a particular product, commodity or sector of total exports.
c) *Country size,* as measured by (X_i / W), is the share of a country's total exports relative to the total exports of the group of reference countries (or world, W).

The Hillman condition can be transformed into an index (Hillman, 1980). The equation of the Hillman condition or Hillman Index is given below (Marchese and Nadal de Simone, 1989).

$$\text{Hillman Index} = \{1-X_{ij}/W_i\} \ / \ \{X_{ij}/X_j(1-X_j/W)\}$$

As Hillman (1980) stated, violations of subject (b) degree of specialisation, occur in the case of a country which exports only one commodity or when a country is the sole supplier. In general, the Hillman conditions are violated if a country experiences a high proportion in the supply market of a particular product or commodity in the presence of a high degree of export specialisation. This might really be true in the case of a small country. The Hillman Index was constructed in the perfect world and country model 2x2. Theoretically, either one or both countries will have the index as below 1 and the countries would have violated the conditions of the Hillman index. If the calculated index approaches unity or less than 1 or the value is low compared with another country or product or industry, then we can say that the country has a competitive advantage. Marchese and Nadal de Simone (1989) show that Hillman's condition is violated in less than 10% of exports for 118 developing countries in 1985. Whereas Hinloopen and Van Marrewijk (2001) indicated that Hillman's condition was not valid for only 7% of export value and less than 1% of the number of observations. For an easy understanding this paper modified the Hillman Index formula as:

$$\text{Hillman Index} = [\ \{1-X_{ij}/W_i\}\ /\ \{X_{ij}/X_j(1-X_j/W)\}\ ] / 100$$

To simplify, if the value of the index approaches 0.0 then the product or industry has a competitive advantage, and the product or industry is non-competitive if the index has a large value or more than 1.0.

As in the case of BRCA, this paper also calculated Hillman index for three angles, i.e., competitive position in the world, regional (ACFTA), and competition position in the China market for Indonesia, while China's Hillman Index was only calculated for two aspects, the world and the regional.

Data for the analysis was collected from Trademap (www.trademap.org). Exports and imports data are quoted in Harmonised System 2 (HS2) digits classification, 99 lines of products. For this paper the data was then re-organised into category manufacturing industries. Products that belong to raw material categories were omitted. Transformation of HS2 digits into the manufacturing industry classification refers to Mohamed Aslam (2010: 127).

Indonesia-China Trade

Indonesia's manufacturing sector has expanded quite significantly since 1990. From 1990 to 2015 the sector contribution to GDP has increased more than 25%. Based on the structure of production, Indonesia is still an agrarian country. The agriculture sector was the main economic and employment sector with quite a substantial amount of labour. The sector absorbs approximately 44% of total employment. However the agriculture sector's contribution to Indonesia's GDP has declined. The expansion of the manufacturing sector and services sector has reduced the contribution of the agriculture sector to GDP and to employment creation. Although the manufacturing sector has expanded contributions to employment creation increased marginally from 1990 to 2015. However, manufacturing remains one of the main sectors contributing to Indonesia's GDP growth.

The major manufacturing industries that contribute to Indonesian world exports are petroleum products, chemicals, rubber, food, electrical and electronics (E&E), and textiles and apparel (T&C) (see Table 8). Certain industries' contributions have dropped even though the industries seem be significant to Indonesia. Such industries are E&E, wood and related products, paper, and textiles. The main exports from Indonesia to China by manufacturing industries are manufactured products of wood, cork, straw and painting materials, manufactured petroleum products, paper and paper products, and manufactured clothing apparel except fur. High technology industries such as E&E, machinery and transportation contributed less to Indonesian exports to China (see Table 8). Contributions of textiles and apparel/garment exports to China have largely declined. Exports of textiles have declined from 5.7% to 1.8%, whereas exports of garments have declined on an average of about 0.4%. Contributions to exports via paper industries declined from 7.2% in 2001 to 1.4% in 2015.

On the other hand, major products made by manufacturing industries around the world and that are imported by Indonesia are textiles, petroleum products, chemicals, general machinery, electrical and electronics (E&E), and transportation equipment (see Table 9). The main imports from China as reported in Table 9 are petroleum products, but importation of these products declined in 2014. Imports of chemicals also declined in 2015. Other major import items from China are general machinery that has increased two-fold in 2015. Electrical and electronics are about 23% of total imports from China. Textiles comprised approximately 7.2% of total imports from China in 2015 while imports of apparel were close to 3% in 2015.

Indonesia experienced trade deficits in various product categories (see Table 8 and Table 9). Table 8, Table 9 and Table 10 show that in general, trade with China puts Indonesia on the losing side. On the one hand, based on trade by manufacturing industries, Indonesia gained in the food, wood, petroleum, and rubber industries. But on the other hand, Indonesia incurred large deficits in the general machinery, E&E, iron and steel, chemicals, and textiles industries. Based on the tables presented and the elaboration above, we can conclude that in trading with China, Indonesian manufacturers are unable to generate trade creation. Additionally, we can state implicitly that the ACFTA has not brought much assistance to Indonesia in terms of improving her trade performance in the region. Furthermore, the tables indirectly confirm that Indonesian trade more resembles primary sector dependence than manufacturing or technological dependence. This kind of trade relationship, i.e., exporting primary commodities, importing manufactured products has caused negative effect in the Indonesian trade sector. The impact of the 2008 global economic crisis that dented China's manufacturing industries had ultimately affected Indonesia's primary commodities sector. The decline in China's demands on Indonesia products reduced export revenues by nearly 5.8 %, the equivalent to $180 billion from 2013-2014 (Pangestu, Rahardja, Lili; 2015).

Based on the above discussion and data presented in the tables, intra-trade between Indonesia and China bear a resemblance to a resources-for-manufacture pattern. Almost half of Indonesia's imports from China are machinery and electrical products. In 2010, exports of machinery and parts totaled approximately 13% of total exports (Pangestu, Rahardja, Lili; 2015, look also Ando and Kimura, 2013). Conversely, fuels, metals, wood, and vegetable products constituted three-quarters or 75% of Indonesia's exports to China, compared to 45% of its exports to the world. Indonesia is one main supplier of coal and liquefied natural gas to China's energy-intensive coastal areas. Indonesian raw materials and natural resource-commodity producers also enjoyed robust business since the ASEAN-China FTA pact took effect in January 2010. These producers exported more natural resource commodities to China for its economy that is hungry for raw materials for China's fast-growing manufacturing industry.

Based on absolute data of exports and imports of Indonesia to and from China it appears that complaints by KADIN and the textile and garment manufacturers' associations have a basis that their members are unable to compete with Chinese textiles and garment goods. For HS2 digit products, from 2001 to 2006 Indonesia had trade deficits in 69 out of 99 product lines. From 2010 to 2015, the number of Indonesian products lines with trade deficits increased to 80[1]. The three major products by HS2 digits that favour Indonesia as gains in trading with China, reported in Table 11 are HS27; HS15 and HS47, while the three major products that Indonesia is losing trade competitiveness to China are HS84, HS85 and HS72.

Intra-Industry Trade Index

In general, the structure of IIT Indonesia-China seems to parallel the ratio of Indonesia's exports to China as well as ASEAN total exports to China. By manufacturing industries as shown in Table 12, high values of IIT are indicated in the industries of plastic, apparel and petroleum products. However the value of IIT for these industries have declined quite significantly from 2005 to 2015, while the IIT values of textiles, electrical, and electronics are decreasing. Manufacturers of non-ferrous metal have recorded a higher IIT index compared to the remainder of industries. Based on Table 8 and 9, it seems that most of the manufacturing industries are concentrating on the domestic market rather than exporting to foreign markets. Although the absolute value of Indonesia-China trade favours China, most of the products were either traded with other countries or production and sales were concentrated in the domestic market.

Contrastingly, the picture of IIT index by manufacturing industries for ASEAN is roughly not much different from Indonesia as shown in Table 12. ASEAN has a high value of IIT in the chemicals industry. Industries that have an IIT value range of 0.7 to 0.9 are non-ferrous metal, scientific equipment, electrical, and electronics. Industries that have IIT values ranging from 0.5 to 0.7 are food, wood, and petroleum. For most of the industries mentioned here, the value of IIT was high before 2005. However, since 2010 index values of these industries have declined significantly.

Revealed Comparative Advantage (RCA) Index

Based on RCA index by manufacturing industries, Indonesia has a comparative advantage in the world in the food and tobacco product industries with a trend of the index increasing. For manufactured products of wood, cork, straw, rubber, and petroleum, even though Indonesia has a comparative advantage the index trend is declining. For the

[1] Author's calculation from the list of goods based on HS2 digits.

industries of clothing apparel, except fur, and for the manufacture of textiles, Indonesia has a comparative advantage with an RCA index trend that seems to be stable. In the case of manufacturing petroleum products, Indonesia has a comparative advantage but the calculated RCA index value is decreasing (see Table 13). These results somehow confirm what has been suggested by Setyari, Widodo, and Purnawan (2015), that Indonesia has a strong comparative advantage in the wood industry while the textile and garments sector's competitiveness declined. As for Indonesia's position in the regional market (ASEAN+China+Indonesia), the structure of the RCA index is slightly different (see Table 13). Based on Table 13, Indonesia has a comparative advantage in food and petroleum products industries with the trend of RCA indices increasing; for industries of wood, cork, straw and plaiting materials the trend of RCA index is mixed or volatile; for the manufacturing industries of paper and paper products, non-ferrous metals and rubber products, RCA index trends are decreasing. Among members of ASEAN competing for China's market, Indonesia has gained a competitive advantage in similar industries as mentioned above (see Table 14). By looking at the RCA index by manufacturing industry it appears that Indonesia has a competitive advantage in primary industries, industries that are associated with the primary commodities sector, i.e., downstream to upstream activities. In the modern industries such as electrical and electronics, and machinery and transportation, the values of RCA indices recorded for Indonesia are lower than 1.00. In the case of ASEAN, industries that have a competitive advantage in the China market are mainly food, petroleum products, plastics, rubber, and furniture industries (see Table 14).

In the case of China's RCA index in the world, China has a competitive advantage in the manufacturing of metal, general machinery and these two industries have a high value of RCA index. The index of these industries show an increasing trend from 2001 to 2015 as depicted in Table 15. China has a competitive advantage in the industries of apparel, footwear, leather, and furniture. However, RCA value trend of those industries are on a decreasing mode. In the ACFTA market, China has a competitive advantage in the textiles, general machinery, E&E products, and scientific product (see Table 15) industries. However, the RCA values calculated for these just mentioned industries had declined but are still higher compared to ASEAN members.

Hillman Index

Table 16 shows the Hillman Index for Indonesia and China. In the case of Indonesia, the calculated Hillman index indicates that Indonesia has a high competitive advantage in the industries of food, petroleum, chemical, wood, and rubber. The results trends are consistent with the RCA indices position in the World, regionally, and in the China market. However, the index shows mixed results of certain industries such as electrical and electronics, textiles, and machinery. Based on RCA indices at the World, regional and in China market positions, these industries are non-competitive. The trend of the Hillman index seems to be parallel to the RCA index (value >1) discussed above. In the case of China, the country has a strong competitive advantage in electrical and electronics, machinery, scientific equipment, and transport equipment industries. For some reason, the results of the Hillman Index in the case of China, is not much different with the RCA indices as reported in Table 17. Based on Hillman and RCA indices, Indonesia and ASEAN are incapable of competing with China in textiles and clothing, and in particular the electrical and electronics industry.

Conclusion

In the case of ACFTA, we expect that there would not be a total gain to members of ASEAN. Certain members may receive gains in the form of trade creation and other members may receive trade diversion. There will be some industries that ASEAN may face losses. One of those industries is textiles and clothing. Producers and enterprises in ASEAN were worried that imports of goods from China that are duty-free will threaten local business survival with the flooding of China's cheaper products in the domestic market. The exports of textiles and clothing, toys, processed foodstuffs, and even machinery and equipment have dropped in response to economic integration with China. ASEAN countries that heavily depend on labour intensive industries feel the pain and SMEs are the most affected in the short to medium run.

This paper shows that trade between Indonesia and China is a primary commodities-finished products relationship, i.e., Indonesia produces and exports primary commodities to China and imports manufactured goods from China. Indonesia has strong competitiveness in industries belonging to the primary sector while China has a strong competitiveness in manufacturing finished products. The performance of manufacturing industries in the form of exporting and dominating regional commodities market Indonesia vis-à-vis China looks rather bleak. From what has been reported in newspapers and in other form of media regarding the negative impacts of the ACFTA on Indonesian market goods, it seems that some of the reports are true as discussed earlier in this paper. Complaints made by KADIN, textile and clothing associations and other business chambers mentioned above in section 2 actually have a basis. The ACFTA had actually produced a negative impact to Indonesian manufacturing sector performance and manufacturing firms. Therefore this paper supports the argument that the ACFTA to a certain extent has reduced the competitiveness of Indonesian goods in the regional market as well as in the domestic market.

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Table 1. Selected East and Southeast Asia Countries. Tariff Rates (percentages)

Country	Recent Year	All products				Primary Products	Manufactured products
		Binding Coverage	Simple Mean tariff	% of tariff Lines with International peaks	% of Tariff With Specific rates	Simple Mean tariff	Simple Mean tariff
China	2014	100	7.6	16.18	0.1	7.6	7.6
Japan	2014	99.6	2.4	7.78	4.9	4.8	2
Korea	2014	94.1	5.2	4.36	0.4	16.8	3
Indonesia	2013	96.6	5	7.65	0.5	3.4	5.2
Malaysia	2009	84	5.3	15.93	0.7	2.4	5.8
Philippines	2010	66.9	4.8	4.89	0	6.3	4.6

Singapore	2014	70.8	0	0	0.1	0	0
Thailand	2014	76.5	8.2	16.94	3.7	11.1	7.7
Viet Nam	2014	100	6.6	20.88	0.5	8	6.4

Notes:

1. Binding coverage is the percentage of product lines with an agreed bound rate. Bound rates result from trade negotiations incorporated into a country's schedule of concessions and are thus enforceable.

2. ***All products***. Simple mean applied tariff is the unweighted average of effectively applied rates for all products subject to tariffs calculated for all traded goods. Data are classified using the Harmonized System of trade at the six- or eight-digit level. Tariff line data were matched to Standard International Trade Classification (SITC) revision 3 codes to define commodity groups. Effectively applied tariff rates at the six- and eight-digit product level are averaged for products in each commodity group. When the effectively applied rate is unavailable, the most favored nation rate is used instead. To the extent possible, specific rates have been converted to their ad valorem equivalent rates and have been included in the calculation of simple mean tariffs.

3. ***Column 5***. Share of tariff lines with international peaks is the share of lines in the tariff schedule with tariff rates that exceed 15 percent. It provides an indication of how selectively tariffs are applied.

4. ***Column 6.*** Share of tariff lines with specific rates is the share of lines in the tariff schedule that are set on a per unit basis or that combine ad valorem and per unit rates. It shows the extent to which countries use tariffs based on physical quantities or other, non-ad valorem measures.

5. ***Primary Products***. Simple mean applied tariff is the unweighted average of effectively applied rates for all products subject to tariffs calculated for all traded goods. Data are classified using the Harmonized System of trade at the six- or eight-digit level. Tariff line data were matched to Standard International Trade Classification (SITC) revision 3 codes to define commodity groups. Effectively applied tariff rates at the six- and eight-digit product level are averaged for products in each commodity group. When the effectively applied rate is unavailable, the most favored nation rate is used instead. To the extent possible, specific rates have been converted to their ad valorem equivalent rates and have been included in the calculation of simple mean tariffs. Primary products are commodities classified in SITC revision 3 sections 0-4 plus division 68 (nonferrous metals).

6. ***Manufactured products***. Simple mean applied tariff is the unweighted average of effectively applied rates for all products subject to tariffs calculated for all traded goods. Data are classified using the Harmonized System of trade at the six- or eight-digit level. Tariff line data were matched to Standard International Trade Classification (SITC) revision 3 codes to define commodity groups. Effectively applied tariff rates at the six- and eight-digit product level are averaged for products in each commodity group. When the effectively applied rate is unavailable, the most favored nation rate is used instead. To the extent possible, specific rates have been converted to their ad valorem equivalent rates and have been included in the calculation of simple mean tariffs. Manufactured products are commodities classified in SITC revision 3 sections 5-8 excluding division 68.

Source: World Bank Development Indicator, http://wdi.worldbank.org.

Table 2. ASEAN International Trade in the World and with China ($'bil)

	1995	2000	2005	2010	2011	2012	2013	2014	2015
ASEAN - World									
Export	296.7	410.2	648.2	1,051.8	1,244.6	1,254.6	1,273.9	1,309.6	1,189.8
Import	318.6	349.0	576.8	951.6	1,156.2	1,226.3	1,252.2	1,249.0	1,124.3
Total Trade	615.3	759.1	1,224.9	2003.4	2400.8	2,480.9	2,526.1	2,558.5	2,314.0
ASEAN - China									
Export	6.2	14.2	52.3	113.8	143.7	142.8	153.5	163.2	151.0
Import	7.1	18.1	61.1	127.2	158.2	180.6	202.9	221.8	238.3
Total Trade	13.3	32.3	113.4	240.9	302.0	323.4	356.4	385.0	389.4
Trade balance	-0.9	-3.9	-8.8	-13.4	-14.5	-37.8	-49.4	-58.6	-87.3
Share of China (%)									
Export	2.1	3.5	8.1	10.8	11.5	11.4	12.0	12.5	12.7
Import	2.2	5.2	10.6	13.4	13.7	14.7	16.2	17.8	21.2
Total Trade	2.2	4.3	9.3	12.0	12.6	13.0	14.1	15.0	16.8

Source: calculated by author, data from www.trademap.org.

Table 3 . China and Indonesia: Tariffs Rates

	China		Indonesia	
	Average of MFN tariffs	**Average of preferential tariffs**	**Average of MFN tariffs**	**Average of preferential tariffs**
2000	18.6%	18.6%	5.6%	5.6%
2001	15.6%	15.6%	4.6%	4.5%
2002	na	na	4.9%	4.8%
2003	9.4%	9.4%	4.9%	4.8%
2004	8.5%	8.5%	5.2%	5.1%
2005	na	na	5.2%	5.1%
2006	7.5%	7.4%	5.2%	5.1%
2007	11.9%	11.7%	4.3%	4.2%
2009	11.5%	11.1%	4.1%	4.0%
2010	12.2%	11.7%	4.8%	4.6%
2011	12.0%	11.6%	4.8%	4.6%
2013	na	na	4.7%	4.5%
2014	12.2%	11.0%	na	na
2015	12.3%	11.0%	na	na
2016	12.4%	10.9%	na	na

Source: www.trademap.org

Table 4. Indonesia and China. Tariff Profiles by Product Group

	China				Indonesia			
	Agriculture		Non-Agriculture		Agriculture		Non-Agriculture	
	Average of MFN tariffs	Average of preferential tariffs	Average of MFN tariffs	Average of preferential tariffs	Average of MFN tariffs	Average of preferential tariffs	Average of MFN tariffs	Average of preferential tariffs
2000	24.7%	na	18.1%	na	12.2%	na	5.2%	na
2001	27.9%	na	14.7%	na	12.6%	na	4.1%	na
2002	na	na	na	na	12.7%	na	4.4%	na
2003	20.1%	na	8.7%	na	12.3%	na	4.5%	na
2004	18.0%	na	7.8%	na	12.5%	na	4.8%	na
2005	na	na	na	na	13.6%	13.5%	4.7%	4.6%
2006	16.0%	15.7%	6.9%	6.8%	13.5%	13.4%	4.7%	4.6%
2007	22.6%	22.2%	11.1%	10.9%	13.3%	13.2%	3.7%	3.6%
2009	22.2%	21.6%	10.7%	10.4%	12.9%	12.7%	3.5%	3.4%
2010	23.2%	22.4%	11.4%	10.9%	13.2%	12.9%	4.2%	4.0%
2011	22.6%	22.0%	11.2%	10.9%	13.6%	13.4%	4.2%	4.0%
2013	na	na	na	na	11.9%	11.7%	4.2%	4.0%
2014	22.6%	19.9%	11.5%	10.3%	na	na	na	na
2015	22.6%	19.8%	11.6%	10.3%	na	na	na	na
2016	22.9%	19.9%	11.6%	10.2%	na	na	na	na

Source: www.trademap.org

Table 5. Indonesia and China. Non-Tariff Narriers (NTB)

NTB Types		Indonesia		China	
	Phase	HS lines	Measures	HS lines	Measures
Export Subsidies	In force	1	1	0	0
Safeguards	In force	5	5	0	0
Safeguards	Initiation	1	1	1	1
Sanitary and Phytosanitary	In force	21	48	19	118
Sanitary and Phytosanitary	Initiation	41	55	354	902
Tariff-rate quotas	In force	2	2	10	10
Technical Barriers to Trade	In force	15	22	72	98
Technical Barriers to Trade	Initiation	49	89	486	1,067
Anti dumping	In force	33	33	75	90
Anti dumping	Initiation	15	15	11	11
Countervailing	inforce	0	0	4	4
Quantitative Restrictions	inforce	0	0	21	21

Source: www.wto.org

Table 6. Global Competitiveness Index (GCI). Indonesia and China

	Indonesia		China	
	Rank (out of 144)	Score (1-7)	Rank (out of 144)	Score (1-7)
GCI 2014-2015	34	4.6	28	4.9
GCI 2013-2014 (out of 148)	38	4.5	29	4.8
GCI 2012-2013 (out of 144)	50	4.4	29	4.8
GCI 2011-2012 (out of 142)	46	4.4	26	4.9
Basic requirements (40.0%)	46	4.9	28	5.3
Efficiency enhancers (50.0%	46	4.4	30	4.7
Innovation & sophistication factors (10%)	30	4.2	33	4.1

Source: The Global Competitiveness Report 2014-2015, World Economic Forum.

Table 8. Indonesia: Exports to World and China (%)

Manufacturing Industry	2001	2010	2015	2001	2010	2015
		World			China	
Food	4.8	14.2	17.5	6.5	11.4	19.1
Beverages	0.0	0.1	0.1	0.0	0.0	0.0
Tobacco products	0.5	0.5	0.7	0.0	0.0	0.1
Textiles	5.9	3.1	3.3	5.7	2.0	1.8
apparel	12.1	6.7	9.1	0.4	0.4	0.7
Footwear	0.8	0.3	0.3	0.1	0.2	0.1
Wood	7.7	3.1	4.2	23.9	10.4	6.7
Paper	3.9	2.9	2.6	7.2	2.7	1.4
Printing	0.0	0.0	0.0	0.0	0.0	0.0
Petroleum	27.7	32.6	25.1	29.4	43.6	43.3
chemicals	3.5	3.5	3.6	10.1	10.1	6.9
Pharmaceutical	0.1	0.2	0.4	0.0	0.0	0.0
Rubber	2.4	6.5	4.3	3.5	5.4	10.2
Plastic	2.0	1.5	1.6	4.7	1.6	1.6
Glass and non-metallic	2.3	1.7	4.6	1.0	0.6	0.2
Basic iron and steel	1.4	1.8	2.3	0.8	1.4	0.6
Non-ferrous metals	2.3	5.1	3.0	1.2	4.3	2.5
Metal products	0.2	0.2	0.2	0.1	2.4	1.0
General machinery	5.3	3.5	3.8	1.1	2.3	2.9
Electrical & electronics	11.5	7.2	6.2	3.7	0.0	0.0
Scientific equipment	1.0	0.7	0.8	0.1	0.1	0.2
Transport equipment	1.1	2.9	4.3	0.1	0.7	0.4
Furniture	2.8	1.4	1.3	0.2	0.2	0.1
Other Industries	0.6	0.4	0.6	0.1	0.1	0.1
Total (US$'billions)	51.6	140.4	138.0	2.2	6.3	13.9

Source: calculated by author, data from www.trademap.org.

Table 9. Indonesia: Imports from World and China (%)

Manufacturing Industry	2001	2010	2015	2001	2010	2015
		World			China	
Food	7.2	6.3	8.0	5.5	2.1	1.6
Beverages	0.1	0.1	0.1	0.0	0.0	0.0
Tobacco products	0.7	0.4	0.3	4.5	1.0	0.7
Textiles	7.8	3.8	4.5	7.1	6.6	7.2
apparel	0.8	1.2	1.7	2.4	3.0	2.9
Footwear	0.6	0.4	0.5	0.8	0.5	0.6
Wood	2.8	1.5	1.2	0.6	0.4	0.3
Paper	1.0	0.8	1.0	0.5	0.6	0.7
Printing	0.1	0.0	0.1	0.0	0.0	0.0
Petroleum	18.8	21.5	18.5	19.3	3.9	0.9
chemicals	13.5	8.2	9.3	18.1	8.3	10.1
Pharmaceutical	0.3	0.4	0.5	0.4	0.1	0.1
Rubber	1.2	1.3	1.2	1.2	0.8	0.8
Plastic	3.8	3.8	5.0	2.0	2.5	3.5
Glass and non-metallic	0.6	0.7	1.3	1.9	1.4	2.0
Basic iron and steel	5.7	7.7	7.4	5.5	8.0	11.0
Non-ferrous metals	2.0	2.4	2.4	2.8	1.8	2.0
Metal products	0.6	0.7	0.8	1.7	1.4	1.3
General Purpose machinery	16.0	15.6	16.5	10.8	24.2	25.7
Electrical and electronics	4.9	12.3	11.5	7.1	25.4	22.6
Scientific equipment	1.2	1.5	1.6	0.9	1.4	1.3
Transport equipment	9.9	8.8	5.5	5.3	4.2	2.4
Furniture	0.1	0.3	0.5	0.2	0.9	1.3
Other Industries	0.3	0.4	0.5	1.4	1.2	0.9
Total (US$'billions)	29.4	128.0	135.3	1.7	19.3	28.0

Source: calculated by author, data from www.trademap.org.

Table 10. Indonesia-China Trade Balance, (US$millions)

Manufacturing Industry	2001	2005	2010	2013	2014	2015
Food	48	621	2245	2415	2603	2919
Beverages	0	0	-3	2	1	2
Tobacco products	-75	-45	-186	-267	-256	-197
Textiles	3	-56	-1018	-1555	-1573	-1539
apparel	-30	-57	-476	-526	-419	-315
Footwear	-12	-9	-90	-150	-145	-127
Wood	503	637	850	1722	1879	1863
Paper	***145***	***134***	***74***	-131	-108	-49

Manufacturing Industry	2001	2005	2010	2013	2014	2015
Printing	0	-5	-3	-7	-6	-8
Petroleum	308	1456	5271	7935	5627	4257
chemicals	-87	-5	-630	-1738	-1936	-2223
Pharmaceutical	-5	-4	-16	-21	-25	-22
Rubber	55	303	1267	1295	584	293
Plastic	***68***	***2***	-273	-622	-714	-775
Glass and non-metallic	-10	-72	-243	-453	-512	-535
Basic iron and steel	-74	-770	-1446	-2537	-2964	-2771
Non-ferrous metals	-22	139	-6	-100	-353	-265
Metal products	-27	-76	-272	-396	-374	-354
General purpose machinery	-156	-731	-4511	-7069	-7023	-7082
Electrical and electronics	-40	-388	-4488	-6400	-6494	-6003
Scientific equipment	-13	-60	-251	-351	-296	-281
Transport equipment	-86	-110	-755	-1010	-860	-602
Furniture	1	-38	-162	-333	-323	-337
Other Industries	-22	-75	-227	-307	-235	-239
Total Trade Balance (+/-)	470	789	-5348	-10603	-13924	-14391

Source: calculated by author, data from www.trademap.org.

Table 11. Indonesia-China Trade Balance: 10 main trading products (selected), US$million

HS 2 digit	2001	2005	2010	2013	2014	2015
			GAIN			
27	308	1,456	5,271	7,935	5,627	4,257
15	112	671	2,443	2,475	2,685	2,929
47	237	375	646	1,094	1,079	1,079
44	266	262	206	629	801	785
26	7	163	1,385	3,656	605	461
40	55	303	1,267	1,295	584	293
03	14	52	-9	209	168	172
74	15	220	256	222	176	141
48	145	134	74	-131	-108	-49
29	111	351	174	-354	-364	-675
			LOSS			
84	-156	-731	-4,511	-7,069	-7,023	-7,082
85	-39	-380	-4,464	-6,379	-6,473	-5,982
72	-36	-503	-666	-1,409	-1,758	-1,683
73	-38	-268	-780	-1,128	-1,206	-1,088
28	-131	-194	-336	-543	-536	-424
76	-11	-69	-267	-341	-502	-406
87	-56	-76	-329	-559	-478	-405
90	-8	-49	-200	-318	-270	-271
69	-14	-53	-107	-204	-266	-247
83	-12	-37	-172	-238	-237	-228
89	-31	-33	-315	-414	-320	-176
70	6	-19	-84	-173	-164	-162

Source: calculated by author, data from www.trademap.org.

HS 3- Fish, crustaceans, molluscs, aquatic invertebrates nes; HS15- Animal,vegetable fats and oils, cleavage products, etc; HS26- Ores, slag and ash; HS27- Mineral fuels, oils, distillation products, etc; HS40- Rubber and articles thereof; HS44- Wood and articles of wood, wood charcoal; HS47- Pulp of wood, fibrous cellulosic material, waste etc; HS48- Paper & paperboard, articles of pulp, paper and board; HS69- Ceramic products; HS72- Iron and steel; HS73- Articles of iron or steel; HS74- Copper and articles thereof; HS76- Aluminium and articles thereof; HS83- Miscellaneous articles of base metal; HS84- Nuclear reactors, boilers, machinery, etc; HS85- Electrical, electronic equipment; HS87- Vehicles other than railway, tramway; HS90- Optical, photo, technical, medical, etc apparatus.

Table 12. Intra-IndustryTrade: ASEAN-China and Indonesia-China

	Indonesia-China			ASEAN-China		
Manufacturing Industry	**2001**	**2010**	**2015**	**2001**	**2010**	**2014**
Food	0.79	0.27	0.26	0.83	0.57	0.72
Beverages	0.35	0.66	0.25	0.49	0.19	0.46
Tobacco products	0.01	0.07	0.06	0.04	0.66	0.63
Textiles	0.99	0.33	0.35	0.59	0.32	0.32
apparel	0.39	0.30	0.54	0.06	0.12	0.14
Footwear	0.28	0.23	0.25	0.79	0.62	0.42
Wood	0.04	0.15	0.09	0.14	0.55	0.58
Paper	0.11	0.76	0.61	0.59	0.23	0.11
Printing	0.81	0.05	0.07	0.98	0.89	0.47
Petroleum	0.68	0.22	0.07	0.60	0.64	0.75
chemicals	0.83	0.75	0.52	0.96	0.97	0.94
Pharmaceutical	0.19	0.14	0.12	0.33	0.12	0.09
Rubber	0.43	0.19	0.28	0.30	0.21	0.30
Plastic	0.50	0.61	0.54	0.21	0.50	0.77
Glass & non-metallic	0.81	0.21	0.08	0.64	0.49	0.36
Basic iron and steel	0.31	0.11	0.04	0.58	0.16	0.11
Non-ferrous metals	0.69	0.97	0.89	0.86	0.83	0.54
Metal products	0.08	0.02	0.02	0.22	0.12	0.06
General machinery	0.23	0.06	0.03	0.86	0.93	0.83
Electrical & electronics	0.78	0.15	0.11	0.80	0.62	0.79
Scientific equipment	0.19	0.16	0.31	0.98	0.73	0.80
Transport equipment	0.06	0.13	0.09	0.13	0.25	0.33
Furniture	0.85	0.19	0.14	0.29	0.13	0.13
Other Industries	0.09	0.08	0.15	0.13	0.19	0.14

Table 13. Indonesia RCA Index: World and Regional

	World			Regional		
Manufacturing Industry	**2001**	**2010**	**2015**	**2001**	**2010**	**2015**
Food	1.32	3.44	3.87	1.58	4.40	5.30
Beverages	0.07	0.08	0.14	0.50	0.42	0.66
Tobacco products	1.42	1.88	2.73	4.61	4.66	6.96
Textiles	2.32	1.93	2.14	1.56	0.69	0.99
apparel	2.48	1.73	1.96	0.16	0.10	0.26
Footwear	0.85	0.40	0.41	0.14	0.19	0.21

	World			Regional		
Manufacturing Industry	**2001**	**2010**	**2015**	**2001**	**2010**	**2015**
Paper	2.18	2.38	2.50	6.37	3.74	2.93
Printing	0.10	0.11	0.10	0.08	0.06	0.21
Petroleum	2.60	1.95	2.03	2.80	5.23	7.60
chemicals	0.64	0.62	0.68	2.24	1.38	1.25
Pharmaceutical	0.07	0.07	0.13	0.82	0.39	1.18
Rubber	2.46	5.37	3.89	1.50	2.45	1.49
Plastic	0.59	0.43	0.45	1.08	0.66	0.65
Glass and non-metallic	0.72	0.40	0.89	1.64	0.64	1.11
Basic iron and steel	0.39	0.39	0.58	1.22	0.60	0.55
Non-ferrous metals	1.11	1.95	1.32	3.28	4.73	3.26
Metal products	0.22	0.25	0.19	0.24	0.39	0.16
General machinery	0.33	0.27	0.30	0.75	0.30	0.33
Electrical and electronics	0.73	0.51	0.40	0.64	0.32	0.25
Scientific equipment	0.27	0.19	0.20	0.29	0.24	0.19
Transport equipment	0.08	0.27	0.35	0.94	1.13	1.33
Furniture	2.04	1.17	0.83	0.37	0.11	0.11
Other Industries	0.59	0.53	0.64	0.08	0.09	0.22

Table 14. Competition in China market: Indonesia and ASEAN (RCA Index)

	Indonesia			ASEAN		
Manufacturing Industry	**2001**	**2010**	**2015**	**2001**	**2010**	**2015**
Food	2.34	13.61	18.09	0.87	2.10	2.19
Beverages	0.00	0.38	0.17	0.07	0.08	0.50
Tobacco products	0.07	0.79	0.30	0.15	0.47	1.85
Textiles	1.18	0.56	1.11	1.42	0.53	0.50
apparel	0.02	0.06	0.31	0.15	0.07	0.11
Footwear	0.03	0.06	0.16	0.20	0.21	0.28
Wood	20.98	9.04	19.93	3.89	1.56	2.25
Paper	12.36	2.24	1.39	3.19	0.39	0.18
Printing	0.11	0.00	0.05	1.15	0.43	0.95
Petroleum	8.94	24.97	26.34	2.40	4.49	4.61
chemicals	2.49	1.78	1.15	0.88	0.70	0.61
Pharmaceutical	0.10	0.03	0.05	0.85	0.40	0.42
Rubber	5.55	10.51	4.07	2.88	3.71	2.51
Plastic	1.81	0.69	0.54	2.67	1.96	1.36
Glass and non-metallic	0.40	0.09	0.03	0.39	0.23	0.32
Basic iron and steel	0.24	0.14	0.47	0.53	0.14	0.11

Non-ferrous metals	0.89	1.82	1.60	2.11	1.60	1.15
Metal products	0.03	0.01	0.03	0.14	0.09	0.10
General machinery	0.08	0.05	0.05	1.24	0.87	0.79
Electrical and electronics	0.18	0.12	0.09	1.65	1.86	1.98
Scientific equipment	0.02	0.05	0.19	1.16	1.42	1.67
Transport equipment	0.03	0.07	0.09	0.07	0.04	0.10
Furniture	0.07	0.04	0.05	0.03	0.04	0.04
Other Industries	0.01	0.03	0.07	0.10	0.12	0.13

Table 15. China RCA Index: World and Regional

	World			Regional		
Manufacturing Industry	**2001**	**2010**	**2015**	**2001**	**2010**	**2015**
Food	0.78	0.34	0.30	0.67	0.33	0.41
Beverages	0.34	0.10	0.13	3.11	1.11	1.11
Tobacco products	0.40	0.27	0.23	1.10	0.99	0.79
Textiles	1.91	2.04	2.01	2.03	1.53	1.44
apparel	3.98	3.28	2.62	1.04	0.60	0.61
Footwear	3.53	2.32	2.04	1.11	0.64	0.74
Wood	0.74	0.66	0.62	0.30	0.31	0.32
Paper	0.33	0.51	0.82	1.04	0.87	0.97
Printing	0.42	0.53	0.61	1.28	0.72	0.93
Petroleum	0.31	0.10	0.10	0.70	0.61	0.61
chemicals	0.75	0.70	0.71	0.92	0.68	0.65
Pharmaceutical	0.14	0.09	0.09	0.78	0.26	0.37
Rubber	0.65	0.80	0.83	0.41	0.22	0.25
Plastic	0.78	0.65	0.81	0.80	0.66	0.72
Glass and non-metallic	0.80	0.62	0.73	1.28	0.92	1.10
Basic iron and steel	0.90	0.97	1.23	1.29	0.96	1.16
Non-ferrous metals	0.62	0.53	0.61	1.88	0.90	1.12
Metal products	1.81	1.64	1.73	1.08	0.70	0.85
General purpose machinery	0.83	1.56	1.28	1.01	1.10	0.96
Electrical and electronics	1.28	1.78	1.74	0.91	1.32	1.32
Scientific equipment	0.86	0.98	0.92	0.84	1.62	1.37
Transport equipment	0.28	0.53	0.39	1.59	1.28	1.03
Furniture	2.15	2.73	2.79	0.80	0.67	0.73
Other Industries	4.14	3.08	2.78	0.95	0.61	0.72

Table 16. Indonesia: Hillman Index

	World			Regional			China Market		
Manufacturing Industry	**2001**	**2010**	**2015**	**2001**	**2010**	**2015**	**2001**	**2010**	**2015**
Food	0.2	0.1	0.1	*0.2*	*0.1*	*0.1*	0.2	0.0	0.0
Beverages	21.0	19.9	10.1	*10.2*	*14.1*	*6.7*	1439.0	41.0	64.2

	World			Regional			China Market		
Manufacturing Industry	**2001**	**2010**	**2015**	**2001**	**2010**	**2015**	**2001**	**2010**	**2015**
Textiles	0.2	0.3	0.3	*0.2*	*0.6*	*0.4*	0.2	0.5	0.3
apparel	0.1	0.1	0.1	*0.5*	*1.1*	*0.4*	2.2	1.4	0.3
Footwear	1.3	3.9	3.2	*3.0*	*4.2*	*3.7*	9.6	10.6	4.0
Wood	0.1	0.3	0.2	*0.1*	*0.4*	*0.2*	0.0	0.1	0.1
Paper	0.3	0.3	0.4	*0.2*	*0.4*	*0.4*	0.1	0.7	0.9
Printing	21.3	27.3	35.5	*41.1*	*57.9*	*25.4*	46.8	2034.9	124.8
chemicals	0.3	0.3	0.3	*0.1*	*0.2*	*0.2*	0.1	0.1	0.2
Pharmaceutical	6.9	4.7	2.4	*4.7*	*6.1*	*1.9*	33.6	106.7	61.0
Rubber	0.4	0.1	0.2	*0.6*	*0.2*	*0.5*	0.3	0.1	0.3
Plastic	0.5	0.7	0.6	*0.3*	*0.5*	*0.5*	0.2	0.6	0.6
Glass and non-metallic	0.4	0.6	0.2	*0.2*	*0.4*	*0.2*	1.0	4.2	9.6
Basic iron and steel	0.7	0.6	0.4	*0.4*	*0.5*	*0.5*	1.3	1.6	0.4
Non-ferrous metals	0.4	0.2	0.3	*0.2*	*0.1*	*0.2*	0.9	0.4	0.4
Metal products	4.6	4.8	5.8	*4.5*	*2.7*	*5.5*	18.4	52.6	22.4
General machinery	0.2	0.3	0.3	*0.1*	*0.2*	*0.2*	0.9	1.0	1.2
Electrical and electronics	0.1	0.1	0.2	*0.1*	*0.1*	*0.1*	0.3	0.3	0.4
Scientific equipment	1.0	1.4	1.2	*0.9*	*1.2*	*1.4*	14.0	5.7	1.5
Transport equipment	0.9	0.3	0.2	*0.5*	*0.2*	*0.2*	8.5	2.5	2.2
Furniture	0.4	0.7	0.8	*1.5*	*4.3*	*3.2*	5.1	7.3	4.3
Other Industries	1.7	2.4	1.7	*3.9*	*6.0*	*2.4*	19.7	13.4	5.4

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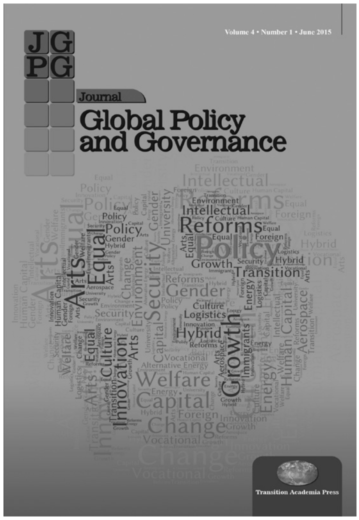
Journal
Global Policy and Governance



Journal of Global Policy and Governance
Aims and scope

Global governance is a challenge of our era and us as human beings no matter where we live and what values we believe in. After a 100 years of development, international relations are so closely and tightly knit. A problem in a community might affect the life of the people in a remote part of the world and its solution might also be in the hands of these people but can’t be assumed outside the more global International Relations theories and practices approach, an interrelated already practiced at every policy decision making, economic and financial levels and first of all by the main powers.

How can we manage this complex of various relations matters for our life and common future? It is the time for us to invest our wisdom and energy to make global governance work now and to give a sense to the United Nations already reduced to a zero-sum-game playing on the major emergencies and conflicts due first of all to the obsolete veto system that would be at least extended to all the 15 countries of the Security Council, being them permanent or at rotation, with the weighting of votes bringing less hypocrite the present five Jalta powers partition already 70 years ago. We are talking of the world not existing anymore.

There is no simple way and framework for global governance. Global governance is a general term which means to think globally and act globally. It is complicated because problems might be local. It is complicated because problems might be also global. It is complicated because the solution of problems might be local but also in a global framework global. That is why we need to check issues case by case carefully. We need to sort out what solution is the best choice for the problem. We need to identify who should be the persons of good will taking the challenge and adding their intellectual and scientific capabilities to the human destiny. We have to take an action worldwide. Global issues are definitely the subjects of global governance. Meanwhile, global governance takes care of issues with local reasons and local solution because we believe the experience might be helpful for people living in other parts of the world. Interdependence of International Relations with finance, economy, technology, research and advanced knowledge until a few years ago unimaginable, new military might introduced by innovation must be some of the crucial challenges, where also our Journal Global Policy and Governance intends to contribute opening its pages, issue after issue, to faculty, experts, testimonies, articles and relevant review of books, junior researches working papers. But we know also that traditional conflicts would not have any perspective in the medium term and will bring to the defeat of the ones who are imagining a return to the past.

We intend to embrace and reach all the possible interested colleagues and fellows around the world, as choices and strategies in all the sectors involving public and private governance, nobody excluded, are under questioning and innovative evaluation. Global world is not anymore a provocative statement, a kind of utopian return to realism and the theories dominant up to the German reunification, the end of Soviet Union and the war in the Balkans have now become obsolete by definition.

Middle East, Black Sea, Eurasia, Ukraine, Baltic, Turkey have the capability to reshape the future. Even if they are now in the middle of the fire, soon the devastations and impressive mass killings will be overcome and reconstruction taking the lead in many of these countries.

But why not underline the successful 30 years development and growth of China, a unique case in the last 500 years. China is the third world power, after European Union and USA, and has now similar problems we have encountered and are still facing nowadays, needs to find a political solution to reforming and giving voice to an accountability to its almost 1 billion 500 million inhabitants.

We really have to rethink the International Relations and the theories of Global Governance and Policy Choices, accepting the pluralities of institutional architectures and ways to give voice and accountability to the citizens. The European Union represents a "non Statehood" institutional governance, without even a Constitution and the Sovereignty belonging to the member countries. Do you believe the EU will change its architecture established by the Treaty of Rome in the future? This is an illusion of the antagonists of the different strategies and policies that were adopted right up to the Euro and the high welfare and technologic standards already achieved, even in the face of a crisis on 2008 that from the Atlantic arrived to Europe three years later and is now affecting East Asia. By 2020 we will be out of this tunnel everywhere in the world.

To add a valuable contribution to this scientific debate is our very aim and scope.

Bodies and Organs

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