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## CHINESE RESPONSE TO TRANSATLANTIC TRADE AND INVESTMENT PARTNERSHIP AND TRANS PACIFIC PARTNERSHIP<sup>1</sup>

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*Abstract:* Among other things that were changed in the last decades, we would like to point out China's dynamic economic growth and re-strengthening Russian influence in international relations. These changes jeopardized the USA position as the only world power. The European Union is the most successful and largest economic integration in the world, but is falling behind the USA in political influence. The USA recognized growing Chinese economy as a major threat to its world dominance, and is trying to limit its spread. Among others, the USA is conducting trade negotiations which will cover, if they are successful, two large regions in the world- Atlantic and Pacific region. A series of trade negotiations are being carried out, mostly in secret, between the EU and USA in order to form a bi-lateral trade agreement - Transatlantic Trade and Investment Partnership (TTIP). On the other side, the USA is ending negotiations on the Trans-Pacific Partnership (TPP), a trade agreement among Pacific Rim countries. What is indicative is that China is excluded from these negotiations. Chinese response to this USA moves in the international field was a complex one. China is focusing in several directions and levels and building connections with other emerging economies. It is important that China's projects are financially very well-funded. The most important and biggest project is the revival of the Silk Road. The New

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Silk Road should uplift Eurasian economy, include large bilateral investment arrangements and produce a significant expansion of FDI. In this paper, we will present arguments to suggest that the Chinese response could be a successful one.

*Key words:* China, USA, Russia, trade, energy, New Silk Road, TTIP, TPP.

JEL Classification: F21, L71, Q32, Q41

## INTRODUCTION

Struggle for supremacy, either on local, regional or global level, takes place from the earliest times. Although in this sense, a little has changed throughout the history, the last century brought an important change - the world has become globalized, and the impact of interconnection between the countries has increased. Even there has been a long time ago since old empires held large territories and had huge impacts in the world, today there are tendencies to rebuild that kind of influence. After decades of the bipolar division of power in the world, since the early 1990s the United States remained the world's only superpower. In the last decade, there have been a numerous factors that had influenced the world to move towards multi-polar division of power, such as: the 2007–2008 global financial crises, which in many ways affected the individual countries and the whole regions; a dynamic economic growth of Chinese and Indian economies, as well as the resurgence of Russia. Today, in place is the gradual repositioning of the largest countries on the scale of world power.

This paper consists of following parts: 1) Introduction, 2) section reviews old and new alliances in the world; 3) section considers relations and strategies in the Asia-Pacific Region; 4) initiatives of the United States; 5) Chinese response and FTAAP; 6) the New Silk Road; 7) Supporting activities of Chinese response; 8) Sustainability of the new growth model of the Chinese economy, and; 9) Conclusion.

## OLD AND NEW ALLIANCES

The end of the World War II and the process of decolonization in the 1960s had established a structure of power and alliances in the world, which is largely held to this day. The processes of integration and disintegration, in different parts of Europe, and also dynamic economic development of a large number of Asian countries changed that pre-established structure in the world. Thereby an economic power of a number of countries does not always correspond to their political importance and influence. The United States is still the leading country in the world with its overall power. The strength of the European Union's economy is not followed by its political significance.

Within the European Union, the United Kingdom has always had a stronger alliance with the United States than with other European countries. The time when

France had a dominant political influence in the Europe has passed due to strengthening of Germany's economic power. Germany has never had enough political force, even within the European Union and certainly not internationally. The same can be said for Japan, whose international political influence is still limited. In short, the United States continues to have dominant political influence in large parts of Europe, Latin America, the Pacific Region and in a part of the Middle East.

On the other side stand Russia, China, India, Central Asia and a part of the Middle East. Russia has managed to restore some of its power in the political, economic and military sense. Extremely high abundance of a natural resources, energy, and clean water are essential elements of its stability and future development. Russia has maintained its former influence in Central Asia, a part of the Middle East, and it has also developed a very good cooperation with China, India, and Iran. Multi-decade dynamic economic growth and the expansion of Chinese exports are the main reasons for large importance and influence that China has nowadays in the international level. At the beginning of 2016, we were witnesses that the dynamics of the Chinese economy has had a global impact and the repercussions on all economies in the world. That kind of influence until today was reserved only for the United States.

## **ASIA-PACIFIC REGION: RELATIONS AND STRATEGIES**

The Asia-Pacific Region is a leader for decades because of its economic dynamics. In addition to the extremely dynamic economies of Japan, Taiwan, South Korea and Southeast Asian countries, a dominant role in that region also have economies of the United States and China. Between those two countries, there is a major rivalry in the region. "While there is a certain degree of distrust between the two powers, there is also a shared understanding that their interests are best served through diplomatic appeasement and mutual agreement for coexistence in the Pacific. Although the two powers have divergent strategic interests, their economic interests are deeply integrated through mutual dependency." (Ratuva, 2014, p. 419) This position is supported by the fact that among Asian and Pacific countries and economies there are still a large and complex relationship and ties: trade, investment, technology, infrastructure, and culture. The role played by the United States after the World War II in the economic development of Asian and Pacific countries in recent years has taken by China, which has emerged as a regional economic power and become a global one. "Due to close inter-linkages and inter-dependencies China's rapid economic ascent has had a discernable effect over the neighboring Asian economies." (Das, 2014, p. 228)

In general, we can say that all the great world powers have similar or identical strategies: to expand and increase its influence or dominance as more as possible. Explanations for that strategies and implemented methods may be different, but ultimately they have the same goal. With economic development and growing

ambitions of China, the rivalry between the United States and China has grown, which is one of the factors that jeopardize unipolar position of the United States. Despite the fact that the United States is dominant in many areas, and has abundant of resources, its international position gradually deteriorates. There are opinions that the foreign policy of the United States had led to decline of international reputation. Also, Russia took over the leading role in the Far East and the Arctic, especially in military terms.

In addition, it should be noted that there are territorial disputes in the South China Sea between neighboring coastal countries. In addition to the important maritime routes, there are significant reserves of crude oil and natural gas. China seeks to secure its dominance and control in this area, among other things through the construction of military bases and facilities on artificial islands in South China Sea: Spratly Islands, Paracel Islands, and Natuna Islands. Also, disputable are maritime boundaries in the Gulf of Tonkin.

## **INITIATIVES OF THE UNITED STATES**

For decades after the World War II, the United States considered the entire Pacific as its zone of influence and control. The United States recognizes a military strengthening and growing ambitions of China as a threat to its dominance in the Pacific. It is normal to expect that the United States will defend its current position by all means. “The US’ return to Asia-Pacific strategy targeted at China has resulted in its endless moves aimed at building a circle of containment around China.” (Zhiping, 2014) The United States has taken two trade and economic initiatives to achieve this objective: Pacific and Atlantic.

### **Trans Pacific Partnership - TPP**

The Trans Pacific Partnership – TPP is an agreement concluded between 12 countries of the Asia-Pacific Region; from the Eastern, American Pacific shore: the United States, Mexico (both states are NAFTA members), Chile, and Peru; Pacific insular countries: Japan, Australia, New Zealand, and Brunei; and following Asian coastal countries: Malaysia, Singapore, and Vietnam. In November 2009, the President of the United States Obama has announced an intention of negotiation the agreement, and it has been concluded in Honolulu, Hawaii two years later, on November 12, 2011.<sup>4</sup> Japan was the last country that joined the TPP negotiations, on July 2013. “The TPP is the leading US trade policy initiative of the Obama

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<sup>4</sup> TPP is preceded by the Trans-Pacific Strategic Partnership Agreement – TPSEP of 2005, which was initially started by Chile, New Zealand and Singapore. From 2008 and 2009 the United States and the countries listed above were joining the negotiations on the conclusion of the agreement.

Administration and a pillar of its efforts to ‘rebalance’ US foreign policy priorities toward the Asia-Pacific region by playing a more active role in shaping the region’s rules and norms.” (Jelisavac Trošić, 2015, p. 148)

As usual, in similar situations, declared goals were very ambitious. TPP should facilitate and enhance trade and investment flows, innovation, and economic development and create new jobs in such huge market area. It would be difficult to challenge the real base of such declared goals if we take into account the economies of the member states. The United States have a strong interest for successful realization of this agreement since this group of countries accounts for 44% of total merchandise exports, 85% of total agricultural exports, and 27% of private services exports. “The US plan for TPP is that it will provide new market access for made-in-America goods and services, strong and enforceable labor standards and environmental commitments, groundbreaking new rules on state-owned enterprises, a robust and balanced intellectual property rights framework, and a thriving digital economy.” (Jelisavac Trošić, 2015, p. 147) In any case, TPP represents a significant success of the United States in the international diplomatic field.

A number of authors have many critical comments on the provisions provided by the TTP. For instance, Stiglitz and Hersh (2015) claim that this agreement is not what it seems and that it has a different nature and essence. “The reality is that this is an agreement to *manage* its members’ trade and investment relations – and to do so on behalf of each country’s most powerful business lobbies.” (Stiglitz & Hersh, 2015) Still, as a general conclusion, the “provisions in the TPP would restrain open competition and raise prices or consumers in the US and around the world – anathema to free trade.” (Stiglitz & Hersh, 2015). These authors provide their arguments stating the main troublesome issues: intellectual property rights, pharmaceutical industry, tobacco industry, etc.

### **Transatlantic Trade and Investment Partnership – TTIP**

The negotiations on the Transatlantic Trade and Investment Partnership - TTIP between the European Union and the United States began in mid-2013. Although negotiations should already be concluded, they are still in progress.<sup>5</sup> It is basically a free trade agreement (FTA), which also should reduce restrictions on investment: to eliminate tariffs and facilitate investment activities for both sides. Standards and regulations in the United States and the European Union would be harmonized, which should reduce the current costs of companies, increase consumer choice and level of safety standards.

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<sup>5</sup> Official positions, the negotiations, the objectives and the rest of TTIP are available on the portal of the European Union: <http://europa.eu/>

Bearing in mind that on the joint US-EU territory live over 800 million people, with high level of development and living standards, it is clear that such a unified market offers great opportunities. The agreement should help the two major economies in the post-crisis period to strengthen, stabilize growth and increase the level of international competitiveness.

The main areas that the agreement should cover and regulate are the following: elimination of almost all customs duties on industrial and agricultural products, trade of services facilitation, participation in public tenders, free access to natural resources, as well as infrastructure and renewable energy, environment protection, etc. Officially, the European Union will not modify its regulations in the fields of human health, health of plants and animals, the environment and consumers. It remains to be seen what will be the final text of this agreement.

On the technical level, the negotiations are led by Commissioner for Trade of the European Union, with an additional team of negotiators and specialists in various fields to which the agreement applies, while on the other side stand the United States Trade Representative with his negotiating team. The negotiations are conducted in rounds, and take place every few weeks.

The European Union has lower public support to conclude TTIP than the United States. “The biggest issue in the talks and the focus of the growing opposition to the pact is a touchstone for all these inchoate fears – investor protection, or the system known as investor-state dispute settlement (ISDS), which allows companies to bypass national courts and sue governments for damages on lost investments in extra-territorial arbitration panels.” (Jelisavac Trošić, 2015, p. 155) The 2015 refugee crisis, which has hit Europe and is threatening to escalate, shows all the weaknesses of political cohesion of the European Union. An additional difficulty is that Great Britain is reviewing its own position in the European Union. In addition to earlier, these are factors that will impede the single European response to the American initiative.

## CHINESE RESPONSE

There are plenty of rational reasons in China’s and other Asian leader’s warnings that TPP could lead to the fragmentation of this large Pacific market. The TPP could be in conflict with existing agreements. For example, only APEC has signed 150 trade agreements.<sup>6</sup> “The Chinese responses to the challenge of the TPP have suggested that the path of an ‘anybody but China club’ may force China to establish a parallel or even competing international order, represented by the BRICS

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<sup>6</sup> All TPP member states are members of APEC, which makes up about half of the total number of APEC member states.

Development Bank at the global level, the New Silk Road Economic Belt at the Eurasian continent level, and the Shanghai Cooperation Organization, the China-India-Bangladesh-Myanmar economic corridor, and the China-Pakistan Economic Corridor at the regional level. In addition, China has also engaged itself in a dogfight style competition in the traditional battleground—maritime Asia.” (Gao, 2013, p. 19) The overall response of China to the United States’ initiatives has several levels and directions, whereby internal reforms and restructuring of the economy, together with the external economic relations, should ensure the effectiveness of such a response. It can be argued that the mentioned United States’ initiatives only intensified and accelerated the already planned and ongoing China’s foreign strategies.

In contrast to the TPP, China supports the establishment of the Free Trade Area of the Asia-Pacific - FTAAP in which it could be involved. The idea of creating FTAAP was conceived in 2006, and to a certain extent elaborated in 2010 by APEC countries. FTAAP should be realized outside of and parallel with APEC, to be common frame, and that does not conflict with existing FTAs in the Asia-Pacific Region. In any case, in a situation where there are numerous completed FTAs, FTAAP should prevent the overlapping of existing FTAs and harmonize small-scale FTAs in the region. This concept should provide support to this idea. APEC Leaders have endorsed the Beijing Roadmap for APEC’s Contribution to the realization of FTAAP in November 2014, which provide the Collective Strategic Study on Issues related to the Realization of the FTAAP to be concluded by the end of 2016. In The 23rd APEC Economic Leaders’ Declaration (Manila, Philippines, Nov. 19, 2015), they reiterate their commitment to achieve the Bogor Goals by 2020 and the eventual realization of FTAAP.<sup>7</sup>

Many studies have already been done on the possible effects that deliver FTAAP. Examining the necessary conditions for positive net trade creation effects, the authors of one study have come up with results that “the overall welfare gain for all subject economies range from US\$55 billion to US\$284 billion and US\$149 billion to US\$636 billion under static and capital accumulation models, respectively.” (Kim, Park, & Park, 2013, p. 22) Applying an advanced general equilibrium model to estimate rough benefits for the main Asia-Pacific ongoing FTAs, authors get the following result: “potential gains increase sharply with the scale of integration. For example, expanding the TPP from 12 to 17 members would triple benefits from US\$285 billion to US\$893 billion in 2025. Since that expansion would include most large economies in the FTAAP, overall gains would be similar. Moreover, gains will depend on the quality of the template; in other words, we show that global FTAAP benefits would be US\$2.4 trillion with a TPP-style template versus US\$1.9 trillion with the intermediate template.” (Petri & Plummer, 2014, pp. 83–86) As much as it

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<sup>7</sup> The Bogor Goals are the set of targeted long-term goals for realizing free and open trade and investment in the Asia-Pacific Region agreed by APEC member states in 1994 in Bogor, Indonesia.

is difficult to give a precise assessment, the results of these and similar studies suggest that the potential economic benefits from the FTAAP are very large.

### **NEW SILK ROAD**

The idea of connecting China and the Far East to Europe has its roots in the ancient network of roads stretching in that direction which was called the Silk Road. Contemporary ideas and initiatives to connect Europe with Central Asia, the Far East and China with trade and transport land corridors represent a revival of the ancient and medieval Silk Road. Such ideas were even more in the recent two decades, and their creators and drivers were the United Nations, the European Union, the United States and Turkey. Before the New Silk Road, there were some less ambitious initiatives in a play. We will mention the following one, which began with the signing of the Basic Multilateral Agreement on International Transport for Development of the Europe-the Caucasus-Asia Corridor - MLA TRACECA in 1998 in Baku by twelve countries, which in 2009 joined Iran.<sup>8</sup> It was preceded by the initiative of eight countries of the Caucasus region and Central Asia in 1993 in Brussels. This project was supported by the European Union. Its basic idea was gradually improvement and construction of a transport corridor for multimodal transport, which would be linked with the Trans-European Transport Networks / TENs. In accordance to the officially announced route, this corridor should begin in European countries: Bulgaria, Romania and Ukraine, and that passing through the territory of Turkey. It would be continued in the Georgian port of Poti across the Black Sea, through the transport networks of the South Caucasus countries and on the other side would be stretched by land from Turkey to the South Caucasus. The corridor would be linked with the railways of Turkmenistan and Kazakhstan by ferry lines across the Caspian Sea (from Baku to Turkmenbashi and Aktau), and continues to Kyrgyzstan, Uzbekistan and Tajikistan. The main problem for the realization of all these ideas and initiatives is that the largest and most influential countries of Eurasia were not included: China, Russia and Iran. “However, when it comes to Eurasia, all US attempts to provide economic alternatives to the Chinese leadership proved to be very weak.” (Arežina, 2015, p. 48)

Although we are witnessing the very large projects in the world, almost nothing can be compared to the New Silk Road. The main reason for this claim is that this is not only a transport corridor as, for example, the Trans-Siberian railway and a large network of railways and highways in the United States are. It remains, of course, to bring in the realization of at least a good part of the New Silk Road. Chinese President Xi Jinping announced in September and October, 2013 two parts

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<sup>8</sup> For detailed informations see: <http://www.traceca-org.org/en/>



of his plan called “one road and one belt”: New Silk Road Economic Belt in Astana (Kazakhstan), and the 21st Century Maritime Silk Road in Jakarta (Indonesia). It is envisaged that all projects will be completed by 2025.

Land route of the New Silk Road begins in Xi’an in Central China, heading West through Lanzhou in the Province of Gansu, passing Province Xinjiang through Urumqi and Khorgas on the border with Kazakhstan; through Central Asia (Almaty, Kazakhstan - Bishkek, Kyrgyzstan - Samarkand, Uzbekistan - Dushanbe, Tajikistan) passes through the northern part of Iran, through Iraq, Syria and Turkey to Istanbul; continues through Bulgaria and Romania to Moscow, Germany (Duisburg) and to Rotterdam, from where it goes down to Venice, where it meets the sea route.

Maritime Silk Road of 21st Century begins in Fuzhou, and continue beside Quanzhou in Fujian Province, Guangzhou - Guangdong Province, Beihai - Guangxi Province, Haikou - Hainan provinces, Hanoi (Vietnam) to the Malay passages; from Kuala Lumpur (Malaysia), Jakarta (Indonesia), Colombo (Sri Lanka), Calcutta (India) exceeds the Indian Ocean to Nairobi (Kenya), where it goes to the North next to the Horn of Africa, the Red Sea, the Suez Canal, Athens to Venice.

### **Land and maritime routes of the New Silk Road, originally presented on the website of the Chinese agency Xinhua**

Will the announced routes stay just like this, or there will be some changes, it will depend on the cooperation between the countries on whose territories it must pass. In any case, the key directions should remain as provided for, since it was taking into account the existing transport infrastructure, geographical and technical conditions and possibilities to improve it, or the construction of new sections, and also environmental issues.

Although there is a transport infrastructure on the planned land route of the Silk Road, its completion will require extremely large resources and capital. If we omit the geopolitical aspect of this large-scale project, and keep our attention only on the trade field, then a crucial factor is transportation costs. Transportation costs play an important role in the international trade, and depending on their amounts, can make a trade business very profitable or even meaningless. The main trade and cost logic of the Silk Road land route consists in the following facts. It takes up to 60 days for maritime transport of goods from Chinese ports to Rotterdam, Antwerp or Hamburg. The transport of goods by road and rail from Chongqing in the Southwest of China, through Kazakhstan, Russia, Belarus, Poland, and to Duisburg (Germany), on the route of 10,800 kilometers long lasts 14 days. When transport costs are concerned, a maritime transport is still without competition: maritime container services on this line cost about US\$ 4,000, and, for now, the railway

transport cost about US\$ 9,000. The large gap in costs should be narrowed, according to expectations, by making a return tour, from the West to the East, for the shipping of high-value goods, such as ICT products, luxury cars or expensive components.

According to officially proclaimed goals, the central idea is the cooperation with the neighboring countries along the New Silk Road. Its development concept or the main elements have not yet been defined. Since this is a long-term project, they will certainly be formulated, and for now it is the subject of debate and seeking common denominator for all countries involved. (Ze, 2014) At the core of this idea stands the connection between people, through the removal of existing bottlenecks and the construction of new infrastructure and main networks.

A financial support for this great project is a serious network of financial institutions: BRICS Development Bank, the Asian Infrastructure Investment Bank – AIIB, and the Silk Road Infrastructure Fund. At the APEC summit in Beijing in November 2014, 22 Member States have approved the creation of the Asian Infrastructure Investment Bank (AIIB), while against this proposal were three countries: Japan, South Korea and Australia. The projected capital of the new bank is US \$50 billion, and the main financiers and shareholders are China and India. In addition to this, there is BRICS Development Bank, which was established with the aim of funding the energy, telecommunications and transport projects. Also in November 2014, President of China announced the establishment of the Silk Road Infrastructure Fund, with a capital of US\$40 billion, primarily for the construction of transport infrastructure. It is a very large investment fund, which will have a decisive influence on the implementation of the announced projects.

On this particular plan, China is currently in negotiations on high-speed lines to 28 nations, most of which are along the route, with a total length of over 5,000 kilometers on the agenda. The basis for these negotiations lies in the Chinese experience in the construction of high-speed railways in the country, their own equipment and Know-How. Although the development of high-speed railways in China initially was leaning on the transfer of technology from abroad (Alstrom, Mitsubishi, Siemens, Bombardier), China won the independent production of the high speed railway locomotives and trains. Since the opening of the High Speed Railway network in 2007 China has built up roughly 19,000 kilometers of HSR track by the end of 2015 and intends to double or triple it.<sup>9</sup> Large sums of investment capital value of tens and hundreds of US\$ billions have been provided

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<sup>9</sup> The first was Qinhuangdao–Shenyang High-Speed Railway in 1999. German *maglev* technology (derived from: magnetic levitation) is applied in the construction of Shanghai Maglev Train in 2004, which became the world's first commercially operated high-speed maglev railway. Most of Chinese high-speed railways applied the high-speed trains with wheels that run on conventional standard gauge tracks.

for the full development of the planned High Speed Railway network. China has announced the expansion of the HSR network to 50,000 kilometers by 2020.

For now, the existing transport corridors from China to Europe have shown their effectiveness and efficiency, which is an additional argument for the implementation of large transport and infrastructure projects along the New Silk Road. Although China planned to introduce a freight train line China-Europe since the early 1990, the idea was realized in 2008. It uses the so-called Northern Eurasian Railway Corridor, which is linked to the Trans-Siberian Railway.<sup>10</sup> From the starting line in 2008, today it came to ten direct railway container and intermodal train lines: Hamburg (3), Frankfurt, Duisburg, Poland (2), the Czech Republic, and Madrid. All these lines operate effectively despite the fact that the length of some of the lines exceeds 13,000 kilometers.

### **SUPPORTING ACTIVITIES OF THE CHINESE RESPONSE**

In addition to the FTAAP and the project of the New Silk Road, China already has a well-developed bilateral and multilateral cooperation in the Eurasia, as well as the intensive investment activity abroad. Perhaps the most important fact is that all existing forms of cooperation, both multilateral and bilateral are compatible with the project of the New Silk Road. BRICS, Shanghai Cooperation Organization - SCO, cooperation with Iran and the Central Asia Region, provide a broader framework for the implementation of large infrastructure and development projects.

For the future development of Eurasia and the implementation of the New Silk Road the crucial relations are China with Russia, the countries of Central Asia and Iran. “Without a positive response from Russia, the concept of the Silk Road Economic Belt will be hard to realize.” (Zhiping, 2014) The overall Sino-Russian relations are being intensively developed in the last decade as a result of the consent of mutual interests and development needs as well as certain antagonism towards the United States’ and the European foreign policy. For Russia, “a significant deepening of relations with China is unavoidable. The antagonistic policies of the West do not leave an alternative.” (Lukin, 2015) To the maximum extent, we can agree with the statement that China and Russia have a common interest in solving the following items: mutual economic interest, breaking the unipolar world system, maintenance of the international law system, solving of regional conflicts, cross-border economic cooperation, Central Asia, and anti-separatism battle. (Lukin, 2015) Russia is without doubt the strongest ally in confronting the United States

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<sup>10</sup> There are three routes that connect China with the Trans-Siberian Railway: via Mongolia, via Zabaikalsk, and via Kazakhstan. In addition to the Northern Eurasian Railway Corridor, it exist the Central Eurasian Railway Corridor. In the future it is planned the establishment of the Southern Eurasian Railway Corridor.

on a global scale, especially in military terms.<sup>11</sup> Russian military technology is still the basis on which China's military industry based its accelerated development.

The economic and political interests of China and Russia in this region are largely compatible, which has been reflected in the finished and also planned energy and infrastructure projects and agreements. (Antevski, 2016, pp. 124–126) “The Russian economy is largely dependent on oil and gas exports: natural resources account up 65% of total Russian exports, whereby crude oil account up 33% of Russian exports.” (Antevski, 2015, p. 55)

The dynamic economic development has the extremely high energy consumption in China, and consequently large imports of crude oil and natural gas. In the Eurasian energy sector, Russia is the largest producer and China is the largest consumer. As a source of China's supply of crude oil, Russia overtook Saudi Arabia and became China's largest supplier of crude oil. A drastic drop in the price of crude oil in 2015 has largely reduced Russian export revenues. Since the price of natural gas is linked to the price of crude oil, Russia's natural gas exports also suffered significant losses. On the other side, China has made a record import of crude oil in 2015 and thus complements its strategic oil reserves. There are three major Sino-Russian energy projects: Skovorodino–Daqing spur oil pipeline linked to Russian ESPO oil pipeline, and two gas pipelines, the Power of Siberia gas pipeline (Eastern route), and the Altai gas pipeline (Western route). These three huge energy projects will contribute to the stability of China's supply and stability of Russian exports.

“General characteristic of the Chinese energy strategy is avoiding overdependence on any one energy supplier. That is why China has largely sought to geographically diversify its sources of energy supplies and transport routes. Permanent activities of China in strengthening energy security are: investments in energy and mining sectors abroad, foreign investment in shale deposits and alternative energy sources, concluding long-term agreements for energy supply, capacity building to ensure the safety of maritime transport routes, as well as the creation of strategic oil reserves which began in 2001.” (Antevski, 2015, p. 56) In addition, China is continuously trying to improve the energy efficiency and develop alternative energy sources. Thus, China has overtaken Europe and become the largest producer of electricity from wind energy. Regarding the above, it should be noted that China is planning to build a first overseas naval base in Djibouti, near the Bab el-Mandeb Strait. Since 2008, China has already been very active in anti-piracy escort missions in the Gulf of Aden and the waters off the Somali coast.

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<sup>11</sup> Although China's military forces is modernizing and equipping very intensively in the last decade, developed its own production of the most modern weapons, China still lags well behind Russia and the United States in military power.

Chinese exports of industrial and agricultural products to Russia have a good growth prospects, as well as the implementation of major infrastructure projects also in Russia. In early September 2015, China and Russia have reached an agreement on joint financing of the construction of high-speed railway between Moscow and Kazan, a distance of 770 kilometers, which is planned to be opened in 2020. Each of the two sides will invest half of the total of €30 billion. Afterwards it is planned to extend lines to China and link Moscow and Beijing over Kazakhstan.

The next important region along the New Silk Road is Central Asia. “Central Asia was once the hub of the Silk Road and if a Silk Road Economic Belt is realized it would be so again.” (Zhiping, 2014) This is an area of mutual interest for Russia and China, but Russia has managed to maintain its dominant influence on the countries of Central Asia. “Russian politicians have always taken Central Asia as their back-yard, brooking no outside ‘interference’.” (Zhiping, 2014) The Eurasian Economic Union – EEU was finally been formed through the various forms of economic integration since 2000. Although the total population of Central Asia is only around 60 million, and all countries are economically underdeveloped, this region has an important geo-strategic position and large deposits of crude oil and natural gas. Thus, in the mutual trade within the EEU energy resources account for almost half. It can be expected that Russia will maintain its dominance in the region regarding military and security area, but the economic impact of China will strengthen, since Central Asia is the important source of China’s energy supply. China National Petroleum Corporation - CNPC, the largest Chinese oil and natural gas producer and supplier, has become the largest buyer of natural gas from Turkmenistan instead of Gasprom.

China and Russia had a well-developed economic cooperation with Iran before the sanctions were lifted in July 2015. “Russia and China once enabled and supported Iran’s nuclear program. Russia has built the nuclear complex at Bashher and China supplied the main components for centrifuge program. When it comes to weapons and military equipment, it can be expected in the future significant Iranian purchases from Russia and China to modernize its army.” (Antevski, 2016, p. 133) In addition, Russian companies have already contracted important joint projects in energy and transport infrastructure in Iran. It is certain that China will increase its orders of crude oil from Iran and its investment in the energy sector.

China has extensive experience in the implementation of major infrastructure projects in the country, and transfers some of these activities abroad, when it has a strong financial support of large state-owned banks. (Downs, 2011) There is an increased activity of Chinese companies in the energy sector in last year, so we can list several recent projects: the agreement with Argentina on the construction and financing of two nuclear reactors worth about US\$15 billion; the announcement of the investment and construction of a nuclear power plant in the southwest of the United Kingdom worth about US\$9 billion; expansion of hydroelectric power

plants Hwange in Zimbabwe by Chinohidro Corp. worth US\$1.5 billion; possible participation in the construction of nuclear power plants in South African Republic.

Activities of the Chinese state and private companies in the Middle East are particularly intensified in the last decade. There are several factors that encourage these activities: first, about half of China's oil imports come from the Middle East; second, China is already well positioned in Africa; and third, underdeveloped infrastructure in the Middle East opens the way for Chinese companies, which have good experience in the implementation of infrastructure projects. We mentioned several current projects: the second-stage construction of a high-speed railway from Ankara to Istanbul, Turkey; the light rail project in Mecca, Saudi Arabia; 72-km expansion of the Suez Canal, Egypt; and finally, new business hub Silk City (Madinat al-Hareer) in northern Kuwait, whose completion is expected by 2035.<sup>12</sup> Unlike Russia, the United States and developed European countries, which in addition to economic and political have geo-strategic interests in the Middle East, the Chinese approach, which is planned for a long time, is focused on economic cooperation and development. One can speak of a common approach in cooperation with other regions and countries, based on mutual benefits and development. Such Chinese policy has proved very successful in Africa.

If we looked at the geographical map of current and planned infrastructure projects initiated by China in cooperation with partner countries, it is easy to conclude that they are located on the main or related routes along the New Silk Road. In this way, China supports the construction of infrastructure networks, especially transport networks. We can mention several ones: the lease of Terminal 1 and 2 and part of Terminal 3 of Piraeus Port by Cosco Pacific Ltd. in 2009; construction of the bridge Zemun-Borča on the Danube river; planned construction of another bridge across the Danube river near Vinča; the high-speed railway Belgrade-Budapest; ongoing construction of the highway Bar-Boljare in Montenegro, as well as a number of investment in the energy sector of the Western Balkans. In addition, Chinese companies are also interested in leasing the Thessaloniki Port, the Port of Igoumenitsa, and the state railways of Greece.

### **SUSTAINABILITY OF THE NEW GROWTH MODEL OF CHINESE ECONOMY**

Let us start this section with the following dramatic statement: “China is in big trouble. We are not talking about some minor setback along the way, but something more fundamental. The country's whole way of doing business, the economic system that has driven three decades of incredible growth, has reached its limits.” (Krugman, 2013) Is that entirely true? The slowdown in the growth dynamics of

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<sup>12</sup> Referred to: <http://www.globaltimes.cn/content/964439.shtml>, Accessed January 20, 2016.

the Chinese economy during 2015, continued decline in crude oil prices, and the adjustment of the renminbi yuan exchange rate are factors that certainly contributed to the low level of growth dynamics of the world economy.

The fact is that China has reached two Lewis turning points in 2004 and in 2010.<sup>13</sup> Functional mechanism is as follows: “As a result of aging population, the working population stopped its growth and the dependence ratio no longer decreases; eventually, the demographic dividend will cease to exist. Labor shortage, diminishing return on capital and a decline in the savings rate will lead to a slowdown in economic growth.” (Cai & Lu, 2013, p. 2) The demographic dividend as a source of economic growth is exhausted.

In the current debate about the sustainability of China’s growth model, it is useful to recall that the Chinese State Council in September 2011 announced the change of the growth model. (Antevski, 2013a) In short, a new model of economic growth is conceived as a complex and comprehensive, so that it would not be based only on investment and exports, but rather on consumption, investment and exports. Although the potential growth rate is determined by supply-side factors, it now includes both supply-side factors and demand-side factors. “Demand-side factors, although unrelated to the potential growth rate, can help to make economic growth more sustainable and the macro economy more balanced.” (Cai, 2015, p. 18) Encouraging the growth of domestic demand, especially consumer demand can bring significant economic and social benefits. In addition, significant progress has been made in improving the business climate, as well as the more liberal participation of private capital in the services sector. “Recent growing investment and participation of private firms in financial and banking activities show positive signs of financial resource allocation.” (Chu & Song, 2015, p. 72)

If the Chinese investment abroad and exports are seen as foreign demand, and the growth of investment and exports are seen as growth in overall demand, one can expect its positive impact on the pace of economic growth. Previously mentioned Chinese investment abroad, which link the export of goods and services, as well as internal reforms underway, should enable the viability of a new growth model. Finally, if we compare the forecast growth rate of China’s GDP in 2016 from 6.5% to 6.9% with growth rates of leading industrial countries, then we can talk about stabilizing the dynamics of growth at a sustainable level.

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<sup>13</sup> William Arthur Lewis, 1915–1991, British and American economist, Nobel laureate in economics in 1979. In his most important paper from 1954, *Economic Development with Unlimited Supplies of Labor*, Lewis has developed the model of a dual sector, or Lewis model. The essence of his model is as follows: the growth of the industrial sector is based on the unlimited labor supply from non-industrial sectors (rural), which provides, in the early stages of development and for a longer period: first, keeping wages and household consumption at a very low level; and secondly, the high returns, reinvestment of profits and further employment growth. The result is, in a certain period of time, high rates of economic growth and economic development.

## CONCLUSION

Comparing the United States' two initiatives and the Chinese response – the New Silk Road, for us the second is more convincing. One of the more important reasons is that it is a long-term strategy of development for the whole region, and not only one more trade agreement. Supporting argument for the expected success of the New Silk Road in a long run is that it serves the interests of the region and countries that are going to be involved in the realization of that huge project. We should bear in mind that there is a sufficient degree of matching between development needs and resources of the countries in Eurasia. If we consider the fact that even though the most of the involved countries have a parliamentary democratic system, they are largely centrally controlled countries, so we can conclude that it will speed up the realization of this huge project.

The Chinese approach is focused on mutual economic benefits of the whole region, economic cooperation and development. One can speak of a common approach in cooperation with other regions and countries, based on mutual benefits and development. Unlike the United States, which has commercial and geo-strategic approach to cooperation in the Pacific, Chinese approach is broader because it includes part of the Pacific Region and Eurasia, and has developmental and a long-term character. In addition to extensive experience in the implementation of infrastructure projects in the country, domestic equipment, qualified experts, know-how, and large financial support of Chinese development banks, China has a number of already implemented and contracted infrastructure projects in Eurasia. That kind of experience is a big plus. Developments of infrastructure networks have proven to have stimulating effect on the trade growth and growth of related production and overall economic activity.

The implementation of this project will result in lowering transport costs, which will greatly contribute to raising the competitiveness of products of countries through which the New Silk Road going through. In addition to the great potential of the New Silk Road and related projects, if it comes to finalization it going to reduce the significance of US dollar dominance in the world, because China and Russia will make calculation of mutual transactions in national currencies.

Although one should not have illusions about the global ambitions of China and Russia, it should be recognized that the Chinese approach to economic and political cooperation is now well accepted in many countries along the New Silk Road. Because of common interests and the activities with mutual benefits, we believe that the Chinese response will encounter a good support in many countries and will be successful.

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### **KINESKI ODGOVOR NA TRANSATLANTSKO TRGOVINSKO I INVESTICIONO PARTNERSTVO I TRANSPACIFIČKO PARTNERSTVO**

*Apstrakt:* U poslednjih nekoliko decenija bilo je velikih promena na međunarodnom planu. Mi ovde želimo da istaknemo dinamičan privredni rast Kine i ponovo jačanje ruskog uticaja u međunarodnim odnosima. Te promene ugrožavaju poziciju SAD kao jedine svetske sile. Iako je Evropska unija najuspešnija i najveća ekonomska integracija u svetu, ona u političkom uticaju zaostaje za SAD-om. SAD su prepoznale ubrzani rast kineske privrede kao glavnu pretnju svojoj dominaciji u svetu i pokušavaju da ograniče širenje kineskog uticaja. Između ostalih poteza SAD vode trgovinske pregovore koji će, ako budu uspešni, ovuhvatati dve velike regije u svetu Atlantsku i Pacifičku regiju. U toku je niz trgovinskih pregovora, uglavnom u tajnosti, između EU i SAD u cilju formiranja bilateralnog trgovinskog sporazuma - Transatlantsko trgovinsko i investiciono partnerstvo (TTIP). Sa druge strane SAD završavaju pregovore o Trans-pacifičkom partnerstvu (TPP), sporazumu o trgovini sa 11 zemalja na Pacifiku. Ono što je indikativno je da je Kina isključena iz ovih pregovora. Kineski odgovor na ove poteze SAD na međunarodnom planu je kompleksan. Kina se fokusira na nekoliko pravaca i nivoa, kao i u izgradnji veza sa drugim privredama u razvoju. Ono što je važno istaći je da su kineski projekti finansijski veoma dobro zasnovani. Najznačajniji i najveći projekat je oživljavanje puta svile. Novi put svile treba da podstakne evroazijsku ekonomiju, uključuje velike bilateralne investicione aranžmane, kao i značajnu ekspanziju investicija. U ovom radu ćemo predstaviti argumente koji ukazuju da bi kineski odgovor mogao biti uspešan.

*Cljučne reči:* Kina, SAD, Rusija, trgovina, energetika, novi put svile, TTIP, TPP.

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