

CHAPTER 1

Transition Period of Post-globalization and China

I. How to Perceive: the Chaotic Landscape of the Current World and the Re-emergence of the Global Imbalances

In 1990, with the end of the cold war, the United States began to believe that a peaceful world order was about to emerge. President Bush Sr. issued a statement in Prague that the United States would “forge a new world order for all nations, which is more stable and more secure than is ever known”.

A quarter of a century has passed. Unfortunately, the world has merely demonstrated the other way around with recurrences of military aggressions, regime collapses, racial conflicts and terror attacks, tiring out governments of various nations. In 2015 alone, Malaysian Airlines aircraft was shot down over Ukraine, series of tense confrontations occurred between China and Japan in the East China Sea, and the situation on the Korean peninsula fell tense again. All these remind us that the risk of a large-scale war still exists. The terrorists have proclaimed with their direct actions that ‘a stable world order’ is nothing but a fantasy: in the past year, the number of the terror incidents across the world has hit more than 13,500, resulting in 33,000 deaths. Furthermore, terrorists have shown significantly enhanced ability to scheme and to

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execute their strategy today than they did at the 9-11 Incident in the US. The performance of weapons has constantly improved as well. Some experts have even pointed out that the “nuclear terrorism” is not inconceivable.

In this chaotic global landscape, the deepening interest bond of nations has not brought about a stable international community. The development of new technology has enabled people to enjoy unparalleled information synchronization, but has bred fierce value conflicts than ever before. The concept “international order” has never been so widely referred to like today without a consensus being reached on what it exactly is. Nations are unprecedentedly seeking interdependence upon each other in a world of “international disorder”.

What is the direction of change in global landscape? Is it US-led, the second cold war, or a multipolar world? The lessons from history tell us that it is the re-emergence of an unbalanced world.

It is a world of intercivilizational conflict. The prediction of Huntington is surprisingly accurate: The development of history does not end in a universal civilization. Non-Western civilizations embrace technology from the West, but stick to their own root values. So what currently dominates the world is the Clash of Civilizations (CoC). China gently but firmly rejects the West’s “universal values”, while Russia is tough to fight back against Europe and the United States. As for religious extremists, they are posing a global threat of terrorism. The clash of civilizations is projected into the present global landscape, which highlights the weakness of the western civilizations in maintaining the world order.

It is a world of economic imbalance. Today, the economy is split into the real economy and the virtual economy: the manufacturing industry and trade volume of developing countries are growing rapidly, but the global capital revenues are controlled by the developed countries,

led by the United States. The Sino-US trade and economic relations are the most intense manifestations of such imbalances: the US, with its unlimited money-creation capacity, has captured China's continuous labor force, eventually leading to China's a huge trade surplus followed up with a small share in the capital gains. Meanwhile, despite its huge trade deficit, the US enjoys an enormous capital return. It is such unbalanced economic landscape that makes it difficult to bridge the gap between the poor and the rich countries.

It is a world of mistrust between great powers. Economic interdependence among the major powers has become the norm, but it is difficult to establish a high degree of mutual trust with each other in politics and security. Not only the Western powers to China and Russia always keep alert, but also the United States and its allies appear signs of disunity. The considerably progressed cooperation between nations cannot cover up the profound division behind. Great powers are the key force in maintaining a stable world order. However, lack of trust between them will as well be sending out signals of instability to the world.

A world of recurrent imbalances means that the global governance system and competitive mode are at a historical turning point. How should we perceive such a world? How will the world move towards its "rebalance"? What role should China play in "rebalancing" the world? And what position will China be in the "rebalanced" world? All these questions call for our comprehensive and strategic deliberations.

II. The Rise of Great Powers: from Industrial Revolution to Globalization

The competition of the world order is mainly the competition of the great powers. The order of the world is the result of the distribution of

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power, interests and ideas among the main actors in the international society. The first rising power in the modern world is the United Kingdom.

At the end of the 15th Century to the early 16th Century, the European powers opened up a new sea route, starting the advances in the economic globalization. Benefiting from the new route, the British emerging bourgeoisie enjoyed the increasing economic strength and established a constitutional monarchy, through the power of which they strove to develop capitalism. The growing world market demand drove the expansion of the industrial revolution in Britain, marked by Watt's invention of the steam engine. By 1840s, Britain had completed its first industrial revolution with the transition going from hand production methods to large-scale manufacture of machines.

The industrial revolution promoted the development of the capitalist economy, strengthened the capitalist system and accelerated globalization. After the first industrial revolution, Britain became the most developed capitalist country in the world. The industrial output of Britain accounted for only 1.9% that of the world in 1760, but went up to 9.5% in 1830, and 19.9% in 1860, thereby entering into its prime era as a "world factory" in both name and reality. At the same time, industrial revolution spread to other European countries and the United States as well, encouraging rapid growth of capitalist economy. With the worldwide involvement in the capitalist market system, "Western impact" began to emerge in various forms accompanied by colonial expansion. In 1800, Europeans occupied or controlled 35% of the world's land, and up to more than 84% by 1878. It was a time Britain had established a vast colonial empire known as "an empire on which the sun never sets", spanning a quarter of the globe. Pound Sterling became the global reserve currency, as reliable as gold. A Eurocentric world landscape led by Britain began to emerge.

In 1870s, the second industrial revolution began to boom, marked by

the invention of electricity. It was then followed up with the transportation revolution (railway and marine revolution) and communication revolution (telegraph and radio communication), making the world smaller and closer. At the same time, with the rapid development of the post-Civil War America, there formed the world's two largest industrial zones, Europe and North America. The monopoly organization emerged, and the main capitalist countries arrived at the imperialist stage characterized by capital export. By the end of the 19th Century and the beginning of the 20th Century, a global international political and economic system was formed with the completion of the international division of labor, the emergence of the world market and the world monetary system, and the establishment of the colonial system. While Britain remained its world dominating position, the United States rose as an economic power (in 1913, the US industrial production accounting for 38% of the world total, ranking first in the world), and Italy, Germany and Japan began to challenge the old system as new emerging countries.

The unbalanced development within imperialist powers and the huge differences in their colony share deepened and sharpened the conflicts between the new and old imperialist powers, finally resulting in World War I (WWI) (1914-1918). By the end of the war, the vitality of Europe was undermined. Austro-Hungarian Empire (1867-1918) disintegrated; Germany lost the battle; Russia established its socialist system after a revolution; France, Italy and Britain, despite being members of victorious allies, suffered heavy losses as well. Soon after, a new global international order was formed based on the League of Nations and the Versailles-Washington System.

However, due to its instability, the Versailles-Washington System only temporarily eased the conflicts between imperialist powers, but failed to eliminate their disputes arising from their respective fundamental

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interests. In 20s and 30s of the 20th Century, Germany rose again and fascism was widely renewed, creating a mature power and will destroy the old system, another world war seemed to be inevitable. Meanwhile, Britain voluntarily gave up its leading role in the transition of world leading power to the United States. Instead of assuming its potential due commitments as the leading world power, the US seized the opportunity to grab worldwide interests. The Soviet Union (founded in WWI, originating from Russia) sprang up rapidly; its fast-growing economic and military strength stirred great fears among the capitalist nations. Thus, a counter-balanced landscape began to emerge with three rivaling groups, namely, Germany-Italy-Japan group, Britain-France-the United States group, and the Soviet socialist group.

The fascist states (Germany, Italy and Japan) launched the Second World War, facilitating the recombination of political forces in the world. Confronted with the common enemy, capitalist countries and socialist countries joined together to form the anti-fascist alliance. The United States took the initiative to assume its responsibility as a world leading power, and played a key role in the establishment of the United Nations and the Bretton system, which laid the foundation for a new political and economic order.

A new world order, the Yalta system, was formed after the war. Under this system, politically, the United Nations confirmed the principle of national sovereignty equality and self-determination; economically, the International Monetary Fund, the World Bank, General Agreement on Tariffs and Trade (GATT) represented the aspirations and efforts to promote global economic development. Two super powers, the Soviet Union and the United States, then began to emerge, followed by the more than forty years of confrontation and the cold war between the socialist camp centered by the former and the capitalist camp led by the

latter.

The Third Industrial Revolution started in the United States featuring the invention and application of atomic energy, computer, space technology and Bio-engineering. This technological revolution not only greatly promoted the transformation of social economy, politics and culture, but also accelerated globalization.

The world ushered forth an upsurge of globalization in the late 1970s and the early 1980s when the Cold War came to the end with the disintegration of the Soviet Union and the drastic changes in Eastern Europe. The confrontation ceased afterwards between great powers. Instead, the cooperation and coordination of interests among them made for the leading factors in their relations since 1990s. Meanwhile, the dramatic growth of global productivity propelled by information technology allowed countries to strive for the most favorable competitive advantage and strengthened international economic position by drawing on technology, information and capital. The intensified inter-dependence between countries on economy boosted inter-dependence on politics as well. The global economy has come to be an interdependent open system with the allocation and reorganization of resources, and the emergence of numerous transnational corporations which exert great influence upon the global economy. Globalization has become an inevitable historical trend.

III. Current Competition of Great Powers: the Competition from Economy to Multinational Companies to Super-projects

No matter how big the country is, there is always a boundary. No matter how rich the country is, the resources or capacities it has cannot fully meet people's multifarious demands of interests. Therefore,

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people's demands of interests always tend to go beyond their country's boundary. Such demands, whether in volume or quality, concerns the survival and development of the stakeholders, and may have fierce collisions and impacts as well on the related country's political system, religious practices and cultural values. Accordingly, throughout history, a state shall undertake the functions of coordinating and arbitrating within the relationship between transnational economic interests.

However, the coordination and arbitration of economic interests between nations does not follow the so-called principle that "all nations, big or small, are equal", but is rather made by relevant powers according to their own weighed pros and cons. Geo-political "stakeholders" (powers with grave weight), tend to influence and interfere with the formulation of regional and even the global economic and political rules owing to their economic strength. Therefore, the world stage is essentially a wrestling arena for the great powers.

In ancient society, the competition between big powers lied mainly in that of military forces. When the world ushered in the capitalism and industrialization era, economic competition between countries gradually replaced the military rivalry and became a source for big countries to enhance their economic strength and win more geopolitical right of speech.

In the early stage of capitalist development when mercantilism prevailed, the state was often using its political power to monopolize the large trading companies-state organizations participating in international economic competition. Therefore, the trade companies in this period also assumed many government functions (monopoly management), representing a certain national will (colonial conquest).

However, along with the rise of numerous small companies and the huge productivity impact brought by the Industrial Revolution, the millennial-old mercantilism which pursued monetary wealth through

government-imposed monopoly power was gradually replaced by the free trade which sought the spirit of equality and contract. In the United Kingdom, a large number of small and medium-sized industrial companies became the leading role in the national economy, replacing the state-controlled large commercial trading companies. In the early 19th Century, the franchise in the UK was abolished. In 1862, The Corporate Law was released. Thereby, the limited liability company, a business cooperative organization, gained its legal status beyond the power, personality and even the family bond. Modern companies, transiting from monopoly to competition and from being blocked to being open, were hence able to participate in the global economic competition as an independent liability subject.

Nurtured by market economy, some unremarkable companies began to stand out in the market competition by capitalizing on their cost advantage in specialized production. Till the middle of the 19th Century, along with the capital accumulation and expansion, many mega-corporations arose in the United States and Germany, such as the Central Railway Company, the Standard Oil Corporation, the Carnegie Steel Corp in the United States, and SIEMENS in Germany, etc. These super enterprises, with their huge financial and social resources and integrating capacities, transformed whatever they touched, discovering new human worlds, opening up paths through mountains, building bridges over rivers, changing deserted areas into busy streets and replacing barren with abundance. Due to their expansions of all forms, profound transformations took place to individuals, regions and even countries. At the beginning of the 20th Century, the world's right of speech gradually shifted from the United Kingdom to the United States in that the latter had surpassed the former in the strength of economy.

Similarly, as early as 1860s, the emergence of super enterprises gave

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rise to a gradual transition of capitalism from free competition to monopoly stage. Their economic expansion, encouraged by the transnational flow of their huge surplus capital, extended to every corner of the world. It was in the foreign capital output of the super enterprises that “multinational corporation” emerged.

After nearly a century’s development, the multinational companies which enjoyed the technology and resources monopoly advantages implanted their economic impact into developed countries through mutual investment. Furthermore, their capital output spread the capitalist production mode to a large number of less developed countries, further intensifying the traditional vertical division system. Multinational companies have thereby become the key force in promoting the economic globalization. The economic competition between countries has been replaced by that among multinational companies.

According to the United Nations World Trade Organization (UNCTAD) Annual World Investment Report, in the mid-1990s, the growth of investment in multinationals grew even more rapidly, with an average increase of more than 40 per cent in 1996-2000 and a record volume of global FDI (Foreign Direct Investment) inflows hitting \$127.1 billion in 2000.

With the global market segmentation being increasingly saturated, the traditional competitive mode of relying on market share has been out of use. Then what will be the “tipping point” in the future competition of global economy with the coming of post-globalization era featuring the imbalance of global economy and the clash of civilizations? It will be the Super-project! That is, the production exhibiting great capacities for industry extension, resources integration, and national core strategies. Super-project means the huge market demand and high efficient resources integration; whichever company or country grabs Super-project