China's Economic Diplomacy: Concept, Organization, Implementation Mechanisms and the BRI

Li Xiangyang (李向阳)*
National Institute of International Strategy, Chinese Academy of Social Sciences (NIIS CASS), Beijing, China

Abstract: *Based on the existing research regarding China's economic diplomacy, this study creates a theoretical structure for economic diplomacy with Chinese characteristics that encompasses soft power, the two competitive concepts of justified ought and self interests, and the Belt and Road Initiative (BRI). By introducing soft power, this paper argues that the goal of economic diplomacy with Chinese characteristics for the new era is to achieve the conversion of hard power to soft power. Unlike the "carrot and stick" principle often followed by Western powers in their economic diplomacy with political strings attached, the conversion between hard power and soft power in China's economic diplomacy hinges upon the two competitive concepts of justified ought and self interests, which is the basic principle that guides China's economic diplomacy overall. We argue that in creating an implementation mechanism for China's economic diplomacy, policymakers must consider China's unique national condition as a large economy not yet rich in per capita terms, while drawing upon the experiences of other major nations.*

Keywords: *Chinese economic diplomacy, soft power, the greater good, national self-interest, the Belt and Road Initiative (BRI)*

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1. Introduction

For a great power, economic diplomacy constitutes an important part of its foreign affairs strategy and for an underdeveloped great power such as China, an essential means for its national rejuvenation. Since the founding of the People's Republic of China in 1949, *de facto* economic diplomacy has always existed, but was not identified as a national strategy until recent years. By endowing the Belt and Road Initiative (BRI) with the attributes of economic diplomacy, China is forming an organizational structure for economic diplomacy for its new era, Chinese academia introduced the concept of economic diplomacy in the 1990s but has yet to agree on what mode of economic diplomacy China should follow. While China's economic diplomacy shares some common attributes with other major world powers, whether it should replicate the practices of the other powers is a question to which China urgently needs an answer.

First, the imbalance between hard power and soft power presents new challenges to China's economic diplomacy. According to Joseph Nye (2013), a country's overall national strengths can be divided into hard power and soft power. The former refers to predominant strengths in terms of primary resources, military supremacy, economic clout, and technological superiority, and the latter

* CONTACT: Li Xiangyang, email: lixiangyang@cass.org.cn.

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includes national cohesion, cultural identity, and representation in international organizations. At the 12th collective study session of the Political Bureau of the 18th Communist Party of China (CPC) Central Committee, Xi Jinping pointed out that the realization of the "two centennial goals" and the Chinese dream of the great rejuvenation of the Chinese nation hinge upon China's increasing cultural soft power (Xi, 2014b). Yet in reality, China's soft power remains dwarfed by its hard power. Over the past four decades of rapid economic growth since the reforms of 1978, China's hard power has increased swiftly. After its GDP overtook Japan's in 2010, China has been closing the gap to the United States.[1] Despite a sharp increase during this period, however, China's soft power failed to keep pace with its hard power. According to Portland Consultancy's latest ranking of national soft power, China ranked 25th in 2017 (Mcclory, 2018), and an earlier study by Chinese academics suggested that defined by international attractiveness, international mobilization and domestic mobilization, China's soft power was only about 1/3 that of the United States before the global financial crisis of 2008 (Yan and Xu, 2008). Indeed, the imbalance between China's hard power and soft power is subject to many factors, among which economic diplomacy is a key constraint.

Second, Western countries have raised doubts over China's current mode of economic diplomacy, particularly aspects that differ from other international practices. When it comes to foreign aid, for instance, Western countries have expressed the following criticisms against China. To begin, they have questioned the composition of China's foreign aid. Although the size of China's foreign aid was roughly equivalent to that of the United States, these countries considered the vast majority of China's foreign aid as export credit and loans to recipient countries at preferential interest rates rather than official development aid (ODA) in the strict sense. Such Chinese aid primarily went to infrastructure projects, many of which involved the purchase of Chinese equipment, settlement in Renminbi, or in-kind repayment with oil or other resources. In addition, Western countries have doubted the economic effects of China's aid on recipient countries. Since most financial aid offered by China serves China's own economic interests, they argue, the economic development effects for recipient countries become questionable. For instance, they criticize China's aid as caring little about corruption and transparency and as unhelpful to improving governance in host countries, as generating insignificant long-term effects on the economic development of host countries, and as creating few jobs and technology spillovers in host countries, among other ills. Moreover, Western countries have blamed China for stalling political reforms in recipient countries by attaching no political conditions to its aid programs, thus worsening the governance environment and breeding corruption in recipient countries. They went so far as to declare China a "rogue donor" (Zhang, 2019). Many Western countries have also disagreed with China's primarily two-way rather than multilateral foreign aid mechanisms. Coping with these criticisms is of great importance to China's international image and soft power, but China's academics have yet to provide a convincing response to these criticisms, and this may be due to the fact that China has yet to develop its own cohesive theory of economic diplomacy.

Finally, China's economic diplomacy under the BRI has yet to be recognized by the international community and turned into real actions. At the second plenary session of the Fifth Plenum of the 18th CPC Central Committee in October 2015, Xi Jinping indicated that BRI development is a top-down design of China's economic diplomacy (Xi, 2018b)[2]. To date, however, Chinese academia has not offered any convincing explanation. In most cases, China has denied that it had any noneconomic

[1] In 2014, the World Bank and the International Monetary Fund (IMF) released research reports that found that based on purchasing power parity, China's economic aggregate would overtake that of the United States by the end of 2014 to become the largest in the world - a statement that the Chinese government denied. Yet China agreed that it had become the world's second largest economy (in current dollar terms). In any case, China's economic hard power ranks among the highest in the world. According to the World Bank's latest data, China's economic size was equivalent to 66% that of the United States in 2018 in current dollar terms, 274% that of Japan, 345% that of Germany, 477% that of the UK, and 490% that of France. https://data.worldbank.org/indicator/NY.GDP.MKTP.CD, January 10, 2020

[2] China's BRI also serves as a major strategic initiative for expanding its international trade.

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strategic motivations behind the BRI. In publicizing the BRI's progress, China has also focused on economic indicators such as trade and investment growth with BRI countries and corporate investment return. Limitation to the economic sphere poses an impediment to the BRI's implementation, however. Addressing the above questions and challenges requires theoretically clarifying the concepts, objectives, means, and implementation methods of China's economic diplomacy, as well as clarifying the differences from those of Western powers.

Section 2 analyzes the necessity of establishing economic diplomacy with Chinese characteristics for the new era based on the evolution of China's economic diplomacy since 1949. Based on the existing theoretical research of economic diplomacy and the evolution of economic diplomacy by Western powers, Section 3 argues that the core target of China's economic diplomacy for the new era is to enable the conversion between hard power and soft power. Section 4 discusses how the two competitive concepts of justified ought and self interests could be endowed with new connotation of the times to steer the development of China's economic diplomacy. By examining the BRI's functions with regard to economic diplomacy, Section 5 explores the creation of an organizational mechanism for economic diplomacy to become consistent with the two competitive concepts of justified ought and self interests. Finally, Section 6 discusses major theoretical and practical issues to be addressed during the implementation of China's economic diplomacy.

2. The Evolution of China's Economic Diplomacy since 1949

Upon the founding of the People's Republic of China in 1949, China's acts of economic diplomacy already existed, although they were not officially recognized. In some aspects, economic diplomacy has played a stronger role in China's foreign strategy compared to Western powers.

Chinese academia disagreed on how to demarcate the development stages of China's economic diplomacy over the past seven decades, however. One approach has been to divide the past seven decades based on the concept of order and interest implicit in economic diplomacy. In this approach's first stage from 1949-1978, China took various initiatives characteristic of economic diplomacy. However, the self-consciousness of economic diplomacy remained unclear and the scope and intensity of relevant actions were extremely limited. In the second stage from 1978 to 2001, China unveiled a new era of economic diplomacy manifested by its steadfast determination to integrate into the global economic system. In the third stage from 2001 to 2012, the status of China's economic diplomacy increased, and in the fourth stage after 2012, the Chinese leadership put forth a series of strategic ideas on economic diplomacy such as the creation of a new type of major-power relationship, adherence to the concepts of the greater good and national self-interest, and the principle of building relations with neighboring countries based on amity, sincerity, mutual benefit, and inclusiveness, which has reshaped China's economic diplomacy (Sun, 2019). Another approach has been to divide the past seven decades into four stages based on the characteristics of China's interactions with the rest of the world: Economic diplomacy of disengagement, return to the family of nations, integration, and leadership, which coincide with the four stages of the first approach (He, 2019). The third approach has been division according to the method of participating in international economic activities. According to this view, China had no real economic diplomacy prior to the 1970s (until the restoration of China's permanent seat in the United Nations). Thereafter, China's economic diplomacy has been divided into four stages: Economic diplomacy of engagement (1970s-1980s), integration (since the 1990s), participation (since China's WTO entry in 2001), and leadership (since the global financial crisis of 2008) (Li and Sun, 2014). Finally, another approach for dividing those stages has been by the generations of the heads of state (Gao, 2014).

These approaches for dividing the stages of China's economic diplomacy all share a common feature: They all consider the relationship between China and the outside world as milestones. In addition, the modes of economic diplomacy followed by Western powers have been implicitly assumed

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as a reference or template to be replicated for China's economic diplomacy. We believe that since the founding of the People's Republic of China in 1949, the ultimate goal of China's economic diplomacy has been to serve its overall national strategy. On this premise, China's economic diplomacy has been in existence ever since 1949, when China was largely excluded from the international community. With the evolution of China's overall national strategy, we divide China's economic diplomacy over the past seven decades into three stages: Standing up, getting rich, and becoming strong.

First stage, three-decade of standing up (1949-1978). China's overall national strategic goal was to "stand up" proudly in the family of nations. Accordingly, the basic orientation of China's economic diplomacy was that economic affairs must serve diplomacy. Upon the founding of the People's Republic of China in 1949, China was blockaded by Western countries and due to ideological reasons partnered with other communist countries as well as developing countries in Asia, Africa, and Latin America. After the Sino-Soviet split, the Chinese leadership adopted the Three Worlds Theory and determined "who are our friends and who are our enemies" internationally. During this period, China's foreign trade volume was negligible, foreign investment was close to zero, and the only available international economic resources were foreign aid. From 1950 to 1984, China's actual total spending on foreign economic and technical aid amounted to 40.28 billion Yuan (Wu, 2010).[3]

Economic diplomacy during this period played an active role in achieving China's strategic goal of standing up, and the most striking example may be the motion jointly proposed by 23 countries at the 26th General Assembly of the United Nations in October, 1971 for the restoration of China's seat in the United Nations, where African countries played a pivotal role. By putting economic affairs at the service of diplomacy, however, China's foreign aid became economically unsustainable toward the end of this stage. In 1967, China's foreign economic aid represented 4.5% of China's total fiscal spending, and this percentage rose to 6.7% in 1972 and 7.2% in 1973, which exceeded foreign economic aid as a share of total fiscal spending for major developed countries during the same period of time (Wang, 2020).

Second stage, getting rich (from reform and opening up in 1978 to the 18th CPC National Congress in 2012). China's strategic national goal was to "get rich", and in this context, China's diplomacy was put at the service of economic development.[4] Ideology ceased to be the cornerstone of China's diplomacy. Instead, China had shifted the goal of diplomacy to partnering with all countries at the service of its reform and international trade program. Accordingly, the principle of China's foreign aid policy was shifted from internationalism to equality and mutual benefit. During this period, the growth of China's foreign aid slowed, and the implementation of a "grand economic and trade strategy" in 1995 marked a turning point in the comprehensive reform of China's foreign aid framework. This strategy expanded foreign aid to the spheres of foreign trade and capital flow, and greatly broadened the scope of China's economic diplomacy to mobilize more resources.

Compared to the "standing up" stage, changes in China's economic diplomacy during this period were also manifested in China's comprehensive participation in the international economic system, such as participation in a series of multilateral economic cooperation mechanisms and the establishment of organizations for regional economic integration, such as China-ASEAN FTA. These cooperation mechanisms served as key vehicles and platforms for China's economic diplomacy. More importantly, they turned China from a spectator of the global economic governance system to a participant, thus

[3] If China's aid to Vietnam since 1965 during the Vietnam War is taken into account, the volume of China's foreign aid was even larger during this period. According to official data, China's aid to Vietnam was equivalent to 20 billion US dollars in current international prices in 1978 (Institute of Contemporary China Studies, 2019).

[4] During this period, there was one obvious exception to China's mode of economic diplomacy that put diplomacy at the service of economic development, namely, the Asian Financial Crisis of 1998. In the face of capital flight and exchange rate depreciation in East Asian countries, the Chinese government adhered to a policy that Renminbi should not depreciate. Since 1999, China's free trade zone negotiations with Southeast Asian countries have yielded major results that paved the way for "10+1" and "10+3" mechanisms, the Chiang Mai Initiative, the China South Korea Free Trade Agreement, and the subsequent Regional Comprehensive Economic Partnership (RECP).

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expediting China's reform process.

The third stage is characterized by "becoming strong", at the heart of which are the "two centennial goals" and the Chinese dream for the great rejuvenation of the Chinese nation. As shown from China's experience during the second stage, diplomacy has played an irreplaceable role in allowing China to get rich. The adverse effects of this stage, however, have also become increasingly evident, most notably the imbalance between China's soft power and hard power, which goes against China's strategic goal of "becoming strong". Since the 18th CPC National Congress, the newly elected Chinese leadership has announced a succession of new diplomatic concepts from the new-type of major-power relations to the principle of building relations with neighboring countries based on amity, sincerity, mutual benefit and inclusiveness, the "new security concept", and a "community of shared future for mankind". These concepts cannot be put into practice when diplomacy is solely at the service of economic development. Instead, a new mode of economic diplomacy must be explored to suit the strategic goal of "becoming strong".

3. The Connotation of Economic Diplomacy with Chinese Characteristics

3.1 Research on the Connotation of China's Economic Diplomacy

Research on economic diplomacy by Chinese academics began in the 1990s, and since then Chinese academy has made different definitions on the connotation of economic diplomacy.[5] Some define economic diplomacy as a specific diplomatic policy pursued by a country or a group of countries to settle frictions and disputes peacefully between countries in the economic sphere. Such a foreign policy is underpinned by economic considerations. Specifically, the subject of economic diplomacy is a country or a group of countries; the purpose of economic diplomacy is to execute a certain foreign policy; the scope of economic diplomacy is to cope with disputes and frictions in the economic sphere; and the means of economic diplomacy are peaceful (Zhao, 2011). Some others consider that economic diplomacy encompasses two substantive matters. First, it refers to foreign policies and activities carried out by a country or its representative institutions and personnel to serve the home country's economic interests. That is, it refers to foreign policies and activities carried out by a country or its representative institutions and personnel to realize or maintain the home country's strategic goals or pursuit of noneconomic interests based on the home country's economic strengths (Zhou, 2003). A third view defines economic diplomacy as the mutual conversion between wealth and power by a government through such means as strategic or tactical initiatives and institutional design in its foreign relations (Zhang, 2013).

Among these views, the first advocates that diplomacy should serve economic development, reflecting the reality of China's economic diplomacy in the stage of "getting rich". The last two views both suggest that diplomacy and economic affairs should serve each other, reflecting the mission of China's economic diplomacy in the stage of "becoming strong".

3.2 National Characteristics of Major-Power Economic Diplomacy

All existing studies by Chinese academics have recognized China's pursuit of major-power economic diplomacy, but opinions differ over whether national characteristics exist in major-power economic diplomacy. Major-power economic diplomacy stands in contrast to the economic diplomacy of smaller countries. For small countries without the capabilities to achieve diplomatic objectives through economic means, a common practice is to seek economic interests through the means of diplomacy. Major powers, however, can seek economic interests through diplomacy and conversely, seek diplomatic

[5] When referring to the concept of "economic diplomacy", most researchers follow no strict definition, and generalize all diplomatically related economic activities as economic diplomacy, and this is rather common in China's economic academia. Research on economic diplomacy is also concentrated in the Chinese international relations academia.

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interests through economic means depending on their overall national strategic goals during a certain period of time. In what follows, we select the modes of economic diplomacy of three Western powers (or country blocs) for an analysis of their national characteristics.[6]

Japan was the first country to research economic diplomacy systematically. In the decades after World War II, Japan has seen its economic clout slowly approach that of the United States, but has also been constrained politically and diplomatically by the United States. Since the end of World War II, the Japanese government has identified its overall national strategic goal as becoming a "normal country" but has held different positions on Japanese-US relations. Hence, we divide Japan's economic diplomacy roughly into the following three stages. Stage I (early 1950s-late 1980s): Under the constraint of the Japan-United States Security Treaty, Japan was powerless to pursue its "normal country" goal and had to put diplomacy at the service of economic development rather than other strategic objectives. In this sense, Japan's economic diplomacy was merely an expediency. In Stage II (1990s-2005), as Japan became the world's second-largest economy, Japan started to pursue its goal of becoming a normal country by seeking a permanent UN Security Council seat. Accordingly, Japan's economic diplomacy became refocused toward putting economic affairs at the service of diplomacy. In this respect, Japan put forth a succession of regional economic integration initiatives. However, Japan ramped up foreign aid to seek support from more countries for its bid for permanent membership of the United Nations Security Council, which ended in failure in 2005. In Stage III (2005-present), Japan has made pragmatic efforts toward its normal country goal. Failure to gain permanent membership of the United Nations Security Council did not cause Japan to abandon its pursuit to become a normal country, although it has had to rely on other means to achieve this goal. Domestically, Japan revised Article 9 of its Constitution; internationally, Japan focused its economic diplomacy on participating and dominating regional economic integration. Before 2005, only one country, Singapore, signed a free-trade agreement with Japan. By 2019, Japan had effectuated 17 free-trade agreements and started negotiations on eight others, bringing the total number to 25 (Asian Development Bank, 2019). Japan's most notable progress has been the effectiveness of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Many believe that the CPTPP is of era-defining significance for Japan's foreign economic relations. For the first time since World War II, Japan has replaced the United States in dominating trade liberalization in the Asia-Pacific region (Mulgan, 2018).

For the United States, after World War II, US economic diplomacy centered on the creation and maintenance of its hegemony. Based on this premise, the evolution of US economic diplomacy can be roughly divided into four stages: The creation of hegemony (the initial periods after the end of the World War II), the Cold War and the maintenance of US hegemony (from the onset of the Cold War to 1991), unipolar hegemony (1991-2016), and the reshaping of US hegemony (2017 to present). In the first stage, US economic diplomacy focused on two priorities. First, the United States implemented a massive aid program, the Marshall Plan, to curb the USSR's expansion in Europe and help recover the European economy.[7] Second, the United States established an international economic system consisting of the General Agreement on Tariffs and Trade (GATT), the Bretton Woods system, the International monetary fund (IMF), and the World Bank. In the above-mentioned areas, the United States made significant moves to establish its hegemony. For instance, the US asymmetrically opened its domestic market to its allies and developing countries. In the Cold War stage, the global economy saw the emergence of "two parallel world markets", in which the contest between the United States and the USSR was one between

[6] We select Japan, the United States, and the European Union as examples because they represent the direction in the development of major-power economic diplomacy in today's world. Although Russia (and the former USSR) and India also display the traits of major-power economic diplomacy, many Chinese researchers consider the transition from the USSR to Russia to be far from a success, and others contend that India has yet to emerge as a major power on the world stage.

[7] The implementation of the Marshall Plan (1947-1952) coincided with the onset of the Cold War (1947), but the decision to implement it was not entirely made in the context of the Cold War. For this reason, we consider it to be part of Stage I.

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not just two superpowers but between the ideologies of communism and freedom. In this period, the primary task of US economic diplomacy was to support major-power competition and ideological supremacy through economic means. The collapse of the Berlin Wall and the disintegration of the USSR ushered in the third stage of US economic diplomacy. In the context of unipolar hegemony, US foreign policy was characterized by a revival of Wilsonism, taking a shift from hegemonic liberalism during the Cold War to imperialism. That is, the United States sought not only to lead the world but also to create a new world order based on its values and norms. In noneconomic spheres, the United States stepped up military intervention. For instance, the United States made 46 military interventions during 1948-1991 and 188 military interventions during 1992-2017 (Nye, 2019). In the economic sphere, the United States cranked up economic sanctions. In the 1980s, the United States imposed economic sanctions against 20 countries, and in the 1990s, this number rose to 35 (Lew and Nephew, 2018). In terms of global governance, the United States created a new international order based on its values, established the WTO to replace the GATT, and initiated negotiations on the Transatlantic Trade and Investment Partnership (TTIP) with the European Union and the Trans-Pacific Partnership (TPP) in the Asia-Pacific region. Finally, US economic diplomacy entered the fourth stage when President Donald Trump took office. With the goal of putting "America First", the Trump administration reset the existing international order and focused the goals of US economic diplomacy to serve US national interests.

The European Union is a special grouping of nations. As a vanguard of regional economic integration, the case for the existence of European Union is driven by the fact that no individual member state alone may become a pole on the world stage and only cooperation may achieve this goal. From its origin, the European Union itself is a product of economic diplomacy. By centralizing their economic decision-making powers (or the economic interests of nations), the member states reap the dividends of regional economic integration internally and speak with a strengthened discourse power on the international stage. However, the European Union's foreign policy has become stratified to reflect the expectations of each member state and the European Union as a whole. Following this logic, we divide the European Union's economic diplomacy into three stages: The deepening economic integration during the Cold War, the post-Cold War stage of expansion, and the new stage of "stability and reflection". During the Cold War stage, the European Economic Community (ECC) - the predecessor of the European Union - aligned its foreign policy with that of the United States. Hence, the European Union's economic diplomacy was characterized by putting diplomacy at the service of the economy. Internally, the initial tariff union of the ECC was upgraded into a political and economic community (the Maastricht Treaty signed in 1992 marks the official formation of the European Union). Externally, the European Union made preferential trade arrangements to ensure market access and the supply of raw materials. After the Cold War, the European Union started to pursue diplomatic independence and sought to become a pole on the world stage. As a result, the European Union's economic diplomacy turned to put economic affairs at the service of diplomacy. Internally, the European Union enhanced its governance structure to promote political and economic integration, and externally it expanded eastward. The global financial crisis of 2008 marks the beginning of a new stage of "stability and reflection" for the European Union's integration process. Additionally, since 2017 rising nationalism among European countries, the halt of the European Union's eastward expansion and a tougher stance on immigration have echoed then President Trump's "America First" doctrine. Furthermore, the European Union's economic diplomacy has been reshaped, as evidenced by growing trade and investment protectionism[8] and a proactive stance on globalization, multilateral trade regimes, and regional economic integration. The European Union has also begun to maintain different positions from those of the US on WTO reform and global climate

[8] As a dominant EU member state, Germany adopted the National Industrial Strategy 2030 plan in 2019, which allows the German government to buy stakes in German companies to prevent foreign takeover and suggests shortening the European Union's value chain by reducing imports from outside the European Union and revising the European Union 's competition law, among other measures (Altmaier, Peter, 2019).

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In comparing the modes of economic diplomacy among major powers after World War II, we see that no unified mode of economic diplomacy exists between our example countries in various stages of development and that this variation is due to differences in the strategic goals of countries. In determining their modes of economic diplomacy, Japan is preoccupied with becoming a "normal country", the United States is seeking to maintain its hegemony, and the European Union is pursuing regional integration. Compared with smaller countries, however, Japan, the United States and the European Union share common characteristics of major-power economic diplomacy. That is, interactions exist between diplomacy and economic affairs. For this reason, major-power economic diplomacy generally has nation-state or regional characteristics.

3.3 The Connotation of Economic Diplomacy with Chinese Characteristics

In recent years, Chinese academia has focused on two areas of research regarding China's economic diplomacy. The first of these is major-power characteristics, and the second is Chinese characteristics. Since China has become a major world power, China's economic diplomacy has indisputably adopted certain characteristic of major powers, but opinions differ over the connotation of such major-power characteristics. One view holds that for major powers, economic diplomacy is a means to acquire or maintain major-power status based on major-power ambitions and strengths. The path of realization is thus to convert national wealth into national clout rather than the reverse. Yet China does not have all the traits for major-power economic diplomacy (Zhang, 2014). Another view considers that the major-power traits of China's economic diplomacy find expression in China's access to "institutional rights" in global governance (Chen and Cai 2019). Regarding the Chinese characteristics of economic diplomacy, most scholars have stressed that these are China's institutional systems, history, and culture, such as national conditions, China's political system, and historical depth (Zhang, 2014), as well as unique state-led economic growth, special economic zones, and state-owned enterprises (SOEs) (Li and Sun, 2014). In summary, both "typical" major-power and uniquely Chinese characteristics jointly underpin the Chinese mode of economic diplomacy.

Based on the existing research into and experience of major-power economic diplomacy, we believe that the Chinese mode of economic diplomacy is jointly determined by two factors: China's international orientation and its overall national strategic goals. China's international orientation determines its role in the international community and serves as the premise for establishing overall strategic national objectives. Despite the absence of a formal academic or official statement on China's international orientation, Xi Jinping's speech at the College of Europe in Bruges, Belgium on April 1, 2014 offered a basic approach to understanding this question. He noted that, "one must appreciate China's five most salient characteristics when observing, researching, and understanding China". China is a country with a "splendid" civilization, a country that has gone through "untold suffering", a country that follows socialism with Chinese characteristics, is the largest developing country in the world, and is a country undergoing "profound transformation" (Xi, 2018c). Although this statement does not directly touch upon China's international orientation, it does offer a clue to define China's international orientation. China is a large, socialist developing country with a very, very long history. This orientation can be further explained as: China's 5,000 years of civilization inspire the present-day leader of China to follow a development path with its own unique characteristics. Additionally, China's status as a developing country dictates that development remain China's top priority and that China should represent the interests of the vast majority of developing countries in the international community. Furthermore, China's socialist orientation also dictates the basic traits of China's ideology that China will not follow the same path, such as hegemony, as other major powers did. China's current orientation as a major, though still-developing, power means that China is both capable and motivated to participate in the global governance system.

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Based on its international orientation, China's current overall national strategic goal, as we have already argued, is to "become strong". In other words, the achievement of the two previously-mentioned "centennial goals" and the Chinese dream for the great rejuvenation of the Chinese nation are the core objectives of China's current overall national strategy. While the former focuses on domestic objectives, the latter focuses on international goals. Furthermore, since China's international outlook has been declared to be one of peace and development in today's world, China must therefore embark on a path of peaceful development to achieve national rejuvenation. A key manifestation of China's rise has been its improving participation in global governance. This process, however, has been met with competition from incumbent powers. While an incumbent power participates in global governance normally through the "externalization" of rules, an emerging power tends to participate through the "internalization" of rules.[9]

For another instance, emerging powers are faced with different options in reforming global governance: Whether to reform the existing international systems or create new international systems with overlapping functions (Liu, 2017). In competing with incumbent powers or advocating for reform of the global governance system, an emerging country necessarily faces a common question as how to co-opt more countries to its cause, but the choice cannot be determined by its economic heft alone.

Since the 18th CPC National Congress in 2012, China's new leadership has put forth a series of new concepts on China's diplomacy for the new era: New-type major-power relationship for big powers; the principle of sincerity, real results, affinity, and good faith for developing countries; the principle of amity, sincerity, mutual benefit and inclusiveness for neighboring countries; a new security concept for global security, and a "shared future for mankind". Putting these concepts into practice requires the integration of diplomatic and economic affairs. Taking China's relations with neighboring countries, for instance, China has become the largest trading partner and export market for most neighboring countries after years of development. Among the 13 economies with exports to China as a share of their GDP above 2%, eight are in Asia, and among the 11 economies with exports to China as a share of their GDP above 10%, 10 are in Asia (Thorbecke, 2017). Yet, there has been little improvement in how China's rise is perceived among most neighboring countries. According to a survey conducted by the Pew Research Center for 36 countries in 2017, China's favorability generally improved in countries that considered China, the United States, and Russia as friendly for the period from 2014 to 2016, but five out of seven countries in the Asia-Pacific region (Vietnam, Japan, South Korea, the Philippines, and India) had negative views about China as compared to their perception of the United States (Vice, 2017). A similar study conducted in 2019 found no fundamental change in this pattern (Silver *et al.*, 2019). In existing studies, the theory of conversion between wealth and power is most consistent with major-power economic diplomacy. Compared to other propositions, this theory is more standardized, more practical, and fits with the conceptual system of international relations theories. However, based on the goals of China's national rejuvenation and economic rise, Joseph Nye's concepts of hard and soft power may be more applicable to China's economic diplomacy. First, soft power reflects an ability to influence other countries by attraction and persuasion rather than coercion and payment, and this definition underscores the dynamic characteristics of soft power. It takes unremitting efforts for a country to possess and maintain soft power. In comparison, hard power focuses on results with static characteristics, and for an emerging power, dynamic abilities matter more than static powers. Second, soft power must be acquired

[9] The externalization of rules refers to the ability of a country's domestic rules to exert an international influence and constrain other states' or non-states' acts. These could be an elevation of domestic rules into common international norms when a country participates in the making of global governance rules, for example, an outflow of rules, or the "internationalization of domestic rules". However, the internalization of rules refers to a country's adjustment of its domestic rules and behaviors according to international rules. It includes not only the inclusion of global governance rules into its system of domestic rules and constraints over state behaviors, for example an inflow of rules or the "domestication of international rules", but may also include an adjustment of self-behaviors according to international rules, for example, the "inward constraint of international rules" (Xu, 2017).

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by legitimate means. As Joseph Nye stressed when comparing soft power to hard power, a country may also acquire the ability to influence other countries by illegitimate means, but such power is a sharp power and not soft power. Last, soft power itself does not generate real interests for a country until combined with hard power, which gives soft power a "multiplier effect" (Nye, 2018). Notably, although soft power is a concept put forth by Western scholars and considered by many (including Joseph Nye himself) as unique to Western democracy, we believe that China should create its own soft power to avoid the Thucydides trap and persist with peaceful development.

Based on the above analysis, we conclude that China's economic diplomacy shares common traits with other major-power economic diplomacy but also maintains its own characteristics. Moreover, in order to achieve its overall strategic goals of national rejuvenation and economic development, China's economic diplomacy may benefit from converting hard power to soft power. We further believe that the guiding principle for achieving such conversion is to uphold the concepts of the greater good and national self-interest and that as a vehicle for hard power conversion, the BRI plays an irreplaceable role.

4. The Concepts of Greater Good and Self-Interest as the Guiding Principles of China's Economic Diplomacy

Western powers have traditionally followed a "stick and carrot" doctrine in their economic diplomacy. After the 1970s and especially the end of the Cold War, they have added additional political conditions ("strings attached") to foreign aid in an attempt to steer the development of recipient countries. In 1975, the US Congress included human rights conditions into the US Foreign Assistance Act, prohibiting the US government from providing official development aid to countries with human rights violations, and in signing the Fourth Lomé Convention in 1995, the EU for the first time identified democracy and human rights record as conditions for the eligibility of recipient countries for foreign aid. Hence, the guiding principle for the economic diplomacy of modern Western powers can be described as conditional on not violating human rights.

Given its international orientation and overall strategic national goals, China's economic diplomacy cannot replicate the doctrines of Western powers. However, as core concepts of traditional Chinese ethics, the two competitive concepts of justified ought and self interests provides one possibly feasible approach. As the most representative of the traditional Confucian culture, the two competitive concepts of justified ought and self interests is regarded as not just a question of ethics, but a way of governing a country and giving the people peace and security. While taking these concepts from Chinese culture, the current Chinese leadership has endowed them with new connotation for the times and established them as key principles for China's diplomacy in the new era.

4.1 The Origins of the Chinese Concepts of the Greater Good and Self-Interest

The concepts of the greater good and national self-interest originate from China's Confucian culture. In the views of Pre-Qin Confucians (before 221 B.C.), discussions on the two competitive concepts of justified ought and self interests focused on the following key questions: The definition of the greater good and national self-interest, the subjects of national self-interest, and the relationship between the greater good and self-interest itself. As a moral norm, Confucius considered the greater good, propriety, and benevolence as correlated concepts; Mencius regarded justice and benevolence as correlated concepts; and Xuncius linked justice with benevolence (Li, 1997). The subjects of the greater good and self-interest have historically pursued different goals in China: While the ruling class upholds justice, common folk pursue their own self-interest.

Pre-Qin Confucians divided the relationship between the greater good and self-interest into three levels in the following descending order: Level 1: "Refuse to succumb to the temptations of greed" and "do not accept what is not righteous". Here, "righteousness" contains legal and moral principles of

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conduct. With respect to morality, Confucius espoused the principle of "Do not do unto others what you do not wish others to do upon you". Level 2: "A humane person is one who helps others establish what he himself wishes to establish and to achieve what he himself wishes to achieve". Level 3: "Priority should be given to justice". That is, when justice and self-interest are in conflict, one must absolutely and unconditionally serve the greater good at the expense of self-interest. This concept is reflected in Mencius's "self-sacrifice for the greater good" and Xuncius's idea that "One who puts righteousness before profit is honorable; one who puts profit before righteousness is shameful" (Liu, 2008).

Mo Tse, who lived at the same time as Confucius, held a different view on the greater good and self-interest.[10] He advocated that both public interest and justice are important. According to Mo Tse, "the interest of the magnanimous lies in procuring benefits for the world and eliminating its calamities", which is the highest pursuit of values. Here, the criterion of righteousness is whether the people - both oneself and others - will benefit. Mo Tse held an integrated view of the greater good and public interest: That the two reinforce each other. Public interest is the foundation, and both public interest and justice should be served (Zhang, 2001). Hence, even ancient Chinese philosophers held different positions on the relationship between the greater good and self-interest.

From "abolishing a hundred schools and respecting Confucianism" in the Han Dynasty (202 BC–220 AD), the Confucian concepts of the greater good and self-interest dominated mainstream Chinese ideology. While inheriting the traditional concept of the greater good and self-interest held by Pre-Qin Confucians, Cheng-Zhu Neo-Confucianism pushed the relationship between them to the extreme. According to Dong Zhongshu, "a man of morality should pursue justice without seeking profit and seek morality without considering personal gains", which is different from the pursuit of self-interest through serving justice. In contrast, utilitarian Confucians represented by Ye Shi underscored that "Without utilitarianism, all moral preaching is futile". They were in favor of neither working for the greater good at the expense of self-interest nor seeking self-interest at the expense of the greater good; instead, they stressed the moral motivations of justice (Ma, 2005). In modern times, new generations of Chinese scholars have fully recognized the legitimacy of seeking self-interest while opposing profiteering in illegitimate ways. Profit, they argue, should be sought within the boundary of morality and justice. Hence, there has emerged a new concept that calls for the unification of the greater good and self-interest (Zhang, 2005).

4.2 The Connotations of the Modern Chinese View of the Greater Good and Self-Interest

Given China's cultural history, it almost seems inevitable that the Confucian concepts of the greater good and self-interest should factor into China's current diplomacy. For one thing, Confucian dialectic thought on the greater good and self-interest can help guide China's dealings with other countries on its road to economic development. For another, Confucian philosophy on the subjects of the greater good and self-interest may also apply to the dialectic relationship between national and corporate goals. While the state nominally pursues the greater good, enterprises seek to maximize their own self-interests. In the Confucian view, the legitimacy of profit-seeking behavior is subject to whether the means to seek profits are legitimate, and this principle is inherently consistent with the concept of building soft power. In addition, applying China's traditional Confucian philosophy of ethics and good governance to international relations represents a huge leap forward from ethics to international relations both theoretically and practically, and the concepts of the greater good and self-interest thus carry with them new connotation (Li, 2017). In recent years, China's new leadership has elaborated the concepts of the greater good and self-interest specifically in the following contexts of China's international environment, international orientation, and commitment to economic development.

[10] Aside from the Mohist School, ancient Chinese legal researchers also have their own perception of the greater good and self-interest, but we do not elaborate on this here.

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First, the philosophy of putting the greater good first but still accommodating self-interest has been touched on by Xi Jinping. During his visit to South Korea in July 2014, he remarked that "a state does not take material gain as its interest, but takes righteousness as its interest". To effect this notion politically necessitates China's adherence to the basic principles of international law and international relations, to upholding impartiality and justice, and to treating its citizens equally. Economically, this may mean taking a holistic and long-term view and adhering to mutual benefit and win-win cooperation situations for common development between countries. In international cooperation, only by pursuing the greater good and shared national self-interests can China achieve win-win results (Xi, 2014a).

Second is the philosophy of "give and take". In international cooperation, the give and take relationship is vital for interest distribution between countries. During his visit to Africa, India, and Mongolia in 2013-2014, Xi Jinping noted that "in our cooperation with Africa, China applies the principles of giving more and taking less, giving before taking, and giving without asking for something in return; it welcomes African countries aboard the express train of China's development with open arms" (Xi, 2018c).

Third is the philosophy of long-term and short-term interests. It can take a long time to form the concepts of the greater good and self-interest as an ethical objective or governance philosophy. At the 31st collective study session of the Politburo of the 18th CPC Central Committee on April 29, 2016, Xi Jinping called for upholding the concepts of the greater good and self-interest with a priority on the greater good and for avoiding seeking quick success and instant benefits in favor of taking a long-term view (Xi, 2018c).

Fourth is the philosophy that national objectives should be aligned with corporate goals. A key aspect of the concept of the greater good and self-interest is the integration of the objectives of various subjects. At the conference on April 29, 2016, Xi Jinping also said that in addition to investment return, Chinese enterprises should also attach great importance to their business reputations, obeying the laws of host countries, and assuming more social responsibilities (Xi, 2018c).

By tempering the traditional concepts of the greater good and self-interest with the circumstances of the times, Xi Jinping has conscripted them to serve as his marquee underpinnings to current economic diplomacy with Chinese characteristics.

5. Creating an Organizational Mechanism for Economic Diplomacy Consistent with the Concepts of the Greater Good and Self-Interest within the BRI Framework

Western powers have implemented their economic diplomacy through various platforms. At the multilateral level, they have provided official development aid primarily through multilateral mechanisms; at the regional level, they have facilitated economic integration with small and medium-sized countries through regional trade agreements; and at the bilateral level, they have established preferential cooperation mechanisms and other arrangements. China's economic diplomacy does not exclude those mechanisms but also has its own unique features. For example, the BRI, which is officially designated by the Chinese government as a "top-down design for economic diplomacy", has attributes of economic diplomacy. Creating an organizational mechanism consistent with the concepts of the greater good and self-interest with the BRI framework is, therefore, a key task for China's economic diplomacy in the new era.

5.1 The Elements of Economic Diplomacy with the BRI

To begin, the economic diplomacy within the BRI is determined by the BRI's goals and priorities. The BRI's objectives can be divided into three levels, the first of which reflects the scope of the BRI's developments, such as those in policy, infrastructure, trade, financial and people-to-people connectivity.

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While these first four developments are related to economic cooperation, people-to-people ties can also be viewed as part of noneconomic cooperation. The second level is the BRI's development goals on the basis of "five links": to serve as a road of peace, prosperity, openness, innovation, and civilization (Xi, 2018b). Objectives at this level go beyond economic cooperation. The third and final level reflects the BRI's ultimate goal: "To create a community with a shared future for mankind". The "community with a shared future for mankind" is a Chinese outlook on the direction of world development. Specifically, it includes "dialogue and consultation for a world of lasting peace", "common development and shared benefits for a safer world for all"; "cooperation for win-win results for a world of common prosperity"; "communication and exchanges for a world of openness and inclusiveness"; and "green and low-carbon development for a clean and beautiful world" (Xi, 2018b). These statements have established objectives for various domains. In terms of its scope, "a community with a shared future for mankind" goes beyond economic spheres and encompasses various other important domains such as security, diplomacy, the environment, and culture.

Next, the principles of "mutual consultation, common development, and shared benefits" determine the justice and legitimacy of economic cooperation under the BRI framework and are also conducive to the realization of the goals of China's economic diplomacy. In BRI development, joint consultation can be used to respect the rights of all participants and help overcome the "democracy deficit". The principle of joint consultation creates conditions for developing countries to participate in the making of BRI rules and in solving the logical dilemma of nonneutral rules being formed by any single party with more negotiating power. Joint development reflects the responsibilities and obligations of BRI participants, and shared benefits refer to the distribution of interests and incentives for participants.

In addition, the BRI's development orientation creates feasibility for the assumption of economic and diplomatic functions. Unlike the existing rules of global governance, development is the BRI's foundation and from China's viewpoint helps overcome defects in the existing economic diplomacy of Western powers. First, development-oriented BRI sets no threshold of rules, which reflects its openness and creates conditions for developing countries and especially the least developed countries (LDCs) to take part in international economic cooperation. Regional economic integration mechanisms led by Western powers have by-and-large been exclusive, and so have multilateral trade regimes. Second, development orientation requires interconnectivity as a bedrock of the BRI, which has been a bottleneck of economic development facing the vast majority of developing countries and has posed a barrier to economic cooperation between developing countries. However, in their economic diplomacy, Western powers have been reluctant to divert aid funds to interconnectivity.[11]

Finally, development orientation requires the implementation of diversified cooperation mechanisms under the BRI framework to suit BRI countries with different national conditions. This diversified cooperation mechanism is not only manifested in that there can be multiple cooperation mechanisms in the same region (for example, regional trade agreements, sub-regional economic cooperation mechanisms, regional economic corridors, two-way economic corridors, and industrial parks), but also different cooperation mechanisms can exist in different regions. This suggests that the BRI is capable of accommodating various modes of cooperation through economic diplomacy.

5.2 Types of Economic Cooperation under the BRI Framework

Under the give-and-take theory of the concepts of the greater good and self-interest, the modes of economic cooperation under the BRI framework can be divided into three types: Normal business cooperation, preferential cooperation, and foreign aid.

[11] Western powers have tended to focus foreign aid on health and education sectors rather than low return sectors such as transportation (Halonen-Akatwijuka, 2003).

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First, only preferential cooperation and foreign aid can be classified as economic diplomacy as far as the transfer of interests is concerned. Unlike the foreign aid of Western powers, China's foreign aid consists of gratuitous aid, interest-free loans, and preferential loans. Gratuitous aid gives without taking and is roughly equivalent to official development aid (ODA). Interest-free loans and preferential loans give more than they take, and preferential loans account for the highest share.[12] These loans have drawn criticism from Western countries concerning the mode of China's foreign aid. There are two theoretical explanations regarding China's choice of interest-free loans and preferential loans rather than official development aid (ODA) as the dominant mode of its foreign aid. Number one is that China remains a developing country that cannot offer ODA as the main form of foreign aid, and this is the most popular explanation among Chinese academics. Number two and more important is that China's mode of foreign aid helps ease or overcome perceived defects in the existing foreign aid modes of Western powers, namely that the principal-agent cost is too high and that foreign aid lacks effectiveness. Theoretically, the high principal-agent costs may arise from either information asymmetry between both sides or from the inability of the principal to constrain the moral hazard behaviors of the agent. According to empirical research, donor countries do not necessarily target countries that make effective use of aid funds (Svensson, 1998), and extensive rent-seeking behaviors exist among recipients (Andersen *et al*., 2020). There is thus a risk of coordination failure between donors and recipients (Eriksson, 2000; Wane, 2004).[13] by comparison, China's foreign aid mode has generally been established on the basis of two-way cooperation and joint participation, which helps reduce the principal-agent cost. Under the development-oriented BRI framework, preferential cooperation and foreign aid not only can provide recipient countries with much-needed capital but can create economic growth momentum for recipient countries as well.

Second, whether a normal mode of business cooperation can be classified as economic diplomacy depends on whether it may create externalities for a country's diplomacy. Theoretically, normal business cooperation between countries does not fall into the scope of economic diplomacy, just as pure profit-seeking does not fit with the concepts of the greater good and self-interest. Normal business cooperation may fall into the scope of economic diplomacy only when it serves a country's diplomatic goals. Furthermore, many economic activities are characterized by externalities, which can be either positive or negative. Under the BRI's framework, the positive externalities of business cooperation are many and varied. At the microscopic level, Chinese enterprises may earn good reputations while reaping investment returns as long as they earnestly fulfill their corporate and social responsibilities. At the industrial level, the "Green Silk Road" advocated by the Chinese government, once materialized, may bring economic growth and improve the environment for host countries. On a broad level, the BRI will help break vicious cycles in the economic development of less developed countries and therefore remove the bottlenecks of economic cooperation between less developed countries. Although these positive externalities are not manifested in the direct transfer of interests, they may enhance a country's soft power and therefore serve its economic diplomacy. Normal business cooperation may also generate negative externalities to the detriment of China's soft power. Such normal cooperation may be exploited by a government in its diplomatic maneuver to impose economic sanctions on countries that harm its national interests. For example, economic sanctions by major powers have often interrupted normal business cooperation.

[12] According to the latest whitepaper of *China's Foreign Aid (2014)*, China's foreign aid amounted to 89.34 billion yuan in 2010-2012, including gratuitous aid of 36.2%, interest-free loans of 8.1% and preferential loans of 55.7% (The State Council Information Office of the People's Republic of China., 2014).

[13] To address these problems, over 100 donor and recipient countries held the Second High-level Forum on Effective Aid in Paris in 2005, and some countries agreed to the Paris Declaration on Aid Effectiveness, calling for mutual coordination between donor countries/institutions while increasing the amount of aid in an attempt to increase aid effectiveness.

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Third, the above two modes of cooperation may form a brand-new mode of development aid. Aside from their respective roles in economic diplomacy, these two modes may combine to form a synergistic effect that enables the unique functions of economic diplomacy. Over the years, the economic diplomacy of Western powers has been characterized by a disconnect between aid and development. Donor countries have attached political conditions for aid. Moreover, foreign aid from Western countries has often been linked to access to the market, energy, and other natural resources of recipient countries, and has corresponded to recipient countries not being able to generate endogenous economic development. As a result, aid from Western countries failed to achieve "common development", one of the declared goals of Chinese foreign investment.[14]

In contrast, while giving play to their respective advantages in economic cooperation as a basic requirement for normal business cooperation, China and BRI countries also create new comparative strengths for countries without these strengths, and integration of the three development modes can help achieve this goal of common development. To generate greater synergy effects, the BRI also encourages third parties and companies from outside BRI countries to participate. For countries that are reluctant to participate in the BRI officially, China is exploring third-party market cooperation with those countries. For instance, China has made substantive progress in third-party market cooperation between China and Japan in Southeast Asia and between China and France in Africa. The Chinese and Japanese governments held their first third-party cooperation forum in 2018.

5.3 The Need to Create a Cooperation Mechanism in China's Economic Diplomacy

As a top-down design for economic diplomacy, the BRI must create relevant mechanisms to accomplish economic diplomacy with Chinese characteristics.[15] In particular, institutional development is driven by the following factors.

The first factor is the avoidance of moral hazard. As mentioned before, moral hazard is associated with the client-agency relationship, which is rather common in foreign aid.[16] In the BRI's development, typical moral hazards behaviors include the following. In the name of change of government, some host countries accuse previous administrations of signing unfair or corrupt agreements and ask the Chinese to revise agreement clauses or make additional compromises, and if these accusations are not valid, then this is a problem of moral-hazard. Another situation that can arise is that host countries can raise unrealistic new requirements by threatening China's early-stage investment, which is a "hold-up" problem. However, the institutional development of the BRI may help to mitigate these behaviors.

Second, the BRI's institutional development may better facilitate developmental aid. The success of development aid hinges upon various factors, and an essential one is cooperation from host country governments. Yet, in many countries, the layout and planning of BRI projects is independent or even contrary to Chinese interests. For example, regarding the China-Pakistan Economic Corridor (CPEC), development planning within Pakistan's territory is decided by the Pakistani government. As the largest, though least populous, province of Pakistan, Balochistan felt disgruntled about being left out from the benefits and put the blame to the CPEC, and in recent years, Baloch rebels have launched armed attacks against China's various BRI projects (Aamir, 2018).

Over the years, China has followed the principle of mutual noninterference in each other countries'

[14] The effectiveness of development aid has been a controversial topic in international academia (Zheng, 2017).

[15] Since "top-down design for economic diplomacy" is only one attribute of the BRI, we only discuss the related institutional requirements for the BRI (Li, 2020).

[16] The World Bank published a study that provided the most direct evidence on the existence of moral hazard in recipient countries of foreign aid. The study found a high correlation between aid payments of the World Bank to aid-dependent countries and a surge in the bank deposits of confidential offshore financial centers and deposits at private wealth management institutions. The median leakage rate of foreign aid (the ratio of total foreign aid deposited at overseas confidential financial institutions) was as high as 7.5%, which increased with the rise of foreign aid/GDP ratio. The conclusion was that aid funds to recipient countries were intercepted by their administrators, including politicians and their confidants (Andersen *et al*., 2020).

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internal affairs, a policy that has been welcomed by developing countries. Yet, with China's deepening of economic cooperation and diplomacy, some drawbacks of this principle have emerged. In the example with Pakistan, not only did China's investment interests suffer, but the goals of benefiting local people and increasing China's soft power were also compromised.

The third factor is the implementation of the principles of the greater good and self-interest. The BRI is advocated by governments and carried out by enterprises. As mentioned before, while the government pursues justice, enterprises put a premium on self-interest. The government of China cannot ask enterprises to serve strategic national priorities at the expense of shareholder interest. It cannot stay obsessed with long-term interests while overlooking short-term priorities, nor can it give more than it takes, give before it takes, or even keep giving without asking anything in return. This approach would be inconsistent with the principles of a free-market economy, and would harm the BRI's sustainability. Therefore the most critical and perhaps difficult task for the Chinese government may very well be to design a mechanism to guide enterprises to serve the greater good while still maximizing profitability.

5.4 Institutional Development

Diverse cooperation mechanisms under the BRI framework create conditions for the assumption of economic and diplomatic functions, but this doesn't mean that these mechanisms may cover all economic and diplomatic domains. For instance, China's stance on reform of the WTO cannot be brought under the BRI's framework. Additionally, the BRI's boundary is dynamic. In its initial stage the BRI is like a regional economic cooperation initiative but aims to evolve into a multilateral economic cooperation mechanism (Li, 2018). Hence, the focal point of our discussion for this paper is what sort of organizational architecture needs to be created for the BRI to assume the functions of economic diplomacy.

First, the creation of intergovernmental cooperation mechanisms. Given the unique role of economic diplomacy, intergovernmental cooperation mechanisms are indispensable, and we contend that intergovernmental cooperation mechanisms should serve at least three goals. The first goal is preferential trade and investment arrangements for less developed countries, which are often realized through relevant clauses of two-way trade and investment deals or through regional economic integration agreements. Furthermore, we believe that the Chinese government should integrate the planning of BRI projects at two-way and regional levels in order to mitigate possible reputational and economic losses from decision-making mistakes between countries. Moreover, we believe it should also avoid the moral hazard behaviors of host countries as much as possible by instituting binding agreements under international law through negotiations and transparency. Currently, most cooperation documents executed under the BRI's framework can be classified as soft law without binding force under international law. By the end of January 2020, China had executed 200 BRI cooperation documents with 138 countries and 30 international organizations under various names such as cooperation agreements, cooperation documents, cooperation protocols, relevant documents, memorandums of understanding (MOUs), memorandums of cooperation, memorandums of understanding on intergovernmental cooperation, and joint declarations.[17] Despite the absence of clear explanations on their differences, all these cooperation documents undoubtedly fall into the scope of soft law. Transition from soft law to hard law, therefore, is one needed feature for new intergovernmental cooperation mechanisms under the BRI framework.

Second, the creation of cooperation platforms between China and BRI countries, and the most important cooperation platforms under the BRI are economic corridors. As mentioned before, economic corridors focus on transportation and other infrastructure in the initial stages but ultimately require institutional arrangements for cross-national trade and investment liberalization. Traditionally, China's economic cooperation with developing countries focused on large and iconic projects without follow-

[17] Quoted from China's BRI website, https://www.yidaiyilu.gov.cn/index.htm, February 15, 2020.

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up institutional assurances. As a result, projects were found to stand in isolation, lack sustainability, and create few benefits to ordinary people, with limited positive externalities. The BRI's economic corridors are a correction to the drawbacks of existing cooperation vehicles and are consistent with the concept of the greater good but with positive externalities. Results under these economic corridors not only can raise public perception about gains from the BRI but can also create economic growth capabilities for host countries. Economic corridors allow Chinese enterprises to generate economies of scale swiftly and to reduce investment risk. Currently, the development of economic corridors under the BRI remains in the initial stages but is poised to rely on institutional mechanisms in the future.

Third, the creation of a support system to put enterprises at the service of China's strategic national goals. Although the government is a direct participant in some areas of economic diplomacy, enterprises are the implementation entities in most cases. Instead of persuasion and administrative edict, we believe the Chinese government should create a complete support system in line with the principles of a free-market-based economy. Theoretically, this support system should include the following three elements: A financing mechanism, a tax mechanism, and an investment assurance mechanism.

The existing financing mechanism for the BRI's development relies primarily on state-owned financial development institutions such as the China Development Bank, the China Export-Import Bank, and the Silk Road Fund. With the furtherance of the BRI cooperation, state-owned financial development institutions will no longer suffice. The Chinese government has already started to work with BRI countries to create BRI investment and financing mechanisms. Most notably, 27 countries including China jointly ratified the BRI Financing Guidelines at the First BRI International Cooperation Summit Forum in May 2017.

As the second element, a tax mechanism can have an important influence on the overseas investment behaviors of enterprises. Such influence derives not only from the reform of China's tax system but from international tax cooperation as well. An example of this is the creation of conditions for corporate outward investment by avoiding double taxation. In October 2017, the Chinese State Administration of Taxation (SAT) issued *Guidelines on Taxation for Overseas Investment*, and further revised them in 2019. By October 2019, China had signed 107 tax agreements with other countries and regions (State Administration Taxation of the People's Republic of China, 2019).

As the third element, an investment assurance mechanism is both the premise for enterprises going global and the means to ensure the standardization of their business operations. Performance of corporate social responsibilities (CSRs), for instance, is currently governed by the laws and regulations of host countries. Yet, from the perspective of their home countries, and even China, it is necessary to create cross-national investment assurance mechanisms to ensure that enterprises fulfill their CSRs. In addition, sustainability assurance and dispute settlement mechanisms may also become means for the Chinese government to guide enterprise behaviors and indirectly give play to the role of economic diplomacy.

6. Implementation Mechanisms for Economic Diplomacy

While organizational mechanisms are prerequisites for achieving the goals of economic diplomacy, the implementation mechanisms themselves determine its effects. As shown by the history of great-power economic diplomacy, briefly touched on above, the implementation of economic diplomacy is largely a question of experience. Hence, this section analyzes key issues that warrant attention in the implementation of economic diplomacy based on China's national condition, the experiences of and lessons from great-power economic diplomacy from other countries, and the goals and guiding principles of economic diplomacy with Chinese characteristics.

6.1 Dilemmas of a "Large but Not Rich" Economy

On the world stage, China faces a conundrum: It has become a "large but not rich economy".

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That is, by economic aggregate, China is already among the largest economies in the world, but in per capita terms, China remains a middle-income country.[18] That is why China positions itself as a "large developing country" on the international playing field. In modern world history, no other emerging power has been in such a unique state. On the eve when the United States replaced the United Kingdom or when Japan attempted to challenge US economic supremacy after World War II, or even when the USSR contended with the United States during the Cold War, the emerging country had a similar per capita level with the incumbent power when it approached or surpassed the latter in terms of economic aggregate.

In international affairs, China's national condition as a "large but not rich" economy has sparked controversies over China's developing country status in WTO reform, the principle of "common but differentiated responsibilities" in global climate change negotiations, the reference to the "G2" (China and the United States) and China's role as a "responsible stakeholder" by US officials, and domestic and international controversies over China's foreign aid. In the implementation of economic diplomacy, therefore, China has a long way to go to gain unconditional acceptance by the international community. In dealing with this, China runs the risk of strategic overdraft. Lessons of history tell us that the strategic overdraft is the most common risk that can disrupt the emergence of a new major power (Shi, 2015),[19] and gaining unconditional acceptance into the world economic community could help China avoid having to meet unpractical requests of other countries.[20]

6.2 Goals for Economic Diplomacy

Mutual conversion between hard power and soft power is a specific goal of economic diplomacy with Chinese characteristics. While it is easier for soft power to be translated into hard power, the reverse is more difficult. As proven by the second stage of China's economic diplomacy ("getting rich"), it is unlikely for major policy deviations to occur with diplomacy put at the service of economic development, since it is relatively easy to define the connotations and extensions of the goal of "economic development".. After entering the stage of "becoming strong", the first dilemma facing China in turning hard power into soft power or putting economic affairs at the service of diplomacy is its choice of specific goals. Compared with economic goals, diplomatic goals are often vague or immeasurable and long-term in nature with uncertain effects not decided by one party.

Indeed, China has very clear overall strategic national goals to pursue economic development in an attempt to achieve national rejuvenation, but its economic diplomacy must be carried out with respect to specific countries or regions. Among the target countries in the first stage of China's economic diplomacy, China's diplomatic strategy has generally worked generally, as in the case of Africa, but in some of the other cases such as neighboring countries and countries that share the same ideology, success has been short-lived and outweighed by long-run losses.

Under the BRI framework, however, the choice of foreign policy goals is subject to two kinds of deviations, the generalization of goals and the arbitrary selection of a few large countries along the BRI route as so-called "fulcrum states", which are not officially recognized. Many "fulcrum states" identified

[18] In recent years, the economists have begun to discuss the deviations of measuring a country's strengths using economic aggregates like GDP, which can overestimate the economics strength of more populous countries. In comparison, GDP per capita is a better metric of a country's effective resources (Beckley, 2018).

[19] Incumbent powers also face the risk of strategic overdraft. According to a study conducted by RAND Corporation's International Security and Defense Policy Center (ISDP), significant gaps exist between national security goals and defense budget in the 2018 US Defense Strategy, for example. If such goal-resource mismatch cannot be addressed, US national security goals would not be attainable (Bonds *et al*., 2019).

[20] Take foreign aid for instance, the satisfaction of recipient countries about aid is subject to the amount and effectiveness of aid and expectations about donor countries. Such expectations are closely linked with their perceptions of the donor country's international position. Moreover, this subject is multifaceted, involving the perceptions of donor country governments and the public, third parties, and the international image and soft power of donor countries. As such, this subject warrants further research.

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by some scholars for the first stage of the BRI's development were either hard to co-opt or fraught with moral hazard. In identifying key countries for economic diplomacy and BRI development, we therefore believe that Chinese policymakers should consider both the necessity and practicability in light of China's global strategy and national conditions. That is a subject that we also feel warrants further, in-depth research.

6.3 "Reasonable Pricing" in Economic Diplomacy

After establishing the goals of economic diplomacy, the "reasonable pricing" of those goals becomes the biggest decision: How to determine the amount of economic resources required for a country to achieve a given foreign policy objective? In economics, standard price formation theory does not provide a definitive answer to this question since the value or utility of a foreign policy objective varies across countries and different periods of time. Once they become linked with national security, ideology, and even "national emotions", some diplomatic policy goals may even be considered "priceless" since they may be sought to be achieved at all costs.

The theoretical optimal choice, however, is almost never practically attainable. Certain "suboptimal" choices pathways may include: Raising the transparency of diplomatic decisions and assessing the value of diplomatic goals objectively from a multidisciplinary perspective, maintaining an input-output equilibrium in each stage of cooperation, and sticking to the principle of stopping losses. In this sense, "reasonable pricing" is a process of trial and error, as contemplated in more formal disciplines of economics. When a foreign policy goal is found to cost more than it achieves due to an initial misevaluation or a changing value, the best option is often to stop the losses in a timely manner and to avoid path dependence that may lead to even greater losses. This principle is particularly important for major powers, which may be more scrupulous about their international image and might not easily accept the choice to stop losses.

6.4 Moral Hazard and Economic Sanctions in Economic Diplomacy

Aside from institutional constraints, policy-level operations are also required to prevent moral hazard in economic diplomacy. Major powers tend to impose economic sanctions against moral hazard behaviors in which one party may harm the other country's interests. The question is should economic diplomacy with Chinese characteristics also wield such economic sanctions even when it is guided by the concepts of the greater good and self-interest? We believe that this is an option that cannot be excluded, at least theoretically. Prioritizing the greater good, giving more while taking less, and giving without taking do not mean that the rights and responsibilities of both parties can be disproportionate in the long run. Otherwise, moral hazard behaviors could spread out of control.

However, although we believe that China should be aware of the effectiveness of economic sanctions, extensive economic sanctions frequently have not achieved the expected results. In a study on 174 economic sanctions imposed around the world in the 20th century, economists at the Peterson Institute for International Economics (PIIE) found that most economic sanctions failed to achieve the expected results since they were incompatible with the requirements of expected results; they increased solidarity within target countries or forced these countries to seek alternative solutions; they prompted other major powers to act as "black knights" that ramped up support to target countries; or they estranged allies externally and interest groups internally (Hufbauer *et al*., 2009). For emerging major powers, therefore, a principle for the implementation of economic diplomacy may be to use economic sanctions cautiously.

6.5 Limitations of Economic Diplomacy

Economic diplomacy is a strategic option essential for the rise of major powers, but it is not a panacea to all problems faced by a rising power. Over the years, there seems to have been a generalized

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understanding on the relationship between economy and diplomacy in that economic cooperation can solve contradictions between countries and that at least, stable economic cooperation can keep bilateral relations free from major disruptions. This is often referred to as the "ballast effect" of economic cooperation. Yet, this understanding does not always hold true.

International economic cooperation, not least regional economic integration, can help resolve conflicts between countries in noneconomic spheres, as shown throughout post World War II history. We also recognize, however, that the "ballast effect" has failed in China's foreign relations in some recent events.

The "ballast effect" is based on the idea that economic cooperation may enhance ties between countries, establish mutual trust, and create a community with a collective identity that reduces misunderstandings and misjudgments between countries. By establishing stable expectations for future economic returns, economic and trade relations come with increased costs, both direct and opportunity costs of conflict. In addition, negotiations and mechanisms for the settlement of economic and trade disputes may help defuse political tensions. As political ties become stable for the maintenance of economic and trade relations, conflicts between countries become less likely. Given the domestic distribution effects of economic and trade exchanges, the "ballast effect" may thus appear only when such distribution effects give rise to domestic interest groups that can influence a country's diplomatic decisions, and this particular chain of events is also referred to as the Hirschmanesque effect (Xiong, 2019). However, in the absence of efforts from domestic interests, neither the Hirschmanesque effect nor the "ballast effect" occur.

Another explanation for the limitations of the ballast effect is that significant limitations exist for economic cooperation to defuse conflicts between countries in the field of high politics. In some cases, economic ties alone are impotent. As opposed to "high" politics concerned with diplomatic, military, and security issues that involve state power and international politics, "low" politics refers to economic, social, and cultural issues and their effects on the power distribution and operation of various political actors in the international community. Theoretically, there are at least three limitations to achieving high politics goals by means of low politics: First, the scope of their application is limited; second, compared with other means, low politics are less efficient in terms of what it takes to achieve the same goals; and third, low politics may prevent direct conflicts between major powers to some extent but cannot act as strategic maneuvers to achieve goals such as a country's emergence as a major power on the world stage (Gao, 2017).

No policy initiative is a panacea without limitations, and as such there is a boundary to the functions of economic diplomacy. Given these limitations, we need to beware of misperception of economic determinism and avoid addressing high politics conflicts by using economic means alone. The theoretical framework of economic diplomacy with Chinese characteristics is a complex topic. Internally, it concerns China's international positioning and overall strategic national goals. Externally, it involves China's perception of the outside world and relations with Western powers in economic diplomacy. Moreover, China's goals, guidelines, and means should be self-coherent and practically feasible. In this respect, the theoretical framework proposed in this paper represents an initial attempt to describe economic diplomacy with Chinese Characteristics. CE

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