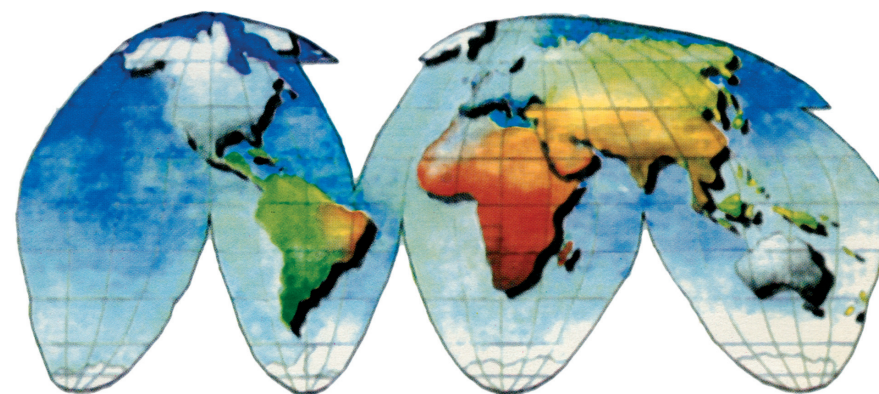




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CHINA'S DISCOVERY OF CENTRAL EUROPE

Xiao Fang

**The Belt and Road initiative: connecting China
and Central Europe**

Vilém Semerák

**Future of trade relations within the 16+1 group:
risks and opportunities**

Ágnes Szunomár

Blowing from the East

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Articles in newspapers:

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Articles available online:

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Documents

"Joint communication to the European Council, the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Region. A partnership for democracy and shared prosperity with the Southern Mediterranean," COM(2011) 200 final, European Commission/High Representative of the Union for Foreign Affairs and Security Policy, March 8, 2011.

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International Issues & Slovak Foreign Policy Affairs

Contents

Vol. XXIV, No. 3 | 2015

Xiao Fang

The Belt and Road initiative: connecting China and Central Europe 3

Gabriela Pleschová

China's engagement in Central and Eastern Europe: regional diplomacy in pursuit of China's interests 15

Vilém Semerák

Future of trade relations within the 16+1 group: risks and opportunities 27

Justyna Szczudlik

Coming out of the shadows: the Polish perspective on China–Central and Eastern Europe relations 49

Ágnes Szunomár

Blowing from the East 60

Peter Ondris

Migration from China to Slovakia 78

Book reviews

Dominika Kosárová

Unmade in China: the hidden truth about China's economic miracle 99

Pavol Jakubec

**Small states status seeking: Norway's quest
for international standing 104**

Contributors 107

Unmade in China: the hidden truth about China's economic miracle

By Jeremy R. Haft. Cambridge: Polity Press, 2015, 208 p., ISBN: 978-0745684017

For the last three decades China has been implementing economic reforms so it can assume its rank among the powers and improve its position on the international scene. With the demise of bipolarity and the establishment of American world hegemony, China's rise has become a frequent topic of discussion, especially in America. The prevailing perception nowadays is that China's economy is the second largest and threatens American economic supremacy; ultimately some may even argue that it has already surpassed the USA. After all, it is highly probable that whatever product you decide to buy in a shop, the country of origin will be China. It is therefore unsurprising that China is perceived to be the world's largest factory and economic giant. Consequently, political debates and public opinion in the USA tend to blame China for America's decline, unemployment and economic problems. These assumptions are made on the basis of GDP indicators and the omnipresent "made in China" label, but can they be trusted? Is China really about to eclipse the US? Is it really a job killer? These are the key questions that Jeremy Haft answers in his book *Unmade in China*. His main goal is to question the generally accepted assumptions about China's might and to uncover the real impact of the Chinese economy on the USA. Haft's arguments are based on his own research of China's supply chain, and this undoubtedly adds to the value of the book.

As the title reveals, Haft suggests several revolutionary ideas. He argues that China's might is illusive and that in reality China is a Lilliputian, an economic helpmeet instead of a lethal competitor, a job creator and not a job killer: (p. XIII) He considers the rhetoric about a rising China to be a falsehood resulting in us seeing "a distorted image of America through the refracting lens of China." (p. XVIII) His line of argument is based on three myths which he dispels in the first chapter. First of all, he rejects the idea that the Chinese economy is about to overtake that of the USA, since the claim is made on the basis of GDP calculations which, as Haft suggests, is an inappropriate method for evaluating China's economic strength. This is rather an audacious statement given that states rely fully on GDP as an indicator of economic power. However, Haft considers Chinese statistics to be highly unreliable and fictitious. Moreover, he argues that GDP does not reflect the fact that imports are a significant source of employment, and this has to be taken into consideration if one is to properly judge the wealth of

a state. Therefore, if all the relevant economic indicators were considered, China would appear much weaker, while the USA would prove to be competitive enough to maintain economic leadership.

Secondly, Haft argues that the “made in China” label is a misleading illusion because it omits the fact that products exported from China contain inputs imported from countries all over the world, including the USA. Consequently, “China is more like the assembler for the world” than the producer. (p. 19) But the labels do not reflect this fact and lead people to think that the overall product is the result of the Chinese boom in manufacturing. As a result, Haft states that the American trade imbalance with China based on the deceptive “made in China” label is exaggerated and cannot be blamed for the loss of job opportunities for American citizens. On the contrary, importing Chinese goods actually supports American exports and reduces the unemployment rate.

The third myth concerns the correlation between China’s manipulation of the currency and American employment. It is believed that the pricing advantage caused by the artificially lower value of the Chinese currency kills American jobs. (p. 30) However, after a thorough scrutiny of the data, the author concludes that the impact is negligible. So what is the real impact of China’s economy on the USA?

Haft argues that in order to judge China’s impact on the US economy, attention should be focused on the systemic risks in China’s supply chain. He examines two oppositional consequences of systemic Chinese risk for the USA: threat and opportunity. Firstly, there is the threat found in the serious safety lapses in the supply chain that lead to damaged final goods or goods that are dangerous to health. It is true that Chinese goods have a reputation for being of poor quality, regardless of whether we are in the USA or in another import country, and the situation is aggravated by the fact that the “China price” sometimes beats quality and encourages people to buy cheap Chinese products despite the risks. On the other hand, Chinese consumers are well aware of their dangerous domestic products, and therefore, those who can afford to do so are willing to spend more money on safe goods imported from the West. (p. 64) Haft stresses that the direct outcome of this trend and the opportunity for the USA is the increase in American exports to China and job creation.

The rest of the book is devoted to an analysis of the systemic risk, its causes and consequences. Haft starts logically on the ground – with farms. He points out safety risk concerns found especially in the food industry that result from excessive pollution, the frequent use of pesticides as well as the lack of control. As he logically states, bad inputs result in unsafe outputs, therefore, agricultural products made in China are at serious risk of being detrimental to health. China’s lack of food security and safety leads to an increase in Chinese imports of

agricultural products. People in the USA are usually unaware of the fact that "America actually enjoys a significant trade surplus with China in agriculture." (p. 54)

Pursuing the logic of systemic risk, the author then focuses on the threat emerging from enterprises. The risk of failure is magnified by the lack of rule of law and accountability, the lax control procedures, corruption, poor management, a shortage of qualified workers, insufficient technology proficiency and the lack of a safety culture in Chinese companies. He supports his statements with concrete examples of how Chinese companies from different industries (e.g. pharmaceuticals, nuclear power plants or the high speed railway) have failed and endangered human lives. China may build new bridges and it may have speed trains; however, bridges often collapse and railway accidents occur. Haft claims that there is a wide gap between Chinese and American corporations, as uncompetitive Chinese companies still struggle to advance and are decades or even centuries behind American firms. (p. 124) But he nonetheless suggests we should bear in mind the increasing potential of Chinese coastal provinces to advance and compete successfully in comparison to inland China due to the accumulation of trade and investment along the eastern coast.

Haft then points out that the risk of unnoticed errors, damage or contamination is exacerbated by the non-transparent and fragmented supply chain involving several intermediaries, and the fragmented and corrupt regulatory system that has resulted in a complex set of regulations. In addition, the weak legal framework, toothless law enforcement and an ineffective control mechanism enable companies to evade regulations in practice. From the American perspective outlined by the author, dysfunctional Chinese regulators and the complex supply chain pose a threat to the health and safety and of American citizens through imported products. This risk, however, also affects other countries – China's trade partners – including Europe, which is strengthening economic cooperation with China. The author suggests that in order to eliminate the risk, the entire system rationalizing China's supply chain requires radical reform.

Haft's analysis produces several conclusions. Firstly, the USA is not a victim waiting to be overtaken by China's power. He openly criticizes the American rhetoric demonizing China's rise that seeks to direct public attention away from the domestic problems that the US government should be dealing with. Secondly, he emphasizes the need to recognize the real threat posed by China, which lies in its unsafe imports. But as he correctly points out, avoiding Chinese-made products is not the solution as unsafe Chinese inputs may even appear in goods labelled "made in USA" and products may be processed in China despite the lack of indication on the label. Therefore, he suggests that more accurate labeling should be introduced identifying whether the product was made or assembled in

China and where all the inputs come from. Moreover, a decrease in the purchase of goods labelled "made in China" would harm the US economy due to the fact that a lot of Chinese-made products contain components exported from the USA. Therefore, in order to minimize the risk, Haft proposes the strengthening of inspections.

Although the book deals with the complex issue of Sino-American commercial relations and the correlation between the economies of the two countries, the author manages to handle it in a very comprehensible way. In all the seven chapters, accompanied by clear figures and examples, he pursues a well-chosen logic and tries to address readers who do not necessarily have a deep knowledge of economics. The straightforward style reflects the author's objective to address not only politicians and businessmen but also the larger public in order to revive the American dream, warn against dangerous Chinese products and change misleading opinions on China's rise. The book has a clear message: America should re-evaluate its attitude and instead of being afraid of China it should acknowledge that China actually supports American jobs and the real threat lies in Chinese safety lapses and not in China's might.

The contribution of Haft's work lies in the unusual perspective it offers on the frequently discussed issue of Sino-American trade, questioning the generally accepted assumptions and political rhetoric about China's rise and America's decline. After reading this book, the reader will realize that facts considered to be undeniable may in reality be only an illusion: the "China price" does not mean that "China is a formidable competitor; able to make whatever we can, only more cheaply," nor does the omnipresent "made in China" label signify that everything is really made in China. (p.100) The book revolutionizes "the false meta-narrative of rising China and declining America" (p. 75), which gave us a false impression of China's so-called economic miracle.

However, Haft provides rather a unilateral perspective on the issue by stating that China will not overpower the USA and that its GDP is fictitious. It should be admitted that despite all the safety lapses, China is strengthening its economic position in the world and, despite the unreliable GDP Chinese statistics, it is undeniable that the figures have increased over recent decades and this fact cannot simply be rejected. Should we really believe that the gap between American and Chinese economies is not narrowing? China is aware of its security lapses and it is in her best interest to improve her security culture and competitiveness. This may not be a matter for the near future, but we should consider what would happen if China managed to overcome her serious safety breaches and approach the might of the US. It would have been interesting had Haft dealt with this scenario as well instead of rejecting outright China's capacity to eclipse the USA. Moreover, the book leaves the impression that we should be

cautious about all products made in China because they are unsafe. However, instead of this generalization it would have been interesting to have a look at the sectors in which China invests and innovates the most in order to increase its competitiveness. Notwithstanding these suggestions, the book is outstanding because it presents a unique view on Sino-American trade interdependence and because of the author's courage in denying the general wisdom about China's power.

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