China-inspired digital industrial policy as a challenge to the liberal script? Evidence from East Central Europe and Russia

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The study explores how different European national states deal with the question of digitalization and digital industrial policy inspired by China given its problematic potential for the liberal script. Countries that have ambitions in the area of digital transformation of the economy on the one hand and are in the midst of a "turn to Asia" on the other – Poland, Czech Republic and Russia – will serve as case studies. The project will examine whether they perceive the Chinese model of capitalism, especially its digital component, as a model to follow or they consider the liberal script, on the whole or only its economic component, more attractive and promising for their development. Another important subquestion the project asks is how these countries deal with the question of potential illegitimacy of certain aspects of digital industrial policy. Varying levels of commitment to democracy and of entrenchment of democratic institutions are hypothesized to explain eagerness to follow the Chinese model and to cooperate with China in the area of digital transformation of the economy and the society.

When in March 2020, covid-19 ripped through the global economy, even the mighty US treasury market – the world's safest and most liquid financial asset – wavered amongst rising uncertainty. Unthinkable just a few years earlier, Chinese government bonds emerged as a safe haven for international investors seeking shelter from the turmoil in financial markets (Lockett, 2020). Whereas the US treasury market stabilised after a brief while, this brief anecdote highlights a broader trends in global markets: the reallocation of financial assets towards China.

This is despite the fact that capital markets in China function fundamentally different from the 'global' markets that underpin the global financial order (Petry, 2020b). While China's markets have increasingly opened to global investors in recent years, this opening process follows a decidedly state-capitalist institutional logic (Petry, 2020a). Global financial actors investing into China have to accept Chinese rules of how markets function in a state-market configuration which contests the key underlying principles of the liberal global financial order like the free flow of capital, the primacy of private financial actors and their ability to create profit as well as non-intervention by the state.

This, however, did not dissuade global financial institutions from flocking to China. Over the course of 2020, global investors poured more than $1 trillion into Chinese stock and bond markets (Lockett & Hale, 2020) and global financial institutions scrambled to reallocate their business activities to China (Bloomberg News, 2020). Despite the US-China trade war and political developments in Hong Kong, China is gaining in importance for the allocation of financial assets globally. The fact that China is the only major economy that experienced economic growth in 2020, only adds to its growing attraction as an investment destination. Similar to other crisis periods, Covid-19 might arguably crystallise as a critical juncture in China's global rise. This research project therefore aims (1) to analyse the growing reallocation of global finance towards China as well as (2) its implications for the liberal global financial order: How malleable is global finance and is it adapting to China's rules of the game (McNally & Gruin, 2017)? How do financial institutions mediate growing Sino-American tensions? And what are the implications for US power that is partially based on US financial institutions (Konings, 2007)?