CHINESE ECONOMIC DIPLOMACY: NEW INITIATIVES

Policy Report
March 2015

Zha Daojiong

RSiS
Nanyang Technological University
S. RAJARATNAM SCHOOL OF INTERNATIONAL STUDIES

Policy Report

CHINESE ECONOMIC DIPLOMACY: NEW INITIATIVES

Zha Daojiong
March 2015
S. Rajaratnam School of International Studies (RSIS),
Nanyang Technological University (NTU)

Executive Summary

On 19 December 2014, the prime ministers of China and Thailand signed in Bangkok, two memorandums of understanding that will have China construct two dual-track rail lines covering a combined 867 km (542 miles), and buy Thai rice and rubber, as well as other agricultural products. Within the week, the Thai prime minister travelled to Beijing to reaffirm the same agreements just signed. A year earlier, China and Thailand had announced a similar deal, with the Chinese prime minister making a pointed plea to the Thai parliament for legislative approval. That deal was voted down. The rest is history, only that China prevailed in the multinational competition to upgrade the rail system for Thailand.

Symbolism in this Sino-Thai economic cooperation project is profound. Thailand represents a make-or-break for translating the century-old concept of the Kunming-Singapore railway into reality. The idea was formally revived in 2006 when 18 Asian and Eurasian countries signed the Trans-Asian Railway Network Agreement, under the auspices of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP).[1] Less than a decade later, the new Thai rail deal represents the dream of exporting complex and prestigious "made-by-China" projects come true. For the longer term, the direct beneficiaries of the new rails in Thailand and its future extensions are the people and businesses of the country and beyond. Opportunities for growth and development in the region are under creation.

What other grounds have China broken in its economic diplomacy (defined here as promotion on trade and investment through diplomatic initiatives)? Out of Chinese pronouncements and actions by the new leadership formally installed in 2012, what can be discerned about future possibilities? Addressing these and related questions can be helpful in tackling the larger question of how China relates to the rest of the world economy. Let us begin with a sketch of official Chinese visions about the country in the world today.

A Vision of Inclusion: The Chinese Dream

When China's Foreign Ministry inaugurated a new Department of International Economic Affairs in October 2012, the country was one month away from the once-in-a-decade leadership transition. The 18th Party Congress formalised the entry of the fifth generation of Chinese leaders. Amidst expectations of continuity in foreign policy strategy, Xi Jinping, the new party secretary and president of the country, began to indicate innovations in foreign policy thinking, coined in the phrase "Chinese Dream".

Since December 2012 when he delivered a speech at the "The Road to Revival" exhibition at the National Museum of History in Beijing, the "Chinese Dream" has become a standard reference in major policy discussions. The term is rather loosely defined but the leadership is obviously seeking to unify the people behind the party and government, as this catch-all phrase allows different groups within Chinese society to project their own ideas onto the new slogan.

The notion of "Chinese dream" can also be understood as a new principle guiding China's own development and how China relates to the rest of the world. It builds on the twin concepts, "harmonious society" and "harmonious world", which emerged at the 16th Party Congress in 2002 and marked the formal transition of an earlier generation of leadership. The concept of "harmony" was officially presented as a guiding principle for global politics at the summit held to mark the 60th anniversary of the founding of the United Nations in September

---

1 UN ESCAP, Intergovernmental Agreement on the Trans-Asian Railway Network, archived at http://www.unescap.org/resources/intergovernmental-agreement-trans-asian-railway-network

2 Hu, Jintao, "Nuli jianshe chijiu heping gongtong fanrong de hexie shijie (Strive to construct a harmonious world of long-lasting peace and common prosperity)", September 15, 2005. http://www.china.com.cn/chinese/news/971778.htm

2005.[2] It thus replaced China's earlier concept of a "better world", which had been articulated by the then Chinese head of state's speech at the 50th anniversary meeting of the United Nations in 1995.[3]

Entry of the fifth generation of Chinese leadership came against the international context of uneven worldwide recoveries from the global financial crisis of 2008. On the one hand, what has not changed is China's need for a stable international environment to develop its economy. As its economy is heavily dependent on the security of its supply chains, it must win the trust and support of the international community of states. On the other hand, what has changed is the size of the Chinese economy. It overtook Japan in nominal Gross Domestic Product (GDP) to be the world's second largest economy in 2010. China must address the question of how to exercise its wealth, power, and status. Cornerstones of the "Chinese Dream" are harmony, peace, stability as well as wealth creation. The phrase represents an open invitation for all nations to work together as each has a right to achieving its own dream of stability and prosperity.

At the Asia Pacific Economic Cooperation (APEC) forum held in Beijing in November 2014, President Xi observed that leaders of the region "are duty-bound to create and fulfill an Asia-Pacific dream for our people". He further elaborated that the Asia Pacific dream is about staying ahead of global development and making greater contribution to the well-being of mankind. Through having higher levels of economic vibrancy, free trade and investment facilitation, better roads, and closer people-to-people exchanges, countries and peoples of the region can develop a better sense of shared destinies.[4]

Meanwhile, the idea of China offering to share its "dream" of wealth and power has yet to win the endorsements by those Western powers already in dominant positions of decision-making in global economic governance. A case in point is that by the end of 2014, the U.S. Congress failed to pass legislation to enable voting reform of the International Monetary Fund (IMF). The IMF reform package, which the U.S. administration signed off on in 2010, would double the fund's resources and hand more IMF voting power to China, in addition to Brazil, Russia, India and South Africa. It would also revamp the IMF's board to reduce dominance of Western Europe. Part of the reason is that the U.S. administration "[hasn't] really put [its] shoulder into it, at all, in the last nine months".[5]

As can be seen, China has not made much inroad in having itself included in the existent mechanisms of world economic governance. At the same time, the new leadership does not seem to be interested in acting out the script of responsibility from those states with more decision-making power, either. In the second half of 2012, the Chinese economy began to decelerate. Instead of making China an engine of growth lifting the rest of the global economy, the new leadership worked to shape external expectations.

---

3 Jiang, Zemin, "Rang women gongtong dizao yi ge geng meihao de shijie (Let us work together for a better world)", October 24, 1995. http://news.xinhuanet.com/ziliao/2005_03/15/content_2700416.htm

4 Xinhua, "Chinese president proposes Asia-Pacific dream," http://news.xinhuanet.com/english/china/2014-11/09/c_133775812_2.htm

5 Reuters, "U.S. Congress closes out year without passing IMF reforms", http://www.reuters.com/article/2014/12/11/usa-congress-imf-idUSL1N0TU2QC20141211

Shaping Expectations: A "New Normal" of Growth

At the Beijing APEC summit, President Xi also sketched out a full picture of the Chinese economy's "new normal". What is new? First, the economy has shifted gear from the previous high speed to a medium-to-high speed growth. Second, the economic structure is constantly improved and upgraded. Third, the economy is increasingly driven by innovation instead of input and investment.

As a terminology, "new normal" is not an official Chinese creation. As a matter of fact, when the growth of Chinese GDP decelerated to 7.8 per cent in the first half of 2012 from 9.6 per cent a year earlier, it was a manifestation of the underlying view among officials that the growth downturn was as much structural in nature as cyclical. In November 2008, China implemented a 4-trillion Renminbi stimulus package. In the years thereafter, the government's massive investment programmes were criticised for increasing financial and fiscal risks. Many government officials spoke regularly about the need to tolerate slow growth in order to improve growth sustainability. They emphasised the policy's objective of stabilising, rather than boosting growth in the face of increasing downside risks to the economy. For China, the more "fundamental question" is whether it "can pass through middle-income to become a rich country. It is natural that an economy's growth rate declines as it moves closer to the world technological frontier".[6]

The term gained ground in China during President Xi's inspection tour in Henan Province in May 2014. He described the need to adapt to a "new normal" and remain cool-headed. According to a year-end chronicle in the People's Daily, he spoke of the "new normal" as a mode of economic governance on nine other occasions of the year.[7]

President Xi's repeated reference to the phrase indicates a recognition that three decades of almost uninterrupted double-digit growth came at a high price, most visibly in the choking air pollution country-wide. In addition, China's past growth relied on exhaustive exploitation of natural resources, both domestically and abroad. The essence of the "new normal" is not just about speed. It is more relevant to seek an improved economic structure that relies more on the tertiary industry, consumption demand and innovation. Most importantly, the leadership seems to be shaping domestic and international expectations. Growth of the Chinese economy decelerated to 7.7 per cent in 2012 and 2013, and the figure was 7.4 per cent in the first three quarters of 2014. The society is told to be calm about the overall health of the country's economy.

Very much like the "Chinese Dream", implementing the idea of a "new normal" in the country's economy is open for interpretation and debate. It is easy to win consensus that there is a need to bring about more balanced economic growth, through such measures as abstention from broad stimulus and fighting against graft and excesses. But it is more difficult for the leadership when it comes to lobbying – in the name of contribution towards prevention against serious disruptions of growth – by the country's vested interests. The process is open-ended, with signposts of success constantly changing as well.

To be fair, this is not the first time China has had to adjust its familiar trajectory of development. Arguably, the most profound trigger in recent decades came when China joined the World Trade Organization (WTO) in 2001. The country's performance has proved skeptics wrong, at least in terms of wealth creation for the country because China has become an engine of global economic growth. Back then, the Chinese leadership used the argument of China linking to the international track in an effort to dissuade domestic resistance against reforms and reassure the rest of the world of China's benign geo-economic intent.[8] But today, a "new normal" does necessitate that China become more proactive in managing international economic governance.

---

6 Huang Yiping, "The 'new normal' of Chinese growth", http://www.eastasiaforum.org/2012/10/14/the-new-normal-of-chinese-growth/

7 Tian Junrong and Wu Qiuyu, "Xinchangtai Dianliang Zhongguo Jingji (New Normal lights the path of China's Economy)", The People's Daily, December 25, 2014, p. 17

8 Wang Hongying, "'Linking up with the International Track': what's in a slogan", The China Quarterly, 189 (March 2007), pp. 1-23

In relating to the rest of the world economy, if the idea of a "Chinese Dream" is a promise of domestic and international inclusion in pursuit of wealth and power, and a "new normal" a means of managing expectations from the society and market, then China must still demonstrate through action that it is staying on top of new challenges domestic and external. Indeed, rather than waiting for a new set of international rules to be agreed upon, the central government initiated a trial of trade and investment liberalisation, as shall be described below.

A Trial of Further Liberalisation: Free Trade Zones

In August 2013, China's State Council set up a pilot free trade zone (FTZ) in Shanghai.[9] Though limited in geographical span (29 square kilometres), the creation of the zone is an effort on China's part to unilaterally liberalise its trade and investment regime, against persistent absence of progress in the WTO's Doha Round negotiations. The Shanghai FTZ is a bid to reduce administrative interventions, ease restrictions on investments, further open up China's financial system, and internationalise its currency to boost shipping, logistics, and commerce.[10]

The word 'pilot' in the Shanghai FTZ gives away the scale of challenge in bringing about structural economic policy change in China. Different from a decade ago, when China began to implement WTO rules, economic governance in today's China is too complex to make a unitary mandate by the central government a viable option. This explains why the municipal government of Shanghai was tasked to develop policy details from the start.

Among other major policy changes, the FTZ operates using the "negative list" model, i.e., the government publishes a list of business fields that are closed or conditionally open for investment, while leaving the rest for businesses to decide on their own. This brings Chinese practice closer in line with norms in developed economies. Domestic and foreign businesses registered in the zone have more freedom in conducting their operations.

But difficult reforms, such as Renminbi exchange rate, an interest rate-forming mechanism, and interest rates, require joint effort of different ministries. The municipal government of Shanghai approached rule-making in the zone by staying within its own power, without upsetting the preferences by central government ministries. Without intervention by the highest authorities of the central government, the Shanghai FTZ made a few gains while fighting against resistance from vested interests within the Chinese system.[11]

Toward the end of 2014, the central leadership decided to expand the Shanghai FTZ's geographical scope to include the city's commercial center where major multinational companies and Chinese banks have their headquarters. It also approved the creation of similar FTZs in three other provinces (Guangdong, Fujian, and Tianjin). The rationale behind the expansions is that some policy changes had passed the test of time. Provincial governments hosting the new zones are likewise allowed to propose more specific policies that address local conditions.

It needs to be noted that enthusiasm in hosting FTZs from other provincial governments, including the three that eventually got the nod from the central government, are seen as opportunities in promoting trade. They tend to downplay the FTZ's reform role in finance and government. After all, Tianjin may

---

9 See the official website of the Shanghai FTZ at http://www.ftz-shanghai.com/

10 Wan Zheng, Zhang Yang, Wang Xuefeng, Chen Jihong, "Policy and politics behind Shanghai's Free Trade Zone Program," Journal of Transport Geography, Volume 34, 2014, pp. 1-6

11 Yang Li, "Assessing FTZ after First Year", China Daily, November 28, 2014, p. 6

wish to boost trade with South Korea and Japan, Guangdong is closer to Hong Kong and Macao, while Fujian is eager to increase trade with Taiwan and Southeast Asia. If the reshuffle of Shanghai FTZ administration twice within a year is an indicator, it is because the central government is getting impatient with its level of devotion to structural reforms.[12]

Assessment by international observers of the Shanghai FTZ experiment is also mixed. Some see “a significant milestone for the country’s economic reforms and its strategy of opening up its domestic markets for foreign investors”.[13] Some foreign observers are less satisfied with progress in policy change. For example, the Obama administration’s treasury secretary Jack Lew is quoted as saying that as of July 2014, the reform “doesn’t appear to be [targeting] areas of major interest for US market access”.[14]

In any case, cross-national investment policymaking, on both the domestic and international fronts, now involve ideology-loaded issues such as national/economic security, national treatment, dispute resolution, restrictions on technology transfer, and protection of intellectual property rights. There can be no easy consensus, as all governments struggle to strike at a balance between a multitude of ideals and interests.

For China, the true significance in policy innovation is that the fifth generation of leadership has broken some of the old norms in handling foreign investment, such as adoption of a ‘negative list’ to replace the traditional investment guidelines. This marks a significant departure from the habitual insistence on China being a developing country and justifying continued restrictions in the inflow of foreign direct investment. In the wake of the 2008 financial crisis, China’s guarantee of a market share for Chinese corporations regardless of market performance (especially to state-owned entities) fostered waste and corruption, and also deterred technology and management innovation.

Further Opening: Free Trade Agreements

For the past two decades, free trade agreements (FTAs) has been a popular instrument used by governments around the world to hedge against the slow (and stalled) multilateral trade liberalisation process. As of this writing, China has 12 FTAs in operation with 20 FTAs under negotiation.[15]

A noticeable feature in China’s FTAs is that they are done with small economies, which do not have either large trade volumes or materials critical for the Chinese economy (e.g. energy, industrial minerals, and food).[16] This gives credibility to academic conclusion that China is exceptional to international norms when it comes to FTA activity. Seemingly, China demonstrates a “big country morality” by offering agreements to help smaller countries. This reflects the country’s relative weakening liberalising forces vis-à-vis protectionist ones after its WTO accession.

---

[12] Yang Li, ibid

[13] Gladie Lui, “Shanghai Pilot Free Trade Zone: Shaping of China’s Future Foreign Investment Environment,” International Tax Journal, Volume 40, Issue 4(July/August 2014), pp. 31-43

[14] Anonymous, “Lew Says China Update of Shanghai FTZ List Contains No Major U.S. Benefits,” Inside US-China Trade, Volume 24, Issue 27 (July 2, 2014). Archived in ProQuest database

[15] For official information about China’s FTAs, see “China’s FTA Network” site of the Chinese Ministry of Commerce official website at http://fta.mofcom.gov.cn/english/index.shtml

[16] The 12 FTAs China has in operation are done with Association of Southeast Asian nations (ASEAN), Pakistan, Chile, New Zealand, Singapore, Peru, Costa Rica, Iceland, Switzerland, in addition to closer economic and partnership arrangements with Hong Kong and Macau (each with its separate status as an economic area under the WTO)

A case in point is the FTA that China has negotiated with ASEAN. By one account, the China-ASEAN Free Trade Agreement (CAFTA) covers the world's largest free trade territory in terms of population and is the third largest in terms of nominal GDP after the European Union and the North American Free Trade area. Yet, CAFTA was signed in 2002 but came into effect only in 2010. Furthermore, the scheme aims to reduce tariffs on nearly 8,000 product categories, or 90 per cent of imported goods, to zero, between China and original ASEAN members (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand). Cambodia, Laos, Myanmar and Vietnam are scheduled to implement these terms in 2015.[17] While the CAFTA endorses the customary Southeast Asian (and Chinese) preference for handling trade liberalisation on a voluntary basis, its efficacy as a legal instrument for trade promotion and market reform remains weak.

As a matter of fact, ASEAN as a group has designated 2015 as the year to launch an economic community of its own. Some of the ASEAN members, most notably Singapore, have been active in negotiating high quality bilateral and multilateral FTAs. In 2005, Singapore signed a Trans-Pacific Strategic Economic Partnership together with Brunei, Chile and New Zealand, which became a template for the United States to push for its version of a Trans-Pacific Partnership (TPP) agreement.[18] The TPP has generated heated discussions about China's foreign economic policy, especially with the United States. We shall treat it in a separate section later in the paper.

In November 2014, the Chinese government did surprise a good many skeptics by signing a declaration of intent on a bilateral FTA with Australia. This means the two have practically concluded bilateral negotiations, with only technical details to be worked out. The China-Australia FTA deal came after more than 20 rounds of negotiations over the past nine years.

China's FTA with Australia, in comparison with the majority of those already in operation, is more comprehensive and of a higher level of trade and investment liberalisation. The agreement with Australia is unique as it covers more than 10 areas, including trade in goods and services, investment and trade rules, e-commerce and government procurement.[19] Beijing and Seoul also announced the conclusion of their substantive FTA talks in November. With these announcements, China begun upgrading its economic ties with major economies in the Asia Pacific region.

A significant FTA under negotiation for China is that with the Gulf Cooperation Council (GCC).[20] Formal launching of the China-GCC FTA dates back to 2004. The two parties have held five rounds of talks and have reached agreements on the majority of issues concerning goods trade. Negotiations on service trade are also on-going. By the end of 2014, Chinese trade officials were quoted as committed to accelerating the conclusion of those negotiations.[21]

---

17 Gregory Chin and Richard Stubbs, "China, regional institution-building and the China—ASEAN Free Trade Area", Review of International Political Economy, Volume 18, Number 3 (August 2011), pp. 277-298

18 Deborah Elms, "From the P4 Agreement to the Trans-Pacific Partnership: Explaining Expansion Interests in the Asia-Pacific Region," in Simon Evenett, Mia Mikic, Ravi Ratnayake (eds.), Trade-Led Growth: A Sound Strategy for Asia, United Nations/ESCAP, 2011, http://www.unescap.org/sites/default/files/11-PAR~1.PDF

19 See a description of the China-Australia FTA at http://dfat.gov.au/fta/chafta/

20 Member economies of the GCC are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates

21 Zhong Nan, "FTA Talks Reach across the Gulf", China Daily, December 30, 2014. http://www.chinadaily.com.cn/business/2014-12/30/content_19198206.htm

For China, FTAs with Australia and the GCC economies can be understood as a major shift in resource security governance. Resources – oil, gas, iron ore and other industrial minerals (from Australia), grain, dairy and other agricultural products – have long been viewed as strategic by corporate and government sectors in China. Translated into trade policy preference, the notion of a commodity being 'strategic' usually implies resistance against instruments like FTA. This means that China's own corporations, especially the state-owned ones, must learn to adjust to increasing competition from corporations of supplier countries. In a sense, for Chinese FTAs with Australia and the GCC economies to materialise implies a greater level of acceptance of the notions of 'virtual water' and 'virtual land'. China can address its stresses in water supply and loss of arable land (together with land degradation) through increasing imports of water- and land-intensive products from abroad.[22]

Gaps to Narrow: The TPP and FTAAP

The most representative of the geostrategic nature among various multilateral FTA schemes in the Asia Pacific region is the Trans-Pacific Partnership (TPP). More pointedly, after 2008, the U.S. administration expressed interest in joining the Trans-Pacific Strategic Economic Partnership (P4), which was until then little noticed but open to new participants. The same year saw Australia, Vietnam and Peru joining the P4 negotiations as well. By March 2013, with Japan becoming the 12th negotiating party, TPP was fast becoming the most powerful trade bloc of the entire Asia Pacific region. Many observers point to the TPP membership as a manifestation of post-Cold War's U.S. grand strategy in East Asia. China is the most notable exclusion from the negotiation process.[23]

A change of diplomatic atmosphere came at the end of May 2013. The spokesman of China's Ministry of Commerce remarked that China was going to "analyze the advantages, disadvantages and the possibility of joining the TPP, based on careful research and principles of equality and mutual benefit".[24] This change in position might as well be a response to earlier comments by U.S. trade negotiators, so long as China is "capable of meeting the high standards that we're negotiating", the United States leaves its options about the eventual TPP membership open.[25]

Over the TPP, little else since then has materialised between Beijing and Washington. But the two sides did agree at their bilateral Strategic and Economic Dialogue in July 2013 to re-start negotiations towards a bilateral investment treaty (BIT). The China-U.S. BIT is envisioned to include all stages of investment and all sectors. U.S. treasury secretary Jack Lew considered it "a significant breakthrough, and the first time China has agreed to do so with another country".[26] By end 2014, Chinese and American negotiators were reported to be finalising text checks on the BIT, with a pending formal exchange of negative lists in 2015. The reported aim is to complete negotiation within the term of the Obama presidency.[27]

---

22 Literature on Chinese management of resource security in international trade is voluminous. For a recent study on food, see, for example, Zha Daojiong and Zhang Hongzhou, 'Food in China's International Relations", The Pacific Review, Volume 26, Number 5 (December 2013), August 2014, pp. 455-479

23 Benedict E. DeDominics, "US Post Cold War Grand Strategy and Multilateral National Integration in Europe and East Asia", Review of Business and Finance Studies, Volume 6, Number 1 (2015), pp. 57-80

24 Anonymous, "China to study possibility of joining TPP: MOC," http://news.xinhuanet.com/english/china/2013-05/30/c_132420541.htm

25 Joseph Boris in Washington and Li Jiabao, "Door to TPP is open for China, says US," http://www.chinadaily.com.cn/bizchina/2013-03/22/content_16332085.htm

26 Reuters, "U.S., China Agree to Investment Treaty Talks," http://www.reuters.com/article/2013/07/12/us-usa-china-dialogue-trade-idUSBRE96A0ZD20130712

27 Xinhua, "Sino-US Investment Treaty Sees Major Progress", http://usa.chinadaily.com.cn/business/2014-12/17/content_19104951.htm

Ostensibly, contents in the bilateral China-U.S. BIT are the same as those in the investment chapter of the TPP. Why has China not taken the step of formally joining the TPP negotiation process? The short answer is that neither Beijing nor Washington was ever supportive of sharing the negotiation room with the rest of the TPP negotiators. Geopolitical considerations certainly play a role. As American analysts argue, the TPP is as much about leadership competition as it is about trade and investment.[28]

Inclusion of Japan in the TPP reinforces suspicion in China about a return of a U.S.-led containment or a roll-back of China's rise. Political relations between Beijing and Tokyo went on a definite downward spiral, most notably after 2012, when Tokyo moved to 'nationalise' the disputed Diaoyu/Senkaku islands in the East China Sea. Commentators in China have also argued that Japan has dragged its feet in the China–South Korea–Japan FTA negotiations to curtail China's increasing economic role in the region. Japan and the U.S. are seen as supporters of the 'status quo' in the region and blocking China's economic interests. Last but not least, since assuming prime ministership for the second time in 2012, Shinzo Abe made a point of strengthening economic and security ties with ASEAN countries, in an effort to reinforce regional temptation to deal with an alleged China threat.[29]

On the part of Beijing, both President Xi and Premier Li visited Southeast Asia in 2013. These trips underscore the importance of the region in Beijing's current approach to international affairs. Beijing's approach entails an 'upgrading' of the China–ASEAN FTA, the promotion of a new 'diamond decade', and a broader diplomatic offensive in which the Confucian philosophy of 'seeking harmony but not uniformity' has been invoked as a guiding principle in China-ASEAN relations. The U.S. approach, on the contrary, is rules-based.

Taking advantage of hosting the 2014 APEC economic leaders' meeting in Beijing, China chose the Free Trade Area of the Asia Pacific (FTAAP) as its landmark initiative for the annual gathering. This built on President Xi's call at the 2013 APEC summit in Bali, Indonesia, for 'open and inclusive' trade agreements with APEC playing a 'leading role'. The U.S. description of TPP being 'non-exclusionary' refers to the fact that all sectors are included in the negotiations; China's charge of 'exclusion' is based on the fact that not all countries in the region are included in the TPP.

China's endorsement of FTAAP can be seen as a geostrategic statement. No lines will be drawn in the middle of the Pacific, in contrast with the U.S. insistence on prioritising association with its 'like-minded' countries. But also in Beijing, the United States effectively eliminated any reference to a specific timeline for FTAAP conclusion, but China managed to secure the launch of a collective strategic study on issues pertaining to FTAAP's realisation. It remains to be seen whether this compromise will hold in the long run.

---

28 Mireya Solis, "The Trans-Pacific Partnership: can the United States lead the way in Asia-Pacific integration? Pacific Focus, Volume 27, Number 2 (December 2012), pp. 319-341

29 Maya Kaneko, "Abe bolsters Southeast Asia ties in bid to counter China's rising threat," Japan Times, January 20, 2013, http://www.japantimes.co.jp/news/2013/01/20/national/abe-bolsters-southeast-asia-ties-in-bid-to-counter-chinas-rising-threat/

Reconnecting with History: AIIB, Road, Belt

Arguably, the bolder Chinese attempt at leadership in economic diplomacy came in two proposals unveiled in 2014. The creation of an Asian Infrastructure Development Bank (AIIB), promotion of deepening Chinese trade and investment with economies dubbed along a ‘New Silk Road’ and a ‘Twenty First Century Maritime Silk Road’. On 21 October 2014, China secured twenty other countries as founding members of the AIIB.[30] Initiated by China and to be headquartered in Beijing, the AIIB has an authorised capital of US$100 billion and is scheduled to start functioning in late 2015. According to studies by the Asian Development Bank (ADB), investments required in the Asian developing countries during 2010-2020 for national infrastructure alone amounted to US$8 trillion or US$800 billion per year. The ADB lends only about 1.5 per cent of this amount.[31] The need for an additional investment-pooling mechanism is only too obvious.

For China, the idea of the bank is, in reality, taking a page from how the World Bank and ADB supported infrastructure development as a key element of poverty reduction, especially before the Chinese economy began to take off in the mid-2000s.[32] The extent of faith in exporting a purportedly ‘Chinese model’ of poverty reduction and economic growth is a topic of interpretation and beyond the scope of this paper.

Today China can choose to invest part of its foreign reserves of US$3.9 trillion on commercial terms rather than putting them in U.S. treasuries where the real value is shrinking. Second, the AIIB will contribute to the internationalisation of the Chinese currency. Third, the bank will help secure contracts for Chinese firms to boost employment opportunities at home. Fourth, China has in recent years funded numerous infrastructure projects all over the world through China Development Bank and Ex-Im Bank despite local resentment. Through a multilateral institution, China stands a better chance of reducing malpractices by its own corporations and shouldering less of the communal acrimony against perceived Chinese economic intrusion.

As for the Road and Belt conceptualisations, indeed, on the side of the 2014 APEC, President Xi pledged US$40 billion to a new Silk Road fund for investing in infrastructure, resources and industrial and financial cooperation across Asia. This is without doubt a demonstration of leadership resolve both domestically and internationally. But the real test down the road is whether the initiative turn out to be a spending spree without due considerations of project feasibility in terms of either business or social feasibility.

Against this background, it is incumbent for China to take the lead to prove the critics and skeptics wrong. A “no-questions-asked” approach in project selection and implementation would indeed be disastrous for China, fellow members of the AIIB and the host governments as well. These new investments do not have to copy the politics/ ideology-driven conditions attached to existent institutional investments. But they just have to be creative in broad (particularly societal) recognition of “win-win” cooperation.

---

[30] The initial round of founding members are, in addition to China, Bangladesh, Brunei, Cambodia, India, Kazakhstan, Kuwait, Laos, Malaysia, Mongolia, Myanmar, Nepal, Oman, Pakistan, Philippines, Qatar, Singapore, Sri Lanka, Thailand, Uzbekistan and Vietnam

[31] ADB Institute, Infrastructure for a Seamless Asia, http://www.adbi.org/book/2009/09/15/3322.infrastructure.seamless.asia/

[32] See, for example, Gene Marvin Tidrick, China: an evaluation of World Bank assistance, Washington DC: the World Bank, 2005. The Asian Development Bank, Effectiveness of ADB Approaches and Assistance to Poverty Reduction, Manila: ADB, 2000

Concluding Observations

This paper included some of the highlights of Chinese economic diplomacy in recent years. While topics like China's interactions with Africa, Europe, and Latin America are beyond the scope of this paper, the economic geography of the Asia Pacific region offers bright prospects for Chinese approaches to managing cross-border economic affairs and also will eventually serve as the testing ground.

Four broad observations can be made from the previous stock-taking of China's initiatives in economic diplomacy since 2012. First, as the Sino-Thai interactions over the railway project reminds us, China must learn to adapt to a different kind of "new normal" (i.e., in relating to its trade and investment partners), because goodwill or emphasis on complementarity in economic fundamentals can hardly be sufficient in making cooperation possible. China needs to stay the course in handling competition abroad. China can also expect other countries to support its project and ideational preferences only when it can demonstrate comparable success in the domestic realm.

Second, the purported gaps between China and the United States and its security allies — often said to be vying for mutually exclusive regional (and even global) leadership — needs to be put in proper context. Any appeal to the morality of Beijing and Washington in pursuing harmony has its limits. Differences between the two are likely going to be the norm rather than exception. Other countries do not have to choose between China from the United States as the party to collaborate with. All parties, in the end, cooperate on those issue areas where they can share the lowest common denominator of interests.

Third, the fifth generation of the Chinese leadership is clearly demonstrating that China too, can be innovative in handling multilateral trade and investment initiatives and further liberalising China's own trade and investment regimes, continued domestic resistance, notwithstanding. The true challenge for the leadership is to deliver on the promise of quality growth, especially through innovation rather than government-driven investment. Also, China needs to prevail in the regional competition for attraction both as a destination for and source of foreign direct investment.

Last but not least, China is still in a process of domestic reform and opening to the rest of the world. Changes in the past two years, both in domestic economic governance and in foreign economic policy, should be seen as a continuation of the same orientation that has guided the country for the past three decades. References to "the Chinese Dream" and a "new normal" of the Chinese economy are in reality recognition of limits of action. It is true that China is beginning to take some bolder steps – particularly structural ones – to pursue new opportunities in the world. But, China is not in a position to save the world economy. Nor does it seek to rewrite the rules of world governance.

About the Author

Zha Daojiong is Professor of International Political Economy in the School of International Studies, Peking University. He specialises in researching non-traditional security challenges in China's international relations, with a particular focus on the energy-food-water nexus. His latest publication is Chinese Investment Overseas: case studies on environmental and social risks (co-edited, in Chinese, Peking University Press, 2014).

About the S. Rajaratnam School of International Studies

The **S. Rajaratnam School of International Studies (RSIS)** is a professional graduate school of international affairs at the Nanyang Technological University, Singapore. RSIS' mission is to develop a community of scholars and policy analysts at the forefront of security studies and international affairs. Its core functions are research, graduate education and networking. It produces cutting-edge research on Asia Pacific Security, Multilateralism and Regionalism, Conflict Studies, Non-Traditional Security, International Political Economy, and Country and Region Studies. RSIS' activities are aimed at assisting policymakers to develop comprehensive approaches to strategic thinking on issues related to security and stability in the Asia Pacific.

For more information about RSIS, please visit www.rsis.edu.sg.

S. RAJARATNAM SCHOOL OF INTERNATIONAL STUDIES
Nanyang Technological University

Nanyang Technological University
Block S4, Level B4, 50 Nanyang Avenue, Singapore 639798
Tel: +65 6790 6982 | Fax: +65 6794 0617 | www.rsis.edu.sg