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China and the World: A New Form of Integration

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Introduction

- China's opening up to the outside world since the early 1980s has fundamentally transformed China from a closed economy into and an active and influential player in the global economy.

- China has been the largest exporter in the world since 2009 and with its export value reached a historic high of US$2.097 trillion in 2017[1]. China also surpassed the US as the largest trading nation in the world in 2013, with its trade volume amounted to US$4.12 trillion[2].

- In 2015, China's US$145.7 billion of outbound direct investment (ODI) for the first time exceeded inbound foreign direct investment (FDI) with a total of US$135.6 billion. This milestone figure marked China as a net exporter of capital.

- China also surpassed Japan to become the second largest ODI country in 2015 (KPMG 2016). China's dramatic global expansion not only brings fundamental overhaul to its economy, but also remarkably impacts the structure of global economy.

1. Data derived from Investopedia (2018a)
2. Data derived from The Guardian 2013

From Close Door to Open Door: Foreign Direct Investment and Trade Participation

- The living standard, economic growth and technological level were far lagged behind the world standards in the 1970s.
- In contrast to China's 'close door policy' adopted in the 1950s-1970s, the neighbouring Newly Industrialised Economies (NIEs, South Korea, Taiwan, Singapore and Hong Kong) embraced a more outward-oriented approach of trade participation and attracting FDI, which resulted in remarkable economic growth, enhancement of living standards and technological innovation.
- Strong drive to modernise China and catch up with the world economy prompted a group of more liberal and pragmatic leaders, led by Deng Xiaoping, to initiate an open door policy which departed from the previous policy of self-sufficiency and isolation.
- The first stage of China's open door policy is marked by the establishment of four Special Economic Zones in 1979, Shenzhen, Zhuhai, Xiamen and Shantou, bestowed with special rights to attract FDI. Hainan was later granted the same special rights to attract FDI, followed by the opening up of fourteen Open Coastal Cities in 1984.

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- With initial success, preferential policies were extended to Yangtze River Delta and Pearl River Delta, Xiamen-Zhangzhou-Quanzhou Triangle in south Fujian, Shangdong Peninsula, Liaodong Peninsula, Hebei and Guangxi into an open coastal belt.

- The June Fourth Incidence in 1989 imposed limited impact on the open door policy for two reasons:

- First, the political situation in China after the Incidence had gradually regained its stability and did not show signs of further deterioration. In particular, Deng Xiaoping's Southern Tour in 1992 reassured that China would continue more progressive and bolder reforms and opening up to the outside world. Foreign investors interpreted Deng's important speech positively and FDI has kept on pouring into China since 1992.

- Second, western countries imposed a range of economic and military sanctions aimed at isolating and pressurizing China, but Asian countries opted to detach from those sanctions in order to maintain a harmonious diplomatic relations with China.

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- China's FDI has entered a phase of steady growth since 1992 amid some ups and downs. More obvious decline was recorded after the 1997 Asian Financial Crisis and the 2008 GFC, but were both followed by rapid rebound.
- Several points are noteworthy for China's gigantic inflow of foreign capital over the past four decades.
- First, China prefers FDI to foreign loans in tapping foreign capital. The Latin American debt crisis in 1982 alarmed the Chinese government that huge external debts would make its domestic economy be vulnerable to external shocks. FDI could also avoid regular repayment and minimise interest costs, which reduced financial risks and costs of utilising foreign funds.
- Second, empirical studies in the 1980s and 1990s revealed that FDI not only filled China's capital gap in the 1980s, but also generated a number of economic benefits including income growth, employment creation and export growth (Chai 1983; World Bank 1988; Hiemenz 1990; Kueh 1992; Chi 1994). Foreign enterprises are the main driver of China's export-oriented strategy.

From Close Door to Open Door: Foreign Direct Investment and Trade Participation

- Third, of equal importance with the quantitative economic benefits, FDI brought about qualitative benefits of technology transfer and managerial knowhow, notably in the first two decades of opening up.
- Last but not least, though foreign investors' complaint against unfavourable business and investment environment has never faded away, the on-going influx of foreign capital into China proves that it is mutually beneficial for China and foreign investors under various forms of FDI. The benefits to the foreign investors must outweigh the costs of the claimed unfavourable investment environment.

Table 5-1 FDI Realised 1979-2017 (US$ billion)

Year	FDI Realised	Growth (%)
1979-84	4.10	
1985	1.96	30.7*
1986	2.24	14.3
1987	2.31	3.1
1988	3.19	38.1
1989	3.39	6.3
1990	3.49	2.9
1991	4.37	25.2
1992	11.01	151.9
1993	27.52	150.0
1994	33.77	22.7
1995	37.52	11.1
1996	41.73	11.2
1997	45.26	8.5
1998	45.46	0.4
1999	40.32	(11.3)
2000	40.72	1.0
2001	46.88	15.1

Year	FDI Realised	Growth (%)
2002	52.74	12.5
2003	53.51	1.5
2004	60.63	13.3
2005	60.33	(0.5)
2006	63.02	4.5
2007	74.77	18.6
2008	92.40	23.6
2009	90.03	(2.6)
2010	105.74	17.4
2011	116.01	9.7
2012	111.72	(3.7)
2013	117.59	5.3
2014	119.56	1.7
2015	126.27	5.6
2016	126.0	(0.2)
2017	131.04	4.0

*Growth rate in 1985 is calculated based on the data from Chai (1997: 159).
Source: China Statistical Yearbook 2018 (Table 11-13). Available at: http://www.stats.gov.cn/tjsj/ndsj/2018/indexeh.htm (Accessed on 26 January 2019)

From Close Door to Open Door: Foreign Direct Investment and Trade Participation

- Another main plank of China's open door policy is trade liberalization and participation. During the pre-reform period, China adopted the policy of autarky, which emphasised economic independence and self-sufficiency. Trade was kept at minimum and the limited amount of exports was to earn adequate foreign exchange to purchase necessary imports.

- Export prices and exchange rates were set by central authorities. The import and export plans deliberated by the SPC would then be carried out by 12 foreign trade corporations (FTCs) which was under the control of Ministry of Foreign Trade. FTCs monopolised the trading right and separate the producers and end-users between China and the international markets. China's exporting industries did not have any information about the consumers (i.e. end-users) preference and price signals in the international market.

- China's products were thus not exported according comparative advantage, which caused substantial efficiency loss. With its endowment of abundant labour supply, China in principle should export more labour-intensive products. However, China exported large amount of capital-intensive products such as crude oil and petroleum products in the 1970s and the first half of 1980s.

From Close Door to Open Door: Foreign Direct Investment and Trade Participation

- Several decisive steps were taken to speed up trade participation.
- First, trading rights were decentralised and FTCs no longer possessed the monopoly in trading. The number of FTCs was dramatically increased from 12 in 1978 to over 7,000 in mid-1994 (Chai 1997: 140). Trading rights were later decentralised further to local authorities, enterprises and joint venture trading companies. The total of 35,000 domestic companies were allowed to engage in trade in 2001 (Lardy 2002: 41).
- Second, together with the decentralization of trading rights, goods under foreign trade plan were sharply reduced. During the pre-reform period, about 3000 export commodities and almost 90 percent of imports were under foreign trade plan, but there are only 38 export commodities and 11 import commodities under the plan after reform.
- Third, related to the previous two points, to foster trade liberalization, trading units were allowed to set prices according to world market situation in order to maintain price competitive.
- Further, Renminbi (RMB) has been devalued since 1978 to reflect a more realistic exchange rate. The RMB:US exchange rate experienced a dramatic drop from 1.56 in 1978 to 5.76 (Chai 1997: 145), representing a 2.69 times of devaluation.

From Close Door to Open Door: Foreign Direct Investment and Trade Participation

- China's opening up in the 1980s generated enormous economic benefits in terms of income growth, employment creation, and accumulation of foreign reserves. However, even more important is the China's exposure to the global market, which brings in immense valuable information for China's later development.
- Moreover, the positive results prompte China to embrace the notion that integration into the world economy would not jeopardise, but rather speeding up its long-term development.
- It is undebatable that adoption of open door policy is attributable to the push factors resulting from the poor conditions of the domestic economy and the rise of more pragmatic and liberal leaders at upper echelon.
- However, opening up could not be feasible without a changed international environment, in particular China's diplomatic relationship with the US. Since Henry Kissinger's historic visit to Beijing in 1971, China-US relations had undergone subtle change from hostility to normalization and later to cooperation.

Figure 5-2 China's Imports, Exports and Trade Balance 1952-2017 (100 million yuan)

Year	Exports (EX)	Imports (IM)	IM+EX	EX–IM (NX)	GDP	IM+EX/GDP	NX/GDP
1952	27.1	37.5	64.6	-10.4	679.0	9.5	-1.53
1957	54.5	50.0	104.5	4.5	1068.0	9.8	0.42
1962	47.1	33.8	80.9	13.3	1149.3	7.0	1.16
1965	63.1	55.3	118.4	7.8	1716.1	6.9	0.45
1970	56.8	56.1	112.9	0.7	2252.7	5.0	0.03
1975	143.0	147.4	290.4	-4.4	2997.3	9.7	-0.15
1978	167.6	187.4	355.0	-19.8	3678.7	9.7	-0.54
1980	271.2	298.8	570.0	-27.6	4587.6	12.4	-0.60
1985	808.9	1257.8	2066.7	-448.9	9098.9	22.7	-4.93
1986	1082.1	1498.3	2580.4	-416.2	10376.2	24.9	-4.01
1987	1470.0	1614.2	3084.2	-144.2	12174.6	25.3	-1.18
1988	1766.7	2055.1	3821.8	-288.4	15180.4	25.2	-1.90
1989	1956.0	2199.9	4155.9	-243.9	17179.7	24.2	-1.42
1990	2985.8	2574.3	5560.1	411.5	18872.9	29.5	2.18
1991	3827.1	3398.7	7225.8	428.4	22005.6	32.8	1.95
1992	4676.3	4443.3	9119.6	233.0	27194.5	33.5	0.86
1993	5284.8	5986.2	11271.0	-701.4	35673.2	31.6	-1.97
1994	10421.8	9960.1	20381.9	461.8	48637.5	41.9	0.95
1995	12451.8	11048.1	23499.9	1403.7	61339.9	38.3	2.29
1996	12567.4	11557.4	24133.9	1019.0	71813.6	33.6	1.42
1997	15160.7	11806.6	26967.2	3354.1	79715.0	33.8	4.21
1998	15223.5	11626.1	26849.7	3597.4	85195.0	31.5	4.22
1999	16159.8	13736.5	29896.2	2423.3	90564.4	33.0	2.68
2000	20634.4	18638.8	39273.3	1995.6	100280.1	39.2	1.99

Figure 5-2 China's Imports, Exports and Trade Balance 1952-2017 (100 million yuan)

Year	Exports (EX)	Imports (IM)	IM+EX	EX–IM (NX)	GDP	IM+EX/ GDP	NX/GDP
2002	26947.9	24430.3	51378.2	2517.6	121717.4	42.2	2.07
2003	36287.9	34195.6	70483.5	2029.3	137422.0	51.3	1.48
2004	49103.3	46435.8	95539.1	2667.6	161840.2	59.0	1.65
2005	62648.1	54273.7	116921.8	8374.4	187318.9	62.4	4.47
2006	77597.9	63376.9	140974.7	14221.0	219438.5	64.2	6.48
2007	93627.1	73296.9	166924.1	20330.2	270232.3	61.8	7.52
2008	100394.9	79526.5	179921.5	20868.4	319515.5	56.3	6.53
2009	82029.7	68618.4	150648.1	13411.3	349081.4	43.2	3.84
2010	107022.8	94699.5	201722.3	12323.3	413030.3	48.8	2.98
2011	123240.6	113161.4	236402.0	10079.2	489300.6	48.3	2.06
2012	129359.3	114801.0	244160.2	14558.3	540367.4	45.2	2.69
2013	137131.4	121037.5	258168.9	16094.0	595244.4	43.4	2.70
2014	143883.8	120358.0	264241.8	23525.7	643974.0	41.0	3.65
2015	141166.8	104336.1	245502.9	36830.7	689052.1	35.6	5.35
2016	138419.3	104967.2	243386.5	33452.1	743585.5	32.7	4.50
2017	153311.2	124789.8	278101.0	28521.4	827121.7	33.6	3.45

*Source: China Statistical Yearbook 1999 (Table 17-3; Table 3-1). Available at: http://www.stats.gov.cn/english/statisticaldata/yearlydata/YB1999e/q03e.htm ;
China Statistical Yearbook 2018 (Table 11-2; Table 3-1). Available at: http://www.stats.gov.cn/tjsj/ndsj/2018/indexeh.htm (Accessed on 28 January 2019);

From Opening up to ‘Going out’

- With accumulated foreign reserves, building up of stronger enterprises, mainly SOEs, and gathered experience in dealing with foreign business partners, China started to scrutinise its global presence by reversing its policy direction: from opening up to ‘going out’.
- Without doing away the open door policy, key central leaders in the 1990s held the view that ‘going out’ could enlarge China’s economic benefits by increasing ODI and overseas acquisition.
- Like other policy change in China, it is difficult to state precisely the commencement of the ‘going out’ policy. However, its origin could be traced back to some internal speeches by Jiang Zemin , former President[3] of the PRC, delivered in mid-1992 prior to the Fourteenth Party Congress in Autumn 1992.
- A more explicit statement made by Jiang on the ‘going out’ policy was made on 26 July, 1996 after his visit to Africa. In his speech, he encouraged Chinese enterprises to ‘go out.’

3. Jiang Zemin served as General Secretary of the Communist Party of China from 1989 to 2002, as Chairman of the Central Military Commission from 1989 to 2004, and as President of the People's Republic of China from 1993 to 2003.

From Opening up to ‘Going out’

- Another one by Jiang delivered in the Fifteenth Party Congress in 1997 followed this speech, which clearly propounded the notion of “bring [investment] in and go out.” Since then, Jiang repeatedly raised the new policy initiative in different speeches and occasions. The ‘going out’ policy was formally discussed at a Politburo on 20 January, 2000 (Shambaugh 2013: 175)[4].

- The ‘going out’ strategy was mainly motivated by the swift accumulation of foreign exchange. After two decades of open door policy since early 1980s, China exports have expanded remarkably to create huge trade surplus, in particularly with the US.

- The People’s Bank of China (PBOC) absorbs the dollars earned through exporters by giving out Renminbi (RMB). However, this act has increased RMB liquidity in the market, which likely pushes up commodity and assets inflation.

- To avoid domestic inflation, PBOC needs to sterilize the increased liquidity by selling bonds to commercial banks or setting high required reserve ratio (Subacchi 2017:91).

4. For a discussion on the origin of the ‘going out’ policy, please see Shambaugh (2013: 174-176).

From Opening up to 'Going out'

- China's foreign reserve was negligible immediately after the establishment of the People's Republic China. As indicated in Table 5-3, foreign reserves were just US$157 million in 1950 and the level remained almost unchanged on the eve of open door policy at US$31399.49 million in 2017.

Table 5-3 China's Foreign Reserves(100 million US Dollars)

Year	Foreign Reserves
1950	1.57
1960	0.46
1970	0.88
1978	1.67
1983	89.01
1990	110.93
1995	735.97
2000	1655.74
2005	8188.72
2006	10663.44
2007	15282.49

Year	Foreign Reserves
2008	19460.30
2009	23991.52
2010	28473.38
2011	31811.48
2012	33115.89
2013	38213.15
2014	38430.18
2015	33303.62
2016	30105.17
2017	31399.49

Source: State Administration of Foreign Exchange. Available at: https://www.safe.gov.cn/en/2018/0408/1426.html (Accessed on 15 Jan 2019)

From Opening up to 'Going out'

- From 2000 to 2008, China used about 64 percent of its trade surplus with the US to buy US treasury bonds and the debt of government chartered organizations such as Fannie Mae (Table 5-4).

Table 5-4 China's Utilization of Foreign Exchange Earning from US Trade Surplus 2000-2008

	US$ (billion)	Percentage
Debt of government chartered organizations (e.g. Fannie Mae)	474	33.3
US Treasuries	439	30.8
Investment in real estate and other companies in the US	400	28.1
Stock in US companies	96	6.7
Corporate bonds	16	1.1
Total	1,425	100

Source: Lilly (2009: 2)

From Opening up to 'Going out'

- Central leaders expressed concern over the default and exchange rate risks embedded in mounting foreign reserves, with the dominance of US dollars. Premier Wen Jiabao explicitly stated his concern over China's substantial holding of US Treasury bonds at the end of the National People's Congress in 2009. Wen said:

  "We have lent a huge amount of money to the U.S. Of course we are concerned about the safety of our assets, to be honest, I am definitely a little worried[5]."

- The Chinese government and enterprises became skeptical of the exchange rate risk inherent in the holding of substantial amount of US debt. Any appreciation of RMB and/or depreciation of US$ means a reduction in value of China's hard earned foreign exchange.

5. Quote from Faiola (2009).

From Opening up to 'Going out'

- Further, as mentioned above, with amassed foreign reserves, PBOC issues bills to absorb the increased liquidity in the market (i.e. sterilization) to avoid inflationary pressure. Nevertheless, the costs of sterilization are always higher than the returns earned from the US Treasuries. For instance, the return of one year US Treasury bill was 0.11 percent in August 2014 while the rate offered by PBOC for a one-year bill was 3.7 percent at the same time (Subacchi 2017: 94).

- Foreign reserves accumulation and its associated sterilization insert considerable financial pressure on the central bank. More importantly, the Chinese leaders had developed a view that increasing hoarding of foreign reserve and purchase of US bonds did not serve the best interest of China's long-term development.

- The holding of excess reserves prompted central leaders to acquire overseas companies that could secure China's energy and raw materials sources as well as transferring advanced technology and business model to Chinese enterprises.

- This 'going out' strategy provides more concrete benefits for China's long-term growth and development than holding excessive reserves and US Treasury bonds.

From Opening up to ‘Going out’

- The amount of overseas direct investment (ODI) was negligible before 2000. Since China’s announcement of the ‘going out’ strategy in 2000, ODI has picked up its growth momentum. Table 5-4 reveals that ODI started with a small base of US$2.5 billion and skyrocketed to 55.91 in 2008.

Table 5-5 China’s Overseas Direct Investment (ODI)

Year	ODI (US$ billion)	Growth (%)
2002	2.50	
2003	2.86	14.4
2004	5.50	92.3
2005	12.26	122.9
2006	17.63	43.8
2007	26.51	50.4
2008	55.91	110.9
2009	56.53	1.1
2010	68.81	21.7
2011	74.65	8.5
2012	87.80	17.6
2013	107.84	22.8
2014	123.12	14.2
2015	145.67	18.3
2016	196.15	34.7
2017	158.29	(19.3)

Note: Figures from 2002 to 2005 include only non-financial overseas direct investment, while figures from 2006 onward include all industries.
Source: Huang and Wikes (2011); *China Statistical Yearbook 2005, 2007, 2009, 2011, 2013, 2015, 2017, 2018*. Available at: http://www.stats.gov.cn/english/statisticaldata/annualdata/ (Accessed on 20 January 2019)

From Opening up to 'Going out'

- Immediate after the GFC, the figures experienced a meagre growth of 1.1 percent, which reflected China's cautious approach to capital outflow in the aftermath of the crisis. Since then, China's ODI growth has demonstrated a more stable double-digit growth till 2017.

- China's ODI has fallen sharply since Beijing in late 2016 implemented strict controls on capital outflow to avoid massive capital flight. ODI in less strategic areas such as hotel, property, sports and entertainment has been limited by the central government, which resulted in the first-ever negative growth of 19.3 percent in 2017.

- Trade war broken out in 2018 further reduced China's ODI as developed countries, in particular the US, has been increasingly reluctant to allow China's acquisition of technology and energy firms that have direct bearing on national security. The growth of non-financial ODI grew only marginally at 0.3 percent in 2018.

- China's high profile acquisitions have drawn US and European countries' attention and concern about China's control on some of their key enterprises.

- During the initial years of China's outbound merger and acquisition (M&As), Germany's small and medium–sized manufacturing firms are the major targets of China's acquisition as the manufacturing technology and high standards of quality assurance obtained from these German firms are well suited for Chinese firms' industry upgrade.

From Opening up to 'Going out'

- The pattern of China's overseas M&A has undergone recognizable changes. Before 2013, SOEs dominated most of the M&A to acquire energy and commodities companies such as iron ores in Australia, energy producers from Canada and copper mines in Africa.

- Since 2013, government-backed buyers have mainly acquired internet and software companies, which become the third major sector for China's acquisition in 2016, just behind chemicals and property companies (Table 5-6) while the M&A in traditional energy has shown a drastic decline.

Table 5-6 Sectoral Distribution of China's M&A (US$ billion)

Sector	2012	2016
Traditional Energy*	30.0	2.8
Finance	1.40	18.2
Property	0.6	28.5
Mining	2.3	5.4
Chemicals	2.0	47.6
Internet/Software	0.24	26.6
Utilities	1.5	22.5
Logistics	0.32	23.1

Note: *Traditional energy covers coal, oil, gas, oil and services and pipelines.
Source: Bloomberg (2018)

From Opening up to ‘Going out’

- This stark change reflects China’s robust intention to upgrade its technology in manufacturing and service industries. China’s rapid expansion of acquisition in high-tech industry has increased the US and European countries’ scrutiny on China’s cross-border deals.

- The Committee on Foreign Investment in the US has banned some transactions in the technology sector and is cautious of any potential M&A that could affect national security. In Europe, China’s takeover of robot maker Kuka AG drew opposition from the politicians, and the U.K. government has devised new policies to review large acquisitions in sensitive industries (Bloomberg 2018).

From rule follower to rule setter: China's Admission to World Trade Organization

- Parallel with the 'going out' strategy, China had made gigantic efforts to bargain for the admission into the World Trade Organization (WTO). China was a member of General Agreement of Tariffs and Trade (GATT), the predecessor of WTO, but not a member of WTO prior to 2001.

- China joined GATT in 1947 and the nationalist government signed the agreement. However, two years after joining the GATT, the nationalist government retreated to Taiwan and withdrew its membership. Eight years after its implementation of open door policy in 1978, China tried to resume its GATT membership in 1986 and a lengthy and arduous journey of negotiation began (Boden 2012: 13).

- GATT was transformed into WTO in 1995 to cover issues not just on commodity trade, but also on service trade and intellectual property. After 15 years of negotiation, China was formally granted a full membership of the WTO in 2001.

From rule follower to rule setter: China's Admission to World Trade Organization

- The long process of bargaining resulted in China's unprecedented and dramatic concessions in tariff reduction and further opening up to foreign investors. The average tariffs would be reduced below 10 percent by 2005.
- A tariff-rate quota system is introduced to bring the tariff rate for key agricultural commodities, such as wheat, almost to zero for a significant volume of imports.
- All quotas and licenses that have restricted the flow of imports would be gradually eliminated. Key service sectors such as telecommunications, distribution, banking, insurance, asset management, and securities would be opened up further to foreign direct investment.
- Further, China agrees to abide international standards in the protection of intellectual property (Lardy 2001)[6].

6. For a detailed discussion of China's concessions to the WTO, please see Lardy (2002: 63-105).

From rule follower to rule setter: China's Admission to World Trade Organization

- With the paramount goal of maintaining economic and social stability, why was China willing to concede substantially and face the uncertainties ahead to obtain a membership of the WTO?

- The first obvious motivation for entering the WTO was to free China from annual negotiation with the US to seek normal trade relations (NTR), also known as Most Favored Nation Clause (MFN), which gives China equal trading privileges with any other US trade partners. Chinese leaders intensely concerned this consideration when western countries imposed sanctions on China after the June-Fourth Incidence in 1989 (Saich 2002: 4).

- Second, China has regularly faced dumping[7] accusation by western countries. Indeed, China has been the number one target of anti-dumping cases. From January 1995 and June 2008, 640 anti-dumping cases had been filed against China's exports, which constituted about 20 percent of the world total. The United States, European Union, Japan, India, and Argentina initiated the most anti-dumping cases against China. After obtaining the full membership of WTO, China can make use the WTO tribunal mechanism to settle trade disputes, which is less costly and more impartial from the perspective of China.

7. Dumping refers to the pricing strategy that a manufacturer lowers the price of a good entering a foreign market to a level that is lower than the price paid by domestic customers in the exporting country. Dumping is regarded as an unfair trade practice as the government may subsidize the exporting manufacturer so that it can sell the products below production costs. For further details, see Investopedia (2018b).

From rule follower to rule setter: China’s Admission to World Trade Organization

- Third, of paramount importance, China can lift its influence over the global political economy with its admission into WTO. On China side, it is eager to take up a leading role in collaborating with developing countries to bargain with developed countries, through which China can further its footprint and influence in global governance.

- To illustrate, China, together with other developing countries including Brazil, South Africa and India, bargained with developed countries in the WTO in the 2000s on important issues such as abolition of subsidies to farmers in developed countries and slowing down the pace of opening up financial markets in developing countries (Hung 2017: 142).

- Fourth, China’s eagerness to join WTO was largely pushed by reform leaders, such as the former Premier Zhu Rongji, who made admission to WTO a national goal, through which China had to reform its financial and trade policies to align with international norms and regulations to satisfy admission requirements. Zhu used external pressure to clear the resistance against further market reforms imposed by the conservative elements in the party.

From rule follower to rule setter: China's Admission to World Trade Organization

- Last but not least, China expected that entering WTO would expand its overseas market and gradual opening up of service sector would attract more FDI. Economic growth could be pushed up by two percentage points, which would generate 10 to 15 million jobs. This additional growth and employment creation were especially important for China after the Asian Financial Crisis in 1997.

- The above factors largely explain China sustantial concessions to the WTO accession, though China foresee potential negative impacts on its rather protected industries and service sectors. However, beyond China's expectation, the predicted negative economic impacts have not taken place after noticeable tariff reduction and opening up of domestic market.

- Though the Chinese government has lessened some restrictions on foreign investment in the agriculture, mining, and infrastructure sectors in July 2018, restrictions on sensitive sectors including finance, insurance, and automobile sectors remain. The real effects of the relaxation remain to be seen (Wong 2018). China's restrictive FDI policies in contrast to its active overseas M&A have sown the seeds of hostile economic and trade relationship with the advanced countries, particularly the US and some EU countries.

Belt-and-Road Initiatives: from integrating to leading

- China 'going out' strategy, together with the notable development in trade, FDI and ODI did away China's worry and reservation of market liberalization. With accumulated experience in the global economy and strikingly escalated state power, President Xi Jinping propounded his vision of "New Silk Road" when he delivered a speech at the Nazarbayev University in Astana, Kazakhstan in September 2013.

- In the following month, Xi advocated his notion of "Maritime Silk Road" in Indonesia. The "New Silk Road" and "Maritime Silk Road" are later concretised as the Silk Road Economic Belt (land route) and the 21st Century Maritime Silk Road (sea route), which constitute the Belt and Road Initiative (BRI).

- The BRI connects countries in Asia, Europe and Africa along six routes: (1) The New Eurasia Land Bridge Economic Corridor; (2) The China-Mongolia-Russia Economic Corridor; (3) China-Central Asia-West Asia Economic Corridor; (4) China-Indochina Peninsula Economic Corridor; and (5) China-Pakistan Economic Corridor; (6) Bangladesh-China-India-Myanmar Economic Corridor.

Belt-and-Road Initiatives: from integrating to leading

- The grand plan covers 60 percent of the world's population living in 60-plus countries, 30 percent the global GDP and 35 percent of world trade. According to the official documents, cooperation under the BRI encompasses five major areas: policy co-ordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people bonds.

- To kick off the BRI, a US$40 billion Silk Road Fund was established in December 2014 to finance the *BRI projects*, with its main investment in infrastructure, resources, industrial and financial co-operation.

- Another financing source for BRI projects is the Asian Infrastructure Investment Bank is a multinational financial institution founded in January 2016 and headquartered in Beijing to finance the huge infrastructure needs across Asia and countries along the BRI regions.

- *AIIB* focuses on financing projects in energy and power, transportation and telecommunications, rural infrastructure and agriculture development, water supply and sanitation, environmental protection, and urban development and logistics. As of February 2019, *AIIB* has 70 approved members and 23 prospective members, and has financed 35 projects with total funding amounted to US$7.5 billion[8].

8. Data from official website of AIIB. Available at: https://www.aiib.org/en/about-aiib/who-we-are/third-anniversary/index.html (Accessed on 17 February 2019).

Belt-and-Road Initiatives: from integrating to leading

- The BRI, in parallel with Silk Road Fund and AIIB, brings China to a new height of the ‘going out’ strategy and marks a clear departure from the strategy of “maintaining a low profile” (*taoguang yanghui*) advocated by Deng Xiaoping that when dealing with diplomatic and global affairs.

- China should: “Observe the situation calmly. Stand firm in our position. Respond cautiously. Conceal our capabilities and await an opportune moment. Never claim leadership. Take some action.” (*lengjing guancha, wenzhu zhenjiao, chenzhuo yingfu, taoguang yanghui, juebu dangtou, yousuo zuowei*) (Garver 2006: 98)[9] What makes Xi adopt a strategy that shakes the fundamental principle of Deng Xiaoping, the paramount reform leader?

- Xi’s move was incentivised by a bundle of politico-economic factors developed since his inception of power in late 2012.

9. Quoted from Economy (2018: 188)

Belt-and-Road Initiatives: from integrating to leading

- First, after assuming leadership, Xi repeatedly highlight the importance of China's rejuvenation and he coined the conception "Chinese Dream" which entails multi-target mission of doubling China's GDP during the period 2010-2020, raising the welfare the people, making China stronger both domestically and diplomatically. The very first statement demonstrating Xi's gesture of highlighting China's new diplomatic role in the world was made during his visit to Washington DC in 2012. He described the relationship between China and the US as a "new type of relationship among major countries" (*xinxing daguo guanxi*).

- Second, as discussed above, the slowdown of the Chinese economy since 2010 drove the central leaders to source new growth engine for the economy. The countries along the BRI region consist of numerous emerging economies, which provide huge markets for China's exports. These potential markets are especially important for China as it faces increasing trade protection from the US.

- Apart from external trade, BRI provides an option for China to absorb its overcapacity. In response to the downside economic pressure brought about by the outbreak of the GFC in 2008, the central government initiated a 4-trillion yuan stimulus package which prompted rapid credit expansion. The 2008 stimulus package intensified the already pressing problem of excess capacity.

Belt-and-Road Initiatives: from integrating to leading

- Third, China makes use BRI to ensure its energy security. With its rapid economic growth over the past four decades, China has become one of the major energy consumption countries. By 2040, China's share of global energy demand is expected to rise to 24 percent. China perceives its increasing reliance on oil and gas imports as potential national security threat, particularly the import by sea route. It is estimated that 80 percent of China's crude oil import passes through the Strait of Malacca (Len 2018). BRI is used to diversify its import sources of energy, and to explore alternative supply routes, including overland transit pipelines to avoid the possible risk of sea blockage.

- Fourth, BRI can serve as a channel to fosters RMB internationalization. The current use of RMB outside China is still limited. RMB only accounted for 2.5 percent of all international payments recorded by SWIFT [10], in contrast to 43.3 percent for the US dollar and 28.7 percent for the euro. Further, about 70 percent of the international transactions involving the RMB were between Hong Kong and the mainland. If Hong Kong is excluded, RMB only accounts for 0.8% of global SWIFT payments (Graceffo 2017). However, it is predicted that through increased bilateral trade between China and countries along the BRI regions, RMB will be more widely used as settlement currency.

10. The Society for Worldwide Interbank Financial Telecommunication (SWIFT) provides a network that allows information exchange of financial transactions among financial institutions worldwide.

Belt-and-Road Initiatives: from integrating to leading

- It is undeniable that China's capital flowing into the infrastructure projects in the BRI countries best caters for the capital need in the region. Notwithstanding, some countries worry that China's loans and assistance to these developing countries would largely enhance China's presence and influence in these countries, which may shake the geopolitical balance in the BRI regions.

- Recent evidence suggests that this worry may not be overstated. In 2017, Sri Lanka was unable to repay debt to its Chinese partners. Sri Lanka finally handed over the strategic port of Hambantota to China on a 99-year lease. The deal was severely criticized by domestic critics that it threatens the country's sovereignty (Schultz 2017). Zambia, following the footsteps of Sri Lanka, had to relinquish control of its international airport and a state power company to China in 2018. In addition, Tajik was willing to surrender its control over some 1,158 square kilometers of disputed territory close to its border with China's troubled northwestern province of Xinjiang to China. In exchange, China agreed to write off an undisclosed amount of Tajik debt (Dorsey 2018).

Belt-and-Road Initiatives: from integrating to leading

- Increasing resistance against BRI has been observed across the region. In 2018, protests against forced resettlement of eight Nepali villages have pressured the CWE Investment Corporation, a subsidiary of China Three Gorges, to consider cancelling a hydropower project. Malaysian Prime Minister Mahathir Mohamad has put a halt to a total of US$26 billion in Chinese-funded projects since his successful election in May 2018. Further, Myanmar has been negotiating to scale down markedly its Chinese-funded port project on the Bay of Bengal from $7.3 billion to $1.3 billion to avoid overborrowing (Chaudbury 2018).

- BRI is one of China's most significant national development strategies in the 21st century, which was motivated by multi-dimensional political economy considerations.

- China's goal is much more than realising economic benefits through.

- Rather it aims to enhance its leading role in global development and governance as well as ensuring national security amid dynamic geopolitics. It is China's grand plan to balance US's global political and hegemony, at least in the BRI regions.

Belt-and-Road Initiatives: from integrating to leading

- Whether BRI can successfully and smoothly be implemented rests on the mutual trust among participating countries, which in turn depends on an acceptable distribution of mutual benefits among countries.

- Even more important is that China has to build its trust among participating countries that it would not make use financial assistance and lending to jeopardise any country's sovereignty. To build trust in the region is by no means easy given the fact that some of the BRI countries are allies of the US and some, such as Russia and India, are potential rivals of China (Cheng 2016: 311).

- Besides political tension, the success of the BRI faces two other major challenges. There has been so far no coordination mechanism among BRI countries (Huang 2016: 320). Collaboration between China and these countries are largely achieved by bilateral negotiations.

- Second, China financial sector has already extended substantial loans to finance infrastructure projects after the 2008 GFC to boom the downsizing economy. Some of these projects are not profitable, which hampers their repayability. Both NPLs amount and ratios have been rising in recent years.

Conclusion

- Shambaugh (2013: 9) describes China's global presence as a 'pattern of breath but not depth, presence but not influence.' However, China's development since 2013 seems to render Shambaugh's view invalid.

- China as the world's second largest economy, largest exporter and second largest importer could be a stabilizer, like what happen after the 2008 GFC, but it could also be a major destabilising factor as its economy has been heading to slowdown since 2010.

- The growth figure for the fourth quarter of 2018 went further downward to 6.4 percent from 6.5 percent in the third quarter. Import values soared 16.1 percent in 2017, but followed by a decline of 7.6 percent in 2018 (Roach 2019).

- Any fluctuations in China's macroeconomy will have direct bearing on the stability of the global economy. Advanced countries, particularly the US, have been facing a paradox: a rapidly rising Chinese economy will threaten the economic and even political hegemony of the West, but China's economic slowdown will mean a weakening global demand and shrinking ODI, which will adversely affect the advanced countries' economy.

Conclusion

- No matter how the West perceives the rise of the Chinese economy, China has become a determining factor for global economic stability. That said, the 'going out' strategy and the high profile BRI have raised politico-economic concern of not just the western countries, but also the BRI countries. China's expanding global footprint will emphatically encounter resistance from countries who perceive China's rise as a threat both economically and politically.

- Whether China can integrate further into the global economy and even take a leading role in international collaboration depends on China's ability of demonstrating mutually beneficial cooperation with partner countries, its commitment to issues of global governance and enhancement of China's soft power in the global arena.

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