CHINA
CHAMPION OF (WHICH) GLOBALISATION?

edited by **Alessia Amighini**
introduction by **Paolo Magri**

ISPI

China
Champion of (Which) Globalisation?

edited by Alessia Amighini

ISPI

Table of Contents

Introduction.. 7
Paolo Magri

1. China's New Economic Powerhouse................................ 13
   Alessia Amighini

2. Free Trade with Chinese Characteristics.......................... 39
   Shannon Tiezzi

3. Is China a Market Economy?... 61
   Christopher Balding

4. China in Global Technology Governance:
   Experimentation, Achievements, and Uncertainties......... 81
   Yingqiu Kuang

5. Chinese Global Climate Change Leadership
   and Its Impact.. 101
   Yves Tiberghien

6. China's New Energy Sourcing:
   Disrupting and Competing
   or Improving Global Energy Security?............................. 121
   Fabio Indeo

Policy Recommendations for the EU.................................. 141

The Authors.. 147

1. China's New Economic Powerhouse

Alessia Amighini

This year marks the 40th anniversary of China's reform process. Since the inward-looking approach that inspired an almost complete autarchy in the first three decades of the PRC, the country has increasingly opened up to the rest of the world. Over the past four decades, China has learned how to grasp the benefits of economic globalisation and has become the world's second-largest economy. The ultimate aim of China's growing international integration has invariably been not the opening up *per se*, but the willingness to design appropriate and effective national development strategies centred on progressive and selective integration with the world economy. At the time of Deng's *Open Door Policy*, in the late 1970s, foreign firms were given access to the vast Chinese labour market – but not the consumer market, until very recently – with a view to build domestic manufacturing capabilities and accumulate foreign reserves through an increase in national export capacity. Since that time, a steep learning curve allowed the country to develop productive and financial strengths that were then leveraged upon to design the following generation of more outward-oriented development policies. The *Go Out Policy,* started in 1999, aimed at accessing foreign natural resources, acquiring technological skills and assets, and expanding the international market reach of Chinese firms.

The ultimate aim of China's growing international integration has invariably been not the opening up per se, but the willingness to design appropriate and effective national development strategies centred on progressive and selective integration with the world economy.

Because of growing outbound activities, China's level of integration into the global economy today has increased significantly compared to the end of the previous century, both in the volume of trade and degree of openness to inward and outward foreign investment. Its foreign trade grew even faster than its output, and it accounted up to 62% of GDP in 2006[1], against 10% in 1978 and less than 5% in 1949. China has also become open to international investment, with over 128 billions of inward investment flows in 2014, which represent 7.6% of the world total (compared to 1% in 1980), the highest among all developing countries as well as emerging ones. However, more recently there has been a growing divergence between the inward and outward flows of both trade and investment. Imports and inward investment flows are growing less than before, while exports and outbound investment are gaining speed. After 2006, there has been a progressive decline of trade growth compared to GDP growth, so that the share of GDP has reached 37% in 2016. Merchandise exports have been outpacing merchandise imports since 2000, with an average growth of 5% and 2% respectively[2], and now China accounts for almost 13% of world exports compared to just around 10% of world imports[3]. Also on the foreign direct investment side, the initial openness to inbound flows has been recently outpaced by an outbound orientation. Inward investment now accounts for around 1% of GDP compared to almost 6% in 1994, while outbound investments have grown very rapidly since 2006, up

More recently there has been a growing divergence between the inward and outward flows of both trade and investment. Imports and inward investment flows are growing less than before, while exports and outbound investment are gaining speed.

[1] According to UNCTAD data available at http://unctadstat.unctad.org

[2] According to WTO data available at http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=CN

[3] According to UNCTAD data available at http://unctadstat.unctad.org

to outpacing inflows in 2015; today, they account for over 12% of total world flows (and 5% of total world stock).

China is now a net direct and financial investor abroad and claims its own development is an opportunity for the rest of the world, more specifically for the developing world, where China has become the main trade and investment partner. The more recent generation of national development policies is a much more widespread and comprehensive mix of plans aimed at upgrading domestic production and technologies (*Made in China 2025*), and at the same time expanding the outward reach of Chinese firms through a massive international development initiative, the *Belt and Road Initiative* (BRI). The BRI has helped consolidating Beijing's image as a net direct and financial investor abroad, which raises the important question of whether China is still willing to promote further globalisation in a multilateral setting or if it is actually working towards the transformation of world interdependence as we know it, in order to establish what has been labelled "globalisation with Chinese characteristics".

Also on the foreign direct investment side, the initial openness to inbound flows has been recently outpaced by an outbound orientation.
China is now a net direct and financial investor abroad.

Because of its emergence in international economic flows, China's role in global political and economic relations and governance has evolved enormously in relation to the marginalisation and passivity that had characterised it for most of the 20th century. Today, China has become very active in the proposals for reform of international economic governance, in

Increasing concerns arise on the part of China's main trade and economic partners that increased integration in the global economy will not result in a growing mutual interdependence between China and the rest of the world, but more in a rising dependence of a growing number of countries and industries on China.

which she aspires to participate as a leader. However, increasing concerns arise on the part of China's main trade and economic partners that increased integration in the global economy will not result in a growing mutual interdependence between China and the rest of the world, but more in a rising dependence of a growing number of countries and industries on China. In sharp contrast with the recent US withdrawal from multilateralism, President Xi has renewed his commitment to growing an open global economy. But what kind of globalisation can we expect will be supported by an increasingly State-controlled China?

Looking at the actual behaviour of China to date, not so much to its official declarations, should we expect that globalisation in Chinese perspective to be an opening up of China to the rest of the world or rather be an extension of the Chinese sphere of influence abroad, through growing exports of goods, services and capital, and increasingly also of institutions, rules, and standards?

This chapter will discuss to what extent "globalisation with Chinese characteristics" might look very different from the current form of global integration. Looking at the actual behaviour of China to date, not so much to its official declarations, should we expect globalisation in Chinese perspective to be an opening up of China to the rest of the world – in response to what the world has asked China since the beginning of the 21st century – or rather an extension of the Chinese sphere of influence abroad, through growing exports of goods, services and capital, and increasingly also of institutions, rules, and standards?

A strong trade powerhouse

At the time of its official accession to the World Trade Organization (WTO) on 11 November 2001, as the 143rd member of the multilateral economic institution that regulates more than 90% of world trade, China ranked sixth in world

trade. This represents a dramatic rise compared to the 32nd place in 1978 when Deng Xiaoping announced the country's policy of reform and openness, whose total imports and exports was only US$20.6 billion (less than 1% of world trade). In 2017, China's total merchandise trade exceeded US$3.7 trillion, more than 200 times the 1978 level. With 12% and 10% of world merchandise exports and imports respectively, China is now the world's largest exporter and the second largest importer[4].

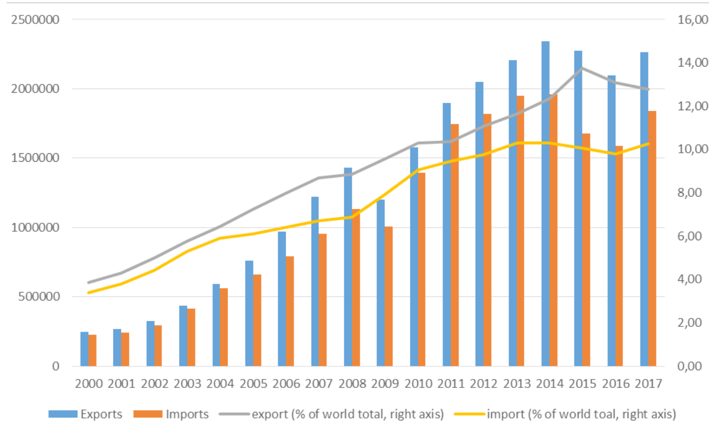
The flamboyant rise of China's commercial superpower has raised concerns among authorities in many countries around the world as they assess how China's economic weight will affect their economies and global trade as a whole. In this context, the future of China's international economic relations with its major partners and the rest of the world and the implications for the governance of world trade depend very much on China's changing trade patterns in the 21st century, as well as on the various stages of its trade policy since its accession to the WTO.

Membership in the WTO has allowed China to fully integrate into the global market and unleash its potential as a market power. China's export performance has largely relied upon strong price competitiveness linked to low wage costs, demographic dynamics (the working-age population grew by 350 million people between 1980 and 2005), and the quality of its labour force, as well as its foreign exchange policy aimed at containing the appreciation of the Yuan. As a result, since 2001, Chinese trade has grown exponentially, with exports crossing the threshold of one billion US dollars in 2007 and doubling in 2013. At the same time, in its accession agreement, China has promised to give WTO members greater market access to its agriculture, industry, and services sectors through lower barriers, the elimination of non-tariff measures, and other measures aimed at bringing its laws into conformity with WTO rules. However, so far a number of important sectors (including

[4] According to WTO data available at http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=CN.

agriculture and food products, banking, and finance) remained closed to foreign investment and protected from competition.

Fig. 1 - China's share in world trade



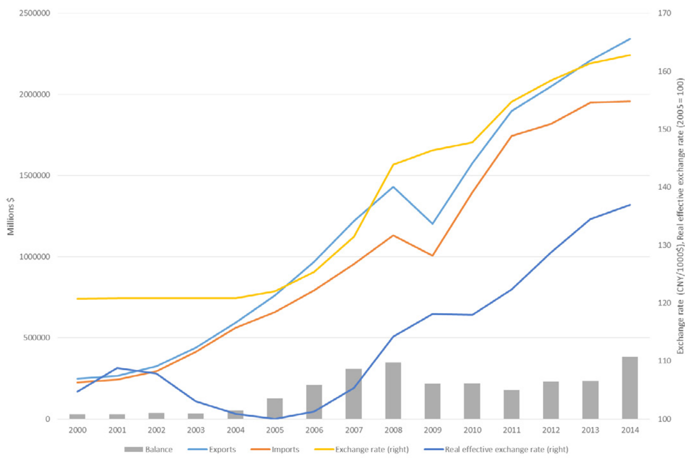
Source: author's elaboration on UNCTAD data

The rise of trade surpluses

Since the 2000s, China's exports have grown at a much faster rate than imports, contributing to growing trade surpluses (at least until the onset of the financial crisis in 2008, when the surplus peaked at 340), up to $ 421 billion in 2017. This has prompted a number of trading partners – especially Western countries – to blame China for handling the currency since joining the WTO. The United States has long argued that the renminbi is significantly understated by as much as 40%, making Chinese exports to the United States cheaper than they would be if they were determined by the market. However, the evolution of the exchange rate does not seem to be compatible with this point of view. When China opted for a floating-rate exchange rate regime against a basket of currencies, trade surpluses continued

to rise. That happened despite the renminbi revalued by 2.1% against the US dollar in July 2005 – allegedly, because of international pressure – and the renminbi value had risen by 30% since the same year. Such circumstances were so unexpected on the part of the US Administration that they led to the adoption of two foreign currency bills in the US Congress and Senate in 2010 and 2011. The heavy reliance on manufactured exports has also left China vulnerable to restrictive import measures by its trading partners. Since 1995, for example, China has consistently ranked as the country that is subject to the largest number of anti-dumping and countervailing measures. According to statistics published by the WTO, 35% of all anti-dumping investigations and 71% of all countervailing investigations since 2008 have been targeted at Chinese products. Since 2011, exports have risen again faster than imports, and as a result, the surplus has increased, despite the fact that the real effective exchange rate has continued to increase.

Fig. 2 - China's trade and exchange rate since 2000



Source: author's elaboration on World Development Indicators and UNCTADstat

During the summer of 2015, the Chinese monetary authorities decided to change the procedure of choice of the central parity around which the exchange rate of the renminbi floats (maximum +/- 2%). Since August 11, 2015, the central parity is set at the level of the previous day's exchange rate. As this has regularly reached the minimum value of the oscillation band since the beginning of 2015, the decision involved a devaluation of 1.9% in a single day and several percentage points in the following days. From the summer of 2015 until the end of 2016, the renminbi had devalued by around 10%, raising strong criticism from the United States and other major trading partners of China, despite the devaluation being much smaller than the revaluation recorded in the previous ten years. Since 2015, the trend towards lower commodity prices (especially because of a contraction in Chin's growth as the world's largest importer) has contributed to further reducing the value of imports, and the commercial surplus has risen further. This has given China important leverage in international economic relations, to the extent that the country has become one of the main trade partners for a rising number of both developed and developing countries.

The world largest trading partner

The evolution of China's foreign trade structure has also affected the composition of its trading partners. Disproportionately carried out with a small group of countries throughout the period of reforms until the beginning of the current century, Chinese trade has now progressed to a greater number of trading partners, among the industrialised as well as developing countries. In 2000, the top ten trading partners of China – Japan, the United States, the European Union, Hong Kong, the ASEAN countries, South Korea, Taiwan, Australia, Russia and Canada – accounted for 87.3% of exports and 84.5% of imports. These figures fell to 80.7% and 72.3% in 2008 but were still much higher compared to the United States (61.4% and 65.9%).

Today, the geographical concentration of Chinese exports has greatly diminished, and the top ten importers of Chinese products (the United States, Hong Kong, Japan, South Korea, Germany, the Netherlands, Vietnam, the United Kingdom, India, Russia) also include emerging countries, and together account for 58.8% of total Chinese exports (the United States among them only 17%). All advanced economies now account for just around 50% of China's merchandise exports[5].

China's dependence on exports has exacerbated the risks of a downturn resulting from systemic and structural shocks in the global economy, such as the 2008 financial crisis. The global economic recession that began in late 2008 was the single most serious challenge to China's reliance on export-led growth. In 2009, Chinese exports fell 16%, and imports fell 11% due to weak demand both domestically and externally. Real GDP growth declined from 9.6% in 2008 to a rate of 6.2% year-on-year in the first quarter of 2009, the lowest rate in more than a decade. Meanwhile, Chinese exports have also become the main target of protectionist measures around the world.

At the same time, since becoming a member of the WTO in 2001, China has sought to expand its trade with developing and emerging markets. China has actively explored trade opportunities in these markets through numerous bilateral free-trade agreements (see Chapter 2), with the signing of the China-ASEAN Comprehensive Economic Cooperation Framework Agreement between China and the Association of Southeast Asian Nations (ASEAN) already in November 2002. Since then, China has signed twelve free-trade agreements as well as economic partnerships with Singapore, Pakistan, New Zealand, Chile, Peru, Costa Rica, Hong Kong, Macau and, more recently,

Since becoming a member of the WTO in 2001, China has sought to expand its trade with developing and emerging markets through numerous bilateral free-trade agreements.

[5] According to data from IMF *Directions of trade statistics.*

Taiwan, Iceland, Switzerland, South Korea, and Australia. In addition, free-trade agreements between China and the Gulf Cooperation Council, Australia, Norway, the Southern African Customs Union, Japan, Sri Lanka, and the Maldives are underway. Negotiations while feasibility studies on regional trade agreements with India, Colombia, Georgia, and Moldova were completed. Overall, China's current and proposed free-trade agreements cover 28 economies on five continents. Trade with emerging markets and free-trade agreement countries has allowed China to recover some of the export losses that have resulted from depressed demand in developed country markets such as the European Union and the United States.

Trade with emerging markets and free- trade agreement countries has allowed China to recover some of the export losses that have resulted from depressed demand in developed country markets such as the European Union and the United States.

Rapid diversification of export sectors

Compared with the last twenty years of the 20th century, when Chinese exports were supported by traditional industries – textile-clothing and miscellaneous manufactured goods, such as toys, from the 1980s, and electronic products in 1990s – Chinese exports have diversified very rapidly. The most obvious change is the fall of textile-clothing, which was still the most exported category in 2000, and which has lost eight percentage points over the last fifteen years to the benefit of electrical machinery. The other upward positions are also telecommunications equipment, office equipment, electrical machinery.

TAB. 1 - EVOLUTION OF CHINA'S EXPORTS BY PRODUCT CATEGORIES (STRUCTURE, IN %, SITC REV. 3)

2000	%	2016	%
Telecommunication equipment & parts	5.0	Telecommunication equipment & parts	11.1
Automatic data processing machines	4.4	Automatic data processing machines	6.1
Articles of apparel, of textile fabrics	4.4	Cathode valves & tubes	4.3
Baby carriages, toys, games & sporting goods	4.1	Furniture & parts	2.6
Footwear	4.0	Electrical machinery & apparatus	2.4
Men's clothing of textile fabrics, not knitted	3.1	Footwear	2.3
Women's clothing, of textile fabrics	2.9	Baby carriages, toys, games & sporting goods	2.2
Parts, accessories for machines of groups 751,752	2.4	Articles of apparel, of textile fabrics	2.1
Electrical machinery & apparatus	2.4	Apparatus for electrical circuits; board, panels	1.9
Cathode valves & tubes	2.1	Household type equipment, electrical or not	1.7
Total	100	Total	100

Source: author's elaboration on UNCTAD data

Abundant literature on the evolution and characteristics of China's foreign trade until the mid-2000s explains China's extraordinary growth in market shares around the world. The success of Chinese exports depends on many factors, far more than comparative advantage and market opening. The rapid growth of Chinese exports is related to the dramatic transformation in the pattern of trade since 1992. There has been a significant decline in the share of agriculture and light industry, such as textiles

China's rapid growth in the world market is precisely due to its ability to acquire specialisations in new industries and specifically in new technology products (mainly electronic products).
China now exports more products than twenty or thirty years ago: however, the strong growth of Chinese exports has occurred due to the increase in the intensive margin exports (i.e. the volume of products exported) and not the extensive margin (i.e. the number of varieties exported). As China's export volumes increase, world prices for these products have trended lower.

and clothing, and a growth of heavy industry, such as consumer electronics, home appliances, and computers, all of which are very dynamic products in world trade compared to agricultural and textile products. China's rapid growth in the world market is precisely due to its ability to acquire specialisations in new industries and specifically in new technology products (mainly electronic products).

China now exports more products than twenty or thirty years ago: however, the strong growth of Chinese exports has occurred due to the increase in the intensive margin exports (i.e. the volume of products exported) and not the extensive margin (i.e. the number of varieties exported). As China's export volumes increase, world prices for these products have trended lower. Between 1997 and 2005, average prices of products exported by China to the United States decreased by an average of 1.5% per year, while average prices of these products from the rest of the world to the United States has increased, on average, by 0.4% a year. While this downward pressure on prices of goods exported by China has, on the one hand, benefited consumers around the world, on the other hand, it contributed to intensify the degree of competition on goods markets between Chinese producers and foreign producers, to the detriment of the latter.

The slow shift towards top market products

Compared to the structure of Chinese trade in the 20th century, which was characterised by over-reliance on exports of

low-tech traditional products from labour-intensive and natural resource-intensive sectors, China's foreign trade structure largely changed. Traditional industries are beginning to lose their external competitiveness as labour force growth slows and labour costs rise. This is compounded by bottlenecks in land, water and energy resources, exacerbated by overexploitation. In addition, until 2008, the majority of China's exports were value-added commercial processing industries (for example, China earns only two per cent of the total value for each iPad it assembles and exports to the rest of the world).

In recent years, the rapid rise of medium and high technology exports and the contraction of entry-level products has accelerated both for export and import. The share of the low-end market thus fell by 11 percentage points in China's exports between 2000 and 2012 (mainly in consumer goods from the textile sector) in favour of high-end products (mainly capital goods in the electronics sector). Today 60% of Chinese exports are still in the low end, but mid-range and high-end products have gained ground[6].

The switch to the high end of the price/quality ratio also applies to Chinese imports, which is a recent and even more dramatic change. Since the global crisis, a divergence has widened between the low end and the high end. Low-end products, which accounted for the largest share of Chinese imports until 2002 (42%), lost 24 percentage points in favour of high-end products, which now account for half of the imports. Parts and components make up the bulk of imported high-end products, but consumer goods make a remarkable new entry[7].

It is the rapid rise in the technological range of China's exports that explains why they exhibit a product structure that is very similar to that of industrialised countries. Overall, China's unique feature of foreign trade is an exceptional degree of sophistication and complexity, in relation to the country's per

---

[6] F. Lemoine, S. Poncet, D. Ünal and C. Cassé, *L'usine du monde au ralenti ou la mutation du commerce extérieur chinois*, CEPII working paper No. 4, March 2015.
[7] Ibid.

capita GDP: the technological level of exported products is much more similar to that of exports by advanced countries than emerging and developing countries.

China's export performance thus carries a share of "statistical mirage" because the local value added of exports is often low in the high-tech sectors. As a result, although Chinese products are still largely concentrated at the lower end of the price/quality ratio, China has ended up with a basket of exports that is significantly more sophisticated than it would normally be for a country at its level of income and industrial development.

The exceptional growth of processing trade

Much of China's export growth has been due to growth in the practice of assembly and subcontracting by foreign-invested firms established in China since the early 1990s, which consists of processing intermediate products imported duty-free. The exceptional growth of processing trade over "ordinary" trade (exports based mainly on local inputs and imports mainly for domestic demand) since the early 1990s coincided with the acceleration of the opening of the country to the investments of foreign firms, precisely in the new technology electronic sectors. In these sectors, China has been able to play a role as a producer of last resort with assembly operations, while advanced countries were looking for strategies to reduce production costs in labour-intensive activities. The growing interdependence within value chains between Chinese firms and foreign-invested

The growing interdependence within value chains between Chinese firms and foreign-invested firms operating in China has progressively been leveraged by Beijing to increase the technological and productive capacities of domestic firms. Interdependence has, therefore, become a source of bargaining power for China and has created a growing dependence of foreign firms on the internal rules and conditions established by the Chinese government, often in contrast with WTO rules.

firms operating in China has progressively been leveraged by Beijing to increase the technological and productive capacities of domestic firms. This has been achieved by granting more access to the domestic market in exchange for knowledge and technology transfer by foreign firms. Interdependence has, therefore, become a source of bargaining power for China and has created a growing dependence of foreign firms on the internal rules and conditions established by the Chinese government, often in contrast with WTO rules.

From the mid-1990s to the dawn of the financial crisis unleashed in 2007, the processing trade of foreign-owned enterprises has taken a dominant role in foreign trade, culminating in 2006 with 47% of exports and 42% of imports all products (i.e. 51% of its manufacturing imports). Integration into the production and trade networks of the multinationals structured China's trade, justifying the name of "factory of the world". These operations gave a new dimension to China's foreign trade because high-tech products are the most dynamic in world trade – i.e. have the highest growth rates among all the products exported to the world and accelerate its high technology exports, which heavily rely on high-tech imported components. These imports of parts and components are generally of a high technological level, originating from countries such as the United States and Japan. Thus, even though it appears that China has radically changed its comparative advantage over the previous two decades, a closer look reveals that it continues to specialise in low-technology goods. In fact, the labour-intensity of Chinese exports remains unchanged once the processing trade is considered.

China has radically changed its comparative advantage over the previous two decades from low to mid-high tech exports, but the labour-intensity of Chinese exports remains unchanged.

The extent of the phenomenon reached its peak during the 1990s until the first half of the 2000s, after which the great financial crisis marked a new stage in world trade as well as in

the characteristics of the participation of China to international trade. In the 2000s, phenomena such as the international segmentation of production processes, liberalisation of international trade in goods and capital, and expansion of demand in advanced economies all accelerated globalisation, and gave China the opportunity to play a leading role in global value chains through the development of assembly operations.

Since 2007, processing trade is losing momentum. Production in the "factory of the world" has slowed down. Processing activities remain the source of China's trade surplus but are no longer the main driver of its commercial dynamism. An analysis of the technological content of exports shows that in the 2000s, medium-technology products gradually replaced low-technology products as the main component of the country's exports. China continues to expand its presence in international trade through its ordinary trade, which exceeds processing trade, on the import side since 2007, and on the export side since 2011. Between 2007 and 2014, ordinary trade gained 13 points in Chinese trade. The increase is particularly strong on the import side (+14 points) and is not only due to the increase in volume and price of imported primary products: in 2007, 43% of manufacturing imports were made under the ordinary trade regime, it is now almost 60%. Thus, the new engine of the country's foreign trade now resides in its domestic demand (ordinary imports) and its final assembly activities (ordinary exports). The changes underway translate China's shift to a less extroverted mode of growth.

In the early 2000s, consumer goods were only marginal in standard manufacturing imports (5%). In 2012, their importance approached that of capital goods (16% against 20%). This growth reflects both a growth in volume and an increase in the price/quality ratio extremely fast. In 2012, 70% of consumer goods imported by China was in the high-end, against less than 40% in 2006. The nature of imported consumer goods has changed dramatically: automobiles have taken a prominent place with almost half of the total, while in the early 2000s agri-food products were by far the largest category of imported

consumer goods. That the strong demand for imported consumer goods is the most salient feature of the evolution of manufacturing imports destined for the domestic market may seem paradoxical when we know that during this period household consumption was the least dynamic component of Chinese growth. This confirms the very unequal distribution of household incomes, with a rapidly growing middle class with a rising spending capacity.

The evolution of China's foreign trade structure has also interested the type of actors involved (Chinese firms and foreign-owned firms). In fact, Chinese firms and foreign-owned firms participate, each in their own way, in this change in Chinese foreign trade. Foreign-owned firms have lost the dominant role they had in the country's foreign trade because of their strong position on the now-declining horse-trading business. They accounted for 59% of China's trade in 2006, in 2014 their share dropped to 48%. This decline occurs despite the growing commitment of these firms in ordinary commerce and, in particular, in ordinary imports. Foreign companies are importing more and more to the domestic market: their ordinary imports of manufactured goods account for 73% of their imports for outsourcing and are now equivalent to those of Chinese firms. Thus, for foreign companies, China is less and less an assembly and export platform, and increasingly an internal market to capture. On the side of ordinary exports, the share of foreign firms remains relatively low (24% in 2014), experiencing a certain slowdown after a rapid growth during the 2000s.

The increase in the share of capital goods exports, to the detriment of the formerly dominant consumer goods, results from the extension of financial and technical assistance to developing countries for the exploitation of their primary resources and the construction of their infrastructures.

The most dynamic markets for ordinary exports are in developing and emerging countries, which receive more than

one-third, twice as many as in 1997. This increase is mainly due to Chinese enterprises, which account for 80% of ordinary exports to these countries. This movement, supported by the authorities, was led by private (and privatised) companies that supplanted state-owned enterprises in this area. The dynamism of ordinary exports from Chinese firms to developing countries concerns all geographical areas (although Asia remains predominant) and is accompanied by structural changes in the nature of the products traded. The increase in the share of capital goods (which doubled between 2000 and 2012 to reach 19%), to the detriment of the formerly dominant consumer goods, illustrates the qualitative transformation of Chinese supply; it also results from the extension of financial and technical assistance to developing countries for the exploitation of their primary resources and the construction of their infrastructures (ports, transport). Chinese private companies thus appear as dynamic players in the redeployment of trade through their exports of unsophisticated products to emerging countries.

Currently, the new international environment, where global demand is shifting towards developing countries, together with China's internal transformations and the evolution to a new development model, are leading to important changes in China's foreign trade, in favour of a growth regime focused on increasing domestic demand.

Currently, the new international environment, where global demand is shifting towards developing countries, together with China's internal transformations and the evolution to a new development model, are leading to important changes in China's foreign trade. The increase in wage costs since the mid-2000s is a long-term trend linked to demographic change and government policy in favour of a growth regime focused on increasing domestic demand (raising minimum wages and generalisation of workers' social security cover). In this context, the themes of the trade talks between China and its major partners

have shown a tendency to shift from exchange rate policy and competition from Chinese exports to the issues of regulating competition in the domestic market and access conditions for foreign companies to this market. Recently, this shift has been at the core of the announced threat by the United States to withdraw from the multilateral trading system, due to serious concerns that multilateral institutions, more specifically the WTO, might not be suitably equipped to deal with a rising China as a global economic powerhouse, but unwilling to fully comply with the rule of engagement in the global economy established by the WTO.

From largest recipient to net foreign direct investor

Together with the increasing participation in international trade on both the export and the import sides, inbound and outbound Foreign Direct Investments (FDI) have also been a major factor in China's integration in the world economy. Similarly to foreign trade policies, FDI attraction policies have evolved significantly since the beginning of the Open door policies in the late 1970s, but the ultimate rationale of FDI policies has invariably been, as in the case of trade, the promotion of national development, not so much an increasing degree of openness to foreign capital per se. A "selective openness" approach has applied to FDI attraction consistently over time, like in the case of trade facilitation, to industries and regions that were considered as national development priorities.

With the Open Door Policy started in 1978, China pursued the country's long-term national goals described as the so-called Four Modernisations, which were goals to strengthen the fields of agriculture, industry, national defence, and technology. As regards technology, Deng realised that China needed to learn from Western firms and therefore allowed foreign firms to start operating in the country. Four special economic zones were initially authorised in southern China to attract foreign firms

with tax incentives. By the end of 1994, 220,000 foreign-funded ventures had been approved, most of which were run by overseas Chinese from Hong Kong and Taiwan, accounting for almost US$100 billion investment, making the country the largest recipient of FDI in the developing world.

After being the largest recipient of foreign direct investments (FDI) among developing countries for more than two decades, China has become an important outbound investor, especially since the so-called Go Global Strategy was launched in 1999, as an effort by the Chinese government to promote Chinese investments abroad. The Government, together with the China Council for the Promotion of International Trade (CCPIT), has introduced several schemes to assist domestic companies in developing a global strategy to exploit opportunities in the expanding local and international markets. Since the launching of the Go Global Strategy, interest in overseas investment by Chinese companies has increased significantly, especially among State-Owned Enterprises (SOEs). Chinese companies – mostly large, but increasingly also medium-sized ones – are redirecting their investments overseas to diversify their assets and location portfolios[8].

In the following years, especially since 2006, China has accelerated its outward expansion through FDI, and in 2013 became the third-largest foreign investor in the world, while remaining a top destination for global investment (the largest outside of the OECD). Since 2013, the Chinese government took the decision to deepen major comprehensive economic reforms domestically. It has put forward several recommendations to further open trade and investment; increased the role of the market in resource allocation; and widened investment access, among others. However, China is not just focused on attracting FDI to its domestic market; it is increasingly investing

[8] V. Amendolagine, A. Amighini and R. Rabellotti, "Chinese Multinationals in Europe", in S. Beretta, A. Berkofski and Lihong Zhang (Eds.), *Understanding China: An Exploration of Politics, Economics, Society, and International Relations*, Springer, 2017.

abroad as part of a comprehensive growth strategy. Although still small in terms of outstanding investment stock over the world total (only slightly more than 2%), it is one of the largest investors worldwide in terms of annual flows and became the largest investor in the US in 2014. The European Union (EU) is also a major destination worldwide for Chinese firms investing abroad.

Because China as a consumer market has been growing in importance for a vast number of firms in many sectors, being able to access that market through exports or local production is vital for many multinational firms. As Chinese regulators have cleverly linked market access to the transfer of knowledge or technology to local firms, the selective openness approach, in fact, corresponds to a rather restrictive FDI regime. This is consistent with China ranking 59th of 62 economies in the 2016 OECD FDI Restrictiveness Index, with the lowest scores in transportation equipment, radio and TV broadcasting, media, telecommunications, and fisheries; and among the bottom ten scores in 30 of the 42 sectors assessed[9].

This highly restrictive regime for the inward FDI has not changed during President Xi Jinping's first term started in 2013, despite the fact that some sectors were opened to foreign capital including finance, some services, advanced machinery, and the environment. At the same time, other sectors were made more difficult to access or operate through licencing requirements, fiscal disadvantages, forced technology transfer, and an increasing presence of Party officers in foreign affiliates. Many foreign firms in China sense that, unlike in the past, they are not welcome anymore, even more so in sectors in which China's industrial policy under the Made in China 2025 plan aims at acquiring technological leadership.

Despite recent statements by President Xi Jinping (at the recent 19th Party Congress) that China will encourage more

---

[9] M.J. Enright, *To succeed in China, focus on interests rather than rules*, Columbia FDI Perspectives, Perspectives on topical foreign direct investment issues, no. 225, 7 May 2018.

inbound and outbound FDI, decreasing openness seems to be the more likely scenario for the inward FDI regime in China, with increasingly differential treatment for domestic versus foreign companies. Possible exceptions could be those sectors where Chinese firms are still rather low on the learning curve and therefore need to forge productive and technology alliances in order to upgrade (such sectors include green technologies, agri-food, luxury goods, advanced machinery).

More recently, the Belt and Road Initiative has helped to consolidate Beijing's image as a net direct and financial investor abroad. Launched by Xi Jinping in 2013 with the aim of connecting Asia, Africa, and Europe, the BRI will build 6 corridors of land and sea transport along 68 countries (65% of the population, 40% of world GDP), in addition to having a very strong infrastructure component, outlining the international projection of Beijing. Since the Belt and Road Forum held in Beijing on 14-15 May 2017, increasing Chinese investments along the routes of the New Silk Roads has led to a Sino-centric vision of globalisation: 900 new infrastructure projects, almost 1000 billion investments, 780 billion dollars generated by the exchanges with the 60 countries involved, 200 thousand new jobs. Numbers that confirm that it is a great geo-economic plan, shared and inclusive, destined to transform Eurasia. The bulk of the investments take place outside of Europe, in Asia and Africa.

Chinese investments in the world have increased dramatically, from US$55.90 billion in 2008 to US$196.15 billion in 2016. But concerns about the stability of the financial system have led the Chinese authorities to tighten capital outflows. The Chinese acquisitions abroad in 2017 recorded a sharp slowdown (targeted by private conglomerates who are indebted to the unbridled shopping abroad: the latest victim is the founder of the giant Anbang, Wu Xiaohui, sentenced to 18 years in prison). According to data by the Rhodium Group, Chinese direct investment in the United States declined by 35% in 2017, to US$30 billion; in Europe, the decline was 22%. In the golden

year of 2016, investments had reached US$183 billion, and acquisitions had amounted to 225 billion. Chinese investments in Europe from 2010 to 2016 have gone from 20 to 35 billion dollars. In 2016, Italy was confirmed as the third European destination country for investment in Beijing, with US$12.84 billion in stocks. The Chinese invest in Europe above all to acquire know-how and transfer technological skills to China, which needs it to make the leap towards quality manufacturing and become a leader in the technologies of the future.

For some time, there has been an uprising against the voracity of Chinese investments and the lack of transparency in procurement rules. On the shared understanding of the concepts of "level playing field", environmental and financial sustainability of investments in the BRI framework – contained in the final declaration of the 2017 Forum – Europe is in turmoil. France and Germany are on a war footing (interesting to note that the German Siemens has opened an office in Beijing to study the Silk Road). That the climate was not the best had already emerged at the time when the European Commission had blocked the Hungarian project of the ultra-fast railway line that was to unite Belgrade and Budapest. A stalemate ended earlier this year when the public call for bids according to European rules for the award of this project, which is entirely financed by the Chinese, was republished. The anti-predatory shield to defend Europe's strategic interests, presented by Juncker in September last year – strongly desired by Germany, France, and Italy, especially after the controversial Chinese acquisition of Kuka – meets the favour of most EU countries. Excluding – of course – Hungary and Greece: the two countries with which China, in the BRI framework, is doing more business.

The confirmation comes from a recent survey by the Bloomberg agency, which reveals how at least 15 of the 28 EU countries support the framework regulation on investment screening, which awaits the launch of the European Parliament to become law (although it will not be legally binding). In the last ten years, China, writes Bloomberg, has invested

approximately 318 billion in Europe, acquiring high-tech infrastructures and companies; more than the amount invested in the United States. Europe is committed to protecting its strategic assets (Chinese investors need know-how, above all). In April 2018, twenty-seven of the twenty-eight ambassadors of the European Union countries in Beijing launched a harsh criticism of the Silk Road, which "goes against the liberalisation agenda of trade in the European Union and pushes the balance of power in favour of Chinese companies that benefit from subsidies", in a report taken by the German daily Handelsblatt. The support of Hungary alone would have been lacking in the report.

In a report on the state of the art of projects in eight countries, published by *Asia Nikkei* joint with the *Center for Strategic and International Studies*, three critical aspects emerge:

- the first concerns the delays that lead some projects into long-term stalemates, making their costs rise (this is the case of the 6 billion Indonesian railway of dollars, similar cases are also found in Kazakhstan and Bangladesh);
- the second concerns the excessive debt exposure of some countries towards China (Pakistan, Sri Lanka, Maldives, and Laos). Pakistan and Sri Lanka have long understood that they have fallen into what analysts call the Chinese "debt trap", although new infrastructures are destined to improve the efficiency and potential of local markets;
- the third concerns the concerns of some countries – India in the lead – on the risk that the Chinese presence, perceived as a colonial threat, calls into question territorial sovereignty.

The important question today is whether China is really willing to promote globalisation inspired by multilateralism or if it is actually working towards the transformation of world interdependence as we know it, in order to establish what has been labelled "globalisation with Chinese characteristics".

In answering this question, the BRI looks much more like a framework for organising and financing Chinese investment abroad, and one that is leading to the economic and financial dependence of many recipient countries on China.

Conclusion

Will China support increasing openness and global interdependence or will it instead leverage on the increasing world's dependence to gain more voice in the global economic order?

The answer depends on the extent to which China will adhere to and comply with international rules and standards, or instead will be increasingly active in setting her own. On whether China will posit itself as a defender of multilateralism or as an advocate of a new wave of global integration, one that partly rewrites the rules of engagement in the international economy towards a new model of economic globalisation detached from political and cultural openness. Each of these aspects will be covered in the next chapters.

adapt to "higher standard rules for trade and investment"[11].

Perhaps because of its experimental approach to FTAs, China favours negotiating with smaller and/or less developed economies, which tend to be less demanding. Under these circumstances, the process can move extremely quickly, perhaps troublingly so. China moved from opening negotiations to signing an FTA with Georgia in a year and a half[12]. China's agreement with Pakistan progressed at a similar speed. With the Maldives, the process moved from a feasibility study to a signed FTA in under three years[13], despite protests from the Maldivian Parliament that they had not been given a chance to review the agreement before signing fully[14].

FTA negotiations with developed countries have been a much slower process, with these partners raising substantial concerns about market access. For China and Australia, the process took over ten years, with negotiations starting in May 2005 and the FTA not signed until June 2015[15]. The China-Republic of Korea (ROK) FTA saw a feasibility study launched in November 2006 and an agreement finally signed in June 2015[16].

---

[11] Li Jingrui and Yuan Bo, "中国已签约14个自贸区 十三五期间将加快推进自贸区进程", *People's Daily Online*, 26 February 2016.

[12] "China and Georgia Officially Launch the Free Trade Agreement Negotiations", China FTA Network, Chinese Ministry of Commerce, 14 December 2015; "China and Georgia Officially Seal FTA", China FTA Network, Chinese Ministry of Commerce, 15 May 2017.

[13] "China, Maldives Launch Feasibility Studies on Free Trade Area", China FTA Network, Chinese Ministry of Commerce, 11 February 2015; "China and Maldives Sign the Free Trade Agreement", China FTA Network, Chinese Ministry of Commerce, 8 December 2017.

[14] "China-Maldives free trade deal rushed through parliament", *Maldives Independent*, 30 November 2017.

[15] "China-Australia FTA: Overview", China FTA Network, Chinese Ministry of Commerce; "China-Australia FTA Officially Signed", China FTA Network, Chinese Ministry of Commerce, 23 June 2015.

[16] "China-Korea FTA: Overview", China FTA Network, Chinese Ministry of Commerce; "China, ROK sign free trade agreement", China FTA Network, Chinese Ministry of Commerce, 1 June 2015.

to promote WAPI over Wi-Fi as the international wireless local area network standard. Immediately after the SAC issued the WAPI standard in May 2003, multinationals from the United States, Western Europe and elsewhere established a large and firmly unified alliance against this policy decision. Intel and Broadcom, the two most important semiconductor companies in the IT industry and the owners of the widely used Wi-Fi standards, announced that they could not meet the WAPI regulation guidelines and thus would stop shipping relevant products (such as Intel's Centrino chips) to China as of June 2004. Meanwhile, these multinationals also united in several industry associations, including the US Information Technology Office, the European Information and Communications Technology Industry Association, and the Japanese Chamber of Industry and Commerce. These various players lobbied their respective governments to put pressure on the Chinese to abandon WAPI. Moreover, those MNCs also managed to influence the decision-making of certain Chinese indigenous enterprises. Top Chinese IT companies – Lenovo, Founder, Qinghua Tonfang, Huawei, and TCL – displayed only tepid enthusiasm for China's WAPI standard. As a result, Chinese Vice Premier Wu Yi announced in April 2004 that China would "indefinitely postpone" the mandatory implementation of WAPI. Wu also promised that China would work to revise WAPI and cooperate with international standards organisations.

Moreover, as pointed out by Breznitz and Murphree, Chinese industry has not collected any royalties from these standards; cross-licensing of standards between Chinese and foreign companies has yet to occur; and foreign firms have not turned over their intellectual property as a result of these standards[21]. Multinational corporations are hesitant to accept and support Chinese standards, especially when the Chinese government plays a primary role in the standard development and when the drafting process is characterised by a lack of transparency.

[21] D. Breznitz and M. Murphree (2013).