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Unequal partnerships and open doors: probing China's economic ambitions in Asia

Jonathan Holslag*

Department of International Politics, Free University Brussels, Belgium

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One of the most important arguments with which China has sought to develop amicable relations with its neighbours has been the promise of economic benefits. Yet, this paper argues, these gains have remained limited. In spite of limited available data, the paper shows that China's contribution to the rest of Asia's GDP has been small and for most neighbours negative. Moreover, China is increasingly impelling those countries into partnerships that look unequal rather than equal. While Beijing has tried to mitigate frustration by promising to rebalance its economy and to create more export opportunities, the paper goes on to reveal that China is in fact readying itself to make another major push for exports itself and to pursue its own open-door policy.

Keywords: strategic trade; China; Asia; open-door; unequal partnership

中国寻求发展与邻国的友好关系，最重要的理由之一一直是经济利益的承诺。然而，本文认为，这些利益仍然有限。尽管可得到的资料有限，该文章还是显示，中国对亚洲其他国家的国内生产总值的贡献微小，甚至对大多数邻国来说影响是负面的。此外，中国正日益加速与这些国家结成看似不平等而非平等的伙伴关系。尽管北京试图通过承诺重新平衡其经济并为他国创造更多的出口机会，以减轻他们的挫折感，该文还是透露，中国实际上是在为再一次大举促进出口，并实行自己的门户开放政策而做好准备。

'The more China grows the more it will create development opportunities for the rest of Asia'.[1] It was one of the first of Xi Jinping's speeches in his role as President of China and like his predecessor he choose to use the opportunity to reassure neighbouring countries of the benefits of his country's rise. 'Domestic demand, particularly consumption-driven demand, will continue to grow', he

*Email: jholslag@vub.ac.be

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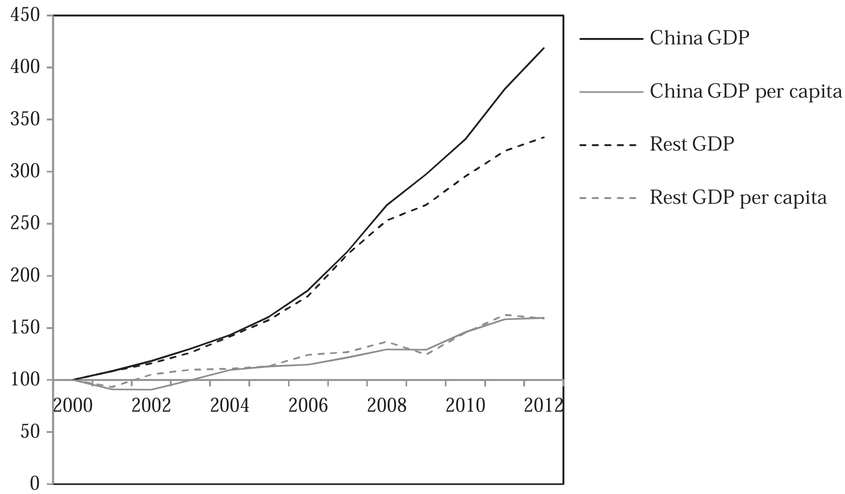

Figure 1. Real GDP and real GDP growth of China and the rest of Asia (2000=0).
Note: 'The rest of Asia' is defined as: Afghanistan, Bhutan, Cambodia, India, Indonesia, Japan, Kazakhstan, South Korea, North Korea, Kyrgyzstan, Laos, Malaysia, Mongolia, Myanmar, Nepal, Pakistan, Philippines, Russia, Singapore, Sri Lanka, Tajikistan, Thailand, Turkmenistan, Uzbekistan and Vietnam.
Source: Calculations based on the nominal GDP and GDP deflator, World Development Indicators Database. See: http://data.worldbank.org/data-catalog/world-development-indicators.

explained. 'It is projected that in the coming five years, China's import will reach some US$10 trillion, its outbound investment will reach US$500 billion.' This emphasis on mutually beneficial cooperation and the prospect of a harmonious economic order is important. As an emerging trading nation, China has an interest in an open regional economy. Furthermore, its leaders understand very well that, to precipitate China's ascent, they have to prevent their neighbours ganging up to resist it. That in its turn has prompted Beijing to cultivate the image of a benign pretender. What matters, the official argument goes, is not how much power China gains, but that it promises to use that power peacefully.

In defence of harmony, the Chinese government has founded its discourse on four arguments. First of all, it claims that China and the rest of Asia will prosper together. China's success propels the success of Asia at large, so there is no reason for envy. Second, the Chinese government asserts that trade imbalances are temporary and will flatten out. It has coaxed most of its neighbours with the promise that the growing Chinese domestic market will create endless opportunities for their exporters. Third, Beijing emphasises the development of a new regional division of labour in which specialisation and interdependence will further contribute to regional growth and beneficial bilateral relations. Lastly, there is the promise of more Chinese investments. In the academic debate these arguments are often generalised back into the question of whether China will become Asia's next head of a formation of flying geese and, like Japan after World War II, become a benign economic leader. Many experts believe it is moving into that position.[2] Yet no study has ever assessed the validity of the four arguments systematically. This paper seeks to fill that gap. It clarifies how China's official claims are problematic and that, as far as it is available, the evidence shows that most partnerships are unequal.

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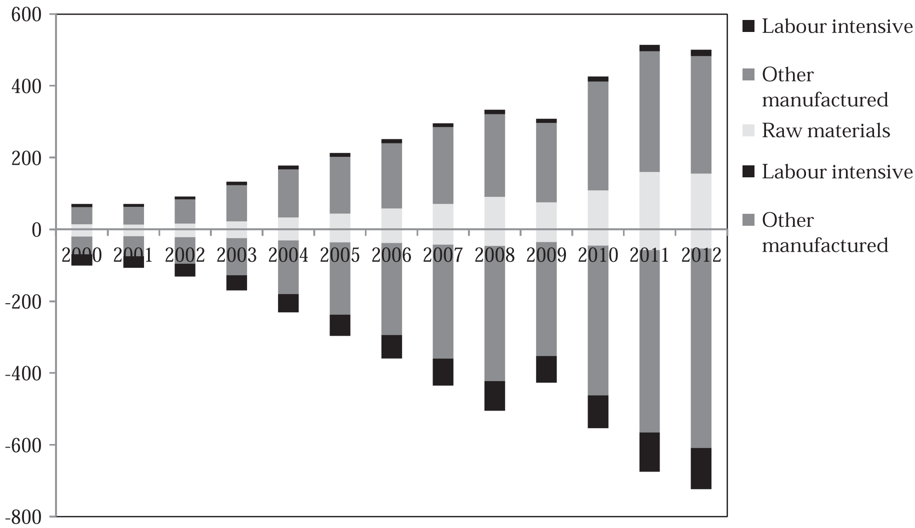

Figure 2. Asia's annual exports (positive) and imports (negative) to and from China, of labour-intensive goods, other manufactured goods and raw materials (US$ billion).
Source: UNCTAD Stats. See: http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx.

It argues that China is pursuing a new open door policy. An open door policy, as opposed to colonialism, implies the efforts of great powers to open the borders of a weaker country to exports and to investment in strategic sectors, like mining and infrastructure, but to maintain nominal respect for that country, and to refrain from policies that exclude other great powers.[3] Like the USA in the 19th century, an open door policy proposes to be open to trade with all countries on an equal basis – and to steer clear of imperialism.[4] Like the open door policies in the past, it is mostly driven by a growing dependence on both export markets for the manufacturing sector and on foreign supply of raw materials. And equally similarly to the US precedent, a growing gap is becoming visible between the promise of equality and the highly unequal nature of the new partnerships. The paper sets out by explaining why China has not delivered on its economic promises to neighbouring countries. It then makes the argument that we should not expect the new asymmetric partnerships to rebalance as a result of the plans to correct the Chinese economy away from excessive dependence on investments and exports towards more domestic consumption. Finally, it clarifies how China seeks to open neighbouring markets for its exporters and to put itself at the centre of the regional economic order. The paper draws from an extensive set of databases. By combining different parameters, it offers a more nuanced picture of the distribution of gains than the traditional revealed comparative advantage index; it also provides more insights into the nexus between trade and politics.[5] A file with the data used for my research is available online.

The findings are relevant in different ways. Let me caution first, however, that this is not a paper of comparative research. I do not seek to compare how much China's current unequal partnerships and its open door policy bear resemblances with previous cases. What the paper does reveal is that China's

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economic ambitions are increasingly at loggerheads with the idea of a harmonious Asian order based on equality and mutually beneficial cooperation. Of course, there is no reason to expect that there is not going to be a rebalancing of the Chinese economy in the long run and that China cannot generate external demand by making its domestic consumption grow faster than investments but, in the near future, the gap between the promise of harmony and economic reality will become larger and larger. This goes against the observation of scholars that China is driving Asian growth. It refutes the idea that China is driving regional growth, which John Wong, for instance, argued in a recent paper.[6] Neither is it creating a mutually beneficial division of labour. Yet this was still what Linda Yueh, for example, highlighted as one of the main findings in an important edited volume. 'The evidence shows', she claimed, 'that China has been a complementary part of the Asian trade structure and also offers a potential final market'.[7] The paper also argues that we should not expect much from a so-called vertical division of labour, as touted, among others, by John Ravenhill and Marc Beeson. Such vertical division of labour is in fact a new economic hierarchy and being at the bottom of it tends not to be convenient.[8]

But the paper also leads to another important conclusion, which is that, even if China comes to accept some of the liberal norms and adopts a greater interest in championing free trade, it still poses a huge challenge by altering the economic balance of power. In other words, the paper challenges the idea that China's ability to rise peacefully mainly depends on its willingness to adopt international rules – free trade standards in this case – and hence its acceptance to maintain the status quo.[9] Several scholars have not only made the case that China's status quo intentions depend on its compliance with rules, but also even that it has been successful in trading its image as a benign status quo power for soft power. 'Chinese officials make few demands as they endeavour to develop common ground in a strategy emphasizing common geo-economic standards', writes Robert Stutter. 'The effect of benign and attentive diplomacy is that Chinese soft power is on the rise.'[10] The paper shows that what matters the most is not principle and compliance, but the distribution of power, economic power mostly, and how that may allow China to revise the regional order.[11]

Growing together

Between 2000 and 2012 the Asian economy grew on average at an impressive rate of 5%.[12] The Chinese economy grew on average by 10%, ie twice as fast. What makes the difference even more dramatic, however, is inflation. Many Asian countries have been plagued by high inflation rates. In China this challenge has remained relatively modest. Factoring in the effect of inflation by calculating the real GDP, China's economy grew by 419% between 2000 and 2012; the rest of Asia's GDP by 160% (see Figure 1).[13] On a per capita basis China's real GDP grew by 333%, whereas the rest of Asia's real GDP per capita grew by 159%. This shows how remarkably modest the performance of the rest of Asia has been since the turn of the century. The growth gap widened faster in the latter half of this period. Thus China not only grew much faster, the benefits of its growth were also less repressed by rising prices.

Between 2000 and 2012 Asia's manufacturing value-added increased by US $3.4 trillion, of which China alone took $2.2 trillion.[14] China outperformed its neighbours in absolute figures. In growth percentages, its 565% was far higher than Japan's 26%, South Korea's 135%, and the combined 255% of the other developing countries. This is important, because China was expected to lose its competitive edge to other developing economies because of rising wages. That has thus not happened; nor did the performance gap diminish towards the end of that period. Between 2009 and 2012 China's manufacturing valued-added grew by 59%; the combined growth of the other developing countries was 39%. This is confirmed by the evolution of exports of manufactured goods.[15] Between 2009 and 2012 Asia's total exports of manufactured goods expanded by $1.5 trillion, to which China contributed $800 billion, the other developing countries $222 billion, and Japan $201 billion. In the same period Asia's total exports of labour intensive manufactured goods grew by $244 billion, China's by $176 billion, and the other developing countries' by $52 billion. China has thus still continued to consolidate its position.

This has had major social and political consequences. Consider employment. Between 2000 and 2012 Asia created about 24 million jobs in manufacturing; 16 million of these were created in China.[16] Total employment increased by 109 million, with 44 million additional jobs being created in China. This is an impressive achievement, especially so because the creation of jobs lagged behind the expansion of the labour force. Between 2000 and 2012 Asia's labour force grew by 15%; the number of people employed only by 8%.[17] In China job creation fell 3% behind labour force growth, but for the whole of Asia the figure was 7% and in India as much as 16%. Because China kept its inflation under control, the gains of its growth were also much more tangible for households and this had an important effect on its consumer confidence. China has recorded the highest consumer confidence rates of the whole region. Surveys also show that its citizens were much less disappointed with the economic situation in general. Answering a question on whether they were dissatisfied with the development of the country in large-N surveys carried out in 2012 and 2013, only 10% of Chinese respondents agreed, compared to 70% in South Korea, 69% in Indonesia, 61% in Japan, 59% in India, 54% in Vietnam and 52% in the Philippines.

Driving growth?

For all the talk about a common golden era, the growth gap between China and its neighbours has become larger and larger. But how much has China's growth been a boon to other Asian countries? A country can drive the growth of its neighbours in two ways. On the one hand, it can contribute to their GDP by running current account deficit. In other words, it creates external demand and allows its neighbours to have a surplus in trade in goods, trade in services and other current incomes. It is a mistake to think that the sheer size of China's share in its neighbours' exports implies a positive contribution to their growth: what has to be evaluated in the first place is whether the incomes on the balance of payments of the other countries are bigger than their expenses. On the other hand, China could make a positive contribution by investing more in neighbouring countries than the other way around. Direct investments can be a powerful

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catalyst of growth if they generate technology transfers. The positive impact of portfolio investments is already more modest and so is the effect of investments in reserve assets. In the short term they can contribute to some growth, but they contribute less to the transfer of technology, are often more volatile, contribute to the overvaluing of currencies, and can lead to outflows of investment incomes on the current account.

It is not possible to present a complete assessment of how China affects its neighbours across these different elements of the balance of payments, because adequate data are often not made public. But with the information that is accessible, it remains possible to draw up a rough balance sheet. After all, we do have figures for the most important economic flow between China and its neighbours: trade in goods. The impact of trading goods with China on the GDP of other Asian countries has been negative. On a country-by-country basis the median contribution of trade in goods with China between 2000 and 2012 was −1.0% per year.[18] There were a few countries that did benefit. Trade with China annually contributed on average 14% to Mongolia's GDP, 7.9% to Turkmenistan's, and 2.8% to South Korea's. The biggest losers were Tajikistan, Kyrgyzstan, Cambodia, Vietnam and North Korea. This situation did not change throughout the period studied. Aggregating the impact for the whole region, by dividing the total balance of bilateral trade in goods by the total GDP of these countries, the impact of trade in goods made with China became more negative between 2000 and 2008, then rebalanced slightly after the outbreak of the global economic crisis, only to turn back into a new low in 2012. Hence there is solid evidence that the largest component of economic exchanges, trade in goods, did not have a positive but rather a negative effect on the rest of Asia's growth.

It is more difficult to document trade in services. China does have a trade deficit in the services sector, mostly as a result of its growing spending on tourism abroad.[19] In 2012 the country imported $102 million of tourism services in total. Hong Kong and Macao took the lion's share but for other Asian countries the gains were much smaller. In 2012 they were about $6 billion in South Korea. This was followed by Thailand, which received $5 to $6 billion. Singapore came third with $1.2 billion. Trade in tourist services is thus certainly not sufficient to offset the imbalance in trade in goods. On other components where Asian countries could have an advantage, the volumes remain small. Most of the $22 billion of China's imports of financial and insurance services originated from Hong Kong and Macao.[20] For construction and telecommunications Chinese exports exceed imports. Fragmentary evidence indicates that the turnover of contracted projects in other Asian countries amounts to several tens of millions of dollars. In Southeast Asia alone construction is reported to generate over $16 billion per year. The overall contribution of services trade to the growth of Asia is thus likely to be small and negative. Neighbouring countries have also not been able to rebalance trade deficits with investment incomes. Bilateral data are classified. Neither China nor its Asian partners report them. But China's total balance of payments data show that the average annual balance of investment incomes between 2000 and 2012 was $13 billion.[21] This low figure is explained by the fact that foreign companies invested in China often make less profit than assumed, because they are encouraged to reinvest their earnings, and because China itself has been earning more from investments abroad. Assuming an

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optimistic average annual return on foreign assets in China of 6%, the order of net incomes in 2012 would, for instance, be around $5.5 in the case of Japan, $3.5 in the case of Singapore and $200 in the case of Malaysia.

This leads us to the final element: foreign investment. Foreign investment inflows can make contributions in different ways. They do not contribute to a country's GDP directly, as the current account does. In fact, foreign investment inflows often lead to outflows of investment incomes on the current account. Their contribution to a country's GDP is, rather, in productivity gains and possibly also export gains, especially if these concern direct investments and are situated in the manufacturing sector. Again, the data available are scant. Bilateral portfolio investment flows are not reported at all and bilateral direct investment figures are often not very accurate, especially because of the fact that many of these investments are channelled through Hong Kong, the Virgin Islands, and so forth. The Ministry of Commerce reports that China's foreign direct investment stock in other Asian countries, excluding Hong Kong, has increased by $36 billion between 2000 and 2011.[22] That is much smaller than what neighbouring countries have invested in China. Around 2012 Japan, Singapore, India, Malaysia, the Philippines, Thailand and South Korea had a joint investment stock of about $206 billion in China, compared to a stock of Chinese outward investments of $34 billion. Therefore the total balance for the rest of Asia cannot be positive. Even countries that one would not expect to have invested a lot in China often have not gained much. If we divide the increase in China's outward direct investment stock in the rest of Asia between 2000 and 2012 by the accumulated GDP during that period, the average contribution was only 1%, with 5% in Mongolia and 3% in Laos and Cambodia. If these results were refined further, Cambodia would emerge as the only country where Chinese investments also generated a spill-over of manufacturing activity.

Thus, in general, there is no evidence that China has driven growth in the rest of Asia. On a country-by-country basis there are a few neighbours upon whose GDP China has had a large positive impact. In the case of Mongolia China may have contributed some 19% to its GDP. In the case of Laos this would be around 3% and in the case of Turkmenistan 8%. Cambodia's gains through direct investment were offset by vast losses on the trade balance. And that leads us instantly to the main finding: for most Asian countries the other inflows on the balance of payments remained just too small to offset the vast deficits in trade in goods, which brings up yet another question: should we expect this to change now that China is becoming richer?

I will address that question in the next section but let us first look at another of China's promises: the development of a mutually beneficial division of labour. Trade figures do not show that such a symbiotic specialisation is developing. Between 2000 and 2012, as Figure 2 shows, China's exports to the rest of Asia increased by $627 billion; Asia's exports to China by $436 billion. Out of that $436 billion, $141 billion consisted of raw materials. The share of raw materials in China's neighbours' total exports to China increased from 19% in 2000 to 31% in 2012.[23] Yet, if we study these data on a country-by-country basis, the median share of raw materials in their exports in 2012 was much larger: 67%. Out of the $436 billion increase, $289 billion consisted of manufactured goods, of which $200 billion was supplied by Japan and South

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Korea alone. Most other neighbours barely enjoyed increases in their exports of manufactured goods. What is more, the rest of Asia's gains in exports of labour-intensive goods to China have been negligible. Out of the $436 billion increase, only $10 billion consisted of labour intensive products. The other way around, China's labour-intensive exports increased by $82 billion and the rest of its export increases, too, were almost entirely generated by the manufacturing sector. So, if a division of labour exists, it is clear that China has been successful in securing those sectors that put it in a better position to create jobs and prevent uncomfortable dependence on raw materials exports.

Changing growth model

The new Chinese leadership promised to expand its domestic consumption market so that other countries would be able to export more goods and services. This rebalancing from investment and trade surpluses towards consumption runs as a red wire through official discourses. However, there is not much chance that this rebalancing will take place soon. In 2013 the share of consumption in China's GDP dropped to another low. Furthermore, in the first six months of 2014, new loans hit a new high and a new record even since 2010. Most of these loans went to the corporate sector. In the first half of 2014 Beijing also halted the appreciation of the Renminbi, which inevitably had a downward effect on imports. There are several explanations for such interventions. First, the stimulation of investment is a very tempting way to prevent a reduction growth and employment rates. Second, the holding back of investment would be a risky move. The Chinese government has encouraged the transfer of over $4.5 trillion of household savings to the public sector, manufacturing and the real estate market. Cutting these sectors off from fresh capital would cause a lot of sectors with overinvestment to crash and hence lead to vast losses in household savings. That, in its turn, could severely imperil the Communist Party's position. Furthermore, the Chinese government still seems convinced of the need to invest in the competitiveness of its industry.

Across the different departments and institutions four important arguments in defence of sustained investments in the Chinese industrial sector come to the fore. To begin with, China's high investment rate is only exceptionally high because China is an exceptionally large and populous country. For this reason it requires a much greater effort to establish the industrial foundations. Moreover, the later countries have started to industrialise throughout history, the higher their investment rates have tended to be.[24] Indeed, if the UK experienced the peak of its industrial revolution at a fixed capital formation rate of 10%, this was 18% in the USA, 35% in Japan and 40% in South Korea. India and most Southeast Asian countries are all hovering around 35%, without even having started to build a strong industrial base. China's manufacturing sector contributes 30% of its GDP, which puts it in tenth place out of 257 countries.[25] Yet its manufacturing output per capita puts it in 60th place out of 256 countries. Goods and services exports represent 31% of its GDP, which is still much lower than in South Korea (56%), Germany (49%), and most other western European countries. Second, investments in the industrial sector are reckoned to be vital for helping China avoid the middle-income trap.[26] Third, a new wave of investments in advanced industries is deemed essential to lifting the country out of its inferior position in the global economic order and 'to get a better position in the

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global division of labour'.[27] Fourth, investment increases China's national comprehensive power (综合国力).[28]

Thus the economic rebalancing that the new leadership promises mostly entails a shift from backward industries to competitive industries. Only if that transformation is accomplished, will a more fundamental shift to consumption be possible. This new stage in China's industrial policy is not possible without exports. The 2012 Government Work Report affirmed: 'While expanding domestic demand is crucial, we can never overlook the importance of external demand in China's economic development'.[29] As one of its priorities the 2013 Government Work Report proposed consolidating exports and imports, improving their quality, and shifting from competition based on price-advantage to competition based on technology, branding and quality.[30] Along the same lines the first economic session of the Politburo under the new leadership vowed to 'stabilize trade, to improve policy support, to expand export channels, and to increase imports'.[31] Both President Xi Jinping and Premier Li Keqiang have endorsed this in separate statements.[32] Top economic advisor Liu He confirmed: 'For quite a long time China will have to rely on exports, but during that period [we have] to position ourselves more favourably in the global market'.[33] Officials suspect that it would not be exceptional if China were to continue to run a trade surplus for another 10 years.[34] They recognise that increasing labour costs, the uncertain global economic outlook and growing protectionism could complicate the new push for exports, yet they remain defiant and convinced that China is still well positioned to be a key exporter of labour-, capital-, and technology-intensive goods in comparison to other Asian economies. Three interesting cases concern the solar industry, the shipbuilding sector and the electronic information industry. All three have been caught between overcapacity and pressure from other economies to refrain from dumping the glut on the global market. Yet, in these cases the State Council vowed 'to actively expand new space for foreign sales', 'to maintain the international market share' and 'to expand the international market share'.[35]

The preferred strategy has become to upgrade the trade structure, to diversify exports of industrial goods away from the West towards developing countries, and to balance these out by increasing imports of raw materials, high-tech capital goods and tourist services.[36] These goals were formally sketched out in a joint note of the Ministry of Commerce, the National Development and Reform Commission (NDRC), the Ministry of Finance, the People's Bank of China and several other departments.[37] Its main point of departure was that China had arrived at a point where it was required to 'consolidate its position as a trading nation and advance its trade power'.[38] That brought an effort to 'maintain the market share in developed countries and to make new efforts to unlock developing countries'.[39] Important in this document was also the emphasis on accelerating the development of key export sectors, like agricultural products, light industry, textiles, pharmaceuticals, steel building materials, new materials, chemicals, cars, machinery, construction machinery, railway locomotives, power equipment, telecommunications equipment, and ICT products.[40] Considering the vertical integration of the global manufacturing market, the paper also proposed to make a special effort to position Chinese national enterprises strategically along the industrial and supply chain.[41] In 2013 the Ministry of Commerce, together with six other departments, selected 30 emerging economies that would become priorities in the promotion of exports, especially in light industries, machinery, electronics and pharmaceutical goods.[42]

Chinese policy makers do understand the challenges that this brings. Beside the increasing production costs at home, many of them argue that the country must prepare itself for competition on two major fronts. On the one hand, developing countries are challenging its low-end industries; on the other hand, China has to vie with the developed countries for high-tech exports.[43] Beijing also expects more political tensions and protectionism. 'With the fraying of the Doha Round, the major powers re-focus on regional trade arrangements, countries tend to look more after their own interests, and international frictions increase.'[44] 'China's labour-intensive products face more intense competition from developing countries, and that is natural', explained the Director-General of the Development and Reform Commission (DRC) Research Department. 'Developed countries will try to pre-empt the upgrading of China's export structure by means of protectionism, opening new markets, labour and environmental rules, new standards, and so forth…Seeing the rapid rise of China's comprehensive national power and fearing that it will challenge the existing rules [they] are spreading the China threat theory'.[45] 'The United States, Japan, France and other developed countries [have] started to implement reindustrialization strategies', added the DRC's director, Li Wei.[46]

Open door

How does Asia figure in these new export ambitions? Asia has been the priority in China's foreign trade strategy for decades and this has not changed. As China became more dependent on exports in the 1990s, the government identified neighbouring countries as an important opportunity. Exports to neighbouring markets could help develop China's landlocked provinces, which became a very important objective in 1999. Other developing countries in Asia were also considered a good opportunity for China's emerging industries to gain experience, the antechamber, so to speak, of a global offensive. These were some of the considerations that encouraged China to commence its first trade negotiations, first with Hong Kong and Macao, then with the Association of South East Asian Nations (ASEAN), and onwards with Pakistan, New Zealand, Thailand and Taiwan. This push for free trade has gained new momentum. The fifth generation of leaders flagged free trade in Asia as one of its primary concerns. In November 2013 the Central Committee announced that it would accelerate the implementation of the peripheral free trade strategy (周边为基础加快实施自由贸易区战略, yi zhoubian, wei jichu jiakuai shishi ziyoumaoyiqu zhanlue).[47] This was confirmed by the Ministry of Commerce, which spoke of a new 'peripheral trade area' (周边自贸区, zhoubian zi maoqu).[48]

The new push for free trade has become manifest along several fronts. First, China is hoping to upgrade its comprehensive economic partnership with ASEAN to a more ambitious free trade agreement. Chinese officials have complained that, even if tariff barriers with the ASEAN countries have been reduced significantly, many obstacles remain in the services sector, qualitative barriers plague exporters, and different restrictions hamper Chinese investors.[49] The second objective concerns a free trade agreement with South Korea. Then follows

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the trilateral free trade agreement in which Japan is included as well. The fourth trade scheme concerns the Regional Comprehensive Economic Partnership (RCEP). A fifth project is the Free Trade Area of the Asia-Pacific (FTAAP). The FTAAP is not a new idea. It has existed since 2006, but in 2014 China proposed to revive it with a new feasibility study. The interest in more far-ranging trade agreements can be explained by a growing fear in China that exporters could be hurt if they are excluded from large regional trade schemes, such as the Trans-Pacific Partnership (TPP).[50] The Chinese government has also frequently stated that now that its companies are more able to go out, it has to work towards a better investment climate in partner countries and to have their intellectual property protected.[51] Furthermore, Beijing also is more confident that it can reciprocate. At home its services market has become more competitive, as have important suppliers of goods and services to the government. Thus China feels more comfortable about opening its own market further and that gives it more manoeuvrability to convince other countries to do the same. As one Chinese trade official put it, 'Now that we have become stronger, we can benefit more from free trade'.

It looks like China is pursuing a two-track strategy. On the one hand, the new leadership has come up with an ambitious plan to reform the domestic economy. The goal for the next 10 years is to put China on par with other developed countries in terms of technological innovation, the quality of its exports, the versatility of its large strategic industries, the competitiveness of its services and the strength of its currency. This would also imply that China makes significant productivity gains and augments its income level to that of a developed country by 2025. At the same time, China will gradually work towards regional trade liberalisation. At best, new trade schemes like the upgraded trade agreement with ASEAN or the Regional Comprehensive Economic Partnership will enter in to force by 2020–25. That still gives China some time to get its own house in order, while the ongoing negotiations prevent it becoming marginalised by other liberalisation initiatives.

Many Chinese experts see the end result as a regional order in which China, as the largest and also one of the most advanced economies, takes a central position and weaves neighbouring markets into a network of trade agreements so that it can enjoy the full benefits of its competitive strengths and be supplied with cheap raw materials and agricultural products. A report by the China Institute for Reform and Development, for example, depicts China as the linchpin of a series of comprehensive free trade agreements with Southeast Asia, South Asia, Central Asia, Russia and Northeast Asia, agreements that allow it to shape the regional standards for government procurement, intellectual property, labour regulation, environment and technical quality requirements.[52] Men Honghua, a professor of the Central Party School, wrote of the strengthening of regional economic integration of China's periphery (加强周边地区的经济一体化), so as to improve access to natural resources and to create a favourable environment for China's economy.[53]

To facilitate the creation of such a new large free trade zone around the Chinese economy, Beijing will continue to invest heavily in transport infrastructure.[54] All roads lead to Beijing (条条道路通北京, liao daolu tong Beijing), the new slogan goes. The new leadership has confirmed important connectivity projects. The idea of a Maritime Silk Road (海上丝绸之路, haishang sichouzhilu) was launched by premier Li to improve connectivity between the sea ports of southern China, such as Fujian, Guangdong and Hainan, and those of Southeast Asia, and onwards to those of South Asia. It is not yet clear what this is going to mean in practice, but China is already contributing to port development in Cambodia's Sihanoukville, Myanmar's Kyaukphyu, Chittagong in Bangladesh, Sri Lanka's Hambantota, Pakistan's Gwadar and a host of ports on the African east coast. The Silk Road Economic Zone serves a similar objective. It is about boosting Chinese exports to Central Asia and Europe via a multinational railway corridor and flexible customs procedures. As one official put it, 'The Province of Henan will once again become the starting point for "Made in China" goods to pour all over the world'.[55] China has also pushed for a corridor that connects it with Bangladesh, India and Myanmar – the so-called BCIM corridor. Since 2006 the Province of Yunnan has been developing new roads on its side of the border and China has also built roads and railways in Myanmar, although India has remained reluctant about direct links with China and rebuilding the old Stillwell Road. A meeting in 2013 promised to change this, but no specific progress has been made since. Further south China is continuing to expand the Pakistan Economic Corridor. Road upgrading in the north is progressing slowly. Plans for a railway and pipeline connection from the port of Gwadar to Xinjiang have existed for many years but, for the time being, China seems to be satisfied with supplying the country by sea and improving connectivity by financing airport infrastructure.

China's open door policy also consists of an effort to develop Chinese production chains throughout the region. In his first work report Premier Li Keqiang confirmed the importance of going out to promote exports and improve the position of Chinese national champions.[56] The Chinese government continues to encourage investment in distribution networks and in natural resources, such as energy, mining, forest industries and farming. The agricultural sector in particular has become a new priority. But it also wants to encourage some of its companies to invest in manufacturing. This is a balancing exercise. There are plenty of policy documents that show that China is not intending to relocate its labour-intensive industries too fast. Indeed, there is evidence that it still wants to strengthen labour-intensive manufacturing in poorer provinces. But it does consider it useful to allow some resource-intensive manufacturing – ie basic processing of raw materials – to relocate to neighbouring countries and to allow its companies to profit from the cheaper production environment – wages and taxes – in less developed countries, to supply the domestic market with cheaper products and to remain competitive internationally. Different government documents hint at a more important role for outward investments to permit exporters to benefit from cheap labour and to 'circumvent trade barriers'.[57] This particularly targets light industry, textiles, home appliances, steel and 'other industries with an excess capacity'. The Ministry of Industry and Information Technology announced its support for establishing export channels via foreign investments through chain integration, the backing of emerging Chinese multinationals, and the encouragement of 'strategic alliances' between Chinese producers.[58] The Exim Bank promised to provide more support

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for Chinese companies that seek to process abroad with Chinese components, to set up research activities in order to better serve their export markets, and to establish sales and services centres. In the past few years Beijing has approached several of its neighbours with a proposal to establish industrial parks and special economic zones for Chinese investors. By clustering investments, the aim is to receive more benefits but also to create goodwill among local governments. It remains to be seen, however, how fast these investments in the industrial sector will expand. China has often proven most skilful in creating expectations, but less so in living up to them.

Besides free trade agreements, infrastructure and investments, China also plans to back up its trade offensive with more capital. This relates first of all to export credit and concessional loans. These forms of credit had increased from $7 billion in 2000 to $152 billion in 2012.[59] By 2012 Sinosure was guaranteeing about $326 billion in export credit. A 2012 joint policy paper from the Commerce Ministry and other departments pledged to expand export financing, increase export credit support for small- and medium-sized companies and to increase export insurance as a tool for the government to influence the structure and direction of exports. At a State Council meeting trade credit was identified as 'an innovative way to use foreign exchange reserves' and an important instrument to support 'advanced manufacturing, strategic emerging industries, labour-intensive industries, and general industrial upgrading'.[60] Some of this credit has been turned into large facilities for infrastructure. One example is the package of $15 billion of loans that Premier Wen Jiabao promised to ASEAN in 2009. Another concerns a package of $10 billion promised to the countries of the Shanghai Cooperation Organization in 2012. Technically speaking, these are export credits tied to Chinese construction and labour contract services. Beijing has also set up a $10 billion China–ASEAN Investment Cooperation Fund, a vehicle for the Exim bank and the China Investment Corporation to facilitate investments in infrastructure, energy and natural resources, and for the Chinese government to make its investments more visible.[61] The Asia Infrastructure Investment Bank and the BRICS New Development Bank will continue these efforts. Their main objective is to create a cooperative context for China to promote the export of goods and services, and for Chinese companies to develop their own regional supply chains. As regards China's influence within these banks, interviews with three Chinese officials suggest that what drives China is not so much gaining control over these banks but gaining acceptance as a responsible trading power and, hence, also mitigating resistance.[62] 'As long as China becomes more competitive, it will benefit from whatever infrastructure helps to promote regional integration in Asia.'[63]

To maintain its competitive edge in a more challenging Asian market, China remains alert to rapid appreciations of its currency. Since 2000 currency appreciations have remained very modest against the Yen, from 15 to 17 Renminbi per Yen, against the Korean Won, from 144 to 164 Renminbi per Won, against the Malaysian Ringgit, from 0.45 to 0.52 Renminbi per Ringgit, etc. But there is more: the Chinese government continues to be committed to exempting exporters from taxes. The most important tool in this regard remains the VAT tax rebate, which entitles exporters to a complete or partial refund of the standard 17% rate if the goods they produce are shipped abroad.[64] Whereas

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in 2003 the government spent $24 billion on such refunds, this had increased to $132 billion in 2012. As a result, there has been criticism of the cost of this facility and the government did take some of the polluting industrial goods off the list. Nevertheless, the new government assured manufacturers that there were no plans to lower the refund. Quite the contrary: as a measure to support smaller exporters, whose profits often depend on such refunds, the Ministry of Commerce promised to simplify the procedure and to expedite payments.[65] Often local governments have elevated the rebate to the full 17% for products like furniture, toys, and shoes.

Conclusion

If China's promise of mutually beneficial economic relations has not materialised, that still leaves the question of why its partners do not appear to resist this. First, that perception is not entirely accurate. Some countries do try to limit Chinese investments in strategic sectors, have sued it for dumping practices at the World Trade Organization, or have tried to defend their exporters by means of competitive devaluations. But this has still not prevented China from keeping its neighbours in unequal partnerships. Indonesia, for example, has been complaining for 10 years now that trade with China is unbalanced. The same goes for many other countries, like India, Russia, and so forth. This leads us to perhaps the most salient part of China's open door policy: its diplomatic skilfulness in mitigating frustrations. The Chinese government continues to be very successful at raising trade expectations. The current situation might not be ideal but, its leaders insist, more exports opportunities and investments will follow.

Second, China is very adept at befriending political elites. Even if public perceptions are often negative, it entices politicians with the promise of financial support for prestigious infrastructure programmes. Loans in this regard have been decisive. Third, Beijing is very clever at exploiting political divisions. Nothing has made that more clear than the trade negotiations with ASEAN, during which China pretended to be negotiating with a trade bloc, but took the countries one by one when it came to early harvest concessions. It does the same within countries. Provinces or states that work with China are promised investment, trade contracts or industrial parks. China has also had more leeway to make concessions on agriculture, something which other large economies such as Japan and India are less able to do. These concessions have been very important in coaxing Southeast Asian and South Asian countries into trade agreements. Lastly, China has successfully presented its economic cooperation as a preferable alternative to cooperation with Western countries in terms of political conditionality and very speedy implementation of large-scale projects.

This all bears many resemblances to the open door policy of the industrialising powers in the late 19th and early 20th century. Similarly to the USA China has heavily invested in production capacity, in a way that renders it dependent on exports. That requires it to search for external markets and to become more supportive of free trade. Where the USA is concerned, this resulted in unequal partnerships with weaker markets and growing trade conflicts with the stronger markets, mostly in Europe, but also increasingly with Japan. Again, this bears many resemblances with China today. In Asia we see it creating unequal

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partnerships under the banner of harmony and free trade; with regard to the industrialised world it seeks to deflect protectionism with the arguments of free trade. This is ironic, because it was China that in previous decades acted as one of the most outspoken critics of unequal economic partnerships. It is also very worrisome, because it ultimately took a major war, if not two major wars, for the USA to allow its farmers and manufacturers to expand on external demand and then, after 1945, to rebalance towards a powerful consumption-driven economy, just to become the debt-addicted economy that it is today.

Does all this indicate, then, that Asia will indeed be absorbed in a new kind of Sinocentric economic order and that China will get away with its unequal partnerships? A lot will depend on the next 10 years. During this period tensions between China's economic aspirations and the expectations of its neighbours will inevitably build up as China tries to become a high-income country through more industrial growth – in both low-end and high-end sectors. During that stage it will continue to depend on exports and thus divert important opportunities for other countries. Moreover, the more precarious the domestic economic climate gets, the more China will seek to profit from external demand at others' expense. But if it were to become successful and reach high-income status, this situation would change drastically. At that stage there could be a large spill-over of investments. The Renminbi could then also appreciate much faster, making China's domestic demand also grow more robustly and production in other Asian countries more attractive. Cheap farming products and consumer goods would serve China's middle class from all corners of Asia and Chinese companies would reap most of the profits along the production chain – from the primary sector, over the assembling halls, to the retail chains. The asymmetric partnerships would persist and they would also bring greater political influence, but the economic spill-over would be larger.

It is hard to tell whether China can be successful in this endeavour. Much will depend on how it handles domestic economic setbacks and whether it can go on to show sufficient sophistication in its economic diplomacy. Efforts to balance China's rise economically are, for the time being, not very successful. In Japan 'Abenomics' has largely failed to increase economic competitiveness. ASEAN is struggling to deepen its internal integration. Progress on the TPP is still too slow. Moreover, the less other Asian countries are able to create tangible economic benefits for their people, the more fragmented or volatile their domestic politics becomes, and the harder it is to manage economic affairs effectively. That too could be to China's advantage. For now the one thing that could imperil China's economic ambitions is probably the growing distrust in the region as a result of territorial disputes and China's military rise. And, yes, the nationalism that exacerbates the security dilemmas could in the end at least partially be seen as a product of China's economic battle of attrition. After all, elites that cannot deliver prosperity to their people will search for other ways to gain prestige.

Notes on contributor

Jonathan Holslag is a professor of International Politics at the Free University of Brussels. He works on security in Asia and international politics. His last book is China's coming war in Asia (Polity, Körber, De Bezige Bij, 2015).

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Notes

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7. Yueh, "The China Effect."
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38. Ibid., section 3.
39. Ibid., section 4.
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