PERSPECTIVE

The Role of China as a Global Actor

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Abstract: As the largest exporter and sovereign creditor, China is also ranked by UNCTAD as the second largest recipient of FDI and third largest global investor in 2015. China's rise on the global horizon is attributed to the nation's resolve to play by international rules and marked by its accession to the WTO 15 years ago. Nonetheless, without shock therapy, Chinese leaders with one fifth of the world's population have been able to maintain a stable process of ideological and economic transition from a stereotyped Marxist and command economy into a market-driven paradigm with accelerated participation in the global community; this presents a showcase as to how unique governance can be installed to unleash its immense potential for responsibility and prosperity and harnessing different and, more often, opposing forces both at home and abroad. Under one-party rule, China did not take the popular menu of democracy, but with rising per capita income and expanded world vision propelled by the dual-track of reform and the open-door policy, it is hoped that democracy will come in a natural and unique way. China has benefited playing by international rules and norms. Now, with its economic might and enriched knowledge of the world, China is ready to assume a larger role in the changing landscape of global governance. As president Xi Jinping remarked over the Politburo's 19th meeting, in front of international rules, we shall not be content being an on-looker, a follower, but rather be a participant, and a leader.

Keywords: Chinese modus operandi, reform, ODI

General Economic Performance

According to the Best Countries report and rankings conducted by *U.S. News,* China is ranked the highest among all developing countries (17th and 20th in 2016 and 2017) and the top of the 3 Most Influential in the world, with 1.4 billion population and at \$10.4 trillion GDP (\$14,340 per capita by PPP). This is measured in terms of a number of qualitative characteristics, impressions that have the potential to drive trade, travel, and investment and directly affect national economies[1]. Among the nine metrics employed, special emphasis is attached to those drivers behind national wealth and success: policies that create possibilities, the people that drive the effort, and the history that shapes the environment and perspective under a globalized context.

A most populous nation that has registered tumbling economic growth in the last nearly four decades has attracted immense interest among policymakers and scholars around the world. We have witnessed waves of pessimism along the way, speculating that the Chinese communist party rule would fall or the economy would collapse, even with specific years assigned. To critics' disappointment, the political

[1] https://www.usnews.com/news/best-countries/overall-full-list

stability under one-party rule and economic growth momentum remain resilient. The slowdown in the past three years reflects a normal course, given the sheer size of the economy and the critical juncture for its transformation from factor-intensity to a modus operandi driven by innovation. The additional value even at a slower pace (6.7%) as created in 2016 ($769 billion[2]) stood ahead of the entire GDP of the Netherlands ($750 billion[3]), which occupies the 22nd place in the world (Table 1).

Table 1
China' Wealth Growth (1978-2015) unit: RMB billion*

Year	2015	2010	2005	2000	1978
US$=RMB	6.50	6.80	8.11	8.28	1.56
GDP (RMB Bln)	68905.21	41303.03	18731.89	10028.01	365.0
GDP (US$ Bln)	10600.80	6073.98	2309.73	1211.11	216.8
GDP per capita (RMB)	50251	30876	14368	7942	381
GDP per capita (US$)	7730.92	4540.59	1771.64	959.18	244.23

Source: China Statistic Bureau, 2016
* Data is calculated by the official exchange rate set in the specific year by People's Bank of China

The above data is drawn from Chinese official statistics and translated by the official exchange rate of the specific year. By purchase parity rate (PPP), the figures could double. China, today, is facing an immense target of supply-side reform, on one hand, to follow its "Made in China 2015" program to upgrade its technological value in the manufacturing sector and, on the other hand, to enlarge the proportion of service sector in the entire economic composition when it began to assume a dominant position in 2015 (Exhibit 1-1). The government is resolved to shift from an export-led and investment-driven modus operandi into consumption and innovation driven.

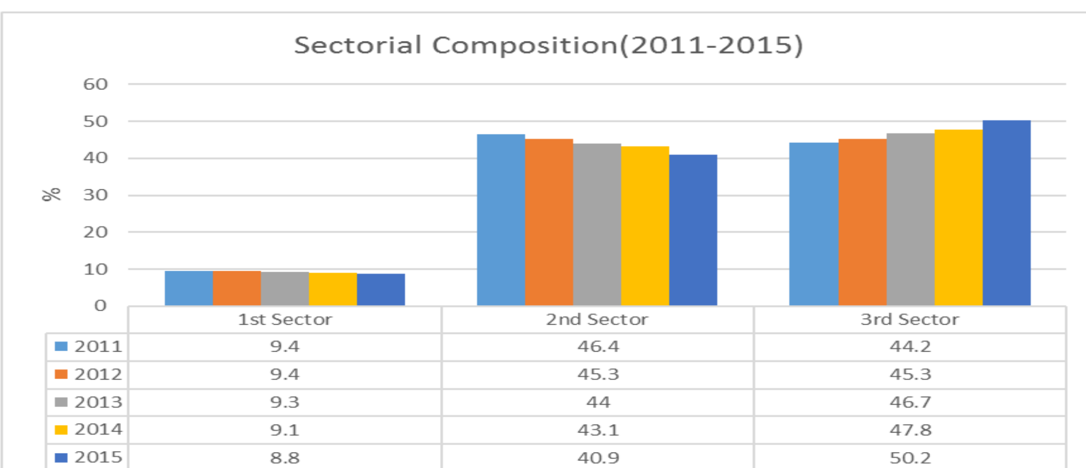

Exhibit 1. Sectorial Composition (2011-2015) Source: China Statistic Bureau, 2016

[2] 2016 Economic Data Released, Chinese News Net, http://news.sohu.com/20170120/n479176607.shtml
[3] World Bank GDP Ranking Feb. 2017, http://data.worldbank.org/data-catalog/GDP-ranking-table

Since 2012, China has surpassed the United States as the largest global trader, valued at nearly $4 trillion, which has contributed to its world's largest foreign exchange reserve above $3 trillion with continuous surplus (Table 2).

Table 2

China's External Trade (2011-2015) Unit: US$ billion

	2016	2015	2014	2013	2012	2011
Export Value	2 129	2 273	2 342	2 209	2 049	1 898
Import Value	1 614	1 680	1 959	1 950	1 818	1 743
Total Value	3 743	3 953	4 302	4 159	3 867	3 642
Trade Balance	515	594	383	259	230	155

Source: China Statistic Bureau, 2016

The Reform Process

Deng Xiaoping is credited as the mastermind of the Chinese reform and open-door policy, but initially he, along with his comrades, did not have a strategic plan in mind. He just wanted change because any change would mean improvement when the nation was already in the worst situation. The reform approach was tentative, probing in the dark "looking around while treading ahead… crossing the river by feeling the stones" – in Deng's own words[4]. That is why Deng is also known for his catism -–no matter white or black, any cat is a good one so long as it is able to catch the mice. When China was largely mesmerized in socialism built on the model of the Soviet Union, it was a difficult move to introduce the concept of the market. Although there was not a ready recipe in the world to emulate, the reform was not without standards. With regard to the debate about whether China should follow the capitalist or socialist road, it was summarized by Deng during his tour in 1992 as "3 conducives" – any road is good so long as it is conducive to 1) social productivity, 2) integrated strength of the nation, and, 3) elevation of people's livelihood. Such a pragmatic approach and yardsticks for reform were adopted in the Chinese constitution in 1999 as the Deng Xiaoping Theory.

For three decades after the founding of the People's Republic of China, the Chinese social-economic model emulated that of the Soviet Union with a doctrine of "strong government and weak society," where virtually all aspects of social lives were under the control of the government along a vertical hierarchy in the name of units. State intervention infiltrated all walks of life and every corner of the country. In the countryside, people were confined to communes and brigades as production units. In the cities, people were assigned to work units designed by the central government. Economically, people lived on ration coupons dispensed by the state. Socially, marriage, travel, and jobs were all subject to the approval of the unit sanctioned by the government. Class struggle was the mainstay in political life, based on a unique caste-like system. In the countryside, according to the wealth conditions of their families before liberation, people by birth were classified into landlords, rich peasants, upper-middle peasants, middle peasants,

[4] Excerpts of Deng Xiaoping, People's Press, Vol.3, 2011, P.113

lower-middle peasants, poor peasants, and tenants, while in the cities, people were classified as capitalists, petite bourgeoisie, and workers (also known as proletarians), when the first two were the victims of class struggle.

Economic activities were subject to the blueprint charted in the five-year plan and were carried out by a centralized institution – the National Planning Commission. Peasants working for collective farms had no choice of the crops to grow and to sell. With rations distributed by the year end, the remnants were surrendered to the government as in-kind tax for strategic reserve or redistribution across the nation by government agencies. Lack of motivation ended with poor yields and widespread hunger. In a winter night in 1978, in order to stop more villagers from turning into beggars, 18 peasants in Xiaogang Village of Anhui province gathered in a shattered farmhouse decided to distribute the collective land to individual households in a private charter (Exhibit 2). The following year witnessed great increase in productivity and substantial reduction in the number of beggars. To their surprise, their practice was affirmed by Deng Xiaoping, marking the first shot for Chinese reform by spreading this practice across the country. This charter, considered to be criminal at the time, is now kept in the Chinese National Museum, and the Museum of Chinese reform is now established in the Xiaogang Village (Exhibit 3).

Exhibit 2. Charter by Xiaogang Villagers

Exhibit 3. The monument of reformers

“We decided to distribute the land. If we get hanged, the survivors shall raise our children till the age of 18.”

The Open-door Process

In July 1979, China decided to open the Southeast coast to foreign investment and established the first four special economic zones (SEZs) in Shenzhen, Zhuhai, Shantou, and Xiamen the following year. The initial drive to open these areas was more political than economic. Because these areas face Hong Kong and Taiwan, it was considered a window case to allure business communities across the Taiwan Strait and Hong Kong with various incentives, such as tax exemptions and land concessions. National unification is always considered the paramount priority, which could have easily build consensus among leaders who held divergent ideologies with regard to poli-eco models. However, such a move turned out to be huge economic success. In less than a decade, these cities flourished at the top of Chinese economic growth. With this experience, Hainan Island was added as the fifth SEZ in 1988. Fourteen coastal cities were opened as special development zones (SDZs) in 1984, followed by the Pearl River Delta as a Coastal Open Region in 1985.

The Pudong New Zone and first bonded zone were established in Shanghai in 1990. In 1992, there was a renewed impetus for further openness, extending inwards first along the Yangtze River and major rail lines and then along border regions with neighboring countries. In past three decades, several hundred additional zones have been developed, covering in aggregate 550,000km2 of land area and nearly one-third of the population. In August 1988, China launched the Torch Program, aiming at developing high-tech industries. A number of high-tech zones (HTZs) were set up, surrounding big cities that were able to take advantage of advanced human capital and innovations from universities and research institutes. In September 2013, China started to integrate the bonded areas into the first free trade zone (FTZ), which implemented negative list for business operations and further opened the service sector, particularly in the area of financial services. Seven more in different cities have been added to the list by end of 2016. In March 2015, the first cross-border e-commerce comprehensive pilot zone was established in Hangzhou, capital of Zhejiang province, which hosts Alibaba, led by Jack Ma, which is a new success story, and it was followed by 12 other cities. With 24-hour customs clearance service and a negative list policy, this zone has generated more than $6 billion in trade value in one year's time[5] (Table 3).

[5] Netease.News, Mar. 10, 2016, http://news.163.com/16/0310/07/BHPFEJU300014JB5.html

Table 3

Strategic Objectives for Chinese Pilot Zones in the Open-Door Process

	Strategic Objective	Location
SEZs	Initially to attract investors from Hong Kong and Taiwan and then expanded to all multinationals.	South East region
SDZs	To establish manufacture and export base by attracting multinationals.	Coastal ports and major cities
Putong	To shape a financial hub next to Hong Kong.	Shanghai
HTZs	To translate innovation into productivity from research institutions.	Suburb of major cities
FTZs	Negative list Financial service	Shanghai and 7 other cities
E-commerce Zones	Negative list 24-hour custom clearance Paperless reporting	Hangzhou and 12 other cities

China SEZs have combined with other open regions and cities and have enlisted multinational manufacturers in the grand experiment with the allure of attractive tax structures, visa movement, rights to hire and fire, repatriation of profits, and advanced infrastructures not available elsewhere in China. Many multinational manufacturers have brought into China their industrial technologies, western management, and access to international markets in return for foreign exchange to China. These are the primary objectives for China to open up for direct foreign investment. Reciprocally, the Chinese government offers a whole package of benefits to foreign invested enterprises (FIEs), including income tax holidays and tax exemption from importing capital equipment, priority for land use, and access to local human resources.

The establishment of these development zones has not only pushed forward the Chinese industrialization process acutely needed by any developing countries by successfully incentivizing the participation of foreign investors with technologies and management expertise, but has also helped build the largest pool of foreign exchange reserve the Chinese government has enjoyed through import substitution programs and pre-established requirement on export ratios for the final products produced by foreign enterprises in China. These zones, generally unfolded in the suburban areas surrounding major cities have contributed significantly to the urbanization progress. This bears unique value to mitigate the solid barrier between rural and urban population known as the hukou system (individuals are institutionally nailed down to the place of residence).

In addition to the lab experiment practice, China’s opening has taken a phased approach, from coastal regions to the hinterland, albeit at a slow pace. While this is intended to produce a waterfall effect as described by Raymond Vernon in his model of international production cycle, in which companies are expected to reallocate further inwards in pursuit of cheaper labor and land space, the development gap between the more open regions and the central-western regions remains stubbornly large. The reason is beyond Vernon's calculation: when an industry is docked in a specific country, the workforce that gets mobile without visa restrictions shall approach the industrial sites instead of the other way round. As a result, central-western regions suffer from a brain and even demographic drain, which exacerbates the inequality between regions within the country.

While the country cashes in on the demographic dividend by taking advantage of the cheaper and disciplined workforce supplied by the rural population when massive numbers of farmers (floating population 245 million by the end of 2016[6]) flock into the cities of the coastal region with better opportunities, the underlining social discrimination in the country's persistent dichotomy poses looming human right concerns. Nonetheless, it does not mean the Chinese government is oblivious of this issue. The revised labor law promulgated in 2009, aiming at offering enhanced social welfare and protection for the labor force in substantiality and dispute settlement mechanism, appeared to be a good law issued at the wrong time when the Chinese economy among others was struggling for recovery from the adverse impact of the financial crisis. Such alleged "over-protection" has received general complaints from the business community. Patchwork measures were devised to mitigate such surges in 2016 to no visible impact.

Outbound Investment

China has become more economically open and engaged in international collaborations since 2001 when the "going global" strategy was officially launched. An increasing number of Chinese enterprises are expanding their operations in overseas markets through outbound direct investments (ODI), international contracting projects, and export of labor service on infrastructure projects.

China has been increasingly driven to seek global investment opportunities by four factors: 1) To secure resource supply. Being the largest original equipment manufacturer (OEM) in the world and, also, with domestic market under rapid expansion, it has to rely on secured resource supply from overseas where acquisition plays a unique role. 2) To relax trade imbalance. Aggressive export has been viewed as predatory to local job opportunities and poses a threat to local industries. Localized production through direct investment helps skirt anti-dumping charges on Chinese exports and pacifies local protest. 3) To carry on the international production cycle. With the rising cost of production and accumulating a stockpile at home, Chinese companies are eager to explore opportunities for localized production and shift their excessive capacity overseas. 4) To seek upgrading opportunities along the value chain. Chinese companies are not content with being low-end suppliers; companies with valuable IPs and brands become their targets of acquisition, which is viewed as the shortcut to elevate their positions along the industrial value chain. More recently, we have noticed another three new moves for Chinese ODI: 1) More rich individuals are buying real estate properties overseas, either for purpose of immigration or for spreading risk. 2) More Chinese companies are buying green farms and luxury brands to satisfy rising demand for safer food and prestige brands at home. 3) Instead of the lonely-wolf approach, more Chinese companies aided by the government are pooling resources together to set industrial parks or economic zones overseas, in particular, in response to the One Belt and one Road Initiative (OBOR), the brain child for China to forge its leadership in regional economic integration and positioned away from the United

[6] http://china.caixin.com/2017-01-20/101047113.html

States. From 2004 to 2016, China's ODI kept growing for 13 consecutive years with an average annual increase of 35.9%. China's ODI flows hit a historic high of US$170.11 billion in 2016, ranking second in the world. Moreover, it was also the 2nd year that China's ODI exceeded the foreign investment inflows. ODI in "Belt and road" countries reached US$14.53 billion with 1082 Chinese companies engaged (Exhibit 4).

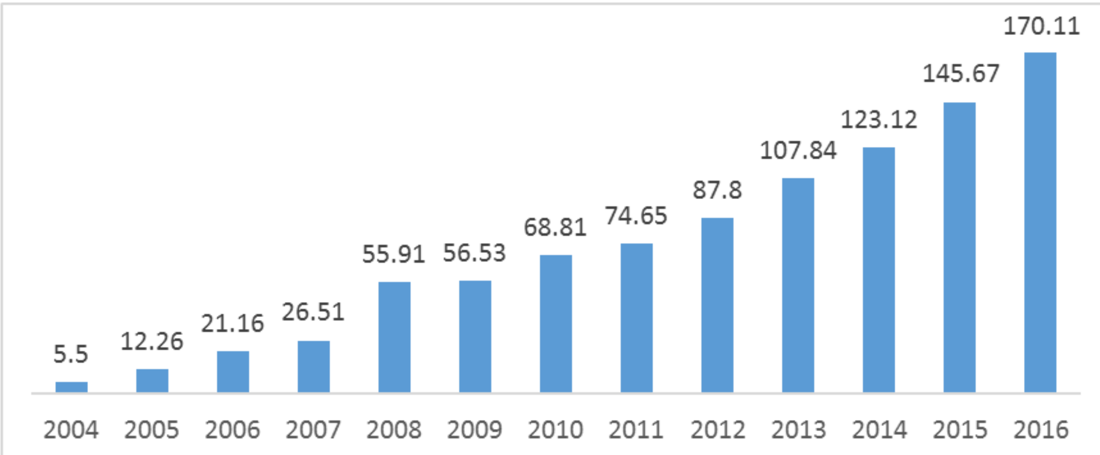

Exhibit 4. China's ODI Flows, 2004-2016

Note: The data for 2002 to 2005 includes China's non-financial ODI only, and data for 2006-2016 includes China's ODI across all industries.
Source: Statistical Bulletin of China's Outward Foreign Direct Investment

Since 2006, the number of Chinese enterprises "going global" has increased rapidly. By the end of 2015, 20, 200 enterprises had established 30,800 enterprises overseas, spreading across 188 countries and regions, with foreign assets totaling US $4.37 trillion (Table 4). In 2016 alone, the Chinese ODI registered explosive growth in spite of a domestic slowdown with accumulative investment by $170.11 billion, a 44.1% increase. Across 164 countries, 7,961 local entities received Chinese investment.[7]

Table 4
Number of Chinese Outward Investors, 2006-2015

Year	Number of Chinese Outward Investors (Thousand)	Number of Chinese Enterprises Established Overseas (Thousand)	Number of China's ODI Destinations
2006	5.0	10.0	172
2007	7.0	10.0	173
2008	8.5	1.20	174
2009	12.0	13.0	177
2010	13.0	16.0	178

[7] China.News.net. Jan. 16,2017, http://www.cs.com.cn/xwzx/hg/201701/t20170116_5156809.html

2011	13.5	18.0	177
2012	16.0	22.0	179
2013	15.3	25.4	184
2014	18.5	29.7	186
2015	20.2	30.8	188

Source: Statistical Bulletin of China's Outward Foreign Direct Investment

Chinese enterprises, ambitiously going global, made a contribution to the world economy and created job opportunities and tax income for the host countries; however, they incurred criticism for resources plundering, illegal employment, commercial bribery, fake and inferior products, and vicious competition. Though some of these problems were real, some were caused by miscommunication or even conspiracy theory. Therefore, how to achieve mutual benefit with multi-stakeholders in international investment and cooperation and how to build an image of being a responsible global citizen is vital to Chinese enterprises.

A Global Actor

Since 2010, China has replaced Japan and maintained its place as the world's second largest economy[8], having an aggregate GDP near $12 trillion (RMB74.4 trillion) in 2016[9]. Although double-digit growth is a history forgone after China began to enter the stage of the "new normal" (a new phrase coined by Chinese President Xi Jinping in 2014), a pace well maintained above 6.5% until 2020 is considered handsome enough for its colossal size and in comparison to major economies crawling in the recovery mode. According to official data from the Chinese government, China's contribution to world economic growth has noticeably topped the United States in the past years, reaching 32.2% in 2016 since the world financial crisis (Exhibit 5).

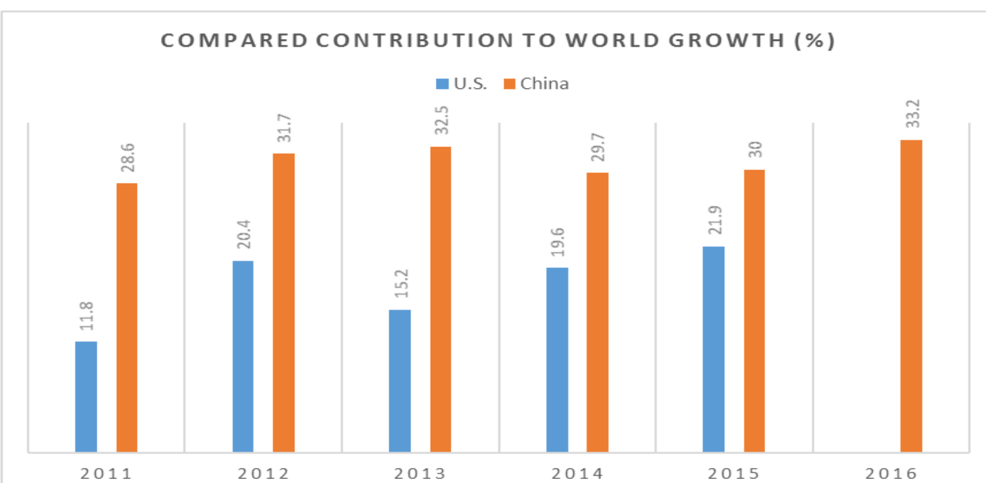

Exhibit 5. Respective Contribution to World Economic Growth: U.S. vs. China (2011-2016)

Source: China Statistics Bureau, 2017

[8] China Economy Net, Dec. 7, 2010, China Surpassed Japan as the 2nd largest World Economy, http://www.ce.cn/xwzx/gnsz/zg/201012/07/t20101207_22028248.shtml

[9] PRC Central Government Report, http://www.gov.cn/xinwen/2017-03/07/content_5174744.htm#1

On the diplomatic front, adhering to the principle of non-alliance and non-interference, China has long preferred negotiation for bilateral engagement for trade and investment with individual partners or accession to existing multilateral framework. However, from launching the Boao Forum for Asia in 2001, the same year when the country was granted WTO membership, China has learned to play a more proactive role in regional and global schemes. The first day of 2010 witnessed the formation of China-ASEAN Free Trade Area (CAFTA) known as the 10+1 program. In 2015, China initiated the 16+1 Cooperation Mechanism with 16 mid-eastern European countries, in close junction with the grand OBOR Initiative set forth by the Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road.

The Shanghai Cooperation Organization (SCO), connecting China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan, established in 2001 with headquarter in Shanghai, was initially aimed at an anti-terrorism effort, but topics of the meeting by heads of states gradually extended from building up trust in the border regions to mutually beneficial cooperation in the political, security, diplomatic, economic, trade, and other areas among the five states. The Asian Infrastructure Investment Bank (AIIB) is a new multilateral financial institution proposed by China and established in the beginning of 2016 with headquarters in Beijing to bring 57 member countries together to address the daunting infrastructure needs across Asia with initial capitalization of $100 billion. It furthers interconnectivity and economic development in the region through advancements in infrastructure and other productive sectors.

According to the Asian Development Bank (ADB), the cost of building the infrastructure that developing countries in Asia will need in order to maintain the economic growth that lifts people out of poverty is estimated at $8 trillion between 2012 and 2020.[10] The core mission of AIIB is there to fill the deficiency of existing financial institutions, such as World Bank and ADB, with its sharp focus on supporting infrastructure development in the enormous Asian market. The BRICS Development Bank, in which China plays an instrumental role, was founded in July 2015 with headquarters in Shanghai and is another joint effort among the 5 BRICS member countries to provide a financial security net with incremental capitalization of $100 billion.

Conclusion

China dismantled the Soviet type of mandatory planning at the end of the 1970s; it has since adopted a unique path of governance and growth marked by the Socialist market economy with Chinese characteristics, which have been proven so far successful in raising people’s living standard and the nation’s global preeminence. The chief architect of reformation managed to build political consensus to avoid dramatic shockwaves among this enormous nation with strong ideological divergence as to which road to take. The reform and open-door policy rolled out on a gradual-but-steady pace has not only opened the economy for global participation and competition, but has more profoundly, shaped people’s vision and mind. Global investment flow has been largely spurred by the China element in the world financial marketplace. Acknowledging the economic slowdown by the phrase of “new normal,” China's leaders have embarked on a decisive path of transformation, shifting growth engines and driving towards innovation. Daunting tasks lie ahead to honor its commitments to lift 70 million people out of poverty, to

[10] Asian Development Bank, Who Will Pay for Asia’s 8 Trillion Infrastructure Gap? Sept. 30, 2013, https://www.adb.org/news/infographics/who-will-pay-asias-8-trillion-infrastructure-gap

double per capita income by 2020, and return the blue sky, now overcast by heavy smog. A steady growth will also mean contribution to the world economy, particularly when world recovery drags and is in the doldrums. In front of international rules and norms, China is beginning to play a more proactive role in shaping global order and governance in a less assertive but more practical fashion. As Chinese President Xi Jinping addressed on Dec. 5, 2014, over the Politburo's 19th meeting: In front of international rules, we shall not be content being an on-looker, a follower, but rather be a participant, and a leader.