



China's Capacity to Consolidate Economic Globalisation

Jasminka Plevnik

Founder & President, Goeconomic Forum Croatia

Introduction

Good afternoon to everyone. I am honoured to speak at globally respected the Hongqiao International Economic Forum on the occasion of China's 70-Year Development that has been achieved by work of many generations. China's economic growth has made a unique contribution to development and stability of the world. And it is true that is one of the defining facts of our time.

The Goeconomic forum Croatia was established in 2004 and at our first conference keynote speaker was Prime Minister Tun Mohamad Mahathir who talked on how financial aspects of globalisation were dangerous for Malaysia and its financial flows in 1997.

However, after twenty-two years, the financial side of economic globalization resumes to destabilize the world economic order. The global financial system has continued to be subjected to US regulations and the US financial system, and here the US finds levers for its unilateral policies centered on ruining the Iran nuclear deal, ignoring the WTO and controlling and limiting the global reach of Chinese companies.

The economic globalisation is at a defining moment.

The topic of my speech is China's approach to the economic globalisation and transformation of its position through the process of constructing economic interdependence with the world since 2001 to 2018. Within that context will be discussed China's ability to strength the economic globalisation through reforms and its global diplomacy.

Many aspects of the economic globalisation are boasted as great achievements yet, we are witnessing a strong differentiation of the world between rich and poor, with the rapid degradation of the condition of working people not only in poor countries but developed as well. These trends drive political populism

that explains of economic globalisation is the main cause of such conditions.

However, economic interdependence, the other name for economic globalisation, must go on because it has been one of the great strategic successes in connecting the world of the last three decades and has besides brought us to beautiful China and Shanghai.

China and the Economic Globalisation since 2001 to 2018

China's economic interdependence with the world has been developing gradually, which has resulted in expanding and bringing attention to China's national wealth changing its position in the economic world order hierarchy.

In 1978, China's opening to the world has been understood as an instrument for attracting foreign investments and expanding the range of markets for Chinese products. Shenzhen and other Chinese manufacturing and innovative hubs have been also the results of China's embrace of the economic globalisation.

China has globalised itself accepting new global rules developed after the end of cold war and embracing standards of classical global governance institutions established in 1944, and 1945, under American leadership that were made to keep the peace and develop the world.

A significant event in China's history of building economic interdependence with the world was entering to the World Trade Organization (WTO) on 11 December 2001. China's approaching to the WTO was a long complex process of compliance with the WTO rules and protocol that the European Union (EU), and the United States, imposed upon China.¹ The EU has engaged similarly strictly with the Balkan countries, the candidates for the EU membership, putting on them more heavy and unrealistic economic and political obligations than had the countries that entered into the EU in 2004 or before. The requirements for outsiders to become members of the WTO or the EU has become more demanding than were for founders who posted the rules for global institutions or economic regional blocks at time of their establishing. And in that way, it is unfair, but it has been and is reality.

China and other countries have been globalised mostly inside the framework of the economic globalisation shaped by the United States' standards and rules.

The US had a key role in helping China to connect with the world, but it was China's decision to open itself. China has followed its own interests according to its capacity and needs supervising its processes of building transnational market

¹ Qingjiang Kong, *China and the World Trade Organization: A Legal Perspective*, Imperial College Pr; , F First Edition edition, September 1, 2002.

focused connections, that which has enabled it to develop its manufacturing base and increase its involvement in high technology sectors.

China has allowed the state to play a decisive role in its economic integration with the world and that approach to the economic globalisation protected China's interests better than market forces.

Southeast Europe countries have globalised themselves, associated with the process of “end of the state” that was popular “theory” in the writing on economic globalisation before global financial crisis in 2008, when it disappeared, and state came back. The results were a decreasing of their national wealth, selling their flagships companies, not making them global, and banking sectors to Western banks.¹

Since 2005, China has transformed itself from an importer of capital to global investor through its direct investments and programmes of aid. In 2001, these investments amounted to a mere of \$6.9 billion. In 2012, China had the position of the top third global investor, behind the United States and Japan, when its investments abroad amounted to \$87 billion. At the end of 2014 the Ministry of Commerce introduced many measures to support Chinese companies. Therefore, since 2015, licenses for investment abroad were no longer necessary except in cases of vulnerable countries and areas or industries. The guidelines for overseas entrepreneurship and plans for key industries and sectors, as well as for avoiding risk, have been in line with the spirit of the policies of the 19th National Congress of the Communist Party of China. Chinese regulators have continued to limit certain investments in sports or entertainment industries. Some forecasted a slowdown in Chinese investments abroad but China's influence in global foreign direct investment continued to be significant despite decline in its US-centric direct investments. In 2018, China was the world's second largest overseas investor, second to Japan. The country's accumulated overseas direct investment (ODI) reached US\$1.98 trillion in 2018, ranking China third after the United States and the Netherlands.²

In 2008, China assisted greatly in resolving the global financial crisis through the G-20 yet there have still been attempts in neorealist based approaches to interpret its inclusion in global governance as ambition to change the world order into direction of increasing China's hegemony.³

1 See Jasna Plevnik, *The Price of the New World Order: World Challenges to National Interests*, Zagreb: Golden Marketing – Tehnička knjiga, 2009, pp. 129 -157. Jasna Plevnik, “Hrvatska i globalizacija,” *Ekonomski pregled*, no.50, 1999, pp. 1608-1629.

2 According to the Ministry of Commerce China's outbound, direct investment (ODI) fell 9.6 per cent to US\$143.04 billion in 2018. See 2018 Statistical Bulletin of China's Outward Foreign Direct Investment, www.hzs.mofcom.gov.cn/.

3 What makes China special global power see Jasna Plevnik, Stjepan Mesić, “China a Special Power”, in *China in the Balkans*, Zagreb: Plejada, 2013 pp.111 – 119.

Since 2013, China's role as a subject in the economic globalisation process has been further improved when President Xi Jinping launched the Belt and Road Initiative with aim to foster economic interdependence among Asia, Europe, Africa and South America.¹

In 2017, Chinese President Xi Jinping explained in detail China's concept for the world Community with a Shared Future for Mankind in his keynote speech at the UN headquarters in Geneva on 18 January 2017.

China's strong economic interdependence with the world and its position of second economic global power has made it to think of constructing one world with a common future but not with intention to replace the United States and to continue with old structure of unipolarity in international order but to change it towards multilateralism and multipolarity.

It is not hard to see that current China has radically different requirements from the international system than it did in 1949, when it was not member of the United Nations, World Bank, International Monetary Fund, and vice versa.

After seventy years of development, especially in the 40 years of reform and opening up, China stands as the leading nation in terms of trade, the second strongest economic power in the world, and in 2018, the second in terms of its investments abroad. That international position has further enhanced its global influence.

The process of China's globalisation is not over. Increasing of the yuan's circulation in the global financial system has an important role to play in further improving China's position in financial globalization that is currently insignificant in relation to its role in global trade.

China's global reach even expanded towards Southeast Europe where China's economic diplomacies and companies were relatively unknown before China's government launched 17 plus 1 and the Belt and Road diplomacies.

The Chinese companies in Croatia are introducing new technologies in building Pelješac bridge and investment in a green project – construction of the 156 MW wind farm near city Senj on the Adriatic coast.

Chinese companies in Europe have accommodate its own standards to EU norms and that compliance captures the idea of economic globalisation on building one global economy.

The relations between China and Southeast Europe countries are developing as a historically new kind of economic integration into the direction of Asia that might have power to move the European region into a new phase of economic globalisation. Their experience with economic globalization governed by the

¹ Jasna Plevnik, *The Belt and Road Initiative and its Implications for Southeast Europe*, Belgrade: Center for international relations and sustainable development, 2016.

West over the past two decades has been mostly negative because it was not based on more justice a win – win approach.

Challenges to Economic Globalisation

We live in time of different kinds of exits –from the EU, UN agencies and even from the economic interdependence of the world that is the most visible “product” of the ideology of economic globalisation that has dominated in post-cold world order.

Since the global financial crisis to now many consulting firms specialised in assessing of global political and economic risks put at the top risk of anti-globalisation and the United States as a serious macro-factor for such a risk, given its internal economic and political problems that encourage protectionism.¹

Although current global economic relations could still be framed by the term “economic interdependence”, there are significant differences between the current economic globalisation and that in the 1990s. Then global institutions supported unrestricted liberalization in trade, investment and finance and celebrated export.

America's former President Bill Clinton (1993 –2001) encouraged and praised the globalization of China. America was opening up to China and to different forms of mutual interconnectivity whilst since 2001 to 2016, it asked of China to work together on the developing of a multilateral system of “global governance.”

In President Obama's Administration were many experts on China. Zbigniew Brzezinski proposed developing of a new informal G- 2 in which America and China could address global challenges of bilateral interest. The idea of shared global leadership in a certain way was based on predictions about the division of the world into two areas: Euro-Atlantic dominated by America and an Asian dominated by China.

President Obama was interested to include China more strongly in the world governance in the areas of economics, ecology and resolving of the effects of the financial crisis.

China benefited from America's pro-globalisation diplomacy and the WTO, but it also returned to America and others what it gained through entering the

1 See “Eurasia Group President Ian Bremmer Announces Top Risks and Red Herrings for 2008,” 7 January 2008, <https://www.eurasiagroup.net/media/eurasia-group-president-ian-bremmer-announces-top-risks-and-red-herrings-for-2008>.

trade system.¹

Much has changed since then. In 2018, America's Administration has reduced its global role at the multilateral level and appeared confrontational towards its traditional trade partners China and the European Union. It has challenged the WTO's existence and the economic world order that creates a degree of lower confidence in global governance, global trade and markets.²

Further process of economic interdependence of the world has been challenged by the USA's trade war on China that started in June 2018.

Beijing while negotiating with Washington continues to define common goals with the USA. Building a stable and multilateral economic world order for the 21st century is hardly thinkable without Washington.

The current American administration is openly centered on the short-term; unilateral economic interests are crippling the economic world order and international organisations credibility. What we need to know about President Trump is that he is a politician dedicated primarily to internal affairs.³

In the current Administration are some experts for China that in the broader America's academic community are not accepted as China experts.⁴

However, American global financial and industrial companies continue to support economic globalisation as a central driving force behind their economic growth.

The Future of Economic Globalization

The future of economic globalisation depends on in which direction the U.S. and China relations will develop in the next decade.⁵ The continuity and sustainability of economic globalisation primarily depends on political decision of their leadership.

China and the United States are most important pillars of today's global economy and differences between the two powers are significant. The tissue

- 1 This theme is elaborated in detail in Jasna Plevnik, Mesić Stjepan "Odnosi Amerike i Kine" in *Doba ekonomske diplomacije*. (Zagreb: Plejada, 2011).
- 2 Jasna Plevnik, "Hurting China is Causing Damage to the World," *China Global TV Network*, Opinion, 12:32, 24 May 2019, https://news.cgtn.com/news/.../share_p.html.
- 3 Cameron Munter, CEO & President of The EastWest Institute, estimates that President's Trump measures are not fundamentally concern "Muslims or China - it is all about domestic politics." See Aleksandar Miladinović, "Intervju petkom - Kameron Manter: Sećanja na Srbiju - deset godina kasnije", BBC- Srbija, 1 November 2019, <https://www.bbc.com>serbian>lat>balkan-50325131>.
- 4 Melissa March, "Trump's Top China Expert Isn't a China Expert," *Foreign Policy*, March 13, 2017, <https://foreignpolicy.com/2017/03/13/peter-navarro-profile-national-trade-council-donald-trump-china-expert/>.
- 5 On relations between China and the United States see, Henry Kissinger, *On China* (Penguin Press HC, 2011).

of economic interdependence between China and the US has become strong to degree that some see it as “one economy and two systems”.

China has associated its economic progress, of course, not absolutely, with economic globalisation. It has not decreased its interest in strengthening of economic interdependence and developing of multilateralism in global governance but economic ties between China and the world are changing. “China’s dependence on the world economy is relatively declining, and the world’s dependence on the Chinese economy is relatively rising.”¹

The United States has become sceptical towards a further deepening of economic interdependence with China long before its current Administration proclaimed that its great national interest is unilateralism, protectionism and borders.

America is a country that possess a valuable virtue of planning its future and of the world. It was concerned two decades ago what would happen to America if China would become competitive in high value services as it was in production of consumer goods.

Technology consultancy Forrester Research predicted in November 2002 that by 2015, America would lose 3 million jobs in the domestic service industry, and the information technology industry would lead that exodus.

In 2004, Paul A. Samuelson believed Chinese development could endanger not only the existing comparative advantages of America and the EU, but also in the areas where they had a strategic dominance!² In that context is easier to understand what happened to Huawei.

The cost of rupturing of China - USA economic interdependence would have damaging effect on both countries, the world economic order and global economic institutions. We think stressing of that point could make anti- globalisation policies and measures to be less and less accepted over time. To suggest that is to say that an important force behind economic globalisation is a huge tissue of economic interdependence that also protects the world economic order from chaos.

China’s Driving Forces behind Economic Globalisation

China occupies a second position in the economic world order and that requires its participation in the management of international economic relations as it did

1 For a very fine recent explanation of what this could mean, see “China and the world,” *Full report*, McKinsey, June 2019, <https://www.mckinsey.com/“media”/mckinsey/“china”/mgi-china-and-the->

2 See Paul A. Samuelson, “Where Ricardo and Mill Rebut and Confirm Arguments of Mainstream Supporting Globalization,” *The Journal of Economic Perspectives*, volume 18, issue 3, Summer 2004, pp. 135-146.

in 2008 when China significantly assisted in resolving the global crisis and with its growth stabilised the global economy.

China's relatively new pro-globalisation approach was launched in 2013, with the Belt and Road Initiative that is focused on building more economic interdependence between China and the world regions. Here might not be hyper to claim China with the Belt and Road has shown its new role in economic globalisation governance. The BRI stands as a long-term strategy capable to improve economic globalisation through multilateral economic development.

China plans to push for the inclusion of the yuan in its trade and financial relations with the countries along BRI, both as a way to promote the increased internationalization of its currency and increase the yuan's circulation in the global financial system. China's current position in financial globalization is fragile in relation to its role in global trade.

The 2013 Chinese shift towards an initiator, not leader in the economic integration of Eurasia, concerned the United States because of possibility that China's policies reduce American influence in Eurasia, and undermining the local and global balance of power in the 21st century. Therefore, while the BRI routes do not pass through the territory of the United States, they do traverse regions that play a key role in the achievement of American geostrategic and economic aims.

China's discourse on constructing the community with a shared future for mankind is not empty talk on the global future. That new form of global relations does not offer replacement for the economic globalisation but more directions for its evolution.

China initiated and shaped new regional and global financial institution which were not established to be replicas of old global and regional financial institutions but to improve the system for development financing. The Asian Infrastructure Investment Bank (AIIB) and the BRICS New Development Bank are, according to China's plans, drivers of regional and global finance, as well as having potential to support and manage new economic globalization processes in Asia, Europe, Africa and South America.

China's role in the G-20 has been dedicated to improving the negative aspects of global finance, the growth of investment and trade, spurring industrial growth through innovation, and the drafting of an action plan for the implementation of the UN 2030 Agenda for Sustainable Development.

G-20 is unlike traditional groping of states, the real child of financial globalisation capable to hold a central position in addressing the current challenges of economic globalisation from America's war on China to IMF's prediction of a looming new economic global crisis.

China accelerates free trade negotiations on regional comprehensive economic partnership agreements in Asia – Pacific. It works to achieve progress in developing free trade relations with the European Union.

In China's 13th Five-Year Development Plan (2016–2020), China explains its interest to bring the world order stability, multilateralism and interconnectedness in order to improve it. In Chapter 52 “Participate in Global Economic Governance” China plans to help reform and improve the international economic governance system.

Conclusion

From 1978, to the present day, China has been attending to globalisation processes by avoiding overnight change, which means that Chinese reforms and opening up to the world have not followed radical methods as was in Eastern Europe in the 1990s.

The forces of economic globalization and engaging in the market model of organizing the economy have not destabilized China but developed it. The Communist Party of China did not perceive the ideology of globalization as an economic doctrine that provides scientific answers. China has kept the responsibility of the state in the economy but used the main ideas of economic globalization (open economy, free market, global free trade, investment, and privatization) as levers for building development. The state-maintained control over globalization processes.

China has become an influential actor of economic globalisation and perceived as a country that could fill the vacuum in governance of economic globalisation that has arisen since 2017, when the United States' Administration started to support anti-globalisation politics.

China has capacity to lead the process of economic globalisation in the next decade, but it seems reasonable to ask does it reflects China's global diplomacy goal and how does it fit to China's vision for the world order that is based on multipolarity.

Vice President of China Wang Qishan said, “We will see challenges and turbulence in the path ahead. But we have to stick to the principle of peaceful development, and not be shaken in pushing ahead with economic globalisation.”¹

The strategic interest of China is to continue the process economic

1 See Catherine Wong, “Globalisation is Best Way through the Trade War,” *South China Morning Post*, 8 Jul 2019, <https://www.scmp.com/news/china/diplomacy/article/3017667/globalisation-best-way-through-trade-war-says-chinas-vice>.

globalisation and influence on other great powers in order to support new stages of globalization of the world.

In the official documents of the Communist Party of China, the military, and in academic literature, globalization is described not as a Chinese or American project but as a historical and irreversible process of shaping a world in which China is one of the central pieces.

Notes

Economic globalisation is a form of economic relations among countries and should not be equalised with the world order that is strategic relations among big global and regional powers.