1. China's economic transformation in a changing world

I was in Beijing in September 2016 when the Group of Twenty (G20) Summit was held in Hangzhou. I watched the live broadcast of the event on television, and was indeed impressed with the implementation and delivery of the G20. Anyone who still remembers the 2008 Olympic Games in Beijing will never question the capability of the Chinese government in putting on a spectacular performance, especially with lots of international leaders and participants present. The G20 was no exception. Indeed, the organization was meticulous and the performance on that night was genuinely warm and welcoming, making the best use of the natural beauty of Hangzhou. In addition, Hangzhou is also the headquarters of Alibaba, one of the biggest e-commerce companies in the world. Jack Ma, its founder and previously an English teacher, is now a billionaire. Thus, putting on a global event with many world leaders in the headquarters of one of the most successful Chinese businesses was perhaps not coincidental. China appeared to be seizing the opportunity to demonstrate its economic power as well as its engagement with the world economy. More importantly, Xi Jinping, the Chinese President, was also trying to use the opportunity to project China's economic vision to global leaders. In his speech he used four concepts to capture the relations between China and the world economy: creativity, activeness, interaction and inclusiveness. These four elements appeared to be only remotely related to the current global economic slowdown. Nevertheless, collectively, they pointed to much wider Chinese perspectives in trying to bring new Chinese insights to future global economic development.[1]

Yet, a couple of months before the September G20 Hangzhou Summit, another scenario was depicted by Li Keqiang, China's Premier, during the '1+6' round table in Chengdu on 22 July 2016. He reminded the participants that 'China is still a developing country. We cannot shoulder the major responsibilities of the world economy.'[2] There are some meaningful implications behind this speech. Firstly, China does not want to take global economic leadership into its own hands. Secondly, China, nevertheless, will play a proper economic role in the world economy. Finally, if those responsibilities are related to China's national interest and its economic path as a developing country, China will, by all means, share those responsibilities. In other words, there are many areas and relevant scopes of economic activity that China is more than happy to engage in and to work with the world economy.

COUPLING PATH DEPENDENCY AND GLOBAL ECONOMY

Nevertheless, no sooner had Premier Li said that China should not shoulder the major responsibilities of the world economy than the baton of globalization seemed already to be handed over to China in an unexpected manner. Donald Trump, the incoming president of the US after the November 2016 election, had already announced his ‘America First’ policy in his inauguration speech. His slogans of ‘buy American’ and ‘hire American’, according to Martin Wolf, a writer for the *Financial Times*, can be interpreted as ‘a declaration of economic warfare’, which not only cannot help the US economy but also may help create an image of the US as becoming increasingly less responsible for the global economy when its economic interest is at risk (*Financial Times*, 25 January 2017, 13). In contrast, Xi Jinping, the Chinese President, openly spoke of the significance of globalization in his speech at the World Economic Forum in Davos in January 2017. His speech on economic globalization was appreciated by the audience, which particularly wanted the second largest economy in the world to have more commitment to the world economy in the current economic downturn. Xi said:

> The point I want to make is that many of the problems troubling the world are not caused by economic globalization. For instance, the refugee waves from the Middle East and North Africa in recent years have become a global concern. Several million people have been displaced, and some small children lost their lives while crossing the rough sea. This is indeed heart-breaking. It is war, conflict and regional turbulence that have created this problem, and its solution lies in making peace, promoting reconciliation and restoring stability. The international financial crisis is another example. It is not an inevitable outcome of economic globalization; rather, it is the consequence of excessive chase of profit by financial capital and grave failure of financial regulation. Just blaming economic globalization for the world’s problems is inconsistent with reality, and it will not help solve the problems.[3]

Within less than half a year – from Li Keqiang’s modest suggestion of China’s minor role in the world economy to America’s global ‘retreat’ under Donald Trump and Xi Jinping's view on globalization presented in his speech in Davos – the world economic and political order appears to be undergoing a new shifting and reordering. For one thing, China is the world's second largest economy. However, China is also a developing country with very uneven development experiences: coastal areas being highly developed and wealthy whilst some inner cities and provinces are neither especially developed nor prosperous at all. Politically speaking, China is still a single party state under the Chinese Communist Party (CCP) and not a democracy. Yet, Donald Trump's 'America First' policy very easily can be interpreted as the retreat of the US from global leadership. What should China do? Is this a golden opportunity for China to be more proactive in order to succeed the US as a new global economic and political leader? Or, is China not yet ready to take up such a Herculean task?

I will look at China as a unique actor which is different from many other East Asian states or other emerging economies. China's economic development came very late after Deng Xiaoping's open door policy in 1978. Most of the East Asian economies were quite established or in the full swing of growth: Japan, South Korea, Taiwan, Singapore and Hong Kong. Yet, China was at the very beginning of its search for a way out for its economic development. This is why many people tend to ignore or overlook Deng's 'approaches' to economic development, such as 'Cross the river by feeling the stones' or 'It doesn't matter if a cat is black or white, so long as it catches mice.' They merely regard Deng as pragmatic without paying very much attention to the meaning behind the message. Yet, these approaches to Chinese economic growth actually explained the difficulties behind every single step or move as far as economic growth and development were concerned.

Hu Angang, an economist from Tsinghua University, argued that China has been transforming from a planned to a market economy. Yet we should not only consider the reform period after 1978, though it is of course important. Instead, both the first 30 years (from 1949) and the second 30 years (post-1978) of the People's Republic of China (PRC) should be taken into consideration as far as economic development and reform are concerned (Hu 2011, 18–19). There are lots of path dependences behind the economic reform which should not be neglected. They are the characteristics of the Chinese political economy and Deng's economic reform, and the open door policy had to take into consideration these embedded social, economic and political characteristics. In addition, I would like to add one point regarding the importance of the fact that the previous 30-plus years before 1978 were so repressively unbearable. For instance, the Great Famine in the late 1950s and the Cultural

Revolution from 1966 to 1976 practically destroyed the Chinese economy. The open door policy after 1978 opened such an economic floodgate that the drive towards economic development was unprecedented and almost unstoppable. From 1979 to 2013, the average growth rate was 9.8 per cent for more than three decades (Wong 2016, 3). The end of the Cold War in the 1990s did not completely stop China's economic reform. The Asian financial crisis in 1997 also did not directly hit China's economic progress because of its relatively less globalized international finance at that time. The Chinese political economy was like a pendulum. The previous 30-plus years before 1978 pushed it to the far end, if not to the breaking point. When the open door policy was launched and the pendulum began to swing back – as the pendulum had moved too far away from the centre in the first place – it was swinging much further to the other end and nothing could stand in its way.[4]

Also, we need to understand China's economic growth by looking at the empirical evidence. Many conventional wisdoms, theories or ideas from the West may not be sufficient to explain China's unique economic growth pattern. Using another perspective to understand China's economic development, Justin Lin Yifu (former World Bank Economist and now Director of China Economic Institute at Peking University) demonstrated that China has been adopting a dual track system where both the private sector and state-owned enterprises (SOEs) work towards its economic success. For example, Hong Kong, after 1984, helped to invest a lot in the Special Economic Zones (SEZs), especially in Guangdong province. Taiwan's investments are also part of the reason why China was able to develop so quickly and which aided the generation of the economic miracle (Justin Lin 2011, 1–3). Furthermore, after Hong Kong's investment, Taiwan's business (*Taishang*) continued investing in China, resulting in not just economic investment but also technological transfer. Again, many observers who look at China as a state may overlook the Chinese overseas who contributed enormously to China's economic growth with human and physical capital. Therefore, China's economic growth is unique and the resource platform is much wider than that of many other economies.

From the geo-economic point of view, it is more reasonable and natural to place China within the East Asian region because East Asia forms China's natural economic territories (NETs) not just regarding cross-border trade and regional economic interdependence but also due to certain 'pre-existing complementarities' through culture and history (Jordan and Khanna 1995, 433). In that sense, the US alliance system and its economic influence after World War Two must rely on its economic leadership such as the provision of markets for East Asian products and also the presence of the preponderance of military force to stabilize regional discontent. Yet, increasingly, these elements are less able to be shouldered by the US alone. China is a latecomer whose economic development came after Japan's and that of the four tiger economies. Deng learnt from Japan and was especially fond of Singapore's management system. There were enormous learning experiences from East Asia as well as opportunities for economic interaction. Yet, as the most populated economy and the largest in East Asia, China's economic development was and still is affected by the US. The ideological confrontation between socialism and capitalism during the Cold War shaped US foreign policy toward China. The post-Cold War economic competition and trade disputes between the US and China were combined with globalization and China's increasing engagement with the world economy, for example its acceptance as a World Trade Organization (WTO) member in 2001.

China is moving towards deeper economic reform and undergoing major transformation of its economic policy (more innovation driven than manufacturing). It is embarking on a market economy and is also demonstrating some sign of a reordering of the world economic structure. So far, China is still working within the parameters of the mainstream international political economy (IPE) scholars' advice that the Chinese government should not '… take a leadership role, but [to] work toward a kind of collective leadership based on the UN system and the evolving G20 mechanism … They want China to maintain good and stable relations with the United States … and they highlight the immaturity and high-cost nature of Chinese economic development' (Wang and Pauly 2013, 1182). But, as I pointed out at the very beginning of this chapter, the politics of the US is changing quickly under Donald Trump and that may inevitably allow China to play a more important role in the global political economy because of its economic strength. Before Trump, academics in the US were still quite confident about US–China relations and claimed that '… yet, such developments have not set in motion a fundamental restructuring of the world economy and the political and geopolitical de-coupling of China (or any other major state) as a rival to the United States' (Saull 2012, 335).

The G20 in September 2016 and Xi Jinping's Davos speech in early 2017 suggested that China is very likely to be shouldering more and more global economic responsibilities and thus its previous developmental identity may need to change to be more entrepreneurial. East Asian economies, from Japan to the four tigers, were all poster children of the US after World War Two, especially in the 1970s and 1980s. China was stuck in its own political struggle under Mao Zedong. Even before Deng

Xiaoping's Southern Tour in 1992 China's economic reform was still not fully recognized even by its own people, not to mention the regional and global economies. Yet, joining the WTO in 2001, the Olympic Games in 2008 and the Shanghai Expo in 2010 further allowed the world to look at China with a very different perspective. The East Asian region has begun to rethink its previous economic development pattern as well as to recalculate the increasingly more economic influence of China. The US global economic leadership was tested and actually challenged hugely by the 2008–9 global financial crisis. The financial crisis was a wake-up call for China to first launch the four trillion RMB economic stimulus package. For a longer perspective, the 'new normal' and the use of innovation as future economic engines were complementary. The previous development path and the late-latecomer industrial growth model is turning towards a more entrepreneurial style. In other words, China is gradually creating its own economic path with the support of policies from technological drive and innovation. The future economic model is more risky but more autonomous, especially when the US's economic leadership is shrinking.

ORGANIZATION OF THE BOOK

Chapter 2 begins by examining the hegemonic decline of the US. The US was the most powerful nation on earth after World War Two and its economic leadership was followed by many East Asian countries, especially Japan and the four tiger economies. They were all very successful following market liberalism. However, over time, increasingly more East and Southeast Asian economies have become less comfortable with the US leadership because US economic policies do not take into consideration the characteristics of many Asian economies. The 1997 Asian financial crisis was a turning point. Many East Asian economies were disappointed by US responses to the crisis and they began to search for more regional economic integration and cooperation opportunities. The 2008–9 global financial crisis fully unveiled the weakness of the US financial structure. Secondly, the role of the state is looked at, specifically through the understanding of the developmental state theory in the East Asian economy. Although developmental state theory is still being criticized, it was a collective theoretical reassessment of US leadership and the first broad-based theoretical exploration for understanding the characteristics of East Asian economic structure. In the third section, we move on to look at East Asian regionalism, a further regional economic identity building amongst East Asian countries. Finally, the last section examines China's economic transformation, together with its different economic development model, to see if and in what ways that new economic paradigm is shifting towards China whilst pulling further away from the US.

Chapter 3 focuses on the soft power of China. Understandably, soft power has been utilized by Joseph Nye to remind the US to pay more attention to its power as a means to attract other countries rather than using its power to coerce. His idea was developed in the 1990s but somehow was overwhelmed by Samuel Huntington's clash of civilization or Francis Fukuyama's idea of the victory of liberal democracies in *The End of History*. However, the concept of soft power has been rapidly incorporated by Chinese academics and later was adopted by the government as a major foreign policy objective. This chapter will examine the socially constructed soft power evident in China and, further, will use the case of the collaboration of a textbook project *Dongya sanguo di jinxiandai shi* (The Contemporary and Modern History of Three East Asian Countries) between Chinese (through the Chinese Academy of Social Sciences), Japanese and Korean scholars to illustrate the manufacturing of Chinese soft power. When these three East Asian countries were able to interpret their own history, the outcome was more regional than people might have expected. Although they all agreed that even Japanese imperialism was a key part of East Asian history, the US's more than half-century of political and economic cultivation after World War Two was barely mentioned!

Chapter 4 uses the theory between knowledge and power to examine China's potential to move from the developmental approach to the entrepreneurial. 2001 was a very important year for China because it became a member of the WTO in December, ending the battle that began with its application in 1986. To say that China has become more entrepreneurial means that China has become more alert to global changes and international demand, as well as the ability to harness the chance to acquire technology and transform its economy. For example, the transformation of the Greater Pearl River Delta (GPRD) and the rise of Shenzhen as an innovative city has left this area unrecognizable. Once a manufacturing city with enormous factories and cheap labour, Shenzhen is now the 'Silicon Valley' of Southern China. This chapter will also study the success of Alibaba, the e-commerce giant, to illustrate the entrepreneurial spirit of Chinese businesses. In terms of human capital, we will use the case of Suzhou Industrial Park (SIP) and the Dushu Lake Higher Education Town (DLHET) to understand the Chinese experiment with a new higher education model.

For many years, the US has blamed China for the rampant counterfeiting, copying and faking of US products, which has contributed to huge financial losses for the US. More importantly, the fake formula milk scandal in 2008 caused the deaths of many babies and harmed a huge number of others. These two incidents were not isolated but they were particularly significant in pushing the state and society to change and to take intellectual property rights (IPRs) seriously. Chapter 5 begins with some Chinese perspectives regarding IPRs. It further demonstrates the interaction between the international norms and Chinese economic interests in IPRs protection. We will be using US–China IPRs disputes to figure out the role of the US in transforming Chinese IPRs protection. The chapter will conclude by investigating the relationship between innovation and IPRs protection, with a particular focus on the new Chinese intellectual property (IP) regime on web fiction from the internet.

Chapter 6 will study financial globalization and the internationalization of Chinese currency: RMB or yuan. The 2008–9 global financial crisis not only revealed the vulnerability of the global financial system but also generated opportunities for China. This chapter will also explore the potential for Shanghai as the financial centre of China. More importantly, we shall discuss the overall development, characteristics and the questions behind the internationalization of RMB. The world economy very much recognizes China's status as the 'factory of the world'. However, it is a tall order for RMB to be the 'money of the world', at least in the short to medium term.

The global financial crisis of 2008–9 not only revealed the weaknesses of the global financial system but also brought to light the connection between tax havens and global inequality. Chapter 7 will use global inequality as an example to point out the helplessness of individuals in facing global finance. It argues that an equally big financial defence system, for example the sovereign wealth funds (SWFs), is needed to fight against the global financial question. It will illustrate China's 'go out' strategies and see how, and in what ways, Chinese SWFs should be able to help, especially in narrowing the global inequality gap through investment in infrastructure. The chapter will conclude by looking at the two latest grand strategies: the Belt and Road Initiative (BRI) or One Belt, One Road (OBOR) and the role of the Asian Infrastructure Investment Bank (AIIB). Collectively, they help signpost the location and direction of China's entrepreneurship.

To conclude, China's economic development is undeniable. The past three decades were the hyper-growth period. It will move to a more moderate growth with more emphasis on technology, innovation and creativity. In other words, quality growth is the future. China is certainly transforming, and more cooperation and interaction with the world economy lie ahead. Chapter 8 therefore tentatively tries to point out what China should do when facing such global opportunity. The global political vacuum the US has opened up after President Trump was sworn in will certainly be a golden opportunity for China if it wants to be more proactive in becoming the successor of the US in a new global economic and political era. Yet, by so doing China will be moving further away from Deng Xiaoping's economic reform spirit. By shifting the economic paradigm too much and too quickly to China the course of its economic development planning will certainly change. Also, to what extent China wants to be involved in setting the pace and even the future structure of the world economy is an unknown factor. In addition, is the world ready to be led by a developing country with a huge population embedded deeply in Asian culture? These are crucial questions that both Chinese leaders and other leaders of the global economies need to tackle.

NOTES

1. *The Economic Observer* (Editorial), 5 September 2016, 1.
2. The '1+6' round table was attended by leaders of international economic organization, including Jim Yong Kim, President of the World Bank; Christine Lagarde, Managing Director of the International Monetary Fund (IMF); Roberto Azevedo, Director General of the WTO; Guy Ryder, Director General of the International Labour Organization (ILO); Angel Gurria, Secretary General of the Organisation for Economic Co-operation and Development (OECD); and Mark Carney, Chairman of the Financial Stability Board. *South China Morning Post* (2016), 22 July, accessed 22 July 2016 at http://www.scmp.com/news/china/economy/article/1993249/world-should-not-rely-china-lead-global-economic-recovery-says.
3. World Economic Forum (2017), accessed 27 January 2017 at https://www.weforum.org/agenda/2017/01/full-text-of-xi-jinping-keynote-at-the-world-economic-forum.
4. I should thank a student from Russia who took another module from my MA class many years ago. He really pushed me to think hard about China's economic development during the class, and that was part of the answer I came up with in the class. It may not be entirely correct. Yet, it shows some similarities.