1. Introduction to the *Handbook on the International Political Economy of China*®

Ka Zeng

Since China embarked on a course of economic reform and trade liberalization about 40 years ago, the country has transformed from a largely agrarian society to a major economic powerhouse in the world. Sustained and rapid economic growth averaging over nine percent a year through 2016 has made China the second largest economy in the world as well as a major world center of manufacturing activities, trading power, overseas investor, and holder of foreign exchange reserves. The expansion of China’s economic linkages with the rest of the world has not only brought about significant reconfigurations of the East Asian regional economy, but is also exerting a significant impact on the domestic political economies of both developing and developed economies as well as the underlying structure and norms of the global economic system. More importantly, China’s phenomenal economic ascent is taking place at a time of profound changes in the international economic system. The trade war between the United States and China that is still unfolding at the time of writing further highlights the intense competition between the two for global leadership and the potential for conflict arising from China’s unprecedented rise to the center of global economic activities.

These profound changes in both US–China economic relations and in the global economic structure make it particularly timely and relevant for us to reflect on China’s position and role in the global economic system since the beginning of the reform era. How did Beijing manage to open the Chinese market to foreign trade and investment and integrate China into the global economy? What are the scope, reach, and impact of China’s growing commercial activities in areas such as trade, foreign direct investment (FDI), and finance? What kind of role has China been playing in global economic governance? Is China’s leadership in the global economy likely to complement or challenge the existing order? Is Beijing a norm breaker, norm taker, norm shaker, or norm maker in key global economic governance regimes? To what extent do domestic politics and international relations influence China’s foreign economic relations and shape Beijing’s approach to global economic governance?

This volume speaks to these questions, which in turn have important implications for understanding the country’s future trajectory in the global economy. Through an examination of Beijing’s international economic engagement in areas such as trade, investment, finance, sustainable development, and global economic governance, it explores in depth the evolution and consequences of China’s changing role in the global economy. In particular, the volume highlights the following dimensions of Chinese behavior: (1) the processes underlying China’s rising global economic influence; (2) China’s behavior and role in global economic governance; (3) the interests and motivations underlying China’s international economic initiatives; and (4) the influence of politics, including both domestic politics and foreign relations, on China’s global economic footprint. Contributing
Handbook on the international political economy of China

authors review state-of-the-art research in each of the above areas and identify directions for future analysis. As such, this volume represents a systematic attempt to sketch out the scope and reach of China’s global economic activities and identify the drivers of Chinese behavior in the global economic arena. The findings that emerge from this volume should not only inform ongoing public debate about the implications of the rise of China for the global economic system, but should also provide a useful source of reference to scholars, students, and policy-makers interested in the role of China in the international political economy. The following section elaborates on each of these themes in detail.

MAIN THEMES OF THE VOLUME

This section lays out the main themes of this volume, focusing in particular on the four sets of issues identified in the preceding section.

Processes and Interactions

As a handbook on the international political economy of China, an important task of this volume is to convey a concrete sense of the processes leading to China’s integration into the global economy, the scope of its international engagement, and international reactions to the country’s rising influence in the global economy. Some of the chapters in this volume speak to these questions by highlighting China’s growing role in the global trade and financial system.

Part I of this volume provides the context for China’s changing international political economy and outlines the processes leading to China’s phenomenal rise as a major trading nation, made possible at least in part by the substantial liberalization of its trade regime. In Chapter 2, Barry Naughton explains how China’s transition from a political economy environment characterized by export promotion in the pre-2006 period to a net exporter of capital after 2007 has led to substantially different policy foci and interest group coalitions in the two policy eras. Bin Sheng and Xiaosong Wang (Chapter 3) trace the evolution of China’s trade regime from a mixture of import substitution and export promotion in the early 1980s to further integration into the multilateral trading system since the early 2000s, a process that was spearheaded by China’s WTO accession.

Another important development in China’s role in the global economy concerns the country’s emergence as not only a major host, but also home country of FDI, made possible by the transformation of China’s economy from a centrally planned to a market-oriented one and given further impetus by the adoption of the “Going Global” strategy in 1998 and the launching of the Belt and Road Initiative (BRI) in 2013. Part II of this volume focuses on these processes. In addition to outlining the major trends in Chinese inward and outward FDI, this part of the volume explores the impact of FDI on socioeconomic development in both China and the host country, domestic policy and institutional factors that enhance China’s ability to attract FDI, Beijing’s effort to regulate outward investment flows, host country reactions to the opportunities and challenges presented by rising outward Chinese investments, and Beijing’s embracement of bilateral investment treaties (BITs) as an instrument for the protection of both inward and outward FDI.
China’s increasingly important role in global trade and production has additionally brought about significant changes to the global monetary system, leading to increased demand for the renminbi (RMB) as an international reserve currency as well as heightened tensions with the United States over the exchange rate between the dollar and the RMB. Part III of this volume highlights these developments. In addition to tracing the processes leading to China’s integration into the global financial market, this part also examines the progress toward and challenges to RMB internationalization, the evolution of the US–China exchange rate dispute, including the sources of the bilateral trade imbalance, and the rise of sovereign wealth funds as a tool for the Chinese state to engage with global financial markets. Taken together, the above chapters provide a concrete sense of China’s rapid rise to the center of the global trade, investment, and financial systems and the frictions these developments have generated with Beijing’s main trading partners.

**China and Global Economic Governance**

China’s growing integration into the global economy has led it to more actively pursue membership in international economic institutions that serve as the pillars of the post-war liberal international economic system such as the General Agreement on Tariffs and Trade (GATT) and its successor, the World Trade Organization (WTO), the International Monetary Fund (IMF), and the World Bank. How has Beijing’s role in these institutions evolved over the years? To what extent can Beijing be considered as a cooperative player that is generally supportive of these institutions’ main missions and principles? Contributing authors are generally of the view that while Beijing has adopted a rather low-profile and passive approach toward these existing institutions in the early years of its membership, it has gradually stepped up its participation as a result of both its growing economic clout and experience with multilateral diplomacy.

With regard to global trade governance, Marcia Don Harpaz (Part IV, Chapter 15 in this volume) suggests that China increasingly possesses not only the material capacity, but also the will to serve as a leader in the multilateral trading system centered around the WTO. Citing Chinese behavior in the WTO’s Doha Round negotiations, its roles in shaping discussions over issues such as investment, electronic commerce, and intellectual property, and China’s stance toward the WTO’s dispute settlement mechanisms (DSM), Harpaz concludes that China is emerging as a champion of an open trading system, even though Beijing continues to face a learning curve in how to exercise its leadership as well as ongoing difficulties in convincing other members to follow its leadership.

Even in an institution such as the IMF, which has historically been dominated by the United States, China has become increasingly vocal in calling for IMF reform in a way that better reflects emerging markets’ growing weight in the global economy. For example, China has actively pushed for its currency, the RMB, to join the Special Drawing Rights (SDR) basket of currencies and for the more extensive use of the SDR on a global scale. While China’s objectives are not always compatible with those of the IMF, the two sides have increasingly cooperated with each other in a number of key issue areas such as IMF governance reform, the stability of the international monetary system, global development, and issues related to China’s exchange rate and economic reform. Viewing such cooperation as potentially boosting the organization’s institutional clout and legitimacy, the IMF has also become increasingly receptive to Beijing’s growing leadership role and
supportive of its foreign economic policy initiatives (see Chapter 17 by Anton Malkin and Bessma Momani and Chapter 18 by Jue Wang in this volume).

China’s increasingly active role in global economic governance was also seen in other institutions such as the G20 or issue areas such as global climate negotiations. Echoing the findings in Chapter 15, Ren Xiao (Chapter 19) suggests that China has increasingly demonstrated the power and will to promote the G20’s mission of promoting sustainable and inclusive economic growth that mitigates its negative social, political, and economic externalities. Such a growing leadership role was demonstrated most vividly when it was part of the G20 troika between 2015 and 2017, and especially when it chaired the G20 process and hosted the G20 summit in Hangzhou in 2016. As a result of Beijing’s active push, an action plan on the 2030 agenda was adopted by the G20. Even in the area of global climate change where China’s leadership role is likely to face significant challenges due to the demand for economic growth and domestic political and institutional pressures, China has devoted considerable effort to address global climate change in order to promote the sustainable growth of the Chinese economy in the long term (see Chapter 24 by Margaret M. Pearson in this volume). As well, with regard to intellectual property rights, China has taken an increasingly assertive stance due to growing domestic demand for a sound intellectual property system, the need to fend off foreign pressure on China’s intellectual property rights practices and to influence international norms, as well as Beijing’s desire for greater international leadership (see Peter K. Yu, Chapter 25 in this volume).

In addition to its increasingly active role in the above legacy international institutions, Beijing has been pushing for the establishment of new, parallel institutions that increasingly challenge the Western-dominated institutions in recent years. For example, in response to the growing trends toward the so-called mega regional trade agreements such as the Trans-Pacific Partnership (TPP), China has been actively promoting the creation of regional trade agreements such as the Regional Comprehensive Economic Partnership (RCEP) and the development of a set of financial institutions and other arrangements such as the New Development Bank (NDB), the Asian Infrastructure Investment Bank (AIIB), and the Belt and Road Initiative (BRI) in order to foster a China-centric pattern of trade, investment, and infrastructure development in the region. Through a qualitative assessment of the strategic purposes behind the BRI, Wei Liang in Chapter 21 concludes that instead of challenging the neoliberal order, the establishment of such new parallel institutions that exclude the dominant hegemon is more specifically directed at aspects of the US power and preferences. Such institutional innovations should therefore be considered as efforts to complement rather than overturn the existing system.

Overall, contributing authors are generally of the view that Beijing is becoming increasingly active in global economic governance and that its growing economic clout and ability to leverage its financial prowess to influence the policy preferences of its partner countries mean that the country has “the potential to transform the material and ideational context in which” global and regional developments “occur in the future” (Beeson and Xu, Chapter 20 this volume). At the same time, however, it is also important for us to take into account the considerable constraints that China faces in its ability to create an alternative institutional order centered around Beijing instead of Washington, in particular Beijing’s reluctance to assume a high-profile strategic role, the lack of a clear agenda and purposes, and domestic constraints (Mark Beeson and Shaomin Xu, Chapter 20 in this volume). As the United States withdrew from the TPP under President Trump,
Introduction to the Handbook on the International Political Economy of China

and his administration is increasingly resorting to unilateral approaches toward economic negotiations that threaten to undermine the multilateral trading system, the question of whether China can step in and take on a leadership role that is commensurate with its status as the second largest economy in the world thus becomes all the more important.

**China as a Strategic Actor in the Global Economy**

So how can we make sense of China’s evolving role in the global economy? Contributing authors adopt a couple of different approaches to this issue. One approach views China as more or less a unitary actor, with the central government in Beijing engaging in the strategic pursuit of its perceived national interests. From this view, despite the proliferation of societal interests and their growing ability to influence the decision-making process in an authoritarian regime such as China, top leaders continue to possess considerable discretion in defining the country’s foreign policy goals and strategic interests, including those in the economic realm. Previous studies (for example, Blanchard and Ripsman, 2008; Liang, 2002) have pointed to numerous instances where top leaders were able to override domestic pressure to defend what they saw as China’s key national interests.

Following the lead of these studies that adopt a unitary actor assumption, some of the chapters in this volume set out to document the motives behind China’s international economic initiatives. For example, in Chapter 23, Andreas Fuchs and Marina Rudyak provide a thorough overview of China’s foreign aid program, emphasizing in particular how the Chinese leadership has sought to use aid to promote its diplomatic agenda, encourage greater economic cooperation with partner countries, and assist developing countries in achieving their developmental goals. Adam D. Dixon’s detailed account of the rise of the China Investment Corporation (CIC) in Chapter 13 highlights how, as an entity of the state, the CIC has been engaged in activities that facilitate the expansion of Chinese state-owned enterprises in the international market, address the country’s growing need for raw materials, resources, and energy, and increase the returns on accumulated foreign-exchange reserves. In this sense, the CIC serves not purely as a profit maximizing investor, but also as a power resource of the state. Its activities further reinforce the role of the state in shaping market dynamics.

In analyzing China’s international energy engagement (Chapter 8), Philip Andrews-Speed similarly devotes some attention to the motivations of the Chinese government, emphasizing in particular how overseas investment in the energy sector is viewed as a tool for Beijing to assist in the implementation of industrial policy, increase employment and foreign exchange, and enhance China’s diplomatic leverage. Overall, the above chapters suggest that far from being a passive actor, the state has continued to play an important role in shaping China’s global economic activities.

**Domestic and International Influences on Chinese Behavior**

While some chapters in this volume adopt a state-centric view in explaining China’s profile in the international economy, others go beyond this assumption to highlight the importance of both international- and domestic-level factors that influence China’s foreign economic relations. These different levels of analyses allow contributing authors to speak to a number of important questions as China moves to the center stage of
the international economic system. For example, how can we explain China’s gradual and cautious approach to exchange rate reform? Why do China’s free trade agreements include many carve-outs for sensitive sectors and are characterized by a low level of legal obligations (see Antkiewicz and Whalley, 2005; Hufbauer and Wong, 2005)? And what are some of the potential challenges to China’s ability to play a more active leadership role in global economic governance? In order to effectively answer these questions, it is important for us to take into account both the domestic and international contexts in which China operates.

At the international level, contributing authors emphasize the importance of political relations in influencing China’s interactions with its partner countries. For example, Ming Wan and Hong Zhang (Chapter 7) suggest that the evolution of the political relationship between China and Japan has exerted an important effect on bilateral economic relations. Specifically, bilateral political tensions have had a less significant effect on Japanese investment in China than vice versa due to the more substantial investment that Japan has made in China and hence the greater costs of exit for Japanese businesses. In Chapter 9, Axel Berger analyzes the political economy motives behind China’s BITs, arguing that Beijing’s shift from a restrictive to a more liberal investment treaty model after 2008 cannot be explained solely by Beijing’s desire to protect its growing outward foreign direct investment or to promote diplomatic relations, but should also be viewed in light of the imperatives faced by Beijing to reconcile with prevailing international practices with liberal investment treaty provisions. Developments at the international level thus played an important role in influencing China’s bilateral investment treaty design. Yang Jiang’s analysis of China’s free trade agreements (FTAs) in Chapter 16 similarly highlights Beijing’s political interests in fostering political cooperation with its partner countries as a key driver of Beijing’s FTA diplomacy. For example, she argues that the desire to alleviate the concerns of members countries of the Association of Southeast Asian Nations (ASEAN) about the competitive challenge they faced following China’s WTO accession in 2001 represents an important motivation behind the negotiation of the China–ASEAN FTA (CAFTA). The fact that Australia did not enjoy top strategic priority in China’s foreign policy in turn partly explains the slow negotiation process of the China–Australia FTA (ChAFTA). In Chapter 22, Paul Bowles and Brian K. MacLean further identify intra-regional rivalry between China and Japan as an important driver of Asian financial cooperation, concluding that the extent to which the two sides can effectively solve the contest between the RMB and the yen for regional leadership may play an important role in influencing the prospect for more extensive regional financial cooperation in the future.

In addition to international-level explanations, the influence of domestic politics on China’s role in the global economy has also received considerable attention. A domestic politics approach (for example, Kennedy, 2005; Zeng, 2007) emphasizes that the process of foreign economic policy-making in China has become more porous, with business groups, industry associations, bureaucratic actors, and regional interests increasingly able to exert their influence over the policy output. In Chapter 14, Alex (Xingqiang) He adopts such an approach to provide an in-depth analysis of the domestic politics of China’s exchange rate policy, suggesting that bureaucratic politics, interest groups, and top leaders have played an important role in influencing the timing, scale, and output of China’s exchange rate policy. In tracing the process of China’s integration into the global financial market, Anton Malkin and Yu-wai Vic Li (Chapter 10) similarly illustrate how
the complex interplay of domestic forces, including ministries overseeing the financial industry, industry actors, and local financial hubs, has led to a “stop and go” pattern in the process of liberalizing China’s outbound portfolio regime. In her analysis of China’s FTA diplomacy (Chapter 16), Yang Jiang points to the importance of domestic interests, in addition to Beijing’s strategic goals, in influencing China’s FTA negotiations. In particular, she shows that concerns about the competitive pressure that preferential trade liberalization may generate for import-competing groups such as agriculture and services have featured prominently in the Chinese leadership’s calculations regarding FTA negotiations and subsequently influenced the shape of the resulting agreements. Likewise, even though China is increasingly playing an active role in global economic governance, domestic constraints stemming from the incompatibility between China’s global responsibilities and domestic priorities, resistance from vested domestic interests, and institutional inertia continue to exert significant constraints on Beijing’s ability to play a leadership role in global climate change (see Pearson, Chapter 24 in this volume). Therefore, both international and domestic factors need to be taken into account in order for us to make sense of China’s trajectory in the global economic arena.

AN OVERVIEW OF THE CHAPTERS AND THEIR FINDINGS

The book is divided into four main parts, each focusing on a particular aspect of China’s involvement in the international political economy, namely, trade, investment, finance, and global economic governance.

Part I: Trade and the Changing Context of China’s International Political Economy

Part I of this volume provides the context for China’s rise as a major trading nation and its growing integration into the global economy. In Chapter 2, Barry Naughton nicely illustrates how profound changes in China’s involvement in the global economy after 2006–07 have brought about significant changes in its domestic political economy compared to the preceding era. He argues that as the export promotion strategy that characterized the early stages of China’s economic growth has come to an end around 2006–07, the question of how to handle the country’s growing capital account has come to dominate the policy agenda. Such changes in the fundamental policy agenda further led to different patterns of interest group coalitions, with lobbying influence shifting from export-oriented interests toward domestic firms, in particular those in the high-tech sector. They further presented the Chinese leadership with the difficult policy choices of further financial liberalization or leveraging China’s outward foreign investment to enhance the country’s political influence in the global arena, frequently yielding incoherent policy responses by policy-makers.

In Chapter 3, Bin Sheng and Xiaosong Wang examine the evolution and determinants of China’s trade policy during the reform era. They suggest that China’s trade development strategy has gradually evolved from a dual structure that featured the co-existence of import substitution and export promotion and yet was tilted in favor of the former during the 1980–90 period to one that put greater emphasis on incremental trade liberalization in anticipation of China’s WTO membership between 1990 and 2001. In the years
immediately following China’s WTO entry (2002–08), the Chinese government undertook more substantial trade liberalization in order to fulfill its WTO accession commitments. These measures led to rapid increases in Chinese exports, generating heightened trade frictions between China and its major trading partners. Following the global financial crisis in 2008, Beijing took measures to stabilize exports in addition to adopting temporary import protection measures to cushion the impact of the crisis on the Chinese economy. Currently, trade liberalization is viewed as an important means through which to promote the country’s integration into the global economy and Beijing has resorted to multiple tracks, including unilateralism, bilateralism, regionalism, and multilateralism, to achieve this objective. In terms of the determinants of China’s trade policy, Sheng and Wang suggest that despite the continued control of the government over the economy, other actors such as government ministries, local governments, state-owned enterprises, and business associations have gained growing influence over China’s trade policy to resemble interest groups in democratic countries.

**Part II: Foreign Direct Investment**

China’s emergence as a major host country of FDI and its more recent transition to a major home country of FDI provide the backdrop for Part II of this volume. In Chapter 4, Yu Zheng examines the impact of FDI inflows on China’s socioeconomic development; the factors that influence FDI inflows; and the opportunities China faces in the future in attracting and regulating FDI. In terms of impact, Zheng argues that even though FDI may have generated some negative consequences such as growing inequality, it has had an overall positive effect on capital formation, export growth, and firm productivity. He further attributes China’s success in attracting FDI to a combination of locational advantages such as cheap labor and large internal market and an institutional environment favorable to foreign investors. Looking to the future, Zheng suggests that foreign investment will continue to have an important role to play in the Chinese economy despite the challenges that rising labor costs and economic slowdown pose to FDI attraction as well as the competitive pressure that the rise of more technologically sophisticated domestic firms may be exerting on foreign companies.

In light of China’s transformation from a major host to a major home country of FDI, the next few chapters turn to an examination of the drivers and consequences of Chinese outward foreign direct investment (COFDI). In Chapter 5, Jean-Marc F. Blanchard assesses the current state of research on COFDI. Through a survey of the pattern and evolution of COFDI, he finds that COFDI has been driven by the search for markets, resources, and technology that are lacking domestically, that a larger share of Chinese investments has flown to developed rather than developing countries as the conventional wisdom would suggest, and that Beijing has played an important role in shaping COFDI. This chapter further highlights the anxieties COFDI has generated in host countries and assesses the merits of studies of the effect of Chinese investment flows on the foreign policies of recipient countries. Finally, the chapter provides a review of studies of the political economy of COFDI and points out a couple of potential avenues for future research, including the need to organize research on the basis of puzzles rather than topics, be more attentive to some of the limits of the statistics frequently used in COFDI studies, and to offer better conceptualization and treatment of “institutions” in empirical analyses.
The following few chapters supplement such a general overview of COFDI with analyses of COFDI in specific world regions and countries such as Europe and Japan as well as in specific sectors such as energy. In Chapter 6, Sophie Meunier analyzes the reasons for the rapid surge of COFDI in Europe, emphasizing in particular both home and host country conditions that facilitated this development in the past decades. With regard to the drivers of Chinese investment, this chapter suggests that Chinese investors are motivated by the need to acquire technology and know-how, access one of the world’s largest consumer markets, enhance their reputation through brand recognition, reduce risks through portfolio diversification, and circumvent tariff barriers in investing in Europe, motivations that are consistent with those emphasized in Chapter 5. Increasing supply of Chinese investment further coincided with growing European demand for COFDI in order to address issues such as high unemployment, slow economic growth, and high levels of public debt in the aftermath of the euro crisis.

However, at the same time that COFDI in Europe created economic opportunities for both home and host countries, it also brought about a set of new political challenges to European countries. As COFDI represents investment from a less developed economy that at the same time is a non-democratic country outside of the European alliance system, it is increasingly being met with nationalist sentiment that tends to view globalization and “others” in a negative light. In light of such political challenges, European countries increasingly have to contend with the question of how to deal with COFDI. So far, the different policy preferences between those more developed European countries and the less developed ones have prevented them from formulating a unified response, reinforcing the need for the creation of more effective mechanisms for dealing with COFDI at the European Union (EU) level.

Taking a slightly different approach from above, Ming Wan and Hong Zhang analyze the impact of political relations on China’s investment relations with Japan in Chapter 7. A central puzzle of this chapter is that while Sino–Japanese economic relations continued to deepen in spite of ongoing challenges in the bilateral political relationship between 2001 and 2006, the deterioration of political relations after 2010 has exerted a negative effect on bilateral investment relations. Furthermore, this effect has been more pronounced with regard to Chinese investment in Japan than to Japanese investment in China. The chapter explains this pattern in terms of the asymmetry in investment relations between the two countries. As China has become an important part of Japan’s regional production network, Japanese businesses would have incurred costs if investment were diverted from China to other countries due to political tensions. In contrast, not only are China’s investment relations with Japan less established, Chinese investors are also more likely to be subject to regulatory controls that would have made them more likely to take the government policy orientation into consideration when making investment decisions. These findings thus contribute to the existing literature on the role of political tensions on economic relations (for example, Davis and Meunier, 2011; Koo, 2009) by providing a more nuanced account of the incentives that different patterns of investment relations may have generated for business actors.

In addition to examining COFDI in specific geographical destinations, this part of the volume also takes into consideration COFDI in specific sectors such as energy. In Chapter 8, Philip Andrews-Speed analyzes China’s international energy engagement, reaffirming the importance of access to resources, markets, and technology, in addition to wider...
economic policy and geostrategic goals in influencing Chinese investment in the energy sector. Applying a modified version of Dunning’s analytical framework that emphasizes firms’ incentives to seek ownership, location, and internalization (OLI) advantages in their overseas operations, this chapter identifies differences in the motivations and patterns of investment between the extractive resource companies and electrical power industries. While the primary motivations of extractive resources companies in investing abroad are to access primary energy resources, technology and managerial skills and to escape regulatory constraints at home, China’s electrical power industries have mainly sought to develop new markets in their overseas investment activities. The chapter further considers the wide variation across the different electrical power industries, emphasizing how the competitive strength of the firms and the nature of the international market have affected such variation. Besides focusing on the motivations of Chinese firms, this chapter also examines the motivations of both home and host governments as well as the various methods used by Beijing to support such engagements and to maximize firms’ potential to capitalize on their OLI advantages. The application of the OLI framework to Chinese investment in the energy sector thus helps the author to effectively illuminate the complex and distinctive motivations underlying the investment of firms from an emerging economy such as China.

The rapid expansion of COFDI has also accentuated the importance of legal frameworks for investment protection and liberalization. Axel Berger addresses the rising importance of BITs as an instrument for China’s FDI governance in Chapter 9, focusing in particular on the changing motives of the Chinese government with regard to the design of BITs and the choice of partner countries. Specifically, he argues that while the desire to attract inward foreign direct investment played an important role in explaining the negotiation of China’s BITs in the 1980s, the need to preserve legal sovereignty and the gradual and partial nature of China’s market-oriented reforms also prevented the Chinese government from incorporating high-standard investment protection and liberalization provisions such as national treatment and dispute settlement procedures in its BITs during this period. Furthermore, China’s second-generation BITs, most of which were signed with developing countries in the 1990s, need to be viewed in light of the government’s broader goal of promoting both economic and political cooperation with developing countries. Likewise, Beijing’s decision to shift from a restrictive BIT model to a more liberal one featuring stronger procedural and substantive FDI protection since the early 1990s reflected the imperative of staying abreast with the global trend toward liberal investment treaties and to reduce the technical complexities involved in FDI regulation to enhance China’s competitive advantage in FDI attraction. Overall, this chapter underscores the need for us to examine the multitude of motives behind China’s BITs to also take into account Beijing’s domestic and international considerations as well as the influence of prevailing international BIT models in explaining Beijing’s approach to BIT negotiations.

Part III: China and International Finance

While the first two parts of this volume focus on trade and investment-related issues, the third section turns to the political economy of China’s exchange rate, in particular the influence of both domestic and international politics on the exchange rate of the Chinese
currency, the RMB. In Chapter 10, Anton Malkin and Yu-wai Vic Li examine the process leading to China’s integration into global financial markets, tracing the evolution of this process in several phases. From the early to the late 1990s, China’s initial financial market opening was made possible mainly as a result of the emergence of Hong Kong as a major gateway between China and global financial markets, which served to facilitate the inflow of foreign capital into China in the absence of the liberalization of China’s exchange rate or capital control regime. The experimentation with inbound capital liberalization gradually led to the liberalization of outbound capital flows since the early 2000s, with Hong Kong serving as the main offshore financial center and mainland Chinese cities, such as Shanghai and Shenzhen, as the main onshore counterparts. However, this process proceeded rather slowly, featuring a set of stop-and-go cycles as a result of the conflicting interests of domestic actors such as bureaucratic agencies, financial industry, and local governments of financial hubs. Since the mid-2000s, Hong Kong has gradually taken off as China’s first and primary RMB center, a crucial step toward RMB internationalization, and yet this development continued to be punctuated by competing domestic interests as well as emerging concerns about capital flight and currency stability. Overall, this chapter emphasizes the importance of domestic interests, rather than market forces, in driving the process of financial market liberalization in China.

The next couple of chapters shift attention to the prospects of RMB internationalization and the underlying sources of the US–China currency disputes. In Chapter 11, Daniel McDowell traces both progress toward the internationalization of the RMB and some of the more recent setbacks encountered during this process. He argues that while the demand for the RMB both as a store of value and a medium of exchange has been on the rise between 2010 and 2013, the steady depreciation of the RMB vis-à-vis the US dollar since the global financial crisis and the slowdown of the Chinese economy and its global trade between 2014 and 2015 have increased the risks of settling trade in the RMB and reduced its attractiveness as a reserve asset. Viewed in conjunction with some other trends such as the relatively dim prospect of capital account liberalization, growing capital outflows, and rising debt levels in China, this led to the somewhat pessimistic conclusion that the prospect that the RMB will emerge as a reserve currency and challenge the dominance of the US dollar is not particularly bright, at least in the near and medium term.

The RMB exchange rate has been the source of ongoing trade tensions between China and its trading partners, including the United States. In Chapter 12, Yonghong Tu and Dongsheng Di examine US–China currency disputes from the perspective of Chinese scholars. After tracing key points of development in bilateral exchange rate relations, the authors argue that the Chinese government has not engaged in deliberate manipulation of the value of the RMB. Further, the undervaluation of the RMB is not to be blamed for the huge bilateral trade imbalance. Instead, the large US trade deficit with China should be viewed in light of the US position as the largest debtor country in the world, its low savings rate, and China’s critical role in Asian production networks.

Chapter 13 by Adam D. Dixon turns to another relatively new phenomenon in the international financial system – the rise of sovereign wealth funds (SWFs) in China. Through a detailed examination of the creation, development, and operation of China’s primary SWF, the CIC, he suggests that instead of viewing the CIC as a conventional, non-state-sponsored institutional investor aimed solely at maximizing rates of return on accumulated foreign exchange reserves, it is also necessary for us to place its activities in
the context of its connections with the state. As the CIC is a government entity, it also served to promote certain political and economic objectives of the state such as helping to secure the necessary materials and energy resources for the country’s sustained economic growth, facilitate both inward and outward foreign direct investment, and harness the flow of global energy resources toward the Chinese market. This analysis therefore lends support to the view of the rise of SWFs in recent years as reflecting states’ continued interest in and ability to influence developments in global markets and to reassert themselves in the international political economy.

In the last chapter of this section (Chapter 14), Alex (Xingqiang) He turns attention away from China’s interactions with the global financial system to consider the influence of domestic politics on China’s exchange rate policy. Specifically, he argues that despite China’s authoritarian political structure, recent economic reform has opened up the space for domestic actors, in particular bureaucratic actors, interest groups, and top leaders to exert their influence in the making of exchange rate policy. First, bureaucratic politics has played an important role in shaping China’s exchange rate policy. In particular, the People’s Bank of China (PBoC) has gradually emerged as a dominant player in the decision-making process, winning over other ministries and agencies with responsibilities for exchange rate policy-making. The PBoC was instrumental in pushing for market-oriented reforms and managed to successfully push aside opposition from other ranked agencies at crucial junctures. Second, interest groups in the export sector, defined broadly to include not only sectoral interests, but also coastal provinces and officials representing them in the Ministry of Commerce (MOFCOM), have advocated for policies that would work in their favor. These groups were able to gain some influence over the policy-making process due to the importance of the export sector for China’s long-term economic growth and therefore the legitimacy of the Chinese Communist Party (CCP). Ultimately, however, it was the top leadership’s preferences for policy stability that precluded any drastic or risky measures and led to the adoption of a gradual and controlled approach to RMB appreciation. This chapter thus illuminates the growing influence of both government and non-government actors over China’s foreign economic policy, especially with regard to a complicated issue such as exchange rate policy.

Part IV: China and Global Economic Governance

Part IV is divided into three sections, focusing on trade, finance, and development, respectively.

Section 1: China in the global trading system
In addition to focusing on China’s increasingly active involvement in global trade, investment, and finance, this volume also takes into consideration the country’s evolving role in global economic governance. In light of the sustained growth of the Chinese economy, questions have frequently been raised about whether Beijing will leverage its growing economic clout to seek greater political influence in global economic governance and the degree to which its increasingly active participation in global governance institutions may present a credible challenge to the established principles, rules, and norms underlying these institutions. These questions have become even more important at a time when the retrenchment of the United States under the Trump administration seems to be opening
up greater space for Beijing to assert its leadership credentials in the global economy. The chapters in this volume speak to these questions by examining not only China’s behavior in established global governance institutions such as the WTO, the IMF, and the G20, but also its more recent effort to create new institutions outside of the existing institutional infrastructure such as the AIIB.

With regard to China’s behavior in global trade governance, a question that is capturing growing scholarly attention is the degree to which China is asserting a leadership role in the multilateral trading system centered around the WTO. Marcia Don Harpaz takes up this question in Chapter 15, arguing that China has clearly exhibited its will to lead in the organization. This is reflected not only in Beijing’s increasingly proactive rhetoric, but also the growing rate at which it is participating in WTO activities and launching its own initiatives. During the early years of its membership, China generally took a low-profile approach and was reluctant to make further concessions under the WTO’s Doha Round negotiations on the grounds that it had already made extensive market liberalization commitments during its WTO accession. However, as its interactions with WTO members intensified, growing signs of Beijing’s will to lead began to emerge. Harpaz presents evidence from a number of areas to support her contentions. With regard to dispute settlement, she argues that China has evolved from its passive stance early on to increasingly embrace the WTO dispute settlement mechanism (DSM). Harpaz takes such behavior as a sign not only of China’s acceptance of the WTO DSM and its underlying Western legal norms, but also its growing will to lead at a time when the US is retreating from it. China’s growing will to lead, along with its ability to do so, therefore led Harpaz to a relatively positive view of China’s role in the multilateral trading system, even as the country continues to face challenges in convincing other WTO members to follow.

In Chapter 16, Yang Jiang turns to an examination of China’s FTA diplomacy. She argues that China’s FTA decision-making frequently reflects Beijing’s effort to balance its political against economic interests on the one hand, and domestic against international interests on the other. For example, in CAFTA negotiations, the Chinese leadership has initially sought to enhance political and economic cooperation with the Association of Southeast Asian Nations (ASEAN) as well as China’s diplomatic leverage through this initiative, even if it may come at the expense of certain domestic interests such as tropical farmers. However, as the negotiations proceeded to focus on issues that bear more directly on the country’s concrete economic interests, China’s negotiation approach shifted to become more pragmatic to put greater emphasis on the impact of trade liberalization on the country’s broader economic interests. As another example, the difficult and lengthy CAFTA negotiation process should be viewed in light of the resistance of vested domestic interests, particularly those in the agricultural and services sectors, to further market liberalization. Negotiation breakthrough was only achieved when the coming to power of a new reform-minded leadership managed to recentralize power over domestic interests and when China gained bargaining leverage over Australia as a result of the decline in commodity prices. Going forward, Jiang argues that as the priority of China’s economic diplomacy shifted from preferential trade liberalization to the promotion of overseas investment, FTAs will increasingly serve as tools for the Chinese leadership to promote its diplomatic agenda as well as its interests in expanding overseas investment, while the scope of trade liberalization under FTAs is likely to remain limited in the future.
Section 2: China and global financial governance

The next two chapters turn attention from China’s behavior in global trade governance to its role in international financial institutions, in particular the IMF. In Chapter 17, Anton Malkin and Bessma Momani examine the history of China’s engagement with the IMF. Departing from the view that China has been reluctant to directly challenge the existing global economic order, they suggest that China has actively sought to influence the Fund’s core policies and operating procedures, pushing for reform of the international monetary system that would better reflect the growing weight of emerging economies in the global economy and address their concerns about reducing the costs of borrowing in international financial markets and of increasing foreign exchange reserves. This chapter further shows that China’s increasing activism and support for the IMF have yielded concrete benefits for the Fund, leading the latter to be more supportive of China’s key foreign economic policy objectives such as the internationalization of the RMB and the BRI. In tracing the evolution of China’s behavior in the IMF from being a more passive observer to a leading advocate of reform policies, this chapter thus helps shed light on China’s rising influence in the IMF as well as the two-way influence between China and the Fund as an international organization.

Jue Wang takes a somewhat different approach to China’s engagement with the IMF in Chapter 18, focusing more specifically on the factors that influence the variation in China’s efforts to collaborate with the IMF. Through a detailed examination of China’s interactions with the IMF, she concludes that the degree to which the collaboration can generate mutually satisfying results for both sides depends to a large extent on the convergence or compatibility between China’s interests and objectives and those of the IMF. When China’s preferences are in line with those of the IMF, its engagement with the Fund tends to generate results that serve the interests of both parties. In contrast, when China’s preferences are further apart from those of the Fund, it has been less likely to obtain a favorable outcome. The rising influence of domestic actors in China’s foreign economic policy further complicates the prospect of mutually beneficial collaboration.

Overall, findings from the above chapters suggest that instead of overturning the existing institutional structure, China has stepped up its cooperation with legacy intergovernmental organizations such as the IMF in its pursuit of expanded political influence. However, China’s growing involvement in these organizations has also increased the imperative for these institutions to adjust their governance structure and practices in order to better accommodate China’s rising influence. In this sense, both Chapters 17 and 18 speak to China’s increasingly active participation in the IMF and its growing ability to exert incremental influence on the Fund’s operations.

Ren Xiao’s analysis of China’s role in the G20 in Chapter 19 reinforces the above findings about China’s increasingly active role in international economic institutions. As China views a robust G20 as being indispensable to global economic recovery and growth, it has invested considerable resources and sought to mobilize partner countries with shared interests to inject greater dynamism into the institution, taking a number of initiatives to support the institution’s key policy agenda. In particular, as the host of the G20 2016 Hangzhou summit, China took the initiative in setting the agenda, promoting long-term cooperation among G20 members, and making the necessary rules for measuring cooperation. China not only demonstrated the willingness, but also used the power at its disposal to enhance the effectiveness of the G20 in promoting economic growth and
improving global economic governance. One underlying theme of this chapter that is consistent with those of some of the other chapters in this section is that while China has not sought to rewrite the rules of the international economic system, it has been actively involved in efforts to refine the existing rules and mechanisms in a way that reflects its growing influence in the world economy.

If China’s increasingly active participation in existing international economic institutions has led it to gain considerable influence and leverage, then what does Beijing’s recent moves to create new multinational arrangements such as the AIIB or the BRI portend for the liberal international economic order? Mark Beeson and Shaomin Xu take up this question in Chapter 20. While acknowledging the challenges posed by China’s recent institutional statecraft, they nevertheless caution us about the potential constraints and limits on an expanded international leadership role for China. Not only has the Chinese leadership demonstrated the lack of a clear vision about its long-term strategic goals in the international sphere, as seen in Beijing’s reluctance to embrace the so-called “Beijing consensus,” it also faces a number of domestic constraints, such as debate among top elites about China’s future economic development and domestic economic weaknesses, that may limit its ability to project its power in the global arena. Therefore, even if China may have the willingness and even capacity to take on greater global responsibilities, it remains uncertain whether Beijing will be able to effectively leverage its growing economic clout to project an expanded leadership role in the international economic arena.

Wei Liang further examines China’s recent institution-building efforts through a detailed analysis of the evolution of the BRI in Chapter 21. Liang traces the processes leading to the Chinese government’s decision to select Eurasia as the geographic focus and infrastructure as the key policy agenda, arguing that such choices reflect Beijing’s desire to avoid direct competition and confrontation with the United States and the liberal economic order under its leadership. She further shows that the main institutional features of the BRI such as the emphasis on interconnectivity and “win-win” cooperation are not inconsistent with the key governance norms of existing institutions. These developments led her to conclude that the pursuit of the BRI and the exclusion of the United States from it should be viewed only as an attempt to challenge US dominance and its efforts to constrain Chinese power instead of an explicit effort to overturn the existing liberal international economic system and its underlying principles.

In Chapter 22, Paul Bowles and Brian K. MacLean turn from consideration of China’s behavior in economic cooperation at the global level to analyze its role in regional financial cooperation. They argue that both the Asian Financial Crisis (AFC) of 1997–98 and the Global Financial Crisis (GFC) of 2008 have provided much of the needed momentum for regional financial cooperation. In this context, China has come to view regional financial engagement as a valuable means for enhancing its own economic and political power in the region and has steadily increased its support for regional initiatives such as the Chiang Mai Initiative Multilateralization (CMIM), the Asian Bond Fund (ABF), and the ASEAN+3 Macroeconomic Research Office (AMRO). However, despite recent progress toward regional financial cooperation, the prospect of the deepening of cooperative ties in the future will also depend on the degree to which China and Japan can effectively address their competitive relationship to create the conditions favorable to the emergence of a more coherent and encompassing regional financial architecture. Furthermore, while China has played an increasingly active role in these recent developments, its other
initiatives such as RMB internationalization and the AIIB have paradoxically negatively impacted on regional cooperation. As such, this chapter nicely illuminates both the opportunities and challenges involved in China’s ability to push for greater financial cooperation at the regional level.

Section 3: China and international development

The last three chapters of this volume consider Chinese behavior with regard to a set of sustainable development issues such as aid, intellectual property rights, and climate change. In Chapter 23, Andreas Fuchs and Marina Rudyak focus on the motives behind China’s rising foreign aid activities, suggesting that Chinese aid activities are broadly driven by three sets of considerations, specifically: (1) political considerations about promoting friendly relations with partner countries, fostering recognition of the “one China” principle, and enhancing Beijing’s overall diplomatic agenda in order to create the conditions favorable to China’s rise in the international arena; (2) economic motives related to expanding market access for Chinese firms and securing access to the natural resources necessary for the country’s domestic economic development; (3) developmental and humanitarian concerns about promoting economic development, providing relief to natural disasters and addressing public health concerns as well as other humanitarian crises in developing countries. This chapter thus reveals the complex and intersecting motives behind China’s growing international aid activities.

In Chapter 24, Margaret M. Pearson examines China’s participation in global climate change negotiations, emphasizing in particular the constraining influence of domestic politics such as the economic interests of firms and local governments on Beijing’s approach to global climate cooperation. While the Chinese government has pushed for the adoption of policies designed to increase energy efficiency, reduce carbon emissions, and promote clean energy industries, the challenges of shifting the Chinese economy away from one highly reliant on energy-intensive heavy industries to a new growth model that emphasizes cleaner energy sources place important constraints on Beijing’s ability to realize its climate change policy goals. Local officials’ vested interests in protecting industries that represent a main source of jobs and incomes and the well-known problems of policy implementation in China’s decentralized authoritarian structure further reinforce the above challenges. Consequently, even though China is poised to take on a greater leadership role in global climate change governance, the salience of economic considerations in China’s climate change policy, along with domestic political and institutional dynamics, may have increased the difficulty for Beijing to assume a more proactive leadership role on the global stage.

In the last chapter (Chapter 25), Peter K. Yu examines China’s involvement in the global intellectual property rights regime. He argues that while China has exhibited a wide range of behavior in its engagement with global intellectual property rights norms, taking up roles as diverse as a norm taker, norm breaker, norm maker, and norm shaker, it is gradually taking a more assertive approach to more proactively make and shape norms. This chapter further examines China’s recent efforts to engage intellectual property rights norms in its trade initiatives such as its push for free trade agreements, the RCEP and the BRI, suggesting that it is far from clear what kind of role China will assume in the international intellectual property regime in the future. This question will remain of considerable importance at a time when intellectual property rights has emerged as a major issue in the recent US–China trade conflicts.
CONCLUSION

At the time of this writing, the post-war liberal international economic system has come under enormous strain with the dissipation of the domestic consensus necessary to sustain the United States’s commitment to the liberal international order (Stokes, 2018). With regard to China, the view has begun to emerge within the United States that the integration of China into the global economy has not always worked to the advantage of American businesses nor brought about meaningful political change within the country (Farley, 2018). The ongoing US–China trade tensions thus reflect at least in part growing frustrations with the inability of past US policies to effectively deal with the rise of China, in addition to concerns about the competitive challenges that China poses to both US manufacturing industries and high-technology sectors (Salam, 2018). In this context, a number of important questions arise regarding China’s future trajectory in each of the areas mentioned above.

With regard to trade, recent moves by the US to resort to tariffs as a main policy tool for addressing the perceived unfair trade practices of its trading partners has posed a major challenge to China’s export-oriented growth model, raising the important question of how the Chinese leadership could adjust to a radically different external environment to sustain the growth of exports as one of the main drivers of China’s economic growth.\footnote{In the area of investment, Chinese investment will likely face stricter screening and more severe restrictions in the United States, as the Trump administration may avail of the authority available to the president under US law to tighten restrictions on Chinese investment in sensitive sectors of the US economy.\footnote{These developments point to the need to direct even more attention to foreign reactions to Chinese investment as well as to the potential impact that Chinese investment may have on governance models and political coalitions in the host country. With regard to monetary relations, whether the ongoing trade war between the US and China will spill over into the monetary sphere, leading to heightened tensions in bilateral financial relations and how this may affect the external environment for RMB internationalization and Beijing’s incentives to pursue such a course would merit close analysis.}}

Against the backdrop of declining support for the liberal economic order and growing US–China economic competition, the question of China’s future orientation to global economic governance will be of considerable interest. The findings from this volume suggest that instead of seeking to overturn the international order, China so far has actively cooperated with other member countries to support the goals and objectives of major international economic institutions. In other words, China’s existing approach represents more of a reformist effort that supplements rather than threatens to supplant the global liberal order. However, as the US shift from multilateral to bilateral or unilateral approaches may have enhanced the incentive for Beijing to embrace new institutional arrangements, what kind of role China will play in the future is far from certain. Will China continue to support a liberal order in which the US leadership role is less decisive? Or will it take advantage of the opportunities left open by the US retreat to forge coalitions in support of an alternative order centered around Beijing rather than Washington? What will likely be China’s coalition-building strategies and the incumbent powers’ counter-strategies? If, as Ikenberry and Lim (2017) have pointed out, China’s strategic choice will likely feature a mixture of cooperation and opposition, then greater attention
Handbook on the international political economy of China

to the strategies and motivations of Chinese leaders as well as the constraining influence of both domestic and international politics may be needed for us to make sense of these and other important questions pertaining to Beijing’s policy choice and the future of global economic governance.

NOTES

* The author would like to thank Axel Berger, Jean-Marc F. Blanchard, and Wei Liang for their comments on earlier versions of this chapter.

1. It is possible that Beijing may resort to a combination of policies, including further trade liberalization with other trading partners to reduce reliance on the US export market, currency devaluation, and domestic policy tools to dampen the effect of the trade restrictions imposed by the United States (Domm, 2018; Mason and Patton, 2018).

2. For example, the Trump administration has reportedly sought to tighten restrictions on Chinese investment under the International Emergency Economic Powers Act (IEEPA) (Jeydel and Egan, 2018).

REFERENCES