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China's economic strategy in Asia

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Abstract

Purpose – The purpose of this paper is to study key economic strategies in Asia laid out by the Chinese Government since Xi Jinping became the General Secretary of the Central Committee of the Communist Party of China.

Design/methodology/approach – The paper is composed of six parts. The first part analyzes China's Asian trade strategy with a focus on the free-trade agreement. The second part elaborates the Asian finance and currency strategy with the core being the regionalization of RMB. The third part introduces China's newly proposed Belt and Road Initiative (B&R). The fourth part deals with the China–USA economic relationship with a view to China's economic strategy in Asia. The fifth part explains China's domestic economic policy which forms the basis of the Asian Economic Strategy.

Findings – A marked change has taken place in China's economic strategy in Asia, namely, giving more consideration to how to offer more public goods to the region. This is natural as China's economic power is developed to a certain level and it is highly related to China's attempt to growing its economic influence in this region. China believes that the B&R Initiative and Asian Infrastructure Investment Bank are both public goods China has provided to Asia. China's economic strategy in Asia demonstrates that China, as a rising power, though faced with domination of established power and the original regional economic rule system, still promotes the cooperation, integration, participation and development of this region. In general, China's economic strategy in Asia offers an alternative for countries in this region so that Asian countries can better safeguard their rights amid China–America competition, and a new Asian economic order can be better built.

Originality/value – The paper contributes to the researched area of China's economic strategy in Asia by comprehensively elaborating its trade, money, B&R Initiative and so on. This paper also shows the major challenges of China's economic strategy in Asia and therefore is helpful to fully understand China's economic statecraft.

Keywords Asia, free-trade agreement, RMB, Regional economic order

Paper type Research paper

China's peaceful rise is one of the most important international events in the twenty-first century. The foundation of China's peaceful rise lies in its economic power. China's growing economic power is key to the growth of its military power, technological power and cultural power, etc. The influence of China's economic power is uneven around the world. Regionally speaking, China's economy has its most influence upon Asia. With China's increasing economic power, Asian economic pattern has kept being reshaped and altered, bringing about new changes in the economic pattern. With China's economic rise and expansion of its economic influence in this region, countries in other regions, especially the USA, are adjusting their Asian-Pacific strategies to better safeguard their geopolitical economic, political and security interests. Against this backdrop, China needs to formulate its regional economic strategy on the basis of the regional economic changes so as to consolidate China's economic advancement interests, maintain a peaceful and stable environment in Asian region, and create strategic security interactions. This can help improve China's strategic superiority in Asian-Pacific region, and thus shape an economic order favorable to China and the region as a whole.

The paper studies key economic strategies in Asia laid out by the Chinese Government since Xi Jinping became the General Secretary of the Central Committee of the Communist Party of China (CPC). The paper is composed of six parts. The first part analyzes China's Asian trade strategy with a focus on the free-trade agreement (FTA). The second part elaborates the Asian finance and currency strategy with the core being the regionalization of RMB. The third part introduces China's newly proposed Belt and Road Initiative (B&R). The fourth part deals with the China–USA economic relationship with a view to China's



economic strategy in Asia. The fifth part explains China's domestic economic policy which forms the basis of the Asian Economic Strategy. The sixth part sums up the major challenges facing China's Economic Strategy in Asia[1].

1. Expanding and upgrading the Asian FTA network

The foundation of China's Asian Economic Strategy lies in the establishment of a regional trade network system conducive to the regional economic integration, which requires China to expand and upgrade Asian bilateral and multilateral FTA network in which China participates. In 2007, China proposed to "implement free-trade zone strategy and strengthen bilateral and multilateral trade cooperation[2]" for the first time. The third and fifth plenary session of the 18th central committee of CPC has further proposed to accelerate the implementation of the free-trade zone strategy based on the neighboring regions and to form a top-notch free-trade zone network facing the entire globe (Ministry of Commerce). During the 23rd APEC Informal Leaders meeting in 2015, President Xi Jinping has pointed out that China needs to accelerate the establishment of Asian-Pacific free-trade zone to boost the regional economic integration[3].

So far, China has signed 14 FTAs with 22 countries and regions, most of which are in Asian-Pacific region, covering 15 Asian economies including Pakistan, 10 members of ASEAN, Republic of Korea, Hong Kong, Macao and Taiwan.

As for China, Asia is the most energetic market in the world. Establishing free-trade zones can enhance the communication among countries and promote the development of global value chain, exerting a positive impact on the commercial environment and opportunities of this region (Das, 2013). At the current phase, the main orientation of China's Asian-Pacific free-trade zone strategy is to expand and upgrade the bilateral FTAs, construct a trade rule system suitable for China and the developing countries in this region and accomplish the RCEP negotiation sooner at the same time.

First, expand the Asian bilateral FTA network. On one hand, the WTO system has encountered multiple challenges in recent years. The various regional preferential trade agreements have kept cropping up, weakening the non-discriminatory principle of WTO and affecting the interests of the countries outside the region. To avoid discrimination and marginalization, China has taken the regional and bilateral FTA as a complement to the multilateral agreements actively engaged in the process of the Asian regional integration. On the other hand, huge differences in politics, severe antagonism in security and geographical distance have made Asia come short of the European-style foundation of regional integration (Yunling, 2015). The gaps in economic development and culture, as well as territorial disputes among Asian countries have led to great difficulties in the regional FTA negotiations. By contrast, bilateral negotiations are relatively easier due to their flexibility, strong controllability and thorough consideration of respective national conditions. Reaching several bilateral agreements can promote consensus, undermine divergences and deepen the cooperation, leading to the regional economic integration. It is on this basis that negotiation process in regional agreements can be facilitated.

When selecting trading partners, China, based on the features and market scale of each economy and how much it can promote economic reform, takes into consideration the factors including the political, security and diplomatic factors to expand network step by step with focal points. On one hand, the labor-intensive and low-end manufacturing industries in China no longer enjoy advantages from the increasing production costs, and should be gradually transferred to Asian countries with low labor costs along the B&R. On the other hand, since China now is deepening its economic reform, accelerating industry upgrading and implementing supply-side structural reform, the FTA network of China must also place emphasis on the developed economies in Asia. The key countries that China wants to sign FTA with are Asian developing countries including Georgia, Maldives and

Gulf Cooperation Council (GCC) countries. The key agreement signed with the developed countries in Asia is the China–Japan–South Korea FTA. China has signed a high-level FTA with South Korea but China still holds many divergences with Japan. With its great influence in Asian-Pacific, Japan enjoys leading competitive edge in high-tech fields such as electronics and automobiles. In 2016, the combined GDP of China, Japan and South Korea account for 22.8 percent of the world's GDP total (UNCTAD Statistics, 2018). Any breakthrough in FTA will greatly improve regional integration of East Asia. The three countries are each other's major trade partners with complementarity and their own competitiveness in economic structure which can help boost the export of domestic products, the local market competitiveness and the international competitiveness, and help countries climb up the global value chain.

Second, upgrade the current Asian FTA rules. After the Second World War, the USA has widely used its dominant power of rules to establish an international system beneficial to itself and constantly changed the trade and investment standards to achieve monopoly and expand its national interests. For instance, the TPP embodies core interests of the USA, attempting to make a new generation of trade and investment rules by exporting its own regulations to other countries. Compared with the USA, China is unable to lead the making of rules of international economic and trade system. China still has a relatively wide gap with the western countries in SOE competition neutrality, labor, environment, intellectual property and service trade, resulting in tough progress in international economic cooperation including the Sino–US BIT negotiation. Developed economies including the US often use their advantages in rules to press China in an attempt to weaken China's competitive advantages as much as possible by non-neutrality international rules made by them. Therefore, despite increasing the number of Asian-Pacific FTAs, China also needs to improve the current FTA standards, further the openness of the Chinese market and create a more open and convenient business climate. It is not only an inevitable result of the pressures from the western countries, but also an initiative move complying with the Chinese deepening reform and consistent with the overall and long-term goal of the reform.

Third, endeavor to achieve breakthrough in RCEP negotiations at an early date. Accomplishing RCEP as soon as possible is the focal point of China's current Asian FTA negotiations. So far, substantial progress has been made in RCEP negotiation with substantial advancement in the traditional fields, rapid progress in e-commerce, clause-by-clause negotiation in economic and technological cooperation and SMEs. All parties have reached a preliminary consensus on tariff concession pattern, rules of origin, customs procedure and trade facilitation, and submitted initial bids for cargo trade and service trade and issued negative lists, but still disputed on investment, intellectual property and service trade such as communication and finance. More importantly, the accomplishment of RCEP negotiations depends on politics. Without mutual political trust among the major economies, expected progress and outcome of the negotiations can hardly be achieved. At present, all the members of RCEP are promoting the negotiations and wish to yield outcome as soon as possible. China should join all the parties in the spirit of equal participation, thorough consultation and common prosperity, holding firm to openness and inclusiveness with flexibility to accelerate RCEP negotiations and to make breakthrough as soon as possible, and jointly building a regional cooperation framework of openness, inclusiveness, balance and shared benefits.

2. Accelerating the RMB regionalization process

Accelerating the RMB regionalization is another important part of China's Asian Economic Strategy. More specifically, it is the financial core of China's Asian Economic Strategy. There will always be a gap in China's economic influence in Asia if RMB cannot play the role as one of the key regional currencies in Asia. Even though RMB has made outstanding

progress in Asian regionalization as an international currency with some functions, yet it still cannot be used freely in Asia. China needs to seize opportunities to promote the RMB regionalization in Asia so as to elevate the regional influence of RMB.

First, expand the RMB cooperation network in Asia-Pacific. By the end of 2015, bilateral agreements on currency swap have been signed with 33 overseas central banks or monetary authorities (People's Bank of China, 2016a). Among the economies that signed the bilateral currency swap agreements, more than half of them are in Asia. South Korea is the first country which signed bilateral currency swap agreements with China. The bilateral currency swap agreements have laid a solid foundation for the RMB regionalization and can further promote the RMB internationalization as well as its influence in Asia. China should further expand the RMB cooperation network in Asia-Pacific on this basis. Apart from the bilateral currency swap, China has also set-up offshore trading hubs of RMB in Hong Kong, Singapore and South Korea to increase the use of RMB in Asia.

In addition to the bilateral currency swap and offshore trading hubs, the RMB regional cooperation network also includes the multilateral currency cooperation in Asia, in which the most important one is the expansion of Chiang Mai Initiative. The Chiang Mai Initiative is a new regional financial cooperation mechanism for maintaining the regional financial stability initiated by ten members of ASEAN and China, Japan and South Korea with a fund of \$120bn. After the financial crisis broke out in 2007, the Asian countries have decided to upgrade the Chiang Mai Initiative to Chiang Mai Initiative Multilateralization (CMIM) in order to enhance resilience of Asia against future financial crisis. The total fund of CMIM implemented in July 2014 increased to \$240bn, in which China's contribution (including Hong Kong) reached 32 percent, making China one of the largest contributors along with Japan.

Second, seize the opportunity of RMB inclusion into the Special Drawing Rights of IMF and expand the RMB influence in Asian-Pacific. Endorsement by an international financial mechanism can justify the international status of a currency. On November 30, 2015, RMB joined the SDR of IMF as a new basket currency with a weight of 10.92 percent in the basket, a decision that came into effect on October 1, 2016 (People's Bank of China, 2016b). It is a milestone in the process of the RMB regionalization and internationalization which has not only consolidated RMB's status in valuation and settlement as well as facilitated the use of RMB in Asia, but also made RMB more attractive and boosted the confidence of Asian-Pacific countries in the RMB internationalization so that they will include RMB into their foreign exchange reserves, thus contributing to the course of RMB's regionalization and internationalization.

Third, strengthen regional monetary institutions. First, emphasizing the role of the Asian Infrastructure Investment Bank in support of the rise of RMB. Since many founding members of AIIB are Asian-Pacific members, RMB should be used to set-up a financing platform for Asian countries in the infrastructure construction funded by AIIB. Second, enhancing the monetary cooperation of BRICS mechanism, including advancing settlement of local currency under the multilateral framework, setting up new development banks and foreign exchange emergency reserves of BRICS (Li, 2016) and introducing them to more developing countries and emerging economies in Asia-Pacific. Third, improving the width and depth of monetary cooperation between SCO members, promoting the establishment of SCO Development Bank. Fourth, improving the institutionalization of East Asian monetary cooperation. East Asian countries have close ties in economy and trade. The economic aggregate of China, Japan and South Korea accounts for more than one-fifth of the globe. The deepening of the three countries' monetary cooperation can not only lower the transaction cost and contribute to regional financial stability and security, but also open up a huge space for the RMB internationalization.

Fourth, broaden the path of the RMB's regionalization coordinating with B&R construction. Besides initiating founding AIIB, a unilateral financial institution called Silk

Road Fund was set-up as a financial platform for infrastructure construction meanwhile an important carrier for RMB is going out. The B&R Initiative has been responded actively by countries along the route since proposed, continually expanding the regional space of cooperation. Following the connectivity of more countries infrastructures, the content of economic and trade cooperation will be further deepened as well. Monetary cooperation should be established with more countries in the region by this platform to promote the cross-border trade settlement and use of RMB, consolidating RMB's status as central currency in the relevant region and accelerating the regionalization of RMB.

3. Developing and implementing B&R Initiative

The B&R Initiative is China's most important international economic cooperation initiative at present, covering Asia and taking this region as the top priority. The regional background of B&R Initiative is that since the momentum of the Chinese economic development has brought some strategic pressure on Asian neighboring countries, they are taking to coping strategies on the Chinese economic diplomacy to intentionally alleviate the unbalanced dependence on China, affecting the effects of China's regional economic strategy (Gao, 2015). Proposing B&R Initiative is a great strategic adjustment by China to respond to the changes in the political and economic situation at home and abroad, and break the dilemma of a major power rising and developing, which is significant in terms of geopolitics and economy (Li and Li, 2015).

Thanks to the proposal of the B&R Initiative, the trade volume of China and countries along B&R in 2016 was RMB 6.3 trillion, an increase of 0.6 percent. The export is RMB 3.8 trillion, an increase of 0.7 percent, import is RMB 2.4 trillion, an increase of 0.5 percent, and the Chinese direct investment on countries along B&R is \$14.5bn counting 8.5 percent of Chinese outbound investment in total. Newly signed project contracts amount with countries along B&R is \$126bn, an increase of 36 percent. Meanwhile, investment from countries along B&R in China has newly set-up 2,905 enterprises, a year-on-year increase of 34.1 percent, with an investment of \$7.1bn in real term. With a background of lower global trade, Chinese trade and global FDI flow compared with 2015, the B&R strongly drives the stability and development of China's and the world's economy as an important channel of international cooperation and more public goods for countries along the B&R, as well as a good platform for emerging economies and developing countries to be engaged in the globalization ease the imbalance in the global development and enhance the international governance.

The geographical core of B&R is Asia, which embodies in two aspects as follows. First, China proposed six major economic corridors as the core support to B&R Initiative: China–Mongolia–Russia, New Eurasia Land Bridge, China–Central Asia–West Asia, China–Indochina Peninsula, China–Pakistan and BCIM. These six major economic corridors have become the strategic pillar as well as the important contents of B&R. Second, many mechanisms of B&R lie in the Asian region. Broadly, there are cooperation mechanisms of ASEAN plus China, Japan and South Korea, RCEP and FTAAP. Next there are economic cooperation mechanisms of China+ASEAN, SAARC (South Asian Association for Regional Cooperation) and GCC. Smaller ones include China proposed Great Tumen River Area, Lancang-Mekong Area, Mount Altai Rim Area and some cross-border regional cooperation, etc.

In Asia, the emphasis of China's B&R Initiative comes in five aspects including policy coordination, facility connectivity, unimpeded trade, financial integration and people-to-people exchange.

The first one is the policy coordination among the Asian countries. China proposes that all countries have thorough communication on economic development strategies and countermeasures first, coordinating on plans and measures to advance regional cooperation, laying the legal and policy foundations for neighboring and regional economic

cooperation development. Policy coordination should be in the first place because it is the premise of pragmatic cooperation on all aspects as well as the important assurance for co-building B&R. Indeed there are always some misunderstandings from the outside toward B&R. For instance, some believe that the B&R is a Chinese version of Marshall Plan, or an embodiment of Chinese neocolonialism in Asia. These misunderstandings, which go against the advancement of B&R, need to be eliminated by effective policy coordination.

The second one is the facility connectivity in Asia. The Chinese Government used to propose road connectivity instead of facility connectivity at the beginning of raising the strategic concept of B&R. However, in the later Chinese official documents on B&R, the phrase of road connectivity has been changed into facility connectivity. Compared with the former one, facility connectivity has a larger extension including road infrastructure as well as information infrastructure and electricity infrastructure, etc. Strengthening infrastructure construction in Asian countries to promote transnational and cross-regional connectivity is the prior direction of cooperation in B&R Initiative. The Chinese Government encourages Chinese companies with competence and reputation to conduct infrastructure constructions of railways, highways, ports, electricity and telecommunications in the countries along the B&R, promoting regional connectivity and benefiting large population. The establishment and improvement of cross-border transportation infrastructure can contribute to a transportation network connecting East Asia, West Asia and South Asia, facilitating economic development and people-to-people exchange for all countries.

The third one is the unimpeded trade inside Asia. Asian countries have huge potential in trade and investment cooperation. The Chinese Government believes that Asian countries should make proper arrangement on issues of trade and investment facilitation, removing trade barriers, lowering the costs of trade and investment, improving the speed and quality of regional economic cycle for mutual benefits and win-win results, so that economic growth potentials in all fields in all the countries can be achieved. The building of unimpeded trade includes port operation, international customs clearance, reloading, bridging and connection of multimodal transport, simplifying customs clearance and inspection and quarantine, lowering tariff and non-tariff barriers and removing obstacles against cross-border flows of production factors. Measures mentioned above can facilitate bilateral or multilateral trade and investment, improving the livelihood welfare of local people along the route. Under a climate of rising de-globalization and trade protectionism, unimpeded trade is conducive to strengthening an open regional economic system in Asia to promote the overall economic welfare for Asian countries.

The fourth one is the financial integration in Asia. Asia as a whole lacks sufficient capital for the connectivity of infrastructure. Therefore, China underlines the issue of fund supply in Asia. The Chinese Government adopts various measures to fully wield domestic capital resources such as governmental official development assistance, developmental finance, policy finance and commercial finance to jointly driving the construction of B&R financing mechanism (Zhou, 2017).

The fifth one is the people-to-people exchange among the Asian countries. The B&R Initiative cannot be done without the understandings and supports from the Asian people. The social foundation of B&R Initiative lies in friendly exchanges, mutual understandings and traditional friendship among the people in all the Asian countries. The people-to-people exchanges broadly cover communication and cooperation in several aspects including education, culture, sports, tourism and social insurance, aiming to build emotional ties by deepening mutual comprehension and provide psychological support for regional cooperation. Besides, people-to-people interactions among the Asian countries can not only deepen mutual understandings and friendship, but also promote the trade and investment in the region (Hu and Zheng, 2015).

In general, the B&R Initiative has increasingly become the core of China's Asian regional economic strategy. If advanced smoothly, the B&R will contribute to the regional integration of Asia, boosting to realize the Asian Community of Shared Interests and Common Destiny proposed by President Xi Jinping, achieving mutual benefits and win-win results in interdependence, conducive to shaping a stable and strategic neighborhood for China's peaceful development.

4. Promoting stable development of Sino-US economic and trade relations

The USA always has a considerable influence on China's Asian Economic Strategy. Particularly since the US President Donald Trump came to power, Trump's foreign economic policies of Fair, Protection and Reciprocal that widely divergent to an open and free Asian regional economic system proposed by China, would cause direct harm to the Chinese economic interests. Therefore, the important part of China's Asian Economic Strategy is to stabilize Sino-US economic and trade relations in order to maintain a generally open, free economic system in Asia.

First, highlight the importance of Sino-US economic and trade relations and propose cooperative settlement to trade disputes. The Sino-US economic and trade relations is an important part of the Sino-US relations. In 2016, the Sino-US bilateral cargo trade volume reached \$519.61bn, with a bilateral service trade volume of more than \$110bn. In recent 10 years, the annual average growth rate of the US export to China has been 11 and 6.6 percent vice versa (Bureau of Economic Analysis, US Department of Commerce, 2018a). The US commodity export to China has created at least 678,000 jobs for the US, the service export to China created 273,000 jobs for the US in 2014 (Shen, 2017) meanwhile the US transnational corporations hired 2.01m employees in China (Bureau of Economic Analysis, US Department of Commerce, 2018b). Following the rapid development of Chinese economy, the Chinese capital has been going abroad with increasing investment in the USA year-by-year. In 2015, the Chinese investment in the USA was \$15bn in total covering 42 states in America, crossing 362 congressional districts, bringing 13,000 jobs for the USA. So far the Chinese investment in America has brought about more than 90,000 jobs for the USA (Hanemann *et al.*, 2016). In 2016, the Sino-US mutual investment added up to \$170bn, yet huge potential still exists in mutual FDI of both parties. Besides, China holds massive US national debts amounting to over 20 percent in total (Treasury International Capital System, 2018).

However, the Trump Administration focuses more on the negative side of the Sino-US economic and trade relation, believing that China is the largest source of the US trade deficit, as well as the largest competitor to the US manufacturing and even the key reason for the USA's relative decline in economy in recent years, expecting to seek more economic interests by pressing China. China is keenly aware that a stable development of Sino-US economic and trade relations at the current stage is an inevitable policy option. China should focus on the interdependence of two countries' economy and trade, pointing out that cooperation benefits both while confrontation brings only hurt (CPC News Network, 2015). As for the imbalance in Sino-US trade, both parties should work together to enhance communication and collaboration, promote consensus and settle disputes, driving stable development of Sino-US economic and trade relations.

Second, strengthen the bilateral economic and trade cooperation at all levels. On the local level, China and the USA should continually deepen their local economic cooperation, resorting to various effective channels like China-USA Governors Forum to connect the local SMEs of both countries, creating more job opportunities and output value (Zhen, 2016). On the bilateral level, markets should be further opened except for areas related to fundamental interests on national security, push liberalization and facilitation of trade and investment and reduce politicization of economic and trade issues, steadily enlarging bilateral trade and investment. On the regional level, as the largest economies in Asia-Pacific, China and the USA

should strengthen their cooperation in light of common regional interests and play constructive roles in economic integration of Asia-Pacific. China actively encourages the USA to participate in the B&R. Chinese Foreign Minister Wang Yi also proposed that China and the USA conduct a trilateral cooperation combining Chinese advanced equipment and abundant financing with the US technologies and critical components under the framework of B&R Initiative (Sina News). The B&R can provide new opportunities and space for Sino-US economic and trade cooperation, not only conducive to regional peace and development but also conforming to Chinese and American interests.

Third, establish an effective economic and trade coordination mechanism. Since Donald Trump took power, his nationalist economic policies have added more uncertainties to bilateral economic and trade relations. A trade war is not an option for China and the USA to settle economic and trade disputes which can only be settled by negotiations. In order to sufficiently manage the bilateral economic and trade issues, after meeting in Florida in April, 2017 President Xi Jinping and President Trump agreed on China-USA economic disputes by Comprehensive Economic Dialogue and formulate a One Hundred-Day Plan in economy and trade to conduct cooperation as soon as possible. Both parties should carry out communication and coordination on issues of mutual concerns, especially major divergences such as macroeconomic policy, trade and investment mechanism, financial market stability and reform, international institutions and global governance to ensure that disputes are settled timely and frictions eased, thus avoiding the breakout of a trade war.

5. Promoting domestic economic structure adjustment

The four points discussed above are outward-looking economic strategies of China toward Asia. However, the true competitiveness of China's Asian Economic Strategy comes from home. China must beef up its internal strength to take measures actively to promote domestic industrial structural upgrade in order to continually promote its regional economic influence fundamentally, forging a regional economic rules system more conducive to China. Only in this way can sustainable development of Chinese economy be well maintained in the long run thus providing broader domestic market for Asian regional economic development and laying a substantial foundation for China to achieve its Asian economic strategies.

The problem is that despite an unprecedented rapid growth of Chinese economy since the reform and opening up, Chinese economy is faced with multiple challenges resulting from the decreased demographic dividends and the imbalanced economic structure. Since the 12th Five-Year Plan the gradual deceleration of Chinese economy shifting from high speed to middle-high has become the New Normal of Chinese economy. Breaking the bottleneck of domestic economic development cannot rely only on governmental stimulus policies of demand management in the long term or the infinite investment of production factors, but also governmental strategic management to solve the deep-seated problems of domestic economic development so as to promote domestic economic structural adjustment, structural optimization and imbalance remission in light of a long-term goal of sustainable benign development.

First, drive the development of real economy by innovation, avoiding an economic model dependent on low-end product trade exports. A real economy of manufacturing-majority is the basis of the national economy, and the foundation of winning the initiative in economic development and international economic competition[4]. However, it is witnessed that as the fierce competition of industries in Asian economies, the Chinese cost advantage has declined clearly compared with developing countries like Vietnam and Cambodia. Yet the Chinese advanced manufacturing still remains to be improved compared with developed countries as the USA and Japan. In 2016, the Chinese export growth was lower than not only emerging economies such as Vietnam, India and Indonesia, but also some developed countries like the USA and Japan (Ministry of Commerce, 2016). China needs to hold on to the principle of

supply-side structural reform and the driving force of innovation to accelerate the industrial transformation and upgrading. China should also stand on the commanding height of new industrial technical revolution and escalate its own position in international productive specialization, improve the manufacturing to shift its focus from quantity to quality and forge international competitiveness of Chinese products in response to American manufacturing backflow advocated by Obama and Trump Administrations.

Second, promote the continual transformation and upgrade of Chinese service industry. As the industrial structural adjustment speeds up in recent years, service industry has further opened up, counting an increasingly larger proportion from 43.2 percent in 2011 to 51.6 percent in 2016 in GDP (State Statistics Bureau). In the first quarter of 2017, the value added of service industry has increased to 56.6 percent of Chinese GDP, with a contribution rate of 61.7 percent to national economic growth, showing a continuous improvement of service industry development. However, services of transportation, tourism, insurance, telecommunications, intellectual property and cultural entertainment still lack competitiveness internationally. Promoting the quality of service industry development and quickening the service industrial transformation and upgrade can effectively release the consumer demands of urban civilians and relieve the imbalance of service industry supply-demand, providing a firm foundation for further opening up of service industry, improving the speed and quality of national economic development. The improvement of service industry will contribute to lowering the dependence on manufacturing export and decreasing the probability of trade frictions with the USA.

Third, release the domestic demand potential and gradually increase product exportation. On one hand, while holding on to supply-side reform, switching old and new drivers and improving productivity effects, the total social demand should be properly expanded, particularly the growth of consumer demand. Enlarge effective investment rationally, perfect consumption policies, create a good consumption environment, and further improve consumption potential. Through the guidance of macropolicies, more production factors should be invested to fill the gap and boost innovation and people's livelihood such as medical healthcare, elderly care, education and cultural entertainment to optimize consumption structure and release consumption potential. On the other hand, because labor-intensive industries are now transferring abroad due to the decreases of labor supply and loss of labor cost advantage, plus the international trade rebalance is in the making, export growth and trade surplus should not be attached to too much importance in the future. In line with the requirements of industrial structural adjustment, China needs to orderly and gradually enlarge product importation, adjust the balance of trade with other countries, optimize resources allocations based on relieving domestic resources shortage, improve trade environment and trade relations, reduce trade frictions, promote the specialization and upgrade of global industrial chain and value chain. When China becomes the main market provider in Asia-Pacific, it will be hard for the USA to press China because of China's demand for the American market. Till then, the economic influence and dominance of China in Asia-Pacific will naturally enhance dramatically.

6. Major challenges facing China's Asian Economic Strategy

China's Asian Economic Strategy is face with some huge challenges. In general, the following four challenges are most prominent. If China cannot surmount these challenges, the China's Asian Economic Strategy will not achieve desired effects.

First, economic policy shift of Trump administration has brought about more uncertainties to the regional development. America plays an important role in Asian economy and beyond. After the end of Cold War, the USA in general supported globalization and Asian economic integration. However, after Donald Trump took power, America's attitude toward globalization has taken a U-turn because Trump believes that

globalization has not benefited America and has undermined America's economic status. That is why the USA has turned to trade protectionism. If Trump administration continues to cut down the supply of regional public goods and blame Asian countries including China, Japan and South Korea running a trade surplus with the USA for problems, such as slower economic growth, declining manufacturing and growing unemployment, it will definitely take a toll on the Asian economic integration and the Asian economic welfare. Since other countries cannot replace the USA at present, economic liberalization in Asia-Pacific region will definitely be affected. In addition, faced with China's economic growth with increasing regional influence, America will also take measures to prevent China from dominating Asian economy. This will pose huge challenges to China's Asian Economic Strategy.

Second, the situation in the Korean Peninsula is complex and geopolitical factors are holding back the economic and trade development of Northeast Asia. There are many major powers in Northeast Asia with a lot of disputes and security pressure. Besides, the intervention of major powers has added complexity to the status quo. In recent years, DPRK has been taking risks in developing nuclear weapons and carrying out nuclear tests bringing about huge risks to regional peace and stability. Against this backdrop, America and South Korea deployed THAAD system making the situation in Southeast China more complicated. When each party is engaged in the power game, any event can lead to unpredictable consequences. Nerve-racking and uncertain situation will add huge uncertainty to regional economic and trade development.

Third, China's economic structure is now at a time of adjustment. The new normal of economy will last for a relatively long time. After 30 years of rapid development, the economic structure is very uneven, which will take a heavy toll on China's sustainable development in the future. Adjustment of economic structure requires the government to change its role from the allocator of the resources to the strategic manager, and not to replace the status of the market. The whole production area is now undergoing profound innovation-driven changes, which leads to the technological innovation and industrial upgrading, promoting efficient and quality economic growth thus enhancing its status in regional production chain and value chain.

Fourth, there are challenges from the domestic policymaking. The promotion of China's Economic Strategy in Asia involves many departments. Therefore, when promoting strategies, different departments need to coordinate with each other. However, different departments have their different functions and own interests so they have different things to care about. At present there are many factors holding back the coordination system, which may take a toll on the efficiency and effect of the policy (Song2014). For instance, the B&R Initiative involves many topics including infrastructure, trade, investment, currency and finance, society, culture and politics so it requires coordination of many government departments such as Ministry of Foreign Affairs, Ministry of Commerce, National Development and Reform Commission, People's Bank of China and Ministry of Finance. Without a coordination system, efficiency will be undermined and many problems will arise. For instance, operations of different departments may overlap and each department may act on its own thus leading to policy conflicts or policy vacuum.

7. Conclusion

China's economic strategy in Asia has taken shape as China's economic power is on the rise. The implementation of strategy has been undergoing adjustments. However, the vision of China's economic strategy in Asia remains clear, namely, development, openness and win-win objective. Development means that China's economic strategy in Asia serves not only its own development but also development of the Asian economies. The core of China's economic strategy is development. Openness refers to China's opening up policy, namely, attracting foreign investments, introducing technology and building

open economy mechanism. It also means China hopes that other Asian economies can be open to China's trade and investment and jointly shape the regional economic system based on openness. Win-win situation indicates that all Asian countries can enjoy benefits brought by development. Development, openness and win-win are the cornerstone of China's economic strategy in Asia.

Notably, a marked change has taken place in China's economic strategy in Asia, namely, giving more consideration to how to offer more public goods to the region. This is natural as China's economic power is developed to a certain level and it is highly related to China's attempt to growing its economic influence in this region. China believes that the B&R Initiative and Asian Infrastructure Investment Bank are both public goods China has provided for Asia.

China's economic strategy in Asia demonstrates that China, as a rising power, though faced with domination of established power and the original regional economic rule system, still promotes cooperation, integration, participation and development of this region. In general, China's economic strategy in Asia offers an alternative for countries in this region so that Asian countries can better safeguard their rights amid China–America competition, and a new Asian economic order can be better built.

Notes

1. It needs to be clarified that the "Asia" in the Asian Economic Strategy of this paper refers to the Asian region including Northeast Asia, Southeast Asian and South Asia in geographic sense. However, the China's economic strategy itself does not have a clear definition of Asia, so Asia-Pacific refers to Asia as a whole sometimes in this paper.
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