CENTRO STUDI INTERNAZIONALI

The Economic Diplomacy of Xi Jinping

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JUNE 2017

This past January 17, Chinese President Xi Jinping hosted the opening of the World Economic Forum (WEC) held in Davos. During this event the efforts being implemented to make China an example of political and economic stability for the international community were brought to light. With an economy of approximately eight trillion dollars in imports, six hundred billion dollars in foreign investments, and seven hundred and fifty billion dollars in foreign investments estimated for the upcoming five years, the Asian giant accounts for 30% of the global economic growth. Xi's expressions mark the first time a Chinese president participates in the forum. The speech proved yet again how Beijing always points towards globalization and free markets for international business exchanges as key elements to achieve national growth and expand foreign influence. Xi Jinping's position lies in the pinnacle of the economic diplomacy evolution that Beijing has been going through since the '80s, which began with Deng Xiaoping's reform era and was further developed in the decade-long structured political project of Hu Jintao's presidency. In fact, as of 2004, the Chinese government began acknowledging the need to focus its own foreign relations on incentivizing imports, attracting foreign investments (yielded possible following the improvement of the internal economic system implemented by the reforms of the '80s) as well as foreign exports, and its own capabilities of foreign investment abroad.

Beijing made it a priority to enter the international financial system and create an atmosphere for *made in China* exports that paves the ideal and necessary conditions for China to enter third party markets. The participation in multilateral economic organizations either internationally, like G-20 or the Asia-Europe Meeting (ASEM), or regionally, like the Asian Development Bank or the ASEAN+31, has allowed the Chinese government to place China on the inside of international economic forums and to begin using its economic and social influence to enforce cooperation mechanisms, in which the degrees of Chinese production and capital can open important windows of political opportunity. Having become the second largest economy in the world in the past twenty years, China has progressively known how to use its financial economic leverage to increase its own spectrum of international relationships and has been able to exercise a strong level of influence through those diplomatic relationships. The inauguration of the Department of International Economic Affairs, as part of the Foreign Ministry, of October 2012, shows how the reinforcement of the international economic status has developed to be one of the most important issues in the foreign political agenda of Beijing. The structure is created not only to facilitate Chinese participation in the relevant international summits such as G-20, APEC2, BRICS, but most importantly to support the government in elaborating a strategy of economic governance on the long term, one that ensures the economic security and the national interests within the extensive frame of international relations. This policy has reached its climax under Xi Jinping's political career, first as Secretary General of the Communist Party as of November 2012 and then as President of the Republic as of March 2013. Xi Jinping has taken into account his predecessors' work and theory, but has furthermore implemented the strategy of national economic reinforcement in a much more proactive form. With the objective of following the so called Chinese dream, Xi Jinping has managed to transform China's position on the international community to a top stake holder and as not only an actor that can exercise a position of strength, but also a world power that decides the conditions of the international system. The dissatisfaction with the stake given to his country on the high levels of the traditional international financial institutions (World Bank and International Monetary Fund), the will to see the second largest world economy rightfully recognized, and the desire to end the isolation imposed by the United States to ensure freedom of labor on the complex bilateral deal have motivated Beijing to change its ways.

In the past four years, the Chinese government has tried to focus its efforts in adjusting the US-centric international order designed by Bretton Woods to the new global scenario, such that would allow China to be accredited as the new financial and commercial epicenter. A year after having launched the New Development Bank in 2013, an institute dedicated to the financial projects of sustainable development in various national contexts, the Chinese, along with other countries from BRICS, have lead the creation of the Asian Infrastructure Investment Bank (AIIB), dedicated to infrastructure development in the entire Asia-Pacific region. The AIIB has abruptly retracted from being a multilateral and inclusive organization open to the participation of states that are not within Asia, rather it has focused on creating a greater network within Asia itself. If at some point Washington had been looking forward to join the allegiance, the intentions of entering the long dynamic network of a continent with one of the highest development potentials for the upcoming years have been disregarded due to their fear of continuing the Beijing centered project. Today, out of the major industrialized countries, only Japan and the United States are not part of the 57-member-states organization.

The growth of the membership has allowed organizations to increase their social capital from $50 billion to $100 billion, of which 70-75% is allocated to the investments that take place within the Asian context, while 25-30% can be allocated for countries outside of the Asian region. Having become fully effective as of January 2016, the AIIB has quickly become known as the new model for emerging markets. Its infrastructure and potential to avail itself with bureaucratic practices, that are less restricting than that of the World Bank and the Asian Development Bank, have allowed it to respond promptly to the ever-evolving Asian continent necessities. In the past twelve months the bank has ceded $1.7 billion in loans for the fulfillment of projects throughout Asia, $165 million for the improvements to the network of energy distribution of Bangladesh, $216.5 million for the restructuring of the Indonesian periphery, $27.5 million for the construction of the highway that connects Dushanbe and Uzbekistan in Tajikistan, $400 million for road and highway improvement projects as well as the creation of hydroelectric plants in Pakistan, $20 million for an energy plant in Myanmar, $600 million for the construction of the Anatolian passage gas duct that would connect Armenia with the rest of Europe. Even though these actions have been possible due to collaborations with other international financial institutes, these projects are made possible thanks to China's sponsoring and promotion of development in the area, as well as its creation of a transversal consensus, all while its own international role increases.

Such strategy is put to practice on the One Belt One Road (OBOR) initiative, a project launched by President Xi in 2013 with the intentions of interconnecting Asia and Europe through a series of transportation, energy, and services networks that create a transnational platform of economic, political, and social cooperation. Recalling the historic Silk Road, OBOR should include around sixty states, a third of the energy resources of the world, and a complex internal product of around $21 trillion, of which 40% belongs to the Global PIL in order to shape a system that is interconnected through multiple dimensions. According to China's project, such interconnection will occur only after the construction of highway, trains, and roads that physically connect the region in two ways: a terrestrial one, called the Silk Road Economic Belt to connect China and Europe (through central Asia, Iran, and minor Asia) and a maritime one, called the Maritime Silk Road, formed through a series of strategic ports from the South China Sea to the Mediterranean (through the Indian Ocean and the Aden Golf).

Figure 1: The map of the two belts of the new silk road. Source Economist, Ce.S.I.'s editing

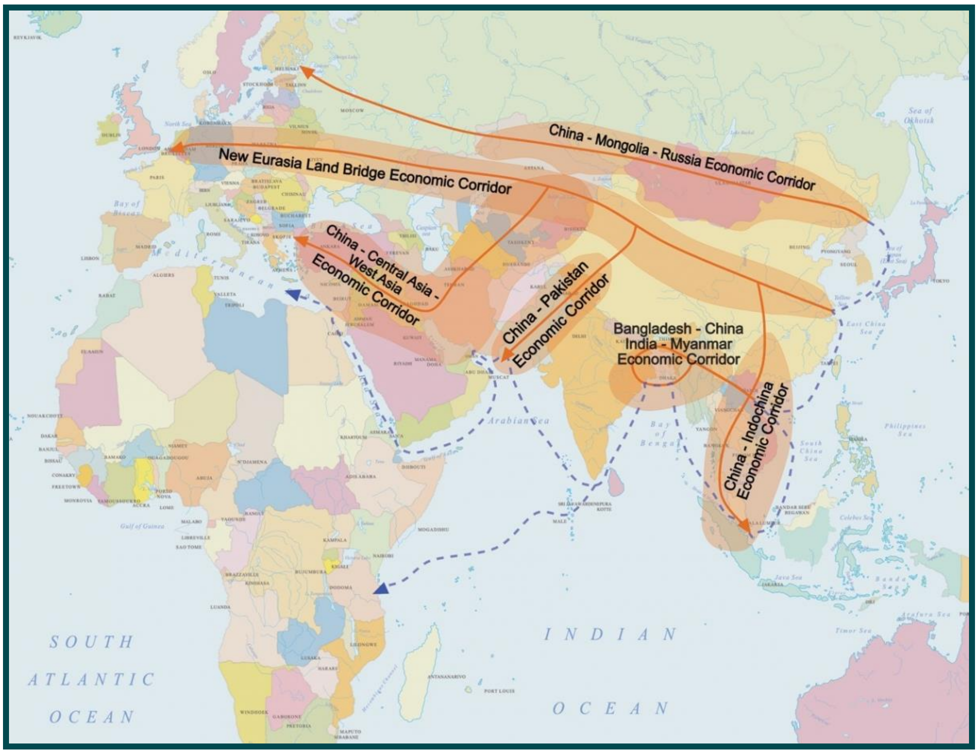

Figure 2: the six economic corridors related to the New Silk Roads project. Source, International Institute for Asian Studies, Ce.S.I.' editing

The two routes should be then connected to six transregional economic corridors: the Eurasian Land Bridge, the China-Mongolia-Russia corridor, the China-Asia Central- Asia Occidental corridor, the economic corridor of China and Pakistan (China Pakistan Economic Corridor - CPEC), and finally the corridor of Bangladesh-China-India-Myanmar. The creation of 'arteries', or routes, that, even if minor, would put an end to the strong infrastructure deficit that Central Asia and Southeast Asia suffer and would give life to fit installations and services structures, in the degree that guarantees China a major efficiency level for exchanges from the East to the West and vice versa.

Through the implementation of a similar network, the Chinese government looks to facilitate commerce and access to markets to ensure greater exchange and reinforce the easiness of inbound and outbound investments. In this way, the Chinese government wants to create a convergence of the strategic interests of various countries such that would incentivize the creation of multilateral political cooperation mechanisms on the inside of which, Beijing's influence would represent a determinant variable. The first sign in this direction seems to be Beijing's choice of proposing the realization of the New Silk Road project to those multilateral groups of in which China already plays a main role, such as the Shanghai Cooperation Organization and the BRICS group, or those with which exercises a relevant position, such as ASEAN, the China-Arab States Cooperation Forum (CASCF), and the Forum for China-African Cooperation.

Furthermore, the potential reciprocal development that the project represents has allowed China to use OBOR as a playing card, even in its own relations with the more Westerner stakeholder involved in the project as well as the opposite pole with respect to China in both corridors: the European Union. As a matter of fact, from 2015 on, the Silk Road has been considered one of the most important aspects of the EU-China strategic partnership. In 2015, the Chinese government and the European Commission signed a Memorandum of Understanding for the creation of the EU-China Connectivity Platform, with the goal of promoting cooperation in environments whose infrastructures, technologies, and elaborations of community standards, as well as the synergy between OBOR and European initiatives are similar and connected, like the case of the Trans-European Transport Network Policy. The common interest for the project is proved by the improvement of relations between the Chinese giant and Brussels in financial matters, especially in those dedicated to the infrastructure development. As for the previously mentioned participation of various European governments in AIIB after this past January, China has also begun to take part in the European Bank for Reconstruction and Development (EBRD), as well as the facilitating the opening of a reference agency for the European Investment Bank in Beijing to ease the cooperation between the European Institute and the AIIB. From September 2015 on, China has contributed $315 billion to the fund of the Commission, becoming the first foreign country to achieve such role.

Despite the Chinese government's efforts to project influence in the international community, they are still in an initial phase of implementing it. Xi Jinping's strategy could be one of the major successes in the history of the Chinese government. The attractiveness of the New Silk Road is opening doors for Beijing, even from those who previously considered with great cautiousness the possibility of improving relations with China, for example some European countries. For these, the historic alliance with the United States has now called for cautiousness in order to achieve a balance between the interests of Chinese capital and Washington's will of maintaining its strong political and economic position in the international arena. Particularly during Obama's administration, the relations between the US and China were defined by the ability of creating new alliance networks in such way that incrementing the reciprocal sphere of influence would limit the rivalry. In this context, the strong success of the Chinese strategy could entirely change the international political interaction between China and the White House under the Trump administration. The protectionist policies and the prioritization of the national economy in contrast with the reluctance for international relations of the Trump White House indicate the possibility of an absent United States in the international community, a void that China would know how to fill. Trump's expressions about the Trans Pacific Partnership (TPP) hint that the United States would exit the alliance. The Trans Pacific Partnership (TPP) is a partnership that aimed to liberalize commerce between twelve countries in the Pacific area, including USA, Canada, Mexico, Peru, Chile, Japan, Australia, Vietnam, Singapore, Brunei, and Malaysia, and balance the economic leverage of Beijing. Nonetheless, Beijing has begun pushing some of the TPP members to consider going along with the Chinese project as well as to welcome the idea of China entering the TPP. While it should be kept in mind that such rearrangement of the TPP remains merely in theory, it is impossible not to consider that by retiring its economic support in the region, the United States has given full freedom to the Chinese government to propose its own development strategy to the stakeholders of the region. Without the US as a rival, the Chinese government now seems to have greater chances of success, not only in the renegotiation of the TPP accords, but also in implementing the regional cooperation agreements that are currently being elaborated.

An eventual reinforcement of Chinese influence in the region could facilitate the continuation of negotiations of the Free Trade Area of the Asia Pacific (FTAAP) and of the Regional Comprehensive Economic Partnership (RCEP). The first one includes the 21 countries of the Asia-Pacific Economic Cooperation (APEC) and looks to create a structured economic integration between the members. The second one is the multilateral agreement that looks to the liberalization of markets between ASEAN, China, South Korea, Japan, and Australia. The Chinese proposition of going forward with multilateral accords for the liberalization of markets represents in every way an optimal choice for the stakeholders in the international community, especially those in Southeast Asia that are too economically weak to be able to hold a position of strength in a negotiation table.

In the same way, the debilitating relations between the White House and Brussels after Trump's election could represent an important factor if the slight changes in the relation between China and the Old Continent are considered. In the past few years, the European countries have been subject to the Chinese preference of investing in the West. With the economic crisis and the relative strategies of performance of the national agencies within the Eurozone, the Chinese capital has represented an important financial source for the European states, especially those in the Southern part of Europe, like Italy, Greece, Spain and Portugal.

Moreover, the Chinese government is looking for greater direct involvement with the European Union to establish a structured cooperation in which to base the interconnections between Asia and Europe. While it has not been clarified how the European Union would benefit economically from the creation of a New Silk Road, it is certain that the project has strengthened the relations between Beijing and Brussels. In a quite delicate time for the European Union, characterized by the redefinition of both the internal balances of power following Brexit and the historic relation between the United States and Europe, the Old Continent might be more interested on improving relations with the East, seeking to balance out the reduction of US support with improved relations with the Chinese giant. This way China would, not only excel in creating a bridge with Europe, which is an important market for Chinese exports and fundamental partner for the increasing demand of skilled labor, services, and technologies of the country, but also reinforce the bases of the indispensable political and social cooperation to create the necessary conditions for an influence strategy that guarantees the celestial empire its desired access to the West.