



# China's new economic diplomacy

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For a long time China's economic diplomacy wasn't particularly inspiring or pretty to look at. There were investment forays into some resource-rich countries in Africa and aid packages dished out to small pacific island countries. But there was little to suggest that China was drawing on its rising economic clout to lay any claim to regional or global leadership. Nor was it offering up any grand strategic vision as an alternative to the status quo.

Perhaps this was deliberate. In the early 1990s, Deng Xiaoping is said to have advocated that China should "Observe carefully; secure our position; cope with affairs calmly; hide our capacity and bide our time; be good at maintaining a low profile; and never claim leadership". Not any longer.

It was just 18 months ago in Jakarta that China's President, Xi Jinping, first publically raised the idea of an Asia Infrastructure Investment Bank (AIIB). By April this year, 56 other countries had signed on to become prospective founding members of the China-sponsored proposal. Notably absent were the US and Japan. But in the fold were numerous security treaty allies of the US, including Australia, New Zealand, the Philippines and the Republic of Korea. Representatives from all of these countries are now hard at work in Beijing nutting out the details of how the bank will operate. All reports are that it will be up and running by the beginning of next year.

The AIIB is just a part of the "One belt, One road" agenda that President Xi has been promoting, which would see the economies of the region more closely tied together and China restored to its historical place at the centre. Part of the shift in China's approach can be explained by internal factors. Many experts take the view that President Xi has emerged as China's most authoritative leader since Mao Zedong. This has allowed him to move out from behind the shadows of past leaders such as Deng and voice his own ambitions for China and its place in the world.

There's also the fact that the case for greater Chinese leadership is no longer based on potential but on reality. Last year the International Monetary Fund (IMF) said that China had become the world's largest economy in terms of its purchasing power. Even as its growth slows to around 7 percent, it continues to add more US dollars each year than ever because it is now much bigger. In 2013 it overtook Germany as the world's largest trading nation.

Jim O'Neill, inventor of the famous BRICs acronym, recently pointed out that if incumbent institutions such as the IMF don't quickly learn to accommodate a rising China, it won't be China's influence that will be diminished. Rather, it will be the relevance of these institutions that recedes.



But for China to truly become a leader, other countries must be convinced to follow. And it's here where the true masterstroke of China's new economic diplomacy resides. For many countries of the region, what China is proposing is more genuinely multilateral, more genuinely win-win, than anything they've seen to date. At the APEC Summit in Beijing last November, President Xi said that he no longer just had a "China dream", an earlier turn of words aimed at a domestic audience, but an "Asia-Pacific dream". It's a killer narrative.

The US and Japan have criticised AIIB for being unilateral, an institution dominated by China. But this is not by China's design. The AIIB welcomed all comers. The only reason that China continues to loom larger than it would otherwise is because the US and Japan have refused to join. With 57 countries on board that span all levels of development, appearing multilateral is no longer something that the AIIB needs to be worried by.

The AIIB is also being formed against the backdrop of incumbent institutions that plainly do struggle to be representative. China and India are well aware that they are now the world's largest and third largest economies. Yet their voting shares at the Asian Development Bank are stuck at around 5.5 percent, less than half that of both the US and Japan. It's the same story at the World Bank.

Neither would any of the other 56 countries that have joined the AIIB have done so unless they thought it was in their own national interest. That's where win-win comes into play. For the poorer countries of the region the AIIB offers another desperately needed source of infrastructure finance. The fact that India, the Philippines and Vietnam didn't hesitate to sign on despite being engaged in a territorial dispute with China shows just how much sugar they see on the table. For higher income countries such as Australia it will provide a boost to exports of natural resources like iron ore, as well as design and engineering services.

Last year China threw its weight behind reinvigorating the idea of a 21 country Free Trade Area for the Asia Pacific (FTAAP). The FTAAP includes both the US and Japan. But the US and Japan resisted and pushed hard in a different direction: a Trans-Pacific Partnership, a 12 country grouping that doesn't include China. It's not hard to see which proposal is the more multilateral.

It's also not hard to see which offers the greatest scope for win-win. Research published by the East-West Centre last year put the global income gains from the TPP at less than 12 percent of those that would flow from the FTAAP. Ironically, the results also showed that the US and Japan would themselves do far better out of the FTAAP than the TPP.

So far the FTAAP proposal hasn't progressed beyond APEC members agreeing to conduct an initial exploratory study. But it does serve to punctuate China's new approach to economic diplomacy. And as long as it's China that is coming up with the multilateral and win-win initiatives, its transition to a regional and global leader could happen far quicker than anyone imagined.

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