Review and adjustment of China's opening strategy

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In the past 30 years, by targeting the use of external resources and market industrialization as the strategic goals of opening to the outside world and seizing the opportunities first provided by the cross-border transfer of labor-intensive industries in East Asia and then from the external market, China has given full play to its advantages of low manufacturing costs and has achieved remarkable success. At present, as profound changes have been ongoing in terms of China's comparative advantage from its participation in the global division of labor, the transformation of its development model is imminent. Meanwhile, the changing international economic environment also provides China with favorable opportunities through which more advanced production factors and industries can be introduced and global resources be integrated with the enforcement of the "going out" strategy. In such a new period, China should set a target of enhancing its global production value chain and unswervingly implement the opening strategy for mutual benefit and win-win results. By striving to create a favorable external economic environment, further promoting trade and investment liberalization and boosting the upgrading of the industrial structure and export structure, China's soft power and participation competency in global governance will be improved.

Keywords: opening strategy, industrial structural upgrading, global value chain

The enormous success of opening to the outside world constitutes one of the most brilliant chapters among China's economic miracles. In the late 1970s, China opened the doors, which had been closed for 30 years, to the western world once again. After 30 years of opening to the outside world from a closed economy, China has risen to the world's largest exporter and second largest importer. At the same time it has remained for many years as a developing country undertaking the most foreign direct investment and owning the largest foreign exchange reserves in the world. The great achievements of China's opening to the outside world have attracted the attention of the world and inspired questions such as: what is the logic for the success of China's opening to the outside world? What is the next step of China's opening to the outside world?

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1. A review and evaluation of China's opening to the outside world

1.1. The course for China's opening to the outside world

China's opening to the outside world began in the late 1970s and was divided into three stages.

1.1.1. The initial stage (1980-1992)

After a comprehensive analysis of the international situation and a judgment concerning the world's main trend- "peace and development," with reference to the experience of East Asian economic success, China began the prelude to opening to the outside world in 1980. The first major step was to open four special economic zones in Shenzhen, Zhuhai, Xiamen, and Shantou. These special economic zones were not only the windows through which China opened to the outside world, but test areas as well. Four years later, having summarized their successful experience, the central government decided to implement the strategy of opening coastal cities. Fourteen coastal cities where economic and technological development zones were set up were opened up. From 1986 to 1987, as Chinese scholars put forward the theory of the systemic circulation of the international economy, the central government decided to participate in the international division of labor, which resulted in the enforcement of the trade policy of processing imported materials and vigorous development of the processing trade. Afterwards, bonded areas were established beginning in 1990 and a batch of economic cooperation zones along the borders were founded in 1992. This period constituted the early stage and exploration stage of China's opening to the outside world, in which the opening policy was carried out geographically from coastal areas to the cities along the Yangtze River, inland provincial capital cities, and the areas along the border. In form, it was mainly explored in the manner of special economic zones. The establishment of a large number of special economic zones, on one hand, was conducive to improving the infrastructure on relatively small spatial scale, and on the other, a soft environment suitable for the opening policy was formed in favor of risk control. When deficiencies were found in the open tests, they were not difficult to rectify in a timely manner and did not cause systemic risks affecting the overall situation.

1.1.2. The deepening stage (1992-2001)

A series of speeches delivered by comrade Deng Xiaoping during his spring visit to southern China in 1992 brought China's opening to the outside world to a climax once again. And the goal of establishing the socialist market economy ratified by the Third Plenary Session of the 14th Central Committee of the Communist Party of China laid a solid foundation for opening wider to the outside. In just several years, attraction of foreign investment leaped into new stages one after another, with large-scale capital from Taiwan and South Korea arriving and being distributed in foreign-funded industries that mainly began with traditional consumer goods including the textiles, garments, and toys industries in the 1980s, and later extended to new technologies and products such as computer information technology. Since 1993, China has been attracting the most foreign investment among developing countries. In 1994 the unification of the RMB exchange rate achieved on the basis of substantial depreciation of the official RMB exchange rate effectively promoted Chinese exports. Ever since then, China has maintained a trade surplus. In the 1998 Asian financial crisis, China insisted on a policy of no depreciation of the RMB exchange rate and thus played an important role in maintaining regional financial stability, which in return greatly promoted China's regional economic influence and further enhanced its transnational investment attractiveness.

1.1.3. The fully open stage (2001-present)

After 15 years of negotiations, China joined the World Trade Organization (WTO) in 2001. According to its commitments upon WTO accession, China has cancelled non-tariff barriers, greatly lowered tariffs, and opened up the trade in services sector on a large scale. In addition, in accordance with the rules of the WTO, China revised more than 2,400 items of laws and regulations and cleaned up the hundreds of thousands of government documents, which then vigorously promoted the reform of the foreign economic system and established a preliminary system for opening and a policy system in accordance with international rules. Accession to the WTO effectively facilitated the improvement of China's investment environment, in spite of a sharp pullback in this period due to the bursting of the IT bubble in the United States and the outbreak of the 2008 global financial crisis triggered by the subprime mortgage crisis. China's inbound investment maintained a strong growth momentum, and it thus became one of the countries attracting the largest amount of foreign direct investment. The international competitiveness of China's labor-intensive industries continued to be strengthened, and its foreign trade witnessed rapid growth, several times faster than the average of world trade. With its international market share rapidly improving, China as a developing country became the largest exporter and the second largest importer in 2010, which was unprecedented in world history.

1.2. The main measures and achievements of opening to the outside world

1.2.1. Effective use of foreign capital

Developing countries have late-mover advantage as they can introduce advanced technology and equipment from the international market for their leapfrog development. However, shortage of foreign exchange is the key constraint in bringing those advantages into full play. At the beginning of its opening to the outside world, China's manufacturing exports were severely non-competitive and foreign currency was very precious. Borrowing external debt was one the measures China employed. With a changed view from "neither internal nor external debt" at an earlier time, China began to take loans from international organizations like the World Bank and other countries in order to construct infrastructure projects and advanced manufacturing projects such as Ertan hydropower station and Baoshan Iron and Steel plant. The second measure was to attract foreign direct investment. Initially, the investment was from Hong Kong, which was one of the four "Asian Tigers" and whose export-oriented manufacturing industry was then facing increasingly severe pressure from labor cost inflation. Hong Kong's geographical vicinity to the Chinese mainland was taken full advantage of in the form of the establishment of special economic zones and economic and technological development zones, all of which created a small yet favorable environment for foreign investment. These attracted foreign investment to be transferred into labor-intensive processing and assembling activities, thus a division pattern for Hong Kong and the Pearl River Delta region was formed, referred to as a "shop in the front and factory in the back." This saying meant that Hong Kong was responsible for receiving orders and selling goods while mainland China was responsible for processing, and therefore, mutual benefit and win-win results were achieved due first to Hong Kong's enhanced competitiveness through industrial transfer and then to the expanded exports and increased employment in mainland China. As an excellent example to investors from other regions, Hong Kong's success aroused their interest and boosted their confidence in making investments in China.

In contrast to the foreign investment attraction of other developing countries, the foreign policy of China attached great importance to the technical content of foreign investment and China's capacity to earn foreign exchange through exports. To achieve this goal, China's foreign policy has always been to screen foreign-funded projects. Those projects favorable to earning foreign exchange through exports and involved with advanced technology were strongly encouraged, while investment in domestic sales was strictly limited. Therefore, for quite a long period, 70% of foreign investment in China was made into the manufacturing industry, which is mainly export-oriented. China's relevant laws and regulations required foreign-funded projects to have a balanced foreign exchange, purchase a certain percentage of local products, and export a certain percentage of products. These requirements were only cancelled after China's accession to the WTO. More preferential tax policies were carried out for foreign-funded enterprise if more than 70% of their products were exported. Such a policy of selective absorption of the foreign-invested enterprises ensured that foreign investment in China was not a consumer of foreign currency, which occurred in many developing countries where foreign investment was market-seeking and thus consumed the limited amount of foreign exchange held by the host nation. Instead, foreign investment in China created foreign exchange. For quite some time, foreign-invested enterprises accounted for about 55% of China's exports and became the main force for exports. This is still the situation today.

To date, China has attracted hundreds of thousands of foreign direct investment projects worth more than a trillion dollars. Foreign direct investment enterprises have brought new technology, new products and attracted top talent, effectively promoting China's technological progress and industrial structural upgrading. Foreign enterprises have brought export channels and have been the main force behind China's exports. They played an important role in effectively compensating for the "gap" of foreign exchange that restricted China's industrialization, thus vigorously promoting the industrialization of China. Foreign companies created a large number of non-agricultural employment opportunities, influenced many migrant workers with modern industrial civilization, and pushed forward China's human resources. Foreign companies also integrated China into the global production chain as an important part of the global industrial division of labor, becoming a bridge connecting China and the world as well as the main portion of economic and trade relations between China and the rest of the world. In addition, they played a crucial part in improving China's external economic environment. For example, before China's accession to the WTO, every year the American Chamber of Commerce in China lobbied groups in U.S. for treating China as a most favored nation (transformed into "normal trade partner" later).

1.2.2. Vigorous efforts into developing foreign trade

In order to promote industrialization, earning foreign exchange through exports has always been the core goal of China's opening. Unlike many developing countries, China's export competitiveness was enhanced by two approaches, namely introducing export-oriented enterprises funded by foreign investment and strengthening the international competitiveness of domestic enterprises.

Adherence to the combination of foreign trade policy and foreign policy has been a characteristic of China's opening. Ever since the advent of opening, China has been following the policy of "processing materials, producing samples, assembling parts, and conducting compensation trade," of which the development of the processing trade has been advocated in particular. In mid and late 1980s, under the guidance of the theory of systemic circulation of the global economy, the strategy of encouraging a huge amount of exports and imports in coastal areas and processing trade policy were implemented in China. According to processing trade policy, all imported materials and parts that will be processed and re-exported are entitled to be exempted from customs duties and import linkage tax in import, and these taxes only need to be canceled after verification by Customs at export. This policy on one hand protected China's upstream manufacturing industry that lacked competitiveness, and on the other, ensured China's extensive involvement in the global division of labor with a high degree of trade protection, thus realizing the aim of pursuing interests and avoiding risks in the process of economic globalization. Most countries attracted export-oriented foreign direct investment through the establishment of export processing zones rather than the execution of a processing trade policy. Therefore, they did not participate in the global division of labor on a large scale nor seek to gain benefits like China. Processing trade policy, as an important joining point between foreign policy and foreign trade policy, was a major initiative in China's participation in economic globalization.

The international competitiveness of domestic manufacturing has been vigorously strengthened. China has taken various measures to enhance the international competitiveness of its domestic manufacturing enterprises, such as vigorously promoting the reform of state-owned enterprises, developing the private economy, promoting the devaluation of the RMB exchange rate (prior to1994), adopting a policy of export tax rebates, relaxing foreign trade rights controls, improving the convenience of customs clearance, and carrying out other activities facilitating trade. In the past ten years, the competitiveness and the number of domestic manufacturing enterprises have undergone a sharp and rapid increase with a higher share in total exports.

China has grown rapidly and become the world's manufacturing powerhouse. At the beginning of the implementation of opening strategy, China ranked 32nd in world trade. However, China became the world's largest exporter and second largest importer in 2010. The growth rate of the Chinese goods trade has been much higher than the world average, which symbolizes that China has become an engine of world trade development. China has maintained a long-term goods trade surplus, successfully resolving the shortage of foreign exchange that had restricted industrialization. More importantly, China's foreign trade structure has had fundamental changes. In 1985, primary products exports accounted for 50.5% in China's export and the major source to earn foreign exchange was Chinese resources exports. Now, 95% of Chinese exports are manufactured goods, of which about 60% are mechanical and electrical products and 30% are high-tech products. China has developed from a small country relying on the export of primary products to a leading exporter of manufactured goods, known as the "world's factory."

China's service trade has also witnessed rapid development. Early in the service trade, a trade surplus could be achieved only through international tourism, project contracting, and labor service exports. In recent years, some obvious changes have taken place in the structure of the service trade. The international competitiveness of engineering contracting has been greatly improved. Even during the global financial crisis, China's international engineering contracting has also maintained rapid growth. By promoting the subcontractor to the general contractor, and changing their low added value work like civil engineering into engagement in design and supply of equipment, China's export of complete sets of equipment has been motivated. In terms of international trade, long-term surpluses turned into deficits during the "11th Five-year Plan" period. Due to a number of efforts invested into service outsourcing, China has managed to gain a surplus in areas of high technical content such as computer services, consulting, and others. Despite the fact that China's service trade has maintained rapid growth and its rankings of import and export services have increased, respectively, to the third and fourth in the world, the long-term and annually increasing service trade deficit reflects the weak international competitiveness of China's service trade.

1.2.3. Timely promotion of foreign investment

Since 1979, Chinese enterprises have made investments abroad. However, as a developing country faced with the lack of funds and foreign exchange constraints, China has been strictly limiting their investment in foreign countries. In 2000, China put forward the strategy of "going out," which turned the previous policy of strictly limiting foreign investment into selective encouragement. In recent years, China's foreign investment has stepped into a period of the rapid growth. A total of $2.85 billion of investment was made in 2003 and more than $74.65 billion in 2011, an increase of 25 times with an average annual growth rate of 50%. China has emerged as the world's sixth largest foreign investor. Overseas investment has been conducive to China's enterprises in accessing to foreign resources, technology, brands, and international sales channels, all of which are conducive to carrying out international operations, integrating global resources and markets, promoting technological upgrading, and enhancing the international competitiveness of enterprises.

1.2.4. Constantly improving the foreign-related economic system

In the course of 30 years of reform and opening up, China has always prioritized the reform and improvement of the foreign economic system. Adjustment of the foreign-related economic system was made according to changes to the international situation and domestic development stages, and it ultimately resulted in a foreign-related economic system adapted to China's development stage and conforming to the requirements of a socialist market economic system and the rules of WTO. Openness has also effectively promoted domestic economic system reform and has created mutually beneficial and supportive interaction between openness and reform.

1.3. The reasons for the success of China's opening to the outside world

In the process of opening, most developing countries have become the "losers" of globalization. The World Bank reckons that China is one of the few "winners" in the process of economic globalization. China's success in opening to the outside world is mainly due to the following factors.

First, China's openness has always strategically targeted the use of external resources and markets as well as the promotion of industrialization. Instead of aiming at the quantity of foreign investment and foreign trade, China's openness closely centralizes the advancement of the industrialization strategy and primarily targets improving domestic industrial technology and earning foreign exchange through exports, both of which are the basis of designing the strategy and measures for openness.

Second, China has seized two external opportunities. The first opportunity arose with the cross-border transfer of labor-intensive industries in East Asia. Through a series of major strategic measures including foreign business and fund attraction and processing trade, China has become a host country undertaking the largest number of cross-border transfers of labor-intensive industry. The second is the chance to use the external market.Before the outbreak of the global financial crisis in 2008, developed countries had been China's main export market. The global economic prosperity since the mid-1990s in developed economies represented by the United States provided efficient market demand for low-cost Chinese manufactured goods.

Third, China's low-cost advantage in the manufacturing industry is given full play. Through openness, China has transferred a large number of rural surplus labors into export-oriented, labor-intensive industries. By integrating China's low costs with the technology, brands, and marketing channels of foreign invested enterprises, the strategic goal of earning foreign exchange through exports has been achieved in the markets of developed countries.

Finally, attention was paid to guarding against risks, pursuing interests, and avoiding disadvantages. Having attached great importance to the prevention of risk in openness and drawing from the experiences and lessons from the openness of other developing countries, strong risk awareness was established. The opening strategy has been adopted gradually in a scientifically set order. Trade and investment are given priority and the liberalization of financial fields with systemic impact is advanced with great carefulness. Improved risk prevention capabilities are regarded as a crucial component in improving the mechanism for guarding against major risks.

2. New situation of China's opening to the outside world

China is in a critical period for the strategic adjustment of openness. After 30 years of rapid development, China's economy is entering a new stage in which the transformation of the development model is not only inevitable, but also imminent. The comparative advantage of China's participation in the global division of labor is undergoing profound changes. The sharp increase of labor costs has weakened the international competitiveness of labor-intensive industries that are exactly China's main earners of foreign exchange through exports. Industrial structural upgrading is indeed in urgent need of acceleration. As profound changes have taken place in the international environment after the financial crisis, there are new meanings for the period of strategic opportunities. Under such a fresh situation, China's openness must adjust goals and strategies to keep pace with the times.

2.1. Fresh changes in the future international economic and trade environment

We are in a world full of complicated changes. Peace, development, and cooperation remain the global mainstream, while the trends of economic globalization and political multi-polarization are deepening without interruption. When the global financial crisis and the new technology revolution are generating great changes and adjustments in the global economy, the concept of sustainable development is brewing rapidly and strategic emerging industry is gaining momentum. As developed economies experience slow growth, emerging economies continue to rise, triggering new hot spots in competition and cooperation among countries. Global governance is faced with reforms, as profound changes have been occurring in economic structure and layout.

First, global economic growth is slowing, and changes are arising in the world economic growth pattern. The continuous turmoil in global financial markets has repeatedly ignited the long-term accumulated structural contradictions within developed economies, and a sustained impact has been exerted on their economic recoveries. As developed countries are faced with highly costly and difficult structural adjustment and reform, it will take a long time for them to emerge from the crisis. Their long-term economic growth slump will drag the global economy into a period of slow growth. Overcapacity will become a more prominent problem in an increasingly competitive market, promoting cross-border investment. In particular, the industrial transfer to countries with lower-cost advantages will remain at a relatively large scale. If developed economies continue to stimulate economic recovery through issuing additional currency, global economic stagflation may be generated. Emerging economies, especially in East and South Asia, will maintain rapid growth. With a significantly increased proportion of incremental increase in the global economy, trade, and investment, they will become new engines for the world economy, exerting a major impact on the global political and economic pattern. Affected by the excess liquidity and expanding demand of emerging countries, the prices of primary commodities will remain at a high level and competition for energy resources will be more intense.

Second, the new technological revolution is active and emerging industries appear ready to take off. Climate change is promoting green development as a new mainstream idea. With dual push by the concept of green development and the remanufacturing strategy of developed countries, a new round of technological revolution represented by new energy and biological technology is breeding. With clear advantages of technical strength, developed countries will lead a new round of industrial revolution. If some emerging economies can seize the opportunity provided by the accelerated diffusion of technology and bring their advantages of strong industrialization capabilities into play, they may keep pace with and even overtake other countries in a new round of industrial revolution.

Third, regional integration is in the ascendant and multilateral liberalization is in stagnation. Increasing protectionism allows developed economies to place more emphasis on fair trade, making multilateral trade and investment liberalization more difficult. Regional economic integration will be carried out rapidly. The United States' strong intervention in the Trans-Pacific Partnership (TPP) is a commitment to building a high-quality regional trade organization. This not only directly affects the pattern of regional cooperation in the Asia-Pacific region, but also causes major changes in the rules of regional integration ranging from traditional fields such as trade and investment to new areas such as labor and the environment, all of which put forward new requirements for the domestic systems of each member state.

Regional integration represented by fiscal unification promoted by European Union has deepened. A few big regional groups may be formed in the future, intensifying regional competition.

Fourth, global governance is ready to be reformed and emerging economies are becoming increasingly influential. With deepened interdependence among all countries by way of economic globalization and accelerated international diffusion of various issues, the world is faced with endless new global problems like climate change, requiring more and more global coordination and management. The changing international pattern needs new global governance institutions and mechanisms to be established and to provide new global public goods. The global financial crisis places urgent requirements on the reform of the international monetary system, as dramatic turmoil happens in the currency system, the international capital flow is increasingly complex, and international financial supervision and cooperation become more important. Changes to the global balance of power have enabled the G20 to replace the G7 as the new platform for global economic governance. Regional governance institutions and global governance institutions cooperate with and complement each other.

2.2. New opportunities and challenges for China's openness

History has proved that major crisis often implies a big reshuffle of the international pattern. After the outbreak of the global financial crisis, the new trend of the changing international economic environment has brought not only unprecedented new opportunities but also challenges to China that put forward new requirements for China's participation in economic globalization.

2.2.1. New opportunities in China's openness

First, China should introduce high-end production factors and industries, import advanced technology and equipment, and accelerate industrial upgrading.

After the outbreak of the financial crisis, the contradiction of excess global capacity has become sharper and made market competition more intense, which accelerates the transfer of industrial activities by multinational companies to low-cost countries. The prospect of China's economic development becomes more attractive, and more countries and enterprises desire to get on China's economic express train. China's huge domestic market constitutes the most attractive factor. At the same time, despite the weakening traditional advantage of low labor cost, China is forming a talent advantage with some 7 million graduates of universities each year. Industrial clustering and industrial support capabilities, good infrastructure, as well as the powerful ability of industrialization formed over the years constitute China's new advantages. In the next decade, China may be the only country in the world that owns both the advantages of low comprehensive cost and a large, rapidly expanding domestic market. Thus, it is more attractive to high-end production factors and industrial activities including senior talent. According to a questionnaire survey conducted after the financial crisis among nearly 500 multinational companies by the

Foreign Economic Research Department under the Development Research Center of State Conncil, a high proportion of multinational companies plan to transfer high value-added industrial activities to China, such as high-end manufacturing, research and development activities, and regional headquarters.

From the view point of imports, looser export controls in the United States and other developed countries that aim to promote exports are conducive for China to introducing more advanced technology and equipment. Moreover, due to the economic downturn in developed countries, the costs for China to import advanced technology and equipment are expected to fall.

Breakthroughs are being made in a new round of global technological revolution and emerging industries are gaining momentum, both of which give China the hope of fully utilizing its advantages of strong industrialization ability for a foothold in global competition in emerging industries.

Second, it is essential to integrate global resources through the “going out” policy and to enhance structural upgrading. Chinese companies can fully employ their advantages of adequate cash and partner with overseas enterprises through mergers, acquisitions, and equity participation. Furthermore, they can greatly promote the international competitiveness of Chinese enterprises through the utilization or even the control of external resources, technology, research and development ability, brand, and sales channels, as well as in combination with domestic advantages of low-cost manufacturing. Differing from the past stage in which primarily the external market was utilized, a new stage emphasizing both the external market and elements has arrived for Chinese enterprises. Their degree of internationalization will be greatly improved, laying a solid foundation for the cultivation of a large number of native multinational companies with high international competitiveness.

Third, it’s time to explore new markets and to accelerate the upgrading of the export structure. The domestic comparative advantage is undergoing profound changes, resulting in the urgent need to upgrade the export structure. There will be some important changes in China’s export structure. The first change is the accelerated upgrading of a large number of exported consumer goods with low added value on the quality, scale, and brand. This structural adjustment facilitates the structural upgrading of China’s exported consumer goods and will further increase its share in developed markets, for consumers in developed markets prefer high-quality goods with a lower price in the economic downturn. Next, industrialization and urbanization are advancing rapidly in emerging economies, maintaining rapid growth in demand for investment goods, which offers important market opportunities for investment goods with moderate and low price such as CNC machine tools, electrical equipment, telecommunications equipment, and transportation equipment. Moreover, newly built infrastructure in developing countries and improved infrastructure in developed countries in the process of remanufacturing will provide chances for the export of complete sets of equipment made by Chinese companies through engineering contracting. Finally, service outsourcing will drive the export of high value-added services including China business processes, consulting services and computer services, which will create more employment opportunities for domestic college graduates and facilitate the export of service trade structural upgrading.[1]

Fourth, China must participate in formulating rules and increase China's status in global governance. After the financial crisis, global governance institutions and rules have undergone major adjustment, and coincidentally, China's economy has developed rapidly, presenting historic opportunities for China to change from a previous passive receiver of rules into a fresh participant in rulemaking. Due to the financial crisis, developed countries have been too busy with their own affairs to besiege China. On the contrary, they need to cope with challenges with the help of China. China, as one of the new engines of leading the world economic growth, has been improved apparently in terms of its position in an increasingly number of international economic organizations. The adjustment of global financial governance and the evolution of the monetary system have provided important opportunities for RMB regionalization. Rapid advancement of the international tide of regional integration is helpful for China to accelerate the promotion of regional trade with its surrounding nations and key countries.

2.2.2. The challenges faced by China's openness

First, the pressure from and obstacles to upgrading the export structure will increase significantly. A group of emerging economies such as Vietnam, Indonesia, and Bangladesh has quickly squeezed into the international market by marching along the export-oriented path, intensifying international competition in labor-intensive products. China's comparative advantage is undergoing profound changes. With China's rapidly rising labor costs, land costs, financing costs, and cost of raw materials as well as the appreciation of RMB exchange rate, traditional labor-intensive industries and products are facing severe challenges from other developing countries, pressuring for Chinese enterprises to implement upgrading in the global production value chain. However, value chain upgrading is not hindered by domestic factors such as Chinese enterprises' technological proficiency or their research and development capability, management proficiency, human resources, or organizational structure, but obstructed by more intense competition with developed economies as well. With the unceasing upgrading of Chinese companies in the value chain of the global division of labor, the current relationship between China and the developed economies that is mainly complementary will be transformed into competitiveness. Influenced by various factors like the downturn in developed countries, promotion of reindustrialization strategy, rising trade protectionism, and the huge trade deficits generally existing in the trade of developed economies with China, high value-added products and services from China will inevitably be involved in more intense competition with and suppression by developed countries. A case in point is the recent investigation for "anti-dumping

[1] According to relevant data, in 2011 the amount of China (offshore) international service outsourcing contract execution was $23.83 billion, up 65.0% from a year earlier, a 22 percentage points increase from the previous year. Among the figures, the amount of offshore outsourcing from the contract execution with the United States, the European Union, Japan, and Hong Kong and other countries was $16.43 billion, accounting for 68.9% of the total amount of China's offshore outsourcing contract execution. China undertook 23.2% of the global service outsourcing, an increase of 6.3 percentage points over the previous year.

and anti-subsidy" into solar energy and wind power equipment exported from China to the United States.

Second, the external economic environment is becoming more severe. Since 1995, China has been the main recipient of global trade friction. In the future, due to the slowdown in global economic growth, multilateral trade liberalization will be caught in stagnation and trade protectionism will rise. In addition to the clamor of the "China threat," China's foreign trade environment will be more severe. Under the circumstance of universal adjustment on development thinking in developed countries and more attention being paid to the manufacturing industry, China's export structural upgrading may cause developed countries to be more alert and panic, causing trade friction through various measures. China has become the world's second-largest economy and its GDP in the next decade may overtake that of the United States, which is likely to increase containment of China in various fields to maintain its dominant position. Historically, the United States spared no effort in suppressing Japan in the 1980s, which is convincing proof that the United States has always exerted all its energies to suppress chasers and maintain its world hegemony. China's deepening bilateral trade imbalance with a large number of developing countries will exert increasingly serious adverse effects on its external economic and political environment. Regional trade integration will increase rapidly. The TPP strongly promoted by the United States in particular will substantially improve trade and investment liberalization standards. Such improvement could place China at a disadvantageous position in regional trade arrangements with the risk of being marginalized. Friction may appear in the field of investment. The rapid growth of China's foreign investment, along with its problems such as state-owned enterprises being major investors, focus on some sensitive areas like resources and technology, as well as nonstandard operations in China-invested enterprises, may well cause suspicion and even objections from host countries in the overseas investments of Chinese enterprises. Sharply increased trade and investment friction will not only threaten China's external economic environment, but also produces a huge amount of pressure on China's economic and trade policy and system in such aspects as exchange rate policy, intellectual property rights, independent innovation policy, and service liberalization.

Third, the pressure to undertake international responsibility is rising. With China's economic scale rapidly expanding and its international status quickly rising, intertwined sayings like the "China opportunity," the "China threats," "China's responsibility" are making China's external environment extraordinarily complicated. With piles of domestic problems, developed countries are weakening, requiring China to take on more responsibility in the international affairs. Developing countries expect China to provide more help and support to speed up their development. The contradiction between China's large economic size and low-level per capita income results in a huge contrast on the domestic and international understanding in the amount of international responsibility China should take, because China's huge overall strength is seen by the international community while China emphasizes its low per capita income and its status as a developing country. Therefore, the international responsibility that China is willing to bear may well fall short of the expectations from the outside world. China's interaction with the international community will enter into a period of adjustment.

Fourth, ensuring the security of China's overseas assets and resources and energy is increasingly difficult. Turmoil in international financial markets will continue to threaten the security of China's overseas financial investments, particularly its ability to obtain returns from its foreign exchange reserves. Disorderly cross-border capital flows will increase the risk involved in opening China's capital account. Political instability in some countries will threaten directly the security of China's overseas investments and project contracting, especially the security of overseas personnel and assets. Intensifying competition for energy resources, excess global liquidity, massive speculation, strong demand in emerging economies, and political unrest in resource-intensive areas will all lead to high and volatile prices of primary commodities, rising costs for China's imported energy resources, and more suspicion and threats for China's overseas investments in energy resources.

All in all, opportunities and challenges exist side by side, with the former greater than the latter. This means China will still be in a period full of strategic opportunities in the future. Yet, major changes have taken place in the content of opportunities compared with the previous cross-border transfer of labor-intensive industry and market opportunities in developed countries. The opportunity of the future will be in upgrading the industrial structure. We should firmly grasp new strategic opportunities and accelerate industrial structural upgrading in order to enhance the international competitiveness of technology-intensive industry and capital-intensive industry.

3. China's new opening strategy

A country's opening strategy is determined by three key factors: external opportunities, comparative advantages, and national development strategy. National strategies over the past 30 years, such as cross-border transfers of export-oriented, labor-intensive industry, low labor costs, and the promotion of industrialization determined the core target of China's opening strategy as "earning foreign exchange through exports." Today, with new opportunities favorable to upgrading the value chain, upgraded domestic comparative advantage and a new strategy to make an updated version of China's economy, the core target of China's opening strategy has shifted from historic transformation to the upgrading of the global production value chain.

First, we will unswervingly implement the opening strategy for mutual benefit and win-win progress and strive to create a favorable external economic environment. With the continuous expansion of China's economy, economic growth will become increasingly dependent on the external environment. What needs to be pointed out is that unlike the passive acceptance of the external environment by those countries with small-scale economies and trade, China as an economic and trade power will exert growing influence on its external environment and may create a favorable external environment using appropriate measures. Adhering to the concept of mutual benefit and win-win progress, China will assume international responsibility commensurate with its national strength. While maintaining the multilateral free trade system, China endeavors to promote investment liberalization in multilateral trade. Focusing on neighboring countries, regional trade arrangements are promoted proactively. As to the political and economic relations with major powers, great efforts will be invested to deal with them properly. Multiple sources of economy and trade, aid, diplomacy and military security force should be used comprehensively to increase the intensity of foreign aid. A variety of measures including foreign investment, economic cooperation, technical assistance, and capacity building should also be adopted to comprehensively improve China's relations with other developing countries by sharing the "China opportunity" with them.

Second, trade and investment liberalization, along with the upgrading of the industrial structure, as well as the export structure, will be promoted further with huge effort. To begin with, the investment environment will get improved. From opening the manufacturing industry as the first choice to equal emphasis on both the manufacturing and service sectors, improvements should be made to attract high-end industry and production factors by introducing advanced technology and equipment, talent, and high-end industrial activities and fully exploiting the technological spillover effect brought on by foreign direct investment. Reform of the service sector is to be promoted and service markets be vigorously opened with the aim of seizing development opportunities in service outsourcing and enhancing services export competitiveness. Reform on the special customs controlling zones must be accelerated and built into six big centers including an international research and development center, an international manufacturing center, an international trade center, an international settlements center, an international logistics center, and an international maintenance center. China (Shanghai) Pilot Free Trade Zone is a major measure for a new round of openness in which the key point is to open the service sector and to innovate foreign investment management systems. Domestic multinational companies must be vigorously fostered to improve the ability to allocate global resources through overseas investment and overseas mergers and acquisitions. These measures, along with active integration of global technology, brands, and channels, will improve China's position in the global division of labor. Moreover, new markets are to be vigorously developed to promote exports produced from capital and technology-intensive industries.

Third, financial openness should be carried out in sequence and financial risks should be guarded against. The international competitiveness of China's financial industry is to be promoted by reforming the domestic financial industry, cultivating domestic the financial market, and realizing interest rate liberalization. The reform of the RMB exchange rate mechanism should be boosted and RMB capital account convertibility realized. Financial cooperation in East Asia ought to be strengthened and the development of Shanghai as international financial center pressed forward. RMB regionalization should be carried out in an orderly fashion. The reform of international financial and regulatory cooperation should be strengthened to maintain the stability of international financial markets. Perfecting the oversight mechanism, strengthening regulatory concepts, and guarding against financial risks must all be accomplished.

Fourth, China's soft power and competency in participating in global governance should be improved. Although China's strength in economy and trade has increased sharply, its "soft power" to effectively use its own strength is still to be strengthened. The experiences of China's development must be summarized to enable the Chinese model to be more attractive. Development concepts such as free trade, equality and reciprocity, fairness, and inclusiveness are should be advocated. In terms of China's participation in global governance, mechanisms for decision-making as well as its implementation must be improved. While cultivating internationalized talent, the personnel mechanism must be reformed to encourage domestic professionals to enter and work at international organizations on a large-scale. China's participation in global governance reform should be actively advocated and its ability to set discussion topics and propose constructive suggestions should be strengthened. With the G20 as the main platform, coordination with major countries on macroeconomic policy should be enhanced. New achievements should be made by actively promoting continuous multilateral trade negotiations. Participation in regional economic integration should be active in order to push forward regional free trade arrangements. Bilateral Investment Treaty (BITs) should be negotiated with the main developed countries, and China should actively participate in Trade in Services Agreement (TISA) as well.

If China's new opening strategy is smoothly implemented, its position in the international production value chain will be improved sharply. Accordingly, China will step over the "middle-income trap" and an updated version of China's economy will be created.