

Economic globalization and China's choice

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In history, economic globalization has usually been an important opportunity for development. Those who seize this opportunity can surpass slower moving economies. America and Germany in late 19th century, Japan and the Asian Tigers in the mid-twentieth century and China and India since the 1990s have all seized the opportunity. However, the financial crisis has changed the strategies of the superpower game. For instance, America has adopted quantitative easing and export expansion as short-term policy, is promoting re-industrialization, re-innovation, and re-employment as medium-term policy, and seeks to build high-standard free trade areas with developed entities, planning for investment and service trade liberalization as well as competitive neutrality in the long run. This will change the nature of the multilateral agreement of economic globalization, and lead to exclusive regionalization, protectionist localization, and political, economic and military conglomeration, and ultimately marginalize many developing countries. How China reacts to the changing global structure is of great importance. Is economic globalization still an important opportunity? Will China be a responsible great power or be marginalized? Should China seek all-out confrontation or open up and cooperate? These are the choices China faces. The “Drawing Sword” strategy decided at the Third Plenary Session of 18th CPC Central Committee is a strategy to transcend the zero-sum game and to seize important opportunities for development. It will turn the challenges of a global high-standard free trade area and the changing structure into a strong driving force for a new round of high-level liberalization, high-standard reform, and high-quality development, so as to make China a responsible and open country with high income and large trade volume.

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1. Modern economic globalization is changing

1.1. *The features of economic globalization*

One of the features of economic globalization is that it is driven by liberalization, market

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orientation, and innovation. Liberalization is the fundamental feature of economic globalization. With the promotion of bilateral and multilateral liberalization agreements and liberalization policies since the 1990s, many countries have cut tariffs, canceled non-tariff measures, expanded access to services, and promoted investment and trade facilitation. These measures have advanced international exchange, cooperation and competition and have dramatically improved the economic wellbeing of countries actively involved in economic globalization. Market orientation is the operating framework of economic globalization. Since the 1990s, Western developed countries, countries in transition, and developing countries have all advanced and deepened market-oriented reforms. They replaced Keynesianism, which stresses state intervention, with neoliberalism, turned from highly-centralized planned economies to market-oriented reform, and moved from the industrial development strategy of import substituting to export-oriented development, resulting in rapid growth for the world economy. Innovation is the driving force of economic globalization. Since the 1990s, the dividends of globalization released by liberalization and market-oriented reform have accelerated global knowledge accumulation, technological innovation, as well as the imitation and spread of the results of investment in human capital, and have narrowed gaps development achievements and enhanced the contributions of technological development and productivity growth to economic growth.

The second feature of economic globalization is the effect of “double-edged sword.” In history, economic globalization has been accompanied by international political, economic, and military conflicts and currency crises. The first economic globalization (1870–1913) resulted in rising conflict between conservative countries and the emerging powers, and finally triggered two world wars. Although the international community learned a lesson from the first economic globalization as to how to maintain world peace and development and prevented the outbreak of a third world war, economic globalization is still accompanied by frequent global economic crises, banking crises, and currency crises. For example, the Vietnam War in the late 1960s, and the Dollar Crisis, stagflation, and the Oil Crisis in the early 1970s directly led to the bankruptcy of the Bretton Woods system and the interruption of the liberalization process of the world¹. In 1990, with the promotion of global market-oriented reform and a wave of liberalization, the world economy saw another round of economic globalization. However, the international financial crisis that broke out in 2008 pushed economic globalization to a crossroad of development.

The third feature of economic globalization is that the impeller is not necessarily the largest beneficiary. We can take the United Kingdom for instance. The U.K. with its technological advantage and industrial advantage of the first industrial revolution impelled the first round

¹ Scholars in China and abroad agree that the first economic globalization of human society took place between 1870 and 1913. The disputable period of the second economic globalization is from 1950 to 1973, a period in which the two world economic blocs—socialism and capitalism—isolated and conflicted with each other. The third economic globalization is the modern period since the 1990s.

of economic globalization¹. However, it paid too much attention to overseas investment and expansion, while neglecting investment in the new technologies and industries of the second industrial revolution, and thereby led to industry hollowing-out and decline. In contrast, America and Germany seized this opportunity of economic globalization and developed rapidly.

1.2. The phases of modern economic globalization

The first phase of modern economic globalization occurred between 1990 and 2001. Most countries and regions benefited from it by being actively involved in economic globalization. Among all the participating countries, developed economic entities such as the U.S. benefited most. For example, in 1990, U.S. GDP accounted for 26.1 percent of the world's total, and by 2001, the percentage had risen to 32 percent, increasing by 0.5 percentage point annually on average. During the same period, emerging economic entities such as China achieved rapid economic development. According to Maddison(2008), China's GDP per capita growth rate during this time surpassed those of the major countries around the world.

The second phase of modern economic globalization occurred between 2002 and 2008. This was a period of global irrational exuberance driven by finance and property bubbles. America's share of world GDP fell from 32% in 2001 to 23.8% in 2012. Three big events took place in 2001. First, the world IT bubble burst, signifying the end of the boom of the American new economy. After this, America entered another period of irrational exuberance driven by finance and property bubbles, which intensified the hollowing out of industry and virtualization. Second, the September 11, 2001 terrorist attacks exacerbated the conflict between world civilizations and geared America toward anti-terrorism wars. Third, China acceded to the World Trade Organization and began to get involved in economic globalization. Meanwhile, China began to come in line with international standards for systems and institutions, and made long-term preparations for the possible adverse situations, thus bringing China's economy into a golden period of development. Table 1 and Table 2 show that China's GDP grew from US\$ 1.64 trillion in 2003 to US\$ 8.23 trillion in 2012 according to market exchange rates. According to purchasing power parity, China's GDP rose from 4.12 trillion to 12.47 trillion international dollars in the same period².

¹ In 1842, the U.K. started to abolish export duties for finished goods and reduced import duties. By 1860, Britain had free trade, but in 1913 it turned back to trade protectionism. After Cobden-Chevalier Treaty was signed in 1860, European countries began to offer most-favored-nation treatment and import tariff concession to each other. But after 1880, Germany, France, Italy, and Russia implemented protective tariffs on agricultural products and finished goods. After 1890, dual tariffs appeared in commercial treaties, meaning high import tariffs for non-treaty nations and low tariffs for treaty nations. By the year 1913 all of Europe had returned to trade protectionism. During this period, America wavered between trade protection and trade liberalization. One study shows that between 1879 and 1904, the protective growth of American industry was lower than the internationally accepted level; and cotton textile industry received more protection between 1879 and 1889. See Kenwood(1996).

² Secretary general of OECD Angel Gurría said "when historians review our time, they will find China's economic rise is incomparable. But when they further open their field of view, they will see that it's not a rise but rejuvenation." See Angel Gurría, Preface of *The Long-term Performance of China's Economy* by Angus Maddison, Shanghai People's Publishing House, 2008.

Economic globalization entered the third phase in 2009. In this phase, economic globalization stands at a crossroad of development. It is hard to predict whether it will continue to be driven by liberalization, market-oriented reform, and innovation, or if it will turn to exclusive regionalization, protectionist localization, and political, economic and military conglomeration.

1.3. The prospects of economic globalization

The nature of economic globalization in the financial liberalization stage¹ is quite different from what it was in the trade liberalization stage. Without a system of global governance and financial supervision, the systematic risk of global finance has risen and threatens the prospects of economic globalization². This financial crisis dealt a heavy blow to America, Japan, and Europe, which are home to the most complete market economy system, the most mature management structure, the strongest risk-control and risk-shifting capabilities.

After the financial crisis, America has blamed its declining global position, hollowed out industry, and the virtualization of its economy out-of-control economic globalization and unfair competition from China and has turned the focus of the global game to dealing with the out-of-control globalization and the changing global structure.

America has adopted quantitative easing and export expansion as a short-term policy, promoting re-industrialization, re-innovation and re-employment as a medium-term policy, and seeks to build high-standard free trade zones with developed entities, planning for investment and service trade liberalization, competitive neutrality, high labor standards, high environmental standards, and high standards for intellectual property protection in the long run. This will change the nature of the multilateral agreement of economic globalization, and lead to regionalization, localization and conglomeration. In this case, the multilateral rules system of economic globalization is at the risk of collapsing, developing countries are at the risk of being marginalized, and global economic integration is at the risk of falling apart.

Table 1
GDP for 2003–2012, calculated according to the U.S. dollar exchange rate (unit: trillion U.S. dollars)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
World total	37.59	42.29	45.73	49.54	55.88	61.34	58.08	63.41	70.37	71.67
America	11.09	11.80	12.56	13.31	13.96	14.22	13.90	14.42	14.99	15.68
China	1.64	1.93	2.26	2.71	3.49	4.52	4.99	5.93	7.32	8.23
Brazil	0.55	0.66	0.88	1.09	1.37	1.65	1.62	2.14	2.48	2.25
India	0.62	0.72	0.83	0.95	1.24	1.22	1.37	1.71	1.87	1.84
Russia	0.43	0.59	0.76	0.99	1.30	1.66	1.22	1.52	1.90	2.01

Source: WDI database of the World Bank.

¹ Martin Wolf holds that most elites fail to understand the consequences of reckless financial liberalization. When crisis occurs, usually it will lead to economic collapse, rising unemployment and soaring public bond. See *Failing Elites Threaten Our Future*, *Financial Times*, January 14th, 2014.

² For years, Bhagwati, an international trade expert, encourages the promotion of global trade and investment liberalization. He believes liberalization up and market-oriented reform will enhance global economic welfare, but he has always been suspicious of global financial liberalization.

Table 2
GDP for 2003–2012, calculated according to purchasing power parity(unit: trillion international dollars)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
World total	49.28	53.12	57.31	62.72	67.94	71.84	72.10	76.64	81.35	85.89
America	11.09	11.80	12.56	13.31	13.96	14.22	13.90	14.42	14.99	15.68
China	4.12	4.66	5.36	6.24	7.33	8.22	9.05	10.12	11.30	12.47
Brazil	1.37	1.48	1.58	1.70	1.85	1.99	2.00	2.18	2.29	2.37
India	2.01	2.23	2.52	2.84	3.21	3.41	3.73	4.18	4.54	4.79
Russia	1.34	1.47	1.70	2.13	2.38	2.88	2.73	2.96	3.20	3.37

Source: WDI database of the World Bank.

2. The changing rules of the global economy after the crisis

2.1. The world economy is in a stage of changing rules, orders, and structure

Since the crisis, new changes have appeared in the world economy, such as TPP, TTIP, BIT 2012, TISA, EPA, and competitive neutrality¹. One of the common features of these changes is that developed countries are reshaping the future global economic pattern by dominating a new round of changes to high-standard rules. U.S. President Joseph Biden says that TPP and TTIP are of historic significance because they provide America a chance to reshape the global economy in such a way that American leadership can be strengthened. The second feature of these changes is that the U.S. mainly determines global rule changes. Those who accept the rules can continue to enjoy open interests, whereas those who don't are at the risk of being marginalized. The third feature is that American governance will be the model for global governance. The risk is that this could lead to fragmentation in the international economic order. Thus it can be seen that the trend of localization, regionalization, and conglomeration in the present world will intensify the conflict and dispute between developed countries and the emerging entities, and might further worsen the long-term prospects of the global economy.

With regard to the changing rules of the global economy, the Third Plenary Session of the 18th Central Committee of the Communist Party of China proposed that China should adjust to the new situation in economic globalization, foster new advantages in participating in and leading the international economic cooperation and competition, adhere to the rules of the world trading system, further implement the strategies of free trade zones with surrounding areas as a foundation, form a network of high-standard free trade zones geared towards the world,

¹ The GDP and trade volume of the 12 members of the TPP account for 40 percent of the world total. The items on the TPP agenda include tariffs, intellectual property, competition, government procurement, environmental protection, regulatory barriers, and labor rights. TTIP negotiation began in June 2013 and covers market access, government procurement, investment, services, regulatory consistency, intellectual property, and state-owned enterprises. TTIP members account for one-third of global trade value, half of global GDP and involve a population of more than 800 million. EPA negotiation started in March 2013, and will cover a third of the world economy.

further open inland cities and border cities, and form an comprehensive, open pattern. With China's promotion and the joint effort of the international community, the first multilateral trade agreement since the establishment of the WTO—the Bali Package Agreement, was achieved on December 7, 2013. This package made positive progress in such fields as trade facilitation, agriculture, cotton, and development¹.

2.2. America dominates the changing situation of global economic rules

First, America is promoting the TPP and TTIP in the name of building a model for a global high-standard free trade area (FTA) and advocating fair competition around the globe. But in effect America is making its own rules the global standard and is establishing a new system for the future reform of global governance.

Second, America is pushing BIT 2012 and TISA. The former incorporates negative list management mode and pre-access national treatment. The latter requires that all service departments, including new future services, treat foreign-invested enterprises equally, eliminate all requirements of establishing joint ventures, and place no limitations on the proportion of foreign capital or business scope. It further requires that all new liberalization measures be irrevocable. America proposed these requirements in the name of building a model for high-standard investment liberalization and high-standard service trade liberalization, but in essence it aims to set asymmetrical rules and open a door to the global market for the American investment and service industries.

Third, America is making new international rules such as competitive neutrality to restrict governments from supporting state-owned enterprises with preferential policies. Meanwhile, it is pushing forward higher-standards rules for labor and employment, environmental management, intellectual property protection, government procurement, competition policy, state-owned enterprises, and industrial policy. The U.S. has shifted from promoting trade and investment liberalization to setting fair competition rules constrained mainly by competition policies.

Finally, America is pushing forward global rebalancing. A 2009 USCC report stated that global economic imbalances were at the root of the financial crisis, and that China and the U.S. should each undertake half of the obligations. America claims that China should expand domestic demand and consumption, increase imports and liberalization, promote the appreciation of yuan, and intensify reform of non-tradable sectors, so as to shoulder more responsibility in rebalancing the world economy and contribute to bringing the world economy out of economic recession. However, this could lead to a future where developed countries remove themselves from economic difficulty but emerging economies fall into a trap. The year 2014 may be an inflection point for this situation.

¹ Zhang Lin, *The Direction of Rules Management for International Trade in the Post-Bali Period*, Institute of World Economics and Politics, Chinese Academy of Social Sciences, January 6, 2014.

2.3. The influence of the changing global situation on China's development

2.3.1. Is there still opportunity for China's development?

Among the four largest economic entities, America and Japan are included in TPP whose 12 members account for over 40% of total global GDP and trade value. America and Europe belong to TTIP whose members account for half of global GDP and a third of global trade value. Europe and Japan are the two sides of the EPA, which covers nearly a third of the world's GDP. None of the above free trade agreements include China, one of the world's four largest economies.

Philip Stephens thinks that America is replacing post-war multilateralism with preferential trade and investment agreements between itself and its allies. Without the support of the U.S., multilateral order will become even broken and globalization will fall apart. What's more, as the largest beneficiary of the liberal order, China will be the biggest loser¹. Meanwhile, some Chinese propose the "removal of Americanization" and building a new global order in which the important interests of all countries, big or small, rich or poor will be respected and protected on an equal basis².

Is resistance and conflict as traditional and emerging powers the only choice for the U.S. and China? Does it accord with the interests of China and America and even the whole world if China and America conflict with each other and thus cause the globalization to fall apart? Is it possible for China and America to have mutual trust and cooperation? Xi Jinping proposed that China and America should advance a new relationship by strengthening dialogue, enhancing mutual confidence, developing cooperation, and managing and controlling disagreements³. Therefore, building a new relationship between China and America that transcends the zero-sum game and promoting economic globalization through cooperation is the key to seizing strategic opportunities.

2.3.2. Is there any chance for China to join the TPP?

Generally, the TPP is a tool used by America to restraint China. Therefore, only after all the rules and regulations have been established will there be a chance for China to join the TPP. By then, America will set a very high standard for China and will cause an all-round blow to China's systems, industries, and employment. Another view is that joining the TPP as soon as possible and getting involved in rule making can force China to reform. A research group of National School of Development, Peking University calculated the pros and cons of Chinese membership in the TPP with CGE using 2013 as the base period. The study shows that if all negotiating

¹ Philip Stephens, America's economic retreat threatens China's rise. *Financial Times*, October 10th, 2013.

² Xinhua News Agency published an English Review on October 13, 2013. The White House held a special meeting to discuss the political implications of the publication of the review of the "removal of Americanization" by the Chinese official news agency.

³ Xi Jinping, Remarks when Receiving Reporters with President Obama. *People's Daily*, June 9, 2013.

countries except China join TPP, the growth rates of exports and GDP for China will fall by 1.02 percentage points and 0.14 percentage point, respectively, compared with the prospective numbers for 2013. If China joined the TPP, the increase rates of exports, imports and GDP for China would rise 3.44 percentage points, 5.58 percentage points and 0.68 percentage point, respectively¹. A U.S. NBER report also holds that at different costs, Chinese membership in the TPP would bring about increased output of 3.816%, 1.967% and 0.59%. If trade costs disappear completely, China's output would grow 1.125%. Meanwhile, Chinese membership in the TPP would be beneficial to increasing the economic welfare of other member countries².

The TPP is causing increasing exclusive loss for China's economic and trade development. For instance, America put forth rules of origin for the textile industry, requiring that all textiles that enter American market be manufactured in TPP member countries, from spinning, weaving, and tailoring to finished products. Due to this rule, some Chinese textile and garment enterprises have no other choice but to transfer some value-added activities to TPP negotiating countries like Vietnam. What's more, the real to Chinese TPP membership is that America will put forward harsh standards and conditions for China, just as in Article 15 of the WTO Protocol. It can be predicated that the negotiations for China to join the TPP would be much more difficult than for joining the WTO years ago.

2.3.3. 2014 could be an inflection point for global rebalancing

The year 2014 will be an inflection point for global economy to turn from "two-speed growth" to "inverse two-speed growth." Some people attribute the decreasing growth rate of emerging economies to their internal structure and systems, while others believe that external factors are responsible for such problems, for example, the external shock caused by capital outflow resulting from the withdrawal of American quantitative easing. As a matter of fact, the revival of the economies of America, Japan, and Europe are achieved at the cost of economic bubbles in emerging economies.

First of all, global imbalance has its origin in intrinsic global contradictions. To make it simple, globalization brings about benefits, but effective supervision and management is lacking. Therefore, America, which has global hegemony and monetary privileges, prefers to have the benefits of globalization all to itself regardless of whether this causes bubbles. The first bubble caused by America was the IT bubble from 1990 to 2001, and the second was financial and property bubble from 2002 to 2008. The two bubbles worsened global imbalances³ and led to industrial hollowing-out and economic virtualization in America. However, America blamed

¹ See Report, "Sino-US Economic Dialogue" in 2013, Research Group of National School of Development, Peking University.

² See Li Chunding & John Whalley, NBER Working Paper 18090, May 2012.

³ The deficit of the current account in America has been rising continually since 1990, especially after 2001. The annual growth of the deficit reached almost US\$ 100 billion after 2001, and by 2006 the deficit broke a record of US\$ 800 billion.

global imbalances and unfair competition from China and India for such crisis, and required emerging economies like China to shoulder part of the responsibility and to pay the costs of rebalancing.

Second, one of the measures America, Japan, and Europe applied in the revival of their economies was quantitative easing and export expansion, which hastened a new round of global inflation, asset bubbles, and protectionism, and led to increasing capital inflow, leaps in asset prices, currency appreciation, and increased imports in emerging economies. The end of quantitative easing in America and the breaking of bubble equilibrium will directly affect the macro-stability of emerging economies.

Third, the re-industrialization, re-innovation, and re-employment, which America has implemented to recover from the hollowing out of its industry, have been obtained through trade protectionism and shifting problems to others. This has further intensified falling external demand, rising costs, increasing ecological and environmental pressure, and sharpening political and social contradictions.

In summary, no fundamental change has occurred in the internal causes of emerging economies, but external causes have changed, such as the decreasing global growth rate, capital reflows, the bursting of assets bubbles, increasing deficits and unemployment, currency devaluation. These, woven with problems of national structure and development pattern may result in another round of global economic adjustment. Emerging economies will become divided in the new round of adjustment and will fall into another development plight if they don't reform.

3. The strategic choices of China in dealing with the changing situation of globalization

3.1. China plays an important role as a responsible power in promoting globalization

First, promoting mutually beneficial global development is a solid foundation for advancing international cooperation. The Third Plenary Session of the Eighteenth Central Committee of the Communist Party of China put forward the decision to form a global-oriented network of high-standard free trade areas. The key words are high-standard FTA and network. High-standard FTA means building a new open economic system on the basis of more regulated, transparent, and fair market economy principles. It also means building a system appropriate to national conditions and for stages of development. Building an FTA network means building a system of all-round cooperation that includes promoting an updated version of CEPA/ECFA, APEC/RCEP, China-Korea FTA, China-Japan-Korea FTA, South-South FTA, as well as FTAs with America, Europe, India, and Russia. The network will bring about a new all-round pattern of openness.

Second, inclusive development is an important condition for safeguarding global equality and justice. It can be seen from world history that the inclusiveness of the international order can be judged in part by whether developing countries have a chance to participate equally in development and enjoy the benefits of. In a situation where major developed countries are reluctant to take more responsibility and developing countries lack a say and governing capacity, the role of

China is of great significance. China should shoulder the responsibility matched with its national strength and make provisions of public goods so as to enhance inclusive global development.

Third, promoting balanced global development is a fundamental guarantee for obtaining world peace and development. Currently, there are two views concerning balanced development. One evaluates imbalance and rebalance using open economy. In February and April of 2011, G20 finance ministers and central bank chiefs put forward a package of indicators to measure global imbalances. The indicators involve the private sector, public sector, and external sector. One of the disadvantages of this measurement is that it's hard to measure the intra-product specialization and working procedure in economic globalization. Therefore, current account deficits are often seen for developed countries while there is surplus in general for developing countries. This results in the faulty judgment that developing countries are the cause of global imbalances. Another view sees the issue from the angle of development. It can be seen that the gaps between developed and developing countries, between the rich and the poor, and between the urban and rural areas have been continually expanding. In this case, as a responsible power, China will help the least developed countries and areas rid themselves of poverty, respect different cultures and systems, safeguard human rights, property rights, and the right to develop, and provide more public innovation and public technology transfer services on the basis of protecting intellectual property rights.

Fourth, China will promote global sustainable development. Currently, developed countries have entered an era of the service-based and knowledge-based economy. They enjoy a high quality of life at the expense of high consumption of carbon, energy, and resources and have low-carbon technologies and professionals. However, they demand developing countries make additional effort in low-carbon development and pay higher prices for low-carbon technologies. Facing this situation, China should press forward with energy conservation and emissions reduction on the basis of development, encourage green transformation and low-carbon development, and in particular strengthen all-round, sustainable economic and technological cooperation with other countries.

3.2. China plays an important role as an emerging power in advancing mutual trust that surpasses the zero-sum game

Currently, the Sino-U.S. relationship is difficult to define precisely-conservative power and emerging power, enemies, rivals or partners. The current Sino-US relationship is a new relationship between two powers with unprecedented differences.

Gilpin (2008) analyzed the classic strategies conservative powers have historically implemented towards emerging powers. The first strategy was to diminish or even thoroughly suppress the emerging. The second was to lower the cost of its various commitments and responsibilities in international affairs. The third was to take a low-cost defensive position by expansion, just as the Roman Empire did in its late period. In today's international situation, America as the conservative power adopts the first two strategies in its dealings with China

the emerging power. In other words, on one hand America takes various measures to restrain China; on the other hand, it lowers the cost of its responsibilities in international affairs, which to some extent reduces the supply of public goods around the globe. China responds the situation with the efforts to build a new Sino-US relationship, and actively makes provisions of public goods. At present, Chinese and American interests are bonded together. China hopes to deepen reform in an all-round way and further open the country to the outside world, and to adjust to economic globalization by promoting negative list management, pre-entry national treatment, and service trade liberalization. This accords with the common interests of both countries. But at the system level, China and America lack strategic mutual trust. America wants to hold its position as the leader, but China is the most promising country to take its place. China's culture, values, and systems are quite different from those of America, and in the eyes of Westerners, China's influence on the world is uncertain. Therefore, to enhance mutual trust and reduce the unpredictability of important decisions concerning common interests is the direction for the cooperation between the two powers.

First of all, maintaining China's national strength and the international position is the foundation for building a new Sino-U.S. relationship. Elvin (1973) pointed out that the reason China survived and prospered as a major historical power lies in the maintenance of rapid economic growth and scientific innovation ability with which China could defend itself from intrusion and keep its position in the world. We can make the past serve the present-maintaining economic growth and scientific innovation remain the best strategy for China to keep its national strength. In the meantime, America will strive to keep its current position and restrain China from taking its place. According to Nathan and Scobell (2012), America should suppress China's efforts of obtaining leadership in international affairs, and in the meantime, strengthen military power, maintain its advantage in talented professionals, protect American intellectual property rights, and win the hearts and minds of the world.

Second, China requires a new international order that respects its interests. One of the reasons why China challenges the existing world order is that China was not involved in its establishment, and its interests have not been respected. Therefore, China has the right to question the validity and rationality of America maintaining the current international order. However, Western society will not give way to such question. According to Ikenberry(2001), there is need for the provision of public goods around the globe; therefore, a great power is needed to take leadership, providing public goods and in the meanwhile governing the world. And in order to assure justice and transparency, it is best that democratic countries take the leadership. Ikenberry further explains that the political regime of a country will affect its manner of dealing with international affairs. America is a democratic country, so it is easier for international society to accept American rules of governance. According to the standards of the West, the political regime of China is not democratic, and China will not follow Western rules. Therefore, it is difficult for the international community to imagine that China would implement global governance and provide public goods in a democratic, transparent, and just way. In other words, the new international order that China demands is difficult to accept. Thus, China must prove to the world that it is willing and capable

to provide just, transparent, and regulated international order. This means that achieving a new international order that accords with China's interests will take time and the efforts of many professionals, and a consensus with America regarding a G2 relationship is needed.

Third, China should take responsibility as a great power. Leonard (2013) believes that the Sino-US relationship is different from U.S.-Russia relationship. The latter is a competition between two types of ideology, whereas the former is a competition of strengths and interests. China and America once had a honeymoon of economically supplementary cooperation, but as the economic structure of the two countries became more and more similar, competition and disputes arose and the honeymoon came to an end. Leonard also points out that after assuming office in 2009, President Barack Obama once hoped to encourage China to join the existing international order, build a Sino-U.S. G2 relationship, and confirm the interests and responsibilities of China in the existing order so as to maintain the post-Cold War international order dominated by the Western society, but Obama was disappointed. Despite the sharpening competition, there are huge common interests for China and America. For instance, America wants China to increase investment in the U.S., while China hopes to learn from America's experience in building a knowledge-based economic society.

At present, both China and America are avoiding head-on conflict. America hopes to build high-standard rules without China along with its allies, using frameworks like the TPP. Meanwhile, China is trying to form a united front, such as BRICS. America will continue to suppress China's efforts to build a new international order that violates American interests. How should China respond? China should transcend the zero-sum game, liberalize and cooperate, avoid conflict, seek to maximize the long-term common interests of China and America, contribute to economic globalization by building a new pattern of relationships between great powers, and truly take on the responsibility of a great power. American business leaders once suggested that America and China should cooperate and study the prospect of institutional collaboration between the two nations. A report from the Peterson Institute for International Economics holds that if China and America built an FTA, it would bring about a 1 percent net increase for the American national income and 2 percent for China. Likewise, Nicola Casarini from the E.U. Institute for Security Studies believes that in the next ten years economic factors will remain the backbone of China-E.U. relations, and it is quite possible that a China-E.U. bilateral free trade agreement will be achieved, which would further advance economic growth and employment in both China and E.U. and strengthen mutual trust.

3.3. China plays an important role as an open power in establishing an all-round open system

Over 30 years ago, Deng Xiaoping, the chief designer of reform and opening up, put forward the theories of "liberalization in three aspects," "paying attention to two overall situations" and "opening both internally and externally." After more than 30 years, there have been tremendous changes in both domestic and international situations, thus the focus of opening to outside world should be adjusted and turn to building an all-round open economic system. The Third Plenary

Session of the 18th CPC Central Committee put forward that in order to adjust to economic globalization, China must advance internal and external opening, combine attracting foreign investment and going global in a better fashion, advance the free flow of both international and domestic factors, distribute resources effectively, deepen market integration, accelerate the development of new advantages relating to involvement in and leading international economic partnerships, and enhance reform with liberalization. Meanwhile, it was presented that China should “seize the opportunity of global industrial restructuring, and promote collaborated development between inland trade, investment and technological innovation,” “increase connectivity in infrastructure with surrounding countries and regions, advancing the construction of a Silk Road economic belt and maritime Silk Road, and form an all-round open pattern.”

To form an all-round open economic system, China should first build an integrated network of sea, land, and air transport, speed up channel construction, and increase connectivity in infrastructure with Central Asia, WANA, South Asia, Southeast Asia, Northeast Asia, Africa, Latin America, Oceania, the Arctic, and with the triangle region of America, Japan, and Europe, and form an all-round open pattern. Second, China should build an international network and production system of global investment, global production, global export and distribution, global service and cooperation, increase integration of intra-border, cross-border and external trade flow, logistics, capital flow, human flow, and information flow, and form a supply chain of cross-border production and trade. Third, China should build an open economic system with financial deepening and liberalization, yuan internationalization, capital account liberalization on the foundation of exchange rate reform and international balance of payments, and form a cross-border financial supply chain system.

The Third Plenary Session proposed that “establishing Shanghai Free Trade Zone is an important measure the Party central committee adopted to enhance reform and opening up” and China should “do a good job in the construction and management of the Shanghai Free Trade Zone and explore new pathway and gain experience for deepening reform and opening wider to the outside world.” Gao Hucheng, minister of commerce, said that in the pilot program China should carry forward reform concerning the management of foreign investment, try out negative list management models, and change the approval system into a filing system for foreign capital in fields not listed in the negative list. This is a great breakthrough in administrative restructuring. Besides, liberalizing service fields, and putting into trial convertibility of the yuan capital account, interest rate liberalization in the financial market, and cross-border use of the yuan will help to gain experience for the future. It can be seen that the pilot project of the Shanghai Free Trade Zone complies with the requirement of seeking a new round of high-standard reform and liberalization. It helps to cope with the changing global situation, such as the TPP and TTIP, and will become a pilot project oriented toward a global high-standard FTA network. This pilot project will promote China’s economic internationalization, modernization, and knowledge-based development at a higher level and in wider scope. It is of great significance for China in becoming a responsible great power, an open country with high income and innovation and a nation under the rule of law.

Whether the experience of the pilot project in Shanghai can be copied and promoted in western China relates to the construction of an all-round open economic system. First, China should focus more on the introduction of institutions on the basis of introducing foreign capital, knowledge, and technologies, and deepen institutional reform, capacity building and talent exchange in central and western regions. Second, China should build a cooperation mechanism between the Shanghai pilot site and central and western pilot sites, for instance, strengthen the cooperation between the Shanghai Free Trade Zone and the Ningxia Inland Open Economic Zone. While building an international trade center in Shanghai, China could take the Ningxia Inland Open Economic Zone as a platform on which the two cooperate with each other and develop onshore trade, offshore trade, protective trade, online trade, and other service trade such as trade financing, insurance, transportation, and logistics with Arab countries. Third, the Shanghai international finance center, international trade center, and shipping center should attempt to expand trade, investment, and industrial cooperation with emerging economies. For example, China should strengthen all-round cooperation of eastern coastal cities like Shanghai, Shenzhen, and Tianjin with West Asia, Central Asia, South Asia, Africa, and Latin America on the platform of the western area and seek “shared development,” green transformation, and mutually beneficial South-South cooperation, and meanwhile advance the openness of western regions.

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