Before 1978, the Chinese economy was developed under the tenets of the Maoist People’s Communes and conducted minimal trade with the outside world. The economic reforms that reversed the Maoist development strategy began at the end of 1978. At first, exports were mainly raw materials and simple manufactured goods, just enough to cover payments for importing strategic minerals and other necessities not available at home. Under Deng Xiaoping’s policy of opening up to the outside world, trade with the rest of the world steadily increased. During the 1980s, imports exceeded exports as capital goods were brought in to equip the manufacturing industry. There was a sharp acceleration in commodity flows, with greatly improved efficiency in economic transactions in order to modernize the economy. The economic reforms adopted by the Chinese government to develop a so-called socialist planned commodity economy combined central planning with market mechanisms.

These crucial changes led to three important reforms: the expansion of foreign trade institutions, the greatly enlarged role for free markets in the distribution of goods, and the prominent role of foreign trade and investment in economic development. Since the early 1980s, China has strongly committed to a policy of broader openness to the outside world and widening foreign economic relations and trade. The opening-up policy has been accompanied by the reorganization and decentralization of foreign trade institutions, the adoption of a legal framework that facilitates foreign trade and direct foreign investment, and the creation of special economic zones. Thanks to all these improvements, China’s foreign trade has rapidly
The Chinese Economy has expanded, benefiting China and integrating it into the world economy and capitalism. Trade promotion has been the strategic engine of economic growth for China.

In 1979, China’s foreign trade totaled US$27.7 billion, 6% of GNP, and 0.7% of world trade. By 1985, it grew to US$70.8 billion, 20% of GNP, and 2% of world trade. By 2011, China’s trade volume reached US$3,642.06 billion, 20% of GNP, and 2% of world trade, ranking China 16th in world trade rankings. China’s top trading partners are the European Union (1), the United States (2), the ASEAN (Association of Southeast Asian Nations) states (3), Japan (4), Hong Kong (5), South Korea (6), Taiwan (7), Australia (8), and Russia (10), with trade amounts totaling US$567.2 billion, US$446.7 billion, US$362.9 billion, US$350.0 billion, US$270.0 billion, US$213.92 billion, US$150.0 billion, US$120.0 billion, and US$78.0 billion, respectively. China has played a significant role in the Asia-Pacific, with trade of almost US$2,000 billion. In 2013, China’s trade volume was US$4,160 billion, 43.9% of China’s GDP. The export amount of 2013 was US$2,210 billion, 11.8% of world exports, ranking first. The import volume of 2013 was US$1,950 billion, 10.3% of world imports. From 1978, China’s trade volume increased 201 times, from US$20.6 billion to US$4,160 billion, accounting for 12% of the world total trade. Remarkably, China is a major trading country with world-class manufacturing industries and is also a major import market, especially in the Asia-Pacific region. China’s trade role in the Asia-Pacific is rapidly growing and reshaping the regional economy, especially in regional trade and market integration.

This issue examines China’s trade in the region, focusing on mutual trade relations and development between China and Southeast Asia, China and Northeast Asia, China and the United States, China and Russia, and China and Taiwan.

The first article, “Is There a Bilateral Trade-Off Between Foreign Investment and Trade? Case of China, Japan, and Korea” by Wen-Jen Hsieh, Jun-Jen Huang, and Ching-Lin Wei, analyzes the feedback effects of foreign direct investment (FDI) on international trade from 1994 to 2010. The authors’ empirical findings are, first, that outward FDI of Japan and Korea to China will replace exports from Japan and Korea to China. This substitution effect will be gradually dominated by the positive effect of interaction of exports and outward FDI as exports from Japan and Korea to China rise. As a result, the China-Japan-Korea (CJK) Trilateral FTA will neutralize the substitution effect. Moreover, the structural change is only statistically significant in the export model, and the negative impact of outward FDI on exports has been larger since 1998. Second, the feedback ef-
fect of inward FDI on imports is not as strong as that of outward FDI on exports. Likewise, the negative impact of inward FDI on imports will be dominated by the positive effect of the interaction of imports and inward FDI as imports from China go up. Finally, there are still some remedies for hollowing-out effects from China, such as depreciation policy, free trade agreements, and policies for attracting inward FDI from China. If an increase in outflow FDI to China lowers exports to China, the Japanese government and the Korean government can balance their domestic economies by drawing inward FDI from China and reducing their currency price. Nonetheless, the CJK Trilateral Agreement may generate a long-term benefit for China, Japan, and Korea. After the establishment of a free trade agreement, China may not expand its economic growth at the expense of reducing trade with its Asian neighbors.

The second article, “Trade Relations Between China and Southeast Asia: Strategy and Challenge” by Wan-Ping Tai and Jenn-Jaw Soong, emphasizes the rapid changes in the relationship between China and the Association of Southeast Asian Nations (ASEAN) after the end of the cold war. Leading the economic development of East Asia, China has intentionally established friendly relationships with the ASEAN countries in an effort to convert the “China threat” into the “China opportunity.” The article explores the economic and trade development of China and the ASEAN countries from a political economy perspective. It notes that China’s intentional efforts and expenditures have provided ASEAN countries with the motivation and power to participate in economic cooperation. Regardless of whether China’s motivations are generally benevolent, and regardless of whether the public goods it provides are simple, these intentional efforts or expenditures are essential strategies for establishing and maintaining operation of the ASEAN free trade area (AFTA), which is directly relevant to China’s strategic development of trade relationships with ASEAN. To maintain East Asian economic and trade integration and China’s political and economic benefits as a regional hegemony, China continues to pursue long-standing trade strategies that cannot easily be changed.

According to these development scenarios, ASEAN primarily established internal and external strategies to develop economic and trade relations. Regarding internal strategy, ASEAN plans to establish the ASEAN Community by 2015. This body is expected to enhance internal integration and provide the impetus and assistance for reforming or liberalizing the regional economic and trade systems, enabling economies of scale and improved competitiveness. Meanwhile, ASEAN promotes and develops regional trade externally through the Regional Comprehensive Economic Partnership (RCEP). In addition to the magnetic effect of globalization and China’s economic and trade strength, China’s “conciliatory policy” is the critical factor prompting ASEAN countries to promote the concept of “cooperation rather than competition” and improve their bilateral trade relations with China.

The third article, “Development of a Cross-Strait Economic Cooperation Framework Agreement: Strategy, Review, and Outlook” by Chen-Yuan Tung and Jason Yeh, examines cross-strait economic relations as they have gradually opened up
from prohibition to close economic exchanges in the past three decades. Nowadays, China is Taiwan’s largest trading and investment partner, and Taiwan is one of China’s five largest trading and investment partners. Cross-strait economic and trade exchanges, however, are mostly driven by unilateral opening-up policies and market forces rather than by coordination and cooperation between the two governments because appropriate institutional interactions and a cooperation framework have not yet been developed. Although China and Taiwan are members of the World Trade Organization (WTO), the Chinese government is unwilling to engage in the cross-strait interactions and cooperation needed in international economics.

In February 2009, President Ma Ying-Jeou of Taiwan proposed a Cross-Strait Economic Cooperation Framework Agreement (ECFA). The ECFA was envisioned as a measure to prevent Taiwan’s economy from being marginalized by enabling its economic integration with the rest of East Asia. After a year of negotiation, the ECFA was signed on June 29, 2010. Negotiations for four follow-up agreements began in early 2011, including trade in goods, trade in services, investment, and dispute settlement. The article emphasizes President Ma’s strategy of integrating Taiwan in regional markets by developing the cross-strait Economic Cooperation Framework Agreement with China and then using it as a pathway to subsequently join East Asian economic integration. In summary, the article reviews the ongoing effects of the ECFA and discusses its potential. It also proposes some enhancements that can better help Taiwan strategize its foreign negotiations.

The fourth article, “U.S-China Trade Relations and Economic Distrust” by Edward I-hsin Chen, explores U.S.-China trade relations and economic distrust. China’s rapid economic growth as well as its ambitious investment and trade policies abroad have raised concerns that China intends to sustain its rapid growth at the expense of U.S. global economic interests. Indeed, the U.S.-China trade relationship has continued to tilt in favor of China since the 1980s, and there is longstanding distrust between the United States and China on such issues as intellectual property rights, renminbi (RMB) exchange rates, Trans-Pacific Partnership (TPP), Regional Comprehensive Economic Partnership (RCEP), rare earth metals, and state-owned enterprises (SOEs). Given the economic distrust, the United States and China might engage in limited cooperation and coordination on issues where their national interests are identical or partially identical, but are more likely to compete with each other more than ever before in many economic and trade aspects. The areas of possible cooperation include clean energy, climate change, and China’s huge holdings of U.S. treasury bonds. The areas where competition is more likely include law enforcement of intellectual property rights, intellectual property theft, value of the currency, and investment access to one another’s markets. China has serious misgivings that Washington is making use of Sino-American economic frictions as a scapegoat for American economic failures.

The last article, “Development of China-Russia Relations (1949–2011): Limits, Opportunities, and Economic Ties” by Jing-Yun Hsu and Jenn-Jaw Soong, discusses the so-called strategic partnership of China and Russia since 1996. Although the
partnership is currently strong, the future is quite uncertain, since the relationship between the two countries has never been as solid as it seemed, nor as dangerous. Some scholars have strong doubts about the strategic nature of the China-Russia partnership and take a gloomy view of the future of this bilateral relationship. Nevertheless, to conclude that the Sino-Russian strategic partnership is purely tactical, impulsive, and baseless will prove to be more dangerous.

The article analyzes two important factors determining the strategic alliance between China and Russia. First is the improved political and diplomatic environment between the two countries, now that they have resolved many controversial problems, such as border disputes and arms reduction, which plagued their relationship over the past few decades. As both countries now tend to cooperate at the international level, and in some cases share similar goals or even the same position on international issues, many scholars and political players view this growing strategic alliance as a threat to regional and world order. The strength of the alliance and its likelihood to pose a significant challenge to the world order will be defined by its confrontation with the hegemonic role of the United States.

The other factor affecting the mutual relationship is the growing bilateral trade between the two states, especially in the energy sector, which will be a determinant of future trade. Despite the difficulties met in the last two decades in developing the oil and gas sectors, especially in the construction of pipelines from Russia to China, we can see that the future is more promising and encouraging for the development of trade in energy. The recent launching of an oil pipeline from Russia to China via the East Siberia link and the agreement whereby Russia will supply 70 billion cubic meters of gas per year for the next decade are huge projects that could bring both states even closer than ever.

Reference