

China's 40 Years of Opening-up: Evaluation and Prospects

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I. Introduction

The year 2018 marks the 40th anniversary of China's reform and opening policy. The opening of China to the outside world for the past 40 years started with the establishment of special economic zones, and was accelerated by its accession to the WTO, which has made an important contribution to the rising status of the Chinese economy in the global context. As China celebrates its 40th anniversary of reform and opening-up, it faces new challenges both internally and externally. Internally, there is a growing need to link China's opening to the outside world with domestic restructuring, while, externally, countries like the United States are pushing back against China's rise. To cope with such environmental changes, China is showing signs of embarking on a new opening policy. In the 25 years since the establishment of diplomatic relations between Korea and China, China has emerged as Korea's largest trading partner and second largest investment destination, and the influence of changes in China's foreign policy on the Korean economy and Korea-China cooperation is also growing. Therefore, this study comprehensively looks at China's opening policy over the 40 years of its reform and opening policy, and

anticipates the direction of the opening policy which Xi Jinping will pursue in his second term. For this purpose, we identified major areas (regional opening strategy, foreign direct investment strategy, outward investment strategy, FTA strategy, and the U.S.-China trade relationship) to examine changes in the opening policy, going on to present countermeasures that Korea may take.

II. Major Issues and Prospects

China's regional opening policy started with special economic zones (SEZs) in the 1980s, and several coastal cities, coastal economic districts, provinces and autonomous regions were designated as windows opened to the outside world, pursuing both the gradual opening policy of so-called 'point(點)-line(線)-face(面)-omnidirectional(全方位)' and regional development. After joining the WTO, China promoted regional integration and balanced development by carrying out the Western Development Strategy, Rising of Central Regions Strategy, development of the northeast regions, and the establishment of free trade areas (FTAs), all at once. Since the launch of Xi Jinping leader-

ship, regional opening policy is expected to focus on strengthening the opening platforms (for examples, FTAs and Hainan Free Trade Port); linking the Belt & Road Initiative, the Beijing-Tianjin-Hebei Integration Plan, and the Yangtze River Economic Belt; and strengthening cooperation with the Hong Kong, Macao, and Taiwan regions.

China's foreign direct investment policy has undergone a four-step change of foreign investment regime rearrangement → foreign investment encouragement → selective foreign investment attraction → negative list system experiment. Through these processes, China has continued to take steps to improve the foreign direct investment environment. In the future, the foreign investment environment will be further improved by the unification of foreign investment laws, the nationwide implementation of market entry negative lists (scheduled for 2019), and introduction of the safety review system for foreign investment.

China's outward investment has progressed gradually through the stages of exploration (1979-1992), mediation (1993-2000), gradual growth (2001-2007), and large-scale development (2008-present). China's outward investment remained very low even after the commencement of reform and opening policy, but owing to China's entry into the WTO and Chinese leadership's emphasis on overseas investment (走出去), outward investment began to grow rapidly in the 2000s. As a result, China's overseas investment recorded US\$170.1 bn (non-financial) in 2016 and China emerged as the world's third largest foreign investor after the United States and the United Kingdom. In 2015, foreign reserves declined sharply, and in recent years, the regulations and supervision of foreign investment imposed by the Chinese government have been strengthened. In the fu-

ture, risk factors of China's overseas investment include the negative reaction of Belt and Road countries to the B&R Initiative and tightening of China's controls on investment toward the U.S. due to the U.S.-China trade frictions, among others. On the other hand, the prospect of China's expanding overseas investment in related sectors due to the fourth industrial revolution policy of the Chinese government may serve as an opportunity for Korea.

The FTA strategy of China has been carried out in four stages: preparation to enter the international trade order (1991-2001), integration into the global economic system (2002-2006), full implementation of FTA strategy (2007-2012), and acceleration of FTA network construction and upgrade (after 2013). China entered the global economic system with its accession to the WTO and started to build an FTA network centered on the Chinese economy. Since its launch in 2013, the Xi Jinping leadership has emphasized that establishing high-level FTAs and concluding trade agreements through negotiations are one of its most important strategies. As a result, China has completed 18 FTA agreements with 25 countries and regions as of November 2018. The Xi Jinping leadership is aware of the importance of the FTAs as a new platform for opening its doors to the outside world, and is trying to lead regional economic integration through the Korea-China-Japan FTA and RCEP. In addition to exploring ways to link the Belt & Road Initiative with these FTAs, China will respond to pressures regarding the new trade agendas (such as government procurement, environment, competition, and labor) by gradually enhancing the level of cooperation in FTAs that have been already signed.

The U.S. and China have continued to grow in their importance to each other in terms of economic reliance since the establishment of U.S.-

China diplomatic relations in 1997 and China's accession to the WTO in 2001, while confrontation and conflicts have also broken out as the international status of China has grown as well. In particular, in 2017, the Trump administration imposed tougher commercial sanctions on China, which in turn actively responded to them, thus escalating the trade conflict between the two countries significantly. Future trade disputes between the two countries could be further intensified by factors such as the promotion of China's advanced technology development strategy and strengthening of regulations on China's overseas investment by the Chinese government.

III. Korea's Countermeasures

Since the inauguration of the Xi Jinping leadership, China's foreign policy has been aimed at creating an "open economic system." If China's foreign investment environment improves dramatically in the course of promoting this goal, China's new open-door strategy can serve as a new opportunity for Korea. On the other hand, the open-door strategy in the second phase of the Xi government, including the Belt & Road Initiative, may stimulate major countries' vigilance against China. The trade frictions between the U.S. and China are recent examples of this, and also one of the risk factors for Korea. Therefore, it is necessary to understand the various risks caused by changes in China's open-door policy and its impact on Korea-China cooperation, and based on this, a comprehensive strategy regarding how to respond to these changes should be prepared in the context of Korea-China economic cooperation.

First, Korea should continue to keep pace with additional opening measures in line with China's regional opening strategy and establish

proper strategies for Korea-China cooperation. In particular, Korea needs to focus on northern economic cooperation centered on the Korean Peninsula and Northeast Asia. Second, the foreign investment environment in China is expected to improve further, which is a positive factor for Korean companies' entry into China. Therefore, it is necessary to re-establish Korea's investment strategy in China in response to the change. The recent policy of China enlarging its service market opening may provide Korea with investment opportunities, and the potentials arising from market-opening measures in industries related to China's Made in China 2025 strategy should be thoroughly explored in order to seek cooperation between Korea and China in high-tech sectors. In preparation for the nationwide implementation of market entry negative lists, Korean companies seeking markets in China should also secure their competitiveness. Third, there is a concern that competition with Korea will intensify in third countries due to the expansion of China's overseas investment, but this could also be seen as an opportunity to strengthen cooperation between Korea and China in third countries. Therefore, it is necessary to seek ways to link the Belt & Road Initiative with Korea's new Southern and Northern economic cooperation strategies, and make efforts to attract Chinese companies to Korea. Fourth, Korea should utilize the second phase negotiations of the Korea-China FTA to coordinate differences between the two countries and to expand areas of mutual understanding during negotiations of the service and investment sectors within the Korea-China-Japan FTA. In addition, it is necessary to reflect change factors of China's FTA strategy into the second-phase negotiation of the Korea-China FTA, and to derive better results in the negotiation. Fifth, it is important to prepare for changes in trade relations between the U.S. and China, which may also affect trade disputes

with Korea. If unfair trade practices between the two countries cause damages to Korean companies and related industries, trade remedies and WTO litigation can be actively pursued. Since the acceleration of China's opening-up due to trade pressures by the U.S. can serve as an opportunity for Korea, this needs to be considered during the second-phase negotiations of the Korea-China FTA, thus helping Korean companies to advance into the Chinese market in the future. **KIEP**