THE ECONOMIC CARD IN CHINA'S PRO-ACTIVE DIPLOMACY

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Executive Summary

1. For years, China has been pushing very hard on its central foreign policy message of "peaceful rise", but with limited effect. This is partly due to China's lack of soft power, both in terms of cultural influence as well as Joseph Nye's original idea of exemplary leadership.

2. Given the many inherent obstacles, Chinese policy makers naturally see economics as a potentially more effective instrument to advance its overall foreign policy interests.

3. For regional economic diplomacy, China seemed to have taken reference from post-war Japan, given its lack of a voice and strong political and institutional influence in the region. Thus, China had to first concentrate on expanding its markets and later acquiring the region's natural resources and raw materials.

4. In recent years, China has been conducting its economic diplomacy with a strong financial muscle. With its vast foreign reserves of US$4 trillion, relatively low government debt, persistent "twin surpluses" (both trade surplus and capita account surplus) and a healthy fiscal balance, the Chinese government is "cash rich".

5. With ASEAN, Premier Zhu Rongji's China-ASEAN Free Trade Area enjoyed two-way trade of close to US$500 billion in 2014. China also put up a US$10 billion China-ASEAN Investment Fund to deepen economic cooperation with individual ASEAN countries.

6. China has also rapidly expanded its Official Development Assistance programme. During 2010-12, China dispensed US$14 billion largely in grants and interest-free loans to developing countries in Africa and the Asia-Pacific. With its total overseas direct investment amounting to US$140 billion, China has now become the world's third largest source of FDI.

7. By far, the most significant new initiative has been the setting up of a US$40 billion Silk Road Fund launched by President Xi Jinping at the APEC Summit in Beijing in October 2014.

8. This was recently followed by the establishment of the Asian Infrastructure Investment Bank, with China providing half of its US$50 billion start-up capital. Fifty-seven countries have signed up as its founding members.

9. Beijing has recently recognised that some of its past overseas economic ventures had not been financially productive. Many of its overseas projects were often over-priced or short-changed, full of corruption and kick-backs.

10. China has also learnt that economic diplomacy, to be effective and viable in the long run, has to abide by certain essential market rules.

11. There are however limitations to a country's economic diplomacy. No amount of economic carrots can buy off nationalism or core national interests of other countries. Economic diplomacy alone is not sufficient to create enough "soft power" for China.

12. On the other hand, China's initiatives could be viewed by some developing countries as its efforts to promote South-South cooperation, which in turn could contribute to the growth and spread of the so-called "Beijing Consensus" as a potential counter-weight to the "Washington Consensus".