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RESEARCH ARTICLE

China's Coherence in International Economic Governance

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Abstract This article analyzes China's coherence in international economic governance. When and how is China challenging the rules and norms of the prevailing international economic order? Has China adopted the current rules and norms across the board, or is it proceeding in an ad hoc or piecemeal manner? How can its (in) coherence be explained? To address these questions, I compare China's profile vis-à-vis three dimensions of the global economic order: trade, investment, and development aid. I argue that in international trade and investment, China has neither sought nor brought about significant change. China is however, offering an alternative to the Western norms that until now have dominated the global development aid regime. China's establishment of the Asian Infrastructure Investment Bank (AIIB) is notable in this regard, though it is still soon to determine if the Chinese-led development bank will break with existing norms. The article then considers possible theoretical explanations for the variation in China's behavior across the three areas.

Keywords China · International Economic Governance · International Trade · World Trade Organization · Bilateral Investment Agreements · Development Aid

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Introduction

This article examines the coherence of China's profile across three dimensions of international economic governance: trade, investment and development aid.[1] When and how is China challenging the prevailing rules and norms in these three areas? How does China's policy vary in the different areas? Has China adopted the rules and norms of the liberal international economic order they represent, across the board or is China proceeding in an ad hoc or piecemeal manner? How can its (in) coherence be explained?

In the context of the broader debate over a rising China's impact on the global order and whether it will lead to conflict or cooperation, it is often claimed that China aspires to change the rules and norms of the liberal economic institutions established after WWII by the West.[2] US President Obama, for example, has weighed in on the side of those concerned that China presents a challenge to the prevailing global economic order, warning that China will write the trade rules for the 21st century, if nothing is done to stop it [65, 66].

Regarding international trade, over a decade has passed since China joined the World Trade Organization (WTO) in 2001. China has also concluded a number of bilateral free trade agreements (FTAs) as well as an important regional trade agreement with the Association of Southeast Asian Nations (ASEAN). Moreover, China is actively promoting the ASEAN-led Regional Comprehensive Economic Partnership (RCEP) between ASEAN members and the six states with which ASEAN has FTAs (China, Australia, India, Japan, Korea, New Zealand).[3]

On investment, in addition to signing on to the Convention on Settlement of Investment Disputes between States and Nationals of Other Nations in 1993, China has become one of the world's largest signatories to bilateral investment treaties (BITs) in conjunction with the rise in its inward and outward foreign direct investment (FDI). In 2008, China began negotiating an investment treaty with the United States. More recently, it signed a trilateral investment treaty with Korea and Japan that went into force in 2014.

I argue that China has not sought nor brought about significant change in international trade or investment norms and rules (although there may be some disagreement about the former[4]). Regarding development financing, however, China seems to be challenging the status quo, and is positioned to continue to do so. It is not only a

[1] 'Development aid', 'development assistance' and 'development financing' are used interchangeably in the article. China's aid is perhaps best described as 'development financing' since much does not fall into the commonly-used OECD-DAC definition of overseas development assistance. Shambaugh explains that China's aid "straddles the line between aid and overseas investment, involves private companies, and [China] gives loans that often do not have a grant element over 25 %." ([35]: 202–205).

[2] This article makes no judgment as to the merits of maintaining the existing norms and rules of the global economic system. On this, Scott Kennedy argues that the existing system is not perfect and that China should try to promote change ([45]: 11–12).

[3] Launched at the 21st ASEAN Summit in Cambodia in November 2012. According to estimates, the trade of participating countries accounts for about 40 % of world trade.

[4] Henry Gao argues that China has gone from rule taker to rule shaker and even rule maker in the WTO [33]; Peter Yu argues that China's bilateral and regional trade agreements follow a different pattern than those of the dominant players, the US and the EU [105]; Nargiza Salidjanova suggests that China is "promoting alternate norms."([75]: 30–1).

recipient of aid in the system, but has become an important lender within and alongside the World Bank, as well as a contributor to regional development banks. Moreover, in October 2013, Chinese President Xi Jinping initiated the establishment of the Asia Infrastructure Investment Bank (AIIB) [101], with observers predicting that the new bank would compete with the World Bank and the Asian Development Bank.[5] President Xi Jinping has also called for developed country support for developing countries with "no political strings attached" and the establishment of a "more fair and balanced new global development partnership…"[100] These developments suggest that China is promoting change in the regime. This is puzzling since it is in development aid that China's process of integration into the international economic order began, with its engagement with the World Bank and the International Monetary Fund in 1980, as participant and beneficiary of these two institutions. Consequently, this is the area in which the longest period of socialization has taken place.[6]

With regard to the variance found in the three areas of global economic governance, the article considers two broad types of theoretical explanations: rationalist explanations that focus on cost-benefit calculations and material interests, and normative approaches which stress the importance of ideas, beliefs and socialization. A rationalist state-centric approach would suggest that the variation in China's behavior, may be attributed to a disparity in China's national interests in each of the areas. Because different issue areas generate different costs and benefits, policy differences would be anticipated. One strand of such thinking, liberal institutionalism, would further emphasize the role of the institutions/regimes and their different abilities to constrain behavior, to explain the variation in China's profile in the three areas.

A domestic politics approach, another strand of rationalist thinking, would highlight the importance of domestic interest groups, and their resistance or support, in shaping a state's policies in different issue areas. This approach presents a number of problems, some substantive and some methodological. For one, leaders in an authoritarian regime such as China may be less sensitive to domestic interest groups than in a democratic regime. In fact, Chinese leaders have overridden domestic pressure, out of foreign policy or broader national interest considerations.[7] While this is changing, as an increasing number of domestic actors contribute to the policy making process,[8] it is still difficult to determine the impact of domestic pressure given the complex and often opaque decision-making process in China. Moreover, as President Xi consolidates his power along with that of the Communist Party,[9] we may find that domestic elites will

[5] On the new bank as a rival to the World Bank and Asian Development Bank, see [27].

[6] China joined the World Bank and the IMF in 1980, after almost a decade of preparation. On China's interaction with the World Bank and the IMF, see [43].

[7] China's willingness to make concessions to its FTA partners to the disadvantage of its domestic industry is well documented, for example in the case of its agreement with ASEAN. See ([18]: 289), ([73]: 31–32, 38–40). In China's WTO accession negotiations, despite expected domestic unrest by farmers, and opposition by vested ministerial interests, Wei Liang notes that the drawn out negotiations were only concluded as a result of the personal intervention of China's top leaders ([51]: 716–718).

[8] Thomas J. Christensen notes the growing number of bureaucracies that are involved in the foreign policy making process such as the military, energy companies, exporters, and regional party elites ([21]:60).

[9] For example, it has been suggested that Xi's campaign against corruption is also serving to rid Xi of political rivals. Other measures such as the proposed law on foreign NGOs may impede the development of China's civil society, and prevent critique of the government.

be less likely to challenge him. In view of the above, this article assumes the state to be a unitary actor in its discussion of rationalist theoretical explanations.

A norms-driven approach would suggest that a social learning dynamic—an interactive process that leads to the domestic internalization of international norms—would explain China's profile in the three areas. Such an approach might predict that the longer the socialization process, the greater the likelihood of China maintaining the status quo. Yet, the findings indicate that the only area in global economic governance that China is challenging the prevailing regime is in development financing, the area that it has undergone the longest period of socialization. In the article, rather than reject a socialization explanation outright, I propose building on Gregory Chin's concept of two way socialization [16], and consider the possibility that ultimately a socialization process could lead to better understanding of the behavioral norms of other institutional actors, and thus, increased self-confidence to act at times in a non-conforming manner as other key actors do, and finally, to be proactive in promoting institutional norms change that would work to China's advantage.

The article starts by analyzing China's approach to each of the three issue areas: trade, investment and development financing, to determine whether it is supporting or challenging the prevailing international order in these areas. The study finds that China's profile varies across the three areas, and then discusses possible explanations for the variation. The paper concludes that a rationalist state-centric perspective provides important insight into China's incoherent profile, nevertheless, a normative perspective complements our understanding of China's maintenance of, and challenge to, the status quo in international economic governance.

China and the International Trading Order

Today China faces a global trading environment based primarily on the highly legalized multilateral WTO system and its rules. Alongside the WTO system is a labyrinth of regional and bilateral trade agreements between countries throughout the world, built on WTO derived principles. Added to the mix is the recent emergence of 'mega regional' trade and investment agreements, considered 'mega' regionals because the negotiating parties comprise such a large volume of global trade and investment.[10]

Two mega-regionals are particularly noteworthy, as they are being driven by the US, the historical hegemon in the global trading order, and they exclude China. These mega-regionals are the recently concluded Trans-Pacific Partnership (TPP)[11] and the Transatlantic Trade and Investment Partnership (TTIP).[12] The US is thought to be pushing them in order to shape 21st century trade and investment rules and norms,

[10] UNCTAD defines mega regional agreements as "broad economic agreements among a group of countries that have a significant combined economic weight" ([88] XXIV). Whalley refers to such agreements as 'large-large' negotiations, in contrast to small-small or large-small regional trade agreements [93]. Melendex-Ortiz defines mega regionals as ""deep integration partnerships between countries or regions with a major share of world trade and foreign direct investment (FDI), and in which two or more of the parties are in a paramount driver position, or serve as hubs, in global value chains…"[55].

[11] Agreement between Australia, Brunei, Chile, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, US and Vietnam) finalized on October 5, 2015. The agreement covers about 1/3 of world trade and 40 % of global GDP [14].

[12] Negotiations between the US and the EU that started in July 2013.

maintain leadership of the global economy, and as part of its 'pivot to Asia' policy aimed at reasserting itself in the region. In response, China has been pursuing its own international trade agenda, and as noted above, is promoting a separate set of mega - regionals: the RCEP, and since 2014, a Free Trade Area of Asia Pacific (FTAAP) [85].

China and the WTO

China, like all other WTO members, was required to undertake commitments over a broad range of issue areas when in joined the WTO. But China was also asked to undertake commitments that far exceeded those of other WTO members. [13] For example, China's market access coverage in goods and services went beyond those of other WTO members. [14] More unusually, some of China's rules commitments [15] bound it to a higher standard than that applied to other WTO members (often referred to as WTO-plus commitments), for instance, in areas such as transparency. [16] China also agreed to discriminatory measures where it gave up rights available to all WTO members, such as in anti-dumping and countervailing investigations (often referred to as WTO-minus commitments), in essence, increasing the likelihood of foreign authorities imposing dumping/countervailing duties on Chinese exports. [17]

The discriminatory commitments that China undertook in the WTO (and for which China's chief trade negotiator was labeled by some in China a traitor [18]), its phenomenally rapidly growing importance in world trade, as well as the state's involvement in the economy, could conceivably lead it to defy the system by flouting the rules, working to change the rules, creating an alternative framework, or by withdrawing altogether from the organization. [19] Yet this is not happening. China has accepted the current multilateral trading system; it is working within the system; and it is working towards the perpetuation of the system. [20] For one, it is considered to be largely

[13] The WTO accession process is a one-way negotiating process. Acceding countries are asked to make concessions without being able to make reciprocal demands, while existing WTO members are entitled to make demands without making any concessions, thus subjecting acceding members to enormous pressure.
[14] For example, see ([50]:79–80); ([53]: 299–339); [82].
[15] WTO members make two kinds of commitments: rules-based commitments which are normally uniform for all WTO members and market access commitments which are made on a member by member basis and thus differ among members.
[16] For example, China agreed to a special transitional review for its first eight years in the WTO, and in its tenth year. For discussion of China's WTO-plus obligations, see [72].
[17] China agreed to be considered a non-market economy (NME) until 2017 for calculating dumping in anti-dumping investigations, with the use of a higher cost surrogate country to determine the domestic price, thus making it more likely to find higher dumping margins. Similarly, in countervailing duty investigations, China agreed to an alternative benchmark in calculating its subsidies, thus increasing the probability of WTO members applying countervailing duties. In contrast to the NME provision in anti-dumping, the alternative benchmark provision regarding subsidies does not expire.
[18] This accusation has been cited in a number of articles. See for example, [52].
[19] Although withdrawing from an international organization/treaty appears farfetched, in 2013 South Africa terminated its bilateral investment treaties with Germany, the Netherlands, Spain and Switzerland. Bolivia, Ecuador (2009) and Venezuela (2012) have withdrawn from the ICSID Convention ([88]: 114). Italy recently notified its withdrawal from the Energy Charter, although its obligations will remain in effect for twenty additional years ([89]:107). At the WTO's Bali Ministerial in 2013, some WTO members, in an unprecedented move, reneged on their original commitment to the Bali Package although agreement was eventually achieved [25].
[20] For more on China's view of its implementation, see [102, 103].

complying with the WTO rules themselves [37, 39, 70], ([46]: 237–238). Moreover, China is generally complying with panel and Appellate Body (AB) rulings, even though the degree of its compliance with the rulings may be debatable.[21] It is making a discernable effort to cooperate in implementation of rulings against it, is adhering to the time limits set by the WTO, amending its laws when necessary, and demonstrating in its rhetoric and behavior, that it believes compliance with WTO rulings to be appropriate.[22] Furthermore, China's compliance with dispute settlement rulings stands in sharp contrast with the stalling behavior manifested by other WTO members, such as the US, when they have lost cases in the WTO.[23]

Regarding the question of if, and how, China may be seeking more generally to change WTO norms and rules, we can also look at China's positions in the WTO's Doha Development Agenda (DDA or Doha Round) negotiations. In its early years in the WTO, China was accused of impeding the progress of the negotiations by maintaining a low profile, not taking on a leadership role, and not offering to make concessions corresponding with its size and importance in the global economy.[24] Indeed, China claimed that as a recently acceded member (RAM), it should not be asked to take on new commitments so soon after taking on extensive accession commitments. However, with time, China started to increase its participation in the negotiations [34], ([98]:22–24). China's top leaders started expressing their support for the completion of the DDA negotiations, and have called for achieving an early harvest in some areas [30]. Moreover, accusations that at times, China had been the cause of the breakdown in the DDA negotiations have been refuted.[25] The large number of China's negotiating proposals[26] also testifies to a high degree of engagement in the negotiating process, and as such, faith in the WTO system. Moreover, the content of China's proposals suggests its commitment to the basic trade liberalization norm of the current multilateral trading system.[27] China was credited with playing a decisive role in the Ministerial in December 2013 that led to the Bali Package [3].[28] In the division between WTO members over the continuation or abandonment of the DDA negotiations prior to the Nairobi Ministerial, China called for the completion of the Doha Round [59, 60], further underlining China's commitment to the current multilateral trading system.

[21] For example, Webster argues that China has only superficially complied with WTO rulings [92].

[22] For instance, by coming to an agreement for a 'reasonable period of time' in a timely manner, by holding discussions towards changing or eliminating its illegal measures, and by implementing its commitment in good faith and within the 'reasonable period of time'[54].

[23] The US has spent years dragging out implementation of the WTO ruling on its Copyright Act, a dispute initiated by the E.C. in 1999. As of 20 May 2015, US implementation of the WTO ruling was still on the WTO agenda as a surveillance matter [99].

[24] For example, see [10].

[25] The 2008 Mini-ministerial is often cited as an example of China being responsible for the breakdown of the talks because of its support for India against the US on the Special Safeguard Mechanism. Scott and Wilkenson, based on interviews with participants, argue that China was trying to broker a deal between India and the US, rather than supporting India ([76]:776).

[26] As of July 2008 China had submitted over 100 proposals in the Doha Round negotiations [33].

[27] China's proposals on anti-dumping are an example of this. For details of this argument, [36]. China's position might be explained by the fact that it is the world's largest target of anti-dumping action, and therefore its interests lie in stricter anti-dumping rules, nevertheless the bottom line is that it is promoting a pro-trade liberalization agenda.

[28] China, along with India and the Philippines, was particularly supportive of food security, one of the three potential deliverables at Bali. (The other two were trade facilitation and development.)

Other signs of China's active engagement in the WTO include initiating negotiations, along with 13 other WTO members, towards the WTO Environmental Goods Agreement to lower tariffs on a list of agreed upon list of environmental goods,[29] participating in WTO negotiations on an expanded deal to cut tariffs on information technology goods,[30] and requesting to join the US and EU-driven negotiations towards Trade in Services Agreement (TISA), currently taking place on the sidelines of the WTO.[31]

China and Regional and Bilateral Trade Agreements

In addition to operating in the multilateral framework of the WTO, China has, like other countries, established a network of preferential trade agreements (PTAs). If China isn't working to significantly change the WTO system, is it challenging current international trade rules through its bilateral and regional trade pacts? [32]

As of September 2015, China had established thirteen PTAs, with six more under negotiation, and another five under consideration.[33] China has entered into three basic types of preferential trade pacts.[34] In the first category are special arrangements with areas/economies which are part of Greater China or which it considers to be part of Greater China. China established Closer Economic Partnership Arrangements (CEPAs) with Hong Kong and Macau in 2003,[35] while the Cross-Straits Economic Framework Agreement (ECFA) between Mainland China and Taipei was established in 2010. The second category of China's preferential trade pacts consists of bilateral free trade agreements (FTAs) negotiated between China and various partners, both developing and developed, including: Chile (2006), Pakistan (2007), New Zealand (2008), Peru (2010), Costa Rica (2011), Iceland (2013). The third category of trade agreements are China's regional agreements, such the Framework Agreement on Comprehensive Economic Co-operation between ASEAN and China (ACFTA) which was signed in 2002. As part of China's incremental approach to its relations with ASEAN,[36] and further to Article 11 of the Framework Agreement, a separate agreement on dispute settlement was concluded in 2004 and went into effect in 2005 [1].

It may be claimed that China, through its FTAs, is challenging the current global trade rules in areas such as non-market economy status in anti-dumping investigations, where it took on discriminatory provisions when it joined the WTO. As a condition to starting FTA negotiations, China requires its potential FTA partners to renounce the use

[29] The agreement is called the Environmental Goods Agreement (EGA). For the official statement see [44]. Negotiations were launched in July 2014.

[30] Though considered to be holding up the negotiations with its request for exemptions on a long list of goods, China and the US achieved a breakthrough in November 2014 after China agreed to a compromise [74].

[31] China's request was rejected out of concern that China would hinder the talks [22].

[32] The US for example, has a history of using preferential trade agreements to promote norms that it would like to be incorporated into the multilateral framework. NAFTA is considered an example of this.

[33] For a list and description of China's PTAs, see [61]. The Cross-Straits Economic Framework Agreement between Mainland China and Taipei is not included in the twelve PTAs.

[34] Articles on China's FTAs include [32, 48, 105, 106].

[35] China resumed sovereignty over Hong Kong in 1997 and Macao in 1999. Both were members of the WTO prior to the People's Republic of China, and are referred to as Hong Kong, China and Macao, China respectively in the WTO.

[36] For a description of China's incremental approach to ASEAN, see ([105]:1007–1009).

of non-market economy methodology.[37] While admittedly a gain for China, it does not seem likely that eliminating these discriminatory provisions is China's sole motivation in negotiating new FTAs. Moreover, such provisions are in fact protectionist in nature; thus, by working to eliminate them, China could be viewed as taking a pro-trade liberalization stance.

Taking a broader perspective, while China's preferential trade agreements do differ from those of the EU and the US, in fact, regional/bilateral free trade agreements generally differ from one another. Regional/bilateral trade agreements typically vary in terms of depth (the degree of harmonization required by the agreement and width (the number of policy areas covered). Some agreements are more interventionist while others are minimalist in terms of the detail of the legal systems imposed on the participating parties. Peter Yu notes that some agreements, such as those of the US, focus mainly on trade and investment while others such as the Economic Partnership Agreements (EPAs) of the EU expand their agreements beyond trade to non-trade areas.[38]

At the same time, and in keeping with its general foreign policy principle of non-intervention, Chinese regional/bilateral free trade agreements follow a minimalist approach in terms of both depth and width. Unlike the US and EU agreements, the Chinese agreements do not require harmonization or the transposition of laws. Also unlike the template approaches of the US and the EU, China does not have a standard format for its FTAs— in fact, the market access and the rules coverage of its FTAs are considerably different from one another.[39] For example, as Yu notes, provisions on intellectual property rights vary. China's agreement with Chile mentions the Doha Declaration on the TRIPS Agreement on Public Health, while the agreement with New Zealand, although concluded later, does not mention the Declaration ([105:1011)]. In certain cases, China has expanded its FTAs on goods to other areas at a later stage, such as services. For example, China's agreement on goods with ASEAN from 2004 was expanded to services in July 2007; its agreement with Chile from 2005 was expanded to services in August 2010 ([97]: Table AII.3)[40] Yet its agreement with Peru included a chapter on services from the start [28].

China's FTAs also differ among one another in their tariff elimination schedules. Some call for mutual customs tariff elimination, for example with Peru, Costa Rica, and Pakistan. In contrast, the FTA with New Zealand, China was permitted a slight longer tariff elimination period (up to 12 years for some products from New Zealand to China) while all tariffs on products imported from China to New Zealand were eliminated within 9 years. In its Free Trade Area Agreement with ASEAN, China proposed what

[37] The link is implied by the WTO Secretariat ([96]: 45) and Kong ([48] 1203].

[38] ([105]: 962). Yu notes that the EU trade agreements cover "nontrade areas "such as competition policy, investment, improvement of business environment, cooperation in vocational education and training, labor and product standards, environmental protection, tourism, illegal migration, and the resolution of other non-economic cross-border problems". Some of these areas are in fact also covered in US free trade agreements. Where the EU model differs is in the political aspects that it includes, for example, the political dialogue it calls for in its Association agreements.

[39] ([105]: 1011–1018). Yu notes that China does not use a template approach in its FTAs, nor is it interested in one.

[40] On China's FTAs and services, see [91]. China's services agreements take the GATS model of positive list approach, rather than NAFTA's negative list approach where all services sectors are included except what is excluded.

was referred to in the agreement as an 'early harvest', that is, a shorter tariff reduction period for it and the six original members of ASEAN (by 2010) and a longer phase in period for the four new ASEAN members (by 2015).[41]

Yet, while China's trade agreements admittedly differ from those of the US and the EU, it would be difficult to conclude that China is challenging the existing rules, since its agreements are based on commonly-accepted international trade norms such as progressive trade liberalization, non-discrimination and transparency, rather than on weaker or different norms. (Indeed, one of the guiding principles of the RCEP negotiations is compatibility with WTO rules, which are the basis for these norms.) China has even started to adopt rules in areas promoted by the US and the EU that it had previously rejected, such as competition policy, environmental protection and more legalized dispute settlement provisions.[42] Domestically, in an unusual move, China has recently demonstrated further commitment to international trade rules by expanding its efforts to ensure compliance with international trade rules (and promote economic reform) at all levels of government [58].

China and the International Investment Treaty Landscape

The international investment treaty landscape facing China, and other countries, is more fragmented and multilayered than that of international trade. Investment disciplines may be found in over three thousand different bilateral investment treaties (BITs),[43] in WTO investment-related rules in various WTO agreements (e.g., the General Agreement on Trade in Services (GATS), the Agreement on Trade-Related Investment Measures (TRIMS), and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)), in a myriad of free trade agreements with investment provisions that vary in scope and depth, and in the World Bank's Convention on the Settlement of Investment Disputes Between States and Nationals of Other States (ICSID).[44] In addition, standards and norms are being shaped in various OECD forums aimed at consensus building to attain uniform meanings of global investment rules.[45]

The difficulty in achieving a less fragmented international investment regime is reflected in several failed attempts to create a multilateral investment framework. At the end of the 1990s, negotiations were launched in the OECD aimed at establishing a multilateral agreement on investment, and at about the same time, some members of the

[41] 6 original ASEAN members are Philippines, Singapore, Thailand, Indonesia, Brunei Darussalam, Malaysia, while the 4 newer (and less developed) members are Vietnam, Laos, Cambodia and Myanmar.. For an analysis of China's approach to the negotiations, see [18].

[42] China's FTAs with New Zealand, Singapore and Switzerland include provisions on labor standards and competition. China's FTA with Switzerland refers to sustainable development and devotes an entire chapter to environmental issues (Chapter 12) [29]. On the acceptance of increasingly legalized dispute settlement provisions, see [38].

[43] At the end of 2013, there were 3236 BITs and other international investment agreements ([88]:114).

[44] Indeed, Bath and Nottage note that some countries have omitted investment chapters in their FTAs due to reservations about investor-state arbitration ([6]:2). Investor-state arbitration is also one of the issues holding up the ratification of CETA, the Comprehensive Economic and Trade Agreement, concluded in September 2014 between Canada and the EU.

[45] For example, OECD Council Recommendation on Recipient Country Policies relating to National Security.

WTO proposed putting investment on the WTO agenda as a new issue; however, both efforts failed.[46] Today, the lack of consensus continues, as many states re-evaluate their international investment agreement policies and even terminate their BITs.[47] Both the US and the EU have formulated new policies; the US policy is embodied in a new model BIT (2012), and the EU policy, in recent negotiating directives [26, 90], both calling for more regulatory policy space. For these and other reasons, the international investment treaty regime is currently in flux.

BITs, and investment chapters in FTAs typically aim at protecting foreign investors from host state practices such as expropriation and nationalization (through rules on compensation and dispute settlement); in addition, they have also come to facilitate market access by foreign investors into host states by breaking down regulatory barriers ([6]:1). Some BITs grant the host state more regulatory discretion on the entry of foreign investment, while other BITs limit host state regulatory discretion, thereby facilitating foreign investment ([8]: 3]. One of the main issues dividing BITs is whether they provide protection such as national treatment or most favored nation (MFN) treatment (both non-discrimination standards for treatment provided to foreign investors) at the pre-establishment stage, or at the post establishment stage, that is, before or after the investment has been admitted.. The pre-establishment model has traditionally been applied by the US, whereas the post-establishment model has been used by China and other developing countries ([9]: 167–168).

Attracting FDI to stimulate growth has long been an important goal of the Chinese government, and in 2014 China became the largest recipient of foreign direct investment, surpassing the US ([89]: 4–5, Figure 1.3). China has also come to be one of the world's largest outward investors, in its quest for energy, minerals, and raw materials to support its rapidly-developing economy.[48] Along with the tremendous rise in its inward and outward FDI flows. China has become one of the world's largest signatories to BITs, second only to Germany. By the end of May 2015 China had entered into 130 BITs and 17 other international investment agreements ([89]: Annex 1).

China's BITs have undergone two main stages of development[49]: the first, from 1982 when it signed a BIT with Sweden to 1998, and from 1998 onwards, when its BIT policy changed significantly, becoming less restrictive in terms of governmental regulatory discretion. The change in China's BITs has been attributed, among other things, to its transformation from recipient of FDI to both importer and exporter of FDI ([8]:7).

This transformation is reflected in a shift from mainly safeguarding domestic regulatory freedom to China's later policy aimed at achieving an open investment

[46] Efforts to achieve multilateral agreement on investment in the OECD failed in 1998. Investment, one of the four Singapore issues, was eventually dropped from the negotiating agenda along with government procurement and competition. Negotiations on the fourth, trade facilitation, culminated in the agreement in Bali.

[47] According to UNCTAD, in 2014, "at least 50 countries and regions were engaged in reviewing and revising their IIA models. Brazil, India, Norway and the European Union (EU) published novel approaches. South Africa and Indonesia continued their treaty terminations, while formulating new IIA strategies.." ([89]: xi).

[48] For a brief description of China's 'Going Out' policy, see ([77]: 174–183. See also ([8]: 6). Berger describes the reasons that China's outward FDI has grown: transfer of plants to lower wage economies, acquisition of technology and knowhow, use of brand names, and access to new markets.

[49] Leon Trakmen [86] describes three model BITs: one from the early 1980s, the second from 1992, and the third, from 1998 to contribute to its 'going out' policy. Shan, Gallagher and Zhang [78] suggest that the inclusion of a national treatment standard from 1986 in the China UK BIT characterized a new model in Chinese BITs.

environment to facilitate its outward investment in potential host-state countries, particularly since the Chinese government itself is deeply involved in outward foreign investment. China's first generation BITs included MFN provisions but either did not include a national treatment provision at all or contained best effort provisions (with phrases such as, 'to the extent possible' and 'in accordance with national laws'), and had either weak or no investor-state dispute settlement. In contrast, China's post-1998 BITs (starting with its BIT with Barbados signed in 1998) provide investors with access to international dispute settlement, and since 2000, include stronger provisions on non-discrimination, including national treatment. [8]. Regarding the question of pre-establishment or post-establishment, China's BITs provide for post-establishment national treatment, a standard also applied by European BITs [9].

Today, we can see signs of a third generation of Chinese BITs, as China seems to have conceded to the US in their BIT negotiations. In the US-China negotiations, China has reportedly agreed to two concepts it had previously rejected: 1) pre-establishment national treatment; 2) a negative list approach, which according to a Chinese spokesman, is in accordance with a new trend in the world [57]. The first concept refers to the stage of the investment to which national treatment would apply, pre-establishment or post establishment. China had not previously agreed to pre-establishment in its BITs. In a negative list approach, national treatment would apply to all sectors unless explicitly excluded, whereas a positive list approach would imply that only those sectors specifically listed, would be subject to national treatment. Thus, by agreeing to the US call for a pre-establishment, negative list approach, China is agreeing to take on much broader commitments than it had previously. Moreover, the use of the wording, 'in accordance with a new trend in the world' in the context of the negative list approach, demonstrates that China seems to be yielding to the US on investment rules.

Is there any other evidence that China might represent an alternative normative power in the international investment regime? It might be claimed that an example of China promoting change in the international investment system is related to the national security exception in BITs. Apprehensive about the possible rejection of Chinese investment based on national security concerns, China is working to restrict the use of the national security exception, which, in some cases, has been expanded by many countries "from countering military threats to tackling economic crisis and protecting strategic industry" ([87]: viii, 7–24) [50] to justify rejecting investment. Although China has a national security exception in its own legislation [56, 79], one of China's main goals in its BITs is to limit regulatory discretion of the national security exception [40].

Recall the case of China National Offshore Oil Corporation's (CNOOC) failed attempt in 2005 to take over US oil firm Unocal after CNOOC was basically forced to abandon its offer following US Congressional intervention; or President Obama's 2012 use of executive authority to block Ralls Corporation, a Chinese-owned company, from acquiring wind farms in Oregon, invoking national security, ostensibly because the wind farms were located near US

[50] For example, Australia's foreign investment regime has a 'national interest' exception which includes national security but also covers impact of investment on the economy ([5]: 87).

Navy airspace [7, 104].[51] Indeed, the rejection of Chinese investments in the US may be contrasted with investment by other countries which have not aroused as much opposition or been rejected.[52] Although non-discrimination and transparency provisions in a future US-China BIT might provide some protection for the admission of Chinese investment, a broad national security exception providing regulatory flexibility would still constitute a basis for the US to block such investments. Moreover, given the recent court ruling in the US where the US government lost to a Chinese-owned company over the US national security review process, US negotiators are likely to be even more wary of limiting the scope of the national security exception in a US-China BIT. In this case, Ralls Corporation, the above-mentioned US company owned by Chinese investors, sued President Obama and CFIUS (Committee on Foreign Investment in the US) under US domestic law over Obama's executive order requiring Ralls to divest itself of the wind farms in Oregon [64]. Ralls prevailed in its claim of lack of due process in the US national security review process. At the same time, it should be noted that China is not the only country concerned by the national security exception in BITs, as is evident from the many discussions on freedom of investment and national security, taking place regularly in the OECD [69].

Is China working more generally to restrict the use of entry barriers to FDI through its BITs, in order to overcome host countries' protectionist measures relating to its investments? While the answer appears to be positive, at the same time, it seems that China is willing to capitulate in order to finalize an agreement. We know that one issue that was reportedly holding up the FTA negotiations between Australia and China was the investment chapter dealing with investment by state-owned enterprises (SOEs) [63].[53] In the final FTA that was concluded in November 2014 (and officially signed in June 2015), China conceded on the issue, and investments by its SOEs and sovereign wealth funds still require approval under Australia's foreign investment procedures [2]. Investment by Chinese SOEs and sovereign wealth funds is also a politically sensitive topic in the US-China BIT talks, though it is not yet known which side will compromise on this issue [7].[54] As noted above, China reportedly agreed to restart the treaty negotiations in July 2013 (the talks began in 2008, but stalled shortly after) after dropping its demand to protect certain industries and to cover all stages of investment [24].[55] Thus, it seems that the US and others such as Australia are, for the most part,

[51] Under the US foreign investment review system, the Committee on Foreign Investment in the US (CFIUS) makes a recommendation that is enforced by order of the US President. Headed by the US Treasury Secretary, CFIUS includes representatives of Justice, Home Security, Commerce, State, and Energy. Chinese telecom company Huawei backed out of the US market after a 2012 House Intelligence Committee Report came out discouraging US companies from partnering with Huawei, citing security concerns. See [84].

[52] There is some debate about the degree of discrimination towards Chinese investors compared to other foreign investors ([62]:2).

[53] One of the issues raised in the 2010 national elections was investment by Chinese sovereign wealth funds in Australia. In the past, Chinese investment has been blocked in the Australian telecom sector (2012) and mining sector (2009).

[54] SOEs, the scope of the national security exception and anti-monopoly law are the most difficult issues in the US-China BIT negotiations [41].

[55] The news report suggests that factors driving China's concessions include its increased interest in investing in the US, and the slowdown in its economy.

still dictating the rules on investment provisions, and China is more likely to acquiesce rather than stand its ground in order to finalize these agreements.

International Aid Regime

Compared to the international trade and investment regimes, it is in the international development aid regime that the Chinese challenge to today's global norms is most noticeable, and where it can be argued that China is already having an important impact [16].[56] Perhaps this is why it is also in development aid that China is generating the most criticism from the West. In particular, China has been harshly criticized for ignoring human rights and environmental sustainability when it does business with, gives loans, grants and aid, and provides UN Security Council support for, outlier regimes, such as Sudan, Zimbabwe, and Qadafi's Libya. It has also been accused of replacing American imperialism, by depleting the valuable natural resources of its clients, while forcing them to buy Chinese products [49].

The norms of today's international development aid systemhave been shaped by two main international bodies: the World Bank's International Development Association (IDA) and the 29 member OECD Development Assistance Committee (DAC), both founded in the early 1960's. The norms and rules established by these two bodies, guide and monitor the assistance of the World Bank and the bilateral development assistance of members. From the early 1980s, the Western-dominated, neo-liberal prescription for economic development that included reforms such as privatization, deregulation, trade liberalization, fiscal discipline, tax reform, etc., became the dominant approach to development, and in 1989, came to be known as the 'Washington Consensus.'[57] Conditionality, or the imposition of these macroeconomic reform policies on recipients of grants/aid/loans, has become the most controversial norm of the global development financing system, particularly since conditionality has been expanded further to cover additional areas such as rule of law, human rights, and environmental standards.

At the same time however, the global aid discourse has moved towards taking into account the needs and interests of both donors and recipients. In March 2005, DAC organized a forum which included both donors and recipients formulated the "Paris Declaration on Aid Effectiveness', calling for the system to be based on the principles of ownership, alignment, harmonization, results and mutual accountability [68].[58] Indeed, the traditional aid regime has been undergoing a shift as non-traditional donors such as China and other BRICS countries become donors as well as recipients. Among other things, this is reflected in the changing discourse regarding development aid. For example, the rising donors prefer to refer to themselves as 'Southern development partners' rather than 'donors', and to 'granting aid' as 'building development

[56] In contrast, Ngair Woods argues that new donors are not challenging the system outright, rather they are bringing competitive pressures into the system [95]. Deborah Brautigam argues that in fact, Chinese practices are not that far from those of traditional donors [12].
[57] The term was originally coined by John Williamson [94].
[58] Interestingly, despite efforts to coordinate aid among major DAC donors since the Paris Declaration, coordination has declined. Fuchs, Nunenkamp and Ohler have shown that this can be attributed to competition for export markets and political influence [31].

partnerships' ([20]: 494). Nonetheless, although a Chinese delegation attended the DAC 2005 meeting, its participation reportedly reflected its role as aid recipient rather than donor ([11: 133).

China entered this system when it joined the World Bank and the IMF in 1980, as part of its broader strategy of 'opening up and reform', starting in the late 1970s. Almost immediately, the World Bank undertook five development projects in China and a comprehensive economic report on the Chinese economy (the latter signifying an important change in China's willingness to agree to outside monitoring). In the early stages of its membership, China was generally thought to have accepted the system, and it quickly became a major recipient of development aid [43].

Despite its own domestic economic problems, China has provided foreign aid (although in small amounts) since the 1950s to African states, initially in order to gain support in the international arena. More recently, its aid to African states has been aimed at acquiring the natural resources necessary to foster domestic economic development. Interestingly, China's aid policy is still operating according to principles formulated in 1964: The Eight Principles of Economic Aid and Technical Assistance to Other Countries, which include equality and mutual benefit, and unconditioned aid.

China's 2011 White Paper on China's Foreign Aid, with China's first official statistics on its foreign aid, points to a new stage in China's aid program starting in 2004, noting that between 2004 and 2009, China's aid grew by almost 30 % annually [80]. In July 2014, China demonstrated increased transparency, when it issued its second White Paper on China's foreign aid, with statistics for 2010–2012 [81].[59] Today, China can be considered a major foreign aid donor. Recent estimates by Naohiro Kitano and Yukinori Harada suggest that China's foreign aid ranked sixth in 2012 and 2013 in comparison to that of other DAC members [47: Abstract][60]

While on a smaller scale than traditional donor aid, Chinese development aid still makes considerable waves. Aside from claims that China is aiding corrupt regimes, China has also been accused of undercutting Western aid. Gregory Chin, for example, points to the case of Angola in 2004, when in the midst of negotiations with the IMF, the Chinese offered an unconditioned loan which Angola accepted, or similarly, in 2006 when the Chinese intervened during negotiations between Chad and the IMF, over the Chad-Cameroon Pipeline ([16]: 217). However, Deborah Brautigam offers an alternative version of the Angola case. After having taken numerous expensive short term loans, and not being able to repay them, Angola was unable to obtain additional money or reschedule payment without fulfilling a list of reforms dictated by the IMF. It was only after Germany and France made deals with Angola that China entered the picture with an offer of oil for an infrastructure loan. Shortly afterwards, a group of Western banks came in and supplied an oil-backed loan to Angola, and a later loan was organized by a French group with 16 international participants. Thus, as Brautigam observes, although traditional donors were also lending money to Angola without requiring transparency, and providing cash to a corrupt government through oil exports, it was only China's loans that attracted negative publicity ([11]: 275–276).

[59] For analysis, see [107].

[60] However, Chin notes that estimating China's aid is difficult because: China does not use the DAC definitions of foreign aid, various agencies are responsible for providing aid, China may not want to publicize the real amounts of aid, given its domestic poverty, the figures don't include unreported aid to Iran, North Korea, Cuba and other outlier regimes ([17]: 581–582).

What is more significant than the timing of China's aid, is that its aid model differs considerably from that of the established international donor community (i.e., the World Bank, the IMF or the various OECD Development Assistance Committee (DAC) members). As mentioned above, when established international donors provide foreign aid, it has been based on conditionality, and prescribed reform. In contrast, China's foreign assistance is based on a different philosophy. For one, China's aid is not a 'one type fits all' model, rather it is geared to the specific needs and requests of the recipient countries. Cheng, Fang and Lien explain that "the initial step of an aid project is that recipient governments and Chinese embassies in the field propose aid projects to Beijing" ([15]: 106).[61] Moreover, the Chinese funded projects focus on infrastructure, education, and manufacturing, rather than on the political and economic reform agenda of the traditional donors ([11]:11). In line with its historic adherence to the principle of non-interference, China does not condition its aid on 'good governance', or environmental standards as has been common in conventional aid. China's aid is based on the principles of its own model of development - start with economic development, and then, worry about other areas such as environment.

In addition, China does not typically provide policy advice, and if it does, it is a different sort of advice. As Chin and Thakhur point out, "In the policy advice accompanying its foreign assistance to Africa and Latin America, for example, Beijing has emphasized the importance of state intervention to ensure that national resources can be used to leverage investment and loans from the wealthier parts of the world… how to identify and structure revenue and surplus-generating projects so that a stable supply of funds is available to repay loans." ([19]: 125)

The very fact that China has developed so rapidly, without implementing the neo-liberal Western prescription of economic reform, gives credence to an alternative to the prevailing development model. China's success not only in weathering the 2008 global financial crisis but helping pull the rest of the world out of the crisis, underscores the challenge China represents to the growth formula that has been put forward by the West.

What's more, China's continued promotion of tied aid, requiring the recipient to use some percentage of the funds to buy from Chinese companies, constitutes a challenge to a norm that traditional donors are trying to change. For example, aid from China Eximbank is tied at 50 %. While tied aid is a common practice among many countries, including traditional donor countries, the practice is thought to lead to the purchase of overpriced goods and services, and, in 2001, DAC recommended untying aid to least developed countries [67].[62] Chinese sources have defended the continued use of tied aid, claiming that disbursing aid directly to Chinese contractors, rather than transferring it into the recipient's national budget, minimizes embezzlement and corruption [15].

[61] This may be construed as suggesting that domestic politics explain China's aid. Shahar Hameiri argues that because China's aid is driven by "commercial imperatives" it is not operating according to "master plan", implying that a domestic interest paradigm is the main explanation for China's aid policy ([35]: 3, 7–10). However, one does not preclude the other, and in my view, this is a type of mechanism used to implement an overall state strategy.

[62] This recommendation was amended in 2006 and 2008, 2011. The OECD rules are only a recommendation, related to LDCs, and some areas, such as food aid and free-standing technical cooperation, were excluded. Non-DAC donors such as China are considered to be challenges to efforts to untie aid even though China has endorsed Paris-Accra-Busan Partnership for Effective Development Co-operation in form of Global Partnership for Effective Development Cooperation.

China's success in influencing the development assistance regime is already apparent. Gregory Chin names two tangible effects of China's influence. For one, China has changed the manner in which donor countries work with the World Bank. In contrast to the past, where donors were accustomed to 'lining up behind' the World Bank to provide aid, China has succeeded in being accepted by the World Bank as an equal partner and co-donor in providing loans. Moreover, Chin attributes entrenchment of the concept of 'appropriate levels of concessionality', that is, varying interest rates often at better than market terms, or offering grace periods, to China's influence [16].[63]

Chin also points to a third effect: by supporting regional development banks, China is helping provide an alternative to the traditional donors. For example, it established the PRC Poverty Reduction and Regional Cooperation Fund and the China African Development Fund. In addition, China has been a member of the Asian Development Bank (ADB) since 1986, and has itself borrowed for projects in transport, water, energy agriculture, and finance.[64] China contributes to other regional banks as well, such as the Central Asia Regional Cooperation Forum and the Caribbean Development Bank ([19]: 126–127). Today, China is deeply involved in the new BRICS Bank.

In this context, the AIIB represents the biggest challenge yet to the US-dominated system.[65] From the start, the US was outspoken in its opposition to the AIIB, vigorously lobbying prospective members not to join [71]. Only after 57 states including some of America's closest allies such as the UK, Australia. S. Korea and Germany, joined as founding members, did the US drop its resistance [23], and start proposing collaboration between the new AIIB and the institutions such as the World Bank [83]. What is under debate, is whether the AIIB will operate according to Western standards of good governance, transparency, environmental policies, etc., and as a result, Chinese officials are working hard to assure other governments that China is committed to "follow the international practice…"[66] At the same time, as Brautigam recently pointed out, Chinese banks were not even on the program of a 2015 development finance summit attended by thousands of people [13].

Explaining China's Incoherence

In the paper, I have shown that China's profile varies across the different areas of global economic governance. Whereas China seems to have accepted the norms and rules in the international trade and investment regimes, and is constructively engaged with them, it is presenting a serious challenge to the existing development aid framework. This is a somewhat surprising finding since China's interaction with the liberal international economic system began with development aid and the World Bank as far back

[63] Chin points to the signing of the "Memorandum of Understanding (MOU) on Cooperation between the Export–Import Bank of China and the International Bank for Reconstruction and Development," as evidence of this.

[64] For information about the China-Asian Development Bank relationship, see International Monetary Fund, People's Republic of China 2013 Article IV Report ([42]: 10–12).

[65] For a short history of the AIIB, see Ba ([4]: 162–164).

[66] For example, see address by Mr. Zhou Ziangwu, the Executive Deputy Director-General of the Asia-Pacific Finance and Development Centre, associated with the Chinese Ministry of Finance at the 2015 Australiasian Aid Conference on February 13–14, 2015 [108].

as 1980, and consequently it is in development aid that the longest period of socialization into the Western system has taken place.

Gregory Chin's two-way socialization concept may provide important insight into the puzzle. In his analysis, Chin suggests that we should "rethink" socialization, arguing that the socialization process is not just a one direction process where China is learning and internalizing norms, but rather a two-way process where China is also contributing to the reshaping of the norms.[67] As an extension of Chin's argument, I maintain that it is precisely because China has undergone such a long period of socialization in this particular regime, that it feels comfortable in challenging global norms in order to advance its own interests. Moreover, socialization of a state into a regime does not preclude it from working to change the norms and rules to its advantage. To be sure, as states become further socialized into a regime, their better understanding of the system and increased self-confidence, may lead them to challenge it. There are signs that this is occurring in the international trade regime as well as in the development aid regime. As China is socialized into the international trade regime, it seems to be feeling increasingly comfortable in pushing back with alternatives to the US-driven TPP and the TTIP such as the RCEP and the FTAAP.

But there is clearly more to understanding this puzzle than a socialization dynamic. We could postulate that the institutions/regimes and their design are constraining China's behavior. Since the institutional frameworks themselves differ considerably from one another, China's policy towards the three economic areas would be expected to diverge as well. The central institution in the international trade regime, the WTO—is an inclusive organization. It encompasses almost all countries in the world, developed and developing alike. China has long expressed its preference for engagement with more inclusive international institutional frameworks, and dislike of exclusive ones such as the G7. In addition, the WTO's consensus-based decision-making means that China has veto power over all decisions made. It is not surprising therefore, that China is adamant about keeping rule-making in the WTO. Regarding investment, the fragmented nature of international investment treaty framework suggests that no one power completely dominates the rule-making process, particularly now, when the BIT system is in flux. Institutional factors thus support China's engagement within the international investment regime. In contrast, the development aid system is controlled by a small group that for a long time has been imposing its way of thinking on the rest. This kind of system does not sit well with a rising China that wants to take its proper place at the table.

In accordance with a broader rationalist state-centric approach, cost benefit calculations would play an important role in explaining China's incoherent profile vis-à-vis the three areas.[68] On trade, China has only gained from joining the existing system, its economy growing tremendously over the past few decades. Why challenge the system that it has benefited from? Regarding investment, China has also succeeded in safeguarding its interests through the existing fragmented system, and with its growing power, it hopes to continue to do so. At the same time, its willingness to compromise

[67] Chin concludes that China is not trying to undermine the World Bank, but rather reshape some of the norms ([16]: 223).

[68] Professor Peter Yu, in a private conversation, suggested to me that while there may not be external coherence in China's policies over the three areas, there is internal coherence, and in fact, China's policies in all three areas are shaped by its development needs.

on formerly key principles (i.e., China has reportedly agreed to pre-establishment national treatment in the investment treaty negotiations with the US), or at least displaying willingness to compromise for the purpose of resuming the treaty negotiations may also be explained by a cost-benefit analysis, where China's interest in achieving better access for its investments in the US market, outweigh the costs of certain concessions. In this context, it will be interesting to see the final outcome of the US-China BIT negotiations.

In contrast, on aid, China has benefited from bypassing the existing system, and by offering an alternative. In doing so, it has succeeded in gaining access to the resources and markets necessary for its continued growth and consequent quiet on the domestic front. Although it can be claimed that China is operating within the development aid system (and perhaps even influencing it in a positive way), it may also be claimed that China is upsetting the status quo. We will only know in time what the long-term effect its behavior will have.

Concluding Remarks

Is China challenging the rules and norms of the international economic order? As has been shown, China is not seeking significant change in the international trade order, either through its behavior in the WTO or in its preferential trade agreements. It is conforming to the far-reaching commitments it took on when it joined the WTO, it has become an engaged participant (rather than a spoiler) in the WTO Doha Round negotiations after an initial period of reticence, and it has accepted and become an active participant in WTO dispute resolution despite its historical rejection of international adjudication. And to ensure that it has a seat at the table in international trade rule-making, China has requested to participate in the plurilateral negotiations on trade in the TISA negotiations, even though it had originally objected to negotiations taking place outside the WTO. Its willingness to compromise on the ITA negotiations is another sign that China does not want to be a spoiler in the multilateral trading system.

Like other countries, China has also turned to free trade agreements to enhance its bilateral and regional economic and political relations. Although its FTAs and regional agreements differ from those of the US or the EU, those of the US and the EU do not look the same either. By not taking a template approach, China's agreements permit more sensitivity to the particular needs of its trading partners than those of the US and the EU. In this context, they allow for incremental liberalization, starting first with goods, and later services. In addition, China does not impose WTO-plus rules on its partners as the US and the EU do. Its bilateral and regional agreements have taken on particular importance in view of the protracted impasse in the WTO negotiations, and US-led mega trade deals. It is in its bilateral and regional agreements that China is to some extent, pushing back, among other things, by trying to correct what it considered to be unfairly imposed on it as part of its accession (e.g. NME methodology in anti-dumping investigations), or by promoting its own regional agreements, such as the RCEP, and the FTAAP.

Regarding investment, the large number of BITs China has signed (2nd only to Germany) in addition to the investment chapters it has incorporated into its FTAs, is testimony to a positive engagement with the existing international investment regime.

Nevertheless, China's transformation from major importer of FDI, to both a major importer and exporter of FDI is impacting the international investment system. Developed and developing countries alike are concerned about China's growing outward FDI, some are worried about the state-owned nature of China's outward investors,[69] others about losing control of their natural resources. Some countries (e.g. S. Africa) have gone so far as to terminate their BITs (although unrelated to China, but rather concern with exposure to international arbitration). Both the US and the EU have formulated new policies; US policy is embodied in a new model BIT (2012), and EU policy, in recent negotiating directives. For these and other reasons, the international investment treaty regime is currently in flux.

China's policies regarding BITs are continuing to evolve, in part, as a consequence of its BIT negotiations with the US. At this point in time, it appears that its BIT evolution is moving in the direction that the US is pushing for. The negotiations have led China to accept new norms – including pre-establishment national treatment and a negative list approach to exceptions. In the past, China, like the EU, would only agree to post-establishment national treatment. China's justification for accepting these new norms; that 'it wants to go along with the new trend in the world' is another indication of positive engagement within the existing framework.

In contrast with trade and investment where China has adapted to the prevailing norms and is positively engaged with the regimes, China's development aid philosophy and policies are coming into direct conflict with Western norms. China's 'no strings attached' approach to providing development aid constitutes a strong challenge to traditional donor aid. Moreover, China is providing an alternative source of loans on better terms, at lower interest rates and with longer repayment periods. China's aid to build infrastructure projects (e.g. roads, railways, bridges…), support education, agriculture and hospitals, all geared to the specific needs and requests of the recipient goes up against the political and economic reform agenda of traditional donor aid. China is simply not playing by the same rules. In addition, China is in the process of establishing a major development aid institution, the AIIB. We do not know yet whether the AIIB will represent an alternative, and possibly competing aid track, or whether it will complement the traditional development aid institutions. China's rhetoric indicates that the new AIIB will adopt international best practices such as good governance, transparency, and labor and environmental standards, but at the same time it has also stressed the particular needs of the Asian region.

How can the variation in China's profile be explained? A rationalist state-centric approach, based on cost-benefit calculations and interests plays a crucial role in understanding China's incoherent profile in international economic governance. Such a perspective would suggest that China's profile is based on cost-benefit calculations in each of the three areas, leading to the maintenance of the status quo, where the benefits of preserving it outweigh the costs of challenging it. We see this in China's positions towards both international trade and in international investment. To date, China has profited from the prevailing global trading system, particularly in terms of economic growth, which is critical to the present leadership's control. China has also succeeded in safeguarding its interests through the existing fragmented international investment

[69] Stemming from concern over subsidies which give the foreign state owned enterprise a competitive advantage, or that there might be concern that they will pursue a non-commercial agenda.

system. A cost-benefit calculation is clearly evident in China's willingness to compromise in its various BIT negotiations, given the potential benefits of better access for its outward foreign investments and interest in attracting foreign direct investment. In contrast, regarding the international development aid regime, China has benefited far more from challenging the status quo than from maintaining it. To be sure, circumventing the system with its own development financing model has provided China with access to the natural resources and markets vital to its economic development.

A liberal institutional approach provides additional insight into the variation in China's profile in the three regimes. Just as the regimes differ significantly from one another, so does China's policy vis-à-vis the regimes. The central institution in the international trade regime is the WTO–an inclusive, consensus-based organization, where China has veto power over rules change. China believes strongly in WTO rules, and considers the WTO special, unlike other international institutions. The leadership has exploited the constraining effect of the WTO by using its rules as a lever to achieve economic reform and to promote the rule of law. Regarding investment, the fragmented nature of international investment treaty framework suggests that no one power completely dominates the rule-making process, particularly now, when the BIT system is in flux. Institutional factors thus support China's engagement within the international investment regime. In contrast, the development aid system is controlled by a small group that for a long time has been imposing its way of thinking on the rest. This kind of system does not sit well with a rising China that wants to take its proper place at the table

A normative perspective also contributes to our understanding of China's profile in the international economic governance, now and in the future. As China is socialized into the global economic order, it is becoming increasingly entrenched in the existing system, and consequently has a larger stake in the perpetuation of the status quo. At the same time, China is gaining a better understanding of how the system works along with the actors in it. It is therefore not surprising that with increased interaction, China, like other actors, is also working towards making aspects of the system work to its advantage.

What does this imply for China and the broader debate regarding its challenge to the international economic order? My sense is that China's national interests, the constraining effect of the institutions in the liberal international economic order and China's ongoing socialization will continue to drive it towards upholding the status quo albeit with some effort at modest and incremental reform from within.

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