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A New Chinese Economic Order?

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A New Chinese Economic Order?

By Gregory Shaffer* and Henry Gao**

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China is incrementally developing a new, pragmatic, decentralized model of economic governance through a web of finance, trade, and investment initiatives involving memoranda of understanding, contracts, and trade and investment treaties. It combines private and public international law in transnational legal ordering imbued with Chinese characteristics. It builds from existing Western models, but it repurposes them. It uses law to help manage the risks to its outbound investment and trade. In the process, China could create a vast, Sino-centric, regional order in which the Chinese state plays the nodal role. This article explains how.

The Chinese model for international economic law reflects a component of China’s internal development in the 2000s, which supplemented economic reform and liberalization with state-led infrastructure development. The approach starts with the financing of infrastructure through Chinese state-owned banks as part of China’s Belt and Road Initiative, involving telecommunications networks, roads, airports, and ports, which Chinese companies construct using Chinese standards. These projects enable China to export its excess capacity of steel, concrete, and other products. They also open new markets for Chinese products generally. They are supported by private law contract and dispute resolution. This comprises the key private international law component of China’s economic law model, albeit one that is state-led. China then complements these initiatives with bilateral investment and free trade agreements that assure preferential access for Chinese goods, services, and capital. This web of agreements comprises the public international law component of its approach. In parallel, China massively subsidizes technological innovation to reduce reliance on Western technology, while encouraging Chinese state-owned and private companies to acquire advanced technology abroad, luring Chinese scientists who study abroad to return to China, and enhancing the role of intellectual property

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1 We use the term “model” not in terms of a singular archetype, but rather in terms of patterns. In this way, we contrast China’s approach to what was termed the “Washington consensus.”

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within China. This component involves Chinese domestic law, but its aim and effect are transnational in scope. Here too China builds from and repurposes Western legal models. In complement, China builds relations with local political and economic elites where it retains significant economic leverage because of the size of its internal market and the importance of its lending and foreign aid.

China implements these initiatives gradually and pragmatically to learn from trial and error, analogous to the country’s internal development model, reflected in the popular adage attributed to Deng Xiaoping — “crossing the river by feeling the stones.” But now, Chinese state-owned and private enterprises are internationalized and integrated within Sino-centric global production chains. It is a hub and spokes model, with China at the hub. These initiatives are reshaping the ecology of the international trade legal order. Their development will depend on political and economic contests within China regarding policy formation and implementation and the response to these initiatives abroad, in each case involving competition among factions. Collectively, these internal, external, and international contests will shape the future of the transnational economic legal order.

In this article, we first lay theoretical ground for understanding China’s approach (Part A). We then examine China’s export of a state-led, infrastructure-based development model (using predominantly private international law tools) (Part B), complemented by its construction of a web of free trade and investment agreements (using public international law components) (Part C), together with an indigenous innovation policy (grounded in domestic law with a transnational ambition) (Part D). We show how these distinct initiatives link to constitute a major development in the changing ecology of the transnational legal ordering of trade and economic relations (Part E).

This article assesses Chinese legal developments to complement accounts that focus on geopolitics and economics and that often ignore law or treat law as epiphenomenal. In practice, these three dimensions — economics, politics, and law — interact and intermesh to shape global outcomes, such that legal ordering is a critical (and often missing) part of policy analysis. In a field in which scholars increasingly attend to the question of what to do about China, the article aims to assess these developments in a neutral manner since meaningful normative and policy prescription depends on clear analysis. If the United States indeed pursues a decoupling of its economy with China’s, then we need to understand China’s approach, especially if the rest of the world is pressed to take sides in an economically contested Cold War.

A. Mimicking while Repurposing; The Evolving Ecology of the Economic Law Order

China’s model is not completely new. It has its forbearers with those of former colonial empires that built ports, railroads, roads, and bridges around the world to extract natural resources

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3 As noted by Alba, Hur, and Park, the hub and spokes model is a framework that has been used to analyze trade agreements since the 1970s. Joseph Alba, Jung Hur, and Donghyun Park, “Do Hub-and-Spoke Free Trade Agreements Increase Trade? A Panel Data Analysis,” *ADB Working Paper Series on Regional Economic Integration*, no. 46 (Apr. 2010) (answering positively).
and create new markets for their manufactured products. As in those earlier times, China will encounter local resistance, while working with local allies to create economic ties to advance its interests. Westerners made their fortunes in the process, as will many Chinese today.

Similarly, neither does China offer a completely new model of finance, trade, and investment law norms and institutions since it borrows heavily from Western models. China’s model mimics and repurposes Western laws and institutions. China is developing new institutions and structures that build from and interact with existing ones, such as the WTO for trade, ICSID for investment arbitration, the World Bank for finance, the London Commercial Court for transnational contract disputes, and various other Western institutions for intellectual property. China is mimicking these institutions with its own, while repurposing them to advance its interests in ways that are more accommodating of state sovereignty and state involvement in the economy, and that are less demanding in terms of domestic social regulation and the use of judicialized dispute settlement.

In contrast to a liberal model of development grounded in private enterprise and market competition, the Chinese model emphasizes the key role played by government planning and industrial policy, involving massive investment in infrastructure. As the Chinese economy grew increasingly strong, China gained confidence in its economic model and started to promote it as an alternative to development models advocated by U.S.-dominated Bretton Woods institutions that rely on private property, markets, and a non-interventionist state. Several Chinese initiatives illustrate China’s approach, especially the Belt and Road Initiative, which it complements with new development finance institutions and trade and investment agreements. Through them, China aims to develop new markets for Chinese products governed through a combination of contracts and treaties, backed by new dispute resolution mechanisms. They spur economic integration that creates new ties with Beijing, providing Beijing with greater leverage politically.

In law and development circles, this model is often referenced as the “Beijing model” or “Beijing consensus,” constituting a rival to the so-called neoliberal “Washington consensus,” as summarized in Table 1. Western analysts originally coined the term, but the Chinese government

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4 Compare Elkins et al., “The Content of Authoritarian Constitutions,” in Constitutions in Authoritarian Regimes, eds. Tom Ginsburg and Alberto Simpser (Cambridge: Cambridge University Press, 2014), 141 (on mimicking and repurposing constitutions); and Tom Ginsburg, “Authoritarian International Law,” American Journal of International Law, 114: 221-260 (April 2020). This is a different dynamic than that of “selective adaptation” scholars used earlier to address China’s internal law reforms. Pitman B. Potter, “Globalization and Economic Regulation in China: Selective Adaptation of Globalized Norms and Practices,” Washington University Global Studies Law Review 2: 119-150 (2003). In part, China is mimicking and repurposing because it has been reluctant to engage in wholly new lawmaking and because it is not in the position to create a new international economic law regime.

5 Nadege Rolland, China’s Eurasian Century? Political and Strategic Implications of the Belt and Road Initiative (Washington, DC: National Bureau of Asian Research, 2017), 181 (giving examples of Mongolia, Norway, and South Korea. Relatedly, China’s domestic infrastructure building was not only “a tool to stimulate growth in times of financial and economic crises but also … a way to consolidate the central government’s control over the country’s remote frontiers.”)

adopted it under a new name, the “China Model.”

The government initially was cautious and emphasized that China would not export its model or ask other countries to replicate it. Yet, as China gained confidence, President Xi Jinping predicted that the Chinese Model would have increasing influence around the world. These models are archetypes and involve ideological contestation within countries, including within China, but Xi’s consolidation of power and the U.S. frontal challenge to China that threatens to divide the world into competing blocs have given them greater salience.

Table 1. Comparison of Washington Consensus and Beijing Consensus

<table>
<thead>
<tr>
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<th>Washington Consensus</th>
<th>Beijing Consensus</th>
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<tbody>
<tr>
<td><strong>Political system</strong></td>
<td>Liberal democracy</td>
<td>Authoritarian government</td>
</tr>
<tr>
<td><strong>Economic development model</strong></td>
<td>Laissez-faire market economy with little government intervention, such as industrial policy</td>
<td>Industrial policy with heavy state intervention; state-owned firms for critical sectors</td>
</tr>
<tr>
<td><strong>Trade and investment policies</strong></td>
<td>Open economy with little restriction on foreign trade and investment</td>
<td>Limited opening with many express or de facto restrictions on foreign trade and investment</td>
</tr>
<tr>
<td><strong>Foreign policy</strong></td>
<td>Promotion of liberal, democratic, market ideals</td>
<td>Non-interference, sovereignty and self-determination</td>
</tr>
<tr>
<td><strong>Doctrinal rigidity</strong></td>
<td>Rigid regarding legal prescriptions</td>
<td>Non-prescriptive ideologically; experiment through trial and error</td>
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Source: The authors’ own compilation.10


China is not aiming to displace existing institutions such as the WTO and World Bank. Rather, China supports the WTO and Bretton Woods institutions, which have served it well. Indeed, it aims to take leadership roles in them, as well as within United Nations economic law-related institutions. Chinese nationals head four UN specialized agencies, while no other country leads more than one, and a Chinese national was a leading candidate to head the World Intellectual Property Organization. Nonetheless, China’s model represents a different one than the liberal, multilateral, law-centered model built by the United States and Europe after World War II and expanded and solidified after the Cold War. Unlike the U.S. and European models, China’s is based not on transplants from its domestic laws, but rather on development policies grounded in infrastructure and innovation, supported by memoranda of understanding, contracts, and treaties. Moreover, China’s model, led by an authoritarian state, is less transparent and thus more attractive to authoritarian regimes. Formal law and formal dispute settlement play reduced roles and are displaced by soft law (set forth in memoranda of understanding) and informal state-to-state and private negotiation to resolve disputes. The approach has parallels to what contract law scholars theorize as “relational contracts” under which the ongoing relationship is more important for the contracting parties than formal legal commitments. They do so in the shadow of China’s increased economic clout and thus of power asymmetries. As Tom Ginsburg writes, it is a legal order grounded more in “coordination” (of policy and commercial relations) than in “commitment” (in terms of legal rights).

Two complementary theoretical ways of viewing China’s initiatives are in terms of “layering” and “ecologies” of transnational legal ordering. The concept of “layering” captures how new structures are built on previous ones as part of institutional change. China’s initiatives do not create a new, comprehensive, alternative model of economic law. They rather layer on top of existing international trade, investment, and development finance institutions. The concept of “ecologies” captures how actors interact, coexist, cooperate, and compete in complex processes within and between institutions that shape institutional development over time. As Susan Block-Lieb and Terence Halliday write, “global lawmaking should not begin with an IO [international

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13 Ginsburg, “Authoritarian International Law.”
organization] as the unit of analysis, but with the sea in which it swims.”

16 China’s initiatives dynamically form part of a complex ecology of international economic institutions that coexist, complement, cooperate, and compete to shape norms and normative ties. They complement existing international institutions in which China aims to play a leading role, while building parallel Chinese-led institutions that interact with existing ones.

In this way, China’s approach to economic order can be viewed as both linked to the status quo while also (at least potentially) offering a revisionist model.17 China projects itself as a keen supporter of the WTO and the multilateral system, and, in this sense, as a status quo power. In parallel, however, China aims to end U.S. and European dominance in the WTO, while building institutions and transnational economic ties that collectively can be viewed as revisionist of the existing order in a broader ecological sense. In the process, China’s initiatives provide it with options (or hedges) that facilitate ongoing economic order, supported by law, if the multilateral system continues to erode or even implode. China thus reserves the option of going either way, whether to be a status quo or a revisionist power.18

China has labelled its foreign policy a vision of “a community of shared future for mankind,” which President Xi Jinping first announced at the 70th Session of the UN General Assembly in 2015, and then reiterated at the United Nations Office at Geneva in 2017. These pronouncements offer little new in substance, as they emphasize mutual respect and inclusive development, which repeats the position China has taken since its announcement of the Five Principles of Peaceful Co-existence in the 1950s. In parallel, however, there is an internal Chinese literature viewing a Sino-centric order as a modern analogue to the traditional conception of Chinese Tianxia, or “All Under Heaven” world system, which has China at the center.21 For some, calls for deference toward China at the center of the region recall China’s historical “tributary system,” as well as Japan’s efforts to create a “Greater East Asia Co-Prosperity Sphere” in the run-up to World War II.22

16 Lieb and Halliday, Global Lawmakers, at 31.
18 We thank Jacques deLisle for this point.
Instead of building from official Chinese discourse about its foreign economic policy, we develop, from a range of sources, our own construction of how these disparate Chinese initiatives fit together to form a decentralized Sino-centric order that complements, competes with, and reorients the existing international economic law order. What we are describing is not a neatly coherent, centralized order that reflects a new Chinese theoretical model for global governance. Much of China’s approach for economic law order is fragmentary. Its signature Belt and Road Initiative is an amalgam of multitudinous projects. What we aim to capture is the incremental evolution of a Chinese economic order comprised of a web of agreements under the Belt and Road Initiative, supported by bilateral trade and investment agreements, which, in turn, are linked to China’s indigenous innovation policy with its transnational ambitions.

Philip Jessup theorized the combination of private international law, public international law, and “other law” addressing transnational problems as “transnational law.” China’s approach combines these tools pragmatically and strategically. Yet, when viewed in combination, China’s initiatives involve more than transnational problem-solving through law. They aim to create order, a transnational economic order supported by law, with China at the hub. As we will see, China’s approach does not involve deep integration of norms (thus differing from the Western liberal model), but nonetheless aims at a type of transnational order that penetrates states through creating close ties with government and private sector leaders.

B. Exporting the Chinese Development Model Abroad: Financing Infrastructure

1. Belt and Road Initiative

First proposed by President Xi Jinping in 2013, the Belt and Road Initiative (BRI) ambitiously aims to develop new markets, enhance the security of China’s access to resources, and facilitate the internationalization of the Renminbi (China’s currency), while building new institutions and governance mechanisms. It is predominantly a private international law model

23 Philip Jessup, *Transnational Law* (1956) (defining “transnational law” in functional terms as “all law which regulates actions or events that transcend national frontiers,” which includes public international law, private international law, and “other rules which do not wholly fit into such standard categories”).


based on contract and contract dispute resolution that paradoxically is state-led. Formally, the BRI’s objectives are to build five types of links among countries along BRI industrial corridors: (1) To enhance “policy coordination”; (2) To improve infrastructure “connectivity”; (3) To reinforce “unimpeded trade”; (4) To move forward with “financial integration”; and (5) To create “people-to people bonds.” In this way, China can create a network of “strategic partnerships” grounded in economic ties that enhance regional and global economic integration, increase economic reliance on China, and further Chinese influence. Some of these projects facilitate China’s projection of military strength, including by providing the Chinese navy with access to deep water ports and, through them, protect trade routes to and from China. More generally, China aims to project soft (and “smart”) power through such financing, which is not subject to the conditionalities imposed by the West.

The BRI comprises the land-based Silk Road Economic Belt, which links China with Europe through Central and Western Asia, and the sea-based 21st Century Maritime Silk Road, which connects China with Southeast Asian countries, Africa, and Europe. The initiative covers around sixty-five countries in three continents, with a total population of around 4.4 billion, or sixty-three percent of the world population. These countries account for 29% of global GDP and 23.4% of global merchandise and services exports. The project often has been compared with the post-WWII Marshall Plan by the United States, adopted as a response to a growing Cold War with the Soviet Union, but the BRI dwarfs it in size. The Marshall Plan provided only U.S. $13 billion to six European countries, which is equal to U.S. $150 billion today.

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31 China has not officially confirmed the number of BRI countries or the criteria for identifying them, but these 65 countries (including China) are commonly acknowledged to be BRI countries. Lutz-Christian Wolff, China’s “Belt and Road” Initiative – An Introduction, in Legal Dimensions of China’s Belt and Road Initiative, eds. Lutz-Christian Wolff & Chao Xi (Hong Kong: Wolters Kluwer, 2016), 8. In March 2019, Italy signed an MOU on the joint construction of the BRI with China, becoming the first G7 country to do so. Xinhua, China, “Italy Sign BRI MoU to Advance Connectivity,” Mar. 25, 2019.

price tag for the BRI is at least one trillion (and potentially many trillion) U.S. dollars. Given the lack of transparency, it is impossible to know the exact figure, but it appears large and looming. As Matthew Erie writes, although there is a certain amount of Chinese campaign-style boosterism to the BRI, the U.S. and E.U. response to the BRI of creating their own “policy imitations” shows recognition of its impact.

China is building the BRI through packages of bilateral arrangements and agreements. They involve customs clearance, investment promotion and facilitation, trade and investment treaties, dispute resolution mechanisms, visa agreements, memoranda on standardization, special economic zones, special tax regimes, academic and student exchanges, and so forth. Each economic corridor in the BRI adopts a different package, subject to local negotiations and adaptation to different geoeconomic conditions, but the modalities are similar.

This building of infrastructure facilitates trade, investment, and migration that have complementary effects. Chinese individuals migrate to BRI countries and become entrepreneurs, forming a networked Chinese diaspora around the world that further facilitates trade and investment with China. To give one example, analysts estimate that about a million Chinese have “ventured to Africa over the past two decades to seek their fortunes.” As a forerunner of these processes, the town of Prato, Italy, the center of the Italian textile industry, became dominated by Chinese entrepreneurs and workers making apparel with the “made in Italy” label for global markets. In 2019, Italy joined the BRI pursuant to a Memorandum of Understanding with China in the hope that Chinese state-owned entities can help develop Italian ports, further facilitating such processes.

The BRI is not just about hard infrastructure, but also about electronic commerce, facilitating trade of Chinese products. Alibaba Cloud is growing faster than Amazon outside of their home markets, and it benefits from its dominance of China’s internal market, which is the largest e-commerce market in the world. Hoping to leverage BRI-spurred economic growth and

33 Jonathan Hillman, “How Big is China’s Belt and Road?,” Center for Strategic and International Studies, Apr. 3, 2018. The projected BRI and the Marshall Plan, however, are more comparable in size in terms of the percentage of China’s and the United States’ GDPs at the respective times.
ensuing consumer demand into a “One Belt, One Road, One Cloud” future,\textsuperscript{40} Alibaba has been aggressively promoting its Electronic World Trade Platform (eWTP) concept.\textsuperscript{41} It launched its ‘Enabling E-commerce’ initiative along with the WTO and the World Economic Forum in late 2017.\textsuperscript{42} Through Alibaba, China is once more not only coordinating with, but also layering upon the work of, existing international public and private institutions, such as the WTO and WEF.

In parallel, China is developing free trade zones in the Chinese interior and in BRI countries so that Chinese firms may expand their global trade and production networks.\textsuperscript{43} Within BRI countries, China worked with its state-owned companies to finance and build huge industrial parks in new “economic and trade cooperation zones.” By January 2019, China announced that it had built eighty-two such zones within BRI countries with total investment of 29 billion USD.\textsuperscript{44} By building key infrastructure like roads and ports, and helping to revamp customs processes in these countries, these projects help achieve key BRI objectives, such as facilities connectivity and increased trade.

These initiatives benefit from legal infrastructure in terms of soft law agreements, contracts, and dispute settlement mechanisms, although that infrastructure is more flexible than Western models.\textsuperscript{45} Companies typically conduct BRI projects under the umbrella of a Memorandum of Understanding between China and the receiving country, complemented by public and private contracts.\textsuperscript{46} The projects focus on infrastructure-building, including roads, rail, ports, airports, pipelines, power plants, and telecommunications. They catalyze different forms of public-private partnerships between the state, state-owned enterprises, and private companies.\textsuperscript{47} The intertwined nature of large private enterprises and the Chinese party and state facilitate these partnerships.\textsuperscript{48} Chinese firms, financed by loans from state-owned banks, such as the China

\textsuperscript{40}Parag Khanna, \textit{The Future is Asian: Commerce, Conflict, and Culture in the 21\textsuperscript{st} Century} (New York: Simon & Schuster, 2019).


\textsuperscript{45}Erie, Chinese Law and Development, [12] (citing a workshop in Shanghai where a U.K. lawyer advocated that China use its leverage to impose “a standard agreement” for Chinese loans, while Chinese lawyers retorted that China prefers dialogue under the principle of “non-intervention”).

\textsuperscript{46}Maria Adele Carrai, “It is Not the End of History: The Financing Institutions of the Belt and Road Initiative and the Bretton Woods System,” in \textit{The Belt and Road Initiative}, eds. Julien Chaisse and Jędrzej Górski (Leiden: Brill Nijhoff, 2018).

\textsuperscript{47}Carrai, \textit{It is Not the End of History}.

Development Bank and the Export-Import Bank of China, undertake the projects.\textsuperscript{49} Chinese state-owned and private firms are well-positioned to engage in BRI projects because they are supported by state subsidies — including export credits provided below OECD-prescribed minimum rates\textsuperscript{50} — and they coordinate with state authorities to obtain government procurement contracts. Analysts estimate that around 89\% of the contractors of BRI projects funded by Chinese banks have been Chinese companies.\textsuperscript{51}

Critically, China exports Chinese standards through the BRI, challenging U.S. and European dominance in standard-setting. Standards can be viewed as a form of soft law that fall within what Jessup called “other law” in his concept of transnational law because they do not clearly fall within the categories of private or public international law. It is an area that legal scholars often ignore because the standards often are not legally binding (formally), although they may be directly incorporated through contracts, and they can have major impacts in practice.\textsuperscript{52} China has established national standards that it requires manufacturers and service providers to use when entering China’s market. In turn, Chinese companies use these standards when exporting goods and services abroad.\textsuperscript{53} Given the size of China’s market, China can use domestic standard setting to provide a competitive advantage for Chinese companies in its internal market. And given the number of infrastructure projects abroad that China finances, China is well-positioned to shape international and regional standards in practice, such as for infrastructure.

When Chinese firms like Huawei build telecommunication and other infrastructure projects in BRI countries, they use Chinese standards rather than other international ones. In this way, China can gradually shape the adoption of Chinese standards through practice in many regions in the world, establishing facts on the ground with increased market share.\textsuperscript{54} As in-house counsel of a large Chinese state-owned enterprise told us, “even five or ten years ago it was impossible to


\textsuperscript{50} Kristen Hopewell, Class of Powers: US-China Rivalry in Global Trade Governance (2020).

\textsuperscript{51} “Gateway to the Globe,” Economist, July 28, 2018, 15.

\textsuperscript{52} Telephone interviews with practicing lawyers and in-house counsel at a major Chinese state-owned enterprise and a major Chinese private enterprise, March 20, 23, 27, and 30, 2020. Erie, in contrast, categorizes “standards” as a “nonlaw” mechanism, but, in doing so, he notes Chinese legislation on standards and the chapter on “legal liability” in that law, as well as the fact that BRI loans and contracts at times address the use of Chinese standards, which has given rise to litigation. Moreover, China first established its standard setting body as part of its accession to the WTO, again illustrating the links with law. Erie, Chinese Law and Development, [52-54]. Compare Harm Schepel, The Constitution of Private Governance: Product Standards in the Regulation of Integrating Markets (2005).

\textsuperscript{53} Andrew Polk, “China Is Quietly Setting Global Standards,” Bloomberg, May 7, 2018.

\textsuperscript{54} China attempted this strategy in the early 2000s when it announced that companies had to use its Wi-Fi standard called WAPI for products sold in China, but at the time it was in a weaker position. It backed down under pressure from the United States and Japan, and a network of companies and Chinese exporters critical to global value chains. Han-Wei Liu, China standard time: The boundary of techno-nationalism in megaregional, in Governing Science and Technology under the International Economic Order, Shin-yi Peng, Han-Wei Liu and Ching-Fu Lin 114-138 (2018).
accept the Chinese standard, but now it is different, and more and more countries will accept Chinese standards.  

Through network effects, the standards can become dominant over time. Some of these standards contain patented technology and intellectual property so that not only will Chinese companies have a first mover advantage, but they also can receive royalties under contracts, including from other companies that bid for BRI projects.

Most worryingly for the United States, China appears to have the lead in developing 5G (fifth generation) wireless technology standards, where Huawei seeks dominance. 5G technology could fundamentally change the economy as well as everyday life, unleashing new competition for technological leadership. As an April 2019 report of the U.S. Defense Innovation Board warns, “[t]he country that owns 5G will own many of these innovations [such as for autonomous vehicles and the Internet of Things] and set the standards for the rest of the world.... That country is currently not likely to be the United States.”

China’s lead in this area implicates developments in critical fields such as artificial intelligence, robotics, and smart manufacturing — the so-called Internet of Things involving sensors and data collection in an increasingly digitalized, data-driven global economy. Chinese companies are becoming increasingly competitive in these areas, potentially giving Chinese innovators and vendors a critical advantage in multiple product fields.

China is investing major resources in developing transnational standards through domestic and international bodies as a complement to its BRI initiatives. In 2018, China launched “China Standards 2035,” a strategic scheme overseen by a revamped agency — the Standards Administration of China — to encourage indigenous innovation under Chinese party-state guidance. Internationally, China has dramatically increased its leadership positions in international standard-setting bodies across councils, technical management boards, technical

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57 Alan Beattie notes that “Ren Zhengfei, the founder of Huawei, told the FT this month that it was seeking dominance in the internet of things sector, using China’s large manufacturing sector to develop chips and software for companies to connect factory floors to the internet.” Alan Beattie, “How the US, EU and China Compete to Set Industry Standards,” Financial Times, July 23, 2019.
60 Gregory Shaffer, “Trade Law in a Data-Driven Economy: A Call for Modesty and Resilience” (on file).
committees, sub-committees, and working groups. It volunteers regularly to host standards meetings and provide secretariat services. The past president of the International Standardization Organization (ISO) was Chinese (from 2015-2017) as is the new president of the International Electrotechnical Committee (IEC) (from 2020-2022). China could even create its own standard-setting body for Asia and BRI partner countries if it does not get its way in international standard-setting bodies — a strategy paralleling its development of new international development banks.

For transnational dispute settlement, BRI contracts generally provide for arbitration to be held in hubs outside of China, such as Singapore for contracts in Asia, and London and Paris for contracts in Africa and South America. In 2018, it established the China International Commercial Court, which has two branches based in Shenzhen and Xi’an. It reflects once more a form of mimicking while repurposing a Western legal model, that of the Commercial Court in London — which Singapore had earlier adopted in 2013 with the Singapore International Commercial Court. However, in the case of the new Chinese court, unlike in Singapore, the regulations require that judges be “able to use at the same time Chinese and English as their work languages.” Moreover, in practice, unlike in Singapore, China has appointed exclusively Chinese judges to the court, who are assisted by an advisory Expert Committee with predominately non-Chinese experts, thus repurposing the model with Chinese characteristics. By the end of 2018, the China International Commercial Court announced that it had accepted a variety of cases involving foreign companies and Chinese companies. These developments form part of an ongoing shift toward Asia as a center for transnational dispute settlement (whether through arbitration or special international commercial courts), with China aiming to play a more important role.

The BRI’s exact size and scope is unclear given China’s lack of transparency. There are risks that come with such lack of transparency. China already must manage the risk of domestic credit crises resulting from state banks’ extension of low-interest loans to state-owned enterprises, the terms and accounting for which are opaque. By exporting this domestic, state-led, private-law development model to countries governed by unstable and corrupt regimes, China raises new

63 Telephone interviews with SOE in-house legal counsel, March 30, 2020; former internal lawyer with Huawei, March 23, 2020; and external counsel for three major Beijing law firms, March 20 and March 27.
66 China International Commercial Court, “The International Commercial Court of the Supreme Court has Accepted a Number of International Commercial Dispute Cases,” Supreme People’s Court of the People’s Republic of China. So far, it remains more symbolic than used. Telephone interviews with practicing lawyers and in-house counsel at a major Chinese state-owned enterprise and a major Chinese private enterprise, March 20, 23, 27, and 30, 2020.
debt exposure not only for the recipient countries, but for China itself. Backlash against Chinese
debt obligations has intensified in recipient countries, especially following leadership changes
(such as in Malaysia, Pakistan, and Sri Lanka). Criticism of Chinese “debt-trap diplomacy” is
rising, even though China has shown flexibility in renegotiating loans, more so than Western hedge
funds that buy distressed debt. Nonetheless, if projects foreclose and credit collapses, President
Xi’s “China Dream,” externalized as part of the country’s “Go Out” strategy, risks becoming a
nightmare.

2. Asian Infrastructure Investment Bank and New Development Bank

Throughout the 2000s, the United States blocked any increase in China’s shareholding and
voting rights in the World Bank and International Monetary Fund that would reflect China’s
growing importance in the global economy. Because of its frustration, and to help finance
regional infrastructure more broadly, China officially proposed the creation of the Asian
Infrastructure Investment Bank (AIIB) in 2013. The fact that it proposed both the AIIB and the
BRI in 2013 suggest a coordinated strategy of China to enhance its influence regionally and
globally. China signed a Memorandum of Understanding in Beijing to create the AIIB in 2014 and
AIIB operations started in 2016. The United States opposed the bank’s creation and unsuccessfully
lobbied countries not to join it. However, in a diplomatic triumph for China and defeat for the
United States, the AIIB grew to 100 members by 2019, including all major developed countries
other than the United States and Japan.

While the AIIB started as a Chinese initiative and China is the largest shareholder with
around a 27% voting share, China has tried to play down its influence as the membership of the
AIIB expanded to include major Western countries. The Chinese government has made clear that
the projects funded by the AIIB will not be limited to countries in the BRI. However, most of the
approved projects have been in BRI countries, as the BRI is already vast and expanding. To
alleviate governance concerns, China has tried to assure that the AIIB follows “best practices” (i.e.
those of the Western-controlled multilateral development banks), and the AIIB’s lending practices
to date confirm this policy. For example, the AIIB largely borrows its safeguards and operating

69 Compare “Remarks by Vice President Pence on the Administration’s Policy Toward China,” Foreign Policy, Oct.
4, 2018, with Agatha Kratz et al., “New Data on the Debt Trap Question,” Rhodium Group, Apr. 29, 2019, and Chas
70 Greer, “One Belt, One Road, One Big Mistake.”
71 Martin A. Weiss, “Asian Infrastructure Investment Bank (AIIB),” Congressional Research Service, 7-5700, Feb. 3,
2017.
72 The United Kingdom, for example, resisted U.S. entreaties, negotiated in secret with China, and gave the Obama
administration 24-hours’ notice before joining the AIIB.
73 The largest borrower from the AIIB has been India, which China views as part of the BRI, even though no formal
MOU has been signed. Xinhua, Which Are the Countries on the BRI? [Yidai Yilu Yanxian Guojia Douyou Naxie?],
India Remains the China-led AIIB’s Biggest Borrower, 6 September 2019, https://thediplomat.com/2019/09/fully-
invested-india-remains-the-china-led-aiibs-biggest-borrower/.
procedures from other multilateral development banks, and most of its initial projects have been co-financed with them. China wishes to develop a reputation as a responsible leader of a multilateral development bank, and it knows that civil society will scrutinize the bank’s operations.

Nonetheless, the AIIB is controlled by China, has permanent headquarters in Beijing, and is run by a Chinese president. Its first president, Mr. Jin Liqun, previously served as chairman of China’s first joint venture bank and chairman of the Supervisory Board of China’s sovereign wealth fund. Indeed, the AIIB is under greater de facto day-to-day control of China than the World Bank of the United States. Unlike the World Bank, the AIIB’s directors are based in their home countries, not at bank headquarters, and they are required to meet only every three months. Although all AIIB projects through 2018 were approved by the board, the bank’s Accountability Framework Regulation permits delegation of project approval to the bank’s President as of January 1, 2019. The AIIB’s President and staff in Beijing thus potentially can exercise greater autonomy.

The AIIB represents another form of mimicking while repurposing a Western model — the Bretton Woods development finance model. Just as the World Bank has served to advance U.S. policy goals, the AIIB should advance China’s. However, the mechanisms will be different. The United States used the World Bank and International Monetary Fund to require legal reforms in line with American style capitalism. They did so through leverage provided under structural adjustment programs and through IMF surveillance policies that include Reports on the Observance on Standards and Codes (known as ROSCs) regarding good institutional practices. Over time, the Bretton Woods institutions reduced their focus on funding basic infrastructure and rather emphasized creating a legal framework that would help attract private investment.

In contrast, the main reason for the AIIB’s establishment is to finance infrastructure projects in the region, thus including countries covered by the BRI. This lending, in turn, helps develop new export markets for Chinese products. Beijing can use the AIIB to finance infrastructure that can be built by Chinese state-owned enterprises and private companies using Chinese standards. Even if companies from third countries win the contracts, the infrastructure facilitates the trade of Chinese products, such that the lent money can come full circle. Although the AIIB will not require legal reforms and will be governed under the principle of “non-interference,” it offers further means to integrate economies into China’s economic sphere. It helps foster ties with interest groups in regional neighbors, enhance China’s place in global governance, and develop China’s reputation as a responsible steward of economic globalization and

75 Weiss, “AIIB.”
77 Chow, “Why China Established,” 1277-1279 (including privatization; deregulation; private property rights, intellectual property rights; tax reform; and market-determined interest and exchange rates).
development policy. The AIIB, in complement to the BRI, conveys China’s soft power, providing a symbol of Chinese leadership in regional governance. \(^{79}\)

China has complemented the AIIB with the creation of the New Development Bank (formerly called the BRICS Development Bank), which is headquartered in Shanghai. The New Development Bank has a capital of $100 billion and its shares are equally divided between the five BRICS countries (Brazil, Russia, India, China, and South Africa), who have equal voting rights in selecting its projects. In addition, China has many other channels to finance overseas infrastructure projects, such as through China’s state-owned banks, which have provided the vast bulk of its development lending.

These Chinese-led development banks provide developing countries with new sources of finance, ones that are linked with Beijing instead of Washington, and that funding comes without political conditions to adopt neoliberal policies. In the process, these banks’ operation creates leverage that can enhance China’s role in the Bretton Woods institutions. The U.S. Congress’ approval to increase China’s voting rights in the IMF and World Bank came only after the AIIB’s formation. The AIIB works with the World Bank and so it currently operates as a complement within the existing international economic order — a form of institutional layering in the order’s evolving ecology. The AIIB is quite useful to China in the context of the trade war, for it conveys a reputation of China as a responsible global leader. Outside the United States and Japan, the rest of the world has embraced this Beijing-based institutional development.

C. Developing a Web of Free Trade and Investment Agreements

1. Free Trade Agreements

To complement these initiatives as part of its development and geoeconomic strategy, China is creating a web of trade and investment agreements that grant it preferential access to foreign markets. This public international law component once more forms part of the evolving ecology of the international trade and investment legal orders. It borrows from Western models but is tailored to advance China’s interests. At the 18\(^{th}\) Party Congress in 2012, President Hu emphasized that the “implementation of the FTA [free trade agreement] strategy shall be further accelerated.” In response, the State Council issued several Opinions on Accelerating the Implementation of the FTA Strategy in 2015, which laid out a comprehensive blueprint for China’s trade agreement strategy. \(^{80}\) As of January 2019, China had signed free trade agreements with thirteen countries, including South Korea and Australia in 2015. \(^{81}\) In addition, it had launched

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\(^{79}\) India, for example, has expressed great wariness of the Belt and Road Initiative, but it is the largest recipient of AIIB-financed projects. Enda Curran, “The AIIB: China’s World Bank,” \textit{Bloomberg}, Aug. 6, 2018.


\(^{81}\) China has agreements with Chile (November 2005), Pakistan (November 2006), New Zealand (April 2008), Singapore (October 2008), Peru (April 2009), Costa Rica (April 2010), Iceland (April 2013), Switzerland (July 2013),
trade negotiations with seven others, as well as a trilateral agreement with South Korea and Japan. In 2002, it concluded its first free trade agreement with the ten-member Association of Southeast Asian Nations (ASEAN), and in 2003, it formalized Closer Economic Partnership Arrangements with Hong Kong, and Macau. It aimed to expand these agreements through negotiating a Regional Comprehensive Economic Partnership that would comprise fifteen Asian countries, of which China already had a free trade agreement with all but Japan. Overall, China envisages over fifty free trade agreements as part of its implementation of the BRI. These agreements bolster China’s status as a hub for global and regional value chains.

China (at least initially) negotiated these agreements incrementally by starting with an agreement on trade in goods and then expanding it to cover services after commitments on goods are substantially implemented. It has complemented these agreements with an investment agreement that facilitates further economic integration. For example, the China-ASEAN Agreement on Trade in Goods entered into force in 2005, while the Agreement on Trade in Services became effective in 2008. Then, in 2009, the two parties signed an Agreement on Investment. Similarly, China signed its agreement on trade in services with Pakistan four years after the parties signed their agreement on trade in goods. Developed countries, however, can press China to enter agreements for goods and services simultaneously, which is one reason China’s negotiation with Australia took ten years to complete.

These free trade agreements are narrow in scope compared to those of the United States, European Union, and Japan. In line with China’s policy emphasis on non-interference in internal regulatory affairs and respect for sovereignty, the agreements do not require new rules for regulatory issues, such as labor and environmental protection, or competition policy. China prefers to address these issues, if demanded by trading partners, in standalone side agreements or Memorandums of Understanding.

China has used these free trade agreements to establish new rules and precedents regarding its treatment as a market economy. This treatment is important for antidumping calculations, where the United States and European Union use constructed data from other markets to determine if Chinese products are being sold at less than fair value, resulting in higher antidumping tariffs

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South Korea (June 2015), Australia (June 2015), Georgia (May 2017), Maldives (December 2017), and Mauritius (October 2019).
82 China launched negotiations with the Gulf Cooperation Council (April 2005), Norway (September 2008), Sri Lanka (September 2014), Israel (March 2016), Mauritius (December 2017), Moldova (March 2018), and Panama (July 2018).
83 In turn, Hong Kong concluded a free trade and investment agreements with ASEAN in November 2017, providing further bridges between them.
84 Carrai, It is Not the End of History.
imposed on Chinese products. China has insisted on the recognition of its market economy status as a precondition for virtually every free trade agreement that it has signed. However, even though eighty-one countries have formally recognized China as a market economy, the United States, European Union, and Japan have refused to grant it this status, based on their interpretations of the relevant WTO Agreements and China’s Accession Protocol.88

The biggest among China’s planned trade agreements is the Regional Comprehensive Economic Partnership (RCEP), a proposed mega agreement between ASEAN, Australia, China, Japan, New Zealand, and South Korea that China hoped to conclude in 2020 (after India dropped out in November 2019). The parties launched negotiations in November 2012 to cover trade in goods and services, investment, and intellectual property protection. When India was a member, these countries accounted for almost half of the world’s population, around 32% of global GDP in nominal terms, almost 40% of global GDP in purchasing power parity terms, and about 30% of global merchandise trade.89 Although India’s withdrawal diminishes the agreement’s geographic scope, it could facilitate conclusion of a more ambitious agreement. Even without India, the RCEP has the potential to become one of the most important free trade agreements in the world. The Obama administration’s pivot to Asia and its driving the negotiation of a TransPacific Partnership that excluded China accelerated RCEP negotiations.

The RCEP and China’s bilateral trade agreements offer a paradigm that is more sensitive to national sovereignty than U.S. agreements. They leave more room for policy space, including through provisions providing for special and differential treatment and other flexibility mechanisms.90 For many development economists, such an approach is better because it is more flexible for development policy. 91 Although other analysts stress the need for binding commitments on behind-the-border issues to facilitate global supply chains,92 these supply chains already have flourished among RCEP countries. They have done so even though the utilization rate by business of preferential tariff rates in Asian free trade agreements has been low.93

2. Network of Bilateral Investment Treaties

91 Rodrik, Straight Talk on Trade.
China complements its trade agreements with an even broader network of bilateral investment treaties. In total, China has signed 145 bilateral investment treaties, with 110 in force.\(^94\) That is more than any other country except Germany. Its partners include all major economies in the world except the United States. In 2008, the United States and China commenced negotiation of an investment treaty, but it was put on hold because of rising geo-economic tensions between them. Chinese investment agreements incrementally build from Western models, such as through acceptance of investor-state dispute settlement, but it is developing them pragmatically and is including “soft law” alternatives for dispute resolution, such as mediation, in light of its preferences.

China has significantly changed its approach to bilateral investment treaties over the past three decades. When China first signed investment agreements, it was an importer of foreign direct investment, and was correspondingly wary of making extensive investment commitments backed by international dispute settlement. China’s joining the WTO in 2001 almost immediately had a huge impact on incoming investment into China, as multinational firms increasingly used China for their global supply chains. However, it was only around 2005 that China’s outbound investment began to take off, soaring particularly in the wake of the global financial crisis of 2007-2008. Correspondingly, China’s investment agreements became more protective of outbound investors.

In the late 1990s, there were signs that China’s view on investment treaties was changing in light of the prospects of increased outbound Chinese investment. The 1998 investment treaty with Barbados heralded a new Chinese approach that granted foreign investors access to investor-state arbitration under the International Convention for the Settlement of Investment Disputes (ICSID).\(^95\) Since around 2008, a new generation of Chinese bilateral investment treaties emerged with two new features. First, they included a national treatment obligation pursuant to which the state cannot favor domestic enterprises, subject to exceptions for only existing measures.\(^96\) Second, the new agreements expanded the scope of ICSID investor-state arbitration to cover all investment disputes.\(^97\)

These changes reflect China’s shift from being the world’s largest destination of foreign direct investment — it surpassed the United States in 2003, two years after joining the World Trade Organization\(^98\) — to becoming one of the world’s major capital exporting nations. In 1999, China


launched its “Going Global” (or “Go Out”) policy, where it encouraged Chinese firms to invest abroad.99 The results were impressive. Whereas China was the world’s top destination for foreign direct investment between 1990-2015, by the end of that period, it also had become one of the world’s primary foreign investors. In 2001, outward Chinese foreign direct investment constituted only 15% of China’s inbound investment. By 2016, Chinese outward foreign direct investment substantially surpassed it, although it plunged in 2018 and 2019 because of rising trade tensions, enhanced U.S. and European investment scrutiny of Chinese acquisitions on national security grounds, and new Chinese restrictions on outbound capital.100

China’s investment strategy takes two dominant forms. As part of China’s Go Out policy, the government encouraged and subsidized Chinese state-owned and private enterprises to acquire advanced technology through acquisitions of companies in the United States, Europe, and other developed countries. In parallel, it encouraged such companies to invest in developing countries as part of the BRI and outside of it, particularly in infrastructure and resource extraction projects. The first type of investment involves corporate acquisitions and the second greenfield foreign direct investment. The total value of outbound Chinese investment became greater in developed countries given the cost of major acquisitions, although Chinese investment in the United States plummeted after the U.S. launch of the trade war. For example, China National Chemical Corp bought the Swiss-based Syngenta for US$43 billion in 2017 (the largest acquisition to date), which is critical for China’s ambitions in agricultural biotechnology.101

China’s investment in BRI countries nonetheless continued to grow, increasing Chinese demands for investment protection.102 In 2017, Chinese firms signed 7,217 new project contracts in BRI countries, with a total contract volume of US$144.3 billion, constituting 54.4% of its total foreign project contracts.103 Since many BRI countries pose high political and economic risks, China and Chinese companies need to find ways to protect their investments, including through bilateral investment treaties, which complement commercial arbitration and other mechanisms.104

99 Naughton, The Chinese Economy: Adaptation and Growth, 446.
102 In 2018, actual BRI investment amounted to US$15.64 billion, which accounted for 13% of China’s total overseas direct investment. Department of Foreign Investment, “From January to December 2018, My Investment Cooperation with Countries Along the Belt and Road Initiative,” Ministry of Commerce of the People’s Republic of China, Jan. 22, 2019, http://hzs.mofcom.gov.cn/article/date/201901/20190102829086.shtml. This compares with US$14.53 billion, accounting for 8.5% of China’s total overseas direct investment in 2016..
By 2018, China was viewed as a “status quo” country favorable to the existing global investment law regime, as opposed to a “transformational” one proposing new models, as in the case of Brazil and (to a lesser extent) India. From their international trade law experience, Chinese trade specialists believe that China should look favorably on an appellate process for investor-state dispute settlement. As one interviewee working with the government observed, China has often fared better challenging U.S. import relief measures before the WTO Appellate Body than before ad hoc panels, and it takes note that the United States has never lost before ad hoc panels in investor-state dispute settlement under NAFTA and other treaties (where there is no appellate mechanism). Within the United Nations working group in UNCITRAL assessing the reform of the investment law regime, China has stressed that the inconsistency and incorrectness of arbitral decisions “were problems in the system and that the existing mechanisms of review (annulment and judicial review) were inadequate.” On these grounds it supports consideration of “a permanent appellate mechanism as a reform proposal.” In sum, China found that the investment protection models developed in the West suited it for protecting its own outbound investments and expressed support for their further judicialization. Nonetheless, China’s investment agreements are still more respective of state sovereignty than U.S. and European ones, and China is likely to rely much more on soft forms of dispute resolution in practice given its aim to build cooperative, cross-border ties.

D. China’s Innovation Strategies and its Turn to Intellectual Property: The Indigenization of a Western Transplant

Although China’s intellectual property laws developed from transplants from the West, it adapted them into a national asset that is critical for its development model and global ambitions. As in the United States, the private sector, seeking economic rents through the monopoly power intellectual property provides, helps drive intellectual property protection. Yet government technocrats are in much greater control of intellectual property policy in China than in the United States, and their focus is on innovation and economic development. Since the mid-1990s, China has actively used industrial policy to promote the development of high-tech and other key industries. To avoid dependency on Western firms and subjection to leverage from the United

105 Fabio Morosini and Michelle Ratton Sanchez Badin, “Reconceptualizing Investment Law from the Global South,” in Reconceptualizing Investment Law from the Global South, eds. Fabio Morosini and Michelle Ratton Sanchez Badin (Cambridge: Cambridge University Press, 2017), 35.
106 Interviews with a lawyer in a major Chinese law firm working with the government, July 23, 2016 and March 20, 2020. In other words, China appears more amenable to a court-like process for investment disputes than does the United States.
States, China launched initiatives to encourage indigenous innovation, or what it called “independent intellectual property.” The government wished to shift the country’s logo from “made in China” to “created in China.” It particularly wished to become dominant in cutting-edge technology.

The development of a strong intellectual property rights regime is an important component of China’s innovation initiatives. In February 2006, the State Council issued “The National Medium- and Long-Term Plan for the Development of Science and Technology (2006-2020),” which stressed the need to build “innovative capacity” to become “an economic power.” To encourage “indigenous innovation,” the Plan stressed the need to “further perfect the nation’s IPR system and create an agreeable legal environment that respects and protects IPR, increase public awareness of IPR, uplift the nation’s IPR management level, enhance IPR protection, and crack down on various IPR piracy activities according to law.”

In line with the Plan, patent filings soared in China. In the 1997-2011 period, patent filings in China increased by 3,245 percent. In 2016, China’s patent applications continued to increase by an annual rate of 18.7 percent. In 2019, China for the first time surpassed the United States as the top source of international patent applications filed through the Patent Cooperation Treaty, a rise of over 200-fold in just twenty years. Huawei Technologies remained the world’s leading filer of international patent applications for the third consecutive year and three other Chinese companies were in the top ten. Among educational institutions, four Chinese universities appeared in the top ten filers in 2019, while there were none prior to 2018. Although the bulk of Chinese patents remain weak, there is a concerted effort to enhance quality and strengthen protection, as reflected in increases in patent litigation and royalty flows to China.


111 The full text is available at https://www.itu.int/en/ITU-D/Cybersecurity/Documents/National_Strategies_Repository/China_2006.pdf (“[d]espite the size of economy, our country is not yet an economic power primarily because of our weak innovative capacity”).


China’s development of intellectual property protection now forms part of its strategy to make China a global leader in innovation. Changes in China’s five-year plans over time reflect China’s shift in emphasis in its development strategy. Innovation rose from a relatively marginal focus in the 10th Five-Year Plan in 2001 when China joined the WTO to a dominant focus in its 13th Five-Year Plan in 2016. In 2015, China launched its “Made in China 2025” policy to upgrade Chinese industry, which posed a new threat to Western technological dominance. It did so through a combination of massively subsidizing domestic innovation, supporting acquisition of foreign forms and technology, and obtaining foreign technology through other means, from scouring open source materials to outright theft.

Building from Germany’s “Industry 4.0” project and U.S. industry’s “Industrial Internet” initiatives, the Made in China 2025 plan aims to link big data, automated analytic tools, and wireless sensor networks with industrial equipment for “smart manufacturing.” The plan listed ten priority sectors — advanced information and communications technology; advanced automated machine tools and robotics; aerospace and aeronautics; high-tech shipping; rail transport; new energy vehicles; power equipment; agricultural machinery; new materials; and advanced medical devices and pharmaceuticals. These industries form part of what is envisaged as a fourth industrial revolution, which builds from digitalization, cloud computing, and other new technologies that are critical for efficiency, quality control, and product responsiveness. China’s ability to collect data on its 1.4 billion citizens offers it a strategic advantage.

The plan set targets for China to become “self-sufficient” by raising the domestic content of core components and materials from below 20% in 2018 to 40% by 2020 and 70% by 2025. It represents a new form of import substitution policies (grounded in local content targets), but with the further aim of China obtaining a “world-leading” position by 2049. This symbolically

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119 According to a survey by the Chinese Ministry of Industry and Information Technology (MIIT) in 2018 covering 30 large firms and 130 critical basic materials, China lacks 32% of the key materials and relies on imports for another 52% of the materials. See People’s Network, “Deputy Minister of the Ministry of Industry and Information Technology: 32% of the 130 Key Basic Materials are Still Blank in China [Gongxinbu Fubuzhang: 130 duozhong Guanjian Jichu Cailiao Zhong, 32% zai Zhongguo reng Kongbai],” The Paper, July 17, 2018, https://www.thepaper.cn/newsDetail_forward_2271086.

important date coincides with the one hundredth anniversary of the Chinese communist revolution. The policy complements the BRI, which is to be “a high-tech road” using Chinese technology.121

These policies entail long-term strategic planning, public goal setting, public-private coordination and mobilization, and massive state funding at the central and local levels through low-interest loans, capital injections, and other subsidies. To move up the value chain of production, China subsidizes high-tech sectors through new funding mechanisms such as the Advanced Manufacturing Fund and the National Integrated Circuit Fund.122 It uses government procurement and licensing procedures to favor Chinese companies and facilitate Chinese “absorption and re-innovation” of foreign technology in support of Chinese self-sufficiency and economic dominance in these sectors.123 It encourages private and state-owned companies to invest in foreign countries, and it financially supports their external acquisitions, so that they gain access to advanced technology, such as for the next generation of semiconductors.124 In addition to direct acquisitions, China supports investment abroad in industrial parks and joint laboratories for research and development, and seeks to hire talent away from foreign companies.125 In parallel, the government supports and encourages investment in high-tech startups, both in China and abroad, often linked to universities.126 By 2018, the number of Chinese startups valued at over $1billion, known as “unicorns,” was roughly the same as in the United States, and China could soon surpass it.127 The government aims to stimulate policy innovation through experimentation at the central, provincial, and local levels, including through pilot projects.128 In the process, it has significantly closed the gap with the United States in terms of royalty flows. While U.S. companies received approximately 26.8 times the royalties of Chinese companies in 1998, the difference narrowed to just 1.8 times in 2017.129

China’s practices spurred a severe response from the United States, as well as defensive reactions in other advanced economies that will shape the future of the economic law order. In March 2018, the Office of the United States Trade Representative issued a 182-page Section 301 report that accused China and Chinese companies of appropriating U.S. technology and intellectual

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126 Office of the United States Trade Representative, “USTR Section 301 Report,” 143. Lee et al., “China’s Economic Catch-Up,” 494 (“the direct involvement of academic institutions in industrial business is called ‘forward engineering’”).
127 The Economist, “The Geography of Technology,” Economist, Sept. 1, 2018, 22. Given the incentives for companies to claim they are technology-related in order to obtain subsidies, it is difficult to determine the number or these that are high-tech startups.
property.130 In parallel, Europe and other advanced economies heightened review and restrictions on Chinese acquisition of high-tech companies and their technology.131 The United States joined forces with the European Union and Japan to form a common front against Chinese practices that favored Chinese state-owned and private companies, including regarding technology licensing and transfers.132 Under pressure from the United States and others, the Chinese government and media stopped referencing the plan under the “Made in China 2025” moniker. But China’s ambitions to shift toward a high-tech, high productivity economy through public-private coordination continue.133

Western concerns are not just economic. They are also strategic, since some of this technology has military uses that could threaten U.S. supremacy. Were China to get the upper hand in core network technologies like 5G, it would access not only valuable data, but also be able to breach the integrity of networks that are central to modern economies. Similarly, were China to control the cobalt industry, which is required for most modern electronics, then “entire industries could come under the control of a rival geopolitical power.”134 These technologies and materials implicate economic supremacy and national security. The United States, in response, turned to shielding its technology through a combination of investment controls, export controls, prosecutions, and other sanctions, intended to stifle China’s rise.135

Pursuant to the Section 301 investigation, the United States raised tariffs on $50 billion of Chinese imports in two tranches in July and August 2018, then another $200 billion in September, and threatened to cover all Chinese imports. Going further, the United States issued an arrest warrant for Huawei Technologies’ chief financial officer Meng Wanzhou, the daughter of the company’s founder, who was apprehended in December 2018 while she was changing flights in Canada, for dodging U.S. sanctions against Iran and for the theft of technology.136 A U.S. ban on the sale of parts and software to the Chinese telecommunications giant ZTE in April 2018 on national security grounds, which all but shut down the company, and the U.S. placement of Huawei and other Chinese companies on the Entity List for export controls in May 2019, which effectively can blacklist them, illustrate the risks to China of its technological lag. Following the direct intervention of President Trump, the ban was lifted after ZTE paid a US$1 billion fine, and the United States has deployed the Entity List as a bargaining chip that can be modified or tailored to...

130 Office of the United States Trade Representative, “USTR Section 301 Report.”
permit critical sales. Yet the threats make clear China’s need to develop its innovation policy so that its companies no longer depend on Western technology.

E. Conclusion: A Changing Transnational Economic Law Order

When China joined the WTO in 2001, it was a recipient of legal norms largely designed by the United States that were incorporated into the world trading system. It became a diligent student of that system and gradually and increasingly engaged with it to defend its interests.137 As China grew economically more powerful, it gained confidence in its own pragmatic economic model, and it began to challenge the U.S.-led legal order with new initiatives. Domestically, it aimed to boost economic growth through state-led industrial policy, increasingly carried out by reorganized state-owned enterprises, as well as private companies linked more closely with the party and the state. Its ambitions became particularly evident in high-tech sectors where China’s relentless pursuit of “indigenous innovation” led it to enhance protection of intellectual property rights for its own ends, while also raising allegations of coerced technology transfers and theft.

Although China officially recognizes the importance of the WTO, and occasionally even holds itself out as the champion of the multilateral trading system,138 China has been quietly expanding its network of strategic partnerships and bilateral agreements behind the scene, which expands its options if the multilateral system collapses. Incrementally and pragmatically, it is developing a form of trade and economic law governance that puts state-led finance and state-subsidized infrastructure development, combined with domestic innovation policy, at the center. In the geoeconomic competition of the 21st century, it offers a rival model of economic integration and governance based not on legal templates and transplants of its domestic laws to build regional and global rules and institutions (the U.S. and European models),139 but rather one based on pragmatic, incremental development policy grounded in infrastructure development, innovation, and webs of memoranda of understanding, contracts, and treaties. China is exporting a developmental model through initiatives like the Belt and Road Initiative that offer an alternative to U.S.-built and U.S.-dominated institutions. China is not abandoning institutions such as the WTO. Rather, it is positioning itself as their defender while, combatting Western dominance within them, and creating new options for itself and other countries by fashioning a network of infrastructure projects with supporting treaties and institutions that, in combination, are creating a Sino-centric transnational economic order. As the WTO’s authority declines, China’s development of a new Sino-centric economic order assumes greater salience.

The Belt and Road Initiative represents an open architecture since any country can join it, in contrast to the U.S. and European club model. Under the club model, the United States and

138 President Xi’s Speech at the World Trade Forum, Davos, Switzerland, Jan. 17, 2017.
139 For a classic account of economic integration through law in terms of different states of integration from a free trade area to a customs union to a common market to an economic union, that would be reflected in the trajectory of the European Union, see Bela Balassa, The Theory of Economic Integration: An Introduction (London: Palgrave, 1963), 1-3.
European Union aim to build new rules through excluding those outside of the club, only to invite them subsequently on their terms. That was the model of the GATT and then the WTO with its “single package” of agreements incorporating intellectual property and trade in services. China joined the WTO and its covered agreements without having negotiated them and, in addition, had to make China-specific commitments. Similarly, it is the model for the U.S. network of bilateral trade and investment agreements built on common U.S. templates, as well as the abandoned Trans-Pacific Partnership. Were China to have joined the TPP, it would have had to agree to terms already in place and likely once more had to make additional commitments. The European Union epitomizes the club model by requiring massive internal legal and institutional changes for countries to join it.

In contrast, under the Chinese model, law plays more of a background and complementary ordering role involving “soft” mechanisms of coordination through Memoranda of Understanding and informal state-to-state negotiation to resolve disputes, as in a “relational contract” arrangement operating in the shadow of China’s economic and political clout. Under such an arrangement, the ongoing relationship is more important for the parties than the formal legal commitments so that the contract serves as a coordinating device that the parties can adjust and work around as new challenges arise in their commercial relationship. In this way, China hopes to build ties with political and economic leaders and “shift the center of geopolitical gravity away from the U.S. and back to Eurasia.” Under the Belt and Road Initiative and China’s web of trade and investment treaties, China is largely mimicking and repurposing Western models of contract, commercial arbitration, investment protection, and trade liberalization, while building on Western norms of intellectual property protection through patents, copyrights, and trademarks. However, the repurposed model is based not on a neoliberal one grounded in legal commitments as much as a state-led, pragmatic governance model.

Although China’s free trade and investment agreements started as rather modest, innocuous deals, when these agreements are coupled with the development of the Belt and Road Initiative through state-backed loans, investments, and construction projects, one senses the rise of a new transnational order based on premises different from the traditional U.S.-centric Washington consensus. As for development assistance, the Chinese model (when using its own development banks) removes the stringent good-governance conditions attached to loans granted by international development banks. In the area of trade agreements, although China calls for the substantial reduction of trade barriers on goods, commitments on services tend to be rather

142 Wang Yiwei, The Belt and Road Initiative (a book by a Chinese professor at Renmin University in Beijing that reflects views from China’s leadership). Shambaugh views China as building a “parallel global institutional architecture to the postwar Western order,” such as through the Asian Infrastructure Investment Bank based in Beijing. David Shambaugh, China’s Future (Hoboken: John Wiley & Sons, 2016), 162-163.
shallow, while environmental protection and labor rights are left out. The Chinese agreements also tend to avoid new issues, such as disciplines on state-owned enterprises and competition, or substantive rules governing the digital sphere (such as banning data localization requirements). As to investment, China has abandoned its earlier position of resisting investor-state arbitration and begun to grant more substantive rights to investors, such as pre-establishment rights and the use of “negative lists” where investments in all sectors are permitted unless listed as restricted in the agreement. This policy change reflects China’s shifting position from a major recipient to among the world’s largest providers of outbound investment.

When it comes to values, the Chinese trade law model can be viewed (formally) as “value-free” and “non-ideological” since it purports to be non-intrusive in domestic economic governance — reflecting the Bandung principles of “non-interference,” “sovereignty,” and “self-determination.” It can thus be contrasted with the labor, human rights, and environmental prescriptions included in U.S. and E.U. trade agreements and the conditionalities set forth in loans from U.S. and European-dominated Bretton Woods institutions. However, China too is espousing values phrased in terms of “mutual respect,” “win-win development,” and “harmony” as part of a “community of shared destiny,” with deference toward China at the center. China will use economic arrangements to pursue its interests, which are congruent with these values, including to extract political recognition of its “One-China” policy and silence on the “three T’s” (Taiwan, Tibet, and Tiananmen), repression of Muslims in Xinjiang, and any other criticism of China’s internal policies. These agreements can serve, moreover, to support authoritarian leaders to China’s liking. More generally, authoritarian governments will be keen to adopt Chinese practices to control the internet and ensure public order, such as through data localization requirements, cybersecurity laws, and the adoption of Chinese surveillance and censoring technology. In exchange, they will permit Chinese companies to collect data on their citizens that the companies can use and market to provide a cutting edge in Chinese product development in the data-driven economy. This is not to say that the Western model was centered on values as opposed to interests, since the United States and Europe always have pursued their interests. Nonetheless, under China’s model, there is no promulgation of liberal values such as human rights and democracy, and the government plays a more central role in the market.

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143 China’s potential role in environmental governance is more a function of its goal to be a global leader in clean energy technologies rather than environmental law.
144 As a high-level WTO official states, “the U.S. also sold ideals, while China is only selling stuff; they are merchants, not missionaries.” Interview, Geneva, July 5, 2017.
146 China’s hardline positions regarding the so-called “South China Sea,” Hong Kong, Xinjiang, and Western criticism of other internal policies have triggered a decline of external public perceptions of China in many countries. Laura Silver, Kat Devlin and Christine Huang, “People Around the Globe are Divided in their Opinions of China,” Pew Research Center, Sept. 30, 2019.
China’s model builds from, layers on, and repurposes existing international economic law and institutions as part of the changing ecology of international economic governance. Its hub-and-spokes system, combining private and public international law through loans, contract, and contract dispute resolution institutions, coupled with trade, and investment agreements, offers the potential of creating an expansive, regional, rival Sino-centric economic order. Although commentators suggest that the U.S.-China trade war could split the world into competing trade blocs and a new geoeconomic variant of the Cold War, most countries will work to navigate the tensions between the United States and China so that they maintain strong economic ties with both.

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China’s focus on “order”); Samm Sacks, “Beijing Wants to Rewrite the Rules of the Internet,” The Atlantic, June 18, 2018. Nadege Rolland contrasts the Chinese model focused on development, value-free policies, sovereignty, internal uniformity, and state-led policy, to a Western model based on democracy, individualism, liberalism, external harmonization, and rules. Rolland, China’s Eurasian Century?, 130. In the Chinese model, China is clearly “uncomfortable with the idea of democratization” that it rejects as “Western values,” and more comfortable working with authoritarian leaders that demand non-interference in domestic affairs. Ibid., at 180.