

Chapter 17

New Silk Road: Trade and Investment Perspectives for EU and New Partnerships – Global Value Chain Model of China

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ABSTRACT

China feels that by being the second world economy it has the moral obligation to actively contribute to a new conceptual model of world economic development. China proposes to develop global value chains led by Chinese companies. Investment and trade cooperation is a major task in implementing this initiative and the removal of investment and trade barriers as well as the opening up of free trade areas are targets to unleash the potential for expanded cooperation. In physical terms, it is a huge logistical and infrastructure project to link Europe and China with six land routes and one maritime silk road, but it is much more than this, because this vision comes embedded into the Confucian ideal of harmony and no uniformity abiding by political consensus with moral content on how different ethnic groups and different states can coexist and cooperate peacefully in a global project, fulfilling the Chinese dream of a harmonious world and a harmonious society.

GLOBALIZATION AND CHINA

The Davos World Economic Forum Annual Meeting 2016 conclusions were that inclusive growth is a big global challenge, and the rising of income inequality was appointed as a cause for economic and social problems, from low consumption to social and political unrest. Participants referred that several years after the 2008 crisis, the world economy was still struggling with slow growth, the labor market was showing a mismatching, with a need of 500 million jobs till 2020 for unemployed people around the globe and at the same time a shortage of skilled people that the businesses were looking for. International trade and investment were considered vital drivers for economic growth.

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In his Davos Forum 2017 speech, President Xi Jinping recognized that *“The global economy has remained sluggish for quite some time. The gap between the poor and the rich and between the South and the North is widening. The root cause is that the three critical issues in the economic sphere have not been effectively addressed”*. He went on to identify these three root causes as being: the lack of driving forces for global growth, the inadequate global economic governance and the uneven global development. Essaying an answer to these problems he placed China as the leader of globalization process, taking the perspective that the US is clearly initiating a protectionist movement. He affirmed *“If the U.S. does take a more mercantilist route, overall the Asians and Europeans will have to combine to preserve global free trade”* and he added *“We must remain committed to developing global free trade and investment, (and) promote trade and investment liberalization,”*. He assumed that globalization has problems and threats, however he also mentioned the positive aspects saying *“China has not only benefited from economic globalization but also contributed to it. Rapid growth in China has been a sustained, powerful engine for global economic stability and expansion”*.

Integration of China in Global Value Chains

According to the World Bank, the first 38 years of the China Economic Reform took 700 million people out of poverty in China, at the same time benefiting the economy of the Global South due to the integration of the Transnational Corporations (TNCs) Global Value Chains (GVCs) with China. China has already made a fundamental contribution to the present globalization process and has also benefited highly from this process by becoming the final stage of the GVCs production networks in Asia. In 2012 the processing trade units based in China imported 60% of the components incorporate in their production from Japan, South Korea, Taiwan and other Asian countries, and they exported 17.1% of their final production to the USA, 16.3% to EU and around 41% to Asian Countries.

Chinese government understood the economic rational of GVCs, as well as that of the Flying Geese Model and Foreign Direct Investment Eclectic Paradigm and introduced policies to attract foreign capital, technology, production, and foreign buyers.

In GVCs, intermediate goods and services are traded in fragmented and internationally-dispersed production processes GVCs establish trade flows of intermediary goods and services between different places in the world and are incorporated at various stages in the production process of goods and services for the final consumer, typically being coordinated by TNCs. This cross-border trade of inputs and outputs takes place within the networks of affiliates, contractual partners and arm's-length suppliers. Presently TNCs coordinated GVCs accounted for some 80% of global trade in goods and services, whereas it had been around 60% in 2013, 49% in 2011 and 36% in 1995 (World Investment Report, UNCTAD 2013; International Statistics 2015). This shows the progressive trend of countries to specialize in particular stages of good's production (known as vertical specialization), brought about by foreign direct investment, that thus create new trade opportunities.

WIR (2013) defends that GVCs have been important for the economic growing of developing countries, contributing on average to 30% of the GDP of these countries whilst its contribution to the income of the developed countries was around 18%. The WIR also considers that a positive correlation exists between participation in the GVCs and growth rates of GDP per capita, as these chains have a direct economic impact on the added value, employment and income of the countries where they operate.

Global investment and trade are thoroughly entwined in international production networks. This is especially true of TNCs investing in productive assets worldwide, as they manage trading inputs and

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