Chapter 2

Contemporary Foreign Trade Policy of China in the Region of Central and Northeast Asia

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ABSTRACT

China is one of the fastest growing economies in the world. To ensure a continual increase in trade, China’s contemporary policies are aimed at the creation of new market opportunities for China’s companies abroad. The chapter addresses the major challenges of collaboration between China and the countries of Central and Northeast Asia, reviews the milestones of China’s trade policies in Eurasia, analyses China’s recent trade and development initiative (One Belt One Road project) and its convergence with other integration initiatives in the region, and reviews trade flows between China and the countries of Central Asia (Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Turkmenistan, and Uzbekistan) and Northeast Asia (Democratic People’s Republic of Korea, Japan, Mongolia, and the Republic of Korea) during 2015. The chapter is concluded with an analysis of how China can pursue shaping an inter-regional market by looking across national boundaries and with the discussion of structural changes needed for China to ensure its competitiveness in the markets of the studied country.
INTRODUCTION

The unprecedented economic rise of China during 2000-2015, the investment-led growth model of the country, and significant demand for resources created by China provided the drivers for the economic growth and increase of trade flows worldwide (Shah, 2016; Wong, Chi, Tsui, & Tiejun, 2017). Trade and China’s investments in infrastructure and manufacturing linked the regions and developed a solid basis for cooperation (Zhang, 2016; Bondaz, Cohen, Godement, Kratz, & Pantucci, 2015). In 2013, China announced a global initiative: One Belt One Road (OBOR) project, a continuation and exportation of the development successes that China has experienced during the 2000s. OBOR focuses on the improvement of connectivity and collaboration among the countries of the world, particularly, in the macro-region of Eurasia. In this region, the collapse of the Soviet Union in the early 1990s along with the gradual opening up of China during the 1980-1990s led to the opening up of previously closed borders from European countries in the West to Asian states in the East (Linn & Tiomkin, 2006). OBOR also aims at the involvement of eastern neighbors of China, i.e. Japan, Republic of Korea, and Mongolia into the global trade and development networks led by China. Such trade policy initiated by China ushered in a new phase of Eurasian development by permitting the integration of the economies of Central and Northeast Asia with each other and with the rest of the world.

Countries of Central and Northeast Asia differ from each other on many parameters, including the economic potential regarding available resources, technologies, and labor force, the level of economic development, and the share in the world trade. Countries of Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan) experienced the Soviet-type model of development and underwent considerable economic and political transitions in the early 1990s, from centrally-planned communist regimes to democratic market economies (Khandelwal & Roitman, 2013). Russia, another post-Soviet country, progressed into the well-functioning market economy and remained the key market player in the region of Central Asia, but the process of market reforms for Russia is still incomplete (Erokhin, 2016a). In the Northeast Asia, Japan and the Republic of Korea (South Korea) are considered as one of the most developed economies in the world, high involved in international trade. Mongolia, a landlocked country in the very center of Eurasia, is a lower middle-income economy which specializes in mining and agriculture. Democratic People’s Republic of Korea (North Korea) is a socialist state, one of the most closed and centralized economies in the world.

Despite the essential differences between the countries of Central and Northeast Asia, China is one of the largest trading partners for the most of them. For China, further development of trade relations with such different partners requires the
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