

# CHAPTER I

## INTRODUCTION

### A. Background

The economic growth of China has been the concern of international community for around 35 years long. This economic development is known as the greatest economic development in recent years. It is becoming the reason why China is called as the new rising power of the world contending the current prominent super power states such as United States of America, European Union, Japan, and Russia.

Prior to the glorious time, the economic activity in China experiences the isolations under the rule of Mao Zhedong. Not only the political matter but also the economic activity must be in the hand of government in accordance with centrally controlled system.<sup>1</sup> Agriculture as the main sector is not sufficient for the economic development of the country since the tax from the society is not enough to cover the industrialization build-up cost. The societies in China become more dependent to government policy because the government was controlling the price of the products and determining the production goals.<sup>2</sup> Therefore, they cannot widen their economic or even enter international market freely. The government policy kept the society in poor condition on economic stagnation until the economic reformation was applied by the next regime.

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<sup>1</sup> *Before the Chinese Economic Miracle: A Brief Overview of the PRC's First 25 Years*, retrieved October 22, 2015 <<http://english.ckgsb.edu.cn/node/412>>

<sup>2</sup> Morrison, Wayne M. (2014) *China's Economic Rise: History, Trends, Challenges, and the Implications for United States*. Cornell University ILR School.

The great development of China began when the economic reformation took place in 1979. China started to open its economic relation by issuing the policy which enabled the society to involve in free trade market and to create economic zones along the coast line in order to attract the investor to China as well as the accesses to export the products and import the advance technology for the sake of China's development.<sup>3</sup> Although China started to have the rapid growth, it doesn't mean the state can freely choose the easiest path in economic development. In 2008, the global economic crisis hampered the economic development of China when it began to double-digit its growth rate. The trade surpluses and more than a trillion dollar state reserves should be used for assisting the instability in economy.<sup>4</sup> As the consequence, the export sector of China was also slowing down. This crisis not only made China suffer from domestic economic downturn, but also affected international trade. Several banks in European Union and United States collapsed, so it pushed the government to decrease a great number of importing products from China. The action from both countries brought a great impact for China since they are the two largest economic partners and other country made several factories in China close their business. Ten thousand labors had to be laid-off and the migrant workers were returning to countryside.<sup>5</sup>

The crisis of 2008 made China counted as a great state since Chinese capable to maintain domestic economy, and China was also able to give loan

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<sup>3</sup> *Ibid.*

<sup>4</sup> *2008 Global Economic Crisis*, available at *China Digital Times* retrieved 21 October 2015

<sup>5</sup> Schmidt, Dirk (2009) *The Financial Crisis and Its Impact on China* (China Analysis 67) available at: <[www.chinapolitik.de](http://www.chinapolitik.de)> retrieved 21 October 2015

some amount of money to United States and EU within crisis period.<sup>6</sup> In the end of 2012 China came back with greater economic power. The economy grew significantly with the average growth index reaching nearly 10 percent every year for three decades until 2013.<sup>7</sup> The main sector that China offers is in manufacture industries and investments. It made China notable as the largest manufacturer country in the world. A huge number of companies are actively continuing the production in order to fulfill the demand from domestic and international export purposes. Nowadays the exports of China's products are flooding the world market. Since economic reformations under the rule of Chinese Communist Party led by Deng Xiaoping, China increasingly integrates to the world economy. It is done in order to provide the markets for China's exports and the improvement of capital, technologies, expertise for industrial sector, and resources.

Some experts who were concerned about China's development are trying to value the China growth. However some of them also faced the difficulties to measure the exact number of China's size. Although, they assured that China's position has removed the position of its neighboring country, Japan, in recent years. Determined by the number of population, geography, government spending for military, the GDP that measured by consumptions and the total government income, Chinese economic growth has defeated the average economic growth of Japan. While Japan grew only has 1.2 percent of average growth, China is

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<sup>6</sup> *Ibid.*

<sup>7</sup> *Why China Slowdown Matters* taken from BBC News, retrieved Mei 23, 2015.

growing faster at the average of 9,7 percent a year.<sup>8</sup> In fact, the disparity is quite far to compare those two countries. However, Japan has been one of the economic polar in the world before China.

Becoming the world's third largest trading nation and the second largest recipient of Foreign Direct Investment, China achieved a great amount of the total stock of FDI within the country. It was around US\$562.1 billion in amount, with annual FDI inflow increasing from US\$2.7 billion to US\$60.6 billion over the same period.<sup>9</sup> China has also, in recent years, begun to encourage its national business to make investments in overseas. By 2004 China's investments in other countries were valued at US\$37 billion.<sup>10</sup> The effort done by the government in a rapid economic rate of growth, made China significantly improve the living standards of its citizen. Dramatically this policy is successful to reduce the level of poverty with the number around 800 million people according to World Bank Data.<sup>11</sup>

In accordance with the fast development of China, some scholars projected that China will replace the position of United States in 2030 with constant development of 10 percent growth. With those developments, China is able to modernize its military power and dares to join numerous international

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<sup>8</sup> Kang, David C. (2007) *China Rising: Peace, Power, and Order in East Asia*. United States of America: Columbia University Press. Page 12

<sup>9</sup> National Bureau of Statistics of China.  
<<http://www.stats.gov.cn/english/Statisticaldata/AnnualData/>> retrieved March 02, 2015.

<sup>10</sup> Jiyao Bi. *China's New Concept for Development*

<sup>11</sup> World Bank Data <<http://www.worldbank.org/en/country/china/overview>> retrieved Mei 06, 2016

organization and institution as the effort of China to integrate more with the world economy. Therefore the popularity of China growth is undoubtable.

In the early 2013, China elected the new leader. Xi Jinping gained his power as the new president and the leader of Chinese Communist Party. On his new position, he pledged to reform the economic system to the entire Chinese society. Instead of maintaining the target of economic growth, Xi proposed “the New Normal” for China.<sup>12</sup> After missing its economic growth target in 2014 under his leadership, through Chinese premier Li Keqiang, the government announced the new economic target of China in the annual session of the nation’s Communist Party-controlled legislative chamber.<sup>13</sup> The government announced that China will set the lower target for 2015 growth index into 7 percent from 10 percent in 2010.<sup>14</sup> It is the lowest target of growth since last 25 years. The government also decreased the job opportunity into 10 million job vacancies in a year. Gradually, the market of property and factories are lessening as well as the government investment. Some researchers release the new prediction as the slowing down of China growth index. In 2014, China reached 7.4 percent and decreased into the number of 6,8 percent. It was predicted to be less in the following year into 6.3 percent. This economic risk could be the significant matter when talking about China’s development, none the less, in fact there are also a lot

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<sup>12</sup> *The New Normal* of China was unofficial term to call the government’s policy for setting the new target to their economic growth. This policy is announced when the 18th Congress of the Chinese Communist Party which was held in December 2012. *The New Normal* policy started to apply in 2015 until the next five year under the fifth generation of Chinese leader.

<sup>13</sup> Koh Gui Qing (2015) *China Signals “new normal” with higher spending, lower growth target*. Via Reuters

<sup>14</sup> *Ibid.*

of China's weakness in its development. The problems of social disparity still become obstacles that accompanied the growth for more than a decade. At the end, it just only becomes a relay games that shifted from the previous leadership to the present or possibly to future leadership. While the rich people enjoy the luxury, poor people are busy to collect their hope of life as a low income labor. In other sector, regarding to the environment regime agenda that has been heralded from the past is also threated the same. In parallel to heavy industry, economic development becomes a boomerang for environment sustainability. The green economy agenda that valued can be a bridge between economic and environment development still couldn't be a priority of the decision taker.<sup>15</sup> It will and still being a discourse that might never be realized. Therefore, the new economic policy of China became questionable, whether Xi Jinping could bring China to become the rising star or into adversity. Then, the urgent reason of intentional economic slowing down should be traced.

**B. Research Question:**

Why did China assign to set the “New Normal” policy for its economic development toward the Green Economy agenda?

**C. Objectives of Research**

The purposes of this research are stated as follows.

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<sup>15</sup> According to UNEP (2010) the definition of green economy is ‘an economy that results in improved human well-being and reduced inequalities over the long term, while not exposing future generations to significant environmental risks and ecological scarcities’. The Green Economy itself is not the common term use in China, they usually use ‘ecological civilization’ and ‘green development’. Taken from Xiaoxue, Weng et. al (2015) *China's Path to a Green Economy: Decoding China's Green Economy Concepts and Policies*. International Institute for Environment and Development, <[www.iied.org](http://www.iied.org)> retrieved 16 May 2016.

1. To inform the readers about the political economics issues in China.
2. To explain China's consideration about its economic policy to decrease its economic growth target for economic development starts in 2015 and the reason related to its relation with the economic partner.
3. To Implement the International Relation theories/model to examine the cases given.
4. To fulfill the requirement to be the Bachelor of Social Political Science.

#### **D. Theoretical Framework:**

In this research, the writer utilize the model of rational choice on decision making process and the concept of economic diplomacy in order to analyze the assumption raised regarding to the reason China changed the target of economic development begin in 2015.

##### **1. Rational Choice in Decision Making Process**

The idea of rational choices in political economics science is underscoring the way political actors attempting to maximize the utility of decision taken.<sup>16</sup> This approach permits that naturally people prefer to choose from high priorities to low priorities or more benefit to less benefit of each option given.

Since the political actors always consider about the cost and benefit of each existing alternative, the state as the rational actor tries to convince that the

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<sup>16</sup> Grindle, Merilee S. (1999) *In Quest of the Political: The Political Economy of Development Policy Making*. Center for International Development at Harvard University

decision taken is best suitable to its strategic purposes of the state national interest. Therefore in his article, Grindle believes that the policy maker is ready to reform the policy to adjust to the condition faced by the government in order to get the highest possible position.

In addition, Grindle explains about the possible reason for the rational actor to change its previous policy. He provides two kinds of situations to elaborate it. First, political actors face the new alternative which enables them to increase their bargaining position through rational strategic calculation. Second, oppositely, the government is dealing with no options where they are constrained to take the only decision in response to the pressure.

Graham T. Allison also argued that every important decision taken by the state is rational.<sup>17</sup> The policy is well planned by reason optimized the result. He also emphasize that every decision should related to the strategic purposes and consideration based on the national interest.

At the end of the explanation, the model of rational choice emphasizes that every rational actors have their own preference in any alternatives given and thus they are trying to seek the way to achieve that preference through any kinds of effort and action. Therefore the prominent and complete information regarding to the issue is very significant to this model to determine which alternative is best chosen as the policy in decision making process.

China policy to decrease its economic development target is quite surprising for several parties since the position of China almost reaches the top of

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<sup>17</sup> Allison T., Graham (1971) *Essence of Decision: Conceptual Model's and the Cuban Missile Crisis* (taken from Mas'oed, Mohtar (1994) *Ilmu Hubungan Internasional: Disiplin dan Metodologi*. Pustaka LP3S Indonesia: Jakarta



the world order. China is faced by two options whether China should assign or not to assign the new normal policy for its national development. As the decision maker, Chinese Communist Party had made the decision by combining the advantages and disadvantages of each option.

On one side, suppose China did not apply the new normal policy, it would be able to improve its economics to pass through the position of United States in 2030.<sup>18</sup> However, in contrast with this development China will continue to have the environment problem and the economic disparity of the society as what happens nowadays. Nevertheless, if China assigned to set the new normal policy, it should ready to pay the cost. The consequences of this policy is that there is a huge number of labors losing their job since the government cut a huge amount of productions for goods and services which are supposed to be marketed in domestic market and exported to foreign country. In the same time, China should face a poor reality that foreign investor should leave the Chinese corporation and move to other country corporations.

In contrast, from all the cost that China gets, China precisely instead has the opportunity to rearrange its economic system so that it runs more sustainably and can attract the foreign investor back in different sector based on what China has planned for its future with more sustainable in economic system. To give more complete explanation on how the utility of domestic issues can be a tool in foreign policy to achieve the national interest by the state decision taker, therefore, this paper also uses the concept of economic diplomacy to elaborate the

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<sup>18</sup> *US? China? India? The Biggest Economics in 2030* taken from <<http://www.independent.co.uk/news/business/>> retrieved January 14, 2016

utility of new normal policy regarding to the achieving of Chinese national interest. The concept is mentioned below.

## **2. The Concept of Economic Diplomacy**

The concern of International Relations has shifted from the traditional into modern, which now the concern is not merely on state-centric and security matter but it has moved broader to economic and environment matter in which it cannot be separated each other. Each of them contributes to the complexity of the issues within international relations.

Generally all kinds of diplomacy are “the means by which state pursue their foreign policy” while economic diplomacy is all by means pursue the national interest in an anarchic international system using economic issues as a tool of negotiation.<sup>19</sup> In some literature as stated by Donna Lee and Brian Hocking, the economic diplomacy is also defined as the use of traditional diplomatic tools such as intelligence gathering, lobbying, representation, negotiation and advocacy, conducted by foreign services official in order to advance the economic interest and to arrange the foreign economic policy in world economy. The method uses in economic diplomacy including the use of positive and negative economic sanction. It could be aid program, financial assistance and economic embargoes or break the economic relation as the example of negative economic sanction. Broader than that, in their book, Woolcock and Bayne (2013), stated that although economic diplomacy is concerned with

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<sup>19</sup> Lee, Donna and Brian Hocking (2010) *Economic Diplomacy* in Robert A. Denemark (Ed) *The International Studies Encyclopedia*, Vol. II page 1216-1227. Wiley Blackwell

international economic issues, now economic diplomacy is going deeper to domestic decision making because of the globalization affections.<sup>20</sup> The globalization brings the easiness for citizen or statecraft to access the information in whatever state. Therefore the international issues could be a domestic matter, vice versa the domestic issues or policy could be internationalized which usually drift by the interest group.

The concern of economic diplomacy studies is not merely dealing with the diplomatic agenda that emerges from the processes of market integration, such as high carbon economy negotiation, property right bargaining or transnational finance negotiations, but the shifting of the diplomatic actor is also a prominent object to be concerned. The diplomatic actor is the key player in negotiations to establish market rules and regulations, the dissemination of norm and cultures in the international economy, the promotion and implementation of economic policies, and the advocacy of public and private economic interests. Economic diplomacy may be driven by the foreign ministry, but it should be involve those with economic responsibilities which always receive the influence from the interest group.

Nowadays states are more competitive in market sector as the result of increasing liberation of international trade and finance, therefore the diplomacy becomes an important tool to manage the economic risks as well as its opportunities. The issue of environment also becomes more significant in international relation studies since this is the transnational boundaries issue which

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<sup>20</sup> Woolcock, Stephen and Bayne Nicholas (2013) *The New Economic Diplomacy: Decision-Making and Negotiation in International Economic Relations*, 3rd Editions. England: Ashgate Publishing Limited

often relates to the economic development of a country. Thus, the study of economic diplomacy is completed by four key modes as a tool to analyze the complexity world economy, those are commercial diplomacy, trade diplomacy, finance diplomacy, and consular visa services in relation to increased migration flows.

The China strategy about the peaceful rise will be one of the examples of China's way to interact internationally. As stated before, economic diplomacy is the use of negotiation in international community to pursue the national interest. Here, China uses its economic issues in order to state indirectly to the world that China is a significant and friendly partner in economy.

In regard to the problem given, the policy of China is not only affected by the domestic condition in China. Nevertheless, the neighbor and the trading partner state should adapt their policy adjusting to the new conditions because China is the greatest trading partner and exporter for the world market. Consider to thus matter whether domestics or foreign policy made by China will be observed by the economic and political actor. Therefore regarding to the grand strategy that China has, the concept of economic diplomacy is estimated to be able to provide a clear approach toward the effort of China to use its domestic's issues in order to seize more stable and secure economic development. Thus, the harm political issues that weaken China's power can be avoided.

**E. Hypothesis:**

According to the explanation of background and theory above, the hypothesis regarding to the reason why China assigns to set the “New Normal” for economic development toward green economy agenda is as follows:

Beside to increase the bargaining position of China in international arena, China also desires to have more sustainable development for economic, environment, and social life for the society.

**F. Range of Research:**

The limitation of research is needed in this paper in order to keep the elaboration persistently focus on the topic and on the right track. This limitation help the writer to have deeper discussion on elaborating the cases mentioned.

This paper would only discuss the reason of China to decrease the target of economic growth began in 2015, under the fifth generation of Chinese leader, in context of multistate relation within international community. Since this issue is analyzed using the rational choice model and the concept of economic diplomacy, therefore the writer will not go deeper into the environment, social, and economic issue in domestic level. Lastly, regarding to the implementation of the Chinese diplomacy, the writer only discusses the Chinese relation with the predominant states such as United States of America, European Union, and Japan or international community in holistic meaning in order to avoid the discussion is going broader.

## **G. Methods of research:**

In the process of arrangement, this paper uses the qualitative method to collect the data. This method of research allows the writer to do library research to get the valid data. The primary sources of the data are obtained from journals, books, and newspaper whether accessed online or offline. Electronic mass media and the use of internet might highly influence the idea of the writer in arranging this paper. The analysis of the data would be in descriptive analysis technique, in which the obtained data will be analyzed systematically using a theory so that the correlation between them can answer the question.

## **H. Organization of Writing**

This undergraduate thesis consists of five chapters and each of them will be elaborated systematically in sub-chapters given. The systematic writing of this research is arranged as follows:

1<sup>st</sup> Chapter      This chapter consist of introduction of the research encompassing the background of the issue, research question, objectives of research, theoretical framework, hypothesis, range of research, and the method used to collect the data also the organization of writing.

2<sup>nd</sup> Chapter      Generally discuss the risk for having the high rate growth in China in term of economic, social and environment related to the plan of China to move into greener economy.

- 3<sup>rd</sup> Chapter      Explaining the initiative of New Normal and its goals. In this chapter the writer would like to explore on how the New Normal is lifting up the bargaining position for China in its relation with foreign countries.
- 4<sup>th</sup> Chapter      Discussing the benefit for China after the implementation of the New Normal regarding to green economy agenda and its bargaining position within international community.
- 5<sup>th</sup> Chapter      The last chapter would conclude and reiterate the main idea that has been explained previously.