

## **Geo-economic Analysis of China's Foreign Policy**

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Received: 22/04/2017

Accepted: 02/10/2018

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### **Abstract**

The economy is a decisive factor in China's foreign policy. Since the beginning of the reform era, this factor has been the driving force behind China's growth and development. Consequently, the policy of constructive engagement with the outside world, especially the advanced ones, became the focus of its foreign policy. However, since the beginning of the 2010s, China's economic growth has slowed down. Consequently, the country's leaders emphasized the "reliance on domestic consumption" and "outside investment" models in order to maintain the economic growth and preventing the "middle income trap". These developments have had important implications for foreign policy. The most important foreign policy manifestations of them are: to preserve and even strengthen China's commitments to existing financial institutions; to emphasize the role of the market; focusing on Asia; to strengthen economic relations with East Asia and its geographic West; creating new multilateral economic institutions and initiatives, as well as efforts to maintain and strengthen economic relations with the United States, which has been under pressure during Donald Trump. Therefore, this study is seeking to examine a geo-economic analysis of China's foreign policy based on these new developments.

**Keywords:** Geoeconomics, Foreign policy, China.

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### **1. Introduction**

The economy has been the determining factor to China's growth for decades. This has led to the adoption of a certain foreign policy by this country. As Deng Xiaoping in the late 1970s anticipated that until the near future, a major war would not occur in the international system, the strategy of opening up to the outside world and moving towards economic growth was centered on China's foreign policy (Deng, 1985). As The result of this perception, the creation and continuation of economic relations with various countries, especially developed countries, and the attempt to maintain stability in the regional and international environment became the centerpiece of China's foreign policy.

However, the important point is that, given the domestic and international conditions, export-based growth is the most important economic model that Beijing relied on after beginning of the reform era. This model has contributed greatly to China's current status in the international system. The most important reason for the export-oriented model's usefulness has been the complementary role of the China's economy in the global economy over the past four decades. However, with the increasing growth of the country, Chinese leaders concluded that this pattern could no longer be useful for the continuation of the country's growth. Therefore, the requirements for the continuation of its economic growth and, to a certain extent, the change in its position in the international system, have led the Chinese to rely on a new model. Therefore, under such conditions, Chinese decision makers emphasize the move towards an economic model based on "domestic consumption" and "outside investment". On the other hand, China's trying to promote its international position leads to an active role in international economy, and as a result, new economic models can better meet China's position in the international system. Given these developments, the question that this study seeks to answer is; what are the characteristics of modern Chinese economic approaches and what are their implications for China's foreign policy? In other words, does the adoption of China's new economic models have led to a major break with China's foreign policy over the past?

Because of the use of new models, Beijing has tried to expand its economic relations with the countries in its peripheral region, including the United States alliances such as South Korea, Japan and Australia, as well as

other countries, such as South-East Asia and Central Asia. In addition, due to the large volume of economic interactions with great powers, especially the United States, the continuation of trade relations with such countries will be the top priority of china's foreign policy. Moreover, beyond membership in existing financial institutions, china has tried to become an active actor in these institutions to demonstrate its commitment to the existing international order.

In order to provide a geo-economic analysis of China's foreign policy, we will first consider the theoretical framework of the research. Then, China's new economic approaches will be addressed. In the next step, China's policy towards international institutions is being examined. In the fourth step, China's policies in the East Asian region will examine in two parts of the relationship with the countries of Southeast Asia and the United States alliances. Afterward, China's economic policies in its western regions will be addressed. Then, Beijing and Washington's economic policies and relations are being explored. In the final part, the author's assessment of the impacts of China's linkages and economic approach on the nature of its foreign policy will be raised.

## **2. Methodology**

In this paper, whit descriptive-analytical approach and using library data, the attempt is made to explain the geo-economic foundations of China's foreign policy.

## **3. Theoretical framework: Geoeconomics**

The foreign policy of each country is the result of the interaction, encounter and combination of various internal and external factors, such as the geographical and climatic conditions, historical experiences, ethnic composition, the nature of the political system, economic and military capabilities and constraints, and, ultimately, the nature of the International and regional system (Karami Et al,2018:39). In the meantime, the economic factor, especially after the end of the Cold War, has become a decisive factor in the analysis of the foreign policy of the countries. That's why, from this time, Edward Luttwak introduced the Geoeconomics as a new concept. He used this term to describe the post-Cold War world, according to which the most important area of competition between states is economic rather than military. In addition to him, at this time, other scholars also used this

concept and their goal was to express that the end of the Cold War would not mean the end of history, but the transformation of conflict. In this view, Geoeconomics is considered as a foreign policy approach, which creates an alternative to pursue geostrategic goals. Moreover, some people, unlike Luttwak, do not believe in the separation of military tools from economic instruments. According to them, these two areas have overlapping meanings. In addition, some also emphasize on the impact of geographic conditions on shaping economic implications. Based on this view, some aspects of the economy are considered in geo-economics, which are mainly linked to geography (Scholvin and Wigell, 2018).

Therefore, there are various perceptions of Geoeconomics. It is difficult to distinguish between Geoeconomics and geopolitics, because this concept can be considered in two respects. On the one hand, as the relationship between economic policies and changes in national and geopolitical power (in other words, the geopolitical consequences of economic phenomena), and, on the other hand, as the economic consequences of geopolitical trends and national power. The first aspect means how the domestic politics of a country can change the power of that country. For example, when a country becomes strong in economy, its geopolitical weight rises, and its behavior in the international system will be different. The second aspect means what are the economic consequences of geopolitical changes. (Mokhtari Hashi, 2018:57). Sanjaya Baru defines Geoeconomics as the mutual impacts of economy and geopolitics. In his opinion, economic developments, such as the decline of the economic power of a particular state, have a geopolitical impact and geopolitical changes, such as land occupation, affect the economy. He points out to Japan that, although this country became economically powerful in the 1980s, could not turn it into a geo-economic power, because it could not transform its economic power into military and political power (Baru, 2012:51).

In this research, the goal is to explain China's foreign policy that is influenced by economic factors, which mainly emerge from the internal level. Therefore, the focus will be on the first aspect. In this way, efforts will be made to take into account the implications of China's new economic orientations for sustaining its growth, on its foreign policy orientations. Of course, this does not mean ignoring the geopolitical considerations in adopting its economic approaches. In addition, as will be raised, some

aspects of the Beijing economic approaches are shaped through geopolitical trends and developments.

#### **4. New economic approaches of China (2011-2017)**

China has grown vastly since the beginning of the reform of 1970s. Economists generally attribute China's economic growth to two major sources; large-scale capital investment and Rapid productivity. Historically, China has maintained a high rate of savings. When reforms were initiated in 1979, domestic savings as a percentage of GDP stood at 32% (Morrison, 2017: 7). This high level of saving, while strengthening the capacity of domestic investment, has made China the largest lender of the global network. On the other hand, more production was mainly due to the allocation of resources for more productive sections, especially in sectors such as agriculture, trade, and services, which were largely controlled by the public (state) sector. However, the important issue is that, with China's technological growth closer to the developed countries, the growth rate of the country has fallen especially since 2010. Some developing countries (mainly in Asia and Latin America) experienced rapid economic growth in the 1960s and 1970s, but at some point in their development, they encountered economic downturn, stagnation and the phenomenon that economists called it "middle income trap". These, prevented them from moving toward a high-income economy (Morrison, 2017:7-8).

Now, China is in such a position. The decline in growth requires the economy to move towards a consumption-based growth and more openness. Because of this decline, it seems the main concern of the Chinese government is the reducing of its credibility. In addition, it should be noted that the same economic issues in the past led to mass protests in the years 1986 and 1989 (Blackwill and Campbell, 2016:10-15) .

According to the new policies of Xi Jinping, we can describe his era as the "second opening up" in China. Nevertheless, the new opening up, which has started since 2013, has been the result of moving from the export oriented model toward the "Import oriented" and "Outward investment" model. These changes, which have been made as a result of the implementation of foreign economic policies, have deepened the economic reform of Beijing.

In the new era, because of high labor costs, China has moved to high value added production through the upgraded industries. In the early stages of developing trade, Processing<sup>1</sup> played a significant role in China's economy. In particular, the country imported raw materials and immediate goods and converted them into final products by the cheap labor forces. But, now, in order to promote its industrial capabilities for more value added products, Beijing gives an important role to native innovation.

In April 2012, the state council issued the "Guiding Options on Strengthening Import and Promoting Balanced Development of Foreign Trade". The Guiding Options focuses on the importance of issues such as the priority of import for the promotion of the balanced development of foreign trade utilizing both domestic and international markets and resources both at home and abroad on the basis of overall planning; alleviating bottlenecks in resources and environment; accelerating technological advancement; improving the standard of consumption by residents; and the reduction of trade frictions. In addition, the Announcement of Guideline Options has been a fundamental change in China's foreign economic policy from boosting exports to boosting imports(Hideo, 2015:154).

The 12th Five Year Plan adopted in March 2011, also addresses issues such as the role of opening more to stimulate domestic demand, quality, the transfer of industries to the interior regions, and the promotion of trade in services, encouraging investment in abroad and for the first time a positive commitment to global governance and Multilateral relations(Hideo, 2015: 157). However, the mainstream economic orientation under Xi Jinping's leadership was raised in "decision" at the Third Plenary Session of the 18th Communist Party Central Committee in November 2013. The "decision" includes the creation of a new open economic system, including reducing control over access to investment, accelerating the construction of free trade zones, more opening up in inland and border regions, following the multilateral international trade regimes and supporting the development of local areas (Hideo, 2015:159). Before this, the Research Group of the Development Center of the State Council issued the "383 reform proposal". In this proposal, the first priority has been given to internal reform and the

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<sup>1</sup>- or assembling

second priority to greater openness to the outside world. According to the proposal, three basic principles are included in the Beijing agenda to achieve this goal: deepening reforms through greater openness, strengthening free trade investment through streamlining procedures and encouraging high value added industries, and in the field of foreign trade, Adding value to export goods, free trade agreements and a positive commitment to global governance (Hideo, 2015:158). The concept of the "new normal", which has been raised by the Xi in this era, has also been considered as an attempt to achieve a sustainable and balanced growth that is in line with China's current economic situation.

Therefore, in the economic system that Xi sought and declared in the "decision", the market plays a decisive role in resource allocation. In accordance to Xi belief, the "fundamental role" of the market in allocating resources should be promoted to "decisive" role. In such a situation, the role of government must be reduced. Based on the "decision," the duties and the roles of the government mainly include maintaining macroeconomic stability, strengthening public services, ensuring fair competition, strengthening market monitoring and control, defending market order, promoting sustainable development, facilitating joint prosperity, and offsetting the market failure. As a result, the role of government will be reduced in the macro affairs (Tabaka, 2015). Of course, at the third session of the 18th Congress of the Party, in addition to expressing the role of the market, the role of state corporations and government activity in economic development has been emphasized (Saich, 2017).

### **5. Economic Principles of China's Foreign Policy**

As far as foreign policy is concerned, China's priority is to be more openness to the outside world. For some, China's peaceful development framework is synonymous with Deng Xiaoping's foreign policy axiom of biding one's time and hiding one's strength, and thus is seen as largely passive and quiescent. Some authors also have mentioned the implications of the domestic resistance of the countries in which China invests (Ferchen, 2016:9 & 11), But the important dimension of China's policy is that Beijing by expanding its trade relations with different countries, whether bilaterally or multilaterally, while maintaining the necessary environmental stability, is trying to prevent their counterbalanced efforts.

In sum, it is possible to summarize the economic principles of China in the field of foreign economic policy that affected by new conditions and economic patterns, in the following elements:

- Supporting economic globalization and defending free trade: Given the domestic economic situation, the surplus of foreign exchange reserves and increases in wages, as well as trying to conversion of Chinese companies into companies with global competitiveness or access to natural resources, Which, in the eyes of the government, is essential to maintain China's growth, China's leaders emphasize on increasing cooperation and integration in the global economy.
- Special attention to Asia; in order to advance economic goals, priority will be given to Asia. In other words, China will strive to develop economic relations with Asian countries. This work proved an opportunity for China in creating new economic norms and rules and help to internationalize the Yuan as an international currency (Saich, 2017) .
- To continue economic relations with great powers and efforts to maintain stability in bilateral relations with them; the continuation of economic relations with the great powers, especially the US and the efforts to maintain the current international order are the important goals of China, even in the new era.
- Emphasis on New Multilateralism: China, in recent years, has created new economic institutions and initiatives that could be interpreted in the context of its efforts to continue its economic growth. Although some US policies, such as the "Asian pivot"<sup>1</sup> or "free and open Indo Pacific"<sup>2</sup> strategy, have played a prominent role in expediting it.

## **6. China's Economic foreign policy**

Each of these principles has been manifested differently. According to the above description, attention to Asia has manifested itself into china's

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<sup>1</sup>- Asia pivot or rebalancing is the U.S. grand Strategy that has introduced by Obama administration at 2011. Its goal mainly was to increase the U.S. foreign policy focus on Asia Pacific. This new Strategy has been a realist turn in America foreign policy, because the Asia Pacific region is becoming the center of world power and wealth. Under Trump administration, the U.S. has declared the "free and open Indo Pacific". These means the Asia Pacific has earned great attention in the US foreign Policy.

<sup>2</sup>- This is the US Strategy title on Asia during Donald Trump presidential Era.



growing efforts to increase economic exchanges with the countries of Southeast Asia, major US allies in East Asia as well as the countries located at the west borders of China. Defending free trade and globalization and opening up to the outside world are also evident in the China's commitment to existing multilateral institutions or attempts to sign free trade agreements with different countries and organizations. The most important manifestation of continued economic cooperation with large powers is the expansion of trade relations and efforts to maintain stability in relations with Russia, the European Union and most importantly the United States . The pursuit of these policies by Beijing requires maintaining peace and stability in the international system.

That is, while China may have a disagreement with neighboring countries or the United States (as the international dominant power) and is pursuing competitive policies in some areas, since the maintenance of the legitimacy of the Chinese Communist Party depends on continued economic growth and the economic growing depends on ties with the periphery countries or the United States as the supreme power in the international system, Maintaining stability is as one of the essential requirements for this country's agenda. Below, the China's economic policies will be addressed.

### **6.1. Increasing the commitments to financial institutions**

As the China's growth continues, its presence in the existing financial institution has increased. Obvious examples of this presence include the World Bank, the International Monetary Fund and the World Trade Organization, which are known as Breton Woods's institutions. When China is setting up its own institutions, this approach reflects its commitment to multilateral rules and regulations within the international system (Bader, 2016:10).

Currently, China is the largest country in terms of activities in the UN peacekeeping operations and the third largest shareholder and the largest recipient of World Bank loans. In addition, according to a study by the G20 Research Group at the University of Toronto, China has become more consistent with its obligations under the G20. In addition, the 2015 IMF decision to include Yuan as one of the reserve currencies is also a major development in this area. Moreover, China is the 11th donor to the International Development Association (IDA), which is the arm of the

World Bank to help poor countries. The China Development Bank has also funded several World Bank projects in Africa (The Economist, 2017).

This reflects the seriousness of China's commitment to international financial institutions. It seems that the emergence of Donald Trump and the preference of bilateralism than multilateralism have created an opportunity in which China can introduce itself as a leader in multilateralism. Pursuing such an approach by China (to continue and even increase the commitment to multilateral institutions) is based on the following principles:

- ✓ China currently benefits from the existing international situation, thus breaking the existing rules and norms can challenge the interests of China;
- ✓ By keeping its obligations to the current order and its rules, China portrays itself as an actor that does not seek revisionist objectives. So that, Beijing does not increase the sensitivity of other actors;
- ✓ By adopting such an approach, China shows its capacity to leadership in leading international financial institutions;
- ✓ Increasing its presence in these institutions will give China the opportunity to replace itself as soon as other major world powers, especially the United States, retreat.

## **6.2. Establishing Multilateral Institutions and Initiatives**

In recent years, especially during Xi Jinping era, Beijing has played a more active role in the area of multilateralism. China, on the one hand, is building new multilateral institutions, and on the other hand, as mentioned above, is still active in institutions within the international system, such as the World Bank, the World Trade Organization and the International Monetary Fund (Wang,2015:17). Of course, structural pressures, such as the greater focus of the United States in the Asia-Pacific region, have also played a significant role in China's efforts to create new, multilateral institutions that China has a central role in them;

### **6.2.1. Asian Infrastructure Investment Bank**

The Asia Infrastructure Investment Bank shows a turning point in China's approach to multilateralism. This Bank seems to meet china's objectives through four ways; firstly, it can be a financial provider for Chinese companies operating abroad. Secondly, this institution will lead to an increase in economic ties between China and other member states in various

ways. Third, the bank enhances the influence of China by strengthening the asymmetric interdependence between China and the recipient countries. Fourth, the bank, with the strengthening of the influence of China, could be a tool to challenge existing rules and norms. The investment bank can challenge the current order by changing the existing rules. For example, it can provide loans with less stringent conditions and less standards.

These conditions, along with its inclusive membership, has given rise the distrust of recipient countries to existing institutions such as the World Bank or the International Monetary Fund (IMF), and more tendency toward the bank, thereby paving the way for applying the new rules in the international system (Renard,2015 and Ikenberry and Lim,2017:7-13). In addition to these issues, it should be noted that this institution and many of the existing institutions owe their existence to the failure of the reform in World Bank or International Monetary Fund to meet the interests of the countries other than members of Organization for Economic Cooperation and Development (OECD). For example, the resistance of the US Congress has prevented the 2010 decision to increase the voting power of emerging economies. In the Asian Development Bank, the United States and Japan have prevented amendments to voting rights (Gunter and Wacker, 2015:3) .

### **6.2.2. Regional comprehensive economic partnership**

The backdrop of the launch of RCEP initiatives shows that the RCEP has been concluded because of convergence of the two disparate approaches regarding regional integration.

In 2011, ASEAN with discussion on the two previous approaches (one of the " East Asia Free Trade Area (EAFTA)" and the " Comprehensive Economic Partnership in East Asia (CEPEA)", which was sponsored by Japan in 2006), confirmed the "Comprehensive Economic Partnership Framework" That defined "Regional comprehensive economic partnership) as a project combining ASEAN Free Trade Agreements plus one signed by ASEAN + six partner countries. (Kim Tae Kyung, 2015: 14).

By arguing that the TPP does not compatible with the unification of regional economies, China's leaders tried to provide an alternative that could attract East Asian countries. Therefore, China With a strategic Shift, accepted the ASEAN's pivotal role in launching the RCEP. Based on this

change, instead of insistence on ASEAN +3 accompanied with the ASEAN +six that reveals its balancing directions (Seungjoo, 2016: 1071-5).

### **6.2.3. One Belt One Road Initiative**

The initiative is based on the proposals made by Xi Jinping in 2013. Of course, this initiative has several branches that in addition to economic interest could have geo-strategic and geo-economic benefits for China. With the creation of this initiative, Beijing pursues these objectives:

**Economic Benefits:** The above plans mean the movement of excess capacity of Chinese companies, especially in the construction sector to the outside world and increasing their competitive ability. It also will lead more regional economic integration. Given China's new economic models, discussed in details above, this initiative make it possible the continuation of China's economic growth.

**Strategic Benefits:** One of the strategic benefits of the "One Road Belt" initiative for China is its use as a tool for regional influence. Economic influence can provide influence on the political agenda of target countries. Moreover, this initiative can help China in projecting military power(Meltzer, 2017).

### **6.3. Strengthening economic and trade relations with East Asian countries**

East Asia is one of the most important regions in which China has been more active in recent years especially under Xi Jinping.<sup>1</sup> China is pursuing several goals in expanding its trade relations with its neighbors (which is most commonly found here in the Southeast Asian countries) and the US regional allies (here emphasizing South Korea, Japan and Australia).

China seeks to increase trade relations and, as a result, to promote regional economic integration. As explained above, the leaders of the country, while emphasizing the activities of their companies abroad, have begun to create regional institutions or bilateral or multilateral free trade agreements. Currently, China is the first trading partner of East Asian countries. Moreover, Beijing has been seeking to increase its security threshold and reduce other countries balancing policies. In fact, one of the most important policies of emerging countries is the attempt to prevent the formation of

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1- It seems that china is moving away low profile.

balancing policies by other actors in order to achieve the absolute threshold of security (Fiammenghi, 2011).

### **6.3.1. China's economic policy towards the Southeast Asia countries**

Focusing on improving bilateral relations and establishing strategic partnerships with the countries of Southeast Asia is one of the major changes in Chinese diplomacy during the period of the Xi Jinping (Kejin, 2014). On the other hand, these countries, because of their position and their history at the intersection of East and South Asia, don't want to be in the exclusive influence of any great power. Thus, the Southeast Asian states seek to diversify their economic and strategic ties by seeking closer ties with China, as well as Japan, India and the United States (Gill et al, 2016:4).

With China's economic growth, its trade with Asia ran from \$ 8 billion in 1980 to \$ 178 billion in 2009 and \$ 480 billion in 2014. Therefore, China has now become one of the three major trading partners of the ASEAN. In addition, its free trade agreement with ASEAN<sup>1</sup> has created the biggest free trade area in the world. Beijing has also pursued economic regionalization through the support of some specific economic and financial institutions, such as ASEAN plus Three, the Asian Development Bank, and recently the Asian Infrastructure Investment Bank (Gill et al, 2016:5). Although it is necessary to say that, the ASEAN countries try to maintain a separate agenda in their security relations with the United States and their economic relations with China.

China, also aware of this situation in Southeast Asia, has been focusing on trust building in its relationship with these countries, particularly with regard to their infrastructure needs. US withdrawal from TPP by Donald Trump, China's emphasis on hardware rather than software on its economic diplomacy has had a great impact on China's success in the Southeast Asia (Han, 2016).

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<sup>1</sup> – the ASEAN-China Free Trade Agreement (ACFTA)

### **6.3.2. China's trade relations with the US allies in the East Asia (South Korea, Japan and Australia)**

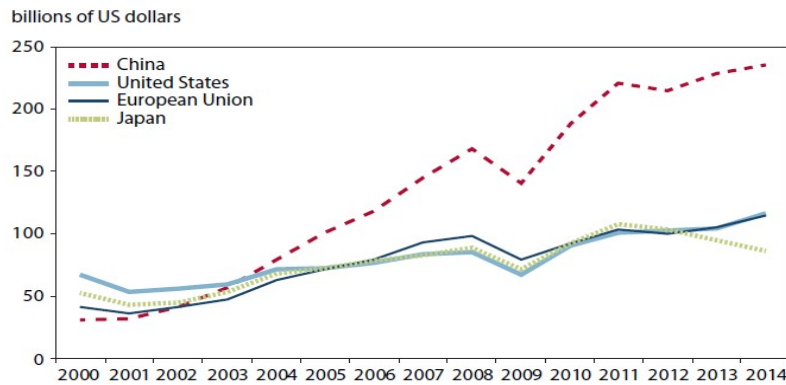
#### **6.3.2.1. Economic relations with South Korea**

Over the past two decades, especially after the normalization of relations in 1992, relations between China and South Korea have greatly expanded. Since then, trade between the two countries has doubled. According to available data, China is currently South Korea's largest trading partner and South Korea is China's third-largest trading partner. However, before the 1980s, the economic ties between the two countries were mostly indirectly through Hong Kong, Singapore, and Japan. In 1979, Beijing permitted indirect trade with South Korea in the context of the policy known as “gate remained closed but not locked” (attributed to the Chinese Foreign Minister Huang Hua). By 1987, South Korea became the seventh Chinese business partner. It is believed that in 1988 some major economic partnerships were initiated. This was due to Roh Tae-woo, President-in-Office of the Republic of Korea, "Nordpolitik"<sup>1</sup>, and China's leaders' desire for direct trade with South Korea. The share of direct trade between the two countries to their total trade came from 22% in 1988 to 42% in 1991. In 2001, China became the third trade partner of South Korea. With an annual growth of 30 percent, in 2001 Beijing replaced Japan as the second trading partner of Seoul. Finally, in 2004 China became the largest trade partner of South Korea. The volume of current bilateral trade between China and South Korea is more than the total volume of South Korean trade with three of its next trading partners (Japan, the United States, and the European Union) (Min, 2016:99-102).

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<sup>1</sup> – a policy based on the expansion of relations with communist countries

### China- South Korea trade relations growth



Source: UN Comtrade via World Bank's World Integrated Trade Solutions (WITS) database.

In addition to the volume of trade, the bilateral free trade agreement between the two countries should be noted. Based on bilateral free trade agreement, Tariffs on \$ 45 billion of Korean goods imported into China will decrease over the next ten years after the agreement is implemented. China has also agreed to eliminate tariffs over 91 percent of imported goods over the 20 years, and Korea is committed to cutting tariffs from 92 percent of Chinese imported goods (Schott et al, 2015:1).<sup>1</sup>

#### 6.3.2.2. China-Japan trade relations

China is Japan's largest trading partner, and one fifth of Japan's trade is with China. Japan is also China's second-largest trading partner. Japan, with an annual investment of more than \$ 100 billion, is considered the largest foreign investor in China (Drysdale ,2015) While China accounted for 7.4% of Japanese foreign trade in 1995, it reached 20.4% in 2015 (Sakai and Wacker,2017:26-8).

From the Chinese perspective, the development of relations with Japan could have the benefits such as technological advancement, the continuation of Japanese investment in China, and changing the regional and international political dynamics (Katz, 2013). Since 2010, despite the major

<sup>1</sup>- Korea.net. "Korea, China strike free trade pact".Nov2014. available at: <http://www.korea.net/NewsFocus/policies/view?articleId=122781>

challenges in bilateral relations, China's vision has been to maintain and strengthen economic relations as a tool to maintain regional stability.

Given that we assume that China, through pursuing economic relations with Japan and other countries in the region, seeks to create a stable environment and prevent the adoption of countervailing policies by these countries, This question arises: why China announced the Air defense identification zone (ADIZ) in the East China Sea in 2013? This question is important because ADIZ was incompatible with the alleged areas of Japan, and even led to cold relations between the two countries. In response, we can propose the following assumptions:

- ✓ The Senkaku/Diaoyu Islands as well as Taiwan were transferred to Japan According to the 1895 Shimonoseki Treaty, with pressure against the failed China, otherwise it is historically owned by China;
- ✓ Some aspects of China's behavior should be analyzed in light of US policies in order to strengthen relations with Japan, as well as an attempt to bring Japan and South Korea closer to contain China;
- ✓ Japan's efforts to strengthen its military and its new national security strategy in the Shinzo Abe era, which has led to a move toward collective defense, has worried China;
- ✓ Another issue is the definition of the concept of stability by the Beijing during the period of Xi Jinping. The main feature of foreign policy is to pursue purposefully and decisively national interests while maintaining a peaceful international environment (Jian, 2015:7-10). From Xi's point of view, China's commitment to the peaceful development does not mean abandoning legitimate rights, nor does it mean sacrificing its core interests <sup>1</sup>(Kllio, 2016:4).

### **6.3.2.3. China-Australia trade relationships**

In recent years, economic relations between the two countries have grown significantly. The free trade agreement was the culmination of the two countries' trade relations, which launched in 2015. According to the

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<sup>1</sup>- According to the whitepaper "China's Peaceful Development 2011", China's core interests include: 1) state sovereignty; 2) national security; 3) territorial integrity; 4) national reunification; 5) China's political system established by the Constitution and overall social stability; 6) basic safeguards for ensuring sustainable economic and social development (Feng,2014)



agreement, more than 86 percent of Australia's exports to China are free from customs duties. It will also be 94% in 2019 and 96% in 2029 (Myers, 2016).

However, the significant point is that while economic relations with Beijing are important for Canberra, the strategic interests and similar political values make Australia dependent on the United States. Given this issue, the creation of harmony between economic interests and strategic interests and political values requires smart and complex diplomacy, and its leaders have made great efforts to manage these relations (Malik, 2007 and Deawar, 2010:15-16).

China is currently Australia's largest trading partner, with the trade volume of goods and services between the two countries rising by about \$ 155.2 billion in 2016, a 3.7 percent growth than previous year. In addition, China is the largest Australian export market (in 2016, \$ 93 billion) and the largest import source in the country (in 2016, \$ 62.1 billion).<sup>1</sup> Additionally, between 2005 and 2015, Australia was the second largest investment destination for the China.

Another significant point is that in the bilateral trade relations, Australia's dependence on China is much more than China's dependence on Australia, which creates asymmetric relations between two countries. Although China is Australia's first-time trading partner, Australia is the seventh trading partner for Beijing. China now accounts for about one-third of Australia's trade, and exports to China alone account for 5.7% of Australia's gross domestic product. However, Australia's trade comprises 3.2 percent of China's total trade and exports to Australia accounts for 0.4 percent of China's gross domestic product (Beeson and Wison, 2015:21 and 26-7) .

### **6.3.3. Strengthening Economic Relations with the Geographical West**

Increasing ties with countries located in the west borders of China has been one of the important dimension of China's policy in recent years, especially since 2013. This is on the one hand to counter the "Asia pivot" strategy of US and, on the other hand, to advance economic policies, that because of the economic growth requirements is essential. As stated above, the "Belt and Road Initiative" requires China to be more active in its western regions. In this way, China, in addition to East Asia, also focuses on the areas such as

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1- <http://dfat.gov.au/geo/china/pages/china-country-brief.aspx>

Central Asia, south Asia and the Middle East. According to some writers, "Since China's influence and the growth of China's leadership in East Asia can lead to confrontation with the US, Western parts of China; including Central Asia, South Asia and the Middle East, do not have such a threat to the country." (Sun, 2013), Of course, this does not mean China's neglect of East Asia (Jin, 2014). On the other hand, as we explained above, China's companies' capacities and new growth model that Beijing's leaders pursue and these region's infrastructures needs make Chinese presence easy and beneficial.

Given the long history of US presence in areas such as Central Asia or the Middle East, the greater presence of China can best serve the interests of the country. The presence of Chinese companies in these countries, according to the "going out" pattern, will also be a determinant factor to China's economic growth. Beijing effort to increase its influence in Afghanistan<sup>1</sup>, to strengthen economic ties with Pakistan,<sup>2</sup> and to enhance economic relations with Central Asian countries are clear manifestations of this approach.

#### **6.4. To maintain and strengthen China-US economic relations**

China and the United States differ in terms of development stages, the maturity of the market economy, technology and so on. The United States is the world's largest economy and the largest developed country, and has entered a new economic era after the industrialization process. In 2016, the US GDP was \$ 18.6 trillion and its per capita income was \$ 57.77, which is fifth in the world. However, China is the largest developing country. In 2016, its GDP was 11.3 trillion dollars. At 2018, its per capita income is

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1- Between 2001 and 2013, China contributed \$ 240 million to Afghanistan, but this year it promised to contribute \$ 240 million between 2015 and 2018(Muhammad khan, 2015).

2- The role of Islamabad in the Chinese perspective on linking to Eurasia has always been acknowledged by the leaders of the country through the "One Belt One Road" initiative. Especially when the US-India axis is being strengthened, the Chinese-Pakistani axis can play a key role in preventing Beijing's isolation (Ahmad and Singh, 2017). China-Pakistan economic corridor is a manifestation of China's new approach, which can be a balancing tool (Pant, 2012:86) an energy transit route, thereby decreasing the dangers of over dependence on the Malacca Straits as well as stability in Xinjiang (Hussin, 2017:20-21).

estimated at more than \$7,000.<sup>1</sup> Since the 1970s, these conditions have paved the way for the expansion of bilateral economic relations.

Besides, globalization, based on interdependence between countries, has also been the driving force behind China-US trade relations. Despite the emergence of protectionist trends in the world, economic globalization has been the basis for the further development of China-United States economic and commercial relations. In the current circumstances, China is also seeking to maintain economic relations with the United States due to technological requirements and maintaining stability in the international system.

The United States has benefited greatly from business with China. Although one of the most important debates, especially by Donald Trump, is the trade deficit, but this does not tell the entire story about relations between the two sides. With regard to the benefits of economic relations with China for the United States, we can list the following:

- ✓ In 2016, US exports to China totaled \$169 billion, accounting for 910 thousand jobs in the United States (Chinausfocus,2017).
- ✓ The US investment in China and Asia generates income for US businesses. Incomes stemming from US investments in China in 2015 were about \$ 9.8 billion. Less than 6 percent of China-made products are sold by American companies, while 80 percent of these sales are sold to customers in China.
- ✓ Chinese companies have started investing in the United States. According to statistics, in 2015, China invested \$14.8 billion in the United States (Oxford Economics, 2017:9-12).
- ✓ Trade with China makes American products cheaper. This will help the American low-income class. Trade with China for each American family is estimated to be \$850 per year, according to statistics (Manuel, 2017).

Thus, in the early periods of reforms, due to complementary of China's economy, it was able to become an economically efficient partner for the United States. In the current context, that the Chinese economy has entered a critical phase and given that halting of its growth could have serious internal and external implications for the country, Continuity of cooperation with the United States is necessary. Accordingly, maintaining a stable environment in bilateral, regional and international environments is a

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1-<https://tradingeconomics.com/china/gdp-per-capita>

requirement of China-US relations. On the other hand, in the Chinese security paradigm, the weight of economic issues is not less than security issues. This has important consequences for China's foreign policy and is a characteristic that distinguishes it from the Soviet Union. Given the priority of the economy in China's foreign policy, it does not seem that Beijing to be seeking to enter a competition with the, whether economic competition or arms race.

### **7. Analysis**

As mentioned in the above pages, the economy is one of China's most important tools in foreign policy. Since the beginning of the reforms in the 1980s, the emphasis on economic relations with the outside world has been a component of China's foreign policy and has been the basis for growth and development and the status of the country. China's high economic growth has continued until the beginning of the current decade, but this trend has declined over the past few years. Given this, China's leaders have taken economic policies to rely on domestic consumption or outside investment to maintain economic growth.

The most important evidence of this economic evolution in China's foreign policy was to expand its presence in the periphery, either through new initiatives or through the expansion of economic relations with other countries, whether bilaterally or multilaterally. In the regional sphere, Beijing has tried to expand its economic relations with Southeast Asian countries. The infrastructure needs of these countries have provided China with an opportunity to increase its influence not only on the economic dimension, but also on other dimensions, such as the impact on their political decisions. Moreover, Beijing has expanded its economic ties with major US allies in the region, that is, South Korea, Japan and Australia, mainly in order to influence their decisions, especially at the time that the United States has focused more on Asia.

Their economic relations and their commercial dependence on China can affect their alliance with the US and their efforts for counterbalancing against China. In addition, besides creating new economic institutions, which are pursuing a new economic growth model based on outside investment, Beijing has also tried to continue its commitment to existing international institutions. China has also been working hard to continue its

ties with the United States. Beijing is well aware that economic relations with the United States, along with technological advancement, can prevent a predictable future conflict, because the peaceful atmosphere is vital for China to achieving the absolute threshold of security.

Given these issues, it is necessary to mention the following points regarding the geo-economic analysis of China's foreign policy:

- ✓ Pursuing new economic models has also brought specific requirements to China's foreign policy. Therefore, it remains essential to maintain stability both in the regional environment and in the international environment;
- ✓ The opening-up policy towards the outside world seems to be one of the main agenda for China. On the one hand, economic growth has forced China to emphasize this approach. On the other hand, by pursuing such a policy, China can show its potential for future economic leadership. The emergence of Trump in the United States and his unwillingness to engage in multilateral trade has provided an opportunity for Beijing to display its ability to lead on economic issues or even other topics.
- ✓ Beijing considers economic relations with the peripheral environment a vital factor for sustaining economic growth and preventing the counterbalance of these countries. To this end, the country will strive to achieve an absolute threshold of security in the future, through establishing economic interdependence. When Beijing reaches such a threshold, these countries have no choice but to get along with China.
- ✓ China is well aware that economy or economic dependence is the most important tool for influencing on the policies of US allies the Asia Pacific. Especially in light of the ever-increasing presence of the United States in Asia-Pacific, which seems to be more in the future, economic considerations will be an influential instrumental. Of course, this does not mean that these countries will abandon their security considerations;
- ✓ New multilateral initiatives that China has set up under Xi Jinping leadership have paved the way for a greater presence of Chinese companies abroad. Along with this, these institutions can also have major geopolitical impacts;

- ✓ Pursuing the international high profile does not necessarily mean China's expansionist policy. As noted in this study, much of China's rise is due to the current economic situation, in other words, to sustain economic growth.
- ✓ China's policies in the South and East China Sea as a prominent issue in Beijing's foreign policy cannot be considered necessarily synonymous with expansionist tendency and in complete conflict with the Beijing-based economic policies that require a peaceful international environment. Xi has emphasized both the development of peaceful relations and the preservation of a stable environment, as well as the maintenance of the China's core interest. In analyzing these policies, it should also mention other countries' policies, such as the US Asia pivot strategy, or Japan's new military policies. In fact, Beijing does not want to be besieged by these countries.

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