

Challenges to China's Economic Diplomacy

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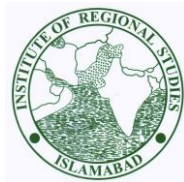
Economic diplomacy is the dominant feature of China's foreign policy since its elevation as a global economic powerhouse. China draws its political strength, global status, and soft power from its economic success story. China's economic diplomacy evolved in different phases. The economic reforms and opening up in 1979 marked the beginning of China's economic diplomacy. This phase is known as engagement in which China developed links with the international economic system. In the 1990s China established economic cooperation with Japan, the European Union, and the United States which is known as the cooperation and integration phase. The third phase is known as participatory economic diplomacy in which China actively promoted economic governance and free trade zones at the regional level.¹

There was a transformation in China's economic diplomacy after the 2008 financial crisis and its designation as the largest manufacturer in 2011. China's active role in international organizations and its mega-economic initiatives led to leadership economic diplomacy. Economic initiatives like Belt and Road Initiative (BRI) caused a reorientation of regional discourse from

security to economics. Therefore, the new phase of China's economic diplomacy is considered by the West as a driver of geopolitical consequences.² China's BRI was accompanied by its soft rhetoric of win-win cooperation, building a community of shared future for mankind, and common development that China believed will encourage an open and inclusive regional order. Such projection was also aimed to provide an alternative to the global vision for peace and security. Since the US and its European partners considered the spread of democracy a panacea for bringing peace and security for which the US also did not shy away from political and military interventions in other countries. China came up with an alternative model in developing regions for establishing peace and security through investments and common economic development. This model has been received positively by developing countries which is evident from the participation of the number of countries in BRI. As of July 2022, 149 countries have joined BRI.³

China's immediate neighborhood Association for the South East Asian Nations (ASEAN) region is immensely important for its sustainable economic growth. In recent years, we are witnessing

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innovation in China's economic diplomacy. It is playing smart by maintaining economic leverage in the neighbourhood. China was able to turn the framework of the ASEAN-led Regional Comprehensive Economic Partnership (RCEP) which came into effect on January 1, 2022, in favour of its economic interests. "Data from the first quarter of 2022 shows that China's trade with member countries expanded 6.9 percent year-on-year to RMB 2.86 trillion (approx. US\$448.6 billion). RCEP allows China to further leverage its trade potential to secure greater market access in the region."⁴ Furthermore, China was also successful to develop new financial institutions and Asian Infrastructure Investment Bank (AIIB) is joining the race to become a top funding institution. China's regional integration dream is also aided by additional sources of financing from these institutions AIIB and the Silk Road Fund.⁵

Using economic development assistance, trade, investments, energy, transport, and communications as mechanisms of positive inducement show the unique aspect of Chinese economic diplomacy. According to Chinese scholars, economic diplomacy for China is meant to serve two main purposes; "first, the use of diplomacy to achieve economic goals and benefits; and second (more directly related to the notion of statecraft), the use of economic means in pursuit of political objectives."⁶ China also views economic growth in terms of national security.

Therefore, it is leading with a vision in five areas including Asia integration, Global South, digital technology, reforms in global financial institutions, and green development.⁷ China's leadership in economic diplomacy has changed conditions for the US monopoly over advocating for peace through liberal order, democracy, and collective security model.

One of the major challenges to China's economic diplomacy is negative propaganda. Mostly, China is facing opposition from the US. The US considers China's economic ingress in developing regions as a risk. This kind of narrative is prompted by the apprehensions of "China Threat," "Debt Traps" and "Vanity Projects".⁸ It is also viewed that China's BRI will promote authoritarianism. Secondly, China's growing economic investments are dubbed as means of coercion to achieve foreign policy objectives. This kind of projection of China's economic engagements is aimed to provoke negative views and speculations about China. China's soft power also heavily relies on its economic diplomacy. China's domestic stability and the political legitimacy of the Chinese Communist Party also depend on economic success within and abroad.

Economy has always been the core of Chinese policies and leadership. China benefitted from the liberal-globalised economic system. But China has not synchronised itself with the values of the



West. China's leadership has responded to the requirements of its people.⁹ Now the dynamics are changing both externally and internally for China. Externally, China's relations with the US transformed from economic engagement to strategic competition. The US is still the largest trading partner of China as a single country but the strategic competition escalated the trade war between the two countries in 2019. Anti-globalisation drive, protectionist policies, economic tariffs, and sanctions are other challenges to China's economic diplomacy.

The US under the Trump administration adopted protectionist policies against China. Following that the US also waged a tech war against China. The US is not only striving to reclaim its leadership in high-tech but is also taking measures to bar companies from exporting semiconductors to China. Tensions over the South China Sea and Taiwan are also rising between China and the US. In the last couple of years, anti-China alliances are emerging resulting in increasing militarisation of the Indo-Pacific region against China. China is also apprehensive of the growing strategic nexus between India and the US which also provokes China to carve security and strategic partnerships in the region. Apart from Quad, AUKUS, and I2U2 designed for China's containment, G7 countries have recently launched Build Back Better World (B3W) to counter China's BRI and it is aiming to invest trillions of dollars in different sectors globally.¹⁰

Internally, China requires economic reforms as the economic returns on the low-value-added export-led mechanism are not effective any longer. Moreover, in China, the central government needs to reconcile its objectives with the commercial objectives of private firms. The State-Owned Enterprises (SOEs) were responsible for the investments and financing in neighbouring countries. Since the private sector in China is performing better than the SOEs it is causing differences between the two sectors. The state-centric economic diplomacy is now facing challenges in the new era. The interests of private firms are gaining much ground because the private sector is more responsive and is contributing largely to China's GDP growth now. This shows a changed dynamic that will require China a reorientation of its domestic economic policies. The fate of China's economic strength is also very much dependent on the domestic political economy. Externally, to fend off the US alliances and protectionist tendencies, China will need more liberalization to give foreign firms more access. This would save China from decoupling from the major economic partners.¹¹

The increasing anti-China tides are also prompting aggressive responses from China in the South China Sea. According to Dr. Tahir Jamil, Assistant Professor at Quaid-i-Azam University, the US had not interfered in the regional hegemony of China in past, but now recent interference of

the US in the region has also forced China to react against it. China's increasingly aggressive military posture provoked by the US alliances can be detrimental to its economic diplomacy with the

neighbourhood. Such tendencies will compel China to focus more on security which will divert its attention from its traditional strength of wielding influence through economic investments.

Notes and References

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- ⁸ "China's BRI an opportunity the world can't afford to miss," *China Daily*, 18 March 2022, https://en.ndrc.gov.cn/news/mediar/sources/202203/t20220319_1319696.html.
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