3

Economics and security in China

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The convergence of economics and security in China’s strategic thinking

One of the most visible changes to China’s security policies since the period of the Deng Xiaoping reforms of the late 1970s has been the increasing overlap between Beijing’s growing economic interests and its strategic concerns. China’s economic power has continued to mature on an international scale since the 1990s, with the country achieving the status of second largest global economy behind the United States as of early 2011, with some studies suggesting that the Chinese economy may surpass the total GDP of the United States in 2016 or shortly thereafter. While some analysts have even suggested that China has already surpassed American economic power at least from certain viewpoints (such as purchasing power parity (PPP)), others have noted that China’s economy still faces a long period of continuing reform with many domestic challenges yet to be overcome. A 2013 book on China’s international power acknowledged the country’s great economic gains of the past three decades, but noted that the Chinese economy remained overly dependent on exports at the expense of domestic development, and with its lack of multinational corporations and global brands, the study concluded, China is a ‘partial economic power’.

Although China’s economic growth remains impressive, there is still a host of considerable economic challenges facing the country’s policymakers. China’s large population presents a unique set of challenges to Beijing’s economic policies. As Chinese political analyst Zheng Bijian noted, China faces a ‘multiplication/division’ conundrum, namely that any socio-economic problems, even small ones, have the potential of being multiplied by 1.3 billion, China’s current population, and any economic gains, regardless of size, must be divided among those same 1.3 billion Chinese citizens. Despite China’s impressive overall growth, per capita income remains low by Western standards, estimated by the World Bank to be approximately US$6,560 in 2013. Other socio-economic issues, including corruption and mismanagement, the challenges of developing a welfare state, reforming the country’s large agricultural sector, growing urbanization (estimated to be at 53.7 per cent of the population in early 2014), and income inequality, especially between coast and interior, continue to challenge the Chinese government. Deng’s suggestion that the country should ‘let some people get rich first’ did assist with the reform process by opening the doors to more robust economic growth, but also created widening income...
Marc Lanteigne

gaps between richer and poorer citizens that are still major policy concerns today. According to a January 2014 report by China’s National Bureau of Statistics, the Gini Coefficient in China stood at 0.47 in 2013, up from 0.42 per cent in 2009.\footnote{Marc Lanteigne} As any figure above 0.4 is seen as an indicator of potential public unrest, it has been a priority for Beijing since the start of the reform era to better address underdevelopment levels, especially in the country’s interior.

There is also an increasing environmental cost of China’s decades of rapid economic growth, namely air, water and land pollution caused by industrialization, coal-burning, construction and vehicle emissions, with pollution levels in major Chinese cities frequently surpassing minimum safe global standards by a wide margin since 2008. As environmental damage rarely respects borders, this situation is seen as a serious issue not only for China but also the surrounding regions.\footnote{Marc Lanteigne} In addition to long-term health concerns, there is the question in China of the ‘Green GDP’,\footnote{Marc Lanteigne} the income of a given country minus the costs of environmental damage. The Chinese government intends to get tougher on the causes of pollution, both for health reasons and to prevent future socio-economic problems, a policy underscored in a March 2014 Chinese parliamentary session by Premier Li Keqiang, who called for ‘war against pollution’ (xiang wuran xuanzhan) in the country as popular discontent over air and water quality began to solidify.\footnote{Marc Lanteigne} Beijing has increasingly been more open to the idea of combating pollution on a variety of levels, and has made mention of the benefits of a ‘circular economy’ (xunhuan jingji)\footnote{Marc Lanteigne} that combines environmental protection policies with sustainable development. Nonetheless, the government wishes to be at the forefront of any ‘green movement’.

Globally, China’s economic growth has had an increasing impact as the country has developed greater confidence in its dealings with countries and regions beyond Asia. As of early 2014, the United States was China’s top trading partner (with volume estimated at US$521 billion), followed by Hong Kong, Japan, South Korea and Taiwan.\footnote{Marc Lanteigne} As a result of China’s overall economic growth and steady integration into the global market, and the country’s ongoing support for globalization and economic institutions, the links between economics and security in Chinese policymaking have increased and become more distinct. This phenomenon can be explained in several ways.

\section*{What is economic security?}

Following the death of Mao Zedong in 1976, when China gradually abandoned its reliance on command economics along Soviet lines, the country has increased its engagement with the global economy through a series of phases and initiatives. This has produced great economic benefits but with considerable risks to Chinese security, especially considering the political capital that the Chinese government has placed on ensuring stability and growth as the country continued its process of ‘deep reform’ (shenhua gaige) in the 1990s and afterwards under the governments of Jiang Zemin and Hu Jintao.\footnote{Marc Lanteigne} China’s strategic thinking must increasingly focus on the problems of ‘economic security’ (jingji anquan) with the understanding that many of the country’s economic and strategic interests have become internationalized. It was also during this decade that China’s own policy version of ‘comprehensive security’ (quanmian anquan) began to coalesce,\footnote{Marc Lanteigne} reflecting Beijing’s growing view that military security was increasingly entwined with issues that had traditionally been considered ‘low political’ matters, including economics, trade and the environment. Although ‘hard’ security issues such as border and maritime disputes remain at the forefront of Beijing’s strategic concerns, these areas are becoming more visibly merged with economics.

‘Economic security’ has been defined as the necessity of access to resources, finance and markets that is required to maintain a sustainable level of welfare and state power.\footnote{Marc Lanteigne} Market

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access frequently requires extensive engagement of the international economy on a variety of levels. Security in this sense involves preventing internal and external threats to economic stability and future prosperity, a challenge that economic interdependence and globalization have further complicated. The Asian Financial Crisis of 1997–8 was arguably Beijing’s first serious exposure to the risks of globalized markets. China’s move away from a closed economic system and toward greater globalization has required a corresponding number of material and financial resources needed to maintain high levels of growth. Although China’s size and increasing economic ‘weight’ in the international system have prevented the same degree of internal and external pressures faced by smaller economies and by states that were also emerging from a communist or command economic system, the government remains wary of an erosion of the role of the Chinese Communist Party (CCP) due to ‘peaceful evolution’ (heping yanbian), ideas and policies brought from the West, such as differing views on human rights and democratization that are viewed as an anathema to Chinese governance. Although peaceful evolution concerns are hardly new to the Chinese government, economic interdependence and the rise of mass communications have resulted in greater sensitivity to perceived challenges to the CCP via outside actors and influences.

From a military viewpoint, economic security has also been defined as economic activities, such as trade, designed to assist in a given country’s defence, the use of economic means for offensive or defensive strategic purposes (sanctions, embargoes, travel restrictions, and, in extreme cases, blockades), and the prevention of economic weaknesses that could undermine a state’s ability to project or maintain military power. Many components of military power, such as energy or raw materials, are currently available only through international transactions, exposing states to vulnerability due to price swings and potential international-level economic shocks outside of their control, as the post-2008 credit crunch (jinsuo) and subsequent global financial crises demonstrated. In a broader sense, there is the concern that economic instability on a regional or global level could have a significant impact on state security.

Modern great powers are not immune to the problems of economic insecurity. China is seeking to further develop its domestic economy and maintain internal stability while increasingly being forced to rely on market forces outside of its supervision or control. As one paper argued, during the first stages of China’s reforms the country had the luxury of treating economic development and security concerns as largely separate issues. The country chose to avoid military confrontations with its neighbours following the brief border conflict with Vietnam in 1979, to instead pursue complex and painful economic restructuring. Under Deng, a focus on building economic strength was seen as the best defence against future international challenges.

The ability to maintain the division between economics and security changed abruptly in the 1990s as the post-Cold War order began to take shape. The Iraq/Kuwait Gulf War in 1991 demonstrated not only the growing magnitude of American military power and technology but also the strengthened link between economic power and military capabilities. At the same time, with Beijing focusing on the difficult first stages of the reform process, it was a policy priority for the Jiang government to avoid regional disputes in favour of concentrating on domestic reforms. As noted above, the 1997–8 Asian Financial Crisis also underscored the shared vulnerability of the international economic system when several East Asian economies faced rapid currency devaluations and financial chaos due to a spillover effect from Thailand’s ill-fated policy of allowing its currency value to float on global markets despite severe structural problems. Beijing, which was at an earlier stage of economic reform, and at that point still maintained tight currency controls, was one of the few regional economies largely untouched by the crash. Beijing did have to intervene in Hong Kong, which had just reverted to Chinese administration, to prevent the former colony’s stock market from collapsing and the peg between the HK
dollar and the American dollar from dissolving. Although China was praised for being an island of stability as other Asian economies faltered, the events shook Chinese confidence in its own economic stability.

The government of Jiang Zemin took from those chaotic events a better understanding of growing linkages that comprised economic security thinking, as well as the growing ‘economics-security nexus’ that was developing in East Asia. The interconnectedness of Asian economies meant both potential shared prosperity and mutual economic risks capable of negatively impacting the delicate Chinese reform process. While Beijing took steps to ensure the continuing stability of its domestic reforms, the country also sought methods of ensuring ongoing growth while minimising potential economic security threats.

**Rewards and risks in China’s economic rise**

Following the Dengist policies of ‘reform and opening up’ (gaige kaifang), Beijing discarded its staunch policies of self-sufficiency (zijizizui) and accepted international aid and assistance to help rebuild its economy after the ravages of the Cultural Revolution of the late 1960s that had greatly isolated China politically and financially. The country then began to develop trade with Asian partners and eventually the West, taking advantage of a large and greatly untapped consumer market, requiring Beijing to quickly amass a great deal of information about markets in Asia and beyond, as well as the economic structure of various trading partners on domestic and regional levels. For example, as China was expanding its economic interests in the West in the 1990s, both North America and Europe were establishing large-scale economic communities, namely the North American Free Trade Agreement (created in 1994) and the European Community (formalized as the European Union in 1993). This prompted the need for even more information-gathering on a larger scale and within a very short time. The main focus of Chinese economic interests was building stronger links with the Pacific Rim, including supporting regional economic institutions such as the Asia-Pacific Economic Cooperation forum (APEC), created in 1989, and later the ASEAN-Plus-Three (APT) mechanism (1996) and the East Asian Summit (EAS) (2005), while improving economic ties with the United States and Europe, as both were seen as important sources of more varied goods and technologies.

After the turn of the century, China began to expand its economic concerns, engaging in ‘cross-regional’ diplomacy in Africa, Latin America, the Middle East and the South Pacific. China’s admission to the World Trade Organization (WTO) in December 2001, after fifteen difficult years of negotiations, enabled the country to better benefit from liberalized trading, gave it more say in the process of making trade rules, and removed the possibility of China being denied ‘most-favoured nation’ (MFN) preferential status by the United States in the future. This also provided a boost of confidence that China could manage itself successfully in a rarely predictable global financial system.

These initiatives were greatly assisted by what was termed a ‘charm offensive’ (meili gongshi) as well as ‘smile diplomacy’ (weixiao waijiao), with China stressing the need for economic partnerships and cooperation based on mutual interests. China’s focus on separating economic agreements from political and governance issues and not placing ‘conditionality’ on aid partners, often referred to as a ‘no strings’ approach to economic cooperation, contrasted with Western policies and gained much attention among developing states seeking an alternative partner to the United States and Europe. This economic diplomacy also contributed to the perception of the country’s soft power (ruan shili), referring to the power of attraction, with features and attributes that are considered prepossessing rather than positive or negative coercion (hard power). The rapid growth of China’s economy as well as its ability to withstand internal and external market shocks,
including the Asian Financial Crisis and the global financial crash a decade later, further brought China’s economic capabilities to international attention. Discussion of an alternative Chinese model of development, a ‘Beijing Consensus’ (Beijing gongshi), swiftly evolved from thought experiment to serious policy debate worldwide, which would later be affected by concerns about the United States’ long-term financial health following a recession and a torpid recovery process after late-2008.

China’s economic foreign policy has gained influence in many regions, and this has resulted in Beijing’s competition with the United States and Europe for diplomatic influence, especially in developing regions such as sub-Saharan Africa, Eurasia and Latin America. The position of China in the BRICS grouping of large emerging economies, which was formalized in 2009 and includes Brazil, Russia, India and South Africa, further suggests Beijing’s growing confidence both in its own economic power and in its ability to engage economies outside of the Asia-Pacific. Springing originally from an abstract policy concept, the BRICS have slowly developed as an alternative bloc to Western economic policies, and have started to create more formal institutions, including a development bank along the lines of the World Bank/International Monetary Fund.

Between 1978 and 2004, China’s total GDP increased fourfold to approximately US$1.4 trillion, while at the same time the country’s international trade levels grew from a negligible level to one where China had unseated the United States to become the largest global goods trader, with total exports and imports totalling approximately US$4.16 trillion by the end of 2013. At that time, China’s GDP was estimated at approximately US$9.4 trillion despite pressures from the economic downturn after 2008, and maintaining high levels of GDP increases became more difficult during the global recession. When the reform process took root, the Chinese government had traditionally viewed an average GDP growth rate of 8 per cent to be the minimum required for the country to maintain its socio-economic stability and job-creation targets, but when Western global markets began to experience debt crises, Chinese Premier Li Keqiang suggested in late 2013 that China would still be in a position to meet the necessary job-creation conditions, especially in urban areas, while maintaining unemployment at 4 per cent, as long as Chinese growth stabilized at approximately 7.2 per cent. This demonstrated a significant change from the ‘protect the eight’ (bao ba) governmental policies of the turn of the century, meaning that China’s growth rate needed to be kept above 8 per cent to maintain stability. By mid-2014, Beijing appeared to be having some success in keeping growth rates in the 7 per cent range, but future financial health would depend on both Chinese policies and the durability of the global economic recovery. The Xi government and the Chinese media have begun to commonly use the term ‘the new normal’ (xin changtai) to describe a more modest Chinese economy with slower growth rates.

At the onset of the global financial crisis, Chinese first-quarter GDP growth in March 2008 stood at 11.3 per cent, but fell to 6.6 per cent by March of the following year as the global crisis became more acute. By the last quarter of 2013, GDP growth stood at 7.7 per cent, generating debates regarding China’s economic vulnerability in the future and whether the country was headed for a ‘soft landing’ (ruan zhuolu), a slowdown of growth to levels not as severe as a recession but also not high enough to trigger price inflation. This had been a serious problem in China during the previous boom years of the late 1980s and early 1990s. Following the financial crisis, Beijing was one of the few major economies still posting robust growth, as the United States and European Union began a long recovery, and Japan also sought economic stability after a series of recessions. While other Pacific Rim states, including Australia, India, Indonesia and South Korea, also managed to avoid recession after 2008, China nonetheless found itself as both a metaphorical tent pole and a weather vane for the global economy.
Marc Lanteigne

The debate over the degree to which China should continue to open itself to the international economy dominated much of the final years of the Hu Jintao government (2002–12) and the opening years of the administration of Xi Jinping thereafter. The origins of the debate could be traced to previous attempts by the Chinese government to promote economic growth while maintaining a level of control and stability, referred to as a ‘vigour/chaos cycle’ (yifang jiuhuo, yiluan jiuluan, yihuo jiuluan, yizhua jiusu, yusuzai fang). In short, reforms commonly and beneficially lead to greater economic vigour but also to heightened risk and greater potential for disorder. The ‘chaos’ leads to an economic retrenchment by the state, possibly resulting in stagnation, which eventually prompts another attempt at reform in the name of ‘reinvigorating’. This retrenchment, for example, was viewed during the latter half of the Hu Jintao government as Beijing began to slow down various liberalization processes.

The debate over the degree to which the Chinese state should maintain oversight in key economic sectors has persisted since the start of the reform era. During the economic reforms of the 1990s, the Party sought to reduce state oversight of state-owned enterprises, focusing on developing the largest SOEs in sectors considered vital to the economy and/or essential for China’s engagement with the global market, a process termed ‘grasp the big, drop the small’ (zhuada fangxiao), but a further reduction in the role of the state in the economy has remained problematic. In February 2012, the World Bank published a paper, in conjunction with the Development Research Centre of China’s State Council, entitled China 2030. The report advocated further market liberalization and the reform of state-owned enterprises to prevent a slowdown of the Chinese economy and reduce the risk of China falling into a ‘middle income trap’ (zhongdeng shouru xianjing), whereby a given economy grows to a certain degree and then is unable to progress further due to a lack of productivity and innovation. The need for greater attention to market forces was confirmed at the November 2013 Third Plenum of the Chinese Communist Party. After the event, the ‘decisive’ role of market forces in developing the Chinese economy was confirmed, along with greater income rights for farmers and the loosening of restrictions on investment.

Manufacturing for export remains the cornerstone of the Chinese economy. In 1990, China’s share of global output of manufactured goods stood at only 3 per cent, but by 2011 China had taken first position with 19.8 per cent, just ahead of the United States at 19.4 per cent. At the same time, Beijing has also sought to diversify its service and high-technology sectors to further distance itself from the heavy industry- and agriculture-dominated economics of the previous century. However, a reliance on manufacturing was also dependent on developing global markets for Chinese goods, which became more complicated after the financial crisis.

Beijing’s strategies of ‘inviting in’ (qing jindai) foreign interests and companies were matched later in the 1990s reform period by encouraging Chinese firms to ‘go out’ (zouchuqu) and develop international brands. Examples have included Lenovo (computers), Haier (white goods) and Xiaomi (mobile phones). These policies further enabled China to move from a regional to a global economic power, but also resulted in increased risks to the country’s still-reforming economy. Greater economic ‘interdependence’, the establishment of inter-state links including via economics and companies, may promote prosperity and even peaceful relations but also presents the problems of sensitivity and vulnerability to open markets. The former refers to heightened awareness of economic-political policies of trading partners, usually a neutral effect, while the latter refers to exposure to the effects of changes in policy from trading partners, which could potentially be negative. For example, after China ceased to be an exporter of oil in 1993, Beijing needed to import greater percentages of oil as its economy continued to boom, and in October 2013 it was announced that China had become the world’s topmost petroleum importer, surpassing the United States. China remains the second largest consumer of oil after the US, with the
percentage of oil Beijing needed to import in 2014 estimated at 58 per cent of total petroleum consumed. While importing oil and gas has offset, somewhat, China's reliance on inefficient and polluting coal, it has also rendered the country more vulnerable to international energy prices and crises in areas of the world, such as the Middle East, Africa or Eurasia, that are major fossil fuel producers. It remained to be seen whether the dramatic drop in global oil prices at the end of 2014 would be a longer-term phenomenon and if so how that would affect Chinese growth.

It has also been argued that the problems of economic vulnerability leading to state insecurity are more acute when there is an asymmetric trading relationship. China has had a very short time to adjust to global markets and trade in relation to other modern economic powers, and the country’s leadership has a long memory regarding the late Qing Dynasty (1735–1911) and Republican eras (1911–49) when China was exploited both politically and economically by stronger colonial powers. Thus, despite China’s rapid economic growth and resiliency there remains a degree of wariness toward being vulnerable either to the chaos of market forces or to exploitation by other large economic powers. This concern became magnified after the onset of the global financial crisis, when China’s exports came under increasing strain as Western economies could no longer afford to purchase the same amounts of Chinese goods.

By the middle of 2014, China held approximately US$3.95 trillion in foreign exchange reserves, primarily as a hedge against domestic or international economic crises, the largest amount of funds ever managed by a single state. The majority of these reserves are in American dollars, and are viewed as a major part of what has been called China's increasing ‘symbiosis’ with the American economy, meaning that successes or failures on one side would inevitably affect the other greatly. The depth of China’s integration into the global economy was well illustrated in February 2008 when the Shanghai stock market dropped nearly 9 per cent in value on a single day, creating a backlash in Western and Asian markets. The event was an early sign of how China’s economic health can have a butterfly effect (hudie xiaoying) on global markets. In addition, China’s trade surplus has been a sensitive political issue with the United States and Europe as the West seeks to emerge from the crisis and is wary of perceived protectionism by Beijing. However, due to the post-2008 recession and lower demand for Chinese goods, this surplus began to decrease in value, from US$296 billion in 2008 to US$155 billion three years later.

Differences between Washington and Beijing were noted in economic circles even before the global recession began, as Washington criticized Beijing for unfair trading practices benefitting Chinese manufacturers and questioned the increasing amount of American currency purchased by Beijing in recent years. China’s currency still lacks a flexible exchange rate and remains subject to government controls. Until 2005 the value of China’s currency, the renminbi, was pegged directly to the value of the US dollar. However, the peg was de facto reinstated in 2008–10 due to concerns about the global financial crisis, and there have been ongoing calls in the West for the renminbi to be allowed to appreciate higher. After 2005, and especially since the financial crisis, Beijing has been sensitive to relinquishing too much control over its currency value despite outside protests. China’s currency has been enmeshed in a ‘managed’ or ‘dirty’ float policy, with the government making adjustments to ensure a high degree of control over the renminbi’s value. There are other potential sources of Chinese/American rivalry over natural resources, including energy, as China increases its purchases of international oil and gas supplies. Policymakers in Beijing remain sensitive to any ‘China Threat’ (Zhongguo weixie) policies emanating from Washington that would seek to curtail Chinese economic growth, especially in light of questions over the United States’ own future economic health.

Despite these considerable challenges to China’s economic security, there remain some signs of optimism within the upper echelons of the Chinese government, as evidenced by the emerging policies of President Xi Jinping after 2012 regarding the development of a ‘Chinese Dream’
While this somewhat ambiguous concept, not new in Chinese governance, is open to interpretation from both within China and without, its theories have been linked by Xi to the concept of Chinese ‘rejuvenation’ (fuxing), suggesting increased confidence in the economic future of the country. It stands in marked contrast to the much more guarded statements of Xi’s predecessor, Hu Jintao, which included a muted focus on the ‘scientific outlook of development’ (kexue fazhanguan) and building China into a ‘moderately prosperous society’ (xiaokang shehui).

**Access to resources and trade**

Probably the most visible aspect of China’s developing economic security policies has centred on access to raw materials. In addition to fossil fuels, China’s economy, and more specifically its minimum acceptable rate of economic growth, requires many other external raw materials ranging from construction materials to foodstuffs, from consumer goods to base and precious metals. These needs have had a profound effect on the global economy, with positive effects on states with a high degree of dependency on resource exports, since prices have risen due to Chinese demand. As China’s population becomes richer and a ‘middle class’ or ‘stratum’ (zhongchan jieji/zhongchan jieceng) becomes more pronounced, there is increasing need for international resources to help build the Chinese economy. As a result, resource diplomacy (ziyuan waijiao) has taken a more prominent position in Chinese foreign relations, especially in parts of the developing world. Beijing’s primary strategic concern in this area has been that of economic restraint by the West, which is a variation of previous concerns in Beijing about security containment or ‘strategic encirclement’ (zhanlue baowei), to use the Chinese term. These concepts refer to Western or US-led policies to prevent Beijing from gaining access to necessary resources, capital, or transportation routes. With China’s economic interests now spread over a much wider global area, debates about ‘containment’ are not limited to the traditional definition of having its own territory encircled by adversaries, but also of having its overseas economic commitments challenged or even thwarted by the West. Although a physical interdiction of Chinese trade is unlikely and unviable, there are possibilities for friction between China and the United States and its allies in economic areas. Potential examples include more overt competition for commodities and fossil fuels between China and Western actors, and exclusion from Western-dominated trade regimes such as the embryonic Trans-Pacific Partnership (TPP).

Beijing faces several challenges as it seeks to maintain a steady energy supply. This has led to a re-thinking about the issues and problems of energy security (nengyuan anquan), defined as the need to obtain satisfactory and stable supplies of energy at viable prices and under conditions that do not endanger ‘national values and objectives’. Energy security has been a longstanding concern of other large energy consuming states, including the United States and Europe, at least as far back as the energy shocks in the Middle East in the 1970s, but China must now examine the same policy choices within an international milieu, one much more susceptible to energy competition. In addition, China, a relative newcomer to the politics of international energy trade, must often engage regions that have been heavily dominated by Western interests and firms, such as the Middle East. Beijing has been criticized in the West for signing gas and oil deals with states such as Iran and Sudan, and later South Sudan when that country became independent in 2011. When South Sudan achieved independence, Beijing was placed in the awkward position of trying to maintain good economic-political relations with both sides despite ongoing border tensions.

The Gulf region in the Middle East, including Saudi Arabia, is a key source of China’s imported oil and gas, but Beijing has also been striking deals for joint oil and gas development
with Central Asia (especially the Caspian Sea region), Russia, Latin America, sub-Saharan Africa and Canada. While Beijing has been willing to make use of its expanding economic resources to secure foreign oil and gas supplies, it has been wary of Western concerns about how China’s need for imported fossil fuels affects global prices and access to these resources, raising the question of whether heightened international competition for oil and gas may occur as a result of Beijing’s entrance into global energy markets.

Additionally, part of escalating tensions between China and Japan regarding demarcation of the East China Sea (ECS) and deteriorating Chinese relations with the Philippines and Vietnam over the South China Sea (SCS) in 2011–12 involved the question of whether there were substantial oil and gas deposits in the disputed zones. Despite other factors to which these two ongoing disputes can be attributed, including nationalism among the major actors involved, the legal and historical claims to the small islands in the two regions (mainly the Diaoyu/Senkaku Islands in the ECS and the Spratly and Paracel Islands in the SCS), and the desire for China to develop sovereign home waters, referred to in policy circles as ‘blue national soil’ (lanse guotu), energy also plays a role in the disagreements. For example, after a diplomatic cooling-off period between China and Vietnam, tensions were raised again in May 2014 when the Chinese National Offshore Oil Corporation (CNOOC) unilaterally moved an oil platform, the Haiyang Shiyou 981, into disputed waters in the SCS close to the Paracel Islands, leading to anti-Chinese protests in Vietnam and condemnation of China’s actions from Hanoi. Ships from both China and Vietnam moved into the area, leading to tense standoffs while Beijing reiterated that the platform was within Chinese waters (based on Chinese claims to the Paracles that Vietnam does not recognize).

Moving beyond strictly energy concerns, economic sensitivities surrounding the ECS region were further illustrated in September 2010 when a Chinese fishing vessel was challenged by Japanese Coast Guard vessels in disputed waters in the East China Sea, resulting in the fishing boat colliding with two of the Japanese ships and the Chinese crew being taken into custody. However, diplomatic pressure from China, along with an oddly timed temporary suspension of rare earth mineral shipments, necessary for high-technology manufacturing, from China to Japan during the diplomatic standoff prompted a policy reversal and the trawler captain was eventually released without trial. Since that time, the war of words between the two states over the East China Sea and the disputed islands has become more rancorous.

China has also encountered challenges in its resource diplomacy on other fronts. There has been much debate about China’s economic engagement of Africa and whether a low-level competition for resources and diplomatic power has resulted from increased Chinese economic interest. In addition to the Sudan example, China’s trade relations with controversial regimes in Uganda and Zimbabwe prompted some international scrutiny, while there was also a public backlash against Chinese investment that has dominated domestic political debate in Zambia. Beijing has sought to downplay its interest in joint resource development in Africa by stressing its aid policies there as well as its support for peacebuilding activities. For example, in 2013, China agreed to send a detachment of between five and six hundred personnel, an exceptional number, to participate in a United Nations peacekeeping operation in the western African nation of Mali in the wake of that country’s tenuous security situation following its 2012 civil war. Mali had little in the way of resources sought by Beijing and the mission illustrated China’s growing commitment to improving peace and combating poverty on the continent. However, there remain concerns in the West that Africa could be a focal point for economic competition in the future.

Another example of China’s economic interests getting caught in international security concerns can be found in the 2014 crisis between Russia and Ukraine over the status of the Crimean
Peninsula. In September 2013, Beijing and Kiev signed a deal that would see China invest in 3 million hectares of Ukrainian land, representing 5 per cent of the country’s total land area and 9 per cent of its total farmland, in order to supply foods to Chinese consumers. However, when anti-government protests in Ukraine intensified in early 2014, leading to the ousting of the country’s president, Viktor Yanukovych, in February of that year, Russia responded with the forced seizure of the Crimean Peninsula the following month, drawing international condemnation and placing Beijing in a difficult diplomatic position. China did not want to jeopardize its economic interests in Ukraine, nor support an action that essentially violated the sovereignty of another state, especially given China’s own history along those lines.

However, Beijing was reluctant to jeopardize its relations with Moscow, relations that are dominated by oil and gas trade, including the China segment of the Eastern Siberia–Pacific Ocean (ESPO) oil pipeline completed in late 2012, and an ambitious fossil fuel joint venture in eastern Siberia signed by Chinese and Russian officials in October 2013. The Sino-Russian bilateral energy partnership deepened further in May 2014 when a joint natural gas development deal, worth an unprecedented US$400 billion, was signed, giving Beijing preferential access to Russian gas for 30 years. Thus, in this case China opted for a middle course, abstaining rather than exercising a veto during a United Nations Security Council vote that would have condemned a March 2014 Crimean independence referendum supported by the Russian government of Vladimir Putin, while calling for diplomatic solutions and disagreeing with Western calls for sanctions on Moscow.

Another factor in China’s desire for access to resources has been the role of maritime trade routes that China has increasingly been using as a result of its resource diplomacy. Since the Chinese People’s Liberation Army Navy (PLAN) began to be expanded and modernized in the 1990s, including the purchase and refurbishing of an aircraft carrier, one of the emerging mandates of Chinese naval forces has been to defend the integrity of vital sea lanes of communication (haishang jiaotongxian), or SLoCs, especially as China became more economically dependent on imported raw materials and energy, including from across the Indian Ocean in the Middle East and Africa. Since 2003, Beijing had been warning of the potential for economic and strategic harm, possibly resulting from China not assuming more direct military oversight of key waterways used by Chinese commerce, especially the Malacca Strait, which in Beijing’s view were vulnerable to piracy, terrorism and third-party interdiction, a situation Chinese policymakers subsequently named the ‘Malacca Dilemma’ (Maliujia kunju). Although piracy has largely abated in the Malacca region due to increased patrols and enforcement, the region remains a strategic priority for Beijing. In early 2013, China announced the formation of a unified Coast Guard (Zhongguo haijing), overseen by the State Oceanic Administration, mandated to patrol Chinese waters and combat smuggling, illicit fishing, and other illegal economic activities, including in disputed waters.

During 2014, the Chinese government announced a series of new trade initiatives under the concept of ‘one belt and one road’ (yidai yilu), a strategy of developing new land and sea links with vital markets in Europe. These linkages, often referred to as a revival of the traditional ‘Silk Road’ trading routes during the imperial eras, would include overland transportation via Central Asia as well as greater use of the Indian Ocean to link Chinese markets with South Asia, Eastern Africa, the Middle East and Southern Europe. These links would be augmented with Chinese infrastructure spending worth approximately US$16 billion.

**Economic cooperation as strategy**

China’s concern over the longer-term health of the global economy as well as the end result of the most recent set of WTO international trade talks, otherwise known as the Doha Round, has been illustrated by its more open and accepting views on preferential trade talks on a bilateral
Economics and security in China

The Doha Round, begun in 2001, has produced few results in the wake of sharp divisions both among developed economies and between developed and developing actors. Larger regional organizations such as APEC were increasingly viewed by regional governments as too large and unwieldy to produce short-term results. China’s accession to the WTO, coupled with this uncertainty, encouraged the country to actively pursue alternative preferential trade agreements (PTAs), both for improved access to different economies and to demonstrate Chinese commitments to the overall global trade system. One outstanding question that has affected China along with other Asian economies that have sought out free trade agreements is whether these deals will buttress the global trade infrastructure or create a ‘noodle bowl’ scenario involving lost revenue due to chaotic and overlapping micro-agreements.

China’s early PTAs included deals with Hong Kong and Macau as well as developing states including Chile, Costa Rica, Peru, and Pakistan. The Asia-China Free Trade Agreement (ACFTA) of 2010 further strengthened diplomatic ties between Beijing and the ASEAN states in the wake of the Asian Financial Crisis. By the middle of the 2000s, Beijing had shifted its attention to signing PTAs with developed economies, with New Zealand being the first OECD country to sign a preferential trade agreement with Beijing in 2008, followed in 2013 by Iceland and Switzerland and in 2014 by Australia. Other similar negotiations were less successful, such as talks with Norway that were suspended indefinitely after the Nobel Peace Prize was awarded to a Chinese dissident in 2010.

PTA talks have now assumed an important foreign policy role for Beijing in its pursuit of what has been termed ‘commercial diplomacy’ (shangwu waijiao), referring to the use of commercial power, including potential market access, that Beijing is swiftly developing to influence decisions related to economics but also related to diplomacy and even strategic affairs. All manner of international commerce issues, including tariffs, services, competition policies and privatization, may factor into the application of commercial diplomacy. In addition, while much strategic-related diplomacy often involves zero sum (linghe) outcomes, commercial diplomacy is based on a preference for win-win (gongying) results, well in keeping with current Chinese economic diplomacy, which stresses improving bilateral relations and which has encouraged Beijing to make many economic and strategic policy inroads internationally as well as regionally.

Some of China’s PTAs have developed more pronounced strategic dimensions. For example, the Iceland agreement was notable as the first such deal with a European economy, important given that Chinese attempts to commence preferential trade talks with the European Union in the early 2000s were largely unsuccessful. Since the Iceland and Switzerland PTAs have illustrated Beijing’s success in finalizing deals with European economies (neither Iceland nor Switzerland are EU members), this may place pressure on the EU to rethink its economic strategies toward China.

The Iceland deal also served to further bolster China’s economic presence and visibility in the Arctic region. With the melting of the ice cap, the Far North has generated increasing interest to Chinese policymakers due to the greater accessibility of raw materials. In addition to joint Sino-Russian energy development in Siberia, China has also signed energy agreements with Canada (2012) and Iceland (2013), and is regarded as a major potential investor in Greenland’s emerging mining sector. China is also seeking increased access to Arctic sea routes, which have become more viable due to climate change. The PTA with Iceland is an important component of Beijing’s policy of ensuring that it is not excluded from potential economic goods in the Arctic and further certifying that China is viewed regionally and internationally as a ‘near-Arctic state’ (jin beiji guojia).

Another example of how Chinese free trade policy has developed strategic overtones would be the Economic Cooperation Framework Agreement (ECFA) signed by Beijing and Taipei in
2010. The agreement permitted reductions of tariffs on cross-Strait trade and allowed Taiwan to belatedly enter into the free trade process that had been underway across Asia since the end of the 1990s. The agreement also acted as a cornerstone of the warming relations between the two sides following the ascension to power of Ma Ying-jeou, leader of the Kuomintang (Nationalists), or KMT, in Taiwan in 2008, on a platform of improving Chinese relations after 8 years of near-toxic cross-Strait affairs under the previous Taiwanese government of Chen Shui-bian of the Democratic Progressive Party (DPP).

In addition to improving economic and political ties across the Taiwan Strait, the ECFA provided the opportunity for Taipei’s pursuit of bilateral free trade agreements of its own, and the first two such deals with economies that do not formally recognize Taiwan, namely New Zealand and Singapore, were completed in 2013. However, the ECFA has its detractors in Taiwan who have voiced concerns that the agreement ties the two economies together too closely and gives China too much decision-making power over the Taiwanese economy. In late 2013, the Ma government sought to expand liberalized trade with Beijing via the Cross-Strait Service Trade Agreement (CSSTA), which resulted in student protests in Taipei in March 2014 amid worries that further deepening economic links across the Strait would eventually allow China to absorb the island economically.\(^7^2\) Much will depend on the outcome of the next Taiwanese presidential elections, scheduled for March 2016, and whether the post-2008 cross-Strait détente is maintained following that vote, especially should the more mainland-sceptic DPP return to power.

Finally, there is the ongoing debate over China and the Trans-Pacific Partnership, a free trade deal designed to deepen trade liberalization in the Asia-Pacific region, going much further than the original APEC process. Although strictly an economic mechanism, the TPP has become enmeshed in security concerns in the Pacific Rim. The TPP began humbly in 2005 as an understated preferential trade agreement between four small states that together possessed a long resume of such deals, Brunei, Chile, New Zealand, and Singapore. However, the TPP then captured international attention when the United States sought to join the group after 2010 and attempted to more directly set the agenda of the negotiations. The US was followed by several other larger economies, including Australia, Canada, Japan, Mexico and Vietnam. South Korea and Taiwan also expressed interest in joining the group given the potential of developing a truly comprehensive cross-Pacific free trade pact, a goal that had largely eluded APEC. However, China was not invited to join the TPP, and the United States had little enthusiasm for including Beijing in the short term.\(^7^3\) This exclusion led to some concerns in China that it was being subject to economic containment with the TPP a tacit economic arm of the American pivot/rebalancing policy in the Asia-Pacific that was announced by the Obama Administration in late 2011, a move that many Chinese policymakers also viewed as an undeclared form of containment. The Xi government has proposed alternatives to the TPP, including the Regional Comprehensive Economic Partnership (RCEP) talks, which do not include the United States, as well as a possible revival of the ‘Free Trade Area of the Asia-Pacific’ (FTAAP) concept that has been discussed within APEC for over a decade.\(^7^4\)

**Conclusions**

Although China remains a developing state, with an extensive list of potential economic reforms, the country’s rise as an economic power has not only had significant effects on an international scale, but also resulted in the inclusion of economic issues into Beijing’s growing strategic agenda. Since China’s economic interests have expanded to play a crucial part in its foreign policy, there is a greater degree of sensitivity in the country toward maintaining access
to the goods, services and transportation routes that have become crucial for further growth and the continuation of the Chinese reform process. Since the Chinese government has placed a great deal of emphasis on maintaining sufficiently high levels of economic growth to combat poverty, underdevelopment and social disorder, a greater amount of Beijing’s economic interests have become securitized. At the same time, several ‘hard’ security issues that China is facing, including maritime frontier disputes, also have developed significant economic dimensions. Therefore, the main question in examining China’s growing concerns about economic security is whether the country’s deepening economic interests will be a source of greater cooperation or conflict.

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Notes
7 Liyan Qi, ‘China Official 2013 Gini Coefficient Edged Down from 2012’, Reuters, January 20, 2014. For example, according to the World Bank, some countries, including Brazil and South Africa, have Gini Coefficients at over 0.5. See figures at http://data.worldbank.org/indicator/SI.POV.GINI.
9 Vic Li and Graeme Lang, China’s “Green GDP” Experiment and the Struggle for Ecological Modernisation, Journal of Contemporary Asia 40(1) (February 2010): 44–62.
18 Zhao Quansheng, Interpreting Chinese Foreign Policy (Hong Kong: Oxford University Press, 1996), 51.


30 ‘China’s GDP Up 7.7 per cent in 2013’, *Xinhua*, January 20, 2014.


34 ‘Market to Play “Decisive” Role in Allocating Resources: Communiqué’, *Xinhua*, November 12, 2013.


38 Barbieri, ‘Economic Interdependence’, 32.


44 For example, see Andrew J. Nathan and Andrew Scobell, *How China Sees America: The Sum of Beijing’s Fears*, *Foreign Affairs* 91(5) (September/October 2012): 32–47.


49 For example, see Steve Chan, ‘Geography and International Relations Theorizing: Their Implications for China’, *Eurasian Geography and Economics* 54(4) (2014): 363–85.

Economics and security in China