

## Review - China's Foreign Political and Economic Relations

Written by Angela Stanzel

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ANGELA STANZEL, MAR 1 2015

China's Foreign Political and Economic Relations: An Unconventional Global Power  
Sebastian Heilmann & Dirk H. Schmidt  
Rowman & Littlefield, 2014

China is rising and we want to understand it. We have followed China's economic rise with great (and greedy) interest, but also its foreign, security and domestic policies. Since the book has been written things have evolved further. In particular, there has been a long ongoing process to put a new Chinese leadership in place, headed by Xi Jinping. Now, we have even more the feeling there is a lack of understanding about what is going on inside the Forbidden City. Here Sebastian Heilmann's and Dirk Schmidt's book helps. The authors provide insights into China's foreign, security, and economic policy, without imposing their own opinions on the readers and thus allowing them to form their own.

October 2014, China's economy overtook the US as the world's largest economy on purchasing power basis (says the International Monetary Fund).[1] Many have foreseen this, as China's economic growth accelerated year by year almost steadily for the past three decades since Deng Xiaoping opened the Chinese market at the end of the 1970s. Since 2009, China is *Exportweltmeister*, in 2014 exporting and importing goods worth more than \$4 trillion (in 2013).[2] China's integration in the world economy has benefited many countries, but the resulting interdependence has become a source for concerns too.

China's growth slowed down to an estimated 7.4 percent in 2014, according to the World Bank, which also foresees a further drop to 6.9 percent by 2017.[3] It is not yet clear if a debt crisis or even a large-scale financial and economic crisis could hit China in the near- to-long-term future, but relenting growth is inevitable. This might not have solely negative effects – it might also provide the chance to stabilise the market at slower growth. The apparent weakness could work to support economic growth and market confidence. Private investment could be allowed in finance, telecommunications, infrastructure, and would be to the benefit of foreign investors and businesses.

For this to happen, reforms are needed, and the Chinese leadership has acknowledged that at the momentous Third Plenum of the 18<sup>th</sup> Central Committee in November 2013. The Chinese leadership affirmed its commitment to open (some) markets, to financial and fiscal reform, to fight corruption at all levels, to combat the environmental crisis, to improve social standards and rights – just to name a few. By beginning of 2015, the reality looks different. Those reforms that have been implemented were in progress anyway, such as shutting down labour camps, or relaxing the one-child policy. The market has not (yet) been given a “decisive role” in the economy, state-owned enterprises (SOEs) have not been deregulated, and the first test-run for a free-trade zone in China – the Shanghai Free Trade Zone (FTZ) – was a disappointment to many foreign companies as they met largely the same restrictions as before.[4] Whether the Chinese government, having to face such intense domestic resistance (even within the Party), will be able to implement the reforms needed to establish a more sustainable model, remains to be seen.

China's trade, currency and FDI policy; its speed in becoming a truly global economic player, but also potential frictions, are outlined in Heilmann's and Schmidt's book. They also point out that due to economic

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interdependencies, China's relations with other countries have shifted both ways – for the better and the worse. China's bilateral relations with South Korea are “at their best in history” as Xi stated last summer.[5] China's relations with North Korea on the other hand seem to have cooled since the seemingly ill-tempered Kim Jong-Un succeeded his father.

With Japan, as Chinese vice Foreign Minister Fu Ying assessed about a year ago, China's relations were “probably at its worst”. [6] In the South China Sea we find dozens of intersecting territorial and maritime claims, in which China's nine-dash line – claiming most of the South China Sea – takes a major part. In 2013, the Philippines government called on the Permanent Court of Arbitration at The Hague to take up China's territorial claims in the South China Sea. A Chinese oilrig placed in waters claimed by Vietnam led to a another crisis in May 2014, when Chinese and Vietnamese ships confronted each other, followed by (partly violent) anti-China riots in, and the evacuation of Chinese workers from Vietnam. Two months later, China therefore its oilrig, and has since sent some friendlier signals to Hanoi.

Tensions over disputes between China and other Asian countries intensified since Xi Jinping came to power, and with his slogan of the “China Dream” to “resurrect” Chinese power, he has turned to a new and more assertive foreign and security policy which fluctuates between provocative and conciliatory gestures. At the time Heilmann and Schmidt wrote their book, Xi was not yet in the driver's seat of Chinese policymaking. Yet, the authors' insights into China's military structures and security policy making show that China's rise is too complex to be narrowed down to a “mere” military threat, but they also indicate there are “darker sides of China's global rise to power”. [7] Their observations regarding China's multilateral ambitions in global (U.N., the World Trade Organisation, the G20) and regional (ASEAN, APEC, SCO) organisations is proven by today's China: Xi wants to play a greater role in global decision-making and make his country “a ‘rule maker’ rather than a ‘rule taker.’” [8] However, in some countries China is suspected to want to become a ruler rather than a rule maker.

In March 2014, the Chinese government announced that its military budget will increase by 12.2 percent over the year before (roughly \$130 billion) which immediately increased concerns, particularly among China's neighbours, but also across the Pacific – in the US. In response to China's military rise combined with the economic and geo-strategic influence it has gained, the US is “rebalancing” to Asia, and has initiated negotiations on a large transcontinental free trade agreement that will exclude China: The Trans-Pacific Partnership (TTP). Whether the China-US rivalry will intensify, and whether China's disputes with its neighbours will escalate, lies now in the hands of Xi Jinping.

So what about him? He still seems relatively understated, but one thing is understood widely by now: he is in fact accumulating more power than any Chinese leader since Mao Zedong, and he is not just like any other Chinese leader. He promotes himself in the Chinese public as a man of the people – but one that does not only smile. Xi initiated an anti-corruption campaign that took down party cadres from the top of the top, the highest-ranking official being Zhou Yongkang, a former member of the Standing Committee of the Politburo in charge of security. Censorship, Internet and media control, arrests, disappearances, and detentions of political activists have increased. With their eye on the threat of Islamist extremism in Xinjiang, most recently reinforced by the murder of the Charlie Hebdo journalists in Paris, Urumqi authorities banned women from wearing the *burqa*, and men from wearing a beard. [9] In particular Beijing's tense relations with its Uyghur minority seems to slide into a downward spiral: China today is facing terrorist acts inside its borders, and tightens control further, which only results in more resistance and violence.

A lot depends on Xi Jinping, domestically and globally, and after reading Heilmann's and Schmidt's book, we understand much better how China ticks and how Xi might fit into that picture. Either way, we better get used to him. Xi looks as though he will remain the key decision-maker of China's foreign and domestic policy until the next (sixth) generation of leaders will come to power at the 20th Party Congress in 2022. And if Xi manages to hold to his power position, maybe even longer.

## Notes

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[1] World Economic Outlook Database, October 2014, available at <http://www.imf.org/external/pubs/ft/weo/2014/02/weodata/index.aspx>.

[2] "China overtakes US as world's largest goods trader", Jamil Anderlini and Lucy Hornby, The Financial Times, 10 January 2014, available at <http://www.ft.com/cms/s/0/7c2dbd70-79a6-11e3-b381-00144feabdc0.html#axzz3PUfiRwUV>.

[3] World bank Country and region specific forecasts and data, <http://www.worldbank.org/en/publication/global-economic-prospects/data?region=EAP>.

[4] China's Catalogue Guiding Foreign Investment, MOFCOM (2012): <http://english.mofcom.gov.cn/article/policyrelease/aaa/201203/20120308027837.shtml>.

[5] Chinese president says China-S. Korea ties at best in history, Xinhua, July 2014, available at <http://en.people.cn/n/2014/0704/c90883-8751260.html>.

[6] "Japan China relations reach low point", 1 February 2014, Bloomberg, available at <http://www.bloomberg.com/news/2014-02-01/china-japan-relations-reach-low-point-chinese-official-says.html>.

[7] [page 204]

[8] [page 27]

[9] "Wie China mit Muslimen umgeht", Handelsblatt, available at <http://www.handelsblatt.com/politik/international/verbot-von-schleier-und-burka-zorn-gegen-die-chinesische-vorherrschaft/11213012-2.html>.

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## About the author:

Angela Stanzel is a Policy Fellow for the Asia and China Programme at the European Council on Foreign Relations (ECFR). Alongside China's history, politics and economics, her research focuses on East and South Asia's foreign and security policy. She earned her Ph.D. in Sinology at Freie Universität Berlin, conducting a research about China-Pakistan relations. Her recent publications include contributions to the October 2014 edition of China Analysis "China and Global Crises: The "Culture of Reluctance", the policy brief After "AfPak": Reframing Europe's Pakistan policy (published in September 2014), and commentaries such as Interpreting Xi's Europe Visit (April 2014).