

Geoeconomics and the impact of the rise of China

Andrii Alymenko & Harrison John Bhatti

Master's Programme in Industrial Management and Innovation

School of Business and Engineering

Halmstad University, Sweden.

2017-03-12

Emails: andaly16@student.hh.se; harbha16@student.hh.se

Abstract

China's increasing geo-economic blow all-inclusive has pulled in remarkable research consideration during recent years. As opposed to entirely embrace a national-particular and way subordinate viewpoint, this paper investigates Chinese economic developments abroad and its impact around the world. Data has been collected from some reliable resources and it's been reviewed and analyzed by the researchers. This paper gives a deeper insight of Geoeconomics and focuses on Industrial policy, export and strategic trade of China. Furthermore, the influence of China's growing geo-economic has been discussed in detail.

Keywords: *Geoeconomics, Industrial Policy, Export, Strategic Trade, Rise of China.*

1. Introduction

Geoeconomic explores various disciplines and can be considered as an alternative to classical economy studies (Søilen, 2012). Different nations and global corporations face different competitive issues on the world scale and are in need of tools for investigating extensional aspects of cultures and strategic decisions for usage of resources to be able to achieve the sustainable competitive advantage (Reed & DeFillippi, 1990).

Thus, within Globalization and shifts of power control from governments to economic entities, it is obvious that the role of Geoeconomic factors is gradually replacing the magnitude of Geopolitical parties. This process can be tracked from the completion of the Cold War with the clearly visible trend for the transformation of political beliefs into tangible economic practices (Søilen, 2010).

China has expanded significantly on the global stage of economical operations. This issue has

increased the power of China and its economic leavers on the rest of the World. According to Frank (1998), the main business activities of the future generations will be located in East Asia. Another scholars, including Arrighi (2007), say that after the revolution of 1930th China has managed to develop and implement practices of ultimate "market society" and establish the policy of authorial control over the needs and demands of the subordinates from the government. The last statement shows evidently a considerable inequality of understanding capitalism in China and Western World. Other authors, together with Peerenboom (2008) argue that China can give a substantial threat to the Western World. Moreover, a far-reaching ambitious China is giving an example and courage for the other developing countries to progress themselves. Political practices of the West for increasing the level of life standards have proved that democracy with its focus on human rights and liberties does not always lead to better living of people. Some of the examples show that Western style of governing can lead to high

levels of bureaucracy and, thus, less efficient and effective decisions made by the government. Instead, China's constant development and the rise of living standards show the world of its readiness to adapt the philosophy of competent ruling to the pragmatism of the Western practices and create the vital value for the society (Søilen, 2010).

The Global Economy with its modern finance leaders of current allows Chinese to integrate successfully into fulfilling the demands of the Western World and raise their influence on the Economy. The system of reacting to economic changes in the World has developed in China significantly giving a competitive advantage for Chinese business in capturing large values in emerging markets. To cultivate such system, the coordination of political and economic tools towards strategy focus on restructuration of state-owned enterprises (SOEs) with integration in the geopolitical entity of the whole economic system of the country must have been adopted. For achieving a strong position on the international scale, China first strengthened its domestic economic structure of SOEs and raised the capitals which now are used by Chinese corporations to stabilize the current Global Capital system (Lim, 2010).

This paper explains Geoeconomics and the impact of the rise of China. Furthermore, it also focuses on Industrial Policy, Export and Strategic Trade of China.

2. Literature Review

2.1 Geoeconomics

China is presented by scholars as a strong competitor in the Global Economy. Together with (J. C. Hsiung, 1997), they reflect on the fears of the future economic merger of China and Taiwan. Globalization and transnationalization of industrial, marketing, research and design (R&D) and financing

activities have composed a macro level of modern Economy in the current Geoeconomical age. This led to the shift of power of nations within the countries as the economic power substituted to some extent the nations' military power (J. Hsiung, 2001). The core measures of power nowadays composed of different types of resources on a macro-level, such as human resources, technologies, capital etc. Other components of power are efficiency in production, shares in the Global Economy, political influences in decision-making processes, and organizational capabilities on the national levels or micro-level (Hunter, 1992).

Geoeconomics in its essence covers both macro-level of governing the power and micro-level of implications for the economy parties. It means that Geoeconomics must be taken to consideration on the higher hierarchical levels in the systems of concern and policies for different nations. A such, there is the evidence of the influence of Geoeconomics factors such as the lack of resources and disconnection from the Global Economy on Taiwan strategy example in respect to the economic moves of China.

Another good example of geoeconomically implications can be seen on the resource smuggle of Japan in association with a crisis of Persian Gulf during 1990-1991 caused by the invasion of Iraq forces and Kuwait occupation. This matter has shown to Japanese how unpredictable could be the geoeconomically issues and the results of ignoring of some factors within the Global World. After this story, Japan is the one which took a proper lesson in the subject of Geoeconomics: they since try to move all the vulnerable businesses including their suppliers of the resources as close as possible to Japan to avoid further disruptions from violations of third parties.

Having these troubles has helped Japanese to realize the importance of keeping in mind the Global implications. As such, Japan has been shifting substantially towards cooperation with Chinese and becoming the first country to return capitals to China while many industrial countries in the World were implementing sanctions against Beijing. Moreover, not only establishing good business relations with China but even extensively investing around 55\$ into their economy, Japanese managed to double their profits within China business cooperation twice by 1995 comparing to 1989 (Chen, 2000). Strong tights with China and their productive cooperation gave an important advantage to Japanese business and allowed Japan stay in ranks of Group of Seven (G7) – the most advanced economy countries in the World (J. C. Hsiung, 1993).

2.2 Industrial Policy, Export and Strategic Trade of China

According to Luttwak (1990), different nations and industrial units have frequently used principles of Geoeconomics for free trade and violation of the laws and market regulations by governments. Despite this, China is using these principles in a sophisticated way, constantly increasing its potential. Without putting itself into the opposition to Globalization, China strives for introducing new technologies, high capitals into its competitive advantage using the trends of markets. With no doubt, China takes pains for keeping the Global market in the current flow, at the same time pushing its domestic industry towards the highest standards of the Global Economy (Hettne, 1993). Still, it tries to use all the possibilities of the foreign capitals allowing multinational companies invest in the development of technologies in China. Ruggie (1982) argues that China has succeeded remarkably in using the factors of Geoeconomic in its favor through the employment of the political and economic powers within both domestic and Global goals. Further Ruggie (1982), explains the

forwardness of China in many cases of accepting the modern trends and liberal standards of Economy. According to Jayasuriya (2003), Chinese have managed to compose liberalism, mercantilism together with security in the economy and capitalistic values.

China's great requirements in industrial power are shown in the current paper. The trading strategy derived from intentions of Chinese industrialists is determined mainly by security in economic systems and competition processes as core components of Geoeconomics (Luttwak, 1990) and (Cable, 1995).

The way China adopts Geoeconomic and deal with its trade relations in the World cannot be called protectionism (Cohen, 1991) as they rather are willing to cooperate with other nations than to focus down on the prosecution of the trade wars (Baldwin, 1985). China strives to build open relations with its partners for better cooperation and higher profit margins and for reducing its subordination in trade and industrial operations on the Global scale. The clear Chinese message to industries is in supporting Globalization as such and they clearly aim for having a consistent lead in many of them. Luttwak (1990) calls this strategy “predatory financing” arguing that China is not focusing on a zero-sum but rather on the areas of the sudden increase of potential. Acting as a beast of prey in many businesses, Chinese have managed to build the perception of themselves as good reliable partners with great openness and support for the foreign customers.

2.3 China's growing geo-economic influence

China has been investing heavily into the Global Economy during the recent decade which gave to it an advantage for expanding on the foreign markets from domestic level. Being

affected as other countries by Economy downturn, China still increased its growth of economical digits from 13% in 2007, close to 10% in 2008 and almost 9% in 2009 (Lim, 2010). Figure 1 shows the growth of Foreign Direct Investment (FDI) from \$2,7 billion to almost \$56 billion in 2002 and 2008 respectively.

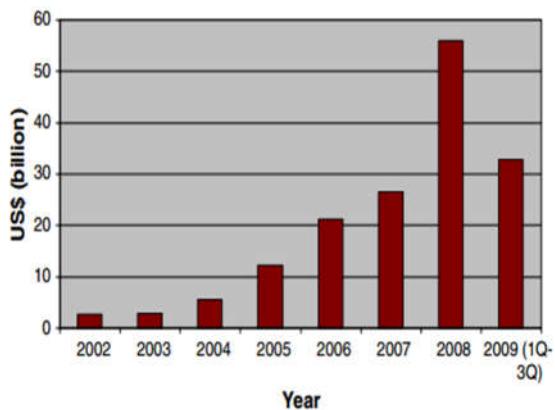


Figure 1: China's Outbound Investment;

The chart over shows a significant increase of China's FDI in 111% comparing 2007 and 2008. In 2009 there been a considerable retard in progress still passing the total numbers of 2007 in the last quarter of the year. It has been possible through a smart policy of taxation and regulations for the foreign investment capitals into China. With establishing numerous strategic alliances China has managed to capture massive investments in their development of economy and energy sector particularly (Liu, 2006).

According to Zweig and Jianhai (2005), China captures foreign capitals in a diplomatic ways arranging professional negotiations with political and economic powers of the states where the markets of Chinese interests are located and “courting the governments of these states aggressively, building goodwill by strengthening bilateral trade relations, awarding aid, forgiving national debt, and helping build roads, bridges, stadiums, and harbors”. On the contrary, Vivoda (2009) shows the price of these negotiations outlining

the agreements of 2009 of China National Petroleum with Russia and Venezuela. These agreements assume the obligations of the Chinese state to provide loans for Russia with \$25 billion and Venezuela with \$4 billion. Instead, China obtained the long-term agreements for oil supply from these countries. An analogous contract was signed between China Development Bank and Brazilian Petrobras where obligations were negotiated for \$10 billion of loan for oil supply respectively. In addition, there is a substantial block of agreements between China and African countries with mostly the same pattern of agreements as with Russia, Venezuela or Brazil. As it is seen from the table below (Table 1), the Chinese financial inputs for Africa in 2007 tripled comparing to 1998 having almost a half of all the financial aid from the World dedicated to Africa.

Table 1: China's Foreign Aid Overseas; Source: (Brautigam, 2008)

Year	Aid amount (total, US\$m)	Aid Amount (Africa, US\$m)
1998	449	198
1999	474	208
2000	554	244
2001	569	250
2002	604	266
2003	631	278
2004	734	323
2005	926	407
2006	1050	462
2007	1421	625

China is trying to invest aggressively their capital into foreign markets in rising the profit margins and increasing the turnover of the funds. This is explained by domestic challenges and level of prices within the country. Harvey (1999) argues about the relevance for Chinese economic situation of Marx's statement that “if capital is sent abroad, this is not done because it could not be applied at home, but because it can be employed at a higher rate of profit in a foreign country”. This

capital (sent abroad) gives to Chinese SOEs an advantage in entering new markets and cross geopolitical frontiers. According to Brenner (1999), Chinese apply the strategy of filling the market space stating that their actions “remain endemic to capitalism, but today they are jumping at once above, below and around the national scale upon which they converged throughout much of the last century. Consequently, state territoriality operates less as an isomorphic, self-enclosed block of absolute space than as a polymorphic institutional mosaic composed of multiple, partially overlapping levels that are neither congruent, contiguous nor coextensive with one another”.

During the recent decade, China has shown a fervent activity towards signing agreements of currency exchange with six countries worth of \$95 billion in total (Fig.2) and is negotiating with other countries. These contracts are aiming the decrease of US dollar usage within the World trade agreements. This issue causes the cross-section of the Chinese policy of the FDI openness and striving for stabilization of the Global Economy.

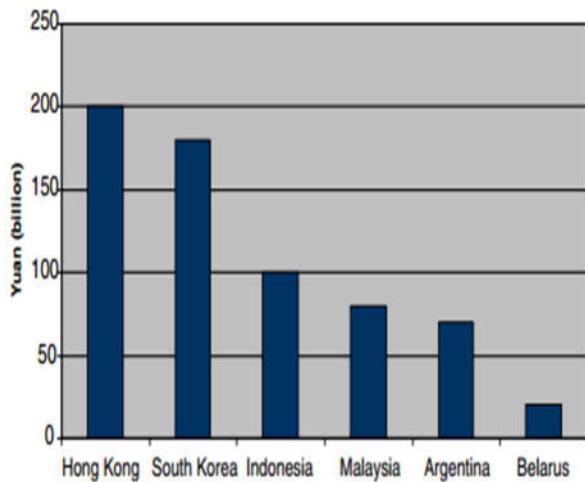


Figure 2: China's bilateral Currency Swap; Source: (Lim, 2010)

Money swaps include the trading of measures of monetary forms for an exact time length and interest transactions. China's goals are for extending the influence of yuan's currency in

the World which in turn brings the threat for US dollar on the Global arena as an established reserve currency. On the other hand, there is a rise of the question of the stability of Chinese position of non-destructive geoeconomically actions and their liberal ideas towards sustainability of international commerce relations.

In the result the clear trend towards an increase of flow speed of capital funds transactions caused by Chinese yuan-expansion on the Global market on one side and maximization of the value of US dollar and its exchange intensity. Wade (2008) demonstrate the inefficiency of “over emphasized capital accumulation” in China and shows the possible implications of Chinese credit creation and strategies and investment decisions. However, many other scholars together with Frank (1998) argue about the confident shift of capital into regions which are under control of China in the nearest future. Nevertheless, there are other trends in the Economy which need detailed research such as gradual recovery of some developed economies which must be taken into consideration.

3. Methods

For a deeper understanding of Geoeconomics and the impact of the rise of China, researchers have done quite a lot of study to come up with some real secrets of China's growing geo-economic and its influence around the world. In this research, the primary data has been collected from the high-ranking journals such as Web of Science, Emerald, Scopus, Science Direct, and Springer. Search engine that has been used to search the data are Google Scholar and Google.

After gathering the relevant data such as different types of information which were hidden in graphs and tables, researchers processed and analyzed it in an efficient way and have come up with such an interesting

information which is discussed in the result and discussion part of this paper.

Some of the keywords that have been used to search the data are Geoeconomics, Industrial Policy, Export, Strategic Trade and the Rise of China. Further information is provided in the table below regarding databases, search words and the document type.

Table 2: Shows the search results of data

Databases	Search Word	Document Type
Springer	Geoeconomics, Rise of China, Trade	Article
Science Direct	Geoeconomics, Rise of China, Trade	Article
Emerald	Geoeconomics, Rise of China, Trade	Article
Web of Science	Geoeconomics, Rise of China, Trade	Article
Scopus	Geoeconomics, Rise of China, Trade	Article
Google Scholar	Geoeconomics, Rise of China, Trade	Article

4. Results & Discussion

Authors of this paper with no doubt argue the evidence of the use of geoeconomically principles by Chinese economy. China's competitive advantages in different industries lie in its policy for the foreign markets and international trade. The economic insecurity of China forces them to strive for rising industrial competitiveness by establishing new alliances and open new markets at the same time reducing the subordination of themselves to other economies. However, Chinese are still open for the foreign capitals and try to pledge good relations with the key players in the Global Economy arena. In total, they are creating their own way towards sophisticated Geoeconomic networks using its industrial and financial power in its favor to capture the market values, in many cases more significant than other players.

According to Harvey (2005), Chinese territorializing is playing not the last role in creating "a good business climate" for the parties involved in the system of value creating. In this system, China usually represents the most active member which acts "as a competitive entity in global politics". The absolute support from the Chinese government for again Chinese capitals serves as a core factor for securing funds for entering new geographical regions.

Chinese business is guided by the principle of decreasing interest to the taken market in direct ratio to the increase of attention from the Chinese government. Another factor for market access security is represented by financial aids and loans for the commercial partners. This could lead to the ignorance of political issues of the domestic partners as the main goals for the industries in China is in finding the market for its high-efficient domestic industries. Also, resource security (especially oil, coal, and metals) are in a close interest of Chinese economy as the main drivers for the industries.

Thus, Chinese strategies for protection of its industries and trades has succeeded greatly with the support of domestic political and economic conditions. This, in turn, increased the level of consequent risks taken by Chinese business from Global Economy players. Instead of approaching the "neoliberal model" (Harvey, 2005) Chinese have chosen the path of "insinuate itself into, and graft itself onto, a range of institutional settlements, and to absorb parallel and even contending narratives of restructuring and intervention in response both to internal contradictions and external pressures" (Tickell & Peck, 2003).

5. Conclusion

China's geoeconomic systems are an effort to restrict financial defenselessness. Be that as it

may, they likewise make new shortcomings, not the minimum the introduction to outer markets, as far as fare reliance and, progressively, regarding credit dangers and political sensitivities. It will be troublesome and politically ugly for China to backtrack. Ending trade support will end many fare subordinate organizations, and, because of the endless credits, destabilize real banks and, because of the huge exchange of reserve funds from families, the Party itself could lose a lot of authenticities. This additionally clarifies why the administration looks to move speculations to more propelled businesses and not yet to move from venture and fare to utilization.

It demonstrates that the Chinese state like numerous different states is a reflexive and fizzing element that continually addresses changing politico-monetary substances inside a variegated industrialist framework. This exceptionally gives another wind to Harvey (1999) perspective of the state's vital "union" with capital. As China holds the yuan's dollar-peg, which requires managed macroeconomic intercession, this improvement could well keep going for a long period.

References

- [1] Arrighi, G. (2007). *Adam Smith in Beijing: Lineages of the twenty-first century* (Vol. 3): Verso London.
- [2] Baldwin, D. A. (1985). *Economic statecraft*: Princeton University Press.
- [3] Brautigam, D. (2008). China's African Aid: Transatlantic Challenges, Washington, DC: The German Marshall Fund of the United States.
- [4] Brenner, N. (1999). Beyond state-centrism? Space, territoriality, and geographical scale in globalization studies. *Theory and society*, 28(1), 39-78.
- [5] Cable, V. (1995). What is international economic security? *International Affairs (Royal Institute of International Affairs 1944-)*, 305-324.
- [6] Chen, P.-c. (2000). Analysis of the state of Japan–China trade relations. *Mainland China Studies (Taipei)*, 43(2), 79-108.
- [7] Cohen, S. S. (1991). Geo-economics: Lessons from America's mistakes. *Berkeley Roundtable on the International Economy*.
- [8] Frank, A. G. (1998). *ReOrient: Global economy in the Asian age*: Univ of California Press.
- [9] Harvey, D. (1999). The limits to capital (New ed.). *London and New York: Verso*.
- [10] Harvey, D. (2005). NeoLiberalism: A brief history: Oxford: Oxford University Press.
- [11] Hettne, B. (1993). Neo-mercantilism: the pursuit of regionness. *Cooperation and Conflict*, 28(3), 211-232.
- [12] Hsiung, J. (2001). *Twenty-First Century World Order and the Asia Pacific: Globalization and Fragmentation*: Springer.
- [13] Hsiung, J. C. (1993). *Asia Pacific in the New World Politics*: L. Rienner.
- [14] Hsiung, J. C. (1997). *Anarchy & Order: The Interplay of Politics and Law in International Relations*: Lynne Rienner Publishers.
- [15] Hunter, R. E. (1992). The United States in the new era. *US Foreign Policy after the cold war*, 3-18.
- [16] Jayasuriya, K. (2003). Embedded mercantilism and open regionalism: the crisis of a regional political project. *Third World Quarterly*, 24(2), 339-355.

- [17] Lim, K. F. (2010). On China's growing geo-economic influence and the evolution of variegated capitalism. *Geoforum*, 41(5), 677-688.
- [18] Liu, X. (2006). China's energy security and its grand strategy. *Stanley Foundation Policy Analysis Brief*, (September 2006), 9.
- [19] Luttwak, E. N. (1990). From geopolitics to geo-economics: logic of conflict, grammar of commerce. *The National Interest*(20), 17-23.
- [20] Peerenboom, R. (2008). *China modernizes: threat to the West or model for the rest?* : Oxford University Press.
- [21] Reed, R., & DeFillippi, R. J. (1990). Causal ambiguity, barriers to imitation, and sustainable competitive advantage. *Academy of management review*, 15(1), 88-102.
- [22] Ruggie, J. G. (1982). International regimes, transactions, and change: embedded liberalism in the postwar economic order. *International organization*, 36(02), 379-415.
- [23] Søilen, K. S. (2010). *The shift from Geopolitics to geoconomics and the failure of our modern Social Sciences*. Paper presented at the TELOS Conference-From Lifeworld to Biopolitics: Empire in the Age of Obama.
- [24] Søilen, K. S. (2012). *Geoconomics*: Bookboon.
- [25] Tickell, A., & Peck, J. (2003). Making global rules: globalization or neoliberalization. *Remaking the global economy: Economic-geographical perspectives*, 163-182.
- [26] Vivoda, V. (2009). China challenges global capitalism. *Australian Journal of International Affairs*, 63(1), 22-40.
- [27] Wade, R. H. (2008). Financial regime change?
- [28] Zweig, D., & Jianhai, B. (2005). China's global hunt for energy. *Foreign affairs*, 25-38.