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UNIVERSITY OF GOTHENBURG

The Way under the Heavens:

A Comparative study of four cases and how strategic culture forms Chinese economic statecraft towards Australia and The United States of America

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Bachelor thesis in Global Studies

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Spring 2022

Abstract:

This is a multiple comparative case study aiming to inquire into the level and characteristics of deeper economic relations with China affect China's Economic Statecraft strategy towards Australia and the United States of America (US). Informed by Strategic Culture this thesis investigates the cases of Australia's ban on Huawei's 5G equipment and calls for the Covid-19 inquiry and the US ban on Huawei and the trade war between China and the US under then President Donald Trump. The results show that China adapted its responses to both case studies depending on its relative position of strength, which Alastair Iain Johnston calls the flexibility axiom in Chinese strategic culture or *Quan Bian*. When the opportune moments presented itself China attempted at applying coercive strategies aiming at pressuring Australia to deter from its path, but ultimately failed in meeting its goals due to China's interdependence on Australian natural resources. When interacting with the US during Huawei's ban and trade war, China displayed an accommodationist/defensive grand strategic preference applying a diplomatic approach and tit-for-tat strategies towards the US. Concluded to be due to economic inferiority relative to the US at those moments in time. This thesis concludes that there are indications that China ultimately will forcefully use its economic powers where possible to coerce other nations into the fold.

Keywords: Economic Statecraft, China, Australia, US, Huawei, Trade War, Covid-19, Economic Coercion, Strategic culture

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1. Introduction

1.1 Research issue

“Hide your strength, bide your time.” – Deng Xiaoping

The rise of China's economy has been well documented over the last four decades since Deng Xiaoping's economic reforms in the 1980's opened up China for foreign investments, leading to the rise of the ancient civilization. The Chinese production capacity has earned China the place as the world's manufacturing hub, contributing to 28 percent of the global manufacturing output in 2018 (Richter, 2020 20th February). This has been a key contribution to China's average GDP growth of 10 percent per year since 1978 flooding the world market with cheaper goods due to cheaper labour, transferring many low skilled manufacturing jobs previously in the western hemisphere to China (World Bank, 2022; Siripurapu, 2022).

China is projected to overtake the U.S. as the world's largest economy around 2030, though depending on, according to the world bank, further economic reforms in order to boost a stagnating economic growth compared to just a few years ago (World Bank, 2022; Rapp & O'Keefe, 2022). By having developed a complex supply chain, major western companies are heavily dependent on deliveries from Chinese factories in order to uphold production (Serhan & Gilsinan, 2020). The dependence on China as an essential central hub for global production has recently been under scrutiny in the west. Delayed production and delivery of goods as a result of lockdowns due to Covid-19 in major cities in China, has raised the issue of being too dependent on one global actor essentially controlling the supply chain. But while the west may look into decoupling some of its dependence on Chinese production, it risks facing consequences for its actions (Cerulus, 2020).

By bringing China into the international fold with free trade and foreign investments, the U.S. hoped that it would turn China from a one party authoritarian state into a future democracy (Clinton, 2000). The assumption being rooted in libertarian ideals that free trade would act as a vector, in such that the liberalisation of the economy would in the end mean liberalisation of the politics. Evidently, China has not become more politically liberalised as a result of a

more liberal market, rather the Chinese Communist Party (CCP) has cemented its grip on the political power in China especially under the leadership of Xi Jinping (Yip, 2021).

China under the leadership of Xi Jinping has initiated several international economic projects, in an attempt to increase China's power on the international stage. The Belt and Road project which aims to recreate trade routes across the old silk road through various infrastructure investments in countries in between China and Europe in central Asia and eastern Europe. The infrastructure needed in Asia alone has been assessed by the Asian Development Bank to have an annual cost of 1.7 trillion USD from 2016 to 2030 (Rimmer, P., 2018, pg. 20). Made in China 2025 (MIC2025) is a project made to push Chinese technological development to the forefront, making China independent in its technological development and scientific research. By investing heavily in emerging tech sectors abroad through foreign direct investments China has been acquiring western companies working within the parameters of the MIC2025 goals (Zeinglein & Holzman, 2019). Another approach that China uses to gain access to cutting edge technology China has been to compel western companies to engage in joint ventures with Chinese companies in order to gain access to the Chinese consumer market. In these joint ventures it's been a requirement for companies to handover technology to the Chinese government. (Kynge, 2022; McMaster, 2020).

The ideas rooted in liberalism have failed to explain certain phenomena occurring not just with China, but also in the case of Russia and its invasion of Ukraine. The initial liberalisation of the economies did not lead to liberalisation of the political system. In both cases of Russia and China, there exists great trade with the western world. Europe is heavily dependent on Russian pipelines supplying natural gas and crude oil for energy supply. The world's consumer products are one way or another being dependent on the leviathan that is the Chinese supply chain. Therefore, instead of applying a traditional theory such as liberalism in this thesis, the observed phenomenon will adopt a more culturally sensitive approach in order to widen the gaze.

1.2 Research aim

The primary aim of this thesis is to inquire about how the level and characteristic of deeper economic ties affects China's strategic approaches in its Economic Statecraft towards the case study nations. Informed by the theory of Strategic culture as defined by Alastair Iain Johnston, this thesis aims to identifying the traces of strategic culture within China's economic statecraft in the four case studies, it enables the inquiry to identify what factors may contribute to China adopting different strategic approaches towards Australia and The United States of America.

1.3 Research Question

How does the level and the characteristic of economic relations with China affect the attitude and behaviour between China and the case study nations?

1.4 Delimitation

This thesis is qualitative study and therefore foregoes any notion of using quantitative method for this thesis. This thesis will focus on four case studies and two nations, Australia and the United States of America and China's economic statecraft towards these nations in moments of dispute through the lens of Strategic Culture. The subject of China's economic statecraft can encapsulate many different countries and scenarios, and one could scour vast amounts of empirical data on this subject. While not entirely delimiting this thesis to a strict time period both case studies will be observed from the perspective of four chosen issues. These are four high profile incidents or issues of dispute that were chosen for both of the case studies by which China's strategic response will be presented and analysed.

In both of these cases the issue of excluding Chinese 5G providers in order to have some sense of cross-case similarity to draw any conclusions from. The second issue for Australia is the calls from Australia to have a more thorough audit of China's role in the Covid-19 outbreak and China's response. For the United States of America the second issue will be China's response to the trade war initiated under then President Donald Trump to the trade deal agreed in January 2020. When sampling for empirical data the least common denominator would be that the language the data was written in was at least in English. This leads to a rather big part of empirical data written in Chinese characters being omitted from

this thesis, rather relying in those cases on English by a third party, news organisations among other organisations deemed to be trustworthy.

1.5 Disposition

The thesis starts off with the chapter concerning the method applied in this thesis, as well as the thought process of choosing case study nations to observe.

This is then followed by an overview of the previous research within the field of economic statecraft and China, looking at a few case studies and a slight discussion of their findings. Continuing on to the chapter of the applied theory Strategic Culture, due to it being a rather overlooked theory in the literature of international relations and many tend to be unfamiliar to the concept, therefore, an introduction of the theories history and generational change is outlined. Followed by a presentation of the Strategic Culture theory that is applied as defined by Alastair Iain Johnston, which then is operationalised in the following sub-chapter.

The chapter on the results of this thesis is divided into different sections for each and every case. To start with a short introduction and summary into the three Chinese policies in which that acts as a context of China's aim and political goals of the future, which are the *Made in China 2025*, *The belt and road initiative* and *the civil-military fusion*. The results are divided into the case studies themselves starting with Australia followed by the United States of America. The case study nations are introduced with an economic background to provide context to the economic relationship between them and China. Then the results are presented with each individual issue presented separately.

The case studies results are each followed by an individual analysis which aims to respond to the research question. When the case studies have been presented and analysed individually a greater analysis is presented to answer the research question posed in this thesis. This thesis then finishes with a conclusion summarising this thesis followed by future research proposal.

2. Method

2.1 Analytical method

This thesis is a qualitative comparative case study which applies a content analysis based in the hermeneutic tradition. Hermeneutics allows for the interpreter of the empirical material to account for the social and historical context in the analysis of the empirical material (Bryman, A, 2018, pg.30/560). Being that this paper will draw from a theory which has its basis in the study of culture, establishing and taking context into account when analysing is important for the reader to fully immerse into the text.

2.2 Choosing case study objects

The process of choosing the cases which draws inspiration from John Stuart Mills *indirect method of differences*. Wherein the chosen cases display somewhat similar circumstances with different outcomes for the purpose of making a causal inference (Esaiasson, et.al. 2007, p.117). By choosing multiple comparative case studies it can help counteract just having facts that fit the theory, leading to a bias when analysing the material (Skocpol & Somers, 1980, p.182). The independent variable which is being observed is as mentioned in the research aim, the level and characteristic of economic relations with China and how that leads to the dependent variable which is the perceived observation of the chosen strategy by China.

The chosen cases for this thesis are Australia and the United States. They are all both chosen due to their opinionated negative stance towards Chinese policies which have created a public dispute, and they have different characteristics of trade and investments with China and as well as different perceived notions of punishment or reactions made by China in the disputes. Due to restrictions on this thesis, the scope of which these cases are observed has been limited. Rather than to choose a strict time period of which China's interaction with each case study is observed, each case study will feature two high profile incidents or issues of dispute. These incidents or issues were chosen for each of the case studies by which China's strategic response will be analysed. In both of these cases the market exclusion of Chinese 5G providers will be investigated. This is done in order to have some sense of cross-case similarity to help draw conclusions from. The second case that will be presented for Australia

is the calls from Australia to have a more thorough audit of China's role in the Covid-19 outbreak. For the United States of America the second case that will be analysed is China's response to the trade war initiated under then President Donald Trump.

There are many pitfalls in the adoption of this method, multiple factors may affect the dependent variable and not necessarily just the independent variable observed (Esaiasson, et.al, 2007, p.118). Thus it's necessary to clarify that the intentions of this study is to further highlight this area of research in order to better assess the contemporary nature of economic interdependence and how its uses may differ due to factors such as strategic culture.

2.3 Objects of analysis and Strategic Culture

The objects of analysis that are being identified are the traces of statements and state actions that carry a non-trivial cause-effect relationship with the Chinese grand strategic preferences. There are several question marks that appear from this statement that are in need of clarification. The way to separate the empirical material from the useful and non-useful statements/actions can be considered vague, therefore, this will need to be addressed. To only use statements for this thesis would be near impossible, as compared to Johnson's case study of the Ming dynasty, there is not enough time or resources to just go on statements as it might not be as readily available. Therefore, descriptions of actions taken and a few selected statements or indicated statements are used for the analysis.

In order to consider what may or may not be included in the analysis it is necessary to turn to the strategic culture theory. When coding for cause-effect relationships Johnston related objects of analysis to the use or nonuse of force for the purpose of state security (Johnston, A.I., 1995a, pg. 267).

The term "force" is being significantly widened for the purpose of this study. The term "force" has to be viewed on a spectrum as well as not exclusively a signal for the application or non-application of military means to achieve state policy goals. Rather in this study, "force" is the parameter to which it is observed to what degree of measures and/or counter-measures the Chinese government is willing to execute to achieve state security and/or policy

goals. The spectrum referenced above is the grand strategic preferences outlined in the theory chapter being accommodationist, defensive and offensive grand strategic preferences.

These statements will then be analysed in relation with the use or non-use of force by the Chinese state in accordance with the grand strategic preferences outlined in the strategic culture-theory.

This then raises a second issue, the one of context. In order to achieve a relatively accurate interpretation of these statements/actions background context needs to be established.

2.4 Creating context for results and analysis

Firstly a background on important Chinese policy guiding the Chinese state's ambition will need to be presented in order to give the reader some insight into the guiding principles of Chinese state foreign policy, albeit, a very modest and somewhat insufficient insight. The Chinese policies being presented are the ones with the most impact on domestic and foreign economic policy of China, The one belt one road project, Made in China 2025 and the Civil-Military fusion reform.

Secondly, both case studies will begin with a background establishing a short introduction of the case study nation's economy, the complexity of their economy and the nature of their trade relation with China as well as foreign direct investments and dependence of the Chinese supply chain. This is important due to what will be further explained in the theory chapter which is the absolute flexibility axiom or *Quan Bian*.

Though due to this being a bachelor thesis the economic background for the case study nations will be downsized and potentially insufficient to draw any real conclusion from, but it will help fill the role of a contextual agent to allow a sense of what the nature and characteristic of China's economic interdependence with the case study nations may be based on. These contexts outlined above will then play a role in the interpretation of the empirical material as they together enable a deeper understanding for the cause-effect relationship.

2.5 Sampling

The method to search for material used in this thesis has relied on search engines on the internet to scour for the empirical material. The search engines that were used were Google for general empirical material and the University of Gothenburg's library search engine for peer reviewed scientific articles or books within the area of research. Keywords that were used in the search engines for the sampling of the empirical material were focused within the field of economic statecraft and specifically targeting articles focused on China and also studies on the case study nations. This was to use peer reviewed articles, but while some many were found in the search an exclusion process was used by reviewing abstracts of numerous papers in order to determine which one may fit this thesis.

But in order for the thesis to present the results the combination of think tanks and news organisations were mostly used to gather the relevant information on the topics discussed. The problem that this thesis was faced with when using the sources for the result was that its almost exclusively western based sources, and sometimes biased in what they decided to communicate in the articles or posts beyond the reporting of actions or statements made by China, and sometimes one would discern a certain agenda behind the opinions. But due to time restriction the sacrifice of a diverse plethora of sources from being used in this thesis had to be made. But in order to minimise the use of unreliable sources, all organisations used in this thesis were thoroughly background checked for being a legitimate source. While the aim was always to provide direct statements from CCP leaders in the issues presented, sometimes the statements were provided indirectly through proxies. Chinese news organisation Globaltimes.cn has been recognised as one of the unofficial mouthpieces of the CCP leaders, this is due to being published by People's Daily which is the official newspaper of the CCP (Reuters Staff, 2020a).

3. Previous research

3.1 Introduction to economic statecraft

The interest in China's economic statecraft and its consequences has become a popular topic to research in recent years. The debate seems to centre on whether deeper economic

integration with China should be perceived as a threat and why. Therefore, the following research has been chosen due to their broadening of how to understand China's economic statecraft by either looking at different cases and scenarios, but also uncovering clandestine actions not necessarily being a staple when researching economic statecraft.

Before delving into the previous research the term economic statecraft needs to be defined. Borrowing from James Reilly (2017, p.174) economic statecraft is *“the purposeful use of economic resources by political leaders to exert influence in pursuit of foreign policy objectives. It encompasses incentives or sanctions that affect the trade, aid, finance, currency, and/or assets of the target state. Economic statecraft is distinguished from commercially driven actions by its political objectives: the pursuit of power rather than plenty”*.

Three research articles will now be presented to display the field of research on China's use of economic statecraft.

3.2 China's economic statecraft in Europe

James Reilly (2017) presents in his paper three case studies of China's economic statecraft strategy in Europe to study what Reilly means are the three strategies of economic statecraft that China applies on European nations and Europe as a whole. The presented case studies being China's response to European leaders meeting with the Dalai Lama, China's trying to use economic influence towards gaining market economy status in Europe and China's attempt at gaining goodwill after the financial crisis in 2009 (pg.174). Reilly outlines from these cases three different strategies of how China is using its economic clout to affect European nations' decisions in these three different cases.

The first strategy is a specific reciprocity approach, or also a quid pro quo, whereas targeted nations who deploy Chinese appeasing policies are met with rewards, while sanctions are used and dealt by China to deter any nations undesirable policy that may be harmful towards China (Reilly, J., 2017, pp. 174-175). Nations whose leader met with the Dalai Lama soon faced a delegation boycott. Risking trade and investments with China through what China seemed to have felt was a legitimising of the Tibetan struggle for independence (Reilly, J., 2017, p. 176). The blacklisting which occurred seemed to have spurred a change of heart and joint-statements with China were made that reiterated the support of One China policy and

Tibets part in that policy. This would be met with what the authors call a carrot of trade deals and investments amounting to billions of dollars (Reilly, J., 2017, p.177). Sending a clear message that it's economically beneficial to be on China's side rather than taking a moral stance.

The second strategy observed which China may use for multiple actors to influence policy that is of importance for the European actors, is what Reilly calls a positive diffuse reciprocity strategy which aims at encouraging targeted actors to change their policy stance due to the mutually beneficial economic interactions that may come from it (Reilly, J., 2017, p.175). Even though the carrot and the stick might have worked in the case of the Dalai Lama, China seems to have not been able to exert the same influence when just using the carrot. Reilly writes that as China attempted to gain Market Economy Status within the World Trade Organization (WTO), China went around Europe trying to persuade multiple nations leaders to vote in favour for China's new status (Reilly, J., 2017, p. 178). China had been signing multiple lucrative trade and investment deals as part of the lobbying process. This proved to not be fruitful as multiple nations and the EU did not vote in favour of changing China's economic status, though threats of retaliatory measures were made if they didn't vote in favour of China (Reilly, J., 2017, p. 179).

The last strategy which Reilly observed was a strategic engagement strategy which aimed to institutionally build trust over the long term through deeper economic ties (Reilly, J., 2017, p.175). After the financial crisis in 2009 many European nations risked defaulting on their loans. This led to China buying government bonds in Europe post crisis which might've saved the economy of many countries as well as the Euro. Heavy investments and new trade deals were put in place to save the European economy with China hoping it would send a message that this would deepen the strategic partnership between Europe and China. Though this might've been true at the time for European leaders to feel more trust towards China, the public distrust seems to have grown towards China. Despite the very measures they took post crisis was part of an attempt to create goodwill within the EU, turned out to create the opposite among the populace opinion.

Reilly concludes that as of when the paper was written China had as of then not been able to transfer its economic clout to true political influence in Europe in the examples Reilly displayed except in one. What could be considered though is that China is not able to exert

great political influence as of yet because Europe as a whole is not solely dependent on China. This as well as China is also still equally dependent on Europe therefore might have more to risk if using its threats of sanctions too often as it will counteract the long term goal of China in Europe which according to Reilly is to gain trust through strategic engagement.

3.3 Informal economic sanctions: the political economy of Chinese coercion during the THAAD dispute

Darren Lim and Victor Ferguson (2021) investigates in their research Chinese informal economic sanctions towards South Korea in response to the latter's deployment of the Terminal High-Altitude Area Defence (THAAD) missile system together with the United States, in response to North Korean nuclear testing. Ferguson and Lim define informal sanctions as the "*deliberate, government-directed disruption of market transactions involving economic actors from a target state to further a political or strategic objective, through means that are not enshrined in official legal frameworks for sanctioning or publicly acknowledged as coercive sanctions*" (pg.14).

The authors describe in the paper how China has employed informal sanctions towards South Korea. In order for these informal sanctions to work Lim and Ferguson (2021, pp.16-17) also presented two variables which may enable or work against informal sanctions to be applicable for a state's economic coercion strategy. The first is regulatory availability, which are the use of regulatory bodies that state may use in order to avoid being charged with discriminatory practices in economic exchange. The second is opportunism, which may work for or against a state's informal sanctions, market actors that would possibly gain from these informal sanctions could bypass and capitalise on the potential increased demand of boycotted products therefore halting the sanctions effect. On the other hand opportunism may be wielded by national rivals to targeted industries to gain market shares by embracing or carrying out even more disruptive activities.

By invoking a nationalist spirit in China, commercial actors within tourism and consumers "decided" to boycott South Korea due to the threat that had emerged with the deployment of THAAD (Lim & Ferguson, 2021, pp. 14-15). Government regulatory bodies then also struck heavy blows to South Korean conglomerate Lotte by shutting down 74 of its supermarkets in China citing fire hazards. This strategy of informal sanctions is employed by China in order

for the nation to claim plausible deniability of formal sanctions and avoid the international legal trouble it could mean (ibid.).

This study showcases how China potentially weaponises its deeper economic relations that is hard to respond to in an appropriate manner. Through this paper, it seems to be an extremely difficult situation that nations could face by having to be reliant on a state that will use non-traditional means to prove a point. As Lim and Ferguson also writes, with plausible deniability it becomes almost impossible to call upon international organisations to solve this matter, due to the boycotts coming from market actors and regulatory bodies and not formally from the government, as well as bringing the case to court could exacerbate the situation for targeted nations, in this case South Korea. Compared to Reilly's case of the Dalai Lama (2017) this case bears the resemblance of a security issue for China, but with other strategies applied which may've been employed due to the dependence of South Korea's economy on the Chinese market which makes it more sensitive to disruptions.

3.4 Economic Statecraft and the Making of Bilateral Relationships: Canada-China and New Zealand-China Interactions Compared

In their study Noakes and Burton (2019) research the reason why China may apply different Economic Statecraft strategies depending on the strategic value to China. The authors compare the cases of Canada and New Zealand to demonstrate how China adopts different approaches in order to gain economic and political influence.

In the case of Canada, China seems to have adopted an approach that would enable deeper economic relations through fostering free trade between the two countries. This in turn would lead to China gaining access to acquiring Canadian companies previously or currently restricted from them (p.421). These companies are engaged in either the energy and minerals sector (oil, iron etc.) or companies working with military grade equipment (p.421). The intentions of China according to Noakes and Burton is to in the long run gain such an influence that China would be able in the future to displace a United States led hegemony (p.426). But even if it seems that Canada would be open to deeper economic relations with China, they have not as of the writing of their paper yet been able to settle a free trade

agreement as the one China has with New Zealand. The authors attribute this to New Zealand's isolation from the United States and other areas of the world, leading them to be greatly dependent on Chinese investments and trade (p.414). The authors then point to the caveats of being overly reliant on China which is that it becomes easier for China to exert its influence over nations that have no deeper relations with its greatest rival, the United States (p.426).

There is potentially a risk of China trying to tie up nations by becoming more dependent on trade with China than with the United States. This as well as trying to transfer technological capacity previously unattainable by China through free trade deals. As seen in Lim and Fergusons study, China could in the future weaponise the dependence on them through this tactic.

3.5 Concluding remarks on previous research

The previous research outlined above shows that there's a depth of research focusing on either the potential economic statecraft strategies of China (Reilly), the practical implementation of informal strategies (Lim & Ferguson) and how China may adopt different strategies depending on the country (Noakes & Burton). Even though this is just the tip of the iceberg, this shows that there is room for this thesis to contribute to the research area with the application of strategic culture on China's economic statecraft strategies on the case study nations.

4. Theory:

4.1 Introduction to Strategic Culture

The term *Strategic culture* was first coined in 1977 in a Rand report by Jack Snyder whilst explaining the difference between the Soviet Union and the United States nuclear war doctrines during the cold war (Johnston, 1995a, p. 5). Jack Snyders report inspired the first generation of strategic culture-scholars such as Colin Gray and David Jones to expand on the new theory.

The first generation argued that strategic culture derived from macro-environmental variables such as deeply rooted historical experiences, political culture and geography (Johnston, 1995b, p.36). Critique against the first generation was its definitional problem. The first generation encompassed too many different variables that could stand by themselves as explanations for a state's strategic choice. As well as that the first generation was too deterministic in that state's strategic culture led consistently to one type of behaviour, which would prove it hard to explain when a different type of behaviour from states supposedly strategic thought emerged (Johnston, 1995b, p.37). The emergence of strategic culture came at an age where structural realism dominated the field of international relations-theory.

The second generation of strategic culture argues that political leaders may think and say that they do one thing while deeper motives are actually making them do something else. In the second generation, strategic culture is seen as a myth, consisting of images, stories and symbols that is used to legitimize a state's behaviour in inter-state affairs (Johnston, 1995a, p. 15). It is born out of historical experiences, which explains how different experiences help shape state's different strategic cultures (Johnston, 1995a, p. 17). Criticism towards this view on the second generation of strategic culture, is made that it is unclear whether strategic discourse shapes behaviour. It is suggested that the political elite is able to rise above the discourse of strategic culture, rather than to be constrained by the very myths they perpetuate. This is argued to lead to the notion that it is questionable to expect differences between states' behaviour if they are not bound by their very own strategic culture (Johnston, 1995a, p. 18).

The third generation of strategic culture emerging in 1990's tended to use strategic decisions as dependent variables. By applying military and political and cultural organisational theory to explain particular strategic choices where structural definitions couldn't (Johnston, 1995a, p. 18-19). The third generation, Johnston argues, is more concerned with the approach to have empirically observable constraints on choice (Johnston, 1995a, p. 20). Johnston argues as well that the third generation avoids the determinism of the first generation.

Criticism towards the third generation revolves around the notion of strategic culture changing relatively quickly in the third generation, disregarding deeper historical roots in strategic culture. As well as acting more as a lens for decision makers, making the third generation in need of various political theories in order to explain why a certain action is made (Johnston, 1995a, p. 21).

Alistair Iain Johnston aimed at trying to correct the faults of previous generations and building on the third generation's positivist approach when applying strategic culture, without disregarding deeper historical roots. This approach was made to introduce a theory in which strategic culture was falsifiable and more rigorous in its methodological precision than its predecessors. A cultural analysis could also not be led with the argument "culture is everywhere" in which it borders on triviality, according to Johnston. Though counted as part of the third generation it has been argued whether Johnstons notion of strategic culture belongs more to a "fourth generation" of strategic culture (McDonough, 2011, p. 27).

4.2 Alastair Johnstons Strategic Culture theory

According to Johnston, strategic culture can be seen as an ideational milieu that limits behavioural choices (Johnston, 1995a, p. 36) Borrowing from influential anthropologist Clifford Geertz definition of religious symbols, Alastair Iain Johnston defined strategic culture as "*Strategic culture is an integrated system of symbols (i.e., argumentation structures, languages, analogies, metaphors, etc.) that acts to establish pervasive and long-lasting grand strategic preferences by formulating concepts of the role and efficacy of military force in interstate political affairs, and by clothing these conceptions with such an aura of factuality that the strategic preferences seem uniquely realistic and efficacious.*" (Johnston, 1995a, p. 36)

Johnston also identified several objects of study when suggesting how scholars would be assessing a state's grand strategic preferences. These objects of study were in documents, texts and doctrines embedded in these cultural artefacts (McDonough, 2011, p. 28).

Applying this to his study of Ming dynasty China military strategy, Johnston studied the texts of the Chinese seven military classics containing among others the classic Sun Zi Bing Fa, *The Art of War* (Johnston, 1995a, p. 40). Johnston argues that these military texts also have embedded within them elements from the classic Chinese philosophical texts of Confucian-Mencian, Legalist and Daoist traditions in Chinese statecraft, which helps paint a broader cultural perspective (Johnston, 1995a, p. 45).

When analysing the *Seven Military Classics*, Johnston's method of analysis was to apply an

eclectic approach to content analysis (Johnston, 1995a, p. 49). Johnston applied different methods of content analysis in order to extract the central meanings in the texts that referenced cause-effect relationships relating to statecraft, strategy, tactics and command and control of the military (Johnston, 1995a, p. 267). The focus of the analysis was to discern “what the Seven Military Classics appears to be telling strategists to do, how to rank choices, and thus how to make choices” (Johnston, 1995a, p. 49). Johnston also applied a modified form of cognitive mapping as well as symbolic analysis. Citing Robert Axelrod cognitive mapping “...is designed to capture the structure of causal assertions of a person with respect to a particular policy domain and generate the consequences that follow from this structure” (Johnston, 1995a, p.50). Symbolic analysis establishes what could be seen as symbols, citing Charles Elder and Roger Cobb that “*Literally anything can be a symbol: A word or a phrase, a gesture or an event... An object becomes a symbol when people endow it with meaning, value or significance*” (Johnston, 1995a, p.51). Johnston argues that the symbolic analysis is vital due to the effect symbols have on cognitive processing and social cueing. By referencing contemporary social psychology research by the release of the book, Johnston put forth the idea that symbols enable certain behavioural patterns, acting as mental aids for decision makers (Johnston, 1995a, p.51).

Johnston concluded in his analysis that there were two discernible strands of strategic culture in China. The first one is the Confucian-Mencian strand which Johnston identified as an idealised discourse, aimed to cloak Chinese military intentions as peaceful and non-offensive, only using their military means for defensive purposes. This is the strategic culture cited . But Johnston identifies that the Confucian-Mencian paradigm is an accommodationist one. By way of trade, tribute and concessions the Confucian-Mencian strand aimed for defusing security issues. If these actions didn’t work, coercive and defensive strategies were preferred over warfare according to the Confucian-Mencian strand (Johnston, 1995a, p. 117-118).

The other strand of China's strategic culture Johnston identified as the *Parabellum*, which is latin which translate to “prepare for war”. This notion Johnston analysed assumes that war and conflict are constant in human affairs and leads to a zero-sum game between China and its adversaries. Thus through *Parabellum*, Johnston argues, it can be discerned that military preparation and application of violence will resolve high-stake conflicts (Johnston, 1995a, p. 186). Johnston argues that the *Parabellum* strand is the active strategic culture which he believes shows that China's rise in the future will not be a peaceful one, which have been the

dominating notion of other scholars analysing Chinese military history, rather it will be similar to the western notion of *Realpolitik* (Johnston, 1995a, p. 249).

Some scholars of strategic culture don't fully agree with this assessment of *Parabellum* being the only active strand and the Confucian-Mencian strand just being used for idealised discourse. For example Andrew Scobell (2002) argues that both the *Parabellum* and Confucian-Mencian strand are operative and interacting with one another which forms China's "Cult of defence". Another issue to bring up is how strategic culture can and could pervade through time. In studies of organisational culture, elites tend to use symbols or symbolic strategies in order to reinforce the idea that the decisions they make regardless of what the outcome may be, are successful due to it being tied to a symbolic legacy (Johnston, 1995a, p.156). Thus, so would a Chinese strategic culture continue to thrive within the political and military organisation through the ages due to re-enforcing the axioms of the seven military classics to gain legitimacy in one's arguments.

4.3 Quan Bian and the grand strategic preferences

To properly apply the *Parabellum* strand in the empirical case of the Ming dynasty's encounters with the Mongols, Johnston asserted that in order to properly test the existence of a strategic culture one must first determine what grand strategic options that might exist. Johnston presents three categories of grand strategies which within them encapsulates plausible grand strategic choices which are summarised below (Johnston, 1995a, p.112).

1. Accommodationist: This category of behaviours are low coercion choices that relies on diplomacy, trade, economic incentives. Through allowing concessions and through building alliances security is achieved, while the political goal is not annexation of territory or political and physical elimination of the adversary (Johnston, 1995a, p.112).
2. Defensive: Relying on more coercive options than the accommodationist grand strategy, the defensive grand strategic category relies on achieving security through the states own mobilization of military resources with the purpose of a static defence along the borders of the state. Johnston concludes that within this category a state may use limited punishment and denial as ways of deterring political adversaries, and

while the policy ends may not be expansionist or annexationist at the moment, this may change (Johnston, 1995a, p.113).

3. Offensive/Expansionist: This grand strategy embodies the strategic goals of annexation and elimination of the adversary either both politically and militarily or at least the latter to achieve security. This strategy focuses on highly coercive tactics and relies on being pre-emptive and punitive uses of the military forces beyond the borders of the state (Johnston, 1995a, p.113).

By comparing his analysis of the seven military texts to these idealised grand strategic preferences Johnston concluded that the authors of the classics preferred either a defensive or offensive/expansionist set of choices over the more diplomatic accommodationist approach (Johnston, 1995a, p.148). But within China's classic military texts there is a notion which seems to act as an equilibrium to the Parabellum doctrine of offensive use to achieve security, and that is the notion of *Quan Bian*, which roughly translates to “adapt to opportunities and respond to change” (Johnston, 1995a, pg.149). Johnston calls this the *absolute flexibility axiom*, which Johnston found to be widely written about in both the Seven Military Classics and also other texts outside of the classics which Johnston had studied (Johnston, 1995a, p.148-149).

Quan Bian/Absolute flexibility is noted as an essential part of strategic assessment when in conflict. *Quan Bian* is the notion of adapting your strategic choices to fit the capabilities available to you. Johnston cites The Song Dynasty (960-1279 A.D.) military encyclopaedia, the Wu Jing Zong Yao expression of flexibility “*if it is possible to go to war against the enemy, then go to war. If it is possible to establish peace, then establish peace. If one sees benefit, then advance and attack. If one discerns difficulties then retreat and defend. Sometimes it is best to penetrate deeply, sometimes it is best to penetrate only slightly.*” (Johnston, 1995a, p. 150).

Thus Johnston concludes that Chinese military and political inferiority overturns the parabellum paradigm of strategic culture allowing for nonviolent and accommodationist behaviour to be applied in strategic assessments (Johnston, 1995a, p.151). But Johnston still argues that it can quickly change if opportune moments present itself for China to act offensively and strike at the weakness of its enemy. Therefore, Johnston points to *Quan Bian*

to be an axiom of flexibility within the context of conflict and not in the context of nonviolent strategic preferences (Johnston, 1995a, p.151). This means that China has displayed an accommodationist approach in strategic matters, but this is due to being in moments of inferiority in relation to ‘rivals’, where China was militarily weaker, or experienced internal political instability.

Even though Johnston has been credited with bringing a more rigorous methodology to strategic culture, critics have claimed that his distinction between explanations for cultural and material (realism) forces, as driving factors for analysis. His focus on explaining instead of interpreting and understanding has also come under critique, as well as Johnston being fixed that only recognizing a single authentic culture can exist within a society, dismissing subcultures (Barnett, 2018, pg. 171).

4.4 Operationalizing Strategic Culture

In order to use the strategic culture theory for the purpose of this thesis following steps will be applied. Firstly in order to assess the characteristic and level of economic interdependence between China and the case study nations, as mentioned in the section regarding method, an outline of the economic relationship basis from the *Quan Bian* or *Absolute flexibility Axiom*. This is done by establishing the economic relationship between China and the case study nations, a contextual economic background before the results are presented for both case study nations summarising the nation’s economic interdependence with China.

By first presenting a short but well encapsulating information about the economy of the case study nations and then defining the economic interdependent relationship between the case study nations and China through an introduction before presenting the results of each case. This will give a somewhat assessment of the relative economic relationship and dependence each nation has with China, so as to better understand the grand strategic preference that is found to be applied in these cases.

5. Background

5.1 China's policies

5.1.1 Belt and road initiative

Xi Jinping introduced in 2013 the belt and road initiative (BRI), an infrastructure and development project. The BRI project would be set up to develop infrastructure stretching from China to Europe both by land and by sea, recreating the ancient trade routes called the Silk road between east and west (Chatzky & McBride, 2020 January 28). The purpose is to invest in countries with little or no capability to make these infrastructure investments in order enhance trade opportunities and address bottle-necks, as well as connectivity issues in the landlocked regions between China and Europe. The infrastructure needed in Asia alone has been assessed by the Asian Development Bank to have an annual cost of 1.7 trillion USD from 2016 to 2030 (Rimmer, 2018, pg. 20). Another purpose highlighted is that China wants to be able to create new markets for its goods to export (Chatzky & McBride, 2020 January 28).

The belt and road initiative have been accused by critics as a way for China to lead poorer countries with strategic value, in debt traps by issuing loans for infrastructure projects that receiving countries are unable to pay back resulting in relinquishing control over certain assets, mainly the very projects the loans financed (Rimmer, P., 2018, pg. 13). Another issue that has been raised is that China through this process only seeks to create further trade interdependence with China, as well as controlling critical infrastructure abroad such as airports, dams and communications networks (McMaster, 2020). At the same time China is presenting the BRI with a handbook aimed at promoting the peaceful aspects of the project as well as fostering “inclusive globalisation” along the BRI (Rimmer, P., 2018, p. 4).

5.1.2 Made in China 2025

The Made in China 2025-policy (MIC2025) is a ten year plan presented in 2015 that aims to help China become the leader in manufacturing new technologies in ten sectors, such as electric vehicles, new energy among other cutting-edge products (The State Council, 2015). China is seeking to become less reliant on foreign technology as well as to further develop their manufacturing capabilities in order to move up the production value chain, which would further boost Chinese competitiveness (Richter, 2020 20th February). But it's also a matter of security in the eyes of the CCP, Xi Jinping quoted in a speech on innovation in 2018 said it was a matter of guaranteeing national economic security, defence security and other security (Martina, Yao & Chen, 2018). In order for China to be able to become less reliant on foreign technology, Chinese companies have to become more innovative, which is why subsidies were launched targeting Chinese companies adopting policies that were towards achieving MIC2025 goals (ISDP, 2018). In order to accelerate the rate of achieving these technological goals, Chinese companies have also turned to other parts of the world, acquiring foreign companies working within key sectors of the MIC2025 goals, leading to calls of higher restrictions against Chinese acquisitions of vital technological companies in several countries (Chatzky & McBride, 2019). But China has also been leveraging its own market as a way to gain access to technological transfer, through forcing joint-ventures between Chinese companies and western companies, who otherwise would not be able to gain access to the Chinese market (Kynge, 2022).

Derek Adam Levine (2020, p.12) calls the transfer of western technological knowhow through either joint-ventures or mergers by Chinese companies “*the greatest threat to preservation of the international liberal order and the health and security of each member nation*.”. A thought that seems to be shared by the western powers trying to stop China from buying up the comparative advantage from under their eyes. The implications of China's tactics to reach their MIC2025 goals seem to be harmful in the long run as distrust and discontent seems to grow within the international community towards China.

5.1.3 Military-civil fusion

Another concern that is raised with the goal of MIC2025 is the reiterated policy of deeper military-civil fusion (MCF) between civilian enterprises in China and the military. The MCF

provides legal authority to transfer technology from privately owned Chinese companies to the state, but the MCF is also funding many privately owned companies in developing dual use technology which is for both economic profit and military application (Reinsch, Hoffner & Caporal, 2020). Dual-use technology is technology with both civilian and military applications such as the 5G network infrastructure and semiconductors among others. Previously state owned enterprises in China dominated the defence industry but due to the increasing ambition of the Chinese state to turn the People's Liberation Army into the most advanced military force in the world, the CCP have turned towards the private economic sphere in order to speed up the process (Nouwens & Legarda, 2018). China has acquired these dual technological advancements by either acquiring foreign companies or by trade under the guise of civilian use. This has raised alarm across the western world as fear over Chinese acquisitions of western companies that China seeks to acquire sensitive technology for military purposes. But despite these worries, there are calls from experts not to overestimate the significance of the MCF policy by arguing that policy makers are oversimplifying as well as exaggerating the effects of MCF which may lead to counterproductive measures being applied to balance against MCF (Kania & Laskai, 2021).

5.2 The prospect of the three policies

China seems to be pushing an expansive economic policy, while no affirmative conclusion can be drawn from these policies summarised above, the american-led consensus seems to be that China is pushing for world hegemony. There is however no doubt that China seems to put an emphasis on these types of programs to continue to cement China's position in the world. From a strategic culture point of view it could be argued that the relative power of China grows with its economical and technological power. The argument seems to be that if the technology of the future spawns from Chinese companies it could lead to increased dependence on trade with China in order to gain access to these products. China further increases this dependence by initiating infrastructure projects partly financed by China in poorer countries to create new markets for their products, further increasing their position of power in parts of the world neglected by the western world. This would enable China to exercise a dominant strategy not only towards lesser nations but even the field with the United States in the future. But researchers have pointed out in each of these policies, China seems to be far off from reaching its intended goals in every respective policy. This section

has established a context for the upcoming results from the case studies in which China's economic statecraft strategy will be identified.

6. Results

6.1 Australia

6.1.1 Economic snapshot

Australia has been looked at as one of the world's most stable economies with an abundance of natural resources, having had the record of avoiding a recession for almost three decades until the outbreak of Covid-19 in 2020 ended the streak (Khalil, 2020). Australia is currently the world's 13th largest economy with a GDP of around 1.3 trillion US dollars (World Bank, 2022b). Being a natural resource rich country Australia's export is led by eight natural resources out of the top ten, the other two being tourism and education. China was the top destination for 14 of the top 30 Australian export goods in 2019, and the overall biggest trading partner accounting for 36.7 percent of Australia's total exports in 2020, almost four times that of exports to Japan standing on 10.6 percent of Australia's total exports in 2020. China was also the top source of import for Australia as well, being almost double that of the imports from the U.S. sitting at second place (DFAT, 2021). While China is Australia's biggest trading partner, Australia is ranked as the 12th biggest exporter to China (OEC, 2022a, May 20).

Australian exports to China are largely driven by the vast amount of iron ore which accounts for about 63 percent of Australia's total exports to China. Australia, together with Brazil the largest iron ore provider for the Chinese market, but reports show that China has been looking at other potential developing markets to supply its need for iron ore. However, due to an explosion of domestic infrastructure developments China has become dependent on Australia to supply the bulk of its iron ore requirements (Peach & Tan, 2021). Australia mostly imported what could be considered strategic goods such as medical equipment from China causing criticism towards the Australian government of being too reliant on a single trading partner for the import of vital products (Mondschein, 2020). While Australia has been benefiting from its resource rich sources the future prospects has been a subject of concern

due to the lack of diversity in its exports. According to the Observatory for Economic Complexity (OEC) Australia ranks 77th in the world on the *Economic Complexity Index*, leading Australia, which is heavily reliant on exports of natural resources such as fossil fuel for example, to having potentially a lesser economic future than Kyrgyzstan, according to the ECI prediction (OEC, 2022b)¹.

China has also been increasing its Foreign Direct Investments (FDI) in Australia the last decade and ranks as the 9th biggest contributor to FDI with 46 billion dollars with most of the investments going into the mining sector (DFAT, 2021). According to a report from auditing firm KPMG in 2020 China's FDI to Australia decreased by 18 percent. This was attributed to not only the impact on the world economy by Covid-19, but also a deteriorating bilateral relationship between China and Australia, among other factors as well. The reason behind the deteriorated relationship is attributed to the exclusion of Chinese 5G providers and Australia calling for independent auditing of the Covid-19 (Ferguson & Dent, 2021). This thesis will now continue by highlighting these two important issues between Australia and China and then analyse the result.

6.1.2 5G - a national security issue

In 2017 Australia was shocked by the revelation that an up-and-coming senator had warned a political donor from China with connections to the CCP that he was under surveillance of the Australian intelligence community, and passed on information of how to avoid that surveillance (McKenzie, Massola & Baker, 2017). This led to then Prime Minister Malcolm Turnbull to introduce a new espionage law due to concerns of foreign interference in domestic politics, especially from China (Gribbin, 2017). The accusation from Malcolm Turnbull led to a slowing down in some parts of the Australian exports to China as a result (Packham, 2018). This was the beginning of a turn of events that led to the Australian government being the first country in the world to ban Huawei and ZTE from providing to the Australian 5G network in 2018, citing security reasons (BBC, 2018). Australian government sources meant that due to how Chinese companies operate in tune with the

¹ The ECI is a tool of which the potential future economic outcome of a country is calculated by looking at the economic data of the country, exports for example, and making predictions about how much that industry will grow in the future. The lesser the potential market in the future, the lesser the ranking is for the country. In the case of Australia being heavily reliant on exporting natural resources, the future economic prospects are dimmer according to this measurement (<https://oec.world/en/resources/methods#economic-complexity>).

CCP's wishes they most likely have to cooperate if the CCP demands it, leading to concerns of security breaches in the 5G network if Huawei and ZTE had partial control of it, collecting data on both citizens and politicians and even stealing sensitive data from companies (Packham, 2018). China responded to the decision by urging Australia not to go through with the ban which they deemed to be politically motivated. China also reiterated that the government may not compel companies to install backdoors or engage in espionage on behalf of China (Westbrook & Kaye, 2018).

A couple of months after the banning of Huawei and ZTE, China was accused by Australia of being responsible for a cyberattack on the Australian parliament, an accusation that was denied by Chinese officials (Vincent, 2019). This further deterioration of the bilateral relationship culminated in China processing Australian coal slower in many ports and in the northern Chinese port of Dalian, Australian coal was banned. The ban was motivated by Chinese officials at the Dalian port, arguing that they were safeguarding Chinese importers from the quality of the coal and that this action was completely normal, denying that it was an official targeted sanction (Reuters staff, 2019). This escalation of events would eventually lead to further a breaking down of trust and relations, when in 2020 the Covid-19 pandemic shocked the world.

6.1.3 The Covid-19 inquiry

When Covid-19 outbreaks were happening all around the world, calls for revealing the origins of the virus were made. Australia became one of the foremost critics of China's handling of the virus and back in April of 2020 Australia urged all World Health Organisation members to back an independent review of the Covid-19 virus. China's response to the inquiry was to call out Australia for ideological prejudice as well as calling the inquiry a political manipulation (Packham, 2020). China's response to Australia's call for auditing the Covid-19 outbreak came swiftly. Only days later China's ambassador to Australia, Cheng Jingye refused to acknowledge the allegations of Covid-19 originating from Wuhan and said that the Chinese people were hurt by the allegations. Cheng Jingye elaborated that this could lead to Chinese consumers boycotting Australian wine, meat and also affect Chinese tourism to Australia (Tillett, 2020). Days later China officially banned four meatpacking companies from exporting to China, citing issues with labelling and health

certificates. This ban affected 20 percent of Australia's total meat export to China, which was then estimated to be worth around 2 billion dollars (Nikkei Asia, 2020).

A month after China imposed a 85 percent anti-dumping and anti-subsidy tariff on imported barley from Australia, a trade worth a billion dollar worth trade and by the end of 2020 numerous Australian products were either boycotted or subject to inspection when arriving at Chinese ports (Sullivan, 2020).² Only coal and copper ore were cited to have been the natural resources which China boycotted as a result of the demands made by Australia to the Covid-19 inquiry (Reuters staff, 2020). By the end of 2020 a document was presented to a reporter of the Australian news organisation 9news handed over from what the reporter said was a Chinese embassy official. On the document were 14 listed grievances China had with Australia, among them were the banning of Huawei and ZTE from the 5G network, but also accusations of Australia participating in the U.S. anti-China campaign. By this time the Chinese official present revealed that no high level Chinese official would talk to their Australian counterparts and that communication was handled on lower levels of the governments. While handing over the list of grievances to the reporter of 9news the Chinese embassy official allegedly said *"If you make China the enemy, China will be the enemy"* (Kearsley, 2020).

6.1.4 Analysis on the Australian Cases

This analysis starts with establishing the level and the characteristic and level of China's and Australia's economic relationship. It's a deep running economic partnership which sees Australia heavily reliant on both Chinese export and import for its economy with 14 out of 30 most exported products being mostly exported to China, mostly being natural resources. Even the FDI from China is heavily focused on the mining sector. This would give China a great leverage over Australia and informed by Strategic Culture and the concept of Quan Bian/Absolute flexibility which stipulates that when China has the relative power over its opponent, the Parabellum strand will dominate and a more coercive grand strategic preference will be applied (Johnston, 1995a, p.151). Therefore, the expectation is that China

² Dumping is an economic term used to describe products exported and sold below the domestic market price.

in a conflict or dispute with Australia would use heavily coercive methods to achieve state security. The caveat being that the iron ore export represents the single greatest exported product from Australia to China. It is deemed difficult or near impossible for China to fully replace and therefore unlikely to be used in the coercion, which would jeopardise another state security goal in its infrastructure projects.

When China responded to both the 5G ban and the calls for a Covid-19 audit, bans on meat and coal were done within the regulatory availability of the customs and government agencies, using denial that the government itself had interfered in the process. It resembles Lim and Fergusons (2021) case study about informal sanctions used by China towards South Korea in which similar methods were applied.

But there is a distinguishable difference in the process of the two responses that are presented in the empirical material above. China appears in the case of the ban of Huawei/ZTE to rely on denial, condemning Australia's practices and using informal sanctions on the partial exports of coal to China. This would resemble a more defensive grand strategic preference that tries to use limited punishment in order to deter Australia from its actions. However, China's response to the Covid-19 audit carried far more punitive and retaliatory responses compared to responses used on the ban of Huawei/ZTE.

While China did respond with unofficial sanctions on coal and a slowing down on trade relationships following the 5G ban, China's response to the Covid-19 audit encompassed sanctions over a broader category of different products, especially on exported food. While it is probable that the dispute following the 5G ban soured the relationship between China and Australia, the call for a Covid-19 audit seems to be regarded more of a national security issue for China, which would be why Chinese officials adamantly denied that China was the origin of the virus. The rhetoric also seems to change as presented in the quote by a Chinese official "If you make China the enemy, China will be the enemy". This would indicate that a switch to a more offensive grand strategic preference is being utilised.

Though while China did sanction many of Australia's products, significantly hurting some sectors of its agricultural economy, the biggest economic coercive tool was one that China avoided to make, which was sanctioning the Australian iron ore. With China only sanctioning two natural resources from Australia, the bulk of Australia's exports to China was left

unscathed by tariffs and boycotts. China's unsatiated need for iron ores for its industries and infrastructure projects made the formal and informal sanctions made by China somewhat ineffective. This establishes that China did not as of then have the ultimate leverage over Australia to coerce them to retract their decisions on both the ban and the Covid-19 audit. Informed by the *Quan Bian* forming China's behaviour and actions to almost go all the way with its sanction, but stopping short of creating its own state security problem with the block of Australian iron ore, which would've left a very large void of income and created numerous domestic issues for Australia. The conclusion on what grand strategic preference utilised in this case was that China used a combination of a defensive and offensive strategy. Though there are indications that China would have punished Australia further had it not been for their dependence on importing iron ore for the infrastructure projects.

6.2 United States

6.2.1 Economic Snapshot

The United States of America (US) is the world's largest economy with a GDP of around 21 trillion US dollars, ahead of China in second place at 14.7 trillion dollars in 2020 (OEC, 2022c). Though the US general top exports are natural resources such as natural gas and petroleum, the US is ranked 9th on the ECI due to having a diversified economy (OEC, 2022c). In 2020 China was the US biggest trading partner ahead of both Canada and Mexico, which was attributed to the vast export to the USA amounting to 462.8 billion dollars in 2020. While US exports to China amounted to 115.8 billion dollars in the same year, which for the USA created a trade deficit of about 347 billion dollars in 2020. While the USA also had a trade deficit with Canada and Mexico that amounted to a trade deficit of 12 billion and around 60 billion dollars respectively, the US still exported more to Canada and Mexico than to China (Census, 2016). Though, what the trade deficit doesn't account for is the economic activities gained by American affiliate companies in China which is argued to instead lead to an economic deficit for China when taking that factor into account (Meltzer & Shenai, 2019). The money gained by the US companies in China are then reinvested in the US for Research and Development programs (R&D) creating high paying jobs as well as giving the US the edge in new technology development (Allen, 2021).

The top exports to China in 2020 were electrical machinery and soybeans accounting for 17 billion and 15 billion dollars. China was the top destination for the US agricultural products, while the top imports from China were mostly consumer products such as computers and clothes (BEA, 2022 March 24; USTR, 2022).

Both the USA and China have benefitted from the trade arrangement, increased trade with China has been shown to have boosted the American consumers purchasing power. US exports as well as FDI from China have been responsible for sustaining two million jobs in the US. As well as US companies gaining access to the biggest growing market in the world which have generated hundreds of billions of dollars in revenue per year, as well as creating jobs and revenue in China (BEA, 2022 March 24;)

Though the other side of the coin has meant that China's low wage workforce has led to American companies having transferred manufacturing jobs previously in the US to China, creating anti-China sentiment in the US public, though still having benefited the American companies (Siripurapu, 2022). The US have also criticised Chinese practices of technology transfers through joint-ventures, as well as Chinese government subsidies to boost its own companies both domestically and globally (Meltzer & Shenai, 2019).

6.2.2 Blacklisting Huawei in the US - and the world

Huawei has long been suspected by the US intelligence community of working too closely with the CCP despite it being a privately owned company, therefore being a potential security issue for both the government and the public (Mehta, 2011). But it wasn't until 2018 when the US government banned its federal agencies and military from using Huawei's products, leading Huawei to file a lawsuit against the US for its boycott. However the lawsuit did not stop the US and in 2019 the then President Donald Trump signed an executive order blacklisting Huawei, therefore all US companies were banned from doing business with Huawei or its numerous affiliates (Maizland & Chatzky, 2020 August 6). Effectively the blacklisting ended all of Huawei's business in the US, but it had a further impact for Huawei.

By being blacklisted, business with US companies was impossible, leading to Google forbidding Huawei out from using Google's Android software on its phones as well as

stopping Qualcomm from supplying them with microchips vital for using 5G technology (Gonzales, et.al., 2022). The ban made significant economic and reputative damage to Huawei as more countries followed suit, leading to China announcing its own blacklist shortly after the US had put Huawei and its affiliate companies on theirs (Li, 2019). Global Times reported that sources from within the CCP indicated that targeted companies would be Boeing, Apple, Intel and Qualcomm, if the US would force *Taiwan Semiconductor Manufacturing Company* (TSMC) from supplying Huawei with microchips for its 5G equipment and mobile phone production (Sikun, 2020). Though expert voices seem to be sceptical over some of the companies mentioned, such as the likelihood of Boeing being sanctioned would be very low, as its status in the US is very high and that the CCP would face severe consequences from targeting them (Cheng, 2020).

Despite the threats from China of using the same tactics as the US if they forced foreign companies to stop delivering microchips to Huawei, the US issued a new export ban prohibiting TSMC from supplying Huawei with its microchips. This is due to the US supplying vital mechanical parts for the production of semiconductors forcing TSMC to comply to the US export ban (Feng, 2020). This has caused a supply chain problem for Huawei that affects China's plans of a domestic rollout of 5G network, halting the timetable due to the constraints put in place (Chen & Lee, 2019)

At the time of writing (May, 2022) none of the companies mentioned are known to have been put on the list.

6.2.3 Trade war - Technological theft and soybeans

In January of 2018 Politico reported that President Donald Trump would put tariffs in place and threatening with fines that would put pressure on China for alleged IP and technology thefts cracking down on what President Trump thought to be unfair practices by China and stealing millions of jobs from the US (Restuccia & Palmer, 2018; Mason, 2017). The US imposed the first tariffs on January 22nd 2018, targeting foreign manufactured dishwashers and solar panels, not only targeting China causing concerns of an imminent trade war (The Guardian, 2018). The US continued on the same track announcing new tariffs in March 2018 on imported steel and aluminium and only two weeks later President Trump announced that

the US would target 60 billion dollars worth of imported Chinese products due to the tech theft practices used by China to gain technology. The list of goods targeted were all within the Made in China 2025 sectors which has been associated with the accusations of IP theft, the response from China came swiftly imposing their own tariffs on foodstuff imports from the US valued up to 3 billion dollars, targeting American pork and soybeans.(Holland & Gibson, 2018; Kuo, 2018; Chandran & Rosenfeld, 2018).

Other than just imposing tariffs, the US also added new Chinese companies to the blacklist, denying Chinese companies access to its American supply chain as well as stopping American companies from buying their products. China's response came in the form of a foreign ministry spokesperson's verbal response, urging the US to correct its mistakes of oppressing Chinese companies (Shepardson & Bartz, 2020).

Despite negotiations between the US and China happening, the tit-for-tat continued for more than a year without either China nor the US backing down(Reuters staff, 2019b). CCP chairman Xi Jinping asserted that China never wanted a trade war with the US and that while China tried to have a positive attitude during the negotiations, but that China will fight back if necessary (DW, 2019). On 15th of January 2020 China and the US agreed to a deal that would ease the trade war, but it didn't retract all the tariffs fully as this was what China and the US called "phase one agreement", which would then be followed by new negotiations.

The agreement put in place would make China buy US goods for more than 50 percent over the trade levels from 2017 amounting to 200 billion dollars, as well as promising to protect US IP from theft as well as ceding forceful practices that US companies had to hand over its technology through joint-ventures in order for US companies to gain access to the Chinese market (Horsley, 2015). Experts commenting on the trade deal thought it to be unrealistic from the start, especially for China to meet the quotas demanded by the US that China should buy in a short amount of time resulting in the end to have not led to any improvements, as per the agreement, in trade between China and the US (Haas & Denmark, 2020; Rosalsky, 2022).

6.2.4 Analysis on the American cases

The economic relationship between the US and China can be characterised as one of interdependence with deep economic ties to each other. Both are mutually benefiting from this economic relationship with each other, though the sentiment in the US seems to be that China abuses this relationship through technology transfer and IP theft, creating an unavoidable rivalry. Though, when looking through the economic numbers presented above in this thesis the US is a bigger economy that is also reportedly benefiting more from trade and economic interaction with China than vice versa. While GDP in of itself does not guarantee or necessarily say anything of value in this analysis of the dynamic in the economic relationship between the US and China. However, when informed of American companies impact on employing the Chinese workforce as well as the massive export China has with the US, there seems to be a relative asymmetric power dynamic in favour of the US.

The notion is also that the US, by virtue of being more advanced in its research than China in certain areas, has leverage over key strategic foreign companies such as TSMC resulting in TSMCs forced boycott of manufacturing microchips to Huawei.

Informed by Strategic Culture theory and the notion of *Quan Bian*, China's relative economic and political inferiority compared to the US would enable in the very least China's use of an accommodationist grand strategic approach being employed towards the US, though it could also be employing either in a combination or purely a defensive grand strategy. However, this would almost rule out an all-out offensive grand strategic preference in the shorter time span observed in this thesis. China would therefore not be expected to have employed aggressive coercive actions to bend the US towards its political or military goals.

This is also demonstrated in both the case studies above, though it does present a problem in this analysis that the two cases of trade war and ban of Huawei basically happened simultaneously. This does make it somewhat difficult to assess whether China's responses were made separately to each matter or if they should be viewed as part of the same case. For the purpose of this thesis they are initially analysed separately.

China seems in the case of the US ban on Huawei, being reluctant to act in the same manner as the US even though rhetorically threatening with retaliation in the same manner by blacklisting US companies through its own list. The reason why China didn't go through with

this could be due to the high economic price China would potentially be paying, the reason being that American companies are massively important within the manufacturing sector of China employing a vast number of Chinese workers across the country. By interpreting these factors, the strategy China seems to have employed in this case would characterise the accommodation grand strategic preference due to the somewhat diplomatic approach by China. Even though there are threats of retaliatory actions in its own blacklist, the effects of it have not been presented, but it could also be interpreted as a warning sign that China, if possible, is willing to retaliate in the same manner in the future. But for now the interpretation is China not seemingly wanting to aggravate the US with similar tactics by handing out bans towards similarly sized American companies as Huawei. It also showed the vulnerabilities in China's supply chain of microchips creating a dependence on having anything but a negative relationship with the US which otherwise could lead to hampering the development of the Chinese economy and technology.

But in the case of the trade war China stood their ground more than in the case of Huawei. It could be because of Huawei's status of being a privately owned company, as well as the tariffs imposed under President Trump targeted whole sectors and not just one single company, albeit a very important one. China displayed a tit-for-tat response towards the US imposing similar tariffs as the US. Though, here as well as in the case of Huawei's ban, the US employed its entity list banning American companies from trading with Chinese companies and vice versa in this list, and no similar response was made from China.

The rhetoric from China is also one of reconciliation with Xi Jinping asserting the trade war was never desirable from China's perspective. This could be interpreted as a situation where China's hands are tied, they are unable to respond in anything but similar retaliatory fashion and are unable to exert coercive pressure on the US with its economy to deter the US from its trade war practices. In the end the trade war was deescalated through a deal made between the US and China, which though it was criticised by experts for being unrealistic, saw China make promises to the US of more trade and more regulation of its technology theft problems. The conclusion of the analysis of the trade war is that China displayed a defensive grand strategic preference with a tit-for-tat strategy with accommodationist undertones of reconciliation and diplomacy when responding to the tariffs. This may be due to a greater risk for China to lose the trade war if provoking the US too much thus sending the conflict deeper.

But in the end the experts seem to deem the US losing on the deal made, which may have been intentional from China.

7. Analysis of the bigger picture - How did deeper economic relations with China affect China's strategy

With both cases presented and analysed individually they will both now be included in a synergistic analysis aimed to answer the research question of *“How does the level and the characteristic of economic relations with China affect the attitude and behaviour between China and the case study nations?”*.

The first factor was to interpret the economic relationship between China and the respective case study country. The conclusion was that with Australia, China had a relative leverage over Australia, with China being generally less dependent on trade with Australia than vice versa, though with the exception of some natural resources exported by Australia to China such as the iron ore.

The conclusion of the analysis from the issues presented, was that China showed tendencies to abuse its economic leverage over Australia to coerce them to make decisions benefiting China the most. The rhetoric was harsh and both formal and informal punitive measures were applied towards Australia. While in the case of the US, China displayed a more cautious approach when dealing with the issues of dispute with the US. The analysis pointed towards a mutually beneficial economic relationship, but due to US advancements in technology and R&D, they seem to be in a relative position of strength and exercising its leverage over other entities such as TSMC dependent on the US to pressure China and Huawei.

China seemed to take into account in both cases where it would make its greatest losses, the iron ore with Australia and blacklisting of American companies. Therefore, its dependencies undermined what was interpreted as its ideal strategic ambitions in the issues.

This is where China's three policies mentioned in the background come into play, the One belt One road, Military-Civil Fusion and the Made in China 2025. They are essentially the path China wants to take to emancipate itself from its dependency on western countries. China has in both cases either directly or indirectly shown tendencies that it wants to apply an offensive grand strategy in certain circumstances, or at the very least a combination of defensive and offensive grand strategy to coerce Australia and the US. Two of the policies MIC2025 and the one belt one road, aims directly at creating this emancipation. China has been reported trying to find new markets to develop in order to satiate its need for iron ore, through one belt one road new markets will be able to open up possibly supplying Chinas need, which if that had been the case, China would've leveraged Australia's essential iron ore exports to China as a coercive tool in the case studies.

The MIC2025 could have the same effect towards the US, who displayed its leverage over essential microchip providers TSMC which affected Huawei very negatively especially in its rollout of 5G. What essentially this could be interpreted as, is China trying to improve the factors that determine its strategic options in disputes, Quan Bian. As long as there is a factor of essential interdependence in the economic relationship between China and the case study nations China can't afford to cut any nation out completely with its coercive strategies. This is a topic which needs to be further explored in future research.

It's unrealistic for this thesis to make a causal inference between the level and characteristics of economic relations with China and its attitude and behaviour toward the case study nations. Though what is displayed is that traces of Strategic Culture seems to be present and from both the analysis made dependent on the notion of Quan Bian seemed to affect Chinas attitude and behaviour. The relationship seems to be that of a greater level of economic interdependence and economic inferiority, resulting in lesser coercive accommodationist and defensive behaviour and attitude as in the case study with the US. While lesser economic interdependence and economic superiority makes China adopt coercive methods of strategy towards other nations in the nature of offensive or at least defensive grand strategic preferences.

8. Conclusion

This thesis has presented through two case studies how the level and characteristic of deeper economic relations with China may affect its attitude and behaviour towards the case study nations. This is a research topic which has been studied before and that has shown in previous research that China is willing to use coercive methods to deter other nations from standing up against them. The results of this thesis has also shown that China may defer from using coercive methods when faced with great economic and political consequences through economic interdependence. But through the analysis made, informed by the theory of Strategic culture and *Quan Bian*, which have interpreted that China wants to use its coercive powers when possible and possibly aim for emancipating itself from the interdependence that constrains its desired set of actions.

Though while this thesis can't confidently answer the question of how the level and characteristics of an economic relationship with China affects China's behaviour and attitude, the interpretation is that China will adapt its strategic options depending on the potential consequences it faces, therefore, a higher degree of economic interdependence and economic inferiority could steer China into a more accommodationist/defensive behaviour, while lesser degree of economic interdependence and economic superiority leads to China adopting at least a defensive grand strategic preference.

For future research a greater inclusion of other non-western nations could contribute to the research field, but also interesting research topics would be an inquiry into informal sanctions on the level of companies in China with origins in a nation in conflict with China and how they become affected.

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