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# ROLE OF ECONOMIC DIPLOMACY IN THE FOREIGN POLICY OF THE PEOPLE'S REPUBLIC OF CHINA

# РОЛЬ ЕКОНОМІЧНОЇ ДИПЛОМАТІЇ У ЗОВНІШНІЙ ПОЛІТИЦІ КИТАЙСЬКОЇ НАРОДНОЇ РЕСПУБЛІКИ

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***Abstract.*** *This article analyzes the concept of economic diplomacy in the foreign policy of the People's Republic of China (PRC) and its systemic role in expanding Beijing's global and regional geopolitical influence. The theoretical framework integrates Joseph Nye's concept of soft power and 'co-optation', John Mearsheimer's theory of offensive realism and hegemonic power, L. Poulsen's theory of bounded rationality, and the discourse on debt-trap diplomacy. The authors investigate how China deploys a hybrid foreign policy model that combines the attractive rhetoric of mutually beneficial cooperation under the Belt and Road Initiative (BRI) with coercive economic instruments and targeted sanctions, drawing on cases like rare earth export controls to Japan and trade suspensions with Lithuania. The research examines the regional dimensions of China's economic diplomacy, focusing on South Asia and the Middle East. In South Asia, the study explores the strategic creation of alternative energy and logistical routes to bypass the Malacca Strait, China's infrastructure investments in Gwadar (Pakistan) and Hambantota (Sri Lanka), and its policy of reducing India's regional dominance by drawing states like the Maldives, Nepal, and Myanmar into its orbit. In the Middle East, the paper analyzes China's 'business first' approach, its energy security investments (CNPC, SINOPEC), and its growing diplomatic role as a mediator between Saudi Arabia and Iran. It also deconstructs the 'debt trap diplomacy' narrative, contrasting it with empirical perspectives on debt restructuring and refinancing in Pakistan, Angola, and Ethiopia. The article concludes that China's economic diplomacy is a highly effective, multifaceted instrument that successfully transforms economic capabilities into strategic, military, and geopolitical advantages on a global scale.*

***Keywords:*** *economic diplomacy, foreign policy of the People's Republic of China, Belt and Road Initiative, geopolitical influence, economic coercion, debt trap diplomacy, South Asia, Middle East.*

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***Анотація.*** *Ця стаття присвячена системному аналізу концепції економічної дипломатії у зовнішній політиці Китайської Народної Республіки (КНР) та її ролі у розширенні геополітичного та геоекономічного впливу Пекіна на глобальному та регіональному рівнях. Методологічна та теоретична основа дослідження інтегрує концепцію «м'якої сили» та кооптації Джозефа Ная, теорію «наступального реалізму» та прагнення до регіональної гегемонії Джона Міршаймера, теорію «обмеженої раціональності» Л. Поулсена, а також сучасний дискурс щодо «дипломатії боргової пастки». Автори досліджують гібридний характер китайської зовнішньополітичної моделі, яка успішно поєднує привабливу риторику взаємовигідного співробітництва в межах Ініціативи «Пояс і шлях» (BRI) з інструментами прихованого економічного примусу та точкових санкцій (на прикладі обмеження експорту рідкоземельних металів до Японії та призупинення торгівлі з Литвою). Проаналізовано регіональні виміри економічної дипломатії КНР у Південній Азії та на Близькому Сході. У Південній Азії приділено увагу створенню альтернативних логістичних маршрутів для подолання залежності від Малаккської протоки, інвестиціям у глибоководні порти Гвадар (Пакистан) і Хамбантота (Шрі-Ланка), а також стратегії витіснення Індії як традиційного регіонального лідера шляхом кооптації Мальдівів, Непалу та М'янми. На Близькому Сході розкрито зміст прагматичної стратегії «бізнес насамперед», інтереси енергетичної безпеки КНР (діяльність корпорацій CNPC та SINOPEC) та зростаючу посередницьку роль Пекіна у врегулюванні відносин між Саудівською Аравією та Іраном. Особливу увагу приділено деконструкції концепту «боргової пастки» на основі порівняльного аналізу практик реструктуризації та списання боргів у Пакистані, Анголі та Ефіопії. Зроблено висновок, що економічна дипломатія виступає ключовим фактором трансформації фінансової потужності КНР у стратегічний, військовий та публічний капітал у багатополярному світі*
***Ключові слова:*** *економічна дипломатія, зовнішня політика КНР, Ініціатива «Пояс і шлях», геополітичний вплив, економічний примус, дипломатія боргової пастки, Південна Азія, Близький Схід.*

**Introduction.** Economic diplomacy is an important foreign policy tool for modern states, including the People's Republic of China (PRC), which uses it to expand its geopolitical influence and develop regional relations. The economic growth of the PRC has had a decisive impact on strengthening the geopolitical position of the PRC at both the regional and global levels. This article analyses the concept of economic diplomacy from the perspective of the PRC's foreign policy, its impact on it and its role in the development of China's relations with other countries, particularly in Asia, Africa and the Middle East.

Considering the definition of economic diplomacy, according to O. Sharov, economic diplomacy is a branch of diplomatic activity that uses economic instruments and methods to achieve a state's foreign policy goals, promoting its integration into the global economy (Sharov, 2019). It influences the regulation of global trade and investment, using economic levers to achieve both economic and non-economic (political, military) goals (Sharov, 2019). Economic diplomacy can also be seen as a strategic tool that combines economic resources with diplomatic efforts to promote national interests, as Okano-Heijmans points out. Okano-Heijmans (2011) defines economic diplomacy as a bridge between economic and foreign policy, promoting cooperation and competition at the global stage (Okano-Heijmans, 2011). In the case of China, examples of economic diplomacy include initiatives such as the Belt and Road Initiative (BRI), which uses infrastructure investment to strengthen regional ties and expand China's global influence (Shambaugh, 2013).

Analysing the role and key functions of economic diplomacy in shaping a state's foreign policy, among the main functions of economic diplomacy is the provision of timely and reliable information to national leadership on economic events abroad, the foreign economic policies of foreign governments, and the activities of international organisations. At the same time, economic diplomacy seeks to create favourable conditions for the effective integration of the country into the global economic system (Sharov, 2019). These goals are achieved through a range of tools and methods, including formal negotiations, international agreements, informal arrangements, policy recommendations, and ongoing engagement with government officials, business circles, and civil society representatives. Such instruments are a key component of diplomatic practice carried out by a state's foreign policy institutions (Sharov, 2019).

**Literature review.** While working on this research, with a view of forming a methodological and theoretical framework, the authors analysed O. Sharov's work "Economic Diplomacy: Fundamentals, Problems and Prospects" (Sharov, 2019), in which he defined economic diplomacy as a direction of diplomatic activity that uses economic instruments and methods to achieve the foreign policy goals of the state and its integration into the global economy. This approach is complemented by the research of M. Okano-Heijmans, who in the study "Conceptualising economic diplomacy" (Okano-Heijmans, 2011) described economic diplomacy as a bridge between economic and foreign policy that promotes cooperation and competition at the international stage.

Exploring the theoretical foundations of China's strategy, the authors examined Joseph Nye's concept of "soft power" (Nye, 1990) in contrast to John Mearsheimer's theory of "offensive realism" set out in his work "The Tragedy of Great Power Politics" (Mearsheimer, 2001), which explains the aggressive pursuit of regional hegemony by states. Analysing the Chinese approach, K. Koh, in his article "Chinese modernisation backed by Chinese wisdom" (Koh, 2025), analysed how Beijing uses the Belt and Road Initiative (BRI) and the Global Civilisation Initiative to promote the idea of modernisation based on historical traditions as a paradigmatic alternative to Western models. Meanwhile, H. Xiong of the Brookings Institution, in his study "Beijing's sanctions dilemma: Chinese narratives on economic coercion" (Xiong, 2024), provided a thorough analysis of how Beijing is shaping the architecture of economic coercion and increasingly using targeted sanctions to protect its political interests.

Regarding the practical implementation of Chinese initiatives, the authors analysed the concept of "debt trap diplomacy", first formulated by B. Chellaney in the article "Debt-trap diplomacy" (Chellaney, 2017), who argued that China deliberately provides excessive loans to countries in order to extort strategic concessions. In response to this criticism, Po Yu Chi, in the article "Demystifying the debt trap diplomacy fallacy in China's Belt and Road Initiative" (Chi, 2025), critically reassessed this view, using empirical data to prove that China does not systematically seize strategic assets and that the debt problems of partner countries are more often related to their internal structural weaknesses. In addition, L. Poulsen's work "Bounded rationality and economic diplomacy" (Poulsen, 2015) helped to understand the logic behind decisions in developing countries, explaining why they agree to potentially risky deals with China.

**The purpose of this article** is to analyse the concept of economic diplomacy from the perspective of China's foreign policy, its impact on it and its role in the development of China's relations with other countries, particularly in Asia, Africa and the Middle East. This study will enable a more detailed analysis of how China uses the instrument of economic interdependence to achieve its own strategic geopolitical and foreign policy goals.

**Main results of the research.** From a theoretical and practical point of view, considering the foreign policy activities and strategic interests of the PRC, several levels and methods of implementing economic influence and economic diplomacy can be identified. First and foremost, it is necessary to highlight "co-optation". This approach is based on Joseph Nye's concept of soft power - the ability of a state to shape a favourable image and attractiveness through cooperation rather than coercion (Nye, 1990). A key example in this regard is the official rhetoric of the Chinese state regarding the Belt and Road Initiative (BRI), which emphasises "mutually beneficial cooperation between states" in order to demonstrate the soft power and attractiveness of Chinese economic opportunities. However, it is important to note that the Chinese model of soft power differs from Nye's original concept, which placed greater emphasis on the role of non-state actors and cultural appeal, while the Chinese conception of soft power is rather state-centric and directly linked to China's economic system and model.

China is actively promoting the Global Civilisation Initiative (GCI) as a refutation of the long-held assumption that modernisation necessarily equates to Westernisation. Drawing on the narrative of "Chinese modernization", Beijing presents its development model as rooted in a 5,000-year-old civilisational tradition that combines economic growth with social justice, environmental sustainability and the rule of law. By emphasising concepts such as people-centred development, harmony among nations, and balance between humanity and nature, China frames its path to

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modernisation as culturally rooted and normatively distinct from Western liberal models. In this sense, the GCI promotes the idea that countries can modernise in accordance with their historical traditions and governance philosophies, rather than adopting a single Western template, thus creating a paradigmatic alternative and an attractive example for other countries and regions, particularly among the Global South (Koh, 2025). Importantly, China uses the specific outcomes of the Belt and Road Initiative (BRI) not only as instruments of soft power, but also as empirical confirmation of its development paradigm. Large-scale infrastructure projects, such as railways, ports and energy networks, are presented as tangible evidence that economic transformation and interconnection can be achieved while preserving civilisational characteristics. Through this narrative, Beijing challenges Western universalism by arguing that modernisation is pluralistic and that alternative paths based on national culture and sovereignty are viable and effective (Koh, 2025).

The next way for the state to exert economic influence is through coercion: a method of economic state policy that focuses on the coercive use of economic instruments (primarily sanctions). Since 2010, China has significantly expanded its use of economic sanctions, especially in response to threats to its sovereignty, national security or political legitimacy. According to G. Xiong, Beijing's approach is shaped both by its historical experience as a target of US sanctions and by its careful study of the US sanctions architecture. Chinese strategists often refer to unilateral sanctions as hegemonic and illegitimate, but China is increasingly using similar tools, especially targeted import restrictions implemented through regulatory or administrative measures. Cases such as the control of rare earth exports to Japan and the suspension of trade with Lithuania illustrate how Beijing uses economic leverage primarily in a reactive mode, often as a result of disputes over territorial or politically sensitive issues (Xiong, 2024)

A defining feature of China's coercive economic policy is the preference for targeted measures over comprehensive sanctions. Chinese analysts consider targeted sanctions to be more effective because they minimise economic damage to China and leverage the size of the Chinese market to pressure foreign companies into lobbying their governments. At the same time, Beijing's policy implementation style is often informal and opaque, relying on administrative directives rather than clearly codified sanctions regimes. While this ambiguity provides plausible deniability and flexibility, internal debates increasingly emphasise the need for a more institutionalised legal framework. Recent legislation, including the Countering Foreign Sanctions Law and the Unreliable Entity List provisions, suggests that China may be moving toward a more formalised and potentially proactive use of economic coercion as part of its broader foreign policy toolkit (Xiong, 2024).

Another approach in the context of implementing a state's economic diplomacy is the so-called hegemonic (Mearsheimer's offensive realism). This approach is based on J. Mearsheimer's theory of offensive realism, which argues that countries that gain geopolitical influence and weight will aggressively seek hegemony at the regional level in order to ensure their own security in an anarchic system (Mearsheimer, 2001). From this point of view, the aforementioned BRI is a global strategy aimed at creating a Chinese sphere of influence, reformatting the Eurasian continent, and challenging the dominance and influence of the United States, particularly at the regional level in the Pacific region, especially in terms of supply routes and logistics, which are, in fact, the cornerstone of this initiative (Mearsheimer, 2001).

The next theoretical approach within the framework of implementing state economic policy is the theory of bounded rationality. L. Poulsen's theory of “bounded rationality” in economic diplomacy helps to understand why developing countries agree to deals and possible loans (such as within the framework of the BRI) that may initially seem disadvantageous (Poulsen, 2015). According to this theory, politicians who act on the basis of incomplete information and cognitive biases often overestimate the benefits of possible agreements while ignoring the possible risks (Poulsen, 2015). This is important in the context of narratives about co-optation or coercion, as the main focus in this context is on decision-making processes in countries that receive or may receive external assistance, in this context from the PRC.

Overall, the economic and geopolitical model of China's state policy can be characterised as a hybrid model that simultaneously uses soft power (Nye) to promote hard hegemonic goals (Mearsheimer). The Belt and Road Initiative is a striking example of this hybrid approach: the official rhetoric of the BRI is focused on ‘soft power,’ while certain actual results, such as the debt dependence of recipient countries and the loss of control over strategic assets, correspond to Mearsheimer's "offensive realism". Poulsen's concept of "bounded rationality" also explains the actions and logic of recipient countries, focusing not only on China but also on the states receiving aid from China (Poulsen, 2015). Therefore, in general, it can be concluded that among the above-mentioned methods and instruments of economic influence, Beijing uses a certain combination of co-optation and hegemony methods, combining the key characteristics of both approaches in order to achieve China's increased influence at the economic and geopolitical levels in the international arena. While analysing the role of economic diplomacy and its impact on the foreign policy of the People's Republic of China, it is worth noting that over the past three decades, China's average GDP growth rate has exceeded 10%, making it the world's second largest economy (Zreik, n.d.). Rapid economic growth has allowed China to reorient its foreign policy towards protecting and promoting economic interests, in particular through economic diplomacy.

The PRC's persistence in achieving its declared strategic goal of creating a harmonious society is reflected in the country's economic diplomacy. Through its policies, it has created a favourable environment in which countries can interact at both the bilateral and multilateral levels to cooperate in various areas, including the economy, technology, industry, infrastructure development (Laila et al., 2024). Beijing is an active member of many multilateral formal and informal groups, such as the G20, G77 plus China, BRICS and FOCAC (Forum on China-Africa Cooperation), which shows the success of its diplomacy. These multilateral groups aim to promote economic and diplomatic interaction between member countries (Laila et al., 2024). China's role as a mediator between Saudi Arabia and Iran is another example of Beijing's interest in promoting regional stability and prosperity. The PRC is the largest trading partner of both Iran and Saudi Arabia. Beijing imports 40% of its oil from the Middle East. The Middle East also gains enormous trade and investment opportunities under the BRI, while China has also demonstrated its willingness to share its experience in areas such as telecommunications, artificial intelligence and other high-tech fields (Laila et al., 2024). In the first 10 years (2013-2023) of the BRI's existence, the PRC has invested a huge amount of money in various projects under this initiative - US$1 trillion. It clearly defines how Beijing is making huge investments in more than 154 countries, following its desire for prosperity and development on Earth (Laila et al., 2024).

However, in this context, from an economic point of view, it is also worth analysing the so-called "debt trap diplomacy", first formulated by B. Chellaney, which argues that China deliberately provides excessive loans to countries in order to lure them into a trap, and then demand strategic concessions from China in the event of non-fulfilment of their obligations (Chellaney, 2017). A striking example is the example of Sri Lanka, which was forced to transfer control of the aforementioned Hambantota port to China on a 99-year lease due to its inability to meet its debt repayment deadlines. Critics therefore perceive China's economic activity as a "carrot and stick" or "debt trap" approach, characterising it as a "pseudo-coercive" strategy rather than benevolent diplomacy (Siyam, 2024). This criticism suggests that although Chinese loans and aid may appear to be normal diplomatic gestures, they serve as a means of financial destabilisation and control over recipient countries. This dynamic calls into question Nye's concept of a positive-sum game based on cooperation and is more in line with Mearsheimer's realistic perspective, which presents international relations as a struggle for hegemony, potentially at the expense of other states, inevitably leading to a zero-sum game (Siyam, 2024).

However, there is an opposing view on this issue: in an article by Po Yu Chi, the widespread view that China's Belt and Road Initiative (BRI) is "debt trap diplomacy" is critically re-evaluated, arguing that this view oversimplifies the complex realities of development finance and global political economy. It is argued that although the BRI has raised concerns about sovereign debt sustainability, empirical evidence does not support the claim that China systematically provides loans with the aim of deliberately capturing strategic assets. Instead, the article considers the BRI in the broader context of development finance, highlighting its role in addressing infrastructure challenges in more than 140 participating countries. Drawing on examples from Pakistan, Angola, and Ethiopia, as well as data from institutions such as the World Bank and the Rhodium Group, the study shows that debt problems in partner countries are more often linked to internal structural weaknesses, macroeconomic instability, and external shocks than to deliberate coercion by China. Moreover, China often engages

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in debt restructuring, refinancing and loan write-offs rather than asset seizures, which calls into question the basic assumptions of the "debt trap" (Chi, 2025). Thus, China's transformation into a global economic superpower has had a tangible impact on the change in the PRC's foreign policy discourse, where economic diplomacy serves as one of the main tools for strengthening China's economic and geopolitical influence.

Regional dimension. While characterising China's economic diplomacy, M. Zreik highlighted three main characteristics: first, it participates in commercial and trade operations without interfering in the internal affairs of other countries. Second, it uses political and diplomatic tactics to support economic expansion abroad, using business contacts to gain diplomatic support on issues such as human rights, Taiwan and Tibet in some regions, often using political measures to achieve economic goals in the Arab world. For example, throughout the 21st century, China's foreign policy in the Middle East and North Africa has focused on expanding export markets and investment opportunities. Thirdly, there is an emphasis on infrastructure development as part of the Belt and Road Initiative (Zreik, n.d.). China has invested billions of dollars in Belt projects and signed agreements with more than 100 countries, including many in the MENA region. Through this initiative, China seeks to expand its economic and strategic influence while addressing excess domestic capacity and providing Chinese firms with access to foreign markets (Zreik, n.d.).

The development of economic cooperation at the regional level is extremely important for China in terms of successful economic diplomacy. One of the centres of Chinese influence is South Asia, where the PRC currently dominates most South Asian countries. All this has been made possible by a strategic approach to the use of its economic resources and geopolitical influence (Siyam, 2024). China's foreign investment strategy is primarily aimed at ensuring the security of fuel supplies, which is a critical component of the country's economic stability. Currently, approximately 85% of the fuel supplied to China via the Strait of Malacca to the port of Shenzhen on the east coast comes mainly from the Middle East, as the country's west coast has no access to the sea. This dependence on a single sea route creates significant risks due to geopolitical tensions and potential disruptions (Siyam, 2024). To reduce this risk, China is actively implementing projects to create alternative access points.

In South Asia, China is achieving dominance through economic resources. According to D. Shambaugh, China's investments in South Asia, particularly under the Belt and Road Initiative, have changed the regional dynamics by reducing India's traditional influence (Shambaugh, 2013). Projects such as the Gwadar Port in Pakistan, the Hambantota Port in Sri Lanka, and the Padma Bridge in Bangladesh (US$2.6 billion), in addition to fulfilling a strategic goal in terms of facilitating imports and exports, are also being carried out by Chinese companies, which returns a significant portion of the investment to China (Siyam, 2024). Moreover, the biggest share of this funding takes the form of loans with high interest rates, which means that a significant portion of the borrowed funds is returned to China, albeit at significantly inflated rates. According to the Associated Press, many developing countries have large debts to China, as up to 50% of their external loans come from Chinese sources, and a significant portion of government revenues is directed towards servicing these debts (Siyam, 2024).

In addition to direct economic benefits, these projects provide strategic and military advantages, in particular through the creation of seaports that provide China with convenient access to the Indian Ocean for both commercial and, at times, military purposes (Siyam, 2024). Given the Indian Ocean's key role in global trade and commerce, with one-third of all trade passing through its waters, it has become an arena of intense competition not only between regional powers such as India and China, but also between global players such as the United States. The use of ports in various South Asian countries accelerates the People's Liberation Army (PLA) of China's critical access to the Indian Ocean, thus challenging the dominance of its rivals in the region (Siyam, 2024). Moreover, many argue that Chinese economic diplomacy aims to reduce India's influence in South Asia while promoting a 'China-centric' approach. India has traditionally been the dominant regional power in South Asia, with Pakistan as its main military rival, but unable to challenge India's influence in other South Asian countries, with the possible exception of Afghanistan. However, the emergence of China has significantly changed this dynamic (Siyam, 2024). Countries such as the Maldives, Nepal, Sri Lanka and Myanmar, which were previously considered to be under India's strong influence, are now witnessing a significant influx of Chinese investment. As a result, they have not only left India's sphere of influence, but in some cases have taken an anti-Indian stance (Siyam, 2024). China's approach in this regard is consistent with Mearsheimer's theory of "offensive realism", which argues that states aggressively seek power in order to weaken their rivals and reduce potential threats. By expanding its influence in South Asia through economic means, China is not only challenging regional leaders such as India, but also asserting its dominance in strategically important regions, in line with the principles of offensive realism (Siyam, 2024). China's use of economic resources in South Asia is a striking example of this principle: through skilful manoeuvring, China has not only used its economic power to accumulate economic might, but has also developed military, strategic and soft power.

Chinese economic diplomacy is not uniform and is based on a strategic philosophy of 'business first,' which prioritises economic growth. In diplomatic relations with Arab countries, commercial rather than security issues are prioritised (Zreik, n.d.). Amid the ongoing Arab uprisings, China has taken a pragmatic approach aimed at maximising economic benefits with minimal political risks. Since the early 2000s, China's economic diplomacy has shifted its focus from industrialised countries to developing countries, particularly the energy-rich Arab states. Compared to developed economies, the resource-rich Arab countries of the Persian Gulf and North Africa offer potential new markets for China's surplus capital and industrial goods (Zreik, n.d.). Undoubtedly, an extremely important factor in China's involvement in the region is energy, namely stable and uninterrupted access to energy resources at prices favourable to the PRC. Chinese national oil companies such as CNPC and SINOPEC play a significant role in China's economic diplomacy in the Arab world, investing heavily in oil fields in Iraq, Sudan and Saudi Arabia, aligning their strategies with China's globalisation goals (Zreik, n.d.). Overall, China's approach in the Middle East from a geopolitical and economic point of view can be characterised as positioning the PRC as a reliable, predictable and influential partner focused on regional stability, given the predictable and favourable economic and trade conditions between the PRC and the states of the region.

**Conclusions.** Thus, it is essential to highlight the role of economic diplomacy as one of the key factors in the economic rise of the People's Republic of China, as well as the growth of Beijing's geopolitical influence at both the regional and global levels. From a conceptual point of view, it can be concluded that China uses economic instruments to achieve its own strategic goals in foreign policy, with the help of which the PRC strengthens its position both at the regional level (South Asia) and at the global level (the Middle East and the world as a whole). Throughout the 21st century, China has effectively used economic diplomacy to strengthen economic and political cooperation with other countries. A striking example of this is the Belt and Road Initiative, through which China has not only strengthened its position in various regions of the world from an economic point of view, but has also enhanced the level of diplomatic and foreign cooperation at the bilateral and multilateral levels. That is why economic diplomacy can be considered one of the factors strengthening the geopolitical status and influence of the People's Republic of China.

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