New Development Strategies of China's Foreign Economic and Trade Relations: Taking Sino-Irish Economic and Trade Relations as an Example

Wenyue Lu* & Zhenhua Liu

School of English Studies, Dalian University of Foreign Languages

Abstract

Under the current severe and complex international situation, China is facing new challenges in foreign economic and trade relations. Starting from the perspective of transaction costs in international relations, this paper analyzes China, Ireland and their respective agreement organizations and supply chain zones under the framework of global value chain, and explores the necessity and feasibility of developing new economic and trade relations under the background of great power games. Taking Ireland as an example, it puts forward strategies such as playing the third country effect, developing third-party market cooperation, taking advantage of the tax policy of the member countries of relevant international organizations, and strengthening bilateral agricultural cooperation.

Keywords: Economic and Trade Relations; Transaction Costs; Value Chain; Ireland

1. Theoretical Framework: Transaction Cost Theory

Transaction costs constitute a core concept in new institutional economics. Transaction cost economics and transaction cost politics have been applied by numerous scholars to research in the field of international relations. Anarchism and self-organization are prominent characteristics of the international order. During the Cold War, realist international relations theory analyzed great power rivalry through non-cooperative game models. In the era of globalization, cooperative games and alliance concepts have been employed to examine inter-state relations and integration organizations. Theoretically, the analytical shift from non-cooperative to cooperative games represents a study of bargaining. The intersection where supply and demand sides bargain in non-cooperative games constitutes the “core” in cooperative games. Within the framework of new institutional economics, bargaining, ex ante search, ex post monitoring, and ex post recourse all represent concrete manifestations of transaction costs. In the realm of international relations, key factors influencing these transaction costs include the number of actors, power structures, levels of specialization, the degree of sovereignty protection, and the transparency of intentions. According to Kronman's (1985) classification, transaction costs in integrated organizations involve two dimensions: defending and enforcing international agreements. Defending international agreements primarily encompasses four aspects: collateral, guarantees, collusion, and alliances. Enforcing international agreements mainly involves five dimensions: termination, tit-for-tat, power balance systems, hegemonic stability, and hegemonic cooperation. Tian Ye (2002) posits that transaction costs in interstate relations refer to the expenses or costs incurred by states when transferring rights to obtain information about the other party and the environment, and to prevent opportunistic behavior. Factors such as information asymmetry, adverse selection, and moral hazard in international relations generate a series of transaction costs, including information costs, costs of defining rights, and costs of monitoring and punishment. Key factors influencing these transaction costs include the number of actors, power structures, degree of specialization, sovereignty safeguards, and transparency of intentions.2

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Transaction costs in international relations manifest in bilateral and multilateral contractual relationships. The incompleteness of contracts further generates costs associated with negotiation and renegotiation, implementation and oversight of agreements between states or international organizations, and compliance versus breach costs in goods and services trade.

2. Research on China-Ireland Relations

Current studies on China-Ireland relations primarily cover education, industry, media, and trade. Cheng Hui et al. (2017) suggest that in response to Brexit's impact, China should leverage Ireland as a crucial springboard and gateway to the EU market. By capitalizing on Ireland's strengths in financial services, telecommunications, pharmaceuticals, agriculture, and renewable energy industries, China can deepen its engagement in the EU's third-party markets. Wu Ning and Qi Xiaoying (2017) contend that Brexit has introduced significant uncertainty to Ireland's financial services sector, necessitating enhanced cooperation in policy, market access, regulatory tools, and oversight. Wang Lili (2016) suggests China should leverage Ireland's strengths in attracting foreign investment to facilitate corporate entry into the EU market through direct investment channels. Lu Yanan et al. (2015) argue that Ireland's fisheries sector features high quality, advanced mechanization, low output, and limited international markets. Promoting Sino-Irish cooperation in fisheries would not only help Ireland expand into the Chinese market but also enhance the technological sophistication of China's fisheries industry. Zhou Lu and Leng Demu (2013) observed that in services trade, China surpasses Ireland in import value, export value, and trade deficit, yet lags significantly in the proportion of services exports relative to total exports. In terms of trade structure, Ireland's service exports are predominantly knowledge- and technology-intensive, featuring a rational structure and high value-added exports. In contrast, China's exports remain labor- and resource-intensive, with relatively low value-added. Ma Liangjun et al. (2020) proposed drawing on Ireland's successful experiences in education internationalization, digitalization, and industry-education integration. They also advocated actively integrating into the development and expansion of international vocational education standards through collaborations with overseas institutions and establishing overseas colleges. Tian Ju (2017) analyzed Irish media coverage of China over the past 15 years, concluding that within the Irish mainstream media's perspective, China's image as a positive, influential, and responsible major power has largely taken shape. Simultaneously, it is imperative to strengthen China's capacity for international cultural communication in accordance with the requirements of “enhancing international communication capabilities and building an external discourse system,” thereby further bolstering the expressiveness and dissemination power of its external discourse.

Evidently, the aforementioned studies were conducted against the backdrop of globalization and traditional economic frameworks. However, under current circumstances, factors such as deglobalization, international tax competition, the rise of the digital economy, industrial chain relocation, and the restructuring of global value chains are profoundly impacting China-Ireland bilateral relations. Therefore, paying attention to these new endogenous variables is not only conducive to further enhancing bilateral ties but also crucial for China's relations with major Western nations within the global value chain division system. As a vital hub in the global value chain and a key gateway to the EU, Ireland operates within multiple international contractual frameworks. These encompass both horizontal agreements involving multilateral and bilateral dimensions under globalization, as well as vertical agreements between alliances and members within regional economic integration. This implies that by establishing multidimensional interactions—including policy coordination, infrastructure connectivity, trade facilitation, financial integration, and people-to-people bonds—China and Ireland can reduce transaction costs in their economic and trade relations, thereby consolidating and advancing bilateral ties. Against this backdrop, this paper examines the primary factors influencing China-Ireland economic and trade relations and proposes corresponding strategies within the framework of transaction costs in international relations.

3. Third-Country Effects and Third-Party Market Cooperation: The Case of China-Ireland Economic and Trade Relations

3.1. Fundamentals of China-Ireland Economic and Trade Relations

Since establishing diplomatic ties in 1979, China and Ireland have consistently adhered to the principles of “mutual respect for sovereignty and territorial integrity, non-interference in each other's internal affairs, and equality and mutual benefit.” The two countries have engaged in friendly cooperation across various fields including economy, trade, education, agriculture, science and technology, and innovation, jointly propelling bilateral relations toward leapfrog development.

Currently, China has become Ireland's largest import source in Asia, its third-largest export market for food and beverages, and its second-largest export market for dairy products and pork. China has fully leveraged Ireland's industrial and geographical strengths as Europe's software hub and a global center for pharmaceutical production and export, building complementary China-Ireland and China-Europe economic ties within the global value chain. In March 2017, Ireland formally joined the Asian Infrastructure Investment Bank and launched the second phase of the China-Ireland Technology Growth Fund worth $300 million the following year.

In 2020, confronting the sudden COVID-19, China and Ireland further strengthened medical cooperation to jointly combat the disease while deepening economic and trade collaboration to mitigate the pandemic's impact on both nations' economies and societies. During this period, Ireland urgently procured large quantities of medical supplies—including masks, protective suits, ventilators, and test kits—through Chinese authorities and enterprises such as China Resources Pharmaceutical. The Health Service Executive (HSE) of Ireland has positively evaluated the procurement of medical protective supplies from China. Concurrently, Ireland emerged as China's largest supplier of imported human vaccines, accounting for 42.18% of total imports in the first half of 2020—significantly higher than the second-largest supplier, the United States (23.41%). Furthermore, China and Ireland have actively explored post-pandemic economic and trade cooperation. At the China International Fair for Trade in Services held on September 4, twelve Irish companies and universities participated through online and offline channels, covering key service trade sectors such as education, tourism, food, and environmental protection.

3.2. Ireland's Tax Policy Advantages

Overall, Ireland's tax competitiveness has weakened, but its policy advantages remain pronounced. The Tax Competitiveness Index report shows that in the 2019 global tax competitiveness rankings, Ireland's overall tax competitiveness ranked 17th worldwide, down three places from 2018 and lower than in previous years. The country's tax policy advantages are primarily reflected in: the lowest corporate income tax rate among EU countries (12.5%); no capital weakening provisions; and the ability to carry forward net operating losses (NOLs) indefinitely for tax credits. These factors maintain Ireland's strong competitiveness within global value chains.

Despite four consecutive years of decline in corporate tax competitiveness, Ireland's 12.5% rate remains significantly below the OECD average corporate tax rate (23.6%), with its standard deviation (2.03) falling within the average standard deviation range (5.4%). Ireland's competitiveness in international tax systems has significantly improved, rising from 21st place in 2018 to 13th place. This advancement is primarily driven by Ireland's competitiveness in international tax regulation, which climbed from 4th place in 2018 to 1st place. Under the regulatory framework, Ireland will impose income tax on all non-genuine transaction arrangements of Controlled Foreign Corporations (CFCs), with exceptions including: (1) transactions below specified profit levels and income thresholds, (2) cases where transfer pricing rules apply, and (3) transactions passing the substantive purpose test. Additionally, while Ireland imposes interest deduction limitations, it allows interest to be reclassified as dividends under specific circumstances. However, Ireland maintains the highest dividend tax rate among OECD countries at 51%, with a 20% withholding tax on dividends. Furthermore, Ireland exempts capital gains tax but not dividend tax for the 73 countries with which it has tax treaties. Consequently, the country's competitiveness in dividend and capital gains relief declined by one position in 2019. Furthermore, Ireland's competitiveness in both consumption taxes and personal income taxes remained comparable to 2018 levels. Its consumption tax rate competitiveness declined by one position, while its tax base competitiveness improved by one position. Notably, its 23% VAT rate remains among the highest in OECD countries, and its consumption tax base is relatively narrow at 49.9%.

Notably, Ireland's competitiveness in property taxation improved by one position, with the largest gain occurring in capital transaction taxes—rising from 18th to 8th place. Correspondingly, Ireland's housing price index ranks second in the EU behind only Hungary and has consistently remained elevated. This reflects Ireland's clear tendency to stimulate domestic demand by promoting real estate transactions while adhering to international rules. In fact, Ireland's property taxes are the most competitive compared to both the “PIIGS” countries and the core eurozone nations. However, in terms of supply-demand price elasticity, stimulating real estate development when the economy is near full employment can easily fuel property bubbles, leading to excessive future fiscal dependence on land revenues. Evidently, Ireland's tax incentives primarily manifest in corporate tax policies and the corresponding “Two-Tier Ireland” structure. Yet, as international BEPS governance tightens, Ireland is structurally adjusting its tax framework—presenting both challenges and opportunities for Chinese enterprises.

3.3. Ireland's Industrial Advantages

The COVID-19 pandemic has placed the world at risk of food shortages in the coming years. The United Nations World Food Programme and the Food and Agriculture Organization noted in their Early Warning Report on Hotspots of Severe Food Insecurity that “at least 25 countries face a high risk of severe famine this year, with the world on the brink of its worst food crisis in 50 years.” Following the pandemic, countries including Russia, Vietnam, Egypt, and India have successively restricted or even halted grain exports, posing significant challenges to nations heavily reliant on food imports. According to the China Agricultural Industry Development Report, by 2035 China aims to ensure “absolute security in staple food and basic self-sufficiency in grain,” with self-sufficiency rates for major livestock and aquatic products remaining above 90%. However, it should also be noted that due to the COVID-19 pandemic and international circumstances, China will face a “tight balance” in the supply and demand of agricultural by-products and feed, including grain, pork, and raw milk, in the long term.

Ireland ranks among the world's major producers of agricultural byproducts, aquatic products, food, and beverages, demonstrating strong competitiveness in meat, dairy products, and food additives. Following the EU's abolition of dairy production quotas in 2015, Ireland's dairy ingredient exports surged rapidly, accounting for the highest proportion of its total agricultural exports at 30% and sustaining sustained high-speed growth. Conversely, Ireland has increasingly become a major importer of animal feed. Currently, China ranks as Ireland's fifth-largest agricultural export market, with food and beverages ranking third and dairy products and pork ranking second. Under Ireland's 2020 Food Harvest Plan and 2025 Food Smart Plan, the country is committed to ensuring high-quality and efficient agricultural production while strengthening natural resource conservation to achieve green and efficient farming practices. Strengthening agricultural trade and supply chain development between China and Ireland will not only further stabilize China's agricultural supply-demand balance and ensure the availability of high-quality agricultural products but also promote domestic employment and economic growth in Ireland.

Under the Ireland Agricultural Development Plan (2007-2020), the Farm Capital Investment Program aims to encourage broad investment in agricultural and rural physical assets, helping farmers enhance operational efficiency, competitiveness, and sustainability in agriculture. Additionally, the Rural Development Action Linkage Scheme (LEADER) promotes cooperative farm management models. Regarding agricultural land, Ireland's current legislation imposes no restrictions on foreign capital purchasing domestic land. Thus, Chinese enterprises can acquire ownership or lease rights to Irish farmland through purchase or lease agreements, thereby enhancing the efficiency of the China-Ireland agricultural supply chain.

3.4. Ireland's Third-Country Effect

Amid the COVID-19 pandemic, the global order and its governance mechanisms are shifting toward a tripartite model involving the US, Europe, and Asia. Ireland occupies a pivotal hub position within this framework. Economically, China and the US collectively account for approximately 40% of global GDP, serving as the cores of their respective North American and Asian regional supply chain systems. This interdependence means that deteriorating Sino-US relations would inflict significant damage on the world economy—an outcome no nation desires. On the other hand, other economies accounting for 60% of global GDP—including the EU and Japan—may strategically leverage the “third-country effect.” Ju Jiandong (2020) argues that in response to U.S.-led “decoupling,” China could build a regional alliance in Asia through “unilateral opening, bilateral negotiations, and orderly entry of other nations.” Liu Ru and Zhao Tiejun (2020) propose upgrading regional value chains to counter global value chain restructuring, while advancing multilateral cooperation mechanisms to guide global value chain development. Concurrently, China should actively seize opportunities presented by the Belt and Road Initiative, strengthen cooperation across sectors, and establish multi-temporal, multi-domain platforms for openness and collaboration.

Regarding third-country effects, Ireland's biomedical chemical industry and information and communications technology sector represent key competitive strengths. Primarily concentrated in Dublin, Cork, Limerick, and Galway, these industries play a vital role in the nation's technological innovation and economic growth, making them priority areas for China-Ireland cooperation. Through years of dedicated effort, Ireland has accumulated substantial research advantages in its biotechnology sector, centered on healthcare and agri-food. It has evolved into one of the world's biopharmaceutical hubs and the largest pharmaceutical exporter globally. Notably, nine of the world's top ten pharmaceutical companies have established manufacturing facilities in Ireland. China's WuXi Biologics plans to invest €325 million in Dundalk to build a new biopharmaceutical production base. In the ICT sector, all top ten global ICT multinationals have established operations in Ireland. Microsoft, Intel, and Dell rank as the top three software exporters in the country. Ireland boasts advanced internet infrastructure and telecommunications systems, with roaming agreements in place with Chinese telecom companies enabling the use of Chinese mobile phones. Major telecom operators include Eirtel, Vodafone, and BT. In 2013, the China-Ireland Technology

Growth Fund was established with equal contributions of $50 million each from China Investment Corporation and Ireland's National Pension Reserve Fund. This fund facilitates investment by Chinese high-tech enterprises in Ireland and provides a gateway for EU investment through the country. In 2018, the fund's second phase commenced with a total value of $300 million. This demonstrates that Chinese high-tech and biotechnology enterprises can leverage Ireland's competitive advantages in these sectors and its third-country effect to identify alternative suppliers in high-tech fields. This approach mitigates the impact of U.S. sanctions while simultaneously enhancing their independent R&D capabilities.

3.5. Prospects for China-Ireland Third-Party Market Cooperation

Third-party market cooperation represents a new multilateral economic and trade collaboration model between China and major developed economies in third-party markets. It aims to strengthen international industrial capacity cooperation, expand areas of shared interest, and implement the development philosophy of “consultation, joint contribution, and shared benefits.” In 2015, China and France signed the Joint Statement on Third-Party Market Cooperation, first introducing this concept. To date, China has engaged in such cooperation with over ten countries including France, Germany, and Italy. The 2019 Government Work Report of the State Council first listed “strengthening international capacity cooperation and expanding third-party market cooperation” as a key priority for advancing the Belt and Road Initiative. Third-party market cooperation is characterized by multidimensional markets and diverse models. On one hand, various integration agreements have established multilateral trading platforms, forming a multi-tiered strategic partnership that transcends traditional third-party trading platforms. On the other hand, it combines government and private capital, with industry-finance cooperation as the primary model. This encompasses traditional contracting models for infrastructure projects—such as PPP, EPC, BOT, and BT—while also extending to various hybrid contractual arrangements within supply chain relationships.

In terms of market dimensions, Ireland's dual membership in the WTO and the EU enables it to access both global and regional markets. Exports to other EU countries account for approximately half of its total exports. Additionally, the United States is one of Ireland's major export markets. Through regional trade agreements signed by the EU with numerous countries, Ireland's market reach extends even further. Regarding investment models, the Irish government encourages Public-Private Partnerships (PPP) in infrastructure development. This involves private enterprises funding national projects and participating in post-completion management and operations. This model is now widely adopted for most foreign-funded engineering contracts, taking forms such as BOT, DBO, DBOF, DBOMF, and DBOM. Relevant laws and regulations in this sector adhere to EU legal principles governing PPPs. Under the Department of Public Expenditure and Reform, the Irish government established the Central PPP Policy Task Force and the National Development Finance Agency, dedicated to PPP policy formulation and project management. Currently, Chinese enterprises have not undertaken engineering contracts in Ireland but may explore third-party market cooperation through PPP/BOT models. Notably, certain Irish projects—including defense facilities, prison infrastructure, and historical/cultural sites—are constructed by designated engineering firms. For foreign-invested construction projects, developers must first obtain planning permission from local authorities before commencing work. Non-EU employees hired for such projects require valid work permits. It is evident that China and Ireland can engage in third-party market cooperation through various models like PPP/BOT under the frameworks of the WTO, the EU, and Belt and Road countries. This collaboration enables Chinese enterprises to leverage Ireland as a key hub for deepening their presence in the EU market and integrating into the global value chain system based on the principle of mutual benefit and win-win outcomes.

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Author Biography

1. Wenyue Lu: PhD Candidate; assistant professor at the School of English Studies, Dalian University of Foreign Languages. He is also a researcher at the Irish Studies Center. His research interests include country-specific economics, general economics, and game theory.

2. Dr. Zhenhua Liu: assistant professor at the School of English Studies, Dalian University of Foreign Languages. Her research focuses on management science and engineering, strategic management, and cross-border e-commerce.

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Acknowledgements

This paper represents a phase outcome of the Dalian Federation of Social Sciences' 2025 Key Project, “Research on Ireland's Identity Construction and National Discourse Authority in the ‘Post-Globalization Era’” (2025dlskzd311) and the Liaoning Provincial Social Science Fund Project, “Research on Participation Methods and Intentions of Small and Medium-Sized Manufacturing Enterprises in Liaoning Regarding Cross-Border E-Commerce for Export” (LJKMR20221544)

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