Book Review: Chinese Economic Statecraft: Commercial Actors, Grand Strategy and State Control by William J. Norris

9/7/2016

In **Chinese Economic Statecraft: Commercial Actors, Grand Strategy and State Control***,* **William J. Norris** *examines how states use economic tools to pursue foreign policy objectives, focusing on the case of China. Although* **Raj Verma** *is not fully convinced by all the examples used to evidence the book's central argument, Norris offers important insight into the various tools, mechanisms, processes and actors involved in the execution of China's economic statecraft.*

***Chinese Economic Statecraft: Commercial Actors, Grand Strategy and State Control*. William J. Norris. Cornell University Press. 2016.**

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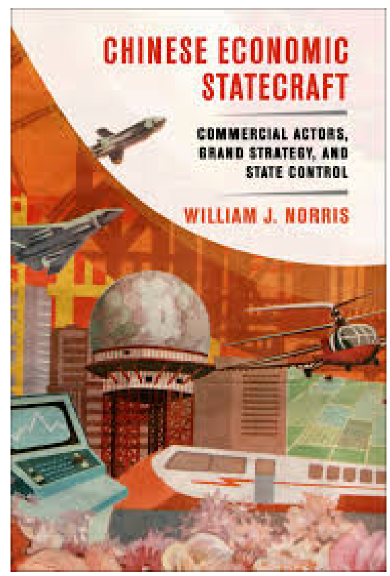

William J Norris's book *Chinese Economic Statecraft: Commercial Actors, Grand Strategy and State Control* distinguishes between China's economic diplomacy and its economic statecraft and, as the title suggests, focuses on the latter. Norris asserts that he has made a theoretical contribution to the existing literature on economic statecraft in general and China's economic statecraft in particular. He avers that his conceptual framework can be applied not only to other mixed economies like Russia, India and Brazil among others, but also to countries with different political economies. The book provides an important insight into the various tools, mechanisms, processes, actors and their role in the decision-making and execution of China's economic statecraft and in achieving China's grand strategy.

Simply defined, economic statecraft is the use of economic tools to achieve foreign policy objectives. For instance, in March 2012, China banned the import of bananas from the Philippines after a flare-up in contested waters around Scarborough Shoal in order to pressurise the Philippines to give up its claim. This contrasts with economic diplomacy, defined as the decision-making, policy-making and advocating of a state's business interests. It requires the application of technical expertise to analyse the effects of a country's economic situation on its political climate and on economic interests; WTO and climate change negotiations or trade agreements are examples of economic diplomacy.

Having outlined this distinction, the book examines the key literature on economic statecraft both in Western and Chinese academia, most especially the pioneering work by David Baldwin in *Economic Statecraft* (1985). The existing literature on economic statecraft positions the state as a unitary actor that can control its international behaviour. Norris relaxes this assumption and opens up the black box of China's party-state system (Chapter Two). His study focuses more on state control of different commercial actors, such as China's state-owned enterprises (SOEs), national oil companies and Sovereign Wealth Funds (discussed as case studies from Chapters Four to Ten) and the (in)ability of the state to use these actors as tools to achieve its foreign policy objectives. He employs agent-principal theory to explain the above phenomena.

According to Norris, there are five factors which reflect the business-government conditions under which the government can control commercial actors: the compatibility of the goals between the state and commercial actors;

commercial market structure; state unity; the relationship between the state and the reporting firm; and the relative distribution of resources between the state and commercial actors.

Image Credit: Skyline, Shanghai, China (Travis Wise CC BY 2.0)

Norris's book is an attempt at theory development. There are two approaches to develop a theory: inductive and deductive. In the latter, a conceptual and theoretical structure is developed and then tested by empirical observation, whereas in the former, theory is developed from the observation of empirical reality. This book combines both approaches. Theory development also necessitates case study analysis and process tracing, with the latter used to establish cause and effect relationships by focusing on 'sequential processes' (George and Bennett 2004).

Has Norris come up with a theory to explain China's economic statecraft? The answer is both yes and no. Norris has formulated an excellent conceptual framework using the agent-principal theory, which is well-articulated in the book; conceptually it is also very strong. However, in theory development, the most difficult case is the extreme case where process tracing 'attempts to trace the links between possible causes and observed outcomes' (George and Bennett 2004: 6). This is where unfortunately Norris's account has weaknesses.

The extreme case concerns the operations of China National Petroleum Corporation (CNPC) in Sudan (Chapter Four). The evidence provided by Norris to illustrate state control and state unity is circumstantial: there is an association but it fails the double decisive test because it does not meet both the necessary and sufficient conditions. Norris asserts that after 2007 the state had considerable control over the operations of CNPC and funding to banks, hence it could control/regulate the operations of commercial actors. In 2009, the government undertook a colossal stimulus in the wake of the global financial crisis to the tune of ten trillion RMB – more than one-third of the GDP – to sustain economic growth (Naughton 2015: 121). This led to bad loans and created asset bubbles in the economy. If the state had control over the lending operations, this would not have materialised. Moreover, CNPC is the largest oil company in China and has no dearth of funds. It is ranked in the top five Fortune 500 companies in the world and, according to analysts and industry experts, is richer than a bank. Norris confirms that the three Chinese oil companies – CNPC, Sinopec and CNOOC – have been carved out of ministries, that the heads of these companies have ministerial ranks and that China does not have an oil and gas ministry: these contradict his claim of state control over CNPC.

Luke Patey has provided an in-depth discussion of CNPC's operations in Sudan and China's political economies, especially the role played by Zhouk Yongkang, member of the Politburo Standing Committee (PSC) and the Secretary of the Central Political and Legal Affairs Commission (2007-12). Yongkang has also held powerful positions in the CCP and the government. He started his career as an oil man and was at the helm of CNPC from 1996-98; as Norris agrees, officials take their informal networks to their new positions. According to Patey, he played a very important role in championing CNPC's cause domestically and internationally and provided his patronage to CNPC, which enabled it to enjoy privileges and flourish not only in Sudan but also domestically. However, Norris undermines and ignores his own assertions of the role of informal networks or *guanxi*.

Additionally, Norris states that the provision of credit at less than the international market rate to other countries is evidence of China's economic statecraft (181). According to economists and industry experts, Chinese commercial actors, most especially the CNPC and Sinopec and to a lesser extent CNOOC, are not interested in the rate of return but in the size of the asset. Moreover, EXIM Bank and other banks can provide loans at less than the market rate because they are able to get capital from households at a negative rate of return (Verma 2016).

Similarly, in Chapter Seven, Norris provides an in-depth analysis of China's ban on the exports of fruits produced in the Democratic People's Party (DPP) (which seeks independence for Taiwan) stronghold in Taiwan. The intention was reduce DPP's support base in the banana-producing areas. He uses data from different sources as well as negation to show that the ban did lead to lower votes for the DPP in those regions. However, he is unable to illustrate that the ban was responsible for these low votes. He himself concedes that the evidence suggests, but does not prove, the hypothesis (154); as a result, he is unable to establish causation.

Chinese Economic Statecraft is a must-read for those interested in foreign policy analysis, international relations as well as those studying China's foreign policy, political economy and statecraft. Unfortunately, at this stage, the book is only partly able to make a contribution to the existing literature on Chinese economic statecraft.

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