The Routledge Handbook of Chinese Studies

Edited by Chris Shei and Weixiao Wei

First published in 2021

ISBN: 978-0-367-18139-0 (hbk)
ISBN: 978-0-367-76090-8 (pbk)
ISBN: 978-0-429-05970-4 (ebk)

Chapter 2

Normative economic statecraft: China's quest to shape the world in its image

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DOI: 10.4324/9780429059704-2

This OA chapter is funded by the Academy of Finland (grant nr 338145).

Routledge
Taylor & Francis Group
LONDON AND NEW YORK

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Introduction

As China's economy has grown, scholars and pundits have pondered whether China will be satisfied with the *status quo* world order or wishes to transform it (Johnston 2003). Until the 2012 arrival of Xi Jinping as China's leader, the general view on China's relationship with the existing global order was one of peaceful coexistence and integration into a Western-led world order. China was seen as having integrated reasonably well into this order and become adept at defending its own national interests within its confines, but not interested in overturning it. Some influential scholars mused that China might even come to strengthen the 'liberal international order' (Chan 2006; Ikenberry 2012; Foot & Walter 2012; McNally 2012).

Beijing was seen as being reluctant to proactively promote international norms, believing it to be a dangerous game to engage in. Despite its systemic importance, China was a relatively passive participant in the system, a 'rule-taker' that tended to be active mainly when its own domestic development priorities were jeopardized by global governance actions (Foot & Walter 2012: 15; Bo 2010: 20–23). China thus shunned the role of 'norm entrepreneur' (Finnemore & Sikkink 1998). The most prominent norm-making efforts originated, not from the Chinese government, but from Chinese International Relations (IR) scholars like Yan Xuetong, who advocates that China ought to promote international norms based on traditional Chinese moral norms, e.g., 'humane authority' (Yan 2011).

The Xi Jinping era has shown a different China. Representatives of the Chinese state now act more self-assuredly and assertively on the world stage, at times even aggressively, e.g., in the context of some Chinese diplomats' public verbal attacks in 2019–2020 (the 'wolf-warrior' phenomenon). China's current approach to global governance is nuanced and multifaceted, with varying levels of support and contestation, depending on the governance area (Johnston 2019). Increasingly, China is attempting to become also a *norm-maker*. One leading scholar has used the expression 'revisionist stakeholder' (Zhao 2018).

This chapter provides an overview of state-of-the-art research revolving around China's use of economic/financial statecraft, i.e., using various economic or financial means to serve foreign policy objectives, particularly objectives with normative implications. The chapter

DOI: 10.4324/9780429059704-2

discusses how Beijing uses economic statecraft in effecting preferred changes to existing international norms in different contexts. The discussed cases have been chosen to cover the diversity of China's economic statecraft. The article also highlights how China impacts global economic governance through its alternative *modus operandi*.

International norms and economic statecraft

Norms have been an important topic in IR since the 1980s. The late 1990s and early 2000s saw influential scholarship on norms within constructivist IR theory. Constructivists usually define norms as (expectations about) appropriate behavior held by a collectivity, or for a given identity (Finnemore & Sikkink 1998: 891; Checkel 1998: 83). Much of that scholarship was globalist and 'progressive' in its orientation, with case studies on active normative change to 'make the world a better place', e.g., by abolishing the death sentence, or raising awareness of environmental hazards or the climate crisis, to prompt politicians into action (see, e.g., Manners 2002; Björkdahl 2002).

In world politics, norms tend to be contested and less-than-universally accepted, or not strongly internalized (Goertz 2003; cf. Wendt 2010). Governments do not share a universally accepted normative view on global governance. World politics also lacks a world government, a shared legal system and enforcement mechanisms. International norms do not get established in a vacuum, they tend to reflect the outcomes of power-constellations and long-term struggles to establish certain norms, e.g., on protection of civilians during war, or the concept of freedom of the seas. While norm entrepreneurs (Finnemore & Sikkink 1998) or epistemic communities (Haas 1992) may be a transnational group of individuals, e.g., scientists and activists, the influence of powerful states (Great Powers) on the normative order is important (Bull 1977 [2002]). Powerful states have throughout history sought to use their dominant position to 'lay down the rules of the land'. Think e.g., of the Roman empire's Pax Romana or the Qin-dynasty unification of China and setting of common standards across the newly erected empire. Based on a conceptual analysis of the EU, Forsberg argues that normative power can be exercised by persuasion, invoking norms, shaping the discourse or leading through example (Forsberg 2009).

The contemporary global economic system, born on the ruins of World War II, was largely an American design. Although many other nations participated in the famous Bretton Woods discussions in 1944, the most important talks were held between American and British negotiators, i.e., the emerging and receding leading powers (Kindleberger 1986). Ultimately, the American view often prevailed, reflecting the already vast power-differential between the two countries at the time (Subramanian 2011: 16–19). Later, this normative order was cemented in Western Europe and Japan, e.g., through the Marshall Plan and institutions such as the Organisation for Economic Co-operation and Development (OECD) and NATO, although the Western bloc was seldom as unified on economic governance as is later remembered (Ibid). Nevertheless, differences were held in check by the larger strategic backdrop and security dependence on the United States. China is perceived as challenging established governance norms because it represents values different from those of the (mainly Western) countries that for decades dominated the normative game (Yan 2018), and it is not part of Western security arrangements.

Ironically, right at the time when the United States and the US dollar seem in danger of losing their preponderant position in the global economic system – as the United Kingdom and Pound sterling did after the First World War (Kindleberger 1986) – the raw nature of this underlying reality comes to the fore. Susan Strange, the grandmother of British

International Political Economy (IPE), drew early attention to finance as a channel of power through which the United States is able to wield important, albeit largely hidden, power, through the dominance of the US dollar and Wall Street in financial markets (Strange 1997: 179–186). This latent financial power gradually became more visible in the war on terror (Zarate 2013) and later related to Russian annexation of Crimea and Iran's nuclear program, as well as Washington's allegations of China using American technology to strengthen its military or surveillance capabilities. Washington imposes economic sanctions on states whose actions it disagrees with. During the Trump administration, the blunt nature of US financial power to shape the global order became evident. Today, Washington shows little inhibition in turning the architecture and channels of global interdependence into the service of its foreign policy – a phenomenon that Farrell and Newman (2019) aptly call 'weaponized interdependence'.

Other major powers, such as Russia and China, even the EU, now also seem to be experimenting with how to turn their economic strengths into foreign policy tools. For Russia, this naturally revolves around energy, in particular oil and gas (see, e.g., Wigell & Vihma 2016). For the EU, the natural strength is the vast single market. China, in particular, seems to have borrowed a leaf or two from the US playbook. China has a broad array of economic and financial tools at its disposal, as well as the global ambition to match the United States.

The discussion on states' use of economic tools of foreign policy (to effect policy changes in other states) has traditionally been conducted within the IPE subbranch of IR under the broad concept of *economic statecraft*. This encompasses different scholarly approaches, albeit predominantly Realist-tinged, beginning with Friedrich List's and Albert Hirschman's early writings on economic nationalism (see, e.g., Baldwin 2020; Gilpin 2001; Hirschman 1980; Drezner 1999; Breslin 2011). There is no widely accepted clear definition of economic statecraft, although Baldwin (2020: 28–39) has recently engaged in conceptual clarification. While the term covers also economic inducements, it has tended to be associated more with sanctions and coercion (Drezner 1999). Some scholars have also tried to delineate a more specific subset of *financial statecraft* that refers to 'those aspects of economic statecraft that are directed at influencing international capital flows' (Steil & Litan 2008; cf. Wu & De Wei 2014: 783), but this discussion has been mainly centered around a few scholars (e.g., Armijo & Katada 2014, 2015). Another term, *geoeconomics* – that harks back to Edward Luttwak's writings on geoeconomic power (Luttwak 1990, 1993; Mattlin & Wigell 2016) – has also seen a resurrection. The geoeconomics concept has caught on and gained ground at the expense of economic statecraft. However, it suffers from even less definitional clarity (cf. Wigell 2016: 137; Youngs 2011: 14; Blackwill & Harris 2016), and has conceptually drifted away from Luttwak's original understanding.

With regard to economic statecraft, there is a common thread that revolves around a nation-state using various forms of economic/financial means to achieve foreign policy ends. In this chapter we focus especially on *normative economic statecraft*, by which I refer to economic or financial means used by a state in pursuit of foreign policy goals with normative implications.

Dollar diplomacy and the One-China principle

One of the earliest examples of China attempting to mold other states' behavior to its liking is the so-called dollar diplomacy contest between the People's Republic of China (PRC) and Republic of China (ROC, Taiwan) over diplomatic recognition. Until the economic boom gave China rich financial resources, the ROC government was apt at using various economic

incentives to induce small and poor developing countries to support it, notwithstanding the goodwill that the PRC had garnered particularly in Africa through early aid programs, such as the Tanzara railway line – still one of the largest development projects completed by China outside its borders. Especially the contest for recognition of Central American states and micro-states in the Pacific Ocean has been intense, with countries often switching allegiance based on the highest bid, in one case up to six times (Wu & De Wei 2014: 795–801; Shattuck 2020). This phenomenon has been described as 'recognition auctions' (Fossen 2007). With micro-states, relatively small sums of money can induce diplomatic switches, or even flip-flopping, as in the cases of Nauru (ROC-Nauru diplomatic relations ended in 2002 but were reestablished in 2005) and Vanuatu, which maintained diplomatic relations with the ROC for a week in 2004.

What form does China's dollar diplomacy then take? Much of it is promises of loans, assistance and contracts for development projects and infrastructure construction that are large relative to the size of the economies, and transactional in nature (Wu & De Wei 2014: 795–801; Shattuck 2020: 345–346). However, there are also harder-to-prove allegations of elite corruption and influence-buying among local political leaders, often made by the opposition in the target country, or the other side of the diplomatic conflict. China's infamous lack of transparency regarding its bilateral loans does not lessen such suspicions. Similar claims have earlier also been made about Taiwan's dollar diplomacy (Fossen 2007: 135–139, Shattuck 2020: 347; Wu & De Wei 2014: 798). After Tsai Ing-wen was elected ROC president in 2016, the ROC government signaled that it would no longer use monetary incentives to retain its allies (Shattuck 2020). Beijing, in turn, ended the diplomatic truce with Taipei, which had been in effect during Tsai's predecessor Ma Ying-jeou's term in office (2008–2016). Consequently, the ROC has lost six diplomatic allies since 2016.

The history of Cross-Taiwan Strait relations is full of cumbersome diplomatic semantics and subtle connotations that often are lost on an international audience. One key difference concern having a One-China *policy* versus adhering to the One-China *principle*. Since switching diplomatic recognition in 1979, the United States has consistently maintained its One-China policy interpretation, that there is only one sovereign state under the name 'China'. To balance the diplomatic switch, the US Congress passed the Taiwan Relations Act (TRA), which enables the United States to continue cooperation with Taiwan on a subdiplomatic level (Vogel 2011: 323, 479–480). The EU similarly follows a One-China policy.

Beijing, however, consistently talks of the One-China *principle*, which means that Taiwan and the mainland are inalienable parts of a single China (which the world in practice understands as the PRC). The small but crucially important semantic difference is that a consistent One-China *policy* does not recognize Taiwan as belonging to the PRC, either as a matter of principle or practice. Since 2016, Beijing has doubled down on its insistence on the One-China principle. Earlier, many smaller countries did not mind signing up to joint statements that lent support to the One-China principle, and Beijing opportunistically sought to include such statements wherever it could. Recent years, however, have witnessed a more concerted effort to conflate this distinction, and require that not just other governments, but also international organizations and corporations toe Beijing's line. This has been visible in an active campaign to compel changes to the indicated status of Taiwan, e.g., in various online listings and booking systems – from a separate listing for Taiwan to an entry under the PRC, often with the addition of 'Province of China'. In 2018, Beijing, e.g., demanded that international airlines and other companies change how they refer to Taiwan by a specific deadline (BBC 25.6.2018).

It is often difficult to gauge what exact economic measures Beijing has used (or threatened to use) against individual companies [fines, website blockings and regulator's reprimands have been reported (Sui 2018)]. Nonetheless, for corporations with extensive business in China, the potential economic repercussions of official displeasure, in terms of lost contracts or market access, are clear enough in an economic system, where the state is dominant. International companies therefore often quickly accommodate Beijing's sensitivities, or publicly apologize for alleged transgressions against such sensitivities.[1] Some major international companies with extensive business in China have even proactively come out in favor of Chinese political initiatives, such as the Hong Kong national security law enacted in 2020 (Groffman 2020).

The Taiwan issue came to the fore also with COVID-19. Due to Beijing's strong resistance, Taiwan is not a World Health Organisation (WHO) member, and even lost the World Health Assembly (WHA) observer status it had in 2009–2016. Taiwan successfully handled the first wave of COVID-19 with few cases and very low fatalities, despite its proximity to Wuhan. Against this backdrop, Taiwan lobbied hard to attend the 2020 WHA, with flank support from the USA, but was voted down, as Beijing commanded stronger support among WHO members. The Trump administration claimed that the organization was colluding with China. Subsequently, the United States formally announced its withdrawal from the organization (Garrett 2020).

Bilateral lending, conditionality, and debt traps

One intriguing form of potential influence that China wields is through its vast bilateral lending commitments that encompass most of the Global South, but also advanced economies (PRC State Council 2021). This is a potent tool in advancing China's foreign policy goals, as it is a central element of China's bilateral relations that other governments come into direct contact with.

China's lending patterns take different forms from development lending by Western governments. Since China is not a member of the OECD Development Assistance Committee (DAC), it does not need to report its lending terms (Brautigam 2011). Typically, China's bilateral lending takes places through Chinese policy banks (China Exim Bank and China Development Bank), with China Exim Bank responsible for disbursing concessional loans that are tied to procurement from China (Corkin 2013: 63–68). Exim Bank is also actively involved in a broad range of export-financing activities, which makes it difficult to distinguish concessional loans from other forms of lending (European Parliament 2011). A bilateral framework agreement is usually drawn up between governments, followed by more specific project loan and contractual agreements (Mattlin & Nojonen 2015; Corkin 2013: 68). Framework agreements offer the Chinese government an opportunity to get recipient country commitments to broad political objectives, e.g., adherence to the One-China principle, while the contractual agreements introduce more specific project-related requirements. Chinese lending terms are often secretive to the extent that even incoming governments in recipient countries often struggle to gauge what debt commitments have been incurred, as happened in the Maldives and some African countries.

Much has been written about the supposed no-strings-attached nature of China's bilateral loans. China's traditional insistence on noninterference and sovereignty (Brautigam 2007) has ushered in an impression that, unlike Western governments or Western-controlled institutions, Chinese financing institutions grant loans and other forms of financing without attaching conditionality, i.e., without requiring that the recipient government adheres to

certain political standards or adjusts its economic policies (e.g., Diao & Fan 2008; Zhou 2008; Foster et al. 2008; Chin & Helleiner 2008; Woods 2008). Later, scholars have realized that the no-strings-attached picture is too simplistic, even naïve. Mattlin and Nojonen (2015), e.g., argued that one can identify four different types of conditionality associated with Chinese bilateral lending: political conditions, embedded conditions, cross-conditionality and emergent conditionality. Of these, *emergent conditionality* is the most intriguing, as it refers to the potential for recipient countries' policy choices to gradually become restricted or redirected through path-dependent processes, even as the Chinese government officially shuns such policy conditionality (Ibid, 715–716). Countries that become overly reliant on Chinese lending for their development give leverage to Beijing and may even become beholden to it. The possibility is clearest in smaller countries, e.g., Cambodia, where China has a large economic and political footprint.

A somewhat similar argument has later been made by other scholars regarding so-called *debt-trap diplomacy* (Chellaney 2017; Parker & Chefitz 2018) associated with Chinese lending terms. The issue came to the fore when the Sri Lankan government was forced to hand over control of the Hambantota harbor to Chinese lenders. The harbor had been pledged as collateral for loans that Sri Lanka was unable to repay. Similar collateral fears have surfaced, e.g., in Kenya. The discussion has become highly politicized, as the Trump administration adopted the 'debt-trap' term to condemn China and warn other governments, leading some scholars to call the term a 'meme' (Brautigam 2020). An important difference between emergent conditionality and debt-trap diplomacy, is that the former regards such adverse outcomes as an emergent path-dependent consequence of the complex ways that projects with Chinese lending are set up and implemented by a multitude of Chinese organizations pursuing different goals, rather than an outcome intended by (devious) design. Interestingly, China's 2021 development policy White paper explicitly discusses planning assistance to other governments, and better coordination of Chinese development policy and BRI projects. Recurrence of the phrase 正确义利观 could be interpreted as an indirect admission that there were tensions between Chinese interests and local development needs with adverse consequences in the previous, less coordinated, approach (PRC State Council 2021).

The BRI as a geostrategic tool to push favored political objectives

China's most ambitious international initiative is the Belt and Road Initiative (BRI) that was launched by China's leader Xi Jinping in two international speeches given in 2013, and coupled with several large funding schemes, such as the Silk Road Fund and the Asian Infrastructure Investment Bank (AIIB), as well as several other regional funds (Zhao 2019). Comparisons have been made between the BRI and the American Marshall Plan for the postwar reconstruction of Western Europe and Japan–in the process turning them into American spheres of influence, as well as expanding and opening up their markets for US products (Mattlin and Gaens 2018). The BRI Initiative aims to connect the Eurasian continent's infrastructure and trade networks and shape the entire megaregion in the vision of China's leaders. The BRI covers more than 60 countries, with special emphasis on developing countries in Central and Southern Asia (Fu 2017).

As the BRI has a prominent geographical element to it, and echoes century-old works on geopolitics (MacKinder 1904; Mattlin and Wigell 2016), scholars have, unsurprisingly, approached it through the lenses of geoeconomics and geostrategy (Zhao 2019). Chan (2020), e.g., argues that the BRI 'can be understood via the lens of regional ordering, whereby China attempts to redefine the shared goals and values for the region of Eurasia

and to socialize regional states into the new values in order to have their consent to its leadership'. Another prominent strand of BRI research revolves around (critical) political economy that dissects the underlying power structures in state-business relationships. One of its observations is that underlying BRI is a concern with cutting industrial overcapacity in China that has been a by-product of China's growth model (Shen 2018: 2688).

The BRI offers China a convenient channel for pushing other political objectives, such as internationalization of the Chinese currency, the renminbi – an explicitly stated goal of BRI that has seen some success (Zhao 2019; Cai & Li 2017; Shen 2018). Chinese leaders have not favored free convertibility of the renminbi and full opening of their capital account. Instead, they have opted for maintaining political control of the currency and managed opening, setting up channels ('pipelines') for its wider use, e.g., through bilateral swap agreements with other central banks, and increased use of the currency by Chinese state-owned enterprises (SOEs) and in cross-border trade (McNally 2012; Song & Xia 2019).

Another project that China has promoted through the BRI Initiative is the Digital Silk Road. The charitable view is that the project promotes digital connectivity and enables the Chinese state to capitalize on vibrant Chinese digital economy companies (Shen 2018). However, there are suspicions that allowing Chinese companies to build overseas digital infrastructure also enables them to export Chinese surveillance technology and related practices to BRI countries, especially in Central Asia, where authoritarian governments dominate. The BRI has been controversial from its inception, as it has been designed to win diplomatic allies, markets, and natural resources for China, albeit amid win-win cooperation rhetoric. Framed by Chinese leaders as Chinese benevolence to other countries and magnanimous provision of public goods, realist critics tend to portray it as a power-grab (Zhao 2019). The governments of some BRI countries have also later woken up to overpricing in BRI projects, and demanded renegotiation of terms, e.g., in a massive Malaysian railway project (Lim et al. 2021). Overpricing projects provides opportunities for different contracting parties to 'take cuts' and can thus be used to buy loyalty among local elites.

An important distinction in the academic debate on China runs between *intentions* and *outcomes*. As with debt trap diplomacy, discussions on BRI have tended to focus on China's ambitions to use economic tools for geostrategic gain. Yet closer case analysis has often highlighted a more complex reality. Much current analysis, e.g., assumes that China has an almost limitless capacity to complete BRI projects, or to turn economic dependence into political influence. China's troubled efforts to complete the China–Myanmar Economic Corridor, because of major security challenges and instability, is a case-in-point. In the Belgrade–Budapest railway case, China miscalculated Hungary's ability to get project approval from the EU, and a local backlash against mounting debt. In Venezuela, China is in danger of not having its loans repaid and is in the crosshairs of US sanctions against Venezuela, while failing to secure a stable oil supply. The list goes on.

Coercive economic diplomacy and undeclared sanctioning actions

Coercive diplomacy is an integral part of economic statecraft, especially for major powers. However, unlike the United States (see, e.g., Zarate 2013), and to a lesser extent the EU, formal economic sanctions have not played a prominent role in PRC foreign policy. Earlier, China has itself been on the receiving end of economic sanctions, e.g., an embargo during the Korean war and sanctions after the Tiananmen crackdown in 1989. However, China is no stranger to sanctioning. One of the prominent themes of China's foreign policy in recent years has been the ever-more-frequent and broader range of *sanctioning actions* used by the

Chinese state to indicate displeasure with the foreign policy of other countries. China's traditional dollar diplomacy, based on public or private economic incentives (carrots), has also in recent years been complemented with other harder economic and political means (sticks).

China has used various forms of coercive economic diplomacy on a number of countries and foreign companies. Intriguingly, however, China typically does not declare formal sanctions. Instead, it is often mum about having imposed such sanctions, or even denies it, which may be linked to China's self-avowed policies of peaceful rise and never seeking concessions from other countries (Lai 2018) that harks all the way back to the 1964 visit of then-Premier Zhou Enlai to Africa. This pattern of behavior was observable already in the late 1990s and early 2000s when the PRC government showed displeasure with various European governments, e.g., for receiving the Dalai Lama, by temporarily freezing or cancelling economic exchanges and imposing temporary trade restrictions (Mattlin 2012; Lai 2018). The pattern was taken further with Norway, where some parts of economic cooperation remained frozen for six years after the Nobel Peace Prize was awarded to Liu Xiaobo in 2010.

Other governments that have encountered economic repercussions include South and North Korea, the Philippines, Japan, and recently Australia. In 2020, Sino-Australian relations significantly deteriorated, with Beijing accusing Australia of undermining bilateral relations through a range of policy measures, including blocking Huawei from its telecommunications networks, new legislation on foreign influence, and calling for an international inquiry into the origins of the COVID-19 virus. To show its displeasure, China took various actions to block or restrict a broad range of imports from Australia, from wine to coal. Sweden has also been the object of sustained public criticism by Chinese diplomats. In some cases, even individual companies have been caught up in foreign policy tussles and become a target of Chinese economic measures, as happened with South Korean Lotte Group. The United States intended to place an anti-missile system on land sold to it by Lotte (Shattuck 2020: 347–348). Recently, China has also used formal sanctions in a tit-for-tat with the United States. In the summer of 2020, Beijing announced sanctions on American politicians, NGOs, and military manufacturers, for allegedly interfering with Chinese 'internal matters' (Xinjiang or Taiwan).

It is notable that China's use of coercive economic diplomacy has tended to focus mostly on developed countries in Asia, Europe, and North America. The one exception is the Philippines, which in 2012 found its bananas held up in ports due to its dispute with China in the South China Sea (Lai 2018). This sets China apart from the United States and the EU, whose sanctions tend to target non-Western developing countries. China, it seems, has been keen to maintain good public relations with developing countries – in keeping with its South–South cooperation rhetoric – although it is harder to gauge what might be going on behind closed doors.

China's coercive economic diplomacy tends towards retaliatory actions against developed countries and is partly pushed by China's reactivity to similar American actions towards itself. A case in point is the order issued by the Ministry of Commerce in early 2021 that may prohibit the application of foreign laws against Chinese entities, where these are deemed 'unjustified', and allows for compensation claims and countermeasures by the Chinese government (PRC Ministry of Commerce 2021).

More frequent use of coercive measures is a double-edged sword for China. Smaller countries often bend to China eventually. For example, Norway's government was forced to give in to China in order to normalize bilateral relations in late 2016. The Norwegian government signed a joint statement, where it pledged its commitment to the One-China

policy, China's sovereignty, territorial integrity, core interests and major concerns, and further promised not to support actions that undermine them or damage bilateral relations (Statement 2016). However, in countries that have been recent targets of China's coercive diplomacy, views on China have tended to take a negative turn. While cause and effect are hard to attribute, the negative media coverage associated with sanctions seems to play a part. Japan, South Korea, the Philippines, Australia, and Sweden are all among countries that have the most unfavorable views of China, according to Pew opinion surveys (Silver et al. 2019).

China's alternative set of economic governance norms gaining ground

Until recently, China's government disavowed exporting any model or ideology – conscious of the apprehension that China's past export of revolutionary communism to South-East Asia and Africa still evokes (Jones & Johnson 2013). The alternative norms and values that China espoused were more in the eye of external beholders. For example, the discussion around the so-called Beijing Consensus as an alternative to the discredited Washington Consensus (Williamson 2004; Patomäki & Teivainen 2004; Woods 2008), was born and waged among scholars and external observers, many of them Western (Ramo 2004; Li, Brodsgaard, & Jakobsen 2010; Breslin 2011). The example that China sets by being a successful economy and major geoeconomic player, pursuing a development path that does not neatly dovetail with received Western policy prescriptions, has only grown in importance. China increasingly is setting new standards for many global governance practices, and has forced, or speeded up, reconsideration of many aspects of global economic governance. China has thus used the 'power of example' (Manners 2002; Forsberg 2009). As such, China's importance lies also in what it is *not*, and what it does *not* stand for (Breslin 2011). Table 2.1 lists some norms that China indirectly or passively challenges by its different *modus operandi*.

One such area concerns development aid, where 'emerging donors' (foremost China), by offering an attractive alternative, pose a challenge for traditional donors (OECD-DAC), who increasingly feel compelled to rethink their own aid practices (Woods 2008). While the no-strings-attached view is too simplistic, compared to many traditional donors China requires

Table 2.1 Global economic governance norms that China's alternative indirectly challenges

Norm	*China's Alternative*
Development aid conditional on sound economic policies and good governance	Few upfront aid conditionalities; aid as integral part of broader investment and trade relations
Free capital account (convertibility) as a precondition for inclusion in IMF's SDR	Partial capital account convertibility sufficient; certain capital controls appropriate
Open-trade regime	Protectionism of strategic industries and key domestic markets
Upholding market competition (antitrust regime)	Active industrial policies favoring national state-owned champions
Relatively clear distinction between state and private sector (WTO context)	State-led capitalism with unclear state/private distinctions, and a role for the state also in private enterprises

less *upfront* aid conditionalities. The attractiveness is further increased as Chinese aid tends to be complementary to regular investment and trade (Davies et al. 2008). Developing countries have long wished to relinquish aid dependence for normal economic relations based on investment and trade on fair terms. China offers a large market for their goods and long-term investment – two functions that Kindleberger identified as important for a leading economy (Kindlberger 1986; Mattlin 2017).

After the global financial crisis (2007–2009), the Chinese government, along with other emerging powers, talked of 'democratizing world politics.' China and Brazil also vociferously called for fundamental reform of the international monetary system, with the current system considered profoundly unfair and unrepresentative by many Chinese policy commentators (Zhou 2009; Madhur 2012). They were lent flank support by some Western scholars and policymakers (Barnett & Finnemore 2004; Tooze 2018: 266–8). In an increasingly polyphonic domestic policy debate (Ferchen 2012), there was an emerging acceptance that China must play a larger role in shaping the 'rules of the game' of post-financial crisis global economic and financial governance (Ching 2012). An early sign of China's views gaining ground globally, was in the symbolic victory achieved when the IMF's Executive Board in November 2015 concluded that the renminbi was 'freely usable' and could be included in the IMF's Special Drawing Rights (SDR) basket of currencies (IMF 2015) – sometimes called the world's most exclusive club, as it only has five members. This was a remarkable achievement, given that China formally still maintains relatively strict controls on its capital account (Prasad & Ye 2012), and free convertibility has been an IMF requirement. Furthermore, in 2015–2016 China actually tightened capital controls. Chinese leaders had argued that China's currency, while not freely convertible, is 'free enough' and should be included in the basket. Earlier the IMF had maintained that China's capital account was not sufficiently open and China's currency therefore not yet freely convertible. Underlying the decision was a reevaluation within the IMF on capital controls. Having earlier been a strong advocate of free capital flows, the IMF now considers some capital controls as reasonable, albeit temporary, measures (IMF 2011; Chin 2010: 702, 711; Keukeleire et al. 2011: 17–18; Tooze 2018: 475). The IMF has thus come around to China's position, as China's central bank has also advocated maintaining capital controls in critical areas (*Sina* 2012).

Following the United States' embrace of protectionism and trade wars during the Trump administration, China initially attempted to portray itself as a champion of free trade and an open international economy, most notably in the speech given by China's leader in Davos in early 2017 (Kellogg 2017). To many observers, this claim rang hollow. While China has been the biggest beneficiary of global trade in recent decades, and broadly has been a constructive participant in the WTO, China itself has not opened up its domestic markets to the extent expected in Europe and the United States (European Commission 2019; Campbell & Ratner 2018; Lau 2020), leading scholars to talk of a mercantilistic approach to trade (Holslag 2006). In practice, China maintains a long list of support measures (e.g., favorable finance terms, local government support) for state-owned enterprises operating in strategic industries and has been slow to liberalize some of these markets for foreign enterprises, e.g., by maintaining investment lists (later negative lists) and bureaucratic red tape. Neither can China's BRI be regarded as a vehicle for an open-trade regime, as it is 'embedded in a China-dominated tied aid architecture' (Chan 2020).

Relatedly, while China adopted competition (i.e., antitrust) laws already in 2008, there were from the start doubts as to whether these would be applied also to strategic SOEs or used more to block foreign competitors from gaining significant market share. The most notable antitrust action has been against the publicly listed, but private-origin, Alibaba Group and its

affiliated company Ant Group. Alibaba Group's prominent co-founder and former executive chair had been publicly critical against authorities and regulators shortly before the antitrust case was launched in late 2020. However, China has been actively pursuing a strategy of building state-controlled national champions in strategic industries, *inter alia* by way of state-directed mergers of SOEs to create global industrial behemoths (Mattlin 2007). The Fortune Global 500 lists 24 Chinese companies among the top one-hundred (Fortune 2020), almost all of which are ultimately state-controlled – mostly strategic SOEs under the State-Owned Assets Supervision and Administration Commission (SASAC) or state-controlled financial institutions. In contrast, one of the strongest features of the EU has been its single market and strict upholding of market competition by a succession of active EU competition commissioners, including by blocking intra-EU mergers, if necessary. Until recently, championing activist industrial policy and national/EU industrial champions was not considered the EU way. But the norm of upholding market competition under all circumstances has rapidly become more nuanced due to China, with even the competition commissioner now urging EU member states to take stakes in European industrial companies to prevent Chinese takeovers (European Commission 2020, *Financial Times* 12.4.2020). China is thus indirectly prompting reconsideration of this sacrosanct EU norm.

Finally, the Chinese mode of state-led capitalism is also challenging conceptions of the distinction between the public and private sector. Corporate structures in China are famously opaque and complicated.[2] While the Chinese 'private sector' has been growing rapidly, there are perennial doubts as to how independent enterprises in China really can be of the state, given that, e.g., bank loans are highly reliant on good political connections (Cheng & Wu 2019); the party maintains party committees in the vast majority of private companies, as well as some foreign-invested companies (Russo 2019); and state-controlled banks have a legally-designated role in implementing public policy. The trend within China over the past decade has been described as one of *guo jin, min tui* (国进民退), indicating that the state-owned sector advances, while the private sector recedes.

Concretely, the blurred distinctions between the party-state and private sector have led to legal discussions within the WTO framework on how to determine what is a 'public body', i.e., which Chinese enterprises, banks and entities are to be considered extensions of the Chinese state. The debate is not purely academic, as several recent WTO disputes related to China have revolved around this issue. The WTO prohibits certain forms of subsidies, if they are provided by governments and their associated entities, including public bodies – a legal concept created by the WTO drafters. Cross-subsidies provided by private firms are, however, not prohibited. Prior to China's WTO accession, there was no major issue as to what constituted a public body. One blank spot for drafters was when an entity provides, rather than receives, a subsidy. Such situations may occur, e.g., if a state-controlled bank, legally tasked with quasi-governmental economic policy duties, provides a preferential loan to a company, or an SOE sells its products at discounted prices to another SOE (Wu 2016: 301–305; Chiang 2018; see also Benitah 2019). Given the opaqueness of ownership structures in China, ownership alone may not be a sufficient criterion to determine demarcations between public and private, which challenges conventional understandings.

Economic statecraft: Stated and concealed normative objectives

Research on China's economic statecraft, as it relates to international norms, has become a hot topic within Chinese studies and IPE. Researchers have dissected and

methodically analyzed China's evolving use of economic statecraft in different areas of global economic governance, typically by scrutinizing policy documents and through case studies. Until recently, China's tentative exercise of normative power revolved mainly around the 'power of example'. However, since the work report by Xi Jinping during the 18th Party Congress in October 2017, China has taken a more active approach to promoting its preferred norms and standards in various areas of global governance, trying to seize 'discourse power' (话语权) and offering 'China solutions' (Zhao 2018). China has been moving towards actively challenging selective aspects of the 'liberal international order', yet without always openly proclaiming so. I therefore postulate a key analytical distinction: between *stated* and *concealed* normative objectives. Stated normative objectives are present when state leaders signal what normative change they desire in other actors. When there is an unrevealed intention to subtly undermine a prevalent international norm and support an alternative norm, the normative objective is concealed. Much of China's challenge to global economic governance norms is indirect and concealed.

China now increasingly also uses economic statecraft to actively push for normative change, but it does so in ways that differ from, e.g., the United States or Russia. While there is traditionally a tendency within economic statecraft studies to focus on economic coercion (e.g. economic sanctions), China has brought a new twist to these studies, as its use of economic statecraft has tended to focus more on economic inducements (e.g., dollar diplomacy and BRI), as well as offering alternative economic institutions and interpretations of economic norms. Ironically, China's economic statecraft has, however, itself shifted from being predominantly 'carrots' (aid, loans, investments, and private economic inducements) towards experimentation with 'sticks' (coercive diplomacy, sanctioning acts, recently also formal sanctions). Notably, China's more coercive economic statecraft is creating an international backlash that undermines its efficacy.

The importance of China for academic discussions on economic statecraft and geoeconomics should not be underestimated. China has revitalized old debates that had become rather stale, as they tended to revolve mainly around the United States. This is one of the subfields of China studies that has a clear scholarly impact beyond the narrow confines of the area studies specialization.

Acknowledgments

The author acknowledges financial support from the Academy of Finland (grant 338145) and the Turku Institute for Advanced Studies. The author would also like to thank Matt Ferchen, Tuomas Forsberg, Iikka Korhonen, Chris Shei, Elina Sinkkonen, Teivo Teivainen, and Henri Vogt for excellent comments on the article draft.

Notes

1 For a website listing international companies that have publicly apologized to China since 2017, see https://signal.supchina.com/all-the-international-brands-that-have-apologized-to-china/.

2 For a nice illustration of this, consider the following depiction contained in a stock market notification on a large shareholding: *'BOC Aviation is a company controlled by Sky Splendor Limited, which in turn is controlled by Bank of China Group Investment Limited, which in turn is controlled by Bank of China Limited, which in turn is controlled by Central Huijin Investment Ltd, which in turn is controlled by China Investment Corporation which is owned by the government of The People's Republic of China'* (Oslo Børs 2020).

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