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How Not to Win Allies and Influence Geopolitics

China's Self-Defeating Economic Statecraft

By Audrye Wong

China, it is often said, has mastered the art of economic statecraft. Observers routinely worry that by throwing around its ever-growing economic weight, the country is managing to buy goodwill and influence. During the COVID-19 pandemic, Beijing has exploited its dominance of manufacturing supply chains to win favor by donating masks and now vaccines to foreign countries. And it has long used unfair state subsidies to tilt the playing field in favor of Chinese companies.

Beijing has also weaponized its expanding trade relations. China overtook the United States as the top global trader in 2013, and it is now the leading source of imports for about 35 countries and the top destination of exports for about 25 countries. The Chinese government has not hesitated to leverage access to its consumer market to pressure foreign governments and firms to obey its wishes. In 2019, for example, it canceled the visit of a trade delegation to Sweden after a Swedish literary association awarded a prize to a detained Chinese-born bookseller. The following year, China retaliated against Australia's calls for an independent inquiry into the origins of the COVID-19 pandemic by imposing tariffs on a range of Australian products. Many fear that such gambits are only a taste of what is to come as China goes to greater lengths to use its economic influence to bully other countries.

Much of the consternation focuses on the Belt and Road Initiative, a massive collection of Chinese-financed infrastructure projects, from railways to ports, that critics portray as a modern-day imperialist venture. Pointing to the BRI, U.S. officials have accused China of engaging in "debt-trap diplomacy," whereby it purportedly saddles recipient countries with enormous loans and then extracts strategic concessions when they are unable to repay. Many of these same officials worry that at the same time that China is sharpening its economic tools, the United States has let its own grow dull, forgetting how to turn economic power into strategic gains.

But a close look reveals that China's record is far less impressive than often thought. For one thing, its attempts at economic statecraft have often sparked resistance. In many of the 60-plus countries receiving BRI investment, even in those most eager for Chinese investment, officials have complained of shoddy construction, inflated costs, and environmental degradation. Beijing has been forced to go on the defensive, with Chinese President Xi Jinping taking pains to emphasize the importance of "high-quality" and "reasonably priced" projects. Many countries have demanded reciprocal access to the Chinese market; others have bowed out of Chinese initiatives altogether and are seeking financing elsewhere.

China has managed to massively expand its economic presence beyond its borders, but so far, it has failed to turn it into long-term strategic influence. The Chinese economy exerts a strong gravitational pull, but as Beijing is discovering, that does not necessarily mean that other countries are altering their political orbits.

WHAT CHINA WANTS

Over the past few decades, China's global economic footprint has grown enormously. In 1995, China accounted for just three percent of global trade, but by 2018, thanks to massive economic growth, it accounted for 12 percent—the largest share of any country. In 2020, in part due to the pandemic, China became the EU's largest trading partner, displacing the United States. Chinese foreign investment has expanded rapidly in the developing world, too, with Chinese companies and banks plowing money into Southeast Asia, Africa, and Latin America. Beijing has also taken on an active leadership role in global economic governance, its confidence boosted by having weathered the 2008 global financial crisis well. In 2014, China unveiled the Asian Infrastructure Investment Bank, a multilateral development bank with an initial capitalization of $100 billion that has since grown to include more than 100 countries. Many of them are traditional U.S. partners and allies that joined over Washington's objections.

What does China want to do with all this newfound economic power? The opacity of China's political system leads many to ascribe its behavior to a centralized decision-making process pursuing a coherent grand strategy, but Chinese policies are in fact often the product of competition and compromise among a tangle of actors—local governments, high-level bureaucracies, state-owned enterprises, private firms, and more. Consider the BRI. What began as a vague and sprawling plan has taken on a life of its own, at times hijacked by opportunistic government officials and companies seeking to feather their own nests. Many of the constituent projects are motivated less by some grand strategic blueprint than by the preferences of individual actors.

Another error is to assume that China's actions are driven by a desire to export its own autocratic political system and statist economic system. True, Xi has grown increasingly repressive at home and assertive abroad, but China is still preoccupied more with safeguarding its own interests than with trying to remake other countries in its own image. Even though China seeks to reshape the international system to reflect its priorities, that is a far cry from trying to overturn the order altogether.

What really drives China's economic statecraft is not grand strategic designs or autocratic impulses but something more practical and immediate: stability and survival. The Chinese Communist Party's fundamental objective is to preserve the legitimacy of its rule. China's economic statecraft, then, is often employed to put out immediate fires and protect the CCP's domestic and international image. China wants to stamp out criticism and reward those who support its policies. This is particularly true when it comes to issues involving national sovereignty and territorial integrity (such as Taiwan, Tibet, and the East China and South China Seas) and domestic governance (such as China's treatment of the Uyghurs in Xinjiang and its handling of the COVID-19 pandemic).

Beijing approaches its efforts to convert economic prowess into geopolitical influence in a number of different ways. China has often leveraged the size of its domestic market to impose trade restrictions on countries it wishes to punish, but in targeted and symbolic ways that minimize damage to its own economy. The Chinese government imposed sanctions on Norwegian salmon exports after the dissident Liu Xiaobo was awarded the Nobel Peace Prize, and it blocked Philippine banana exports after a flare-up in tensions in the South China Sea, in both cases on the supposed grounds of food safety. It has also taken advantage of its size by encouraging boycotts—urging Chinese consumers, for example, not to patronize a South Korean department store chain in an attempt to dissuade Seoul from deploying a U.S.-led missile defense system. Capitalizing on China's position as a top foreign investor and technology producer, the Chinese government and Chinese firms have played active roles in international standard-setting bodies and promoted the export of Chinese equipment, particularly of emerging technologies—some with national security implications, such as 5G and artificial intelligence.

But perhaps the most prominent feature of China's economic statecraft is its use of positive inducements. These incentives come in two forms: under the table, whereby Beijing buys off political leaders through illicit deals, and by the book, whereby it empowers foreign interest groups to lobby their governments for closer relations with China.

THE SUBVERSIVE METHOD

China often provides economic inducements in illicit and opaque ways that circumvent political processes and institutions. As Chinese companies have increasingly invested overseas, state-owned enterprises or private companies, sometimes with the tacit approval of Chinese officials, have offered bribes and kickbacks to elites in countries receiving investment or aid projects in order to grease the wheels of bureaucracy. At other times, Chinese companies have bypassed the process of competitive bidding and regulatory approval to secure a contract, often at inflated costs, generating extra profits for both Chinese actors and local elites. I call such inducements "subversive carrots." In many ways, their use reflects China's domestic political economy, where businesses depend on official connections, corruption is widespread, and few regulations govern foreign investment and foreign aid. My research shows that this method works best in countries that also have little public accountability—where the flow of information is restricted, and political leaders need not worry about public opinion and the rule of law.

Cambodia stands as a case in point. The longtime prime minister, Hun Sen, and his family control the military, the police, and much of the economy. Media outlets are beholden to the government, and journalists, activists, and opposition politicians are routinely silenced through intimidation and violence. As a result, the details of Chinese aid and investment projects in Cambodia are murky, but what information has come out suggests a government deeply corrupted by Chinese influence.

The projects financed by China tend to enrich elites while evicting the poor and degrading the environment. In the southwestern province of Koh Kong, for example, a Chinese investment group is building a massive development complex that is to include a resort, a port, an airport, power plants, manufacturing zones, and roads and highways—all adding up to an estimated $3.8 billion. While Cambodian elites have used the project to line their own pockets, the construction has destroyed ecologically sensitive areas and forced residents from their homes. Beijing may stand to benefit: the resort seems excessively large for the number of tourists the area can attract, but the airport and port appear well designed for Chinese military use.

Such largess has allowed China to buy Cambodian advocacy on its behalf—in particular, regarding its aggressive maritime claims in the South China Sea. At a 2012 summit of the Association of Southeast Asian Nations, Cambodia wielded its position as chair to block discussions of South China Sea disputes, and for the first time in ASEAN's history, the organization was unable to issue a joint statement. At one point, the Cambodian foreign minister cut off delegates who tried to raise the issue, and at another, he stormed out of the room when they proposed even a watered-down statement. Government officials I've interviewed in the region have described Cambodia's behavior at the summit as the result of a "straight-up monetary deal" in which Beijing paid off the Cambodian government in exchange for its support. In the months before the meeting, senior Chinese leaders visited Phnom Penh, offering additional grants and loans for infrastructure and development projects worth hundreds of millions of dollars. The investment has paid off handsomely: since 2012, ASEAN has become more divided and incoherent, allowing Beijing to consolidate its position, rhetorically and militarily, in the South China Sea.

A similar dynamic is playing out in eastern Europe. The increasingly illiberal governments of Hungary and Serbia have happily accepted handouts in exchange for promoting Chinese foreign policy positions. A high-speed railway running across the two countries, for example, remains shrouded in secrecy, even as costs have ballooned and doubts have arisen about its economic viability. Part of the project is being built by a Chinese state-owned enterprise previously blacklisted by the World Bank for irregularities, and another part, by a corrupt business ally of the Hungarian prime minister. In return, Hungary and Serbia have behaved obsequiously toward China. Hungary has issued official statements echoing Beijing's position on the South China Sea, and Serbia's president, in addition to kissing the Chinese flag in gratitude for receiving medical supplies early in the COVID-19 pandemic, has expressed support for China's repressive national security law in Hong Kong. In Europe, China has plucked the low-hanging fruit, such as public statements and vetoes within the EU, and no country in the region has radically altered its foreign policy orientation. Still, Beijing has managed to dampen international criticism and trigger embarrassing public divisions about issues on which European countries used to be united.

Chinese subversion has not worked as well in countries with greater transparency and oversight. Take the Philippines during the presidency of Gloria Arroyo, who served from 2001 to 2010—a time when the country enjoyed a vibrant media sector and a competitive political system, despite high levels of corruption. Under Arroyo, China agreed to finance and build $1.6 billion worth of railway and telecommunications infrastructure. Many of the projects were awarded through vastly overpriced no-bid contracts. A planned commuter rail line called Northrail, for example, was shaping up to have the dubious distinction of being the world's most expensive railway per mile. Costs for a national broadband network, to be built by the Chinese state-owned company ZTE, skyrocketed by $130 million to $329 million because of kickbacks to key political players, including the chair of the Philippines' electoral commission and the president's husband. As if on cue, in 2005, the Philippines' national oil company signed an undersea resource exploration agreement that legitimized China's maritime claims.

Yet all this malfeasance was exposed by the press, and a public backlash ensued. Over the course of 2007 and 2008, the Philippine Senate held 13 public hearings, culminating in a long and scathing report that took Philippine politicians and Chinese companies to task for their corruption. Politicians, activists, and civil society groups organized antigovernment rallies in Manila and other cities. In response, the government suspended and reviewed a range of Chinese-financed projects, and some of the implicated elites were charged and tried in court.

It would be hard to characterize China's campaign in the Philippines as a success. In 2010, Benigno Aquino III was elected president on an anticorruption platform and proved to be more skeptical of Beijing than his predecessor. Even though the current president, Rodrigo Duterte, has been more eager for Chinese investment, he is still partly constrained by legislators who have pushed for greater transparency and by government agencies that have implemented more stringent review procedures. At the end of the day, the country's policy on the issue China cares about most, the South China Sea, has remained fundamentally unchanged: the Philippines has stuck to its own territorial claims.

Such fallout is common. In Australia, Beijing used Chinese businesspeople as proxies to make campaign contributions and fund academic institutes in an attempt to persuade politicians and other voices to support China's positions on the South China Sea and human rights. The backlash was swift: in 2017, a prominent politician who allegedly accepted Chinese money and was seen as toeing the Chinese line was forced to resign, and the following year, Australia's Parliament tightened the country's laws on foreign political interference. In 2015, the president of Sri Lanka was voted out of office after greenlighting billions of dollars' worth of unsustainable and corrupt Chinese infrastructure projects, and three years later, the same fate befell the president of the Maldives.

Something similar happened in Malaysia in 2018. The incumbent prime minister, Najib Razak, was mired in corruption scandals over the mismanagement of Malaysia's state investment fund, some of which implicated Chinese-financed investments in which contract costs were inflated to cover the fund's debts. Voters dealt his party a resounding defeat in elections that year, forcing him from office and marking the first opposition victory in Malaysia's 61 years as an independent country. His successor, Mahathir Mohamad, quickly suspended a number of projects, renegotiated plans for a major railway, and spoke out vocally against Beijing's actions in the South China Sea—unlike Najib, who has been sentenced to 12 years in prison. Time and again, China's subversive statecraft has run aground on the shoals of accountable political systems.

OUT IN THE OPEN

China sometimes adopts a more legitimate form of seduction. This method is rooted in a broader logic of economic interdependence: China seeks to cultivate foreign stakeholders that have an interest in good relations. Beijing promotes trade and investment across multiple sectors in the hope that the groups that benefit from economic exchange with China can be counted on to lobby their own governments to seek cooperative relations with the country. Convinced by these private-sector elites of the importance of the Chinese economy, the logic goes, political leaders will work to minimize any disagreements with Beijing.

In countries where elites are held accountable by the rule of law and public opinion—places less suited to illicit inducements—this approach has worked well so far. In 2016, for example, a Chinese state-owned enterprise bought a majority stake in Greece's largest port, Piraeus, and proceeded to modernize it. The Greek government, in turn, has become notably more reluctant to call out China. Around the time of the acquisition, Greece watered down an EU statement on Beijing's actions in the South China Sea, and a year later, it blocked the EU from issuing one about China's crackdown on dissidents.

In Australia, a number of actors have advocated keeping the peace with Beijing. Prominent businesspeople have criticized legislation seeking to combat foreign interference and have lobbied for the Australian government to support the BRI. Local officials have signed BRI deals and awarded contracts to the Chinese telecommunications giant Huawei. Australian universities—dependent on Chinese students for tuition revenue—have canceled events that might offend Chinese sensitivities, have stood silent as lecturers have been pressured by students into apologizing for deviating from Beijing's positions, and, in one case, suspended a student activist known for criticizing the CCP.

Compared with its subversive efforts, Beijing's attempts to cultivate the support of vested interests abroad may seem like a more powerful, long-term approach to economic statecraft, since it empowers a chorus of voices pushing for closer alignment with China. Yet this strategy also faces its own challenges. For one thing, the political payoffs are more diffuse and take a long time to bear fruit, testing the patience of Chinese leaders, who are preoccupied with forestalling public criticism and immediate challenges to their legitimacy, domestically and internationally. For another thing, cultivating stakeholders is getting harder. As the Chinese economy has moved up the value chain, Chinese companies have become powerful players in high-tech, value-added sectors—unfairly helped, competitors argue, by state subsidies. As a result of this competition, foreign corporations have had less reason to push for closer relations with Beijing.

Indeed, this evolution is already well underway in the United States. In the 1990s, U.S. businesses, lured by access to the Chinese market, successfully lobbied President Bill Clinton to extend China's "most favored nation" status. Today, by contrast, they complain about discriminatory policies, intellectual property theft, and restrictions on market access in China and lobby for punitive measures. China's doubling down on its state capitalist model is likely to undermine efforts at cultivating foreign stakeholders.

Moreover, Beijing's increasingly aggressive foreign policy threatens to overshadow the positive lure of economic engagement. Its ham-handed "Wolf Warrior" diplomacy, an aggressive style of foreign policy named after a pair of patriotic Chinese action movies, has worsened relations with many countries. Its growing tendency to resort to economic coercion has further highlighted the downsides of interdependence. When Beijing, in response to Australia's calls for an investigation into the source of the pandemic, slapped tariffs and trade bans on Australian coal, timber, wine, seafood, and other products, it ended up empowering those in Australia who favor a more hawkish China policy. In Taiwan, Beijing has enjoyed even less success: although it has tried to use burgeoning cross-strait economic relations to undercut pro-independence factions, Taiwanese businesspeople have largely refused to back the mainland's policies, because the issue of Taiwan's independence is seen as an overriding security concern. Even legitimate seduction has its limits.

LOSING FRIENDS

For all the breathless talk of the geopolitical gains from economic statecraft, so far, Beijing has mostly been able to achieve transactional, short-term objectives—say, public silence on China's human rights record from a legislator or a veto over a resolution about the South China Sea during an ASEAN meeting. Outside a small subset of countries with little public accountability, China's long-term strategic influence remains limited. Most of the countries China has targeted have not made major shifts in their geopolitical alignment; at best, they have offered rhetorical and symbolic commitments.

This is a failure of execution; Beijing has often been tone-deaf, leaving it particularly vulnerable to the vicissitudes of democratic politics. In failing to recognize how its strategies might play out in different political contexts, China has provoked backlash instead of garnering support. Chinese investments have often become politicized, with out-of-power parties criticizing the incumbents who signed the deals for caving in to Beijing. The frequent corruption scandals that such investments produce have provided even more fodder for critics.

Indeed, China has to contend with other countries' messy domestic politics far more than it might prefer. Whereas U.S. policymakers often view China's economic statecraft through the lens of grand strategy and great-power competition, for many leaders in recipient countries, it is much more about local political jockeying. These leaders have played considerable roles in shaping China's efforts. Consider the China-Pakistan Economic Corridor, a BRI flagship. It has run into its fair share of political and economic obstacles as Pakistani politicians pushed for the expansion of energy and infrastructure projects and then bickered over their allocation. In Sri Lanka, the idea and impetus for the Chinese-financed Hambantota port, often touted as the classic case of debt-trap diplomacy, in fact came from Sri Lankan politicians, who awarded the contract to a Chinese state-owned enterprise after being turned down by the United States and India. The story of Hambantota is not one of China securing a geopolitical prize—the port is neither economically viable nor geographically suited for naval use—but one of Sri Lanka building a white elephant.

Recipient countries are also getting better at shaping the terms of their deals with China. Fed up with constant scandals, many have pressured the Chinese government to pay greater attention to domestic regulations. In Malaysia, after an outcry over waste and fraud in a massive rail project that will connect ports on Malaysia's east and west coasts, China agreed to lower the price tag by a third, from $16 billion to $11 billion. And in 2018, Myanmar's government sought help from the U.S. State Department to successfully renegotiate the terms of a Chinese-financed port construction project.

Economic statecraft is never easy. Coercive measures such as sanctions often fail to convince the target, no matter whether they are imposed by Washington or Beijing. Although the lure of inducements may seem to hold more promise, they also come with risks. In China's case, failure has been more the rule than the exception. That's because the success of inducements depends greatly on the political dynamics in the recipient countries. During the Cold War, for example, American aid to corrupt developing countries in Africa and Latin America was successful at propping up dictators, whereas in Europe, the Marshall Plan succeeded at strengthening U.S. influence in democratic countries. Above-board Japanese aid and investment have bolstered Tokyo's image in Southeast Asia generally speaking but made few political inroads in Cambodia, where China's subversive approach has flourished. Beijing may find that its subversive style works well in corrupt, authoritarian states, but it will likely continue to struggle in countries where accountability matters—many of which are also strategically important.

This is not to say that Beijing's attempts at economic statecraft should be written off. With the BRI, China is learning from its missteps. It has announced that it will curb "irrational" BRI investments, crack down on Chinese investors' illegal activities abroad, and establish a new agency to coordinate foreign aid. At the BRI's international forum in 2019, Chinese leaders went beyond their usual bland "win-win" rhetoric and for the first time emphasized mantras of quality infrastructure, zero corruption, and ample transparency. At the same summit, China's central bank and finance ministry also announced new financing criteria that would take into account recipient countries' existing debt loads.

On the flip side, growing illiberalism globally may give China more opportunities to gain influence in subversive ways. Particularly in countries teetering on the brink of authoritarianism, carrots that buy off corrupt elites could not only help them maintain their hold on power but also do long-term damage to political institutions. China could thus entrench authoritarianism—even if it is not actively trying to export autocracy. As a preventive measure, the United States and its partners can strengthen accountability institutions in recipient countries and provide technical expertise to help them negotiate with China. But framing the issue as a U.S.-led club of democracies competing against China's authoritarian camp is almost certain to alienate many of those countries, which would prefer to avoid choosing between two rival powers.

In the end, China's rapidly expanding overseas economic presence, particularly when accompanied by subversion and coercion, may exacerbate strategic fears across the globe. Chinese officials may still think that economic development naturally promotes goodwill and gratitude among recipients, but there is good reason to believe that they are wrong. China, it turns out, cannot count on automatically converting its growing economic clout into a new geopolitical reality.

AUDRYE WONG is Grand Strategy, Security, and Statecraft Postdoctoral Fellow at the Harvard Kennedy School and the Massachusetts Institute of Technology's Security Studies Program.