

Between State Capitalism and Economic State Craft: China INC.

Aravind YELERY

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China's economy underwent regulatory, structural as well as spatial makeovers since the increase of opening up and reforms in 1978. Intermittent policy interventions have been implemented by the Chinese state to ensure that the economy plays a vital role. Relatedly, the Communist leadership's economic perspective was shaped by two key attributes: ideology and functionality (pp. 8, 11, 42, 119, 148, 313, 314). From an ideological perspective, the legacy of reforms was as crucial as the equitable principle of Communist rule in China, as both ensured the party's survival and its control over the state. From a functional perspective, the state's performance remained an essential indicator for China to achieve economic growth and improve the living conditions of its people. In his book, *Between State Capitalism and Economic State Craft: China INC*, China expert Aravind Yelery captures the systemic reflections of these transitions, mapping how the state fused growth and encouraged further opening to help China manifest its rise. The book delves into China's growth models examining how these contradictions are 'chosen ones' and how China aims to rally its economic statecraft globally. The central crux is the Communist Party of China's (CPC) authority retention over the economy by preventing the state from giving up control over important sectors and industries. State-Owned Enterprises (SOEs) played a vital part in achieving this goal in China's economy, allowing the CPC to control governance. Thus, the chapters are significantly interconnected enlightening on the ascendancy of capitalist approaches in the CPC, exploring how China managed to defy the decline experienced by previous communist regimes. The explanation of SOEs is presented as a key factor in establishing effective domestic economic controls, ultimately enabling China to exert its dominance in global economic affairs.

The slow but steadfast opening of the Chinese economy incurred shorter cycles of reforms, i.e., periodic relaxations for the household agriculture system, internal migration, and support for local entrepreneurship in the 1980s and 1990s. These recurrences acted as catalysts for the State-led economic transitions. Yelery's book attempts to understand the

intricate relations of the Chinese state's intervention to force the economy to perform, so that it instills confidence among party workers and the leaders. The book's narration looks beyond examining the state economy's performance, addressing the Party's distinctive traits and its influence on the state and political scripting.

Subsequently, terms like "state capitalism" and "economic statecraft" elaborate on the phenomenon of accruing state power and its global rise. State capitalism is described as a Communist state-led counter-responsive mechanism to foster growth, eventually striving at China's rise¹. At the same time, economic statecraft, as an exogenous process, was used to insulate China's growth externally. State capitalism provided the foundation for economic statecraft. During the restructuring process beginning in 1994, the Chinese state pushed for remodeling the economy, assuring the intactness of the indigenous growth of the economy, and using the external variables of growth (investments, technology, etc.). This remodeling benefitted incalculably in the case of SOEs. To elaborate on how State Capitalism and Economic Statecraft were intrinsically connected, the book uses SOEs as the case.

Since China opened the market, the SOEs have been used as one of the mediums to ensure that there would be an equitable distribution of access to economic growth. The book's first half explains the flourishing of SOEs and the reasons for state intervention. The SOEs were the crucial constituent of the Chinese socialist economy because they generated employment and safeguarded core state industries. The SOEs were also positioned to rally China's outbound policies. The proliferation of China's economic control beyond its national boundaries added weight to China's cumulative strategic prowess. Yelery underscores that while China continued investing abroad, and the state enterprises were used to determine the speed and direction, simultaneously controlled the penetration of foreign enterprises "poaching" the Chinese consumer market by deploying regulatory mechanisms such as anti-monopoly laws and duopoly laws, restricting foreign companies. As outlined in the book, the Chinese state's approach to economic growth was more to augment wealth creation than to distribute wealth equitably.

The book's second half focuses on the role of SOEs in China's economy and their position in a complex and highly competitive international economic system. Despite being the backbone of the Chinese economy, as Yelery highlights, SOEs were embroiled in fierce competition to endure and succeed in a rapidly changing economic environment. These SOEs were permitted to compete and engage in brutal bureaucratic tactics. Regardless of domestic competition from sister companies and bureaucratic hurdles in different provinces, the SOEs improved China's image by actively creating jobs and not causing losses. The SOEs subnational presence in new branches fostering job creation garnered mass approval for State's performance, consolidating the party's role. Internationally, the SOEs increased global competitiveness with their operations in the global production supply, particularly in critical sectors such as petroleum and technology which strengthened their position and capabilities globally.

1 Du, Ming. 2023. Unpacking the Black Box of China's State Capitalism. *German Law Journal* 24, 1: 125-150.

In addition, it is essential to note that Yelery contextualizes that the prosperity of China is inherently tied to the prosperity of the CPC. While China has been affected by the global economic slowdown, Yelery argues that Chinese officials could anticipate and prepare for it, through the lessons learned during the 1996 East Asian Financial Crisis. The CPC devised the Belt and Road Initiative (BRI) to maintain economic momentum, and he convincingly argues that it is more than an infrastructural connectivity project. It is a strategic plan to regulate the Chinese economy and reduce reliance on foreign enterprises. By controlling trade partnerships and ensuring access to markets and supply lines, the Chinese state can safeguard the core interests of its economy – less reliance on external forces and controlling the levers of the global economy. The BRI represents an effort to circumvent the global economic slowdown by rejecting the Western model and creating a new, Chinese-led model, thereby amplifying Communist China's role. This is a well-thought economic statecraft because it outrightly denies credit to Western states and establishes China as a global economic leader with an increasingly independent economic system.

Overall, a state-owned economy controlled by the Party serves as the primary means to shape the legacy of the Party and the state. The CPC aims to maintain control over the economy by preventing the state from relinquishing control over critical sectors and industries. The SOEs played a crucial role in fulfilling this mandate within China's economy, enabling the CPC to assert its rule. This centralized approach to control reinforces China's rise by leveraging the strengths of the state. Yelery endeavors to illuminate the contradictions inherent in China's surface-level reforms, where the state economy remains under the Party's dominion, and the Chinese state exercises command over the economy through the guise of reform and restructuring. The book explores the fundamental nature of the state economy through its chapters, revealing how SOEs were instrumental in establishing the Party's legacy by creating jobs and extending welfare. Furthermore, it illustrates how SOEs continue to be utilized as a conduit to enhance the Party's stature and further Xi's China Dream. However, by not exploring the advancements in science, technology and innovation, which is a central focus of the CPC and its SOEs the book has limited itself in contributing to the literature.