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The Effectiveness of Economic Inducements: An Analysis of Chinese Economic Inducements Towards the Philippines

Topic and Research Question

In the context of the South China Sea dispute, economic inducements represent a significant part of the strategic toolkit applied by claimant countries. Especially China leveraged the power of economic actions to achieve its political goals in the South China Sea. However, economic inducements do not necessarily translate into the desired policy outcome, with scholars and policymakers yet to understand the determinants of effective economic inducement.

This research therefore aims at contributing additional knowledge to the question as to which conditions determine the political effectiveness of economic inducement strategies. Accordingly, the Chinese economic inducement strategy towards the Philippines in the mid-2000s is analysed. In doing so, particular attention is paid to the role of commercial actors in the sender state, which are eventually responsible for operationalising economic inducements. Following the arguments raised by Norris (2010; 2016), who considered “state control” over these commercial actors to be a crucial determinant for the effectiveness of economic inducements, the research question was formulated as follows:

What was the level of Chinese state control over commercial actors during the economic inducement efforts towards the Philippines, and can we observe an impact on their effectiveness?

State of the Art

Both Western and Chinese scholars emphasised the complexity of domestic processes and the importance of government-business dynamics for the effectiveness of economic inducements. The discourse on the characteristics of the sender state derived from rather general remarks raised by scholars such as Mastanduno (1992; 2003) or Crumm (1995), who questioned the ability of certain sender states to sufficiently exercise control over commercial actors. Long (1996) eventually argued that sender states require a sufficient degree of “institutional capability” in order to mobilise the domestic resources necessary for the execution of economic inducements. P. A. Davis (1999) asked not only how to mobilise resources in general, but also how to direct them in the desired direction, adding a new sphere to the concept of control over domestic actors.

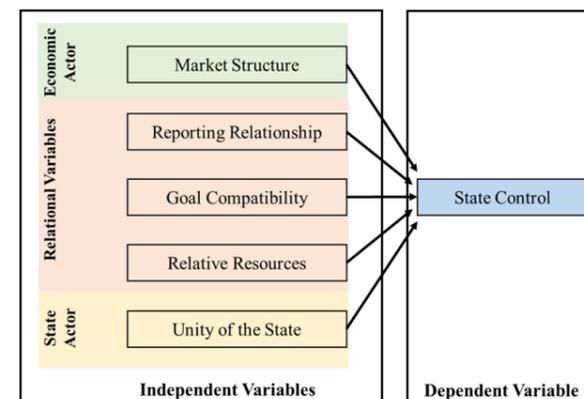
One of the first works particularly dealing with China as the initiator of economic inducements was presented by

Gill and Reilly (2007), as they examined coordination problems between the Chinese state and its commercial actors operating in Africa. However, it was not until (Norris 2010; 2016, 20) that a comprehensive analytical framework “that links the behavior of commercial actors to the grand strategy of the state” was developed. In an effort to explain how economic inducements actually work, Norris (2010; 2016) introduced the concept of “state control”, thus underscoring the need to thoroughly understand “how the state controls the commercial actors responsible for conducting the economic interaction” (Norris 2016, 25). The framework introduced by Norris (2010; 2016) builds on the principal-agent literature, providing a viable tool for analysing government-business dynamics.

Methodology and Approach

The research scope of this thesis is shifted towards China as the sender state (principal) of economic inducements, with particular attention being paid to its ability to control commercial actors (agent). Although the relationship between the government and its commercial actors has been subject to a substantial amount of research, it was not until Norris (2010; 2016) that an analytical framework for systematically assessing the extent of China’s state control in a given inducement case was established.

Consequently, two cases of Chinese economic inducements towards the Philippines – namely the construction of the North Luzon Commuter Railway (NorthRail) and the establishment of the National Broadband Network (NBN) – are analysed using the framework introduced by Norris (2010; 2016).



Main Facts

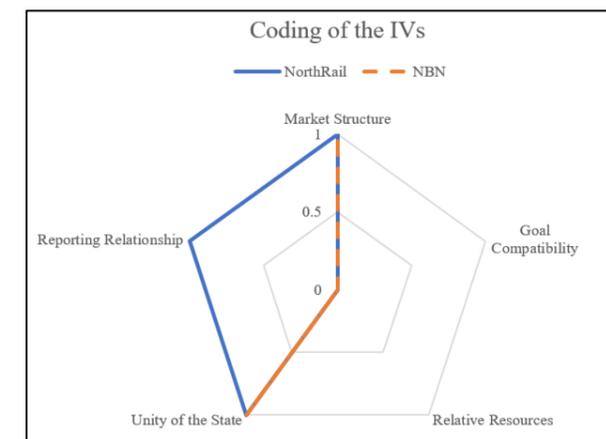
Within the empirical analysis, relevant evidence for both the NorthRail project – executed by the China National Machinery and Equipment Group (CNMEG) – and the NBN project – implemented by ZTE – was collected according to the analytical framework.

The analysis reveals that in either of the two cases, the distribution of relative resources was strongly in favour of the commercial actors. Both CNMEG and ZTE outnumbered the Chinese state and its responsible state organs in terms of financial budget and personnel count.

Likewise, CNMEG as well as ZTE pursued rather short-term, profit-oriented objectives by engaging in the respective inducement project. The objectives of the agents therefore are to be considered as divergent compared to the Chinese state’s rather strategic, political objectives associated with the two inducement projects.

However, the empirical analysis also revealed that the Chinese state – despite certain bureaucratic and institutional frictions as well as personal and ideological factions – managed to demonstrate sufficient “state unity” throughout the period of the economic inducement strategy. State unity is considered a crucial element when it comes to effective state control over commercial actors.

The coding of the remaining independent variables (IVs) relevant for the outcome of the dependent variable (DV) “state control” can be obtained from the figure below:



A value of “1” is considered conducive to effective state control, whereas a value of “0” is deemed obstructive to state control.

Results

Overall, this thesis focused on two particular cases of Chinese economic inducements in the Philippines. Based on the value of each IV, it can be concluded that in the case of the NorthRail project, the Chinese state should have been able to exercise effective state control over CNMEG. Conversely, the values of the IVs in the NBN project indicate that the Chinese state was not able to exercise sufficient state control over ZTE.

Therefore, the level of Chinese state control during its economic inducement strategy towards the Philippines can be described as **mixed**. Furthermore, the results of the analysis suggest that the level of state control over commercial actors indeed has an impact on the effectiveness of economic inducements. While the Chinese inducements have been partly successful in the short-term, which was mainly caused by the high degree of state control in the NorthRail project, the mixed degree of state control was not sufficient to alter the Philippines policy stance on the South China Sea dispute in the long-term. Thus, also the second part of the research question has been answered.

The results of this thesis eventually highlight the importance of sufficient agent oversight as well as intrinsically aligned goals of principal and agent. Likewise, the findings enable policymakers to better comprehend the dynamics of state control and therefore craft more effective economic inducement strategies.

References

All references can be found in the full version of the MA thesis available at <https://theses.univie.ac.at/>

About the Author

Manuel Widmann holds a B.A. in Business Administration. During his studies, he conducted exchange semesters in Beijing and Taipei studying Chinese. Manuel gained work experience in multinational companies, NGOs, Think Tanks and government affairs.



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