

Book Review

**Peter Nolan. *Is China Buying the World?*,
Malden, MA: Polity Press, 2012. 147 pp.
(ISBN 9780745660783)**

In this brief volume, Peter Nolan addresses the idea that China is “buying the world” causing a fearful reaction in the United States. What Nolan shows is that the phrase “buying the world” is much too simple a way to understand the seismic shifts in the Chinese economy in recent years. Nolan describes how China is attempting to change the way it is integrated into the global capitalist economy and details the challenges that China faces.

Nolan asks whether Chinese companies have been successful at expanding beyond Chinese borders, and whether large, multinational companies from other countries have been successful at penetrating the Chinese economy. Complicating the issue is the problem of who “we” are, and who “they” are. These are the topics of the first three chapters.

“We” are a series of global firms in key industries, all headquartered in high income countries. Since 1970 there has been a period of increased consolidation and concentration in many of these key industries, with the result that there has been increasing consolidation and concentration in their supply chains. These large corporations are weakening ties with their home countries, because increasing amounts of employment, sales, and procurement are occurring outside their home countries. Stagnation in high income

countries has led many huge firms to look to expand elsewhere in the world. China has seemed a natural place to focus given the size of its population, and its turn toward freer markets beginning roughly in 1978.

Nolan calls firms that produce final products such as automobiles “systems integrator firms.” They are the most visible, having the most recognizable brands and the best technology. In the large commercial aircraft industry, Boeing and EADS (Airbus) are the systems integrator firms. These firms are the ‘brains’ at the top of extended global supply chains. The emergence of systems integrator firms has forced suppliers to consolidate in what Nolan terms the “cascade effect,” more fully integrating their operations with the systems integrator firms. Component suppliers have become large global firms in their own right. Firms seeking to enter industries such as automobiles and commercial aircraft face the twin barriers of the size of the systems integrator firms and the size and orientation of component suppliers.

As a result, systems integrator firms exert more control over all aspects of their suppliers’ businesses. The “brain” at the top of the supply chain coordinates the actions of its own employees and those of its suppliers. Nolan points out that this further separates ownership and control. Management of the core firm controls the actions of the supplier, not the owners/stockholders of that company.

Most systems integrator firms have a major presence in industrialized or rich nations and they have built up a major presence in developing countries. The goal was to offset stagnation in the rich nations, and Nolan points out that if the rich nations fall into a recession, the world must follow.

“They” are a set of large Chinese industrial firms that China hopes will be globally competitive in the world market and eventually

able to challenge for global leadership in key sectors, such as telecommunications (China Mobile, China Telecom, China Unicom) autos and trucks (Shanghai Auto, Yiqi, Dongfeng) and banking and finance (Industrial and Commercial Bank of China, Bank of China).

Small and medium sized Chinese companies were allowed to earn profits and engage directly in market activity beginning in the 1980s. By the late 1990s, most small and medium sized firms had been released from state control and were making a significant contribution to Chinese economic growth. The state retained control of larger companies such as those listed above, which prevented expansion into China by established international firms through merger and acquisition.

Chinese attempts to foster its own global expansion have produced mixed results. Despite rapid GDP growth, China remains a developing country, as Nolan's Table 10 shows (67). Partially because rich country firms boast well-established reputations, Chinese firms have found it difficult to expand outward into other nations after successfully serving the domestic market. China does not have abundant natural resources, so Chinese imports from resource rich Africa and Latin America have increased steeply. This enables countries in these regions to import more Chinese goods, but this is still far below the size of Chinese exports to Europe, North America, and Japan.

In oil, China has largely been stymied. Worldwide, state-owned national oil companies (NOCs) control about 90 percent of world oil and gas reserves and produce about 75 percent of the output. The reserves controlled by American and European oil companies are much smaller than those controlled by NOCs, but are far larger than those controlled by Chinese oil companies. Western oil companies also have amassed a great deal of technical expertise, making them the first choice to partner with NOCs to develop

technically challenging new fields. Chinese attempts to acquire reserves to ensure their own energy security have failed.

The concluding chapter applies the main points of previous chapters to the key industries of banking and commercial aircraft. Global firms depend on banks for financial services. It should come as no surprise that as manufacturing firms grow in size, so do banks. These banks wield tremendous power which they use to push governments to deregulate their activity. The resulting financial crisis of 2007-2008 led to even bigger banks as weak or failed institutions merged with stronger institutions. Nolan points out that large Chinese banks do not have the same connections to the systems integrator firms that banks in the rich countries do, and there are political obstacles to overseas expansion by Chinese banks. This double hurdle has hindered Chinese state-owned banks, all of which operate in protected markets.

Banks rely heavily on IT, and Chinese banks are no exception. Nolan describes how they have upgraded and modernized their hardware and software over the past several years. The market for servers in Chinese banks is dominated by IBM and HP, with a 90% market share split between these two giant U.S. based firms (118). Nolan shows that Chinese banks are similarly dependent on outside firms for their software. Thus, he concludes that big, U.S. firms are deeply integrated into the strategically important Chinese financial sector.

Nolan also details the problems faced by the Chinese commercial aircraft industry. Although air travel in China has expanded tremendously, the planes are all supplied by the duopoly firms of Boeing and EADS (Airbus). The Chinese aircraft industry has succeeded in producing a working regional jet, the ARJ21, for which there were 200 orders. The plane faces stiff competition from firms in Canada and Brazil that dominate the regional jet market.

Nolan also writes that in late 2010 China announced 100 orders for the C919, a jet intended to compete with the Boeing B737 and the Airbus A320. Despite this remarkable achievement, Nolan concludes that China has a long way to go before it catches up. The aircraft and banking examples reveal that global firms headquartered in rich nations play a key role in the Chinese economy, but that Chinese firms do not yet play a similar role in the economies of rich nations. To use the simplistic phrase, China cannot yet “buy the world.”

There is a wealth of current information in the book. The prose is succinct. It is aimed at addressing the question of China “buying the world” in the most direct, fact based way. At times it reads like a statistical summary and this is an advantage when dealing with emotionally charged questions that touch on national rivalries. Both advanced scholars and undergraduates can benefit from the ‘snapshot’ the book offers of the current state of Chinese industry.

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