

# China's Party-State Capitalism and International Backlash

From Interdependence to Insecurity

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Efforts to guarantee national security in both China and countries of the Organisation for Economic Co-operation and Development (OECD) increasingly concern the activities of firms. Legal frameworks in several states, including China, have been reconfigured to include firms in intelligence and security work, and national security imperatives spearhead justifications for new barriers to inward and outward investment in countries that have long embraced free flows of capital across borders, such as the United States. This trend, evident since the mid-2010s, runs counter to the expectations of international relations literature and studies of “China’s rise” that highlight traditional security issues (e.g., territorial tensions) as the locus of interstate competition, and that view economic interdependence as a force for cooperation.

Nation-states do, of course, have territorial, political, and ideological disputes with the People’s Republic of China (PRC) government itself, yet legislatures and regulators have taken punitive actions against Chinese businesses, and government officials and diplomats have coordinated transnationally with similar intent. In just three years, the European Commission went from describing Chinese firms’ economic activities in developed democracies as a “reciprocal benefit,” to viewing such engagement as a major security liability.<sup>1</sup>

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1. High Representative of the Union for Foreign Affairs and Security Policy, *Joint Communication to the European Parliament and the Council* (Brussels: European Commission, June 22, 2016), p. 2, [https://eeas.europa.eu/archives/docs/china/docs/joint\\_communication\\_to\\_the\\_european\\_parliament\\_and\\_the\\_council\\_-\\_elements\\_for\\_a\\_new\\_eu\\_strategy\\_on\\_china.pdf](https://eeas.europa.eu/archives/docs/china/docs/joint_communication_to_the_european_parliament_and_the_council_-_elements_for_a_new_eu_strategy_on_china.pdf). The 2016 report identifies changes within China that are consistent with what we describe in this article, but the report retains previous EU-China strategies on engagement and mutual benefit. By 2019, the report’s tone had shifted to “strategic competition,” stating that the “EU’s approach to China should

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Why? We propose that both the significant evolution of China's political economy and subsequent reactions from many advanced industrialized countries are best explained in terms of security dilemma dynamics. Specifically, the Chinese Communist Party's (CCP) actions to ensure regime security—actions responding to perceived domestic and external threats—have generated insecurity in other states, causing them to adopt measures to constrain Chinese firms. These reactions have led to security competition between China and other states. The emergence of security dilemma and security competition dynamics in economic relations is surprising because economic interdependence is typically expected to mitigate interstate conflict.<sup>2</sup> Security competition with China in the economic realm thus offers an opportunity to expand conceptions of security dilemmas and competition, and indeed security, to include contestation over firms and the consequences of interdependence, especially when clear distinctions between military and civilian uses of technology, communications systems, and data are not easily drawn.

Moreover, we contend that explaining the backlash against China requires understanding the evolution of its economic model to what we call “party-state capitalism.” Since the end of the first decade of the 2000s, China's political economy has shifted from a familiar form of state capitalism to one in which the party-state has adjusted and expanded its role in the economy. This change has been driven by the leadership's uncertainty about its economic model, heightened anxiety after the 2007–2009 global financial crisis, and a more generalized perception of domestic and external threats. The CCP's approach to economic governance became “securitized,” such that political control over firms and risk management are prioritized over rapid growth. We identify two signature manifestations of “party-state capitalism”: (1) significant expansion of party-state authority in firms through changes in corporate governance and state-led financial instruments; and (2) drawing political “red lines” to enforce political fealty by various economic actors.

A major outcome of this change in China's domestic political economy is

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therefore take account of the evolving nature of the Chinese economy.” High Representative of the Union for Foreign Affairs and Security Policy, *EU-China: A Strategic Outlook* (Brussels: European Commission, March 12, 2019), p. 5, <https://ec.europa.eu/info/sites/default/files/communication-eu-china-a-strategic-outlook.pdf>.

2. See Katherine Barbieri, “Economic Interdependence: A Path to Peace or a Source of Interstate Conflict?” *Journal of Peace Research*, Vol 33, No. 1 (February 1996), pp. 29–49, <https://doi.org/10.1177%2F0022343396033001003>; and Joanne Gowa and Edward D. Mansfield, “Power Politics and International Trade,” *American Political Science Review*, Vol. 87, No. 2 (June 1993), pp. 408–420, <https://doi.org/10.2307/2939050>.

how the party-state treats both state-owned and private capital, which obfuscates where the party-state ends and firms begin.<sup>3</sup> The blurred boundary between the Chinese state and firms has generated perceptions of insecurity by other states because increased party-state economic control is considered as a new security capability and has fueled anxiety about China's intentions to weaponize economic relations. In response to China's party-state capitalism, the United States, Europe, and other countries have established or revitalized investment review institutions, endeavored to restrict Chinese "national champion" firms, and initiated policies and novel institutions in response to its unique economic system. The evolution of China's model has elevated economic interdependence and the actions of both Chinese and international firms to a central place in national security deliberations. By pointing to the economic origins of a security dilemma, this article reveals how the unique challenges of party-state capitalism in China have spurred national governments and international institutions to reshape their own economic strategies in ways that impact the future of globalization.

We note several points about the scope of our analysis. First, backlash against China is concentrated in the major developed economies. The United States has enacted the most regulatory and legislative measures, and, although they vary in their responses, other OECD members have undertaken similar efforts.<sup>4</sup> By contrast, some observers from the developing world have expressed a preference that their countries avoid confrontational actions.<sup>5</sup> Second, only a subset of China's economy operates at the forefront of party-state capitalism, eliciting international responses. Of primary relevance are large companies in strategically crucial sectors (e.g., technology and communica-

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3. Domestically, the Chinese Communist Party's (CCP) emboldened role threatens to alienate capitalists, on whom the country has depended for growth and innovation. We discuss this, and other outcomes of party-state capitalism, elsewhere. See Margaret Pearson, Meg Rithmire, and Kellee S. Tsai, "Party-State Capitalism in China," *Current History*, Vol. 120, No. 827 (2021), pp. 207–213, <https://doi.org/10.1525/curh.2021.120.827.207>.

4. Domestic politics and different trade and economic relationships with China create variation in countries' reactions to Chinese firms. European countries, for example, differ from one another and from the United States. This article focuses on the commonalities of Organisation for Economic Co-operation and Development (OECD) reactions in time and direction. Explaining variation among countries is beyond the scope of this article but would be part of a promising research agenda on how China's economic model has generated political economic changes abroad.

5. W. Gyude Moore, former Liberian minister of public works, argues that African governments, though reliant on China's infrastructure investments, do not see China as an existential threat. W. Gyude Moore, "Biden Already Has Africa's Early Goodwill, Here's How to Deliver on Its Promise," *Quartz Africa*, January 22, 2021, <https://qz.com/africa/1961323/how-joe-biden-can-revamp-us-africa-policy-with-an-eye-on-china/>.

tions) or with dual-use (civilian and military) capabilities. Small and medium enterprises, particularly those with a domestic focus, are less affected by the “securitization” of the economy. Finally, while the security dilemma dynamics represent a novel and consequential conflictual trend in the global economy, we recognize that other arenas of economic tension are not well explained in security dilemma terms because they are not about security, but rather classic domains of economic competition. We return to this idea at the end of the article.

The article proceeds as follows. We start by making the case that economic interdependence has become a critical source of insecurity for both China and its global economic partners. The next section draws on the security dilemma logic to theorize how important changes in China’s domestic political economy over the past decade have resulted in backlash and spiral dynamics. We then show how security competition took the form of global economic backlash against Chinese firms and conclude by reflecting on the implications of this security dilemma for global economic relations.

### *Economic Interdependence as a Source of Insecurity*

For decades, international relations scholarship has explored scenarios for U.S.-China conflict in the context of China’s growing influence. At one end of the theoretical spectrum, John Mearsheimer’s formulation of offensive realism depicts militarized rivalry between the United States and China as inevitable, whereby a dominant United States seeks to diminish a rising China’s power.<sup>6</sup> By contrast, liberal institutionalism proposes that economic interdependence with China offers a promising basis for peace, reassurance, and cooperation in security relations.<sup>7</sup> Scholarship in this vein suggests that economic cooperation can reduce the propensity for military conflict arising from a security dilemma.<sup>8</sup> In short, the complex interdependence that underlies a liberal global

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6. John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: W. W. Norton, 2001); and John J. Mearsheimer, “Can China Rise Peacefully?” *National Interest*, October 25, 2014, <https://nationalinterest.org/commentary/can-china-rise-peacefully-10204>.

7. G. John Ikenberry, “The Rise of China and the Future of the West: Can the Liberal System Survive?” *Foreign Affairs*, Vol. 87, No. 1 (January/February 2008), pp. 23–37; and see, by way of comparison, Nana de Graaff, Tobias ten Brink, and Inderjeet Parmar, “China’s Rise in a Liberal World Order in Transition: Introduction to the FORUM,” *Review of International Political Economy*, Vol. 27, No. 2 (2020), pp. 191–207, <https://doi.org/10.1080/09692290.2019.1709880>.

8. Debates surrounding this classical position on the pacifying effects of trade include Edward D. Mansfield and Brian M. Pollins, *Economic Interdependence and International Conflict: New Perspectives on an Enduring Debate* (Ann Arbor: University of Michigan Press, 2003); Katherine Barbieri, *The Lib-*

economic order, especially between the world's two largest economies, has long been viewed as a basis for cooperation or even a mechanism through which the United States might change China's behavior.<sup>9</sup> To the extent that China's economic rise has prompted warnings of rivalry or conflict, they are based primarily on a structural realist logic that focuses on shifts in relative power among states.<sup>10</sup> Such accounts highlight the size of China's economy and its relative economic power vis-à-vis other states, leading to hypotheses about whether China will achieve the level of technical prowess required to challenge U.S. military hegemony.<sup>11</sup>

Given this theoretical context, it is puzzling that economic interdependence constitutes the widest and thus far the sharpest point of conflict in China's relations with the United States and other industrialized economic partners. Political leaders in several countries have for years criticized China's trade-distorting subsidies, currency practices, and various elements of its "state capitalist" system.<sup>12</sup> Yet a new and more urgent concern is that economic engagement with China constitutes a *security* risk, and this view has quickly accumulated support in OECD countries from political parties spanning the ideological spectrum. Several governments have adopted or expanded institutions to review the security implications of both inward and outbound investments. China's national champions, including private firms, have been targeted by tools ranging from economic sanctions and entity listings to diplomatic campaigns. In response, China has threatened to withdraw investment from countries that exclude its firms from initiatives such as 5G deployment. Meanwhile, Beijing has limited market access for multinational firms that criticize some of China's policies.

After decades of arguments that interdependence would temper mispercep-

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*eral Illusion: Does Trade Promote Peace?* (Ann Arbor: University of Michigan Press, 2002); Christina L. Davis and Sophie Meunier, "Business as Usual: Economic Responses to Political Tensions," *American Journal of Political Science*, Vol. 55, No. 3 (July 2011), pp. 628–646, <https://doi.org/10.1111/j.1540-5907.2010.00507.x>; and Aaron L. Friedberg, "Ripe for Rivalry: Prospects for Peace in a Multipolar Asia," *International Security*, Vol. 18, No. 3 (Winter 1993/94), pp. 5–33, <https://doi.org/10.2307/2539204>.

9. Ikenberry, "The Rise of China."

10. For example, Mearsheimer, "Can China Rise Peacefully?"

11. Stephen G. Brooks and William C. Wohlforth, "The Rise and Fall of the Great Powers in the Twenty-First Century: China's Rise and the Fate of America's Global Position," *International Security*, Vol. 40, No. 3 (Winter 2015/16), pp. 7–53, [https://doi.org/10.1162/ISEC\\_a\\_00225](https://doi.org/10.1162/ISEC_a_00225); and Michael Beckley, "The Power of Nations: Measuring What Matters," *International Security*, Vol. 43, No. 2 (Fall 2018), [https://doi.org/10.1162/isec\\_a\\_00328](https://doi.org/10.1162/isec_a_00328).

12. Barry Naughton and Kellee S. Tsai, eds., *State Capitalism, Institutional Adaptation, and the Chinese Miracle* (Cambridge: Cambridge University Press, 2015).

tions and hostilities between China and other states, how has economic interdependence become the heart of the U.S.-China conflict? Others have observed that economic interdependence can produce conflict and vulnerability.<sup>13</sup> When there is significant asymmetric power among states, tensions may be manifested in what Henry Farrell and Abraham Newman call “weaponized interdependence,” whereby states with political authority over critical hubs “use global economic networks to achieve strategic aims.”<sup>14</sup> Yet the rapidity and severity with which economic interdependence became a source of global contestation for China begs for explanation.

We argue that escalating tensions over economic interdependence with China are best explained in terms of security dilemma dynamics triggered by changes in China’s domestic political economy since the beginning of the 2010s. Other wealthy countries perceived these changes as a security threat and took actions to counter the perceived threat. Security dilemma logic posits that the means by which one state tries to increase its own security decreases the security of other states.<sup>15</sup> In traditional security dilemma analysis, efforts by one state to increase its military capability increases insecurity in others, especially when the first state’s intentions about using the new capability are neither clear nor credible.<sup>16</sup> Paradoxically, then, one state’s efforts to enhance its own security will fail insofar as the responses by other states—arms

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13. On economic sanctions and other strategies of economic statecraft, see David A. Baldwin, *Economic Statecraft* (Princeton, N.J.: Princeton University Press, 1985); Albert O. Hirschman, *National Power and the Structure of Foreign Trade*, rev. ed. (Berkeley: University of California Press, 1980); Michael Mastanduno, “Economics and Security in Statecraft and Scholarship,” *International Organization*, Vol. 52, No. 4 (1998), pp. 825–854, <https://www.jstor.org/stable/2601359>; and cf. David J. Bulman, “The Economic Security Dilemma in US-China Relations,” *Asian Perspective*, Vol. 45, No. 1 (Winter 2021), pp. 49–73, <http://doi.org/10.1353/apr.2021.0013>.

14. Henry Farrell and Abraham L. Newman, “Weaponized Interdependence: How Global Economic Networks Shape State Coercion,” *International Security*, Vol. 44, No. 1 (Summer 2019), pp. 42–79, [https://doi.org/10.1162/isec\\_a\\_00351](https://doi.org/10.1162/isec_a_00351). We draw from this work, but our analytical task differs. Farrell and Newman examine how power is exercised by states that occupy privileged “hubs” in global networks, but we analyze why interdependence became the primary site of insecurity between China and partners.

15. Much of the security dilemma literature relating to China has involved regional relations in East Asia. See Thomas J. Christensen, “Fostering Stability or Creating a Monster? The Rise of China and U.S. Policy toward East Asia,” *International Security*, Vol. 31, No. 1 (Summer 2006), pp. 81–126, <https://doi.org/10.1162/isec.2006.31.1.81>; and Thomas J. Christensen, “China, the U.S.-Japan Alliance, and the Security Dilemma in East Asia,” *International Security*, Vol. 23, No. 4 (Spring 1999), pp. 49–80, <https://doi.org/10.1162/isec.23.4.49>.

16. Scholars debate whether a rival’s intentions can ever actually be known. See Sebastian Rosato, *Intentions in Great Power Politics: Uncertainty and the Roots of Conflict* (New Haven, Conn.: Yale University Press, 2021); and Andrew H. Kydd, *Trust and Mistrust in International Relations* (Princeton, N.J.: Princeton University Press, 2007).



buildups—actually heighten the first state's insecurity. The result is competition, an arms race spiral and, at worst, war.<sup>17</sup> Drawing on this classic logic, we argue that the content of China's domestic political economic practices, how they have changed over time, and perceptions of the sources of those changes have generated doubts about China's intentions and fears about its capabilities that contribute to security dilemmas.<sup>18</sup> In making this argument, we offer three contributions to the security dilemma concept and to understanding the U.S.-China conflict. We show, first, that when a regime with global significance perceives insecurity and acts to secure itself, international actors are more likely either to interpret those domestic actions as threatening or to reevaluate that country's intentions. In other words, we find that domestic, nonmilitary policies and actions can trigger a security dilemma.

Second, we demonstrate how economic relations can cause insecurity and security dilemmas. Here, we join Farrell and Newman and others in pushing scholars of international security to consider economic ties and globalization, but we also insist that domestic economic practices have global security implications, particularly in highly globalized states.<sup>19</sup> Much analysis of China in the international system has been dominated by assessments of China as a "newly aggressive" power or "revisionist state" that presents a challenge to the "rules-based international order."<sup>20</sup> Yet many of these works—both those portraying China as newly aggressive and critiques of that interpretation—focus on conventional realms of security studies, such as China's territorial

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17. Robert Jervis, *Perception and Misperception in International Politics* (Princeton, N.J.: Princeton University Press, 1976); Robert Jervis, "Cooperation under the Security Dilemma," *World Politics*, Vol. 30, No. 2 (1978), pp. 167–214, <http://doi.org/10.2307/2009958>; and Charles L. Glaser, "The Security Dilemma Revisited," *World Politics*, Vol. 50, No. 1 (October 1997), pp. 171–201, <https://doi.org/10.1017/S0043887100014763>.

18. Jervis, "Cooperation under the Security Dilemma"; and Glaser, "The Security Dilemma Revisited."

19. Farrell and Newman, "Weaponized Interdependence"; and Thomas J. Wright, *All Measures Short of War: The Contest for the Twenty-First Century and the Future of American Power* (New Haven, Conn.: Yale University Press, 2017).

20. Adam Breuer and Alastair Iain Johnston, "Memes, Narratives, and the Emergent US-China Security Dilemma," *Cambridge Review of International Affairs*, Vol. 32, No. 4 (2019), pp. 429–455, <https://doi.org/10.1080/09557571.2019.1622083>. Broader debates about China's grand strategy regarding the "global order" are beyond the scope of this article. On China's approach to the liberal international order, see Jessica Chen Weiss and Jeremy L. Wallace, "Domestic Politics, China's Rise, and the Future of the Liberal International Order," *International Organization*, Vol. 75, No. 2 (2021), pp. 635–664, <https://doi.org/10.1017/S002081832000048X>; Jessica Chen Weiss, "A World Safe for Autocracy? China's Rise and the Future of Global Politics," *Foreign Affairs*, July/August 2019, <https://www.foreignaffairs.com/articles/china/2019-06-11/world-safe-autocracy>; and Rush Doshi, *The Long Game: China's Grand Strategy to Replace American Order* (New York: Oxford University Press, 2021).

disputes, maritime activities, and behavior in international institutions. Our contribution is to identify a set of changes since the end of the first decade of the 2000s in China's domestic economic practices, including by its firms, that other governments interpret as evidence of enhanced capabilities or "greedy state" behavior.<sup>21</sup> This perception, in turn, has given rise to a security dilemma with implications for the global liberal order that facilitated economic interdependence in the first place.

Third, we highlight the central role of firms, not just states, in security dilemma dynamics. As detailed below, China's political economic changes have been construed, sometimes accurately, as incorporating firms, no matter their ownership, into China's security resources and capabilities vis-à-vis other states. Because of these blurred boundaries between the party-state and Chinese firms, and the security relevance of data and dual-use technologies, the actions of firms have security implications for states and can be the sites of security competition and spiral dynamics.

### *China's Domestic Anxieties and Actions*

Following Mao Zedong's death in 1976, economic reforms provided the basis for China's unprecedented growth. Although reforms led to privatization and downsizing of the state-owned sector, generations of reform-era leaders continued to reiterate the importance of state guidance in debates about China's direction.<sup>22</sup> By the mid-1990s, a Chinese version of "state capitalism" had taken shape and was widely considered an exemplary form as practiced under authoritarianism. Broadly speaking, "state capitalism" refers to mixed economies in which the state retains a dominant and relatively autonomous role even amid markets and privatization. Classic state capitalist tools include state ownership, subsidized credit, industrial policy, and appointment of managerial actors. Contemporary observers of state capitalism interpret state interventions as being deployed to bolster geostrategic and/or economic competition in globalized sectors.<sup>23</sup>

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21. On "greedy" versus "status quo" states, see Glaser, "The Security Dilemma Revisited."

22. Chinese government economists debated the relationship between the state and markets, particularly in the 1980s. Joseph Fewsmith, *Dilemmas of Reform in China: Political Conflict and Economic Debate* (Armonk, N.Y.: Routledge, 1994); and Isabella M. Weber, *How China Escaped Shock Therapy: The Market Reform Debate* (New York: Routledge, 2021).

23. Ian Bremmer, *The End of the Free Market: Who Wins the War between States and Corporations?* (New York: Penguin, 2010); and Joshua Kurlantzick, *State Capitalism: How the Return of Statism Is Transforming the World* (New York: Oxford University Press, 2016).



Since the first decade of the 2000s, China's state capitalism primarily aimed to manage and enhance the efficiency of large state-owned enterprises (SOEs) in sectors deemed crucial to China's security at home and abroad (e.g., energy, telecommunications, and finance). Reformers also urged large SOEs to create wealth for the party-state, often through market consolidation.<sup>24</sup> During this period, the nature of state capitalism in China was broadly consistent with its usage in comparative political economy, which cast state capitalism as motivated by developmental or redistributive logics. A strong state was needed to overcome "economic backwardness,"<sup>25</sup> and to manage industrial growth and global competition.<sup>26</sup>

Meanwhile, the CCP's core interests continued to center on safeguarding the survival of a CCP-led regime.<sup>27</sup> The PRC's conceptualization of national security has always encompassed "the security of the Chinese Communist Party and its ability to govern Chinese society,"<sup>28</sup> including through "stability maintenance."<sup>29</sup> During the Hu Jintao era, however, domestic and international events contributed to a changed approach to regime security that proactively sought to prevent risks rather than to simply maintain stability.<sup>30</sup> Economic governance also shifted to focus on threat prevention. A combination of perceived internal and external threats spurred a reconfiguration of its political economy to a model that we term party-state capitalism. We discuss the CCP's turn toward a more proactive strategy to ensure regime survival, first by addressing precipitating factors for such a turn and then by identifying domestic manifestations of the new model.

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24. Sarah Eaton, *The Advance of the State in Contemporary China: State-Market Relations in the Reform Era* (Cambridge: Cambridge University Press, 2016); and Barry Naughton and Kellee S. Tsai, eds., *State Capitalism, Institutional Adaptation, and the Chinese Miracle* (Cambridge: Cambridge University Press, 2015).

25. Alexander Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge, Mass.: Harvard University Press, 1962).

26. Alice H. Amsden, *The Rise of "the Rest": Challenges to the West from Late-Industrializing Economies* (New York: Oxford University Press, 2001).

27. Avery Goldstein, "China's Grand Strategy under Xi Jinping: Reassurance, Reform, and Resistance," *International Security*, Vol. 45, No. 1 (Summer 2020), pp. 164–201, [https://doi.org/10.1162/isec\\_a\\_00383](https://doi.org/10.1162/isec_a_00383); and Susan L. Shirk, *China: Fragile Superpower* (New York: Oxford University Press, 2007).

28. Sheena Chestnut Greitens, "Internal Security and Grand Strategy: China's Approach to National Security under Xi Jinping," statement before the U.S.-China Economic and Security Review Commission, Hearing on U.S.-China Relations at the Chinese Communist Party's Centennial, January 28, 2021, p. 1, [http://www.sheenagreitens.com/uploads/1/2/1/1/121115641/chestnut\\_greitens\\_-\\_natl\\_security\\_under\\_xi\\_jinping\\_\\_uscc2021\\_.pdf](http://www.sheenagreitens.com/uploads/1/2/1/1/121115641/chestnut_greitens_-_natl_security_under_xi_jinping__uscc2021_.pdf).

29. *Ibid.*, p. 5.

30. Sheena Chestnut Greitens, Myunghee Lee, and Emir Yazici, "Counterterrorism and Preventive

## GENERALIZED THREAT PERCEPTION

Ample literature on Chinese politics has elucidated how the CCP's fixation on domestic stability has increased steadily since around 2008. Especially following large-scale protests in Tibet (2008) and Xinjiang (2009), concerns about domestic "terrorism" engendered repressive party-state responses.<sup>31</sup> Upon assuming PRC leadership following the global financial crisis, Xi Jinping directed the party's internal attention on regime decay and collapse elsewhere to avoid such fates in China. The Soviet Union's collapse figured prominently in Xi's public speeches and instructions to rank-and-file officials. Mass mobilization through "color revolutions" in Eurasia during the early twenty-first century and the Arab Spring in 2010–2011 renewed the party's anxiety about popular demands for regime change with possible external influence.<sup>32</sup> Heightened alarm over perceived internal threats to the CCP's political power led its leadership to strengthen the regime's coercive and surveillance capacity.<sup>33</sup> Although Xi's "China Dream" carries a triumphalist sentiment, we interpret this nationalist rhetoric as directed primarily at domestic audiences and addressing the party-state's underlying insecurity that pre-dated Xi's rise.

Even as debate continues about whether the CCP's grand strategy toward the global system has changed under Xi, consensus exists that China's own perception of its security environment has shifted.<sup>34</sup> Following the global financial crisis and fearing technological inferiority and dependence, the CCP became preoccupied with securing the resources needed for the country's next stage of growth. China's approach to handling perceived domestic and external threats to its economic stability was elevated to the realm of national security and regime survival, which, we argue, transformed its model of domestic political economy.

## ECONOMIC INSECURITY

Various economic developments contributed to changes in China's model, including slower growth and the end of required World Trade Organization

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Repression: China's Changing Strategy in Xinjiang," *International Security*, Vol. 44, No. 3 (Winter 2019/20), pp. 9–47, [https://doi.org/10.1162/isec\\_a\\_00368](https://doi.org/10.1162/isec_a_00368).

31. Ibid. See also Yuhua Wang and Carl Minzner, "The Rise of the Chinese Security State," *China Quarterly*, Vol. 222 (2015), pp. 339–359, <https://doi.org/10.1017/S0305741015000430>.

32. Xi Chen, "China at the Tipping Point? The Rising Cost of Stability," *Journal of Democracy*, Vol. 24, No. 1 (2013), pp. 57–64, <https://doi.org/10.1353/jod.2013.0003>.

33. Jingyang Huang and Kellee S. Tsai, "Securing Authoritarian Capitalism in the Digital Age: The Political Economy of Surveillance in China," *China Journal*, Vol. 88, No. 1 (July 2022), pp. 2–28.

34. Avery Goldstein observes that a "less forgiving security environment" influenced Xi's efforts

(WTO) liberalization plans in 2005–2006.<sup>35</sup> Yet it was the global financial crisis and its aftermath that sparked an acute sense of insecurity, as the sudden drop in external demand highlighted China's dependence on exports.<sup>36</sup> The Hu Jintao-Wen Jiabao administration (2002–2012) responded with a massive stimulus package. While this investment boosted gross domestic product in several localities, rapid rise in public and corporate debt deepened concerns about financial instability and the sustainability of China's existing model. Domestically, many economists and policymakers concluded that the country should reduce its vulnerability to external markets. As Premier Wen Jiabao observed in March 2010:

There is insufficient internal impetus driving economic growth; our independent innovation capability is not strong; there is still considerable excess production capacity in some industries and it is becoming more difficult to restructure them; while the pressure on employment is constantly growing overall, there is a structural shortage of labor; the foundation for keeping agricultural production and farmers' incomes growing steadily is weak; latent risk in the banking and public finance sectors are increasing; and major problems in the areas of healthcare, education, housing, income distribution and public administration urgently require solutions. . . . We urgently need to transform the pattern of economic development . . . onto the track of endogenous growth driven by innovation.<sup>37</sup>

Upon assuming office in 2012, Xi cautioned that China's new normal required reorientation of its economic model. Lower growth should be expected, and to drive development the country should reduce reliance on exports by emphasizing domestic consumption.<sup>38</sup> Under Xi's leadership, the party-state has specified economic stability as a core component of national security and has used the state's repressive apparatus (i.e., anti-corruption prosecutions, detentions

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to reform the global system and resist challenges to China's core interests. Goldstein, "China's Grand Strategy." See also Greitens, "Internal Security and Grand Strategy."

35. Barry Naughton, "China's International Political Economy—the Changing Economic Context," in Ka Zeng, ed., *Handbook on the International Political Economy of China* (Cheltenham, UK: Edward Elgar, 2019), pp. 20–41; and Yeling Tan, *Disaggregating China, Inc.: State Strategies in the Liberal Economic Order* (Ithaca, N.Y.: Cornell University Press, 2021).

36. Nicholas R. Lardy, *The State Strikes Back: The End of Economic Reform in China?* (Washington, D.C.: Peterson Institute for International Economics, 2019).

37. Wen Jiabao, "Wen Jiabao, 2010 Report on the Work of the Government, March 5, 2010," delivered at the 3rd Session of the 11th National People's Congress (Los Angeles: USC US-China Institute, University of Southern California, March 4, 2010), <https://china.usc.edu/wen-jiabao-2010-report-work-government-march-5-2010>.

38. "Full Text of Xi Jinping's Report at 19th CPC National Congress," *China Daily*, November 4, 2017, [http://www.chinadaily.com.cn/china/19thcpcnationalcongress/2017-11/04/content\\_34115212.htm](http://www.chinadaily.com.cn/china/19thcpcnationalcongress/2017-11/04/content_34115212.htm).

of state and private actors, and firm nationalizations), rather than regulatory and macroeconomic tools alone, to address financial risks and malfeasance.<sup>39</sup>

Compounding domestic sources of economic insecurity, China's leaders became increasingly apprehensive about dependence on Western technology. Over 2013–2014, Edward Snowden's revelations that the United States had deployed a cyberattack against Iran and that the National Security Agency had breached Huawei's servers to access proprietary corporate information alarmed China's government, prompting it to establish the Central Cyberspace Affairs Commission in February 2014. The commission described the Snowden incident as "a wake-up call for all countries in the world that without cybersecurity, there can be no national security."<sup>40</sup> A Chinese Academy of Engineering academician echoes the dangers of relying on foreign equipment: "Despite the cost advantages of domestic equipment, nearly 80% of our country's backbone network equipment is Cisco products, which obviously provides convenience for implementation of 'prism gate' monitoring programs."<sup>41</sup> In addition, a group of executives warned China's leaders that reliance on foreign mainframe computers in finance, telecommunications, energy, and government affairs put national security at risk.<sup>42</sup> In March 2014, "protecting cybersecurity" appeared in the Premier's Party Congress Work Report, and a suite of new laws ensued to expand party-state control over cybersecurity.<sup>43</sup>

The damaging effects of the global financial crisis, combined with social instability and widespread corruption, called for policy responses. Intellectuals associated with the "New Left" sought solutions to societal ills associated with markets and privatization, especially inequality and bourgeois decadence.<sup>44</sup>

39. Jeremy Wallace, "The New Normal: A Neopolitical Turn in China's Reform Era," in Karrie J. Koesel, Valerie J. Bunce, and Jessica Chen Weiss, eds., *Citizens and the State in Authoritarian Regimes: Comparing China and Russia* (New York: Oxford University Press, 2020), pp. 31–58; and Meg Rithmire and Hao Chen, "The Emergence of Mafia-Like Business Systems in China," *China Quarterly*, Vol. 248, No. 1 (December 2021), pp. 1037–1058, <https://doi.org/10.1017/S0305741021000576>.

40. "Xuezhe jiedu: Zhongguo chutai wangluo shencha zhidu sida jiaodian" [Scholars explain: Four main emphases of China's emerging cyber security system], *CCP News Network*, May 23, 2014, <http://theory.people.com.cn/n/2014/0523/c40531-25054345.html>.

41. *Ibid.*

42. "Weihi wangluo anquan shangsheng dao guojia zhanlue de yiwei" [Maintaining cybersecurity has risen to the significance of national security], National People's Congress of the People's Republic of China, March 9, 2014, [http://www.npc.gov.cn/npc/xinwen/2014-03/09/content\\_1846981.htm](http://www.npc.gov.cn/npc/xinwen/2014-03/09/content_1846981.htm).

43. Li Keqiang, "Zhengfu gongzuo baogao" [Government work report], State Council of the People's Republic of China, [http://www.gov.cn/guowuyuan/2014-03/14/content\\_2638989.htm](http://www.gov.cn/guowuyuan/2014-03/14/content_2638989.htm). Party Congress Work Reports are critical documents that set the tone for the party-state's work every five years.

44. He Li, "Debating China's Economic Reform: New Leftists vs. Liberals," *Journal of Chinese Polit-*

Although pro-reform observers had hoped that Xi's seeming embrace of greater marketization would further curb state intervention,<sup>45</sup> the CCP has instead extended its authority and reach—organizationally, financially, and politically—into China's domestic and foreign economic relations. Prior developmental goals have increasingly been overshadowed by initiatives that place politics in command and state capitalism in the service of the regime's political survival. Broadly, the party is seen to be the solution to all potential threats. In the words of Joseph Fewsmith, "Xi has asserted the primacy of the party, inserting 'the party controls everything' into the party constitution for the first time."<sup>46</sup>

#### LEGAL AND DEVELOPMENTAL SECURITIZATION

The party's expanded reach and profound sense of insecurity found their way into a set of laws and a development strategy of "military-civil fusion" that reflect increased "securitization": economic issues have become national security issues in the eyes of China's party-state. Other states, in turn, increasingly view China's economic capabilities as potentially threatening.<sup>47</sup> In combination, these new laws and policy priorities have elevated economic activities to the level of national security. Most notably, recent laws compel "firms, individuals and other organizations" to provide information or support to the government if that information is deemed to have security implications. The 2017 National Intelligence Law explicitly states that "an organization or citizen shall support, assist in and cooperate in national intelligence work in accordance with the law and keep confidential the national intelligence work that

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*ical Science*, Vol. 15 (2010), pp. 1–23, <https://doi.org/10.1007/s11366-009-9092-4>. Efforts to reduce the harms of Chinese capitalism underlay the Chongqing Model of Bo Xilai. See Philip C. C. Huang, "Chongqing: Equitable Development Driven by a 'Third Hand,'" *Modern China*, Vol. 37, No. 6 (2011), pp. 569–622, <https://doi.org/10.2307/23053340>.

45. Xi called for further liberalization and pledged to "let markets play the decisive role" at the 3rd Plenum of the 18th Party Congress in November 2013. "Central Decisions on Several Major Issues Regarding Comprehensively Deepening Reform," Central Committee of the Communist Party of China, November 12, 2013, Central People's Government of People's Republic of China, [http://www.gov.cn/jrzq/2013-11/15/content\\_2528179.htm](http://www.gov.cn/jrzq/2013-11/15/content_2528179.htm).

46. Joseph Fewsmith, "The 19th Party Congress: Ringing in Xi Jinping's New Age," *China Leadership Monitor*, No. 55 (Winter 2018), p. 18, <https://www.hoover.org/research/19th-party-congress-ringing-xi-jinpings-new-age>.

47. People's Republic of China (PRC) government documents increasingly cite "economic security" as a key feature of "comprehensive national security." Helena Legarda, "China's New International Paradigm: Security First," in Nis Grünberg and Claudia Wessling, eds., *The CCP's Next Century: Expanding Economic Control, Digital Governance, and National Security* (Berlin: Merics, June 15, 2021), [https://merics.org/sites/default/files/2021-07/MERICSPapersOnChinaCCP100\\_3\\_1.pdf](https://merics.org/sites/default/files/2021-07/MERICSPapersOnChinaCCP100_3_1.pdf).

it or he knows" (Article 7).<sup>48</sup> The intelligence law was passed following a revamp of China's legal system related to security, which included the sweeping 2015 National Security Law that specified economic security (Article 19) and financial stability (Article 20) as key pillars of "national security" requiring state protection.<sup>49</sup> Table 1 lists the main national security laws that obligate companies.

China adopted a new military-civil fusion strategy to accompany the laws mandating firm cooperation with intelligence and security operations. Issued by the CCP, the PRC State Council, and the party's Central Military Commission in 2015, the 13th Five-Year Special Plan for Science and Technology Military-Civil Fusion Development called for "integrated development of economic construction and national defense construction."<sup>50</sup> The new strategy aimed to build a modern and efficient military by involving the private sector in research and development (R&D), manufacturing, and logistics to benefit the wider economy through commercialization of military technology.<sup>51</sup> Implementing this holistic developmental strategy would require breaking down legal and institutional barriers between commercial and military technology to strengthen R&D coordination among military research institutes, state-owned defense companies, universities, and the private sector.

As a complement to military-civil fusion, the "Made in China 2025" (MiC2025) initiative was introduced in 2015 to upgrade the country's industrial capacity and promote "indigenous innovation" (*zizhu chuangxin*) in core technologies, including artificial intelligence, 5G, semiconductors, biotech, aerospace, and electric vehicles.<sup>52</sup> An explicit goal of this industrial policy was to reduce perceived risks associated with China's reliance on foreign technol-

48. Standing Committee of the National People's Congress, "National Intelligence Law of the People's Republic of China (2018 Amendment)," Order No. 6 of the President of the People's Republic of China, April 27, 2018, <http://en.pkulaw.cn/display.aspx?cgid=313975&lib=law>. The 2016 Cybersecurity Law similarly required that data be stored within China and authorized authorities to spot-check records to ensure compliance. Standing Committee of the National People's Congress, "2016 Cybersecurity Law," *China Law Translate*, November 7, 2016, <https://www.chinalawtranslate.com/en/2016-cybersecurity-law/>.

49. Standing Committee of the National People's Congress, "National Security Law of the PRC," July 1, 2015, [http://www.gov.cn/zhengce/2015-07/01/content\\_2893902.htm](http://www.gov.cn/zhengce/2015-07/01/content_2893902.htm).

50. *Ibid.*

51. "Zhonggong zhongyang, guowuyuan, zhongyang junwei yinfa 'guanyu jingji jianshe he guofang jianshe ronghe fazhan de yijian'" [Party Central Committee, State Council, and Central Military Commission issue "Opinions on Integrated Development of Economic Construction and National Defense Construction"], *Xinhua*, July 21, 2018, [http://www.xinhuanet.com/politics/2016-07/21/c\\_1119259282.htm](http://www.xinhuanet.com/politics/2016-07/21/c_1119259282.htm).

52. Ling Chen, *Manipulating Globalization: The Influence of Bureaucrats on Business in China* (Stanford, Calif.: Stanford University Press, 2018).



ogy by 2025. MiC2025's nationalistic discourse about "catching up with" and "surpassing" (*ganchao*) the West in technological capabilities and reducing dependence on global supply chains would be met with external alarm and criticism, especially when target sectors were potentially dual military-civilian use. But even before this ambitious industrial policy provoked global security concerns, it reflected China's own sense of insecurity vis-à-vis its domestic economy and position in global supply chains. MiC2025 was conceptualized in the aftermath of the global financial crisis and the Snowden revelations. In the spirit of "supporting national economic and social development and maintaining national security," in June 2014 the PRC State Council released a set of guidelines on integrated circuits, calling them a "strategic technology."<sup>53</sup> The guidelines stressed China's "huge gap" with leading countries and emphasized that it was "difficult to achieve national industry core competency and to enforce information security."<sup>54</sup>

One channel that China identified for upgrading domestic technological capabilities was to establish multiple "professionally managed" private equity funds to invest on behalf of the state. In 2013, the Ministry of Industry and Information Technology piloted the model by selecting two private firms to be general partners and fund managers.<sup>55</sup> This model was extended to MiC2025 more broadly in 2015. Industrial policy and even innovation policy were not new, but obfuscation of state and private boundaries was, as was the creation of legal and political foundations for the party-state's emboldened and more security-focused role. State security goals permeated all kinds of organizations, and this hallmark of party-state capitalism was interpreted abroad as China's offensive drive to dominate and weaponize important supply chains.

### *Party-State Capitalism*

Applying a security logic (i.e., securitization) to state economic intervention has generated a pronounced change in China's model of political economy that we call party-state capitalism. Party-state capitalism contains new fea-

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53. "Guidelines for the Promotion of the Development of the National Integrated Circuit Industry" (Beijing: State Council of the People's Republic of China, 2014), <http://www.lawinfochina.com/display.aspx?id=26681&lib=law>.

54. *Ibid.*

55. "Guanyu Beijingshi jicheng dianlu chanye fazhan ququan touzi jijin linxuan guanli gongsi de gonggao" [Selection of management companies for Beijing Integrated Circuit Industry Development Equity Investment Fund announced] (Beijing: Ministry of Industry and Information Technology, December 18, 2013), <http://www.miit.gov.cn/n1146285/n1146352/n3054355/n3057643/n3057649/c3625593/content.html>.

Table 1. Laws Ascribing National Security Roles to Chinese Firms

Name	Year	Notable clauses
Counter-Espionage Law	2014	Citizens and organizations shall facilitate and provide other assistance to counter-espionage efforts (Article 4); state protects and rewards those who make major contributions to this effort (Article 7).
National Security Law	2015	Establishes “economic security” and “financial stability” as pillars of national security (Articles 19, 20). Enterprises, among other organizations, have responsibility and obligation to preserve national security (Article 11), and shall cooperate as required by national security efforts (Article 78).
Counter-Terrorism Law	2015	Telecommunications operators and Internet service providers shall provide technical interfaces, decryption, and other technical support assistance to state organs conducting prevention and investigation of terrorist activities (Article 18).
Cybersecurity Law	2016	Network operators shall protect cybersecurity, accept supervision from the government and public, and bear social responsibility (Article 9). Network operators shall provide technical support and assistance to state organs related to national security (Article 28).
National Intelligence Law	2017	Organizations and citizens shall support and cooperate with the state intelligence work (Articles 7, 14).
National Security Law of Hong Kong	2020	Criminalizes separatism, subversion, terrorism, and collusion with foreign countries or “external elements” deemed to endanger national security. Applies to “any institution, organization or individual” in Hong Kong (Article 6) or outside of China (Article 29).

tures and emphases undergirded by a focus on maintaining the party’s monopoly on political power.<sup>56</sup> Although these novel features build on structural elements of China’s state and economy, they have become more politically important, with profound impacts on firms. Most notably, these trends have muddied the conventional distinction between the state and firms, and between state-owned and private capital. Confusion and suspicion about these

56. Robert Gilpin’s classic statement on the international politics of investment identifies three dominant “ideologies” of political economy—liberalism, Marxism, and mercantilism. Although party-state capitalism contains elements of all three, it is closest to mercantilism, insofar as both concepts highlight national security and the ideology of economic nationalism. But we show that the tools of party-state capitalism bore much deeper into the domestic economic system than envisioned in Gilpin’s mercantilist ideology. Robert G. Gilpin, *The Political Economy of International Relations* (Princeton, N.J.: Princeton University Press, 1987).

Table 1. *continued*

Name	Year	Notable clauses
Anti-Foreign Sanctions Law	2021	Organizations/entities/individuals must follow these rules: they may be subject to countermeasures if they are involved with "discriminatory restrictive measures against Chinese citizens and organizations" (Article 4); they must implement anti-foreign sanction measures (Article 11); they must not aid in implementing sanctions imposed by other countries (Article 12).
Data Security Law	2021	Expects departments, industry organizations, enterprises, and individuals to protect data security (Article 9); prohibits domestic entities from providing critical data to foreign countries (Article 31).

SOURCES: Standing Committee of the National People's Congress, "Counter-Espionage Law of the PRC," *China Law Translate*, November 1, 2014, <https://www.chinalawtranslate.com/en/anti-espionage/>; Standing Committee of the National People's Congress, "Counter-Terrorism Law of the People's Republic of China," *China Law Translate*, December 27, 2015, amended April 27, 2018, <https://www.chinalawtranslate.com/en/counter-terrorism-law-2015/>; Standing Committee of the National People's Congress, "2016 Cybersecurity Law," *China Law Translate*, November 7, 2016, <https://www.chinalawtranslate.com/en/2016-cybersecurity-law/>; Murray Scot Tanner, "Beijing's New National Intelligence Law: From Defense to Offense," *Lawfare*, July 20, 2017, <https://www.lawfareblog.com/beijings-new-national-intelligence-law-defense-offense>; National People's Congress, "Anti-Foreign Sanctions Law of the PRC," June 10, 2021, <http://www.npc.gov.cn/npc/c30834/202106/d4a714d5813c4ad2ac54a5f0f78a5270.shtml>; "Data Security Law of the PRC," *Anquan neican* [Internal security documents], June 12, 2021.

blurred lines have fueled intense backlash against Chinese firms operating abroad, thereby deepening China's sense of insecurity. Below, we show how China's party-state capitalism differs from state capitalism in two main ways: (1) it expands the party-state's presence in firms through new corporate governance practices and financial instruments; and (2) it demands political fealty from firms and their connected individuals.

#### CORPORATE GOVERNANCE AND THE PARTY-STATE

To manage China's economy, party-state capitalism uses not only the classic state capitalist tools of state ownership and market interventions but also new modes of control designed to embed the party-state more deeply into the country's financial and economic system. The most direct channel for increasing party control of firms is through building party cells inside enterprises, including private and even foreign firms. The presence of party cells in private organizations is not new—even early CCP constitutions specified that any

unit with more than three party members should have a party cell.<sup>57</sup> In practice, however, this rule was lightly enforced.<sup>58</sup> Xi has upgraded the role of party cells and prioritized party building in firms, consistent with his 19th Party Congress declaration in 2017 that the “Party exercises leadership over all areas in every part of the country.”<sup>59</sup> Private firms and joint ventures have rapidly established their own party organizations,<sup>60</sup> 1.88 million non-state firms—73 percent—had established party cells by 2018.<sup>61</sup> Firm-level party branch construction within private companies has led owners to express anxiety that these cells will intervene in firm management.<sup>62</sup>

Party-state influence in China’s economy has also deepened through the deployment of new financial instruments, especially through investment of state-controlled capital well beyond state-owned firms. “Financialization” of the state’s role in managing SOEs is well-documented.<sup>63</sup> The role of state capital outside majority ownership is a less understood development, but it appears to be politically consequential.<sup>64</sup> Most important has been the estab-

57. Yue Hou, “The Private Sector: Challenges and Opportunities During Xi’s Second Term,” *China Leadership Monitor*, March 1, 2019, <https://www.prcleader.org/hou>.

58. Margaret M. Pearson, “Party and Politics in Joint Ventures,” *China Business Review*, Vol. 17, No. 6 (1990), pp. 38–40; and Xiaojun Yan and Jie Huang, “Navigating Unknown Waters: The Chinese Communist Party’s New Presence in the Private Sector,” *China Review*, Vol. 17, No. 2 (June 2017), pp. 37–63, <https://www.jstor.org/stable/44440170>.

59. Xi Jinping, “Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era,” speech delivered at the 19th National Congress of the CCP, Xinhua, October 18, 2017, [http://www.xinhuanet.com/english/download/Xi\\_Jinping’s\\_report\\_at\\_19th\\_CPC\\_National\\_Congress.pdf](http://www.xinhuanet.com/english/download/Xi_Jinping’s_report_at_19th_CPC_National_Congress.pdf).

60. Wendy Leutert, “Firm Control: Governing the State-Owned Economy under Xi Jinping,” *China Perspectives*, Vols. 1–2 (2018), pp. 27–36, <https://doi.org/10.4000/chinaperspectives.7605>; and Yan and Huang, “Navigating Unknown Waters.”

61. Organization Department of the Central Committee of the Communist Party of China, “2017 nian zhongguo gongchandang dangnei tongji” [2017 Statistical Bulletin of the CCP], Communist Party Member Network, June 30, 2018, <http://news.12371.cn/2018/06/30/ARTI1530340432898663.shtml>. Note that although we have used the term “private” to refer to firms outside the state sector, in Chinese official terminology, “non-state” (*fei guoyou*) includes both private firms and Sino-foreign joint ventures. We use “non-state” only when referencing Chinese official statistics and statements.

62. Hou, “The Private Sector”; and cf. Daniel Koss, “Party-Building as Institutional Bricolage: Asserting Authority at the Business Frontier,” *China Quarterly*, Vol. 248, No. S1 (2021), pp. 222–243, <https://doi.org/10.1017/S0305741021000692>.

63. Barry Naughton, “Financialisation of the State Sector in China,” in Yongnian Zheng and Sarah Yuetting Tong, eds., *China’s Economic Modernisation and Structural Changes: Essays in Honour of John Wong* (Singapore: World Scientific, 2019), pp. 167–186; and Yingyao Wang, “The Rise of the ‘Shareholding State’: Financialization of Economic Management in China,” *Socio-Economic Review*, Vol. 13, No. 3 (July 2015), pp. 603–625, <https://doi.org/10.1093/ser/mwv016>.

64. Hao Chen and Meg Rithmire, “The Rise of the Investor State: State Capital in the Chinese

lishment of “state-owned capital investment companies” that invest in private enterprises in strategic industries.<sup>65</sup> These shareholding firms typically purchase small minority stakes (generally less than 3 percent) in a listed private firm.

This new state-directed financial instrument took on unforeseen importance during the stock market crisis of summer 2015. In response to dramatic stock sell-offs that erased gains of the prior year, the China Securities Regulatory Commission convened a national team of state shareholding funds to purchase over 1.3 trillion renminbi of stocks on the Shenzhen and Shanghai exchanges. These funds eventually came to hold shares in half of all listed firms.<sup>66</sup>

This broad financial intervention reflected the party's narrative about political control—its purpose was to manage risk and maintain economic stability rather than to allocate capital toward productivity, efficiency, and other economic ends. The CCP has also introduced “special management shares” to monitor media and technology companies, given their strategic and political importance. Special management shares are a class of equity with more weighted voting rights or special governance power per share.<sup>67</sup> The first use of this system occurred in 2016 when the *People's Daily* acquired 1 percent of a Beijing-based Internet company and named a “special director” to the board who had veto power over content.<sup>68</sup>

Another new policy instrument related to state shareholding is the promotion of “mixed ownership,” defined as “crossholding by, and mutual fusion among state-owned capital, collective capital, and non-public capital.”<sup>69</sup>

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Economy,” *Studies in Comparative and International Development*, Vol. 55 (2020), pp. 257–277, <https://doi.org/10.1007/s12116-020-09308-3>.

65. PRC State Council, “Zhonggong zhongyang guanyu quanmian shenhua gaige ruogan zhongda wenti de jue ding” [CCP Central Committee decision on several major issues of deepening reforms], November 15, 2013, [http://www.gov.cn/jrzq/2013-11/15/content\\_2528179.htm](http://www.gov.cn/jrzq/2013-11/15/content_2528179.htm).

66. Chen Li, Huanhuan Zheng, and Yunbo Liu, “The Hybrid Regulatory Regime in Turbulent Times: The Role of the State in China's Stock Market Crisis in 2015–2016,” *Regulation & Governance*, Vol. 16, No. 2 (April 2022), <https://doi.org/10.1111/rego.12340>.

67. Qin Fang and Yimin Wang, “Zhengce yanbian yu yuqi lujing: Chuban chuanmeiye teshu guanli gu zhidu tantao” [Policy evolution and expected path: Discussion on China's “special management shares” in publishing industry], *Science-Technology & Publication*, No. 8 (2017), pp. 14–18.

68. Quanzhong Guo, “Teshu guanli gu ruhe luodi” [How to implement “special management shares” in reality], *Zhongguo chuban chuanmei shangbao* [China Publishing and Media Journal], October 27, 2017, [http://www.sohu.com/a/200512650\\_481352](http://www.sohu.com/a/200512650_481352).

69. CCP, “Decision of the Central Committee of the Communist Party of China on Some Major Issues Concerning Comprehensively Deepening the Reform,” *China Internet Information Center*, January 16, 2014, [http://www.china.org.cn/china/third\\_plenary\\_session/2014-01/16/content\\_31212602.htm](http://www.china.org.cn/china/third_plenary_session/2014-01/16/content_31212602.htm). The concept of “mixed ownership” was floated as early as 1999. The 14th Five-Year Plan

Mixed-ownership enterprises now dominate the landscape of publicly traded companies. By March 2020, 41.6 percent of SOE group holding companies and 62.7 percent of their subsidiaries were classified as “mixed ownership” (i.e., they have private shareholders).<sup>70</sup>

#### POLITICAL FEALTY

The second key manifestation of party-state capitalism is expectation of political fealty by firms and their connected individuals. The CCP has recently targeted several high-profile private sector capitalists.<sup>71</sup> In 2020, real estate magnate Ren Zhiqiang was sentenced to eighteen years in prison for “corruption” after criticizing China’s handling of COVID-19 and calling Xi Jinping “a clown.”<sup>72</sup> Even Alibaba Group’s founder and Ant Group (formerly known as Ant Financial) Chairman Jack Ma (Ma Yun), who once seemed irreproachable as an e-commerce pioneer and acknowledged CCP member, has faced trouble. Ant Group’s initial public offering was dramatically halted just days before its launch, in part reflecting Xi’s displeasure with Ma’s publicized critique of securities regulators for holding outmoded views—which he said represented a “pawnshop mentality”—of bank regulation.<sup>73</sup>

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guidance released in 2020 reiterated the priority of mixed ownership reforms. Zhong Nan, “Reforms among SOEs a Priority during 14th Five-Year Plan,” *China Daily*, December 4, 2020, [http://english.www.gov.cn/statecouncil/ministries/202012/04/content\\_WS5fc98a94c6d0f725769414f2.html](http://english.www.gov.cn/statecouncil/ministries/202012/04/content_WS5fc98a94c6d0f725769414f2.html).

70. Asia Society Policy Institute and Rhodium Group, “State-Owned Enterprise,” *China Dashboard*, Summer 2020, <https://chinadashboard.asiasociety.org/summer-2020/page/state-owned-enterprise>.

71. The CCP seems to have scrutinized the political loyalty of several wealthy capitalists, including those noted in Raymond Zhong and Alexandra Stevenson, “Jack Ma Shows Why China’s Tycoons Keep Quiet,” *New York Times*, April 22, 2021, <https://www.nytimes.com/2021/04/22/technology/jack-ma-alibaba-tycoons.html>; and Raymond Zhong, “As China Scrutinizes Its Entrepreneurs, a Power Couple Cashes Out,” *New York Times*, June 17, 2021, <https://www.nytimes.com/2021/06/17/business/soho-china-blackstone-sale.html>.

72. Chris Buckley, “China’s ‘Big Cannon’ Blasted Xi. Now He’s Been Jailed for 18 Years,” *New York Times*, September 22, 2020, <https://www.nytimes.com/2020/09/22/world/asia/china-ren-zhiqiang-tycoon.html>.

73. Raymond Zhong, “In Halting Ant’s I.P.O., China Sends a Warning to Business,” *New York Times*, November 6, 2020, <https://www.nytimes.com/2020/11/06/technology/china-ant-group-ipo.html>. A translation of Ma’s speech is at Kevin Xu, “Jack Ma’s Bund Finance Summit Speech,” *Interconnected*, November 9, 2020, <https://interconnected.blog/jack-ma-bund-finance-summit-speech/>. Ant Group and other e-commerce giants were also under scrutiny by regulators for anticompetitive business practices and for creating financial risk, trends that are not unique to China. See Angela Huyue Zhang, *Chinese Antitrust Exceptionalism* (Oxford: Oxford University Press, 2020). U.S. technology companies face similar questions about anticompetitive practices. See Subcommittee on Antitrust, Commercial, and Administrative Law of the Committee on the Judiciary, *Investigation of Competition in Digital Markets*, 116th Cong., 2nd sess. (2020),



The party's demands that corporations conform to its ideology has extended to multinational firms operating in China or otherwise subject to its market power. While governments have the authority to regulate foreign businesses within their borders, the CCP has also punished firms for perceived infractions and spurred nationalist sentiment among Chinese consumers. Meanwhile, a growing number of major brands and organizations have been pressured to express contrition for missteps, primarily relating to how Hong Kong, Taiwan, and Tibet are portrayed in their advertisements, social media, and on their websites,<sup>74</sup> or for critiquing human rights issues in Xinjiang. Table 2 provides a list of multinationals that have been pressured to apologize for their "political errors."

Businesses with significant stakes in the China market have also changed their discourse and behavior because of either direct pressure or self-censorship. Cathay Pacific Airlines, for example, suspended staff who participated in or expressed social media support for the protests in Hong Kong against a proposed extradition bill with China in 2019—its CEO resigned soon thereafter.<sup>75</sup> When China introduced a National Security Law for Hong Kong the following year (see table 1), before the law's text was even released the party's United Front Work Department had nearly all the territory's tycoons and international business leaders sign a statement supporting the law.<sup>76</sup> Under party-state capitalism, both domestic and foreign businesses must adhere to China's political correctness.

### *Backlash against Chinese Firms: Security Competition Realized*

Evolving perceptions of China's leaders led to the securitization of China's economy and the accompanying emergence of party-state capitalism. These changes create great confusion and fear overseas about the nature of China's political economy, and particularly about the party's expanded presence in

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[https://judiciary.house.gov/uploadedfiles/competition\\_in\\_digital\\_markets.pdf?utm\\_campaign=4493-519](https://judiciary.house.gov/uploadedfiles/competition_in_digital_markets.pdf?utm_campaign=4493-519).

74. Lucas Niewenhuis, "All the International Brands That Have Apologized to China," *SupChina*, October 25, 2019, <https://signal.supchina.com/all-the-international-brands-that-have-apologized-to-china/>.

75. Jamie Freed, "As Protests Rack Hong Kong, China Watchdog Has Cathay Staff 'Walking on Eggshells,'" Reuters, October 3, 2019.

76. Sheridan Prasso, "Mao's 'Magic Weapon' Casts a Dark Spell on Hong Kong," *Bloomberg News*, June 18, 2020, <https://www.bloombergquint.com/businessweek/china-s-united-front-pressures-support-for-hong-kong-laws>.

Table 2. Multinationals Pressured by China to Apologize for “Political Errors”

Company	Date of apology	Political error
Audi AG	3/15/2017	Used map of China without Taiwan and parts of Tibet and Xinjiang in a presentation in Germany.
MUJI	10/2017	Map in catalog did not include the Senkaku Islands.
Delta Air Lines	1/12/2018	Listed Taiwan and Tibet as countries on website.
Zara	1/12/2018	Listed Taiwan as country on website.
Marriott International	1/12/2018	Listed Tibet, Hong Kong, and Taiwan as countries on customer survey.
Medtronic	1/15/2018	Listed Taiwan as country on website.
Mercedes-Benz	2/6/2018	Quoted Dalai Lama on Instagram.
The Gap Inc.	5/14/2018	T-shirt with map of China did not include Taiwan.
American Airlines Group Inc.	6/25/2018	Listed Taiwan as country and Taipei as its capital on website.
United Airlines Inc.	6/25/2018	Listed Taiwan as country on website.
McDonald’s Corporation	1/19/2019	TV ad in Taiwan showed student ID with Taiwan as a country.
UBS Group	6/13/2019	Economist Paul Donovan referred to a “Chinese pig” during audio briefing.
Versace Group	8/10/2019	T-shirt with “Hong Kong” did not list “China” after it.
Givenchy	8/12/2019	T-shirt did not list “China” after “Hong Kong” and “Taipei.”
ASICS Corporation	8/12/2019	Listed Hong Kong and Taiwan as countries on website.
Coach	8/12/2019	Listed Hong Kong and Taiwan as separate regions from China on website. T-shirt with “Hong Kong” without country following it, and “Taiwan” listed after “Taipei.”
Calvin Klein	8/13/2019	Listed Hong Kong and Taiwan as separate countries or regions on website.
Valentino	8/13/2019	Listed Hong Kong and Taiwan as separate regions on website.
Swarovski Group	8/13/2019	Listed Hong Kong as country on website.
National Basketball Association	10/6/2019	Houston Rockets General Manager Daryl Morey tweeted support for protesters in Hong Kong.
Tiffany & Co.	10/7/2019	Ad with model Sun Feifei covering one eye (Hong Kong protest reference).
Apple	10/9/2019	Hosted app HKMap.live used by protesters in Hong Kong to track police.

Table 2. *continued*

Company	Date of apology	Political error
Dior	10/17/2019	Delivered presentation in China with map without Taiwan.
Burger King Corporation	3/20/2020	Burger King Taiwan referred to "the Wuhan pneumonia" on social media.
<i>Nature</i>	4/9/2020	British scientific journal <i>Nature</i> associated origin of COVID-19 virus with Wuhan and China.
HSBC Group	6/4/2020	CEO did not immediately sign petition organized by Chinese Communist Party's United Front Work Department supporting new National Security Law for Hong Kong.
adidas, Burberry, H&M, Lacoste, Nike, etc.	2021	Members of Coalition to End Forced Labour in the Uyghur Region boycotting cotton from Xinjiang.
Dior	11/24/2021	Portrayal of Chinese faces in photo.
Intel Corporation	12/23/2021	Instructed suppliers not to procure from Xinjiang.

SOURCES: Tara Francis Chen, "US Airlines Just Gave Into China's 'Orwellian' Demands over Taiwan—Here's Every Company That's Done the Same," *Business Insider*, July 25, 2018, <https://www.businessinsider.in/slideshows/miscellaneous/us-airlines-just-gave-into-chinas-orwellian-demands-over-taiwan-heres-every-company-thats-done-the-same/slidelist/65129831.cms>; David Dawkins, "UBS Economist Forced to Apologize after 'Chinese Pig' Comments Trigger Outrage," *Forbes*, June 13, 2019, <https://www.forbes.com/sites/daviddawkins/2019/06/13/ubs-economist-forced-to-apologize-after-chinese-pig-comments-trigger-outrage/?sh=4e3aab6d3979>; Emily Jiang, "Burger King Faces Boycott in China after Calling Coronavirus the 'Wuhan Pneumonia' on Facebook," *Daily Mail*, March 30, 2019, <https://www.dailymail.co.uk/news/article-8167899/Burger-King-China-apologises-Taiwan-operator-called-coronavirus-Wuhan-pneumonia.html>; Mairead McArdle, "Leading Scientific Journal *Nature* Apologizes for 'Associating' Coronavirus with China," *National Review*, April 9, 2020; Lucas Niewenhuis, "All the International Brands That Have Apologized to China"; Sheridan Prasso, "Mao's 'Magic Weapon' Casts a Dark Spell on Hong Kong"; Demetri Sevastopulo and Andrew Edgecliffe-Johnson, "Western Brands Caught between U.S. and China over Human Rights," *Financial Times*, April 2, 2021, <https://www.ft.com/content/a0be4094-2aba-4275-a3ca-ec5e58cc5032>; CK Tan, "Intel Apologizes after Xinjiang Policy Sparks China Backlash," *Nikkei Asia*, December 23, 2021, <https://asia.nikkei.com/Business/Companies/Intel-apologizes-after-Xinjiang-policy-sparks-China-backlash>; Phoebe Zhang, "Dior and Artist Chen Man Apologise for 'Immature and Ignorant' Photograph That Infuriated the Chinese Internet," *South China Morning Post*, November 24, 2021, <https://www.scmp.com/news/people-culture/china-personalities/article/3157180/dior-and-artist-chen-man-apologise-immature>.

economic matters and expectations for political fealty. Murky boundaries between state-owned and private enterprises and the fact that large private companies have relatively few protections from increasingly aggressive state intervention suggest that they are not as autonomous as one might expect given ownership structure. Even firms claiming to be purely private may be politically well connected. Once businesses reach a significant scale, they have accumulated myriad relationships with various bureaucracies, which connotes a degree of mutual dependence and vulnerability. The difficulty of distinguishing the political from the commercial motives of firms has also fueled the perception that business interests are aligned with those of China's party-state.<sup>77</sup> U.S. Senator John Cornyn expressed this succinctly in 2018: "There is no real difference between a Chinese state-owned enterprise and a 'private' Chinese firm in terms of the national security risks that exist when a U.S. company partners with one."<sup>78</sup> Regardless of whether such fusion sometimes exists, the ambiguity has produced uncertainty about China's intentions abroad and triggered security competition between China and other states, particularly the United States and its allies.

In the security dilemma literature, scholars have identified several mechanisms by which one state's attempted increase in security, or increased capabilities, reduces the security of other states. Newly acquired capabilities can create confusion about offense and defense and increase uncertainty about intentions, giving rise to fear that a state is amassing capabilities to wield against other states.<sup>79</sup> The uncertainty about where China's state or military end and firms begin has led other states to fear that China could use firms, supply chain dominance, or economic dependence as a weapon against potential rivals. This is a major change from other countries' views in the 1990s and even later that China might be "pacified by globalization"<sup>80</sup> or "playing our game."<sup>81</sup> The changes that we describe as party-state capitalism, to the con-

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77. Scott L. Kastner and Margaret M. Pearson, "Exploring the Parameters of China's Economic Influence," *Studies in Comparative and International Development*, Vol. 56 (2021), pp. 18–44, <https://doi.org/10.1007/s12116-021-09318-9>.

78. Full Committee Hearing: CFIUS Reform; Examining the Essential Elements, before the U.S. Senate Committee on Banking, Housing, and Urban Affairs, 115th Cong., 2nd sess. (January 18, 2018), <https://www.banking.senate.gov/hearings/cfius-reform-examining-the-essential-elements>.

79. Jervis, *Perception and Misperception*.

80. Richard K. Betts and Thomas J. Christensen, "China: Getting the Questions Right," *National Interest*, December 1, 2000, <https://nationalinterest.org/article/china-getting-the-questions-right-408>.

81. Edward S. Steinfeld, *Playing Our Game: Why China's Economic Rise Doesn't Threaten the West* (New York: Oxford University Press, 2010).

trary, were perceived by other states as evidence that China intended to weaponize its firms and economic clout, thereby reducing the security of other states.

Economic interdependence with China has thus become a national security concern in many OECD countries. We identify three arenas in which backlash is observable. First, several countries have altered institutional processes for reviewing inward foreign investment from China. Second, large Chinese firms have been subjected to punitive measures as countries increasingly associate national champion firms with the party-state's strategic interests. Third, at the domestic and transnational levels, novel institutions, such as the U.S. Department of Justice's China Initiative and the U.S.-EU Trade and Technology Council, have been established to manage unique security threats perceived to be associated with China's political economic model.

Before discussing economic backlash as security competition between China and other states, we acknowledge that not all economic contestation follows a security dilemma logic. Some conflict between China and other countries, including conflict over Chinese firms, follows a purer logic of economic competition or trade conflict. Indeed, military allies may engage in trade disputes, and most trade disputes fall outside the realm of security competition.<sup>82</sup> This remains true for China and the United States. For example, the 2020 Phase One trade deal between the United States and China showed that cooperation was possible (albeit briefly) in part because security interests were not involved. The United States, among other countries, has long-standing complaints about China's treatment of foreign firms, technology transfer and intellectual property practices, and China's preference for state-owned firms. The measures discussed below go beyond conflict over economic practices precisely because they involve security concerns—and they emerged *after* the consolidation of party-state capitalism. Further, Chinese telecom firm ZTE Corporation's viola-

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82. Economic conflict between the United States and Japan in the 1980s and early 1990s is instructive. The two countries were military allies, but fear of Japan overtaking the United States in critical industries generated pressure to restrict Japanese foreign direct investment (FDI) in the United States, contributing to the Exon-Florio amendment in 1988 that institutionalized a review by the Committee on Foreign Investment in the United States (CFIUS). Initially, some legislators wanted to require review for acquisitions that affected "national security" or "essential commerce," the latter desire representative of backlash against Japanese FDI. Ultimately, "essential commerce" was deemed too broad and excluded from CFIUS's purview. Therefore, though Japan's rising economic power generated political backlash, it did not yield institutional backlash, in part because it was not defined as a security concern. See Edward M. Graham and David M. Marchick, *U.S. National Security and Foreign Direct Investment* (Washington, D.C.: Institute for International Economics, 2006), pp. 33–53.

tion of U.S. sanctions on Iran ended with an agreement by which ZTE was allowed to access U.S. markets after paying a fine and under conditions of U.S. monitoring.<sup>83</sup> Later, ZTE was subject to sanctions and exclusions, but only after security interests regarding Chinese 5G vendors came to the fore. Our argument is not about general economic competition involving China; rather, we aim to explain specific dynamics of the backlash against China in terms of security dilemmas and security competition.

#### SCRUTINY OF CHINESE FOREIGN DIRECT INVESTMENT

Increased scrutiny of Chinese investment by recipient countries is a major form of backlash against party-state capitalism. In most cases, tightened investment review procedures reflect concerns over hazy ownership and the motives of investing Chinese firms. Backlash has, in turn, constrained China's efforts to gain more economic security. This cycle of insecurity and securitization, and backlash by other governments, is exemplified in China's strategic external investments to bolster the security of its domestic semiconductor supply chain.<sup>84</sup> Though Chinese firms are competitive in the manufacturing, outsourced assembly, and testing segments of the semiconductor supply chain, key domestic industries rely on chips designed globally. As early as 2013, China directed state and private funds to Chinese firms to encourage them to acquire foreign technology, which they reasoned would be faster than catching up through domestic innovation.<sup>85</sup>

Initial acquisitions were successful, especially before major trade and investment partners became acquainted with MiC2025, and before new laws and policies entangled China's security and economic efforts. In March 2015, a consortium of Chinese local government funds announced their intention to acquire Integrated Silicon Solution, Inc., a specialty memory chip designer. The \$640 million cash offer triggered competitive bidding, but was won by the

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83. "Settlement Agreement between the U.S. Department of the Treasury's Office of Foreign Assets Control and Zhongxing Telecommunications Equipment Corporation" (Washington, D.C.: U.S. Department of the Treasury, March 7, 2017), <https://home.treasury.gov/policy-issues/financial-sanctions/recent-actions/20170307>.

84. Mingtang Liu and Kellee S. Tsai, "Structural Power, Hegemony, and State Capitalism: Limits to China's Global Economic Power," *Politics & Society*, Vol 49, No. 2 (2021), pp. 235–267, <https://doi.org/10.1177%2F0032329220950234>.

85. The 2014 Integrated Circuit Guidelines exhorted companies to "fully utilize global resources" in research and development. See "Guideline for the Promotion." On Vice Premier Ma Kai's support for overseas acquisitions, see PRC Central Government, "Ma Kai Emphasized: Strive to Promote the Integrated Circuit Industry to Become Better, Stronger and Bigger," Xinhua, September 12, 2013, [http://www.gov.cn/ldhd/2013-09/12/content\\_2487501.htm](http://www.gov.cn/ldhd/2013-09/12/content_2487501.htm).



Chinese consortium and approved by the company's shareholders.<sup>86</sup> The proposed sale prompted Representative Dana Rohrabacher (R-CA) to write a letter to Treasury Secretary Jacob Lew warning that Chinese acquisitions could "gut" U.S. semiconductor capability.<sup>87</sup> Nonetheless, the Committee on Foreign Investment in the United States (CFIUS) approved the deal in November, around the time that it approved the \$1.9 billion cash purchase by another Chinese semiconductor fund consortium of OmniVision Technologies, a digital imaging solutions developer.<sup>88</sup>

Approvals turned to scrutiny quickly, however, given the U.S. and other governments' heightened concerns over China's new economic practices. This backlash against China's acquisition efforts in semiconductors predated Donald Trump's presidency and the onset of generalized U.S.-China trade conflict. By the end of 2016, actors inside and outside the United States were already voicing security concerns about blurred ownership lines and China's economic-security nexus. A White House report during the last month of Barack Obama's presidency, for example, stated that the United States should "calibrate its application of national-security controls in response to Chinese industrial policy aimed at undermining U.S. security."<sup>89</sup> This interpretation of China's industrial policy echoes the security dilemma dynamic: policies

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86. Integrated Silicon Solution, Inc., "Schedule 14A" (Washington, D.C.: U.S. Securities and Exchange Commission, n.d.), <https://www.sec.gov/Archives/edgar/data/854701/00011931251521513/d942022ddefa14a.htm>; and Ian King, "ISSI Shareholders Approve Acquisition by Uphill Investment," *Bloomberg*, June 29, 2015, <https://www.bloomberg.com/news/articles/2015-06-29/issi-shareholders-approve-acquisition-by-uphill-investment>.

87. Pete Carey, "Shareholders Approve ISSI Acquisition by Chinese Consortium," *Mercury News*, June 29, 2015, <https://www.mercurynews.com/2015/06/29/shareholders-approve-issi-acquisition-by-chinese-consortium-2/>.

88. OmniVision Technologies, "OmniVision to Be Acquired by Hua Capital Management, Citic Capital and Goldstone Investment for \$29.75 per Share in Cash," April 30, 2015, <https://www.ovt.com/news-events/corporate-releases/omnivision-to-be-acquired-by-hua-capital-management-citic-capital-and-goldstone-investment>. See OmniVision Technologies, Inc., "Schedule 14A" (Washington, D.C.: U.S. Securities and Exchange Commission, n.d.), <https://www.sec.gov/Archives/edgar/data/1106851/000104746915005341/a2225031zdefm14a.htm>; and OmniVision Technologies, Inc. "Form 8-K" (Washington, D.C.: U.S. Securities and Exchange Commission, October 5, 2015), [https://www.sec.gov/Archives/edgar/data/1106851/000110465915069470/a15-20858\\_18k.htm](https://www.sec.gov/Archives/edgar/data/1106851/000110465915069470/a15-20858_18k.htm).

89. President's Council of Advisors on Science and Technology, "Ensuring Long-Term U.S. Leadership in Semiconductors," PowerPoint presentation (Washington, D.C.: Executive Office of the President of the United States, January 2017), [https://obamawhitehouse.archives.gov/sites/default/files/microsites/ostp/PCAST/semiconductors\\_pcast\\_presentation.pdf](https://obamawhitehouse.archives.gov/sites/default/files/microsites/ostp/PCAST/semiconductors_pcast_presentation.pdf). The authors of the report were reacting to China's implementation rather than the presence of industrial policy as such: "Chinese competition could, in principle, benefit semiconductor producers and consumers alike. But Chinese industrial policies in this sector, as they are unfolding in practice, pose real threats to semiconductor innovation and U.S. national security" (p. 7).

adopted in China to buttress its own security were interpreted as new capabilities and intentions targeted against the United States.

In December 2015, U.S. and European officials became alarmed by the use of industrial policy and the web of relations between potential purchasers of German chip machine supplier Aixtron.<sup>90</sup> One year later, Obama blocked the proposed acquisition of Aixtron's U.S. business, which was only the third time that any president had blocked a foreign acquisition since CFIUS was established in 1975.<sup>91</sup> The Department of Treasury rationalized that the bidder was "owned by investors in China some of whom have Chinese government ownership," noting that the deal would have been funded by "a Chinese government-supported industrial investment fund established to promote the development of China's integrated circuit industry."<sup>92</sup> Blurred lines between the state and firms, coupled with a seemingly coordinated and security-motivated industrial policy, helped block Chinese acquisitions.

Ultimately, policymakers in the United States and beyond decided that extant institutions like CFIUS and export control regimes were insufficient to address the perceived threat of China's party-state capitalism. In summer 2018, a bipartisan bill (the Foreign Investment Risk Review Modernization Act [FIRRMA]) overhauled CFIUS. Whereas CFIUS previously required review only when a foreign investor pursued a *controlling* stake, the new process expanded review to foreign investors seeking *any* stake in companies "with substantial business in the U.S." if they are in "emerging technologies" or "critical infrastructure."<sup>93</sup> Senator John Cornyn (R-TX), one of the FIRRMA bill's co-sponsors, argued:

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90. On the Aixtron case, see Eyk Henning, "U.S. Regulators Move to Stop Chinese Takeover of German Tech Firm Aixtron," *Wall Street Journal*, November 20, 2016, <https://www.wsj.com/articles/u-s-regulators-move-to-stop-chinese-takeover-of-german-tech-firm-aixtron-1479549362>; and Paul Mozur and Jack Ewing, "Rush of Chinese Investment in Europe's High-Tech Firms Is Raising Eyebrows," *New York Times*, September 16, 2016, <https://www.nytimes.com/2016/09/17/business/dealbook/china-germany-takeover-merger-technology.html>.

91. "President Obama Blocks Chinese Acquisition of Aixtron SE," *Covington* blog, December 5, 2016, <https://www.cov.com/en/news-and-insights/insights/2016/12/president-obama-blocks-chinese-acquisition-of-aixtron-se>.

92. "Statement on the President's Decision Regarding the U.S. Business of Aixtron SE" (Washington, D.C.: U.S. Department of the Treasury, December 2, 2016), <https://home.treasury.gov/news/press-releases/jl0679>.

93. Specifically, the Foreign Investment Risk Review Modernization Act included noncontrolling investments in a U.S. business that afford a foreign person: (1) "material nonpublic technical information," meaning "information that is not available in the public domain and is necessary to design, fabricate, develop, test, produce, or manufacture critical technologies"; (2) membership or observer rights on the board of directors or equivalent; or (3) "any involvement, other than through voting of shares, in substantive decision-making regarding the use, development, acquisi-

The context for this legislation is important and relatively straightforward, and it's China. . . . China has been able to exploit minority-position investments in early-stage technology companies. . . . And there is no real difference between a Chinese state-owned enterprise and a "private" Chinese firm in terms of the national security risks that exist when a U.S. company partners with one.<sup>94</sup>

Since 2018, Chinese investment in the United States has fallen, and its investment in the technology sector is near zero.

The United States is not alone in responding to changes in China's political economy. In the late 2010s, many OECD countries passed new legislation to establish or strengthen investment review processes.<sup>95</sup> The United Kingdom issued a Green Paper in 2017 calling for investment review and in 2018, France, Germany, and Italy initiated discussions of an EU-wide investment screening process.<sup>96</sup> In semiconductors, Taiwan and South Korea, two key hubs for the global supply chains of information and communication technologies, took steps to prohibit or restrict Chinese acquisitions and prevent transfer of intellectual property and engineering talent to China.<sup>97</sup> In 2019, the Australian Foreign Investment Review Board announced its intent to increase scrutiny of Chinese private companies looking to buy Australian assets because there "is no such thing as a private company in China."<sup>98</sup>

As the external economic environment tightened for China, domestic commitment to self-reliance and security concerns over economic capabilities

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tion, or release of critical technologies." *Federal Register*, Vol. 83, No. 197 (October 11, 2018) (U.S. Department of the Treasury), [https://home.treasury.gov/system/files/206/FR-2018-22187\\_1786944.pdf](https://home.treasury.gov/system/files/206/FR-2018-22187_1786944.pdf).

94. Full Committee Hearing: CFIUS Reform.

95. United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2020: International Production beyond the Pandemic* (New York: United Nations, 2020), chap. 3, <https://unctad.org/webflyer/world-investment-report-2020>.

96. Legislation is not typically targeted at specific countries; procedures specify sector or type of transaction. See European Commission, "Proposal for a Regulation of the European Parliament and of the Council Establishing a Framework for Screening of Foreign Direct Investments into the European Union," document 52017PC0487, EUR-Lex, September 13, 2017, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52017PC0487>; UK Department for Business, Energy, and Industrial Strategy, *National Security and Infrastructure Investment Review* (London: National Archives, October 2017), [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/652505/2017\\_10\\_16\\_NSIL\\_Green\\_Paper\\_final.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/652505/2017_10_16_NSIL_Green_Paper_final.pdf); and UNCTAD, *World Investment Report 2018: Investment and New Industrial Policies* (New York: United Nations, 2018), [https://unctad.org/system/files/official-document/wir2018\\_en.pdf](https://unctad.org/system/files/official-document/wir2018_en.pdf).

97. President's Council of Advisors on Science and Technology, "Ensuring Long-Term U.S. Leadership in Semiconductors," p. 12.

98. Angus Grigg, "No Such Thing as a Private Company in China: FIRB," *Financial Review*, January 16, 2019, <https://www.afr.com/policy/foreign-affairs/no-such-thing-as-a-private-company-in-china-firb-20190116-h1a4ut>.

intensified. Shortly after CFIUS's overhaul, and as Chinese investment in OECD countries was plummeting because of political concerns, Xi Jinping remarked that China must rely on itself if rising unilateralism and protectionism obstructs access to leading technologies internationally, saying that self-reliance "is not a bad thing."<sup>99</sup>

#### SUSPICION OF LARGE CHINESE FIRMS

Backlash to party-state capitalism has engendered harsh global treatment of large Chinese firms. National and supranational actors increasingly treat Chinese firms in many sectors, whether state-owned or not, as extensions of the party-state. These international actors express concern that such firms could compromise national security and/or foster dependence on China. Over the last several years, the United States and other OECD countries have taken extraordinary steps to manage the perceived threat of China's national champions, making them the targets of coordinated containment efforts.

The global fight over 5G has been at the center of U.S.-China competition and has deeply affected third-party countries. U.S. lawmakers have long been suspicious of ZTE's state-owned status and Huawei's murky ownership. A 2012 House Intelligence Committee report criticized both companies for failing to clarify their relationships with the CCP and warned that they posed threats of "economic and foreign espionage by a foreign nation-state already known to be a major perpetrator of cyber espionage."<sup>100</sup> The report recommended that both the U.S. government and the private sector exclude Chinese vendors from their systems, yet it would be almost seven years before the 2018 National Defense Authorization Act prohibited federal agencies from procuring products or services from Huawei or ZTE. Meanwhile, Huawei equipment was already widely used in rural networks in the United States, and the company had extensive U.S.-based R&D centers, including partnerships with Stanford, the Massachusetts Institute of Technology, and the University of California at Berkeley.<sup>101</sup> Apprehensions mounted over Huawei's acknowl-

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99. Xu Wei, "Xi Stresses Nation's Self-Reliance," *China Daily*, September 27, 2018, <http://www.chinadaily.com.cn/a/201809/27/WS5babad9aa310c4cc775e8414.html>.

100. U.S. House of Representatives Permanent Select Committee on Intelligence, *Investigative Report on the U.S. National Security Issues Posed by Chinese Telecommunications Companies Huawei and ZTE*, 112th Cong., 2nd sess. (October 8, 2012), [https://republicans-intelligence.house.gov/sites/intelligence.house.gov/files/documents/huawei-zte%20investigative%20report%20\(final\).pdf](https://republicans-intelligence.house.gov/sites/intelligence.house.gov/files/documents/huawei-zte%20investigative%20report%20(final).pdf).

101. Paul Triolo, Kevin Allison, and Clarise Brown, *Eurasia Group White Paper: The Geopolitics of 5G* (London: Eurasia Group, November 15, 2018), <https://www.eurasiagroup.net/siteFiles/Media/>

edged theft of intellectual property, its publicly traceable reliance on subsidies from the Chinese government, and alleged aggressive practices and corporate espionage.<sup>102</sup> The company's behavior caused many, including those who generally supported economic engagement with China, to support either sanctions against or a Section 301 investigation of Huawei.<sup>103</sup>

By 2018, U.S. efforts to limit international expansion of Chinese telecom firms became increasingly urgent. The detention in Canada of Huawei Chief Financial Officer Meng Wanzhou, at the Department of Justice's request, was followed in May 2019 by the Donald Trump administration's executive order to place Huawei and its affiliates on the U.S. Department of Commerce's Bureau of Industry and Security's "unreliable entity" list. As Chinese telecom firms were subjected to unprecedented export controls, the U.S. State Department launched a global campaign against China over 5G. Allies in Europe, Asia, Latin America, and beyond were exhorted to join the U.S.-led Clean Network or risk losing U.S. investment, aid, or intelligence sharing.

Why did the United States initially open doors, albeit tepidly, to Chinese telecom firms and then embark on a global campaign to constrain and cripple them? We argue that the change in China's domestic political economic model contributed to this acceleration. While there had always been doubts about Huawei's independence from the CCP and China's military, claims that the company could be independent or exclusively commercially minded seemed increasingly implausible. The U.S. government's view of Chinese technology firms, and economic interdependence with China in general, became focused on security in reaction to the CCP's domestic securitization and model of party-state capitalism.

The Trump administration's policies toward Chinese tech firms—initiated under Obama and then largely continued under President Joe Biden—were based on concerns about the "pervasive nature of CCP power in China's domestic economic and legal system," such that the "party-state operates with a broad conception of national security and has tightened its grip on companies

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files/1811-14%205G%20special%20report%20public(1).pdf; and William Kirby, Billy Chan, and John P. McHugh, *Huawei: A Global Tech Giant in the Crossfire of a Digital Cold War*, HBS Case 320-089 (Cambridge, Mass.: Harvard Business School Publishing, 2020), pp. 6–7.

102. Scott Thurm, "Huawei Admits Copying Code from Cisco in Router Software," *Wall Street Journal*, March 24, 2003, <https://www.wsj.com/articles/SB10485560675556000>.

103. Interviews with former Commerce Department official, December 2018, Washington, D.C.; and former U.S. trade representative adviser, October 2017, Washington, D.C. Section 301 of the Trade Act of 1974 enables the U.S. trade representative to investigate and take action to defend the United States from unfair foreign trade practices.

and citizens alike.”<sup>104</sup> To be sure, the “omni-use” of technologies mattered, but it was the perception of China’s domestic political economy that changed over time, narrowing the space for cooperation and tolerance in host countries and with trade partners.

Secretary of State Mike Pompeo’s global Clean Network initiative, which began with 5G and expanded to a wide swath of tech sectors (e.g., cloud computing, undersea cables, software applications, data, minerals, infrastructure), illustrates the importance of China’s political economic system in generating broad backlash. Many OECD countries, including the United Kingdom, Germany, and France, initially allowed Huawei to bid for 5G contracts and pursued technical solutions to mitigate risk. The United Kingdom, for example, established the Huawei Cyber Security Evaluation Centre under the auspices of the National Cyber Security Centre as early as 2010.<sup>105</sup> Over the course of 2019–2020, however, many OECD governments and some developing countries decided to exclude Huawei from their respective networks over concerns that it was a Chinese company that could not guarantee its independence from the CCP. A German policy report concluded: “While there is also little reason to believe that the company has a particular interest in serving political purposes, Huawei has not only profited from party-state support, but is operating in a specific political, legal and economic environment that makes it impossible for the company to be fully independent.”<sup>106</sup> Wariness about China’s political economy extended beyond the risk of surveillance through telecom equipment or Huawei’s compelled participation in PRC intelligence work to encompass the risk that excessive dependence on Chinese technology would translate into political leverage. This perceived threat motivated the European Union’s Toolbox for 5G Security, which requires member states to “ensure that each operator has an appropriate *multi-vendor strategy* to avoid or limit any major dependency on a single supplier and avoid dependency on suppliers considered to be high risk [*italics in the original*].”<sup>107</sup> Australia

104. Robert D. Williams, “Beyond Huawei and TikTok: Untangling U.S. Concerns over Chinese Tech Companies and Digital Security,” working paper, Project on U.S.–China Relations, University of Pennsylvania (Washington, D.C.: Brookings Institution, October 30, 2020), <https://www.brookings.edu/research/beyond-huawei-and-tiktok-untangling-us-concerns-over-chinese-tech-companies-and-digital-security/>.

105. Ian Levy, “The Future of Telecoms in the UK,” National Cyber Security Centre blog, January 28, 2020, <https://www.ncsc.gov.uk/blog-post/the-future-of-telecoms-in-the-uk>.

106. Tim Rühlig, “Who Controls Huawei? Implications for Europe” (Stockholm: Swedish Institute of International Affairs, May 2020), p. 8, <https://www.ui.se/globalassets/butiken/ui-paper/2020/ui-paper-no.-5-2020.pdf>.

107. European Commission, “The EU Toolbox for 5G Security,” March 2021, <https://digital-strategy.ec.europa.eu/en/library/eu-toolbox-5g-security>.



likewise banned Chinese telecom vendors in 2018 because of the belief that these firms were “likely to be subject to extrajudicial directions from a foreign government” and therefore posed a security risk.<sup>108</sup>

New attempts to manage the perceived political risks of large firms are not confined to technology. Amid a rise in investments following the global financial crisis, the European Commission sought a means to review Chinese SOE investments, but various individual SOE assets in the European Union were too small to trigger the review threshold. In 2016, however, the European Commission issued a landmark decision to treat all Chinese SOEs in a single sector as one entity, thereby enabling the commission to adjudicate any given SOE's deals with any EU entity. The decision represented European policymakers' deployment of competition policy to address the perceived problems of state objectives affecting commercial enterprises in China's model of party-state capitalism.<sup>109</sup>

#### INSTITUTIONAL REORGANIZATION AND INNOVATION

We have discussed how OECD countries have overhauled or strengthened their existing institutions or attempted to build new national and transnational institutions to manage perceived threats posed by Chinese businesses. In each of these situations, policymakers have argued for new tools and policies because of the blending of state and commercial, or social, interests in China. The proposed solutions envision dramatic changes in the nature of Western political economy and, in some cases, spur controversial and intrusive behaviors into both the economy and U.S. society.

For example, we observe mounting efforts to limit *outbound* investment to China, especially in the United States. CFIUS was designed to ensure that foreign firms investing in the United States would not compromise national-security interests. But with escalating concerns about forced technology transfer and the prospect of U.S. capital supporting party-state goals, policymakers have begun to imagine institutions or rules that restrict the freedom of U.S. firms to make decisions about outbound investments. Indeed, a first iteration of the FIRRMA bill would have expanded CFIUS's purview to review every external investment of a U.S. business. In the end, FIRRMA did not contain this provision, but the idea of an institution that would review outbound investment remains. Questioning at a 2021 U.S.-China Economic and Security

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108. “Huawei and ZTE Handed 5G Network Ban in Australia,” *BBC News*, August 23, 2018, <https://www.bbc.com/news/technology-45281495>.

109. Zhang, *Chinese Antitrust Exceptionalism*, pp. 119–162.

Review Commission hearing expressly considered the features of an “outbound CFIUS.”<sup>110</sup> A wave of recent executive orders has tightened restrictions on U.S. capital investments in Chinese firms allegedly linked to the People’s Liberation Army. President Trump issued such an executive order in November 2020, and in June 2021, President Biden expanded the limits to include “use of Chinese surveillance technology outside the PRC, as well as the development or use of Chinese surveillance technology to facilitate repression or serious human rights abuses.”<sup>111</sup> Efforts in the U.S. Congress to restrict outbound foreign investment to China continued unabated into 2022.<sup>112</sup>

Established in November 2018, the Department of Justice’s China Initiative provided a controversial example of an expansive response designed in part to address the uniqueness of China’s model and the blurring of state and society. The initiative, the first in the Justice Department that named a specific country, was premised on the idea that a variety of activities emanating from the PRC, including economic espionage, intellectual property theft, influence on academic campuses, and more, pose a significant national security threat to the United States and require a muscular response.<sup>113</sup> Federal Bureau of Investigation Director Christopher Wray reasoned:

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110. Many objected to an outbound CFIUS, including members of the business community and others who feared a massive expansion of bureaucracy. See testimony by opponents at the U.S. House of Representatives Committee on Foreign Affairs, *Modernizing Export Controls: Protecting Cutting-Edge Technology and U.S. National Security*, 115th Cong., 2nd sess. (March 14, 2018), <https://docs.house.gov/meetings/FA/FA00/20180314/107997/HHRG-115-FA00-Transcript-20180314.pdf>; and Hearing on U.S. Investment in China’s Capital Markets and Military-Industrial Complex, before the U.S.-China Economic and Security Review Commission, 117th Cong., 1st sess. (March 19, 2021), [https://www.uscc.gov/sites/default/files/2021-03/March\\_19\\_2021\\_Hearing\\_Transcript.pdf](https://www.uscc.gov/sites/default/files/2021-03/March_19_2021_Hearing_Transcript.pdf).

111. White House, “Fact Sheet: Executive Order Addressing the Threat from Securities Investments that Finance Certain Companies of the People’s Republic of China,” June 3, 2021, <https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/03/fact-sheet-executive-order-addressing-the-threat-from-securities-investments-that-finance-certain-companies-of-the-peoples-republic-of-china/>. See also “Addressing the Threat from Securities Investments that Finance Communist Chinese Military Companies,” *Federal Register*, Vol. 85, No. 222 (November 17, 2020) (Executive Office of the President), <https://www.federalregister.gov/documents/2020/11/17/2020-25459/addressing-the-threat-from-securities-investments-that-finance-communist-chinese-military-companies>. In Executive Order 13959, President Trump stated, “Those companies, though remaining ostensibly private and civilian, directly support the PRC’s military, intelligence, and security apparatuses and aid in their development and modernization.”

112. See the broadly scoped United States Innovation and Competition Act of 2021, S.1260, 117th Cong., 1st sess. (June 8, 2021), <https://www.democrats.senate.gov/imo/media/doc/USICA%20Section-by-Section%205.19.21.pdf>; and President’s Council of Advisors on Science and Technology, “Ensuring Long-Term U.S. Leadership in Semiconductors.”

113. Margaret K. Lewis, “Criminalizing China,” *Journal of Law and Criminology*, Vol. 111 (2020), pp. 145–225, <https://scholarlycommons.law.northwestern.edu/jclc/vol111/iss1/3>.

China from a counterintelligence perspective represents the broadest, most challenging threat we face at this time . . . because with them it's a whole of state effort. It is economic espionage as well as traditional espionage; it is non-traditional collectors as well as traditional intelligence operatives; it's human sources as well as cyber means.<sup>114</sup>

Among its multiple targets, the China Initiative addressed growing suspicion that scientific and academic exchanges were a core channel for intellectual property theft, espionage, and other security risks. In the words of U.S. Attorney for the District of Massachusetts Andrew Lelling, "If you are collaborating with any Chinese entity, whether it's a university or a business, you are giving that technology to the Chinese government."<sup>115</sup> The intense scrutiny directed at Chinese nationals and Chinese Americans resulted in multiple cases of investigative overreach and racial profiling, providing China with further evidence of anti-China sentiment in the United States. In February 2022, after a months-long review and few results to show, the Department of Justice formally ended the China Initiative.<sup>116</sup>

An altogether different set of national reactions to China's model is less about constraining China and more about emulating its industrial policies and encouraging public-private partnerships. MiC2025 was modeled in part on Germany's Industry 4.0 plan. Reactions by U.S. policymakers, even among Republicans typically critical of statist economic intervention, include calls for "catalytic" investments in domestic technology sectors, extensive government

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114. Catherine Lutz, "FBI Director Christopher Wray Wants to Talk about More Than Russia," Aspen Institute blog, July 20, 2018, <https://www.aspeninstitute.org/blog-posts/fbi-director-christopher-wray-wants-talk-about-more-than-russia/>. Christopher Wray's "whole-of-society" approach to confronting China echoes Xi's 2018 view that the party should lead a "whole-of-society approach" to creating a cyber superpower. Christopher Wray, "The Threat Posed by the Chinese Government and the Chinese Communist Party to the Economic and National Security of the United States," remarks at Video Event: China's Attempt to Influence U.S. Institutions, Hudson Institute, July 7, 2020, <https://www.fbi.gov/news/speeches/the-threat-posed-by-the-chinese-government-and-the-chinese-communist-party-to-the-economic-and-national-security-of-the-united-states/>; and Rogier Creemers, Paul Triolo, and Graham Webster, "Translation: Xi Jinping's April 20 Speech at the National Cybersecurity and Informatization Work Conference," New America blog, April 30, 2018, <https://www.newamerica.org/cybersecurity-initiative/digichina/blog/translation-xi-jinpings-april-20-speech-national-cybersecurity-and-informatization-work-conference/>.

115. Andrea Widener, "70 Years of U.S. Suspicion toward Chinese Scientists—and What Those Caught in the Middle Should Do Now," *Chemical & Engineering News*, March 22, 2020, <https://cen.acs.org/policy/research-funding/70-years-US-suspicion-toward/98/i11>, cited in Lewis, "Criminalizing China," p. 178.

116. Aruna Viswanatha, "Justice Department Shifts Approach to Chinese National Security Threats," *Wall Street Journal*, February 23, 2022, <https://www.wsj.com/articles/justice-department-shifts-approach-to-chinese-national-security-threats-11645646452>.

procurement to create markets for novel technologies, and massive state investment in frontier sectors.<sup>117</sup> In July 2022, the \$52 million bipartisan CHIPS for America Act passed the U.S. Senate, with the goal of encouraging semiconductor companies to boost production of chips in the United States.<sup>118</sup> Although some of the architects of these new industrial policies are uneasy about them, they argue that changes are necessary to address China's unique political economy. Christopher Ford, then assistant secretary of state under Trump, explained:

We are working to break down traditional institutional stovepipes [in the U.S. government] to confront Beijing's whole-of-system strategy with a broad and coordinated response of our own. To be sure, we do not seek to break down all of the stovepipes in our socio-political system as the Chinese themselves have been attempting with their "Military-Civil Fusion" (MCF) strategy. . . . We here in the U.S. government don't have the authority to do that, and we don't want it. Free societies should not have the ability to call upon all of the tools of domestic coercion and command that are available to an authoritarian police state such as China.<sup>119</sup>

One State Department adviser remarked, "We're being backed into a more intrusive set of government policies. But we don't have a choice if we're going to deal with the commercial threat posed by China's national champions."<sup>120</sup>

At the levels of U.S. foreign policy and international regulation, concerns have shifted from managing unfair competition with "China, Inc."<sup>121</sup> to con-

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117. See United States Innovation and Competition Act of 2021.

118. See the Senate bill, CHIPS for America Act, S.3933, 116th Congress (2020), <https://www.congress.gov/bill/116th-congress/senate-bill/3933/text>; and a similar House bill, CHIPS for America Act, H.R. 7178, 116th Congress (2020), <https://www.congress.gov/bill/116th-congress/house-bill/7178/text>.

119. See "Christopher Ford, State Department, Bureaucracy and Counterstrategy: Meeting The China Challenge, Sept. 11, 2019," remarks at the Conference on Great Power Competition, U.S. Department of Defense, USC U.S.-China Institute, University of Southern California, Los Angeles, <https://china.usc.edu/christopher-ford-state-department-bureaucracy-and-counterstrategy-meeting-china-challenge-sept-11>.

120. Quoted in Meg Rithmire and Courtney Han, *The Clean Network and the Future of Global Technology Competition*, HBS Case 721-045 (Cambridge, Mass.: Harvard Business School Publishing, April 2021).

121. Concerns about unfair competition were the predominant reasons for the U.S.-China trade war that began in 2018. Even though national security was at times invoked as the rationale, such as for restrictions on iron and steel, the measures—reflecting what was legally most expedient in U.S. law—stuck to more standard trade remedies (e.g., tariffs). On "China Inc.," see Mark Wu, "The 'China, Inc.' Challenge to Global Trade Governance," *Harvard International Law Journal*, Vol. 57 (2016), pp. 1001–1063, Harvard Public Law Working Paper No. 16-35, <https://ssrn.com/abstract=2779781>.

fronting party-state capitalism, in which economic interdependence is interpreted to pose a security threat in addition to an economic one. U.S. officials and trade attorneys have long considered WTO rules, including those designed to restrict advantages that SOEs might gain from access to state funds, to be inadequate for addressing challenges posed by China.<sup>122</sup> Recent thinking about how to manage the perceived ill effects of party-state capitalism has occurred largely outside of international institutions such as the WTO, and in a style more akin to military alliances. A prime example is the Clean Network initiative, which took the shape of a transnational network partly to “provide a security blanket against China’s retaliation,” as its architect explained.<sup>123</sup>

At the extreme, China’s blending of political imperatives and economic interdependence has prompted calls for a “new kind of alliance—like NATO, but for economic rather than military threats.”<sup>124</sup> Some view China’s threats of retaliation and economic boycotts of countries that challenge its political views or discriminate against its firms as a problem that requires “collective economic defense,” such as jointly imposing tariffs and providing capital and strategic resources for countries punished by China.<sup>125</sup> Milder but still consequential forms of multinational institutional innovation involve increased attention to alliance-focused coordination on technology use and standards, data use and privacy, and supply chain resilience. Established in June 2021, the U.S.-EU Trade and Technology Council is, in the words of Biden’s National Security Advisor Jake Sullivan, intended to align “our approaches to trade and technology so that democracies and not anyone else, not China or other autocracies, are writing the rules for trade and technology for the 21st century.”<sup>126</sup> The council will initially prioritize coordinating standards on artificial intelli-

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122. Ibid.

123. In the words of Keith Krach, U.S. undersecretary for economic affairs in the Trump administration, “The elephant in the room was always the CCP’s bullying. Countries and companies were terrified of its retaliation. However, the key to beating all bullies is to confront them head-on. . . . And he really backs down if you have your friends by your side. The key to defeating China Inc. lies in the power of assembling a network of trusted partners to serve as a security blanket against China’s retaliation.” Telephone interview with author, Boston, Massachusetts, January 27, 2021.

124. Anthony Vinci, “How to Stop China from Imposing Its Values,” *Atlantic*, August 2, 2020, <https://www.theatlantic.com/ideas/archive/2020/08/like-nato-but-for-economics/614332/>.

125. Ibid.

126. Jake Sullivan, quoted in Mark Scott and Jacopo Barigazzi, “U.S. and Europe to Forge Tech Alliance amid China’s Rise,” *Politico*, June 9, 2021, <https://www.politico.eu/article/eu-us-trade-tech-council-joe-biden-china/>.

gence, quantum computing, and biotechnologies, all target industries for China's industrial policy and blurred ownership mechanisms.

Before concluding, we consider how our account of China's domestic changes and ensuing international backlash may be distinguished from other explanations of conflict involving China, especially with the United States and its allies. One explanation for U.S.-China economic contestation might attribute their rivalry to the structure of the international system. Realist views focus on tensions inherent in China's emergence as a global superpower and potential to challenge U.S. hegemony. Realists therefore expect that the United States and its allies would seek to contain China's rise and that security dilemma dynamics would materialize.<sup>127</sup> Although such an argument is consistent with our evidence and explanation, classical realism does not predict conflict primarily in the economic realm, nor does it encompass non-state actors such as firms. Unlike a liberal institutionalist view, these approaches do not regard international regimes as sufficient to ameliorate forces of mutual distrust and suspicion, nor do they predict that economic interactions would lead to security competition.

A second explanation for increased conflict between U.S. allies and China, and measures to punish or exclude Chinese firms, would identify concentrated firm interests as sources of backlash. A rich international political economy tradition regards interest groups as a key driver in forming states' interests.<sup>128</sup> An interest-based lens would identify backlash as an expression of concentrated firm interests. For example, Dustin Tingley et al. find that opposition to Chinese merger and acquisition efforts from 1999 to 2014 arose from sectoral economic stress and lack of reciprocity for U.S. firms in China's market.<sup>129</sup> Still, their analysis suggests that resistance seldom translated into government action. By contrast, we document extensive changes within the institutions that govern economic engagement with China in ways that span sectors and frequently contravene U.S. business interests.

For example, in debates about export controls, many believe that the na-

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127. Mearsheimer, "Can China Rise Peacefully?"

128. For example, Jeffrey Frieden, *Global Capitalism: Its Fall and Rise in the Twentieth Century* (New York: W. W. Norton, 2006).

129. Dustin Tingley et al., "The Political Economy of Inward FDI: Opposition to Chinese Mergers and Acquisitions," *Chinese Journal of International Politics*, Vol. 8, No. 1 (Spring 2015), pp. 27–57, <https://doi.org/10.1093/cjip/pou049>.



tional security apparatus has been at odds with U.S. business interests. The head of the U.S. semiconductor industry group expressed concern about the negative impact of export controls on U.S. firms, citing that China “accounted for about one-third of the industry’s revenue, and that it would be ‘disastrous’ for semiconductor companies to not have access to such a huge and growing market.” In another example, a commissioner on the U.S.-China Congressional Commission and advocate of “decoupling” stated:

The industry viewpoint has been the Commerce viewpoint since the fall of the Soviet Union, and they’re not able to make the adjustment that the work has changed. . . . The industry capture is not, in my view, industry saying, “Hey, meet me at the Jefferson Memorial and I have a suitcase of money for you.” It’s that these guys have been trained for 30 years to think that exports are good for America and that’s that. . . . So surprise, they don’t want tighter export controls.<sup>130</sup>

Hearings on FIRRMA featured representatives from the financial sector, especially venture capitalists who sharply opposed enhanced review, as well as arguments from advocates of review on outbound investments that U.S. firms might harm national security by transferring technology to China.<sup>131</sup>

To be sure, the interests of firms related to China vary by sector, geography, and so forth. On balance, however, the U.S. business community has opposed calls for national security–based decoupling of the U.S. economy from institutions and supply chains involving Chinese actors, which at its extreme would mean reversing decades of growing economic interdependence. The American Chamber of Commerce’s China 2021 Policy Priorities document states:

We remain opposed to any effort at outright decoupling of the US-China relationship. The costs of decoupling from losing trade and foreign investment benefits for both countries would be significant and unlikely to generate clear winners. We respect the legitimate needs of both countries to define and protect their national security and law enforcement interests and urge them to do so in ways that leave space for commercially-focused engagement to take place and in close consultation with the business community.<sup>132</sup>

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130. Ana Swanson, “The Agency at the Center of America’s Tech Fight with China,” *New York Times*, March 26, 2021, <https://www.nytimes.com/2021/03/26/business/economy/commerce-department-technology-china.html>.

131. Full Committee Hearing: CFIUS Reform.

132. “AmCham China’s 2021 Policy Priorities,” American Chamber of Commerce China, <https://www.amchamchina.org/press/amcham-chinas-2021-policy-priorities/>.

The geographic scope and institutional diversity of backlash against China and Chinese firms is better explained in terms of security dilemma dynamics than manifestations of vested interests.

### Conclusion

Driven by the leadership's amplified perceptions of threats to economic and national security, China's shift from a classic form of state capitalism focused mainly on growth to party-state capitalism was an unwelcome development for Western policymakers. Rather than pursuing further market liberalization, as some had hoped, China has instead intensified state control over the economy and society, with a much more pronounced role for the CCP's political priorities domestically and abroad. Along with Chinese firms' growing presence overseas, this change in China's political economy has stoked external suspicion of China's motives and behaviors. While some commentators believe that the West has finally woken up to the CCP's long-term plans, we view this shift as neither inevitable nor based on a blueprint for global political dominance.<sup>133</sup> We have argued that China's political economic model evolved in a process that began before Xi's assumption of power and sharpened under his leadership. The underlying mechanism was the regime's intensified perception of domestic and international threats.

The emergence of party-state capitalism in China has also produced significant tension domestically as the primacy of politics affects government-business relations. Reflecting on the business sector's relationship to the state, the CEO of search engine Sogou observes:

We're entering an era in which we'll be fused together. . . . If you think clearly about this, you really can resonate together with the state. You can receive massive support. But if it's your nature to want to go your own way, to think that your interests differ from what the state is advocating, then you'll probably find that things are painful, more painful than in the past.<sup>134</sup>

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133. On the adaptive nature of China's overseas development policies more generally, see, for example, Yuen Yuen Ang, "Demystifying Belt and Road," *Foreign Affairs*, May 22, 2019; and Meg Rithmire, "Going Out or Opting Out? Capital, Political Vulnerability, and the State in China's Outward Investment," *Comparative Politics*, Vol. 54, No. 3 (April 2022), pp. 477–499, <https://doi.org/10.5129/001041522X16244682037327>.

134. Rick Umback, "Huawei and Telefunken: Communications Enterprises and Rising Power Strategies," *Strategic INSIGHTS*, No. 135, Australian Strategic Policy Institute, April 17, 2019, p. 12, <https://www.aspi.org.au/report/huawei-and-telefunken-communications-enterprises-and-rising-power-strategies>.

Things have indeed been more painful for prominent entrepreneurs who have famously lost control over their firms or their freedoms for running afoul of the CCP. China's unprecedentedly rapid growth for most of the reform era was driven by private firms whose interests did not threaten the regime, and sometimes even spurred the regime to adapt to them.<sup>135</sup> It remains to be seen whether those innovative and productive practices will continue apace under a new political economic system in which firms and individuals face greater, even existential, risks.

Global backlash has intensified and accelerated. We have shown that much of this backlash has been generated by, and subsequently directed against, the blurring of state interests and commercial endeavors. National governments in OECD countries are highly uncertain about—and threatened by—the inability to parse the boundary between the state and firms, whether state-owned or private. This confusion and risk aversion, reinforced by those who seek to gain from politicizing China's international presence, has led to the securitization of cross-border trade and investment flows with China. Thus, whereas the CCP embraced party-state capitalism to make the regime more secure domestically and internationally, instead it has fomented increasing isolation, suspicion, and exclusion, which pose limits to China's global ambitions. The result has accelerated China's quest for self-reliance in crucial strategic goods and has sought to further fuse China's state and societal interests. Taken together, these dynamics bear the spiraling hallmarks of a classic security dilemma, but one located in the economic realm.

We have also documented rapid institutional change within and across advanced industrial democracies as they react to China's transformation under complex interdependence. We have shown how, at the domestic and transnational levels, the formal and informal rules of capitalism have changed as national governments and political actors endeavor to manage perceived threats presented by China's unique blend of state and economy: party-state capitalism. This change is illustrated most strikingly in the United States, a country with historically very low barriers to capital flows, where bipartisan initiatives propose to control not only incoming capital but also the outflow of capital. Collectively, the backlash and institutional changes documented in this

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135. Kellee S. Tsai, "Adaptive Informal Institutions and Endogenous Institutional Change in China," *World Politics*, Vol. 59, No. 1 (October 2006), pp. 116–141, <https://www.jstor.org/stable/40060157>.

article could constitute a lasting shift in the international order in terms of economic openness and interdependence.

A good deal of scholarship addresses whether China presents a challenge to the “rules-based international order,” or more precisely, the many international orders in which China is engaged. Several scholars have argued that China is unlikely to challenge open trade and international financial orders. But they have overlooked how other countries’ reactions to China’s unique global economic presence may affect interdependence.<sup>136</sup> Other countries’ responses to China’s party-state capitalism have already compromised principles of free trade and open borders.

China’s economic rise and its domestic economic transformation have had an unsettling effect on global capitalism and the strategies of national political economies. A growing literature in macroeconomics examines the “China shock,” referring to how China’s entry into global markets has transformed labor markets and political preferences throughout the world.<sup>137</sup> The empirical trends documented in this article suggest a research agenda that examines a different, political form of a China shock, and one best studied by political scientists: how global and domestic actors have initiated or reshaped agendas and preferences in light of the unique challenges presented by China’s political economic model. Like other critical junctures or disruptions in the global political economy—such as the oil crises of the early 1970s and the rise of knowledge economies in the 1990s—a “China shock” refracted through domestic electoral politics and social movements could upend long-held political commitments and introduce novel responses that shape the political and economic gestalts of a new era.<sup>138</sup>

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136. Alastair Iain Johnston, “China in a World of Orders: Rethinking Compliance and Challenge in Beijing’s International Relations,” *International Security*, Vol. 44, No. 2 (Fall 2019), pp. 9–60, [https://doi.org/10.1162/isec\\_a\\_00360](https://doi.org/10.1162/isec_a_00360); and Weiss and Wallace, “Domestic Politics, China’s Rise.”

137. David H. Autor, David Dorn, and Gordon H. Hanson, “The China Shock: Learning from Labor-Market Adjustment to Large Changes in Trade,” *Annual Review of Economics*, Vol. 8 (October 2016), pp. 205–240, <https://doi.org/10.1146/annurev-economics-080315-015041>; see also the papers at the China Trade Shock project, <https://chinashock.info/papers/>. On populist backlash, see J. Lawrence Broz, Jeffrey Frieden, and Stephen Weymouth, “Populism in Place: The Economic Geography of the Globalization Backlash,” *International Organization*, Vol. 75, No. 2 (2021), pp. 464–494, <https://doi.org/10.1017/S0020818320000314>.

138. See Peter Hall, “The Electoral Politics of Growth Regimes,” *Perspectives on Politics*, Vol. 18, No. 1. (2020), pp. 185–199, <https://doi.org/10.1017/S1537592719001038>.