2023

HARVARD-YENCHING INSTITUTE WORKING PAPER SERIES

OPENING UP WITHOUT REFORM: CHINA'S ECONOMIC STRATEGY IN THE AGE OF HYPER-GLOBALIZATION

Yuhao Wang | Harvard University

Opening Up Without Reform: China's Economic Strategy in the Age of Hyper-Globalization

A THESIS PRESENTED
BY
YUHAO WANG
TO
THE COMMITTEE ON REGIONAL STUDIES—EAST ASIA

IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF
MASTER OF ARTS
IN THE SUBJECT OF
REGIONAL STUDIES—EAST ASIA

HARVARD UNIVERSITY
CAMBRIDGE, MASSACHUSETTS
MAY 2023

Thesis advisor: Professor Meg Rithmire Yuhao Wang

Opening Up Without Reform:
China's Economic Strategy in the Age of Hyper-Globalization

Abstract

In the last decade, President Xi Jinping's rule has propelled China's political economy forward with a mix of modernization and reform. Xi has sought to centralize and state-orient the system more than reformists anticipated, resulting in a global response due to China's economic and security weight. This has caused international discomfort and criticism, something China must take into account.

The thesis aims to explain why China's reputation has declined despite its economic success and globalization. The author argues that China's government felt less pressure to pursue further ownership reform due to the benefits of globalization in the 2000s. As a result, the state sector became an effective tool in achieving the strategic goals of the party-state. This led to concerns about China's growing power in economic statecraft, contributing to a less stable economy and a more antagonistic global climate. The thesis covers the interplay between China's political economy and international relations in the 21st century.

The purpose of this thesis is to provide a nuanced understanding of the decision-making processes of Chinese leaders and companies, the chain effect of China's rise, and the domestic responses to these impacts in the U.S. To conduct the analysis, the author employed mixed methods, including a case study on semiconductor SOEs, quantitative empirical studies on the consequences of China's international trade and investment, and natural language processing to study changes in the topics and attitudes towards China among American legislators and businesses.

This is dedicated to a free and democratic China.

Acknowledgments

This thesis concludes my two-year academic journey at Harvard University, which has been nothing short of extraordinary. Looking back, I feel fortunate to have received so many acts of kindness from so many people here. I am eager to take advantage of this opportunity to express my gratitude on this occasion.

Being a member of the Regional Studies—East Asia community and witnessing its 75th anniversary is always an honor. Since my freshman year, this distinctive and prestigious program has been my dream program, and I found it to be an even better place than I could have imagined. I would like to thank my RSEA fellow students, including but not limited to David Li, Celine Qin, Mengqiu Liu, Qi Siang Ng, Elaine Yeo, Coco Ruan, Chuyi Chen, Yuan-Ting Chan, Tim Lin, and Cheng-Ting Wu, for the wonderful time we spent together. You shared many of my most difficult and joyful moments on this page. I am also extremely grateful to our administrator, Rosie Cortese, for her enduring care and support. I am grateful to have had the opportunity to collaborate with her on the RSEA alumni archive, from which I learned the rich history of this program.

Moreover, I am extremely appreciative of the wonderful professors I have met at Harvard, whose efforts have made it a world-class educational institution. I'd like to thank Professor Meg Rithmire for serving as my advisor, supervisor, and instructor. She is one of the most intelligent and vivacious scholars I've ever encountered. Every time I speak with her, whether in class or in her office, I am inspired. I would also like to thank the majority of my professors who provided me with general encouragement and advice during the development of my research. Professors Elizabeth Perry, Yuhua Wang, Christina Davis, Jeffery Frieden, Iain Johnston, Matthew Blackwell, Richard Nielson, Tony Saich, Daron Acemoglu, and Geoffery Jones, as well as Dr. Walter Friedman and Dr. Melanie Sheehan, are among these individuals.

In addition to these scholars in related fields, I would like to mention a few instructors who contribute to my educational experience. Professor Xiaofei Tian is one of my favorite professors at Harvard, and I'm grateful to have had the opportunity to take courses with her during my first and last semesters here, first on classical Chinese literature and then on the Cultural Revolution. Her course arouses my emotional connection to China and its diverse experiences. I also consider myself fortunate to have taken a photography course with Dawn Kim and Claudio Eshun and developed this meaningful passion. Dr. Lee Paulman's MIT Prison Initiative also provided me with an unforgettable life experience.

During organizing the Harvard East Asia Society Conference, I received assistance from many professors, which I very much appreciated. They include Professors Alexander Zahlten, Jie Li, James Robson, Yuen Yuen Ang, Min Ye, Joel Andreas, and more. I'm also grateful for my RSEA fellow colleagues, particularly Sharon Zhang, Chihiro Ishikawa, and Kristen Martucci.

The fantastic graduate student community in the Greater Boston Area is another reason I enjoy studying political science here. Nora Chen, along with Hao Zhang, Ye Zhang, Diana Zhu, Chengyu Fu, Yue Lin, Wenyan Deng, Zeyu Peng, Hanyu Zhao, Jerry Min, Jialu Li, Ruofan Ma, Cheng Cheng, and Junchao Tang deserve recognition. I am certainly looking forward to reading their great books in the future. In addition, I participated in a number of fantastic seminars and workshops, including the Alberto Alesina Seminar on Political Economy, the MIT IPE Series, and the Cambridge China Politics Research Workshop (CCPRW). Thank you for inviting so many excellent speakers and providing tasty free food.

I would also like to take this opportunity to thank more professors who have been supportive for an extended period of time. I will never forget the friendship of USC Professor Carol Wise, who has been a tremendous help to me since 2019. Without her, I could not accomplish so much. Professor Xiaojun Li at UBC introduced me to the study of Chinese politics and gave me thorough feedback on some of this thesis's components. My undergraduate thesis advisors at UBC and RUC, Professors Mark Warren and Lian Zhou, were instrumental in developing my foundational understanding of politics. Professors Jie Tian and Chen Li at RUC have always cared about my life and experiences here. Professor Keping Yu at PKU and Professors Chong Chen and Xun Pang at THU are to be acknowledged for my gap year research.

Life is not only intellectual but also social. Beyond the aforementioned groups, I want to thank several of my friends. During the holidays, my favorite happy hour has always been at Wayne Ye's house parties. I am also delighted to make friends with many very nice RSEA alumni, such as Gavin Wang, Jason Wu, and Menglan Chen - and I have to mention Nora here again. Other than those RSEA friends, Jason "Dongtu" Chan is also an indispensable member of our dining squad. I am also grateful to reunite with my RUC friend Bohan Yang at here. Also many thanks to my friends at HKS Greater China Society, particularly Aileen Tam, Kai Zhang, Shanwen Liu, and Zaiyi Jiang. Some of my old friends from RDFZ, including Wenhao Li, Liu Yang, Xili Yi, and Shixuan Zhao, remain in regular contact with me despite our inability to meet frequently. They are all on the path to becoming distinguished scientists.

Ever since the delightful summer of 2022, I have been blessed to be in a relationship with Helen Chenyu Qu. Despite being separated by distance, we talk every day, sharing our triumphs and troubles, and working together to build our future. Being with her is always a calming and rejuvenating experience. She complements my shortcomings with her calmness, thoughtfulness, and insightfulness. In terms of our life goals, we are kindred spirits. Having her by my side brings me consistent contentment and joy. Our love is the most precious thing in my life, and I cherish it deeply.

I have the deepest appreciation for my family too. I appreciate my parents' respect, understanding, and reassurance. If my younger sister has the opportunity to read this acknowledgment when she is older, I would like to express my gratitude for her patience during our two-year separation. I hope that what I do will make them proud.

Lastly, I appreciate Harvard University for providing this fertile ground for the growth of wisdom and friendship. I have had the best time of my life on this campus, and I will always hold myself to the standard of a proud Harvard graduate. I also value the Harvard-Yenching Institute's extremely generous financial support and community-building efforts. You make here the best place in the United States for a Chinese student to reflect on his homeland.

This thesis was completed over a period of two years, during which my questions, research methods, and understanding of the current situation continued to evolve. That said, reading about contemporary China and its successes and failures in reform and opening has always been my fundamental academic motivation. I want my country to improve not just in terms of prosperity, but also in terms of being truly democratic and free and benefiting the world. Mentally, I feel that I belong to the descendants of the reformists of the 1980s.

With those ideas in my soul, I often feel an inner tension between maintaining objectivity and studying the subjects that I feel are emotionally relevant during the research. Nonetheless, I strive to be intellectually honest and use my knowledge to the best of my abilities, which I saw not only as necessary for academic production but also for self-cultivation. Ultimately, as Zweig wrote in *Sternstunden der Menschheit*, "One cannot defend the freedom of the public for long; one can only defend the freedom of one's heart." If I must be patient and wait until I see the pathway to the pivotal point, I would like to hold onto my belief in Veritas.

Contents

Listing of figures

0
Introduction

On March 8, 2000, then-President Bill Clinton made his most persuasive argument for China's membership in the World Trade Organization before Congress, the international community, and Washington's foreign policy elite (WTO). He said in that speech, "Now, of course, bringing China into the WTO doesn't guarantee that it will choose political reform. But accelerating the progress — the process of economic change will force China to confront that choice sooner, and it will make the imperative for the right choice stronger." He specifically argued that "by lowering the barriers that protect state-owned industries, China is speeding a process that is removing government from vast areas of people's lives."

Many current-day observers believe Clinton was gravely mistaken. Until now, China hasn't undergone the sort of political reform that Clinton and other liberals hoped to see. Even the limited legacy of political reform will be gone by 2022, when Xi Jinping begins his third term as Party Secretary and the Constitution is revised to remove the term limit for the presidency. In terms of economic reform, it appears that under Xi Jinping's leadership, China has become more interventionist in the economy. Furthermore, China's economic success has led to a more assertive diplomatic stance. Additionally, the level of hostility between the Chinese and Western camps rose sharply. Chinese conventional and asymmetric capabilities, including "the potential not just to change kinetic conflict but also to disrupt day-to-day U.S. supply chain and logistics operations," have led to China being labeled as the "most consequential strategic competitor for the coming decades" in the United States' 2022 National Defense Strategy (NDS).

Where are we going wrong? Even though China's economic development sped up in the last decade of the twentieth century, the country seems to have veered away from the reformist trajectory witnessed by Clinton and many others during that time. Why did China's reputation decline even as its economic ties to the rest of the world grew stronger? In particular, what caused tensions between China and its most important trading partner, the United States?

In this thesis, I take a stab at answering these questions by reevaluating the function of the party-state economy in the context of hyper-globalization in China's development since 2000. I am particularly curious about the causes and effects of the current international tensions surrounding China and the way in which they may have been exacerbated by China's apparent adoption of a neoliberal agenda of economic reform without changing its core playbook. The gist of my case is as follows: As a result of the benefits of globalization in the 2000s, the Chinese government felt less pressure to pursue further ownership reform. Moreover, it appears that the state sector has become an effective tool in achieving the strategic goals of the party-state as a result of adopting techniques to separate ownership and management. The rise of China's international trade and investment, however, has given rise to concerns about the country's growing power in economic statecraft. In creating an image of a "strong state," the Chinese government has actually done more harm than good, contributing to a less stable economy and a more antagonistic global climate. It's unlikely that the "imperative for the right choice" will gain traction at home unless the dominant paradigm is seriously questioned.

This thesis' theoretical and empirical reach, therefore, encompasses all of China's domestic political economy and international relations. Since the agenda of "reform" and "opening up" has been tied up from the very beginning of China's post-Mao era, this is essential for understanding the case of modern China. Leaders on both sides of the Pacific saw China's reform and opening up as mutually beneficial, from Deng Xiaoping to Bill Clinton. My response is that, however, China today is better understood as "opening up without reform."

The subsequent chapters will be organized as follows: Chapter 1 delves into the transformation and growth of Chinese SOEs in the 21st century and their roots in the first 50 years of the PRC. This chapter provides an in-depth case study of a semiconductor SOE, shedding light on the government's efforts to make SOEs competitive in the high-tech field. Chapter 2 focuses on China's international statecraft and its trade outcomes. It includes a study on the political reactions of other countries to their dependency on Chinese trade and how China's rise as a world factory has led to tensions with other nations. Chapter 3 zooms in on China-US relations, investigating the potential political implications of China's outward investment, which has garnered increasing public and political attention. Chapter 4 further examines the changing attitudes towards China among US policymakers and businesses. The concluding chapter expands the discussion on the resilience of China's globalization engagement.

[State-owned sector] form the economic and political foundation of China's socialist system and are a key pillar for the [Communist] Party's rule. They must be built stronger, better and larger.

Xi Jinping

1

Make SOEs Great Again

State-owned enterprises (SOEs) were once considered a core component of the socialist economy, embodying public ownership of the means of production from the Marxist perspective, thus fulfilling the aim of socialism. However, as the Cold War drew to a close, economists found that these SOEs were becoming increasingly inefficient and a burden for economic development [KORNAI*, 1986, Lin et al., 1998]. Therefore, when the socialist camps underwent neo-liberalist reforms in the early 1990s, privatization was almost always at the core of the agenda. Amidst fierce debate among scholars and politicians of different views, China in the 1980s went through a more gradualist process [Weber, 2021]. Despite the non-state sector"growing out of plan,"[Naughton, 1995] the reform of SOE ownership remained pressing in the first two decades of China's "Reform and Opening Up" period.

The irony of history is that thirty years after the Cold War ends, as China's economy appears to be more successful than any other post-Communist country, its leader calls for the SOEs to be"stronger and bigger,"* in apparent contrast to the acknowledged reformist agenda. This shift in policy may reflect a desire for greater control over strategic industries and a belief that state-owned enterprises can better serve national interests. However, it also raises concerns about the potential inefficiencies and lack of competition that could result from a strengthened state sector.

In this chapter, I explore the domestic dynamics that lead to a renewed emphasis on the state sector. I argue that it is due to both the tension accumulated during the three decades of marketization reform and the longer agenda to industrialize the country through the efforts of the state. China's "reform and opening up" is often misunderstood as a neo-liberalist reform, but the rationale behind these apparent reformist policies is never a commitment to the principles and values of capitalism. Rather, they are just necessary tools for the development of the economy and the consolidation of the regime. As long as the party-state perceives its developmental model as adequate and even superior, there is very limited incentive to carry out further reform in the direction of capitalism. The adaptability of the state sector towards globalization in the post-2000 period has prevented it from being eliminated. Thus, the Chinese party-state is content with its way of "opening up without reform."

*Xi Jinping calls for China's state-owned enterprises to be 'stronger and bigger', despite US, EU opposition (2020), *South China Morning Post*. Available at https://www.scmp.com/economy/china-economy/article/3108288/xi-jinping-calls-chinas-state-owned-enterprises-be-stronger

1.1 China's Gilded Age?

During the time when China opened up to the global trade system, the Global Production Network expanded rapidly due to advances in information and transportation technology. The concept of "China's golden age" is helpful for comprehending the nature of business growth during this time period. It is comparable to the gilded age in the United States, where economic development coincided with the height of globalization, attracting a significant amount of foreign-directed investment (FDI) that brought with it technology, know-how, and management[Wilkins, 1991], as well as the emergence of large corporations[Chandler, 1959]. One major difference, however, is that the majority of the significant conglomerates in China arose from SOEs.

From 2000 to 2022, the proportion of Chinese companies on the Global 500 List increased from 2% to 27%, from 10 to 136 firms. In 2000, none of the ten companies were non-SOEs, but by 2022, approximately 39 companies will be considered private. However, the majority of Chinese firms on the list are still enormous SOEs, comprising 71% of all Chinese firms on the list by number, but accounting for 78% of total revenue and 84% of all assets from Chinese list entrants.[*] These SOEs have significantly lower average profit margins and average returns on assets, but their revenue and asset scales are enormous, rendering them inefficient but competitive.

How did this come about? Who should be considered the engine and winner in the era of China's reforms: private business entrepreneurs or the government and state sector? What function does the state sector serve as a player in both the business and political spheres? This section will look at the dual narrative of Chinese economic development, namely marketization and industrialization, in order to answer these questions and describe the development of Chinese business in the reform era.

[*] "Fortune Favors the State-Owned: Three Years of Chinese Dominance on the Global 500 List"(2022), *Center for Strategic and International Studies*. Available at https://www.csis.org/blogs/trustee-china-hand/fortune-favors-state-owned-three-years-chinese-dominance-global-500-list

1.1.1 Side A: Marketization and Crony Capitalism

The take-off of China's economy in the reform era was once attributed to its gradualist and decentralized approach. Taking steps out of the doctrines of the central planning economy and adopting the market mechanism, the reformers in the early years intentionally provided leeway for local governments to do their own experiments. With local bureaucrats given the right incentives and the central government holding its hands back, local officials played the roles of political entrepreneurs who provided diverse solutions according to local conditions and stages of development. As Yuen Yuen Ang[Ang, 2016] noticed, such a "franchise" development strategy brings not only economic development, but also the improvement of political institutions through the coevolution of local bureaucracy and business.

As the marketization gets deeper and the private sector rises, government-business relations further emerged as an important perspective to understand the "China Model," adding a new dimension to central-local relations. To many's surprises, contrary to the capitalist democratic route that Barrington Moore [Moore, 1993] outlined, the emergence of capitalists and their interaction with governments turn out to be complements rather than threats to the sustainability of China's authoritarian regime. Local governments successfully absorbed the political will of businessmen and made them incorporated into the party with informal practices [Tsai, 2011].

As Li-an Zhou [Zhou, 2021] summarized, the government-business relations in China are by nature localized. With the local officials competing with their peers on economic development, as well as enterprises competing on profit, such a dual market on political and commercial grounds galvanize local governments and business to form "local growth coalitions." Such a coalition provides the momentum for economic development and market-augmenting government reforms. However, localized elite collisions can also have crony and clientelist characters, represented by rampant corruption, excessive debts, and other social illnesses [Pei, 2017].

Such collusive local government-business relations are even further complicated during the new waves of globalization. Although some find that with higher capital mobility and fewer political connections, foreign firms may have a larger bargaining power to push the local governments for the rule of law [Wang, 2015], others find it unnecessary when they enjoy higher monopoly rents and hold higher fixed assets [Zhu, 2017]. In China's case, the exceeded rents were shared not only by the multinationals but also by the local governments as an institutionalized behavior at the expense of systematically exploiting laborers [Wu, 2019]. With local bureaucrats gaining access to external resources in the form of FDI and in some cases forming patron-client relations with foreign firms, they got both capacities and incentives to bypass central policies or be less responsive to certain policies such as industrial upgrading [Chen, 2018, Tan, 2021a].

In a word, given the decentralized model of development in the first three decades of China's reform, the government-business relations are highly localized, and therefore intertwined with the central-local (governmental) relations. On the upside, it provides momentum for reform and development given the backdrop of strong-state and weak-market, particularly during the early years when reform is the consensus for the whole society and Pareto-optimality hasn't been achieved. However, with the emergence of powerful domestic firms, the entrance of huge foreign firms, and an imbalanced growth structure across regions, the effect of such local coalitions become heterogeneous. From the party-state's point of view, the state-market fractions intertwine with central-local misalignments. Not only did the party-state face the possibility of being captured by interest groups, but also it was facing the problem of recessing control over the regions now.

Such a well-recognized paradox as well as the eager need for fundamental reforms potentially pave way for a top-down campaign [Goldman et al., 1999, Huang, 2008, Zhou, 2017]. Thus, when Xi Jinping started his massive anti-corruption campaigns, many ordinary Chinese people felt cheerful and anticipated him to deepen the institutional reform for further marketization, as his father did in Guangdong, with re-centralized political power. It took years for them to feel frustrated with the outcome of the campaign as the return of tight party-state control over the economy and society, was accompanied by shrinking room for inner-party democracy.

Political scientists have recently noticed that anti-corruption campaigns have impacted the situation of local entrepreneurs. Chen and Hollenbach [Chen and Hollenbach, 2022] noticed that anti-corruption campaigns have relieved the tax discrimination against firms with higher mobile capital. Also, cases show that entrepreneurs who hitch their fates to political ties could get into trouble with the downfall of their political patrons [Ang, 2020, Shum, 2021, Rithmire, 2022]. All this evidence suggests that the anti-corruption campaigns in the Xi era, namely for disciplining the party, have shaken the cozy local government-business coalition to a large degree.

Coincidentally, with Xi's high-profile assertiveness on the international stage, the transforming government-business relations in China also caught the attention and led to reactions from other countries. To be sure, China had long been considered to craft its huge state-owned enterprises (SOEs) as national champions by protecting their monopoly advantages among several strategic sectors back to the 1990s [Hsueh, 2011, Leutert, 2022]. However, the emerging centralized state-business model, which alerts many oversea observers as "party-state capitalism" [Pearson et al., 2021], significantly deviated from the typical developmental-state-alike model in the early decades in multiple aspects.

The first character is the increasingly blurred types of ownership. Chinese governments during the Jiang and Hu-Wen administration mainly leveraged the state's ownership over huge SOEs to implement their "going out" policy, industrial policy, or even economic statecraft [Hsueh, 2011, Tan, 2021a, Naughton, 2021, Davis et al., 2019]. From 2013-2015, however, the state explicitly expanded into the non-state sector by establishing new "state-owned capital operation companies" and encouraging state capital to invest in private firms in strategic industries with strong growth potential. Such an introduction of state capital investment is believed to be accompanied by more government intervention and reduced firm autonomy, even with a minority shareholding of the state [Chen and Rithmire, 2020]. A survey experiment conducted in 2015-16 shows that private firms turn out to be politically more vulnerable than public and foreign firms and therefore conform more to the government, particularly for those recipients of government contracts [Naoi et al., 2022].

The second character is the increasingly vague goals of state intervention. In the typical developmental state model, the state intervention in the economy is, to a certain extent, reasonable and predictable. It is usually led by a set of professional officials, motivated by the desire for economic advancement, and with effective industrial policy through market mechanisms such as subsidies or macroeconomic policies [Johnson, 1982, Woo-Cumings, 2019]. Indeed, such lessons from Japan and East Asian Tigers were reflected in China's strategy of developing "national champions" from the 1970s to the 1990s [Leutert, 2022]. However, the new approach is perceived as largely emphasizing political loyalty to the regime, to the party, and sometimes even to the personal leadership [Ang, 2020, Pearson et al., 2021]. Compared with the Jiang and Hu-Wen periods, the decision-making role of the State Council on the economy shrank largely. Instead, now the Party Secretary Xi Jinping directly hands over the economic policies to his Central Leading Groups.

The international dynamic that China involved in this era, again, has further implications for China's changing government-business relations. On the one hand, the expanding capacity of China's firms to invest overseas challenged and limited the party-state's capacity to control private firms as it wished [Pearson et al., 2021, Rithmire, 2022]. On the other hand, the increasing awareness of China's party-state's appetite and capacity on commending private firms, particularly in the race for emerging technologies, have led to strong international pushback, particularly from the U.S. [Pearson et al., 2022, Chen, 2022]. Increasingly, we saw firms caught in such geopolitical crossfire both in China and in the U.S., which may further reshape their preferences and strategies in managing their relations with the government.

1.1.2 Side B: SOEs as Carriers of Industialization

The origin of industrialization in China preludes a century-old pattern of state-led development. In contrast with the relatively autonomous industrial revolutions in Western countries, China's pathway towards industrialization started as a reaction to gunship diplomacy in the 19th century during its Qing Dynasty [Teng and Fairbank, 1979]. On October 18, 1860, at the culmination of the Second Opium War, the British and French troops entered the Forbidden City in Beijing, the imperial palace of China. After this disgraceful defeat, a group of reform-minded political elites advocated for deeper studies of Western technology in order to defend the country against foreign powers, thus starting the Self-Strengthening Movement, also known as the Western Affairs Movement (c. 1861-1895).

This top-down movement marks the first significant attempt by China to catch up with the West in terms of industrial development. During this period, local political elites established successful arsenals, schools, and munitions factories. Groundbreaking industrial projects were also developed, involving coal and iron mining, steel production, textile manufacture, telegraphy, steamships, railroads, and modern banking. An important feature of industrialization, however, is that most of these industrial projects are sponsored by officials and managed by themselves or their affiliated merchants, such as the Hanyang Iron and Steel Works and the Jiangnan Shipyard [Feuerwerker, 2013]. The defeat by Japan in 1895, however, demonstrated the failure of the Qing dynasty's attempts to modernize its military and fend off threats to its sovereignty, especially when compared with Japan's successful Meiji Restoration. It triggered a series of crises, and in the meanwhile, the Self-Strengthen Movement faded, accompanied by the collapse of the Qing Dynasty in 1911.

The Republican Period of China (1911–1949), overlapping the two World Wars, is marked by military conflicts and political instabilities. Business thrived for a short period until the Japanese invasion in 1931, mainly in the light industrial sector such as textiles. The constant warfare and economic turmoil, however, provide a poor environment for them to consolidate and develop.

The establishment of the PRC in 1949 and the following socialist transformation during 1953–57 witnessed mainland China's transformation into a planned economy. Industrialization is guided by national "Five-Year Plans" (FYPs) and was initially aided by financial and technological aid from the Soviet Union. In the context of the Cold War, the Soviet Union became the closest ally of the PRC (later referred to as China), particularly after the Korean War started in 1950 [*]. Moscow sent thousands of Soviet engineers and workers, as well as trainloads of machinery and tools. By the late 1950s, the Soviets had erected a network of modern industrial plants across China, capable of producing warplanes, tanks, and warships. China also sent students and cadres to the Soviet Union and restructured the educational system to institutionalize industrial knowledge and technology.

Despite being a firm ally with Starlin, however, Mao Zedong, the paramount leader of the Chinese Communist Party (CCP), had a different understanding of the pathway toward industrial development and Communism. Rising from the countryside, Mao merely trusted the technocratic planned economy in the Soviet style and rather believed in the energy of mass mobilization. After the first Five Year Plan (FYP), which aimed to lay the foundation for socialist industrialization in China, was proclaimed successful in 1957, Mao launched the Great Leap Forward (GLP) campaign [Shen and Xia, 2011]. This campaign was aimed at jumping into Communism by releasing agency among the masses. Understanding steel production as the main indicator of industrialization, Mao set the target of making steel production "surpass Britain" in 15 years and "catch up with the U.S." in 50 years. Millions of backyard furnaces were built, and over 90 million labor forces were involved, at the expense of regular agricultural and industrial production, only producing bad raw iron. The pessimistic failure of GLP led to the Great Chinese Famine and foreshadowed the Cultural Revolution starting in 1966.

[*] "Minutes of Conversation between I.V. Stalin and Zhou Enlai", August 20, 1952, Wilson Center Digital Archive, APRF, f. 45, op. 1, d. 329, ll. 54-72. Translated by Danny Rozas. https://digitalarchive.wilsoncenter.org/document/111244

The industrialization of China in the 1960s was pressured by its international isolation but also disturbed by the political turmoil during the Cultural Revolution. After the Sino-Soviet split in the early 1960s, Mao felt China had to prepare for a nuclear war with both the Soviet Union and the U.S. Thus, many factories in the relatively developed urban area were relocated to the hinterland. During the Cultural Revolution, intellectuals and engineers were widely denounced, and most factories were taken over by the military [Andreas, 2009]. Although several military industry projects succeeded, such as "Two Bombs, One Satellite," which aimed to produce its own atomic bomb, ICBM, an artificial satellite, overall industrial innovation and productivity were hammered.

Following Mao's death in 1976, the leadership in China started a long debate on how to make the economy right. Finally, 1978 marked the watershed at which China started its "reform and opening up." After fierce debates, the reformist political leaders, headed by Deng Xiaoping, chose to take an experimental approach and start with price reform rather than ownership reform [Weber, 2021]. During the 1980s, the private sector was allowed to "grow out of the plan," while the state sector remained largely untouched [Naughton, 1995]. College graduates are still assigned to the state sector, and entrepreneurship appeared mainly among the Township and Village Enterprises (TVEs) [Oi, 1999]. Multinationals, particularly direct investments from Taiwan and Hong Kong, also contribute to growth and industrialization in the private sector [Wu, 2019].

Industrialization is still highlighted as a political target. Deng's pragmatistic ideology highlights science and technology as the primary sources of productivity. The slogan "Four Modernizations," first raised in 1954, was reclaimed and emphasizes the modernization of industry, agriculture, the military, and science and technology. A signature high-tech development program was introduced in 1986, named the 863 Program. Inspired by the Strategic Defense Initiative proposed by U.S. President Ronald Reagan in 1983, this program intended to stimulate the development of advanced technologies in a wide range of fields for the purpose of rendering China independent of financial obligations for foreign technologies [Zhi and Pearson, 2017].

The 1989 Tiananmen Square Protests and Massacre brought a political earthquake and caused reformist leader Zhao Ziyang to step down. Despite all the challenges, however, the CCP and the Chinese government under Jiang Zemin's leadership are committed to pushing forward reform for marketization in the late 1990s. This was marked by the SOE Reform of 1997. The 1997 Reform, led by then-Premier Zhu Rongji, was aimed at corporatizing SOEs and downsizing the state sector, given that much of the state sector had become a fiscal burden. A principle is "grasping the large and letting the small go," that is, to maintain control over the largest SOEs, which are profitable or strategic, and relinquish control over smaller and unprofitable SOEs, giving local governments the authority to restructure the firms, privatize them, or shut them down.

When it came to the dawn of the 21st century, fierce debates concerning China's future occupied the intellectual and policymaking circles. What's the next step in Chinese political and economic reform? Should China ultimately privatize its SOEs? Should capitalists be legitimized? Or, is China being Westernized too much?[Yang, 2004] With all the debates going on, most people are looking forward to the further prosperity and modernization of the country.

**In contrast to many perceived, the post-WTO era saw the rapid scale-up of Chinese SOEs. Data shows that among Fortune 500 enterprises, the number of Chinese enterprises rocketed from (13) to (130). Among them, SOEs are almost always the majority.

After 2003, the Chinese government's approach towards SOEs focused on addressing the issue of undefined property rights. To resolve this problem, the government established the State-owned Assets Supervision and Administration Commission (SASAC) in March 2003 to act as a shareholder for large and important SOEs on behalf of the state. Provincial- and local-level SASACs were created as well in a similar manner.

Later years saw the rise of a small number of large-scale businesses that eventually came to dominate key industries through a series of government-directed mergers, shielded from private and foreign competition and investment. This development coincided with China's continued engagement with globalization. The size of total SOE assets grew quickly as a result: between 1999 and 2008, the average total assets of industrial SOEs—including those at the local, provincial, and central level—rose by 589 percent to more than $135 million per enterprise, while the average assets of industrial non-SOEs in China only increased by 67 percent to less than $9 million per enterprise [O'Connor, 2018]. The number of central SOEs in China decreased dramatically throughout the wave of mergers, going from 189 in 2002 to 96 at the end of 2018. In the meantime, SASAC's total assets increased from RMB6.9 trillion (approximately $1 trillion) at the end of 2002 to nearly RMB69 trillion (approximately $10.56 trillion) by the end of 2020.*

Since President Xi Jinping came into office, the government's approach to SOE reform was guided by the idea that it should be guided by one core policy document, supplemented by supporting policies, called the "one plus N" ("1 + N") policy system [Lin et al., 2020]. In 2015, the State Council published a new set of guiding principles for SOE reform, which proposed utilizing market mechanisms to make SOEs bigger, stronger, and more efficient while maintaining government control. The government aimed to transform its role in managing SOEs from "managing assets" to "managing capital" and allocate state capital toward strategic industries. Since 2017, the government has pushed to "corporatize" SOEs by establishing boards of directors, but also required Communist Party oversight of all strategic decisions, limiting the boards' authority.

In 2020, SASAC declared the "mixed ownership" reform a success, which attracted private capital to central SOEs. However, there was no meaningful shift toward private control among listed firms, and the government's encouragement of mergers and acquisitions between SOEs and private firms is unlikely to improve competition inside China. Overall, the government's approach to SOE reform focused on maintaining government control while improving efficiency and attracting private capital.†

*"China's central SOEs assets to near 69 trln yuan: regulator" (2020), *Xinhua.net*. Available at http://www.xinhuanet.com/english/2020-12/25/c_139619014.htm

†"The China Dashboard: State-Owned Enterprise" (2021), *Asia Society Policy Institute &*

1.2 Case Study: Joint Factory 718 and its Decedents

This section explores the origins and evolution of strategic, managerial, and operational practices within a Chinese state-owned enterprise (SOE) in the electronic industry: the Beijing Sevenstar Group. By examining the case of Sevenstar from its predecessors in the 1950s to its current state, this study aims to delve deeper into the development of Chinese SOEs beyond a simple chronological overview.

Although Sevenstar is not among the most prominent "national champions," it has several characteristics that make it worth studying: its predecessor, Factory 718, was the largest electronic plant in China and an important military plant, and its subsidiary, NAURA, is the Chinese state-owned enterprise (SOE) with the highest market value in the semiconductor industry. As a megafirm with several publicly traded subsidiaries, Sevenstar is also a local SOE owned by Beijing Electronic Holding Company (BEHC), which is ultimately wholly owned by the Beijing Municipal Government's State-Owned Assets Supervision and Administration Commission (SASAC Beijing). As a high-tech company, it is also involved in international trade, investment, state-sponsored "indigenous innovation," and technology transfer. This case study reveals the effects of the reforms before and after the year 2000 on the company and provides several examples of how the Chinese government controls and intervenes in the management of SOEs. In addition, the case study highlights how the state-owned sector adapts to and seeks to integrate the globalized market economy.[*]

Rhodium Group. Available at: https://chinadashboard.gist.asiasociety.org/winter-2021/page/state-owned-enterprise

[*]This case study is based on interviews with three Beijing Sevenstar Group executives conducted by the author in December 2022, as well as the documents supplied by those executives. Their names are kept anonymous as required.

1.2.1 National High-Tech Factory Going Public

Beijing Sevenstar Group lands at the Dashanzi factory complex in the northeast of Beijing. Before it was reorganized into the modern SOE of today in 2001, it was the first and largest electronic component factory of PRC, known as the Joint Factory 718. There was the first semiconductor device in the history of China. In its heyday, Joint Factory 718 delivered 25% of the electronics nationwide and 50% of the military electronics.

The Dashanzi factory complex began as an extension of the military-industrial cooperation between the Soviet Union and the newly formed People's Republic of China in the midst of the Korean War. By 1951, 156 joint factory projects had been realized under the agreement, which was part of the Chinese government's first five-year plan. However, the People's Liberation Army still had a dire need for modern electronic components, which were produced in only two of the joint factories. The Russians were unwilling to undertake an additional project at the time and suggested that the Chinese turn to East Germany, where much of the Soviet Union's electronic equipment was imported. So at the request of then-Premier Zhou Enlai, scientists and engineers joined the first Chinese trade delegation to East Germany in 1951, visiting a dozen factories. The project was greenlighted in early 1952, and a Chinese preparatory group was sent to East Berlin to prepare design plans.

The complex was officially named Joint Factory 718, following the Chinese government's method of naming military factories starting with the number 7. Fully funded by the Chinese side, the initial budget was enormous for the time: approximately 147 million RMB or around $350 million at that time. Construction was marked by disagreements between the Soviet and German experts, generally revolving around the Germans' high but expensive quality standards for buildings and machines, which were called "over-engineering" by the Russians. Wang Zheng, then Head of Communications Industry in the Chinese Ministry of National Defense and supporter of the East German bid from the start, ruled in favor of the Germans for this particular factory.

At the height of the construction effort, more than 100 East German foreign experts worked on the project. The resources of 22 of their factories supplied the construction; at the same time, supply delays were caused by the Soviet Red Army's tremendous drain on East Germany's industrial production. The equipment was transported directly through the Soviet Union via the Trans-Siberian railway, and a 15-kilometer railroad track was built in Beijing especially to service the factory. Caltech-educated scientist Dr. Luo Peilin, formerly head of the preparatory group in 1951–1953, was Head Engineer of Joint Factory 718 during its construction phase. Dr. Luo is remembered by his former colleagues as a dedicated perfectionist whose commitment to the obstacle-strewn project was a major factor in its eventual success.

Joint Factory 718 began production in 1957, amid a grandiose opening ceremony and display of Communist brotherhood between China and East Germany, attended by high officials of both countries. The first director was Li Rui, who had been involved in the early negotiations in Berlin.

The factory quickly established a reputation for itself as one of the best in China. Through its several "work units," it offered considerable social benefits to its 10,000–20,000 workers, especially considering the relative poverty of the country during such periods as the Great Leap Forward. The factory boasted, among others, the best housing available to workers in Beijing and diverse extracurricular activities. The factory even had its own volunteer military reserves, which numbered hundreds and were equipped with large-scale weapons and anti-aircraft guns.

Workers' skills were honed by frequent personnel exchanges, internships, and training in cooperation with East Germany. Different incentives kept motivation high, such as rewards systems and "model worker" distinctions. At the same time, political activities such as Maoism study workshops kept the workers in line with Chinese Communist Party doctrine. During the Cultural Revolution, propaganda slogans for Mao Zedong Thought were painted on the ceiling arches in bright red characters.

The Joint Factory 718 produced a wide variety of military and civilian equipment. The civilian production included acoustic equipment for Beijing's Workers' Stadium and Great Hall of the People, as well as all the loudspeakers on Tiananmen Square and Chang'an Avenue. Military components were also exported to China's Communist allies and helped establish North Korea's wireless electronics industry.

In 1964, Joint Factory 718 was split into more manageable components, such as sub-factories 706, 707, 751, 761, 797, and 798. Each of these factories focuses on producing certain types of equipment or components. However, the factory came under pressure during Deng Xiaoping's reforms of the 1980s. Deprived of governmental support, like many state-owned enterprises, it underwent a gradual decline and was eventually rendered obsolete. By the late 1980s and early 1990s, most sub-factories had ceased production, and 60% of the workers had been laid off. A few others, such as factories 797 and 798, actively seek the chance to cooperate with foreign companies to upgrade their production lines and meet diverse market needs.

The troubles faced by these state-owned factories in the 1980s were both economic and political. Economically, although the flourishing market economy witnessed booming demand for civil electronics such as television, most of them are met by imports and the emerging private sector. Since many of the factories had focused on a specific component for decades, many were not flexible enough to catch up with the needs of the market. The turbulence of price reform also threatened the production chains for many of the factories. Politically, as the reform of SOE went on, many of the factories were "delegated" to the local level. Rather than being directly led by the national ministries, they are now led by the Beijing government.

However, the rising security concerns in the 1990s provided another chance for these factories. The Tiananmen Square Incident in 1989 and the dissolution of the Soviet Union in 1991 ended the honeymoon between China and the West. Moreover, Operation Desert Storm in 1991, in which the U.S. troops overwhelmingly defeated Iraq, demonstrated the power of electronic warfare and alerted the PLA. The U.S. bombing of the Chinese embassy in Belgrade in 1999 further directly pushed the PLA to start "Project 995" for modernizing the troops. Once again, the rising need for more dependable and advanced electronics by the military generated almost all the R&D investment and over half the revenue for the factories in the Dashanzi factory complex during their hardest time around the 1990s.

During the SOE Reform in 1997, the Beijing Office of Electronics Industry was transformed into Beijing Electronics Holding Company (BEHC), and the ownership of the Dashanzi factories was "transferred" to this new holding company. Apparently, it is a conglomerate that owns hundreds of subsidiaries. In reality, however, the holding company is just a branch of the Beijing government governing the state sector in the electronics industry. Under BEHC's governance, six electronic factories (factories 700, 706, 707, 718, 797, and 798) were bundled together and reorganized into a new enterprise in 2000: the Beijing Sevenstar Group.

The development of Beijing Sevenstar Group, like many other SOEs, is very much tied to its general manager (GM). Through its first two decades, Sevenstar has gone through three general managers, each leaving a significant legacy for the company.

The first GM of Beijing Sevenstar Group, Wang Dongsheng, is a well-known high-tech entrepreneur. At the time he was appointed by BEHC to lead the Sevenstar Group, he had already established his reputation by reconstructing the sister factory of Joint Factory 718, Factory 774. Located in the Dashanzi factory complex and nearby Factory 718, Factory 774 was a major vacuum tube producer during the planned economy era. When it came to 1992, however, the factory was almost bankrupt. Being the CFO of the factory at that time, Wang was appointed to save the factory. With his financial experience, Wang realized a large-scale debt/equity swap, which is the first time in PRC history. He further corporatizes the factory with the self-raised fund from himself and other employees. In 1993, the factory was transformed into a new corporate enterprise, Beijing Oriental Electronics (BOE), with Wang serving as the chairman of the board as well as the president. Later, BOE formed a joint venture with AGC Glass from Japan and successfully went public in 1997. With Wang's leadership, BOE grew rapidly through acquisitions and is now one of the world's leading display makers.

Wang Dongsheng's term in Sevenstar, as well, focuses much on financial reconstruction and corporatization. As soon as the Sevenstar Group is formed, Wang decides to separate out the profitable assets and introduce investments from other national asset management companies. In 2001, Sevenstar Electronics was formed as a corporate subsidiary of the Sevenstar Group and took over the assets of factories 700, 706, 707, and 718. However, not every factory manager felt confident in Wang's intentions. The managers of 797 and 798, therefore, refused to merge into Sevenstar Electronics and instead formed their own corporations, 797 Audio and Sevenstar Flight.

The worry proved to be reasonable. After the corporate subsidiaries were formed, Wang Dongsheng seems unwilling to push forward their development and IPO. Some executives suspect that Wang was instead thinking of acquiring Sevenstar Electronics with his own enterprise, BOE, as he kept chairing that company and made several high-profile overseas acquisitions at that time. The R&D input was almost stunned in these years, and the development of the Sevenstar Group was moderate.

In 2005, Yang Wenliang was appointed as the second GM of the Sevenstar Group. Graduated from the Ocean University of China and majoring in acoustics, Yang joined Factory 798 as soon as he graduated as an engineer in 1988. With multiple successful industrial innovations, Yang was promoted to the first manager of 797 Audio when the company was incorporated in 1999 and has been a board member since the foundation of Sevenstar Group. After taking over the GM position of the Sevenstar Group as well as being the Chairman of Sevenstar Electronics, Yang was enthusiastic to bring Sevenstar Electronics towards an IPO. He appointed Wang Yanling, then the manager of Sevenstar Flight (Factory 798), to be the manager of Sevenstar Electronics.

After starting his career as a technician at Factory 798 and establishing a successful production line in the late 1990s, Wang Yanling proved to be an experienced technical manager. As he planned, Sevenstar Electronics increased its non-military R&D on equipment used in the manufacturing process of semiconductor components, such as crystal growth furnaces and diffusion furnaces. Wang captured the market opportunity of the booming solar panel industry in China and promoted their manufacturing solutions to start-ups such as LONGi, one of the top solar brands today. The benefit of selling manufacturing equipment is that it ensures customer loyalty and long-term revenue. Once the equipment is put to use, the buyer is reluctant to switch to other producers as long as the quality is satisfactory, and cross-selling is common.

Yang's other appointment of a new manager for his home company, 797 Audio (Factory 797), is, however, rather less successful. The new manager was the HR manager of the company and was rather ignorant of the technology. During his leadership, although the company maintained its political prestige, such as by producing audio equipment for the 2008 Beijing Olympics, technological innovation was rather limited, and few new products gained market popularity.

The new leadership style in his home company coincides with Yang's personality, that is, focusing more on political ambition and less on managing the business seriously. Leadership positions in SOE, just like those in elite universities or local governments, are potential ways for political promotion in China. However, the criteria for promotion is an untransparent and even arbitrary mixture of performance and personal ties with upper-level officials. Investing too much in pleasing the upper-level authorities can sometimes come at the expense of sincere consideration of growing the business. Unfortunately, this is somehow the case for Yang. He was elected as a member of the National Committee of the Chinese People's Political Consultative Conference (CPPCC) in 2008 and promoted to President of BEHC. After the IPO of Sevenstar Electronics was completed, Yang promoted Wang Yanling to be the GM of the Sevenstar Group and left the company.

1.2.2 Reorganization, Expansion, and the Politics Behind

The ownership structure of BEHC, Sevenstar Group, and Sevenstar Electronics is typical for most big SOEs today. At the top is the government asset management institution or its agents, such as the State-owned Assets Supervision and Administration Commission (SASAC) or holding companies like BEHC. The middle layer is the SOE itself, such as the Sevenstar Group, whose GM is appointed by its supervision authority as well as the direct owner. In some cases, this layer also includes public companies such as BOE. In the case of the second layer company being an SOE, the third layer is a series of subsidiary companies, such as Sevenstar Electrics, 797 Audio, and Sevenstar Flight in this case. Among them, the core business would usually also be listed publicly. The IPO of Sevenstar Electrics in 2010 gave the Sevenstar Group access to private capital in this way.

The nature of SOE getting listed is worth discussing since it blurs the common understanding of the distinction between ownerships. The traditional type of SOE is unlisted and fully owned by state agencies. The biggest challenge for these companies is their restricted access to capital. Managers of SOE, therefore, see the IPO as a way to finance the company. However, the state wouldn't risk losing control of the company. In that case, it would either maintain 50% + 1 shareholding or keep the state entity as the top ultimate beneficial owner (UBO). In both cases, the company is de facto controlled by the state. According to a series of regulations made by SASAC, the Ministry of Finance, and the China Securities Regulatory Commission (CSRC) since 2007, any significant transfer of state-owned shares must seek approval from SASAC.

The party organization further ensures the control of the party-state over these companies. According to a 2010 notice by the CCP Central Committee and the State Council, any "major decisions, major appointments or dismissals, major project arrangements, and a large number of capital operations" must be decided by the party organization, of which the Party Secretary is usually the Chairman of the Board.

Therefore, the corporate governance of the state-controlled public company is also a form of party-state governance, whereas whether the state owns the majority of the company is not the key issue. This is exactly the case for Sevenstar Electronics and BOE. In both cases, the state ownership is below 50% but still significant, so they may be categorized as "mixed ownership" technically[Huang et al., 2022].* However, through the lens of historical analysis, their roots in the state economy are revealed.

Corporate governance under the party's rule is not always "yes-man" politics. Five years after the IPO of Sevenstar Electronics, its revenue only saw a moderate increase of 50%, and the net profit even went down by 14% since 2010.† At the same time, another equipment-producing subsidiary of Sevenstar Group, North Microelectronics (NMC), has grown rapidly. BEHC, the state supervisor of the Sevenstar Group, suggested then-GM Wang Yanling merge Sevenstar Electronics with NMC through asset exchanges, which would bring new momentum to the business. However, Wang was reluctant to do so and rather preferred to let Sevenstar Electronics acquire NMC with a discount. Some of Wang's colleagues suspect that he was trying to maximize his personal interest by altering the M&A strategy. Such disobedience irritated the officials from BEHC. In late 2015, BEHC suddenly ordered a "strategic reorganization" of Sevenstar Electronics and NMC into a new company, NAURA Technology Group, taking the place of the listed position of Sevenstar Electronics. The new executive team of NAURA is filled with NMC members. Although it remained the major shareholder in NAURA, Sevenstar Group was also forced to transfer the control rights to BEHC. Politically, it means that after this reorganization, Sevenstar Electronics was "integrated" into NMC, and the newly established NAURA is at the same administrative level as the Sevenstar Group and BOE. Wang Yanling was later dismissed and investigated by the party for appropriating state-owned assets in 2021.

The origin of NMC represents another origin of Chinese high-tech enterprises: recruiting over-

*Shareholder data from WireScreen(wirescreen.ai). Retrieved on December 15, 2022.

†"Financial Disclosure of NAURA/Sevenstar Electronics, 2010-2022." 2022. Easymoney Securities. https://data.eastmoney.com/bbsj/yjbb/002371.html. Retrieved on December 15, 2022.

seas talent. Policy subsidy is crucial for recruiting these talents: apart from financial support, working in a state-backed company in Beijing or Shanghai means being able to earn the hukou, i.e., residential rights in the city, which is not easy for private sector employees and proved very attractive for talents who dream to root in these big cities.

In 2001, as the government proclaimed its tenth FYP, BEHC noticed that a product line of Factory 700, then part of the newly founded Sevenstar Group, fulfilled the criteria for taking the erecting machines project as part of the 863 Program. Therefore, the team was separated out to form a new company, NMC, as a subsidiary of the Sevenstar Group, with the initial funding mostly coming from the 863 Program. NMC started as a research company with only 20 employees and was led by Zhao Jinrong, the Chief Engineer of 700. It soon recruited a bunch of researchers and engineers from top domestic and overseas institutions and expanded its market share. Since the reorganization into NAURA in 2016, the company's revenue has grown over fourfold and hit 10 billion RMB, or around $1.4 billion, with a 12% profit margin. It has now become the company with the highest market value in the Chinese semiconductor industry.[*]

The development of NAURA in recent years has also intensified US-China competition in the semiconductor industry. When the company filed a $15 million acquisition bid for Akrion Systems, an almost-bankrupt company in Pennsylvania, for its technology on semiconductor manufacturing equipment, the executive team was aware of the risk of being denied. The failure of the high-profile acquisition of Oregon-based Lattice Semiconductor by a China-funded private equity firm has already become big news in the industry[Rithmire and Li, 2019]. However, the deal was approved by CFIUS in 2018, making it the first Chinese acquisition approved by CFIUS under the Trump administration. NAURA also set up a research organization in Silicon Valley to recruit researchers who were not willing to travel to China.

[*]"Stock Data of NAURA/Sevenstar Electronics." 2022. Easymoney Securities. https://data.eastmoney.com/stockdata/002371.html. Retrieved on December 15, 2022.

Another side effect of Trump's tough approach toward China is that the export restrictions encourage more semiconductor producers in China to substitute their production lines with domestic equipment. As a result, the sales of NAURA were boosted. The booming electric vehicle industry also provided an additional need for regular semiconductors. For one thing, the restrictions did limit Chinese access to the most advanced semiconductor techniques. The best hope for the technicians at NAURA and other domestic producers is that through accumulating experience in feeding the grand domestic market, they will be able to climb up the stairs and bring out indigenous innovations.

1.3 Conclusion

This chapter explores the complex phenomenon of China's expanding state sector and its relationship with economic development and globalization. The logic behind the state sector in the economy is deeply rooted in China's government-business relationship and the national agenda on industrialization. It seems that the rationale for economic development is primarily based on national security concerns rather than any capitalist principle per se.

As China deepens its engagement with the global economy, the benefits of globalization have been well captured by China's state sector. In recent years, post-2000 policy changes have aimed to translate these benefits into the global competitiveness of Chinese SOEs. However, these policies have not led to serious reforms that give up party-state control over the economy. Instead, they aim to boost the SOEs with private capital. Despite the challenges that come with entrepreneurship, the state sector has successfully co-opted the financial market to advance its goals.

The success of China's SOEs depends on professional managers and engineers, as well as access to the world's intellectual resources. However, one of the biggest challenges is the diffuse power of the party-state in corporate governance. Once a business is successful, entrepreneurs face the challenge of navigating the opaque world of politics. It is widely known that openly challenging the party-state is almost never an option. As concerns grow over the growing arbitrary power of the CCP, entrepreneurs find themselves increasingly caught in the crossfire.

In the following chapters, we will delve into China's growing international trade and investment and assess how the outside world responds to China's "opening up without reform." This will also provide an opportunity to explore how the government's business strategy serves China's national interests and how it impacts the global economy.

The free trade system ended up increasing the legitimacy of authoritarian regimes. The illusion we embraced ended up amplifying the threat of hegemonic powers.

Yasutoshi Nishimura

2

Not Exporting Influence

"The size of China's displacement of the world balance is such that the world must find a new balance. It is not possible to pretend that this is just another big player. This is the biggest player in the history of the world." Said former Singapore leader Lee Kuan Yew [Allison and Blackwill, 2013]. Indeed, the phenomenal rise of China, even impartially in terms of economy, has brought unprecedented geopolitical chances and challenges to this era. For China, it is about realizing the "China Dream" of national rejuvenation that to be not only rich but also powerful [Allison, 2017]. For the U.S., it is about understanding China's intention and ability to compete or even displacement. Other countries, as the quote suggests, it is about to respond to rising China with mixed strategies [Johnston and Ross, 2005] and form a new balance.

Such a structural realistic bipolar framework [Mearsheimer, 2007] highlights a classical question reviving in the new context of "China rise": how does economic power translate into political influence in world politics? This chapter revisits the question of whether trade could be politicized to sway the foreign policy preferences of partner countries. Previous studies examined the political influence of trade ties majorly through case studies [Kirshner, 2008, Medeiros et al., 2008, Ross, 2006]. The very few recent quantitative studies [Flores-Macías and Kreps, 2013, Strüver, 2016, Kastner, 2016] at the cross-national level highlight evidence that China's commercial relations enhance its foreign policy influence, but are unable to draw strong inferences about the causal effect due to methodological limits [Davis et al., 2019]. This chapter, on the other hand, provides a counterargument on the negative effect of certain commercial relations (i.e. China's export) with innovative research designs that control endogeneity and facilitate causal inference.

In this research, I argue that China's rise as a global seller actually has a negative effect on partner countries' policy convergence, at least on human rights issues. In other words, in terms of the net effect of China's outward trade flows, it hurts rather than helps China's efforts to bring other countries closer. So far, this is the first study to analyze the foreign policy hostility caused by China's dominance in global exports, which is suggested in works like [Lampton, 2008, Cutrone and Fordham, 2010] but hasn't yet been explored with cross-national panel data. It is also the first causal research on the political effects of China's international trade by bringing a staggered difference-in-differences (DID) design into this field.

This research challenges the view that links China's economic rise undoubtedly with its growing political influences through innovative research designs that enable drawing inferences on causal effects. It thus has greater implications in terms of theory, methodology, and practice. Theoretically, it provides solid evidence for the counterargument on the general theories of "from economic power to political influence," calling on scholars to include a broader set of mechanisms into consideration, including but is not limited to strategic industrial policy, national security concerns, and labor protection concerns in global trade. Methodologically, it exemplifies an unconventional way to conduct quasi-experimental design in international relations which could also be used to investigate other causal relations. Practically, it challenges the prevalent "China rise" narrative and provides a new perspective for policymakers to think about the hostility caused by expanding export.

To preview, this chapter proceeds as follows: in the next section, I briefly summarize the main scholarly work on the linkage between China's rise in international trade and the swaying foreign policy convergence of other countries. Then, in section 2.2, I will elaborate on the research design, including evidence that provides intuitions, probable mechanisms and hypotheses, optimization of variables, the reason for sampling certain countries, and the estimation strategy of DID. Unlike conventional International Relations studies, section 2.2 should be regarded as reflecting a major proportion of my work as causal research in this field. The empirical results are reported in section 2.3 with interpretations and rigorous robustness checks, and section 5 concludes the chapter.

2.1 More Trade, More Power?

A trade giant is expected to gain political influence either through coercive economic statecraft when states politicize trade ties as "carrot or stick" to compel or deter policy changes in other states [Baldwin, 2020]; or through a "Hirschmanesque" logic, whereby economic integration helps to generate vested interests that advocate foreign policies that do not antagonize key trading partners [Hirschman, 1980]. These theoretical frameworks, especially the latter one, have been referred to cultivate the conventional wisdom that China's economic rise has greatly enhanced its political influence across the globe [Kastner, 2016]. Such a claim forms a foundation of widespread concerns about China as a revisionist country that challenges the U.S.-led ”international liberal order” [Allison, 2017]. Especially, China is in a particularly advantageous position to utilize its economic leverage to win a greater influence in weak and fragile countries of the Global South as a result of its trade ties with them [Hart and Jones, 2010].

Such a prevalent creed has led to practical foreign policies not only for the countries concerning China's rise but also for China itself. As [Chambers, 2006] noticed, in the early 2000s when China just joined the World Trade Organization (WTO), it had been looking forward to linking its regional neighbors to China itself in friendly and cooperative relations through fostering trade interdependency. Trade policy, therefore, has always been part of China's foreign policy strategy. Recent studies also show that China has strategically used trade tools, especially through state-owned enterprises (SOEs) with the intention to promote its foreign policy to its partners, although the effect of such efforts is not yet determined [Davis et al., 2019, Stone et al., 2021].

However, recent research challenges this creed by suggesting that global trade rules restrict the ability of governments to politicize trade effectively in foreign policy towards trade partners, and transnational production further complicates the like between trade to foreign policy [Gowa and Mansfield, 2004, Davis and Meunier, 2011, Carnegie, 2014]. Even in Asia evidence of China's economic leverage is less conclusive than is often assumed. After conducting several case studies on Chinese attempts to exert power in Southeast Asia, [Goh, 2011] finds that "the most notable elements of China's growing power - its economic strength and integration into the world economy - are manifested in structural, and often unintentional, ways" and stresses that "China does not thus far have a significant record of managing to get its smaller Southeast Asian neighbors to do what they would not otherwise have done." [Medeiros et al., 2008] concludes that "China does not appear to have had much success in translating economic interactions into political influence" in six Asian-Pacific countries.

Especially, researchers single out exports as a potential destructive factor of China's efforts to "buy influence." [Lampton, 2008] notice that "though the perception of China as a 'buyer' is often positive globally, China as a 'seller' creates anxieties that Beijing needs to assuage." The commonly mentioned mechanism is that powerful exporters are likely to be viewed as a threat by domestic import-competing industries [Cutrone and Fordham, 2010]. The aggregate effect of such a channel is still yet to be examined since firm-level data shows that export firms have more political influence than import-competing firms, which might cause an aggregate foreign policy that is in favor of China [Yasar, 2013]. Nevertheless, it would be beneficial to pay more attention to the effects of China's growing exports given its export-driven development model with national capitalist characteristics. Moreover, with multivariate regression models, [Strüver, 2016] claims that "China's influence stems less from its position as a major export destination in bilateral relations and more from its power as a seller".

Existing cross-national quantitative studies, however, make fewer efforts to distinguish the effect of exports from that of imports [Flores-Macías and Kreps, 2013, Kastner, 2016]. Although providing evidence on the association between trade flows and political influence in insightful ways, these studies, nevertheless, are unable to establish causal connections due to the problems of measurement and endogeneity. [Kastner, 2016] explores cross-national variation in the willingness of individual countries to support Chinese government positions relating to Taiwan and Tibet, and China's status as a market economy, finding that increased trade dependence on China is correlated with an increased likelihood of taking an accommodating stance on the economic issues but an ambiguous association with stance on political issues. Given the static nature of data and its multinomial logit analysis approach, this study provides limited evidence on causal effects. Finally, [Flores-Macías and Kreps, 2013] makes remarkable efforts on inferring the causal relationship by using data on bilateral trade between China and developing countries in Africa and Latin America between 1992 and 2006. It sophisticatedly uses energy production as an instrumental variable to control endogeneity in a two-stage least square (2SLS) estimation. Still, I hold three concerns about its approach: 1) it might be a good instrumental variable for imports of China as argued, but how it is causally related to China's export is not explained. 2) Instrumental variable assumes exclusion restriction, meaning that energy production should affect the country's UNGA vote only by influencing its trade with China, which seems to be too strong. 3) The optimization of countries' policy converges with China and assumes that China's stances do not vary in UNGA votes on human rights issues, which is not in line with evidence from ideal points estimations [Bailey et al., 2017]. These studies provide a solid foundation with which I would like to make conversation in this research.

2.2 Research Design

2.2.1 Win the Market, Lose Partners?

The major purpose of this research is to infer the causal effect of China's growth in exports. As briefed in section 2.1, this is a field with theoretical importance but lacks thorough studies. Previous empirical analyses focusing on the effects of total trade flows either do not distinguish exports from imports [Flores-Macías and Kreps, 2013] or reach a conclusion that the linkage between exports and political influence is ambiguous [Kastner, 2016]. Drawing from existing scholarly works [Lampton, 2008, Cutrone and Fordham, 2010] and practical experiences, I predict that China's expanding exports could lead to foreign policy hostility. I raise three probable mechanisms here, which serve as a discussion of my empirical results and leave for testing in future studies.

The first mechanism is through mercantile competitions. As [Cutrone and Fordham, 2010] summarized, China's exports to a country could directly compete with its own import-competing industries, which could transform into policy hostility through lobbying. Such hostility would be magnified especially given the lack of reciprocity fostered by protectionist trade policy or strategic subsidies [Chilton et al., 2020].* For sure, international networks have long been used for pursuing

*A worth-noticing recent case is the remarks of the U.S. trade ambassador Katherine Tai: https:

commercial interests, especially for great powers [Berger et al., 2013, Haim, 2016]. What is special in the case of China in this era is its unprecedented strategic industrial policy combined with its SOEs that help China to race to the top in global competition [Heilmann and Shih, 2013, Oh, 2021]. It has recently been blamed as an "unfair trade practice" and come under fire in WTO.* However, the role China's strategic industrial policy plays in the international system still lacks scholars' attention.

The second mechanism is regarding trade as a national security issue. Skewed import salience on a great power - China in this case - could be regarded as a threat to the country's autonomy and national security [Holsti, 1986, Liu and Woo, 2018]. Even if not an urgent threat, countries would involve in balancing behavior either to relieve security risks or to make use of the U.S.-China competition for maximizing their own goals. For instance, an up-to-date study shows that Central Asian countries desire Chinese investment but are wary of the political strings that come attached, hoping that U.S.-China competition will encourage the U.S. to increase its economic and diplomatic engagement in Central Asia while convincing Washington to drop its demands for democratization [Miller, 2020]. Latin American countries, which used to be regarded as under the influence of the U.S., also strategically play the game of balancing between the great powers [Wise, 2020]. Significant recent evidence is the rising concern on the security of global supply chains after the pandemic, where some countries suggest that it should be adjusted to relieve the dependency on China [Gaub and Boswinkel, 2020].

The third mechanism is about the human rights issues directly involves in international trade, especially labor standards. China's labor protection issue is a strong concern dating back to its entering into WTO in 2001. China was expected would gradually adjust its labor standards in line with international laws. However, many feel China fails to keep its promise. Until 2012, China is questioned on its labor protection of workers in factories involved in global products such as Foxconn

//ustr.gov/about-us/policy-offices/press-office/speeches-and-remarks/2021/october/remarks-prepared-delivery-ambassador-katherine-tai-outlining-biden-harris-administrations-new.

*China's trade practices come under fire, *BBC News*: https://www.bbc.com/news/business-58991339.

[Duhigg and Barboza, 2012]. And the forced labor issue in Xinjiang galvanized even bigger reactions including the boycott of firms and condemnation of several major countries [Kriebitz and Max, 2020]. Research shows that China is not buying human rights convergence through trade compared with the U.S. [Bader and Daxecker, 2015]. Rather, as China's human rights conditions keep being named and shamed, countries tend to relate exports of China with human rights issues [Peterson et al., 2018]. Up-to-date anecdotal evidence also questions to what extent China's success in the global market also wins it a global environment more friendly: whereas Beijing's controversial crackdown on unrest in Tibetan areas led to little actual reaction to its 2008 Summer Olympics, the U.S., U.K., Canada, and Australia join together for a "diplomatic boycott" on the 2022 Beijing Winter Olympics, reflecting a greater dissatisfaction on China's human rights condition, especially in Xinjiang.*

2.2.2 Reshaping The Landscape in International Trade

The rise of China served as a significant unsettling force in the international trade landscape for the past decade. In the late 1970s, when China first introduced the "reform and opening up" policy, its share of global trade was meager at less than 1%. In 2000, just before China entered into the World Trade Organization, its share of global exports had risen to 3.9%, ranked 7th in the world.† China's accession to the WTO in 2001 allowed the newly emerged global value chains (GVCs) to reliably tap into the world's biggest manufacturing powerhouse, making China dramatically expand its exports to the rest of the world. As Figure 2.1 shows, China's total export volume overtook that of the U.S. in 2007. By 2010, China became the world's top exporting nation. Its economy continued to expand and in 2020, its share of global exports approached nearly 15%, close to the total export

*Calls to Boycott China's 2022 Winter Olympics Echo 2008, *VOA News*: https://www.voanews.com/a/east-asia-pacific_voa-news-china_calls-boycott-chinas-2022-winter-olympics-echo-2008/6202624.html.

†Hong Kong's export not included, which was 3.1%. From UNCTAD news: https://unctad.org/news/china-rise-trade-titan

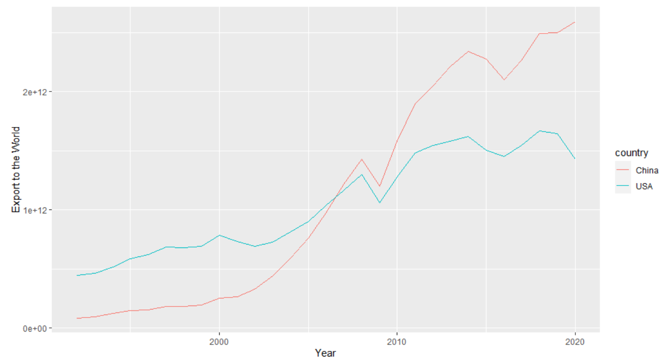

Figure 2.1: Total Export of China and the U.S., 1992 - 2020

share of its past competitors, the U.S. (8.1%) and Germany (7.8%).

This study investigates the political implications of China's growth as an economic power, in particular, how China's trade policy influences its foreign relations with other countries in non-economic realms. With the bipolar model developed by the structural realists [Mearsheimer, 2007] against the backdrop of intensified competition between the U.S. and China in mind [Allison, 2017, Tellis et al., 2020], I identify China's surpassing of the U.S. as a country's trading partner to be a critical point, after which various meaningful inferences can be drawn. The binary variable of whether China or the U.S. has an export advantage over other countries can serve as an effective treatment variable for this study. Intuitively, this treatment is randomly assigned to the sample countries conditioning on their imports from China and the U.S. during multiple periods.* Therefore, it could be used to conduct quasi-experimental designs, and strong inferences about the causal effect (i.e. the local average treatment effect (LATE) at the cutoff where China's export overtakes that of the U.S.) could be drawn.

*The validity of this assumption would be assessed in section 2.3.

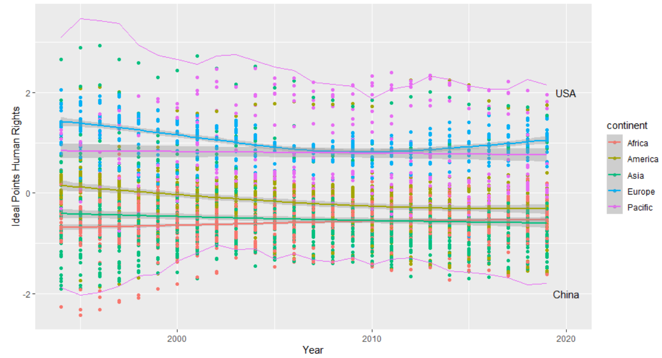

Figure 2.2: Ideal Points Estimates for Human Rights Issues, 1994 - 2019

2.2.3 Issue Ideal Point Estimates

To measure international political influence, I look at ideal points specific to human rights issues. Ideal points are widely used as an indicator for countries' foreign policy preferences [Bailey et al., 2017] and are calculated based on countries' United Nations General Assembly (UNGA) voting records. Typically, the position of the U.S. was on the extreme side of the voting scale, with a number of its allies such as Israel following suit. China placed itself at a moderate position on the opposite side of the scale, accompanied by many countries from the global south. Notably, human rights issues have been an area where China and the U.S. have had widely differing views [Johnston, 2019].

As Figure 2.2 shows, China and the United States represent two extreme sides on human rights voting records. Given China's stance towards an alternative ideal of human rights, rather than using the overall ideal points, I use ideal points involving only human rights issues. This will allow me to more clearly ascertain whether a partner country's stance is closer to China or the U.S. when it comes to controversial human rights issues. Similar to [Flores-Macías and Kreps, 2013], I use it as a measurement of the country's policy convergence with China.

2.2.4 Data Processing and Operationalization

For the dependent variable, I calculate the relative human rights ideal points position of country i in year t as:

$$Y_{it} = \frac{|P_{it} - P_{USAt}| - |P_{it} - P_{CHNt}|}{|P_{USAt} - P_{USAt}|}$$

where P_{it}, P_{USAt}, and P_{CHNt} stand for the ideal points on human rights issues of country i, United States, and China, as shown in figure 2.2. As the figure shows, $Y_{it} \in [-1, 1]$ and larger Y_{it} indicates a closer stance on human rights issues with China rather than the U.S. The original ideal points data is retrieved from [Bailey et al., 2017].

For the running variable, I calculate the gap of exports to a third country i between China and the U.S. in year t as:

$$V_{it} = \log(\text{export}_{\text{CHN}t}) - \log(\text{export}_{\text{USA}t})$$

Since I take a log scale for the actual value of exports, such a V_{it} actually reflects the ratio of export values between China and the U.S. For instance, $V_{it} = 0.1$ indicates that for country i in year t, China's export is 10% higher than the U.S., and $V_{it} = 1.1$ indicate a 200% surpass. The original trade data is retrieved from the UN Comtrade database [COMTRADE, 2003].

The treatment variable is a fine-tuned dummy variable based on V_{it}. The original form is:

$$D_{it} = \begin{cases} 1, V_{it} \geqslant 0 \\ 0, V_{it} \leqslant 0 \end{cases} \tag{2.1}$$

I construct a new variable Z_{it} which is slightly modified to take account of minor deviation with the following rule: for country i in time t, if

(1) $D_{it} \neq D_{it-1}$ and $D_{it} \neq D_{it+1}$ (which entails $D_{it-1} = D_{it+1}$), and

(2) $|V_{it}| \leqslant 0.1$

then the value of $D_{it-1} = D_{it+1}$ is assigned to Z_{it}. Otherwise, the original value of D_{it} is assigned to Z_{it}. In later research design, Z_{it} is used as the treatment variable, meaning China's overtaking of the U.S. as the country's unchallenged primary exporter. With this fine-tuning, I change the value for 35 values among over 5,000 population values but could expand the number of the sample countries from 66 to 88.

Given the nature of quasi-experimental designs for this research, as will be elaborated in section 2.2.6, the choice of confounding variables is not crucial. Still, I choose some major national statistics U_{it} mainly for checking the assumptions, including GDP, GDP growth rate, population, and democracy index.*.

When generating the dataset, I lag the independent variables, treatment variables, and covariates for two years to fully take into account the difference in the variance in data collecting process for different agencies, the time needed for foreign policy-makers to reflect on economic statistics, and to control for reversed causality [Leszczensky and Wolbring, 2019]. That is, I use V_{it-2}, D_{it-2}, Z_{it-2}, and U_{it-2} to pair with Y_{it}.

2.2.5 What Countries Enter the Sample?

Using the binary variable Z as the indicator for being under treatment, I can group the countries into four categories:

(1) *always-China* are the countries i that $\forall t \in \Omega, Z_{it} = 1$

(2) *never-China* are the countries i that $\forall t \in \Omega, Z_{it} = 0$

*These data are drawn from World Economics and Politics (WEP) Dataverse [Graham et al., 2018, Graham and Tucker, 2019]. To be specific, the GDP, GDP growth rate, and population data are from World Bank Group's World Development Indicators [Feenstra et al., 2015], and the binary democracy index is from [Boix et al., 2013]

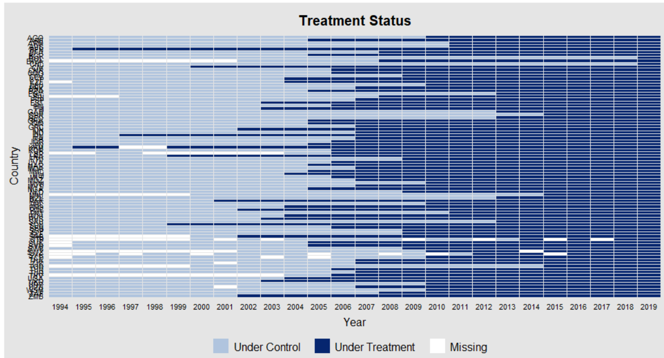

Figure 2.3: Treatment Status of Sample Countries over Time

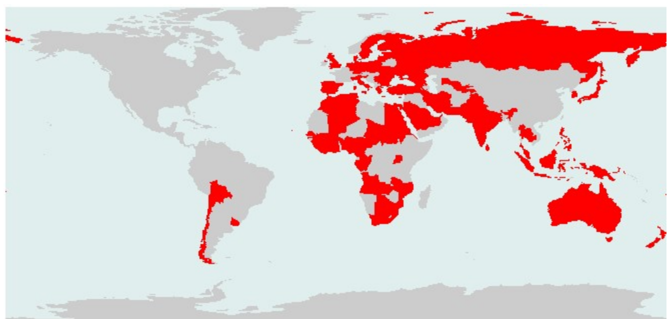

Figure 2.4: Sample Countries that Experienced a Change in Exporters from the U.S. to China

(3) *US-to-China* are the countries i that $\exists y \in \Omega, \forall Z_{it} = 0(t < y)\ \ \&\ \ \forall Z_{it} = 1(t \geqslant y)$

(4) *China-to-US* are the countries i that $\exists y \in \Omega, \exists Z_{it} = 1(t < y)\ \ \&\ \ \exists Z_{it} = 0(t \geqslant y)$

The core idea of this research is to study the "net" effect of China's overtaking the U.S. in global trade. Therefore, I only choose the *US-to-China* countries as the sample. As figure 2.3 shows, their treatment is assigned in multiple periods. For each country, it is a one-time treatment assignment without quitting. This feature allows me to conduct a staggered difference-in-differences design (Staggered DID) to estimate the local average treatment effect (LATE).

Figure 2.4 further visualizes the geographical information of the sample countries. As it shows, these sample countries include most major economies in Europe (except for France), Asia-Pacific countries (by the nature of this research design, China itself is not included), also Middle Eastern

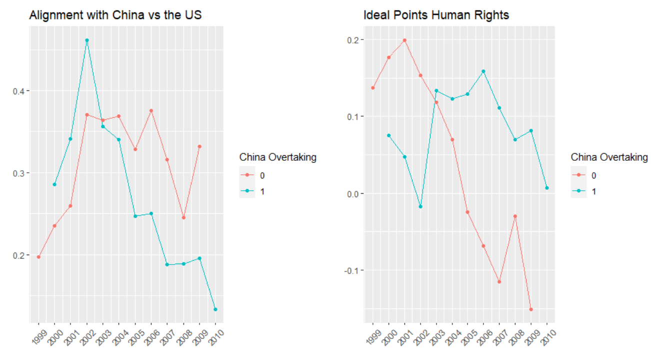

Figure 2.5: Variations in Outcomes for Treated and Not-yet-treated Group

and African countries. Countries in the Western Hemisphere are rarely included except for Bolivia, Chile, and Uruguay, reflecting the still-dominating status of the U.S. in this region.

2.2.6 Estimation Strategy

The general causal relations I intend to estimate here, as described above in section 2.2.2, is the effect of China's rise in global trade on its political influence on other countries. I conduct a difference-in-differences (DID) design to infer the causal effects of the third countries being treated. However, this is not a conventional scenario where the treatment groups are treated at the same time. Rather, in this sample, there are no non-treated countries, rather, the countries are treated at different periods. In other words, this is a staggered difference-in-differences design. Under the assumption that the treatment adoption period is randomly assigned, I can still use the standard DID estimator as an unbiased estimator of a particular weighted average causal effect [Athey and Imbens, 2021]. In this case, I use the "not yet treated" samples as the control group [Callaway and Sant'Anna, 2021].

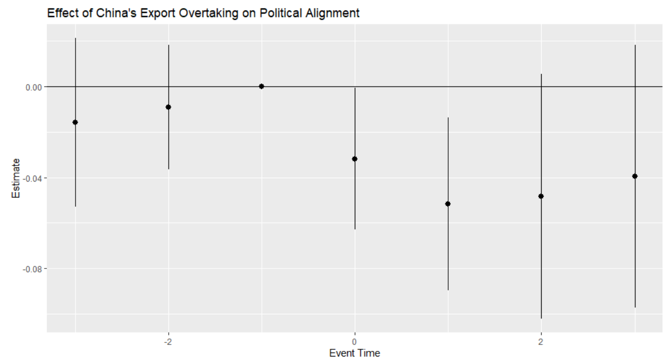

Figure 2.6: Staggered Difference-in-differences Event Study

2.3 Empirical Finding: Trade Dependency and Policy Convergence

Graphical Analysis and Inference

As a start, figure 2.5 displays the variations in outcomes among different periods in the treated and not-yet-treated ("never-China") group. The left graph shows the changes of $\overline{Y_t(1)}$ & $\overline{Y_t(0)}$. I see an obvious deviation between the treatment and control group: after a short parallel trend before 2002*, $\overline{Y_t(1)}$ dropped dramatically, indicating a continuing lower degree of country political alignment with China, while $\overline{Y_t(0)}$ remain relatively stable.

The right graph in figure 2.5 further decomposes such deviation by looking at the variance in the countries' ideal points on human rights issues themselves. Here I see while the control group's average ideal points drop year by year (which means closer to China's stance, as figure 2.2 shows), the treated group's ideal points remain stable rather than following the trend of approaching China.

Using the asymptotically unbiased plug-in efficient estimator introduced by [Roth and Sant'Anna, 2021], I conduct an event study to infer the treatment effect and check its robustness. Figure 2.6 shows the treatment effects across ± 3 periods of the treatment adoption. As it indicates, the average treatment effects (ATEs) before the event time is close to 0, and the ATEs since the event time are significantly

*In this sample, this is the first year where the adoption rate is greater than 5%, as shown in figure 2.7.

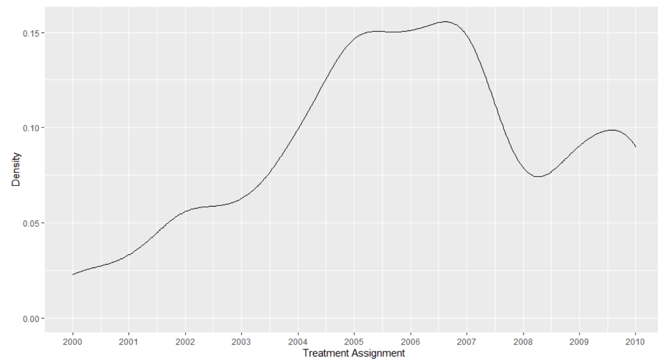

Figure 2.7: Density of Adoption Year of Treatment

negative, especially in periods 0 and 1. The averaged ATEs for each cohort is -0.040 with a standard error of 0.022. Therefore, this negative result is statistically marginally significant.

Assumption Check

The fundamental assumption for this staggered DID is that the treatment adoption (a.k.a. assignment) time is random [Athey and Imbens, 2021, Roth and Sant'Anna, 2021]. So in this section, I am going to test whether this assumption is valid in various ways. Figure 2.7 shows the density curve of the treatment adoption year. As it shows, although it is not evenly distributed by nature, it is not extremely skewed.

I can further address this assumption by plotting the average covariates and the outcomes over different years of treatment adoption together. The plots in figure 2.8 show the features of different cohorts, i.e., the group of countries that newly adopted treatment in that year. It shows that there are no general patterns amongst the covariates and the outcomes, and outliers are very limited. It suggests that the deviation I witnessed in figure 2.5 is not due to selection bias, that is, the difference between the treated countries and the not-yet-treated countries on their policy convergence is not because China became prominent in trade with similar countries earlier. This evidence further supports the results in section 2.3 that the difference is caused by their treatment status.

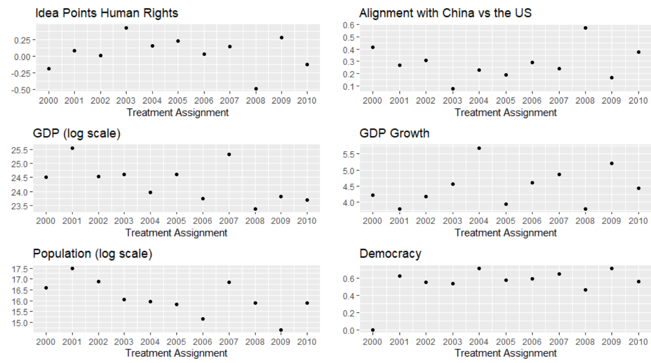

Figure 2.8: Checking the Random Assignment Assumption

2.4 Conclusion

Can scholars make causal inferences on the political effect of a rising economic giant? This chapter approaches this classical question with innovative research designs. After designing and constructing the analysis and tests, I conclude that China's extraordinary rise in global exports alienates its trade partners rather than brings them closer at least in terms of their policy stances on human rights issues, especially when these countries' economic dependencies on China become clear. I hold confidence in the conclusion based on the various test of assumptions.

The key innovation of this research is in bringing China's overtaking and rising to the primary trade partner as a treatment by looking at China's rise in global trade in comparison with the U.S. Such a design allows me to estimate the local average treatment effect (LATE) at the cutoff and therefore to infer causality in the international political economy, an area where causal inference has been long deemed to be nearly impossible.

As a discussion of the results, I raised three possible mechanisms, calling for future attention to strategic industrial policy, national security, and labor protection issues involves in international trade. This result would be meaningful both theoretically and practically. It contributes to a popular debate on the relationship between trade and political power by making an original argument on how trade ties may not be translated into political power and bringing in robust and quantitative evidence. Practically, it suggests that China should not be too optimistic that it can win other countries' compromise and consent on human rights issues with playing its economic leverage. Also, it suggests that the concern of China is challenging the "liberal international order", especially with its trade conduct, which might be exaggerated. In many ways, the international system works as a responsive system to balancing China's extraordinary economic rise, preventing the Chinese government from easily conducting economic statecraft in a revisionist way.

When certain kinds of Chinese investment in U.S. technology firms became a concern, Congress responded with FIRRMA. Rather than claiming that Beijing must be worried by Chinese investors 'funding American defense capabilities,' the U.S. government of course argued the opposite: foreign investors' home government may pose a risk to the country receiving investment. This is the basic premise behind investment screening.

Patrick McHenry

3

Investment as Penetration

Foreign direct investment (FDI) by multinational corporations (MNCs) marks a capstone as well as a pitfall of globalization. On the one hand, international investors bring not only capital flows, but also expertise, technologies, and interpersonal bonds to the region where they invest, resulting in job creation, productivity, and economic growth in the host countries which, in many cases, developing countries [Moran et al., 2005, Hansen and Rand, 2006]. On the other hand, we saw a pronounced backlash against the international investment regime. With a decreasing number of signed international investment agreements (IIAs) and increasing terminations, in 2017 and 2019, the number of terminated agreements exceeded the number of newly signed agreements [Walter, 2021].

The opposition to FDI, for host countries particularly, reflects not only economic concerns but also political ones. In 2018, for instance, the U.S. Congress enacted the Foreign Investment Risk Review Modernization Act (FIRRMA, Subtitle A of Title XVII, P.L. 115-232), seeks to modernize the Committee on Foreign Investment in the United States (CFIUS) and expand the types of investment subject to review, including certain noncontrolling investments in "critical technology." [Schwarzenberg and Sutter, 2021] Together with the Trade War, FIRRMA represents a high point of a series of anti-globalist policies under the Trump administration.

With a rising scholarship on the politics of FDI, however, the causal linkages between exposure to FDI and relevant policymaking process remain poorly understood. Given the important role of legislative institutions in regulating FDI, it is important to understand the mechanisms of how the elections and behaviors of congress members can be affected by the FDI in their constituency. With exposure to a greater amount of FDI, how would voters and their representatives change their preferences that ultimately result in policies?

In this research, I examine whether the exposure to inward FDI affects House elections and representatives' willingness to sponsor regulatory bills in the U.S. against a backdrop of political polarization and economic populism. As a starting point, here I focus on the case of Chinese FDI. Although Chinese FDI is not yet a major component of the FDI stock in the U.S. in terms of amount, it is in the spotlight on the political stage. With investment playing a growing role in U.S. commercial ties with China, it brings both opportunities and fractions to the world's top two economies. Since 1999, the Chinese government has pushed an outward investment policy, namely the "Going Out" Policy, that has sought to diversify its overseas investments into hard assets by encouraging its companies to invest overseas. Alongside FDI from any other country, attracting Chinese FDI, particularly in the case of greenfield FDI, is regarded as "bringing money and jobs back."* However, recent years saw an increasing concern on the threat of Chinese FDI on national security, such as rendering China access to critical raw materials and cutting-edge technology. Such concerns are particularly addressed in the enaction of FIRRMA as mentioned above.

Therefore, Chinese FDI in the U.S. provides a unique lens for understanding the dynamic of FDI and politics in this era. My analytic results suggest that Chinese FDI systematically boosted the electoral advantage of Democratic candidates compared to Republican ones in House elections from 2013 to 2020: after receiving Chinese FDI, the hosting congressional districts saw around a 5 percentage points decrease in Republican vote share. This phenomenon is paralleled with the predictions of global production that inward FDI increases the net welfare of voters in the local host economy. In terms of legislative behavior, however, the FDI have a heterogeneous effect between the two parties: Republican Representatives who have their constituency hosting FDI are more likely to sponsor bills that target Chinese FDI issue while Democratic Representatives are not. Together, these two stories suggest that inward FDI could create inter-party and intra-party cleavages that have consequences on elections and legislative behaviors of the representatives.

3.1 Does Foreign Investment Post Risk?

3.1.1 Chinese Outward FDI in the Era of Ultra-globalization

Over the past few decades, the global economy has witnessed a significant increase in international investment flows. As countries compete to capture new markets, access resources, and expand their influence in the global economy, foreign investment has become a critical tool for achieving these goals. Among the countries that have taken advantage of this trend, China stands out as a major

*Red states: Trump Country's love affair with Chinese investment. (2020). *Nikkei Asian Review*. Available at https://asia.nikkei.com/Spotlight/The-Big-Story/Red-states-Trump-Country-s-love-affair-with-Chinese-investment player in the international investment scene.

China's economic development, including its rapid economic growth and industrialization, has contributed significantly to its global economic integration. As the country seeks to promote trade, increase competitiveness, and expand its economic influence, Chinese firms have increasingly sought investment opportunities outside the country.

Chinese OFDI has been growing rapidly in recent years, with the country ranking third globally in terms of OFDI outflows in 2019, with a total of $110 billion.[*]. While Chinese OFDI has been increasing in both developing and developed countries, the United States has been a popular destination for Chinese investment, with a total investment of $154.2 billion from 1990 to 2020.[†]

China has powerful tools for guiding outward foreign direct investment (FDI), which is subject to licensing requirements, prohibitions, special procedures for sensitive countries, administrative guidance, and earmarked credit. The state directs investments to specific countries and industries that it identifies as strategic priorities and tightly controls investment in sensitive countries.[‡] Financing is also used to control FDI, with the China Development Bank and the Export-Import Bank of China actively supporting FDI and the China Banking Regulatory Commission ordering banks to reduce their offshore exposure. Additionally, Ministry of Commerce of China (MOFCOM) issues Catalogs of Countries and Industries for Guiding Investment Overseas to encourage investment in specific countries, which has gradually expanded over time [Sauvant and Chen, 2014].

State-owned enterprises (SOEs) account for a significant portion of Chinese outward foreign direct investment (OFDI), particularly in the energy, infrastructure, and mining sectors. According to

[*]United Nations Conference on Trade and Development (UNCTAD) (2021), *World Investment Report 2020*.

[†]Congressional Research Service (2021), *U.S.-China Investment Ties: Overview*. Available at `https://crsreports.congress.gov/product/pdf/IF/IF11283`

[‡]The regulations (or "measures") for outward FDI state that projects involving sensitive countries, regions, or sectors require approval from the National Development and Reform Commission and the State Council (NDRC, Interim Measures for the Administration of Examination and Approval of Overseas Investment Projects, October 2004 and subsequent versions).

the statistics of MOFCOM, SOEs are responsible for 51.6% of China's total OFDI stock abroad.*. In terms of project size, the OFDI projects of central government-controlled SOEs are much larger. In addition to their economic significance, SOEs are often viewed as tools for advancing China's strategic interests overseas. This has led to concerns in some countries about the extent of Chinese influence and control over critical infrastructure and key industries

Chinese multinational firms have also emerged as important players in the global economy. These companies operate in various sectors, including telecommunications, technology, and consumer goods. In recent years, Chinese multinational firms, such as Huawei, ZTE, and Lenovo, have been expanding their operations in the United States.

However, the trend in Chinese OFDI in the US has been characterized by rises and falls. In the early 2010s, Chinese OFDI in the US grew rapidly, but in 2017, it decreased significantly due to tighter regulatory scrutiny and a change in Chinese government policies. Despite the decline, as China continues to grow and expand globally, its role in the international investment scene will likely continue to evolve.

3.1.2 Electoral Responses to "China Shock"

Previous studies on the electoral consequences of "China Shock" majorly focus on the political economy of international trade. Studying the effect of the U.S. granting of permanent normal trade relations (PNTR) to China and consequentially the emerging attention to the U.S. trade deficit with China, [Che et al., 2016] argues that U.S. counties subject to greater competition from China exhibit relative increases in turnout, the share of votes cast for Democrats, and the probability that the county is represented by a Democrat. A contrasting analysis by [Dorn et al., 2020] shows that congressional districts exposed to larger increases in import penetration disproportionately removed

*MOFCOM (2022), *Statistical Bulletin of China's Outward Foreign Investment 2021*. Available at http://images.mofcom.gov.cn/fec/202211/20221107152537194.

moderate representatives from office in the 2000s and result in net rightward shifts in voter beliefs and legislator ideology. [Dorn et al., 2020] address the contrast as potential results of gerrymandering and the variation of ideology among candidates within parties. Another potential explanation that wasn't mentioned, as [Abdelal, 2020] suggests, is Democrats moving away from the traditional concerns of the working class that render right-wing populist politicians to take them over. A similar argument for China's import shock bringing right-wing sentiments is made based on evidence in Western Europe [Colantone and Stanig, 2018]. [Mutz, 2018] further argues that the electoral consequences of "China Shock" may be due to a perceived threat to the status other than material interests through the import-competing mechanism.

It is rather vague to what extent such a shock is part of China's oversea economic statecraft or counts as China's strategies of economic diplomacy. In terms of national policies, [Kim and Margalit, 2021] find that Chinese tariffs during the Trade War systematically targeted U.S. goods that had production concentrated in Republican-supporting counties, particularly when located in closely contested congressional districts. As a result, targeted areas were more likely to turn against Republican candidates. At the firm level, researchers focus on cleavages between types of ownership. [Davis et al., 2019, Tan and Davis, ming] notice imports controlled by state-owned enterprises (SOEs) exhibit stronger responsiveness to political relations than imports controlled by private enterprises. Similarly, the responsiveness of Chinese FDI towards political signals suggests that China uses FDI by prominent SOEs as an instrument to promote its foreign policy [Duanmu and Urdinez, 2018, Stone et al., 2022]. Still, however, some research on the domestic process of the Chinese political economy suggests multiple agents, mixed motivations, and messy patterns of China's outward FDI [Rithmire, 2022] as well as the trade [Tan, 2021b]. It could be too soon to interpret the political consequences of China's oversea commercial behaviors as fully intentional, though in some scenarios it might be the case.

3.1.3 Foreign Direct Investment and U.S. Politics

Compared with trade literature, studies on the politics of FDI focus more on public opinions as outcomes. [Tingley et al., 2015] examine Chinese acquisitions of US firms from 1999 to 2014, concluding that opposition is higher when the target firm's industry is security-sensitive, economically distressed, or in a sector in which US MNCs face barriers to the acquisition of Chinese firms. [Zeng and Li, 2019] argue that due to heightened geopolitical concerns and nationalism, perceptions of the China threat negatively affect how the American public views the impact of incoming Chinese FDI. In with sophisticated survey experiments, [Feng et al., 2021] find that Chinese FDI is particularly more skeptical in Americans' perceptions compared to generic business investment, and the gap rises with local trade-related job losses, interacting with nationalist ideologies.

The interpretational gap between public opinion and politics sustains. When it comes to the dynamic between FDI and party politics, researchers focus on the gubernatorial level, given governors are mostly responsible for attracting FDI and presumably accountable for it. Drawing on evidence from Brazilian mayoral elections, [Owen, 2019] finds that new investment increases the electoral success of incumbent parties in local elections. Similarly, [Rickard, 2022] uses evidence from Spanish government elections to show that voters punish incumbent government parties when a local firm moves production abroad. Both results are in line with the anticipation of labor market mechanism and economic accountability theory. Evidence from the U.S., on the other hand, highlights the role of partisanship. [Wang and Heyes, 2021] show that the election of a Republican governor causes a 17% boost in the growth of manufacturing-oriented FDI stock, compared to a Democrat, and [Lu and Biglaiser, 2020] also find that Chinese firms are more attracted to states where Republican governors hold office.

In a summary, current research on the effect of globalization on political outcomes focuses more on trade and in some cases implicitly or explicitly looks at the strategy of economic statecraft behind it, particularly when it comes to China. For FDI, which arguably involves more direct involvement of both the host and home governments, the focus on the electoral consequences and party politics is far less and particularly leaves a blank on the legislative side. This asymmetry is worth noticing, particularly given the increasing concern and scrutiny on FDI in this era and the important role of legislative institutions in regulating FDI. A few very recent literature address the nexus: Using a novel indicator, [Azzimonti, 2019] shows that partisan conflict about trade policy is associated with a significant decline in FDI flows to the U.S. [Cohle and Ortega, 2022] find that increased FDI causes FDI increases right-wing vote shares and decreases support for center-right parties, while for legislative election, there is support for left-wing parties in the presence of FDI. In a word, the political consequences of FDI, embodied by the MNCs, represent an important but understudied component of the backlash of globalization. It is yet a field to be investigated. Building on these existing and recent research, this study zooms into the context of the U.S., contributes by examining existing theories, and brings novel evidence to the policymaking process.

3.2 Research Design

In this study, I consider two mechanisms by which inward FDI could create cleavages and ultimately have legislative consequences in terms of elections and the policymaking process. I argue that as theorists and politicians expect, FDI generally increases the net welfare of local voters through the labor market mechanism. In terms of economic voting, it may have asymmetric effects on House elections, however, due to the different partisan positions on economics and globalization. The policymaking process, on the other hand, involves special interest politics. Firms with international connections play as agents of lobbies and political contributions that affect legislators' behaviors, which have heterogeneous effects between the two parties.

3.2.1 Labor Market Mechanism and Elections

FDI, along with other business investments, is generally seen as a source of job creation. In many cases, politicians also use policies to claim credit for attracting investment that they believe would bring them political support [Jensen and Malesky, 2018]. Deviating from the canonical models, some literature highlights the heterogenous distributive consequences of FDI in the labor market to explain the variation of attitude toward inward FDI [Pinto and Pinto, 2008, Pandya, 2010]. Nonetheless, in terms of aggregated effects in local elections, evidence shows that voters do reward local governors for attracting FDI that creates jobs, arguably because the benefits of FDI are concentrated among voters, while the costs of inward FDI are shared across political units [Owen, 2019].

One should be aware, though, that in the context of U.S. politics, a partisan asymmetry appears to have significant effects on elections in terms of economic voting. Arguing that unemployment is a partisan issue for voters rather than a valence issue, [Wright, 2012] finds that when unemployment is high or rising, Democratic candidates can successfully convince voters that they are the party best able to solve the problem. Burden & Wichowsky further argues that higher unemployment rates stimulate more people to vote, and Republican candidates are especially harmed by higher unemployment [Burden and Wichowsky, 2014].

This trend of works builds on [Petrocik, 1996] theory of "issue ownership," which contends that the public consistently views the Democrats as better able than Republicans to handle domestic social issues, of which unemployment is a prime example. However, the backlash against globalization in the recent decade could change the asymmetry in an opposite direction. With Trump's rise in 2016, he presented a narrative that appeals to a large section of the white working class who were traditionally supporters of the Democratic Party [Morgan, 2018]. Such political entrepreneurship arguably represents a dramatic transfer of the "ownership" of unemployment from the Democratic Party to the Republican Party, and further associates such economic concerns with the right-wing anti-globalist agenda, as suggested by [Abdelal, 2020].

As expected, China's significant rising as a source of inward FDI for the U.S. also reflects on employment. According to statistics in 2018, over 130,000 work at firms with majority Chinese ownership, with estimated tens of thousands of additional jobs indirectly supported by Chinese investors in the U.S. during project constructions or at suppliers.* During the period this study focuses on (2012-2020), over half of Chinese FDI (in terms of both the number of deals and transaction value) concentrated in 2016 and 2017, coincident with Trump's rise. Therefore, I hypothesize that inward FDI from China will be associated with a lower unemployment rate, and through that channel decreasing support towards Republican candidates with mitigated economic resentment as well as an anti-globalization attitude.

3.2.2 Special Interest Politics, Ideology, and Policymaking

A novel focus of this study is on the policymaking process, for which I try to investigate how FDI affects legislators' willingness to support regulations. Increased involvement from multinational firms can affect political outcomes in the direction of their interests via lobbying public bodies, which they have strong motivations to do so [Kim and Milner, 2019]. In the U.S., governors are mostly enthusiastic about attracting FDI for local economic development, while Congress has an interest in regulating FDI either through authorizing and overseeing CFIUS or through direct intervention in some cases [Sullivan, 2009]. Therefore, in terms of FDI, not only do MNCs have the incentive to influence the incumbent government, as anticipated by [Grossman and Helpman, 1994], but they may also (or even more) consider influence politicians' positions in a legislative body with political contributions [Grossman and Helpman, 1996].

The outcome of such lobbies and political contributions, however, is less predictable. One pos-

*New neighbors 2018 update: Chinese FDI in the United States by Congressional district. (2018). *Rhodium Group*. Available at https://rhg.com/research/new-neighbors-2018/

sibility is that politicians are inclined to act to please the special interest groups with more political contributions, as the Grossman and Helpman model anticipated. Studies on special interest politics in legislative bodies support the theory that representatives' policy decisions are shaped and reinforced by lobbies and contributions [Wright, 1990, Stratmann, 2002]. Nonetheless, the political polarization in recent decades highlights the ideological division among politicians and voters. Given the nexus of such polarization with globalization [Dorn et al., 2020] as well as partisan loyalty [Barber and Pope, 2019], one should expect the effect of lobbies asymmetry between the parties depending on their ideological positions.

In these settings, Chinese FDI presents us with particularly an ideal case for examining this mechanism. According to the Chinese government's report in 2019, the U.S. is the second-largest hoster of China's oversea firms in terms of number, just following Hong Kong. Evidence shows that these firms, along with other U.S. corporations with strong business ties with China, spent a lot of effort to beat back anti-China sentiment in Congress and the government.[*] Recent released documents even shows direct involvements with Chinese governments: in 2021, Chinese embassy in Washington sent letters pushing U.S. executives, companies and business groups to fight against China-related bills in the U.S. Congress.[†] That evidence suggests that representatives whose constituencies host FDI are likely to face more lobbies from local firms acquired or strongly influenced by the home country, China.

The significant partisan division on attitude towards China, which coincident with the division on anti-globalist ideology, further provides the testing ground for the partisan heterogeneity of FDI's legislative consequences. A recent survey shows a long-lasting and even expanding interparty split on China policy and China-related attitude. When asked about whether or not the U.S.

[*]For instance, according to OpenSecrets, Chinese tech giant Alibaba spent a record $3.16 million in 2020 on lobbyists. For the lobbying activities of U.S. corporations, also see an article by *Politico*, available at https://www.politico.com/news/2021/09/01/business-us-china-trade-508239

[†]Chinese embassy lobbies U.S. business to oppose China bills. (2021). *Reuters*. Available at https://www.reuters.com/business/exclusive-chinese-embassy-lobbies-us-business-oppose-china-bills-sources-2021-11-12/

should actively limit the growth of China's power in March 2021, 71% of Republicans and 49% of Democrats shows their supports, although both at their historical high since 2006.* Scholars also find the perception of the "China threat" a noticeable component among right-wing party ideology in the recent wave of backlash against globalization, either due to status threat or economic shock [Mutz, 2018, Colantone and Stanig, 2018]. Such a strong ideology is likely to undermine if not reverse the lobbying efforts of the China-related firms for Republican politicians. Therefore, I hypothesize that the effect of Chinese FDI on the representatives' willingness of regulating it would differ by party, and such lobbies would be more effective for Democrats compared with Republicans.

3.2.3 Models Specified

To systematically test my hypothesis that Chinese FDI decreases the support for Republican representatives by bringing jobs to local communities and to investigate its effect on representatives' policy choices, I examine 2014, 2016, 2018, and 2020 U.S. House elections and China-related bills introduced during this period (113th to 116th Congress). Since the unit of analysis here is congressional districts, focusing on this period after the 2010 redistricting cycle would help to avoid the problem of mismatching and gerrymandering. For robustness, I apply two different empirical models fixed-effect models to propensity score matching (PSM), to estimate the causal effects of Chinese FDI. I also use mediation analysis to examine the mechanism for the electoral effect.

*Republicans and Democrats Split on China Policy. (2021). *The Chicago Council*. Available at https://www.thechicagocouncil.org/research/public-opinion-survey/republicans-and-democrats-split-china-policy

Dependent Variables

I measure support for Republican candidates in House elections by the vote share for the Republican candidates in a certain congressional district for a certain election. For the interest of this research, I calculated the first-order difference in percentage points compared with the last election in that congressional district to measure the support change. The data are available from the MIT Election Data + Science Lab.

To measure representatives' policymaking preferences, I collect data from Congress.gov, the official website for U.S. federal legislative information. It offers a quick search engine to find and filter bills of interest. For this research, I searched the bills introduced in the House during the 113th to 116th Congress that contains both "China" and "investment" (including their variances) in either the title, summary, or action. Then, I identify the sponsors of these bills and manually coded them as a panel dataset. These China-related bills introduced generally aim to counter Chinese investment and, in many cases, raise concerns of the Chinese government.* Therefore, sponsoring such bills can be a clear signal of suspicion or hostility towards Chinese FDI. I choose to measure representatives' policy attitudes by sponsorship rather than roll-call voting records because voting during this period is usually either highly partisan and polarized or, in some cases, unanimous. Besides, many bills that explicitly target Chinese FDI are not yet voted on in the House. Therefore, the sponsorship of such bills could better capture the representatives' preference on this issue.

Independent Variable

Granular data of FDI is known for being hard to collect. So far, the most detailed data on Chinese FDI in the U.S. comes from the Rhodium Group and the American Enterprise Institute (AEI), both recorded project-level transactions with the year and congressional districts hosting the invest-

*Ministry slams US bill's take on China. (2022). *China Daily*. Available at https://global.chinadaily.com.cn/a/202202/08/WS6201c459a310cdd39bc8538a.html ment. For this research, I use the data from AEI due to accessibility. This dataset focuses on the major Chinese investments in the U.S. from 2005 to 2022, where the value of each transaction is larger than $100 million. Compared with the report of the Bureau of Economic Analysis (BEA) which record the aggregated value of Chinese FDI, I conclude that the quality of AEI data is acceptable for the interests of this study.

I grouped and summarized the FDI data by the inter-election periods to pair them with outcome variables. For the investment that happens in November and December of the election years, I group them into the next period. Since this study is more interested in the entering and existence of Chinese FDI in the constituencies, I use two binary variables, *NewChinaFDI* and *ChinaFDI*, to indicate whether or not there is (has been) Chinese FDI in the certain constituency during (or until) certain period.

Mediator and Covariates

To test the labor market mechanism for Chinese FDI on House elections, I use the change in the unemployment rate as a mediator. Compared with other economic indicators such as GDP, GDP per capita, or wage levels, employment is regarded as a crucial component of the direct beneficiaries of FDI on the local economy [Dunning and Lundan, 2008]. Unemployment is also regarded as a strong mobilizer of voter turnout and a key indicator of macroeconomic performance in the vast literature on economic voting [Burden and Wichowsky, 2014]. Moreover, it is intertwined with economic resentment towards globalization and suspicions towards FDI [Rodrik, 2018, Feng et al., 2021]. Therefore, the unemployment rate is the key variable to be used to indicate the local economy. Since the unemployment rate is reported at either the county-level or the state-level but not the congressional district level, at this stage I use the state-level statistics for every district in the state.

Other key covariates include the party affiliation of the incumbent representatives as well as the president. The party affiliation of the incumbent representatives matters because the incumbent advantage may exist. It also matters because the voters may want to hold the incumbent representatives and their parties accountable for economic performance and legislative behavior [de Benedictis-Kessner and Warshaw, 2 Canes-Wrone et al., 2002]. The president's party matters because it also systematically affects the electoral performances and policy preferences of the representatives as well as the pattern of inward FDI. For the period of this study, this variable differentiates the Obama administration from the Trump administration.

Estimation

To identify the causal effect of inward Chinese FDI on House elections, I employ a two-way fixed-effect model that controls both state fixed effect and year fixed effect and utilizes standard errors clustered by congressional district. A mediation analysis of the change in the unemployment rate is also included for examining the causal mechanism. For estimating the effect of existing Chinese FDI on representatives' frequency of sponsoring China-related bills, due to the sparsity of such sponsorship, I further include the congressional district fixed effect.

Since this study is exploratory research in a field with only premature literature, I also aim to reduce the model dependence and offer intuitive diagnostics. With this aim, I also applied matching methods with time-series cross-sectional data developed by [Imai et al., 2021] to refine my estimations. For the estimations of both effects, I match on one-period lag treatment history and refine the matched sets by applying panel score matching (PSM) with including two periods of lags of time-varying confounders. Each treated unit is matched with 15 closest controlled units, and the causal quantity of interest is the average treatment effect of Chinese FDI among the treated (ATT).

3.3 Empirical Findings: FDI, Elections, and Policymaking

3.3.1 Electoral Consequences

The main results for the regression analysis of the House elections are presented in table 3.1. The results in all models support the hypothesis that receiving Chinese FDI decreases the vote share of the Republican candidates. The coefficient on new Chinese FDI is negative, statistically significant, and of a comparable magnitude, in all models. The effect of new Chinese FDI on the change in Republican vote share for the matching method is plotted in figure 3.1. The evidence consistently shows that hosting Chinese FDI during an inter-election period for a congressional district leads to an estimated 5% drop in Republican vote share in the next House election.

	”ΔGOP voteshare		
	(1)	(2)	(3)
New Chinese FDI	-2.878^{***}	-4.166^{**}	-4.067^{**}
	(1.103)	(1.915)	(1.918)
Democratic Incumbent		1.584^{**}	1.619^{**}
		(0.637)	(0.723)
New Chinese FDI *		1.363	2.995
Democratic Incumbent		(2.350)	(2.354)
State-Year Fixed Effect	False	False	True
Observations	1,738	1,738	1,738
Note:			*p<0.1; **p<0.05; ***p<0.01

Table 3.1: Impact of Chinese FDI on Vote Share in House elections, 2013-2020

Further analysis provides evidence for the mechanism of the labor market, presented in table 3.2. Model 4 shows that introducing Chinese FDI is negatively associated with the change in the unemployment rate, while the latter is positively associated with the change in Republican vote share. It suggests that during the period of study, the rising unemployment rate motivates voters to turn to

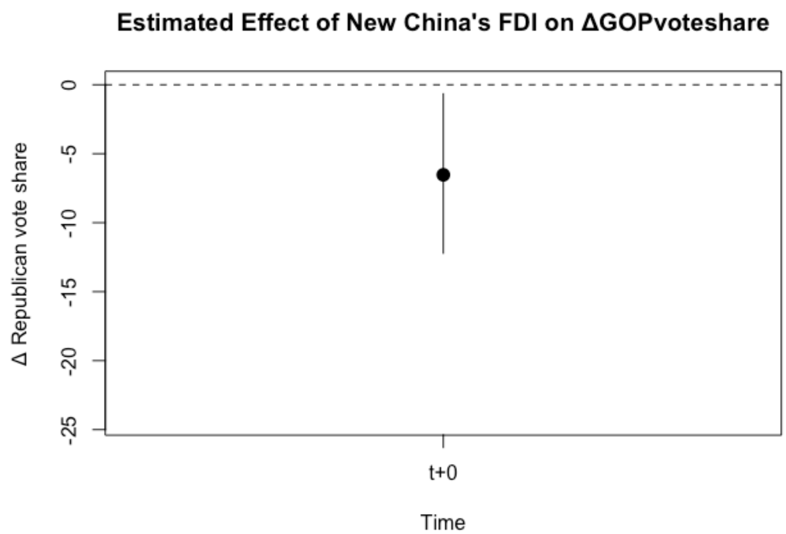

Figure 3.1: Impact of Chinese FDI on Vote Share in House elections, 2013-2020

support Republican candidates for House elections, particularly while introducing Chinese FDI is effective for containing this trend through job creation. Considering governors are interested in attracting FDI for economic reasons, and Republican governors are particularly successful in attracting investments from China [Lu and Biglaiser, 2020, Wang and Heyes, 2021], this cleavage may help to explain the perceived different attitudes towards Chinese FDI among Republicans at the state level versus at the federal level.* Model 6 disaggregated the connection between unemployment and Republican support by year, showing that the positive association mainly appears in 2016 and 2018 elections, providing evidence for the "Trump effect" of economic populism.

Figure 3.2 presents the result of causal mediation analysis with the algorithms developed by [Tingley et al., 2014]. Mediation analysis quantifies the extent to which a mediator variable participates in the transmittance of change from a cause to its effect. I use model 4 as the mediator model

*Red states: Trump Country's love affair with Chinese investment. (2020). *Nikkei Asian Review*. Available at `https://asia.nikkei.com/Spotlight/The-Big-Story/Red-states-Trump-Country-s-love-affair-with-Chinese-investment`

	”ΔUnemployment	”ΔGOP voteshare	
	(4)	(5)	(6)
”ΔUnemployment		1.250^{***}	-4.041^{**}
		(0.199)	(1.879)
New Chinese FDI	-0.249^{***}		
	(0.082)		
Democratic Incumbent	0.282^{***}	3.829^{**}	2.934
	(0.096)	(1.865)	(1.846)
Democratic President		3.930^{***}	
		(0.827)	
”ΔUnemployment * 2016 Election			6.763^{***}
			(2.610)
”ΔUnemployment * 2018 Election			8.904^{**}
			(3.910)
”ΔUnemployment * 2020 Election			3.764^{*}
			(2.089)
Constituency Fixed Effect	True	True	True
Year Fixed Effect	True	False	False
Observations	1,738	1,738	1,738
Note:		*p<0.1; **p<0.05; ***p<0.01	

Table 3.2: Pre-analysis of the Mediation Effect of Unemployment

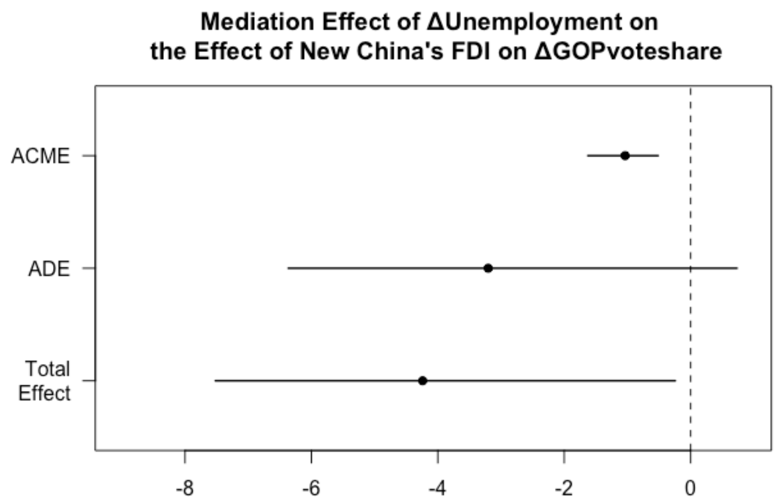

Figure 3.2: Mediation Analysis of the Effect of Unemployment

and model 5 as the outcome model. The 1000 times of simulation with the default quasi-Bayesian Monte Carlo method based on normal approximation shows a significant average causal mediation effect (ACME) of -1.037 and a significant average direct effect of -3.203, showing that about 25% of the electoral effect of Chinese FDI on the change in Republican vote share can be explained by the change in the unemployment rate.

3.3.2 Policymaking Consequences

The main results for the regression analysis of China-related bill sponsorship are presented in Table 3.3. Model 7 shows that with the partisanship of incumbent representatives controlled, the existence of Chinese FDI has a positive rather than negative correlation with the number of China-related bills introduced. Model 8 and 9 further unpacked the association, showing a significant moderating effect of partisanship. When the incumbent representatives are Republicans, having Chinese investment in their constituency is positively related to their sponsorship of China-related bills. While switching the partisanship to Democrats substantially mitigates if not diminishes such an effect. Results from the matching method also present similar evidence, as shown in figure 3.3. Having Chinese FDI in their constituency significantly raises Republican representatives' chance to sponsor China-related bills and decreases such a chance among Democratic representatives, although at a marginal significance.

	China-related Bills		
	(7)	(8)	(9)
Chinese FDI	0.029**	0.060***	0.088**
	(0.014)	(0.022)	(0.043)
Chinese FDI * Democratic Incumbent		−0.052*	−0.090*
		(0.028)	(0.046)
Democratic Incumbent	−0.039***	−0.032**	−0.015
	(0.011)	(0.012)	(0.029)
Unemployment		0.004	0.005
		(0.003)	(0.009)
Constituency-Year Fixed Effect	False	False	True
Observations	1,738	1,738	1,738
Note:	*p<0.1; **p<0.05; ***p<0.01		

Table 3.3: Impact of Chinese FDI on China-related Bill Sponsorship, 2013-2020

Overall, the results provide evidence of a robust and substantively significant effect of inward Chinese FDI on the House elections and legislative behaviors of representatives in the U.S. Evidence shows the effect is strongly skewed by partisanship. In House elections, the inflow of Chinese FDI undermines the support for Republican candidates (or, in another word, boosts the support for Democrats), where job creation is part of the mechanism. In the policymaking process, existing Chinese FDI stimulates Republican representatives to sponsor China-related bills while having a marginal (if not negative) effect on Democratic representatives' willingness to do so.

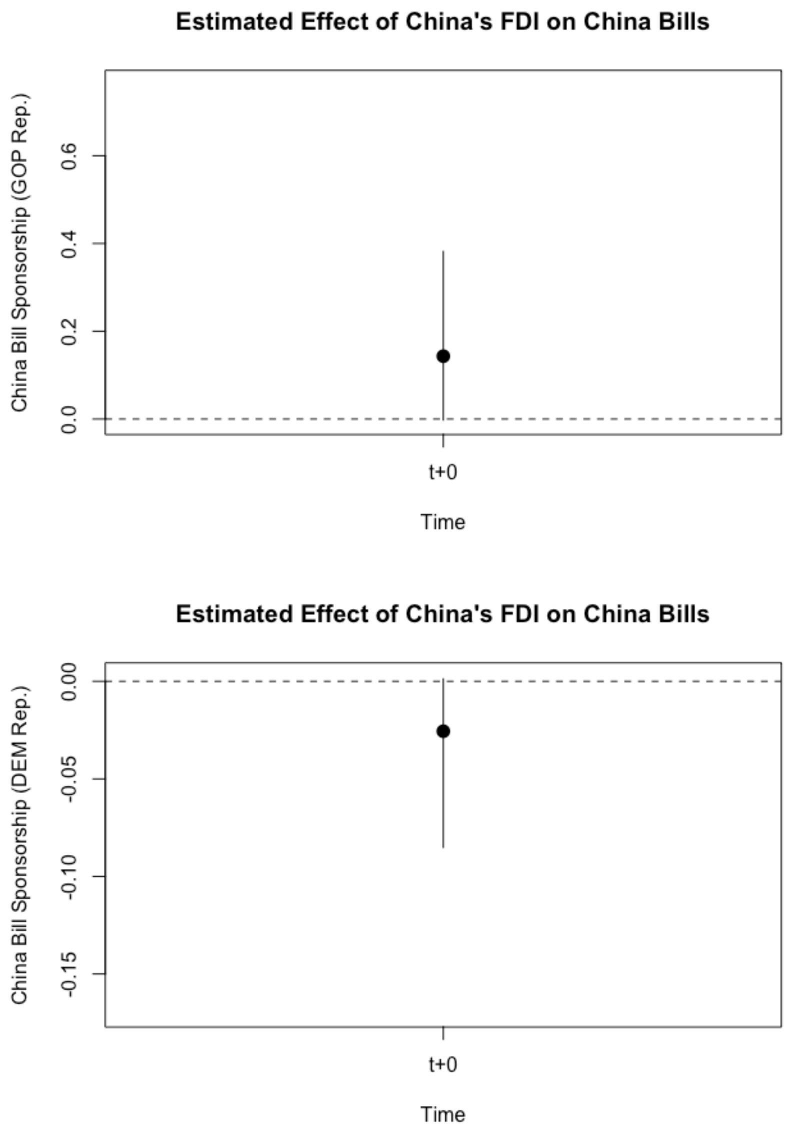

Figure 3.3: Impact of Chinese FDI on China-related Bill Sponsorship, 2013-2020

3.4 Conclusion

In this study, I examine the impact of inward FDI on the electoral support and policy preferences for U.S. House representatives because of their important role in regulating FDI. I argue that against the backdrop of rising anti-globalization sentiment and accelerating political polarization, the effect of FDI would be heterogeneous across the ideological spectrum. I focus on Chinese FDI in the U.S. as a case because it is in the spotlight of anti-globalization rhetoric, appearing as a joint point of both economic concerns and nationalist sentiment.

In an analysis of House elections and legislative records between 2013 and 2020, I explore the effects and find support for my argument. The results show that inward FDI from China decreases the support of Republican candidates for representatives partially due to the labor market mechanism. Moreover, Chinese FDI has a heterogeneous effect on representatives' preferences in sponsoring bills countering Chinese investment. Republican representatives sponsor more China-related bills when their constituencies host Chinese investment, while Democrat representatives tend to sponsor less in this scenario. These results are in line with theoretical predictions based on partisan issue ownership and ideologies.

The findings of this study suggest additional questions about the legislative consequences of inward FDI. Regarding the effects of FDI on both voters' and representatives' preferences, is FDI reinforcing or mitigating anti-globalization resentment and political polarization? This research suggests a mixed picture: it may moderate anti-globalization attitudes among voters with tangible benefits while reinforcing political polarization at the policymaking level. Nonetheless, this research has important implications for the domestic politics of international investment. More research is needed with respect to how foreign investors and multinational firms could involve the dynamic of party politics and the legislative process.

Economic security is national security.

Donald Trump & Joe Biden

4

Downward Spiral

In the preceding chapters, I analyzed the post-2000 evolution of the Chinese state sector, the political impact of China's expanding trade status, and the politics of Chinese investment in the United States. China's economic development under its party-state-led model, or what I termed the "opening up without reform" model, is the source of the increasing global tension with China. In this context, the shifting attitudes of other nations toward China, particularly the growing suspicion in the United States, could be viewed as responses to China's actions on the international stage.

How did these reactions unfold among U.S. policymakers and businesses in the two decades following China's WTO entry? In this final chapter, I argue that no single administration was responsible for elevating the bilateral economic issue to a matter of national security. Rather, since the second term of the Obama administration, which coincided with Xi Jinping's rise to power, diverse perspectives on China have begun to emerge. Each administration added new items to the China policymaking agenda. In terms of business, we witnessed a gradual decline in optimism regarding the Chinese market and an increase in uncertainty. In the back-and-forth interaction of various stakeholder groups, China's "opening up without reform" strategy was met with a downward spiral in its most significant bilateral relationship with the United States.

This chronological analysis of the securitization of US-China economic ties is conducted using advanced natural language processing (NLP) techniques. The overall methodology consists of analyzing how the topics and sentiments of these texts, produced by Congress and listed U.S. companies, regarding China have changed over the past two decades. Through the lens of text analysis, we can capture the shifting concerns and attitudes of U.S. legislators and corporations regarding China-related issues. In addition, it provides evidence for identifying game-changing factors and estimating their effects over time. The current state of U.S.-China relations is reflected in both the political and economic spheres.

4.1 Into the Political Realm: Snowball Effect

4.1.1 Data Source

For analyzing the semantic shift in the U.S. congressional legislation on China, I scraped all the legislative text related to China, ranging from January 1st, 2001, to July 7th, 2022. To identify China-related bills, I utilized the built-in search engine of Congress.gov, the official website for U.S. federal legislative information. This search engine allows users to retrieve all the legislation that contains one or more keywords in its title, summary, actions, or text. Here, I retrieved all the bills (H.R. or S.), resolutions (H.Res. or S.Res.), and concurrent resolutions (H.Con.Res. or S.Con.Res.) that contain the word "China" and its variants.

The unit of analysis here, therefore, is the text of the legislation that was introduced to Congress. Other metadata included in the data set includes congresses, committees, dates of introduction, primary sponsors, and their party affiliation. For the purpose of this study, the size of this data set is 1,755 legislative texts.

4.1.2 Methodology

The main approach for analyzing the texts is the structural topic model (STM), which is an unsupervised machine learning way to organize text but also allows researchers to incorporate metadata into the process. STM estimates the underlying distributions of topics over documents (topic prevalence) and the distribution of words over topics (topic content) within a given document-term matrix and document metadata. Here, when generating the document-term matrix, we filtered out terms that don't appear in more than 100 documents (5.7% of the total documents).

For processing the STM, we incorporated the name of the primary sponsor and the smooth term of Congress (107–117), assuming the topic prevalence varies by sponsor and time (smoothly for the latter). For enhancing the computational efficiency over the sparse matrix, we set the prior estimation method as "L1". To facilitate interpretation of the results, we chose a total of 15 topics.

Table 4.1 shows the FREX weighted top terms associated with each topic and the label we give to them. Roughly speaking, top terms according to FREX weighting show which words are comparatively common for a topic and exclusive for that topic compared to other topics. The topic labels are added by the writer. Figure 4.1 further displays the prevalence of each topic among the 1,755 legislative texts.

Figure 4.2 shows the topic correlations of the 15 topics. Based on this graph, we can roughly

#	Topic	FREX Words
1	Expense	expens, expend, remain, salari, avail, none, exceed
2	STEM Education	scienc, research, educ, institut, technolog, higher, student
3	Ethnicity & Human Rights	wherea, kong, hong, korean, tibetan, uyghur, default
4	Immigration	alien, immigr, visa, employ, status, petit, nonimmigr
5	Energy & Environment	energi, electr, fuel, effici, gas, emiss, renew
6	Intelligence	intellig, director, element, cyber, congression, cybersecur, brief
7	Nuclear	command, missil, aircraft, nuclear, tactic, armi, capabl
8	Approbation	assist, fund, made, notif, avail, none, prior
9	Health & Covid	health, covid, violenc, emerg, diseas, pandem, care
10	Military	defens, acquisit, militari, reserv, member, stat, air
11	Finance	commiss, financi, compani, board, insur, bank, consum
12	Diplomacy & Indo-Pacific	taiwan, pacif, ukrain, sea, indo, alli, diplomat
13	Agriculture	agricultur, elig, payment, food, incom, qualifi, farm
14	Export Restriction	export, sanction, presid, person, control, foreign, list
15	Trade Negotiation	chang, trade, subchapt, numer, free, chapter, head

Table 4.1: Topic Content for Legislative Texts

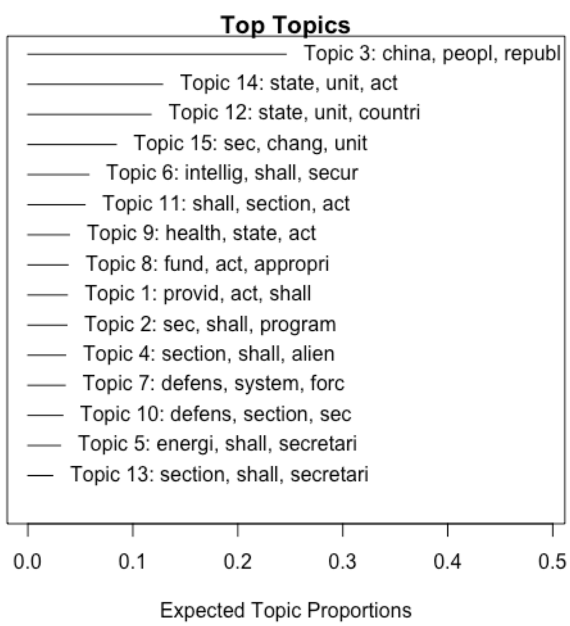

Figure 4.1: Topic Prevalence for Legislation

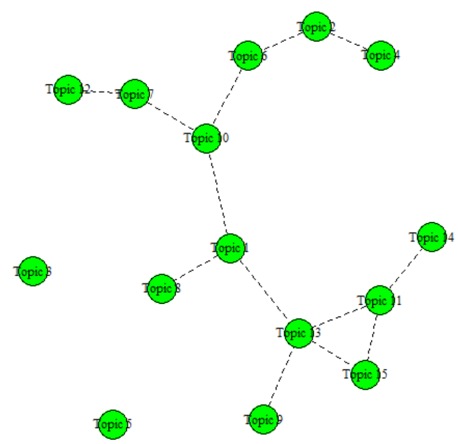

Figure 4.2: Topic Correlations

divide the topics into 4 bulks based on their semantic relevance:

- A) National Security, including Topic 2 (STEM Education), Topic 4 (Immigration), Topic 6 (Intelligence), Topic 7 (Nuclear), Topic 10 (Military), and Topic 12 (Diplomacy & Indo-Pacific). Among them, Topic 12 has the highest proportion, followed by Topic 6.
- B) Civil & Economic Affairs, including Topic 9 (Health & Covid), Topic 11 (Finance), Topic 13 (Agriculture), Topic 14 (Export Restriction), and Topic 15 (Trade Negotiation). Among them, Topic 15 has the highest proportion, followed by Topic 14.
- C) Budgeting, including Topic 1 (Expense) and Topic 8 (Approbation), which bridges the former two bulks.
- D) Isolated topics, including Topic 3 (Ethnicity & Human Rights) and Topic 5 (Energy & Environment). Among them, Topic 3 is the most popular one of all topics.

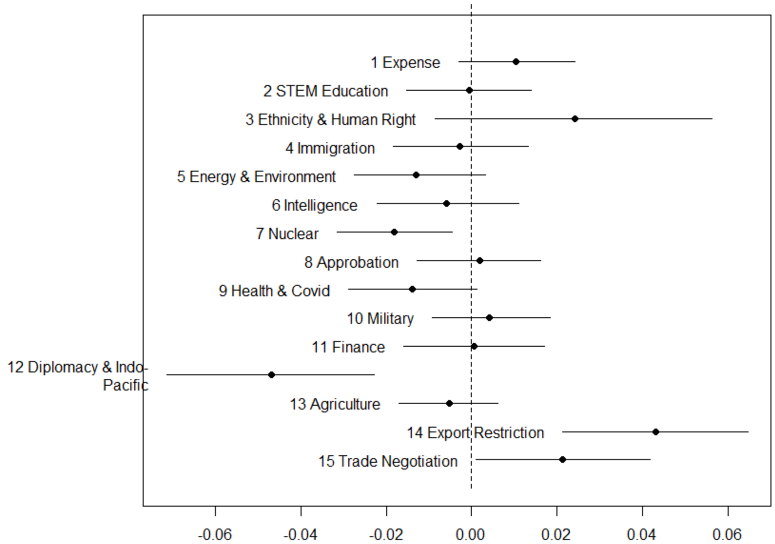

Figure 4.3: Party Differences on Topic Prevalence: Democratic vs Republican

Later on, we incorporate metadata to show the variances of topics over party and time.

4.1.3 Results

First, we start by understanding the party differences on topic prevalence. Figure 4.3 displays such differences after controlling the Congress fixed effect with a 95% confidence interval. As it shows, when it comes to China-related legislation, Democratic legislators are more likely to sponsor bills around energy and environment, nuclear, and diplomacy and Indo-Pacific topics, whereas Republican legislators are more likely to sponsor bills around export restriction and trade negotiation topics. Such a partisan division is paralleled with the aforementioned topic correlations in Figure4.2, that in general, category A on national security is more of Democratic-owned issue topics, and category B on economic affairs is more of Republican-owned issue topics. To be noticed, however, this division might not fully consistent with the general issue ownership of the two parties [Petrocik et al., 2003], but rather reflect their emphasize on China-related policies.

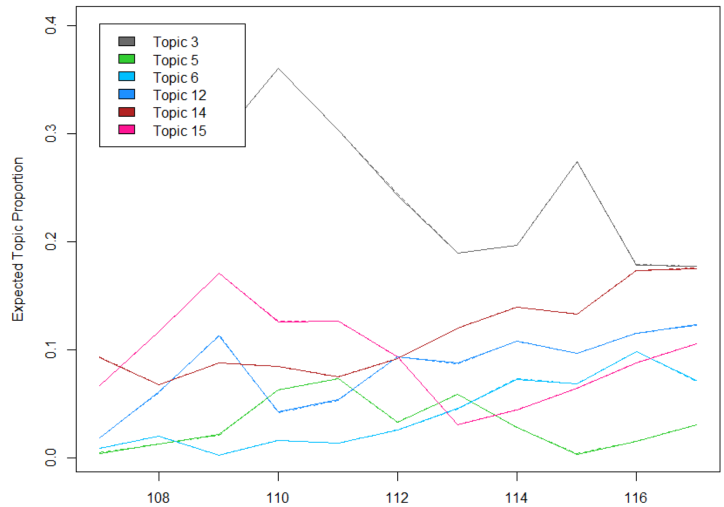

Figure 4.4: Topic Prevalence Over Congresses

Moreover, figure 4.4 shows how topic prevalence changed by congress. Here, for the convenience of understanding, we selected 6 topics for display: Topics 6 (Intelligence) & 12 (Diplomacy & Indo-Pacific) representing National Security topics, Topics 14 (Export Restriction) & 15 (Trade Negotiation) representing Civil & Economic Affairs topics, and two isolated Topics 3 (Ethnicity & Human Rights) & 5 (Energy & Environment). This selection also includes all the top 5 most frequent topics, covering around 70% of the topic proportion. For better understanding, the graph didn't display confident intervals.

As it shows, although Topic 3 (Ethnicity & Human Rights) is constantly the major topic among the legislation texts, its share has been declining over decades. rather, we witness rising proportions of Topics 14 (Export Restriction) which nearly caught up with Topic 3 (Ethnicity & Human Rights) in the 116th and 117th Congresses (2019-2022). The rise of Topics 6 (Intelligence) seems to parallel the trend of Topics 14 (Export Restriction), although on a moderate scale, suggesting an associated concern on export restrictions with cybersecurity. Topic 15 (Trade Negotiation) hits its

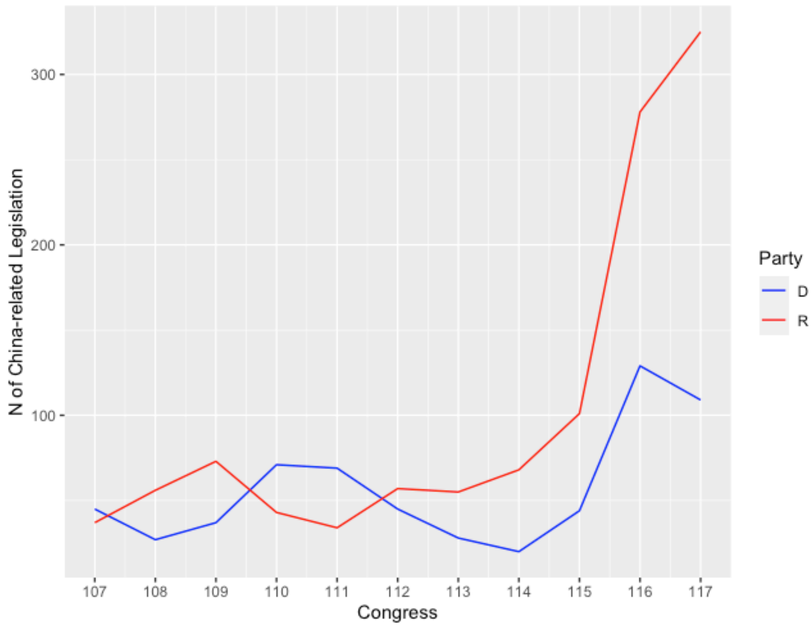

Figure 4.5: Number of China-related Legislation Introduced to Congress, by Party

peak at the 109th Congress (2005-2006), then goes down until the 113th Congress (2015-2016), after which it rebounds constantly. Prevalence of Topic 12 (Diplomacy & Indo-Pacific) fall largely in the 110th Congress (2007-2008), but then grew steadily.

Here, it would also be helpful to understand the trends of China-related legislation. As figure 4.5 shows, the total number of China-related legislation introduced to Congress remain stable until the 114th Congress (2015-2016). During 108th-114th Congress, mostly Republicans sponsor more China-related legislations than Democratics, except for the 110th and 111th Congress (2007-2010) which coincident with the Democratic Party holding the majority of both the House and the Senate. The number arose in the 115th Congress for both parties and then skyrocketed in the 116th Congress. Although the main contributor to this scale is the Republican Party, the 116th Congress also witnessed the historic high of China-related legislation sponsorship for Democratic. The rising concern of China after 2018, therefore, is bipartisan but asymmetric.

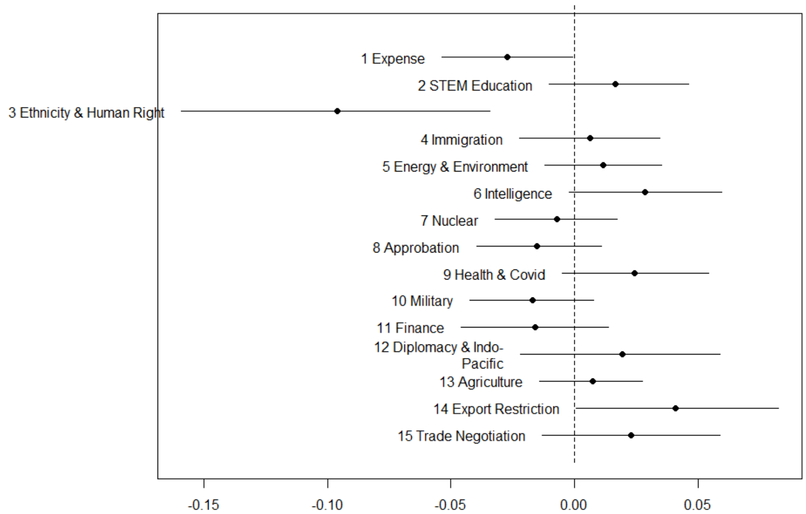

Figure 4.6: 116th vs 115th Congresses: After the Trade War

What can be drawn from these graphs? If we group the Congresses by presidential administrations, three facts are noticeable. First, Congresses during the Obama Administration (111th-114th) saw a pretty steady trend in the rising concern on Topics 6 (Intelligence), Topic 12 (Diplomacy & Indo-Pacific), and Topics 14 (Export Restriction). This is different from the Congresses during the G. W. Bush Administration (107th-110th) where now constant tread appears on any topics. The 115th and 116th Congresses during Trump Administration also saw huge variances: whereas the rising trends of Topics 6 (Intelligence), Topic 12 (Diplomacy & Indo-Pacific), and Topics 14 (Export Restriction) are moderated in the 115th Congress (2017-2018), they all rebound strongly in the 116th Congress (2019-2020). Besides, the growth of Topic 15 (Trade Negotiation) starting from the 114th Congress (2015-2016) was sustained during this period. Nonetheless, the significant increase in China-related legislation introduced since the 115th Congress, aka. Trump Administration, may largely contribute to the rising proportion of topics other than Topic 3 (Ethnicity & Human Rights), indicating the change in both the scale and the content of China-related concerns.

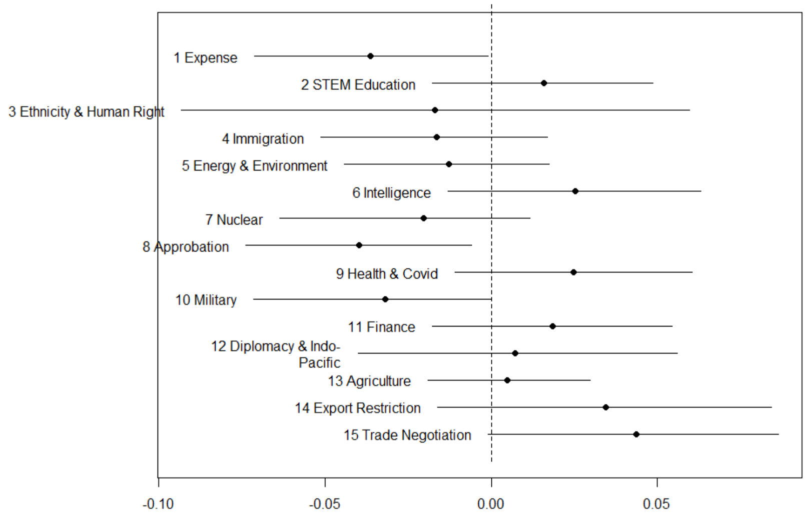

Figure 4.7: 116th vs 114th Congresses: After the Trump Administration

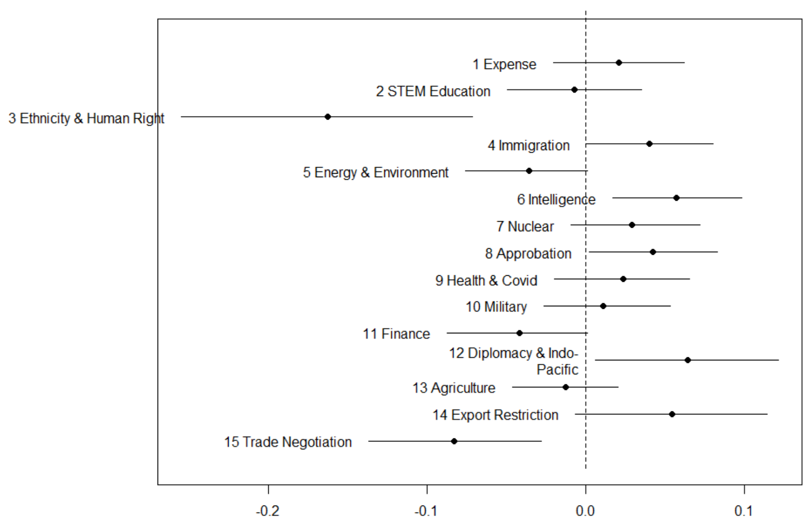

Figure 4.8: 114th vs 110th Congresses: After the Obama Administration

Therefore, although the Trade War has the most significant single-Congress event effect on shifting the topics and reflects the overall agenda-setting effect of the Trump Administration over Congress, The effect of the Obama Administration is somehow overlooked. Figure 4.6 shows a significant rise in Topics 14 (Export Restriction) and a marginal rise in Topics 6 (Intelligence), with a significant drop in Topics 3 (Ethnicity & Human Rights) after the Trade War. However, such effects are not as significant if we benchmark the 116th Congress with the 114th Congress (figure 4.7), which is the last Congress of the Obama Administration. In the contrast, benchmarking the 114th Congress with the 110th Congress (figure 4.8) saw a significant change in most topics: increases in Topic 4 (Immigration), Topic 6 (Intelligence), Topic 8 (Approbation), Topic 12 (Diplomacy & Indo-Pacific), Topic 14 (Export Restriction), decreases in Topic 3 (Ethnicity & Human Rights), Topic 5 (Energy & Environment), Topic 11 (Finance), and Topic 15 (Trade Negotiation).

4.2 Doing Business with China: Less Momentum, More Uncertainty

4.2.1 Data Source

Policies do not grow without proper ground. Particularly when it comes to trade issues, firms can be very active and effective players in the policy-making process [Osgood, 2021]. In order to understand the view of corporations on China-related issues, we retrieved business transcripts from Bloomberg Professional Services (Bloomberg Terminal). Bloomberg provides raw transcripts data of conference calls on earnings, M&A, and other special corporate events for listed corporations. Business conference calls, particularly earnings calls, are deemed as direct tunnels into the minds of company executives and Wall Street analysts. A typical earnings call is usually composed of a "Presentation" section and a "Q&A" section. In the "Presentation" section, the management team uses carefully crafted and well-rehearsed remarks to address the investment community about the latest state of the business. The topics that the CEO chooses to elaborate on indicate the key focus areas and underscore substantial headwinds or tailwinds that impact the bottom line. In the "Q&A" section, the management team interacts with sell-side analysts in live settings. The unscripted response by executives to analysts' questions can unconsciously reveal their true sentiment and help investors spot the weakness underlying a seemingly strong outlook.[*] The advantage of using raw transcripts data for analysis, compared with scraping data from other sources such as the press, is that this source is more comprehensive and less vulnerable to selection bias.

For the interest of this study, we focus on the U.S. listed firms and extract the lines of speech where they explicitly mentioned "China" or its word variants or geographical subsets. The unit of analysis, therefore, is the short speeches extracted from the calls. The data set contains metadata including speakers, companies, dates, and industries of the speeches, where the date and industry are our main factors of interest. At a starting point, we focus on four sectors of interest: agriculture, industrials, technology, and financials.[†] For each sector, we picked a handful of companies that mention China the most frequently as representatives. For a full list of selected companies, see table 4.2. The total sample size here is 29718 excerpts from 3590 transcripts (614 for agriculture, 1007 for financials, 1123 for industrials, 846 for technology).

Sector	Sample Size	Companies
Agriculture	5520	Archer-Daniels-Midland Co (ADM), General Mills Inc (GIS), Herbalife Nutrition Ltd (HLF), McCormick & Co Inc/MD (MKC), Mead Johnson Nutrition Co (MJN), USANA Health Sciences Inc (USNA)
Financials	4639	Air Lease Corp (AL), American Express Co (AXP), BlackRock Inc (BLK), Blackstone Inc (BX), Central Pacific Financial Corp (CPF), Citigroup Inc (C), East West Bancorp Inc (EWBC), Genworth Financial Inc (GNW), Invesco Ltd (IVZ), JPMorgan Chase & Co (JPM), Morgan Stanley (MS), Principal Financial Group Inc (PFG), US Global Investors Inc (GROW)
Industrials	11883	A O Smith Corp, Cummins Inc (AOS), General Electric Co (GE), Honeywell International Inc (HON), Komatsu Mining Corp (JOY), Raytheon Technologies Corp (RTX)
Technology	7675	Corning Inc (GLW), IPG Photonics Corp (IPGP), Microsemi Storage Solutions Inc (PMCS), NeoPhotonics Corp (NPTN), NXP Semiconductors NV (NXPI), Qualcomm Inc (QCOM)

Table 4.2: List of Selected Companies

#	Topic	FREX Words	Highest Prob
1	Uncertainty	question, littl, bit, kind, mayb	china, think, just, that, see
2	Sales	sale, quarter, million, compar, higher	quarter, year, sale, china, million
3	Investment	compani, bank, invest, manag, focus	china, busi, invest, compani, also
4	Demand	power, engin, emerg, coal, truck	market, china, india, demand, product
5	Outlook	economi, number, kong, long, rate	china, growth, see, will, year

Table 4.3: Topic Content for Business Transcripts

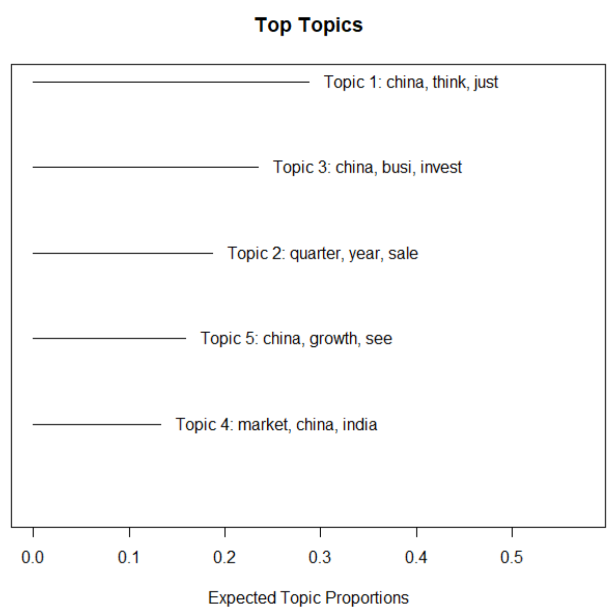

Figure 4.9: Topic Prevalence for Business Transcripts

4.2.2 Methodology

To understand the relevant topics of the businesses' speech as mentioning China, we employed STM methods that have been introduced in section 4.1.2. This time, we filtered out words that don't appear in more than 300 speeches (1% of the total documents). Sector and the smooth term of the date of the speech are incorporated. The number of topics is set as 5. Table 4.3 displays the top FREX weighted words for each topic as well as words with the highest probabilities. The labels are given based on our understanding of the words. Figure 4.9 shows the topic prevalence among the speeches.

Additionally, we conduct a sentiment analysis of these speeches. Unlike legislative texts which are official and complicated, speeches during earnings calls are much more straightforward, and concise, and reflect speakers' opinions. Therefore, it is appropriate to use sentiment analysis technics to understand their tone. Here, we employed a state-of-the-art NLP model, SiEBERT, to conduct our analysis. SiEBERT[*] is a fine-tuned checkpoint of RoBERTa-large[Liu et al., 2019]. It enables reliable binary sentiment analysis for various types of English-language text. Compared with the popular "bag-of-words" models, this new model based on the Google-developed BERT framework does better in helping computers understand the meaning of ambiguous language in text by using surrounding text to establish context. Thus, the sentiments of the speeches are captured and catego-

[*]Company Conference Call Transcripts Fact Sheet, *Bloomberg*. Retrieved from https://service.bloomberg.com/track_download/assets/content/examples/edf-content/company-transcripts/company_transcripts_fact_sheet.pdf

[†]Notice that Bloomberg employs the Bloomberg Industry Classification Standard (BICS) for grouping businesses into different industries. BICS is very similar to the Global Industry Classification Standard (GICS), which was developed in 1999 by MSCI and Standard & Poor's (S&P) for use by the global financial community. Compared with other popular codes such as the International Standard of Industrial Classification (ISIC), BICS and GICS focus extensively on public companies. Therefore, arguably because of the low scale of capitalization in the agricultural industry, there is no single BICS "agriculture" sector. For this category, we include businesses in the subsectors of Food & Staples Retailing, Food & Beverage, and Fertilizers & Agricultural Chemicals.

[*]Abbreviation for "Sentiment in English" & "Bidirectional Encoder Representations from Transformers."

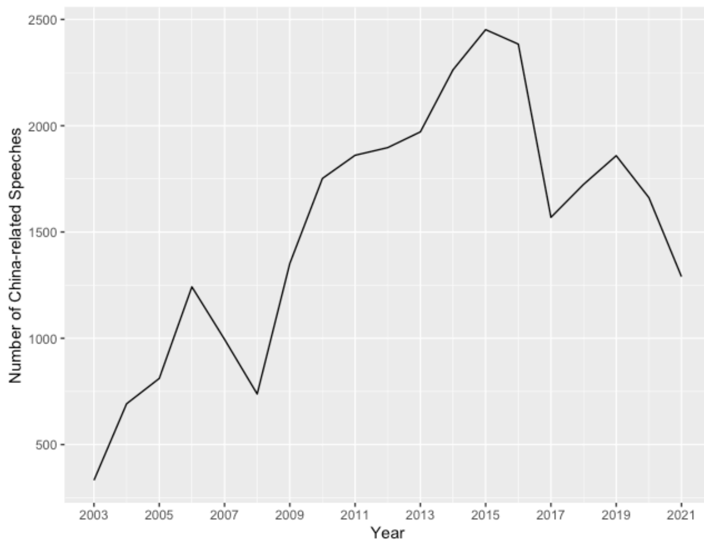

Figure 4.10: Number of China-related Business Speeches by Year

rized as either positive (coded as 1) or negative (coded as 0).

4.2.3 Results

To begin with, we may look at the chronological distribution of the number of China-related speeches and also by sector. Figure 4.10 shows a roughly inverted U-shape curve: businesses' attention on China kept rising until the peak of 2015, and then it declined. Two noticeable drops here are in 2007-2008 as well as in 2017. With sectors differentiated, figure 4.11 further unpack the heterogeneity among sectors. It should be cautious to drive implications from these variances, however, since the underlying population of speeches may also vary by years. Still, it is interesting to see that for most sectors, the volume of speeches related to China dropped from 2014-2016.

Sentiment analysis with SiBERT presents an interesting perspective for understanding the business. The SiBERT model classified 84.36% of the speeches as positive. However, the level of sentiment varies by sector. T-tests show that the sentiment of speeches is significantly more negative among technology companies and more positive among agricultural companies. Specifically, the

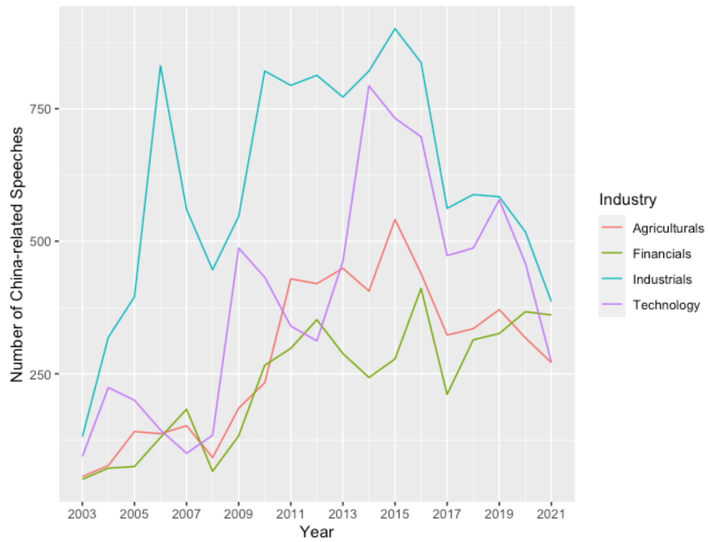

Figure 4.11: Number of China-related Business Speeches by Year and by Sector

proportion of negative speeches among tech companies is 2.22 percentage points higher than non-tech firms ($p < 0.001$) and 1.66 percentage points lower for agricultural companies ($p = 0.0017$). No significant difference appears among industrials or financials, though.

Breakdown the sentiment score by year provides more information. Figure 4.12 shows how the overall sentiment among sectors changed over time, and figure 4.13 displays the change in sentiment by sector. Overall, it shows several major declines in optimism. First, the 7.5 percentage points drop in 2008-2009 is likely due to the Global Financial Crisis. This is a universal impact across sectors, though the financial sector's sentiment rebounded more quickly. During 2010-2011, the overall sentiment recovered. However, it then dropped 5.5 percentage points in 2012, which is also universal for all sectors. The sentiment level afterward never came back to the former level. 2015 is also a year of slightly less optimism for all sectors, coincident with the historically high number of China mentioned. Finally, the 8 percentage points drop in 2019 is likely to reflect the impact of the Trade War, during which anxiety is common for all sectors while primarily the industrials (manufacturing) followed by technology companies.

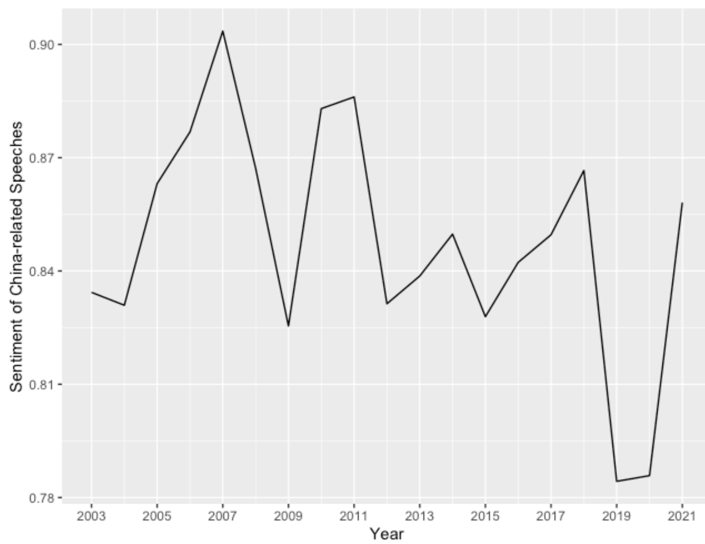

Figure 4.12: Sentiment of China-related Business Speeches by Year

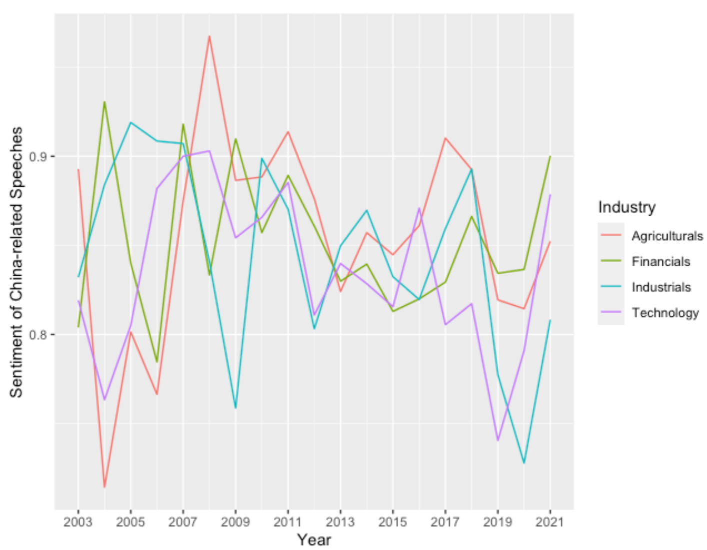

Figure 4.13: Sentiment of China-related Business Speeches by Year and by Sector

What composed the negative talks about China? Although directly complaints are not the majority, the following quotes from the data set may provide us with some sketches:

- *A shift to China, it's another key market and China has been slowing. We've seen China consistently slow from late last year. We saw the economic GDP numbers slow in the first and Second Quarters of this year. It really didn't impact commodities until our May, June, July period. Our second fiscal quarter, we really saw the impact on commodities. Steel production is up year-over-year. But it's flat in the second half. That's pretty consistent of China.* (Mike Sutherlin, President & CEO, Komatsu Mining Corp, 2012/09/06)

- *And the problem of China today is there is a large degree of state-owned companies that are very unproductive. And they need to be consolidated. Well consolidated just means job reduction. Job reduction means, you better find jobs elsewhere. That's the service side of the economy. And that's the delicate balance. How quickly can you reorient the old industrial-based economy and navigate towards the service side?* (Larry Fink, Chairman & CEO, BlackRock Inc., 2016/05/31)

- *Then how do you stop your IP – for example, you've got this relationship with Harbin, where the actual assembly occurs in China – how do you stop the IP within that turbine leaking out to some of those players?* (Nigel Coe, Multi-Industry Analyst, General Electric Co., 2012/09/13)

- *China, we allow them to not pay Social Security, take our jobs, pollute the planet. And cheat. And nobody is doing anything about this in Washington.* (John Lauve, Shareholder Representative, General Electric Co., 2012/04/25)

- *And over the 10 years or so I've been going to China, it seems like it's become a really tough place to do business.* (Unidentified participant, General Electric Co., 2012/03/07)

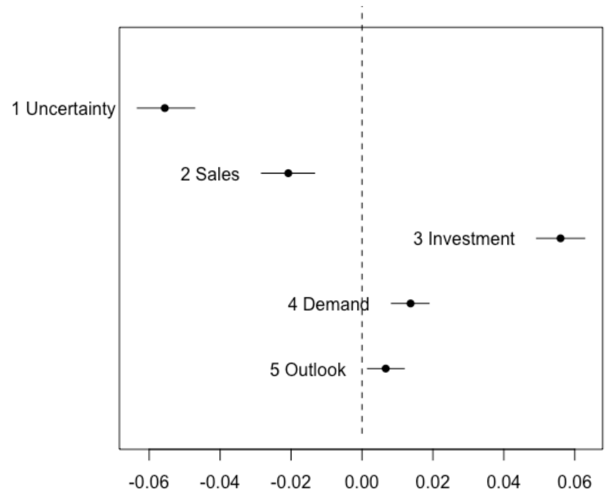

Figure 4.14: Sentiment Differences on Business Topic Prevalence: Positive vs Negative

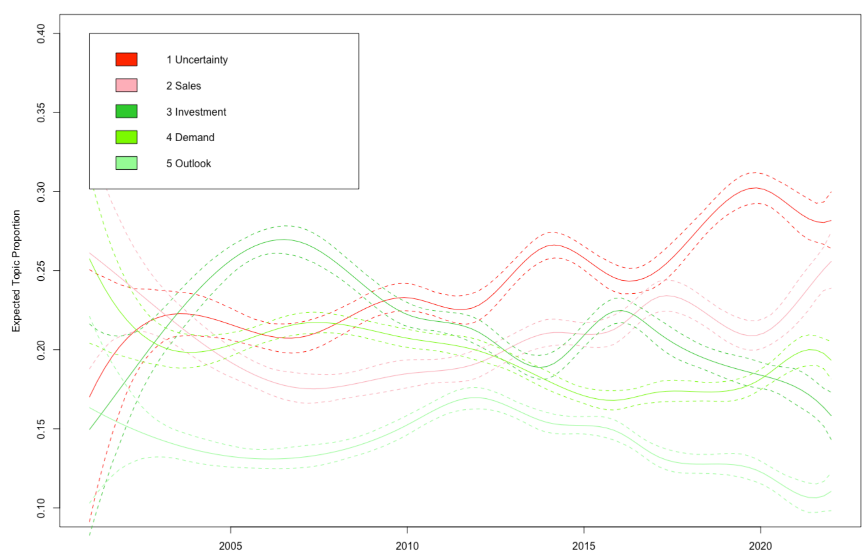

Figure 4.15: Business Topic Prevalence by Year

Moreover, interacting sentiment analysis with STM helps us to further understand the changing topic behind the shifting sentiment level. Figure 4.14 shows how topics are associated with sentiment with sector and time controlled. As it shows, Topic 3 (Investment) is the most "positive" topic, followed by Topic 4 (Demand) and Topic 5 (Outlook). Topic 2 (Sales) is more likely to associate with negative sentiment, probably because managers more often report headwinds when explaining the sales to the shareholders. Topic 1 (Uncertainty) is the most "negative" topic since it often includes queries and doubts of the speaker.

Bear that in mind, figure 4.15 displays how topic prevalence changed over the past two decades. The proportion of Topic 3 (Investment) spurs until 2006-2007 and then shrinks constantly. Rather, the proportion of Topic 1 (Uncertainty) among businesses grows steadily and surpassed Topic 3 (Investment) around 2010-2012. Noticeably, the uncertainty arises significantly during 2012-2014, then from 2016-2020. The sustained declining proportion in Topic 5 (Outlook) since 2012 might also imply that fewer businesses hold a positive outlook when it comes to China.

Put together the pieces of evidence, the large-scale automatic textual analysis of business transcripts suggests the ups and downs of U.S. firms' attitudes toward doing business with China. After China's entry into the WTO, the passion was once boosted. But when it comes to the 2010s, they saw the economic momentum diminish and opportunities gone, while combined with limited improvement in the business environment and increasing uncertainty. As a result, there is an overall sense of disillusion among business people, which paved the way for the changing strategy towards China.

4.3 Conclusion

In conclusion, a number of significant trends that deserve attention have been discovered through this analysis of the securitization of US-China economic ties. The trade war, which started in 2018, had a big impact on US politics and business in regards to relations with China, to start. It served as a catalyst for igniting bipartisan interests in pushing China-related issues to the front of congressional discussions, particularly among Republicans. The Trade War also brought attention to non-traditional trade issues like exports and sanctions in addition to traditional trade issues like imports and tariffs, which caused widespread annoyance and uncertainty for US businesses comparable to the 2008 Global Financial Crisis.

Second, the analysis also showed that a lot of the trends that were noticed after 2018 had actually started under the Obama Administration. In particular, there was a diversification of China-related topics on the congressional agenda, with steadily rising interest in export controls and national security. As a result, from 2009 to 2016 the legislative agenda changed more drastically than during the Trump administration.

Third, evidence from business shows that over the past ten years, optimism has been doomed. Although China's entry into the WTO initially stoked enthusiasm and opened doors, this momentum waned in the 2010s as a result of a limited improvement in the business environment and rising unpredictability. As a result, a general feeling of disappointment paved the way for a change in approach toward China.

Overall, the findings of this analysis highlight the complexity and evolution of US-China economic ties, underscoring the need for continued research and analysis to deepen our understanding of this critical issue. While further interpretation of NLP analysis of legislative texts and business transcripts is possible, the insights offered by this study can serve as a useful starting point for future research. For now, it has shed light on the ways in which China's "opening up without reform" model has impacted its relationship with the United States. As this model has led to a lack of progress on key issues and a sense of disappointment among stakeholders, it has contributed to a downward spiral in the bilateral relationship.

5

Conclusion: Back to the Future?

At the turn of the millennium, there was a prevalent optimism about globalization. It was believed that globalization promised access to markets, capital, technology, and good governance. However, nowadays, there seems to be a greater suspicion of globalization. Some people call for a return to borders, and others say that deglobalization is already underway.

Throughout previous chapters, the focus was on the role of China in globalization. The argument was made that globalization failed to push further reform in China toward liberalization. The capacity and evidence for economic statecraft through state-owned sectors were analyzed, showing how China became a suspicious merchant and investor on the global stage. The loss of trust from its largest trading partner, the United States, was also discussed. The overall argument being made is about the incompatibility of China's current model, especially with the approach to making state-owned enterprises "bigger, better, and stronger," and the international trade and investment system it fits into.

However, this thesis is not simply about blaming China for its strategy. Rather, it is an attempt to avoid a simplistic narrative of simply blaming one side. Nowadays, there is an increasingly dangerous trend in both China and the U.S. of open name-and-shame towards each other. Among many Chinese, the belief is that the fractions and tensions are all about the Western world trying to contain and even overthrow China. Similarly, some Americans believe that whatever Chinese companies do is suspicious, but whatever the Chinese government does is coherent and all about expanding authoritarianism. In contrast, this research reveals the inherent logic of the choices of Chinese leaders and companies, the chain effect of China's rise in this certain way, and the domestic dynamics in response to such impacts in the U.S.

Beyond the stereotypes of "Chinese exceptionalism," either out of fear or out of pride, the question arises: is China's approach to economic development and security really unprecedented or partially benchmarking the best practices of their most successful teacher, the West? Looking back at history, one may find that the separation of security and economic interests is only a recent agenda that shapes our imagine of the market as an autonomous realm in recent decades. The nexus between commerce and state was never less obvious during the Cold War, even in the U.S., which identified itself and its rivals as the exemplars of capitalism. For example, the CIA assisted the coups in Latin America with the lobbying of big businesses[Jones and Buchelo, 2021], and the spread of semiconductor technology to Asia was due to the strategic concern of the US military[Moon, 2005]. During this period of prosperity in the 1950s, General Motors CEO Charles Wilson, in hearings related to his nomination by Eisenhower to be secretary of defense, made his famous statement that "what was good for our country was good for General Motors and vice versa."[Gomory and Sylla, 2013] In that term, China may well argue that its approach towards the state sector is perfectly justifiable.

Therefore, it is not a matter of what type of role the state "should" take in the market normatively. Not to mention that no accusation could effectively shake the decision of the Chinese party-state to change its policy at the risk of its own power. Rather, it is about which approach towards the state-market relationship is more adaptive to the current environment, which is of course also shaped by the multiple actors of states, businesses, societies, and international organizations. Just as the Chinese approach is tested by domestic and international responses, the current institutions for globalization are also tested by up-to-date matters, including China's rise, the Ukraine War, and even a coming conflict across the Taiwan Strait. At present, we are at a critical juncture to test the resilience of Chinese authoritarianism as well as globalization.

References

[Abdelal, 2020] Abdelal, R. (2020). *Of learning and forgetting: Centrism, populism, and the legitimacy crisis of globalization*. Harvard Business School.

[Allison, 2017] Allison, G. (2017). The thucydides trap. *Foreign Policy*, 9.

[Allison and Blackwill, 2013] Allison, G. and Blackwill, R. (2013). Interview: Lee kuan yew on the future of us-china relations. *The Atlantic*, 5.

[Andreas, 2009] Andreas, J. (2009). *Rise of the red engineers: the Cultural Revolution and the origins of China's new class*. Stanford University Press.

[Ang, 2016] Ang, Y. Y. (2016). *How China escaped the poverty trap*. Cornell University Press.

[Ang, 2020] Ang, Y. Y. (2020). *China's gilded age: The paradox of economic boom and vast corruption*. Cambridge University Press.

[Athey and Imbens, 2021] Athey, S. and Imbens, G. W. (2021). Design-based analysis in difference-in-differences settings with staggered adoption. *Journal of Econometrics*.

[Azzimonti, 2019] Azzimonti, M. (2019). Does partisan conflict deter fdi inflows to the us? *Journal of International Economics*, 120:162–178.

[Bader and Daxecker, 2015] Bader, J. and Daxecker, U. (2015). A chinese resource curse? the human rights effects of oil export dependence on china versus the united states. *Journal of Peace Research*, 52(6):774–790.

[Bailey et al., 2017] Bailey, M. A., Strezhnev, A., and Voeten, E. (2017). Estimating dynamic state preferences from united nations voting data. *Journal of Conflict Resolution*, 61(2):430–456.

[Baldwin, 2020] Baldwin, D. A. (2020). *Economic Statecraft: New Edition*. Princeton University Press.

[Barber and Pope, 2019] Barber, M. and Pope, J. C. (2019). Does party trump ideology? disentangling party and ideology in america. *American Political Science Review*, 113(1):38–54.

[Berger et al., 2013] Berger, D., Easterly, W., Nunn, N., and Satyanath, S. (2013). Commercial imperialism? political influence and trade during the cold war. *American Economic Review*, 103(2):863–96.

[Boix et al., 2013] Boix, C., Miller, M., and Rosato, S. (2013). A complete data set of political regimes, 1800–2007. *Comparative political studies*, 46(12):1523–1554.

[Burden and Wichowsky, 2014] Burden, B. C. and Wichowsky, A. (2014). Economic discontent as a mobilizer: unemployment and voter turnout. *The Journal of Politics*, 76(4):887–898.

[Callaway and Sant'Anna, 2021] Callaway, B. and Sant'Anna, P. H. (2021). Difference-in-differences with multiple time periods. *Journal of Econometrics*, 225(2):200–230.

[Canes-Wrone et al., 2002] Canes-Wrone, B., Brady, D. W., and Cogan, J. F. (2002). Out of step, out of office: Electoral accountability and house members' voting. *American Political Science Review*, 96(1):127–140.

[Carnegie, 2014] Carnegie, A. (2014). States held hostage: Political hold-up problems and the effects of international institutions. *American Political Science Review*, 108(1):54–70.

[Chambers, 2006] Chambers, M. R. (2006). Rising china: the search for power and plenty. *Strategic Asia*, 7:65–103.

[Chandler, 1959] Chandler, A. D. (1959). The beginnings of "big business" in american industry. *Business History Review*, 33(1):1–31.

[Che et al., 2016] Che, Y., Lu, Y., Pierce, J. R., Schott, P. K., and Tao, Z. (2016). Does trade liberalization with china influence us elections? Technical report, National Bureau of Economic Research.

[Chen and Rithmire, 2020] Chen, H. and Rithmire, M. (2020). The rise of the investor state: State capital in the chinese economy. *Studies in Comparative International Development*, 55:257–277.

[Chen, 2018] Chen, L. (2018). *Manipulating Globalization*. Stanford University Press.

[Chen, 2022] Chen, L. (2022). *Changing State-Business Relations under the US-China Tech War*. Wilson China Fellowship Paper.

[Chen and Hollenbach, 2022] Chen, L. and Hollenbach, F. M. (2022). Capital mobility and taxation: state–business collusion in china. *International Studies Quarterly*, 66(1):sqab096.

[Chilton et al., 2020] Chilton, A. S., Milner, H. V., and Tingley, D. (2020). Reciprocity and public opposition to foreign direct investment. *British Journal of Political Science*, 50(1):129–153.

[Cohle and Ortega, 2022] Cohle, Z. and Ortega, A. (2022). Life of the party: The polarizing effect of foreign direct investment. *European Journal of Political Economy*, 72:102100.

[Colantone and Stanig, 2018] Colantone, I. and Stanig, P. (2018). The trade origins of economic nationalism: Import competition and voting behavior in western europe. *American Journal of Political Science*, 62(4):936–953.

[COMTRADE, 2003] COMTRADE, U. (2003). Un commodity trade statistics database. statistical division of the united nations. accessed 2021.

[Cutrone and Fordham, 2010] Cutrone, E. A. and Fordham, B. O. (2010). Commerce and imagination: The sources of concern about international human rights in the us congress. *International Studies Quarterly*, 54(3):633–655.

[Davis et al., 2019] Davis, C. L., Fuchs, A., and Johnson, K. (2019). State control and the effects of foreign relations on bilateral trade. *Journal of Conflict Resolution*, 63(2):405–438.

[Davis and Meunier, 2011] Davis, C. L. and Meunier, S. (2011). Business as usual? economic responses to political tensions. *American Journal of Political Science*, 55(3):628–646.

[de Benedictis-Kessner and Warshaw, 2020] de Benedictis-Kessner, J. and Warshaw, C. (2020). Accountability for the local economy at all levels of government in united states elections. *American Political Science Review*, 114(3):660–676.

[Dorn et al., 2020] Dorn, D., Hanson, G., Majlesi, K., et al. (2020). Importing political polarization? the electoral consequences of rising trade exposure. *American Economic Review*, 110(10):3139–83.

[Duanmu and Urdinez, 2018] Duanmu, J.-L. and Urdinez, F. (2018). The dissuasive effect of us political influence on chinese fdi during the "going global" policy era. *Business and Politics*, 20(1):38–69.

[Duhigg and Barboza, 2012] Duhigg, C. and Barboza, D. (2012). In china, human costs are built into an ipad. *New York Times*, 25.

[Dunning and Lundan, 2008] Dunning, J. H. and Lundan, S. M. (2008). *Multinational enterprises and the global economy*. Edward Elgar Publishing.

[Feenstra et al., 2015] Feenstra, R. C., Inklaar, R., and Timmer, M. P. (2015). The next generation of the penn world table. *American economic review*, 105(10):3150–82.

[Feng et al., 2021] Feng, Y., Kerner, A., and Sumner, J. L. (2021). Quitting globalization: trade-related job losses, nationalism, and resistance to fdi in the united states. *Political Science Research and Methods*, 9(2):292–311.

[Feuerwerker, 2013] Feuerwerker, A. (2013). *China's early industrialization*. Harvard University Press.

[Flores-Macías and Kreps, 2013] Flores-Macías, G. A. and Kreps, S. E. (2013). The foreign policy consequences of trade: China's commercial relations with africa and latin america, 1992–2006. *The Journal of Politics*, 75(2):357–371.

[Gaub and Boswinkel, 2020] Gaub, F. and Boswinkel, L. (2020). *Geopolitical implications of the COVID-19 pandemic*. European Parliament.

[Goh, 2011] Goh, E. (2011). *Rising Power–to Do What?: Evaluating China's Power in Southeast Asia*. S. Rajaratnam School of International Studies.

[Goldman et al., 1999] Goldman, M., MacFarquhar, R., et al. (1999). *The paradox of China's post-Mao reforms*, volume 12. Harvard University Press.

[Gomory and Sylla, 2013] Gomory, R. and Sylla, R. (2013). The american corporation. *Daedalus*, 142(2):102–118.

[Gowa and Mansfield, 2004] Gowa, J. and Mansfield, E. D. (2004). Alliances, imperfect markets, and major-power trade. *International Organization*, 58(4):775–805.

[Graham et al., 2018] Graham, B. A., Hicks, R., Milner, H., and Bougher, L. D. (2018). *World economics and politics dataverse*. https://ncgg.princeton.edu/wep/download.html. Accessed on Octorber 27, 2021.

[Graham and Tucker, 2019] Graham, B. A. and Tucker, J. R. (2019). The international political economy data resource. *The Review of International Organizations*, 14(1):149–161.

[Grossman and Helpman, 1994] Grossman, G. M. and Helpman, E. (1994). Protection for sale. *The American Economic Review*, pages 833–850.

[Grossman and Helpman, 1996] Grossman, G. M. and Helpman, E. (1996). Electoral competition and special interest politics. *The Review of Economic Studies*, 63(2):265–286.

[Haim, 2016] Haim, D. A. (2016). Alliance networks and trade: The effect of indirect political alliances on bilateral trade flows. *Journal of Peace Research*, 53(3):472–490.

[Hansen and Rand, 2006] Hansen, H. and Rand, J. (2006). On the causal links between fdi and growth in developing countries. *World Economy*, 29(1):21–41.

[Hart and Jones, 2010] Hart, A. F. and Jones, B. D. (2010). How do rising powers rise? *Survival*, 52(6):63–88.

[Heilmann and Shih, 2013] Heilmann, S. and Shih, L. (2013). The rise of industrial policy in china, 1978-2012. *Harvard-Yenching Institute Working Paper Series*, 17(7):1–24.

[Hirschman, 1980] Hirschman, A. O. (1980). *National power and the structure of foreign trade*, volume 105. Univ of California Press.

[Holsti, 1986] Holsti, K. J. (1986). Politics in command: foreign trade as national security policy. *International organization*, 40(3):643–671.

[Hsueh, 2011] Hsueh, R. (2011). China's regulatory state. In *China's Regulatory State*. Cornell University Press.

[Huang et al., 2022] Huang, T., Véron, N., and Xu, D. (2022). The private sector advances in china: The evolving ownership structures of the largest companies in the xi jinping era. *Peterson Institute for International Economics Working Paper*, (22-3).

[Huang, 2008] Huang, Y. (2008). *Capitalism with Chinese characteristics: Entrepreneurship and the state*. Cambridge University Press.

[Imai et al., 2021] Imai, K., Kim, I. S., and Wang, E. H. (2021). Matching methods for causal inference with time-series cross-sectional data. *American Journal of Political Science*.

[Jensen and Malesky, 2018] Jensen, N. M. and Malesky, E. J. (2018). *Incentives to pander: How politicians use corporate welfare for political gain*. Cambridge University Press.

[Johnson, 1982] Johnson, C. (1982). *MITI and the Japanese miracle: the growth of industrial policy, 1925-1975*. Stanford university press.

[Johnston, 2019] Johnston, A. I. (2019). China in a world of orders: Rethinking compliance and challenge in beijing's international relations. *International Security*, 44(2):9–60.

[Johnston and Ross, 2005] Johnston, A. I. and Ross, R. S. (2005). *Engaging China: The management of an emerging power*, volume 10. Routledge.

[Jones and Buchelo, 2021] Jones, G. and Buchelo, M. (2021). The octopus and the generals: The united fruit company in guatemala. *HBS Case*.

[Kastner, 2016] Kastner, S. L. (2016). Buying influence? assessing the political effects of china's international trade. *Journal of Conflict Resolution*, 60(6):980–1007.

[Kim and Milner, 2019] Kim, I. S. and Milner, H. V. (2019). Multinational corporations and their influence through lobbying on foreign policy. *Multinational Corporations in a Changing Global Economy*, pages 497–536.

[Kim and Margalit, 2021] Kim, S. E. and Margalit, Y. (2021). Tariffs as electoral weapons: the political geography of the us–china trade war. *International organization*, 75(1):1–38.

[Kirshner, 2008] Kirshner, J. (2008). The consequences of china's economic rise for sino-us relations. *China's Ascent: Power, Security, and the Future of International Politics*, pages 238–259.

[KORNAI*, 1986] KORNAI*, J. (1986). The soft budget constraint. *Kyklos*, 39(1):3–30.

[Kriebitz and Max, 2020] Kriebitz, A. and Max, R. (2020). The xinjiang case and its implications from a business ethics perspective. *Human Rights Review*, 21:243–265.

[Lampton, 2008] Lampton, D. M. (2008). *The three faces of Chinese power: Might, money, and minds*. Univ of California Press.

[Leszczensky and Wolbring, 2019] Leszczensky, L. and Wolbring, T. (2019). How to deal with reverse causality using panel data? recommendations for researchers based on a simulation study. *Sociological Methods & Research*, page 0049124119882473.

[Leutert, 2022] Leutert, W. (2022). Sino-japanese engagement in the making of china's national champions. *New political economy*, 27(6):929–943.

[Lin et al., 1998] Lin, J. Y., Cai, F., and Li, Z. (1998). Competition, policy burdens, and state-owned enterprise reform. *The American economic review*, 88(2):422–427.

[Lin et al., 2020] Lin, K. J., Lu, X., Zhang, J., and Zheng, Y. (2020). State-owned enterprises in china: A review of 40 years of research and practice. *China Journal of Accounting Research*, 13(1):31–55.

[Liu and Woo, 2018] Liu, T. and Woo, W. T. (2018). Understanding the us-china trade war. *China Economic Journal*, 11(3):319–340.

[Liu et al., 2019] Liu, Y., Ott, M., Goyal, N., Du, J., Joshi, M., Chen, D., Levy, O., Lewis, M., Zettlemoyer, L., and Stoyanov, V. (2019). Roberta: A robustly optimized bert pretraining approach. *arXiv preprint arXiv:1907.11692*.

[Lu and Biglaiser, 2020] Lu, K. and Biglaiser, G. (2020). The politics of chinese foreign direct investment in the usa. *Journal of Asian and African Studies*, 55(2):254–272.

[Mearsheimer, 2007] Mearsheimer, J. J. (2007). Structural realism.

[Medeiros et al., 2008] Medeiros, E. S., Crane, K., Heginbotham, E., Levin, N. D., and Lowell, J. F. (2008). *Pacific Currents: The Responses of US Allies and Security Partners in East Asia to China's Rise*, volume 736. Rand Corporation.

[Miller, 2020] Miller, C. (2020). U.s.-china competition in the post-soviet space. *Strategy Asia 2020*.

[Moon, 2005] Moon, S. (2005). *Militarized modernity and gendered citizenship in South Korea*. Duke University Press.

[Moore, 1993] Moore, B. (1993). *Social origins of dictatorship and democracy: Lord and peasant in the making of the modern world*, volume 268. Beacon Press.

[Moran et al., 2005] Moran, T., Graham, E. M., and Blomström, M. (2005). *Does foreign direct investment promote development?* Columbia University Press.

[Morgan, 2018] Morgan, S. L. (2018). Status threat, material interests, and the 2016 presidential vote. *Socius*, 4:1–14.

[Mutz, 2018] Mutz, D. C. (2018). Status threat, not economic hardship, explains the 2016 presidential vote. *Proceedings of the National Academy of Sciences*, 115(19):E4330–E4339.

[Naoi et al., 2022] Naoi, M., Shi, W., and Zhu, B. (2022). "yes-man" firms: Government campaign and policy positioning of businesses in china. *International Studies Quarterly*, 66(4):sqac075.

[Naughton, 1995] Naughton, B. (1995). *Growing out of the plan: Chinese economic reform, 1978-1993*. Cambridge university press.

[Naughton, 2021] Naughton, B. (2021). *The Rise of China's Industrial Policy, 1978 to 2020*. Universidad Nacional Autónomica de México, Facultad de Economía.

[O'Connor, 2018] O'Connor, S. (2018). *SOE Megamergers Signal New Direction in China's Economic Policy*. US-China Economic and Security Review Commission.

[Oh, 2021] Oh, S.-Y. (2021). China's race to the top: Regional and global implications of china's industrial policy. *World Trade Review*, 20(2):169–185.

[Oi, 1999] Oi, J. C. (1999). *Rural China takes off: Institutional foundations of economic reform*. Univ of California Press.

[Osgood, 2021] Osgood, I. (2021). Vanguards of globalization: Organization and political action among america's pro-trade firms. *Business and Politics*, 23(1):1–35.

[Owen, 2019] Owen, E. (2019). Foreign direct investment and elections: the impact of greenfield fdi on incumbent party reelection in brazil. *Comparative Political Studies*, 52(4):613–645.

[Pandya, 2010] Pandya, S. S. (2010). Labor markets and the demand for foreign direct investment. *International Organization*, 64(3):389–409.

[Pearson et al., 2021] Pearson, M., Rithmire, M., and Tsai, K. S. (2021). Party-state capitalism in china. *Current History*, 120(827):207–213.

[Pearson et al., 2022] Pearson, M. M., Rithmire, M., and Tsai, K. S. (2022). China's party-state capitalism and international backlash: From interdependence to insecurity. *International Security*, 47(2):135–176.

[Pei, 2017] Pei, M. (2017). *China's crony capitalism*. Harvard University Press.

[Peterson et al., 2018] Peterson, T. M., Murdie, A., and Asal, V. (2018). Human rights, ngo shaming and the exports of abusive states. *British Journal of Political Science*, 48(3):767–786.

[Petrocik, 1996] Petrocik, J. R. (1996). Issue ownership in presidential elections, with a 1980 case study. *American journal of political science*, pages 825–850.

[Petrocik et al., 2003] Petrocik, J. R., Benoit, W. L., and Hansen, G. J. (2003). Issue ownership and presidential campaigning, 1952-2000. *Political Science Quarterly*, 118(4):599–626.

[Pinto and Pinto, 2008] Pinto, P. M. and Pinto, S. M. (2008). The politics of investment partisanship: And the sectoral allocation of foreign direct investment. *Economics & politics*, 20(2):216–254.

[Rickard, 2022] Rickard, S. J. (2022). Incumbents beware: the impact of offshoring on elections. *British Journal of Political Science*, 52(2):758–780.

[Rithmire, 2022] Rithmire, M. (2022). Going out or opting out? capital, political vulnerability, and the state in china's outward investment. *Comparative Politics*, 54(3):477–499.

[Rithmire and Li, 2019] Rithmire, M. and Li, Y. (2019). Lattice semiconductor and the future of chinese high-tech acquisitions in the united states. *HBS Case*.

[Rodrik, 2018] Rodrik, D. (2018). Populism and the economics of globalization. *Journal of international business policy*, 1(1):12–33.

[Ross, 2006] Ross, R. S. (2006). Balance of power politics and the rise of china: Accommodation and balancing in east asia. *Security Studies*, 15(3):355–395.

[Roth and Sant'Anna, 2021] Roth, J. and Sant'Anna, P. H. (2021). Efficient estimation for staggered rollout designs. *arXiv preprint arXiv:2102.01291*.

[Sauvant and Chen, 2014] Sauvant, K. P. and Chen, V. Z. (2014). China's regulatory framework for outward foreign direct investment. *China Economic Journal*, 7(1):141–163.

[Schwarzenberg and Sutter, 2021] Schwarzenberg, A. B. and Sutter, K. M. (2021). *US-China Investment Ties: Overview*. Congressional Research Service.

[Shen and Xia, 2011] Shen, Z. and Xia, Y. (2011). The great leap forward, the people's commune and the sino-soviet split. *Journal of Contemporary China*, 20(72):861–880.

[Shum, 2021] Shum, D. (2021). *Red Roulette: An Insider's Story of Wealth, Power, Corruption and Vengeance in Today's China*. Simon and Schuster.

[Stone et al., 2021] Stone, R. W., Wang, Y., and Yu, S. (2021). Chinese power and the state-owned enterprise. *International Organization*, pages 1–22.

[Stone et al., 2022] Stone, R. W., Wang, Y., and Yu, S. (2022). Chinese power and the state-owned enterprise. *International Organization*, 76(1):229–250.

[Stratmann, 2002] Stratmann, T. (2002). Can special interests buy congressional votes? evidence from financial services legislation. *The Journal of Law and Economics*, 45(2):345–373.

[Strüver, 2016] Strüver, G. (2016). What friends are made of: Bilateral linkages and domestic drivers of foreign policy alignment with china. *Foreign Policy Analysis*, 12(2):170–191.

[Sullivan, 2009] Sullivan, M. C. (2009). Cfius and congress reconsidered: Fire alarms, police patrols, and a new oversight regime. *Willamette J. Int'l L. & Dis. Res.*, 17:199.

[Tan, 2021a] Tan, Y. (2021a). *Disaggregating China, Inc.: State Strategies in the Liberal Economic Order*. Cornell University Press.

[Tan, 2021b] Tan, Y. (2021b). How the wto changed china: The mixed legacy of economic engagement. *Foreign Aff.*, 100:90.

[Tan and Davis, ming] Tan, Y. and Davis, C. L. (Forthcoming). The limits of liberalization: Wto entry and chinese state-owned firms. *International Studies Quarterly*.

[Tellis et al., 2020] Tellis, A. J., Szalwinski, A., and Wills, M. (2020). *US-China Competition for Global Influence*. National Bureau of Asian Research.

[Teng and Fairbank, 1979] Teng, S.-y. and Fairbank, J. K. (1979). *China's response to the West: a documentary survey, 1839-1923*, volume 1. Harvard University Press.

[Tingley et al., 2015] Tingley, D., Xu, C., Chilton, A., and Milner, H. V. (2015). The political economy of inward fdi: opposition to chinese mergers and acquisitions. *The Chinese Journal of International Politics*, 8(1):27–57.

[Tingley et al., 2014] Tingley, D., Yamamoto, T., Hirose, K., Keele, L., and Imai, K. (2014). Mediation: R package for causal mediation analysis.

[Tsai, 2011] Tsai, K. S. (2011). *Capitalism without democracy*. Cornell University Press.

[Walter, 2021] Walter, S. (2021). The backlash against globalization. *Annual Review of Political Science*, 24:421–442.

[Wang and Heyes, 2021] Wang, K. and Heyes, A. (2021). Does the party in power affect fdi? first causal evidence from narrow margin us state elections. *Party Politics*, page 13540688211030108.

[Wang, 2015] Wang, Y. (2015). *Tying the Autocrat's hands*. Cambridge University Press.

[Weber, 2021] Weber, I. M. (2021). *How China escaped shock therapy: The market reform debate*. Routledge.

[Wilkins, 1991] Wilkins, M. (1991). Foreign investment in the us economy before 1914. *The Annals of the American Academy of Political and Social Science*, 516(1):9–21.

[Wise, 2020] Wise, C. (2020). *Dragonomics: How Latin America Is Maximizing (or Missing Out on) China's International Development Strategy*. Yale University Press.

[Woo-Cumings, 2019] Woo-Cumings, M. (2019). *The developmental state*. Cornell University Press.

[Wright, 1990] Wright, J. R. (1990). Contributions, lobbying, and committee voting in the us house of representatives. *American Political Science Review*, 84(2):417–438.

[Wright, 2012] Wright, J. R. (2012). Unemployment and the democratic electoral advantage. *American Political Science Review*, 106(4):685–702.

[Wu, 2019] Wu, J. (2019). *Rent-seeking developmental state in China: Taishang, Guangdong model and global capitalism*. Taipei: National Taiwan University Press.

[Yang, 2004] Yang, J. (2004). *The political struggle in the reform era of China*. Hongkong: Excellent Culture Press.

[Yasar, 2013] Yasar, M. (2013). Political influence of exporting and import-competing firms: Evidence from eastern european and central asian countries. *World Development*, 51:154–168.

[Zeng and Li, 2019] Zeng, K. and Li, X. (2019). Geopolitics, nationalism, and foreign direct investment: Perceptions of the china threat and american public attitudes toward chinese fdi. *The Chinese Journal of International Politics*, 12(4):495–518.

[Zhi and Pearson, 2017] Zhi, Q. and Pearson, M. M. (2017). China's hybrid adaptive bureaucracy: The case of the 863 program for science and technology. *Governance*, 30(3):407–424.

[Zhou, 2021] Zhou, L.-a. (2021). Local growth coalition and the government-business relations: Chinese style. *Chinese Journal of Sociology*, 41(6):1–40.

[Zhou, 2017] Zhou, X. (2017). *The institutional logic of governance in China: An organizational approach*. SDX-Joint Publishing Company.

[Zhu, 2017] Zhu, B. (2017). Mncs, rents, and corruption: Evidence from china. *American Journal of Political Science*, 61(1):84–99.