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A great deal of scholarly and popular attention has been devoted the "specter of global China" (Lee 2017). Contemporary China has been interacting with and shaping processes of globalization since it opened its door in 1978, but the more recent spate of attention has focused specifically on Chinese outward investment, which has soared since the early 2000s and especially since the global financial crisis in 2008. Scholars and journalists have sought to understand the extent to which China is "buying the world," what it means for both the developing world (presumed to be the target) and developed world (presumed to be the competition), and what patterns of investment can illuminate about whether China is "playing our game" (harmonizing with western political and economic institutions) or pursuing a revised world order (Nolan 2013; Steinfeld 2010; Toh 2017).

The focus on ever increasing volumes of cross-border capital and projects like Xi Jinping's 2013 Belt and Road Initiative, however, has overlooked a puzzling fact about China's policy regime governing outward investment: rather than increasing liberalization and enhancing domestic "push" factors, China's policy toward outward investment has been ambivalent and vacillating. Policy pushing Chinese firms, especially state-owned enterprises (SOEs) to "go out" started in the late 1990s and early 2000s, and the years preceding the global financial crisis of 2008 saw mostly SOEs expanding internationally. In the wake of the 2008 crisis, firms of all types from China pursued OFDI, and by 2013 Xi Jinping declared the Belt and Road Initiative (henceforth BRI), an effort to facilitate OFDI on a massive scale. Beginning just two years later, however, the CCP imposed strict capital controls and sector-specific restrictions on OFDI, and by 2017 and 2018 the party-state announced it would "recalibrate" the BRI and had nationalized one of the country's largest outward investors (Anbang Insurance).

This paper accounts for China's ambivalent policy moves by focusing on the domestic coalitions that sustain capital openness. I thus follow a tradition in comparative political economy that sees national economic policy as a function of domestic coalitions and their struggles ((Pepinsky 2009, 2008; Frieden 1991; Maxfield 1990; ROGOWSKI 1987; Loriaux 1997) . Most—but not all—of this literature sees preferences for internationalization as a function of material interests, i.e. actors' "production profile or role in the international economy" (Lake 2009). While I do not deny that material interests matter, I add to this perspective the political position of capital in authoritarian regimes, meaning its relative vulnerability to the power of the state. I show how three types of domestic Chinese capital—state capital (SOEs), private capital (SMEs and large competitive firms), and crony capital (firms who enjoy access to profits based non-market rather than market advantages)—differ in political vulnerability and therefore pursue globalization in different ways. While all prefer capital openness, they do so for different reasons: state capital uses preferential access to domestic credit to expand internationally for political power and prestige in addition to profits; private capital, in keeping with the theoretical expectations of the international business literature, seeks markets and/ or efficiency; and crony capital seeks to transform domestic access into international safety as quickly as possible. China's policy ambivalence, I argue, can largely be explained as the party-state's attempts to discipline or empower these groups.

Examining the diversity of Chinese capital offers a necessary corrective to the existing literature on China's outward expansion. Most commentary on China's global push—scholarly and popular—overemphasizes the role of the state, reading Chinese OFDI as state-sanctioned or focusing exclusively on the activities of SOEs.[1] Yet the exponential expansion of OFDI in the past ten years has been led by the private sector as much as the state sector. Moreover, the activities of SOEs cannot be viewed as strict manifestations of the CCP's goals. I find that, even in a "strong state" like China under Xi Jinping, global economic policy is refracted through the political ambitions and fears of various domestic groups.

I. Theoretical problems: Outward Investment and Home Country Interests

China's expansion of outward FDI, engages two theoretical questions of interest to international political economy. The first concerns the approaches of home country governments toward the international investments of firms, or why and how home governments encourage firms to "go out." The second question concerns the preferences of firms and the rationale of internationalization.

The question of home country policy toward OFDI has received little attention from political scientists, who focus, instead, on explaining host country policies (why and when countries open to global capital) and the political, economic, and distributive effects of FDI (Pandya 2016). FDI, then, is better explained by firm and sectoral-level, rather than national, variables. The major exception to this neglect is the literature that emerged in response to the rapid rise in OFDI from Japan during the 1970s and 1980s and, to a lesser extent, South Korea in the 1980s and 1990s.[2] The basic pattern of Chinese OFDI fits some of the patterns associated with Japanese and Korean internationalization: initial overseas investments were concentrated in natural resource sectors, after which rising domestic wages, some currency appreciation, some trade conflict and a domestic foreign exchange glut was associated with a dramatic increase in OFDI in a wide variety of sectors (Solis 2004).

In other ways, however, Chinese OFDI is significantly different. Principally, consider the very large presence of the state itself as owner, as well as subsidizer, of internationalizing firms, and the presence of large-scale political imperatives to go out, such as the BRI and Made In China 2025, which I discuss below. The growth of OFDI from a country with a significant fusion of state and economic interests has been the primary source of alarm for host countries and the primary focus of analysis for scholars examining Chinese internationalization from a range of disciplinary perspectives. Second, Chinese policy toward OFDI has vacillated more than Japanese or Korean policy did, moving from strong exhortations to "go out" to moves to punish or discipline firms investing abroad. Moreover, China is governed by authoritarian party-state with little transparency and few limits on state authority. In combination, these factors have led

[1] This is similar in spirit to Ching Kwan Lee's take on "varieties of capital," but empirically different. Her focus is on the "interests, logic, and power" of Chinese state capital as opposed to global private investment in the African context (xvii). This paper disaggregates Chinese investment by domestic political status and therefore compares state and other forms of capital from China. (Lee 2017)

[2] On Japan, see (Komiya and Wakasugi 1991) (Marsh 1983) (Doner 1991) (Doner 1997) On Korea, see (Eximbank 1996).

observers to associate nearly every international action of a Chinese firm with an actual or potential strategy on the part of the Chinese state.

The actual relationship between firm internationalization strategies and the CCP's priorities, however, is best treated as an empirical question, albeit one increasingly difficult to observe. How do Chinese firms, whether formally designated as privately- or state-owned, react and respond to the CCP's goals for internationalizing China's economy? If, as many assume, firm actions are manifestations of the party-state's agenda, why has the CCP's policy on internationalization vacillated?

The answers to these questions involve theorizing how firm preferences toward internationalization are structured in an authoritarian context. In doing so, this paper makes a second contribution to international political economy, in which the "open economy politics" (OEP) paradigm provides the dominant, but not exclusive, view of how firms and nations operate in the international economy. As explained by Lake, "that the relevant political actors and their interests are defined by their production profile or position in the international economy is the 'hard core' of the emergent paradigm" (Lake 2009, p. 227). These economically-deduced interests are then mediated through both domestic and international institutions. OEP work has been criticized as imagining preferences as overly material and only "thinly social," that is, "not entirely internal to the unit but…not constituted by any larger normative or ideational environment" (Lake 2009, p. 231).[3] This paper, through the study of China, adds an explicitly political dimension to the structure of firm preferences. Particularly in authoritarian regimes, in which business elites face special vulnerabilities and frequently depend on particularistic political relationships to protect their personal safety and property, domestic political status affects firm preferences as much if not more than either their production profile or status in the global economy.

Domestic business actors in authoritarian regimes are all more vulnerable than their counterparts in regimes governed by the rule of law, where individuals presumably do not face potential risks of imprisonment, deportation, expropriation, or worse. But, within authoritarian regimes, as a generation of social science research on state-business relations has acknowledged, domestic business classes are internally differentiated in ways that matter tremendously for political, economic, and global outcomes. Sources of differentiation include, among other things, ethnicity (Sidel 2008; Pepinsky 2009, 2008), the composition and fixity of assets, the degree of dependence on the state for important inputs (Bellin 2000; Bellin 2002; Dickson 2003; Dickson 2008), size, and social self-conceptions (Tsai 2005; Cammett 2007). Whatever the source of differentiation, which varies across regimes with very different social foundations, some domestic capitalists are more politically vulnerable than others to a regime's threat of predation, extortion, or violence. My relatively simple argument is that the most vulnerable capitalists would prefer policies that facilitate openness to outward capital flows, and that firms with different domestic political statuses exhibit different patterns of overseas investments.

Disaggregating "Chinese investment" with attention to varying political vulnerability resolves the puzzle of instability in China's internationalization policy. The CCP pursues internationalization to achieve its own economic and strategic objectives, and Chinese firms of many varieties respond to CCP policy by taking advantage of state policy or appearing to align with state objectives to pursue their own interests. More specifically, as I detail below, state capital pursues profits and political prestige by investing abroad, productive capital seeks markets, efficiency, or both, and crony capital seeks safety through asset expatriation. The party-

[3] See also (Keohane 2009)

state then refines its policy toward globalization to respond to the behavior of firms, seeking to deploy state capital to pursue strategic objectives, enable productive capital to pursue profits and expansion, and constrain crony capital. The CCP crafts policy toward outward investment to maximize its discretion to shape the country's internationalization and respond to domestic political threats rather than to credibly commit to a rule-based order or to create a stable policy environment.

II. Chinese OFDI: Patterns and Policies

By any measure, China's recent transition from major recipient of global capital to major supplier of capital has been rapid and significant. According to data from the Chinese Ministry of Commerce (MofCom), the total stock of OFDI owned by Chinese firms in 2017 was 1.8 trillion USD, sixty-two times the 2002 amount of 29.9 bn USD. As a percentage of global capital flows, China in 2017 was the second largest sender of OFDI, comprising just under 10 percent of global FDI flows.[4] In 2016, China accounted for more than ten percent of the global total of cross-border acquisitions, surpassing even M&A activity from the United States.[5] The pace of China's emergence as capital exporter has likely generated more attention than its size merits: rather than creating a world "owned by China," Chinese-owned inward direct investment stock exceeds three percent for only one country in the European Union (Finland, where Chinese investment comprises slightly more than 10% of overall FDI stock), and was 1.4% of total FDI stock in the United States in 2017.[6] But, while these aggregate flows may be unimpressive for large economies like the U.S. and E.U., they are transformative in smaller economies and in those where foreign investment has been relatively scarce.

Thus far, academic work Chinese OFDI primarily focused on the outsized role of the state in determining the nature of outward investments. International business scholarship has tended to focus on the activities of central-level state-owned enterprises (SOEs). Research on the determinants of China's FDI has near universally concluded that China's OFDI does not "fit the mold of past successful FDI" predominantly because it is imbalanced in favor of SOEs (Morck, Zhao, and Yeung 2008) . Buckley et al (2009), looking at the growth in Chinese OFDI pre-financial crisis, find that it was titled toward large, politically risky markets with natural resources, likely because flows are dominated by SOEs. In their view, SOEs' domestic advantage in accessing capital inures them to political risks and accounts for their outsized role in specific kinds of markets abroad. Morck et al (2009) go further, arguing that SOEs "over-expand, over-diversify across lines of business and internationally, and undertake economically senseless corporate takeovers," perhaps in part to avoid paying dividends or to enhance the political prestige of SOE managers, who are political appointees.[7] While there is some evidence that firms from emerging markets use their accumulated skills in operating in uncertain political environments in similar global markets, the consensus on Chinese OFDI from the 1990s through the global financial crisis in 2008 was that it departed significantly from patterns of OFDI from developed economies, primarily because of the role of SOEs.

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[4] OECD data. Note that, in 2018, global FDI plummeted over 30 percent, and especially FDI from the US, where outward flows were net negative in 2018. Accessed May 2019.
[5] U.N. Conference on Trade and Development, World Investment Report 2017, pp. 230-1, cited in (Gordon and Milhaupt 2019) P. 197.
[6] OECD data. Accessed May 2019.
[7] See also (Fan et al. 2009)

Since the global financial crisis, however, new empirical patterns in Chinese outward investment require re-examination of these conclusions. First, OFDI over the last decade has been driven by non-state-owned firms. According to Chinese official data, the share of OFDI stock owned by state-owned enterprises has fallen from 81% to 51% between 2006 and 2017. In 2016, 68% of OFDI came from non-state firms. While SOEs still own more than half of China's outward investment, the rise of non-state firms has been rapid and substantial, especially noting that SOEs tend to invest in capital-intensive infrastructure or extractive industry projects. In terms of transactions (as opposed to capital volume), SOEs accounted for a very small share (5.8%) of outward deals in 2015, the majority pursued by non-state-owned limited liability corporations (67.4) with privately-owned (i.e. non-listed) firms at 9.3%.[8] Second, and relatedly, OFDI since the global financial crisis has not gone primarily to developing world countries with weak political institutions but instead to the developed world, where Chinese companies have accelerated mergers and acquisitions (M&A) activity as well as greenfield investment in industries ranging from culture and entertainment to finance and healthcare. Figure 1 displays data from the American Enterprise Institute's China Investment Tracker by destination from 2005 through 2018. The data show significant growth in outward M&A activity after 2012, and also that the most growth comes from investment in Europe and the United States.[9] Making sense of these trends requires a more granular understanding of what kinds of firms pursue what kinds of investments and why.

[8] "2015 Statistical Bulletin of China's Outward Foreign Direct Investment." Ministry of Commerce, National Bureau of Statistics, and the State Administration of Foreign Exchange. 2015 年度中国对外直接投资统计公报。
[9] The China Investment Tracker follows a "bottom-up" method of data collection, following companies known to invest overseas and tracking their activities. It is therefore more granular on the deal level than aggregate country flow data, but also imperfect and likely to miss many transactions, especially those from small and medium firms and first time outward investors. Note that "West Asia" includes both South Asia and Eurasia. See http://www.aei.org/china-global-investment-tracker/.

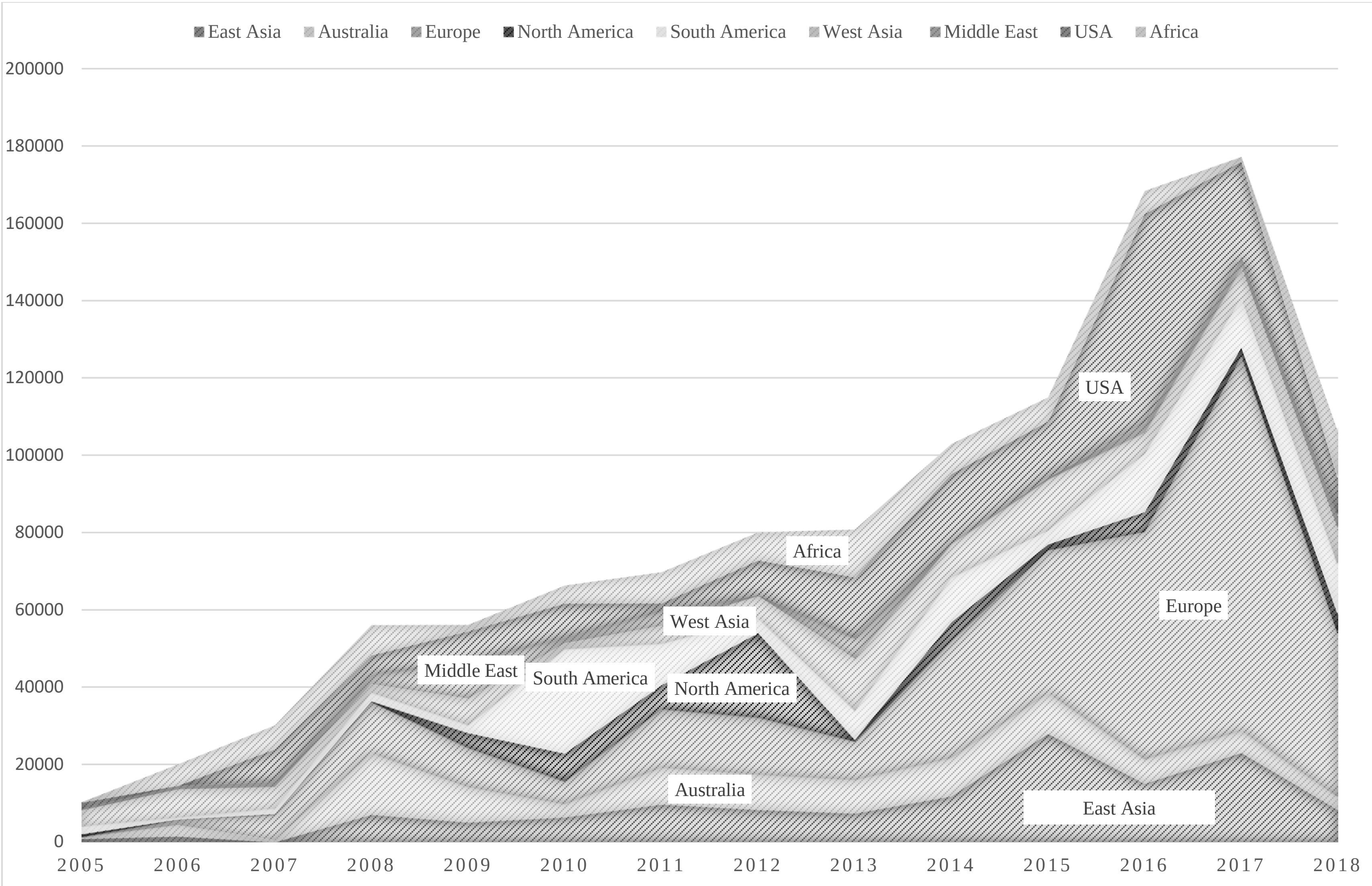

Figure 1: China's Outward M&A by Region, 2005-2018 (millions USD)

Source: China Investment Tracker, American Enterprise Institute

III. Varieties of Capital, Varieties of Internationalization

For more than a generation, scholars and observers of the Chinese economy have viewed firm ownership —state or private—as the dominant mode of differentiation among firms. This analytical distinction, however, has become less helpful over time as both "state" and "private" have become categories with porous boundaries, overlapping features, and important internal distinctions (Milhaupt and Zheng 2015). In the category of "state" ownership, extensive empirical research on the functioning of SOEs has found that, as one might expect of any large, complex, and dynamic organization, they have a complex and varied set of goals and bottom lines and the individuals managing them are pursuing a complex set of strategic goals related to their firms and their own personal advancement (Leutert 2018; Brødsgaard 2012; Li 2015, 2016).[10] Beyond the category of state firms, state capital is increasingly suffused throughout the Chinese economy in ways that complicate a neat distinction between state and non-state firms, for example through the rise of large shareholding companies that participate in equities markets (e.g. Central Huijin or China Securities Finance Corporation) or the use of state capital through "industry funds," most recently associated with the Made in China 2025 innovation push.[11]

"Private" capital, for an earlier generation of scholarship, connoted entrepreneurial capital mostly independent from the state and managed by private individuals (Tsai 2007, 2002; Pearson 1997). A cursory glance at the business landscape over the last decade or so, however, suggests the myriad ways in which politics and political connections structure the landscape for private capital. Journalists working for high profile western media outlets, such as the *New York Times* and *Bloomberg*, published documentary confirmation of the extent of fortunes amassed by top political leaders and their families.[12] Academic scholarship has also established the importance of political connections in a number of ways. Firms have increasingly relied on national, as opposed to local, level connections, and that firms with known connections to fallen politicians suffer abnormal financial returns when their patrons fall from grace (Wang 2016, 2017). There is also evidence that entrepreneurs who join CCP institutions, such as national or local people's congresses, experience firm revenue growth or decreased reliance on bribery (Truex 2014; Hou 2017).

In light of extensive entwinement of business and political interests in China, the distinction between "state" and "private" firms affords less analytical purchase on questions of state-business relations and political economy than it may have in the past. In the realm of internationalization, instead of state versus private, I find that firm strategies differ primarily based on the nature of their connection to the state. In a society like contemporary China, an authoritarian regime with a strong state and a historically dominant economic role that affords

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[10] See also Barry Naughton. "The Transformation of the State Sector: SASAC, the Market Economy, and the New National Champions." In (Naughton and Tsai 2015)

[11] For a discussion of this, see Meg Rithmire and Yihao Li. "Lattice Semiconductor and the Future of Chinese High-Tech Acquisitions in the United States." HBS Case 719-059. January 30, 2019.

[12] David Barboza. "Billions in Hidden Riches for Family of Chinese Leader." New York Times. Oct. 25, 2012. https://www.nytimes.com/2012/10/26/business/global/family-of-wen-jiabao-holds-a-hidden-fortune-in-china.html. Michael Forsythe, Shai Oster, Natasha Khan, Dune Lawrence, Neil Western, Ben Richardson and Peter Hirschberg. "Xi Jinping Millionaire Relations Reveal Fortunes of Elite." Bloomberg News. June 29, 2012. https://www.bloomberg.com/news/articles/2012-06-29/xi-jinping-millionaire-relations-reveal-fortunes-of-elite. Accessed May 2019.

the regime control over critical inputs to production such as land and capital, very few businesses with substantial assets could be said to have no connection to the state. On the contrary, the CCP has managed to engineer rapid growth in the absence of formal institutions that facilitate business by informally orienting its massive bureaucracy to serve the needs of business (Ang 2016). Therefore few firms are, in reality, fully disconnected from the state or the regime, but nonetheless the nature and extent of their connections differ in important ways, namely in the degree of institutionalization of their political connections and their dependence on the state for important inputs.

Political connections: The state exercises formal control rights over state-owned enterprises, which are controlled by either central or local State Administration (SASAC) bodies.[13] Their executive leadership is appointed by the organizational department of the CCP, and therefore they serve at the discretion of the party-state's higher leadership. Their business activities are both enabled and constrained by their relationship to the state: they benefit tremendously from preferential access to credit and from domestic monopolies in critical sectors—factors that explain the very large presence of central SOEs on lists of the largest companies in China and in the world—but they are also constrained by the state's use of these firms to implement a wide range of policies, including securing access to natural resources and implementing a domestic social welfare agenda.[14] Their dependence on the state can be high or low depending on the particular firm and sometimes even varying within the same firm over time. Ultimately, SOEs are large and complex organizations; they are never independent of the state, but some of their activities are self-financed and profit-oriented. Firms with state capital but without state control have a high level of institutionalization of state connections but seem to have low levels of dependence on the state for resources related to doing business.[15]

Dependence on the state for inputs: Of firms with informal connections to the state, they may differ in their dependence on the state or on political elites for critical resources. Crony capital is characterized by informal and particularistic relationships to groups within the party-state, usually specific individuals and their families, networks, or factions. Unlike productive firms, who may also have informal, but shallower, connections to political elites, crony capital is deeply dependent on their political connections for important resources. Relationships with specific political elites have afforded these firms access to credit, land, state assets undergoing privatization, market access, and immunity from regulatory interference. Productive firms, on the contrary, rely on success in market competition to grow. Many are listed outside of Mainland China, and therefore access capital in competitive global markets; these firms grew through competitive management and innovation rather than dependence on particularistic access to resources and favors.

[13] In 2019, the central-level SASAC controlled 97 enterprise groups. Local government SASACs, at the provincial and municipal level, controlled vast numbers of enterprises, but localities differ in the transparency of their assets and no central data repository of local SOEs exists. The SASAC keeps a public list of their enterprises, accessible at http://www.sasac.gov.cn/n2588035/n2641579/n2641645/index.html. Accessed May 2019.

[14] See Naughton chapter in (Naughton and Tsai 2015)

[15] The massive expansion of state-run shareholding organizations began in 2015 and 2016 during periods of turmoil in Chinese equity markets, when large shareholding companies began buying shares of public companies to stabilize prices. A full discussion of the role of the state in these businesses is well beyond the scope of this paper and would require more empirical research on this new form of state economic intervention in China.

Table 1: A Typology of Capital in Contemporary China

	Political Connections	
Dependence on state for inputs	Institutionalized	Informal
High	*State-owned*	*Crony*
Low	*State-invested firms**	*Competitive*

*State-invested firms are ones in which some state organ has a minority investment. Because the phenomenon of widespread minority state investment is relatively new—dating roughly to the stock market turmoil of 2015-2016—it is not yet possibly to identify the effects or political implications of this form of state capital. I do not discuss this kind of capital in this paper, but it is important to nonetheless identify that it exists and falls within the conceptual scheme identified here.

Internationalization strategies, then, are motivated by the firm's domestic political status. The international investments of SOEs tend to be political in orientation, profit-seeking, or both. The more political investments involve the pursuit of political prestige, such as implementing key policies of the leadership like the BRI, or determined by state political goals (sometimes called "economic statecraft"). "Competitive capital" pursues internationalization for reasons similar to those predicted in the international business literature: they are pursuing expansion into overseas markets or increased efficiency through reducing costs or acquiring enhanced technological or managerial resources. Crony capitalists have experienced the most political vulnerability, particularly since 2012, when the onset of a large-scale anti-corruption campaign introduced existential uncertainty and jeopardized political connections. I find that these firms took advantage of openness toward OFDI to expatriate assets, pursuing safety in secure and developed—rather than risky and developing—markets and sectors.

State capital

The unique logic of Chinese state capital has been the focus of most social science literature on Chinese outward investment. While popular understandings of state capital and state-owned firms connect those firms' activities to the strategic plans of the Chinese state, a good deal of research has demonstrated the ways in which even centrally-owned and managed (by SASAC) SOEs pursue internationalization in ways driven by the needs and preferences of firms themselves and the political appointees who manage them. Instead of seeing SOEs as an extension of the state, we can better understand SOEs internationalization strategies by examining how their dependence on the state for resources and the institutionalized connections between firm managers and the CCP combine to affect overseas expansion.

SOEs occupy a particular place in the domestic political landscape; they benefit from access to special resources, such as low-cost capital and state monopolies, but they are also encumbered with special responsibilities related to the CCP's domestic and international political goals. Whether these non-profit maximizing goals are referred to as "mission creep" (Naughton and Tsai 2015) or a more "encompassing" (Lee 2017) logic of accumulation, they undeniably constrain the maneuverability of SOE managers domestically and internationally. What those working within Chinese state firms typically refer to as "socialized" (社会化) goals affect both the crafting of international strategy and its execution. At the outset, SOEs are large, pyramidal business groups, and most have separate organizational structures devoted to their political-social missions. Most of these "business" segments are loss-making, but firm managers are unable to reform or restructure because of the political imperative. In the implementation, the fact of state ownership means that managers must tread carefully in pursuing their firms' interests lest their actions reflect negatively on the Chinese state. In the Zambian mining sector, Ching Kwan Lee finds that state firms are driven by a "more encompassing set of imperatives" that include profit-making but also "extending China's political and diplomatic influence," a fact that constrains rather than liberates firms: "Exactly because of its more ambitious agenda, which cannot be reduced to profit, Chinese state capital has been more concessionary and negotiable with Zambian state and society than global private capital."[16] Relatively easy access to capital and the need for global investments to reflect positively on the Chinese state—or at least avoid negative political attention that might endanger the careers of SOE managers—combine to make SOEs a version of "patient capital" overseas. They appear more tolerant of risk, willing to forgo timely returns for positive political impacts or goodwill, and generally operating with much longer time horizons than either global finance capital or non-state firms from China would.[17]

Formal state ownership means that the individual managers' career trajectories have more in common with political leaders than with executives of other large, global firms. That they are political appointees means that they owe their status and success to political patrons and, if their careers continue outside the SOEs, their futures as well. Individual managers, then, have political considerations when pursuing firm business. Frequently, being politically savvy can mean pursuing investments that have a questionable business logic to support important projects or policies. This is especially the case since Xi Jinping's declaration of the BRI in 2013. Many SOE construction or infrastructure investment projects became complicated after the announcement of the BRI, which is a loose framework for China's internationalization rather than an institutionalized and formalized set of policies and procedures. Several project managers for SOEs abroad have expressed frustration that the political importance of the BRI constrains their choices in dealing with host governments and partners, because any withdrawal of investment, cancellation of projects, or aggressive tactics with partners could draw negative attention to Xi Jinping's centerpiece project and ire from their superiors.[18]

In other cases, SOEs can use international investments and entry into new markets to liberate them from domestic constraints. Yi-Chong Xu, in an intensive study of State Grid Corporation, shows that their internationalization strategy unfolded via "an iterative process during which the government broadly defined policies that defined incentive structures within which firms operated" (Xu 2017, pp. 297-8). Xu argues that State Grid's overseas investments follow either a profit maximization logic or a political one, in which outward investments shore up market

[16] (Lee 2017) pp. 28-29.

[17] On the other hand, William Norris shows how the negative political backlash from China's National Oil Companies' (NOCs) involvement with unsavory regimes resulted in the state limiting their activities there, which were quite lucrative. So sometimes the long time horizons and appetite for risk serves the national interest and sometimes appears to complicate it, but in any case, international strategies of SOEs are subject to political interference. (Norris 2016) Chapter 4.

[18] This observation comes from fieldwork and interviews with SOEs engaged in projects throughout South and Southeast Asia. One firm spoke about reluctance to take actions against a host government that unilaterally stopped a project because it would generate negative press about Chinese investment in the region. Despite losing hundreds of millions of dollars, the firm delayed pursuing mediation for a year. Interviews, October 2018.

position and legitimacy, especially in the realm of international standard-setting, in the face of "domestic political and regulatory uncertainties" (p. 298).

Ultimately, SOEs are profoundly constrained by their formal political connection to the state. For better or worse, their international actions reflect directly on the Chinese state, and privileged access to resources does not translate into leverage in global markets. As one SOE manager put it: "Yes, I can get as much capital as I want, but if it is risky to invest it anywhere, it is useless and will just bring me problems."[19] Social scientists are now beginning to publish research on the experience of state capital abroad, yielding a much more complex portrait of the political relationship between SOEs and the state than the one that dominates popular commentary on China's "economic statecraft." Looking more granularly at the content of political connections and the nature of firm dependence on the state better explains the ambivalent record of Chinese state firms abroad.

Competitive Capital

Competitive firms are among the least politically vulnerable firms in China, primarily because they rely on effective market strategies, rather than political connections, for profits. This is not to say that they are immune from interference or completely politically independent. Recently, even Jack Ma, the founder of Alibaba, one of China's most productive and internationally recognizable firms, was revealed to be a member of the Chinese Communist Party, and he and other highly visible elites from the private sector endeavor to say and do the right things to endear themselves to the right leaders, especially under Xi Jinping. While most firms in China have some political connections, most are informal, local, and arms-length, and, critically, competitive firms do not depend on political access to resources for revenues and profits. Their focus on managerial quality and innovation make productive capital less dependent on these relationships than other firms.

The internationalization strategies of these firms follow what we may expect from elite firms anywhere: they pursue markets by investing in sectors and geographical areas in which they are likely to enjoy a competitive advantage and they pursue efficiency by moving certain parts of their operations to areas where they can enjoy a lower cost advantage. AntFinancial provides a typical example. AntFinancial (蚂蚁) runs Alipay as well as a large money market fund (Yu'e bao), and. A company spokesman described the overseas expansion strategy as "Southeast Asia, then South Asia, then Middle East and Africa."[20] The company pursued acquisition of online payment and fintech firms in Thailand and Malaysia, where it could deploy its accumulated knowledge of operating in thin institutional environments (i.e. where credit rating institutions were underdeveloped) and accessing consumers in rural areas. Its activities in developed markets, such as Korea, were oriented toward paving the way for Chinese tourists to use the company's products as they traveled abroad. **Table 2** shows all overseas M&A activity from Alibaba, AntFinancial's parent company, between 2001 and 2017. The deals vary in geography, and acquisition targets are in sectors we might expect for a large company with expertise in e-commerce, e-payments, and IT in the world's largest developing country. Deals in developed countries, such as acquisitions of Kite Heavy Industries and EyeVerify in the United States, both Silicon Valley mobile technology companies, are almost all in pursuit of technology

[19] Interview, Beijing May 2019.
[20] Feng Zhu, Ying Zhang, Krishna Palepu, Anthony Woo, and Nancy Dai. 2018. "Ant Financial (A). HBS case 9-617-060, p. 13.

acquisition, while developing country deals facilitate market entry in places like Southeast Asia and India.

Table 2 Alibaba Outward M&A, 2001-2017

Target Firm	Target Country	Date	Deal
Alohar Mobile, Inc. (mobile location services)	United States	12/16/13	100% for $30 million
Amblin Partners (production of film and digital content)	United States	10/9/16	Undisclosed: Alibaba joins board
A-RT Retail Holdings Ltd. (retail holding company, subsidiary runs supermarkets in China)	*Hong Kong*	*11/20/17*	*19.9% for $805 million*
Ascend Money (online payments)	Thailand	6/18/16	20%- undisclosed
Auctiva Corp. (online auctions)	United States	8/24/10	100% - undisclosed
China Civilink (operates web portals in China)	*Cayman Islands*	*9/28/09*	*85% for $63.75 million*
EyeVerify, Inc. (camera-based payment verification)	United States	9/13/16	100%, undisclosed ($100 million)
GoGo Tech Ltd. (ride share platform)	Hong Kong	8/28/17	100%, undisclosed
Hanbit Soft Inc. (online gaming)	South Korea	8/12/14	100%, undisclosed
HelloPay Group (mobile payments)	Singapore	4/19/17	100%, undisclosed
Kite Heavy Industries (mobile search)	United States	4/18/14	100%, undisclosed
Lazada South East Asia Pte Ltd. (online retail)	Singapore	4/12/16	21.7% for $323 million
Lazada South East Asia Pte Ltd. (online retail)	Singapore	6/28/17	32% for $1 billion
Meizu Telecom Equipment Co., Ltd. (smart phone manufacturer in China)	*Hong Kong*	*2/8/15*	*Undisclosed for $590 million*
One 97 Communications Ltd. (mobile content)	India	2/5/15	25%, undisclosed
Paytm Mobile Solutions Pvt Ltd. (mobile commerce)	India	6/30/15	15%, $600 million
Quantium Solutions International Pte Ltd. (mailing and packaging)	Singapore	7/8/15	34% for $62 million
SCMP Group Ltd. /Media Operations/ (news media)	Hong Kong	12/11/15	100% for $266 million

ShopRunner, Inc. (ecommerce shipping)	United States	8/16/13	30% for $75 million
SingleFeed (online data management)	United States	6/28/11	100%, undisclosed
Sun Art Retail Group Ltd. (Chinese supermarkets)	*Hong Kong*	*11/20/17*	*26.02% for $2.1 billion 22.98% for $1.8 billion*
Trade Lead Investment Ltd. (advertising and cultural content in China)	*British Virgin Islands*	*1/6/12*	*95% for $114 million*
Wormhole Technology Pte Ltd. (tech investment)	Singapore	9/21/17	32.2% for $6 million

Source: FactSet Database. Italics indicate "round-tripped" FDI, or OFDI that was then redirected toward the Chinese domestic market.

As China's economy has slowed and Chinese politics have recentralized under Xi Jinping, entrepreneurs from all stripes feel vulnerable. High profile detentions, disappearances, and nationalizations have contributed to the sense that, in one entrepreneur's words, "Nowadays, it is not certain that private business people can accumulate wealth in China. It can be better to find investment and growth opportunities outside the country."[21] The businessman's remark does reveal an importance difference, however, between competitive and crony capital; competitive firms, having been excluded from access to credit through the state banking system, rely on retained earnings or self-generated capital (e.g. borrowings from friends and family) for business investment.

While state firms and crony firms benefit from privileged access to cheap credit and therefore their constraints on global investments are fewer, competitive firms face greater budget and political constraints. Because overseas investments are financed with hard-won capital, they are more likely to invest within their core competency and conduct due diligence on partners and host environments. As one SME firm engaged in manufacturing explained, their decision to invest in building a factory in Myanmar was based on a personal understanding of risk: "In Myanmar we have a local friend who can help us understand the situation. If we go to Vietnam or Indonesia and there are anti-Chinese problems, I can't ask my government for help, and I have to pull out and lose my investment. This money took me two decades to earn in China, and I can't throw it away."[22]

Despite official exhortations to "go out," private firms cannot easily access credit to invest abroad, and also face administrative hurdles for exporting capital. Gallagher and Irwin (2014) have estimated that most of China's OFDI lending comes from the China Development Bank (64%) and China ExIm bank (23%), neither of which have institutional mandates to lend to smaller firms in politically unimportant sectors but rather focus on natural resources and infrastructure. Min Ye (2014) reports that private companies face regulatory and paperwork burdens to seek permission from the Ministry of Commerce for overseas investments, so they prefer "covert investments," expatriating capital without formal approval. Ye's observation accords with my own fieldwork, through which I found that many SMEs pursuing "one-off" outward investments did so through informal means, channeling capital through Hong Kong or personal connections and networks. In the Philippines, for example, regulators had a hard time

[21] Interview, Beijing 2019.
[22] Interview, Shanghai 2017.

estimating Chinese investment in the mining sector because of informal arrangements recorded on neither the Chinese nor Philippine side.[23]

The outward activities of the non-state sector in China have increased substantially since the mid-2000s, yet have drawn little attention from scholars or popular commentators. Because of their domestic vulnerability, the discipline and self-reliance imposed by domestic discrimination against the private sector, and their inability to rely on state political protection in foreign markets, competitive firms pursue overseas investment according to the same logics that international business scholars posit firms anywhere do: to pursue foreign market entry or to pursue efficiency by participating regional and global supply chains or acquiring foreign technology or managerial know-how ((Dunning 1971; Buckley et al. 2018). Competitive capitalists have benefitted from greater opening to foreign investment in China, not because they are working in the state's interest but because they have taken advantage of encouragements to "go global" to pursue their own profits, something they have perceived as increasingly difficult domestically. Painting "Chinese capital" with a broad brush and focusing on the unique logic of Chinese state capital obscures these important actors in China and cannot account for the geographic distribution of OFDI toward developed markets in particular.

Crony Capital

Crony firms are highly dependent on informal political connections for resources from the state and protection for their endeavors. Unlike competitive firms, crony firms have acquired their size and status as a function of closeness to political elites. Those political elites use the party-state's extensive control over the country's economy, especially credit, land, and the former assets of the command economy, to favor connected firms. In a large and decentralized economy like China's, crony firms exist at all levels of the political hierarchy, from local real estate moguls who get land at preferential prices and win contracts for construction based on political connections (like Xu Ming in Bo Xilai's Dalian) to national level "bankers to the ruling class," like Xiao Jianhua, the founder of Tomorrow Group who was kidnapped from Hong Kong in 2017 as part of Xi Jinping's crackdown on corruption.[24]

I examine the activities of crony firms in two ways. First, I rely on interviews conducted with firms, accountants, lawyers, and regulators to narrate how crony firms form and implement their internationalization strategies. Second, I look at the overseas activities of one set of firms identified by Chinese regulators to be crony—the "Grey Rhinos," a term Xi used to indicate risks that could be existential should they begin moving quickly. Crony firms took advantage of China's "going out" policy to capitalize on domestic political advantages, borrowing heavily using informal political connections and financing investment abroad, primarily in developed countries where investments would be "safe" from the reach of Chinese authorities and in low-risk industries and assets. In short, the internationalization strategies of crony capital extend from their preference for safety in the face of political vulnerability.

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[23] This observation from interviews with regulators in Manila, March 2017. See also Tom K. Stern. "Chinese Investments in the Philippines," *Journal of Political Risk*. Vol. 4, No. 6 (June) 2016. http://www.jpolrisk.com/chinese-investments-in-the-philippines/ Accessed March 2017.

[24] Barboza, David and Michael Forsythe. "With Choice at Tiananmen, Student Took Road to Riches." *New York Times*. June 3, 2014. https://www.nytimes.com/2014/06/04/world/asia/tiananmen-era-students-different-path-to-power-in-china.html. Accessed October 2017.

Table 3 displays summary data on the outward M&A activities of four firms—HNA Group, Dalian Wanda, Fosun, and Anbang. These four firms collectively have over $45 bn USD worth of outward M&A over the period of 2001 through 2017, most of it, as the table shows, in developed countries and invested after the onset of Xi's anticorruption campaign in 2013. By contrast, Alibaba pursued just over 7 bn USD worth of M&A in the same time period. These four firms are associated with one another as "grey rhinos" (灰犀牛), a term first used by top officials in 2017 to refer to underappreciated economic and political risks but that came to largely refer to large, diversified conglomerate firms with large debt burdens and extensive external expansion strategies.[25] All four firms were named as "systemic risks" under investigation for the financing of their overseas deals in June 2017.[26] By February 2018, the CCP had nationalized Anbang and jailed its chairman, Wu Xiaohui, on charges of fraud. Fosun's chairman, the charismatic Guo Guangcheng, referred to by many as China's "Warren Buffet," was detained by police several times in the winter of 2015, reportedly to "assist," likely involuntarily, with Xi's anticorruption campaign.

Table 3: Overseas M&A activity of Four "Grey Rhino" Firms, 2001-2017

	HNA	Dalian Wanda	Fosun	Anbang
Number of deals (#)	60	19	37	12
Disclosed value (bns USD)	$16.08	$13.96	$11.18	$14.40
% Western Europe, Oceana, North America % Hong Kong %Tax Havens	68 27 7	89.5 10.5 0	86 0 5	83 0 0
Number of deals after 2013 (onset of anti-corruption campaign)	46	17	36	12
Top Industries	1. Air Transport (14) 2. Transportation Services (7) 3. Hotels and lodging (6)	1. Amusement and Recreation (8) 2. Motion Pictures (5)	1. Insurance (8) 2. Holding and other investment (7)	1. Insurance (5) 2. Hotels and lodging (3) 3. Holding and other

[25] The term is a play on Nasib Taleb's "Black Swan," which describes highly unlikely and unpredictable but devastating events, but indicates known risks that are nonetheless not addressed. The central idea comes from a book by Michele Wucker by the same name, which was spotted on Xi Jinping's bookshelf during his annual New Year's greeting, but well after the term was used widely by officials and regulators. See "What's new on Xi Jinping's bookshelf this year." Shanghaiist.com. January 1, 2018. https://medium.com/shanghaiist/whats-new-on-xi-jinping-s-bookshelf-this-year-8d913dcc261f. Accessed May 2019. (Wucker 2016)

[26] https://www.caixinglobal.com/2017-06-22/china-asks-banks-to-assess-credit-risks-linked-to-firms-active-in-overseas-deals-101104621.html.

	4. Holding and Other investments (5) 5. Security and Commodity Trading (5)	3. Real Estate (2) 4. Engineering, Accounting, Research, Management Services (2)	3. Mining / Oil & Gas (4) 4. Wholesale Trade (3) 5. Real Estate (3) 6. Apparel (3)	investments (2)

The activities and organization of crony capitalists—or at least some of them— have been under greater scrutiny since the onset of Xi Jinping's anti-corruption campaign in 2013. Nearly every official investigated as a part of the campaign has been accused of either "using the convenience of the position to seek benefits and receiving bribes to help other individuals and companies," "engaging in profit-making business illegally," or "helping a family member with a profit-making business," or, not infrequently, all of these things.[27] Crony firms depend on connections with political elites to access profits, and the largest firms—like the ones listed above—grew to size by translating relationships with political elites into low-priced state assets, privileged access to land, and, critically, easy access to cheap capital.

The trajectories of the four firms listed above are instructive. HNA began as a state-backed regional airline in the island province of Hainan in the early 1990s. Methodical investments and collaborations among a group of businessmen, critically the brothers Wang Wei and Wang Jian, the former who has no official position in HNA and the latter was c-chairman until his accidental death in France in 2018, facilitated the company's privatization.[28] This kind of "stealth privatization" is typical of crony firms, many of whom get their start by taking control of state assets, accessing preferential state loans, and then privatizing these assets without public notice but with informal political support. HNA's expansive growth owed much to state banks, who aided the company in accumulating more than $90 bn USD in debt by 2016, after which the company began unwinding its international positions under threat from the CCP. Anbang was not so fortunate. The company was founded as a regional insurance provider in the early 2000s with connections to two major political families, including that of Deng Xiaoping, the architect of China's economic reforms.[29] For years, Anbang funded its aggressive domestic and international expansion efforts—including the purchase of the Waldorf-Astoria hotel in New York and Strategic Hotels & Resorts—through selling investment products to Chinese savers. The products offered higher returns than low domestic bank deposit rates but questionable risk coverage, and Anbang regularly exceeded quotas and skirted regulations thanks to its high-level political connections.[30]

[27] Specific charges against officials are listed on the website of the Central Commission for Discipline Inspection: http://www.ccdi.gov.cn/scdc/.

[28] See David Barboza and Michael Forsythe. "Behind the Rise of China's HNA: The Chairman's Brother." *The New York Times*. March 27, 2018. https://www.nytimes.com/2018/03/27/business/hna-group-deals-china.html

[29] The other family was that of Marshal Chen Yi, a long march generation PLA commander. Chen Yi's son, Chen Xiaolu, was a director of Anbang from early on, bringing the same protection and benefits to that company that he did to many others. https://www.scmp.com/news/china/policies-politics/article/2135337/chinese-princeling-and-anbang-adviser-chen-xiaolu-dies.

[30] One insurance regulator remarked that some companies, including Anbang, were beyond the purview of regulators because they were politically protected and secure. This only changed in 2016-2017, when officials in Beijing began talking about systemic financial risks. Interview, Shanghai, May 2017. See also Bloomberg News.

While the CCP seized Anbang, the smallest of the four firms, the other three were disciplined but allowed to live on. Wang Jianlin's Dalian Wanda was founded in Dalian, a city in China's northeast whose longtime Mayor, Bo Xilai, was among the first leaders in China to use state control of urban land to generate capital for the city government and enrich a class of loyal local businessmen.[31] Like the other "grey rhinos," Wanda's diversification and massive expansion took off in the mid-2000s, when Wang Jianlin led the company into sports and entertainment as well as high-profile international real estate acquisitions. Like HNA, Wanda began to unwind many of those purchases after encountering political backlash in 2017. Fosun began as a technology investment firm in the early 1990s, but quickly expanded the scope of its investment activities and organizational scope, establishing at least 121 direct subsidiary companies and perhaps as many as 300 related firms.[32] After the ambiguous detention of its chairman, Fosun began to deleverage and restrain high profile overseas investments, but its ownership of various foreign financial firms, including Meadowbrook Insurance in the U.S. (2014) and Fidelidade in Portugal (2014), as well as the Hong Kong registration of Fosun International, Ltd (which was established in 2007), allowed the firm access to international markets and made it "too big to fail" or at least too big and too international to take down easily.[33]

These four companies are, of course, not the only crony firms in China, but their humble beginnings, political connections, and rapid domestic and international expansions typify the pattern of the internationalization of vulnerable capital. Many Chinese firms took the official push to "go out" as license to borrow from the state financial system and turn privileged access to RMB into valuable foreign assets. The launch and intensification of the anti-corruption campaign ironically provided further impetus to seek safety through internationalization: firms with questionable political ties feared the downfall of their patrons, and so made haste to access state resources while their access routes remained open, and hoped to establish sufficient international assets and name recognition to raise the political and financial costs of targeting them domestically. The means of financing overseas acquisitions was typically through domestic credit extended at low rates; this is opposed to competitive firms, who rely on retained earnings or international credit markets. When crony firms borrow from banks, they do so through an "introductory contact" (介绍人),who then takes a small fee, usually a percentage of the loan volume. All parties, then, have incentives to inflate deal prices—loan officers and introducers, who get a cut, and borrowers, who transfer borrowings into secure assets abroad.

Crony corporate structures are designed to obscure ownership and connections to political elites. Essentially, the structure and activities of these firms are textbook examples of tunneling, or the transfer of assets from peripheral to core firms (Johnson et al. 2000). For Chinese crony firms, the value in tunneling assets upwards has also been in inflating the balance sheet of the dominant firm, allowing it to borrow additional funds and use them to purchase more valuable assets abroad. Many of these conglomerate firms have employed similar strategies in overseas

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"Deals: China Restructures Anbang in Step to Sell Firm After Takeover." May 27, 2019. https://www.bloomberg.com/news/articles/2019-05-27/china-plans-key-step-in-anbang-sale-by-removing-toxic-assets. Accessed May 2019.

[31] See Chapter 4 in (Rithmire 2015)

[32] According to WIND database, which relies on filings from the State Administration of Industry and Commerce (工商局), the three core holding companies, two of which are registered in the Mainland and one in Hong Kong, directly control a total of 121 companies. International databases, like FactSet and Capital IQ, which draw on filings and analyst reports, turn up between 250 and 300 affiliate firms for Fosun.

[33] This insight is based on extensive interviews with members of the business community in Shanghai, where Fosun is headquartered, and with regulators. These interviews were conducted in fall of 2016 and spring/ summer 2017.

investments. One prominent firm described its strategy as pursuing international targets that could be further borrowed against internationally (in non-RMB currencies), in part because the Chinese environment has "become dangerous."[34]

After several years of a permissive and encouraging policy toward outward investment, the CCP pivoted to respond with force to what is essentially the expatriation of (state) assets by private individuals, detaining high-profile figures associated with these firms, restricting their access to credit, and, at the extreme, nationalizing firm assets. These state policies have multiple logics: the CCP may be trying to curb kleptocratic practices, address what many view as dangerous levels of corporate debt, and/ or stem capital flight that has endangered the value of the RMB since 2014. As I discuss below, the CCP adopted capital controls on investment in specific sectors and domestic regulation to combat elements of the business class who used overseas investment to pursue their own safety and undermine the authority of the central state.

IV. Capital and Coalitions

Instability in the CCP's orientation toward internationalization is a function of reconfiguring policies to address the activities of different types of capitalists. The CCP seeks to deploy state capital, using SOEs for economic statecraft as well as enabling their growth through pursuit of foreign markets. It seeks to enable competitive capital, facilitating the growth of national champions through international competition and branding and the transition in China's growth model to higher value-added activity and domestic consumption. Lastly, the party-state seeks to restrain crony capital, restricting its growth and the political and economic risks it brings. Especially since the global financial crisis and the rise of Xi Jinping, during which China has undergone dual economic and political transitions, the CCP has endeavored to craft internationalization policy to direct and respond to different kinds of capital. Uncertainty over China's economic model and political recentralization has incentivized firms of all kinds to pursue internationalization to enhance domestic political prestige, secure non-domestic sources of growth, and/ or expatriate assets in the face of threats to political safety. The CCP's policy toward internationalization has therefore been dynamic, learning and adjusting in real time to the activities of various types of domestic capital.

For the period before the global financial crisis, economic policy coalitions were formed around the issue of the Renminbi's (RMB) valuation. Exporters, and their champions in the bureaucracy (namely, the National Development and Reform Commission, or NDRC, and the Ministry of Commerce) favored undervaluation, while potential beneficiaries of greater domestic consumption and monetary authorities preferred modest appreciation (Steinberg and Shih 2012; Naughton 2019). In the years since the crisis and during a reconfiguration of China's growth model, new coalitions have formed around the issue of internationalization of Chinese firms.[35] While firms of all kinds prefer openness to capital export, they hold different preferences about the involvement of the state in promoting OFDI and different relationships with domestic political actors. State capital, crony capital, and most local political elites prefer unrestricted outward capital flows and have embraced political imperatives to expand abroad, especially the

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[34] Note that this comment came in 2013, well before firms like this became under fire in 2016 and 2017. Interview, Shanghai, 2013.

[35] Scholarship on business-state relations and economic policy in China has long established the importance of lobbying and coalitions, but of course lobbying is hard to observe. The coalitions I describe here, per Schneider's typology, loose and informal ones that overlap between distributional and policy coalitions. (Schneider 2004).

BRI, as they provide opportunities and cover for advancing their own interests. On the other hand, competitive firms and domestic regulatory and monetary authorities have been skeptical of large political programs that incentivize outward investment. Competitive firms fear that grand state initiatives attract unwanted attention to their own internationalization efforts, and regulatory and monetary authorities fear financial risks associated with the politicization of global expansion.

The contest between these two coalitions is evident in the push and adjustment of firm internationalization, manifest in fluctuating CCP policy regarding large political programs, such as Made in China 2025 and the BRI, and capital controls. The latter have been embraced as a means of coordinating and disciplining the overseas activities of large firms, especially SOEs and firms of all kinds of ownership involved in advanced industries. Capital controls and domestic regulation have been embraced as answers to the excesses of the political pushes to invest abroad, facilitating targeting of specific kinds of firms and emboldening macroeconomic control without chilling internationalization altogether.

Xi's two centerpiece economic policies push Chinese firms toward specific kinds of internationalization. The BRI, a grand plan to export China's infrastructure know-how and enhance global connectivity, was declared in 2013 and has proceeded with great fanfare. The initiative, which emerged from NDRC's western development group, has no official blueprint or plan but is instead meant as an umbrella initiative, sometimes called a "platform" in Chinese (平台), providing direction and coherence to the activities of banks, firms, and government officials acting outside China's borders.[36] This policy vagueness is familiar in Chinese politics; declaring a policy direction and leaving details up to lower levels and future policymakers has been the party-state's "policy style" for issues as diverse as rural health care, governing civil society, and legal reforms (Heilmann and Perry 2011). Although firms of any kind, including foreign ones, are said to be welcome within the BRI, the majority of benefits have gone to SOEs, whose core competencies most overlap with the initiative's priorities (Li and Zeng 2019). Local SOEs have benefited as much as central ones, as the BRI platform has given impetus for these firms to secure financing to invest abroad and provincial leaders are expected to take initiative in connectivity projects with their own neighboring countries in particular.[37]

Made in China 2025, essentially a large industrial policy pushing self-reliance and domestic innovation in high technology, has, somewhat ironically, also pushed Chinese firms toward aggressive international investment. The establishment of industry funds for various target industries was meant to catalyze investment in technology, sometimes through foreign acquisition as a means of technology acquisition. Representatives from industry, especially local and national state-owned firms, worked to emphasize the need for state investment to address technology gaps that threaten China's national security.[38] Like the BRI, these efforts were given political importance, but not fully coordinated. In semiconductors, for example, over 20 such

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[36] See, for example, Liu Weidong, Tian Jinchen, and Ou Xiaoli, eds. *"一带一路" 战略研究. (Belt and Road Strategy Research)*. Beijing: Commercial Press. 2017.

[37] Interview with NDRC official, Guangdong, 2015. See also Joshua Eisenmen and Devin T. Stuart. "China's New Silk Road is Getting Muddy." *Foreign Policy*. January 8, 2017. https://foreignpolicy.com/2017/01/09/chinas-new-silk-road-is-getting-muddy/. Accessed October 2018.

[38] A group of technology executives, most of whom represented state-owned firms, wrote a letter to China's top leaders expressing this view following the Snowden revelations in June 2013. See The National People's Congress of the People's Republic of China, "维护网络安全上升到国家战略的意味", March 9, 2014, http://www.npc.gov.cn/npc/xinwen/2014-03/09/content_1846981.htm, accessed December 2018.

funds were established at the national, provincial, and municipal levels, and domestic firms competed with one another to bid for western firms with critical intellectual property.[39] One firm, Tsinghua Unigroup, made such aggressive international moves, including an informal but very public offer for Micron, which supplies the U.S. military, that the Committee on Foreign Investment in the United States (CFIUS) began to look at all Chinese tech investment with greater scrutiny, "muddying the waters" for all of its domestic competitors.[40]

Both initiatives generated a great deal of international suspicion and backlash, but also domestic backlash and criticism. The BRI, championed and pushed by provincial and local officials as well as SOEs and the NDRC, met resistance among the financial sector, including regulators as well as banks, especially policy banks who found it difficult to rein in lending associated with BRI projects for fear of appearing not to back Xi's signature foreign policy. In summer 2018, regulators and skeptics of the BRI succeeded in bringing about a "recalibration" of the initiative, focusing on controlling investment risk and stemming the explosion of lending domestically and abroad. Officials at the People's Bank of China (such as Yi Gang, Chairman) and those at policy banks (Hu Xiaolian of China ExIm Bank) publicly emphasized limiting risks and greater institutional review of projects and lending.[41]

Competitive firms, especially those with global technology investments, bristled at the emphasis on Made in China 2025, especially as it attracted the ire of developed countries, especially the United States. A representative from one such firm put it thusly: "Now every Chinese company is assumed to have state backing and some sort of national motive, but of course we have none of those things. We bid to invest in early-stage ventures, but no one wants to be bought by any Chinese company, even though we are headquartered outside of China. When the government pushes global acquisitions, it goes too far, and we are the ones who suffer. All of the private tech firms hate these policies."[42] The heavy public emphasis on the program was tapered in 2018 after international and domestic backlash. Economic reformers, like former Minister of Finance Lou Jiwei, publicly criticized the effort: "I was against it from the start…The negative effect is to have wasted taxpayers' money."[43]

Both policies have undergone adjustment as policymakers try to preserve goals of enhancing China's global influence and competitiveness while limiting waste, containing risk, and ensuring that the right kinds of firms benefit from state policies. While preserving the large political imperatives for Chinese firms to "go global," the party-state has also strengthened its capital control regime to allow more targeted polices to contain crony capital in particular. After the PBoC had spent the better part of a decade preventing currency appreciation, it found itself fighting rapid depreciation beginning in 2015, the same year that China's outward investment exceeded its inward foreign direct investment. Concerns about currency stability coincided with

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[39] "A Summary and Interpretation of recent integrated circuits policies in all 31 provinces and cities in 2018." "重磅！2018 年全国及 31 省市集成电路最新政策汇总及解读（全）." https://www.qianzhan.com/analyst/detail/220/180319-2c152f56.html. Accessed December 2018.

[40] Interview, Industry Lobbyist, Washington, D.C., December 2018. See also Eva Dou and Don Clark, "State-owned Chinese Chip Maker Tsinghua Unigroup Makes $23 Billion Bid for Micron", July 14, 2015, *Wall Street Journal*, https://www.wsj.com/articles/state-owned-chinese-chip-maker-tsinghua-unigroup-makes-23-billion-bid-for-micron-1436833492, accessed December 2018.

[41] Keith Bradsher. "China Taps the Breaks on its Global Push for Influence." June 29, 2018. *The New York Times*. See also Tristan Kenderdine. "China set to tackle overseas investment risk." *Financial Times*. June 28, 2018.

[42] Interview, Boston, May 2018.

[43] Kinling Lo. "'Made in China 2025' all talk, no action and a waste of taxpayers' money, says former finance minister Lou Jiwei." *South China Morning Post*. March 7, 2019.

fears of “irrational” outbound investment from domestic firms. Zhou Xiaochuan, who was PBoC governor until 2018, said in 2016: “Of course, as we have noticed, some people are pursuing emigration and investing in overseas real estate due to concerns with confidence, property protection and original sins; some businessmen are investing overseas through acquisitions, not due to comparative advantages or to expand into new markets, to but keep a way open for exit in the context of incomplete bankruptcy law in China.”[44] At the end of 2016, the State Administration of Foreign Exchange and the MofCom began implementing capital controls to restrict individuals and firms from “irrational investments,” especially in property, entertainment, vice, and sports investments, which were exactly the sectors championed by crony firms and generally unrelated to the state’s strategic goals and the efforts of SOEs and competitive firms.[45]

V. Learning by doing abroad

This paper has explained policy instability in the Chinese Communist Party’s approach to internationalization by looking to the internal variation of the domestic business class. Domestic capitalists are politically differentiated by the formality of their relationship to the state and their dependence on the state for important resources, and these different political statuses affect their internationalization strategies. The regime, then, has formulated and reformulated its policy toward outward capital flows to adapt to the activities of these different capital groups, seeking to deploy state capital to advance its strategic goals, enable competitive capital to pursue growth, and constrain crony capital. The interests and activities of these different political constituencies of capitalists have found allies within the party-state, as loose coalitions of bureaucratic interests have aligned with different capitalists to advance or restrain the CCP’s push toward large-scale, state-led internationalization. I have examined the CCP’s rollout and recalibration of both the Belt and Road Initiative and Made in China 2025 in terms of these loose coalitions. I have also argued that the CCP’s embrace of targeted capital controls while maintaining large-scale political internationalization policies is a product of its desire to treat different capital differently.

Examining globalization from the perspective of different capital groups provides an important corrective to debates about China’s internationalization that tend to over-emphasize the role and power of the state or regime.[46] A good deal of scholarship has identified variation within the CCP’s approach to global engagement, focusing on explaining that variation with regard to the state’s strategic goals (Kastner, Pearson, and Rector 2019) or the regime’s weaknesses (Shambaugh 2013). The focus on the resurgent and perhaps fractured party-state, however, has eclipsed the focus on Chinese society, elements of which continue to pursue their interests in the face of political recentralization and “neo-authoritarianism.” As the multilateral management of economic globalization confronts challenges and authoritarian modes of governance show few signs of abating in many parts of the world, the effects of business’s domestic political status will continue to shape global capital flows. Beyond China, authoritarian turns in countries like Turkey, Russia, and the capital rich Gulf states may also induce different internationalization strategies from varyingly vulnerable domestic groups.

[44] “Transcript of Governor Zhou Xiaochuan’s Exclusive Interview with Caixin Weekly.” February 14, 2016. Available via the People’s Bank of China. http://www.pbc.gov.cn/english/130721/3017134/index.html. Accessed February 2016.

[45] State Council issues guideline on overseas investment. August 18, 2017. http://english.gov.cn/policies/latest_releases/2017/08/18/content_281475798846134.htm . Accessed May 2019.

[46] For an extreme and non-academic view, see (Pillsbury 2015)

Finally, this perspective offers a view of the Chinese Communist Party's overall approach to globalization. This study of policy toward outward FDI suggests that the CCP's policy toward globalization mirrors its domestic "mode of governance," which is based on learning by doing, experimentation and updating, and retaining discretion and maneuverability rather than adopting rules as constraints (Heilmann 2008, 2009). Domestic Chinese economic, political and social actors have grown accustomed to this mode of governance, becoming skilled at interpreting policy direction and exploiting state goals for their own advancement. On the international stage, however, parties interacting with the CCP or Chinese firms of all kinds are not used to thinking of China's policy as unstable, evolving, and subject to constant revision, and therefore may tend to overinterpret individual policies and actions as reflective of coherent strategies rather than experimentation and learning. Taking a wider view of the CCP's efforts to manage its domestic political economy—one that incorporates the different political imperatives of different groups—may be a better way to explain the noisy collection of policies that make up China's approach to globalization.

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