

Capitalist Interest Groups & FDI Policy Screening in China:
how class politics and institutions interact in the emerging
superpower

*HOW DO CAPITALIST INTEREST GROUPS AFFECT FOREIGN INVESTMENT
POLICY SCREENING IN CHINA?*

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Introduction

The theory and discourse surrounding emerging economies in the field of international political economy is extremely wide. Almost as wide is the attention that has been received by the latest globally emerging economy: China. Mainstream theories like neo-realism and neo-classical economics contrast on the role of foreign direct investment (FDI) in the creation of international political dynamics; these focus on debating the role of national competition versus market competition in the international economy (Atkinson, Lind, 2019). However, such an understanding is limited by the exclusion of an often-overlooked, but in hindsight, extremely relevant part of the conversation: the class dynamic. This is relevant because, by their nature, class dynamics directly correlate to FDI, as they concern themselves with the attitudes and opinions of capital-holders (and thus also capital-investors) as a politically active group in addition to an economically active one, allowing the class framework to explore the interactions between politics and economy more thoroughly. Such an analysis is even more important to understanding the Chinese situation, wherein there is much controversy on the nature of the Chinese political-economic system as a capitalist one, socialist one, or somewhere in between.

In this paper, the class dynamic of FDI screening policy in China will be explored by attempting to answer the research question, *how do capitalist interest groups affect foreign investment policy screening in China?* This question is relevant as it deals with an aspect of FDI policy - screening policy - which is vital to the regulation of FDI inflow. Because FDI inflow often creates disruptions in local economies by the introduction of foreign capital, it has also historically been a contentious topic in class dynamics. This is explored in similar papers, of which in particular, Tim Wood's 2009 study on the 1934 trade policy reforms in the United States, *Capitalist Class Relations, the State, and New Deal Foreign Trade Policy*, has served as an inspiration for this one.

Because of the long history China's economic reform, this paper will follow the exploration of four main case studies, each signaling an incremental reform to the Chinese FDI screening framework: the 1979 EJV Law, 1986 WFOE Law, 1988 CJV Law, and 1991 UTL. The 2007 EITL will also be mentioned at the end, though in a comparative fashion to the 1991 UTL due to the two reform's proximity both in chronological and political orders. Ultimately, this snapshot of Chinese FDI screening policy evolution will be viewed through the lense of

intra-class dynamics within the capitalist class, with major actors and their roles in each reform being identified. There will be an effort to identify these dynamics in as much of a direct way as possible, and thus the data collected focuses on primary sources to indicate policy positions, methods of political engagement, and the role of each specific capitalist interest group; while secondary sources and academia are used mainly to get an understanding of the time period and historical context of each actor. While this has incurred a great deal of difficulty in finding and using primary sources, mainly as a result of China's incredibly restrictive information system, the use of new research tools in the form of artificial intelligence allowed the study to progress by finding primary sources in a more time-efficient way, and thus allow more energies to be spent on discerning the quality of primary source material rather than worrying about getting a sufficient quantity of it.

Before the research process and its findings can be discussed, however, it is important to gain an understanding of the historical, political, economic, and legal context to which these reforms began. Such material will be discussed in the following section, the literature review.

Literature Review

When answering the question, *How do capitalist interest groups affect foreign investment policy screening in China?*, it is first necessary to set a baseline understanding of the legal, political, and economic processes by which foreign investment (FDI) policy screening in China happens. The literature review will be split into three main parts, each with the task of discussing a separate part of the previous research's findings that are relevant to answering our research question.

The first part of the literature review (1.0-1.6) will be an overview of the Chinese legal system's evolution in regards to FDI and some of the terminology that will be used to answer the research question. Specifically, this part will be an overview of the legal frameworks by which FDI regulation, screening, and taxation are done in China, and the implications of previous literature's observations on the research question. This can be considered a look into the legal strategy of Chinese FDI.

The middle part of the literature review (2.0-2.4) will be occupied with discussing the role and impact of Chinese outward FDI flows, both in non-structured flows through mergers

and acquisitions, and structured flows such as the One Belt One Road Initiative (BRI). This can be considered a look into the economic strategy and impact of Chinese FDI.

Lastly, the literature will end with a general discussion of Chinese FDI policymaking and screening processes, capitalist interest group relations with the Chinese state, and the findings of current literature. Once the discussion of previous literature allows a greater understanding of the context of Chinese FDI in a legal, political, and economic context, it will be possible to create a hypothesis to be tested in the next chapters of this paper.

1. Evolution of FDI Policymaking, Taxation, and Screening Frameworks

Modern Chinese FDI policymaking can be fit into a tiered framework evolving from the PRC's constitution (primary law) to various degrees of implementation of primary law into secondary law (Yuan, Tsai, 2000; Qingjian, Chen, 2020). For this paper, secondary law will be that which will most concern answering the research question, as it is the most flexible and prone to influence by capitalist interest groups. It is possible to get an idea of how the Chinese government formulates FDI policy and screens FDI by analyzing the work of Qingjian & Chen, wherein the authors lay out a five-tier system behind the entire process:

- 1) **Constitutional/primary law** → Constitutional law, self-explanatory
- 2) **Secondary law** → Legal frameworks made by the NPC to implement constitutional law.
- 3) **State Council Regulations** → These serve as interpretations of the laws promulgated by the NPC (secondary law + constitution amendments).
- 4) **Ministerial Rules** → Adopted by the ministries subordinate to the State Council (i.e., MOFCOM), these are meant to implement the State Council regulations across several specialized fields.
- 5) **Other Laws & Regulations** → Those laws and regulations applied by local or other institutions not belonging to the central legislative apparatus

Qingjian & Chen note that the evolution of Chinese regulatory frameworks surrounding FDI is not brought on by a rationalistic implementation of existing formulas, as was often the case in other FDI regimes implemented in developing countries, but rather as a direct result of

the Chinese firsthand experience with FDI (Qingjian, Chen, 2020). The authors attribute this learning-by-experience approach as a direct result of two factors leading to a cautious and experimental attitude: firstly, the lack of experience of the Chinese economy with FDI policymaking; and secondly, the wariness of the Chinese state in allowing foreign companies to manage various parts of the Chinese economy (Qingjian, Chen, 2020).

1.1 Class Contradictions as a Driver for Policymaking Framework Evolution

In the context of the research question, this approach makes sense, as it follows the historical trajectory of Chinese capitalist interests in Maoist China. In the Maoist tradition, the national bourgeoisie (domestic capitalists) were seen as a key ally in the anti-imperialist revolution by Mao Zedong and the CPC, and following a century of humiliation by international powers, it makes sense that a national-camp coalition between the Chinese state and the domestic bourgeoisie would create a wariness towards opening up to foreign capital (Petras, 2007, p. 424). In this way, when the Third Plenum of the Eleventh CPC Central Committee met in 1978, and the focus of the Party's vision for the Chinese economy began to depart from traditional Maoist ideas to begin the process of "opening-up" (Zhaodong, 1998), the CPC had to make this push with the concerns of their class allies - the national bourgeoisie - in mind. This push, on one hand for the protection of Chinese domestic control to defend national bourgeois interests (Qingjian, Chen, 2020), and on the other, for the need of the Chinese economy to acquire foreign technology and capital to modernize (Zhaodong, 1998), created a key contradiction between the two capitalist camps (national v. international capitalists) which, as will be discussed in the later sections, will have great consequences on Chinese FDI policy.

The cautious-experimentalist method is reflected in two parallel evolutions of FDI policy leading up to the modern framework: the formulation of the Three Foreign Investment Enterprise Laws (FIE Laws), and the changing tax regime for FIEs from a preferentialist model to an egalitarian one. The following sub-sections (1.2-1.5) will give a brief history of the relevant models and end with a discussion of the modern system.

1.2 Evolution of the Three FIE Laws

The first law regulating foreign enterprises seeking to invest in China was the 1979 Chinese-Foreign Equity Law (EJV Law) (Yuan, Tsai, 2000; Qingjian, Chen, 2020). Looking at

the substance of the law, it reflects an attempt at *solution through compromise* of the above-mentioned contradiction of China's opening-up. The purpose of this law was to create a framework by which foreign capital could flow into China, but still be under the control of domestic Chinese capitalists (Qingjian, Chen, 2020). This sought to gain the benefits of FDI inflow (technology, capital, skilled managers), while avoiding the detriments (foreign capitalist takeover of markets). It did so by only allowing FIEs to invest in China if they started a Joint Venture Project: an economic activity operating in market spaces wherein the foreign investor had to find domestic partners to share ownership of the investment (Yuan, Tsai, 2000).

However, while this was able to garner some foreign investment into China, as the demand for capital was high enough to offset this entry barrier (Yuan, Tsai, 2000), many foreign investors felt that the law was still too restrictive, and so began to pressure the Chinese government to create more flexible modes of starting FIEs (Qingjian, Chen, 2020). Thus, in 1986, the National People's Congress promulgated the Wholly Foreign-Owned Enterprise Law (WFOE Law), in which, for the first time, FIEs were allowed to operate in China without the need for partial ownership by Chinese domestic firms (Yuan, Tsai, 2000; Qingjian, Chen, 2020). This event raises questions on the evolution of the Chinese state's relative autonomy from various sections of the bourgeoisie class, particularly why it took until 1986 for the Chinese government to allow greater freedom for the international bourgeoisie operating in China, and what this means for the ability of capitalist interest groups to influence Chinese FDI screening.

Finally, the creation of a final FIE law, the 1988 Chinese-Foreign Contractual Joint Venture Law (CJV Law), created what would be the basis of FDI inflow regulation in China until the creation of the modern model in 2019 (Qingjian, Chen, 2020). The CJV Law, while important as one of the Three FIE Laws, was the least utilized by foreign investors of the three laws (Yuan, Tsai, 2000). Yuan & Tsai explain that this is most likely because it was created for an early acquisition of foreign technology and facilities through something called "Cooperative Production", in which Joint Ventures would be created between foreign companies providing technology and strategic materials, and domestic companies providing land, labor, and physical facilities, which would be improved by the investment (Yuan, Tsai, 2000).

1.3 Reform of the Screening System & Unification of the Three FIE Laws

Up until this point, however, FDI screening was still subject to a very tight case-by-case approval system. The case-by-case system required all FIEs looking to enter the Chinese market to acquire direct approval from the Ministry of Commerce, which approved cases based on the compatibility of the FIE with several parameters (Qingjian, Chen, 2020). Qingjian & Chen noted these parameters were particularly opaque and untransparent; an encumbrance that was significant enough that it created much discomfort for foreign investors, who had no sure guarantees of successful application (Yuan, Tsai, 2000). As a result, while there was much progress in the framework by which foreign investors could enter China, the screening procedure for FDI inflow remained cumbersome for FIEs wishing to enter the market. The case-by-case screening procedure would remain unchanged even as the Three FIE laws relaxed upon China's entry into the WTO in 2000 and 2001 (Qingjian, Chen, 2020). Interestingly enough, though, the strictness of this screening method would ultimately act as a catalyst for the complete reform of the Chinese FDI framework in 2019. The process of screening reform actually began in 2013, when the bilateral negotiations between the Chinese and US governments managed to create an alternative screening procedure to the case-by-case system (Qingjian, Chen, 2020).

Another major weakness of the case-by-case system perceived by the international capitalists, was the limitations posed to FIE activities even upon approval. These restrictions were twofold: geographic restrictions, wherein FIEs were only able to operate in MOFCOM-approved areas (unless they were contained to one of the 18 Special Economic Zones (SEZs), though this still meant a geographic barrier) (Qingjian, Chen, 2020); and sector-dependent restrictions, wherein FIEs were only allowed to operate in those sectors approved for them by MOFCOM (Qingjian, Chen, 2020). While both limitations were slowly relaxed over time, with the number of operable sectors and the range of accessible geographic areas being widened as time progressed (Qingjian, Chen, 2020), they remained largely in place until 2013.

During the negotiation of a Bilateral Investment Treaty between the US and China in that year, the US government advocated on behalf of some of its business groups operating in China, which complained of the limitations and lack of transparency of the Chinese FDI screening system (Qingjian, Chen, 2020). As a result, seeking to make FDI inflow from the US more efficient, as per the objective of the Bilateral Investment Treaty, the Chinese government agreed to substitute the case-by-case approval system for US FDI in favor of an alternative system: the

“pre-establishment national treatment plus negative list” approach. This approach is the union of two concepts that define international trade regimes: the “national treatment”, in which regulations on international and domestic companies operating in a country must be subject to equal regulations; and the “negative list”, a sector-specific limitation where foreign companies are barred from accessing those sectors judged to be vital to national security interest. Interestingly enough, this approach reflects the same contradiction that was found at the beginning of the Chinese experience with FDI, and the very concept of “pre-establishment national treatment plus negative list” is contradictory, in so far as it expects equal treatment between international & domestic capitalists in all fields, yet systematically excludes the former from fields that are not judged to be convenient by the state¹. In contrast to the 1979 EJV Law’s solution to the contradiction, where the national bourgeoisie still retained key privileges in partial ownership over FIEs, the 2013 Treaty’s solution to the contradiction expanded the privileges of the international bourgeoisie, indicating the shift of the balance of power away from a national focus and towards an international one. This is very interesting in the context of that year, as 2013 was also the launch point of several Chinese FDI initiatives, including the launch of the Shanghai Free Trade Zone, and of the first major structured outward-FDI campaign, the One Belt One Road Initiative (Qingjian, Chen, 2020). Being a year of increased economic activity by the international bourgeois camp, the political and economic changes in China leading up to 2013 will warrant further analysis in this paper’s investigation.

This was not the end of the reform, though. Seeing the success of the “pre-establishment national treatment plus negative list” approach in generating increased FDI for Chinese cities following the Bilateral Investment Treaty with the US, the Chinese government decided to expand the approach to all of China and not just the SEZs in 2016 (Qingjian, Chen, 2020). The 2016 reform de facto abolished the case-by-case approval system and set China on the path of unifying its FDI policy framework three years later (Qingjian, Chen, 2020).

1.4 Evolution & Unification of the FIE Tax Regime

¹ It should be noted that the “pre-establishment national treatment plus negative list” did not just apply to China but also to the US, and in the Bilateral Investment Treaty, both countries formulated negative lists in which the other could not operate in (Qingjian, Chen, 2020). This fact raises questions regarding the role of these treaties when done between hegemonic powers like the US and emerging powers like China, potentially as a way to negotiate power imbalances and prevent security concerns arising from the integration of an emerging economy into the established international economic system.

The evolution of the tax regime for FIEs in China follows a near-parallel story to that of the FDI regulatory regime. It is nevertheless an important story to understand when discussing Chinese FDI, as it deals with the same contradiction between national and international bourgeoisie as mentioned above, but also with a fundamental aspect of the relationship between the state & the bourgeoisie class as a whole: income taxation². Like the FDI regulations, the story of the tax regime begins before the introduction of the first FIEs in China, with the transition away from the old Mao-era politics and towards the opening-up period (Zhaodong, 1998).

As a result of the opening-up process chosen during the Third Plenum of the Eleventh Central Committee, and the subsequent adoption of the EVJ Law, China would also adopt the Joint Venture Income Tax Law (1980) (JVITL), wherein EVJs would be subject to a base 30% income tax, in addition to a 3% local surcharge depending on where they were received (Zhaodong, 1998). However, the EVJ Law also provided exemptions for enterprises meeting one of two (or both) criteria:

1. If the enterprise possessed “advanced technology by the world standard” (Zhaodong, 1998)
2. If the enterprise “re-invested its net profits in China” (Zhaodong, 1998)

EVJ(1) If an enterprise met the first criterion, it would be granted an exemption from its income taxes for the first two to three “profit-making years” (Zhaodong, 1998).

EVJ(2) If an enterprise met the second criterion, it would be granted a refund for a portion of its taxed income. (Zhaodong, 1998)

JVITL(1) In the 1980 JVITL, further tax exemptions were offered if a newly established enterprise was scheduled to operate in the country for at least ten years. These exemptions were a full exemption from income taxes on the first profit-making year, and a 50% exemption from

² While potentially the subject of many more papers delving into the history of modern state, it can be claimed that income taxes represent one of the rawest and most ancient forms of symbiosis between the state and the capitalist class. This is because the capitalist class's activities develop the income of the state's territories, which in turn provide wealth enough for the state to finance professional standing armies. These armies are *then* used to protect the capitalist classes of those territories from threats to their activities: both external threats of imperialists seeking to expropriate them for their own benefit, and internal threats of insurgents seeking to threaten their private property. The formation of these fulcrums for the existence of both partners (the capitalists defined by the fulcrum of private property, and the state defined by its fulcrums of territory, population, and monopoly over violence), is only made possible by the income tax, which set into motion a series of historical developments that today define human existence.

income taxes on the second and third years, all given that the enterprise was scheduled to operate for at least ten years. (Zhaodong, 1998)

JVITL(2) After the initial tax exemptions expired, the 1980 JVITL also guaranteed income tax reductions for enterprises operating in low-profit sectors like farming or forestry, wherein a ten-year-long 15% to 30% income tax exemption was granted if approved by the Ministry of Finance. (Zhaodong, 1998)

JVITL(3) Finally, enterprises could request approval from the Ministry of Finance for further income tax exemptions of up to 40% of reinvested funds. (Zhaodong, 1998)

It should be noted, though, that even the 33% net income tax rate was considered preferential for foreign enterprises at the time, as corporate tax rates in developed countries at the time were around 50% and in developing countries were around 35~40%. As such, the initial tax system created by the 1980 JVITL was regarded as quite preferential for foreign investment enterprises (FIEs). (Zhaodong, 1998)

While the JVITL applied to EVJs, the WFOEs and CVJs were under the jurisdiction of the 1981 Foreign Enterprise Income Tax Law (FEITL), which subjected these kinds of enterprises to a progressive income tax featuring 5 income brackets ranging from a 20% tax on the lowest bracket to a 40% tax on the highest ones. Moreover, these enterprises were also subject to a base 10% income tax by local governments. Unlike the JVITL, there was no general exemption for WFOEs and CVJs under the FEITL. What remained was the specific exemption for low-profit sectors like agriculture, which required itself approval from the Ministry of Finance. Thus, the FEITL was regarded as much less preferential than the JVITL, a difference to be kept in mind when exploring the political processes that surrounded the creation of these laws when treating different parts of the foreign capitalist class operating in China. (Zhaodong, 1998)

In 1991, the two laws were unified into the 1991 Income Tax Law of the People's Republic of China Concerning Foreign Investment Enterprises and Foreign Enterprises (UTL). This unified code was meant to standardize the preferential treatment of FIEs, maintaining the 30% income tax rate with the 3% local surcharge. However, confusion remained about when the broader treatment of domestic enterprises and FIEs would be equalized, as FIEs maintained a preferential tax regime in that regard. The 1990s would also be the time period where FDI incentives would start to shift away from tax-based incentives and begin to gravitate towards

other kinds of incentives, like the expansion of the Three FIE laws to broaden foreign capitalist access to the Chinese market. (Zhaodong, 1998)

The accelerated pace at which the tax system for FIEs evolved and unified compared to the FDI regulatory framework's parallel unification points to the key relationship between the Chinese state's political costs from opening-up and the economic benefits it needed to take in. Because taxation is the primary mode by which states fund their activities, it makes sense that in the three-player game between the Chinese state, domestic capitalists, and international capitalists, the Chinese state would want to receive the benefits of opening up as soon as possible. This may be because it needed to have the resources necessary to deal with the concessions it made to the international capitalists at the expense of its own relative autonomy. Indeed, Zhaodong's cultural arguments could be alternatively interpreted to imply that the policy choices of the Chinese tax system were influenced by the political balancing game the Chinese state had to play between the two capitalist camps: the Chinese concept of "giving face" (Xinren) through generosity (such as generous tax preferences) was a strategy intended to create a positive image of China and encourage foreign capitalists to reciprocally behave according to Chinese socio-cultural norms (Zhaodong, 1998); on the other hand, certain policies favoring ethnic Chinese investments and regionally-based schemes leveraged the concept of Guanxi, or relationships, which secured the familiarity and connection at the local level between the Chinese state and domestic capitalists (Zhaodong, 1998).

In this way, an accelerated unification of the tax system would also mean an accelerated pace at which the contradiction between the interests of the national bourgeoisie and the demands of economic modernization could be smoothed over or potentially resolved. In a sense, it also meant a faster way for China to integrate itself into the international system and begin the process to eventually enter the international financial system as an emerging power (Liang, 2017).

1.5 The Modern System

The modern system of Chinese FDI screening and policymaking is thus based on the parallel unifications of the Three FIE laws on one hand, and the separate taxation regimes on the other. The former unification occurred in 2019, when the National Political Congress promulgated the Foreign Investment Law of the People's Republic of China (FIL) (Qingjian,

Chen, 2020). The FIL was intended as a replacement for the Three FIE Laws and functioned as a way to standardize all inward FDI regulations according to the experience China had thus far with managing FDI (Qingjian, Chen, 2020). The FIL guarantees the protection of FIEs from expropriation, guarantees equal policy treatment to both domestic and international capitalists, sets the “pre-establishment national treatment plus negative list” approach as the national standard for inward FDI screening, creates relevant legal definitions for what constitutes an FIE (to promote transparency), and gives clear administrative responsibilities to two Ministerial bodies to “promote, protect, and manage” FDI (Qingjian, Chen, 2020). Overall, it's a clear modernization of the Chinese FDI regulatory system, and the newest concession to the internationalist camp following the decades-long balancing act between national bourgeois demands for equality in taxation and international bourgeoisie demands for easier access to markets.

As China continues to emerge as a major power, and a potential rival hegemon in the international financial and political system, it is clear that the Chinese state's priority is maintaining an internal FDI system that can prevent the aforementioned contradiction from splitting its bourgeois class (which would force it to choose between a major source of internal development - international finance - and the support of a powerful class of domestic capitalists), and at the same time maintaining a security apparatus that is independent enough from foreign capitalists to allow it to compete at the international level. The evolution of its legal systems in this regard fits the story of a state-capital relationship that is maturing from a developing economy to an imperialist power³.

1.6 Historical Similarities with the United States

A final note that should be of interest from a theoretical lens is that, while this contradiction has pronounced itself strongly in China, China is not the first country to have gone through a similar process. In fact, in his paper, *Capitalist Class Relations, the State, and New Deal Foreign Trade Policy*, Tim Woods explores how the same contradiction between a

³ Imperialist power here is used in the Leninist sense - that is - a political power (the Chinese state) that has matured its industries enough to the point where the accumulation of capital is no longer for the sake of producing new means of production, but for the sake of producing finance capital itself. As will be seen in section 2 of the literature review, this will mean the beginning of an exportation of its finance capital, and as such, the creation of international political institutions to manage this exportation. It is these same institutions that will challenge those of the established financial-political order on the international stage.

politically-powerful domestic capitalist camp and a economically-demanding international capitalist camp fought over support from state institutions in the lead up to the 1934 Reciprocal Trade Agreement Act in the United States (Woods, 2003) - which centralized policymaking power for international trade agreements in the hands of the executive branch (Woods, 2003). While the specifics of this struggle remain outside the scope of this paper, the same pattern of a contradiction leading to a three-player game between the state and a split capitalist class is repeated in both the US and China. Moreover, such a pattern arose in both countries just a few decades before they each began to contest their respective international hegemons for political and economic power on the global stage (the UK for the US following World War 2, and the US for China following the One Belt One Road Initiative).

Taking this to a theoretical level, it raises the question for the potential of a *kingmaking mechanism* for emerging powers: wherein the ability of a state to efficiently integrate itself into the international economic system⁴ without losing the political support of either camp of the bourgeoisie class allows it to arrive at a position where it can openly challenge the established hegemon. This, however, lies outside the scope of this paper and could be a future question to be answered.

2. Discussing Structured & Unstructured Outward FDI Flow in China

It would be an understatement to say that a great deal of attention has been given to the emergence of Chinese FDI outflow following the start of the One Belt One Road Initiative in 2013. However, as previous literature will soon suggest, the One Belt One Road Initiative (BRI) was simply the cherry on the much larger cake of Chinese FDI outflow that, in reality, began to make its mark on the international political economy following the crisis of Western capital in 2008 (Liang, 2017) (Motosi, Nardini, 2024), and would continue to grow throughout the 2010s (Motosi, Nardini, 2024).

In the following sub-sections, the general strategy of Chinese FDI outflow in the context of economic development and political power projection will be explored, first by analyzing the early outflow period (2.1), secondly by analyzing the consequences of the intense FDI outflow in those years (2.2), and thirdly the nature of Chinese imperialism in the new capital-coalition it is attempting to build with the BRI and its structured FDI outflow (2.3). Finally, we will briefly

⁴ Hence, again, in the Leninist sense becoming an imperialist power that is able to export finance capital to lesser-developed countries and exercise influence over them in the control of their domestic resources.

cover these developments in the context of the Chinese government's ideology for promoting them, especially the "Goose-group" model (2.4).

2.1 Early Chinese FDI

This section will focus on what, for the purposes of this paper, will be referenced as unstructured outward FDI flow (U-OFDI flow). This term will reference all those foreign investments made by Chinese groups towards markets outside of China in such a way that the individual investments are not coordinated for the sake of a larger political-economic campaign or diplomatic mission. In this way, this kind of growth of Chinese capital abroad is preferential towards the private sector, and builds the financial roots from which Chinese capital will later be able to harness the political and economic power to launch a structured OFDI flow (S-OFDI flow).

To begin, previous literature makes clear that the most important kind of U-OFDI flow before 2013 was the merger-acquisition (Liang, 2017; Motosi, Nardini, 2024; Nugent, Jiaxuan, 2021). The merger-acquisition is a type of OFDI wherein a major Chinese financial group moves to merge with or acquire major shares of a non-Chinese company or group (Liang, 2017).

In his book, *Chinese Economy 2040: The Changing Landscape of Globalization and a New Path for Development*, Dr. Liang Guoyong analyzes how the 2008 financial crisis pushed Chinese companies to begin exporting their finance capital to markets typically dominated by Western capital (Liang, 2017). However, he notes that the movement of Chinese capital outside of China was not an entirely voluntary process, as the financial crisis put the world economy into a state of shock, and indeed, FDI inflow to China would drop sharply in 2009 (Liang, 2017). Moreover, the loss of confidence in the global market would put pressure on Western states to re-industrialize and begin reshoring industries that had previously been offshored to China (Liang, 2017). Pairing this with the emergence of new industrial economies in other countries in the Global South like Vietnam and India (Liang 2017), Chinese industrial capital was under great stress to re-evaluate its position on the global market (Liang, 2017; Motosi, Nardini, 2024).

What followed was an "explosion" of Chinese OFDI (Liang, 2017): In 2008, the Industrial and Commercial Bank of China (ICBC) bought Fortis's brokerage activities, 80% of the BEA (a US bank), 20% of the Standard Bank (South Africa), and in this also Standard Bank's 18 subsidiaries in Africa and its Argentinian subsidiary in South America (Motosi,

Nardini, 2024); Between 2009 and 2015, China would become the largest international buyer of US real estate, by the latter year acquiring roughly 16% of the US real estate market (Liang, 2017); In 2011, the Huajian Group developed production & export bases in Ethiopia in 2011, facilitated by low local labor costs and China's "tariff-free treatments" towards developing countries (Liang, 2017); In 2015, the Angbang Insurance Group acquired the famous New York Waldorf Astoria Hotel and tried to conduct another large-scale acquisition operation the same year (Liang, 2017); In 2016, China's Midea firm would acquire the KUKA Group in Germany, a major win for Chinese robotics manufacturing (Liang, 2017); and many other examples could be listed of the major U-OFDI projects conducted by Chinese firms following the pressure put on the Chinese economy in 2008 and the years after it (Liang, 2017).

Two theoretical explanations could be raised here as to the nature of Chinese U-OFDI following the 2008 financial crisis: firstly is an optimistic liberal (or global institutionalist) explanation, that is, that the outflow of Chinese capital following the crisis was simply a way for the global market to correct itself following the crisis in the West, and in a way, could be used to claim the success of the global market institutions (i.e. WTO) that allowed China to integrate itself and support the world economy (Chinese participation in the invisible hand); the second explanation could be a more cut-and-dry Marxist one, in which Chinese capital is following a centuries-old pattern of moving from an industrial-preferential system for ownership to a finance-preferential system, thus moving towards what Lenin described as the imperialist-monopoly stage of capitalism⁵. Both explanations find points in their favor in Dr. Liang's observations in *China 2040*; however, in historical observations since 2017 (the time that the book was published), a general withdrawal from global institutional governance has been observed despite relative improvements in the economic situation (even after the COVID-19 pandemic) (Civicus, 2025). Combined with other deep theoretical doubts regarding the liberal model of international relations following the war between Russia and Ukraine (two countries that shared deep economic ties), there is little room for the liberal explanation to justify itself. This is further underlined by Chinese revanchism in regards to claimed territories in the South

⁵ "We must give a definition of imperialism that will include the following five of its basic features: (1) the concentration of production and capital has developed to such a high stage that it has created monopolies [...] (2) the merging of bank capital with industrial capital [...] (3) the export of capital as distinguished from the export of commodities acquires exceptional importance; (4) the formation of international monopolist capitalist associations which share the world amongst themselves, and (5) the territorial division of the whole world among the biggest capitalist powers is completed." (Lenin, 1917, p. 66)

China Sea and Taiwan, which follows more closely with a desire for territorial redivision (supported by Marxist-aligned theories, see footnote 5) rather than global market harmony, which would have followed with liberal-aligned theories such as the perpetual peace.

As a result, this early period of Chinese U-OFDI was characterized by the growth of Chinese groups overseas through merger-acquisition strategies, a shift of the Chinese economy away from a manufacturing, commodity-export base, and towards a service, financial-export base, and a general proliferation of Chinese capital globally (Liang, 2017).

2.2 Crisis of Chinese OFDI: the “Storm of Regulations”

Following the intense years of the early period of Chinese OFDI, Chinese capital found itself with strong roots overseas, but many major risks remained. As explored by both Dr. Liang in *China 2040*, and journalists Giulio Motosi and Piero Nardini in their book *Le Zanne del Dragone (the Claws of the Dragon)*, there was a major concern in the Chinese government that the increased ownership of big groups overseas also meant an increase in risks and liabilities for Chinese investors (Liang, 2017; Motosi, Nardini, 2024). This was made particularly intense by the fact that the 2005 currency reform made the Chinese RBM have favorable exchange rates for purchasing foreign assets in USD, making many Chinese investors purchase foreign assets (Liang, 2017). This allowed FDI outflow to be greatly incentivized, but as a result, also created a large-scale national financial deficit by 2015 (Liang, 2017), and indeed the year before, Chinese journalists began to call out the ballooning crises of banks and local governments being overwhelmed by debt (Motosi, Nardini, 2024). What followed was named by Motosi & Nardini as the “Storm of Regulations.

In 2015, the financial crisis showed its colors, and all three financial regulatory bodies of the Chinese state underwent high-level leadership changes following a wave of resignations and replacements (Motosi, Nardini, 2024). The new leadership instead begins a process of heavy pushback against certain major Chinese business groups engaging in what they perceived as risky behavior. Liu Shiyu (the new chairman of the Bank of China) bans the real-estate group Baoneng di Shenzen from participating in the insurance sector, as it had engaged in “barbarous tactics” by manipulating the sale of licenses to buy into a much larger and established group, Vanke di Shenzhen (Motosi, Nardini, 2024). The China Banking Regulatory Commission (CBRC) launches a series of directives hitting the Angbang insurance group hard, as the group

had become dominated by a clique of investors registered in different provinces, which prominent financial magazines like Caixin believe were started by Angbang itself (Motosi, Nardini, 2024). Guo Shuqing (chairman of the China Construction Bank) orders the great Chinese banks to verify all the information they had regarding the Angbang group, the real-estate entrepreneur Wanda di Dalian, the HNA conglomerate, the Fosun di Shanghai fund, and Rossoneri Sport - all major protagonists of Chinese foreign acquisitions (Motosi, Nardini, 2024). In doing so, these three bodies purged the Chinese OFDI environment of manipulative financial behavior and gave local governments the breathing space to enact their own regulations to limit foreign capital acquisition and thus reduce the rate at which the financial deficit was expanding (Motosi, Nardini, 2024). By February of 2016, the situation had stabilized (Motosi, Nardini, 2024).

2.3 The BRI & Structured FDI Outflow

After the “explosion” of U-OFDI following 2008, and before the financial crisis of 2015, the Chinese state felt confident enough in its ability to export finance capital that it started what would become the famous One Belt One Road Initiative. Unlike previous U-OFDI projects, which were typically conducted by major capitalist groups for the purpose of their private returns (Liang, 2017), the BRI’s purpose was explicitly geopolitical, something that is represented both in the Chinese government’s philosophy regarding global financial expansion (what will later be discussed as the “Goose-Group” model), and in the BRI’s own practical experience. Indeed, while this paper will use the BRI as an example of structured FDI outflow (S-OFDI), all this means is that it is, in contrast to U-OFDI, geographically targeted and politically facilitated.

The study *Policy, institutional fragility, and Chinese outward foreign direct investment: An empirical examination of the Belt and Road Initiative* (Sutherland, Anderson, Bailey, Alon, 2020), in fact highlights how the BRI, more than being a detailed plan for capital expansion, became a political branding for individual campaigns targeted to BRI countries under the protection of Chinese diplomatic power (Sutherland, Anderson, Bailey, Alon, 2020). The study observes how the BRI promotes an unofficial “Beijing Consensus” to mirror the famous Washington Consensus, wherein cooperation between Chinese S-OFDI and foreign governments followed a distinct pattern that contradicted what neoclassical economic theory had suggested about global capital markets (Sutherland, Anderson, Bailey, Alon, 2020). This observation is

further supported in separate studies (Li, Huang, Dong, 2019; Nugent, Jiaxuan, 2021; Kang, Peng, Zhu, Pan, 2018), and represents a dilemma for global institutionalist theory that had for a long time promoted ideas in line with the now-contradicted neoclassical economic theory.

The primary dilemma for neoclassical economic theory originating from BRI S-OFDI is the relationship between institutional quality and Chinese FDI outflow to BRI countries. The aforementioned study by Sutherland, Anderson, Bailey, and Alon observed how, in contrast to the Washington Consensus, which demands democratic & transparent political institutions and highly developed judicial systems, the Beijing Consensus is happy to work with institutions at all political stability and diversity levels (Sutherland, Anderson, Bailey, Alon, 2020). As a result, while FDI flow was commonly thought to follow political stability, the advent of the Beijing Consensus has shown that the opposite can also be true, with Chinese FDI outflow strengthening even with high political risk and low institutional stability (Sutherland, Anderson, Bailey, Alon, 2020). A defining example of this observation is the Angolan Model, wherein, despite the IMF's hesitancy to provide investments to Angola following the end of its 27-year-long civil war (as a result of the authoritarian, unstable, and low-transparency political system), Chinese multinationals were quick to flood the country with OFDI (Sutherland, Anderson, Bailey, Alon, 2020). As the authors explain:

“To date, Chinese engagement with Angola has provided more than 60 billion US dollars in loans for infrastructure projects, including power plants, bridges, 2800 km of railways, 20,000 km of roads, 100 schools, 50 hospitals, and 100,000 houses (He, 2018). Much of this financing has been paid for in kind, by Angolan oil exports (now known as the “Angolan model”, where infrastructure packages are paid for by resource deals).” (Sutherland, Anderson, Bailey, Alon, 2020, p. 254)

Resource-for-capital exchange is nothing new for imperialist finance, but the consequences of the Angolan-Chinese exchange are mortifying for the Washington Consensus insofar as the biggest Chinese group investing in this deal - a private firm called Queensway - used the very same factors that the Consensus claimed were *detrimental* to foreign investment to its advantage. Indeed, by engaging in these large-scale, often locally infrastructure-focused investment projects, Queensway was able to forge important political connections with local governmental authorities and, over time, shape these connections to the national level (Sutherland, Anderson, Bailey, Alon, 2020). As a result, the very same lack of transparency and

democratically unaccountable system that the Washington Consensus claimed would deter FDI into countries like Angola was instead used to the advantage of private groups, who had native experience in navigating such systems (Sutherland, Anderson, Bailey, Alon, 2020).

In light of arriving at a similar observation, the study *The Influential Factors on Outward Foreign Direct Investment: Evidence from the 'The Belt and Road'* observed how, amongst the many factors measured, the biggest factor influencing BRI investment choices was institutional distance (Li, Huang, Dong, 2019). This latter observation on influential factors was also backed up in the study *Harmony in Diversity: Can the One Belt One Road Initiative Promote China's Outward Foreign Direct Investment?*, where the authors concluded that those BRI countries most likely to receive a continuous and sustainable S-OFDI rate from China were those who met two leading criterion: high demand for infrastructure-led investments, and a cultural-institutional convergence (Kang, Peng, Zhu, Pan, 2018).

From a theoretical perspective in international relations, these studies sideline the neoliberal model promoted by the Washington Consensus in favor of two alternative cases: firstly a strong constructivist argument in favor of common values and institutions creating different economic preferences for multinationals engaging in OFDI; secondly, a strong neo-Gramscian argument in favor of historic blocs formed by bourgeoisie factions and institutions sharing common traits in their superstructures rather than their bases. Both of these arguments have a root in the observations of these studies, and no definitive preference can be chosen if not the marginalization of liberal ideas⁶, world system theory ideas⁷, and mercantilist ideas⁸.

Finally, the effects of BRI investments and the motivations behind Chinese firms to invest must be analyzed before concluding this reflection on the structure of Chinese OFDI outflow in the context of the BRI. The study *China's outward foreign direct investment in the Belt and Road Initiative: What are the motives for Chinese firms to invest?* Identifies two main causes for Chinese S-OFDI to BRI countries, both of which proved to be more significant as

⁶ As a result of their invalidation from empirical observations in the above-mentioned studies

⁷ As a result of their overly-economistic tendencies that would have the base material interests of bourgeoisie factions trump any preference for superstructures; such a stance would have Western & Chinese multinationals equally compete in cases like Angola, but that is not the observed case.

⁸ As a result of the mercantilist view of realist protectionism, wherein Angola would have never accepted such a large foreign presence in its economy and the opening of Special Economic Zones for Chinese multinationals. But again, that is not what these studies observed was happening.

motivations than what was previously assumed to be the primary motivations⁹ (Nugent, Jiaxuan, 2021). These two motivations are both subsidies for major social and economic issues developed from China's intense history with the manufacturing sector: investments driven to subsidize Chinese domestic overcapacity, and investments driven to outsource Chinese domestic environmental pollution (Nugent, Jiaxuan, 2021).

The former issue (domestic overcapacity, wherein more commodities are produced than consumers buy, lowering their prices and thus plummeting profits) has long been thought to be a drag for China's economic growth, contributing to de-acceleration (Nugent, Jiaxuan, 2021). By exporting these products and relocating production hubs to countries with a growing demand base, China can offset this overcapacity issue (Nugent, Jiaxuan, 2021).

The latter issue deals with social expectations of the Chinese population. As the average quality of life of the Chinese citizen has improved, so have their expectations for said quality of life, including environmental cleanliness (Nugent, Jiaxuan, 2021). It is not surprising, then, that the study found statistically significant increases of S-OFDI in those BRI countries with weaker environmental regulations, something directly tied to the offshoring of pollution (Nugent, Jiaxuan, 2021).

Both of these issues make sense in the Leninist framework of imperialism, and tie into what was discussed before (sub-section 2.1, footnote 5) about the transition of the high-stage capitalist economy from an industry focus to a finance focus; in the context of imperialism, this also means the offshoring of industry from developed imperialist powers to developing capitalist countries that are in the process of industrializing. As the study confirms, while this may incur some negative side effects, like increased pollution and lower commodity prices in the home countries, it is not a completely negative deal for the recipients of S-OFDI (Nugent, Jiaxuan, 2021). The industrial development created by Chinese infrastructure and manufacturing projects created bases for ulterior economic activity, creating opportunities for the accelerated growth of a services and technology sector that would otherwise take decades to develop (Nugent, Jiaxuan, 2021; Sutherland, Anderson, Bailey, Alon, 2020).

⁹ Namely, infrastructure-driven motivations for Chinese S-OFDI; the study finds that such a motivation is statistically insignificant when measuring the same motivation between BRI and non-BRI OFDI targets, meaning that S-OFDI in the BRI cannot have an infrastructure-driven motivation, as was previously commonly assumed (Nugent, Jiaxuan, 2021).

This is most prominently observed in the phenomenon of overseas Special Economic Zones (SEZs), economic parks created as joint projects between the Chinese state and a hosting country seeking Chinese OFDI (Sutherland, Anderson, Bailey, Alon, 2020). These SEZs are initially created for large-scale infrastructure projects, mainly funded by state companies, but their real benefit comes in the form of unstructured private investments that trail the state companies (Sutherland, Anderson, Bailey, Alon, 2020). These private companies expand second and third sector businesses in the SEZs, where lowered customs and relaxed trade barriers make market entry easy, and a lack of local competition decreases risk for large-scale investments (Sutherland, Anderson, Bailey, Alon, 2020). What results are islands of high Chinese OFDI across the globe that build the presence of Chinese groups overseas, and solidify Chinese capital as a coalescing force for the many developing countries whose political institutions ward off Western investment.

To conclude this sub-section, the BRI and its S-OFDI are examples of how the Chinese state, aware that it is in the process of maturing its imperialist power, is transforming the capital it has built up over the decades into an international political force, able to rally bourgeois classes and governments marginalized by Western hegemony behind its new “Beijing Consensus”.

2.4 The “Goose-Group” Model: The Chinese Pitch for a Global System

Returning to Dr. Liang Guoyong’s analysis of Chinese FDI in *China 2040*, there is an important aspect that needs to be considered before discussing potential hypotheses in the next section (3). That is, China’s vision for a global system where the Chinese economy has become the driving force behind global development (i.e., China becomes the world hegemon of the capitalist powers). According to Dr. Liang, the main purpose of the BRI was not just the promotion of S-OFDI overseas, but primarily the pitching to the world of a global economic and political system centered around the “Goose Group” model, a metaphoric situation wherein the nations of the world fly like geese in a triangular formation, with China as the “leading swan goose” (Liang, 2017). In practical terms, this has two sets of implications: first, a set of economic tasks that China must do before it can become the “leading swan goose”; and second, a geo-strategic vision that it must adopt to reach this position (Liang, 2017).

For Dr. Liang Guoyong, the BRI aims to change the geographic pattern of the international economy, upgrade domestic industry competitiveness, and complete the Chinese

economic transition to a full-scale modern economy. It is, in effect, an “upgrade” of the going-out strategy, of China’s overall economic development, and a completion of the opening-up process started by Deng Xiaoping in 1978 during the Third Plenum of the Eleventh CPC Central Committee (Liang, 2017). The logic behind this pitch is also that of a win-win mutual benefit for lower-income countries, who get large sums of capital investment in return for access to natural resources and geopolitical alignment (Liang, 2017). The BRI is also supposed to accelerate globalization & allow China to make contributions to global governance; in fact, Liang compares the Belt & Road Initiative to the US Marshall Plan after WWII (Liang, 2017).

All in all, the BRI in this way represents an ulterior vision for the global system centered around Chinese financial institutions cooperating with those countries that had previously been marginalized by Western institutions. The comparison with the Marshall Plan is also interesting because the Plan itself was strategically adopted by the Americans to sway Western Europe over to their global system against that of the Soviets. While the comparison of that geopolitical context with the modern one is not explicitly mentioned by Dr. Liang, the use of this comparison in the first place leaves questions on the geopolitics of the BRI in the context of global imperialist competition.

Regarding the geo-strategic element mentioned beforehand, there is an interesting visual displayed by Dr. Liang that describes the BRI: “two semi-lunar shaped spreading belts covering the western region of Chinese civilization and the South China Sea” (Liang, 2017, p.?) The geographic imagery depicted here becomes interesting because, in the context of international relations, it resembles an inversion of Halford Mackinder’s Heartland Theory. In this theory, whichever state controls the geographic corridors between Europe, Africa, and Asia also controls this greater “World Island”, and as a result, can become the single global hegemonic force (Mackinder, 1904, pp. 421-437). While it is not confirmed that Mackinder’s theories influenced Chinese strategy directly, it is something to be noted, especially considering Dr. Liang’s language in the rest of the chapter’s conversation on geo-strategy and the BRI.

In addition to the geographic imagery, Dr. Liang also brings up two new ideas for the Chinese state to consider when approaching the BRI: “Outer potential”, which is unrealized demand in foreign countries that Chinese firms can exploit to expand the influence of China (Liang, 2017); and “Real territory”, which is that territory that could determine the victory or defeat of the Chinese strategy on a global level, and thus must be the ones most tightly under

Chinese influence (Liang, 2017). Dr. Liang further claims that “Outer potential” territories can be transformed into “Real territory” through the implementation of the “going-out strategy”, wherein Chinese state construction companies develop local infrastructure in “outer potential” territories (typically inside OSEZs) to pave the way for Chinese private companies to flood those markets with goods & services that can meet the unrealized demand (Liang, 2017). This dual importance of Chinese state diplomacy and state firms that pave the way for U-OFDI will be an important strategy to take into account when investigating the influence of capitalist interest groups on how territories are screened and policies are made for which countries receive the state-spearhead investment or not.

3. General Discussion and Hypothesis

Bringing the discussion back to how capitalist interest groups affect FDI screening in China, it is possible to use the elements learned in the literature review to paint a detailed picture of the relationship between capitalist interest groups and the state. When describing this relationship in the past sub-sections, the term “relative autonomy” was used to describe the degrees of freedom that the Chinese state had from various external influences. However, this term is used meant to be used here without its proper context, which, for the way it is used in this paper, originates from Tim Woods' reading on capitalist class relations with the American state. In that reading, Woods similarly uses the term to describe the extent to which policy and governance decisions were made with autonomy from capitalist class influences (Woods, 2003). According to classical Marxist theories of the state, state institutions are organized around the necessity of minority classes with large amounts of property to defend such property against potential protests or insurrections by majority working classes who possess no means of production or large financial capital.

As a result, if one is to accept this necessity of the modern state to defend private property as a core aspect of its development, then private property (and those who own such property) will, in turn, influence the state's development. The relative autonomy of the state in this context is then the extent to which the state can act outside of the direct influence of one or another capitalist group (Woods, 2003). Observing the relationships between capitalist interest groups both in the US during the 1934 legislative process, and in China during the post-1978 reform period, there is a clear margin of relative autonomy granted to the state in each of these

examples during times of major divisions in the capitalist class. The rest of this paper will be dedicated to using the post-1978 reform period in China as a way to test a hypothesis regarding the relationship between capitalist interest groups and the Chinese state in a key policy area when it comes to private property: foreign direct investment policy and screening. This hypothesis will be based on the observation of capitalist class relations in the US during a similar time of policy-questioning, as observed in the Tim Woods reading, wherein the capitalist class was clearly divided into two groups: domestic capitalists, typically in favor of protectionist policies and against low-price imports; and international capitalists, typically in favor of international free-trade and capital export (Woods, 2003).

In the following chapters, this paper will aim to conduct a similar analysis by looking at the various interest groups representing different capitalist camps in China following the start of reforms in 1978 and 1979, using primary sources from this time period as much as possible to create a map of the different capitalist camps (i.e. nationalist, internationalist, foreign, etc), the organized interest groups associated with these camps (i.e. chambers of commerce, businessmen associations, financial groups, major firms, etc.), the methods by which these groups interacted with the Chinese state (i.e. lobbying, personal visits with officials, official routes through ministries, etc.), and finally the actual material interests and ideologies advocated for by each group (i.e. seen through newspaper articles, press conferences, official statements, etc.). While there might be initial concerns about such an analysis being limited as a result of the lower liberty of the press in China rather than in the US, creating ambiguity on the true intentions of potentially censored articles or press conferences, it is important to note that this is not the first time an analysis of this kind has been made in regards to China. Indeed, an earlier study done on the relative autonomy of the Chinese state and the Hong Kong Administrative Region from Hong Kong capitalists was conducted in 2014, where primary sources were able to provide detailed information on the relationships between capitalist interest groups and the respective state institutions (Fong, 2014). As a result, since that article has proven that this analysis can be done, a similar one can also be done on this question.

In this light, the hypothesis that this paper has chosen to adopt in regards to the research question, *How do capitalist interest groups affect foreign investment policy screening in China?*, is that *Capitalist interest groups will have a greater impact on FDI policy and screening during times when one camp is more dominant*. Inversely, the same hypothesis can also be tested as: *The*

Chinese state's relative autonomy will increase during times of division of the capitalist class.

Both of these statements are based on the Marxist theory of the state as an aggregator of class interests, namely the defense of private property. It would follow, then, that when the capitalist class is divided, the state would have more room to act as a defender of a public good of the capitalist class (private property), and thus to act with greater independence from any single capitalist camp. Inversely, when a capitalist camp becomes economically dominant, and has powerful organized interest groups to leverage this dominance, it follows that the state will have less room to act in the interests of the class as a whole, and will instead follow the interests of whichever powerful grouping can leverage its influence the best.

The hypothesis will be considered successful if the research is able to find evidence in favor of changes in the influence of capitalist interest groups on FDI policy screening during times of capitalist division and camp dominance, with a positive relationship between state relative autonomy and capitalist class division.

Capitalist interest group influence can be measured in the success of single interventions by interest groups on specific policy debates or arguments, and such single successes can be aggregated during times of large policy changes (i.e., the successive formation of the Three FIE laws) to account for general victories and defeats of different capitalist camps.

The time period of analysis will be looking at the intense period of reforms moving from post-1978 FDI regulation to the 2019 FIL, which standardized a long period of legal innovations by the Chinese state.

Major points of interest for potential capitalist interest group interventions include the 1979 EVJ Law, the 1986 WFOE Law, the 1988 CJV Law, the evolution of the 1991 UTL regulating FIE taxation, the 2013 One Belt One Road Initiative, the financial crisis of 2014-2016, and finally the creation of the 2019 FIL. The public debate, organized interest groups, and political maneuvers of each of these periods will be studied in detail before formulating a general conclusion to answer the research question and confirm or nullify the hypothesis at the end of the paper.

After relevant findings have been identified by the research, concluding remarks will be made on the nature of finance capitalism in China, potentials for error in the research process and data available, and potential questions that future research can answer.

Methodology

Independent Variable: Capitalist interest group political activity

Dependent Variable: Chinese State's Relative Autonomy in FDI policy

Hypothesis: *The Chinese state's relative autonomy will increase during times of increased division of the capitalist class and decrease proportionally.*

Null Hypothesis: *There is no significant relationship between the state's relative autonomy and division of the capitalist class.*

Case Studies:

- 1979 EVJ Law
- 1986 WFOE Law
- 1988 CJV Law
- 1991 UTL

Datasets per Study:

Every case study will have a number of datasets, which will be composed of a number of measured variables.

To measure the independent variable, capitalist interest group political activity, newspaper articles, press releases, conferences, and dialogues between major groups and institutions will be studied to paint an overall picture of the extent to which the capitalist class is divided and how this relates to Chinese FDI policymaking. We can judge the capitalist class to be more or less divided based on the differing proposals and comments by different exponents of capitalist interest groups, with an increase in dialogue between these groups on differing positions marking an increase in division.

To measure the dependent variable, the actual laws and reform periods will be studied through the documents released by the Chinese state, as well as any potential interviews or press conferences held by the state in light of the reforms. These will then be analyzed to discern motivations and potential contact between major capitalist groups and Chinese institutions during times of FDI reform. By comparing these motivations and points of contact with the positions and movements of capitalist interest groups, we can measure the extent of the relative

autonomy of the Chinese state at any given time by analyzing how distant their creation of FDI policy is from the proposals of those interest groups.

This methodology will be applied to each case study, and the hypothesis will be verified or nullified per case. By the end of the case-by-case analysis, the results will be summarily analyzed to make broader points on the relationship between capitalist interest group activity and Chinese state relative autonomy in FDI policymaking as a whole.

Note: The ChatGPT 4.5 Deep Research function was used to accelerate the data-collection process, using this function to find primary and secondary sources as required for both the independent and dependent variables. *To address potential concerns on research authenticity-* While artificial intelligence was used to find the relevant sources, each source found this way was individually read & analyzed by the author to guarantee an authentic research process, to avoid plagiarism, and any potential AI hallucinations. The use of AI in this research was to accelerate research timing and, in this way, allow a greater time and energy commitment to data analysis rather than collection. Every effort was made to ensure a responsible and ethical use of AI as a research tool.

Data Analysis

Introduction

Having collected sufficient documentation regarding the positions and activity of the capitalist interest groups and the Chinese state in the evolution of Chinese FDI inflow law, it is now possible to analyze how this information can answer the paper's research question. This section will be split into 5 parts: the introduction, the 4 case studies, and the findings.

Case Study 1: 1979 EJV Law

The environment of capitalist interest groups leading up to and during the promulgation of the 1979 EJV law is marked by a general disorganization of the capitalist class and a strong political will of the CPC for reform. In documentation, this is seen simply in the fact that most of the major capitalist interest groups that will be discussed later did not exist before the 1979 EJV Law¹⁰, or were not present in the Chinese economy. The explanation for that itself is simple: this

¹⁰ List here the major actors later discussed & the dates of their creation

is the beginning of the reform period, and as such, Chinese capital was organized mainly around the state, the CPC, and the internal dialogues between the two. Regardless, there are a few important actors worth mentioning whose dynamics will go on to shape the more pronounced conflicts in the lead-up to the 1986 WFOE Law and the 1991 Unified Tax Law. The following paragraphs will outline the political dynamics of this period, the key actors involved, and the documentation that was found on both these topics.

CCPIT

The China Committee for the Promotion of International Trade (CCPIT) is a chamber of commerce founded in 1952 and is considered to be the main point of contact between foreign businesses seeking to enter the Chinese market and Chinese institutions. In the years leading up to the 1979 EJV Law, the CCPIT played a central role in pushing China towards accepting foreign direct investment projects, specifically joint venture enterprises, as the EJV Law would later allow. Hints of this push already began in 1973, when during a meeting with a US trade delegation the CCPIT's Chairman, Wang Yaoting, said that the inability of China to accept joint venture proposals at that point did not mean that China "keep its door closed." (Minami, 2017, p. 969). In 1977, Wang would lead a Chinese delegation visiting US enterprises where he would make several comments regarding the "aspiration" of China to reaching the technological level of the US (Minami, 2017, p. 972), a surprising turnaround on the decades of autarkic rhetoric of the CPC during the Maoist period.

Academia estimates that the debate over legalizing foreign joint venture enterprises (what would later be done by the 1979 EJV Law) began in roughly the summer of 1978 (Reynolds, 1980, p. 34). In this, CCPIT became a strong advocate for FDI reform, reviving the 1956-era Foreign Trade Arbitration Commission to help shape the legal environment around FDI by offering neutral arbitration (Klitgaard, 1982, p. 38) and thus reassure foreign enterprises of China's potential for joint venture projects. Moreover, the CCPIT also played a behind-the-scenes role in helping to draft legal rules for joint venture enterprises under what would later become the 1979 EJV Law (Klitgaard, 1982, p. 38).

While not having published any independent positions on the 1979 EJV Law, the CCPIT used symposiums, business delegations, and conferences to indirectly influence Chinese politics in favor of FDI law reform leading up to the 1979 EJV Law - a method that will be seen as repeated by other actors instead of directly lobbying the legislative bodies. The CCPIT can thus

be seen as a prominent actor in favor of general FDI reform, offering legal services and financial diplomacy as tools to lay the groundwork for the 1979 EJV Law. While they had a major role in this regard, their close ties to Chinese state institutions and lack of connection with specific private interests made them unparticular reformists - that is - they did not participate (at this stage) in the conversation of equality between the treatment of foreign and domestic firms, only that foreign firms would be treated fairly in a strictly legalistic sense.

ACFIC

The All China Federation of Industry and Commerce (ACFIC) was the successor to Qing Dynasty era chambers of commerce, and has since adopted a role as the major business advocacy group for both private and large state-owned enterprises (SOEs). Governmentally, it is heavily integrated into the CPC's political infrastructure under the United Front Work Committee of the Party, and into the PRC's political infrastructure as a constituent of the Chinese People's Political Consultative Conference¹¹ (CPPCC) of the National People's Congress (NPC). This has had the effect of making it a political force with direct access to political power, however, this intimate connection was not without context. While the ACFIC was founded in 1953, it underwent severe repression during the Cultural Revolution from 1966 until the federation's redemption between 1978 and 1979, when the new President Deng Xiaoping invited its veteran members to re-start their efforts in representing the country's national bourgeoisie in building the Chinese economy. In his 1979 speech, *All Democratic Parties and Federations of Industry and Commerce Are Political Forces Serving Socialism*, Deng Xiaoping declared, "All of them are indispensable forces needed in the modernization drive. Since many former capitalist industrialists and businessmen are very experienced in managing and running enterprises and doing economic work, they can play a positive role in readjusting China's economy and promoting modernization." (Deng, 1979). The President's endorsement and rehabilitation created a large political bond between the new CPC leadership and the previously marginalized organized national bourgeoisie, affording the CPC the ACFIC's political loyalty. This is seen in the consequent approval by the ACFIC in favor of Deng Xiaoping's reformist agenda, despite potential concerns about their protectionist measures.

It should also be noted that ACFIC's loyalty was secured not only in a political sense through its rehabilitation by Deng Xiaoping, but also through the recompensation of those

¹¹ A consultative body for the NPC of corporations, non governmental groups, and trade unions in China.

national bourgeoisie (domestic capitalists) who had been wronged during the Cultural Revolution. The head of the United Front Department, Yun Ze (also known as Ulanhu, his *nom de guerre*), announced eight measures to address these wrongdoings which he claimed “sabotaged the Party’s policy towards the national bourgeoisie” (Beijing Review, 1979, p. 11), which were mainly economic recompensations for the expropriations carried out during the Cultural Revolution (Beijing Review, 1979, p. 11).

ACFIC’s advocacy in this regard had two roles: firstly in rallying the initially-skeptical national bourgeoisie in favor of supporting the opening-up reforms, something that was not difficult to do in the political environment of that time, as opening-up was framed alongside the transition to a market economy, which benefited the national bourgeoisie regardless of any worries about increased foreign competition. Moreover, its rhetoric focused around the need of domestic enterprises to acquire foreign capital, and thus focused on lobbying for an equity system of joint ventures, wherein the national bourgeoisie would be involved in any foreign direct investment project through mandated joint ventures, and thus stand to benefit from the opening up process even in this regard. This was facilitated by popular ACFIC members like Sun Fuling - a Beijing capitalist and CPC cooperator during the Chinese Civil War - who publicly reassured fellow capitalists of the CPC’s new approach and its commitment to opening up (Beijing Review, 1979, p. 27).

CEMA

Having been created only a few months before the passing of the 1979 EJV Law, the China Enterprise Management Association (CEMA) was created with the explicit purpose to protect the interests of domestic enterprises in China and reform their internal management for the sake of efficiency (L&E Global Law, 2024). Much like ACFIC, it was connected to a state body via the State Economic Commission, under whose authority the association was created (“CEMA China Starts Learning to Manage.”, 1979, p. 7). Unlike the ACFIC, however, it was also considered “autonomous” and “nongovernmental”, making it the first of its kind for a capitalist interest group in China during the reform period (“CEMA China Starts Learning to Manage.”, 1979, p. 7). As such, it remained largely loyal to the CPC’s line regarding the reforms, and its relatively new status as a political actor on the stage of Chinese politics meant that it would not take a great deal of action to attempt to change the EJV Law in any significant way. Instead, it mainly focused on providing technical information to the drafting process as a way to

increase understanding of how foreign investments worked (Kliningsberg, Pattison, 1979, p. 819), and use this political attention to help organize the capitalist class around itself.

U.S.-China Business Council

The U.S.-China Business Council (USCBC) was founded in 1973 during a moment of rapprochement between Chinese and US diplomatic relations under direct supervision of the White House, the State Department, and the Department of Commerce (USCBC, 2025). Given that no formal US embassy or recognition existed within the PRC at the time, the USCBC served as a point of contact between the two countries and de facto as a local base for US businesses to explore the Chinese market before any legal recognition was created. Interestingly enough, Chinese authorities underscored the CCPIT as the USCBC's Chinese counterpart in the same year as its founding (Xinhua, 2024). This is visible in the methods by which the USCBC built its presence in China, attending mini trade fairs such as the Shanghai Trade Fair in 1976 and the Canton Trade Fair in 1977 (Dui Hua, 2024). Also similarly to the CCPIT, it is thought by scholars that the USCBC was consulted during the drafting process of the 1979 EJV Laws for its technical expertise. Thus, while not having a direct role in business advocacy at this time, the USCBC played a minor role in connecting US capitalists with the Chinese economy long before diplomatic relations were actually restored.

Summary Discussion - 1979 EJV Law

In summary, the 1979 EJV Law's passing was a process spearheaded by the CPC's own political will, and later backed by the nascent capitalist interest groups, many of whom began operating only a few months before the passing of the law itself. There was an overall agreement between the members of the capitalist class as a whole - national and international, domestic and foreign - that the opening-up process was a necessary step for the transition of the Chinese economy away from a planned economy and towards a market-based economy. The highest area of tension was in the particularities of the EJV law, especially in the ways in which domestic Chinese firms could be involved in joint venture projects in a way that could put them on equal footing with foreign firms. This was seen in AFIC's limited lobbying efforts and speeches by conservative CPC members, but the collectively recognized need to get a joint venture law passed - as well as the relatively weak nature of capitalist interest groups in China during this time - meant that the CPC was able to get the law through without resistance.

Thus, when considering the hypothesis that *the Chinese state's relative autonomy will increase during times of division of the capitalist class*, the evidence provided in this part is generally inconclusive. An argument could be made that the above analysis provides evidence against the hypothesis - after all, the capitalist class was quite united in its push for opening up, and the CPC was able to push through a strong political project nonetheless. However, due to the weak and nascent nature of capitalist interest groups, it could be said that the capitalist class was hardly organized in China to begin with, and thus could de facto offer little division even if it wanted to. This is made all the more clear when one considers that many private entrepreneurs underwent harsh repression during the Cultural Revolution, and would only be re-admitted to the political mainstream after Yun Ze announced the eight recompensation measures in 1979. As a result, it is more useful to analyze this period as one of general construction of not just legal frameworks for the operation of the capitalist class in China, but also for its *legitimate political and economic existence*.

Case Study 2: 1986 WFOE Law

The main source of external pressure on the CPC by capitalist interest groups leading up to the 1986 WFOE Law was from foreign business advocacy organizations. While there was certainly an element of tension between foreign capitalists trying to enter the Chinese market and the rigidity of the 1979 EJV Law not allowing FIEs to be operated without a high domestic capitalist stake in the operation, it was clear, since before the passing of the 1979 law that reform would've only continued. In fact, even in 1979, the Minister of Foreign Trade, Li Qiang, told a group of US businessmen visiting China with a USCBC delegation that "everything must go through an experimental stage before being finalized." ("AIG OPENED RELATIONS WITH CHINA YEARS BEFORE THE USA", 1979, p. 18). This comment was in reference to the 1979 EJV Law, which at the time was in the process of being passed. However, the anticipation of foreign groups like the USCBC and the foreign capitalist interests that it represented more than likely weighed on the reform-minded actors in China at the time, as was echoed also by the CCPIT's chairman in his efforts to reassure these same foreign capitalists of the openness of the Chinese economy (mentioned in the CCPIT section).

While even mostly autonomous business advocacy associations in China like CEMA refrained from openly taking independent positions from the CPC during this time, some primary

sources have been found that can give an idea as to the opinions of CEMA leadership on the 1979 and 1986 reforms, and thus the kind of advocacy they would have been pushing in their dialogues with CPC and PRC institutions behind closed doors. One such rare look into CEMA's leadership's positions is an article published on the *International Labor Review* in 1987, written by Sha Ye, vice president of CEMA and president of the China Enterprise Directors' Association¹². The article, titled *The role of China's managing directors in the current economic reform*, reflects on the needs of the Chinese domestic capitalists in the wake of the reform period, advocating for increased private management of enterprises and a greater role of commodity production¹³ in the economy (Sha, 1987, pp. 691-692). In this, Sha reflects on the role of the 1986 reforms in shifting managerial autonomy to enterprise directors rather than state institutions. Interestingly enough, Sha frames these reforms as a positive thing, advocating in favor of a system of greater enterprise autonomy (Sha, 1987, pp. 696-697), despite this meaning the reduction of the role of Chinese enterprises in joint venture projects¹⁴. In this way, it is possible that domestic capitalists saw the reforms as beneficial despite the opportunity cost of exclusion from future FIE projects (which would've been mandated joint ventures if the reform were not passed), as well as the increase in foreign capital competition that local capitalists would suffer as a result of an easier entry into the Chinese market. This reveals a similar pattern to the 1979 EJV Law, wherein domestic and foreign capitalist interests converged on policy issues like FDI liberalization simply because it would afford both groups a greater degree of freedom from the state. This is in stark contrast to the US reading, wherein domestic and foreign firms were so split that even the domestic firms split into national and international camps, each advocating for their own particular interests (Woods, 2003); this could be because the free-market capitalist system was more established in the US during the 1934 reforms than in China in the

¹² a smaller capitalist interest group from the time representing, as the name suggests, enterprise managers and directors

¹³ Here, commodity production is used in the Marxist sense: goods are produced by firms for the purpose of their sale on a marketplace rather than fulfilling specific needs in a non-market allocation system (typically in planned economies, the latter is done through state quotas). (Marx, 1867, pp. 60-61)

¹⁴ Though Shan does make a note of the preferential treatment enjoyed by FIEs compared to domestic enterprises, he simply notes their increased presence in the Chinese market without making explicit judgements on the fairness of this.

1979-1988 reforms, thus allowing those capitalists a greater freedom to advocate *particular interests*¹⁵ rather than *systemic interests*¹⁶.

Otherwise, the international capitalist groups in China, like the CCPIT and the newly-founded China International Trust Investment Corporation (CITI), heavily advocated for foreign business protection and whole-ownership in the drafting of the 1986 WFOE Law through institutions like the CPPCC. The outcomes of their efforts are reflected in Article 5 of the law, wherein the state is prohibited from expropriating or nationalizing foreign-capital enterprises unless special circumstances are met (MOFCOM, 2000).

In the context of the paper's hypothesis, then, the convergence of capitalist class advocacy during the 1986 WFOE Law, and the contrast this has to other episodes of FDI liberalization in history (as those observed by Tim Woods in the 1934 US trade reforms), contradicts the idea that the capitalist class's division allows the state greater relative autonomy. Instead, it hints more towards the idea that the capitalist class will tend to converge when their systemic interests are in question, and thus can allow the state to legislate more freely so long as the state's political direction is in favor of those systemic interests. This is actually seen in Woods' observations in the US as well, as both the national and international capitalist camps eventually converge on a common agreement in shifting executive power on foreign trade decisions to the executive branch, despite previous political campaigns by both camps to push for their particular interests instead of systemic ones (Woods, 2009, p. 411). Such a pattern is seen replicated in China during this period, though in a much different context and in a much more subtle light as a result of the inability of domestic capitalist interest groups to openly dissent from the CPC's political line.

Case Study 3: 1988 CJV Law

The 1988 CJV Law is largely considered to be a technical reform to the original 1979 EJV Law as a way to broaden its applications (Gelatt, 1989, pp.191-194). It allowed foreign firms to partner with domestic ones through a new contractual mechanism in which the foreign

¹⁵ That is, interests belonging to specific camps, groups, or enterprises of the capitalist class rather than the class as a whole; some of these particular interests could even be antagonistic to each other, such as the national-international camp dynamic observed in the 1934 reforms (Woods, 2003)

¹⁶ That is, interests belonging to the class as a whole; in the case of the 1979-1988 reforms in China, this is what Sha was advocating for in his article: the autonomy of private enterprise management from the state, direct profit ownership by enterprises, and the existence of a commodity production system to maximize the capitalist enterprise's productive freedom (Sha, 1987, pp. 696-697).

and domestic firms would provide different factors of production and split the profits accordingly (Gelatt, 1989, p.194). This implied the removal of the 51% foreign 49 % domestic equity rule set by the 1979 EJV Law (Gelatt, 1989, p.194), and followed the 1986 WFOE Law's trend of giving greater autonomy to private entrepreneurs in the management of their firms and investments. As such, it was relatively uncontroversial, and the participation of capitalist interest groups was mainly in a consultative manner: the CCPIT used its arbitration role to act as a bridge for foreign entrepreneurs to submit feedback to the CPC in real time (Department of State Foreign Relations of the US, 1977-1980, p. 210); the USCBC lobbied heavily for protection of FIEs by direct meetings in Beijing with State Council leadership, potentially impacting Article 40 of the CJV Law, which protects foreign JV contracts from being invalidated by future legal charges ("AIG OPENED RELATIONS WITH CHINA YEARS BEFORE THE USA", 1987, pp. 8-9); and the CPC demonstrated a high reactivity to all their concerns in actually drafting the bill.

In relation to the research question, the low levels of political tension and the largely technical nature of the reform don't allow much reflection on the relationship between capitalist interest groups and the Chinese state. If anything, it simply points towards a general theme of the Chinese state's evolving corporatism, and highlights its responsiveness to converging various capitalist interests under the political direction of the CPC and its reforms. From a theoretical lens, this could support several theories: firstly, the State as a neutral arbitrator as presented by Lockean liberal theories (Munro, 2025); secondly, the State as an "executive committee of the bourgeoisie class" as presented by Marxist theory (Marx, Engels, 1848, p. 15); and finally, the State as a representative of the greater "national interest" as presented by Neo-Realist theorists (Spindler, 2013, pp. 127-130). All in all, the case study alone cannot make great statements on the larger relationship between the capitalist class and the Chinese state.

Case Study 4: 1991 Unified Tax Law

Unlike the previous reforms, the drafting of the Unified Tax Law was a much more contentious project from a perspective of conflicts within the capitalist class. The controversy was focused on the preferential income laws set by the original EJV reforms in 1979, which would provide large tax benefits to different types of FIEs, as explained in the literature review. Domestic advocates for tax equity protested this preferential system as harmful to competition and local production - including eventually the Minister of Finance in 2007 (VOA, 2007) - while

international capitalist interest groups like the USCBC lobbied aggressively to keep the reforms in place but to unify the tax code into a single regime for all FIEs. What resulted was the 1991 UTL, an attempt at compromise by the CPC to unify various tax codes that had evolved between 1979 and 1991, but which ultimately failed at delivering the egalitarian tax regime that domestic capitalist interest groups advocated for. This would instead be delivered in a future 2007 reform called the *Enterprise Income Tax Law* (EITL), which subjected both FIEs and domestic enterprises to the same tax regime (Qun, 2008, p. 2).

Key advocates for non-preferential tax treatment included the ACFIC, the China Democratic Construction Association¹⁷ (CDCA), the CITIC, and various SOEs and hybrid domestic enterprises. Specifically, Sun Fuling, an ACFIC leader and CDCA member, gave several speeches to the NPC wherein he promoted the idea of “equal competition” and better regulations for domestic private enterprises (Xinhuanet, 2018). In a later series of reports before the passing of the 2007 reform, the Ministry of Finance would admit that there were significant calls from the domestic business sector at that time for the unification of tax regimes (VOA, 2007).

At the same time, the USCBC used its official magazine, the *China Review*, as well as several informal meetings with state ministries and officials to lobby for maintaining large preferential treatments for FIEs (*China Review*, 1991, pp. 12-15). There is an argument to be made that the impact of this can be seen in the way in which the UTL law draft changed before its passage, as the Ministry of Finance was originally considering to admit a 2 year guaranteed tax holiday for FIEs, with a 3 year max addition for meeting certain conditions; yet when the final draft came out, FIEs could be guaranteed the first 10 years of operation in China to be tax reduced given they would be willing to make an investment of that length (Lehman, accessed 2025). This was in direct contradiction with the efforts by ACFIC and CDCA advocates, who had been petitioning the NPC for an end to preferential tax treatment in general, thus marking the first major point of conflict within the capitalist class as a split between *domestic* and *foreign* actors.

This split was further highlighted by the relative non-activity of other Chinese business representation groups like the CEMA, or major Chinese actors like the CITI, which carried largely technical roles as consultants for the Ministry of Finance rather than holding distinct

¹⁷ A political party aligned with the CPC in China that has historically represented large industrialists

positions of their own. It is interesting to note furthermore, that while the foreign capitalist camp did manage to gain political concessions in the 1991 UTL, the domestic capitalist camp would ultimately be able to outmaneuver them in the 2007 EITL, effectively ending their privileges and creating a universal tax regime for both FIEs and domestic enterprises. In his article, *Tax Incentive Policies for Foreign-Invested Enterprises in China and their Influence on Foreign Investment*, CPC politician Qun Li argues that China's accession to the WTO - which required fair trade standards as a principle for market competition - would ultimately work in favor of domestic advocates for tax regime unification, and eventually lead to the passing of the 2007 EITL (Qun, 2008, p. 19). This is consistent with Neo-Realist theories of international politics, wherein hegemonic powers use international institutions to bind lower powers to their political economy (Spindler, 2013, pp. 130-133); but also with Neo-Gramscian theories of international hegemony, wherein hegemonic institutions like the WTO will prevail over particular non-state groups in enforcing the will of particularly powerful historic blocs (Aysha, 2000, pp. 7-22).

In the context of answering the research question and the hypothesis, the 1991 UTL and 2007 EITL reforms demonstrate that the division of the capitalist class does not significantly impact the relative autonomy of the state. Instead, positions of insiders reflecting on this matter, as well as first-hand accounts from that historical period, demonstrate the greater influence of international political economic changes and the importance of well-organized advocacy groups like the USCBC in conquering concessions for particular capitalist interests. Indeed, in the 1991 UTL, the State Council and its Ministries seemed to be more responsive to well-organized foreign capitalist interest groups than to the same domestic capitalist interest groups that were directly connected to the CPC, like the ACFIC or CDCA. As indicated by Qun Li's reflections before, it would take a major change in China's international legal and political commitments - joining the WTO - for ACFIC's and CDCA's complaints to finally be admitted by the Ministry of Finance, and the relevant reforms made in the form of the 2007 EITL.

Conclusion

Summary Discussion - Findings

All of this information sheds new light on the CPC's relationship with capitalist interest groups, as it was traditionally thought to have a primarily *leading* role in their regards; seeing the

changes in dynamics over the years, however, it now seems to have a more *responsive* role as an aggregator of interests rather than a commander of them. This is seen firstly in the greater responsiveness of the CPC and the PRC to the needs of foreign capital rather than domestic one. In the 1979 and 1986 reforms, this could be assumed to be for a couple of reasons:

1. A hard power reason: many domestic capitalist interest groups had only recently been allowed back into the political mainstream, and their reintegration with the PRC involved a number of economic concessions, which increased their tolerance for the CPC's program for the first years of their operation.
2. A soft power reason: these same interest groups could've been convinced that the reforms, albeit unequal between foreign and domestic enterprises, were just as necessary for their own modernization as that of the Chinese economy as a whole, as evidenced by CEMA's concerns for the re-modeling of Chinese managers around foreign ones, and ACFIC's concern for acquiring foreign technologies.

However, as time went on, market competition began to increase pressure on domestic capitalists, and the inequality created by the extremely disjointed tax system would create frustrations amongst almost all segments of the capitalist class. Still lacking the same autonomy as their foreign counterparts, the domestic capitalist interest groups would play a losing game against the aggressive lobbying of foreign interest groups like the USCBC. Thus, only a change to the superstructure¹⁸ could afford the domestic capitalist interest groups the edge they needed in winning major concessions for domestic firms in the form of the 2007 EITL.

When relating to the hypothesis that *the Chinese state's relative autonomy will increase during times of division of the capitalist class*, the results remain largely inconclusive. There is little evidence to suggest that the relative autonomy of the Chinese state was any higher during the 1991-2007 period, wherein large inequalities split the capitalist class between domestic and foreign camps, than compared to the 1979-1988 period, wherein the capitalist class was quite united in pushing forward a program of liberalization of the FDI system. It seems, rather, that other variables like the level of organization of capitalist class interest groups and exogenous international events like accession to the WTO played much greater roles in shaping the responsiveness of the Chinese state to various segments of the capitalist class. When answering

¹⁸ In this case, China's accession the WTO caused the state to adhere to a number of new legal and political rules, changing the superstructure in which these groups operated.

the research question *how do capitalist interest groups affect foreign investment policy screening in China*, it can then be said that the observed relationships have been mainly consultative, but also in some cases guiding, such as in the lobbying of the USCBC and CCPIT to push China towards greater degrees of liberalization, and the internal advocacy of the ACFIC, CEMA, and CDCA to speak out on behalf of the domestic capitalist groupings.

Summary Discussion - Limitations and Future Questions

As mentioned throughout the paper, a major limitation to the study was the difficulty in finding primary sources on the positions of capitalist interest groups during this time period. It is important to note that most of the sources only indicated the presence of a behind-the-scenes dialogue between the various actors, and not the actual contents of said dialogue themselves. Only in a few rare position papers, like those presented by Sha Ye or Qun Li, were able to give insights into the substance of capitalist interest group relations with the Chinese state and its FDI policymaking. Thus, this remains an important limitation to the paper.

Furthermore, combined with other exogenous limitations, such as those in time and resource availability as a student, the exploration of FDI outflow policy and its relation to inflow was not conducted in the study as to guarantee a greater depths to the research and reflections on FDI inflow policy. This creates a major research gap that can be filled by future studies on the relationship between capitalist interest groups and the Chinese state in foreign investment screening policy. Such research would be very relevant, as it would involve the study of how international institutions and economies are shaped by class-state dynamics - an extremely relevant topic in a modern world defined by globalization and emerging powers.

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