

RESEARCH ARTICLE

# China's economic statecraft and the perceptions of its leaders: a neoclassical realist explanation

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(Received 3 November 2023; revised 24 April 2024; accepted 6 February 2025)

## Abstract

Since the initiation of its Belt and Road Initiative, China's economic statecraft has drawn considerable attention in academic circles. Yet less attention has been given to why the Chinese leadership first chose to pursue its national interests through economic means in the post-Mao period. This underexplored part of China's economic statecraft can serve as a useful starting point to understand China's foreign economic policies on their own terms. Employing a neoclassical realist framework and surveying statements made by Chinese leaders throughout the reform era, this study argues that the country's leaders have gradually modified the strategic importance of the country's economic statecraft in response to changes in their perceptions of the world order. Meanwhile, China's form of economic statecraft has largely been determined by reform of its state-owned enterprises in the domestic realm.

**Keywords:** China; economic statecraft; leaders; neoclassical realism; perceptions

## 1. Introduction

Few would dispute that China is a smart player in the realm of economic statecraft. For the People's Republic of China (PRC), economic leverage is not a new instrument of its foreign policy. Even when it faced political turmoil in the 1960s, the country continued to maintain its alliances by providing economic assistance in various forms to developing nations, including Cambodia, Mongolia, and North Korea, as well as a number of countries in Africa. In recent years, the Belt and Road Initiative (BRI) has provided more fertile ground for discussion on China's use of economic statecraft, the larger part of which has focused on the driving forces behind the project and its implications. These accounts of China's growing worldwide presence have generated much debate among scholars who are interested in how China translates its economic weight into global political influence. Yet scant attention has been paid to how the perceptions of China's leaders have influenced the long-term development of its economic statecraft.<sup>1</sup> There remains ample room for further exploration of leadership perceptions in an authoritarian regime like China, and this article aims to fill this gap.

While a growing body of literature has noted that China is a sophisticated power that wields its considerable economic muscle to influence the behaviour of other countries and serve its own interests, there is so far no agreement among scholars on the effectiveness of the economic instruments of its foreign policy. While some studies indicate that China has had some success in its attempts to influence

<sup>1</sup>The only exception is Zhang (2014). However, Zhang's study does not cover the period from the 2000s onwards in which China's economic statecraft rapidly expanded.

other countries (Flores-Macias and Sarah, 2013; Urdinez *et al.*, 2016; Tuman and Majid, 2017), most studies have found mixed effects of this statecraft due to the variations in domestic regulatory structures of the target countries (Alves, 2013; Wong, 2019), the different nature of the issue domains involved (Kastner, 2016), the degree of Chinese government control over commercial actors (Norris, 2016), and the various orchestration strategies China has employed (Reilly, 2021). At the same time, several studies have demonstrated that China's strategic use of its economic power has had a limited effect on shaping the agendas of other countries for its own interests (Drezner, 2009; Shambaugh, 2013). Despite their differing views on its effectiveness, all of these studies point to the significant fact that economic statecraft has played an ever-increasing role in projecting China's power globally.

Nevertheless, the above literature only tells half of the story. It is widely accepted that leaders play an essential role in determining the international behaviour of states (Horowitz and Matthew, 2018; Krmaric *et al.*, 2020). This is especially the case for China, where foreign policies typically reflect the personalities and core values of leaders at the top echelons of the party-state (Lampton, 2014). However, with the exception of a few studies of the BRI that examine leader-level factors (Swaine, 2015; Leverett and Wu, 2016), China's initial use of economic means to pursue its national interests has been largely unexplored. This question is too important to neglect, and answering it would serve as a useful starting point for understanding China's foreign economic behaviour on its own terms. A fair assessment of the effectiveness of China's economic statecraft can be achieved only when the intentions behind its choice to adopt economic instruments in its foreign relations are properly understood.

In China, state-owned enterprises (SOEs) are the primary means of achieving the foreign economic ambitions of its leaders (Norris, 2016; Reilly, 2021). Throughout the reform era, Chinese SOEs have undergone a series of reform agendas, including the expansion of enterprises' autonomy, corporatisation, the introduction of a new state-asset management system, and the implementation of mixed ownership, etc. Chinese SOEs continue to adapt to the reform dynamics and the changing governance mechanisms. As such, given that the state-SOE relationship in post-reform China is under constant transformation, it is essential to carefully examine the role of SOEs in the making of China's economic statecraft.

This article addresses why the Chinese leadership in the post-Mao period has chosen economic weapons as its main leverage in response to external challenges. It draws on Chinese sources to examine the perspectives of the Chinese leadership on economic statecraft and the role of SOEs in the post-Mao era. It finds that the strategic importance of economic statecraft has been adjusted to accommodate changes in the world order as perceived by China's leaders. While Chinese leaders during the reform era perceived international competition as peaceful, thus favouring economic over military means to pursue national interests, the content of economic statecraft has been determined by leaders' assessments of SOEs' capabilities. Changes in how China uses its economic muscle to alter other countries' behaviour have occurred when its government perceives the country's SOEs as capable of carrying out its agenda in response to challenges posed by great power politics.

This article proceeds as follows. The following section uses neoclassical realism to explore the influence of Chinese leaders' perceptions on shaping China's foreign economic policies, a dimension often overlooked in neorealist structural analysis. The article then examines three programmes of China's economic statecraft during the reform era: 'Bringing In', 'Going Out', and the BRI from a neoclassical realist perspective. Documentary sources are examined to demonstrate the way in which the perceptions of China's leaders towards the country's SOEs have translated into the making of its economic statecraft. The article concludes by discussing the implications of studying China's economic statecraft for understanding its international behaviour on both a theoretical and practical level.

## 2. China's economic statecraft and the perceptions of Chinese leaders

Economic statecraft, which is defined as the state's strategic use of economic instruments to fulfil national interests, is just as important as military power to advance national interests on the global stage (Mastanduno, 1998; Blanchard *et al.*, 2000). It is a purposeful policy behaviour that is typically

guided by the state's grand strategy. For a long time, the study of grand strategy and related international relations theories has been dominated by realism and lacks systematic analyses of how agency filters the structural effects (Hudson, 2005; Paul, 2017). In other words, while external pressures from the structure of international politics urge states to respond, these responses are not limited to one specific policy tool. These tools can take on military, diplomatic, and economic forms depending on decision-makers' discretion over possible strategies under both international and domestic conditions. Neoclassical realism, which preserves room for the effects of agency, provides a helpful tool by which this article can examine the dynamics between the perceptions of leaders (the first image) and systemic threats (the third image) when analysing China's economic statecraft.<sup>2</sup> The remainder of this section will examine the role of leaders in making Chinese foreign policy and offer a neoclassical realist account of China's economic statecraft.

While acknowledging that structural factors are important stimuli for China's international behaviour, most studies of Chinese foreign policy show a strong interest in leader agency in the policy process. Top leaders in China clearly wield disproportionate power over the entire foreign policy process, particularly policy initiation and formulation.<sup>3</sup> It is easy to find the 'great man' effect in China's international behaviour under the rule of Mao Zedong (Christensen, 1996), during most of the post-reform era (Lampton, 2014), and most recently under Xi's leadership (Chang, 2016). This is not to say, however, that China's foreign policy is shaped solely by its top leaders. As a number of studies have suggested, it is more fruitful to examine how leadership interacts with structural factors when explaining China's international behaviour.<sup>4</sup>

For a country like China that identifies itself as a weak state bullied by developed countries in international politics, top leaders in the official narratives are often portrayed as defenders of national interests from challenges presented by the international system. Even in the eyes of China's top leaders, their agency has never been without limitations and is bounded by structural factors. As an approach to the study of foreign policy that combines different levels of analysis, neoclassical realism is capable of examining these factors across different levels.

Neoclassical realism identifies the distribution of power in the international system as the independent variable that sets the parameters of the possible responses available to leaders (Ripsman *et al.*, 2016). In other words, international structural factors do not directly dictate states' foreign policies since their effects are filtered through a domestic context. The neoclassical realist approach has been increasing in popularity in the field of foreign policy studies since the late 1990s (Rose, 1998; Lobell *et al.*, 2009), and the literature on Chinese foreign policy is no exception. While most neoclassical realist studies of Chinese foreign policy focus on leaders (a first-image variable) as the domestic intervening factor due to the nature of the Chinese authoritarian regime,<sup>5</sup> nationalism (a second-image variable) also influences the effect of structural factors (a third-image variable) on China's international behaviour.<sup>6</sup> Neoclassical realism essentially serves as a wide-ranging research framework, allowing scholars to focus on various domestic mechanisms that moderate or intensify systemic factors.<sup>7</sup> This article limits the discussion to the agency of leadership as the most common domestic intervening variable that is present in almost every foreign policy decision.

When using the agency of leadership as the intervening variable in a neoclassical realist approach to studying China's economic statecraft, it is important to identify each leader's worldview and preferred

<sup>2</sup>Kenneth N. Waltz identified three levels of analysis of conflicts, with the 'first image' referring to individuals, the 'second image' referring to states, and the 'third image' referring to the international systems. See Waltz (1959).

<sup>3</sup>Some studies have identified the new foreign policy actors in the policy process, such as bureaucratic agencies at both central and local levels, the military, and official think tanks (Jakobson and Dean, 2010). Yet, the influence of new foreign policy actors over China's international behaviour varies according to the issue area.

<sup>4</sup>See, for example, Christensen (1996); He (2017).

<sup>5</sup>See, for example, Christensen (1996); Blanchard (2015); He (2017).

<sup>6</sup>See, for example, Schweller (2018).

<sup>7</sup>Götz (2021) argues that there are three different types of casual factors that have been all labelled as intervening variables by neoclassical realists: moderating, complementary, and primary.

**Table 1.** Chronology of Chinese leaders' worldviews and corresponding economic statecraft in the reform era<sup>8</sup>

Leader	Speech representing leader's worldview	Occasion and date	Economic statecraft	Timing of the policy written into the party document
Deng Xiaoping	"The international situation is also good. It is possible that we may gain some additional time free of war." ( <i>Selected Works of Deng Xiaoping, Volume II</i> , 1984)	The speech at a plenary meeting of the military commission of the central committee of the CPC, on December 28, 1977.	Bringing In Strategy	The Third Plenary Session of the 11 <sup>th</sup> CCP Central Committee, on December 18 to 22, 1978.
Jiang Zemin	"The world is now becoming multipolar, mutual constraints are increasing in the international arena, and the forces for peace are continuing to grow." ( <i>Selected Works of Jiang Zemin, Volume I</i> , 2006a).	The speech at an enlarged meeting of the central military commission, on January 13, 1993.	Going Out Strategy	The Fifth Plenary Session of the 15 <sup>th</sup> CCP Central Committee, on October 9 to 11, 2000.
Xi Jinping	"With the deepening development of world multi-polarization, economic globalization, and the continuous advancement of cultural diversity and social informatization, mankind today is more capable than ever before to move towards the goal of peace and development, and win-win cooperation is a realistic way to achieve this goal." (Xinhua News Agency, 2013)	The speech "Following the Trends of Our Time and Promoting World Peace and Development" was delivered at the Institute of International Relations in Moscow, Russia, on March 23, 2013.	Belt and Road Initiative	The Third Plenary Session of the 18 <sup>th</sup> CCP Central Committee, on November 9–12, 2013.

response to challenges and opportunities (Table 1). One would expect that leaders' perceptions of the nature and degree of conflict resulting from global power distributions would contribute to their grand strategies, including the role of economic statecraft. Once economic statecraft rather than military confrontation was chosen as the preferred way to advance China's national interests, the next step for Chinese leaders was to consider the economic instruments that were available to achieve their goals. In a regime that defines itself as socialist, the SOE sector is a ready and legitimate resource for leaders to exploit. The stronger the SOE sector is, the more ambitious the state's economic statecraft will be. Therefore, one would expect that leaders in China would adjust their economic statecraft alongside the reform of the SOE sector. In sum, this neoclassical account of China's economic statecraft suggests that outward-looking and expansive economic statecraft is possible only when Chinese leaders perceive external threats as manageable and believe that the SOE sector is capable of responding to these threats.

The following three sections examine to what extent these theoretical expectations are demonstrated by empirical evidence of China's economic statecraft in the post-Mao era, a period during which economic means replaced the use of force in the pursuit of national interests. One section is devoted to each of the three programmes: the Bringing In strategy, the Going Out strategy, and the BRI. For each

<sup>8</sup>This table only lists Chinese leaders in the reform era who introduced a change in economic statecraft, excluding Hu Jintao.

**Table 2.** A neoclassical realist approach to China's economic statecraft

Period	Leader	Independent variable: international structure	Intervening variable: leader's perceptions		Dependent variable: China's economic statecraft
			External pressure	SOE capability	
1978 to the Early-1990s	Deng Xiaoping	Bipolarity	Without a threat of war, maintaining peace and cultivating development is the main challenge.	China's backward SOE sector should take advantage of global advanced technology.	Bringing In Strategy
The Mid-1990s to 2013	Jiang Zemin Hu Jintao	Unipolarity	The world order is increasingly multipolar in nature, and the potential for world peace is increasing.	China's reformed SOEs are capable of facilitating China's economic rise on the global stage.	Going Out Strategy
2013 to Present	Xi Jinping	Multipolarity <sup>9</sup>	The world continues to head towards a multipolar structure against the backdrop of American decline.	China's SOEs are crucial in fulfilling the global development goals promised by the Chinese government.	Belt and Road Initiative

programme, this article identifies how leaders perceive external threats and their corresponding grand strategies. Given that the Chinese Communist Party (CCP) in the post-Mao era has a tradition of collective leadership, attention is also paid to the strategic thinking of other members of the Politburo Standing Committee in addition to the first-ranked member, the General Secretary of the CCP. Also discussed is the role of economic statecraft in each grand strategy, including the expected role of the SOE sector and anticipated policy effects. In doing so, this article aims to illustrate how the interplay of external pressures and domestic reform agendas from the point of view of China's leaders shapes the making of its economic statecraft (Table 2).

To ensure the reproducibility and transparency of qualitative evidence drawn in the following sections, it is critical to specify the criteria this article used to select speeches by Chinese leaders. While there are many excellent works on Chinese leaders' perceptions and worldviews, this article mainly relied on resources compiled and curated by the CCP, such as the selected works and state media's coverage of leaders' speeches. Since the establishment of the People's Republic of China, compiling, editing, and publishing leaders' major speeches has been one of CCP's chief political tasks to enhance its legitimacy and educate the domestic public. In other words, the editorial process for these collections is inherently political because these resources are tailored to deliver leaders' thoughts and policy agendas coherently.

Even for leaders like Mao Zedong, who occasionally delivered conflictual views in public, the CCP deliberately tailored the narratives in a logical way to cultivate the leaders' personal cult and align their statements to the Party's priorities (Leese, 2011). Thus, historians who study CCP history commonly rely on the Party's archives to understand CCP leaders' perceptions. They interpret these materials, including the chronology and selected works of leaders, with caution regarding the surrounding context.<sup>10</sup> For example, Ezra F. Vogel claims that the three-volume *Selected Works of Deng Xiaoping* 'provides a useful account of many of his major policies, although it is critical to interpret them in the context of national and world events at the time' (Vogel, 2011: viii).

<sup>9</sup>According to Scott (2013), "Multipolarity is a structural-descriptive measurement word for the existence of several centres of power, multiple 'poles,' in the international system." Since the 2008 global financial crisis, there have been academic disputes on whether the unipolar world order bolstered by the U.S. has given way to a multipolar system. Given that China's rise and Russia's comeback have challenged the U.S. dominance over global affairs since the 2010s, the international structure facing Xi Jinping is multipolar (Mearsheimer 2019).

<sup>10</sup>See, for example, Chung (2013), Khan (2018), Lee (2011), and Vogel (2011).

In addition, rather than revealing the genuine beliefs of Chinese leaders, this article aims to explore the rhetoric and symbolic meanings the leaders intended to project to serve their policy agendas. Through these crafted political communications, Chinese leaders ensure the effectiveness of the policies they promote. Sometimes, the leaders themselves are involved in the editorial process. For example, Deng Xiaoping once claimed that several articles in his selected works ‘can be considered my political account’ (People’s Daily Online, 2014a).

### 3. Phase I: the Bringing In strategy from 1978 to the early 1990s

The initiation of the Bringing In strategy reflected a sea change in the perception of the Chinese leadership under Deng Xiaoping towards the political order and policy priorities in both domestic and international realms. International power distribution during this period was still dominated by geopolitical tension between the Soviet Union and the United States. Yet better relations with the United States fostered a condition in which bringing capital and technologies from advanced economies into China’s domestic economy became possible. Without the immediate threat of war, modernisation and economic development were considered an overarching strategy to advance China’s long-term interests. Meanwhile, millions of SOEs were released from the planned economy and scrambled to learn how to behave like profit- and technology-driven commercial actors. By attracting foreign investment and absorbing foreign skills, Chinese leaders expected SOEs to be transformed into qualified agents to deliver modernisation and economic development in China. In a nutshell, a shift in how Chinese leaders perceived the international structure from a field full of constraints to one full of opportunities served as a stimulus for policy changes in the realm of foreign economic relations.

#### 3.1 How leaders viewed external pressures

Following his political rehabilitation in the second half of the 1970s, Deng Xiaoping expressed his view that the international order had become less violent and less hostile on many occasions. This change in the outlook of China’s leaders occurred along with the normalisation of Sino-American relations. Deng’s understanding of international competition provided a justification for the CCP to veer its focus from political and military confrontation to economic development, paving the way for its epochal Reform and Opening-up policy. Aiming to modernise and revamp China’s socialist economy, this policy was initiated in 1978, focusing on market-oriented reform and opening up to foreign investment and trade. Shortly before the reform, Deng Xiaoping reiterated the potential for peaceful coexistence in international politics in 1977:

‘The international situation is also good. It is possible that we may gain some additional time free of war . . . the Soviet Union has not yet finished its global strategic deployment. And the global strategy of the United States, after its defeat in Southeast Asia, has shifted to the defensive – the United States isn’t ready to fight a world war yet either’ (Deng, 1984: 92–93).

Deng’s positive outlook on the international environment continued after the initiation of the Reform and Opening-up policy. He identified two strategic challenges at the global level: ‘first, peace, and second, economic development. The first involves East-West relations, while the second involves North-South relations . . . but the North-South relations are the key question’ (Deng, 1994: 111). He then came to the conclusion that

‘It is possible that there will be no large-scale war for a fairly long time to come and that there is hope of maintaining world peace . . . we have made two major changes: in our assessment of the international situation and in our foreign policy’ (Deng, 1994: 132–133).

For Deng Xiaoping, the relatively benign nature of international interactions offered China an opportunity to buy time for its economic development. According to Deng, 'If the economy develops, we can accomplish anything. What we have to do now is to put all our efforts into developing the economy. That is the most important thing, and everything else must be subordinated to it' (Deng, 1994: 133).

As for China's grand strategy during this period, it is fair to say that economic development was seen to be the panacea for fulfilling China's long-term national interests. In other words, China's international behaviour under the rule of Deng had deep domestic roots, and foreign policy served the primary goal of domestic development. As such, the strategic importance of economic policy tools became increasingly prevalent in the announcements of Chinese leaders. Deng Xiaoping once argued, 'We should open our country wider to the outside world . . . China provides a huge market, so many countries wish to develop cooperation or do business with us. We should seize this opportunity. It is a matter of strategic importance'. (Deng, 1994: 43). Premier Zhao Ziyang also pointed out that

'In the international realm, it is increasingly recognized that it is unwise to contain and repress China's modernization . . . Opening up to the outside world is a long-term statecraft to enrich our people and rejuvenate our nation' (Zhao, 2016b: 543–545).

Although China during this period was still a weak player in a bipolar international system dominated by the Soviet Union and the United States, leaders in Beijing perceived that external threats had become less acute than those faced by their predecessors. While bullying tactics from the hegemonic states were still possible, improved Sino-American relations reassured Chinese leaders in the belief that their country was in a relatively secure international environment. Against this backdrop, the use of economic instruments to advance national interests was incorporated into China's foreign policy agenda.

### 3.2 *The domestic reform agenda*

At the point of economic reform in the second half of the 1970s, SOEs were the only policy agents available to carry out foreign economic policies. Yet their poor capabilities limited the policy choices of leaders. This backwardness of the SOE sector led to the birth of the Bringing In strategy.

Deng Xiaoping's perception of China's SOE sector is clear from his remarks during his inspection tour of the North. Just before the beginning of economic reforms in 1978, Deng Xiaoping visited the three northeastern provinces of Heilongjiang, Jilin, and Liaoning, which at the time were considered models of socialism bolstered by SOEs that dominated China's heavy industry. At a gathering of Jilin Provincial CCP cadres, he criticised the inefficient mode of production delivered by SOEs and asked, 'If the rate of growth of the productive forces in a socialist country lags behind that in capitalist countries over an extended historical period, how can we talk about the superiority of the socialist system?' (Deng, 1984, 143). At another gathering of Liaoning CCP officials, he instructed them on how to reform Ansteel, an SOE operating in the steel industry, by saying that 'firstly to introduce technology to upgrade the enterprise, and secondly to raise innovation . . . We should take advantage of global advanced technology as our starting point of development' (*People's Daily Online*, 2017a).

Leaders in Beijing did not change their views on China's SOE sector throughout the first decade of economic reforms. For example, speeches by Premier Zhao Ziyang, who was in charge of economic affairs, often mentioned the necessity of reforming the SOEs. When addressing economic planning, for example, he mandated CCP officials 'to prioritize the issue of rectifying enterprises in the agenda' (Zhao, 2016a: 331). When inspecting SOEs in Liaoning province, he pointed out problems of 'aging equipment and backward technology' (Zhao, 2016b: 427). Given the poor state of China's SOE sector at the time, Zhao Ziyang concluded that the scope of foreign assistance to the third world 'should be properly shrunk a bit' (Zhao, 2016b: 189).

The SOE sector had to first transform itself to become qualified to lead economic development. Beyond establishing a new incentive structure to enhance efficiency, a common feature in all transitioning economies, China's leaders specifically highlighted harnessing the resources of advanced countries to reform SOEs. These resources included business management expertise, capital, international trade institutions, science and technology, and talent. This is evidenced by the establishment of joint ventures between domestic SOEs and foreign firms in various industries, including the automotive sector. These partnerships not only provided access to business management expertise and capital but also facilitated technology transfer and skill development (Liu, 2002).

As the then CCP general secretary Hu Yaobang said:

'To achieve modernization of socialism, we have to take advantage of two types of resources—domestic and foreign resources, open up two markets—domestic and foreign markets, and master two kinds of skills—organizing domestic development and building up foreign economic relations. Then the strategic status of foreign economic relations can be further defined' (Hu, 2015: 358).

This official stance laid the groundwork for the domestically focused Bringing In strategy that dominated China's foreign economic agenda for over a decade.

Overall, the Bringing In strategy represents China's inaugural leap towards reintegration with the global community, marking a pivotal moment in the nation's economic trajectory. The strategy paved the way for a transformative journey to foster collaboration between China and its international partners by establishing special economic zones, liberalising its foreign trade system, and proactive measures to attract foreign direct investment. China also sought to absorb external technology by promoting joint ventures between domestic and foreign firms based on the principle of *quid pro quo*, also known as market-for-technology. Despite a temporary setback caused by the Tiananmen Square Incident in 1989, Deng Xiaoping's Southern Tour in 1992 provided further momentum to deepen China's engagement with the outside world. Deng's endorsement of the Bringing In strategy's success, particularly evident in the solid economic performance of Shenzhen, China's first special economic zone, encouraged the adoption of more market mechanisms, such as the stock market and shareholding systems, to reform China's SOEs (Vogel, 2011: 664–690).

From the preceding analysis, it is clear that the international structure constrained the policy choices of Chinese leaders as a systemic-level factor. Yet, recognising the peaceful nature of the international order during this period, Chinese leaders shifted their focus from geopolitical power struggles to prioritising economic development. This perception made them dedicated to the Bringing In strategy. At the same time, their comprehension of the domestic economic landscape informed them how to use the SOE sector as a strategic policy tool.

#### 4. Phase II: the going out strategy from the mid-1990s to 2013

In the course of initiating and implementing the Going Out strategy, the perspectives of China's leaders again came into play as a unit-level factor that had a moderating effect. Jiang Zemin and Hu Jintao followed Deng's judgement on the international order, believing that China was situated in a relatively benign environment. Economic statecraft therefore became the most attractive policy tool for China to advance its national interests. It is interesting to note that the systemic factors in the international system experienced a fundamental change from bipolarity to unipolarity during Jiang's reign. Yet the collapse of the Soviet Union and the introduction of Western sanctions following the Tiananmen Square Incident bolstered by American supremacy did not prompt China to deviate from its existing economic foreign policies. Not until Hu's leadership, when Chinese leaders began to have confidence in the performance of the SOE sector, did the policy shift from the Bringing In strategy to the Going Out strategy occur. Again, as demonstrated in the previous section, the perceptions of leaders towards

external threats and SOE competitiveness rather than systemic factors alone tell a more nuanced story of China's economic statecraft.

#### 4.1 How leaders viewed external pressures

Jiang Zemin came into office as CCP party chief in 1989, a time when both domestic and international political disturbances were challenging the legitimacy of China's party-state. Domestically, the student-led Tiananmen Square protests called for a governance system with greater transparency and more accountability, leading to a catastrophic political crackdown from the CCP. The Soviet Union was beginning to crumble, and the process of its dissolution dragged on for about two years. Facing the triumph of the U.S.-centred liberal-capitalist world order, Jiang was confronted with a far more complicated and turbulent international situation than his predecessor. Yet, with the belief that the post-Cold War global order was multipolar in nature, Jiang entertained the hope of China preserving the peace without falling victim to the fierce bullying of a more unipolar world in which the United States is the sole superpower.

Jiang held this optimistic view throughout his entire tenure in the office. At the beginning of his first term in 1989, he firmly believed that seeking common ground in a diverse international community was achievable. When meeting Brent Scowcroft, a special emissary of the then American President George H. W. Bush, Jiang directly acknowledged the differences in the political institutions of the two countries while also stating that

'We believe that as long as the two sides look to the future and truly take the need to safeguard the common interests of our two peoples and the basic interests of world peace and development as our starting point, there is great potential for Sino-US relations to improve' (Jiang, 2006a: 85).

Consistent with the aforementioned perception that China and the United States could coexist peacefully, Jiang shared Deng's strategic thoughts on the international situation. He noted that

'To begin with, for a long time to come, it will be possible to secure a peaceful international environment and avert a new world war. This is an extremely important strategic judgment and a prerequisite for us to concentrate our efforts on economic development. . . . The world is now becoming multipolar, mutual constraints are increasing in the international arena, and the forces for peace are continuing to grow'. (Jiang, 2006a: 279).

As such, Jiang mandated that the military be 'subordinate to and serve for the national development strategy' (Jiang, 2006a: 284). Without a doubt, pressures from the international system in the first half of the 1990s were more hostile and dangerous to China's party-state than at any time since the late 1970s. On the one hand, the post-Cold War international system, dominated by American hegemony, increased the possibility of peaceful evolution and regime change within China. On the other hand, Western sanctions in the aftermath of the Tiananmen Square Incident isolated China from the global market, delivering a substantial setback to its development aspirations.

Nevertheless, as the above-mentioned speech by Jiang concerning the issue of multipolarity revealed, Jiang's perspective on the multipolar global order led him to the conviction that peace could be achieved through a power balance among major powers such as the European Union, Japan, Russia, the United States, and countries of the Association of Southeast Asian Nations. This strategic vision was accompanied by the continued emphasis on economic development and modernisation as national long-term interests in keeping with Deng's original design for China's grand strategy. The major difference between Deng and Jiang was the latter's need to assure other nations of the benign intentions accompanying China's growing economic capabilities.<sup>11</sup> In doing so, Jiang was able to secure a strategic

<sup>11</sup>For the details of China's reassurances during this period, see Goldstein (2005, 118–135).

environment that was conducive to China's economic development and subsequent rise in great power politics.

Chinese foreign policy under Hu Jintao's reign became more active and assertive. From his perspective, the international system progressed towards a more multipolar structure, with the traditional unipolarity dominated by the United States facing increasing challenges. This shift in the global order prompted China to adopt a more proactive approach to its foreign relations, seeking to enhance its influence and contribute to shaping the emerging multipolar world (Zhao, 2022). Hu Jintao's leadership emphasised China's commitment to multilateralism, regional cooperation, and the peaceful resolution of disputes, reflecting a broader engagement strategy within the evolving international landscape.

Like Jiang Zemin before him, Hu Jintao accepted Deng's judgement of the international situation throughout his tenure as China's top leader. On several occasions, Hu reiterated that 'peace and development are still the theme of the present times', a perspective first articulated by Deng (Hu, 2016a: 89–90 and 503; Hu, 2016b: 234). As such, considering the growing role of China in the global economy, Hu stressed the importance of economic statecraft in the conduct of China's foreign policy by stating that:

'With the continued development of our nation, the condition that using economic and trade cooperation to advance political relations is getting better. The key is to grasp the dialectical relationship between political diplomacy and economic diplomacy correctly. Keep exploring the new thinking, new approaches, and new mechanisms to advance the economy by political means and to advance politics by economic means, taking advantage of the maximum efficiency of the integration of politics and economy' (Hu, 2016a: 224).

Hu's stance on economic statecraft can be understood from the Chinese state's milestone achievement: access to the World Trade Organization (WTO). WTO membership provided China with a platform to project its economic capability. From this period onward, China has actively searched for new markets for its capital and goods as well as new channels for raw materials while expanding its outreach abroad. The opportunities provided by China's WTO membership motivated Chinese leaders to initiate a new approach to interacting with other countries, shifting its policy from an inward focus to an outward orientation.

In short, the unipolar international structure alone cannot explain China's foreign policy behaviour. The perception of leaders towards the international system has played a role in the elevated status of economic statecraft in China's grand strategy. Both Jiang and Hu inherited Deng's security views and strategies, prioritising economic statecraft over other policy instruments. The following section will further demonstrate that the change in the content of economic statecraft during this period can be understood in terms of the confidence of Chinese leaders in the SOE sector.

#### **4.2 The domestic reform agenda**

The inefficient SOE sector in China continued to drain the state's coffers when Jiang Zemin took office. Most SOEs were involved in triangular debt, which posed serious challenges to state fiscal sustainability in the short term as well as economic reform in the long term. As the vice premier in charge of clearing up these debts, Zhu Rongji once said of the severe situation of SOE's inter-enterprise debts that 'new arrears were appearing even as old ones were being paid off. With debts being paid off and run up simultaneously, arrears were growing larger and larger' (Zhu, 2013: 2). Lacking a fiscally sustainable SOE sector at this stage, China needed foreign capital, advanced technology, and modern management practices to create economic growth. This was what the Bringing In strategy had done for China's economy in the 1980s, and the Chinese leadership saw no reason to change this strategy when SOE reform was rebooted as a result of Deng Xiaoping's southern tour. For example, during an inspection

tour to Shenzhen in 1994, Jiang Zemin urged special economic zones to ‘continually contribute to attracting foreign investment and making an association with inland areas’ (Jiang, 2006a: 378).

The policy elements of the Going Out strategy were first introduced to the public in the latter half of the 1990s, and a comprehensive shift from Bringing In to Going Out took place in the early 2000s. At a meeting with delegates attending a national conference on foreign investment in 1997, Jiang stressed ‘a strategy for openness that integrates bringing in and going out’ and claimed that ‘the key is to organize and support a batch of large-to-medium backbone SOEs to go out, and to build up a preliminary scale of foreign investment markets. This is a grand strategy’. (Jiang, 2006b: 91–94). By the time Jiang introduced Going Out as a new direction in China’s foreign economic policy, a more radical reform programme was introduced to the SOE sector with the objective of securing WTO membership. The reform agenda of ‘grasping the large and letting the small go’ and the ensuing reorganisation and corporatisation of enterprises gave the Chinese leadership greater optimism about its chronically money-losing SOE sector. In 1998, Zhu Rongji expressed his belief that ‘large and medium SOEs have high hopes of being out of trouble within three years’ (Zhu, 2011: 165–170).

Starting from the early 2000s, the Going Out strategy emerged as one of the essential elements of China’s grand strategy, appearing in both the Tenth Five Year Plan in 2001 and the report of the 16<sup>th</sup> National Congress of the CCP in 2002. In the following decade in which Hu Jintao assumed power, Chinese SOEs played an ever-increasing role in the global economy as a result of both government policy and official financial support. The progress of SOE corporatisation reform reassured Chinese leaders that these enterprises were agents capable of carrying out foreign policy agendas following accession to the WTO. Premier Wen Jiabao publicly praised SOEs for continuing to ‘strengthen vitality and competitiveness through reform and adjustment’ (Wen, 2014: 16).

Even the great recession caused by the global financial crisis starting around 2008 did not change the optimistic tone of the performance of Chinese SOEs among China’s leaders. Hu Jintao’s remarks during his inspection tour of Liaoning in 2008 are one such example. On this trip, Hu visited several state firms to ensure they were taking proper measures in response to the crisis. He recognised their contribution to the stabilisation of China’s domestic economy and encouraged them ‘to aim at higher goals, seize more critical technology, keep technological advantages, and endeavor to become multi-national corporations’ (Xinhuanet, 2008). With the belief among China’s leaders that its SOEs were strong enough to withstand challenges from the world market, the outward-looking Going Out strategy gained full momentum until the initiation of an even more expansive program of economic statecraft, the BRI.

In summary, the Going Out strategy era marked a significant phase in China’s engagement with global affairs, laying the groundwork for further integrating Chinese SOEs into the international economic system. Under the leadership of Jiang Zemin, China took proactive steps to establish international institutions such as the Shanghai Cooperation Organization, providing platforms for regional cooperation and facilitating the globalisation of its SOEs. Moreover, during the global financial crisis of 2008, Hu Jintao’s administration publicly announced China’s intensified involvement in global economic affairs, underscoring the nation’s commitment to worldwide stability and cooperation. These developments underscore the evolving role of Chinese leaders in shaping the international financial landscape and highlight the increasing importance of SOEs as critical players in the global economy.

### 5. Phase III: the BRI from 2013 to present

As a national leader, Xi Jinping enjoys advantages that his predecessors in the reform era lacked. Xi leads a country that has tremendous economic power at its disposal. During his reign, China’s economic, military, and diplomatic rise has become a potential trigger for a transformation of the power structure associated with the liberal internationalism bolstered by Pax Americana. From Xi’s perspective, the American decline since the 2008 global financial crisis represents a long-term trend in the international landscape, and a shift in power is underway. In his own words, ‘The East is rising while the West is declining’. This is the moment to show other countries that China is a great power

that can both project its economic prowess and serve as a positive force for world development. Meanwhile, in the domestic realm, SOEs, with the assistance of state policy, have gradually emerged as global industrial champions, strengthening Xi's confidence to engage in much more expansive economic diplomacy. Following this logic, Xi is pressing ahead with the BRI to advance China's strategic interests despite facing increasing international hostility led by the U.S.

### 5.1 How leaders viewed external pressures

Xi Jinping's view of the global order does not deviate from his predecessors, which is reflected in his remarks concerning 'the path of peaceful development' on various occasions. His endorsement of the path of peaceful development comes from his judgement that China is still in 'a period of strategic opportunity', a time frame in which the international system offers favourable conditions for China's domestic development. Xi's foreign policy vision was clearly outlined in a speech to his comrades in the Political Bureau after he assumed leadership of the CCP: 'We should pursue mutually beneficial development featuring openness and cooperation, develop China by securing a peaceful international environment and, at the same time, uphold and promote world peace through our own development' (Xi, 2014: 272).<sup>12</sup>

While Xi's foreign policy agenda has upheld this doctrine of peaceful development, China's foreign policy behaviour under Xi has given the international community an impression of assertiveness and muscularity. These inconsistencies may reflect Xi's sense of insecurity. For Xi, the distinction between the domestic and international realms of national security is becoming increasingly blurred. As the two are intricately related, the regime has increasingly defined national security in a broad sense (Khan, 2018: 213). For example, developments in China that pertain to issues including Hong Kong governance, internet censorship, Uyghur workers, or COVID-19 have geopolitical ramifications for China's relationship with the Western world. Seen in this light, Xi's commitment to peaceful development is not unconditional. China can honour this commitment only if its core interests, including sovereignty and territorial integrity, are acknowledged and respected by other nations.

Much like his predecessors in the reform era, Xi has defined China's rejuvenation as the essence of the nation's grand strategy without placing limitations on precisely how it is to be achieved (Goldstein, 2020). However, this does not mean that he has overturned the hierarchy of policy tools established by Deng Xiaoping. For Xi, economic tools remain a more potent and less adversarial path to China's renaissance, based on two strategic assessments.

First is the above-mentioned official declaration that China remains in a period of strategic opportunity. Despite confronting challenges from both the COVID-19 pandemic and heightened Sino-U.S. tensions, Xi declared to high-ranking CCP cadres at the provincial and ministerial levels that 'time and momentum are on our side' (Xinhuanet, 2021). Entering his third term, even as competition from the U.S. intensifies, Xi continues to assert that the window of opportunity is still open, despite the concurrent risk. As he mentioned in his speech to the 20<sup>th</sup> National Party Congress, 'Our country has entered a period of development in which strategic opportunities, risks, and challenges are concurrent, and uncertainties and unforeseen factors are rising' (Xinhuanet, 2022).

Secondly, and in conjunction, Xi views the current international system as a multipolar world order, meaning that China's resurgence will not be unilaterally determined by the United States. On several occasions, he has acknowledged that China now faces 'profound changes unseen in a century, . . . both challenges and opportunities are presented, . . . but opportunities in general outweighing challenges' (Xinhuanet, 2021). This understanding was made clear at the 2021 Boao Forum, where Xi claimed that

<sup>12</sup>Even in his second and third terms, Xi continues to reaffirm the concept of peaceful development. For example, in his 2020 New Year address, Xi stated that 'China is determined to walk along the road of peaceful development and will resolutely safeguard world peace and promote common development' (CGTN 2019). In his third term, Xi has claimed that 'Chinese modernization is the modernization of peaceful development', different from western modernisation which is full of 'war, slave trade, colonization, and plunder'. (Xi 2023).

'there is no fundamental change in the trend toward a multipolar world; economic globalisation is showing renewed resilience; and the call for upholding multilateralism and enhancing communication and coordination has grown stronger' (CGTN, 2021).<sup>13</sup>

Together, these strategic assessments underscore Xi's conviction that ample opportunities exist for China's peaceful rise, especially against the backdrop of the perceived waning influence of the U.S. Taking on a leadership role and exerting a positive influence to spur development in developing countries align with China's interests in gaining leverage for negotiation or potential competition with the U.S. This perspective sheds light on the reasons behind Xi's promotion of the BRI, which manifests China's commitment to bolster global development and in turn consolidate its position in the international system.

### 5.2 The domestic reform agenda

The performance of SOEs during Xi's leadership has marked a significant milestone in the history of PRC. While questions about their efficiency persist and they continue to receive state subsidies, these entities have risen to become formidable global players. In particular, their pivotal role in assisting China in weathering the global financial crisis through extensive domestic infrastructure development underscores their transformation. This achievement instils immense confidence in Xi, affirming his belief in the capability of China's SOEs to spearhead infrastructure projects abroad, which is the core component of the BRI.

For Xi, the SOE sector is the engine of high-quality development domestically. New sources for China's economic growth lie in indigenous innovation and industrial upgrading, and SOEs have the leverage to engage in these endeavours with the help of government subsidies and policy support. This line of thought was revealed not long after Xi assumed the leadership of China. While inspecting a state-owned railway firm in 2014, Xi first praised the firm's leadership and innovation. He then encouraged the firm to pursue 'the transformation from made in China to created in China, from China speed to China quality, from Chinese products to Chinese brands' (People's Daily Online, 2014b). This was the first mention of the slogan that has since become a recurrent theme in discussions about industrial upgrading.

With this confidence, Xi had designated the SOE sector as a spearhead of China's response to campaigns of international pressure. As Sino-U.S. friction intensifies, political rather than economic logic has dominated economic relations between China and advanced industrial democracies. SOEs loyal to the CCP leadership are expected to take the lead in the march towards technological self-reliance and self-sufficiency. During his tour of China First Heavy Industries, a large machinery SOE located in China's northeast rust belt, Xi stated that 'it is becoming increasingly difficult to gain access to leading technologies and key technologies internationally, and China will ultimately rely on itself' (China Daily, 2018). Overall, SOEs in China have evolved significantly over the years, making them more qualified to carry out strategic investments, engage in energy cooperation, and broaden market access overseas in alignment with China's economic and geopolitical interests associated with the BRI.

Meanwhile, Xi Jinping's active participation in global affairs has had profound implications for the roles of SOEs in China's economic statecraft, particularly with initiatives for the creation of the Asian Infrastructure Investment Bank (AIIB). Like his predecessors, Xi Jinping has advocated for reforming global governance structures to reflect better the interests and contributions of emerging economies, including China. China has played a leading role in establishing new international institutions, such as the AIIB, as part of these efforts. Founded in 2015, the AIIB aims to provide financing for infrastructure projects in Asia and beyond, complementing existing multilateral development banks such as the World Bank and the Asian Development Bank. Chinese SOEs are actively involved in AIIB-funded projects, further integrating them into the global economic system and enhancing China's influence in shaping the rules of international economic governance.

<sup>13</sup>Xi Jinping's speech via video link at Boao Forum for Asia (BFA) annual conference 2021," CGTN, 20 April 2021, <https://news.cgtn.com/news/2021-04-20/Full-text-Xi-Jinping-s-speech-at-BFA-Annual-Conference-2021-ZBRd9uTb0c/index.html>.

Last but not least, the SOE sector is the basis for Xi's showcasing of the superiority of China's development model to the developing world as an alternative to Western capitalist democracies. SOEs dominate industries by developing cutting-edge technology, enabling China to act as a global tech and innovation leader. This may give the Chinese government the momentum it needs to carry out 'China Standard 2035', an ambitious blueprint to rewrite the global field of technical standard setting. The growing influence associated with 'China Standard 2035' will likely help to fuel China's rejuvenation. In addition to their core business, China's SOEs stand ready to support government agendas that include managing the COVID-19 crisis. Xi has spoken highly of SOEs in this regard, declaring that:

'SOEs have led the charge and played a vital role in containing COVID-19 and have been instrumental in stimulating industrial circulation. They are an important material and political foundation of socialism with Chinese characteristics and a pillar supporting our Party's efforts to govern and rejuvenate the country' (Xi, 2020).

Overall, Xi's perceptions of China's SOEs have given him the confidence to launch the BRI mega project and continue his infrastructure plans even in the midst of international controversy. Given that China's military capabilities are still at the catch-up stage, a strong SOE sector provides China with a cost-effective alternative to globally project its growing economic influence. During the period of the 13th Five-Year Plan from 2016 to 2020, central SOEs participated in a total of 3,400 BRI projects (China Daily, 2021). Most of these SOEs and their subsidiaries are experienced players in projects that include the construction of dams, highways, ports, and roads. This reflects Xi's expectations that SOEs become the 'key force in implementing the initiative' (People's Daily Online, 2017b).

## 6. Conclusion: China's international behaviour and a reflection of neoclassical realism

Knowing what Chinese leaders are thinking is a critical issue of our time. Although it is widely believed that China's aggressive behaviour reflects the personality cult of Xi Jinping, his foreign policy ideas of 'peaceful development' continue on the track built by his predecessors in the reform era (Swaine, 2015). As noted earlier, the agenda of China's economic statecraft underwent a transition from an inward focus to an outward orientation. Contrary to popular belief, this shift occurred prior to Xi assuming power. Only by delving into the thought processes of the Chinese leaders can we understand the evolution of China's foreign policy behaviour. Neoclassical realism offers a theoretical framework by which the puzzling aspects of China's foreign policy behaviour can be explained.

China's expansive economic statecraft has often been seen as a consequence of its rise in the international system. Still, this structural explanation generated by neorealism overlooks the role of human agency in the making of foreign economic policy. The article demonstrates that leaders in post-reform China respond to pressures from the international system as neorealists argue. However, the specific responses to these pressures are subject to a unit-level factor in the form of leaders' perceptions. In other words, the nature of these threats and the competence of SOE responses are filtered through the individual perceptions of China's leaders, guiding the gradual evolution of economic statecraft from an inward to an outward orientation.

It is essential to recognise that while leaders' perceptions wield significant influence, their agency is not absolute and faces constraints. China's foreign economic behaviour is shaped not only by leaders' preferences but also by structural dynamics within the international system. Both Mao Zedong and Xi Jinping exhibited tendencies towards strongman rule and emphasised self-reliance in economic affairs due to distrust of the outside world. However, it is crucial to acknowledge the evolving nature of China's global integration. While Xi Jinping's leadership maintains elements of self-reliance, China's deepening integration into the global economy makes a complete return to autarky impractical.

The findings of this article carry both theoretical and practical implications. Theoretically, they correspond to the neoclassical realist research agenda in foreign policy analysis. Neoclassical realism begins its analysis from the system level and incorporates domestic factors as intervening variables.

While this research agenda has been criticised for its ad-hoc explanations and incoherent theory-building,<sup>14</sup> this article contends that the neoclassical realist approach does provide insights into China's economic statecraft. As previously noted, the country's policies are not in lockstep with the changes in international structure. The policy directions and toolkits of economic statecraft under the leadership of Deng Xiaoping experienced significant changes without any change in the international power structure. While the international power structure was redistributed at the beginning of Jiang Zemin's reign, the Going Out strategy was introduced only at the end of his second term. As demonstrated in the previous sections, the evolution of China's economic statecraft can only be better understood when examining the unit-level factor of leaders' perceptions of both international pressures and domestic constraints, moderating the system's impact on state behaviour.

In practice, it is essential to meticulously scrutinise the nuances embedded within Chinese leaders' speeches on various occasions. These speeches often reveal subtle variations in perspectives and mindsets, which subsequently influence the formulation of Chinese foreign economic policies in the subsequent years. Over the past few years, there has been a rapid expansion in the toolkit of China's economic statecraft. However, the sluggish recovery of China's domestic economy after the COVID-19 pandemic introduces uncertainty to this evolving trend. As Chinese leaders navigate the complexities of post-pandemic economic reconstruction, their approaches and priorities in foreign economic policy formulation may undergo further adjustments, warranting continuous observation and analysis.

**Acknowledgements.** I am grateful to Professor T.V. Paul for his detailed and constructive comments on an earlier draft of this article. His insights were invaluable in helping to clarify and strengthen the arguments presented here. This work was supported by funding from the National Science and Technology Council, Republic of China (Taiwan), under grant number MOST-111-2410-H-004-072-MY3.

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<sup>14</sup>See, for example, Narizny (2017). In this regard, Brawley (2022) combines neoclassical realism and liberalism to generate a more coherent theoretical approach to explaining the shifts in British trade policy in 1840s.

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