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REVIEW ESSAY



Domestic politics of Chinese foreign policy: where will Xi Jinping bring China?



Hiroki Takeuchi

ABSTRACT

Xi Jinping has concentrated his power since he acceded to the Chinese presidency. Where will Xi bring China? In this review essay I discuss four single-authored books – one in English and three in Japanese – to explore security implications of Xi's reform and foreign policies. In her recent book, Elizabeth Economy is critical of Xi, arguing that he is turning away from Deng Xiaoping's reform and internationalist policies. The three Japanese China specialists concur, and further highlight the interconnectedness of domestic politics and international relations. In sum, the four books show that Xi has struggled to commit to the state-owned enterprise reform and to cooperative foreign policy due to Chinese domestic politics, and as a result, has threatened regional security in the Asia-Pacific.

The global value chains (GVCs) of multinational corporations have spread all over the world, and it has become common practice for different stages of manufacturing production to be located in different countries.² GVCs based *intra*-industry trade of manufacturing industries – where manufacturers are procuring parts produced beyond national borders – has shifted the focus of international trade negotiations from tariffs into more complicated rules including domestic regulations, such as those over foreign direct investment, state-owned enterprise (SOE) reforms, and intellectual property rights. This complicated negotiating process promotes international cooperation and strengthens regional security by empowering people who favor reform and internationalism in each nation's domestic politics.

As China is involved in the global economy and benefits from international economic transactions, whether China under Xi Jinping's leadership favors reform and internationalism is a \$64,000 question. In fact, Miyamoto Yūji – former Japanese ambassador to China – suggests that the Chinese leadership is divided into the reformist internationalists (*kokusai kyōchō kaikaku-ha*) and the conservative hardliners (*taigai kyōkō hoshu-ha*) over how to respond to internal issues, such as maintaining social stability, as well as external issues, such as responding to globalized world politics.³ Applying Miyamoto's framework, the answer to the question of whether China favors reform and internationalism depends on whether Xi is reformist internationalist or conservative hardliner. The Xi administration has provided us with mixed answers, but I am particularly concerned with the strategic plan of Made in China 2025, which is turning China away from the GVCs based international trade that has benefited China for the last few decades. Now, together with the Belt and Road Initiative (BRI), is Xi giving up the goal of implementing domestic economic

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Elizabeth C. Economy. *The Third Revolution: Xi Jinping and the New Chinese State* (New York: Oxford University Press, 2018), 343 pages, hardcover, \$27.95.

Kawashima Shin.1 21 Seiki no "Chūka": Shū Kinpei Chūgoku to Higashi Ajia [The "China" of the 21st Century: Xi Jinping's China and East Asia] (Tokyo: Chūō Kōron Shinsha, 2016), 350 pages, hardcover, 2,000 yen.

Kokubun Ryōsei. *Chūgoku Seiji kara Mita Nit-Chū Kankei* [Japan-China Relations Seen from Chinese Politics] (Tokyo: Iwanami Shoten, 2017), 271 pages, paperback, 2,400 yen.

Miyamoto Yūji. *Shū Kinpei no Chūgoku* [Xi Jinping's China] (Tokyo: Shinchōsha, 2015), 231 pages, paperback, 760 yen.

reforms such as the SOE reform? If so, China under Xi's leadership would be turning to state capitalism and nationalism, which would heighten the security threat in the Asia-Pacific region.

Each in its own way, the four single-authored books under review – one in English and three in Japanese – demonstrate how domestic politics and international relations have impacted Chinese foreign policy. While the authors' analyses are occasionally at odds and there are different shadings of emphasis among them, there is consensus on one point: A stronger Xi means a weaker Chinese Communist Party (CCP). What are the implications of lifting term limits for China's president and vice president? What unintended consequences are expected? What implications do a stronger Xi and a weaker CCP have on the interactions between Chinese domestic politics and international relations? Will Xi's China be a responsible stakeholder?

Mao Zedong and Xi Jinping: Continuity and Discontinuity

Of the four authors, Kokubun Ryōsei is most emphatic in stating: "History is politics itself in contemporary China" (p. 115). For him, the essential characteristics forming Chinese politics have not changed since the Maoist period. Without an institutionalized mechanism of succession, the struggle for power (*kenryoku tōsō*) has been the determinant of succession and it has become the fundamental part of decision-making of both domestic politics and international relations.

Thus, when China announced that term limits for president and vice president would be lifted, many China specialists wisely cautioned that allowing Xi Jinping to keep his position beyond 2023 would make him stronger at the expense of the CCP. For example, Mary Gallagher wrote in her *New York Times* op-ed: "Term limits were introduced in the 1982 Constitution, partly in response to the destabilizing effects...of the excesses of Mao's rule, particularly during the Cultural Revolution." And she concluded her article with noting that "Mr. Xi's indefinite term threatens the return to one-man rule, at the cost of one-party rule."⁴

The similarities between Mao's rule and Xi's leadership are widespread and chronic. Since Xi acceded to the presidency in 2013, he has centralized power under him more than any other Chinese leader since Mao, further controlled and manipulated the spread of information, and politicized every aspect of Chinese social and economic life rendering the CCP omnipresent. Andrew Walder echoes this concern highlighting the human costs incurred by de-institutionalization and personalization of decision making under Mao. Walder notes in the concluding chapter of his book, *China Under Mao: A Revolution Derailed*:

Despite his reputation, Mao was not much of an antibureaucratic thinker. He was not actually opposed to bureaucratic hierarchy – he simply preferred one type of bureaucracy to another. Mao refused to cede authority to individuals with professional expertise and scientific training. He wanted party bureaucrats who were absolutely loyal to him and his vision, individuals selected and promoted according to political loyalty. Mao's favored bureaucracy was operated by committed ideologues or, less flatteringly, dogmatic party hacks.⁵

When evaluating policy priorities such as fighting corruption, managing the internet, reforming SOEs, innovation, air quality, and elevating China's status in international relations, Elizabeth Economy argues that Xi is reversing the trends toward greater political and economic opening, as well as a low-profile foreign policy, that had been put in motion by Deng Xiaoping thirty years earlier. She warns that the authoritarian policies of Xi's China are more likely to move China backwards rather than forwards. With the pompous slogans of the "Chinese Dream" (*Zhongguo Meng*) and the "great rejuvenation of the Chinese nation" (*Zhonghua minzu weida fuxing*), Economy writes, "Xi-led leadership is playing a long game... [with the] preference for control rather than competition" and as a result, "Xi's centralization of power and anticorruption campaign...while affording him greater personal decision-making authority, have actually contributed to slower decision-making at the top, increasing paralysis at local levels of governance, and lower rates of

economic growth” (p. 15). Miyamoto Yūji concurs, noting that Xi’s reforms have been undermining the basis of one-party rule by the CCP, although he adds that the direction of the reforms is not wrong. Moreover, he cautiously foresees that one-party rule will end when the CCP fails to catch up with the change of Chinese society.

Xi has successfully achieved what Economy calls “his Chinese dream: doubling incomes by 2020 and recapturing China’s historic centrality and greatness in the international system” (p. 18). Edward Steinfeld argues that we (i.e., the United States and its allies) should not be concerned with China’s rise because China has achieved its economic growth by playing *our* game by *our* rules.⁶ However, although China has opened substantially since the Maoist era, it is still very closed off on a global level. And, as Economy underscores, “China increasingly takes advantage of the political and economic openness of other countries while not providing these countries with the same opportunities to engage within China” (p. 17).

Politics of the Anti-Corruption Campaign

Xi Jinping’s fierce anti-corruption campaign has been one of his signature reform policies since his inauguration as General Secretary of the CCP in 2012. Miyamoto notes that the campaign has seemed to be the right policy to secure the future of the CCP because official corruption has been rampant in China and has become one of the major sources of public dissatisfaction. Thus, *prima facie*, the campaign has seemed to represent an honest and even admirable desire to purge China’s extensive party bureaucracies of the back-door dealing and nepotism that retards economic progress. The CCP leadership has feared that corruption, if left unaddressed, could undermine the stability of one-party rule. However, ironically, the success of Xi’s campaign has strengthened Xi but undermined the basis of one-party rule.

One should note that Xi has been committed to the campaign not because he is a man of great integrity, but because he feared that his party could not maintain control unless his administration curbed corruption. He learned from history that corruption could be a cause of the regime’s collapse. The Tiananmen democratization movement in 1989 started with people’s dissatisfaction with corruption, as well as inflation and inequality. As Economy and Miyamoto both explain, Xi recognized the threat that significant public discontent would be to one-party rule. He chose to fight against corruption for regime resilience.

Moreover, Economy, Kokubun, and Miyamoto all document that Xi has been using the anti-corruption campaign to reassert his control over the party. Statistically, the campaign has been successful in increasing the number of officials who are prosecuted and convicted. Economy observes: “Between the start of the campaign and the end of 2014, over 400,000 officials were disciplined and more than 200,000 prosecuted in the course... In 2015, the Ministry of Finance reported that the government underspent the budget it had allotted to officials for overseas travel, entertainment, and cars” (pp. 31–32). And therefore, she explains, the campaign has served as a significant source of popular support for Xi. Kokubun goes further. He argues that Xi used the anti-corruption campaign to gain the upper-hand over Jiang Zemin and that his goal was to deprive power of those close to Jiang, such as Bo Xilai and Zhou Yongkang. Moreover, citing the case of purging Xu Caihou, an army general close to Jiang, Miyamoto suggests that Xi aimed at grasping the People’s Liberation Army by implementing the anti-corruption campaign.

However, the anti-corruption campaign has had many undesirable effects. Economy writes that “removing corrupt high-level officials, while popular in the short run, does little to address the real issue for many in China, which is improving the lives of the poor by tackling issues such as price levels, wealth distribution, and educational opportunities” (p. 33). Moreover, as the number of supervisory committees explodes and corruption convictions proliferate, local officials are understandably fearful of punishment and thus paralyzed from performing their routine tasks. When implementing the campaign, with the cooperation of Wang Qishan – Secretary of the Central

Commission for Discipline Inspection – Xi has inadvertently encouraged coercion because corruption was defined ambiguously. In reality, before the campaign was implemented, local governments in rural China were already unable to sustain daily operations by following the official rules of fiscal transfer and subsidies. Many of the local governments had faced fiscal crises where they had to misappropriate fiscal transfers and cook the books in order to get basic operational expenses.⁷ As a result, local officials were afraid that they could be the next target of the campaign even if they were not corrupt in a real sense. And the campaign discourages officials from undertaking new projects or reforms for fear of punishment.

Politics of the State-Owned Enterprise Reform

Xi Jinping originally advocated greater market reform and seemingly wanted to diminish the role of SOEs to modernize the economy.⁸ However, Economy argues that Xi's SOE reform has made no progress and, in some aspects, has deepened the economy's dependence on the party. In November 2013 at the Third Plenum, the CCP seemed committed to, and trapped by, the dichotomy of the claim that the market would play "a decisive role" (i.e., a nominal commitment to markets) and the pledge to "persist in the dominant position of public ownership" (i.e., an actual commitment to protecting SOEs), and the conflict has, in Economy's words, "apparently been resolved in favor of the state" (p. 118). Thus, Economy concludes, "far from reducing the role of SOEs in the economy and the party's role in SOEs, the state has elevated their importance as national champions and intensified the role of the party in SOE decision-making" (p. 18).

Why has the SOE reform stalled? Economy, Kokubun, and Miyamoto all agree that it is because the SOE reform would undermine vested interests. Those who benefit from the SOE system do not want to see radical reform that would diminish their role and importance, as well as their material interests rooted in the SOE system. The four authors all suggest that these vested interests were formed as a response to the CCP's concern with regime resilience. The Tiananmen democratization movement in 1989 reminded the Chinese leadership that the market economy would lead to increasing popular demands for democratization. Miyamoto notes that Jiang Zemin, who came into office just after the Tiananmen democratization movement, made the CCP an "everybody's party" (*minna no tō*), which should satisfy every citizen's interest instead of a particular class's interest. However, it is impossible to satisfy everyone's interest, and as a result, the CCP has become the party that distributes rents to various societal groups.⁹ Jiang employed the cooptation strategy, encouraging former officials and former SOE managers to start businesses by using their political connections, and this strategy prevented the market economy from threatening China's one-party rule.¹⁰ Kokubun points out the "revolving door" (*amakudari*) built between the CCP and SOEs, and suggests that many CCP cadres earned huge private benefits by taking advantage of their political authority. Although these cadres are nominally "communist" because they are party members, in Kokubun's words, they are actually "bourgeoisies" (p. 104).

Although Hu Jintao, who succeeded Jiang, tried to curb the corruption rooted in Jiang's cooptation strategy by raising the slogan of "harmonious society" (*hexie shehui*), Kokubun and Miyamoto agree that he was never able to consolidate his power base in order to achieve his goal. Hu's reform floundered due to backlash from conservatives who enjoy the benefits from the particularistic vested interests based on the SOE system, but he did have one success.¹¹ In 2006, he accused Chen Liangyu, a conservative close to Jiang, of a serious violation of disciplines (i.e., corruption), dismissed Chen from his position as Party Secretary of Shanghai, and suspended him from taking any other position in the CCP. In 2007, Jiang promoted Xi into Party Secretary of Shanghai as Chen's successor; Xi felt indebted to Jiang for the promotion. Xi was favored by Jiang, and as a result, Hu was unable to select his favored candidate, Li Keqiang, to be his top potential successor in the National Party Congress of 2007 but had to select Xi.

In short, since the 1990s the CCP has used the particularistic vested interests based on the SOE system as a means to maintain popular support for one-party rule by distributing economic rents.

Kokubun is the most insistent about the prominence of a power struggle to explain China's policy making. He argues that the struggle for power over distributing these economic rents became especially severe after Deng Xiaoping's death in 1997 when China lost its last charismatic leader who participated in the Communist Revolution. Such a severe intra-party struggle for power over distributing rents among the collective leadership was a necessary consequence of maintaining one-party rule while advancing a market-oriented economy. However, the CCP has to face the dilemma – which all four books discuss – that the SOE reform, which would undermine the collusive and corrupt scheme of state capitalism, will be necessary to achieve sustainable economic growth.

Security Implications of the State-Owned Enterprise Reform

To maintain one-party rule while advancing a market-oriented economy, the CCP has to face another dilemma: China needs to adopt a cooperative foreign policy in order to maintain good relations with its trading partners like the United States and Japan. In the 1980s, Deng Xiaoping introduced the concept of “keeping a low profile” (*taoguang yanghui*) as a pillar of Chinese foreign policy, proclaiming that China should take a cooperative foreign policy to introduce the market economy. Since then, China has benefited from international economic transactions, and its involvement in the global economy has been the basis of its cooperative behavior in international relations.

Reformists, who want to advance the SOE reform, understand the necessity to maintain good relations with China's trading partners in order to benefit from its economic interactions, and therefore argue for adopting cooperative foreign policy. Thus, they are motivated to make a coalition with internationalists, who appreciate a peaceful international environment, in domestic politics. In the meantime, conservatives are motivated to make a coalition with hardliners and to support aggressive and abrasive foreign policy in order to protect their particularistic vested interests based on the SOE system. Julien Gewirtz indicates that, for example in the 1980s, at each crucial point of the power struggle between the reformists and the conservatives, the reformists were enabled by their coalition with internationalists.¹²

Miyamoto Yūji – in his other book – notes that the 2008 global economic crisis empowered the conservative hardliners vis-à-vis the reformist internationalists, and that since then they have been in conflict over China's foreign policy and reform policy.¹³ According to Kokubun and Miyamoto, in the power struggle of the Chinese leadership, the conservative hardliners include Bo Xilai, Zhou Yongkang, Zeng Qinghong, and Jiang Zemin. The fact that Xi Jinping's anti-corruption campaign detained Bo and Zhou may suggest that Xi is serious about curbing corruption. However, Xi feels indebted to Jiang because he became president thanks to Jiang's backing, and hence he has to consider the interests of the conservative hardliners when implementing the SOE reform and adopting cooperative foreign policy. Recently, as more international economic interactions have become GVCs based trade, the focus of international trade negotiations has shifted from tariffs into domestic regulations including the SOE reform. Thus, the reformist internationalists have a strong incentive to use international rule-making on GVCs based intra-industry trade as the *gaiatsu* (literally meaning “foreign pressure”) to advance the SOE reform and cooperative foreign policy.¹⁴

In recent years, however, the Xi administration's strategic plan of Made in China 2025 is turning China away from the GVCs based international trade. Made in China 2025 is the government's ten-year plan aiming to “achieve 70 percent ‘self-sufficiency’ in high-tech industries” by 2025 and to seek a “dominant” position in the global markets by 2049 – the hundredth anniversary of the People's Republic of China.¹⁵ To achieve this goal, the strategic plan includes “localizing and indigenizing technologies and brands, substituting foreign technologies, and capturing global market share” (Economy, p. 119). Economy acknowledges that it is a means for the state “to protect the industry from foreign competition and to prevent the market from determining winners and losers” (p. 13). Thus, Made in China 2025 would empower the conservative hardliners, make China's behavior more aggressive, and undermine the security of the Asia-Pacific region.

Is China Providing International Public Goods?

Elizabeth Economy and Kawashima Shin draw attention to China's attempt to provide international public goods through international economic institutions. Examples range from leading the establishment of the New Development Bank (formerly referred to as the BRICS Development Bank), to founding the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund, to leading the Belt and Road Initiative (also called the One Belt One Road), and to taking the initiative in the negotiation of the Regional Comprehensive Economic Partnership (RCEP).¹⁶ In her 2014 *Foreign Affairs* article, Economy argued that behind the incentive of China's provision of international public goods was Xi Jinping's priority to tighten his grip over anything.¹⁷ In the domestic sphere, this meant that Xi was cracking down on dissidents and curbing corruption. Meanwhile, in the international sphere, he worked to project China's power in whatever way he could. According to Economy, this was China's intention with establishing the AIIB, expanding its sphere of influence in Central Asia and more broadly in Eurasia by leading the Shanghai Cooperation Organization, and trying to build a Chinese-led security system by undermining U.S. influence in the Asia-Pacific region.

Kawashima suggests that China is behaving as a challenger to and a revisionist of the current U.S.-led international order. This new tendency of China's behavior includes proposing a new, more expansive regional security vision, founding international economic institutions such as the AIIB and the BRI, and expanding influence in the maritime sphere – especially in the East and South China Seas. China's attempt to build a Chinese-led international order will be a threat for the states that have followed the U.S.-led international order in the region – such as Australia, Japan, and South Korea. For example, in the South China Sea, China has ignored exclusive economic zones (EEZs) originally agreed upon by the surrounding nations. The current EEZs were determined when China was not powerful enough to participate in such a decision, and therefore, from China's standpoint the EEZs should be drawn taking China's own strength into consideration.

Since 2015, China has used the “One Belt, One Road” (OBOR: *Yi Dai Yi Lu*) as a slogan to unify the various ideas of its foreign policy. However, Kawashima is wisely cautious about identifying the OBOR (now referred to as the BRI) as a coherent strategy. In his article in the Japanese business journal *Kōken*, he suggested that the OBOR did not start with a long-term vision.¹⁸ Xi juxtaposed the investment projects that had already started during the Hu Jintao administration, and then displayed them as if they had been integrated under the vision called the OBOR.

Economy is more skeptical about China's role in providing international public goods, highlighting the flaws in the BRI. Although BRI has the potential to be a successful infrastructure plan to “connect China to other parts of the world through ports, railroads, highways, and energy infrastructure” (p. 191), she points out many shortcomings, both actual and potential, of the investment projects through the BRI. Citing Chinese scholars' reservation about the long-term value of BRI projects, she states that China's lack of sensitivity to the host countries' domestic political and social concerns regarding culture, environment, ethnicity, and health, together with an absence of effective institutions of bureaucratic transparency and accountability in both China and the host countries, may lead to nationalist backlashes in the host countries. Thus, until the economic details and legal hurdles of the BRI are worked out, skepticism is in order.

In addition to the BRI, Economy discusses that Xi has “moved to cement China's leadership position in the Asia-Pacific region through the creation or support of a number of regional institutions” (p. 196) and one of them is the AIIB.¹⁹ The assessment of the AIIB is mixed. On the one hand, administrating a multilateral development bank like the AIIB should provide China with an opportunity to learn the loaning process for infrastructure projects in developing countries. Developed countries participating in the AIIB, such as Germany and the United Kingdom, should work as a *gaiatsu* to implement reformist policies to refine China's market economic institutions. On the other hand, infrastructure projects invested by the AIIB should create demands for the Chinese manufacturers and construction companies that have excessive productive capacities. China's state capitalist system has allowed many zombie companies to survive thanks to political connections

based on the revolving door built between the CCP and SOEs. Thus, if taken as a cornucopia of reward for zombie companies, the AIIB would empower the conservative hardliners vis-à-vis the reformist internationalists in domestic politics and make China's behavior more aggressive in international relations.

Another international economic institution where China is taking initiatives is the RCEP, a sixteen-country trade negotiation initiated by the Association of Southeast Asian Nations in 2011, which would become the largest free trade agreement (FTA) in the world if concluded. Economy introduces the view that China's initiatives of the RCEP are motivated by its need to confront the Trans-Pacific Partnership, writing that "China was trying to draw attention away from the U.S.-backed trade agreement the Trans-Pacific Partnership (TPP) (now led by Japan and Australia) and to demonstrate that China can be an important actor in setting rules and standards for the global economy" (p. 199).²⁰ I interviewed a senior official of the Office of the United States Trade Representative (USTR) in February 2014. The USTR official said: "China is actually very interested in joining the TPP. Thus, while in the short term we will focus on concluding a comprehensive bilateral investment treaty with China, as well as the TPP with the 11 other currently negotiating countries, we should keep the possibility for China to join the TPP membership in the future."

Kawashima also argues that the TPP should be open for China's participation in the future. Although the Donald Trump administration withdrew the United States from the TPP, the other 11 countries concluded a new FTA referred to as the Comprehensive and Progressive Agreement of Trans-Pacific Partnership (CPTPP), which requires the signatories to be committed to domestic economic reforms including the SOE reform. China is not a signatory of the CPTPP because it is not ready to be committed to the SOE reform and other regulatory reforms. However, although the CPTPP will not alter China's worldview or ambitions, keeping it open for China's future participation will empower the reformist internationalists vis-à-vis the conservative hardliners by motivating China to commit to the SOE reform. And perhaps most important to note is that the effect of empowering the reformist internationalists would occur even if China is not an immediate signatory of the CPTPP. If China implements the SOE reform, the CPTPP including China would further deepen economic interdependence in the Asia-Pacific, which would contribute to regional security. If China does not implement the SOE reform, the CPTPP would give its signatories an advantage to benefit from GVCs based international trade and help them confront China's challenge to the current rule-based international order. While the CPTPP, which stipulates domestic economic reforms, would serve for this purpose, the RCEP, which does not stipulate domestic economic reforms, would not.

Is China a Responsible Stakeholder?

All four books argue that while China is eager to expand its influence in the Asia-Pacific region, Xi Jinping's vision of the rejuvenation of a great nation has sparked conflict with other nations, causing them to doubt China's intention to use its power as a responsible stakeholder. In the East and South China Seas, competing claims have put China at odds with Japan and other Southeast Asian countries, prompting regional alliances to balance China. The outsized presence of SOEs in China's overseas investment has provoked concerns in host countries. Looking at soft power, despite the establishment of numerous Confucius Institutes, China has largely failed to attract the global population to its culture and values due to its political system and well-known domestic problems.

By withdrawing from the TPP, the United States has opted for the backseat of the rule-making of international trade. In the meantime, China has shown its intention to take the leadership role. For example, at the 2017 World Economic Forum in Davos, Xi gave a clear statement opposing protectionism. However, as shown in this review essay, for China to lead the rule-making of GVCs based international trade, it is inevitable to be committed to the SOE reform and the Xi administration must face the backlash from the conservative hardliners. The four authors all note

that Xi is not strong enough in terms of support to be fully committed to needed domestic economic reform and cooperative foreign policy even though he has concentrated more power than any Chinese leader since Mao Zedong.

When the international negotiation of the TPP was concluded in October 2015, U.S. President Barack Obama said that “we can’t let countries like China write the rules of the global economy.”²¹ Obama did not want the United States to miss the opportunity to lead the rule-making of international trade. When hearing Obama’s statement, I thought that China could not write the rules of the global economy because it would have to use its political capital for domestic politics. In order for China to lead international rule-making, it would not be sufficient to merely write rules. China would have to persuade other states to follow the rules. So far China has found it difficult to play a decisive role in forming the new rule-making of international trade.

Although China is eager to expand its influence in the world, it does not seem to feel any responsibility for whether its behavior will enhance stability and security in the Asia-Pacific region. Now, as the U.S. influence in Asia retreats under the Trump administration, the role of the stabilizer could fall to China. However, China will not be responsible for regional stability and security unless the reformist internationalists overcome the struggle for power within the Xi administration. Who will take over the driver’s seat of rule-making of international trade? The third and fourth largest economies following the United States and China are Japan and Germany, and both countries are involved in the global economy and benefit from international economic transactions. Now that the United States and China are turning nationalism, Japan and Germany must take the lead and pave the way for more international trade, and especially for GVCs based intra-industry trade, which will encourage countries to commit to domestic reforms.

Notes

1. When introducing a Japanese source, I put the author’s surname first and given name last.
2. The international division of labor among different production stages is called “international production networks” or “global supply chains.” I use the terms interchangeably in this review essay.
3. Miyamoto Yūji, “Chūgoku ‘Shin no Kaikaku-ha’ to Renkei o,” [Japan Should Cooperate with “Real Reformists”] *Nihon Keizai Shimbun*, December 26, 2013.
4. Mary Gallagher, “Does a Stronger Xi Mean a Weaker Chinese Communist Party?” *New York Times*, March 2, 2018, <https://www.nytimes.com/2018/03/02/opinion/xi-jinping-china.html>.
5. Andrew G. Walder, *China Under Mao: A Revolution Derailed* (Cambridge, MA: Harvard University Press, 2015), 340.
6. Edward S. Steinfeld, *Playing Our Game: Why China’s Rise Doesn’t Threaten the West* (New York: Oxford University Press, 2012).
7. On local governments’ fiscal crises and malfunctioning, see An Chen, *The Transformation of Governance in Rural China: Market, Finance, and Political Authority* (New York: Cambridge University Press, 2015); Lynette Ong, *Prosper or Perish: The Political Economy of Credit and Fiscal Systems in Rural China* (Ithaca, NY: Cornell University Press, 2012); Hiroki Takeuchi, *Tax Reform in Rural China: Revenue, Resistance, and Authoritarian Rule* (New York: Cambridge University Press, 2014). For more positive tones of local governments’ roles on Chinese economic development, see Yuen Yuen Ang, *How China Escaped the Poverty Trap* (Ithaca, NY: Cornell University Press, 2016).
8. For an example of the work reflecting optimistic views on expanded roles of the market in the Chinese economy, see Nicholas Lardy, *Markets over Mao: The Rise of Private Business in China* (Washington, DC: Peterson Institute for International Economics, 2014). However, Lardy in his forthcoming book provides a more pessimistic view following Xi’s deviation from the SOE reform. He argues that China’s future prospects are shadowed by the specter of resurgent state dominance, which has begun to diminish the vital role of the market and private firms in the Chinese economy. See Nicholas Lardy, *The State Strikes Back: The End of Economic Reform in China?* (Washington, DC: Peterson Institute for International Economics, 2019).
9. Yasheng Huang, *Capitalism with Chinese Characteristics: Entrepreneurship and the State* (New York: Cambridge University Press, 2008); Teresa Wright, *Accepting Authoritarianism: State-Society Relations in China’s Reform Era* (Stanford, CA: Stanford University Press, 2010).
10. Jie Chen and Bruce J. Dickson, *Allies of the State: China’s Private Entrepreneurs and Democratic Change* (Cambridge, MA: Harvard University Press, 2010); Kellee S. Tsai, *Capitalism Without Democracy: The Private Sector in Contemporary China* (Ithaca, NY: Cornell University Press, 2007).

11. Conservatism here is defined as the position to protect vested interests, and is not related to the conservative ideology in American politics.
12. Julien Gewirtz, *Unlikely Partners: Chinese Reformers, Western Economists, and the Making of Global China* (Cambridge, MA: Harvard University Press, 2017).
13. Miyamoto Yūji, *Kyōkō Gaikō o Hansei-suru Chūgoku* [China Regrets Hardliner Foreign Policy] (Tokyo: PHP Shinsho, 2017).
14. The term *gaiatsu* was frequently used during U.S.-Japan trade negotiations in the 1980s and 1990s. See Leonard J. Schoppa, *Bargaining with Japan: What American Pressure Can and Cannot Do* (New York: Columbia University Press, 1997).
15. James McBride, “Is ‘Made in China 2025’ a Threat to Global Trade?” Council on Foreign Relations, <https://www.cfr.org/background/made-china-2025-threat-global-trade> (accessed August 2, 2018).
16. While the AIIB is a multilateral development bank, the Silk Road Fund is a state-owned investment fund of the Chinese government to foster investment in the BRI.
17. Elizabeth C. Economy, “China’s Imperial President: Xi Jinping Tightens his Grip,” *Foreign Affairs* 93, no. 6 (November / December 2014): 80–91.
18. Kawashima Shin, “Shū Kinpei Jidai no Chūgoku o Yomu,” [Reading the China of Xi Jinping’s Era] *Kōken*, no. 652 (December 2017): 54–93.
19. Although the Xi administration originally announced the AIIB as a Chinese-led multinational development bank financing the BRI based investment projects, many of the projects have not been financed by the AIIB but by the Export-Import Bank of China and the Silk Road Fund. See Kawashima, “Shū Kinpei Jidai no Chūgoku o Yomu,” 74.
20. Economy cites the following article to support this view: Mireya Solis, “China Flexes Its Muscles at APEC with the Revival of FTAAP,” *East Asia Forum*, <http://www.eastasiaforum.org/2014/11/23/china-flexes-its-muscles-at-apec-with-the-revival-of-ftaap/> (accessed November 23, 2014).
21. “Statement by the President on the Trans-Pacific Partnership,” <https://www.whitehouse.gov/the-press-office/2015/10/05/statement-president-trans-pacific-partnership> (accessed October 5, 2015).

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