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**The Limits of Institutional Reform in China:  
Analysis of Patterns of Managers' Career Mobility  
between Business Entities and Party-State Institutions**

Keio University Graduate School of Media and Governance

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## Thesis Abstract

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Title of the Thesis:

The Limits of Institutional Reform in China: Analysis of Patterns of Managers' Career Mobility between Business Entities and Party-State Institutions

Title of the Thesis in Japanese:

中国における制度改革の限界—企業と党・国家組織との間における経営者の  
転職の様相に関する分析

The main purpose of this dissertation is to examine how the Chinese party-state has (dis-)integrated itself with business entities in the course of the opening-up reform. It analyses the patterns of career mobility of management from 33 strategically important companies in China, holding that managers create *informal networks* between business entities and party-state institutions when transferring between them. Analysis is based on four author-compiled datasets, which include career backgrounds of managers, incumbent in 1992, 2000, 2005, and 2010 (468 positions in total). Analysis approaches the research problem from the perspective of historical institutionalism and, using social network analysis as its main tool (*Cytoscape* software), sets two *research questions*: (1) how did institutional reform affect informal networks? and (2) what facilitated their emergence and persistence?

Analysis finds that at different points in time informal networks of a very limited number of companies extended to the central government institutions beyond their industry and to local governments. Specifically, some companies had links to the State-owned Assets Supervision and Administration Commission, the main institution in charge of China's large state-owned enterprises. Analysis shows that *this pattern of informal networks is a result of a longer-term, path-dependent development. It is a display of continuous multiple formal institutional adjustment intertwining with the existing previously established institutions.* These findings defy the implicit assumption of regime resilience argument, which suggests that the Chinese Communist

Party (CCP) regime is capable of foreseeing and controlling the future development of its newly established or adjusted institutions. This argument may hold true over a relatively short period of time. However, the result of a long-term multiple institutional adjustments may be difficult to anticipate. As this study shows, perfect adaptation is limited since old institutions and earlier policy decisions persist, moreover, a particular pattern of informal networks emerges. Eventually, this could undermine regime stability – institutional adaptation notwithstanding, the existing rigid pattern of networks may constrain regime’s capacity to implement necessary policies. In this way, this study makes a *theoretical contribution* to the literature on regime stability in China, mainly the argument on authoritarian resilience.

*Empirically*, this study reveals the model of governance the regime has attempted to create over the last two decades to effectively manage the economy. The patterns of managers’ career mobility demonstrate how the CCP has gradually strengthened its role in information gathering and policy making, while the state has been left with administering it.

*Methodologically*, this research tests a relatively new set of tools in China studies, which could be further utilized to conceptualize elite politics in China and analyze large sets of data in the field.

**Keywords:** manager career mobility, network analysis, regime adaptation, institutional reform, governance model, China

# 主 論 文 要 旨

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主論文題目：

The Limits of Institutional Reform in China: Analysis of Patterns of Managers' Career Mobility between Business Entities and Party-State Institutions

主論文題目(日本語)：

中国における制度改革の限界—企業と党・国家組織との間における経営者の転職の様相に関する分析

本研究の目的は、改革開放に伴い、中国の党・国家組織が企業とどのように分離したのか、もしくは分離しなかったのかを分析することである。本研究は、体制にとって利益的な 33 の企業の経営者の経歴に注目し、党・国家組織と企業との間におけるインフォーマル・ネットワーク分析を行なった。インフォーマル・ネットワークとは、経営者が企業と党・国家組織との間を転職した結果つくりあげる、党・国家組織と企業との間の繋がりである。本研究において、経営者の転職の様相の分析は筆者が作成した 4 つのデータセットに基づいている。データセットは、1992 年、2000 年、2005 年、そして、2010 年の 4 つの時点で企業に勤めていた経営者の経歴に関するものである（総計 468 役職）。本研究の分析視角は歴史的制度論であり、主な分析手法は社会的ネットワーク分析（「サイトスケープ」ソフトウェア利用）である。このような分析視角と手法を用い、以下二つの問いを設定した。第一に、制度改革は、インフォーマル・ネットワークにどのような影響を与えたのか、第二に何がネットワークの構築を推進したのか、そして持続させたのかという問いである。

本研究は、異なる時点で、非常に限定的な数の企業が、その企業の産業分野以外に関する中央政府の組織と、また地方政府とより深い繋がりがあることを明らかにした。具体的には、一部の企業は、中国の主な国有企業を管理している国有資産監督管理委員会とより密接な繋がりをもっていることがわかった。以上の分析が示し

たこととは、党・国家組織と企業との間における独特な様相のインフォーマル・ネットワークが、長期的、経路依存的な過程を通じて意図なく作り上げられたということである。これは、党・国家が社会・経済上の変化に適応するために実施した複数の制度の調整が既存の制度と絡み合ったからである。以上のような結論は、権威主義体制の強靱性論、すなわち制度適応論が暗に示している前提に反駁する。体制の適応論とは、新しく作られた、もしくは改正された制度が今後どのように作用するかという点を中国共産党は予知し管理できたため体制は持続した、とする論である。体制の適応論は短期的には正しい。しかしながら、本研究は、長期に渡り複数の制度を調整したことで得られた結果は予測できないものとなる可能性があると指摘している。本研究が指摘しているのは、完全に適応することは、以前からの制度や以前の政策決定の経路依存によって、難しいという点である。さらに本研究は、独特な様相のインフォーマル・ネットワークが作り上げられる点を説明した。体制は適応するにも関わらず、本研究が明らかにしたネットワークの様相は、長期的に、党・国家が必要とする政策を実行するための党・国家自身の能力を制限する可能性があり、つまりそれは体制の安定を脆弱にすると考える。従って、本研究は、体制の安定、具体的には権威主義体制の強靱性に関する先行研究に、理論的に貢献できると考える。

本研究の実証的な貢献は、中国共産党による体制が、ここ 20 年で経済を管理するためにつくろうとした統治モデルを明らかにしたことである。企業と党・国家組織との間における経営者の転職の様相の分析によって、党が情報の収集や政策決定の役割を強化する一方で、国家はその役割の中でも行政に関するものに限定されたということを明らかにできた。

研究手法として、本研究は、中国研究のなかでは新しい方法を用いた。この研究手法によって、中国のエリート政治を概念化することができるとともに、多量データ分析を可能にすると考える。

**キーワード：**企業経営者の転職、ネットワーク分析、体制の対応、制度改革、統治モデル、中国

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## **LIST OF ABBREVIATIONS**

AVIC	China Aviation Industry Corporation
CCP	Chinese Communist Party
CNFC	China National Fisheries Corporation
CNOOC	China National Offshore Oil Corporation
CNPC	China National Petroleum Corporation
COFCO Group	China National Cereals, Oils and Foodstuffs Corporation Group
CPPCC	Chinese People's Political Consultative Conference
FAO	Food and Agriculture Organization
FDI	foreign direct investment
MOFCOM	Ministry of Commerce of the PRC
NDRC	National Development and Reform Commission
NORINCO	North China Industries Corporation
NPC	National People's Congress
PRC	People's Republic of China
SASAC	State-owned Assets Supervision and Administration Commission
SOE	state-owned enterprises
SPC	State Planning Commission
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development

# LIST OF NAMES, ORGANIZATIONS AND TERMS IN CHINESE

## Names of Organizations

Baoding Tianwei Baobian Electric Co Ltd.	保定天威保变电气股份有限公司
Beijing Nonferrous Metal Research Institute	北京有色金属研究总院
CCP Central Committee Organization Department Enterprise Cadre Office	中央组织部企业干部办公室检疫 总局
Central Leading Group for Financial and Economic Affairs	中央财经领导小组
Chengdu Aircraft Industry Group	成都飞机工业(集团)公司
China Aerospace Mechanical and Electronics Corporation	中国航天机电集团公司
China Changan Automobile Company	中国长安汽车公司
China Coal Construction and Development Corporation	中煤建设开发总公司
China Construction International Corporation	中国对外建设总公司
China Eastern Airlines Corporation	中国东方航空集团公司,
China Insurance International Holdings Co Ltd.	中保国际控股有限公司
China Jialing Group Chairman	中国嘉陵集团公司
China National Building Material Company	中国建筑材料集团有限公司
China National Cereals, Oils and Foodstuffs Corporation (COFCO) Group	中粮集团有限公司
China National Coal Group Corporation (China Coal)	中国中煤能源集团有限公司
China National Coal Industry Import and Export Group Corporation	中国煤炭工业进出口集团公司
China National Coal Mine Corporation	中国统配煤矿总公司
China National Coal Mine Corporation Shanxi Company	中国统配煤矿总公司山西公司
China National Materials Group Co Ltd.	中国中材集团有限公司
China National Nuclear Industry Corporation	中国核工业总公司
China National Offshore Oil Corporation (CNOOC)	中国海洋石油总公司
China National Petroleum and Natural Gas Corporation	中国石油天然气总公司
China National Space Administration	国家航天局
China Nonferrous Metals Industry Corporation	中国有色金属工业总公司
China Nuclear Engineering Construction Corporation	中国核工业建设集团公司
China Petrochemical Corporation	中国石化总公司

China Railway Construction Corporation	中国铁道建筑总公司
China Railway Corporation	中国铁路总公司
China Railway Engineering Corporation	中国铁路工程总公司
China Railway Group Ltd.	中国中铁股份有限公司
China South Industries Group Corporation	中国兵器装备集团
China State Shipbuilding Industry Corporation	中国船舶工业总公司
China Travel Service (Holdings) Hong Kong Ltd.	香港中旅(集团)有限公司
Chinese Communist Party	中国共产党
Chinese Department Store Corporation	中国百货公司
Daqing Petroleum Administration	大庆石油管理局
Datang International Power Generational Co Ltd.	大唐国际发电股份有限公司
Economic and Trade Office of the State Council	国务院经济贸易办公室
Everbright Securities Co Ltd.	光大证券股份有限公司
Fifth Cadre Bureau	干部五局
Finance and Economic Committee	财政经济委员会
Guidance Catalogue of Outward FDI in Foreign Countries and Industries	对外投资国别产业导向目录
Ministry of Coal Industry Center for Infrastructure Management	煤炭部基本建设管理中心
Ministry of Commerce of the PRC	中华人民共和国商务部
Ministry of Foreign Affairs of the PRC	中华人民共和国外交部
Ministry of Foreign Trade of the PRC	中华人民共和国外贸部
Ministry of Personnel of the PRC	中华人民共和国人事部
Nam Kowng (Group) Co Ltd.	澳门南光集团有限公司
National Development and Reform Commission	国家发展和改革委员会
Northeast China Inner Mongolia Coal Industry Joint Corporation	东北内蒙古煤炭工业联合公司
Northeast Petroleum Institute	东北石油学院
Organization Department Enterprise Cadre Office under the CCP Central Committee	中央组织部企业干部办公室
Qilu Petrochemical Company	齐鲁石化公司
SASAC 1st Bureau of Corporate Executives Administration	企业领导人员管理一局
SASAC 2 <sup>nd</sup> Bureau of Corporate Executives Administration	企业领导人员管理二局
Shengli Oilfield Petrochemical Plant	胜利石油化工总厂
Shenhua Group Corporation	神华集团有限责任公司

South China Industries Group Corporation	中国兵器装备集团公司
Special Inspectors General Office	国务院稽查员总署
State Administration of Quality Supervision, Inspection and Quarantine	国家质量监督检验
State Bureau of Coal Industry	国家煤炭工业局
State Construction Committee	国家建设委员会
State-owned Assets Supervision and Administration Commission (SASAC)	国有资产监督管理委员会
Supervisory Board for Large Key SOEs	国有重点大型企业监事会
Zhenhai General Petrochemical Works	中国石油化工总公司镇海石油化工总厂
Zoomlion Heavy Industry Science and Technology Co Ltd.	中联重科股份有限公司

### **Names of Individuals**

Bai Baier	白拜尔
Chai Shufan	柴树藩
Chen Jinhua	陈锦华
Ding Guiming	丁贵明
Ding Zhiguo	丁志国
Gan Zhijian	干志坚
Gao Huaizhong	高怀忠
Guo Shengkun	郭声琨
Jiang Jiemin	蒋洁敏
Jiang Zhigang	姜志刚
Jin Zhuanglong	金壮龙
Li Fuchun	李富春
Li Renjun	李人俊
Li Rongrong	李荣融
Li Yizhong	李毅中
Liu Qi	刘淇
Luo Bingsheng	罗冰生
Luo Han	罗汉
Ma Fucai	马富才
Ma Kai	马凯
Ma Yi	马仪

Mu Zhanying	穆占英
Shang Bing	尚冰
Sheng Huaren	盛华仁
Song Ping	宋平
Su Shulin	苏树林
Wang Tao	王涛
Wang Yong	王勇
Wei Liucheng	卫留成
Xiong Weiping	熊维平
Xu Liangtu	徐良图
Yan Dunshi	阎敦实
Yao Yilin	姚依林
Ye Qing	叶青
Yu Hongen	于洪恩
Zhang Haoruo	张皓若
Zhang Ping	张平
Zhang Qingwei	张庆伟
Zhang Shou	张寿
Zhang Xiwu	张喜武
Zhang Yi	张毅
Zhang Yongyi	张永一
Zhang Youxuan	张有萱
Zhu Rongji	朱镕基
Zou Jiahua	邹家华

### **Others**

external director	外部董事
independent director	独立董事
special inspector to the key large SOEs	国务院稽查特派员
state capital controlled company	国有资本控股公司
state capital invested company	国有资本参股公司
wholly state-owned company	国有独资公司
wholly state-owned enterprise	国有独资企业

## Chinese Terms

<i>beian zhidu</i>	备案制度	examination and approval system
<i>bianzhi</i>	编制	official staffing
<i>buji</i>	部级	ministry-level administrative rank
<i>chengbao jingying zerenzhi</i>	承包经营责任制	contractual management responsibility system
<i>dang-zheng fenkai</i>	党政分开	separation of the Party and the government
<i>duikou</i>	对口	direct communication between organizations
<i>fen zao chifan</i>	分灶吃饭	“eating in separate kitchens”
<i>ganbu sihua</i>	干部四化	cadre modernization
<i>geminghua</i>	革命化	revolutionariness
<i>gongye xue Daqing</i>	工业学大庆	“industries to learn from Daqing
<i>juji</i>	局级	bureau-level administrative rank
<i>lianghui</i>	两会	two meetings (NPC and CPPCC)
<i>luhang chuziren zhize</i>	履行出资人职责	contributor’s functions
<i>mingan guojia he diqu</i>	敏感国家和地区	sensitive countries and areas
<i>mingan hangye</i>	敏感行业	sensitive sectors
<i>minzhu tuijian</i>	民主推荐	democratic recommendation
<i>minzhu tuijian</i>	民主推荐	democratic recommendation
<i>nianqinghua</i>	年轻化	youthfulness
<i>qiye bianzhi</i>	企业编制	<i>bianzhi</i> of industrial enterprises
<i>shuangguizhi</i>	双轨制	two-track system
<i>xingzheng bianzhi</i>	行政编制	administrative <i>bianzhi</i>
<i>zheng-qi fenkai</i>	政企分开	separation of government and enterprises
<i>zhishihua</i>	知识化	knowledge
<i>zhuanyehua</i>	专业化	professionalism

# **INTRODUCTION**

## Research Background

Unprecedented achievements of the opening-up reform in China has been one of the most debated phenomena worldwide in recent decades. As a result of the reform launched in 1978,<sup>1</sup> millions of people have been raised from poverty,<sup>2</sup> according to the World Bank, from 1978 until 2014, annual GDP growth rate averaged 9.78 percent,<sup>3</sup> in 2014, 95 Chinese companies were among 500 largest corporations in the world ranked by revenues.<sup>4</sup> Moreover, and probably most importantly, these developments have been achieved under the single-party regime of the Chinese Communist Party (CCP),<sup>5</sup> which stayed intact even as the economy grew.

Although pessimistic scenarios for China's future are far from lacking, as of now it appears that Chinese leaders have been able to create a tailor-made system to achieve the goals of the reform.<sup>6</sup> Having set their minds on reforming the system governing the

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<sup>1</sup> Although it is generally acknowledged that the economic reform was launched in 1978, *opening-up reform* was not officially inscribed into the policy documents of the Third Plenary Session of the Eleventh CCP Central Committee. But reform measures were taken around this time, thus this research also holds that 1978 was the beginning of the reform. For more on this see Akio Takahara, "Regarding the Ground Breaking Nature of 1978 in Contemporary Chinese History," in *Transition to the Post-Mao Reform in China: Beyond 1978*, eds. Masafumi Iida, Tomoki Kamo, and Ken Jimbo, ch. 7 (Tokyo: Keio University Press, 2011) (in Japanese).

<sup>2</sup> Poverty rate in China (share of the population living on less than 1.25 USD a day) has decreased from 69.4 percent in 1984 and 60.7 percent in 1990 to 15.8 percent in 2005 and 6.3 percent in 2011 (*The World Bank Poverty and Equity Data*). From the beginning of the reform until the end of the 20th century, Chinese government had managed to reduce the poor rural population without food and clothing from 250 million to 32 million, lowering its proportion in the total rural population from 30.7 percent to 3.5 percent. China was the first developing country to achieve poverty reduction target of Millennium Development Goals for 2015 ahead of the schedule (UN Development Program, "Eradicate Extreme Hunger and Poverty: Where We Are," accessed May 31, 2015, <http://www.cn.undp.org/content/china/en/home/mdgoverview/overview/mdg1.html>).

<sup>3</sup> Calculation by the author based on the data provided by *The World Bank*.

<sup>4</sup> *Fortune Global 500 2014*, accessed October 5, 2014, <http://fortune.com/global500/sinopec-group-3/>.

<sup>5</sup> "The Chinese Communist Party," or "the CCP," is the conventional usage abroad, official name "the Communist Party of China" or "CPC" notwithstanding (David Shambaugh, *China's Communist Party: Atrophy and Adaptation* (Washington: Woodrow Wilson Center Press, 2010), 183).

<sup>6</sup> The author holds that the goals of the reform in China were not limited to those of economic growth

economy and the state in order to improve the wellbeing of the populace and restore regime legitimacy after the Cultural Revolution, the CCP regime has been in continuous search for the best-fitted development model for the country. Often described as the great experiment,<sup>7</sup> several decades since the late 1970s are best characterized by *reform* and *adjustment*. While achievements of the reform have been attributed to different factors, the keywords of reform and adjustment summarize the vast body of literature on this topic. The CCP-led government in China implemented numerous State Council reforms to make the system better suited to the changing socioeconomic environment. Downsizing and restructuring of the State Council itself and its subordinate institutions was aimed at enhancing their efficiency and also reducing the influence of vested bureaucratic interests.<sup>8</sup> State enterprise system, one of the pillars of the reform, has also been transformed in pursuit of its better performance. Various institutional adjustments were introduced – dual-track system, also separation of the management from the state, and modern enterprise system. Government apparatus has also been reformed and adjusted.

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only. As economic growth brought about significant socioeconomic changes, the CCP regime had to respond to them in order to sustain the regime and secure the populace's acceptance of the regime. In short, the goals of the reform in a wider sense refer to continuous socioeconomic development under stable CCP regime.

<sup>7</sup> While the *great experiment* has been a popular term in the media to describe the reform in China, it is attributable to Deng Xiaoping, the architect of the reform. In 1985, Deng stated that Chinese reform is “a great experiment, something that is not described in books” (Deng Xiaoping, “Reform and Opening to the Outside World are a Great Experiment,” June 29, 1985, excerpt from a talk with a delegation from the Party of the National Liberation Front of Algeria, June 29, 1985, in *Selected Works of Deng Xiaoping. Vol. III (1982-1992)* (Beijing: Foreign Languages Press, 1994)).

<sup>8</sup> Pearson writes that since the beginning of the economic reform, Chinese economic bureaucracy has been continuously reorganized to increase efficiency. A major reform, headed by Premier Zhu Rongji in 1997-1998, was in part designed to reduce regulatory interference from vested bureaucratic interests (Margaret M. Pearson, “The Business of Governing Business in China,” *World Politics* 57 (2005): 304).

China observers did not fail to take notice of the success of these institutional reforms and adjustments. Puzzled with the resilience of the single-party regime as the economic reform progressed, many have found explanation of its stability, or resilience, in the regime's ability to adapt. The party-state regime is not static but instead changes along with the environment.<sup>9</sup> While acknowledging that causes of authoritarian resilience are complex, Nathan argues that regime's responsiveness, or ability to adapt, manifests itself through institutionalization, defined as "behavior that is constrained by formal and informal rules, or in the older sense summarized by Samuel P. Huntington as consisting of the adaptability, complexity, autonomy, and coherence of state organizations."<sup>10</sup> A comprehensive review of the literature on the party adaptation and regime resilience is offered in *Chapter 3*. It discusses how this body of literature exposes regime's multifaceted adaptation extending to all aspects of Chinese political system – the Party itself,<sup>11</sup> state institutions,<sup>12</sup> the military,<sup>13</sup> and the party-state's

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<sup>9</sup> "General Remarks," in *Transition of China's Party-State System: Demands and Responses*, eds. Tomoki Kamo, Kazuko Kojima, Masahiro Hoshino, and Hiroki Takeuchi (Tokyo: Keio University Press, 2012), 5 (in Japanese).

<sup>10</sup> Ander J. Nathan, "Authoritarian Resilience," *Journal of Democracy* 14, no. 1 (2003): 6-17.

<sup>11</sup> Shambaugh, *China's Communist Party*; Charlotte Lee, *Training the Party: Party Adaptation and Elite Training in Reform-era China* (Cambridge: Cambridge University Press, 2015), Takashi Suzuki, "Organizational Adaptation of the CCP: The Party and Emerging Socioeconomic Elites," in Kamo et al, *Transition of China's Party-State System*, ch.3, 75-97 [鈴木隆「共産党の組織的適応—党と新興の社会経済エリート」].

<sup>12</sup> Tomoki Kamo, "The CCP Challenge: Political Structure for Maintaining Single-Party Regime and Its Instability," *JRI Review* 3, no. 4 (2013): 60-76 (in Japanese); Tomoki Kamo, "Institutionalization of the Chinese Communist Party," in Kamo et al, *Transition of China's Party-State System*, ch.1, 11-44 [加茂具樹「中国共産党の憲政—活動の法制度化と領導の法制度化」].

<sup>13</sup> Mori Aki, "Armed Forces of the CCP: Institutionalization of Party-Military Relations," in Kamo et al, *Transition of China's Party-State System*, ch.2, 45-73 [毛利亜樹「中国共産党の武装力—法制度化する党軍関係」].

relations with the society.<sup>14</sup> Unified by the keyword of institutional adaptation, works in this field expose numerous institutional adjustments that have contributed to the *success of the reform – China’s single-party regime’s ability to deliver economic growth and sustain itself.*

### **Definition of the Research Problem**

#### ***Considering the Outcomes of Institutional Reform over a Long Term***

Rapid expansion of the volume of literature on the CCP regime’s institutional adaptation is far from surprising considering somewhat unexpected resilience of the regime.<sup>15</sup> But a major remaining question is whether such continuous stability of the regime is sustainable. While most of the works are cautious making clear statements about its future,<sup>16</sup> Nathan points out that institutionalization does “caution against too-hasty arguments that [the regime] cannot adapt and survive.”<sup>17</sup>

There exist two puzzles related to this line of argument, both empirically and theoretically. First, while regime adaptation argument has found its niche in the field over the last decade, there has also been significant number of pessimistic arguments about its future. They either focus on the sustainability of the economic growth or

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<sup>14</sup> For a number of case studies on how the regime has sought to adapt to the demands of the society see ch. 4-9 in Kamo et al, *Transition of China’s Party-State System*, also, Jie Chen and Bruce Dickson, *Allies of the State: China’s Private Entrepreneurs and Democratic Change* (Cambridge, Harvard University Press, 2010).

<sup>15</sup> Authoritarian regimes are considered inherently fragile (Nathan, “Authoritarian Resilience”).

<sup>16</sup> For example, Shambaugh notes that there remains an open question whether the CCP can continue to make the necessary adaptation and enact the necessary reforms (Shambaugh, *China’s Communist Party*, 9).

<sup>17</sup> Nathan, “Authoritarian Resilience.”

question resilience of the regime. When compared to the regime adaptation argument, which points to the strengths of the current regime, this body of literature emphasizes the weaknesses of the current system. While neither of them can be rejected, the question is how these two apparently conflicting views can be reconciled. The pessimistic arguments often address a question, different from that in the literature on regime adaptation. They often inquire what could destabilize the CCP regime, while those interested in regime resilience stay focused on what factors define its stability so far. As regime adaptation argument appears to have been valid so far, that is in a short-run, the above considerations point to the problem *what could impose the limits on the success of institutional reform* over a longer period of time, as argued by the authors of the pessimistic scenarios for China.

Second, if one attempts to apply the logics of regime adaptation argument to predict long-term development of the CCP regime, fragility of the argument's assumptions becomes visible. Although very few scholars risk drawing straightforward conclusions, this argument implicitly suggests that, first, the CCP leadership is a rational actor, which makes perfectly informed, rational decisions, and, thus, is able to not only eliminate the old institutions upon necessity, but, second, is also capable of foreseeing and controlling the future development of those newly established or adjusted institutions. As discussed in *Chapter 1*, insights from new institutionalism lend support to this observation. Furthermore, the literature on regime resilience through institutional adaptation has mainly focused on formal institutions, although

Chinese politics can hardly be understood if informal institutions are ignored. Kou and Zang note that even as institutionalization progressed “factional politics <...> has remained latent within the parameters of existing rules and norms.”<sup>18</sup>

### ***Is There Perfect Adaptation?***

Some studies on Chinese politics point out that the regime’s attempts to reform existing institutions have been compromised by remaining old institutions or their tendency to reemerge. Sheng and Zhao suggest that a peculiar relationship between China’s large corporations, which are mainly central state-owned enterprises (SOEs), is a residue of the old system, since “the interpersonal relations formed before the reform cannot be dismantled easily.” The reforms, which transformed enterprises into corporations and separated identity of SOE managers from that of government officials, did not eradicate the mixture of functions of the government and enterprises in reality.<sup>19</sup> Moreover, although the state and business entities have been formally separated, informal links between them continue to exist in the form of the so-called “revolving doors” between managers and government officials, when they are transferred between different institutions.<sup>20</sup> Furthermore, Brodsgaard illustrates how

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<sup>18</sup> Chien-wen Kou and Xiaowei Zang, “Informal Politics Embedded in Institutional Contexts: Elite Politics in Contemporary China,” in *Choosing China’s Leaders*, eds. Kou and Zang (New York: Routledge, 2014), 5. Significance of informal institutions in Chinese politics is discussed below in *Chapter 1*, which offers literature review on the subject.

<sup>19</sup> Hong Sheng and Nong Zhao, *China’s State-owned Enterprises: Nature, Performance and Reform* (Singapore: World Scientific, 2013), 186.

<sup>20</sup> *Ibid*, 188.

old institutions tend to reemerge in the process of administrative reform, since displaced bureaucrats seek to return to their former position and impede implementation of the administrative reform.<sup>21</sup>

These examples suggest that institutional adaptation may be constrained by persistent institutions, which are difficult to eliminate even as institutional reforms are implemented.

### ***The Role of Earlier Institutional Arrangements***

Further, there exists a problem related to the final “product” resulting from multiple institutional adjustments and a question whether the authors of the reform are able to foresee it in a long term. For example, since early 2000s, the regime has intentionally promoted integration with the business world, as prescribed in the Jiang Zemin’s Theory of Three Represents. The CCP invited private entrepreneurs to join its ranks, while central and local governments promoted business associations to create more effective economic policies.<sup>22</sup> While this is yet another example of institutional adaptation, it seems to have brought some unintended outcomes. Brodsgaard notes that “through career advancement and circulation in the power system, leaders with a background in business have an opportunity to advance the interests of the business

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<sup>21</sup> Kjeld E. Brodsgaard, “Institutional Reform and the State Bianzhi System in China,” *The China Quarterly* 170 (June 2002): 361-386.

<sup>22</sup> Scott Kennedy, “Comparing Formal and Informal Lobbying Practices in China: The Capital’s Ambivalent Embrace of Capitalists,” *China Information* 23, no. 2 (2009).

groups and industrial sectors in which they have worked. They also have an opportunity to protect and promote associates and subordinates in their former workplace.” The scholar refers to an article in *Caijing* from October 2009, which “argues that some state monopolies have taken advantage of their public power to form special interest groups that seek to generate profits and advance political influence.”<sup>23</sup> Downs argues that Chinese companies, national oil companies in particular, function as an interest group in economic policy and leadership politics. Nonetheless important it is to observe that their interests “do not always coincide with those of the party-state,” a feature, which can be explained by their profit-driven nature and global business portfolio.<sup>24</sup> Downs even argues that in this particular case businesses often are in the driver’s seat and the state just follows.<sup>25</sup> Hao attributes this problem to the state’s dependency on companies, large SOEs in particular. It stems mainly from the role of these corporations in China’s economic development, which is one of the important bases on which the Chinese government has built its legitimacy. Since large SOEs are responsible for securing the resources crucial for domestic economic development, they have great influence on certain policies, especially related to the countries where they invest.<sup>26</sup>

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<sup>23</sup> Kjeld E. Brodsgaard, “Politics and Business Group Formation in China,” *The China Quarterly* 211 (2012), 641-642.

<sup>24</sup> Erica S. Downs, “Business Interest Groups in Chinese Politics: the Case of the Oil Companies” in *China’s Changing Political Landscape*, ed. Cheng Li (Washington, DC: The Brookings Institution, 2008), 121-41.

<sup>25</sup> Erica S. Downs, “China’s Quest for Overseas Oil,” *Far Eastern Economic Review* (2007 September): 52-56.

<sup>26</sup> Yufan Hao, “Domestic Chinese Influences on U.S.-China Relations,” in *Tangled Titans: The United*

Again, this particular relationship appears to have emerged as a result of continuous adjustment in the regime's relations with business entities. But there is little reason to believe that the current state of affairs, where companies exert influence on policies, was intended by the leaders of the reform. And this points to the fragility of the assumptions of the advocates of the regime resilience argument that the final outcome of the reform and interactions between the established or reformed institutions are in line with the original vision of the authors of the reform.

### ***Significance of Informal Institutions***

The examples above also encompass an informal dimension – the institutions that are not formally defined and institutionalized – would it be the “revolving door” when individuals transfer between the companies and state institutions, managers’ membership in the CCP Central Committee, or business influence on the policy process. These links, such as personal relations or factional backgrounds, also engagement with particular state institutions, can become institutionalized even without an intention to establish an institution.<sup>27</sup> Kennedy’s study on business lobbying in China illustrates the significance of informal institutions, personal links in particular. Companies in China seek to hire former CCP or government officials, which could use

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*States and China*, ed. David L. Shambaugh (Lanham, Md.: Rowman and Littlefield, 2013), 141.

<sup>27</sup> Kou and Zang, “Informal Politics Embedded in Institutional Contexts” in *Choosing China’s Leaders*, eds. Kou and Zang, 4.

their expertise and also lobby their former colleagues.<sup>28</sup> Such links may influence policies, and, thus, they cannot be ignored.

That is to say, although institutional reform and adjustment as adaptation strategy can explain regime stability until now, seeking to apply this logic to understanding of political development in China over a long term, several questions need to be addressed: how does formal institutional reform affect informal institutions, and does it eradicate old institutions? Furthermore, what are the outcomes of multiple institutional adjustments and could they undermine success of institutional reform in a long term?

### **Research Objectives and Scope of the Research**

To address this research problem, this study focuses on the relations that the party-state has developed with business entities in the course of the reform. Its *subject of the analysis* is the patterns of company managers' career mobility between business entities and party-state institutions. It holds that inter-system job transfers,<sup>29</sup> membership in China's democratic institutions (the NPC and the CPPCC), also posts or membership in party institutions creates between them *informal institutions*, or networks in particular, which can be utilized as channels to exert influence on policy

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<sup>28</sup> Kennedy, "Comparing Formal and Informal Lobbying."

<sup>29</sup> Liu and Tsai suggest a distinction between *inter-system rotation* as opposed to the *intra-system rotation*. In their study, intra-system rotation is illustrated by electric power industry, where managers rotate within the corporate sector. In the case of petroleum industry, *the managers rotate between the corporate and the government sector*, which served as an example of *managerial inter-system career mobility* (Chih-Shian Liu and Chung-min Tsai, "Between the Hierarchy and the Market: Managerial Career Trajectories in China's Energy Sector," in *Choosing China's Leaders*, eds. Kou and Zang, 125).

process. To be precise, these networks are links between two institutions or organizations that a manager transfers between. In most of the cases they remain *informal*, since the rules formally stipulating inter-system job transfers or selection of a manager from a particular company to a party-state institution, is absent. That is to say, this work observes the patterns of company managers' career mobility between business entities and party-state institutions to analyze informal networks between them. In the analysis, the term *company networks* is used interchangeably to refer to the informal networks that companies have with the Party-state institutions.

The *purpose* of this research is to examine how the Chinese party-state has (dis-)integrated itself with business entities in the course of the reform. In other words, it seeks to observe, whether informal networks between the party-state and business entities have weakened and thus the party-state has (dis-)integrated itself with business entities, or, in contrary, the party-state has integrated with business entities further by expanding informal networks.

### **Conceptual Framework**

The most important aspect in the pursuit of the purpose of this research is the operationalization of "the party-state's (dis-)integration with business entities." There exists extensive volume of literature on this process at formal institutional level, such as enterprise reform or the Party's embrace of entrepreneurs that is their membership in the CCP. However, this work attempts to grasp the dynamics of the informal links

between the party-state institutions and business entities that is those links that emerge under the shadow of these adjustments.

Here *social network analysis approach* offers a convenient set of concepts to define and also tools to observe these links. The major focus of this approach is relations between units rather than those units themselves, in this research specifically – the relations between business entities and the party-state institutions. As Lincoln notes, failing to see an organization<sup>30</sup> as a network equals to depriving it of its most characteristic features.<sup>31</sup> This is in line with the basic assumption of this research that understanding the interaction between the party-state institutions and business entities is important in explaining the outcomes of policy process.

Social network can be defined “as a set of nodes (e.g., persons, organizations) linked by a set of social relationships (e.g., friendships, transfer of funds, overlapping membership) of a specified type.”<sup>32</sup> When depicted graphically, social networks are represented in nodes connected by edges – lines showing social relationships. This research examines the (dis-)integration of the party-state with business entities as a development of social networks between them. Here nodes are business entities and party-state institutions, and edges – relationships between them, emerge as a result of

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<sup>30</sup> In social network analysis, organization may refer to one institution as well as their systems – industries, economies, etc.

<sup>31</sup> James R. Lincoln, “Intra-(and Inter-)organizational Networks,” in *Research in the Sociology of Organizations*, ed. Samuel B. Bacharach, vol.1 (Greenwich, CT: JAI Press, 1982), 26, cited in Herminia Ibarra, “Structural Alignments, Individual Strategies, and Managerial Action: Elements Toward a Network Theory of Getting Things Done,” in *Networks and Organizations: Structure, Form, and Action*, eds. Nohria Nitin and Robert G. Eccles (Boston: Harvard Business School Press, 1992), 165.

<sup>32</sup> Edward O. Laumann, Joseph Galskeiwicz, and Peter V. Marsden, “Community Structure as Interorganizational Linkages,” *Annual Review of Sociology* 4 (1978), 458.

previous or later appointments and selection of company managers to those institutions. That is, the scope of this research is limited to the analysis of those networks that emerge between business entities and party-state institutions as a result of managers' career mobility.

In line with the research problem of this dissertation, social network analysis holds that formal relations do not capture the network of relationships that actually shape the organization. As noted by Lincoln, "informal networks are indispensable to organizational functioning."<sup>33</sup> Monge and Eisenberg conclude that "formal and emergent networks coexist, and each can be understood in the context of the other."<sup>34</sup> This research examines how informal networks resulting from managers' career mobility emerge and exist in the context of institutional reform.

Grasping the patterns of those networks is especially significant considering that relational ties (linkages) between actors are channels for transfer or "flow" of resources (either material or nonmaterial).<sup>35</sup> Some empirical accounts from China suggest that those companies that are better connected to the party-state are able to exert more significant influence on the process of policy process.<sup>36</sup>

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<sup>33</sup> Lincoln, "Intra-(and Inter-)organizational Networks" (see note 31).

<sup>34</sup> Peter R. Monge and Eric M. Eisenberg, "Emergent Communication Networks," in *Handbook of Organizational Communication: An Interdisciplinary Perspective*, eds. Frederic M. Jablin, Linda L. Putnam, Karlene H. Roberts, and Lyman W. Porter (Beverly Hills: Sage, 1987), 297.

<sup>35</sup> Stanley Wasserman and Katherine Faust, *Social Network Analysis: Methods and Applications* (Cambridge: Cambridge University Press, 1994), 4.

<sup>36</sup> Based on extensive interviews, Kennedy argues that companies in China have developed their own capacity to influence the government and its policies. They hire personnel that often are former government or CCP officials to interact with their former colleagues or simply navigate China's bureaucratic maze. If this argument holds true, then it should mean that those companies that are better

Intellectual inquiry of this study has been guided by *historical institutionalism*, the school under the umbrella of *new institutionalism*. According to the new institutionalists, institutions “matter” and they can explain particular policy choices. In this work, distinction between formal and informal links is fundamental, and the analysis traces down the process throughout the decades of enterprise reform, looking for critical junctures, which later defined the patterns of selective company networks. Here in this research *formal institutional links*, or *formal institutions*, refers to the formally stipulated, institutionalized relations between the party-state institutions, and their relations with different organizations. Several examples include repeatedly implemented State Council or SOE reforms, also *nomenklatura* system. Literature already provides a good insight into the evolution of formal institutional links between the party-state and business entities. This dissertation introduces them in *Chapter 3* and then focuses on the analysis of informal networks between the enterprises and the party-state institutions. For research purposes, here *informal networks* are defined as links between institutions created by individuals, who in the course of their career move between these institutions.

For the purpose of this research, analysis framework incorporates *three variables*. First, exploration of *informal networks* between strategically important business entities and party-state institutions constitutes the core of the analysis. Second, the

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connected to the state institutions and the Party are able to better advance their interests and influence policy making (Kennedy, “Comparing Formal and Informal Lobbying”).

research observes the dynamics of *formal institutional links*, such as institutionalized relations between enterprises and relevant ministries and other party-state institutions, or institutional reforms of the State Council. And third, in addition to the two dependent variables, *socioeconomic environment in China*, which to a certain degree sets policy agenda,<sup>37</sup> is introduced as an independent variable and also sets the background for the analysis of the main research questions. Approaching the research problem from institutional perspective, the research examines dynamics of informal networks against the background of socioeconomic environment and accordingly adjusted formal institutional links.

### **Research Questions and Hypotheses**

This study sets two research questions.

***RQ 1.** How has institutional reform affected informal networks between business entities and the party-state institutions?*

Looking for the answer, analysis observes patterns of inter-system appointments of company managers over the period of time from 1992 to February 2015. If the regime has been able to fully adapt through institutional reform, then:

***Hypothesis 1.** There is a positive relationship between institutional reform*

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<sup>37</sup> Significant volume of literature argues that the CCP-led government in China has continuously responded to the changing socioeconomic conditions in the country, since its legitimacy is performance-based. Seeking to maintain regime stability, it sought to respond to the citizens' demands and in this way manage possible social discontent. Furthermore, the proponents of regime adaptation argument suggest that the regime adapted accordingly. That is socioeconomic conditions influenced policy making in different ways. To rephrase this argument, socioeconomic issues in China set policy agenda.

*and informal networks with the state institutions. That is, as the reform separated business entities from the state, company networks with state institutions also weakened.*

The reform was aimed at transforming state-business relations, thus it is only correct to raise a hypothesis in regards to the company networks with state institutions. However, this analysis observes the patterns of company managers' career mobility including their membership in the CCP Central Committee.

On the other hand, reconsidering the logics of regime adaptation argument from new institutionalist perspective suggests that the influence of previously established institutions would be reflected in the outcomes of institutional reform. Moreover, policy decisions are often defined by rules of appropriateness in a particular situation (*subsection 1.1.1*), thus:

***Null hypothesis 1.** Institutional reform does not explain dynamics of informal networks between business entities and the party-state. This is due to the influence of previously established institutions and the circumstances in which decisions are made.*

If informal networks continue to exist, then a question related to their origins prevail.

Under such considerations:

***RQ 2.** What facilitates emergence or persistence of informal networks, formal institutional reform notwithstanding?*

Again, if the regime is capable of adapting fully, then other institutional factors should explain existing informal networks with the state-institutions. That is:

***Hypothesis 2.** Existing informal networks between business entities and the party-state can be explained by official economic policies. Regime utilizes inter-system appointment of managers from strategically important companies at specific periods of time and thus informal networks emerge.*

***Null hypothesis 2.** There is no relation between informal networks and economic policies at a particular point in time, because these appointments are determined by previously established institutions, such as administrative rank of the companies and previous economic policies.*

Either of the hypotheses suggests that informal networks are created by the regime itself. Yet, each of them suggests a different pattern of networks. If *hypothesis two* holds true, then the company networks would be a reflection of the policy needs. If *null hypothesis two* is correct, then the present pattern of informal networks would lag behind the official policies.

### **Data and Research Methodology**

Analysis of informal networks in this research is based on several datasets created by the author. These datasets consist of career backgrounds of the top management – general managers, deputy managers, chairmen, or vice chairmen (and directors, where relevant) – of selected companies in 1992, 2000, 2005, and 2010. The four datasets include a total number of 468 managerial positions. As explained above, formal institutional links (dependent variable) between business entities and the party-state institutions were reformed according to the needs of the socioeconomic

environment (independent variable). Therefore this research surveys all the companies that have been of strategic importance in this adaptation process in different periods of time. It is assumed here that the regime would incorporate the managers of strategically important companies into the policy process, according to their perceived significance. Thus, the sample of companies to be surveyed is selected based on their managers' membership in the CCP Central Committee (see *subsection 1.5.2*).

Observation years (1992, 2000, 2005, and 2010) are selected based on the consideration of the process of the reform. 1992 marks a turning point in the opening-up reform, and by this year a significant number of business entities had already been separated from relevant government departments. In 2003, a major institutional reform was implemented when State-owned Assets Supervision and Administration Commission (SASAC) was established to take charge of the state-owned assets. Year 2000 is chosen as an observation point before this reform and 2005 – after. To evaluate development of company network after that, one more dataset from 2010 is also included into the analysis.

Data is analyzed using social network analysis software *Cytoscape*. Although it is not always possible to include graphic visualization of large complex company networks into this work, with the aid of this software, the author was able to analyze and describe large volume of data, which would be a difficult task to accomplish manually.

## **Main Argument, Novelty of the Research and Its Contribution to the Field**

This work builds on the literature on regime adaptation and questions whether the logics of this argument can be applied to predict long-term political dynamics in China. It argues that the effectiveness of institutional reform over a long term is constrained by persistent informal institutions, networks between actors in the system in particular, that tend to remain even as formal institutional arrangements are dismantled. Moreover, these informal networks emerge as an accumulative outcome of multiple institutional adjustments and thus are difficult to foresee for the authors of the reforms. Analysis shows that first, formal institutional reform does not eliminate informal institutions, and second, multiple institutional adjustments produce unintended outcomes. In this way, this research demonstrates that the logics of regime adaptation argument can be valid in explaining regime stability over a relatively short period of time, while in longer term its implicit assumptions would be defective. This is mainly due to the fact that over a longer period of time, informal institutions manifest themselves and accumulative outcomes of multiple institutional adjustments emerge.

It is necessary to understand this pattern, because it could explain why only specific companies are able to exert influence on policy process. Sheng and Zhao observe that SOE managers in particular can carry out “in-house lobbying” as a result

of the “revolving door” between the SOE managers and government officials.<sup>38</sup> Moreover, as government officials are likely to work in the companies at some point in the future, arguably, they are willing to provide preferential policies to them. “This system creates unjust policies.”<sup>39</sup> The precondition for evaluating this problem, is the understanding of patterns of relations between the party-state and business entities. That is to say, it is important, which companies have better access to the policy making process, are these links sporadic, or do they form a regular pattern, were certain companies are at an advantageous positions when compared to the others.

Further, these relations are rather easy to observe at formal institutional level, that is where they are formally established through, usually formally stipulated, norms and procedures. However, informal relations are nonetheless important, and sometimes may be even more significant in explaining how companies influence the process of policy making.

While this research contributes to *theoretical* argument related to regime stability, *empirically* it is an attempt to explain the governance model that the CCP regime has created over the years. It explores how the regime has sought to enhance its governance capacity under the single-party regime and at the same time searches for the factors that could limit this capacity within the system. Literature provides only sporadic accounts on how the party-state has (dis-)integrated itself with business

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<sup>38</sup> Sheng and Zhao, *China's State-owned Enterprises*, 188.

<sup>39</sup> *Ibid.*

entities. Downs and Meidan discuss company managers' links to the party-state only in the case of oil companies,<sup>40</sup> although Liu and Tsai<sup>41</sup> also include the case of electric power industry, Bo<sup>42</sup> and Brodsgaard<sup>43</sup> observe company managers' representation in the CCP Central Committee, but the study on the general pattern of the relations between the party-state institutions and business entities has not been conducted yet. Moreover, career mobility patterns remaining a significant topic in China's elite studies, many works focus on political mobility of provincial leaders<sup>44</sup> or recruitment to the CCP Central Committee and Politburo.<sup>45</sup> However, *to understand future direction of political development in China, it is also important to comprehend what place economic elite is assigned in it.* As Walder notes, “[m]obility patterns give us insight into the process that are changing the characteristics of party members and state cadres.”<sup>46</sup>

*Methodologically,* this study applies a *specific set of tools* and demonstrates how it can be used in the studies of elite politics. Application of software for social network

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<sup>40</sup> Erica S. Downs and Michal Meidan, “Business and Politics in China: The Oil Executive Shuffle of 2011,” *China Security* 19 (2011): 3-21.

<sup>41</sup> Liu and Tsai, “Between the Hierarchy and the Market,” in *Choosing China's Leaders*, eds. Kou and Zang.

<sup>42</sup> Zhiyue Bo, “The 16th Central Committee of the Chinese Communist Party: Formal Institutions and Factional Groups,” *Journal of Contemporary China* 13, no. 39 (May 2004): 223–256.

<sup>43</sup> Brodsgaard, “Politics and Business Group Formation.”

<sup>44</sup> Zhiyue Bo, *Chinese Provincial Leaders: Economic Performance and Political Mobility Since 1949* (Armonk: An East Gate Book, 2002); Zhiyue Bo, “Paths to the Top Leadership in China: The Case of Provincial Leaders,” in *Choosing China's Leaders*, eds. Kou and Zang, ch. 4, 65-96; Philip S. Hsu and Jih-Wei Shao, “The Rule-bound Personnel Turnover of China's Provincial Leaders, 1993-2010,” *ibid.*, ch. 5, 97-123.

<sup>45</sup> Hsin-Hao Huang, “Entry into the Politburo of the CCP: A Qualitative Comparative Analysis of Institutionalization,” in *Choosing China's Leaders*, eds. Kou and Zang, ch. 2, 22-41.

<sup>46</sup> Andrew G. Walder, “The Party Elite and China's Trajectory of Change,” in *The Chinese Communist Party in Reform*, eds. Kjeld E. Brodsgaard and Zheng Yongnian (London: Routledge, 2006), 21.

analysis enables the author to examine relatively large datasets and expose networks of links between institutions. As a result, analysis unveils a *comprehensive pattern* of these networks. Introducing this methodology to the studies of Chinese politics also contributes to the conceptualization of the field, which has been lagging behind. Previous literature provides extensive accounts on the role of informal links in Chinese politics, but comparative perspective is limited. Conceptualization of informal links between actors, factions in particular, as social networks could aid the field in overcoming the cultural bias and make China more comparable.

### **Structure of the Dissertation**

*Chapter 1* outlines theoretical approaches this research is built on. *Section 1.1* presents the main arguments of new institutionalism, historical institutionalism in particular, seeking to explain why the implicit assumptions of the regime adaptation argument may be defective when predicting long-term stability of the CCP regime. *Section 1.2* offers an introduction of social networks approach before *section 1.3* reviews literature on informal institutions and networks in Chinese politics seeking to explain, why the patterns of company networks call for a separate study. *Section 1.4* outlines analytical framework of this study. *Section 1.5* presents research methodology and rationale behind it. *Chapter 2* is a pilot case study, which employs the case of distant water fisheries industry in China to demonstrate how these theoretical concepts outlined earlier fit into the analysis.

*Chapter 3* sets the background for the analysis of company managers' career mobility patterns in *Chapters 4 to 6*. It offers a discussion of relevant institutional adjustments and reforms, mainly State Council (*section 3.2*) and enterprise reforms (*section 3.3*) to demonstrate how formal institutional links between the state and business entities have evolved. It also discusses cadre appointment system (*section 3.4*) and then reviews the literature on regime adaptation and authoritarian resilience (*section 3.5*).

*Chapters 4 to 6* constitute the core analysis of this research. They analyze career mobility patterns of strategically important business entities in China. Discussing analysis findings against the background of formal institutional reform presented in *Chapter 3*, these chapters build the main argument of this dissertation, which is developed in three steps. First, *Chapter 4* observes the development of company networks since the beginning of the reform. It observes preceding careers of company managers and reveals that the networks of selected companies reach further to the institutions in charge of China's economic and reform policies. *Chapter 5* focuses on further development of company networks – accumulative networks. It analyzes further career of company managers that is after the observation year. Again, the analysis finds that only specific companies built links with SASAC or supervisory bodies for large SOEs. Findings show that over the years selected professionals from selected companies have penetrated the system deeper than their counterparts from other industries.

To generalize the findings of the preceding chapters, *Chapter 6* conducts an exhaustive analysis of industrial representation in the state institutions that have been found to have the strongest links with the companies, mainly, the State Planning Commission, the SASAC, and supervisory bodies for large SOEs, mainly, special inspectors and the supervisory boards for large key SOEs. Analysis of the career of the leaders of these institutions exposes the process, through which certain companies have developed and strengthened ties with the system.

For a preliminary evaluation of the significance of the networks unveiled in the preceding chapters, *Chapter 7* examines whether company networks developed over the time could explain why some of them have advanced further in China's outward FDI, sometimes even going counter to China's official foreign policy objectives.

*Conclusions* review research findings and discuss their implications. It defines the questions that need to be taken into consideration if the logic of regime adaptation argument is applied to explaining longer-term development.

# **CHAPTER 1**

## **Conceptual Framework**

*The purpose of this chapter is to explain theoretical foundations of the research approach utilized in this dissertation and show how these theoretical assumptions fit into the analytical framework of the work. Section 1.1 offers a review of the institutional theory, which has guided the author toward the research problem of this dissertation. It briefly outlines the development of new institutional theory, discusses historical institutional approach, and shows how it can be utilized to understand the impacts of party-state relations with business entities. Section 1.2 introduces social network approach, while the following section 1.3 demonstrates how this approach has been intuitively used in previous literature. Section 1.4 is dedicated to the analytical framework of this dissertation, and the final section 1.5 introduces research methodology applied to different parts of the analysis, and also research data.*

## **1.1. New Institutionalism**

### ***1.1.1 Bringing Institutions back in***

Although the study of institutions is at the roots of political science, during much of the post-war period, the discipline, especially in the United States, has rejected these roots in favor of two other theoretical approaches – behavioralism and rational choice.<sup>47</sup> New institutionalism emerged as an attempt to expose the shortcoming of these dominant theories, when around 1980 political scientists began to question the

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<sup>47</sup> Guy B. Peters, *Institutional Theory in Political Science: The New Institutionalism* (New York: The Continuum International Publishing Group, 2012), 1.

assumption about relatively unconstrained rational-choice environments and started thinking about the factors that seem to constrain decision makers.<sup>48</sup> Its mantra was that “institutions matter.”<sup>49</sup> As a theoretical approach in political science<sup>50</sup> it was defined only in 1984 in a work by March and Olsen.<sup>51</sup> The scholars attempted to grasp the ideas common to the most recent literature of that time. That is to say, new institutionalism did not emerge as a new, theoretically constructed approach. March and Olsen themselves note that “[b]y labeling the collection of ideas ‘the new institutionalism,’ [they] mean to note the fact that there was indeed an ‘old institutionalism.’”<sup>52</sup> Yet, instead of being identical to it, the new institutionalism blended the elements of the old institutionalism<sup>53</sup> into the non-institutionalist styles of

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<sup>48</sup> Daniel Diermeier and Keith Krehbiel, “Institutionalism as a Methodology,” *Journal of Theoretical Politics* 15, no. 2 (2003), 123.

<sup>49</sup> *Ibid.*

<sup>50</sup> At the time the term was introduced into the discipline, it was not peculiar to political science. There was also renewed interest in institutions in the fields of economics and to a lesser extent – in anthropology and sociology.

<sup>51</sup> James G. March and Johan P. Olsen, “The New Institutionalism: Organizational Factors in Political Life,” *The American Political Science Review* 78, no. 3 (September 1984): 734-749.

<sup>52</sup> *Ibid.*, 738.

<sup>53</sup> Although it was often described as atheoretical and descriptive, old institutionalism can be characterized by legalism, structuralism, normative analysis, as well as historical and holistic approach (Peters, *Institutional Theory*, 7-10). First, it was concerned with law and the central role of law in governing. As law has been the essential element in the governance of most of the Continental countries and has also played a central role in the Anglo-American thinking about the public sector, being interested in political institutions was (and is) to be interested in law. Further, old institutionalists hold that structure matters, and, moreover, it determines behavior. This approach leaves little or no room for individuals to shape the course of the events in government. Instead, it tends to focus on major institutional features such as presidential or parliamentary systems, thus focusing on formal, clearly defined institutional structures. This concentration on legal and formal aspects of political systems drew criticism from later political scientists, who argued that this formalism overlooks important informal features of politics. More over, such assumptions did not apply to less developed countries that lacked the constitutional structures common in Western countries.

In addition, old institutionalists had a strong tendency toward analyzing and comparing systems as a whole rather than observing particular institutions within political systems. This approach was limited to describing different countries one by one rather than making comparisons across countries, since its holistic approach made comparisons difficult.

Old institutionalists’ legalist, formal, and holistic approach was deeply rooted in historical analysis. There was an implicit consensus that in order to fully understand politics of a particular country, it was

recent theories of that time.

New institutionalism emerged as an empirical critique of dominant theoretical approaches toward political life in political science.<sup>54</sup> It is “an assertion that what we observe in the world is inconsistent with the ways in which contemporary theories ask us to talk.”<sup>55</sup> In behavioralism of the 1960s and 1970s, institutions were viewed as epiphenomenal, while the rational choice proponents saw political actors making rational decision in unconstrained environment. New institutionalism was built around different ideas. It developed “not so much merely to reassert some of the virtues of the older form of analysis but more to make a statement about the perceived failings of what had come to be the conventional wisdom of political science.”<sup>56</sup> In the words of March and Olsen, these ideas:

*deemphasize the dependence of the polity on society in favor of an interdependence between relatively autonomous social and political institutions; they deemphasize the simple primacy of micro processes and*

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necessary to understand the development that produced that system. While for contemporary scholars in the field of area studies this argument would hardly appear controversial, some political scientists, especially the proponents of rational choice theory, are very likely to question it.

Finally, old institutionalists were often concerned with a “good government.” Their analyses often incorporated normative values, which no doubt made objective scientific analysis and theory building difficult. Later this came under critique and the reformers for the discipline called for a separation of fact and value.

<sup>54</sup> This chapter seeks to present theoretical foundations of this dissertation, rather than exhaustively discuss the development and intellectual foundations of the new institutional theory. Thus introduction of new institutionalism here is limited to the needs of this work. For a comprehensive explanation of how the new institutionalist argument fits with or rejects behaviorist or rational choice assumptions, see Peters, *Institutional Theory*, 16-18, for a detailed critique of these approaches see March and Olsen, “The New Institutionalism,” also for a concise review of new institutionalist critique of these approaches see Kathleen Thelen and Sven Steinmo, “Historical Institutionalism in Comparative Politics,” in *Structuring Politics*, ed. Sven Steinmo, Kathleen Thelen, and Frank Longstreth (Cambridge: Cambridge University Press, 1992).

<sup>55</sup> March and Olsen, “The New Institutionalism,” 747.

<sup>56</sup> Peters, *Institutional Theory*, 11.

*efficient histories in favor of relatively complex processes and historical inefficiency; they deemphasize metaphors of choice and allocative outcomes in favor of other logics of action and the centrality of meaning and symbolic action.*

The literature, which established foundation for the new institutionalism, did not present a set of unified consistent ideas. As Pierson and Skocpol later note in regards to historical institutionalism in particular, “Like the character in Moliere’s play who spoke prose all this life without knowing it, contemporary political scientists are familiar with leading examples of historical institutionalist research without necessarily realizing that they exemplify a coherent genre.”<sup>57</sup> Based on this literature, March and Olsen identified several shared assumptions. First, new institutionalism insists on a more autonomous role for political institutions. As argued by the scholars, institutions “are political actors in their own right.”<sup>58</sup> Rather than being merely mirrors of social forces, they affect the flow of history. For example, Skocpol and Finegold show that programs, adopted as a political compromise, become endowed with separate meaning and force by having an agency established to deal with them.<sup>59</sup> According to them, “these institutions laid the basis for an *administrative will to*

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<sup>57</sup> Theda Skocpol and Paul Pierson, “Historical Institutionalism in Contemporary Political Science,” *Political Science: State of the Discipline*, ed. Ira Katznelson and Helen V. Milner (New York: W.W. Norton, 2002), 693.

<sup>58</sup> March and Olsen, “The New Institutionalism,” 738.

<sup>59</sup> *Ibid.*

*intervene* in national market economy.”<sup>60</sup> Furthermore, establishment of certain public policies “activates and organizes otherwise quiescent identities and social cleavages.”<sup>61</sup> Similarly, policy experts within the political system develop and shape the understanding of policy issues and alternatives.” Heclo offers a comparative-historical account of long-term development of unemployment insurance and policies of old-age assistance in Britain and Sweden, and notes that the process of policy making “is political, not because all policy is a by-product of power and conflict, but because some men have undertaken to act in the name of others.”<sup>62</sup> Following the line of logics of this observation, granting a particular individual access to the policy process shapes the final outcomes of the process. Or, in the words of new institutionalists, “once institutions are formed, they take on a life of their own and drive political process.”<sup>63</sup>

Further, the early works on new institutionalism point out that dominant theoretical approaches tend to oversimplify political systems and also mistakenly assume historical efficiency. Since empirical observations emphasize rather complicated intertwining of institutions, individuals, and events, new institutionalists suggest the concept of *political structure*, which defines “a collection of institutions,

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<sup>60</sup> Theda Skocpol and Kenneth Finegold, “State Capacity and Economic Intervention in the Early New Deal,” *Political Science Quarterly* 97, no. 2 (Summer 1982): 275.

<sup>61</sup> March and Olsen (“The New Institutionalism,” 738) cite Charles Tilly, *From Mobilization to Revolution*, (Reading: Addison Wesley Publishing Company, 1978) and Johan P. Olsen and Harald Saetren, *Aksjoner og Demokrati [Citizens’ Initiatives and Democracy]* (Bergen: Universitetsforlaget, 1980).

<sup>62</sup> Hugh Heclo, *Modern Social Politics in Britain and Sweden: From the Relief to Income Maintenance* (New Haven and London: Yale University Press, 1974), 305.

<sup>63</sup> Andre Lecours, “New Institutionalism: Issues and Questions,” in *New Institutionalism: Theory and Analysis*, ed. Andre Lecours (Toronto: University of Toronto Press Incorporated, 2005), 9.

rules of behavior, norms, roles, physical arrangements, buildings, and archives that are relatively invariant in the face of turnover of individuals and relatively resilient to the idiosyncratic preferences and expectations of individuals.”<sup>64</sup> That is to say, they criticize an explanation of actions as based on choice, and suggest that actions are defined by rules of appropriateness in a particular situation. What is appropriate in a particular situation is defined by the political and social system and transmitted through socialization. Understanding political behavior in such a way does not only correspond to the empirical observations, but also brings to our attention to the possible limiting conditions for efficiency.<sup>65</sup>

Further elaborating on the problem of efficiency and rational choice-driven policy making, March and Olsen question the dominant assumption in the theory of political science that “[t]he intent of political actions is found in outcomes, and the organizing principle of political system is the allocation of scarce resources in the face of conflict of interest.”<sup>66</sup> The institutionalist challenge is based on empirical observations of processes of decision making,<sup>67</sup> which “regularly discern features that are hard to relate to an outcome-oriented conception of collective choice.”<sup>68</sup> For example, from a classical decision-making theory point of view, information is gathered and used because it helps make a choice. However, empirical observations

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<sup>64</sup> March and Olsen, “The New Institutionalism,” 741.

<sup>65</sup> Ibid, 740-741.

<sup>66</sup> Ibid, 741.

<sup>67</sup> For example see James G. March and Johan P. Olsen, *Ambiguity and Choice in Organizations*, 2nd ed. (Bergen, Oslo, Tromso: Universitetsforlaget, 1979).

<sup>68</sup> March and Olsen, “The New Institutionalism,” 741.

show, that individuals and organizations invest in information, which is not particularly relevant to the decision making, moreover, they ask for or gather information and do not use it.<sup>69</sup>

### ***1.1.2 Historical Institutionalism and Path Dependency***

New institutionalism has been used as an umbrella term to refer to a variety of institutionalist approaches. Normative institutionalism, rational choice institutionalism, and historical institutionalism exist as distinctive schools of new institutionalism. In addition, some identify old institutionalism, international institutionalism, and societal institutionalism.<sup>70</sup> There have been different classifications of these additional versions of new institutionalism.

Normative institutionalism is sometimes considered to be the original new institutionalism. Rational choice institutionalism comes as a stark contrast to the former one. This approach holds that rather than being guided by norms and values, behavior is a result of existing rules and incentives. For the scholars, working within this framework, institutions are “systems of rules and inducements to behavior in

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<sup>69</sup> Martha S. Feldman and James G. March, “Information in Organizations as Signal and Symbol,” *Administrative Science Quarterly* 26, no. 2 (June 1981): 171-186.

<sup>70</sup> Peters, *Institutional Theory*, 19-20. These approaches have somewhat remote connections with the institutional theory. Yet, their structural and institutional aspects bring them close to the new institutionalism. One of the clearest examples of international institutionalism is international regime theory, which assumes that there are structured interactions between the states. For example see Stephen D. Krasner, ed., *International Regimes* (Ithaca, NY: Cornell University Press, 1983), Robert O. Keohane, *International Institutions and State Power: Essays in International Relations Theory* (Boulder, San Francisco, and London, 1989), Volker Rittberger, ed., *Regime Theory and International Relations* (Oxford: Clarendon Press, 1993).

which individuals attempt to maximize their own utilities.”<sup>71</sup> In this way, the approach points to institutions as an answer to one of the core problems of rational choice analysis – how equilibrium is achieved among a set of rational egoists.

Research problem of this dissertation is concerned with a different question, which is whether institutional adaptation of the regime produces the results as envisaged by its authors. Thus, the analysis focuses on a development over a longer period of time, or, to put it in the words of Pierson and Skocpol in their description of historical institutionalism, it “takes time seriously.”<sup>72</sup> Moreover, it examines accumulative effects of multiple institutional adjustments, thus historical institutionalism, which “hypothesizes about the combined effects of institutions and processes rather than examining just one institution or process at a time.”<sup>73</sup> Finally, this research inquires what pattern of relations between the party-state institutions and business entities has emerged over the time, and in this way it also echoes historical institutionalist scholarship, which often inquires, “why certain structures or patterns take shape in some times and places but not others.”<sup>74</sup> In short, historical institutional approach appears to be the most relevant approach and thus calls for a closer discussion here.

Central in explaining why history and long-term development may be of critical

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<sup>71</sup> Peters, *Institutional Theory*, 20.

<sup>72</sup> Pierson and Skocpol, “Historical Institutionalism,” 696.

<sup>73</sup> Ibid.

<sup>74</sup> Ibid.

importance is the concept of *path dependency*. It holds that decisions made at a certain point in time set a particular course for further development. That is, policy decisions have a tendency toward self-enforcement: making a choice or taking an action puts in place a set of forces that keep further development on a particular path. This path may be changed or development might be diverted only at the effect of significant forces. Moreover, these processes “have very interesting characteristics.” In the early stages they may be of “modest perturbations,” but “once actors have ventured far down a particular path, however, they are likely to find it very difficult to reverse course.”<sup>75</sup>

The works that use the concept of path dependency have been criticized for lacking consistency or analytical framework, as well as agreement on the definition of *path dependency*.<sup>76</sup> Greener claims that although the concept has become widely used within, “studies often have remarkably little in common in terms of their conceptual framework or approach”<sup>77</sup> As a result, path dependence may appear as a metaphor for a political organization in which “history matters.” However, while Pierson and Skocpol acknowledge that it may be a faddish term, lacking clear meaning, the scholars note that, in most of works on the subject, a clear logic is involved in path-dependent processes: “Outcomes at a critical juncture trigger feedback mechanisms that reinforce the recurrence of a particular pattern into the future.”<sup>78</sup>

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<sup>75</sup> Ibid, 699-700.

<sup>76</sup> Ian Greener, “State of the Art. The Potential of Path Dependence in Political Studies,” *Politics* 25, no. 1 (2005), 64-65.

<sup>77</sup> Ibid.

<sup>78</sup> Pierson and Skocpol, “Historical Institutionalism,” 699.

In their search for a clear definition of *path dependency*, Collier and Collier suggest *critical juncture framework*, which holds that antecedent conditions allow contingent choices that set a specific trajectory of institutional development and consolidation that is difficult to reverse.<sup>79</sup> In other words, there is a focus on particular points in time when critical decisions are adopted. In the case of China, these critical points, or critical junctures, may have occurred in the course of institutional – formal or informal – reform, when party-state relations with business units were adjusted to adapt to the new socioeconomic environment.

### ***1.1.3 New Institutional Approach and this Research Problem***

Party adaptation argument has gained a prominent place in the studies of Chinese political system over the last decade. It appears that its proponents tend to view China from a rational-choice perspective. They view the CCP leadership as a rational actor that is able to make the most rational decision in pursuit of its political goals. The CCP seeks to secure regime stability, and thus implements policy and institutional adjustments accordingly. In this view, there is a strong sense that the CCP makes such decisions under the conditions of perfect information and is also fully in charge of further implications of these decisions on Chinese political system.

New institutionalist approach, which has become a method of inquiry, or

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<sup>79</sup> Ruth Berrins Collier and David Collier, “Framework: Critical Junctures and Historical Legacies,” in *Shaping the Political Arena: Critical Junctures, the Labor Movement, and Regime Dynamics in Latin America* (Princeton: Princeton University Press, 1991), 27-39.

methodology, for understanding collective choice behavior and outcomes rather than a theory,<sup>80</sup> aids at exposing several shortcomings of this mainstream view. Identifying these particular aspects of party-state and business relations in China might help explain business influence on policy-making. First, in the new institutionalism, probably the most important element is an institution, a structural feature of the society or political system. It may be both formal (a legislature, an agency, in the public bureaucracy, or a legal framework) and informal (a network of interacting organizations, a set of shared norms, etc.). An institution transcends individuals to include their groups into patterned interactions, which are predictable based upon specific interactions between the actors.<sup>81</sup> In China, including corporate managers, both private and SOE, into party-state institutions, creates institutions between that particular party-state institution and a company. For example, when the manager becomes a member of the CCP Central Committee, there emerges a pattern of interaction over a certain period of time, which can be defined as an institution.

Second, such institutions affect individual behavior. It imposes constraints,<sup>82</sup> which may be both formal and informal. While adaptation argument implies that the CCP decision to include corporate managers is driven by its will to benefit from the managers expertise, there is a very important informal dimension that could have

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<sup>80</sup> Diermeier and Krehbiel, "Institutionalism as a Methodology," 124.

<sup>81</sup> Peters, *Institutional Theory*, 19.

<sup>82</sup> Thelen and Steinmo, "Historical Institutionalism in Comparative Politics," in *Structuring Politics*, ed. Steinmo et al.

significant implications for the decision-making process. These managers often have extensive links with the industry they come from, which may shape their policy choices. As it is explained below, cadres rarely have a luxury of making rational policy choice and “invariably find themselves constrained by a host of past commitments, personal relationships, and obligations.”<sup>83</sup>

Finally, creating particular links between the companies and party-state institutions, sets further development on a particular path. If there is a specific pattern of networks, it might lead toward strengthening of the existing networks, and eventually – rather biased policy making.

Regime adaptation argument seems to overlook that once certain institutional adjustments – State Council reform, managers’ incorporation into the party-state institutions – are implemented, additional institutions, such as links with companies, emerge as a “side effect.” They may shape further development, and thus these “side effects” of regime adaptation are highly likely to produce unexpected results, such as constrains on policy making, which are not intended by the authors of the adjustments. While regime adaptation literature logically depicts the process of the intended, Party-designed institutional adjustment, it fails to see wider implications of this process.

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<sup>83</sup> Lycian W. Pye, *The Spirit of Chinese Politics* (Cambridge and London: Harvard University Press, 1992), 208-209.

## 1.2. Social Network Approach

### 1.2.1 Definition of Social Networks

Taking its roots in the observation that relations between actors may sometimes be more important in explaining social phenomenon than the actors themselves, over decades, social network analysis has developed into an academic discipline. As noted by Barton, “[i]f our aim is to understand people’s behavior rather than simply to record it, we want to know about primary groups, neighborhoods, organizations, social circles, and communities; about interaction, communication, and social control.”<sup>84</sup>

The term *social network* stems from organizational theory, when as early as 1930s Roethlisberger and Dickson described and emphasized the importance of informal networks in organizations.<sup>85</sup> Its development received the biggest push from White’s work in 1970s. Together with his colleagues, White developed a formal apparatus for thinking about and analyzing social structure as networks. This concept of networks has found itself a prominent place in a wide spectrum of fields, such as anthropology, psychology, sociology, mental health, and molecular biology.<sup>86</sup> However, it took several more decades for this concept to be adopted by political scientist.

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<sup>84</sup> Allen Barton, “Bringing Society back in: Survey Research and Micro-Methodology,” *American Behavioral Scientist* 12 (1968): 1-9, cited in Linton C. Freeman, “Editor’s Introduction,” in *Social Network Analysis. Volume 1: Data, Mathematical Models and Graphics*, ed. Linton C. Freeman (London: SAGE Publications, 2008), xxi.

<sup>85</sup> Nitin Nohria, “Is a Network Perspective a Useful Way of Studying Organizations?” in *Networks and Organizations*, eds. Nohria and Eccles, 1-22.

<sup>86</sup> *Ibid*, 1.

The definition of social networks extends to a wide variety of social phenomena. The term has been used to describe contemporary organizations at different levels – firms of various sizes, industries, regional districts like Silicon Valley, and even national economies such as those of Japan and Korea.<sup>87</sup> In the most general way, social network can be defined “as a set of nodes (e.g., persons, organizations) linked by a set of social relationships (e.g., friendships, transfer of funds, overlapping membership) of a specified type.”<sup>88</sup> When depicted graphically, social networks are represented in nodes connected by edges – lines showing social relationships between the actors.

### ***1.2.2 Key Assumptions of Network Approach***

Social network approach is a distinct analysis perspective. According to Nohria, adopting a network perspective “means adopting a different intellectual lens and discipline, gathering different kinds of data, learning new analytical and methodological techniques, and seeking explanations that are quite different from conventional ones.”<sup>89</sup> Over several decades of development in social network analysis, its proponents have come to a consensus about the basic principles that underlie network perspective, and distinguish it from other research approaches. They can be summarized as follows.

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<sup>87</sup> For a description of economies as networks see Gary G. Hamilton and Nicole Woosley Biggart, “Market, Culture, and Authority: A Comparative Analysis of Management and Organization in the Far East,” *American Journal of Sociology* 94 (1988): 52-94.

<sup>88</sup> Laumman, Galskeiwicz, and Marsden, “Community Structure,” 458.

<sup>89</sup> Nohria, “Is a Network Perspective a Useful Way,” in *Networks and Organizations*, eds. Nohria and Eccles, 8.

1. *Relations defined by links between units are a fundamental component of network theory.*<sup>90</sup> In other words, networks analysis explains social phenomena through the lens of social networks – social relations between units. As a result, the unit of analysis in network approach is not an individual or single unit, but an entity consisting of a collection of individuals or organizations and the linkages among them.

2. *Actors and their actions are viewed as interdependent, rather than independent autonomous units.*<sup>91</sup> For example, Nohria notes that all organizations are social networks and need to be addressed and analyzed as such.<sup>92</sup> The “premise that organizations are networks of recurring relationships applies to organization at any level of analysis – small and large groups, subunits of organizations, entire organizations, regions, industries, national economies, and even the organization of the world system.<sup>93</sup> The proponents of network theory argue that failing to see organization as a network equals to depriving it of the most characteristic features. As Lincoln puts it, “[t]o assert that an organization is not a network is to strip of it that quality in terms of which it is best defined: the pattern of recurring linkages among its parts.”<sup>94</sup> From the network perspective, the interdependence of actors is crucial, and “the structure of any organization must be understood and analyzed in terms of the

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<sup>90</sup> Wasserman and Faust, *Social Network Analysis: Methods and Applications*, 4.

<sup>91</sup> Ibid.

<sup>92</sup> Nohria, “Is a Network Perspective a Useful Way,” in *Networks and Organizations*, eds. Nohria and Eccles, 1.

<sup>93</sup> Ibid.

<sup>94</sup> Lincoln, “Intra-(and Inter-)organizational Networks” (see note 31).

multiple networks and relationships in the organization and how they are patterned.”<sup>95</sup>

Furthermore, organization’s environment is properly seen as a network of other organizations. Referring to earlier organization theorists, proponents of network theory argue that the most significant elements of the organization’s environment are the other organizations, with which it transacts. What is more, it is important to know the pattern of relationships among them.<sup>96</sup> According to Barley, Freeman, and Hybels, “[n]ot only are organizations suspended in multiple, complex, and overlapping webs of relations, but the webs are likely to exhibit structural patterns that are invisible from the perspective of single organization caught in the tangle. To detect overarching structures, one has to rise above the individual firm and analyze the system as a whole.”<sup>97</sup> DiMaggio and Powell define it as an “interorganizational field,”<sup>98</sup> a field of relationships that bind organizations together.

3. *Formal and informal social networks overlap considerably.* Not less important is the observation that formal relations do not capture the network of relationships that actually shape the organization. Lincoln notes that “informal networks are indispensable to organizational functioning.”<sup>99</sup> In her study on social networks in business firms, Ibarra defines prescribed and emergent networks to differentiate

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<sup>95</sup> Nohria, “Is a Network Perspective a Useful Way,” in *Networks and Organizations*, eds. Nohria and Eccles, 5.

<sup>96</sup> Ibid.

<sup>97</sup> Stephen R. Barley, John Freeman, and Ralph C. Hybels, “Strategic Alliances in Commercial Biotechnology,” in *Networks and Organizations*, eds. Nohria and Eccles, 312.

<sup>98</sup> Paul DiMaggio and Walter W. Powell, “The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields,” *American Sociological Review* 48 (1983), 148.

<sup>99</sup> Lincoln, “Intra-(and Inter-)organizational Networks” (see note 31).

between formal and informal relations. In organizations, prescribed networks constitute of “a set of formally specified relationships between superiors and subordinates and among functionally differentiated groups that must interact to accomplish an organizationally defined task.”<sup>100</sup> These networks also include “the sets of relationships created by “quasi-structure”: committees, task forces, teams, and dotted-line relationships that are formally sanctioned by the firm but more fluid than relationships represented by organizational chart.”<sup>101</sup> As opposed to that, an emergent network refers to “informal, discretionary patterns of interaction, where the content of the relationship may be work related, social, or a combination of both.” Although formal structures are often described in contrast or opposition to informal networks, empirical research suggests that they often overlap to a considerable extent.<sup>102</sup> Monge and Eisenberg conclude that “formal and emergent networks coexist, and each can be understood in the context of the other.”<sup>103</sup>

4. *Relational ties (linkages) between actors are channels for transfer or “flow” of resources (either material or nonmaterial).*<sup>104</sup> Moreover, in social networks there are embedded certain resources that can be defined as social capital.<sup>105</sup> Based on this assumption, the advocates of network theory suggest that variations in the actions of

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<sup>100</sup> Herminia Ibarra, “Structural Alignments, Individual Strategies, and Managerial Action: Elements Toward a Network Theory of Getting Things Done,” in *Networks and Organizations*, eds. Nohria and Eccles, 166.

<sup>101</sup> Ibid.

<sup>102</sup> Ibid, 167.

<sup>103</sup> Peter R. Monge and Eric M. Eisenberg, “Emergent Communication Networks,” in *Handbook of Organizational Communication*, Jablin et al, 297.

<sup>104</sup> Wasserman and Faust, *Social Network Analysis*, 4.

<sup>105</sup> Henk Flap and Beate Volker, *Creation and Returns of Social Capital* (London: Routledge, 2003).

actors, and also their success and failure, can be better explained by the position of these actors relative to others in various networks of relationships, rather than only by the attributes of these actors. Burt suggests a sorting scheme of five groups to analyze an actor's position in the network: cohesion, equivalence, prominence, range, and brokerage. Cohesion model refers to actors that share strong common relationship with one another. Equivalence model indicates actors that have similar relations to other actors. Both of these modes are used to explain similarities in the actions of the actors in an organization, while the other three models aid in explaining the extent to which an actor is advantageously positioned relative to others. Prominence models observe the level of demand for different actors. "An actor's prominence increases as the actor is object of relations from many others who are in turn the object of many relations."<sup>106</sup> Prominence is beneficial for the actor, since it can be used to push others into doing things that further the interests of the actor.<sup>107</sup> Range and brokerage models are employed to explore different action potential. The simplest range measure is network size, a sum of an actor's relations – the more of there are, the more significant is the access to social resources.<sup>108</sup> The brokerage models hold that actors are at an

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<sup>106</sup> Nohria, "Is a Network Perspective a Useful Way," in *Networks and Organizations*, eds. Nohria and Eccles, 6.

<sup>107</sup> For example, see James S. Coleman, "Social Capital and the Creation of Human Capital," *American Journal of Sociology* 94 (1988): S94-S120; Philip Bonacich, "Power and Centrality: A Family of Measures," *American Journal of Sociology* 92 (1987): 1170-1182; Peter V. Marsden, "Restricted Access in Networks and Models of Power," *American Journal of Sociology* 88 (1983): 686-717, for prominence-based models of power and social influence.

<sup>108</sup> For examples of models of influence based on range see Mark S. Granovetter, "The Strength of Weak Ties" *American Journal of Sociology* 78 (1973): 1369-1380; Mark S. Granovetter, "The Strength of Weak Ties: Network Theory Revisited," in *Social Structure and Network Analysis*, eds. Peter V.

advantageous position if they are connected with the disorganized others. Network theorists hold that ignoring network characteristics, that is the configuration of relations, which comprise structure, leaves many issues unexplained.

5. *Network structural environment provides opportunities or creates constraints on individual action.*<sup>109</sup> Network perspective addresses the question of the relationship between structure and action, and in this way provides a more systemic explanation of certain processes. Addressing the field of economic sociology, Granovetter notes that economic action (like all action) is socially situated, “it is embedded in ongoing networks of personal relationships rather than carried out by atomized actors.” He argues that pursuit of economic goals is typically accompanied by noneconomic goals, such as sociability, approval, status, and power. This is exactly because economic activities occur in networks of personal relations.<sup>110</sup> However, other approaches often overlook this social embeddedness and, as a result, fail to grasp the actual cause of certain phenomena. Granovetter describes the analysis that abstract away from the goals related to power as “handicapped on the outset.”<sup>111</sup>

Opportunities for an actor in a specific network environment can be understood in terms of power. The concept of *centrality* is of key importance here, since it is used to explain the difference in power and influence among actors. The idea of centrality

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Marsden and Nan Lin (Beverly Hills: Sage, 1982): 105-130; Nan Lin, Walter M. Ensel, and John C. Vaughn, “Social Resources and Strength of Ties,” *American Sociological Review* 46 (1981): 393-405.

<sup>109</sup> Wasserman and Faust, *Social Network Analysis*, 4.

<sup>110</sup> Mark Granovetter, “Problems of Explanation in Economic Sociology,” in *Networks and Organizations*, eds. Nohria and Eccles, 25-26.

<sup>111</sup> *Ibid*, 25.

was introduced by Bavelas in 1948. He raised a hypothesis on the relationship between structural centrality and group processes. Under his direction, a group of scholars at the Group Networks Laboratory at MIT made the first research applications of centrality in the context of human communication.<sup>112</sup> More studies followed,<sup>113</sup> but for decades there was only an intuitive sense that being central in a network is a source of power.<sup>114</sup> Nonetheless, later it was concluded that “[a] common finding in social network studies is that central position is often associated with power and influence.”<sup>115</sup> Research findings, linking power with centrality, have been reported in deferent contexts – small laboratory work groups, within organizations, across organizations, in professional communities, and community elites.

Once centrality was associated with power, it was important to find the tools to measure centrality and in this way evaluate the power an actor possesses. The concept of centrality has been operationalized in different ways. Freeman suggested (1) degree, (2) closeness, and (3) betweenness to measure centrality. The degree of centrality (1) is simply the number of adjacent links one node has to the other nodes.<sup>116</sup> The degree of a node is viewed as an index of its potential communication activity. In a

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<sup>112</sup> Linton C. Freeman, “Centrality in Social Networks: Conceptual Clarification,” *Social Networks* 1 (1978/79), 215.

<sup>113</sup> Freeman provides an overview of the early works applying the concept of centrality in different fields (Freeman, “Centrality in Social Networks,” 215-216); also see Linton C. Freeman, “A Set of Measures of Centrality Based on Betweenness,” *Sociometry* 40, no. 1 (1977): 35-41.

<sup>114</sup> Freeman, “A Set of Measures of Centrality Based on Betweenness.”

<sup>115</sup> Daniel J. Brass and Marlene E. Burkhardt, “Centrality and Power in Organizations,” in *Networks and Organizations*, eds. Nohria and Eccles, 191.

<sup>116</sup> Freeman analyzed social networks from the perspective of graph theory, using *points* and *edges* to describe the key elements of the graph. Nowadays, network analysis commonly depicts social networks graphically, conventionally using terms *points* and *nodes* instead.

communication network, a person with the highest degree in some sense is a focal point of communication, at least with respect to the others with whom he is in contact. In the case of the lowest degree, in contrary, the actor's position isolates them from direct involvement with most of the others in the network and cuts the actor off from active participation in the ongoing communication process.<sup>117</sup> Although this measure has not been widely adopted in social network analysis, as it does not capture the system-wide properties of the network,<sup>118</sup> Brass and Burkhardt argue that it can still be used as a tool in measuring an actor's power. "The degree measure of centrality may represent the number of alternatives available to an actor. Increasing one's alternatives increases one's power."<sup>119</sup> Furthermore, degree measure can also be used for power-enhancing behaviors that occur via direct interaction. Also, direct links represent the avoidance of relying on mediating positions for direct access to resources.<sup>120</sup>

Closeness, as a measure of centrality (2), observes direct and indirect links of an actor in order to understand how "close" they are to all the other ones in the network. It can represent efficiency – how an actor can reach any other actor in the network in the lowest number of steps – or independence – being close to all others, the actor is not dependent on mediation.<sup>121</sup> This measure, differently from the degree measure, takes into consideration the characteristics of other actors in the network. It allows the

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<sup>117</sup> Freeman, "Centrality in Social Networks," 220.

<sup>118</sup> Brass and Burkhardt, "Centrality and Power in Organizations," in *Networks and Organizations*, eds. Nohria and Eccles, 194.

<sup>119</sup> Ibid.

<sup>120</sup> Ibid.

<sup>121</sup> Freeman, "Centrality in Social Networks."

possibility that an actor with very few direct links may be central by having direct links to highly central others. To give the example, provided by Brass and Burkhardt, an employee who is connected to the employees in the communication network may have access to important information, often a vital source of power.<sup>122</sup>

Betweenness measure of centrality (3) describes the extent to which actors fall between pairs of other actors on the shortest paths connecting them. A node is dependent on another, which connects it to the other nodes.<sup>123</sup> This measure represents potential control over others, since the person in such a position can influence the group by withholding or distorting information in transition. Burt defines it as “structural holes,” which allows the third point to act as a broker or intermediary.<sup>124</sup> It is this potential of control that constitutes the centrality of certain actors,<sup>125</sup> while closeness measure represents avoiding the control of others.

There have been suggested other tools to measure actor’s centrality in the network.<sup>126</sup> For example, there is a distinction between “local” and “global” point centrality. A point is defined as locally central (1) if it has a large number of contacts with other points in its immediate environment, for example a large number of connections with adjacent points. On the other hand, a point is globally central (2), if it

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<sup>122</sup> Brass and Burkhardt, “Centrality and Power in Organizations,” in *Networks and Organizations*, eds. Nohria and Eccles, 195.

<sup>123</sup> John Scott, *Social Network Analysis: A Handbook*, 2nd ed. (London: Sage Publications, 2000), 87.

<sup>124</sup> Ronald S. Burt, *Structural Holes: The Social Structure of Competition* (Cambridge and London: Harvard University Press, 1992).

<sup>125</sup> Freeman, “Centrality in Social Networks,” 221.

<sup>126</sup> Brass and Burkhardt, “Centrality and Power in Organizations,” in *Networks and Organizations*, eds. Nohria and Eccles, 195-196.

has a strategically significant position in the overall network. Since degree measure of centrality addresses only the most immediate network of a point, it may be regarded as a measure of local centrality. Global centrality can be measured by the closeness of the points, as it represents the distance between various points. It is said that two points are connected by a path, if there is a sequence of distinct lines connecting them. The length of that path is measured by the number of lines that make it up. A point that lies at a short distance from many other points is globally centered. The simplest method to calculate closeness is probably the sum distance<sup>127</sup> to all other points in the graph.<sup>128</sup>

6. *Network models conceptualize structure (social, economic, political, etc.) as lasting patterns of relations among actors.*<sup>129</sup> By focusing directly on the patterns of relationships, network approach offers a much sharper set of tools to address these questions in comparative analyses. At the same time it should be noted that “networks are constantly being socially constructed, reproduced, and altered as a result of the actions of actors.”<sup>130</sup> Actors in networks are not seen as locked in their structural location. Instead, they are dynamic, constantly wrestling for control or seeking advantage.

Over the last several decades it has become common to visualize networks graphically and analyze them using social network analysis software. While different

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<sup>127</sup> Scott, *Social Network Analysis*, 86.

<sup>128</sup> Gert Sabidussi, “The Centrality Index of a Graph,” *Psychometrika* 31, no.4 (1966): 581-603, cited in Scott, *Social Network Analysis*, 86.

<sup>129</sup> Wasserman and Faust, *Social Network Analysis*, 4.

<sup>130</sup> Nohria, “Is a Network Perspective a Useful Way?” in *Networks and Organizations*, eds. Nohria and Eccles, 7.

software packages exist, this work uses *Cytoscape* for company network visualization and analysis.

### **1.3 Informal Institutions and Social Networks in the Studies of Chinese Politics**

#### ***1.3.1 Literature Review: Informal Institutions and Networks in Chinese Politics***

Since the emergence of the field, informal dimension<sup>131</sup> has been an important element in the studies of Chinese politics.<sup>132</sup> Some even argue that informal institutions paved the road to China's economic success. In the country, where the institutionalization of political system based on the rule of law was premature, political system was compelled to depend on personal relations, which manifested in different factions, based on one's origins, blood ties, school links, study abroad experiences, experience during the revolution, affiliations, policy or ideological orientations.<sup>133</sup> In the Mao era, revolutionary experience was an important element in the formation of factions, while in later years networks of personal connections based on affiliation became the most important.<sup>134</sup> Thus, explaining the outcomes of policy-making process through power struggle or factional politics, which emerge through different networks, has long been conventional wisdom in the field. Informal institutions, such

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<sup>131</sup> Comprehensive early bibliography related to informal politics in China may be found in Lucian Pye, *The Dynamics of Chinese Politics* (Cambridge: Oelgeschlager, Gunn and Hain, 1981), 267-276; Kou and Zang, "Informal Politics," in *Choosing China's Leaders*, eds. Kou and Zang.

<sup>132</sup> Lowell Dittmer, "Chinese Informal Politics," *The China Journal* 34 (July 1995): 1.

<sup>133</sup> Ryosei Kokubun, "An Attempt for a Model of Chinese Policy Making," in *Chinese Politics in History – Modern and Contemporary*, eds. Tomoyuki Kojima and Ryoko Iechika (Tokyo: Keiso Shobo, 1999), 382 (in Japanese).

<sup>134</sup> *Ibid.*

as factions, were often utilized to explain dynamics of policy outcomes.<sup>135</sup>

1970s witnessed the first attempts to conceptualize informal politics in China. Nathan has introduced the concept of a *faction* and defined it as a structure that is “mobilized on the basis of clientelist ties to engage in politics and consisting of a few, rather than a great many, layers of personnel.”<sup>136</sup> Nathan further describes a clientelist tie as “a non-ascriptive two-person relationship founded on exchange, in which well-understood rights and obligations are established between the two parties.”<sup>137</sup> In response, Tsou suggests the term *informal groups* instead, since other kinds of relations, such as family or school ties as well as work-related ties, also matter. According to Tsou, “[h]orizontal and ‘quazi-horizontal’ ties linking colleagues at the same level of a bureaucratic organization are, in some situations, just as important as ties linking leaders at different levels.”<sup>138</sup> In the words of Dittmer, “Tsou is allergic to Chinese cultural exceptionalism” and therefore suggests a term which is not only more inclusive but also avoids “pejorative taint.”<sup>139</sup> Tsou emphasizes that some informal groups and processes may become formal organizational units and processes. Moreover, informal roles and positions tend to develop into formal roles and

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<sup>135</sup> Kenneth Lieberthal and Michel Oksenberg, *Policy Making in China* (Princeton: Princeton University Press, 1988); David M. Lampton and Kenneth Lieberthal, eds., *Bureaucratic Structure and Policy Process in China* (Berkeley: University of California Press, 1991).

<sup>136</sup> Andrew J. Nathan, “A Factionalism Model for CCP Politics,” *China Quarterly* 53 (January 1973), 40.

<sup>137</sup> *Ibid.*, 37; Pye (*The Spirit of Chinese Politics*, 210-211) explains how factions emerge over time. Rather than being built by a specific person, “[latent] networks tend to take a hierarchical shape and eventually strive to attach themselves to a particular leader.”

<sup>138</sup> Tang Tsou, “Prolegomenon to the Study of Informal Groups in CCP Politics,” *China Quarterly* 65 (March 1976), 100-101. For a full debate on the subject between Tsou and Nathan also see Andrew J. Nathan, “Nathan Replies,” *The China Quarterly* 65 (1976): 114-117.

<sup>139</sup> Dittmer, “Chinese Informal Politics,” 2-3.

positions.<sup>140</sup>

Later, Bo introduces yet another concept *factional groups* to define ties that have been established through shared experience in an organization. That is, members of a factional group have to have direct association based on their past experience.<sup>141</sup> The term is close to Tsou's informal groups. But in contrary to a faction, a factional group does not have a single leader but its members share experience in the same organization. While they do not necessarily form a faction, it is likely that some subsets of a factional group may form a faction.

The implications of factional ties on policy outcomes have been extensively discussed in the literature. Pye points out the path-dependent nature of factional ties. Rather than having the luxury of deciding their policy after carefully weighing all pros and cons, political participants often have only one realistic option of going along with the position, which appears to favor their faction, since “cadres invariably find themselves constrained by a host of past commitments, personal relationships, and obligations.”<sup>142</sup> Kojima explains that Tiananmen Incident in June 1989 was closely linked to disagreements within the Party between four factions (conservatives, reformist, liberals, and leftists) surrounding the two basic points of the reform – Four Cardinal Principles and holding-up to the reform and opening up policy.<sup>143</sup>

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<sup>140</sup> Tsou, “Prolegomenon to the Study of Informal Groups,” 101.

<sup>141</sup> Bo, “The 16th Central Committee,” 239.

<sup>142</sup> Pye, *The Spirit of Chinese Politics*, 208-209.

<sup>143</sup> Tomoyuki Kojima, *China at the Crossroads: What after Deng Xiaoping* (Tokyo: Ashi-shobo, 1990), 14-17 (in Japanese).

As political process in China became increasingly institutionalized,<sup>144</sup> scholars became interested in how this process affects informal institutions. Kou and Zang note that it still needs to be inquired “[h]ow would factions continue to operate within the parameters of formal politics.”<sup>145</sup> In mid-1990s, Dittmer noted that “informal groups have become increasingly oriented not merely to the maximization of power and the minimization of risk but to the promotion of policies designed to enhance their bureaucratic interests. Thus, at the mass level, informal groups seem to be undergoing a transition to professional, avocational and business groupings; and at the elite level, to political pressure groups or even quasi-parties (that is, reformers versus conservatives).”<sup>146</sup> Recent literature shows that informal links still remain important. Bo demonstrates that career paths to the top provincial leadership positions – party secretaries and governors – can be explained by both institutionalized rules as well as connections, such as factional ties.<sup>147</sup> In a work on the members of the Sixteenth CCP Central Committee, Bo identifies four factional groups – Shanghai Gang, the Princlings, the Chinese Communist Youth League Group, and Tsinghua Clique.<sup>148</sup> Li dwells deeper into the question of the relationship between Tsinghua school networks and elite recruitment, and concludes that in the formation of fourth generation

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<sup>144</sup> As a result of increasing institutionalization, China observers’ attention toward this process also increased. Kou and Zang (*Choosing Chinese Leaders*) summarize that that elite studies in Chinese politics have been dominated by four major themes – factional politics, generation politics, technocracy and institutionalization.

<sup>145</sup> Kou and Zang, *Choosing Chinese Leaders*, 1.

<sup>146</sup> Dittmer, “Chinese Informal Politics,” 34.

<sup>147</sup> Bo, “Paths to the Top Leadership,” in *Choosing China’s Leaders*, eds. Kou and Zeng.

<sup>148</sup> Bo, “The 16th Central Committee,” 241.

leadership, “Tsinghua network has emerged as a distinctive elite group. Their political identity may politicize the decision-making process in the new political spectrum and indicate future sources of elite conflict in Chinese politics.”<sup>149</sup> Li argues that in addition to school ties, blood ties of *taizi* or *taizidang*, the so-called princelings or children of high-ranking officials, and also being chosen to serve as *mishu*, or personal secretary, of a senior leader, are the other two major informal channels for the career advancement of leaders, including technocrats.<sup>150</sup>

This body of literature is a manifestation of a general assumption that relations among cadres and officials, are at the essence of Chinese politics.<sup>151</sup> Networks between people have long been a major feature of Chinese culture and society.<sup>152</sup> This view forms a foundation for another significant body of literature on *guanxi* or *guanxi practice*, a topic, which has found its own niche in the studies of informal links in Chinese political system and society. In this area, two opposing views stand out. The advocates of *guanxi* as a culturally specific phenomenon see it as peculiar to China,<sup>153</sup>

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<sup>149</sup> Cheng Li, *China's Leaders: The New Generation* (Lanham: Rowman & Littlefield Publishers, Inc., 2001), 121.

<sup>150</sup> *Ibid*, 127.

<sup>151</sup> Pye, *The Spirit of Chinese Politics*, 1988; Kokubun, “An Attempt for a Model of Chinese Policy Making,” in *Chinese Politics in History*, eds. Kojima and Iechika, 382.

<sup>152</sup> Pye, *The Spirit of Chinese Politics*. Pye notes that for a long time *guanxi* has not been acknowledged by foreign observers. Pye offers a list of the limited literature, which implicitly acknowledges or recognizes the importance of *guanxi* in pre-Communist as well as Communist Party politics (213, footnote 4).

<sup>153</sup> Pye, *The Spirit of Chinese Politics*; Mayfair Yang, *Gifts, Favors, and Banquets: The Art of Social Relationships in China* (N.Y.: Cornell University Press, 1994); Thomas Gold, Dough Guthrie, David Wank offer a comprehensive literature overview and explain historical origins of the assumption that *guanxi* is exclusively Chinese phenomenon (“An Introduction to the Study of *Guanxi*,” in *Social Connections in China: Institutions, Culture, and the Changing Nature of Guanxi*, ed. Thomas Gold, Dough Guthrie, David Wank (Cambridge: Cambridge University Press, 2002), 3-20).

preferring to leave the term untranslated.<sup>154</sup> Others attempt to conceptualize *guanxi* as yet another type of informal networks, which is neither Chinese, nor traditional.<sup>155</sup> Instead, they see *guanxi* as the result of the institutional structure of Chinese society, which “facilitates or encourages reliance on networks to accomplish tasks.”<sup>156</sup> As the institutional settings evolve, the role of *guanxi* is also said to change. Guthrie argues that emerging market institutions erode its significance.<sup>157</sup> According to Potter, as formal law emerges in China, there is a growing complementarity between the formal rules of the legal system and the informal rules and norms of *guanxi* relations. While the role of *guanxi* can be limited by formal law and legal processes, the formal legal system remains incomplete and would have little effect at all were it not for the informal mediating mechanisms such as *guanxi*.<sup>158</sup> Gold, Guthrie, and Wank conclude that while the debate so far has been set up in an either-or framework, the reality is that both culture and institutions matter for the functioning of *guanxi* in China.<sup>159</sup>

This dissertation is more concerned with the impact informal ties and their networks could have on political system. Herrmann-Pillath defines *guanxi* as culturally

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<sup>154</sup> Thomas B. Gold, “After Comradeship: Personal Relations in China since the Cultural Revolution,” *The China Quarterly* 104 (December, 1985), 657-675; Bruce Jacobs, *Local Politics in Rural Taiwan under Dictatorship and Democracy: A Field Study of Mazu Township, Taiwan* (Canberra: Australian National University, 1980). Although Jacobs examines a Taiwanese township, Pye suggests that Jacobs’s model seems to be appropriate for understanding the place of *guanxi* in contemporary Chinese politics (*The Spirit of Chinese Politics*, 214, footnote 5).

<sup>155</sup> Gold *et al*, *Social Connections in China*; Douglas Guthrie, “The Declining Significance of *Guanxi* in China’s Economic Transition,” *China Quarterly* 154 (1998): 254-282.

<sup>156</sup> Gold *et al*, *Social Connections in China*, 14.

<sup>157</sup> Guthrie, “The Declining Significance.”

<sup>158</sup> Pitman B. Potter, “*Guanxi* and the PRC Legal System: From Contradiction to Complementarity,” in *Social Connections in China*, ed. Gold *et al*.

<sup>159</sup> Gold *et al*, ed., *Social Connections in China*, 17.

specific social capital,<sup>160</sup> suggesting that it serves people in achieving their goals.<sup>161</sup> In this field, more work has been related to economics. Keister examines the ways that *guanxi* ties influence the economic decisions of SOE managers and economic relations in reform-era China. She finds that managers rely on their relations to reduce economic uncertainties that characterized Chinese economy in the early stages of the reform. Moreover, these links also reduce the likelihood that managers would seek to cultivate relations with weaker firms in the economy.<sup>162</sup> Wank finds that cultivating relationships with powerful state actors is central to the experience of entrepreneurs in China's emerging private economy. Moreover, according to Wank, China's market economy will be one that is centrally organized around the types of network relations that economic actors see as essential for advancing further in Chinese economy.<sup>163</sup>

### ***1.3.2 Social Network Approach and the Studies of Chinese Politics***

As the literature review above demonstrates, explanations of political life in China cannot ignore informal institutions, whether they would be defined as factions, informal groups, or factional groups, and networks between people and organizations,

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<sup>160</sup> Carsten Herrmann-Pillath, "Social Capital, Chinese Style: Individualism, Relational Collectivism and the Cultural Embeddedness of the Institutions-Performance Link," *Working Paper Series*, Frankfurt School of Finance and Management, no. 132 (2009), accessed January 19, 2015, <http://nbn-resolving.de/urn:nbn:de:101:1-20091023793>.

<sup>161</sup> Pye (*The Spirit of Chinese Politics*, 215) explains how *guanxi* differs from acquaintanceship in the US – greater demands from these personal ties can be made or gains from even the most limited connections can legitimately be expected.

<sup>162</sup> Lisa Keister, "Guanxi in Business Groups: Social Ties and the Formation of Economic Relations" in *Social Connections in China*, ed. Gold et al.

<sup>163</sup> David Wank, "Business-State Clientelism in China: Decline or Evolution?" in *Social Connections in China*, Gold et al.

more commonly known as *guanxi*. In his attempt to conceptualize informal politics, Dittmer notes that here the central term is *relationships*.<sup>164</sup> Furthermore, Dittmer refers to Liang Shuming's observation that "Chinese culture is neither individualistic (*geren benwei* or individually based) nor group-oriented (*shehui benwei*), but rather relationship-based (*guanxi benwei*).<sup>165</sup> When compared, Japanese relationships are based on fixed frames or *ba* (the family, workplace or village) that set a clear boundary and give a common identity to a set of individuals, while "Chinese relationships are formed on the basis of attributes (such as kinship, classmate, school ties) which are infinitely extendable."<sup>166</sup> And yet, scholarship in this area tend to begin with an assumption that *guanxi* is an important phenomenon in Chinese life and then proceeds to study its dynamics.<sup>167</sup>

At the very core, such relationships also fit the definition of social networks "as set[s] of nodes (e.g., persons, organizations) linked by a set of social relationships (e.g., friendships, transfer of funds, overlapping membership) of a specified type."<sup>168</sup> In China studies there has been a consensus that overlooking these links one could hardly explain or understand the logics of China's political system. This echoes Barton's remarks on the significance of social network approach: "[i]f our aim is to understand

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<sup>164</sup> Dittmer, "Chinese Informal Politics," 10.

<sup>165</sup> Liang Shuming, *An Outline of Chinese Culture [Zhongguo Wenhua Yaoyi]* (Hong Kong: Jizhengtushugongsi, 1974), 94, cited in Dittmer, "Chinese Informal Politics," 10.

<sup>166</sup> Ambrose Yeo-chi King, "Kuan-hsi and Network Building: A Sociological Interpretation," *Daedalus* 120, no. 2 (Spring 1991), 63-85, cited in Dittmer, "Chinese Informal Politics," 10.

<sup>167</sup> Gold *et al*, ed., *Social Connections in China*, 20.

<sup>168</sup> Laumman *et al*, "Community Structure," 458.

people's behavior rather than simply to record it, we want to know about primary groups, neighborhoods, organizations, social circles, and communities; about interaction, communication, and social control."<sup>169</sup> Research on such interaction in the form of factions and informal groups has occupied an important place in the studies of Chinese politics for several decades. That is to say, while *network approach* or *social network analysis* as analytical concepts or specific research approach have not gained a prominent place in the studies of Chinese political system, social networks have existed in the field as something intuitively felt and understood rather than conceptualized. There seems to have always been the idea, which overlaps with social network analysis approach that these links "exert influence largely because of their informality and transcendence of traditional institutional boundaries."<sup>170</sup> Considering the nature of Chinese politics, it is somewhat surprising that social network analysis, as a research approach, has not yet been commonly used in China studies.<sup>171</sup>

On the other hand, it should be noted that a small number of recent works already took notice that research on Chinese politics would benefit from the application of social network analysis. Xia points out that networks have been at the core of political and social life in China<sup>172</sup> and utilizes network analysis to study

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<sup>169</sup> Barton, "Bringing Society back in."

<sup>170</sup> Michael T. Heaney and Scott D. McClurg, "Social Networks and American Politics: Introduction to the Special Issue," *American Politics Research* 37, no. 727 (2009): 728.

<sup>171</sup> The position of social network approach in political science could explain this gap. While social network analysis found its niche in sociology and also anthropology – disciplines, relevant to political science – the doors of political science remained closed for social network analysis until the early years of 21<sup>st</sup> century, when political science finally embraced this research approach.

<sup>172</sup> For a brief overview of literature see Ming Xia, *The People's Congresses and Governance in China:*

provincial people's congresses. Xia echoes the proponents of social network analysis by pointing out that "networks analysis enables us not only to expose the linkages between political actors (individuals and institutions), but also to study the impact of these linkages upon the organizational behavior of these actors."<sup>173</sup> In a study on *guanxi* in China, Wellman *et al* argue that social network analysis can provide techniques for studying it. "Although China is different from Western countries, we should be able to use the same tools to address similar intellectual challenges."<sup>174</sup> Social network analysis, which has already produced a considerable body of literature outside of the China field, would advance studies of personal relations in China.

Social network approach provides a convenient lens to observe Chinese political system. It offers a very convenient tool to spotlight informal relations, already brought into the daylight by China scholars, since "[i]t is focused, not on individuals, but rather on pairs or collections of individuals who are linked by some kind of social ties."<sup>175</sup> Furthermore, "[this approach] is often concerned with questions about how different overall structural patterns and different structural positions emerge,"<sup>176</sup> which echoes the purpose of this work. Analysis here in this dissertation attempts to disclose how the party-state has integrated itself with the companies, that is to expose the overall structural pattern of the links between them and trace back, how this particular pattern

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*Toward a Network Mode of Governance* (London and New York: Routledge, 2008), 13-14.

<sup>173</sup> Ibid, 17.

<sup>174</sup> Barry Wellman, Wenhong Chen, and Dong Weizhen, "Networking Guanxi," in *Social Connections in China*, ed. Gold *et al*, 222.

<sup>175</sup> Freeman, "Editor's Introduction," in *Social Network Analysis*, ed. Freeman.

<sup>176</sup> Ibid, xxiii.

has emerged. Further, “[network approach] is often concerned with determining the consequences of those different patterns and positions.”<sup>177</sup> Following the same logic, this work inquires how company networks could explain China’s outward FDI projects in specific countries (case study in *Chapter 7*).

Literature review above aimed at demonstrating the role of networks in Chinese politics. In this way it explained the choice of social network analysis for the problem of this research. Yet, this dissertation observes company networks with the business-state in China against the background of formal institutions, such as enterprise reform, legal regulations in force to supervise large SOEs, and also particular issue-specific policies of particular time. Such research design, built around three elements – informal company networks, formal institutional settings, and socioeconomic issues of the time – is chosen under the consideration that “[i]nformal politics are given shape in large part by the “trellis” of formal politics.”<sup>178</sup> Further more, “any explanation of the Chinese political system and policy-making process must take account of informal politics mformal structure, and political issues,” and should also “try to understand how these elements change over time.”<sup>179</sup>

#### **1.4 Analytical Framework**

Analytical framework of this dissertation can be briefly summarized as follows.

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<sup>177</sup> Ibid.

<sup>178</sup> Joseph Fewsmith, *Elite Politics in Contemporary China* (Armonk and London: M.E.Sharp, 2001), 36.

<sup>179</sup> Ibid, 37-38.

Throughout the decades of the reform, officially launched in December 1978 at the Third Plenum of the 11<sup>th</sup> CCP Central Committee, the major task for the Chinese leadership was to assure that sensitive socioeconomic issues are handled properly. Issues faced at the early stage of the reform evolved over the time, and new ones emerged, posing new challenges to the party-state leadership. These *socioeconomic issues* define not only continuous economic growth but also a wide variety of other problems – income inequality, land reform, increasing Internet penetration, or China’s relations with the outside world, – that are directly linked to the acceptance of the regime by the populace.<sup>180</sup> Assuring regime’s acceptance means securing regime’s survival,<sup>181</sup> or securing regime legitimacy. The CCP’s single-party regime lacks procedural means to acquire legitimacy. As a result “the regime in China has to rely on other sources of legitimacy such as performance-based legitimacy.”<sup>182</sup> Scholars have developed an “additional type of legitimacy – that of ‘goal-rational’ legitimacy derived from the validity of the principle social goals that the authority professes to represent and to promote.”<sup>183</sup> Therefore, in the case of China, regime’s ability to manage

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<sup>180</sup> The term *acceptance of the regime* here is used intentionally as opposed to the *support for the regime*. While the later concept refers to the actively expressed support to the rulers usually in the form of voting, the former one, literally meaning “to take what is offered,” emphasizes that rather than actively supporting the regime, Chinese citizens tolerate it as long as “performance” of the regime is acceptable.

<sup>181</sup> In line with the basic principle of political science, there is also a consensus in China studies that the fundamental goal of the regime is securing its survival and the single-party rule of the CCP (e.g., see Ryosei Kokubun, “General Remarks: China’s Governing Capacity,” in *China’s Governing Capacity: Analysis of Links between Politics, Economics, and Foreign Policy*, ed. Ryosei Kokubun (Tokyo: Keio University Press, 2006), 3 (in Japanese).

<sup>182</sup> Yongnian Zheng and Liang Fook Lye, “Between Economic Performance and Democratization,” in *Legitimacy: Ambiguities of Political Success or Failure in East and Southeast Asia*, ed. Lynn White (Singapore: World Scientific Publishing, 2005), 184.

<sup>183</sup> David Dahua Yang, “The Basis of Political Legitimacy in Late-Authoritarian Taiwan,” in White,

socioeconomic issues, especially national economy, has been viewed as one of the holding pillars of its stability.

In its attempt to secure regime acceptance by the populace, the CCP-led party-state has implemented numerous reforms and adjustments in this way seeking to adapt to the changing socioeconomic environment. Over the last decade, China scholars have been increasingly interested in this adaptation, as will be further discussed in *Chapter 3, section 3.5*. However, institutional adaptation, although implemented at formal institutional level, also affected informal institutions. For example, new links between business and the party-state were created, as managers were included into its institutions.

In the process of such adaptation, new institutions emerge. Although some of them are formally established and institutionalized, and therefore can be easily grasped by a casual observer of Chinese politics, most of them come into existence as informal, non-institutionalized relations, and sometimes continue existing without being noticed even by their creators. For example, the system of large SOEs under the supervision of SASAC is a case of formal, institutionalized relations between China's strategically important corporations and the party-state. However, there exists a not-so-easy-to-see aspect of these relations. These are informal links that emerge as a result of co-opting corporate managers into the Party or governing state institutions. They constitute networks of relations, through which corporations mesh with the party-state. For

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*Legitimacy*, 71.

example, when a deputy manager of China National Oil Offshore Corporation (CNOOC) becomes a member of the CCP Central Committee, particular relation or interaction between the two emerges, although it is not formally defined. That is to say, while it is not legally stipulated that a manager from a particular company should be included into the CCP Central Committee or become a deputy director of SASAC, and therefore no formal institution exists, an informal institution comes into existence.

Both formal and informal institutions emerge as networks of ties between actors – individuals or organizations – and these ties may become channels for transferring or “flow” of resources (either material or nonmaterial). That is what theoretical observations discussed above in *section 1.2* suggest. That is to say, if certain companies have closer ties to the party-state institutions, may find themselves in an advantageous position, when compared to others.

To evaluate the impact of such networks on the process of policy-making and implementation, it is first necessary to understand the pattern of these networks. If informal institutions between corporations and the party-state are established randomly, in a sporadic way, then their influence is limited. However, literature shows that there is a tendency to include into the CCP Central Committee the managers of strategic corporations, which suggests that there exists a particular pattern of networks. Here social network analysis provides a very convenient tool to observe them and verify, whether these are only sporadic institutions or they constitute a particular pattern of networks. *Chapter 4* offers this analysis on patterns of company networks.

Once networks between corporations and party-state institutions are established, they are likely to reinforce themselves and shape further development. If a network between an oil corporation and party-state institutions is formed, there is a chance that this network will sustain itself or even expanded further. *Chapter 5* observes further dynamics of the networks between the party-state and corporations in China from 1992 to 2015. Or at least, this network, emerging as a result of a manager entering the party-state institution, will influence the institution in a particular way, which would probably not be the same under different institutional arrangements. That is to say, once a network is formed, further development is path-dependent. Creating a network between a corporation and the party-state can be viewed as a critical juncture, which determines further development. Case study in *Chapter 7* dwells into this question and examines whether company networks can explain why some foreign direct investment (FDI) by Chinese corporations go counter to the official foreign policy goals.

The manner, in which further development is shaped, depends on the nature of the participants in the networks. In this particular case, it depend on whether the company manager, who becomes the link between the company and the party-state institution, acts as an agent of the state<sup>184</sup> or as an agent of limited corporate interests.

Literature on legislatures in China shows that people's congress delegates have been

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<sup>184</sup> O'Brien introduces the term *regime agent* to describe people's congress delegates, who serve as proxies of the leadership and "transmit the spirit, regulations and decisions" of higher levels ("Agents and Remonstrators," 366). Here the term *agents of the state* is used in a broader sense referring to individuals that join party-state institutions and act in line with the roles distributed to them by the regime, as opposed to the representation of limited organizational interests.

drifting away from their traditional role as the actors of the state. O'Brien finds that in the past "the loyalty of most Chinese people's congress deputies felt toward the state completely overwhelming their sense of responsibility to constituents," but recently they have taken on some new roles that are sometimes difficult to reconcile with their traditional responsibilities.<sup>185</sup> Two decades later, Kamo and Takeuchi show that the delegates of Yangzhou Municipal People's Congresses have increasingly represented the interests and demands of the geographic areas from which they are elected.<sup>186</sup>

In this work, the evaluation of the identity of corporate managers, relies on the observation of their career backgrounds, which inquires whether company managers are state officials sent to the companies for a limited period of time, or whether they are industry professionals who have advanced into the state institutions.

In a nutshell, while there is a consensus in the literature that business, especially large corporations exert influence on policy process, this dissertation inquires what are causal mechanisms behind this. It observes institutional evolution of party-state relations with business entities at both formal and informal institutional levels and seeks to expose the channels, which companies may use to exert.

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<sup>185</sup> Kevin J. O'Brien, "Agents and Remonstrators: Role Accumulation by Chinese People's Congress Deputies," *The China Quarterly* 138 (June 1994): 359-380.

<sup>186</sup> Tomoki Kamo and Hiroki Takeuchi, "Representation and Local People's Congresses in China: A Case Study of the Yangzhou Municipal People's Congress," *Journal of Chinese Political Science* 18 (2013): 41-60.

## 1.5 Research Methodology

### 1.5.1 Social Network Analysis

Company networks in this research are analyzed and visualized using social network analysis software *Cytoscape*. It depicts company networks showing the companies and other institutions as nodes. Edges stand for company managers that moved from a company to a party-state institution (or the other way around) in the course of their careers, in this way creating networks between institutions.

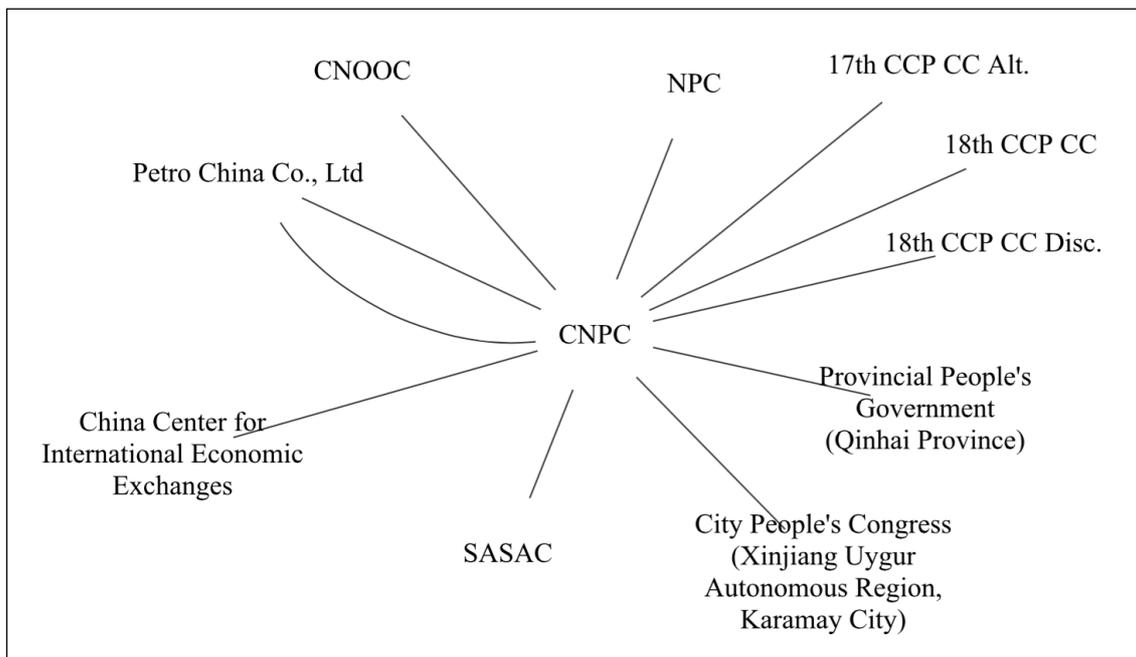


Figure 1.1. Example of company network visualized using Cytoscape software.

Figure 1.1 above provides an example of a visualized social network. It is a partial network of China National Petroleum Corporation (CNPC), developed until 2014, as seen from the career backgrounds of Jiang Jiemin (different positions from 1999 to 2011; chairman of the company from November 2011 to March 2013; deputy manager from November 2006 to November 2011) and Wang Yilin (different positions

from 1999 to 2011; deputy general manager from 2003 to 2011). The central nod – CNPC – shows the company, network of which is examined; other nodes – companies and institutions it has links to. Lines depict the links between the two institutions that emerged in the course of career of the company manager. In particular, from this network one can see, that both of the managers observed also held posts in Petro China Co Ltd. (double edge indicates the number of links), one of them held a position in SASAC, was a member of the 18<sup>th</sup> CCP Central Committee (nod “18<sup>th</sup> CCP CC”), a member of the Central Commission for Discipline Inspection under the same Committee (nod “18<sup>th</sup> CCP CC Disc.”), among other positions.

### ***1.5.2 Data***

#### *Selection of Companies for the Analysis*

This dissertation focuses on the patterns of networks between different companies and the party and state institutions in China. It observes companies of significant importance in the course of the reform, since they are expected to have networks to the party-state institutions. Brodsgaard notes that representation of important corporations in the CCP Central Committee “highlights a growing tendency of taking advantage of the experiences the Chinese leaders in big business represent. Many of them have important managerial skills and an exposure to the global economy

that offer real benefits to the Chinese government.”<sup>187</sup> Thus, the core of the companies selected for the analysis constitutes of those, which management was selected to the CCP Central Committee since the beginning to the reform. Central Committee is the top decision making body in China. Thus it can be deemed that companies represented in the Central Committee were of significant importance to the Chinese leaders. These enterprises were identified after reviewing the lists of the CCP Central Committee members and also its alternative members from the Twelfth to the Eighteenth CCP Central Committee. The list is provided in *Appendix 1A*. It includes those companies, the managers of which served as regular or alternate members simultaneously or took the posts within one year after joining the Central Committee.

In addition, several more companies are observed. It goes without saying that in the earlier Central Committees there were fewer leaders of enterprises when compared to the later ones. Many of the enterprises were established as separate companies only later. Thus, the Twelfth or Thirteenth CCP Central Committee the members are mostly listed as Ministry officials rather than enterprise managers, since the enterprises were still not separated from the state and instead functioned as a department of relevant ministries. Starting with the Fourteenth CCP Central Committee there was a substantial number of enterprise managers. In the case of the earlier central committees, their members as ministers only later took charge of relevant SOEs. For example, Yu Hongen vice minister of coal in 1981-1985, a member of the 12<sup>th</sup> and 13<sup>th</sup> Central

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<sup>187</sup> Brodsgaard, “Politics and Business Group Formation,” 640.

Committees, became the president of China National Coal Mine Corporation in May 1988. Similarly, Wang Tao, the Minister of Petroleum Industry, who served in 12<sup>th</sup> to 14<sup>th</sup> Central Committee took the post of the President of China National Petroleum and Natural Gas Corporation in May 1988. These cases are also included seeking to analyze the enterprises from the industries that were of significant importance. These companies were Dongfeng Motor Corporation, China Mobile Communications Corporation (China Mobile), and China National Coal Mine Corporation.

Furthermore, to cover up for the underrepresentation of coal industry after 1993, when China National Coal Mine Corporation was closed down, China National Coal Industry Import and Export (Group) Corporation, which later changed its name to China National Coal Group Corporation (China Coal), was also included.

Full list of the companies observed in the analysis is attached as an *Appendix 1B*. The companies were selected considering the above-discussed criteria, disregarding the shareholders structure. Significant number of them are large central enterprises under direct supervision of SASAC, while others are their subsidiaries. No private companies were found to have links with the CCP Central Committee, although the status of Chunlan Corporation and Haier Corporation is ambiguous.

Since the ownership or shareholders structure was not a criterion for selection, surveyed companies are referred to by the most general name *companies*.

### *Datasets for the Analysis*

There are three individual sets of data created for the analysis in this dissertation: (1) data on company manager careers; (2) data on the career backgrounds of State Planning Commission leaders, State-owned Assets and Supervision Commission leaders, and the special inspectors as well as chairmen of supervisory boards for China's large key SOEs; (3) extensive collection of socioeconomic indicators of countries worldwide, which is used for the case study on China's outward FDI.

The main data (1) on company manager careers for the analysis of company networks is collected in the form of six datasets. Each dataset consists of the list of company managers (general manager, deputy general manager, director, chairman, vice-chairman, and president or director, where available) in a particular year – 1992, 2000, 2005, and 2010, and are named accordingly – ds1992, ds2000, ds2005, and ds2010. They currently contain 468 managerial positions in total. These lists include full career backgrounds from around graduation until February 2015 or until their retirement. There are additional datasets ds1980 and ds1987 used only for reference upon the need, since they are outside of the research scope.

All datasets have been compiled by the author. First, a basic list of company managers holding their position in a particular year in the selected companies was created mainly based on *China Directory*<sup>188</sup> of the year in question or, occasionally, the following year. When the information was not available, previous issues of *People'*

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<sup>188</sup> *China Directory in Pinyin and Wade-Giles*, various years (1981-2015).

*Daily* (in Chinese) was consulted. After that, the datasets was expanded to include full career paths of the corporate management. Sources used are listed out in the list of references.

The same sources were used to collect data for the (2) dataset on the careers of the leaders of selected institutions. The list of comprised 110 positions with chairmen and vice chairmen of the State Planning Commission and institutions-successors (State Development Planning Commission and National Development and Reform Commission), also 19 positions of chairmen and vice chairmen of SASAC, and 39 special inspectors and 76 chairmen of supervisory boards for large key SOEs.

For the (3) dataset, socioeconomic indicators of countries worldwide were collected from different databases, mainly *World Bank*. Analysis was based on logistic analysis with STATA software.

## **CHAPTER 2**

### **Coping with Scarcity: Changing State-Business Relations in China's Distant Water Fisheries Industry**

*This chapter offers a pilot case study of the research problem of this dissertation applied to China's distant water fisheries industry. It discusses evolution of environmental and fisheries-related legislation and restructuring of business entities to demonstrate China's institutional adaptation to the environmental degradation in the country's coastal waters. The chapter observes disintegration of the companies in the industry and state institutions over a long period of time since late 1970s. It then discusses how informal institutions have emerged or remained in the course of this process.*

*This case study establishes relations between the three elements that form the framework of this research – evolving socioeconomic environment in China, institutional adaptation, and consequently emerging informal institutions. Analysis below provides support for the choice of theoretical approach of this dissertation by showing that institutions, once established, continue to exist rather independently and may even drive the process.*

## **2.1 Selection of the Case Study**

Then main purpose of this chapter is to illustrate how the analytical framework of this research applies to a particular case and demonstrate how the concepts presented above can be utilized to analyze it. For this pilot case study the case of China's distant water fisheries industry has been chosen. Several reasons have determined such a choice. *First*, it provides a convenient example to show how the three variables of this research – socioeconomic environment, formal institutions or

their reform, and informal networks between business entities and party-state institutions – fit together. In the 1970s, China faced increasing resource scarcity and increasing pressure to reorient its fisheries industry due to the environmental degradation in its coastal waters. In other words, as socioeconomic pressures increased, formal institutional reform and adjustment was needed. In this context, the dependent variable – informal networks – can be observed.

*Second*, this case provides an opportunity to observe institutional development over an extensive period of time. Scarcity of fisheries resources came into focus in China in the early years of the economic reform and remained an even more pressing issue later. Development of distant water fisheries in China dates back to early 1980s, presenting a long history of institutional development.

## **2.2 Distant Water Fisheries Development as a Policy Response**

Development of distant water fisheries industry in China was largely facilitated by environmental degradation concerns. Already in 1979, National Aquatic Products Conference raised concerns over the depleted coastal waters, and thus issued the *Regulations of the Reproduction and Protection of Aquatic Resources*. The same year, the Secretariat of the CCP Central Committee instructed to draft and promulgate fisheries law and State Aquatic Product Bureau announced that one of the important measures in the nearest term would be to start exploiting outer fishing grounds. In 1982, the Ministry of Agriculture, Forestry, and Fisheries jointly with China Marine

Fisheries Enterprise conducted a feasibility study. Consequently, in May 1983, National Working Conference on marine fisheries convened by the Ministry announced the policy to exploit open sea fishing grounds and develop distant-water fisheries. In 1986, *Fisheries Law* promulgated development of offshore fisheries as one of the major means to protect coastal waters.<sup>189</sup>

In addition to this, fisheries sector to a certain degree was related to food supply security in China. Fish consumption in China in 1970 was around 3.6 kg, to increase to 25 kg in 2010, and expected to reach around 35 kg in 2020. As noted by Wishnick, food supply security in China has been in focus due to the concern for state stability.<sup>190</sup>

That is, new policies emerged as a response to domestic resource scarcity.

### ***2.2.1 Establishment of Legal Base and Fisheries Control***

In 1982, the explanation of the *Marine Environmental Protection Law* stated that China's marine environment had already been polluted to varying degrees. Presenting the draft of the *Fisheries Law* at the 13<sup>th</sup> Plenum of the Sixth NPC Standing Committee on November 13, 1985, Zhu Rong, the Vice Minister of Agriculture, Livestock, and Fisheries, emphasized that as the supply was tight and demand increasingly high, "the

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<sup>189</sup> *Article 14* provided that "The state shall encourage and support the development of offshore and deep sea fisheries and make rational arrangement of fishing capacity for inland and inshore fisheries" (*Fisheries Law of the PRC*, adopted by the NPC January 20, 1986, effective from July 1, 1986).

<sup>190</sup> Elizabeth Wishnick, "Food Security and Food Safety in China's Foreign Policy," in *China's Challenges to Human Security: Foreign Relations and Global Implications*, ed. Guoguang Wu. (New York: Routledge, 2013), 245.

masses urged for the improvement of such situation.”<sup>191</sup>

Throughout the 1980s, the legal basis for marine environmental control was established.<sup>192</sup> *Marine Environmental Protection Law* of 1982, and *Water Pollution Prevention and Control Law* of 1984 were clear signs that the government was aware of the necessity to control marine environment. In January 1986, the NPC adopted *Fisheries Law*, which went into effect July 1 the same year. Already in 1987 China began controlling fishing boats’ horsepower. In 1996, the *China Ocean Agenda 21* declared a sustainable development strategy for China’s marine programs. In 1995, hot season moratorium was introduced in the East China, Yellow and Bohai seas, and was further extended to include the South China Sea in 1999. The same year the government initiated a management objective of “zero growth” in coastal marine capture catch, and further extended it to a plan of “minus growth” in coastal waters in 2001. In 2002, a program to reduce the number of vessel and relocate fishermen away from marine capture fisheries was launched, aiming to reduce 220 000 vessels with a total power of 12.7 million kW and catching 13.06 million ton in 2002, to 192 000 vessels, 11.43 million kW and a catch of around 12 million ton. State Council issued similar guidelines in 2003, and by the end of 2004, the government had assigned nearly

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<sup>191</sup> *Explanation of the Fisheries Law (draft)*, presented at the 13<sup>th</sup> Meeting of the 6<sup>th</sup> NPC Standing Committee, November 13, 1985 by the Vice Minister of Agriculture, Animal Husbandry, and Fisheries Zhu Rong, accessed February 20, 2013, <http://www.law-lib.com/fzdt/newshtml/20/20050720175806.htm> (in Chinese).

<sup>192</sup> For a detailed overview of the growing awareness of the problem and evolution of legal regulation of fishing activities in China’s coastal waters see Vida Macikenaite, “The Implications of China’s Fisheries Industry Regulation and Development for the South China Sea Dispute,” in *The Quandaries of China’s Domestic and Foreign Development*, Contemporary Asian Studies Series, ed. Dominik Mierzejewski (Lodz: Lodz University Publishing House, 2014), 218-221.

US\$ 100 million to scrap almost 8000 vessels and relocate over 40 thousand fishermen.

During those years, focus on distant water fisheries as a feasible alternative remained. In 1998, the *Development of China's Marine Programs* provided that “in accordance with the actual conditions of marine fisheries resources China has actively readjusted the structure of this sector, <...> actively exploited new resources and fishing grounds, so as to make the fishing industry constantly adapt to the changes in the structure of marine resources.” In September 2000, Chinese Vice Premier Wen Jiabao in his *Proposal on Accelerating the Development of Distant-Water Fisheries* argued in favor of the development of distant water fisheries to take full advantage of the world's marine fisheries resources, to meet the people's demand for aquatic products, and ease the pressure on China's coastal resources. Wen Jiabao suggested focusing on the long-term and seizing the opportunity.<sup>193</sup>

Extensive fisheries control measures notwithstanding, environmental pollution in China's coastal waters remained an important obstacle for fisheries industry. In 1996, Chinese newspaper *Guangming Daily* reported on water pollution in an article titled “Pollution: the killer of fisheries resources.” The same year, *People's Daily*, commemorating 10 years since the adoption of Fisheries Law in China, reported that decline of fish stock in coastal waters was still an important issue.<sup>194</sup> In late 1990s, the

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<sup>193</sup> Xiaohui Chen, “*Status Quo* and Strategy of Zhenjiang Province Distant-Water Fisheries Development,” Zhejiang Fisheries Mutual Insurance Association, July 16, 2014, accessed April 14, 2015, <http://www.zfmi.com/dtyw/hyfc/2014/07/16/2014071600010.shtml> (in Chinese).

<sup>194</sup> *People's Daily*, “Promoting Sustainable Development of Our Fisheries,” June 28, 1996 (in Chinese).

Information Office of the State Council summarized these continuous efforts: “China attaches great importance to the protection of marine fisheries resources, and has adopted various measures to conserve such resources so as to guarantee the implementation of a sustainable marine development strategy.”<sup>195</sup>

In short, just before 2010, China already had its maritime environment and fisheries regulations in place. These regulations had been gradually strengthened and expanded since the problem of environmental degradation came into attention of the leadership in late 1970s.

### ***2.2.2 Institutional Reform: Restructuring and Promotion of Business Entities***

#### *Early Restructuring in 1980s*

Against the background of tightening environmental control and regulations of fishing activities, moving offshore was the only alternative for China’s fisheries industry. Already in early 1980s, the government took specific measures, centered around enterprise restructuring, to encourage expansion of distant water fisheries.

In October 1984, China’s Ministry of Agriculture, Livestock, and Fishery released a notice, according to which three ministry-affiliated marine production enterprises were to be merged. Later that same month, the State Economic Commission approved the proposal, and China Marine Fisheries Enterprise, China

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<sup>195</sup> Information Office of the State Council of the PRC, *The Development of China’s Marine Programs*, July 1998, Beijing, accessed June 13, 2014, <http://www.china.org.cn/e-white/6/>, part II.

Aquaculture Enterprise and China Marine Production Supply Enterprise were jointly named China Fisheries Joint Corporation. This was aimed at strengthening the “guidance” of fisheries organization and solving the problems related to marine production. This was the generic name to be used domestically, while in their dealings with the foreign entities, the enterprises retained their original names.

China Marine Fisheries Enterprise was mainly involved in marine capture fisheries. It was originally established in 1962, when the State Council decided to merge two local enterprises subordinate to Yantai and Qingdao marine production bureaus. In 1986, there were already 39 marine fisheries SOEs, 19 of them administered locally. Among the centrally administered SOEs, Yantai, Zhoushan, and Zhangjiang enterprises provided around 22 percent of the total catch.<sup>196</sup>

#### *Promotion of Chinese Business Entities Overseas*

In the later half of 1983, Chinese Ministry of Agriculture, Forestry, and Fisheries communicated a message to all Chinese ambassadors in coastal states, asking them to consult the corresponded states in regards to fisheries cooperation. Before long, the Ministry of Foreign Trade and Economic Cooperation opened international fisheries negotiations.

Until late 1984, representatives from relevant SOEs several times visited five

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<sup>196</sup> Editorial Committee of Modern China Series, *Fisheries Industry of Modern China* (Beijing: Modern China Publishing, 1991), 159 (in Chinese).

Western African countries, and China also hosted their visits. As a result, fisheries cooperation agreement with Guinea Bissau was signed, joint venture with an Italian company established in Las Palmas, Spain near Western Africa, and also two limited liability companies under a joint venture with Senegalese companies. Finally, in March 1985, China's first distant fisheries fishing fleet of China Fisheries Joint Corporation departed for Africa. After arriving in Las Palmas in April, it started fishing in the waters of Guinea Bissau, Senegal, and Sierra Leone. At the same time, in East Africa, Dalian Marine Fisheries Corporation and local Mauritanian enterprise established a joined venture. In April 1986, seeking to accommodate to the need to develop distant water fisheries, China Fisheries Joint Corporation established China Distant Water Fisheries Corporation. Around the same time China's second fisheries expedition set to West Africa to expand the cooperation with Guinea.

To further promote its fisheries activities overseas China signed fisheries agreement with the US in 1985, which gave Chinese vessels conditional access to the US coastal waters. As a result, already in February next year, vessels of three fishing corporations of Shanghai, Yantai and Dalian were fishing off the coasts of Alaska. As Chinese overseas fisheries industry was rapidly expanding, local SOEs launched cooperation with Iran in the northwest of Indian Ocean. As of 1987, Chinese vessels were operating in the territorial water of eight states, with a total catch of 1 million

tons, ten percent of which was shipped back to China.<sup>197</sup>

China's main overseas fisheries enterprise China Fisheries Joint Corporation in 1985 opened an office in Las Palmas, Spain to establish a unified management center for the region. In 1991, Ministry of Agriculture approved the change of its name to China National Fisheries Corporation (CNFC). As of 2013, the enterprise had 14 subsidiaries in China and nearly 200 associated enterprises overseas. It has also established joint ventures in 13 countries and regions worldwide. Even now after nearly three decades of distant fisheries development, one third of the sector in China is composed of the CNFC and its subsidiaries.<sup>198</sup>

#### *Fisheries Companies in the Course of the Enterprise Reform*

As the economic reform in China progressed, restructuring of fisheries enterprises continued under a comprehensive SOE reform. One of the policy directions, which is the most relevant to the discussion here, was *grasping the large and letting the small go* policy. The policy, formally adopted at the Fifteenth Party Congress in 1997, sought to privatize the small and medium-size enterprises and restructure the large ones. After different attempts, in March 2003, the First Plenum of the Tenth NPC under the State Council established the State-owned Assets Supervision and Administration Commission (SASAC) to take control of China's large-scale

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<sup>197</sup> Ibid, 166.

<sup>198</sup> European Parliament, 2012.

enterprises. The SASAC model reformed state shareholder control system. Earlier the SOEs were directly subordinate to relevant ministries, but after the reform, the SASAC took the responsibility over them. While the majority of SOEs in China were privatized, the SASAC retained control of over 100 large-scale SOEs. It was to perform the responsibilities as the investor of the state-owned assets on the behalf of the central government.

The SOEs under the SASAC supervision is the forefront of China's *going global strategy* (also, *going out policy*). This strategy encourages Chinese enterprises to invest and engage into business cooperation overseas, and is an important element of China's economic development. It was officially proposed in March 2000 during the Third Plenum of the Ninth NPC. But it should be noted that already in August 1979, the State Council released a statement titled "Going abroad to do business" for the first time encouraging investment abroad as a national policy.

Under the new system, the government maintained its ownership of the key industries, such as communication, oil and mining companies, etc. Among them, fisheries sector fell under the control of the China National Agricultural Development Group Corporation (CNADC), which was formed in October 2004 after restructuring and merging CNFC and China Animal Husbandry Group Corporation. CNADC also fully owns China Aquatic Product Yantai Marine Fishery Company, and controls several other SOEs that formerly were subordinate to the Ministry of Agriculture.

At present, SASAC overseas the activities of the CNADC, which is in charge of

China's major distant water fisheries corporation CNFC. At the same time, CNFC stayed in control of smaller enterprises or has later established subsidiaries. The major ones are the CNFC Overseas Fishery Corporation (Yantai), CNFC International Fisheries Corporation Ltd., China International Fisheries Hong Kong, China Resources Enterprise, China International Fisheries Corporation, and also CNFC Zhoushan Marine Fisheries Corporation. To understand how China's fisheries sector overseas functions it is important not to overlook these subsidiaries. For example, in January 2004, China International Fisheries of Hong Kong affiliated to CNFC formed a joint venture in deep-sea fishing with Pacific Andes Holdings, further expanding the role of the SOEs in the sector.

This reform was expected to bring more business-oriented approach to the fisheries SOEs rather than the focus on resource supply security or agricultural development. Li Rongrong, the first Director of SASAC, was praised for successfully optimizing the operations and improving the profitability of China's large SOEs during his seven years as the head of SASAC.<sup>199</sup> Further, SASAC's emphasis on the business performance was reconfirmed by the change of its leadership in March 2013. Jiang Jiemin, who had served as a chairman of CNPC, China's largest oil and gas producer and supplier, was named as the new head of the SASAC.<sup>200</sup> Considering that the

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<sup>199</sup> Li Xu, "SASAC Chief Has Work Cut Out," *China Daily*, August 26, 2010, accessed September 12, 2014, [http://www.chinadaily.com.cn/bizchina/2010-08/26/content\\_11207367.htm](http://www.chinadaily.com.cn/bizchina/2010-08/26/content_11207367.htm).

<sup>200</sup> Bao Chang and Du Juan, "CNPC's Jiang to Head SASAC," *China Daily*, March 19, 2013, accessed May 1, 2015, [http://www.chinadaily.com.cn/bizchina/2013-03/19/content\\_16318623.htm](http://www.chinadaily.com.cn/bizchina/2013-03/19/content_16318623.htm).

SASAC is in charge of the approval of SOE investment,<sup>201</sup> it can be deemed that the functioning and purpose carried out by these SOEs also changed.

These institutional reforms were implemented as the Party-state sought to adapt to domestic environmental and economic challenges. The following section discusses dynamics of informal links in this context.

### **2.3 Dynamics of Informal Institutions**

Restructuring of business entities and later general enterprise reform transformed the relations between business entities and the state in fisheries industry. For example, the CNFC,<sup>202</sup> now a major global Chinese fisheries corporation, with a landing of around 30 percent of the total of China's distant water fisheries industry landing in the period from 1994 to 1998 and around 20 percent in 2010-2011,<sup>203</sup> used to be closely linked to the state. As a result of the reform, it operates worldwide as a profit driven corporation, its shareholding structure notwithstanding. However, institutional reform is little telling about the dynamics of informal links between the business entities and the state institutions.

Analysis below observes how informal links between them have evolved in the course of institutional reform.

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<sup>201</sup> Wei Tian, "SASAC to Tighten Approval Process for SOE Investments," *China Daily*, July 12, 2012, accessed May 1, 2015, [http://www.chinadaily.com.cn/bizchina/2012-07/12/content\\_15573057.htm](http://www.chinadaily.com.cn/bizchina/2012-07/12/content_15573057.htm).

<sup>202</sup> Considering the size and the company's landing share in China's total, this section discusses company links with the party-state taking CNFC as a case study.

<sup>203</sup> Ministry of Agriculture of the PRC, *China Fisheries Yearbook* (Beijing: China Agriculture Press, 2013).

### ***2.3.1 New Institutional Arrangements under the Old Links***

It appears that new institutional arrangements continue to exist under the old links. While business entities were formally separated from the state, close links, between them have remained until the present day. The newly appointed chairman and party secretary of the CNFC in 2002, Liu Shenli, was a former Deputy Secretary of the Fisheries Bureau of the Ministry of Agriculture and also the Chief of National Fisheries Technology Promotion Station. Currently, he is the chairman of CNADC, the SOE directly controlled by the SASAC, and in control of CNFC (Liu is also a chairman of its subsidiary China Huanong Property and Causalty Insurance Co. Ltd. specializing in agricultural sector). At the same time, Liu is the chairman of China Fisheries Association Distant Water Fisheries Branch, which includes both state and private enterprises. In 2008, Wu Xiangfeng succeeded Liu as a chairman of the CNFC. Since 2004, Wu has served as a deputy general manager of CNADC and the chairman of the CNFC Overseas Fisheries Co. Ltd. In 1998, he became vice president and party secretary of the CNFC International Fisheries Corporation at the Las Palmas office.

After the reform, former agricultural sector bureaucracy remained in charge of CNFC, China's major distant water fisheries company and its subsidiaries, as well as CNADC, the major SOE in supervising China's fisheries SOEs. As McNally notes, this is the case in most Chinese state holding corporations. For instance, all the members of the Shanghai Textile Holding (Group) Corporation's board of directors were bureau directors, party secretaries, or other important officials in the abolished

Shanghai Textile Bureau.<sup>204</sup> Shen observes that while in the pre-reform years, a party secretary of an SOE was there to oversee all activities within the SOE, and the power rested with them, the reform measures curtailed the role of the party secretary, relegating their function to addressing the issues that involved party doctrine.<sup>205</sup> However, in the case of CNFC, the party secretary who also served as the chairman participated in daily activities of the enterprise and received the visitors in Las Palmas, the main office overseas. A later study by McNally argues that while separation of the SOE managers from the influence of the Party was a significant effort in 1980s, a party secretary serving as a chairman reveals an increasingly common pattern in China's corporatized SOEs since 1990s.<sup>206</sup>

In addition to this, management of the company maintained close links to the top leadership of the party-state. *Table 2.1* above summarizes the visits by party leaders and government officials to the CNFC headquarters overseas. As the timeline shows, such visits became frequent after 2000. While this practice could be partially explained by the shareholders structure of the CNFC and even considered a part of routine work, here it is important to consider what advantages direct links to the top leaders provide to the company, and moreover, if business entities in other industries possess similar access to the leadership.

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<sup>204</sup> Christopher A. McNally, "Strange Bedfellows: Communist Party Institutions and New Governance Mechanisms in Chinese State Holding Corporations," *Business and Politics* 4, no. 1 (2002), 104.

<sup>205</sup> Raphael Shen, *China's Economic Reform: An Experiment in Pragmatic Socialism* (London: Praeger Publishers, 2000), 140.

<sup>206</sup> McNally, "Strange Bedfellows."

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2011 May	Deputy director of the Economic Committee of the National Committee of the Chinese People's Political Consultative Conference (CPPCC) Li Rongrong
2011 Jan.	Vice Premier Hui Liangyu
2006 Sept.	NPC Chairman Wu Bangguo; cordial meeting with company chairman Liu Shenli, general manager Wu Xiangfeng
2004 Nov.	PRC President Hu Jintao, accompanied by Liu Shenli
2003 Dec.	Premier Wen Jiabao
2003	Member of Politburo of the CCP Central Committee and State Council Li Tieying; accompanied by Liu Shenli
2002	Member of the Politburo of the CCP Central Committee and Vice Premier Wu Yi; work report by the CNFC Chairman Liu Shenli
2001	Party Secretary and PRC President Jiang Zemin; meeting with deputy general manager Wu Xiangfeng
2001	Member of the Politburo of the CPC Central Committee and the Chairman of the National Committee of the CPPCC Li Ruihuan
2000	Vice chairman of the National Committee of the CPPCC Li Guixian visits Las Palmas fisheries base

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*Table 2.1. The visits by China's top political leaders and government officials to the CNFC base in Las Palmas, Spain.*

Yet another observation of considerable importance is that the managers of the companies directly participate in the policy process. In July 2011, Ministry of Agriculture held the National Distant Water Fisheries Conference, which was attended not only by the Director Register of Fishing Vessels, Deputy Director of the Fisheries Bureau of the Ministry of Agriculture, but also chairman of CNADC and China Fisheries Association Distant Water Fisheries Branch Liu Shenli. The conference decided to promote the shift of China as distant water fisheries power to the distant water fisheries great power. On the one hand, this is a part of China's state-led capitalism. On the other hand, these practices provide the company with a direct link to

the policy process. Again, these links become significant if they put particular companies at an advantageous position that is closer to the policy process.

These links – a direct result of the managements’ previous careers, their meetings with the top party and state leaders, joint meetings with the state institutions – appear to form networks of links between companies and party-state institutions. Even if those state institutions have been abolished, like in the case of ministries incumbent managers used to serve at, the company maintains access to the system, since the managers can reach out to their former colleagues or other contacts in the system. There exists an extensive volume of literature discussing how such “connectedness” may benefit different actors. Significant work has been done in the field of social networks analysis (see *Chapter 1*).

Literature suggests that networks between actors may explain the outcome of their actions. And networks can be utilized to achieve outcomes, more favorable to the actors. In this particular case, a company with direct networks as described above was able to achieve a policy “to promote the shift of China as distant water fisheries power to the distant water fisheries great power.”

Understanding such links between business entities and the party-state in China may enhance our understanding of the strategies to achieve effective governance that the regime in China utilizes. On the other hand, if there is exist a biased pattern of those networks, some industries or companies may be put at an advantage over others. Moreover, in the Chinese context, yet another important question is, whether the

regime is able to adapt in a timely manner to the needs of the economy. While in a free market economy, market forces would be the most significant determining factor, in China, the party-state has taken on this role. And thus, is it capable of adapting even informal networks to the changing socioeconomic environment.

While the importance of understanding the overall pattern of networks between business entities and the party-state institutions is important, there exists a methodological problem – how to operationalize and measure those networks. This problem calls for the analysis of large amounts of data. Here social network theory is particularly handy at defining the links in those networks, while social network analysis software offers a convenient tool to organize the data and analyze it.

### ***2.3.2 Reorganized Business Entities as Independent Actors***

These networks could possibly be explained as the party-state's control over the company or its attempt to take advantage of the company managers' expertise in the area, as in the case of managers' presence in working conferences. However, analysis suggests that since the initial restructuring in 1980s distant fisheries companies have become somewhat independent actors. For example, when the PRC terminated its diplomatic relations with Guinea Bissau, after it established diplomatic relations with Taiwan and in such a way breached one-China policy, their bilateral fisheries agreement automatically became ineffective. But shortly after, the NCFC renewed the agreement with the Fisheries Department of Guinea Bissau independently from the

state. Later on, the NPFC and other Chinese fisheries SOEs independently signed various agreements with the governments overseas. For example, in April 2010, Wu Xiangfeng, at that time the representative of the CNADC delegation and the chairman of CNFC, proposed to establish joint-fisheries cooperation between CNFC and the Sierra Leone Government. In 2011, CNFC also established a joint venture with a local company in Mozambique. While in the beginning in 1980s the agreements were promoted by the government, now the companies are able to settle them by themselves. Such situation demonstrates the persistence and the driving nature of institutions established previously.

Furthermore, the reform has dramatically changed the nature of the SOEs. China's major fisheries companies, which are mainly SOEs, were still a part of the state in early 1980s. But their nature changed significantly, especially after the modern enterprise system was introduced and after SASAC took charge of these companies as an investor of state-owned assets. The companies were encouraged to pursue profits and they eventually developed their own organizational agenda and interests, which do not necessarily match that of the state. Under such circumstances, links between the companies and the party-state are of significant importance, since they may put some of the companies at an advantageous position, where they can voice and advocate their interests.

## **2.4 Concluding Notes and the Implications for this Study**

Having chosen a particular case study – a-few-decades development of China’s distant water fisheries – this chapter discussed several aspects of the research problem of this dissertation. Through a discussion of institutional reform of the sector against the background of environmental pressures in China’s coastal waters, this chapter attempted to grasp the key elements suggested by the research problem and establish a clear link between them, mainly, changing socioeconomic environment and resulting policy pressures, formal institutional adaptation to the new circumstances, and the dynamics of informal institutions, which emerge on the sidelines of policy or institutional adaptation.

The analysis above discusses how Chinese leaders, faced with environmental degradation in the country’s coastal waters, adjusted environmental regulations accordingly and restructured the SOEs in fisheries industry. This response was aimed at alleviating domestic environmental issues and also addressing a fundamental problem of food security. The discussion demonstrates how changing socioeconomic environment in the country pushes the leaders to alter institutional arrangements, which have not only domestic, but also international implications. Further, the chapter inquired what kind of informal links the process of formal institutional adjustment has created in this particular case. It has showed that the efforts to separate enterprises from the party-state notwithstanding, rather close links between the companies and the state remained. Furthermore, the companies have gained access to the policy process.

This discussion shows that while the government, faced with domestic resource scarcity, took the lead in the development of China's fisheries industry overseas, later the SOEs acted rather independently. This observation is important as it also shows that the SOEs eventually "took a life on their own" as suggested by the new institutionalists. Initially guided by the government into their international agreements in mid-1980s, the SOEs later drove the process forward, as demonstrated by their direct agreement with the government of Guinea Bissau or other countries.

This case study exposes the non-institutionalized links, or networks, between business entities in fisheries and the party-state institutions. Even after the reform, when major SOEs were transferred to the supervision of the SASAC, they maintained a close link to the state and sometimes even participated in the policy making. While on the one hand such relation enables the state to address resource scarcity through the SOEs when needed, on the other hand there is a risk that the influence in this relation shifts the other way around, and the SOEs seek to exert influence on the policy making and carry out their limited organizational agenda. This opens *a wider question, how the development of the state-business relation through the economic reform has enabled business entities to influence the policy making process, especially when the goals of the enterprise and the state conflict. Furthermore, are the patterns of relations between the companies and the party-state the same in all industries or in the case of all major companies?* While answering this question may pose methodological challenges, opening the toolbox provided by social networks analysis offers a way to address it.

**CHAPTER 3**  
**Institutional Reform and Regime  
Adaptation in China**

### 3.1 Objectives and Structure of the Chapter

The objective of this chapter is two-fold. First, to set the stage for the analysis in the following chapters, *sections 3.2 to 3.4* discuss relevant institutional reforms and adjustments. Considering the large volume of literature on the subject, this chapter focuses only on those aspects of the reform, which are relevant to this analysis and its argument. In its overview of the State Council Reform, *section 3.2* reveals the process of separation of business entities from relevant government departments. As some of the links of the companies surveyed were found to extend not only to those original business entities but also the pre-reform period, discussion of the State Council institutional reform in *subsection 3.2.1* also includes the reforms since the 1950s. This is crucial for further analysis in *Chapter 4*, which traces back the preceding careers of company managers.

*Section 3.3* looks at the peculiar relationship between business entities and the party (*3.3.1*) or the state (*3.3.2*), and discusses modernization of Chinese SOEs. Since the majority of the companies surveyed in this analysis turned out to be large central SOEs or companies closely linked to the state through shareholding structure, *subsection 3.3.4* discusses the changing identity of company managers as a result of their functions and emphasis on performance. The overview of management system and the contradictory incentives this has created for the company managers is aimed at explaining the rationality of studying the patterns of inter-system career mobility of those managers.

With two goals in mind – first, to show how the regime has retain control over company managers (3.4.1), and second, to demonstrate regime’s changing priorities in the selection of state officials (3.4.2) – *section 3.4* discusses cadre appointment practices and policies. *Subsection 3.4.2* sets the institutional background for the analysis in further chapters, which explores the factors behind inter-system appointments of company managers. Second, to better explain what has driven intellectual inquiry of this research, *section 3.5* reviews the literature on regime adaptation in China. In its aim to expose the factors that determine resilience of the single-party regime in China, this body of literature focuses on institutional reforms and adjustment that the regime has implemented. *Subsection 3.5.2* discusses the limitations of this theoretical approach.

## **3.2 State Council Reform**

### ***3.2.1 Reform of the Institutions under the State Council***

As the country embarked on the path of economic restructuring in 1978, State Council was reformed multiple times to tailor state apparatus to ever-changing socioeconomic environment. Over less than four decades of China’s economic reform, eight rounds of State Council reform were implemented – in 1978, 1982, 1988, 1993, 1998, 2003, 2008, and 2013. On the other hand, even prior to the opening-up, State Council was reformed in 1956, 1970, and 1975. A partial summary of those institutional restructurings is provided in the *Appendix 3A*. The list was comprised for

the purpose of reference for the analysis in *Chapters 4 and 5* and thus includes only those institutions that were found in the datasets.<sup>207</sup>

Two features generally characterize multiple State Council reforms.

First, the ministries were abolished and established again or they were merged and separated repeatedly. This was more common in the earlier stages of the reform. For example, the Ministry of Fuel Industry oversaw China's coal and petrochemical industries through its Coal Administration and Petroleum Administration in the early 1950s. In 1956, the Ministry was divided into three new ministries in charge of each industry separately – Ministry of Coal Industry, Ministry of Petroleum Industry, and Ministry of Chemical Industry. They were all merged in 1970 into the Ministry of Fuel, which was divided again into the Ministry of Coal Industry and Ministry of Petrochemical Industry in 1975. The latter one was further separated into the Ministry of Petroleum Industry and the Ministry of Chemical Industry in 1978. In 1988, general Ministry of Energy was set up to replace the existing three ministries. Similar was the case with the ministries in charge of electric power industry, where Ministry of Water Resources and Ministry of Electric Power Industry were separated and merged several times.

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<sup>207</sup> For a chronological overview of State Council reforms until 2003 and exhaustive lists of the institutions under the State Council in different periods of time, including graphs of institutional government structure, see Dacheng Su, ed., "Successive Reforms of Government Institutions since the Establishment of the PRC," Office of the Central Institutional Organization Commission, March 12, 2008, accessed January 10, 2015, [http://www.npc.gov.cn/pc/xwzx\\_2/zxbd/2008-03/12/content\\_1415228.htm](http://www.npc.gov.cn/pc/xwzx_2/zxbd/2008-03/12/content_1415228.htm) (in Chinese), also, for reform until 1998, see Organization Department of the CCP, Party History Research Center of the CCP Central Committee, and State Archives Administration, eds., *Historic Material of the CCP Organization* (Beijing: CCP History Publishing House, 2000), vol.16 (attachment 1, part 2) (in Chinese).

Another feature of the State Council reforms was the change in administrative ranks of the ministries, downgrading in particular, in the later rounds of the reform. For example, one of the highlights of the reform of 1998 was the transformation of several ministries into state bureaus under the State Economic and Trade Commission, which had significantly reduced their power and influence. The Ministry of Coal Industry was downgraded to the State Bureau of Coal Industry, so were the Ministry of Machine Building Industry, the Ministry of Metallurgy Industry, and the Ministry of Internal Trade. Previously directly under the State Council, the bureaus were to report to the State Economic and Trade Commission, which was transformed into a “super ministry” responsible for supervising all industrial production, except that of industries subsumed under the new Ministry of Information Industry. These measures were aimed at creating slimmer state and delegating market functions to the companies.

Brodsgaard argues that these reforms of 1998 “had the unanticipated consequence of strengthening the hand of business groups vis-à-vis the state.”<sup>208</sup> This is attributable to three factors. First, the new bureaus lost their ministerial status, and thus their power over the business groups within their specific areas was weakened. Second, ministries, downgraded to bureaus, also suffered a significant cut in staff, for example, in the case of Ministry of Metallurgical Industry, from 300 to 80. As a result they had to rely on the business groups when they needed additional staff to collect data or draft new plans and regulations. Arguably, as business groups had the resources

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<sup>208</sup> Brodsgaard, “Politics and Business Group Formation,” 629.

and manpower needed by the state institutions, their bargaining power over the government increased. Third, according to Brodsgaard, fragmentation of the policy-making process as a result of the State Council reform also strengthened business groups.<sup>209</sup>

### ***3.3.2 Separating Business Entities from State Council Institutions***

Since the early 1980s, separating business entities from government institutions was yet another significant reform measures. This policy idea had a long history among the CCP leaders. Already in the early 1960s, Liu Shaoqi proposed establishment of giant national “corporate trusts” (*tuolasi*), which would function as Chinese counterparts of the Western monopolistic big businesses. *Tuolasi* was a union of a number of enterprises that manufactured similar products or were supplementary to each other in processing and reprocessing productive materials.<sup>210</sup> However, as the Cultural Revolution took off, this experimental practice was short-lived.

These reforms were driven by search for efficiency. Later on, it became manifestation of the attempts to incorporate market economy mechanisms into the old system. This was in line with the separation of administrative and managerial functions of business entities. In the case of coal industry, in 1988, the newly established Ministry of Energy took over a significant portion of the functions formerly performed

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<sup>209</sup> Ibid, 631.

<sup>210</sup> Yuwa Wei, *Comparative Corporate Governance: A Chinese Perspective* (The Hague: Kluwer Law International, 2003), 95.

by the Ministry of Coal Industry. At the same time, China National Coal Mine Corporation was established to take over management of enterprises and coal mining bureaus outside of northeastern China.<sup>211</sup>

Generally such restructuring represents the transitional period from centrally planned economy towards increasingly market-oriented economy. Another example is petroleum industry. Oil production functions were gradually transferred to business entities, which eventually developed into large group corporations, now operating as listed companies under modern management system. In 1988, China National Petroleum and Natural Gas Corporation was established on the basis of the abolished Ministry of Petroleum,<sup>212</sup> directly under the State Council. In 1998, simultaneously with China Petrochemical Corporation, it was reorganized into a large group corporation – CNPC and China Petrochemical Group Corporation (Sinopec Group) respectively. Similarly, China Railway Engineering Corporation replaced former Infrastructure Bureau at the Ministry of Railways in July 1989. In the most recent round of the State Council reform, it was decided to dismantle the Ministry of Railways, incorporating its administrative powers into the Ministry of Transport and the National Development and Reform Commission, while its commercial functions

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<sup>211</sup> Coal mining enterprises and institutions in northeast China were managed and administered by Northeast China Inner Mongolia Coal Industry Joint Corporation, established in 1983 (State Economic and Trade Commission of the PRC, ed., *Fifty Years of China's Industries: New China Industry Chronicle*, vol. 9 “Administrating Agencies, Major Industries, Key Enterprises, and Industrial Elites” (Beijing: China Economic Press, 2000) (in Chinese), 122).

<sup>212</sup> In 1983, China Petrochemical Corporation was established to take charge of 39 companies that had previously been a part of the Ministry of Petroleum or the Ministry of Chemical Industry, and the Ministry of Textile Industry. However, it was not to replace the Ministry at that time.

were to be taken over by China Railway Corporation.<sup>213</sup> According to *Xinhua* report, this was implemented seeking “to reduce bureaucracy and improve railway service efficiency.”<sup>214</sup>

In defense industry, restructuring was implemented later. Reorganization and relabeling of industrial ministries into SOEs was aimed at reducing “excessive and overlapping layers of bureaucratic management that had built up during the Maoist era.”<sup>215</sup> However, these reforms were slow due to the deep-seated opposition from the defense bureaucracy. It feared the reforms would lead to job losses and cuts in its institutional clout.<sup>216</sup> Thus, after the first reform in 1982, when the Sixth Ministry of Machine Building was restructured into China State Shipbuilding Corporation, further restructuring stalled. It was resumed only a few years later, when Deng Xiaoping stated at a defense industrial meeting in June 1986 that “we have been talking about the reform of the military industry system for several years. We cannot wait anymore.”<sup>217</sup> Shortly after, multiple reforms were implemented and by mid-1990s, ministries under the defense industry had been transformed into SOEs. First the Ministry of Ordnance and the Ministry of Machine Building Industry were abolished, and their personnel transferred to other government agencies or newly created conglomerates such as

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<sup>213</sup> “Explanation of the Proposal for the Reform of State Council Institutions and Functional Change: at the First Plenum of the 12<sup>th</sup> NPC, March 10, 2013,” *People’s Daily*, March 11, 2013, 2 (in Chinese).

<sup>214</sup> *Xinhua News Agency*, “China to Dismantle Railway Ministry,” March 10, 2010, accessed January 18, 2015, [http://news.xinhuanet.com/english/china/2013-03/10/c\\_132221707.htm](http://news.xinhuanet.com/english/china/2013-03/10/c_132221707.htm).

<sup>215</sup> Tai Ming Cheung, *Fortifying China: The Struggle to Build a Modern Defense Economy* (Ithaca: Cornell University Press, 2009), 81-82.

<sup>216</sup> *Ibid*, 82.

<sup>217</sup> *Ibid*, 82, footnote 107.

China Northern Industries Corporation (NORINCO). Similarly, the Ministry of Nuclear Industry was restructured into China National Nuclear Industry Corporation.

The companies that were established in this way were often staffed with former bureaucrats from relevant ministries. As Brodsgaard notes, “[t]hey merely changed their *bianzhi* status from administrative *bianzhi* (*xingzheng bianzhi*) to the *bianzhi* of industrial enterprises (*qiye bianzhi*).”<sup>218</sup> Importantly, even as the corporatization of China’s large SOEs advanced since the second half of the 1990s, the companies have maintained their administrative ranks. Those considered to be the most significant or the largest industrial enterprises have kept vice-ministerial or even ministerial rank (*buji*), while others were downgraded to bureau level (*juji*).

In the process of institutional restructuring and adjustment of their ranks, bureaucrats transferred to the companies sought to retain their status in the administrative hierarchy. Reportedly, different corporations, such as CNPC and Sinopec Group fought hard for a ministerial status, as it would give their leaders the same administrative ranks as the ministers and vice ministers in the State Council. Here it is especially important to note significance of such status. Administrative rank in China is not only strongly associated with prestige but also has practical implications. Only administrative layers at the same level can communicate directly (*duikou*) and negotiate. Thus lower rank for a company would mean that its contacts with the government would take place at the lower ranks of bureaucracy.

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<sup>218</sup> Brodsgaard, “Politics and Business Group Formation,” 627.

### 3.3 Enterprise Reform

Aimed at transforming relations between the party-state and business entities, enterprise reform was one of the two initial pillars of the reform launched in late 1970s. The fundamental idea, underlying the administrative reform was to separate government from the enterprises (*zheng-qi fenkai*) and party from the government (*dang-zheng fenkai*). Reportedly, in the 1980s, referring to this Deng Xiaoping described China's reform as "two separations."<sup>219</sup> While the later one was eventually abandoned, enterprise reform remained at the core of China's economic reform. In the process of the reform, the questions related to the party control over business activities<sup>220</sup> and separation of managerial functions from state institutions administrative – the autonomy of the managers – were the most significant. The reform transformed the relationship between business entities and the party-state as well as identity of the managers.

#### 3.3.1 The Issue of Party Command System

The idea of limiting party control over managerial functions in the enterprises takes its roots in 1950s and early 1960s. Factory manager responsibility system, introduced in May 1954, was criticized by Mao Zedong and, thus, replaced by factory

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<sup>219</sup> Yongnian Zheng, "Political Incrementalism: Political Lessons from China's 20 Years of Reform," *Third World Quarterly* 20, no. 6 (1999), 1162.

<sup>220</sup> Tang defines the problem of party group leadership over managerial activities of an SOE as the problem of party-state separation in SOEs (Liang Tang, *Party-State Relations in Contemporary China* (Tokyo: Keio University Press, 1997) (in Japanese), 225).

manager responsibility system under the leadership of party committee.<sup>221</sup> *Seventy Articles on State Industrial Enterprise Work*, approved in September 1961 at Lushan Central Work Conference, called for the establishment of enterprise responsibility system and also emphasized that although party committees within the enterprises formed the core of the leadership of enterprise work, they should not replace factory managers.<sup>222</sup> Later, during Deng Xiaoping's purge, this document was used as evidence of his crime taking the capitalism road.<sup>223</sup>

By the time Deng Xiaoping returned to the political scene in late 1970s, the flaws in the party command system had exacerbated to the extent that it required a thorough reform.<sup>224</sup> Thus throughout the 1980s, Deng continued to advocate the reform insisting on two changes. First, Deng sought to limit the functions of the party committees and, second, to professionalize party secretaries by electing them from among the managers, deputy managers and workers.<sup>225</sup> He was the first one to blame poor management upon

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<sup>221</sup> For a detailed account on the reform of responsibility system and party command in enterprises, also termination of this reform after the Tiananmen Incident, see "Reform of Party-State Relations in Chinese SOEs," in Tang, *Party-State Relations*, ch.7, 225-260.

<sup>222</sup> "Lushan Work Conference, August 23 – September 16, 1961," in *Chronicle of the CCP Meetings 1921-2006*, ed. Huanxuan Jiang, Zhang Weiping, and Xiao Shen (Beijing: Central Literature Publishing House, 2006) (in Chinese), 265.

<sup>223</sup> In early 1960s, the top leaders divided among themselves responsibilities for overseeing different aspects of economic rehabilitation after the Great Leap Forward. Deng Xiaoping was then assigned responsibility for overseeing reform and rectification of enterprise management. Reportedly, Mao Zedong instructed Deng to formulate a central document for industrial management. Based on the field survey in Beijing No.1 Machine Tools Factory, a team led by Ma Hong and responsible directly to Li Fuchun and Bo Yibo submitted to the CCP Central Committee a report, which summarized eight defects of the party command system (for the list of these eight defects of party control system see You Ji, *China's Enterprise Reform: Changing State/Society Relations after Mao* (London, New York: Routledge, 1998), 40). Based on this report and other findings by central work groups, Deng organized drafting of the Seventy Articles on State Industrial Enterprise Work.

<sup>224</sup> Ji, *China's Enterprise Reform*, 41.

<sup>225</sup> In his speech in 1979 outlining the blueprint of the reform, Deng Xiaoping stated: "Party committees should be preserved. But they should be elected from among managers, vice managers and workers. The

the party command system and also became the most powerful advocate of granting central authority to the managers. In 1978, Deng stated that “[u]nder our present system of economic management, power is over-concentrated,” and it was needed to be changed by “[e]xpand[ing] the decision-making powers of mines, factories and other enterprises and of production teams, so as to give full scope to their initiative and creativity.” “Otherwise it will be difficult to <...> practice modern economic management and raise the productivity of labor.”<sup>226</sup>

Arguably, in addition to such economic calculations, there was also political rationale behind the proposed reforms. Deng became aware that the enormous power of party cadres to control people’s everyday life threatened the Party’s long term monopoly of power. Furthermore, those in favor of Deng’s proposal to revoke party command system in enterprises believed that if the party was not directly involved in the routine conflict with workers in their competition for limited social benefits, it would become less of a target for worker’s discontent.<sup>227</sup> Thus, *this reform was in a way adaptation to the socioeconomic conditions* in the leaders’ attempt to maintain the CCP monopoly.

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committee is party organ. With one or two clerks handling its daily affairs, there is no need to set up other functional offices. Its task is to manage party affairs only” (Ji, *China’s Enterprise Reform*, 42).

<sup>226</sup> Deng Xiaoping, “Emancipate the Mind, Seek Truth from Facts and United as One in Looking to the Future,” December 13, 1978, speech at the closing session of the Central Working Conference, which made preparations for the Third Plenary Session of the 11th Central Committee of the CCP that immediately followed (in essence, this speech served as the keynote address for the Third Plenary Session), in *Selected Works of Deng Xiaoping. Vol. II (1975-1982)* (Beijing: Foreign Languages Press, 1984).

<sup>227</sup> Ji, *China’s Enterprise Reform*, 42-44.

Eventually, the leadership of and engagement by party organizations in managerial work of the enterprises was limited. Nonetheless, it was brought back again after Tiananmen Incident in 1989, as separation the party and the state was terminated.<sup>228</sup> Up to date, the CCP continues to monitor and control economic actors at every level of the state sector.<sup>229</sup>

### ***3.3.2 Granting Autonomy to the Managers***

Although it is officially held that the economic reform in China was launched in December 1978 at the Third Plenary Session of the 11<sup>th</sup> CCP Central Committee, already in October 1978 the government was experimenting with the enterprise reform in Sichuan province. This practice was later applied to other regions – several firms in Beijing, Tianjin and Shanghai from May 1979 – and eventually spread around the country. Initial policy orientation of enterprise reform to separate state administration from SOE management, which called for delegation of managerial autonomy to the SOEs and their management, was aimed at increasing the effectiveness of the enterprises. This remained to be the key narrative throughout the debate of the enterprise reform in the following decades.

Although the reform of enterprise leadership structure was strongly advocated by Deng Xiaoping and in early 1980s reformist economists reached a consensus that the

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<sup>228</sup> Tang, *Party-State Relations*, 225.

<sup>229</sup> McNally, “Strange Bedfellows,” 91.

enterprises must be transformed from administrative units to independent economic entities,<sup>230</sup> it was by no means an easy task to implement. There was resistance both at the center and from the party cells at the grassroots.<sup>231</sup>

In early 1981, about 42,000 SOEs chose the system of “responsibility for profits and losses.” By 1983, almost all SOEs had adopted this responsibility system. The same year, an experiment was introduced, when compulsory profit delivery by SOEs was replaced with income tax payments, and eventually SOEs were to pay 55 percent tax from their profits. However, other reforms were delayed. For example, Deng advocated the replacement of party command system with the director responsibility system. Nonetheless, this proposal was shelved for a few years<sup>232</sup> until 1984, when factory manager responsibility system was introduced. Starting in May 1984, SOEs’ decision-making rights were expanded in nine areas including production planning, raw material purchasing, product marketing, allocation of retained funds, determination of wages and bonuses, cross-region and cross-industry cooperation, employee recruitment and appointment of middle level managers, disposition of redundant assets, and exporting. Under this system, user rights of state assets were delegated to managers,

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<sup>230</sup> For more see Yiping Huang, “State-owned Enterprise Reform,” in *China: Twenty Years of Economic Reform*, eds. Ligang Song and Ross Garnaut, ch. 5 (Canberra: Asia Pacific Press, 1999), 98.

<sup>231</sup> As noted by Chai, as the opening-up reform was launched in China, reforms were first carried out in the sector where resistance was the weakest, and only then the reformers proceeded to the more complex sectors, where it was less welcomed, such as the SOEs (Chai 1997). Furthermore, the CCP found it difficult to explain the ideological shift.

<sup>232</sup> Reportedly, due to the difficulties reaching a consensus, the debate of this reform measure was suppressed. When *The Selected Works of Deng Xiaoping* went to press in 1983, Deng had to agree to alter manuscript by eliminating his preference for director responsibility system. The manuscript was restored to the 1980s version only in 1987 (Ji, *China’s Enterprise Reform*, 46).

who would use their expanded autonomy to fulfill state production targets. In September 1985, it was further announced that SOEs could determine their production structure according to market demand and enterprises' comparative advantages, conditional on fulfillment of state plans.”

As explanation of the Draft of State-managed Industrial Enterprise Law demonstrates, this system was also seen as one of the tools to combat inefficiency of the SOEs. Yuan Baohua also proposed altering the “factory manager responsibility system under the leadership of the Party” to the factory manager responsibility system,” which if implemented would have meant that the role of the party group within the enterprise would change from that of the leadership over production management to supervision. It would have also limited the party group’s decision-making power to the right to express opinion and proposal.<sup>233</sup> However, this was not directly written into the draft of the law, since “it was not suitable for the state law to define party groups’ position, roles, duties and responsibilities.”<sup>234</sup>

Although reform proceeded slowly, an “appropriate” separation of state administration from enterprise management was seen as necessary to improve their efficiency. The Third Plenary Session of the 12<sup>th</sup> CCP Central Committee adopted *A Decision of the CCP Central Committee on Economic Reform* affirming the new economic line pursued by Deng Xiaoping’s leadership. It stipulated that the ownership

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<sup>233</sup> *Chugoku Geppo*, 1985.

<sup>234</sup> *Ibid.*

of enterprises should be separated from their management.<sup>235</sup> In 1988, *the Law on Industrial Enterprises Owned by the Whole People* provided that no state organ or unit shall encroach upon the managerial powers of the enterprises, in particular decisions related to manpower, materials or financial resources (Article 58).<sup>236</sup> Several years later, in 1992, *the Regulations on Transforming Operational Management Mechanisms of Industrial Enterprises Owned by the Whole People* further equipped SOEs with legal remedies in case any organ or individual was to interfere with their operational rights.<sup>237</sup>

However, even though legal provisions seem to guarantee the SOEs managerial rights, the power to control them was left in the hands of the state agencies. As Xi notes, “[t]his was largely because the Chinese leaders aimed for an ‘appropriate’ rather than a complete separation between the government and enterprises.”<sup>238</sup> It was the power to issue unified mandatory plans, examining and approving important plans, and appointing or approving the nomination of the director and other senior executives that various governmental agencies took advantage of to justify their excessive interference

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<sup>235</sup> “The Third Plenary Session of the 12<sup>th</sup> CCP Central Committee, October 20, 1984” in *Chronicle of the CCP Meetings 1921-2006*, ed. Jiang et al, 420.

<sup>236</sup> *The Law of the PRC on Industrial Enterprises Owned by the Whole People*, adopted at the First Session of the Seventh NPC and promulgated by Order No. 3 of the President of the PRC on April 13, 1988, effective as of August 1, 1988, accessed April 14, 2015, [http://www.npc.gov.cn/englishnpc/Law/2007-12/12/content\\_1383921.htm](http://www.npc.gov.cn/englishnpc/Law/2007-12/12/content_1383921.htm).

<sup>237</sup> *The Regulations on Transforming Operational Management Mechanisms of Industrial Enterprises Owned by the Whole People*, issued by the State Council and came into force July 23, 1992, accessed January 10, 2015, <http://cpc.people.com.cn/GB/64184/64186/66684/4494123.html> (in Chinese). According to the Article 22, the SOEs may choose to appeal or inform the government or its competent department, or go straight to the court to litigate against the organ or individual.

<sup>238</sup> Chao Xi, “Transforming Chinese Enterprises: Ideology, Efficiency, and Instrumentalism in the Process of Reform,” in *Asian Socialism and Legal Change: the Dynamics of Vietnamese and Chinese Reform*, eds. John Gillespie and Pip Nicholson (Canberra: Australian National University Press, 2005), 100.

with enterprise affairs. In practice, these powers severely undermined the effectiveness of the provisions that had granted SOEs remarkable managerial autonomy and attempted to safeguard their autonomy. It is therefore not surprising that a senior Chinese policy advisor maintained as late as 1997, that the utmost imperative mission of Chinese enterprise reforms was the separation of the government from enterprises.

The SOEs freedom of action was further enhanced by the introduction of a two-track system (*shuangguizhi*), which enabled the SOEs to operate under both planned and market economy conditions. In 1985, the calls to invigorate the large and medium-sized enterprises became more widely heard and two years later contractual management responsibility system (*chengbao jingying zerenzhi*) was generally adopted by large and medium size enterprises.

### ***3.3.3 Introducing Corporate Governance and State Ownership Management***

As the reform progressed, concerns over efficiency of the SOEs remained. In particular, Chinese leaders faced two problems – first, agency problem and, second, nature of state ownership. Formally stipulated in 1993, at the Third Plenary Session of the Fourteenth CCP Central Committee, the party-state adopted strategy, which attempted “to clarify property rights, establish clear powers and responsibilities, separate government and enterprises, and establish scientific management,”<sup>239</sup> better

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<sup>239</sup> Jiang, Zemin, “Firm Confidence and Mandate to Promote SOE Reform,” speech at enterprise discussion meetings held in Shanghai and Changchun, May 22 and June 26, 1995, *People’s Daily*, July

known as modern enterprise management system, which in many respects is based on a modern corporation.<sup>240</sup>

To implement this strategy, the party-state attempted to introduce in its enterprises features found in modern capitalist systems. In the earlier years of the reform, ideological justification presented a major challenge – shareholding system appeared to be inconsistent with socialist public ownership. But already around mid-1980s, Chinese economists started advocating incorporation of corporate structures into China’s socialist economy. Deng Xiaoping did not object using some “capitalist methods’ to build socialism and steps were taken towards establishing a shareholding system, including pilot schemes to transform SOEs into so-called shareholding companies and the opening of stock exchanges in Shanghai and Shenzhen.

1992 marked a milestone, when in early spring, Deng Xiaoping proclaimed further opening-up of the Chinese economy both institutionally and geographically. Before long, these changes were inscribed into the enterprise reform. Already in fall 1993, the direction of enterprise reform was declared to be establishing a “modern enterprise system” with public ownership as its mainstay. In 1997, the Fifteenth National Party Congress decided to convert major SOEs into joint-stock entities with modern, western-type corporate governance. The following year, the NPC formally approved this policy course. In November 2002, then already stepping-down General

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13, 1995, 1 (in Chinese).

<sup>240</sup> Harry G. Broadman, “The Business(es) of the Chinese State,” *World Economy* 24, no. 1 (2001): 849-875.

Secretary of the CCP Jiang Zemin reconfirmed that with an exception of a small number of enterprises, which must be funded solely by the state, all other should introduce joint-stock system to develop a mixed sector of the economy, however, the controlling shares of the so-called lifeline enterprises were to be held by the state.<sup>241</sup> In his report on government work to the Fifth Session of the Ninth NPC the following year, Premier Zhu Rongji pointed out that the enterprises still needed to tighten and improve their management quality and also speed-up the application of modern management methods and information technology.<sup>242</sup> Eventually this paved the way to market-oriented corporatization and ownership diversification. Eventually, most large and medium SOEs have been corporatized. Ownership diversification took place in two main forms: listing on domestic and international stock exchanges in the case of larger SOEs, and sales to domestic and foreign investors in the case of small and medium SOEs. And although the decision to turn SOEs into listed companies was regarded by some as the beginning of the end of Chinese socialism,<sup>243</sup> the system has remained.

Around the same time another initiative was taken in an effort to create a “national team” of large internationally competitive Chinese enterprises. During this

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<sup>241</sup> Jiang Zemin, “Build a Well-off Society in an All-Round Way and Create New Situation in Building Socialism with Chinese Characteristics,” report delivered at the Sixteenth National Party Congress, November 8, 2002.

<sup>242</sup> Zhu Rongji, “Government Work Report,” presented at the Fifth Session of the Ninth NPC, March 5, 2003.

<sup>243</sup> For example, see Toshio Watanabe, “Demutualization of State-owned Companies and Chinese Socialism,” *Toa* 4, no. 370 (April 1998), 2-3 (in Japanese).

reform companies were restructured, many of them privatized or closed down, while those from the pillar industries were restructured into large corporation groups to constitute the “national team.” Implementation of this policy took several years and in 2002, in his speech at the Sixteenth National Party Congress, Jiang Zemin explicitly confirmed the goal to form large, internationally competitive enterprises through market forces and policy guidance. At the same time, the smaller or non-performing enterprises were to be merged under the guidance of the government or closed down as bankrupt.<sup>244</sup> This reform provided incentives for the company managers to improve their performance or at least seek to influence policy process, since the number of SOEs was reduced significantly and many of them were to be restructured or go bankrupt, which for their managers would also mean loss of posts. In this process, large SOEs remained the pillar of national economy. In 2002, Jiang Zemin emphasized again that public ownership should play a dominant role and diverse forms of ownership should develop side by side.<sup>245</sup>

Corporatization of all SOEs was one of the features of the reform, the second being the establishment of a new system for the management of state-owned assets, which targeted agency problem.<sup>246</sup> For this purpose, in 2003, State-owned Assets and Administration Commission (SASAC) was established to take over ownership

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<sup>244</sup> In 2003, Zhu Rongji (“Government Work Report”) pointed out that the government “will continue to properly handle bankruptcies and mergers of enterprises through well-planned steps.”

<sup>245</sup> Jiang Zemin, “Build a Well-off Society in an All-Round Way.”

<sup>246</sup> For a discussion of agency problem in governance of Chinese SOEs and description of state-owned assets management system prior to 2003, see McNally, “Strange Bedfellows.”

authority over China's largest SOEs on behalf of the State Council. The newly established SASAC was to incorporate Central Enterprise Work Commission and also those divisions of the State Economic and Trade Commission and of the Ministry of Finance that had previously been responsible for supervising and managing state-owned assets. SASAC functions and its relation with the SOEs are further discussed in more detail in *Chapter 6*.

#### ***3.3.4 Conflicting Managerial Incentive System***

The reform, which granted autonomy to the enterprises and delegated both managerial functions and party supervision to the industry professionals, transformed business entities in China. Moreover, it brought about a significant change in the identity of managers as well as party committee secretaries, although no consensus in this respect exists.

On the one hand, managers of China's strategically important companies, mainly large central SOEs, are formally state officials. Liu and Tsai note that through its monopoly on personnel management, the party-state assures its command over the companies. Thus it has been common to argue that the SOE managers act as agents of the state.

One the other hand, corporatization has gradually fostered managerial independence from the state.<sup>247</sup> Thus, as discussed above, the managers may have stronger tendency towards advocating their company's limited organizational interests. Two factors explain this problem. First, there emerged a contradiction in the managerial incentive structure in the course of the reform. The managers are expected to act as agents of the state in their management of business entities. But at the same time, they have been encouraged to pursue higher profits for their companies and better performance, which does not always fall in line with the official policy objectives. In the first years of the reform, Deng Xiaoping stated that "the quality of leadership given by the party committee in an economic unit should be judged mainly by the unit's adoption of advanced methods of management, by the progress of its technical innovation, and by *the margins of increase of its productivity of labor, its profits, the personal income of its workers and the collective benefits it provides*" (*emphasis added*).<sup>248</sup> In addition to this, in 1980s Deng Xiaoping argued that "enterprises without adequate production conditions should either cut production, switch to other products, be amalgamated with others, suspend operations or simply close down."<sup>249</sup> That is to say, while there exist positive incentive system, where managers of profitable business

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<sup>247</sup> Liu and Tsai, "Between the Hierarchy and the Market," in *Choosing China's Leaders*, eds. Kou and Zang, 125.

<sup>248</sup> Deng Xiaoping, "Emancipate the Mind."

<sup>249</sup> Deng Xiaoping, "Implement the Policy of Readjustment, Ensure Stability and Unity," speech at a Central Working Conference, December 25, 1980, in *Selected Works of Deng Xiaoping. Vol III*.

entities may expect to be promoted, there also are negative incentives, threatening closure of unprofitable business entities or demotion of their managers.

Second, this contradiction was further facilitated by new selection system of managers and party committee secretaries. Deng Xiaoping advocated management professionalization and limiting party command, thus, in many cases even party committee secretaries were appointed from industrial backgrounds, rather than party cadres being sent to the companies. Also, it has become increasingly common that managers of the surveyed companies advance through the career ladder at the company or the industry instead of being appointed from a state institution. Datasets of this study confirm this trend, which is expected to have shaped identity of the managers.

### **3.4 SOE Manager Appointment**

#### ***3.4.1 Control of SOE Management through Personnel Appointment System***

As the preceding section has demonstrated, business entities have been separated from the state institutions and although many of them remained state-invested enterprises, they were restructured into profit-oriented companies with modern management system. Yet, this is not to say that the Chinese party-state has lifted control over them. There have been and still remain three categories in personnel appointment – *nomenklatura* system, *bianzhi* system, and appointment of party committees in the SOEs.

Appointment of the top management is a part of the so-called *nomenklatura*

system, common among all communist parties in power. Inherited from the Soviet Communist Party, it remains in place until now. *Nomenklatura* is defined as “a list containing those leading officials directly appointed by the Party as well as those officials about whom recommendations for appointment, release or transfer may be made by other bodies, but which require the Party’s approval.”<sup>250</sup> *Nomenklatura* reconfiguration of 1998 reveals that as the enterprise reform progressed and business entities were given more autonomy, the Party maintained control over the most important companies alongside much looser control of smaller enterprises.<sup>251</sup> According to Chan, it exposed the difficult trade-off the Party faced between maintaining political primacy and achieving economic flexibility.<sup>252</sup> Until now, it exercises control over the appointment of the top managers of most of the companies surveyed here.

The *nomenklatura* comprises two lists. One of them is handled solely by the Organization Department of the CCP Central Committee. This list also includes positions at the rank of minister, and thus covers general managers of some companies that have maintained ministerial rank. The second list is administered by other state

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<sup>250</sup> Brodsgaard, *Politics and Business Group Formation in China*, 633.

<sup>251</sup> Distribution of cadre management authority among CCP committees was revised in 1984, 1990, and 1998. For an overview of *nomenklatura* system at different times see Melanie Manion, “The Cadre Management System, Post-Mao: The Appointment, Promotion, Transfer and Removal of Party and State Leaders,” *The China Quarterly* 102 (1985): 203-233; John P. Burns, “China’s *Nomenklatura* System,” *Journal of Problems of Communism* 36 (1987): 36-51; John P. Burns, “Contemporary China’s *Nomenklatura* System,” *Chinese Law and Government* 20, no. 4 (1987-1988): 3-134; John P. Burns, “Strengthening Central CCP Control of Leadership Selection: the 1990 *Nomenklatura*,” *The China Quarterly* 138 (1994): 458-491; Hon S. Chan “Cadre Personnel Management in China: The *Nomenklatura* System, 1990-1998,” *The China Quarterly* 179 (2004): 703-734.

<sup>252</sup> Chan, “Cadre Personnel Management in China.”

and party organs (in the case of central SOEs – SASAC). It needs to be reported to the CCP Central Committee, which may exercise veto power. After the 1998 reconfiguration, managerial appointments at 44 non-financial SOEs were centrally administered by the Central Working Committee on Large-scale Enterprises.<sup>253</sup> Later on, general managers, deputy general managers, and chairmen, vice chairmen, and chief executive officers (CEOs) (where applicable) have been appointed by the CCP or by SASAC, depending on the company's administrative rank. As of 2007, managerial appointments of 53 of the central non-financial SOEs were managed by the Central Organization Department.<sup>254</sup>

Company managers are ranked similarly to civil servants, but they enjoy a different remuneration and fringe benefit system. What integrates them with civil servants is the fact that they are part of the *nomenklatura* and the Party therefore has the authority to move them around between companies or between companies and state institutions. As a result, this elite group has work experience across various sectors of Chinese society.<sup>255</sup> Nonetheless, there is very little information available about the actual functioning of this appointment system and management selection. According to Brodsgaard, there are always internal candidates waiting in line to get the top job. In the case of CEOs, they are selected from among a pool of candidates on the basis of

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<sup>253</sup> Chan, "Cadre Personnel Management in China."

<sup>254</sup> Brodsgaard, "Politics and Business Group Formation in China," 633-634. Based on the author's interviews with staff member of the Central Organization Department of the CCP, July 2007. For the full list of these companies see pp. 635-637.

<sup>255</sup> Brodsgaard, "Politics and Business Group Formation in China," 633-634.

so-called “democratic recommendation” (*minzhu tuijian*).<sup>256</sup> First those candidates are identified based on consultation, suggestions, recommendations and deliberation among company employees. Then, with the approval of Central Organization Department, SASAC selects a list of ten top names from whom the employees elect, by voting, their nominees, ranked by choice. If SASAC or Central Organization Department disagrees with the result, a second round of voting is held. In this way two candidates are selected. When the incumbent CEO steps down, SASAC in consultation with the company’s board of directors, recommends which of the two candidates should be the new leader to be approved by the Central Organization Department.

*Bianzhi* system is a list of the authorized number of personnel and defines their duties and functions in SOEs (*guoying qiye*) besides government administrative organs (*guanli jiguan*) and service organizations (*shiye danwei*). The *bianzhi* list covers all those employed in the SOEs, while *nomenklatura* applies only to leadership positions.

In addition to the *nomenklatura* and *bianzhi* systems, CCP Organization Department also holds control over the leading positions of party committees nationwide, SOEs included.

Through personnel appointment based on these systems, the regime has maintained control over SOE managers. Management of most of the companies surveyed in this research is also subject to these appointments. It has been argued that

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<sup>256</sup> General procedure of democratic recommendation is formally stipulated in chapter 3 of *Party and Government Leading Cadre Work Appointment Selection Regulations*, adopted in 2002.

*nomenklatura* system “serves as a mechanism for selecting specific kinds of leaders, namely those who are competent and loyal, to facilitate China’s development needs.”<sup>257</sup> Nonetheless, some scholars point out that administrative reform has resulted in coexistence of contradicting forces between enterprise autonomy and continued central control that characterizes the evolving relationship between companies and the party-state. Brodsgaard discusses how administrative reform has strengthened the influence of business groups within the system, even under *nomenklatura* system.<sup>258</sup> Moreover, referring to corruption, Burns concludes that party discipline is probably the biggest challenge to the effectiveness of the *nomenklatura* system.<sup>259</sup>

#### *Relevance to This Study*

Analysis in this research acknowledges this contradiction and holds that it may further be reinforced depending on the career backgrounds of the managers. Career background of a manager as an industry professional may determine their identity different from those managers, who were party or state officials appointed to managerial positions. Yet, this analysis does not completely reject the ability of the regime to control company managers. Instead, it lays emphasis not on the interests that company managers with links to the party-state may seek to advocate, but on the

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<sup>257</sup> John P. Burns, “The Chinese Communist Party’s *Nomenklatura* System as a Leadership Selection Mechanism,” in *The Chinese Communist Party in Reform*, ed. Kjeld E. Brodsgaard and Zheng Yongnian (London: Routledge, 2006), 33.

<sup>258</sup> Brodsgaard, “Politics and Business Group Formation in China.”

<sup>259</sup> Burns, “The Chinese Communist Party’s *Nomenklatura* System.”

advantageous position that the companies find themselves in, when their managers are connected to a party-state institution in their careers. As was suggested by the review of the social network analysis approach in *Chapter 1*, position of the managers in the networks between companies and party-state institutions is important.

### ***3.4.2 Policies of Cadre Appointment***

Like in other communist systems, cadre appointment as presented above has been the main tool to select leaders and also has performed a significant role in maintaining the CCP in power. The main principles guiding cadre appointment to the party-state institutions have changed little over the last few decades, since they were redefined by Deng Xiaoping in early 1980s. Arguably, these principles were introduced in attempt to secure the implementation of reform strategies. Hu, Lan, and Liu title this institutional adjustment as the most significant move towards that goal.<sup>260</sup>

Deng Xiaoping's large-scale cadre modernization scheme was based on four transformations (*ganbu sihua*): revolutionariness (*geminghua*), knowledge (*zhishihua*), youthfulness (*nianqinghua*), and professionalism (*zhuaneyehua*). Although in the first half of the 1970s one's quality as a revolutionary was mainly a criterion used to eliminate undesirable cadres, such as the followers of the Gang of Four, later it has been identified with the cadres' loyalty to the Party. *Knowledge*, as a criterion for cadre

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<sup>260</sup> Wei Hu, G. Zhiyong Lan, and Songbo Liu, "Innovations in Cadres Selection and Promotion in China: the Case of Mudanjiang City," *Business and Public Administration Studies* 8, no. 1 (2014): 48.

selection, refers to their general educational background. Newly appointed cadres were required to have certain level of education. *Youthfulness* represents the attempt of the regime to lower the age of the cadres and set age limits to different positions. *Professionalization* defines specialized professional training, although it is often equated with the requirement for general education. According to Li, there were hardly any other categories of the CCP cadres, which could better match Deng's selection criteria of being "revolutionary, young, knowledgeable, and professional" than the young technocrats in large SOEs and central industrial ministries.<sup>261</sup>

In early 2000s, a number of regulations aimed at improving the quality of cadres, also the methods of selecting them, were adopted. These include *2001-2005 National Cadre Education Training Plan* (2001), *Regulations on the Selection and Appointment of Party and Government Leading Cadres* (2002), *Measures to Supervise and Examine the Recruitment and Appointment of Party and Government Leading Cadres* (2003), *Provisional Regulations on the Work of Openly Selecting Party and Government Leading Cadres* (2004), and the *Provisional Regulations on the Work of Openly Selecting Party and Government Leading Cadres* (2004).<sup>262</sup>

As confirmed by the analysis below, cadres are evaluated and promoted based on their performance and achievements. They are judged on a "GDP index" or GDP

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<sup>261</sup> Chen Li, *China's Centralized Industrial Order: Industrial Reform and the Rise of Centrally Controlled Big Business* (London: Routledge, 2014), 86.

<sup>262</sup> Shambaugh, *China's Communist Party*, 141-142. For details see Shixin Cui, "A General Description of New Reform Measures to Further Realize Cadre Personnel Reform," *People's Daily*, January 8, 2005, 1, accessed July 26, 2015, <http://politics.people.com.cn/GB/1026/3105420.html> (in Chinese).

growth during their tenure in their region. Interestingly, some of the criteria in cadre evaluation use terminology, which resembles that of the Confucian personnel system: morality, capability, diligence, achievement, and uncorrupt. Official documents suggest that the goal is to create cadre corps composed of “talented people.”<sup>263</sup>

### **3.5 Literature Review: Institutional Reform and Regime Resilience**

#### ***3.5.1 Regime Adaptation and Authoritarian Resilience Argument***

The above institutional reforms are just a few among the many that the Party has implemented to enhance the state’s capacity to respond to numerous socioeconomic pressures and sustain the regime. These adjustments have received significant attention in the literature over the last decade as a major source of regime resilience in China. An overall unexpected longevity of the single-party regime gave rise to the argument of resilient authoritarianism, which Li defines as “a one-party political system that is able to ‘enhance the capacity of the state to govern effectively’ through institutional adaptations and policy adjustments.”<sup>264</sup> Over the last decade, this has become a prevailing analytical framework, with which many academics in the West have studied the Chinese political system.<sup>265</sup> It has pushed into shadow the pessimistic scenarios

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<sup>263</sup> Ibid, 142. Although Shambaugh discusses these criteria in regards to the selection of party cadres, analysis in this study shows that they also apply in the cases where company managers are appointed to state institutions.

<sup>264</sup> Cheng Li, “The End of the CCP’s Resilient Authoritarianism? A Tripartite Assessment of Shifting Power in China,” *The China Quarterly* 211 (2012), 598.

<sup>265</sup> Yuchao Zhu, “Performance Legitimacy’ and China’s Political Adaptation Strategy,” *Journal of Chinese Political Science* 16, no. 2 (June 2011): 123-140.

dominant the first decade after the Tiananmen Incident in 1989, when China observers were on high alert for signs of regime's decline.<sup>266</sup>

Significant volume of works explains how regime stability has been enhanced by institutionalization. Particularly significant push to this argument has been given by Nathan's article in 2003, which argued that resilience of the CCP regime is attributable to increasing institutionalization. Nathan notes four aspects of this process: "(1) the increasingly norm-bound nature of its succession politics; (2) the increase in meritocratic as opposed to factional considerations in the promotion of political elites; (3) the differentiation and functional specialization of institutions within the regime; and 4) the establishment of institutions for political participation and appeal that strengthen the CCP's legitimacy among the public at large."<sup>267</sup> In particular, institutionalizing the channels for political participation to the growing activism of the society prevented mass public opposition.<sup>268</sup> A significant volume of works also discuss the institutionalization of power succession and explain how this has stabilized this process.

A large volume of works exposes the so-called survival strategy of the regime

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<sup>266</sup> For example, Jack Goldstone, "The Coming Chinese Collapse," *Foreign Policy* 99 (Summer 1995): 35-53; Zbigniew Brzezinski, "Disruption without Disintegration," *Journal of Democracy* 9, no.1 (1998): 4-5; Gordon Chang, *The Coming Collapse of China* (New York: Random House, 2001). On the other hand, in the most recent years the pessimism over the future of China seems to be making a return. For example, Steve Hess, "From the Arab Spring to the Chinese Winter: The Institutional Sources of Authoritarian Vulnerability and Resilience in Egypt, Tunisia, and China," *International Political Science Review* 34, no. 3 (2013): 260-262; Youwei, "The End of Reform in China," *Foreign Affairs* 94, no. 3 (2015): 2-7; David Shambaugh, "The Coming Chinese Crackup," *The Wall Street Journal*, March 11, 2015, accessed May 30, 2015, <http://www.wsj.com/articles/the-coming-chinese-crack-up-1425659198>.

<sup>267</sup> Nathan, "Authoritarian Resilience," 6-7.

<sup>268</sup> Ibid.

and demonstrates how the regime has been adapting to changing socioeconomic environment. Addressing different aspects of the political system, entire volumes have been dedicated to this question.<sup>269</sup> Shambaugh focuses on the CCP itself and concludes that the Party is adapting fairly effectively to the challenges it faces and is proactively attempting to reform and rebuild itself institutionally, thus sustaining its political legitimacy and power.<sup>270</sup> Observing organizational adaptation of the Party, Chen and Dickson note that for the purpose of regime stability Chinese party-state co-opts capitalists by bringing them into key political institutions.<sup>271</sup> On the other hand, Suzuki examines recruitment into the Party of emerging socioeconomic elites, mainly represented by private entrepreneurs, after Jiang Zemin's official announcement of the Theory of Three Represents in July 2001. The scholar finds lower than expected levels of recruitment and concludes that while there is no direct absorption of the emerging elites into the Party, there is a trend toward capitalist or elitist adaptation that is political integration with the new elites.<sup>272</sup> Lee examines the CCP's entrepreneurial adaptation through party schools.<sup>273</sup>

Other scholars explore regime's adaptation strategy through state institutions.

Kamo discusses how democratic institutions (National People's Congress (NPC) and

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<sup>269</sup> For example, see Andre Laliberte and Marc Lanteigne, eds., *The Chinese Party-State in the 21st Century: Adaptation and the Reinvention of Legitimacy* (New York: Routledge, 2011); Kamo et al, eds., *Transition of China's Party-State System* (in Japanese).

<sup>270</sup> Shambaugh, *China's Communist Party*, 9.

<sup>271</sup> Chen and Dickson, *Allies of the State*.

<sup>272</sup> Suzuki, "Organizational Adaptation of the CCP" in Kamo et al, eds., *Transition of China's Party-State System*.

<sup>273</sup> Lee, *Training the Party*.

Chinese People's Political Consultative Conference (CPPCC)) are utilized as a platform for political participation of the elites.<sup>274</sup> Although avoiding defining it as adaptation strategy, Cai explains that the CCP was able to minimize the threat that popular resistance poses to the regime's legitimacy through decentralization of political authority.<sup>275</sup> In regards to the overall political reform in China, Schubert argues that there is a need to further explore the levels of legitimacy that political reform has provided to the CCP. The scholar suggests that political reform could engender critical degrees of political legitimacy for the current regime.<sup>276</sup>

### ***3.5.2 The Limits of Regime Adaptation***

However, this is not to say that the literature has overlooked the risks involved in relying on institutional change to secure regime stability. Many have inquired whether, to put in the words of Zhu, "China's adaptation strategy is a 'path dependent' decision, and if it will function as a potential catalyst for significant political change in the future."<sup>277</sup> Liebman briefly notes that so far the regime has allowed the courts in China to take on new roles partially because this serves "as a safety valve for discontent and

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<sup>274</sup> Kamo, "The CCP Challenge."

<sup>275</sup> Yongshun Cai, "Power Structure and Regime Resilience: Contentious Politics in China," *British Journal of Political Science* 38, no. 3 (Jul., 2008): 411-432. In arguing that "structure of divided state power assists the central government in dealing with resistance" (p. 415) and thus explains regime resilience, Cai does not elaborate further, whether decentralization was implemented with this purpose in mind.

<sup>276</sup> Gunter Schubert, "One-Party Rule and the Question of Legitimacy in Contemporary China: Preliminary Thoughts on Setting Up a New Research Agenda," *Journal of Contemporary China* 17, no. 54 (2008): 191-204.

<sup>277</sup> Zhu, "Performance Legitimacy."

grievances, and [institutionalizes] the operation of the party-state.” However, it may become increasingly difficult to constrain court development.<sup>278</sup>

Kamo clearly sums up the risks that adaptation strategy involves by noting the distinction between the *intention*, or aim, of institutional reform and the *reality* of its outcome.<sup>279</sup> In a more recent work, the scholar shows that the CCP sought to strengthen legitimacy of its rule by strengthening political authority of the NPC. It reformed its functions to establish a process, through which the NPC approves decisions of the Party.<sup>280</sup> As opposed to such aim, in his earlier work Kamo demonstrates that these reforms have undermined the CCP’s ability to “guide” the NPC, since its legislative and supervisory authority was strengthened.<sup>281</sup>

While the observations by Liebman and Kamo come in support of the new institutionalist argument that institutions, once established are likely to drive the process forward, Li’s critical response to the regime adaptation argument provides support to the second puzzle of this research whether the regime is able to eliminate old institutions and especially informal ones. By pointing to the problem of monolithic conceptualization in the resilient authoritarianism thesis, Li notes the critical distinction between the weak leaders versus strong factions, weak government versus

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<sup>278</sup> Benjamin L. Liebman, “China’s Courts: Restricted Reform,” *The China Quarterly* 191 (2007), 637.

<sup>279</sup> Kamo, “Institutionalization of the Chinese Communist Party” in Kamo et al, eds., *Transition of China’s Party-State System* (in Japanese), 12-13. *Intention* (or, literally, aim) and *reality* in the original work appears as *nerai* (ねらい) and *genjitsu* (現実) respectively.

<sup>280</sup> Ibid.

<sup>281</sup> Tomoki Kamo, *Contemporary Chinese Politics and the People’s Congresses: Institutional Reform and Changes in Who Guide Whom* (Tokyo: Keio University Press, 2006) (in Japanese).

strong interest groups, and weak Party versus strong country.<sup>282</sup> In this way, the scholar is able to grasp the importance of informal institutions, informal networks between actors in particular, and the limits they impose on institutional adaptation.

Analysis in the following chapters further examines these questions. It reveals that informal networks, that may curtail the effects of regime adaptation and divert the original intentions of the reform, do not necessarily result from the weakness of the leaders or the government, but instead emerge on the sidelines of the institutional reform aimed at enhancing the capacity of the state to govern effectively.

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<sup>282</sup> Li, “The End of the CCP’s Resilient Authoritarianism?”

# **CHAPTER 4**

## **Persistent Company Networks: Analysis of Career Backgrounds of Incumbent Managers**

*This chapter examines networks between companies and party-state institutions at different points in time. It holds that incumbent managers, who have previously worked or been selected to a party or state institution, create a link between that institution and their company, and a number of such links form networks between the two. Analysis observes earlier career paths of managers, incumbent in 1992, 2000, 2005, and 2010, to trace the dynamics of company networks over the course of the reform. Through this analysis, the chapter reveals how the party-state has (dis-)integrated itself with business entities.*

## **4.1 Introduction**

### **4.1.1 Problem Definition**

As discussed in *Chapter 3*, one of the major goals of institutional reform was to separate business from the state in order to increase the efficiency of business entities. This process fundamentally transformed the overall picture of market players in China. While the number of private business entities proliferated, a considerable number of large SOEs also emerged as profit-oriented corporations. Some of them were either formed after restructuring relevant ministry departments (e.g., China North Industries Group Corporation (later also known as NORINCO), China Railway Engineering Corporation (CREC), China National Petroleum and Natural Gas Corporation) or the SOEs that had existed for decades prior to the reform (e.g., Shougang (Capital Steel) Corporation, Dongfeng Motor Corporation, or China FAW Group Corporation). Other

companies were newly established (e.g., Aluminum Corporation of China (Chinalco)), sometimes as subsidiaries of large group corporations (e.g., Petro China Company Ltd. (hereinafter Petro China)).

This process has been widely studied. However, majority of the works focus on institutional reform exposing the changes in the state-business relations at formal institutional level. It touches little upon another aspect of it – the institutions that have remained. Behind the institutional facade of the state’s disintegration with business entities, there remained informal links between them, as significant portion of the old bureaucracy transferred to the newly established or reformed business entities. They sometimes even return to the state institutions.<sup>283</sup> In addition, private companies were quick to take advantage of their expertise and connections to the party-state by hiring former officials.<sup>284</sup> Literature shows that the Party has turned back to the corporate managers of large SOEs<sup>285</sup> and private entrepreneurs<sup>286</sup> looking for their expertise and support.

Thus, the question that remains to be addressed is how the reform has affected informal links between party-state institutions and business entities. There is a necessity to peel off the surface layer of institutional reform and observe how the party-state has disintegrated, if at all, with business entities beyond that.

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<sup>283</sup> Sheng and Zhao, *China’s State-owned Enterprises*, 188.

<sup>284</sup> Kennedy, “Comparing Formal and Informal Lobbying.”

<sup>285</sup> Brodsgaard, “Politics and Business Group Formation in China.”

<sup>286</sup> Chen and Dickson, *Allies of the State*.

### ***4.1.2 Research Questions***

To address this research problem, the chapter analyses company networks stemming from their incumbent managers' preceding careers. It sets the following three questions. *First*, what party-state institutions had incumbent company managers served in prior to the observation year? *Second*, how did the patterns of their career mobility change over the time? In particular, has institutional reform also eliminated the non-institutionalized links between the companies and the state institutions? *Third*, what factors explain existing networks between them?

### ***4.1.3 Data and Research Methodology***

This analysis uses data from four datasets – ds1992, ds2000, ds2005, and ds2010. It observes careers of the management until the beginning of the observation year. It holds that incumbent managers, who have previously worked at a state institution or been selected to a party institution, create a link between that institution and their company, and a number of such links form networks between the two. Since this chapter focuses on company networks with party-state institutions that are involved in policy-making and implementation, other companies, academic societies, research institutes, etc. are eliminated from the analysis.

Due to a relatively large amount of data, company networks are observed using social network analysis *Cytoscape*. The analysis compares networks across selected companies (*Appendix 1B*) and across time (1992, 2000, 2005, 2010).

#### ***4.1.4 Structure of the Chapter***

For the purpose of clarity, analysis of company networks is divided into for parts. *Section 4.2* first examines company managers' careers in central government institutions. To further observe how the patterns of their links to the government institutions changed in the course of the reform, *section 4.3* traces incumbent managers' experiences as local government leaders. In *section 4.4*, the chapter also analyzes incumbent managers' terms in the NPC and the CPPCC, China's democratic institutions. Seeking to compare the dynamics of state's disintegration with business entities with that of the Party, *section 4.5* observes, which managers had been selected to the CCP Central Committee before the observation year.

Through this analysis of incumbent managers' career mobility patterns, the chapter exposes how different companies were linked to the party-state institutions throughout the reform. It demonstrates the persistence of those links and explains how they were conditioned by previously adopted policies.

### **4.2 Company Networks with Central Government Institutions**

#### ***4.2.1 General Trends***

As business entities were separated from the state, many of the former bureaucrats from relevant ministries were transferred to them. *Figures 4B-1 to 4B-4* in *Appendix 4B* display this trend clearly. These figures show the central government institutions that incumbent company managers previously worked at. From these

visualizations it can be seen how their career experiences create networks between the companies and the state institutions. With several exceptions discussed below (*section 4.2.2*), these are mainly relevant ministries or bureaus in charge of the industry of the company. Thus, networks of companies from specific industries seldom overlap and often exist as independent units.

In terms of the dynamics of their networks over the time, companies can be divided into three groups. First, there is a group of companies, which had extensive networks with the state institutions in charge of the company's industry. These are mainly the companies in petroleum, coal, shipbuilding industries, and railways industry. These companies were established on the basis of relevant ministries. Their links date back to the 1970s or 1980s, with only occasional links in 1990s, when the managers worked at state institutions. These networks illustrate the process of formal institutional reform and represent the origins of the companies. For example, Ministry of Coal Industry was abolished in 1988 and in place of it China National Coal Mine Corporation and Ministry of Energy were established. Thus, the company's links with the Ministry of Coal Industry and Ministry of Energy in 1992 are self-explanatory. Similarly, China Petrochemical Corporation (later – Sinopec Group) had links with the Ministry of Fuel Industry, the Ministry of Chemical Industry, the Ministry of Petroleum Industry, the Ministry of Petrochemical Industry, and the Ministry of Fuel and Chemical Industries. Each of them was the ministry in charge of China's petrochemical industry under a different name in different periods of time.

In the second group, there are companies that have been similarly established on the basis of relevant ministerial departments and their networks to the state institutions date back to the 1980s or 1990s. But these companies stand out as their networks also include relatively new networks. The managers of companies in defense (excluding NORINCO), electronics, and communications industry have also served in government institutions relatively recently.

Two factors explain this trend. First, in these industries, institutional reform was implemented later. While oil corporations were separated from the Ministry of Petroleum Industry in early 1980s, this process in defense industry was delayed. NORINCO was established in late 1980s, and the ministries under the defense industry were finally abolished and restructured into corporations around mid 1990s. It took time to make the newly formed corporate headquarters and their subordinate entities to function as commercial enterprises in a market economy,<sup>287</sup> as they had to await the results of the experiments that the government was carrying out in the other parts of the economy. In telecommunications industry, relevant departments were restricted into business entities even later. China Telecom Corporation Ltd. (hereinafter China Telecom) came into existence only in 2002. Second, most of those companies remained closely linked to the state through the projects they were engaged in, for example China Mobile Communications Corporation (hereinafter China Mobile) or

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<sup>287</sup> On difficulties reorienting the SOEs in defense industry from planned toward market economy see Cheung, *Fortifying China*, 81-86.

those in aerospace industry. Zhang Qingwei, chairman of Commercial Aircraft Corporation of China Ltd. from March 2008 to 2011, from 2008 to 2009, served as the director of State Administration of Science, Technology, and Industry for National Defense (SASTIND) (former Commission for Science, Technology, and Industry for National Defense (COSTIND)). Jin Zhuanglong, vice chairman of the same company from 2008 to 2011, was deputy director of SASTIND from 2005 to 2008.

Third, there is a group of companies with less extensive networks to the state institutions. These are mainly the companies from steel industry, also Chunlan (Group) Corporation and Haier (Group) Corporation, China's largest producers of electrical appliances. While the later two had no links to the state institutions at all, the managers of steel companies had occasionally worked at a relevant ministry. For example, Wuhan Iron and Steel Company had no links at all, while Shanghai Baosteel Group Corporation,<sup>288</sup> Shougang Group Corporation<sup>289</sup> in 1992 and 2000, Aluminum Corporation of China Ltd.<sup>290</sup> in 2000 each had a link to the Ministry of Metallurgic Industry.<sup>291</sup> These links to the Ministry also emerged in the course of formal institutional reform and are the rudiments of the old system. For instance, Xu Daquan, a long-term bureaucrat and former vice minister of metallurgical industry, became

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<sup>288</sup> Known as Baoshan Iron and Steel Complex Corporation (Group) until 1998, and as Baosteel Group Corporation after 2005.

<sup>289</sup> Known as Shougang (Capital Steel) Corporation until November 1996.

<sup>290</sup> For the observation year 2000, manager list as of September 2001, upon the establishment of the Aluminum Corporation of China Ltd. was used.

<sup>291</sup> Aluminum Corporation of China Ltd. also had a link with the State Bureau of Nonferrous Metals Industry and Supervisory Board for Large Key SOEs.

chairman of Shanghai Baosteel Group Corporation in 1998, after the Ministry of Metallurgic Industry was abolished. Bi Qun worked at the Baotou Iron and Steel Corporation for the largest part of his career and then became vice minister of the metallurgic industry in 1993. While still in the post, he was appointed as party committee secretary and general manager of the Shougang Group Corporation in 1996, and after – the chairman of the company. Guo Shengkun, the first chairman of the newly established Aluminum Corporation of China Ltd., had experience working at the lower levels in the Ministry of Metallurgic Industry from 1979 to 1985. He later became deputy general manager of China Nonferrous Metals Industry Corporation, also deputy head of the State Bureau of Nonferrous Metals Industry. Guo also led the Aluminum Corporation of China Ltd. preparatory group in 2000 and 2001. Yet, besides these links, companies from materials sector and electric appliance producers had very limited links with central government institutions, since most of their managers advanced through the career ladder in that particular company or a different one in the same industry. The companies in the first group above were “derived” from relevant ministries or ministerial departments in the process of institutional reform. But all three steel producers, also Chunlan and Haier corporations had been established before or during the reform. Aluminum Corporation of China Ltd. was established only in 2001. Similarly, China Shenhua Group Corporation (hereinafter Shenhua Group). It was established in 1995 as a mining and energy company under the direct administration of the State Council to administer local coalmines that had not been transferred to local

governments. Thus, it mostly had managers, who had previously served in regional coal industry administrations or other coal companies. It was formed outside of the Ministry of Coal Industry, and thus its links to the Ministry were limited (2000 only).

#### ***4.2.2 Company Networks outside of the Companies' Industry***

##### *Company Networks*

While a significant part of company networks can be explained through the formal institutional adjustment of the state-business relations, in the company networks visualized in *Appendix 4B*, incumbent managers' career record in several institutions stand out. These institutions are beyond the boundaries of the industry of the company, where the managers hold posts, or are not a part of its formal institutional evolution. Company networks to these specific central government institutions are shown in *Figure 4.1* to *Figure 4.4* below.

The major interest in this dissertation is how the state (and the Party as examined below) has disintegrated or, in contrary, integrated itself with business entities. The most general observation from the analysis of company networks with state institutions outside of their industry is that there has been a strong tendency of disintegration between them. Career records of the managers in 1992 show that those from China Petrochemical Corporation, China State Shipbuilding Corporation, and also Shougang (Capital Steel) Corporation had previously been involved in economic planning work as they previously held posts in different institutions, such as State Planning

Commission, State Economic Commission, State Commission for Restructuring the Economic System, and others. These networks narrowed with time, which suggest that there has been increasing professionalization of company managers. Their careers also show that most of them had more experience working in the industry rather than state institutions.

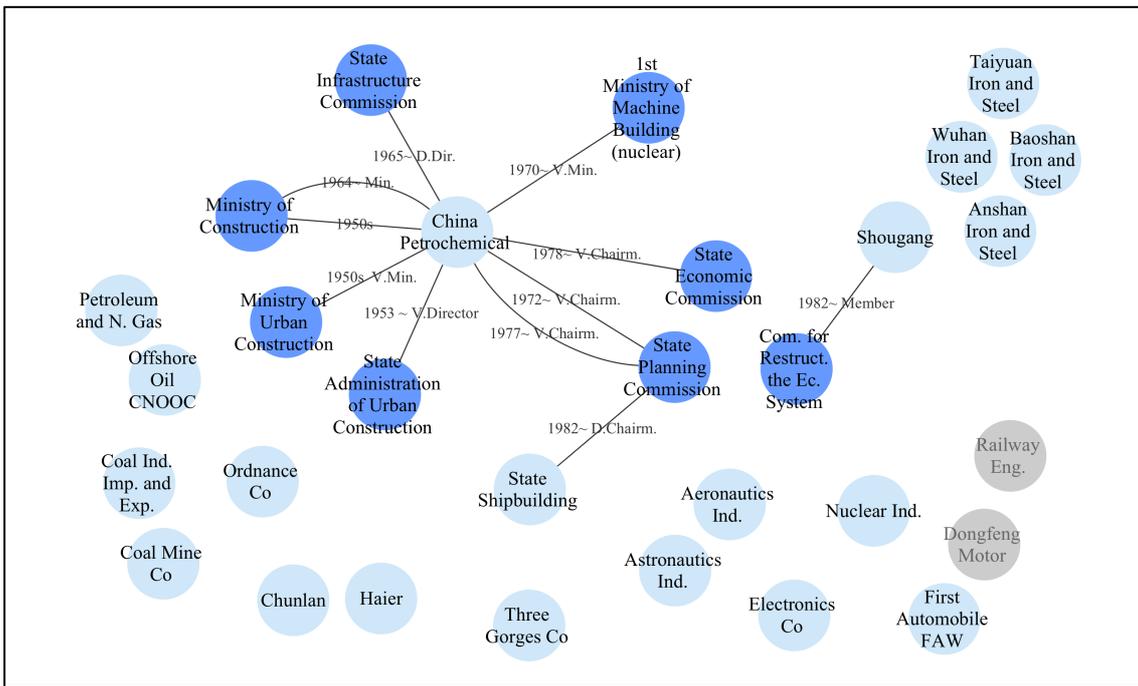


Figure 4.1. 1992 managers' career record outside of their company's industry prior to 1992.

As of 1992 (Figure 4.1), Shougang (Capital Steel) Corporation had links with the State Commission for Restructuring the Economic System. The Commission was still functioning in 1992, when Zhou Guanwu, its member from 1982, was serving as chairman of the board of directors of the company. China Petrochemical Corporation and China State Shipbuilding Corporation both had links with the State Planning Commission. Zhang Shou, became vice chairman of the Commission in 1982, working

there until October 1989, when he was appointed general manager of China State Shipbuilding Corporation. State Planning Commission generally functioned as an institution in charge of China's long-term economic development planning. But it incorporated functions of the State Economic Commission in administering the formulation of annual economic plans based on five-year plans and long-term economic development plans during and immediately after the Cultural Revolution, when to-be leaders of China Petrochemical Corporation Li Renjun and Ma Yi held vice chairmanship of the State Planning Commission from 1972 and 1977 respectively. State Economic Commission was restored in 1978 and regained its industrial production functions separated from the State Planning Commission, where Ma Yi remained until 1985.

As the reform advanced, company networks narrowed significantly. China State Shipbuilding Corporation eventually lost its links with the system as elder management retired. But Sinopec Group (formerly China Petrochemical Corporation) maintained links with the State Planning Commission not only in 2000 (*Figure 4.2*) but also in 2005 (*Figure 4.3*), since Chen Tonghai, its deputy general manager for five years from 1998, later general manager and chairman, served as a deputy director of the Commission from 1994 until 1998.<sup>292</sup>

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<sup>292</sup> Chen Tonghai's early career can be described as that of an oil industry professional, which later led him to the position of the chairman of the board of directors of Sinopec Group from April 2003 and its general manager from 2003 to 2007. Having graduated from Northeast Petroleum Institute in 1976, until 1986, Chen worked at the Daqing Research Institute, Zhejiang Science and Technology Commission, Zhenhai General Petrochemical Works (a subsidiary of the former China Petrochemical Corporation).

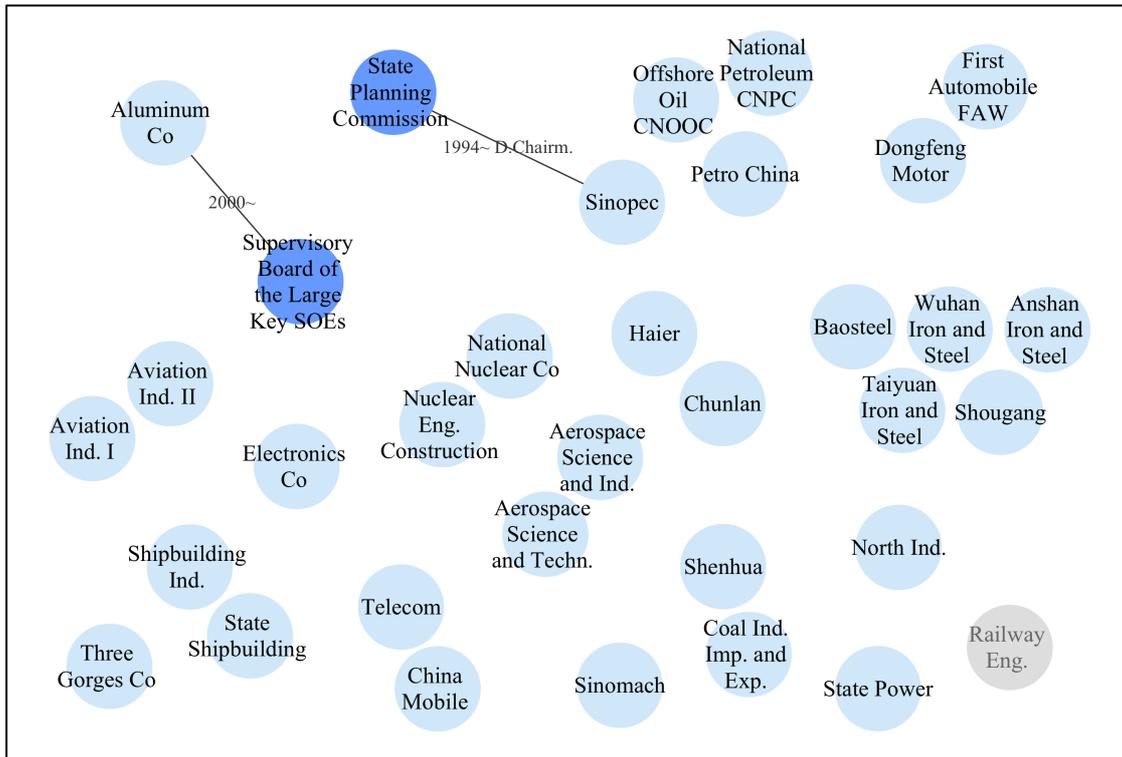


Figure 4.2. 2000 managers' career record outside of their company's industry prior to 2000.

In 2000, only two more companies – CNPC, also from oil and gas industry, and Aluminum Corporation of China Ltd. from metals and mining industry – had links to the central government institutions. Wu Yaowen, deputy general manager of the CNPC from April 1996 until the end of 2003, had ties with the State Planning Commission, as he led the Energy Industry Division of the Commission from 1988 until 1992. During the same period of time, Wu Yaowen also served as a petroleum chief engineer at the Ministry of Energy. In other words, he was a bureaucrat from petroleum industry, who

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Although in 1998 Chen returned to the oil industry, starting in mid-1980s he served as vice mayor (1986-1989), acting mayor (1991-1992), and also mayor (1992-1994) of Ningbo City, Zhejiang Province. He led Zhejiang Provincial Planning and Economic Commission as an acting deputy director from July 1989 till June 1991. He was vice chairman of the State Planning Commission until his appointment to Sinopec Group in April 1998.

In 2009, Chen was sentenced to death with two years suspension for taking nearly 240 mln. CNY bribes. He died of cancer in June 2013.

later transferred to the CNPC and worked there even as the corporation was reformed.

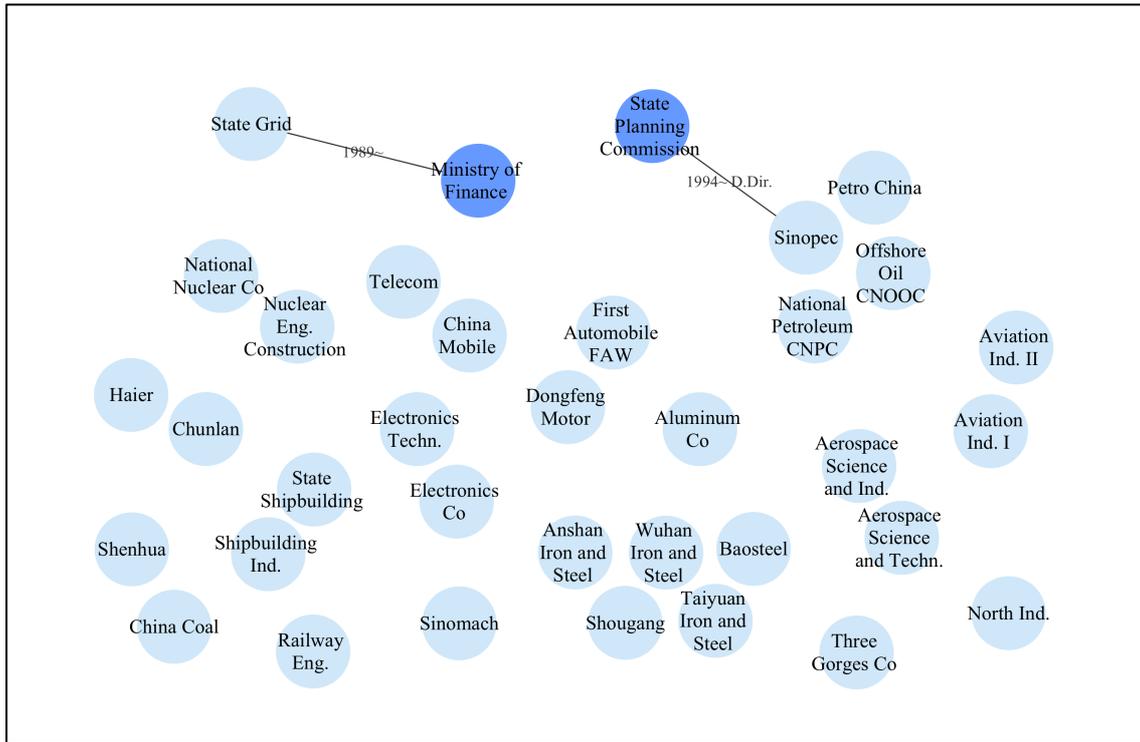


Figure 4.3. 2005 managers' career record outside of their company's industry prior to 2005.

Guo Shengkun became the chairman of Aluminum Corporation of China Ltd. in 2001, after having served as a chairman of the supervisory board for large key SOEs. As it is discussed below, usually top-level managers with extensive corporate work experience were appointed to this position. After leaving Ministry of Metallurgical Industry in 1985, Guo worked at China Non-Ferrous Metals Industry Corporation, where he became deputy general manager and party group member in 1997.

But as a result on management rotation, besides Sinopec Group, none of those links lasted until 2005 (Figure 4.3). Then the network of State Grid Corporation of China extended to the Ministry of Finance. Chen Yueming, deputy general manager of

the company from 2003 to 2014, had worked in various departments of the Ministry for almost a decade until 1999. Chen's career appears as that of a financial supervisor, since she also supervised China Construction Bank Corporation from September 2004 and was a chairman of China Power Finance Corporation from April 2003.

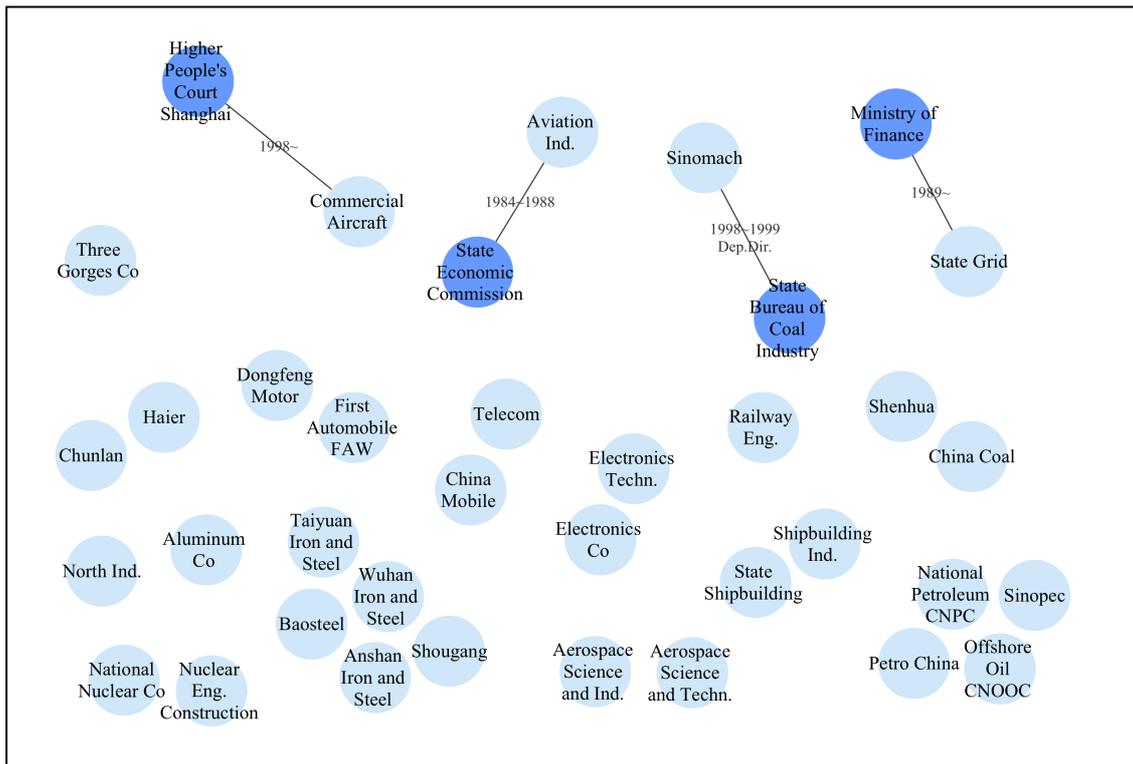


Figure 4.4. 2010 managers' career record outside of their company's industry prior to 2010.

As Chen continued working at her position, the company maintained links to the Ministry of Finance in 2010 (Figure 4.4). That year no managers from oil corporations or material sector possessed any previous links with state institutions beyond the company's industry. Instead, more diversity in company networks can be observed. The network of China Aviation Industry Corporation (AVIC) expanded to the State Economic Commission. Geng Ruguang, deputy general manager of AVIC from July

2008, worked at the State Economic Commission congruently with his post at the Ministry of Astronautics Industry from 1984 to 1988, which suggests that at that time aviation industry was already given considerable attention in China's economic planning. In addition, in 2010, the network of the Commercial Aircraft Corporation of China Ltd. extended to the Higher People's Court of Shanghai, where Teng Yilong, vice chairman of the company since March 2008, served as a party group secretary and court head from January 1998 to December 2007.

#### *Characteristics of Company Networks*

While company networks outside of their industry extend to a variety of institutions, they offer an illustration of two important issues. *First is persistence of the old institutional arrangements.* Although institutional reform separated business entities from the state institutions, as late as 2010 some companies still had links to the economic planning institutions. The links like those of AVIC to the State Economic Commission may appear less significant, since the Commission was abolished in 1988. On the other hand, its functions and also the personnel were incorporated into the State Planning Commission, which was restructured and renamed in 1998 and 2003, but its personnel and work practices remained.<sup>293</sup> Until 2005, the network of Sinopec Group reacted to the State Planning Commission through its incumbent manager who had

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<sup>293</sup> Gregory C. Chow, *Economic Planning in China*, CEPS working paper no. 219, Princeton: Princeton University, June 2011, accessed April 10, 2015, [www.princeton.edu/ceps/workingpapers/219chow.pdf](http://www.princeton.edu/ceps/workingpapers/219chow.pdf).

held a post of deputy chairman of the Commission in the 1990s. That is to say, when formal institutional arrangements are dismantled, informal institutions remain providing a limited number of companies with access to the top decision making bodies, the links that other companies do not possess.

The *second* characteristic of the remaining institutional links is that they are a *manifestation of the old industrial policies* rather than the contemporary ones. The companies from the industries that were of more significant importance in the early stage of the reform or prior to it – shipbuilding and petroleum industries – tend to have such links, while the companies that have gained importance recently are deprived of such links. By around 2000, electronics, also automotive industries had been assigned more significant roles in Chinese economy. Yet, none of the companies from those industries possessed in their networks links to the economic policy making institutions. This problem is further analyzed in *Chapter 6*.

### **4.3 Company Links with Local Governments**

#### *Company Networks*

Chinese political system is generally composed of five layers of state administration. That is the center, province, prefecture, county, and township. Economic reform in China entrusted the provinces with much more important role in economic management than ministries, which used to be at the center of economic planning and administration. Such circumstances defined the strategic importance of

provincial leaders.<sup>294</sup> In addition to the provincial governments, this analysis also observes incumbent managers' previous career experience in local governments at the prefecture level, mainly at the governments of prefecture-level cities. *Figures 4C-1 to 4C-4* in *Appendix 4C* reveal how in this process the companies were able to acquire networks with local governments. These figures offer visualization of data on the incumbent managers' previous work experience as provincial governors or vice governors, and also mayors or deputy mayors of prefecture-level cities. For the purpose of reference, the figures also include data for secretaries and deputy secretaries of the provincial and city party committees.

The first and the most important observation is that overall institutional reform did not have a significant impact on the company networks with local governments. It can be even said that the opposite was the case, since in 2010 more companies had managers with previous career experience at the top positions in local governments and their party committees.

Second, analysis of company networks with local governments display a pattern of links, which shows that the companies in petroleum, steel, and coal industries had the closest links to the local governments, both provincial and prefecture level, throughout the observation period. But this gradually changed. From 2000, the network of China Electronics Corporation extended to the local level since its management in

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<sup>294</sup> Ravi Kanbur and Xiaobo Zhang, eds., *Governing Rapid Growth in China: Equity and Institutions* (London and New York: Routledge, 2009), 305.

2000, 2005, and 2010 had been appointed as local leaders in the 1990s. More diversity among companies with networks to local governments can be observed in 2010, when the network of China FAW Group Corporation also included local government links.

This points to the third observation about company networks with local governments, which is related to the appointment of different industry professionals to local governments at various points in time. In pre-reform period, only individuals from coal and petroleum industries – future deputy general manager of China National Coal Mine Corporation, who later became general manager of Shenhua Group and later manager from China Petroleum Corporation – had served in revolutionary committees, which replaced civilian governments in the period of Cultural Revolution.<sup>295</sup> On the one hand, this is related to the age of the incumbent managers observed, on the other hand, it seems to have been less common for industry professionals to take posts in local governments. From the sample of incumbent managers, in the second half of 1980s and 1990s, future managers in electronics, petroleum and gas,<sup>296</sup> electric utilities companies were appointed to local governments, from late 1990s – those from steel producing Wuhan Iron and Steel Company along with managers from petroleum and gas companies, and, significantly, in mid-2000s, for the first time automotive industry

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<sup>295</sup> Sun Jingwen, who became China Petroleum Corporation vice chairman in July 1983, had experience as a deputy director of Tianjin City Revolutionary Committee from August 1972 to September 1975. Similarly, Han Ying, deputy general manager of Coal Mine Corporation from 1991 to 1993, was a deputy director of Shanxi Province Revolutionary Committee.

<sup>296</sup> Zhou Yonkang, deputy general manager of the CNPC from May 1988 to 1996, served as a mayor and deputy party secretary of Panjin City (1983-1985) under the People's Government of Liaoning Province. Later, simultaneously with the CNPC deputy general manager position, Zhou held a post of party committee secretary of Dongying City in Shandong Province (1989-1990).

profession from China FAW Group Corporation was appointed to the Jilin Province Jilin City government.

### *Career Backgrounds of the Managers*

Generally, it can be observed that incumbent company managers were promoted to local leaders as their industry professionals. That is, they had been working in the industry, when they became provincial leaders, although not always they already held a management position in the companies observed. Company managers in 1992, who became provincial leaders in the reform era, advanced into these posts as their industry professionals, with extensive working experience in that particular area.<sup>297</sup> Only managers with local government working experience from pre-reform era can be characterized as state cadres or even members of political elite, like in the case of Sun Jingwen, vice chairman of China Petrochemical Corporation from 1983. Career backgrounds of the managers in 2000 reveal a similar trend. Management of Shougang Group Corporation, Wuhan Iron and Steel Corporation, Sinopec Group, and Petro China were industry professionals, who had been promoted to local leaders.<sup>298</sup>

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<sup>297</sup> Hu Fuguo served as the vice minister of coal industry from 1982 to 1988, after two-decades career in coal industry. He was appointed acting governor, and later the governor of Shanxi Province after leaving general manager position at China National Coal Mine Corporation in 1992.

<sup>298</sup> However, this does not apply in the case of State Power Corporation. Careers of their management do not clearly follow this path.

## *Explaining Company Networks to Local Governments*

Literature suggests varying explanations of the factors that determine appointments of local leaders.<sup>299</sup> Li and Zhou point out that while in pre-reform years political conformity was the key criterion for promotion of provincial leaders, three new elements were incorporated into the promotion process in the 1990s. As the reform advanced, officials had to be of young age, good education, and expertise in administrative management. Economic performance and other competence-related indicators took the central stage in the promotion.<sup>300</sup>

Tang identifies a common career path to a provincial governor in the 1990s, which seems to depend greatly on the financial work and economic administration experience. Many of them with university degrees, often in science, acquired in 1950s or 1960s, worked as engineers in their early careers. Such individuals were selected to head provincial economic departments, as the trend of promoting younger cadres strengthened in the 1980s.<sup>301</sup> Further, based on their achievements, they were promoted to municipal vice-mayors or party deputy secretaries, also mayors or city party

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<sup>299</sup> Local governments in general and career advancement of provincial governors and party secretaries in particular has received significant amount of attention in the literature. Interest in local governments grew in early 1990s, when it was increasing independence of the local governments came into attention of China observers.

<sup>300</sup> Hongbin Li and Li-An Zhou “Political Turnover and Economic Performance: The Incentive Role of Personnel Promotion in China,” in *Governing Rapid Growth in China*, eds. Kanbur and Zhang, ch.12, 303-324. Li and Zhou argue that inner mobility of provincial leaders is closely tied to their economic performance.

<sup>301</sup> Bo (*Chinese Provincial Leaders*, 98) observes that in 1983, around two thirds of the leaders retired, thus many veteran leaders were replaced. And then again, in 1993, only 60 percent of provincial leaders remained as the older cadres were further replaced by the younger ones. In addition to this, in 1967, around 98 percent of the leadership was removed from their offices in the effect of the Cultural Revolution, when the provincial party and government institutions were destroyed.

secretaries. After that, they often acquired political posts at provincial level. After having served as deputy governors or acting deputy governors, they would become provincial governors. Around the time of reaching the level of acting provincial governors, they would be selected as alternate members or sometimes even regular members of the CCP Central Committee.<sup>302</sup>

In the case of provincial party committee secretaries, experience in party work appears to be more important, although the early years of the career would usually present the same pattern. Then future provincial party committee secretaries would move to party organs in provincial governments. However, in the process of the advancement to the top posts in the provincial party committee, they often served as municipal party committee secretaries, or performed party-related functions in provincial department bureau. Yet, this is not to say, that career paths of provincial governors and party committee secretaries were completely independent. There were often cases when these paths would merge. Moreover, sometimes individuals would be appointed into these posts directly from the center. In such cases, their preceding careers would be similar to those described above, but they would have served as vice ministers and then be sent to the provinces.<sup>303</sup>

While earlier literature identifies a common career path to provincial leaders, recent accounts in the literature describe more diverse career patterns. Bo observes

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<sup>302</sup> Liang Tang, "Central-Local Relations in Reform Era China: Analysis of the Organization and Personnel System," *Toa* 370 (April 1998) (in Japanese), 83.

<sup>303</sup> *Ibid.*

provincial leaders – provincial party secretaries and provincial governors – incumbent as of November 2012 and distinguishes five different career paths to the top provincial leadership. First, there is a significant number of provincial leaders-former Youth League cadres; second, a number of them have spent their entire careers in local government and advance through the system; third, a number of provincial leaders have extensive experience in central party or government apparatus; fourth, there is a number of former academics; and finally, a group of provincial leaders are former corporate leaders.<sup>304</sup>

The explanation above, offered by Tang, in regards to the qualifications required for local leaders explains the links between companies and local governments, although it leaves the puzzle, why professionals from those specific industries were chosen. Analysis in *Chapter 5* below discusses how these patterns of networks at particular point in time correlate with economic policies in China.

#### *Implications of Company Networks with Local Governments*

Company networks with local governments, especially their managers serving concurrently as local governors or party secretaries, have several implications for the companies. First, “economic reform has empowered provincial leaders with the ultimate authority in allocating economic resources in their provinces.”<sup>305</sup>

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<sup>304</sup> Bo, “Paths to the Top Leadership in China,” in *Choosing China’s Leaders*, eds. Kou and Zang.

<sup>305</sup> Kanbur and Zhang, eds., *Governing Rapid Growth in China*, 305-306.

Decentralization provided local governors with economic powers, such as the authority to regulate market access in the province, redistribute fiscal benefits, investment funds, access to foreign investment and trade, and others. As noted by Wong, local government in China became both a player and a referee in local economic competition. In the early years of the reform, World Bank has pointed out that local governments act as patrons of local business entities rather than regulators. Needless to say, this created advantage for those companies that had closer links to the local governments.<sup>306</sup> This decentralization policy was popularly called “eating in separate kitchens” (*fen zao chifan*). It granted provincial leaders with considerable autonomy and power,<sup>307</sup> and also provided them with a vested interest in promoting and sustaining the reform drive. It also created counter balance to the central bureaucracy.<sup>308</sup>

Second, a leading position in the local, especially provincial, government created particular links between the provincial leader and the central government. On one hand, local governors were granted institutionalized channels to influence policy process. In the 1980s, provincial leaders were included into the CCP Central Committee, making them the largest group there. Although this was initially done seeking to counterweight vested interests of the central government and party officials in the *status quo*,

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<sup>306</sup> For example, in early 1990s, Shirk refers to a newspaper report, which criticized local officials for exempting from or reducing taxes for particular enterprises, and imposing extra tax on all other enterprises (Susan L. Shirk, *The Political Logic of Economic Reform in China* (Berkeley: University of California Press, 1993), 188, footnote 54).

<sup>307</sup> For a detailed discussion on the decentralization measures and its implications see Shirk, “Playing to the Provinces: Fiscal Decentralization and the Politics of Reform” in Shirk, *The Political Logic*, 149-196.

<sup>308</sup> *Ibid*, 149.

provincial leaders remained a predominant group in the Central Committee.<sup>309</sup>

Furthermore, in the early years of the reform, party leaders held frequent policy work conferences, where both provincial representatives and ministries were represented.

To sum up, fiscal decentralization, the cornerstone of the CCP leaders' political strategy to build support for the economic reform, coupled with the CCP's attempt to rejuvenate local governments as well as incorporate technical expertise and managerial skills in the 1980s, created conditions for a limited number, mainly resource companies to develop networks with the local governments and in this way acquire channels to influence the process of policy making and implementation. Importantly, these networks were still significant even in 2010.

#### **4.4 Company Managers' Terms in the NPC and the CPPCC**

National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC) are two of the key institutions constituting Chinese political system at the state level.<sup>310</sup> According to the Constitution, the NPC is the highest organ of state power (Article 57). Together with its permanent body – the

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<sup>309</sup> The proportion of provincial leaders in the Central Committee in 1987 amounted to 43 percent (Shirk, *The Political Logic*, 150), the same as in the 16<sup>th</sup> Central Committee, elected in October 2002. In the later Central Committee, ten out of 24 Politburo members (41.7%) and two out of nine standing members (22.2%) were provincial leaders, and thus Bo concludes that provincial leaders emerged as the most powerful group in Chinese (Bo, "The 16th Central Committee," 225).

<sup>310</sup> Mouri indicates four sub-actors that comprise state political system in China: (1) NPC, the highest state organ in China according to the Constitution; (2) administrative and judicial organs, that is the State Council and People's courts; (3) President of China; and (4) institutions of the patriotic United Front of the Chinese People, specifically the CPPCC and democratic parties (Kazuko Mouri, *The Politics of Contemporary China: The Portrait of Global Power* (Nagoya: Nagoya University Press, 2012), 17 (in Japanese)).

Standing Committee – the NPC exercises legislative power of the state (Article 58). As opposed to this, in reality, its functions are much more limited and for a long time the NPC was labeled a “rubber stamp” institution. Although the role of the NPC has been changing and some scholars have even anticipated an “inadvertent transition towards democratization” through the NPC,<sup>311</sup> it needs to be noted that engagement of its delegates remains to be limited. They are not full-time members and do not leave jobs for their five-year term in this institution. Instead, they convene once a year for a brief session, and on a daily basis NPC Standing Committee consisting of around 175 delegates operates on its behalf. The CPPCC, China’s top political advisory body, the second of the so-called two meetings known in Chinese as *lianghui*, convenes at the same time of the year every March.

On the other hand, the significance of company managers’ terms in these two institutions should not be absolutely downplayed. Even if they attend sessions only once a year, this gathering is considered to be an important place where networking takes place. Thus it can be deemed that managers-former delegates would have a wider network linking them, and eventually their company, to the system.

#### ***4.4.1 Managers as NPC and CPPCC Delegates and Accumulating Links***

The frequency of company managers’ links to the NPC and the CPPCC, as

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<sup>311</sup> Murray Scot Tanner, *The Politics of Lawmaking in Post-Mao China: Institutions, Processes, and Democratic Prospects* (Oxford: Clarendon Press, 1999).

represented by the share of managers with previous terms in these institutions, is summarized in *Table 4.1* below. It shows the percentage of managers that had been delegated to the NPC or the CPPCC prior to the year surveyed. Further information, on which companies these managers worked at, is offered in *Appendix 4D*. *Figures 4D-1* to *4D-4* provide visualization of company networks that exist between the companies and China’s democratic institutions as a result of the incumbent managers’ terms in them.

	<b>Observation Year</b>			
	<b>1992</b>	<b>2000</b>	<b>2005</b>	<b>2010</b>
<b>NPC Delegate</b>	20%	28%	45%	52%
<b>CPPCC Delegate</b>	25%	19%	18%	21%
<b>Delegate of Either</b>	40%	41%	60%	66%

*Table 4.1. Proportion of the incumbent managers that had been delegated to the NPC or CPPCC prior to the year surveyed.*

Overall, from 1992 to 2010 it became more common for the company managers to have been delegated to one of the democratic institutions. This is mainly due to their term in the NPC, which increased from 20 percent of all the managers surveyed in 1992 to 52 percent in 2010, rather than in the CPPCC. Yet, it is important to note the main reason behind this trend. The managers who had been delegated to the NPC can be divided into two groups. First, there are managers who were simultaneously managers at a company and also delegates to the NPC. These links are rather straightforward and can be identified easily. The second group are those managers, who had served and completed their term at the NPC prior to the year surveyed. In

other words, there are the managers who are delegates to the NPC and those, who have been delegated to the NPC. For example, in the sample of 2000, 71 percent of the managers were simultaneously delegates to the NPC and only 29 of them had already completed their term there. In 2010 this ratio was the opposite. 33 percent of the managers were simultaneously NPC delegates and 67 percent – had previously been NPC delegates.

This observation is particularly important in the context of the research problem of this work. It provides an illustration of the *resilience of the old institutional links*. It underscores the necessity to choose an appropriate lens to observe these hidden links, which are easy to overlook.

There are limits to the argument that company managers that have already completed their terms as NPC delegates create strong links between their company and the NPC, since the NPC is not a fixed-membership institution and the managers may find it difficult to reach out to the current delegates. However, this career experience of the manager is very likely to broaden the network of their company.<sup>312</sup> Thus, the “hidden” links should not be overlooked.

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<sup>312</sup> In the Western media, it is common to describe the NPC and CPPCC annual sessions as a networking event. For example, see Nyshka Chandran, “China’s Top Political Event Lures Country’s Richest,” *CNBC*, March 3, 2015, accessed July 14, 2015, <http://www.cnbc.com/2015/03/03/china-national-peoples-congress.html>

#### ***4.4.2 Managers as NPC and CPPCC Delegates and the Company's Industry***

In terms of the industry the company belongs to, company networks with the country's democratic institutions appears to have expanded, as managers from a larger variety of companies were observed to have links with the NPC or the CPPCC. Among the managers in 1992 and 2000, those from the traditional pillar industries, mainly, petroleum, iron and steel, coal, power generation, automotive, and shipbuilding, had previously been delegates. In the sample of 2005 and 2010, the networks with the NPC or the CPPCC expanded to include companies from electronics, aviation, and telecommunications industries. On the other hand, interestingly, telecommunications companies China Mobile and China Telecom managers had not been delegated to the NPC.

#### **4.5 Company Managers' Membership in the CCP Central Committee**

Two general trends can be observed from the development of networks between companies and the CCP Central Committee. First, company managers' previous alternate membership in the Central Committee has become more inclusive. Second, while more managers had experience in the Central Committee in 1992, later its regular membership became more limited. *Appendix 4E* offers a visualization of the networks between companies and the CCP Central Committee.

*Company Managers as Former Alternate Members of the Central Committee*

In the course of the reform, more companies developed links to the CCP Central Committee as their managers had been previously selected as alternate members. The management of Baoshan Iron and Steel Complex (Group) Corporation, Chinese General Company of Astronautics Industry, China Ordnance Corporation, and China National Nuclear Industry Corporation in 1992 had managers, who were linked to the CCP Central Committee through alternate membership in the 1980s. As of 2000, different companies had managers-alternate members of the CCP Central Committee in the 1990s. Shanghai Baosteel Group Corporation (Baosteel) maintained this link in its network, but other companies were Shougang Group Corporation, Sinopec Group, and Chunlan Corporation. That is to say, besides Baosteel, which maintained links to the Central Committee through management's alternate membership even in 2005 and 2010, there was no specific pattern in 1992 and 2000.

However, already in 2005, managers of ten companies had career record as alternate members, and in 2010 this number increased further to fourteen. This observation captures the general trend in Chinese politics. Corporate leaders became much more visible in politics as a result of the Sixteenth National Party Congress in fall 2002.<sup>313</sup> Then, for the first time, corporate leaders, yet only from the state sector rather than private entrepreneurs, were admitted to the CCP Central Committee as a distinct group alongside the representatives from central government and party

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<sup>313</sup> Bo, "The 16th Central Committee," 238.

institutions, provinces, military, and the academic world. Interestingly, there is no particular pattern of companies or industries with managers as alternate members of the Central Committee. Instead, from the analysis results it can be concluded that the alternate membership of the CCP Central Committee had become more inclusive. This backs up the argument that the CCP leadership has sought to benefit from the corporate managers expertise and their exposure to the global economy, and therefore included them into the Central Committee.<sup>314</sup>

#### *Company Managers as Former Regular Members of the Central Committee*

Regular membership in the CCP Central Committee suggests an opposite trend. While in 1992, four companies – China National Coal Mine Corporation, China National Petroleum and Natural Gas Corporation, China State Shipbuilding Corporation, and China National Nuclear Industry Corporation – were headed by former or incumbent members of the CCP Central Committee, in 2000, this was the case only with two companies – State Power Corporation and Shenhua Group, in 2005 – only China Aerospace Science and Technology Corporation, and in 2010 – China Aerospace Science and Technology Corporation and Commercial Aircraft Corporation of China Ltd. This suggests that while the CCP has welcomed corporate managers for their expertise and experience, access to the core of the center remained restricted. It

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<sup>314</sup> Brodsgaard, “Politics and Business Group Formation,” 640 (based on the interview with staff member of the Central Organization of the CCP, July 2007).

should also be noted, that over the time, companies from aviation and aerospace industry acquired networks to the CCP Central Committee, while resource companies lost them.

Here it is important to note the career patterns of CCP Central Committee members. Company managers selected before the 2000 were the highest-ranking officials – vice minister of metallurgical industry, minister of nuclear industry, minister of petroleum industry, vice chairman of the State Planning Commission, and also secretary of Shanxi Provincial Party Committee and vice chairman of Shanxi Provincial Revolutionary Committee, in the case of coal and electric power generation industries – local government leaders with experience in provincial electric power or coal bureaus. Others, selected in 2002, were aerospace industry professionals, chosen to the CCP Central Committee as company managers.

Further, analysis shows that only in 2002 corporate managers were recruited into the CCP CC Discipline Commission. In this way China Aerospace Science and Industry Corporation and China Telecom had links to the institution in 2005, and China Mobile - in 2010. The same observation year, the networks of China National Offshore Oil Corporation (CNOOC) and again Aerospace Science and Industry Corporation had this link as their managers had been appointed to the CCP Discipline Inspection Commission in 2007.

However, these observations do not reveal any particular pattern of relations.

## 4.6 Concluding Notes

The main purpose of this chapter was to observe the patterns of networks between companies and the party-state over the time. This chapter held that the networks emerge as a result of the incumbent managers' preceding careers in party-state institutions. Analysis has demonstrated persistence of those networks. Even after incumbent managers transferred from a state institution to a company or finished their terms as NPC delegates, it was possible to trace down these links through managers' careers.

The most important observation is related to the company networks to the central government institutions. The analysis reveals that generally there has been increasing professionalization of the company managers, and as a result their links with central government institutions weakened, especially when compared to the early 1990s. Rather than surprising, this observation could have been anticipated. In the early stage of the reform, former ministry officials took charge of the companies as their managers, and as the formal institutional reform progressed and former bureaucrats were retiring from the companies, these links faded away.

However, it is very important to note that managers from *a very small number of companies possessed links to the institutions in charge of national economy*. That is, networks of only selected companies extended to these institutions, State Planning Commission in particular, also others. In 1992, China Petrochemical Corporation (later Sinopec Group) and China State Shipbuilding Corporation had the widest links,

although the network of the latter narrowed immediately. Even more important is the observation that these links were often remnants of the old institutional arrangements rather than contemporary institutional arrangements. This aspect is further examined in *Chapter 6*.

In addition to this, analysis of the company networks with different party-state institutions reveals diverse findings. First, with time it became less common for former CCP Central Committee members to assume managerial posts in companies. This trend can be explained by fact that in 1992 many of the leaders of companies were state officials who had been selected to the CCP Central Committee as state cadres rather than as a result of their links to the companies. On the other hand, it became increasingly common practice for company managers to have links with the Central Committee as former alternate members.

The second significant trend is that increasingly more incumbent managers had been previously delegated to China's democratic institutions, especially the NPC. More managers from a broader variety of companies had links to the institutions as delegates. But at the same time it should not be overlooked that over the time expanding company networks were an *accumulative result* of managers' previous experience, which does not necessarily mean that over time the NPC included more managers.

The third observation is that the patterns of networks between the companies and local governments have not changed significantly, although FAW Group Corporation acquired isolated links in mid 2000s. Resource companies in different sectors – steel

production, petroleum industry – have maintained the most extensive networks with provincial and municipal governments, which suggest that at local level these companies in particular were at an advantageous position.

# **CHAPTER 5**

## **In Search of Expertise: Appointments of Company Managers to the Party-State Institutions**

*Aimed at examining how institutional reform further shaped company networks, this chapter analyses later appointments and selection of incumbent managers to the party-state institutions. Cadre selection policies, also changing economic policies appears to have provided basis for the reemergence of networks between the party-state institutions and some companies. This chapter holds that a company manager advancing to a different institution would expand the company's network, which is defined here as an accumulative network.*

## **5.1 Introduction**

### **5.1.1 Background of the Analysis and Problem Definition**

Just like in any other country, particular industries have played a special role in China's economic growth and its strategy. Earlier research shows, that this pattern is more or less similar across countries and across time, and China stands there as no exception. Historically, across countries large enterprises have typically concentrated within the same capital-intensive industries, mainly those that "are most crucial to the strength, continued growth, and defense of modern, urban, industrial and technologically advanced society."<sup>315</sup> Amatori, Chandler, and Hikino observe that by the World War I, an embryonic pattern of oligopoly emerged in leading industrial

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<sup>315</sup> Alfred D. Chandler, Jr., "The Structure of American Industry in the Twentieth Century: A Historical Overview," *The Business History Review* 43, no. 3 (Autumn, 1969): 255-298, 257, cited in Dylan Sutherland, *China's Large Scale Enterprises and the Challenge of Late Industrialization* (London and New York: Routledge Curzon, 2003), 27.

economies with large firms beginning to concentrate in the same set of industries: “those transformed by capital-using, scale-dependent technologies including food processing, cigarette making, chemicals, petroleum refining, primary metals, and various types of machinery making including electrical products and transportation equipment.”<sup>316</sup> Thus, as Sutherland concludes, it should not be surprising that the same phenomenon is found in China.<sup>317</sup> According to official statistical data, in 1995, share of the gross value of industrial output contributed by large and medium enterprises was the highest in the industries of petroleum and natural gas extraction, tobacco processing, petroleum processing and cooking products, smelting and pressing of ferrous metals, chemical fibers, logging and transport of timber and bamboo, transportation equipment manufacturing, coal mining and processing.<sup>318</sup> Chinese government picked a number of industries to drive economic growth forward thus state-ownership concentrated in pillar industries, the pattern remarkably similar to earlier efforts in the most successful late-industrializers Japan or South Korea.<sup>319</sup>

Considering the nature of state-led development model and official policy line since 1980s to select technocrats with specific knowledge to the bureaucracy (see

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<sup>316</sup> Franco Amatori, Alfred D. Chandler, and Takashi Hikino, eds., *Big Business and the Wealth of Nations* (Cambridge, New York: Cambridge University Press, 1997), 31. On the other hand, the authors acknowledge that each country shows some unique pattern as well. Prominence of petroleum companies in the US reflects the resource-based growth of the country; rich consumer society in Great Britain was able to support a large number of food and beverage processors, while the abundance of textile companies reflected the path-dependent legacy of the country’s First Industrial Revolution.

<sup>317</sup> Sutherland, *China’s Large Scale Enterprises*, 27.

<sup>318</sup> Among the leaders in industry sectors, share of the petroleum and natural gas extraction enterprises grew the fastest, when compared to 1987.

<sup>319</sup> Sutherland, *China’s Large Scale Enterprises*, 23.

*subsection 3.4.2*), one cannot avoid but inquire how this, combined with economic growth policies, shaped the patterns of managers' career mobility. It can be *hypothesized* that managers from companies of strategic importance or those from strategic industries were appointed to party-state institutions in the regime's attempt to enhance its governance capacity. Thus, this chapter observes managers' appointments and resulting accumulative networks as a *dependent variable* and observes how it was shaped by the official economic development policies – *independent variable*. In other words, this chapter examines whether other aspects of institutional reform have reestablished company networks.

### ***5.1.2 Research Questions***

First, this chapter inquires what party-state institutions company managers are selected or appointed to after the observation year. Second, do these appointments correlate with their company's importance in China's economic development at the time of selection? Third, what explains managers' appointments or selection to party-state institutions in the cases, when economic policy is not an explanatory factor?

### ***5.1.3 Data for the Analysis***

Analysis here uses the same four datasets as *Chapter 4* – ds1992, ds2000, ds2005, and ds2010. But it observes career patterns after the beginning of the observation year rather than before that. To expose the patterns of company managers' further career

mobility, this chapter discusses the findings of the analysis for four groups of institutions separately. It traces down *accumulative company networks* – the networks that companies “accumulate” over the time in addition to their direct networks as a result of their managers being appointed to the posts in party-state institutions.<sup>320</sup> Even if the managers leave their company, the links between that company and the institution they transfer to are established.

#### ***5.1.4 Structure of the Chapter***

Since the research problem mainly relates to the institutional reform of the state, *sections 5.2 and 5.3* first observe inter-system career mobility of company managers at the central and local levels respectively. The later examines managers’ appointments to provincial and prefecture-level leaders (governors and vice governors, city mayors and vice mayors) and, since these positions often overlap – party secretaries and vice secretaries of provincial and municipal party committees. *Section 5.4* observes, which managers were delegated to the NPC and the CPPCC. To understand how the dynamics in state institutions was balanced by the party institutions, *section 5.5* observes managers’ selection to the CCP Central Committee. Concluding *section 5.6*

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<sup>320</sup> While this is a subject to further research, the links in accumulative networks vary in strength. When the former manager and current manager also share membership in the same factional group, that is they used to belong to the same organization at the same time (e.g. worked at the same company), the link that the company possesses would be stronger when compared to other links. Furthermore, those managers who have advanced through the career ladder in the company are also expected to create stronger link between their company and the institution they are appointed to, when compared to party-state cadres that are appointed to a company for a relatively short-term.

discusses whether the patterns of party-state (dis-)integration with business entities as observed in *Chapter 4* were further consolidated. It considers how the established pattern of accumulative company networks could influence policy process.

## **5.2 Selective Managers' Return to Central Government Institutions**

*Chapter 4* has concluded that generally the networks between business entities and the central government have weakened following the formal institutional reform. Although it demonstrated that company networks tend to persist and lag behind institutional reform, the analysis revealed that intra-system career mobility of the managers outside of the defense industry generally date back to earlier decades. These observations suggest that there has been a trend toward the state's disintegration with the companies. Nonetheless, analysis of the company managers' further careers shows that networks with several companies were reestablished.

*Figures 5A-1 to 5A-4 in Appendix 5A* depict the networks that are newly created by later appointments of company managers. Two types of networks can be identified – first, those with the state institutions, relevant to the company's industry or sector, and second, some of them going beyond the company's industry. Each of them is discussed below.

### ***5.2.1 Intra-system Appointments within the Industry***

The enterprise reform was intended at separating business entities from the state, but in some sectors, mainly defense and telecommunications, the networks between the state institutions and the companies remained close. That is, managers were welcomed back to the state institutions. There were two appointments from China Telecom (deputy general managers in 2000 and 2010) to the Ministry of Industry and Information Technology (positions of chief engineer and vice minister respectively). Furthermore, when Shang Bing from the company replaced Xi Guohua as a vice minister, Xi was reported to become chairman of China Mobile,<sup>321</sup> which demonstrates that inter-system career mobility in telecommunications industry is a common practice.

Dominating company accumulative networks in most of the years surveyed is the State Administration of Science, Technology, and Industry for National Defense (SASTIND), formerly known as the Commission for Science, Technology, and Industry for National Defense (COSTIND), and Ministry of Information Technology. The core companies in China's defense economy – China Aerospace Science and Industry Corporation, China Aerospace Science and Technology Corporation, AVIC – and before that China Electronics Corporation later developed links to those institutions. SASTIND is a civilian agency, subordinate to the Ministry of Industry and Information Technology. It was established in 2008, as one of the efforts to

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<sup>321</sup> *Nasdaq*, “China MIIT Announces Appointment Of Shang Bing as Vice Minister,” July 13, 2011, accessed February 13, 2015, <http://www.cn-c114.net/575/a628572.html>.

“continuously reform defense industry management system” in accordance with the needs of the “weaponry construction and socialist market economy development”<sup>322</sup> Since the industry remained integrated with the state also through the projects implemented, it has been common practice for the managers from defense industry to take over leadership of SASTIND.

Some other networks could be explained by the State Council reform, like in the case of China National Coal Mine Corporation in 1992.<sup>323</sup> Further, China Three Gorges Corporation is a fully state-owned subsidiary established to manage the construction and operation of the Three Gorges Project. Thus, its deputy general manager becoming a member and later vice chairman of the State Council Three Gorges Project Construction Committee is self-explanatory.

### ***5.2.2 Intra-system Appointments outside of the Company's Industry***

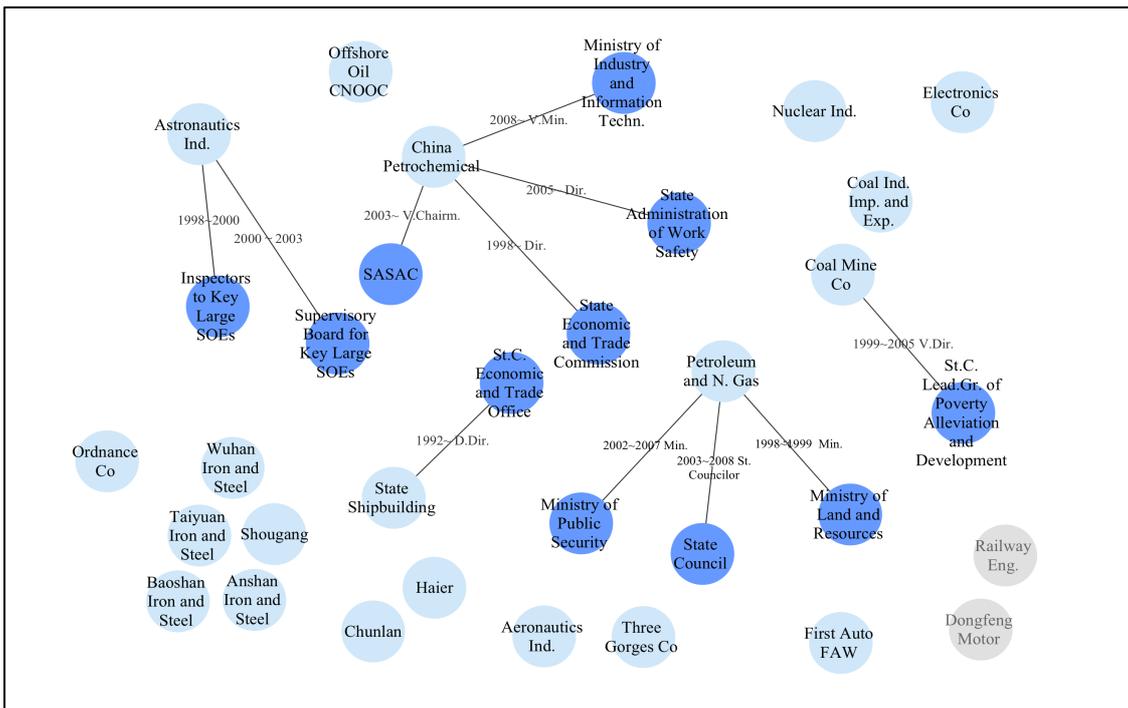
Accumulative company networks across time show that there were cases when further inter-system appointments of company managers extend beyond the industry of their company. *Figures 5.1 to 5.4* below provide a graphic visualization of accumulative company networks with these institutions.

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<sup>322</sup> *State Council Information Office of the PRC*, “China’s National Defense 2008,” November 2008, Beijing, accessed April 12, 2015, [http://www.scio.gov.cn/zfbps/ndhf/2009/Document/307858/307858\\_4.htm](http://www.scio.gov.cn/zfbps/ndhf/2009/Document/307858/307858_4.htm) (in Chinese).

<sup>323</sup> China National Coal Mine Corporation was established in 1988 to take over specific functions of the abolished Ministry of Coal Industry. It was entitled to centrally administer enterprises and institutions, which were earlier administered by or subordinate to the Ministry, outside northeastern China. In 1993, the company was closed as the Ministry of Coal Industry was reestablished. Some of the staff returned to the Ministry of Coal Industry. In 1998, the Ministry was downgraded to the State Bureau of Coal Industry.

In some cases, when managers rose to the highest levels of Chinese political system, meritocracy was anything but a determining factor in their promotion. Accumulative network of the CNPC extended to the State Council after its former general manager Zhou Yongkang (in 1992, *Figure 5.1*) became state councilor in 2003. He also served as the minister of public security and the minister of land and resources. While his achievements and the role of the CNPC in Chinese economy could partially explain Zhou's career and resulting CNPC networks, in this case, personal connections seem to have stronger explanatory power.



*Figure 5.1. Appointments of 1992 managers after 1992 to central government institutions outside of their company's industry.*

On the other hand, Zhou's case appears to be more of an exception rather than general practice when evaluated in the background of other company networks. Most of them extending to the highest level of the state appear to be based on meritocracy

and can be explained by the managers' performance. Xiao Yaqing, chairman of Aluminum Corporation of China Ltd. from 2004 (*Figure 5.3*), left the company in 2009, when he was promoted to deputy secretary-general of the State Council. Downs argues that "the secret of Xiao's success was his ability to simultaneously promote corporate and national interests." In 2008, Xiao engineered purchase of nine percent of Anglo-Australian mining company Rio Tinto by his company. In this way, an earlier-proposed takeover of Rio Tinto by BHP Billiton was prevented. But if successfully completed, it would have allowed the new company to control one-third of the global iron ore market. Downs explains that this not only furthered the objective of transforming Aluminum Corporation of China Ltd. into a diversified global mining company, but also alleviated the Chinese leadership's concern over higher prices of iron ore, a commodity critical to China's economic growth.<sup>324</sup>

Outstanding performance at the company characterizes other managers in this group of appointments. Miao Wei, general manager of Dongfeng Motor Corporation in 2000 and its chairman in 2005 (*figures 5.2 and 5.3* respectively), also deputy secretary of the party committee there, in 2008 became vice minister and in 2010 minister of industry and information technology. He is known for having turned China's second largest automobile group from a heavily indebted company into a highly profitable automobile maker in less than ten years.<sup>325</sup> Jiang Jiemin, whose appointment as

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<sup>324</sup> Downs and Meidan, "Business and Politics in China," 8.

<sup>325</sup> Wenxian Zhang and Ilan Alon, eds., *Biographical Dictionary of New Chinese Entrepreneurs and*

chairman of SASAC in 2013 accounts to the Petro China's (figures 5.2, 5.3, and 5.4) and CNPC's (figure 5.3) networks to this institution, has also been praised for his achievements as a manager of Petro China (see Chapter 6).<sup>326</sup>

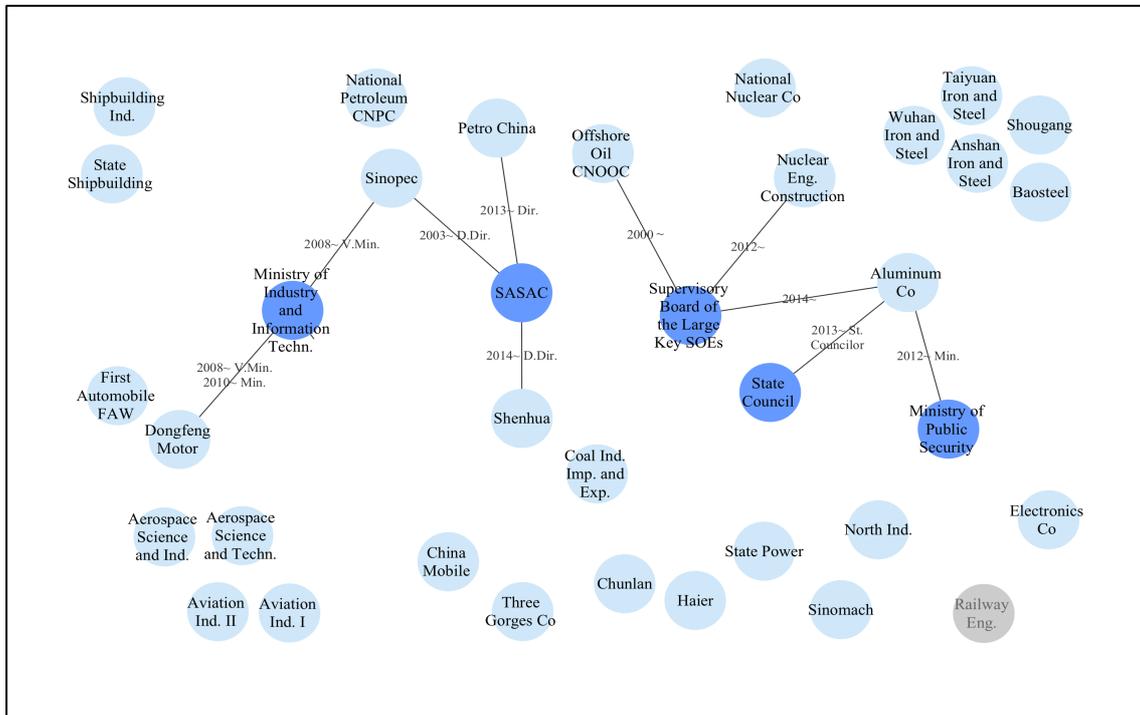


Figure 5.2. Appointments of 2000 managers after 2000 to central government institutions outside of their company's industry.

On the other hand, not all of the appointments outside of a company's industry can be explained in such a straightforward way. Chairman of the newly established Aluminum Corporation of China Ltd. until 2004 Guo Shengkun, who used to introduce himself as a politician with background in business, became minister of public security in 2012 and later also State Councilor. While his achievements in establishing Aluminum Corporation of China and its subsidiary Aluminum Corporation of China

*Business Leaders* (Cheltenham, UK: Edward Elgar Publishing, 2009), 121.  
<sup>326</sup> *Xinwenhuabao* (New Culture Daily), "CNPC Chairman Jiang Jiemin Takes over as SASAC Director," March 20, 2013, <http://news.hexun.com/2013-03-20/152283497.html> (in Chinese).

Ltd. are acknowledged, there were doubts, whether Guo’s lack of knowledge in legal affairs would allow him to appropriately perform his task as a security chief.<sup>327</sup> Moreover no reports were found about any of his extraordinary achievements as a manager.

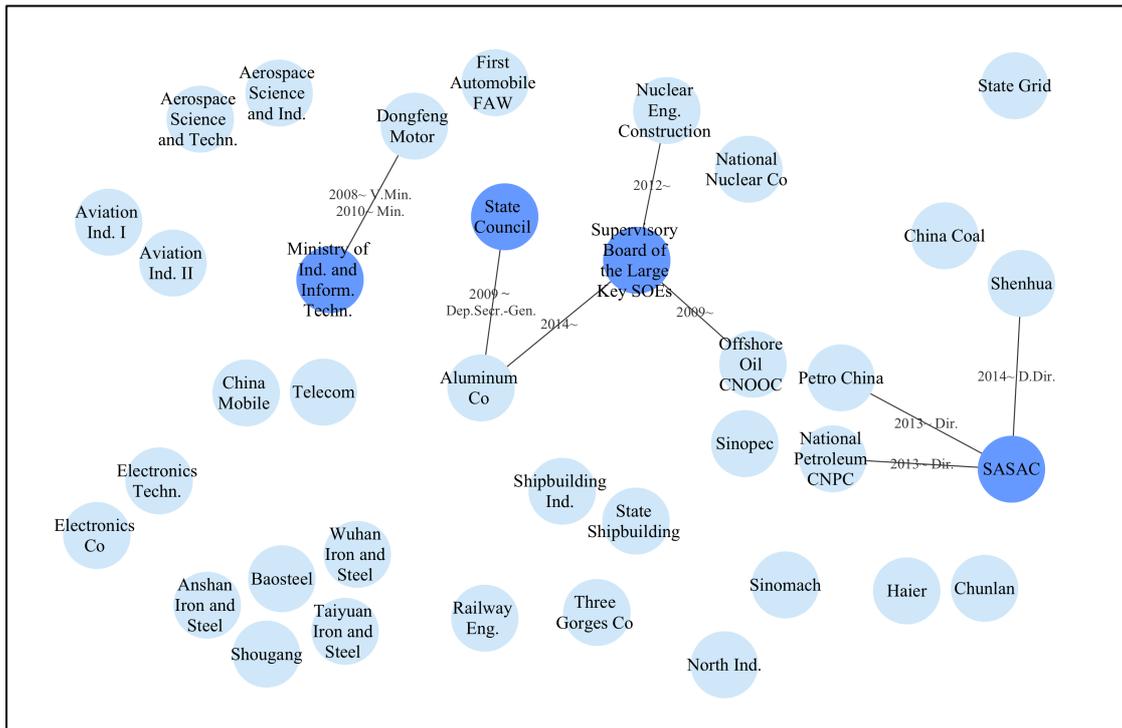


Figure 5.3. Appointments of 2005 managers after 2005 to central government institutions outside of their company’s industry.

Importantly, accumulative company networks reveal that several companies have acquired links to the institutions in charge of the supervision and reform of large enterprises in Chinese economy. The central one – State-owned Assets and Supervision Commission (SASAC) – was established in 2003 to take charge of state-invested enterprises on behalf of the State Council. Figure 5.2, showing managers incumbent in

<sup>327</sup> Jing Li, “Naming of Guo Shengkun as Security Minister Divides Opinion,” *South China Morning Post*, December 29, 2012, accessed February 10, 2015, <http://www.scmp.com/news/china/article/1114732/naming-guo-shengkun-security-minister-divides-opinion>.

2000, demonstrates that Sinopec Group, Shenhua Group, and Petro China managers later joined SASAC, so did managers incumbent in 2005 (figure 5.3) and 2010 (figure 5.4) at CNPC, Shenhua Group, and Petro China. Manager incumbent at China Railway Engineering Corporation in 2010 was also granted such appointment. Jiang Jiemin, chairman of the CNPC and Petro China was appointed chairman of SASAC and others – deputy chairmen.

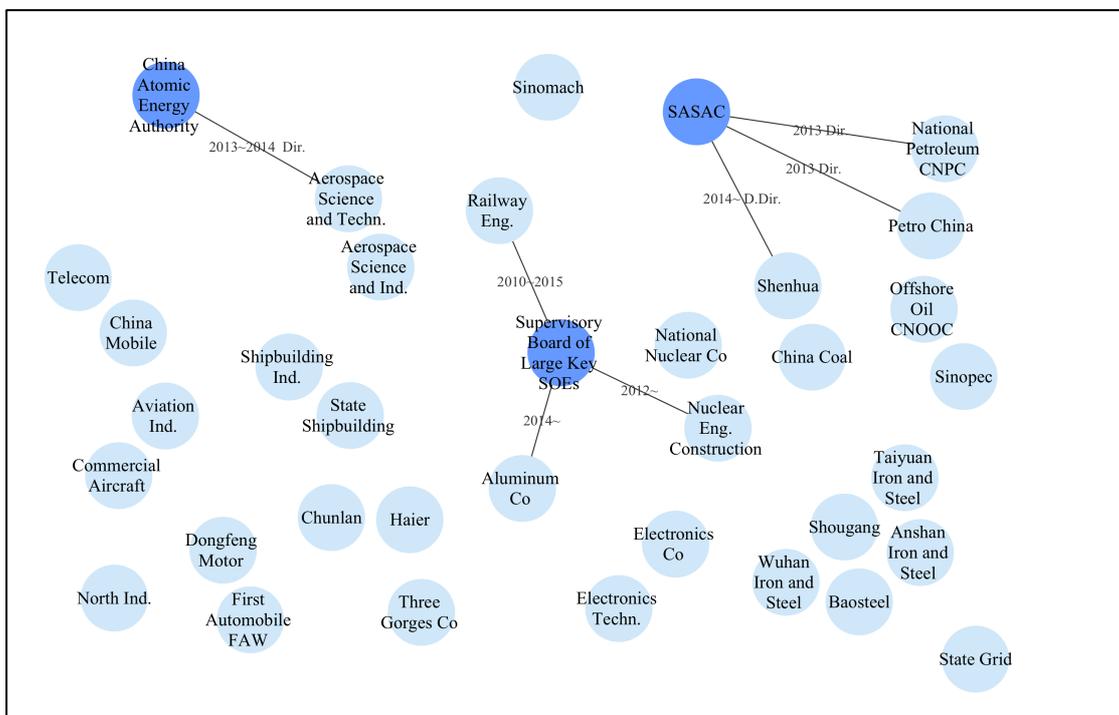


Figure 5.4. Appointments of 2010 managers after 2010 to central government institutions outside of their company's industry.

It is somewhat difficult to explain, why the managers from the companies under direct supervision of SASAC would be appointed SASAC chairmen or vice chairmen. Such appointment makes them leaders of an institution, which is in charge of supervising and reforming the three companies they used to lead and are likely to lead again in the future. One of the hypotheses to be tested was that rather than professional

managers from that particular industry they were state officials, who were dispatched to the companies temporarily at the point of observation. If confirmed, this hypothesis would clearly explain why those managers receive promotions beyond the industry of their company while others do not. However, a detailed survey of their careers does not verify it. It shows that in contrary, managers appointed to SASAC were mainly professionals of their industry, not state or party cadres.<sup>328</sup> Thus, the only considerable rational factor may have been their experience in China's large state-invested enterprises and insiders' knowledge of their functioning.

There are several features that these companies share. First, they all belong to primary sector of the economy, often energy sector. Second, they are China's leading multinational corporations. *Fortune Global 500*, which ranks corporations worldwide by revenue, listed Sinopec Group<sup>329</sup> – 58<sup>th</sup> in 2000, 86<sup>th</sup> in 2002, and 70<sup>th</sup> in 2003 (it was ranked 4<sup>th</sup> in 2013), Petro China<sup>330</sup> – 6<sup>th</sup> in 2012 and 5<sup>th</sup> in 2013, and Shenhua Group 178<sup>th</sup> and 165<sup>th</sup> in 2013 and 2014<sup>331</sup> respectively. Taken this as a proof of their leaders' managerial skills, it is possible to argue that these factors explain their appointments to SASAC.

Another important institution in the accumulative networks of the companies is

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<sup>328</sup> Career patterns of those managers display some variation, yet to a limited degree. Xiong Weiping, general manager of Aluminum Corporation of China Ltd. from 2001 to 2006, also its chairman from 2009 to 2014, holds a degree in mining and was recruited to a company from a position in university; Gao Guaizhong from CNOOC come from petroleum industry background; and Mu Zhanying, general manager of the CNECC, has advanced through different position in nuclear industry and has extensive managerial work experience.

<sup>329</sup> Sinopec Group general manager was appointed SASAC vice chairman in May 2003.

<sup>330</sup> CNPC and Petro China chairman was appointed chairman of SASAC in March 2013.

<sup>331</sup> Shenhua Group chairman was appointed vice chairman of SASAC in March 2014.

the supervisory boards for large key SOEs. Analysis in the following *Chapter 6* later discusses in detail the duties of this body. It is dispatched by SASAC to China's major state-invested enterprises to supervise their activities. Interestingly, only managers from China Nuclear Engineering Construction Corporation (CNECC), China National Offshore Oil Corporation (CNOOC), and Aluminum Corporation of China Ltd. have been picked for these positions. Other two companies are major resource corporations, but the specialization of CNECC differs considerably. It is in charge of nuclear projects, national defense projects, nuclear power plants and other industries and civil project construction. In 2004, SASAC approved that the main businesses of CNEC were military projects, nuclear power projects, nuclear energy application, and nuclear engineering technology research.<sup>332</sup> Ma Zhanying was appointed chairman of the supervisory board in October 2012. That same year, China has listed nuclear industry as one of the new pillar industries. However, the size and economic performance of these companies are the main shared characteristic.

On the other hand it is puzzling, why managers from China's other large companies from pillar industries, also ranking high in terms of revenues, do not receive similar appointments. Managers from China State Shipbuilding Corporation, China FAW Group Corporation, China Mobile, as well as many other companies surveyed were not granted similar appointments. Overall analysis of the appointments to SASAC

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<sup>332</sup> *CNECC website*, "About CNECC," accessed March 10, 2015, <http://www.cnecc.com/tabid/630/Default.aspx>.

leaders and supervisory boards is further conducted in *Chapter 6*.

One more characteristic of the inter-system appointments across the years deserves to be noted. Most of the later appointments of the managers in these networks occurred after 2000, often into the administrative institutions in charge of supervision of the SOEs. As opposed to this, the appointments that took place in the 1990s (ds1992) were to the institutions related to drafting and implementation of economic policies. Although the data here does not supply sufficient data to make an argument, it suggests that there has been a shift from incorporating managers into policy making at the state level toward recruiting them into administrative-supervisory institutions.

Generally it can be concluded that company networks to the central government institutions beyond the boundaries of their industry are limited to a small number of companies, which first, belong to one of the pillar industries, and second, their managers have demonstrated high level managerial skills.

### **5.3 Manager Appointments to Local Leaders**

The regime in China has maintained strong control over the appointments of local leaders. In the case of provincial governments, prior to 1984, the center controlled the appointment of local government officials above the level of a bureau chief. Later this was changed to the appointments to vice-governor level and up.<sup>333</sup> As a result,

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<sup>333</sup> Tang, "Central-Local Relations in Reform Era China," 73-74. However, even if personnel appointment at lower levels was delegated to the provincial governments, the central government still

since then the center has selected the secretaries, deputy secretaries, standing committee members, and secretaries and deputy secretaries of the discipline commission of the provincial party committees, governors, vice governors, city mayors, city vice mayors, chairmen, vice chairmen, advisors of provincial people's governments, chairmen and vice chairmen of provincial people's congresses and provincial CPPCCs, besides several other positions.<sup>334</sup>

Four figures in *Appendix 5B* illustrate company managers' appointments to the top party and state positions at provincial and prefecture level. All of these local leaders were handpicked by the central leadership in Beijing, as they are governors and vice governors, mayors and vice mayors, as well as party committee secretaries and deputy secretaries. The *figures 5B-1* to *5B-4* present a more diverse pattern of manager appointment to those positions over the time. Several features stand out.

First, over the time, there has been a tendency for accumulative company networks to expand. Among the managers in 1992, only those from China National Coal Mine Corporation and Wuhan Iron and Steel Corporation later held posts in local governments. The managers of 2000 from eight companies later expanded their company networks to local governments, and after serving in companies in 2005, managers from 11 companies took local government posts. Among the managers

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maintained its right to set the standards for the selection of cadres that the local governments were to follow. Furthermore, the system of examination and approval (*beian zhidu*) was introduced. According to it, appointments by the provincial governments were subject to an official approval at the center.

<sup>334</sup> Ibid, 75.

incumbent in 2010, those from seven companies were appointed to local leaders. Since the time after 2010 has been relatively short, it can be concluded that overall it has become more common to appoint company managers to provincial or prefecture-level leaders.

Second, industry-wise, managers from primary sector across all datasets were appointed to local governments. Steel producers and petroleum corporations dominate, although Aluminum Corporation of China Ltd. was not excluded either. In addition to this, industrial representation among local leaders expanded. With Miao Wei, general manager and chairman of Dongfeng Motor Corporation, becoming the party secretary of Wuhan, the capital city of Hubei province in 2005, eventually more companies from secondary (manufacturing) sector developed links to local governments. Manager of FAW Group Corporation in 2000 and 2005 was also appointed vice governor of Jilin province in 2007. Findings from *Chapter 4* lend support to this observation. Only in observation year 2010 China FAW Group Corporation expanded its network to the local government, as general manager Xu Jianyi in 2004 had become deputy mayor of Jilin City and deputy secretary of the party committee.

Economic role of automotive industry may partially explain the timing of appointments. It was designated a pillar industry in 1986, but “as capital and technology were extremely scarce in all industries, and the Chinese automakers lacked experience beyond truck production, there was almost no knowledge of car development and production. The very few indigenous car brands reliant on craft

production, <...> could not meet the government objective of developing the passenger car industry.”<sup>335</sup> Automotive industry was again reconfirmed to be a pillar industry in 1994, when the government designated a number of industries to drive national economy. However, the most significant change in China’s automotive industry occurred only after 2000. From 2001 to 2003 the output almost doubled, and nearly tripled in 2005.<sup>336</sup> Around that time several managers from China FAW Group Corporation were appointed to local governments.

Similar logic follows appointments to local leaders from defense industry, which can be observed only from 2011.

The third characteristic of manager appointment is the common link between the location of their appointments and the location of their company. From 1992 dataset, Hu Fuguo, general manager of China National Coal Mine Corporation, transferred to provincial government of Shanxi. Among other positions he served as a governor of this province, which has been China’s largest producer of coal and home to the largest number of coal companies in China. Zhou Yongkang, petroleum industry professional and deputy general manager of the pre-reformed CNPC in 1992, was appointed as party secretary of Sichuan Province in 2000. In 1997, it was estimated that gas

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<sup>335</sup> Mathias Holweg, Nick Oliver, and Jianxi Luo, “The Past, Present and Future of China’s Automotive Industry: a Value Chain Perspective,” *International Journal of Technological Learning, Innovation and Development* 2, no. 1-2 (2009), 88.

<sup>336</sup> *Forbes*, “China’s Auto Industry Shows Signs Of Impending Gridlock,” May 20, 2011, accessed April 12, 2015, <http://www.forbes.com/sites/china/2011/05/20/chinas-auto-industry-shows-signs-of-impending-gridlock/>

production at Sichuan field constituted around half of China's total production.<sup>337</sup>

From the dataset of 2000, general manager of Dongfeng Motor Corporation later became party secretary of Wuhan City, where the company's headquarters are located. Similarly, China FAW Group Corporation extended its links to Jilin provincial government, where the company is headquartered. This trend also remained later. General manager of Shanghai Baosteel Group Corporation from 2005 congruently served as Shanghai's vice governor.

Some accounts show that there has been a tendency to appoint provincial leaders based on their experience in particular industry. For example, while overall very few provincial leaders had experience in China's flagship SOEs, senior managers from national oil corporations were appointed to such positions.<sup>338</sup> Some estimated that one of the reasons behind the appointment of Wei Liucheng to the governor of Hainan Province was the country leadership's intention to develop oil and gas resources in the South China Sea. Wei Liucheng had decades of experience in the industry and had successfully led the CNOOC.<sup>339</sup> This may explain why managers of major companies in different provinces were entrusted to lead those specific provinces.

In addition to their expertise, successful performance as a company leader appears to be another important factor, which explains managers' promotion to local

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<sup>337</sup> *Oil China Online*, "Sichuan Oilfield," accessed March 3, 2015,

<http://www.oilchina.com/eng/Service-Center/oilfileds/Sichuan.htm>.

<sup>338</sup> Downs, "Business Interest Groups in Chinese Politics," in *China's Changing Political Landscape*, ed. Li, 136.

<sup>339</sup> Ting Chen, "Wei Liucheng in His New Role in Hainan: Speculation on China's New Energy Policy," *21<sup>st</sup> Century Business Herald*, October 8, 2003 (in Chinese).

governments. Su Shulin, Sinopec Group general manager from 2007 to 2011, was appointed as a governor of Fujian Province in 2011. His appointment was attributed to Su's management experience and knowledge of economic affairs.<sup>340</sup> Reportedly, leadership in Beijing was impressed with his business strategy in Daqing Oilfield.<sup>341</sup> Another example of this kind is appointment of the president of NORINCO to deputy mayor of Chongqing Municipality in 2013. This was associated with financial performance of his company. Reportedly, the revenue of NORINCO in 2011 was 300 bln. CNY and 351 bln. CNY in 2012.<sup>342</sup>

As a result of the importance the regime attaches to the managers' expertise and their managerial achievements, limited number of companies have acquired networks with local governments. These networks can be utilized to advance the companies' limited organizational interests. The patterns of networks between the companies and local governments have become even more important over the past several years, since the number of cooperative projects between the centrally managed SOEs and local governments has been on the rise. An illustration of the significance of company networks is provided by Huang and Zheng, who argue that centrally managed SOEs have been more successful than foreign enterprises in securing local markets at low

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<sup>340</sup> Downs and Meidan, "Business and Politics in China," 9.

<sup>341</sup> Jianfei Zhao and Yue Yang, "Sinopec General Manager Su Shulin again Switches to a Career as an Official," *New Century*, April 11, 2011, accessed April 3, 2015, <http://finance.sina.com.cn/roll/20110411/00269664487.shtml> (in Chinese).

<sup>342</sup> *Sina Website*, "NORINCO President to be Appointed Deputy Mayor of Chongqing: Report," April 16, 2013, accessed April 3, 2015, <http://english.sina.com/business/p/2013/0415/582165.html>.

entrance cost and almost zero political risk.<sup>343</sup>

The findings above contribute some clarification to the literature. Gore points out that in recent years, cadre promotion through the circulation of elites between the center (ministries and departments), local governments (provinces and municipalities), and industrial sector (centrally managed SOEs) has gradually become the norm of *nomenklatura*. Thus, many top managers in the centrally managed SOEs have become regional or national leaders. Gore finds that at the end of August 2011, 43 of 263 incumbent provincial party secretaries, governors and vice governors had SOE background.<sup>344</sup> This analysis shows that these appointments have been selective in terms of industries the managers belong to.

#### **5.4 Company Managers in the NPC and the CPPCC**

The patterns of company managers' membership in China's democratic institutions show that delegating managers to the NPC and the CPPCC has been a common practice, as illustrated in the figures in *Appendix 5C*. As Pei notes, the members of the NPC are among China's political and social elites.<sup>345</sup>

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<sup>343</sup> Yanjie Huang and Yongnian Zheng, "China's Centrally Managed State-owned Enterprises: Dilemma and Reform," in *Globalization and Public Sector Reform in China*, ed. Kjeld Erik Brodsgaard (London: Routledge, 2014), 132-133.

<sup>344</sup> Lance L.P. Gore, "China Recruits Top SOE Executives to the Government," *EAI Background Brief*, no. 661 (Singapore: East Asian Institute, September 2011), cited in Huang and Zheng, "China's Centrally Managed State-owned Enterprises," 133.

<sup>345</sup> Minxin Pei, *China's Trapped Transition: The Limits of Developmental Autocracy* (Cambridge: Harvard University Press, 2006), 64.

One of the interesting observations is that the companies' accumulative networks with the NPC and the CPPCC almost do not overlap. For example, particular companies had their managers in 2000 and in 2010 enter either the NPC or the CPPCC. The managers of twelve companies in 2000 later became members of the CPPCC, and managers of seven other companies the same year were selected as delegates to the NPC, but none of the companies acquired links to both institutions. However, this is not to say that managers from particular companies are delegated to a specific institution. Instead, the links differ across the years. This demonstrates that the industry the company belongs to is not a determining factor. Especially the CPPCC has been functioning as a political consultative body, thus it is natural that managers from different companies were delegated there. Furthermore, the CPPCC members are usually local talents, and this appointment is a way of rewarding loyalty,<sup>346</sup> which also explains how elites from the largest and strategically important companies enter this institution.

One more hypothesis that was tested seeking to explain selection of managers to the NPC and the CPPCC was their age. Since the CPPCC functions as a consultative body, it is generally held that retired cadres would be granted membership there. Nonetheless, this does not hold true and age cannot be an explanatory factor either. The average age of the company managers from different years, when they enter the

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<sup>346</sup> Kwok-wah Yip, *The Uniqueness of China's Development Model 1842-2049* (Singapore: World Scientific, 2012), 140.

CPPCC and the NPC, does not follow any trend. The average age of the managers becoming the delegates to the NPC was 60 (for the managers from 1992), 52 (2000), 56 (2005), and 58 (2010). The average age of the managers, when they became CPPCC members, was 62 (for the managers from 1992), 61 (2000), 62 (2005), and 59 (2010), which does not significantly differ from the NPC.

## **5.5 Inclusive Alternate *versus* Selective Regular Membership in the CCP Central Committee**

*Appendix 5D* offers a graphic visualization of company managers' later selection to the CCP Central Committee. Four figures (*5D-1* to *5D-4*) show selection of managers as alternate or regular Central Committee members or to the Central Commission for Discipline Inspection after the observation year.<sup>347</sup>

### **5.5.1 General Trends**

#### *Wider Alternate Membership versus Traditional Industries among Members*

Overall, two somewhat conflicting trends can be observed over the time. First, alternate membership of the CCP Central Committee appears to have become more inclusive in terms of the diversity of companies, which managers were selected.

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<sup>347</sup> While a link between a company and the CCP Central Committee indicates that a manager of that company was selected to the Central Committee after the observation year, appearance of a company as an isolated node in the *Figures 5D-1* to *Figures 5D-4* does not mean that the company had no links to the Central Committee at the point of observation. An incumbent manager might have been selected to the Central Committee prior to the observation year and in that case these links do not appear here. Instead, they are analyzed in *Chapter 4*.

Second, the doors to the regular membership in the Central Committee were less widely open throughout the observation years. Although the Eighteenth CCP Central Committee alternate members selected in 2012 included a former general manager, chairman and party committee secretary of Dongfeng Motor Corporation and also former general manager of AVIC I and vice chairman of Commercial Aircraft Corporation (the same individual), overall, the managers, who were selected as regular members came from companies in the same old traditional industries – nuclear, petroleum, steel, aerospace, ordnance, and to a lesser extent – coal.<sup>348</sup>

On the other hand, these two trends are not mutually exclusive. In contrary, they can be explained as a result of the Party's attempt to adapt to the dynamics of socioeconomic environment, while maintaining tight control over decision-making. Alternate members also attend important meetings, such as CCP Central Committee plenary sessions, and thus may be able to voice their policy preferences or suggestions.<sup>349</sup> By selecting alternate members with backgrounds in different companies from a variety of industries, the CCP is able to enhance its governing

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<sup>348</sup> Managers of Coal Mine Corporation (incumbent in 1992), Wuhan Iron and Steel Corporation (1992), Aluminum Corporation of China Ltd. (2000), NORINCO (all years), CNPC (1992, 2005, 2010), Sinopec Group (1992, 2000, 2010), Petro China (2000, 2005, 2010), CNOOC (2000), China National Nuclear Co (1992, 2005), General Company of Astronautics Industry Corporation (1992), China Aerospace Science and Technology Corporation (2005), Dongfeng Motor Corporation (2000, 2005), AVIC I (2005), Commercial Aircraft Corporation of China Ltd. (2010).

<sup>349</sup> The Third Plenary Session of the 18th Central Committee of the CCP, which approved a decision on “major issues concerning comprehensively deepening reforms” was attended by 204 full members and 169 alternate members of the Central Committee (*The Global Times*, “CPC Announces Decision on Comprehensive Reform,” November 11, 2012, accessed January 5, 2015, <http://www.globaltimes.cn/content/824320.shtml>).

capacity by collecting information. At the same time, it maintains the process concentrated in the hands of a more exclusive group.

#### *Early 2000s as a Turning Point*

Accumulative company networks analyzed here become more informative, when evaluated against the background of the managers' previous careers that were analyzed in *Chapter 4*. Only very few managers in 2000 had previously been selected to the CCP Central Committee (see *Figure 4E-2, Appendix 4E*). That year only State Power and Shenhua Group had managers-members of the Central Committee, and Sinopec Group, Shougang Corporation, and Baosteel Group – alternate members. Thus, nearly instant expansion of accumulative company networks to the CCP Central Committee in 2002, when seven managers of 2000 were selected as alternate members and one – as a regular member (*Figure 5D-2 Appendix 5*), indicates that at around that time a significant change occurred – once again the Party embraced company managers. Moreover, at that time the companies were already restructured and many of them functioned along the lines of market economy.

In regards to the Sixteenth CCP Central Committee elected in 2002, Bo notes that at that time corporate leaders became much more visible in the Central Committee.<sup>350</sup> Interestingly, the findings of this analysis show that even prior to that managers of 1992 had been selected to the Fourteenth and Fifteenth CCP Central

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<sup>350</sup> Bo, “The 16th Central Committee.”

Committees, although in 2002 there was an obvious increase in the number of alternate members with managerial background. While the existence of the selection bias cannot be eliminated, still the trend of wider company representation among them is strong. Li explains the increasing presence of top managerial personnel of large centrally controlled enterprises as a result of the large-scale cadre modernization scheme initiated by Deng Xiaoping around 1980. Arguably, there were hardly any other categories of the CCP cadres, which could better match Deng's selection criteria of being "revolutionary, young, knowledgeable, and professional" than the young technocrats in large SOEs and central industrial ministries.<sup>351</sup> However, it seems that it took some time until after 2000 for those managers to gain access to the CCP Central Committee. Thus, rather than cadre modernization scheme, the regime's search for expertise in different fields and knowledge of the economy could explain this change in alternate membership patterns. This is a significant development, which could enhance the regime's policy-making capacity, since more industries are represented in the process of policy making.

#### *Adaptation? But Only to a Point*

And yet, selection of the CCP Central Committee members is not a straightforward process driven by rational calculations, and many factors are entangled, factional politics not excluding, which creates selection bias. Shih, Adolph, and Liu

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<sup>351</sup> Li, *China's Centralized Industrial Order*, 86.

find no evidence of a link between strong performance and higher party rank at any of the post-reform party congress. Instead, factional ties with various top leaders, educational qualifications, and provincial revenue collection played substantial roles in elite ranking, suggesting that promotion systems served the immediate needs of the regime and its leaders, rather than encompassing goals such as economic growth.<sup>352</sup>

At least from the datasets utilized in this analysis it cannot be concluded that the Party selects alternate members from among the company managers completely in line with the country's economic policy goals. And selection bias may partially explain this. Industry-wise, alternate membership has been expanded to include managers from telecommunication industry, also the managers from China's leading home-appliance manufacturers, Chunlan and Haier corporations specifically. At the same time, according to the data, representation of electronics industry is missing. This observation is counter to the discourse among Chinese top leaders and later – of official economic policy goals about the industry.

Already in the 1980s, Jiang Zemin, the minister of electronics industry from 1983 to 1985, actively argued for the development of electronics industry.<sup>353</sup> He later described IT as the frontier of scientific and technological innovation, as well as a

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<sup>352</sup> Victor Shih, Christopher Adolph, and Mingxing Liu, "Getting Ahead in the Communist Party: Explaining the Advancement of Central Committee Members in China," *American Political Science Review* 106, no. 1 (February 2012): 166-187.

<sup>353</sup> In 1984, Jiang Zemin published an article "Revitalize the Electronics Industry and Promote Four Modernizations" in *Red Flag* journal, in which he argued that the electronics industry has a leading position in the process of modernization. When the Gulf War broke out in 1991, he argued that in order to win future military battles, China had to prepare for wars fought under modern technological conditions, and insisted on informationized weapons and equipment becoming a vital element of the army's fighting capabilities.

major force promoting sustainable development.<sup>354</sup> Energy consumption per unit of value added of China's electronics industry was the lowest of all industries in 2007 constituting only 7.7 percent of the average of all industries, and, therefore, developing IT industry could benefit resource conservation and environmental protection.<sup>355</sup> In this way, Jiang Zemin was advocating a change in the economic structure as a solution for China's environmental degradation.

If alternate membership of the CCP Central Committee is considered to be the tool of enhancing regime's governing capacity – the Party's ability to draft and implement timely economic development policies through information gathering – national economic development goals would suggest that managers from China's largest electronics companies would be included. In 1983, the government set a target to increase the gross output value of China's electronics industry eight times between 1980 and 2000 and raise its share of the country's gross industrial and agricultural output from 1.4 percent to about 3 percent. It provided that by then, China should reach the level that advanced industrialized countries would have reached around 1990, with certain technologies achieving the level of other countries at the same time. In 1982, the Fourth Ministry of Machinery Building was restructured into the Ministry of Electronics Industry, which was later followed by the establishment of the State

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<sup>354</sup> Jiang Zemin, *On the Development of China's Information Technology Industry* (Beijing: Academic Press (Elsevier Inc.), 2009), 7.

<sup>355</sup> Ibid, 9. For Jiang Zemin's argument on the relationship between the development of IT industry and sustainable development see pp.7-9.

Council Leading Group for Promotion of Electronics in 1984,<sup>356</sup> chaired by vice premier Li Peng. This group replaced Electronic Computer and Large-scale Integrated Circuits Leading Group set up in 1982 with vice premier Wan Li as its head. Infrastructure investments in electronics industry grew from 555 mln. CNY during the First Five-Year Plan to 6400 mln. CNY during the Eight Five-Year Plan.<sup>357</sup> Later on, the importance of electronics industry received further emphasis and support as a pillar or key industry that pushes forward development of the entire economy. As of 2006, Gou Zhongwen, the vice minister of information industry, stated that electronics industry had “become the No.1 pillar industry for the nation’s economy,” making China the second country in the world in terms of its size.<sup>358</sup>

The datasets of this research included a total number of 24 managerial positions at China Electronics Corporation and China Electronics Technology Group Corporation (CETC).<sup>359</sup> None of them was later selected to the CCP Central Committee.

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<sup>356</sup> *People’s Daily*, “State Council Establishes Electronic Rejuvenation Leading Group,” September 20, 1984, 2 (in Chinese).

<sup>357</sup> In between, investment was 935 mln. CNY during the Second Five Years Plan term; 2,115 mln. CNY – the Third and Fourth terms combined, 3,811 mln. CNY – the Fifth and Sixth terms combined, and 6,940 mln. CNY – during the Seventh Five Years Plan term (State Science and Technology Commission, cited in Michael Pecht, Chung-Shing Lee, Zong Xiang Fu, Jiang Jun Lu, and Wang Yong Wen, *The Chinese Electronics Industry* (London: Boca Raton, Fla., 1999), 78).

<sup>358</sup> Zhongwen Gou, “Innovation in China’s Electronic Information Industry,” *China Communications* (June 2006): 5-11.

<sup>359</sup> There were 3, 6, 6, and 2 managerial positions at CEC observed in the years 1992, 2000, 2005, and 2010 respectively, and 1 and 6 positions for CETC established in 2002, for years 2005 and 2005 respectively.

### *5.5.2 Exposing Company Links with the Central Committee*

Observation of the backgrounds of the CCP Central Committee members has been one of the traditional focal points in the study of Chinese politics. This question receives even more attention during the transitional periods, when new central committees are elected as many attempt to expose the intentions of the top leadership or foresee possible future direction inscribed into the career experiences of the new political elite. Moreover, these observations may be important as they help grasp the channels of information flow at the top level of the Chinese political system.

However, comparing the findings of other studies and those of this analysis, a shortcoming of the conventional methods of observing biographies of the political elites become visible. For example, in his analysis of institutional representation in the Seventeenth CCP Central Committee, Bo observes that Kang Rixin, general manager of China National Nuclear Corporation, is the only full member representing companies.<sup>360</sup> When compared, this analysis finds that three more companies were directly or indirectly represented among the regular members of this Central Committee elected in 2007.<sup>361</sup> That was Wuhan Iron and Steel Company (ds1992),<sup>362</sup>

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<sup>360</sup> Zhiyue Bo, *China's Elite Politics: Governance and Democratization* (Singapore: World Scientific Publishing, 2010), 123.

<sup>361</sup> The networks provided in the figures 5D-1 to 5D-4 in the *Appendix 5* show the year, when the manager was selected to the Central Committee, thus from these figures it can be easily observed, which companies were represented in which Central Committee. Membership in the Central Committee of a former manager of a particular company would suggest indirect representation of it, while membership by an incumbent manager would indicate direct corporate representation in the CCP Central Committee.

<sup>362</sup> Liu Qi, who had been working at the company since 1968, became its general manager and also standing committee member of the party committee in 1990. He then served as the minister of

CNOOC (ds2000),<sup>363</sup> and China Aerospace Science and Technology Corporation (ds2005, two positions).<sup>364</sup> Brodsgaard notes the links that Zhang Qingwei has to China Aerospace Science and Technology Corporation, but fails to observe those other members have to the CNOOC and Wuhan Iron and Steel Company.<sup>365</sup>

Based on the fact that Bo includes Zhang Qingwei as a representative of China Aerospace Science and Technology Corporation in his analysis or corporate representation of the Sixteenth CCP Central Committee, but excludes from the later one, when Zhang was still a member, suggests that conventional<sup>366</sup> identification of institutions represented at the Central Committee is based on the most recent position of the members. Yet, if one is to estimate possible course of action of the Central Committee based on the expertise and background of its members, this method may be insufficient.

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metallurgic industry and party group secretary from 1993 to 1998. Liu was an alternate member of the 15<sup>th</sup> CCP Central Committee and then – regular member for three consecutive terms from 1997 to 2012.

<sup>363</sup> Wei Liucheng, deputy general manager of the CNOOC from 1993 to 1998 and then general manager until December 2000, also party group secretary at certain periods of time, had worked in petroleum industry starting at Daqing Oilfield in 1970, before he was selected to the CCP Central Committee in 2000. In 2007, he became regular member of the Central Committee. As his career in the 2000s unfolded at provincial government (party deputy secretary, later – secretary, also acting governor, later – governor of Hainan Province), in the studies of institutional representation at the CCP Central Committee, his membership is most likely to appear as that of the provincial government.

<sup>364</sup> Jin Zhuanglong, deputy general manager of the company from November 2002, was appointed deputy director of China National Space Administration in 2004 and deputy director of COSTIND in 2005. Jin has been in the Central Committee since 2007.

Zhang Qingwei became general manager of the company in 2001 and was also appointed director of COSTIND in 2007. He has been a regular member of the CCP Central Committee since 2002 (from *Chapter 4, Appendix 4E, Figure 4E-3*).

<sup>365</sup> Brodsgaard, “Politics and Business Group Formation in China,” 641.

<sup>366</sup> For example, Japan-based publication *Chuugoku Douko*, which was used as a basis to comprise the list of corporate managers-CCP Central Committee members also falls short of indicating these links. It only includes those that were holding managerial positions at the time of their selection to the Central Committee.

This emphasizes *the importance in choosing appropriate methodological tools* to observe and analyze the membership in China's top decision-making body. Observation of incumbent managers-members of the Central Committee only cannot accurately capture these links, since it only includes. It becomes even more important considering how much attention in China studies has been dedicated to this question.

### **5.6 Concluding Notes**

From the observation of the company managers' future appointments or selection to the party-state institutions it may be concluded that, especially in the case of inter-system appointments, expertise and performance of those managers played an important role, which resulted in selective appointments. On the other hand, the CCP Central Committee has been revealed to be a relatively inclusive institution in terms of alternate membership, and the NPC and the CPPCC – even more so.

This chapter observed career mobility patterns seeking to expose accumulative company networks. The term *accumulative company networks* was employed to refer to those links that companies acquire as a result of their management's further careers in the party-state. Analysis attempted to show, whether the central leadership's focus on certain industries puts some companies at an advantage over the others.

In regards to the influence on the company's industry on its managers' future appointments, there are several observations. It appears that in 2002 the CCP Central Committee embraced a significant number of managers from different companies, and

this trend has remained later. Somewhat more interesting patterns of networks have been found at the local government level. Companies from the pillar industries, although predominantly those from the primary sector of the economy, were able to expand their networks to the local governments. These networks were often geographically close to the company. Many company managers, sometimes still incumbent, were appointed to the provinces, where their company is located. On the other hand, company accumulative networks to a limited extent have followed after the economic policies. In mid-2000s, managers from automotive industry received such appointments and after 2010 – those from defense and aviation industry.

In the case of local leaders, this trend represents the overall trend since 1980s to appoint leaders with background in engineering or similar technical expertise. Appointments in the same province, where the company is headquartered, also suggest that expertise in particular relevant to that province has been valued. For example, Wei Liucheng's appointment as Hainan provincial governor was linked to the government's oil development projects in the region.

This chapter has also revealed some significant insights about the inter-system appointments of company managers at the central government level. Managers from a handful of companies were appointed to the leading positions in central government institutions beyond the boundaries of the company's industry – the State Council, SASAC – and also the supervisory boards for large key SOEs. Managers from well performing, large companies were promoted to these institutions, and thus a very small

number of industries expanded their networks to the state.

This tendency points to an issue, which needs further consideration. The tendency to promote managers that succeed in big projects or those under whom company demonstrates outstanding performance limits the number of companies, managers of which can possibly be promoted. Under the current conditions, there exists a limited number of companies that can generate revenue above certain level. Thus the expansion of accumulative company networks to the central government institutions in a way is a predetermined development, conditioned by current conditions, such as firm size and its industry.

Similarly to the findings in *Chapter 4*, analysis here also found that companies from petroleum industry are more likely to develop links to the state. As the reform progressed, and previous networks of petroleum corporations have gradually faded away, the companies secured links to the institutions in charge of the supervision and reform of China's large enterprises. This can be attributable to the original role of the petroleum industry in China's economic reform. Ever since 1970s the industry has been a pillar industry and thus the companies were able to expand, and generate increasing revenue. As recently promotions have been based on managers' performance, these companies remained "connected" to the state.

Finally, methodological insights of this chapter should be noted. As the *subsection 5.5* discussed, methodology applied here can be conveniently used to observe career background of the state and party elite.

# **CHAPTER 6**

## **Management of Economic Policies and Administration of Business Entities through Inter-system Appointments**

*This chapter conducts an exhaustive follow-up analysis to verify the patterns of networks between the party-state and the companies identified in the preceding chapters. It focuses on those state institutions, to which some of the companies were found to have the closest links – State Planning Commission, SASAC, and large SOE supervisory bodies. By examining career mobility patterns of all top leaders since the establishment of those state institutions, this chapter also makes possible an explanation of what facilitates those networks.*

## **6.1 Introduction**

### **6.1.1 Problem Definition**

The findings of *Chapter 4* and *Chapter 5* show that only a small number of companies had more extensive networks to the central government outside of the company's industry. Inter-system appointments to the institutions in charge of national economy or supervision of large SOEs were limited to the managers from selected companies. These companies generally belong to primary economic sector, with an exception of shipbuilding. Yet, the network of China State Shipbuilding Corporation narrowed immediately after 1992. Other companies in this group were Aluminum Corporation of China Ltd., China Nuclear Construction Engineering Corporation, CNOOC, CNPC, Petro China, Shenhua Group, and Sinopec. They either previously had links to the State Planning Commission (SPC), which supervised national economy, or

later acquired links to the State-owned Assets Supervision and Administration Commission (SASAC), which supervises and administers central state-invested enterprisers.<sup>367</sup> Some of their managers were also appointed to the chairmen of supervisory boards for large key SOEs.

Importance of such specific pattern of appointments can be explained from the perspective of new institutionalism. As explained in *Chapter 1* above, the individuals in particular positions in state institutions are of significant importance. According to Hecló's widely quoted work in the new institutionalist critique of traditional understanding of politics,<sup>368</sup> "policy experts within the political system develop and shape the understanding of policy issues and alternatives."<sup>369</sup> The scholar further argues that the "process is political, not because all policy is a by-product of power and conflict, but because *some men* have undertaken to act in the name of others" [*emphasis added*].

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Although such phenomena are not routinely accommodated by modern political theory,<sup>371</sup> representation of different industries in China's economic-policy making bodies may be a factor in explaining policy outcomes. Moreover, understanding the pattern of inter-system appointments between companies and the above-identified

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<sup>367</sup> There were other sporadic links in the networks of these companies. They have been discussed in *Chapter 4*. Analysis here focuses on these three institutions considering their role in China's economic development and other matters directly affecting the companies.

<sup>368</sup> For example, see March and Olsen, "The New Institutionalism," also Timothy J. Sinclair, *Global Governance: Critical Concepts in Political Science*, vol. 1 (Oxon: Routledge, 2004); John Hall, ed., *The State: Critical Concepts* (London and New York: Routledge, 2005).

<sup>369</sup> Hecló, *Modern Social Politics in Britain and Sweden*.

<sup>370</sup> *Ibid*, 305.

<sup>371</sup> John Hall, ed., *The State: Critical Concepts*, 45.

institutions could also reveal, to what extent the regime in China is able to adapt to changing socioeconomic environment by adjusting its institutions.

That is to say, understanding the patterns of appointments to these institutions could provide important insights in regards to policy outcomes. Nonetheless, the analysis in preceding chapter was based on observation of selected companies in different years. Further analysis is necessary to verify whether these findings represent general pattern of inter-system appointments to the institutions in charge of national economy or supervision of the largest companies. Furthermore, comprehensive analysis is needed to explain the origins of these particular patterns of networks and examine whether they have evolved along with the changing socioeconomic environment or have emerged as a result of earlier established institutions.

### ***6.1.2 Research Questions***

To address this research problem, the chapter sets two questions. *First*, it observes career mobility of all leaders of selected institutions to identify, which companies they have worked or later worked for. In other words, *which companies have networks to these three institutions* – the State Planning Commission – or enterprise supervision, SASAC, and the Supervisory Body of the Large Key SOEs? *Second*, *what factors explain those networks?* Special attention here is given to national economic policies and whether they could explain these networks.

### ***6.1.3 Structure of the Chapter***

Each of the following three *sections 6.2 to 6.4* is dedicated to the analysis of a different institution - State Planning Commission, SASAC, and the Supervisory Body of the Large Key SOEs. *Subsection 6.2.1* discuss functions and authority of the State Planning Commission in Chinese economy, seeking to illustrate why company networks with this institution are of significant importance. *Subsection 6.2.2* offers a follow-up analysis of career backgrounds of SPC chairmen and vice chairmen seeking to identify those companies, networks of which extend to this institution. *Subsection 6.2.3* then discusses what factors facilitate company networks. Analysis in the subsequent *section 6.3* and *section 6.4* follow the same structure in the case of SASAC directors and deputy directors and chairmen of supervisory boards respectively.

## **6.2 State Planning Commission: Connecting to the State**

### ***6.2.1 Authority of the State Planning Commission***

State Planning Commission (SPC) was established as a macroeconomic management agency replacing the Central Finance and Economics Committee in 1952. Renamed to State Development Planning Commission in 1998 and then again to National Development and Reform Commission in 2003, it has been the principal institution in charge of national economy and the general course of its development. In the reform era, the SPC was formally entrusted with drafting long-term, medium-term,

and annual<sup>372</sup> economic development plans, and also formulating the key points of the medium-term (five year) plan achievement work, under the unified leadership of the State Council and the Central Finance and Economics Committee.<sup>373</sup> It existed in parallel with the State Commission for Restructuring the Economic System, which was established in 1982 to direct economic reform. This Commission was under the chairmanship of the Prime Minister himself while the SPC was chaired by a vice premier. In 1988, SPC was restructured to become the biggest comprehensive administrative department in charge of national economic and social development under the State Council.

The SPC was in charge of the organization of production and distribution of major commodities, also, the construction of significant capital products. Furthermore, the SPC was the key body in preparing the five-year plans. While annual plan it set would have a certain legal status,<sup>374</sup> as a macroeconomic planning institution it was expected to accommodate the state's long-term interests. The SPC played a key role in the development of the national economy and was tasked with achieving a basic balance among three segments of the national economy: finance, material supplies, and

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<sup>372</sup> Similar functions SPC carried out in pre-reform era. When annual economic planning functions were taken over by the newly established State Economic Commission in 1956, the SPC continued to function as the main macroeconomic planning agency. During the years of Cultural Revolution, the SPC again resumed all the power over long-term as well as short-term economic planning, when the State Economic Commission was abolished in 1970. Pre-Cultural Revolution division of responsibilities over economic planning was restored in the period from 1978 to 1988.

<sup>373</sup> Office of the State Council, *Circular Regarding the Jurisdiction and Working Methods of the State Economic Commission*, February 4, 1980 (in Chinese).

<sup>374</sup> Lieberthal and Oksenberg, *Policy Making in China*, 64. See pp. 64-66 for a detailed overview of the functions and authority of the SPC.

the labor force.

Specifically, the SPC had authority in deciding on the particulars of the national economy. It tried to balance between industry and agriculture. Further, its role was crucial in selecting which among the numerous proposed capital construction projects would be approved and acted upon. When it came to the consideration of new investments, the SPC was not only entitled to determining the size of the investment fund, but also their overall sectorial and geographic distribution, and the key projects for the investment budget in the national economy as a whole. Needless to say, these measures were to be implemented in accordance with the policies of the party center and the State Council.

Even functioning as a principle institution of macroeconomic planning, the SPC was a part of a wide web of institutional relations. The functions it shouldered involved a wide variety of comprehensive important matters. Thus after 1988 they were to be settled through committee system and joint negotiations between different departments. The committee<sup>375</sup> was to research, discuss, and decide on important problems of the country's economic and social development. SPC-led projects were subject to be handled by ruling-power-holding coordination meetings, also attended by the representatives from relevant institutions. Furthermore, the SPC had to consult the

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<sup>375</sup> In addition to the chairman and vice chairman of the SPC, the committee also included top officials in charge of the State Commission for Restructuring the Economic System, Ministry of Finance, People's Bank of China, Ministry of Material Supplies, Ministry of Labor, State Bureau of Commodity Prices, National Bureau of Statistics (Organization Department of the CCP et al, *Historic Material of the CCP Organization*, vol.16, 763).

Ministry of Finance over the annual and long term financial balances, and with the Ministry of Foreign Relations and Trade (formerly known as the Ministry of Trade) for the foreign trade balance, and with the People's Bank for the monetary affairs.

It is important to note that during the reforms of 1998 and 2003 the SPC was not abolished although the institution under that name ceased to exist. Instead it was merely renamed. As Chow notes, many of the departments, bureaus and officers from the predecessor commissions remain, and so does the thinking and working habit of the staffs within these organizations. Although market economy was introduced and functions effectively in China, “the idea that planning is essential for China’s economic development remains in the mind of government officials until today.”<sup>376</sup> While the term “planning” was omitted perhaps to convey to the world that China was no longer a centrally planned economy,<sup>377</sup> the NDCR continues to prepare five-year plans on the basis of a draft from the Central Committee of the CCP.

### ***6.2.2 SPC Leaders’ Career Mobility between the SPC and Business Entities***

#### *Findings of the Preceding Analysis*

In the years surveyed in *Chapters 4* and *5*, four company managers were identified to have previous career record as vice chairmen of the SPC. In 1992, one former deputy director was found to be chairman at China State Shipbuilding

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<sup>376</sup> Chow, *Economic Planning in China*, 2.

<sup>377</sup> Ibid.

Corporation, one – chairman of the board of directors at China Petrochemical Corporation, and one – vice chairman at the same company. In the dataset from 2000, there was deputy general manager of Sinopec Group, who was also identified in 2005 to be chairman of the same company. In addition, in 2000, there was a deputy general manager of CNPC, who had previous work experience at the SPC at a lower rank as the head of the Energy Industry Division from 1988 to 1994. Company links with the SPC had faded away by 2010.

The strength of these networks with the SPC varies greatly, since some of them date back to the pre-reform era. The managers in 1992 have their careers at the Commission dating back to 1960s through 1978, the last years before the reform. Managers in 2000 and 2005 had served as a deputy director of the SPC from 1994 until 1998 and the head of Energy Industry Division from 1988 to 1994, providing the CNPC and Sinopec Group with relatively strong links to the institution. The earliest links of the petroleum companies to the SPC date back to 1972, when Li Renjun became the deputy director of the SPC, and then in 1983 took the chairmanship of the board of directors at the China Petrochemical Corporation.

Among the companies surveyed, petroleum industry stands out in terms of the number of managers who had previously held leading posts in the SPC. These findings are ambiguous. Thus further analysis of the career backgrounds of the SPC leaders is needed to verify whether, the leadership of the SPC comes predominantly from petroleum industry or whether analysis in preceding chapter was not able to grasp the

patterns of industrial representation patterns in the SPC as other leaders advanced to it through careers in state institutions rather than companies.

*Follow-up Analysis: Career Backgrounds of SPC Leaders*

To observe who was entrusted with the management of Chinese economy, careers of all the leaders of the institution were surveyed. The sample included 122 individuals in the positions as follows:

- (1) seven chairmen, two first vice chairmen, and 86<sup>378</sup> vice chairmen of the SPC (1952 – 1998);
- (2) one chairman and seven vice chairmen of the State Development Planning Commission (SDPC) (1998 – 2003);
- (3) three chairmen and 16 vice chairmen of the National Development and Reform Commission (NDRC) (2003 – February 2015).

In the case of the SPC chairmen, in reform era there was a strong trend that state cadres with general career background in economic planning or financial work,<sup>379</sup> experience in industry,<sup>380</sup> or overall high-ranking political leaders<sup>381</sup> take up the chairmanship. Prior to the reform, state officials with outstanding achievements in China's economic development. For example, chairman of the SPC from 1954 to 1970

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<sup>378</sup> From 1952 until March 1998, 88 individuals served as vice chairmen of the SPC. For two of them no sufficient career data could be found, thus 86 vice-chairmen were surveyed.

<sup>379</sup> The case in the following periods: 1980-1983, 1987-1989, 2003-2013.

<sup>380</sup> Zou Jiahua, chairman from 1989 to 1993.

<sup>381</sup> Song Ping, chairman from June 1983 to June 1987, also political secretary of Zhou Enlai in Nanjing.

Li Fuchun, while still minister of heavy industry went to Moscow in 1950 to help negotiate a 30-year treaty of alliance with Joseph Stalin. In 1953, he signed the pact under which the Soviet Union agreed to supply financial and material support for China's First Five-Year Plan. Reportedly, as a reward, he was promoted to chairman of the SPC.<sup>382</sup> Prior to the reform, Yu Qiuli, the former minister of Petroleum Industry and one of the central figures in the development of China's petroleum industry became the chairman in 1970. As explained below, Yu rose to this position as a result of personal trust from Mao Zedong. Nonetheless, he had also demonstrated outstanding achievements developing China's petroleum industry.

Several chairmen, although already in the reform era, had more specific career backgrounds. Previous career of Chen Jinhua, chairman from 1993, includes more diversity and at the same time relatively links to the petroleum industry.<sup>383</sup> The only chairman of the succeeding State Development Planning Commission, Zeng Peiyan, a graduate of Tsinghua University, had previously served as a vice minister of electronics industry (later Ministry of Machine Building and Electronics Industry) and then became deputy secretary of the Central Leading Group for Financial and Economic Affairs and vice chairman of the SPC in 1993. Two different, although not mutually exclusive factors explain his appointment, when Jiang Zemin was the General

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<sup>382</sup> *Time*, "Red China: The Loss of Man," December 1961, vol. 78, no. 22, 20.

<sup>383</sup> In 1990, Chen became the chairman of the former State Commission on Economic Structure Reform. From the 1950s through the 1970s, he advanced through different positions in China's former Ministry of Textile Industry and Ministry of Light Industry. Then, from 1983 until 1990, Chen worked as the general manager and party secretary of China Petrochemical Corporation.

Secretary of the CCP Central Committee. On one hand, his extensive experience in the bureaucracy of electronics industry, strongly promoted by Jiang Zemin, might have been the determining factor. On the other hand, Zeng Peiyan had very strong personal links with Jiang Zemin, as they were both members of the so-called Shanghai clique.<sup>384</sup>

The incumbent chairman of the National Development and Reform Commission Xu Shaoshi is a former minister of land and resources. The appointment of a person with such background was directly linked to the new leadership's vision for a massive urbanization program, which intended to resettle 400 mln. rural people in cities over the following decade, to drive economic growth further.<sup>385</sup>

Among the vice-chairmen of the SPC, a wider variety of expertise can be observed, yet to a limited extent, especially prior to the reform. Then there was a tendency to promote cadres with extensive experience in financial and economic planning work at either central or, to a lesser extent, local level.<sup>386</sup> Several vice chairmen also had general administrative experience at local governments, or institutions in charge of machinery and heavy industry.<sup>387</sup> Generally, it can be observed that vice chairmen in this period were selected from rather comprehensive

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<sup>384</sup> Some accounts describe the promotion of Jiang's associates to different political posts. Liao notes that Jiang Zemin promoted some of them into the Politburo forming there Shanghai clique (Xuanli Liao, *Chinese Foreign Policy Think Tanks and China's Policy Towards Japan*, (Hong Kong: Chinese University Press, 2006), 43).

<sup>385</sup> Li Jing, "Xu Shaoshi is Director of National Development and Reform Commission," *China Daily*, March 2013, accessed March 15, 2015, <http://www.scmp.com/news/china/article/1192525/xu-shaoshi-director-national-development-and-reform-commission>.

<sup>386</sup> From the 46 vice chairmen of the SPC, who were appointed from 1952 to 1978, 18 had expertise in economic planning, financial work or economics in general.

<sup>387</sup> Li Fuchun, vice chairman briefly starting in September 1953, before his appointment as chairman of the Commission; Ma Yi – from July 1977 to March 1978; Xu Liangtu – one year starting July 1977.

backgrounds, with diverse work experience at the highest level of political system. Particular industries, such as railways and communications, were represented only occasionally.<sup>388</sup>

After 1978, this pattern changed. There were still a number of vice chairmen with extensive experience in financial work, economic planning, or trade.<sup>389</sup> At the same time, there were more cadres with backgrounds in a particular industry - exclusively in agriculture,<sup>390</sup> shipbuilding,<sup>391</sup> railways and communication,<sup>392</sup> petroleum,<sup>393</sup> and electronics industries,<sup>394</sup> also textile<sup>395</sup> and coal industries.<sup>396</sup> This tendency, which strengthened around 1982 and remained in later years, is in line with cadre selection system introduced by Deng Xiaoping in early 1980s (see *section 3.4, Chapter 3*). Notably, most of the chairmen had advanced through different positions in the state institutions in charge of that specific industry. At the same time, the tendency to appoint cadres with extensive local government work has weakened since then.

#### *Company Networks with the State Planning Commission*

Follow-up analysis of career mobility of all the leaders of the SPC Commission and its successors does not display additional significant links. Throughout the

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<sup>388</sup> Wang Shitai, vice chairman in 1958, was a former Minister of Railways starting in 1952.

<sup>389</sup> Seven vice chairmen among 39 appointed since 1978.

<sup>390</sup> Terms in office as vice chairmen of SPC: 1982-1985, 1990-1993, and 1993-1998.

<sup>391</sup> 1982-1989.

<sup>392</sup> 1983-1985, 1984-1987, and 1988-1990.

<sup>393</sup> 1978-1979, 1983-1986, 1984-1988, and 1989-1994.

<sup>394</sup> 1993-1998.

<sup>395</sup> 1987-2000.

<sup>396</sup> 1983-1985, 1984-1987, and 1988-1990.

observation period, careers of some vice chairmen occasionally include positions in business entities, usually enterprises in pre-reform era under the state control. Many of these were rather weak links,<sup>397</sup> a direct result from particular supervisor-subordinate relations between the state enterprises and related ministries. In addition, several vice chairmen of the SPC later took positions in other companies, although these links were rather isolated. Shenhua Group from coal industry extended its network to the SPC, when Ye Qing was appointed chairman of the company in 1998, after serving as a SPC vice chairman for 10 years. Gan Zhijian, vice chairman from 1984 to 1988, became the chairman of China Construction International Corporation in 1992.

In terms of company networks with the SPC China State Shipbuilding Corporation and China Petrochemical Corporation stand out. When these companies were separated from relevant ministries in 1982, top-level officials from the SPC were appointed as their top leaders. Chai Shufan, vice chairman of the SPC from 1956 to 1958, then again from 1961 to 1965, and also an advisor from 1981 to 1982, was appointed as chairman of China State Shipbuilding Industry Corporation in May 1982. He had extensive experience in economic planning, having also worked at the Heavy Industry Bureau and the Design Bureau of the SPC, SEC, State Construction Committee, and the Ministry of Foreign Trade. Later, Zhang Shou was appointed to

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<sup>397</sup> Wang Deying (vice chairman 1983-1986), in mid 1950s held different posts, including division head, at Northeast Construction and Installation Company directly under the Ministry of Petroleum Industry; Huang Yicheng (1982-1988) had worked at Northeast Power Equipment Manufacturing Company under the First Ministry of Machinery Industry. Some later links in the reform period include Yao Zhenyan (1991-1994), who had previously served as a general manager of State Energy Investment Company from 1988 to 1992.

the China State Shipbuilding Industry Corporation in 1989 as a deputy general manager directly from the SPC, where he had worked from 1982.<sup>398</sup> Both appointments must have been based on their expertise in the industry. Chai Shufan had been the Minister of the Sixth Machine Building Industry in charge of shipbuilding, since 1977, and Zhang Shou had an academic degree in the field.

Similarly, the first group of leaders of newly established China Petrochemical Corporation also included several former leaders of the SPC. In July 1983, Central Committee decided that Li Renjun would become its chairman and party group secretary,<sup>399</sup> Xu Liangtu<sup>400</sup> as vice chairman, and also Chen Jinhua as general manager and deputy secretary of the party group.<sup>401</sup> Li Renjun, before getting involved into economic planning work, was the vice minister of fuel industry and later – the executive deputy minister of petroleum industry from 1952 to 1964. Chen Jinhua advanced through different positions in China’s former Ministry of Textile Industry and Ministry of Light Industry and was appointed as chairmen of the SPC. However, preceding career of Xu Liangtu does not include any petroleum industry-related

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<sup>398</sup> Zhang Shou, a graduate from the Shipbuilding Department of Shanghai Jiaotong University in 1952, remained working at the university until 1982. October that year he was appointed as a vice chairman of the SPC, also the director of the State Information Center. After retiring from China State Shipbuilding Corporation in 1992, Zhou assumed deputy director position with the Economic and Trade Office of the State Council.

<sup>399</sup> Vice chairman of the SPC from August 1973 to April 1982.

<sup>400</sup> Vice chairman of the SPC from July 1977 to June 1978.

<sup>401</sup> Other leaders of the newly established China Petrochemical Corporation were Sun Jingwen, formerly vice minister of petroleum industry and the first deputy director of the National Capital Construction Committee, Sun Xiaofeng, and expert of petroleum industry and former vice minister of petroleum industry, and Li Zhengguang as vice chairmen, and petroleum industry professionals Zhang Wanxin, Zhang Haoruo, Sheng Huaren, and also Fei Zhirong from the Ministry of Light Industry as deputy general managers and party group members.

positions. He had worked at the Ministry of Heavy Industry and then advanced through different positions related to economic development. The company's links with the SPC were strengthened further, when Chen Tonghai stepped down from his position in SPC in 1998 to join the leadership of, or return to, the newly restructured Sinopec Group.

### ***6.2.3 Significance of Company Networks***

Based on the observations above, it can be concluded that in the early years of institutional reform selected companies were provided with links to the principal institution in China's economic planning by the regime itself, although unintentionally. At first, bureaucrats from the ministries in charge of strategically important industries were appointed to the leadership posts in the SPC, and then as the institutional reform progressed and business entities were separated from the ministries, these officials became heads of companies.

Building its argument on theoretical literature on social networks and the insights from new institutionalism, this research holds that these networks are of significant importance. Discussion below offers illustration to their importance in two respects: first, the tendency of these networks to reinforce their own existence, and, second, manifestation of these networks in the policy process.

### *Self-sustaining Networks*

While it would be an overstatement to argue that the appointment of Yu Qiuli as a chairman of the SPC in 1970 is the major and only factor, which has defined the penetration of oil industry officials and later oil company managers into the system, this case provides an illustration of how informal networks tend to sustain themselves.

Yu Qiuli, a military commander with some experience in financial affairs in the military command, was appointed minister of petroleum in 1958. In 1964, when Mao Zedong turned away from the economic policies provisioned in the early drafts of the Third Five-Year Plan, supervised by Chen Yun, he requested Yu Qiuli and his associates to draw up a plan that would provide faster development and massive investment in the interior of China – the so-called Third Front.<sup>402</sup> In this way, Mao created a “small planning commission” (*xiao jiwei*), formally approved by the CCP Central Committee in December the same year, which took over the tasks of economic planning from the SPC.<sup>403</sup>

As Tsou notes, “[t]he transformation of informal rules, groups and processes into

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<sup>402</sup> The Great Leap Forward (1958-1961) significantly weakened the role of the SPC, which had played a critical role in drafting and implementation of the First Five Year Plan (1953-1957). The Great Leap Forward called for a decentralized initiative and was intended to use the plan targets only for mobilization. This significantly reduced the SPC’s ability to direct the economy throughout these years. It also created conditions that deprived the SPC of accurate statistics that was needed for drafting future economic plans. The situation somewhat improved shortly after the Great Leap Forward, and by mid-1964 the SPC had figures for the Third Five-Year Plan, which was drawn out under the supervision of Deng Xiaoping. Mao Zedong, who had always had influence over the economic development targets, intervened seeking to change this data.

For a detailed account of this Mao’s relations with Yu Qiuli see Lieberthal and Oksenberg, *Policy Making in China*, 1988, 70.

<sup>403</sup> The Small Planning Commission officially included Yu Qiuli, Li Renjun, Zhejiang party official Lin Hujia, and Jia Tingsan, and was also joined by Gu Mu, vice chairman of the State Economic Commission.

formal ones is one of the most interesting phenomena in the dynamics of bureaucracy and the political system.”<sup>404</sup> In 1970, Yu Qiuli was formally appointed chairman of the SPC. He gained even more power after the return of Deng Xiaoping in 1973, and with his support, began drafting up plans for extensive imports of foreign technology and equipment. Around the time the economic reform was launched, Yu became known as a leader of the “petroleum group.” It was composed of the officials who had risen to the top of the Chinese political system through their development of China’s petroleum industry. Yu Qiuli’s top assistants Kang Shien, Tang Ke, and Song Zhenming “followed Yu’s ascent up the political ladder.”<sup>405</sup> By the early 1970s, petroleum group members headed several principal economic agencies in China: the SPC, the State Economic Commission, and the State Capital Construction Commission.

Although around 1979 petroleum group members became the target of a concerted attack and by 1985 their influence was narrowed down to the petroleum sector, the networks extending from the establishment of the Small Planning Commission, have been echoed through the system ever since the pre-reform era, reaching the highest levels of Chinese political system. Different factors explain an individual’s rise in the Chinese political system – their talent, vision, bureaucratic skills, also ability to articulate a convincing rationale for a particular set of policies, but

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<sup>404</sup>Tang Tsou, “Prolegomenon to the Study of Informal Groups in CCP Politics,” *China Quarterly* 65 (March 1976), 101.

<sup>405</sup>Joseph Fewsmith, *Dilemmas of Reform in China: Political Conflict and Economic Debate* (Armonk (New York): M.E. Sharpe, 1994), 57.

very few of them can rise without the protection and assistance of one or more patrons. Kang Shien, a member of the petroleum group, was appointed vice chairman of the SPC in September 1978. When Zhou Yongkang was promoted to the Seventeenth Politburo Standing Committee in 2007 from the Sixteen Politburo, some pointed to his links with Zeng Qinghong, who retired from the Standing Committee the same year.<sup>406</sup> Zeng Qinghong, vice president of China from 2003, is a former secretary to Yu Qiuli as a Minister of Petroleum Industry. In 1979, Zeng became Secretary-General of the SPC, and in 1981 – deputy section head of the General Office of the State Energy Commission by the appointment of Yu Qiuli, Zeng’s father’s comrade-in-arms and fellow from the same town. Reportedly, when the Commission was abolished in May 1982, Yu Qiuli introduced Zeng to Tang Ke, the Minister of Petroleum Industry. Possibly this connection secured him position at the Liaison Department of the Foreign Affairs Bureau in the Ministry of Petroleum, where he briefly worked before becoming deputy manager of the Foreign Liaison Department of the China National Offshore Oil Corporation (CNOOC) in 1983. He later returned to the Ministry of Petroleum Industry as the deputy head of the Foreign Affairs Bureau and concurrently served as a party secretary of the South Yellow Sea Oil Company under the CNOOC. Zeng’s career took a turn in July 1984, when he was promoted to the deputy director of the Organization Department of the Shanghai Municipal Party Committee.

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<sup>406</sup> Bo, *China’s Elite Politics: Governance and Democratization*, 21-23.

Although there is no clear evidence that Zeng Qinghong and Zhou Yongkang<sup>407</sup> have ever worked together in petroleum industry, some sources indicate that after Zeng entered Politburo Standing Committee in 2002, he orchestrated for Zhou to be promoted to the Politburo and also the new public security minister, his lack of police career or law degree notwithstanding.<sup>408</sup> Downs argues that Zeng also helped secure Zhou's appointments as the minister of land and resources in 1998 and party secretary of Sichuan province in 1999.

These links extended further with Ma Fucai and Jiang Jiemin becoming the protégés of Zhou Yongkang. Reportedly, when Ma Fucai was struggling to remain in the position of CNPC general manager after a gas well explosion at one of the company's fields in Chongqing killed 243 people in 2003, Zhou lobbied on his behalf.<sup>409</sup> As Downs summarizes, “[p]atron-client relationship between petroleum politicians persist.”<sup>410</sup>

While it cannot be argued that contemporary relations among the members of petroleum faction are identical to those in pre-reform era and early years of the reform,<sup>411</sup> this case provides an example of how informal networks tend to sustain and

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<sup>407</sup> For a detailed description of the career paths of Zeng Qinghong and Zhou Yongkang see Bo, *China's Elite Politics: Governance and Democratization*, 22.

<sup>408</sup> Esther Teo, “Rise and Fall of China's Former Security Chief Zhou Yongkang,” *The Straits Times*, December 8, 2014, accessed February 22, 2015, <http://www.stasiareport.com/the-big-story/asia-report/china/story/rise-and-fall-chinas-former-security-chief-zhou-yongkang-20141>.

<sup>409</sup> Downs, “Business Interest Groups in Chinese Politics,” in Li, ed., *China's Changing Political Landscape*, 134. Based on the author's interviews.

<sup>410</sup> *Ibid*, 134.

<sup>411</sup> Downs discusses how the current oil faction differs from the original one. They have less shared experiences and do not form a coherent view of advocating particular policies. Yet, patron-client

even strengthen themselves. In other words, institutions, once established, take on life of their own.

### *Informal Networks as a Channel to Shape Policy Process*

Second feature of informal networks, demonstrating their significance is the manner in which these networks manifest themselves in the policy process. Characteristic feature here is that informal networks are utilized not necessarily as a channel to lobby policy process, but as a channel to present policy options and influence agenda setting, or, in other words, influence agenda setting. Lieberthal and Oksenberg show how the petroleum group was able to take advantage of these links to the state in 1979, when the policy of massive foreign imports and use of foreign capital was being negotiated. The decision to enter joint ventures on a risk basis was made when the petroleum group was losing political initiative as a result of the establishment of State Council Finance and Economic Committee.<sup>412</sup> That is to say, although formal institutional structure had been adjusted to distance petroleum group from the policy process, remaining informal networks provided the petroleum group with a channel to present a particular policy option. “The petroleum specialists were finally able to sell the idea to even the skeptical top leaders, with whom they differed on many factional and policy grounds, because their solution met some pressing concerns of the

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relationship persists (Downs, “Business Interest Groups in Chinese Politics,” 133-134).

<sup>412</sup> For details see Lieberthal and Oksenberg, *Policy Making in China*, 227.

*skeptics*<sup>413</sup> [*emphasis added*]. That is to say, existing informal networks enabled them to achieve some favorable decisions that would not have been possible should there have been no links to the state.

The advantages of company networks, which reach to the highest levels of the state beyond the boundaries of a particular industry, remained significant and have been utilized even after Chinese enterprises were reformed into modern companies. The case of decision making in 2000 related to the West-East gas pipeline, which was to connect Xinjiang with Shanghai, provides an example to back up this argument. Kong investigates why some energy decision in China are made faster than others.<sup>414</sup> Comparing the decision on fuel tax, which took 14 years to be adopted, and West-East gas pipeline, which was completed two years after the initial proposal, Bo finds that presence of a consistent “issue champion” among other factors determines whether a proposal becomes a decision. Analysis demonstrates that Zhou Yongkang, at that time already the minister of land and natural resources, acted as such an issue champion, who promoted the project. On July 16, 1998, he sent a letter directly to the Premier Zhu Rongji, recommending that the project be added on the list of national primary infrastructure projects. He further provided backup for the project until its completion in 2000.

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<sup>413</sup> Ibid, 228.

<sup>414</sup> Bo Kong, “China’s Energy Decision-Making: Becoming More Like the United States?,” in *China’s Search for Energy Security: Domestic Sources and International Implications*, ed. Suisheng Zhao (London: Routledge, 2013), 72-95.

## 6.3 Company Managers Becoming SASAC Leaders

### 6.3.1 SASAC and its Roles in the Chinese Economic System

State-owned Assets Supervision and Administration Commission (SASAC)<sup>415</sup> was established in 2003 as an institution to take charge of the supervision and administration of large SOEs in China on behalf of the State Council.<sup>416</sup> The newly established Commission was to incorporate those divisions of the State Economic and Trade Commission and of the Ministry of Finance that had previously been responsible for supervising and managing state-owned assets, as well as the Central Enterprise Work Commission.

The *Law on the State-owned Assets of Enterprises Law of the PRC (Law on the State-owned Assets)* clearly defines functions of SASAC.<sup>417</sup> First, SASAC is authorized to represent the government in performing investor functions in state-invested enterprises<sup>418</sup> (Article 11).<sup>419</sup> However, the State Council and the local

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<sup>415</sup> Initial regulations refer to SASAC as “the state-owned assets supervision and administration body under the State Council.” The regulations also provide that local people’s governments would establish local state-owned assets supervision and administration bodies. Further, the State Council and the local people’s governments may, when necessary, authorize other departments or bodies to perform investor functions for state-invested enterprises on behalf of the corresponding people’s government. These bodies and departments that perform the investor functions on behalf of the corresponding people’s government shall be together referred to as the “bodies performing the contributor’s functions.”

<sup>416</sup> *The Interim Measures for the Supervision and Administration of State-Owned Assets of the Enterprises*, adopted at the 8th executive meeting of the State Council on May 13, 2003, Order of the State Council No. 378, decree of the State Council of the PRC, May 27, 2003. English translation of the document provided by the website of *Law Info China* was used. Accessed April 8, 2009, <http://www.lawinfochina.com/display.aspx?lib=law&id=2780&CGid=>.

<sup>417</sup> *Law of the PRC on the State-owned Assets of Enterprises Law*, adopted at the 5<sup>th</sup> session of the Standing Committee on the 11<sup>th</sup> NPC, October 28, 2008; Order of the President of the PRC No.5, May 1, 2009, accessed March 20, 2015), <http://www.adcommission.gov.au/cases/documents/187-GovernmentQuestionnaire-China-Attachment128.pdf> (both Chinese and English versions of the document).

<sup>418</sup> State-invested enterprises, according to the law, refer to the wholly state-owned enterprises and companies, state holding companies, and companies, in which the state holds shares (*Law on the State-*

people's government maintained the right to perform contributor's functions<sup>420</sup> for the "large-sized state-invested enterprises that have bearings on the national economic lifeline and state security," determined by the State Council and the state-invested enterprises in important infrastructures and natural resources (Article 4).

Second, SASAC is also entrusted with the reform and reconstruction of SOEs. It is to enhance the management of state-owned assets and advance the establishment of modern enterprise system in SOEs. Moreover, SASAC is to "propel the strategic adjustment of the structure and layout of the state economy."<sup>421</sup> These provisions demonstrate considerable influence SASAC has over further development of China's state-invested enterprises and, respectively, Chinese economy.

Third, the *Law on the State-owned Assets* clearly defines SASAC's role in appointing and removing management of the state-invested enterprises. It is entitled to appoint and remove the presidents, vice-presidents, person in charge of finance and other senior managers of wholly state-owned enterprises, the chairmen and vice-chairmen of the board of directors, directors, chairmen of the board of supervisors, and supervisors of wholly state-owned companies, or make suggestions on the director and supervisor candidates to the shareholders' meeting or general assembly of shareholders

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*owned Assets*, Article 5).

<sup>419</sup>The list of SOEs, for which SASAC had investor function rights, changed multiple times since 2003. The initial list of enterprises, announced in October 2003, included 189 SOEs (available from <http://www.sasac.gov.cn/n1180/n1566/n258252/n258644/11663691.html>).

<sup>420</sup>The original term *contributor's functions* (*luhang chuziren zhize*) could be translated as *investor functions* considering the meaning of the original word in Chinese.

<sup>421</sup>*Major Duties of the State-owned Assets Supervision and Administration Commission*, accessed February 20, 2015, [http://www.gov.cn/english/2005-11/02/content\\_89794.htm](http://www.gov.cn/english/2005-11/02/content_89794.htm).

of state capital controlled companies as well as state capital invested companies (Article 22). Further, in the case of most of the management positions, concurrent positions in any other enterprise are also a subject to the approval by the body performing the investors functions (Article 25).

Fourth, SASAC is in charge of enterprise management work. It is responsible for dispatching supervisory boards for large key SOEs, and also for daily management of the board of supervisors. The roles of these supervisory boards and cadres in charge of it are reviewed later in this chapter

Authority of SASAC and its functions are clearly reflected in its departmental structure. Besides General Office, it includes Performance Assessment Bureau, Financial Supervision and Evaluation Bureau (set up in 2010), Enterprise Reform Bureau, Enterprise Restructuring Bureau, Enterprise Remuneration Bureau, 1<sup>st</sup> Bureau of Corporate Executives Administration, and 2<sup>nd</sup> Bureau of Corporate Executives Administration, among others.

### ***6.3.2 Intra-system Appointments of SASAC Leaders***

#### *Company Managers as SASAC Leaders*

Analysis results in *Chapter 5* show that one of the highest positions that company managers are promoted to in central government institutions are the leadership positions in SASAC. Three SASAC leaders have been identified: one director (vice-minister rank) and two deputy directors. Jiang Jiemin, former vice

chairman of the CNPC and chairman of Petro China, served as SASAC director for nine months until September 2013, Li Yizhong, former general manager of Sinopec Group – deputy director from May 2003 till February 2005, Zhang Xiwu, formerly general manager of Shenhua Group, has been serving as SASAC deputy director since March 2014.

These three SASAC leaders are former company managers, experts of their industry, who advanced to this supervisory institution from corporations, rather than being state officials sent to companies at a certain point in their careers. Jiang Jiemin started his career as a deputy director of Shengli Petroleum Administration in 1993, and moved to Qinghai Province Petroleum Administration in 1994 to serve as a director until 1999. That year he joined CNPC as an assistant president and Petro China as a deputy general manager. After becoming CEO and chairman of the board of directors of Petro China in November 2006 and deputy general manager at CNPC, Jiang Jiemin moved through different positions in these two companies until March 2013. He served as vice governor of the Provincial People's Government in Qinghai Province from 2000 to 2004 and also deputy secretary of Qinghai provincial party committee from 2003 to 2004. Similarly, Li Yizhong's career began in 1978, when he joined Petrochemical Plant of Shengli Oilfield. Li later worked at the Qilu Petrochemical Company, before joining Sinopec in 1987. Li's career lasted for over 15 years until he was appointed as a deputy director of SASAC in May 2003. Zhang Xiwu's career reveals a similar pattern, even if some variation can be observed due to

the institutional development in coal industry. Having worked in Guilin Coal Industry Administration for two years until 1995, in 1998 he joined Shenhua Coal Corporation, later Shenhua Group, and worked there until the end of 2013, when he became deputy director of SASAC.

That is to say, managers with expertise in selected industries – petroleum and coal – seem to have been recruited to the top posts in SASAC. To confirm these findings, career backgrounds of all directors and deputy directors of SASAC since its establishment in 2003 until February 2015 are observed below.

*Follow-up Analysis: Career Backgrounds of SASAC Directors and Deputy Directors*

In the case of SASAC directors, findings of the follow-up analysis echo the results of the initial analysis. Since the establishment of SASAC, four individuals served as its directors: Li Rongrong (in office from March 2003 to August 2010), Wang Yong (from August 2010 to March 2013), Jiang Jiemin (from March 2013 to September 2013), and Zhang Yi (from December 2013). As discussed above, Jiang Jiemin had worked in petroleum industry for several decades and advanced into SASAC as a corporate manager.<sup>422</sup> Li Rongrong and Zhang Yi come from

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<sup>422</sup> China's large corporations surveyed in this research are mainly state-invested companies, thus some of them hold vice-ministerial rank, and therefore can be regarded to be state officials. However, after these companies were reorganized along the lines of modern corporate management system, their profit-orientation strengthen and also the enterprise reform provided incentives for their managers to pursue good performance of their companies. Such incentives and rather dual identity is especially the case with those managers, who had advanced in their careers through different positions in the company and thus can be described as corporate managers rather than agents of the state.

administrative backgrounds, having served as state officials for the most of their careers with no links to business entities. Wang Yong has somewhat weak corporate links. Wang has experience working as a deputy director of the Political Department and as a head of Personnel Department from 1997 to 1998 at Chinese General Company of Astronautics Industry, where he was probably sent to from his earlier workplace at the Ministry of Astronautics, and also experience as a deputy general manager of China Aerospace Mechanical and Electronics Corporation for 15 months starting in 1999. Yet, his career more resembles that of a state official, in charge of enterprise supervision and organization work. In November 2000, Wang Yong was appointed as a director of the Organization Department Enterprise Cadre Office under the CCP Central Committee, in April the following year – director of the Organization Department 5th Bureau under the CCP Central Committee, where he served until April 2003, until being appointed as a deputy director and party committee vice secretary of SASAC. From here he advanced to the deputy secretary-general of the State Council in 2008, and further onto the secretary of the leading party group of and also the head of the State Administration of Quality Supervision, Inspection and Quarantine. Such career led Wang Yong to the post of director and party committee secretary of SASAC in August 2010.

Jiang Jiemin is the only director of SASAC up to date with an exclusively corporate background, a professional of a specific – petroleum – industry. At the same time, Jiang Jiemin is the only director of SASAC so far to be removed from the office

due to “suspected serious disciplinary violations,” the term, commonly used to refer to corruption.<sup>423</sup> In 2013, he was replaced by Zhang Yi, former deputy secretary of the Central Commission for Discipline Inspection of the CCP from 2007. In April 2015, *Xinhua* news agency reported that Jiang was accused of taking bribes, possessing a large number of assets from unidentified sources and abusing power while performing duty for an SOE, that is the CNPC.<sup>424</sup>

Backgrounds of SASAC deputy directors suggest some more diversity, but, again, to a limited extent. Career patterns of a total number of 15 SASAC deputy directors from 2003 to February 2015 were surveyed. Six deputy directors come from purely administrative backgrounds, having no ties with any corporation throughout their careers. Five more deputy directors have very limited work experience in corporations. They have mainly served in party committees or in positions related to organizational and personnel work in companies, some of them have been dispatched to the companies for a one-year terms as external directors. Further, in addition to the corporate links of Li Yizhong and Zhang Xiwu, follow-up analysis found two more deputy directors who had stronger corporate links with China National Nuclear Industry Corporation and Chengdu Aircraft Industry Group, a subsidiary of AVIC.

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<sup>423</sup> *BBC Online*, “Jiang Jiemin: China Sacks Former Energy Chief,” September 3, 2013, accessed April 1, 2015, <http://www.bbc.com/news/world-asia-china-23925370>.

<sup>424</sup> *Xinhua News Agency*, “China’s Former State-Assets Chief Stands Trial for Corruption,” April 13, 2015, accessed May 1, 2015, [http://news.xinhuanet.com/english/2015-04/13/c\\_134145476.htm](http://news.xinhuanet.com/english/2015-04/13/c_134145476.htm).

Here it is important to note the difference in the career backgrounds of these four managers with corporate links – Li Yizhong, Zhang Xiwu, Xu Fushun, and Jiang Zhigang. As explained above, both Li Yizhong and Zhang Xiwu are managers, their industry professionals, who have gradually advanced the career ladder in oil and coal industries respectively throughout decades.<sup>425</sup> Jiang Zhigang worked at AVIC I and its subsidiaries and only later advanced through different positions in party and state institutions in charge of enterprise supervision.<sup>426</sup> In contrast, Xu Fushun's<sup>427</sup> links with China National Nuclear Industry Corporation are built on his one-decade work at the Audit Office and only several years in other positions, with no managerial work experience, which stands as a sharp contrast to the long years that Zhang Xiwu and Li Yizhong served in managerial positions.

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<sup>425</sup> Already in 1987, Li Yizhong became deputy general manager of China Petrochemical and remained in the position for a decade until August 1997. From 1998 until March 2003, Li was in charge of China Petrochemical Group Corporation (Sinopec).

Zhang Xiwu became Shenhua Coal Corporation, later Shenghau Group, deputy general manager in April 1998, and general manager in September 2009. Two years of work experience in Shenhua Dongsheng Coal Corporation before 1998 further strengthens his career background as a coal industry professional.

<sup>426</sup> Jiang Zhigang, SASAC deputy director from November 2011 to June 2013, is a graduate of Beijing Institute of Aeronautics with a major in aerial equipment. Jiang had served as a deputy party secretary and also party secretary at Chengdu Aircraft Industry Group, also its deputy director, director, and deputy general manager. He later became director, deputy general manager, and party committee deputy secretary of Chengdu Aircraft Industry Group. Jiang worked as a head of human resource department at AVIC I. He was later appointed to the deputy-bureau-level researcher at the Enterprise Cadres Office at the Central Organization Department, deputy director of the Fifth Cadre Bureau, deputy director of SASAC 1st Bureau of Corporate Executives Administration, chairing deputy director and director of SASAC 2<sup>nd</sup> Bureau of Corporate Executives Administration.

<sup>427</sup> After graduating from the Faculty of Construction Economics at the Liaoning Institute of Finance and Economics in 1984 with a major in infrastructure finance and credit, Xu Fushun joined the Ministry of Nuclear Industry as a trainee at the Audit Office. He later worked there as a clerk and a section deputy director. From 1988 until 1999, Xu worked at the Audit Office of China National Nuclear Industry Corporation, where he transferred from the Audit Department of the Ministry of Nuclear Industry. After that Xu became director of investment management department at China National Nuclear Corporation (CNNC) and later from early 2001 to 2003 served as a party group member, assistant to the general manager and office director. Before becoming the deputy director of SASAC in May 2013, Xu was deputy governor of Qinghai Province.

These differences are of significant importance because only long-term company leaders can be expected to have developed an identity of a corporate manager and also driven by the conflicting incentive structure to promote their companies. This suggests that the findings of initial analysis were rather accurate and in addition to Sinopec Group in oil industry and Shenhua Group in coal industry, only one more company AVIC I had extended its networks to SASAC through newly appointed deputy directors of this institution.

### ***6.3.3 Factors Determining Inter-system Appointment of SASAC Leaders***

Follow-up analysis on company links with SASAC reveal that petroleum industry is the best connected with this institution in charge of enterprise supervision, Shenhua Group also had direct links to SASAC via its deputy director. The links to SASAC of AVIC I and China National Nuclear Industry Corporation were found to be weaker considering the career backgrounds of their management.

In this context, the remaining question is why the managers of those companies in particular were appointed to the key institution supervising China's largest enterprises. According to Chinese sources, appointment of Jiang Jiemin as the director of SASAC is not surprising considering that Jiang Jiemin's position at the CNPC originally was ministerial or vice-minister level. In addition, Jiang Jiemin's expertise corresponding to the functions of SASAC and the success of CNPC under his leadership were referred to as the main factors behind his appointment as a director.

*New Culture Daily* quoted Professor Ding Zhiguo from the Business School of Jilin University saying that several facts added extra points to Jiang Jiemin that eventually made him director of SASAC. First, in 2007, under the leadership of Jiang Jiemin, Petro China was listed as an A share in the Shanghai Stock exchange. And second, for several consecutive years, the company was the most profitable company in Asia.<sup>428</sup> At the time of the appointment in March 2013, it was expected that while SASAC under Jiang Jiemin would continue on the same path of the enterprise reform, his insiders' knowledge of China's large enterprises would lead to some new initiatives.<sup>429</sup> Interestingly, still back in 2008, Downs indicated Jiang Jiemin as one of the rising stars to watch for in the Seventeenth National Party Congress. The scholar estimated that Jiang could possibly be promoted to a high political position due to the tendency to promote individuals with both industrial and provincial governance experiences.<sup>430</sup>

This situation somewhat resembles Yu Qiuli's appointment to the chairmen of the SPC. Although his personal links with Mao Zedong were also at play, one of the reasons behind Yu's appointment was his achievement developing China's petroleum industry, especially the discovery of Daqing oil field.<sup>431</sup> As a result, he was entrusted to take charge over China's national economy.

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<sup>428</sup> *Xinwenhuabao* [*New Culture Daily*] "CNPC Chairman Jiang Jiemin Takes over as SASAC Director," March 20, 2013, accessed May 1, 2015, <http://news.hexun.com/2013-03-20/152283497.html> (in Chinese).

<sup>429</sup> *Ibid.*

<sup>430</sup> Downs, "Business Interest Groups in Chinese Politics," in *China's Changing Political Landscape*, Li, ed., 136. Seventeenth National Party Congress was convened in October 2007, yet, the text seems to have been submitted for publication prior to that.

<sup>431</sup> Daqing Oilfield in Heilongjiang province was the first major oilfield in China to be discovered and

On the other hand, some accounts also suggest that managerial achievements in companies open the doors to high-level posts in the party-state. Su Shulin, former deputy general manager at CNPC and Petro China, also chairman and the CEO of Sinopec Group from 2007, was elected as an alternate member of the 16th CCP Central Committee being only forty four years old. Arguably, Su's managerial skills paved the way for this appointment. Three years prior to that he was able to lower Daqing's output while increasing its profits as a result of his idea to reduce oil production at Daqing to extend the life of the field and thus gain additional time to develop alternate industries in the area.<sup>432</sup>

In regards to the deputy directors of SASAC, vice-ministerial or ministerial ranks they had previously held in the companies appears to be a key factor, which made their promotions possible. On the other hand, it still remains unclear while representation of petroleum and coal industries was the most significant, while there are more companies that have retained ministerial ranks.

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exploited without the assistance from the Soviet Union. While Yu Qiuli was at the forefront of this discovery, Mao Zedong introduced a slogan for "industries to learn from Daqing" (*gongye xue Daqing*). February 5, 1964, the CCP Central Committee issued a notice, which called for all departments of the country to learn from the experience of Daqing Oilfield (*News of the Communist Party of China* "Industries to Learn from Daqing," accessed March 5, 2015, <http://cpc.people.com.cn/GB/64162/64170/4467226.html> (in Chinese)).

<sup>432</sup> Downs, "Business Interest Groups in Chinese Politics," 136.

## 6.4 Company Managers as Supervisors of Large SOEs

### 6.4.1 Supervision System of Large SOEs

When in 1993 the CCP decided to establish modern enterprise management system, “which meets the requirements of the market economy and in which the property rights as well as the rights and responsibilities of enterprises are clearly defined, government administration and enterprise management are separated and scientific management is established,”<sup>433</sup> it did not intend to give the enterprises full autonomy and allow them to freely function under the principles of free market. Specific control and supervision mechanisms have been put in place. In addition to retaining control over managerial appointments, the government has also established enterprise supervisory system.

In July 1998, Premier Zhu Rongji signed *Regulations of State Council on Special Inspectors*.<sup>434</sup> The *Regulations* established special inspector system, which was aimed at strengthening financial supervision of large important SOEs and assessing administrative performance of their managers. According to the explanation by Zhu Rongji, the CCP Central Committee and the State Council decided to introduce special inspectors system considering the necessity to reform and restructure enterprises, improve and strengthen their management, and also make unprofitable enterprises

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<sup>433</sup> CCP Central Committee. *Decision on Some Issues Concerning the Establishment of a Socialist Market Economic Structure*, adopted at the Third Plenary Session of 18th CPC Central Committee, November 1993.

<sup>434</sup> “Regulations of the State Council on Special Inspectors,” State Council Decree No. 246, adopted at the Fifth Meeting of the State Council Standing Committee, July 3, 1998 (in Chinese).

overcome difficulties over the following three years. It was also one of the measures to achieve a long-term goal of establishing modern enterprise system by the end of the century, and strengthen government supervision of enterprises in the process of separating business from the state.<sup>435</sup> Although Special Inspectors General Office and other working units were placed under the Ministry of Personnel of the PRC, inspectors were to be dispatched by the State Council. The relationship between the special inspectors and the enterprises was defined as that between a supervisor and the supervised, thus the inspectors were not allowed to engage into management activities of the enterprise (Article 5). The *Regulations* also provided that inspectors were to be appointed by the State Council, usually from the cadres at ministerial or vice-ministerial level under 60 years old (Article 6), while their assistants – from the staff of the Ministry of Personnel (Article 7). The document stipulated that they would serve for a period of three years, which could be extended. Yet, in that case, the inspectors were to be dispatched to a different enterprise (Article 10).

In March 2000, *Regulations of State Council on Special Inspectors* were replaced with the *Interim Regulations on the Boards of Supervisors in State-owned Enterprises*, which renamed special inspectors as chairmen of supervisory boards for large key SOEs (hereinafter *supervisory boards*) and defined the system of SOE supervision. As before, the State Council was designated to dispatch boards of supervisors to

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<sup>435</sup> Liu Zhenying and Wang Jinfu, “Establishment of the Special Inspector System is a Major Move towards Separating Government and the Enterprises,” *Guangming Daily*, May 11, 1998 (in Chinese).

enterprises. These boards, accountable to the State Council, were to “supervise the situation regarding maintenance of an increase in the value of State-owned assets in the key large State-owned enterprises.”<sup>436</sup> While financial supervision was the focus, boards of supervisors were also due to supervise operational and management activities of the persons responsible for the enterprises. According to the *Interim Regulations on the Boards of Supervisors in State-owned Enterprises* (hereinafter *The Interim Regulations*), the boards of supervisors were to carry out regular inspections of the enterprises one to two times a year, and were also entitled to irregular inspections of the enterprises on specific matters upon necessity.<sup>437</sup> These boards of supervisors were formally allowed to conduct supervision and inspection in several ways: (1) hearing reports by the persons responsible for the enterprises or holding meetings on the items subject to supervision and inspection in the enterprises; (2) reviewing their financial and accounting data and other data pertaining to the operational and management activities of the enterprises; (3) soliciting information and opinions from the employees; (4) conducting investigations and inquiries about the financial status, operations and management of the enterprises through the relevant departments of finance, industry and commerce, taxation, audit and customs and banks. The chairmen of the boards of supervisors were also entitled to attend or entrust other members of the

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<sup>436</sup> *The Interim Regulations on the Boards of Supervisors in State-owned Enterprises*, Decree of the State Council of the PRC No. 283, adopted at the 26th Executive Meeting of the State Council on February 1, 2000, promulgated March 15, 2000, effective as of the date of promulgation) (in Chinese).

<sup>437</sup> *Ibid.*

boards of supervisors to attend, as nonvoting delegates, relevant meetings of the enterprises.<sup>438</sup>

After SASAC was established in spring 2003, boards of supervisors in the key large SOEs were placed under SASAC. It maintained its earlier functions of supervision over China's major SOEs.

#### ***6.4.2 Company Managers in Supervisory Bodies***

##### *Special Inspectors for Large Key SOEs in Late 1990s*

For the purpose of this follow-up analysis, career backgrounds of 39 special inspectors were observed.<sup>439</sup> In most cases, they had somewhat weak links with business entities, often in the earlier stages of the reform, when the business had not yet been separated from the state. Career path of Lu Yaohua provides an illustrative example. Lu served as a head of the Infrastructure Bureau of China National Coal Mine Corporation Shanxi Company from April 1989 until December 1991, when he became deputy director of the Infrastructure Department at China National Coal Mine Corporation. In June 1993, Lu became general manager and chief engineer of China Coal Construction and Development Corporation. Here, it is especially important to

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<sup>438</sup> Ibid, Article 7.

<sup>439</sup> After the establishment of the system in 1998, special inspectors were appointed in two rounds the same year. For the list of the appointees see Liu Zhenying, and Jinfu Wang, "Giving a Free Hand to Enterprise Management and Strengthening Their Oversight Emphasized at the Opening Ceremony of the Training Course for Special Inspectors for Large Key SOEs," *People's Daily*, May 11, 1998, 1 (in Chinese); Wei, Chiya, and Zhenjun Han, "State Council Appoints 18 Special Inspectors – Second Round of Training Course in Beijing," *People's Daily*, November 13, 1998, 4 (in Chinese).

note the legal status and kind of these enterprises. China National Coal Mine Corporation was established in 1988 after the Ministry of Coal Industry was abolished.<sup>440</sup> Newly set up Ministry of Energy took over a large number of its functions. However, at the same time, China National Coal Mine Corporation was established to centrally administer enterprises and institutions outside northeastern China,<sup>441</sup> which were earlier administered by or subordinate to the Ministry of Coal Industry.<sup>442</sup> This company was closed down in 1993, when the Ministry of Coal Industry was reestablished. Lu Yaohua returned to the Ministry in September 1995, where he led the Center for Infrastructure Management until July 1998. That is to say, when he served at the enterprise, it was purely state-owned enterprise, which carried functions of a ministry.

Based on their career patterns, special inspectors can be divided into three groups. First, there were 21 of them with no links to enterprises. They mostly came from financial, economic planning, or in some cases – agriculture industry-related backgrounds in the government. Second, there is a group of five special inspectors, who developed corporate links later in their careers. Four of them held a title of independent directors in different companies, such as Zoomlion Heavy Industry Science and Technology Co Ltd., China State Construction Engineering Corporation,

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<sup>440</sup> *Decision on the Proposal of the Reform of State Council Institutions*, adopted at the First Session of the Seventh NPC Standing Committee, April 9, 1988.

<sup>441</sup> Coal mining enterprises and institutions in northeast China were managed and administered by Northeast China Inner Mongolia Coal Industry Joint Corporation, established in 1983 (State Economic and Trade Commission of the PRC, ed., *Fifty Years of China's Industries*, vol. 9, 122).

<sup>442</sup> *Ibid*, 121-122.

Everbright Securities Co Ltd., Baoding Tianwei Baobian Electric Co Ltd., and China Insurance International Holdings Co Ltd. Two of the five special inspectors later also became chairmen of Nam Kowng (Group) Co Ltd. and China Travel Service (Holdings) Hong Kong Ltd. Finally, one special inspector later became external director of China National Building Material Company. The third group of special inspectors for China's key SOEs demonstrates rather distant links with business entities in their preceding careers. Among 13 special inspectors in this group, four worked in factories and enterprises prior to the beginning of the reform. Others show links with business entities in more recent past, yet, as explained above, these are usually SOEs still under direct control of or a part of relevant ministries.<sup>443</sup>

Oil industry was represented among special inspectors, yet to a limited extent. There were four individuals with career backgrounds in the industry. Among them, Zhang Yongyi and Ding Guiming worked in oil enterprises before they became special inspectors in 1998. In addition to other positions, Zhang Yongyi served as the deputy general manager of China National Petroleum and Natural Gas Corporation, which was later restructured into the CNPC. Ding Guiming worked as assistant general manager at the same company.

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<sup>443</sup> These special inspectors had experience working in China National Petroleum and Natural Gas Corporation, China National Coal Mine Corporation, China Coal Construction and Development Corporation, Chinese General Company of Astronautics Industry (State Aerospace Bureau), China Shipbreaking Corporation, Chinese Department Store Corporation, China Railway Engineering Corporation, and China National Nuclear Corporation.

Again, for the purpose of this research it needs to be noted that until 1998, the company was more of a state unit rather than a business entity. As *People's Daily* pointed out, CNPC is fundamentally different from its predecessor China National Petroleum and Natural Gas Corporation. One of the aims of restructuring the SOEs was to reform their relations with the state. Reportedly, the original China National Petroleum and Natural Gas Corporation was a state oil enterprise formed on the basis of former Ministry of Petroleum Industry, while the succeeding CNPC does not carry the functions of government, but instead “in a true sense is independently operated, self-financing, self-developing, and self-binding legal entity.”<sup>444</sup> In other words, at that time, differently from contemporary ones, enterprises were still units of the state.

Other special inspectors, who had links with oil industry, namely, Yan Dunshi and Zhang Haoruo came from different units under the Ministry of Petroleum Industry, although Zhang Haoruo career ties with the industry are weaker, since he took the post of vice-minister of foreign trade in mid-1980s.

#### *Chairmen of the Supervisory Boards for Large Key SOEs*

Responsibilities of the supervisory boards are divided among 29 offices. Each of them is in charge of supervising a number of large SOEs and is led by a chairman and two deputy chairmen. This system was put in place in 2000, when special inspector

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<sup>444</sup> “The Strength of the CNPC: Ranked World’s Tenth Strongest,” *People’s Daily*, July 27, 1998, 12 (in Chinese).

system was replaced with a supervisory board system, and remained intact after the establishment of SASAC. *Interim Regulations on the Boards of Supervisors in State-owned Enterprises* include a provision on the avoidance of conflict of interests. None of the members – the chairman, full-time supervisors, dispatched supervisors and expert supervisors of the board of supervisors – is allowed to assume a position in the board of supervisors of the enterprises, in which they had ever managed or worked or those, where their close relatives take up a position of senior management.<sup>445</sup> Thus, even if a chairman has management experience in an enterprise, they would be in charge of companies other than the one worked at. For example, Luo Han has worked as a deputy general manager of CNPC for over a decade and now as a chairman of the supervisory board belongs to the 25<sup>th</sup> Office, which supervises China Eastern Airlines Corporation, China National Cereals, Oils and Foodstuffs Corporation Group (COFCO) Group, China National Materials Group Co. Ltd., and Beijing Nonferrous Metal Research Institute.

Even though former managers cannot become the supervisors of their former company, the links that they develop to the system are of considerable importance. From a former supervisee they join the ranks of the supervisors and acquire direct links to the individuals that are directly supervising their former company. Moreover, being selected to the supervisory boards, former managers strengthen their links with SASAC.

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<sup>445</sup> *Interim Regulations on the Boards of Supervisors in State-owned Enterprises*, Article 19.

Earlier analysis has identified six corporate managers that served as the chairmen of supervisory boards. In terms of the companies they represent, the findings offer some more variety when compared to SASAC leadership. There are two chairmen with career backgrounds in CNOOC,<sup>446</sup> also one, who has worked in Aluminum Corporation of China Ltd., and one who joined the same company after having served as a chairman of the supervisory board,<sup>447</sup> then one chairman with career in China Nuclear Engineering-Construction Corporation,<sup>448</sup> and also one chairman, who has worked in Chinese General Company of Astronautics Industry (later China Aerospace Industry Corporation).<sup>449</sup>

The first batch of the chairmen of the State Council board of supervisors was announced in August 2000, at the CCP Enterprise Working Committee meeting.<sup>450</sup> The meeting made public the names of initial 27 chairmen to be dispatched to 67 companies. The full list was to include 36 supervisory board chairmen in 100

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<sup>446</sup> Gao Huaizhong was a deputy general manager of CNOOC from February 1998 until November 2000, when he became the supervisory board chairman; and Luo Han supervisory board chairman since March 2009, joined CNOOC in 1982 and became the deputy general manager of the company in September 2001, where he worked until 2009. He also served as a vice president of CNOOC Nanhai East Corporation and held other positions in China's petroleum corporations associated with CNOOC.

<sup>447</sup> Xiong Weiping, supervisory board chairman from November 2014, is a former deputy general manager and director of Aluminum Corporation of China Ltd. from September 2001 until June 2006, and also the company's CEO from 2006 until May 2009, when he became its chairman and served in the position until October 2014; and Guo Shengkun, supervisory board chairman between 2000 and 2001, the chairman and president of Aluminum Corporation of China Ltd. from 2001 to 2004.

<sup>448</sup> Mu Zhanying, supervisory board chairman from October 2010, worked as the president of China Nuclear Engineering Construction Corporation for more than a decade starting in 1999, also served as the company's party group secretary.

<sup>449</sup> Bai Baier, supervisory board chairman from August 2000 until January 2003, served as a deputy director of Chinese General Company of Astronautics Industry (China Aerospace Industry Corporation) from June 1993.

<sup>450</sup> Yan Suo, "State Council to Dispatch Supervisory Boards for Large Key SOEs: 27 Chairmen to be Sent to 67 SOEs," *Xinhua*, August 17, 2000, accessed May 1, 2015, <http://www.people.com.cn/GB/channel1/10/20000817/191399.html> (in Chinese).

companies. All 27 of the initially announced chairmen advanced into this position from special inspectors, the position which they were appointed to in 1998. Their career backgrounds have already been discussed above.

For the purpose of this follow-up analysis, career backgrounds of 76 chairmen<sup>451</sup> (including those previously appointed to special inspectors) of the supervisory boards from August 2000 until February 2015 were surveyed. Based on their career paths, chairmen of the supervisory boards can be divided into three groups.

One group are the 45 chairmen from administrative, financial work, or economic planning backgrounds. 25 of them had extensive economic planning and financial work, six – personnel and organizational work, ten – administrative positions, with two previously involved in work related to enterprise reform and one related to the reform national system. Also, there was one chairman with legal background, who had previously worked in court system and three, whose preceding career was mainly in local governments. These chairmen have non-existent to minimum links with business entities.

In terms of their links to business entities, similarly appears the second group of chairmen, who had advanced through different positions in state institutions in charge of a particular industry. Among the 17 chairmen in this group, there were three with backgrounds in petroleum industry and three in metallurgy related institutions, two in

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<sup>451</sup> The full list of the chairmen of the supervisory boards from August 2000 until February 2015 comprised 79 names, but the final list surveyed was only 76, since for three chairmen no sufficient career data was found.

each of railways, light industry, aerospace, and agriculture, and one chairman from each of the following industries – coal, shipbuilding, and tobacco. While a career in the state institutions in charge of a particular industry is their shared characteristic, there is not much more in common. While several of them held positions in planning departments, others served as party secretaries. Interestingly, many of them previously held a rank not higher than department (*si*) level, and then they were promoted to the chairmen of the supervisory board, a position of vice-ministerial rank.

The third group are the 14 chairmen, who were promoted to the position directly from a company. They represent a variety of China's pillar industries: non-ferrous metals (China Aluminum Corporation (Chinalco) and Aluminum Corporation of China Ltd. (Chalco); two chairmen), aerospace and defense (one from Chinese General Company of Astronautics and one from China South Industries Group Corporation), petroleum (one from CNPC and two from CNOOC), railways (one chairman from China Railway Engineering Corporation), electric power generation (one chairman from each China Datang Corporation and State Power Corporation (later State Grid Corporation)), engineering and construction services (China Nuclear Engineering Construction Corporation), nuclear power (one chairman from China National Nuclear Corporation and later State Nuclear Power Technology Corporation), electronics (China Electronics Corporation), and one chairman from a mixed industrial background with a degree in mining and work experience in China National Nuclear

Corporation. These industries were represented randomly throughout the observation period.

#### ***6.4.4 Explaining Inter-system Appointments of Supervisory Board Chairmen***

As the above list of industries represented shows, there is considerably more diversity among them than among SASAC leaders, although both SASAC deputy directors and chairmen of supervisory boards hold vice ministerial ranks. On the other hand, it seems that these chairmen were recruited from companies already holding vice-ministerial or even ministerial, like in the case of China National Nuclear Corporation or CNPC,<sup>452</sup> ranks. However, the status of the company does not automatically mean that the chairman used to hold the rank of a vice minister or even a minister, since not all of them served in managerial positions at those companies. For example, Jiao Yian served as a chief economist of the State Power Corporation prior to his appointment as chairman for the supervisory board. Considering the importance of the administrative rank in China, it can be said that entering a company of a high administrative rank increases the chances for one being promoted to the chairmen of supervisory boards.

Generally, administrative rank of the companies has been an issue of a heated debate in China. This is attributable to the fact that leverage over the policy process

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<sup>452</sup>CNPC and Sinopec inherited ministerial ranks, and CNOOC – vice ministerial ranks (Monique Taylor, *The Chinese State, Oil and Energy Security* (London, New York: Palgrave Macmillan, 2014), 129).

depends directly on the rank of the organization.<sup>453</sup> Thus, when the corporations were established or reorganized, their leaders sought to secure themselves a ministerial rank.

At the same time it can be concluded that success of those companies as commercial entities is also a factor determining these inter-system appointments. Most of them are listed as China's biggest corporations. For example, Liu Shunda was appointed chairman of the supervisory boards in 2012, after his company China Datang Corporation, one of the five power generation companies in China, was included to the *Forbes Global 500* list in 2010. Shi Dahua, a former chairman and deputy general manager of China Railway Engineering Corporation was appointed to the chairmen of supervisory boards in 2010. In 2007, this company ranked 342<sup>nd</sup> in *Forbes Global 500*, 133<sup>rd</sup> in 2010, and rose to 80<sup>th</sup> in the same list in 2014.

### **6.5 Concluding Notes: Set Path for Development**

The main purpose of this chapter was to trace the patterns of inter-system career appointments to the China's key state institution in charge of national economy – the State Planning Commission, and the institutions in charge of China's large SOEs that is SASAC and supervisory boards. At the same time, the chapter aimed at verifying finding of the preceding chapters.

Overall it can be concluded that inter-system career appointments have been utilized by the regime to enhance its governing capacity. While this was done

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<sup>453</sup> Shirk, *The Political Logic*, 94.

intentionally in the case of the appointments to SASAC and supervisory board chairmen, the links between the leaders of the State Planning Commission and the companies was an unintended outcome of previous practices to appoint bureaucrats from strategically important industries to leaders of this institution.

Findings of the analysis may be summarized as follows.

First, in regards to the first research question (*RQ1*) related to the patterns of manager's inter-system appointments, which reveal how the party-state has (dis-)integrated itself with business entities in the course of institutional reform, analysis results support the findings of the preceding chapters. Only a small number of business entities from specific industries acquired networks to the State Planning Commission, SASAC, and SOE supervisory institutions. Patterns of company networks were not completely in line with the progress of institutional reform. As business entities were separated from the state, China Petrochemical Corporation and China State Shipbuilding Corporation acquired links to the State Planning Commission as a result of manager appointments. Other newly established companies were not granted such networks. Similarly, although business entities and the state had been separated by then, several companies expanded their networks to the state institutions, SASAC and SOE supervisory boards in particular, when their managers were appointed to those institutions.

These observations offer an answer to the second research question (*RQ2*) by showing that informal networks between the party-state institutions and business

entities were created by the regime itself. However, rather than being intentionally established as a result of the leaders' careful consideration of the socioeconomic demands at that particular time, company networks were a result of earlier established institutions and multiple institutional adjustments implemented previously. In the case of company networks with SPC, they were conditioned by previous economic policies, when top-level bureaucrats from ministries of strategic importance were appointed to the leading posts in the SPC. Later, in the course of enterprise reform they were appointed as managers of restructured business entities. Other bureaucrats from relevant ministries similarly took managerial positions in companies, yet they had no career experience as SPC leaders as earlier their industry was less significant. That is to say, informal networks are unintentionally created by the regime in a path-dependent process.

This argument is supported by the analysis of company networks with SASAC. Administrative rank of the company and also the company's performance were found to explain inter-system appointment of its manager. Administrative ranks of the SOEs were negotiated in the course of the reform, and literature shows that in the 1990s their managers fought to maintain these ranks. Again, this shows that formation of company networks is a result of a path dependent process, when earlier decision condition later appointments. It is far from surprising that managers from the higher-rank ones are selected to supervise those of a lower rank. Further, the requirement for a manager to have successful managerial experience record is self-explanatory considering that they

are appointed to supervise and also reform in order to enhance China's large state-invested companies. These tendencies reflect the regime's attempt to adapt and enhance its capacity to rule effectively. However, two aspects here point to the limits of this institutional adaptation. First, it occurs within the limits set by previous institutional adjustment, and, second, as a result provides only specific companies with links to the state institutions.

Cases from today's China, as illustrated by West-East gas pipeline project, as well as accounts from pre-reform period, when petroleum group was able to put certain policy options on the agenda, demonstrate the importance of company networks. These cases suggest that company networks provide it with a channel to at least put on the policy agenda particular policy options. As a result, promotion of managers from particular companies, may start a cycle, which helps them improve their company's performance and increases the likelihood for their managers to be promoted further. Above this was illustrated by the case of petroleum group penetrating political system. In those cases company retained networks to the state institutions, while those of others narrowed. Again, that is to say specific appointment at a particular time sets path for further development.

In a nutshell, one-time decisions made by the top leader may be an attempt to respond to the socioeconomic environment. They might have positive effect in a short term. However, once these decisions accumulate and manifest themselves in the future,

they might produce unintended outcomes, like in this case rather biased pattern of networks between the companies and the state.

# **CHAPTER 7**

## **Case Study: The Limits of Outward FDI Regulatory Framework**

*This chapter aims at providing a preliminary evaluation of the significance of company networks. It first examines how the Chinese party-state combines its economic goals with broader foreign policy objectives in its outward FDI policy, and then observes, whether actual investments comply with the official policy line. The main argument advanced in this chapter is that only companies from selected industries are able to pass through the legal regulations and get investment projects approved even when they conflict with China's official foreign policy objectives.*

## **7.1 Introduction**

### ***7.1.1 Purpose of the Chapter and its Research Questions***

This chapter aims at providing a preliminary evaluation of the significance of company networks in the policy process in China. Although the main purpose of the analysis in this dissertation is to expose how the party-state has (dis-)integrated itself with business entities, rather than explaining how this (dis-)integration has shaped policy process, preliminary analysis was deemed to be necessary to evaluate possible implications of the company networks revealed in this study.

In pursuit of this goal, a specific case study, which could be illustrative of the dynamics between official policy objectives and limited organization goals of companies, was chosen, that is China's outward foreign direct investment (FDI) related

policies and implementation. To evaluate the significance of company networks in this particular case, three questions were set for the analysis:

(1) How does the regime incorporate the objectives of outward FDI into the wider framework of foreign policy? Specifically, how does it reconcile outward FDI objectives with the overall objectives of national foreign policy?

(2) Is the existing institutional framework effective in achieving this overall strategy?

(3) What compromises China's overall foreign policy objectives in outward FDI implementation?

### **7.1.2 Problem Definition**

The above research questions take roots in the literature on Chinese multinational companies and their investment activities overseas. There is a common argument that Chinese investment overseas is a manifestation of the economic goals of China's CCP-led government, which seeks to secure resources necessary for continuous domestic economic growth. This is especially the case for Chinese oil-related investment.<sup>454</sup> However, several problems stand out once this nearly conventional wisdom is given closer consideration.

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<sup>454</sup> Ian Taylor, "China's Oil Diplomacy in Africa," *International Affairs* 82, no. 5 (2006) 937-959; David Zweig and Bi Jianhai "China's Global Hunt for Energy," *Foreign Affairs* 84, no. 5 September-October 2005): 25-38.

*First*, there is a problem related to the state's control over Chinese SOEs investing overseas. Without even considering possible, even if limited, independence and business interests of Chinese enterprises, the authors on this side of the argument obediently align with the realist argument that the state is a unitary actor and is capable of employing the companies to deliver regime-specified gains.<sup>455</sup> Some works take for granted that Chinese SOEs act as agents of the state in their investment activities overseas. For example, Deng notes that specific government policies and incentives is one of the institutional factors that encourage Chinese firms to acquire strategic assets overseas in line with the government's national development strategy. The state is seen as able to implement its economic policy goals through particular institutional arrangements. Li defines it as a "political give-and take between merchants and the state" – "domestically, the Chinese government gives these merchants an enormous role in the global economy in exchange for serving the state's larger political economic goals."<sup>456</sup> In his study on the significance of large corporations in China's development, Sutherland suggests that they have followed the country's development path and the strategies adopted by the state.<sup>457</sup> However, some observations in the literature go counter to this. An increasing number of scholars are balancing against this argument in their discussions about the business influence on Chinese policy

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<sup>455</sup> Chih-Shian Liuo, "Bureaucratic Politics and Overseas Investment by Chinese State-Owned Oil Companies: Illusory Champions," *Asian Survey* 49, no. 4 (2009), 673.

<sup>456</sup> Xiaofei Li, *China's Outward Foreign Investment: A Political Perspective* (Lanham: University Press of America, 2010).

<sup>457</sup> Sutherland, *China's Large Scale Enterprises*, 18.

making. In regards to Chinese oil industry, Downs argues that major companies as well as their subsidiaries are the key drivers of China's "supply side" energy security policies.<sup>458</sup>

*Second* is the problem of the compatibility between the objectives of particular policy that of outward FDI and China's general foreign policy strategy. Li argues that internationally, China gives up its political interests and prestige with some nations, in exchange for economic benefits from other nations."<sup>459</sup> But this argument overlooks the complex nature of Chinese foreign policy. Discussing the case of Africa, Jakobson points out that Chinese foreign policy makers *struggle to accommodate different interests*. While business entities seek natural resources and look for new export markets, Chinese foreign policy officials strive to promote the image of peacefully rising China.<sup>460</sup> Moreover, specifically in regards to Africa, Kolstad and Wiig show that China is not a monolithic actor, and its presence there reflects the motives of numerous Chinese actors,<sup>461</sup> which raises a question of how the interests of different actors are reconciled.

These two problems are not mutually exclusive and they point to an important problem of how the regime in China combines different goals of individual policies

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<sup>458</sup> Erica S. Downs, "The Chinese Energy Security Debate," *The China Quarterly* (2004), 25.

<sup>459</sup> Li, *China's Outward Foreign Investment*, 121.

<sup>460</sup> Linda Jakobson, "China's Diplomacy toward Africa: Drivers and Constraints," *International Relations of the Asia-Pacific* 9 (2009), 403.

<sup>461</sup> Ivar Kolstad and Arne Wiig, "Better the Devil You Know? Chinese Foreign Direct Investment in Africa," *Journal of African Business* 12 (2011): 31–50.

and also those of different actors. Moreover, is the regime capable of securing their implementation.

### ***7.1.3 Research Design and Structure of the Chapter***

Analysis is conducted in three steps. *First*, it examines the legal framework, regulating overseas investment by Chinese companies (*section 7.2*). It is necessary to clearly define this regulatory framework to expose the institutions, which approve Chinese outward FDI, and demonstrate that there exists an institutional mechanism to assure that Chinese outward FDI is in line with the official policy line. *Second*, the chapter analyses how outward FDI-related policy goals fit into China's overall foreign policy strategy (*section 7.3*). Although existing literature argues that through outward FDI China has sought to secure essential resources, this chapter reexamines this established argument and identifies the factors that define regime's willingness for Chinese companies to invest in specific countries. *Third*, analysis observes how actual investment by Chinese companies overseas fit with the outward FDI policy goals as stipulated by the state (*section 7.4*).

### ***7.1.4 Research Methodology and Data***

#### *Analysis of China's Outward FDI Policy Goals*

To examine how outward FDI-related policy goals fit into China's overall foreign policy strategy, the analysis focuses on the *Guide Catalogue of Countries and*

*Industries for Investment Abroad* released in three parts in 2004, 2005, and 2007 (hereafter Guidelines I), and *Guidelines Catalogue of Outward FDI in Foreign Countries and Industries released in 2011* (hereafter Guidelines II). These guidelines list out selected countries and specific industries recommended investing in. Since not all countries are included, and, moreover, both sets of guidelines differ considerably, defining the factors that determine selection of the countries for each set of guidelines may provide a valuable insight into how FDI-related economic goals are accommodated with its broader foreign policy goals in different periods of time. Thus, analysis in *section 7.3* aims at exposing the factors, which influence that a country is included into or excluded from the Guidelines I and the later revised version Guidelines II.

#### *Defining the Scope of the Research*

The scope of the research is narrowed down to the analysis of the Guidelines I and Guidelines II considering three factors. *First*, these sets of guidelines might be deemed to comprehensively include China's economic and foreign policy goals. Guidelines I were jointly prepared and released by the Ministry of Commerce (MOFCOM) and the Ministry of Foreign Affairs. In preparations of Guidelines II, this team was joined by the National Development and Reform Commission (NDRC) which is in charge of China's economic and development policies. *Second*, the guidelines are very specific. This is the only document, which lists out in detail the

preferred target countries and industries for Chinese investment rather than obscurely stating general goals. Therefore, it could provide more accurate information on the priorities of Chinese outward FDI policy. *Third*, both sets of guidelines are regulatory. In 2004, the MOFCOM and Ministry of Foreign Affairs issued a Circular, which emphasized that Guidelines I was to serve as a ground for relevant departments “responsible for foreign cooperation to guide and approve the investment abroad of Chinese enterprises.” Companies that meet the requirements outlined in the guidelines “have priority to enjoy the preferential policies in funds, foreign exchange, tax, customs, exit and entry.”<sup>462</sup> Thus they serve as a reliable point of reference when evaluating how the actual investment complies with the legal framework.

As the research compares two sets of guidelines, the follow-up analysis in *section 7.4* is naturally divided into two time periods. It examines the correspondence of actual investment in two different periods of time – regulated by the Guidelines I from 2004 to 2011 and after that by the Guidelines II from 2011 to July 2014.

### *Research Methodology*

Analysis utilizes logistic regression<sup>463</sup> using STATA software to unveil what factors determine the government’s willingness or reluctance to invest in certain

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<sup>462</sup> “Circular of Ministry of Commerce and Ministry of Foreign Affairs of Distributing Guide Catalogue of Countries and Industries for Investment Abroad,” July 22, 2004, accessed July 12, 2014, <http://english.mofcom.gov.cn/article/policyrelease/domesticpolicy/200407/20040700252775.html>.

<sup>463</sup> Logistic regression is one of the most common tools used for discrete data analysis (Cosma Rohilla Shalizi, “Logistic Regression,” ch.12 in *Advanced Data Analysis from an Elementary Point of View* (to

countries. Comparison of the two sets of Guidelines I and Guidelines II shows the difference between the factors determining the government's willingness (reluctance) to invest in different periods of time. Analysis tests several hypotheses, which are set based on extensive review of literature on (1) the factors, generally determining outward FDI locations, (2) Chinese outward FDI locations and China's outward FDI-related goals; and (3) Chinese foreign policy goals as a "responsible power": UN sanctions, sanctions, states sponsor of terror, etc. to set the hypothesis for logistic regression analysis.

#### *Data for the Analysis*

In the collection of data on independent variables, extensive data provided by the World Bank is used. In *section 7.4*, analysis observes to what extent actual investments overseas by Chinese companies correspond to the official policies. Accurate and reliable statistics on Chinese outward FDI is rather difficult to obtain. In general, statistics provided by the National Bureau of Statistics of the PRC are thought of as inaccurate.<sup>464</sup> For the purpose of this research, *China Global Investment Tracker* database, compiled by the American Enterprise Institute and The Heritage Foundation, was used, which is self-described "the only comprehensive data set covering China's

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be published by Cambridge University Press, 2015), draft available from <http://www.stat.cmu.edu/~cshalizi/ADAfaEPOV/>, accessed July 10, 2015). In the case analyzed here, dependent variable is discrete variable – a country is either included into the *Guidelines* or excluded from it.

<sup>464</sup> Derek Scissors "How to Make China More Honest," *Backgrounder*, September 4, 2013, accessed April 1, 2015, <http://www.heritage.org/research/reports/2013/09/how-to-make-china-more-honest>.

global investment and construction activity.”<sup>465</sup> All of the projects in the database are not smaller than 100 million US dollars.

## 7.2 Outward FDI Regulatory Framework

Over the past decade, since “going out” policy went into effect, Chinese leaders have repeatedly stated the importance attached to the country’s investment overseas. The Twelfth Five-Year Plan stipulated that China would gradually develop its own large cross-country corporations and cross country financial institutions to increase China’s level of international operations. Moreover, it provided that China would conduct research for overseas investment environments and enhance scientific evaluation of investment projects.<sup>466</sup> In the literature, there has been growing awareness that “[t]he institutional fabric of an emerging economy can determine the ability and will of domestic firms to invest abroad.”<sup>467</sup>

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<sup>465</sup> The American Enterprise Institute and The Heritage Foundation, *China Global Investment Tracker* database, accessed July 10, 2015, <http://www.heritage.org/research/projects/china-global-investment-tracker-interactive-map>. This analysis uses the dataset as available in June 2014. At that point it listed out China’s outward FDI in 134 countries; more than 9 industry sectors (energy – 420 projects, transport – 252, metals – 190, real estate – 159, agriculture – 57, technology – 55, finance – 53, chemicals – 15, and others (consumer, textile, timber, utilities, etc.) – 53).

<sup>466</sup> “Coordinate ‘Bring in’ and ‘Going out,” ch. 52-53, sect.2 in *12th Five-Year Plan (2011–2015)*, adopted by the Fourth Session of the 11th NPC, March 2011, unofficial translation by the Delegation of the EU in China, accessed July 10, 2014, [http://cbi.typepad.com/china\\_direct/2011/05/chinas-twelfth-five-new-plan-the-full-english-version.html](http://cbi.typepad.com/china_direct/2011/05/chinas-twelfth-five-new-plan-the-full-english-version.html).

<sup>467</sup> Peter J Buckley, L. Jeremy Clegg, Adam R. Cross, Xin Liu, Hinrich Voss and Ping Zheng, “The Determinants of Chinese Outward Foreign Direct Investment,” *Journal of International Business Studies* 38, no. 4 (2007), 502.

In 2004, State Council decided to standardize outward FDI authorization system.<sup>468</sup> Thus, over the last decade, there has been a considerable expansion of legal provisions related to outward FDI activities of Chinese companies. Huang and Wilkes find that each year from 1979 to 2001 around four outward FDI-related policies were issued, but since 2002 its frequency has increased to around 15 per year.<sup>469</sup> Although Huang and Wilkes note that this was aimed at boosting overseas development of outward FDI,<sup>470</sup> it appears that formally stipulating relevant regulations was also meant at controlling or at least keeping track of Chinese investment activities overseas, depending on the project.

While the number of regulations increased, it did not mean that overall control would be tightened. In 2004, State Council called for “allowing enterprises greater independence in making investment decisions.”<sup>471</sup> The decision of the State Council ruled out that government approval would no longer be required for projects not funded by the government. Instead, projects not using state funds would only need governmental authorization for important and restricted investment projects relating to public or social interest. Other projects without state funds, no matter how large the scale, only needed to be put on record, and enterprises were to make decisions on

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<sup>468</sup> *Decision of the State Council on Reform of the Investment System*, Guofa Paper No. 20, issued July 16, 2004, accessed July 15, 2014, [http://en.ndrc.gov.cn/policyrelease/200602/t20060207\\_58851.html](http://en.ndrc.gov.cn/policyrelease/200602/t20060207_58851.html) (in Chinese).

<sup>469</sup> Wenbin Huang and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” *Center for International Forestry Research*, Working paper No. 79, 2011, accessed April 9, 2015, [http://www.cifor.org/publications/pdf\\_files/WPapers/WP-79CIFOR.pdf](http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf).

<sup>470</sup> *Ibid.*

<sup>471</sup> *Decision of the State Council on Reform of the Investment System*, 2004.

market prospects, economic benefits, source of capital and product planning, and also take on risks themselves. Relatively significant autonomy was given to the investing companies provided that they met the above conditions. Only a capital application report was required for government approval for projects constructed with government subsidy, lending or discounted loans.<sup>472</sup> All regions and departments were improve regulations and standard management and were not allowed to withhold the investment decision rights delegated to enterprises under any pretext.<sup>473</sup>

Under this standardized outward FDI approval system, the government keeps track of all investment projects, while maintaining the right to approve the largest of them. In 2004, State Council announced that overseas investment projects related to resource exploitation that have an investment of or above 30 million US dollars, as well as non-resource projects of or above 10 million US dollars were subject to the authorization by the NDRC. In February 2011, these thresholds were raised ten times to reach 300 million US dollars and 100 million US dollars for resources development projects and non-resources development projects respectively.<sup>474</sup> All other investment projects managed by central enterprises were to be reported to the NDRC and MOFCOM for record, while others were subject to the approval of the investment

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<sup>472</sup> Analysis here covers the period until July 2014, still regulated by the measures described above. In September 2014, MOFCOM released the *Administrative Measures for Approval of Outbound Investment Projects*. The *Measures*, that took effect on October 6, replaced the verification and approval by record-filing as a default rule. Business entity making an investment overseas became obliged to file a record of the investment with MOFCOM or the relevant provincial competent commerce department.

<sup>473</sup> *Decision of the State Council on Reform of the Investment System*, 2004.

<sup>474</sup> *Notice Relating to Delegation of Examination and Approval Authority for Overseas Investment*, issued by the National Development and Reform Commission, February 14, 2011.

departments of local governments in accordance with related laws and regulations.<sup>475</sup>

Research shows that Chinese international expansion is mainly undertaken by large SOEs,<sup>476</sup> mainly central, thus the central government institutions are likely to be keeping the track of investments.

A draft of important set of regulations was issued by the NDRC in August 2012. Draft measures stipulated that investment projects involving “sensitive countries and regions” (*mingan guojia he diqu*) and “sensitive sectors” (*mingan hangye*) would be required to be approved by NDRC or the State Council after the initial screening of the NDRC irrespective of the investment amount. It defined sensitive countries and regions as those with no diplomatic relations with China, those subject to international sanctions, countries and regions troubled by wars and riots, and others as defined by the NDRC. Sensitive sectors include basic telecom operations, transboundary water resource development, large-scale land development, power mains and grid, media, and others identified by the NDRC.<sup>477</sup>

Although it was predicted that the role of these agencies would decline with time, their oversight functions have gained renewed strength especially in the case of

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<sup>475</sup> Ibid. Discussion of the China’s outward FDI regulatory framework cover the period of the analysis (2004 until July 2014). In October 2014, outward FDI regulations were further eased and all thresholds were removed. However, the projects in sensitive countries and areas as well as sensitive industries remained to be strictly controlled by the government.

<sup>476</sup> Bing Ren, Hao Liang, and Ying Zhen, “An Institutional Perspective and the Role of the State for Chinese OFDI,” in *Chinese International Investments*, ed. Ilan Alon, Marc Fetscherin and Philippe Gugler (Basingstoke: Palgrave Macmillan, 2011), 18.

<sup>477</sup> *Administrative Measures for Approval of Outbound Investment Projects (Draft for Consultation)*, issued by the NDRC August 16, 2012 (in Chinese), Article 7.

strategic industries.<sup>478</sup> NDRC appears to be the key institution in the FDI approval and supervision process, with some pointing out that it has somewhat marginalized other traditional approvers, MOFCOM and the State Administration for Foreign Exchange in particular.<sup>479</sup>

### **7.3 Outward FDI in China's Overall Foreign Policy Framework**

#### ***7.3.1 Hypothesis Setting***

The first research question of this chapter inquires how the regime incorporates the objectives of outward FDI into the wider framework of foreign policy. Specifically, analysis in this chapter is interested in how Chinese leadership reconciles outward FDI objectives with the overall objectives of national foreign policy. Thus, the goal of logistic regression, method of analysis chosen for this research, is to find the best-fitting model, which explains what set of independent variables best explain dependent variable – the inclusion or exclusion of a country into the guidelines (Guidelines I and Guidelines II).

To select independent variables – characteristics of the countries – and set research hypothesis this section reviews literature from different fields and relevant policies. (1) First, it looks at theoretical literature on the determinants of FDI flows. This body of literature generally considers what factors determine a company's rather

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<sup>478</sup> Margaret M. Pearson, "The Business of Governing Business in China," 304.

<sup>479</sup> James Zhang, "New Draft Rules for China Outbound Investments," Faegre Baker Daniels Consulting, June 17, 2013, <http://www.faegrebd.com/20094>.

than the government's decision to invest. Analysis here focuses on the motivation of the Chinese government, whose interests and motivations might not be identical to those of a business entity. Still the government is expected to have economic calculations, such as internationalization of domestic companies or their successful investments, and therefore theoretical literature may point to important factors to be considered in the model. (2) Second, it reviews the literature on the location patterns of Chinese FDI and outward FDI policy goals as laid out in official documents and five-year plans in particular. Previous literature raises doubts whether traditional theories based on developed economies equally apply to emerging economies, specifically China.<sup>480</sup> Therefore it is necessary to also look at empirical studies on the location patterns of Chinese FDI. Furthermore, considering that large foreign investment projects in China are subject to an official approval, actual investment pattern may also reflect the preferences of the government. (3) *Finally*, this section considers overall goals of Chinese foreign policy. Chinese outward FDI has often come into attention and criticism of foreign governments as well as nongovernmental organizations,<sup>481</sup> thus there has been growing necessity for China to consider its outward FDI strategy in the general framework of its foreign policy.

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<sup>480</sup> Buckley et al., "The Determinants of Chinese Outward Foreign Direct Investment," 501.

<sup>481</sup> Deborah Brautigam, *The Dragon's Gift: The Real Story of China in Africa* (Oxford: Oxford University Press, 2011), ch. 11.

(1) *Determinants of FDI Flows*

Scholarship provides different explanations what determines the patterns of FDI flows. Conventional argument suggests that political risk of the host country is a significant factor that can hinder a decision to invest. Among the political risk components, government stability, absence of internal conflict and ethnic tensions, basic democratic rights and ensuring law and order are highly significant determinants of foreign investment inflows,<sup>482</sup> while others add that, in particular, socioeconomic conditions, investment profile, and external conflict appear to be the most influential components.<sup>483</sup> Among the financial risk components, only exchange rate stability yields statistically significant positive coefficients, however, only when estimated only for developing countries.<sup>484</sup>

One of the goals of China's outward FDI policy was to encourage its companies to seek for new markets abroad.<sup>485</sup> According to the UN Conference on Trade and Development (UNCTAD), national market size, in absolute terms or relative to the size and income of the population, has been one of the important traditional determinants,

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<sup>482</sup> Matthias Busse and Carsten Hefeker, "Political Risk, Institutions and Foreign Direct Investment," HWWA Discussion Paper 315, April 2005, accessed July 20, 2014, <http://www.econstor.eu/bitstream/10419/19287/1/315.pdf>.

<sup>483</sup> Kazunobu Hayakawa, Fukunari Kimura, and Hyun-Hoon Lee, "How Does Country Risk Matter for Foreign Direct Investment?" Institute of Developing Economies Discussion Paper No. 281, February 2011, accessed June 23, 2014, <http://www.ide.go.jp/English/Publish/Download/Dp/pdf/281.pdf>.

<sup>484</sup> Ibid.

<sup>485</sup> "Implement the 'Going Global' Strategy," ch. 17, sect. 4 in *Economic and Social Development Tenth Five-Year Plan (2001–2005)*, adopted by the Fourth Plenum of the Ninth NPC, March 15, 2001, accessed July 19, 2014, <http://www.people.com.cn/GB/shizheng/16/20010318/419582.html> (in Chinese).

leading to market-seeking investment.<sup>486</sup> Theory also suggests that rapidly growing economies provide more opportunities to generate profits than those that are in decline or in slow growth.<sup>487</sup> As market increases in size, so do the opportunities for the efficient utilization of resources and the exploitation of economies of scale and scope via FDI.<sup>488</sup>

As the goals of “going global” strategy illustrate, the Chinese government appears to be concerned with the success of foreign investment by Chinese companies. Then it can be expected that regulatory institutions are encouraged to take into consideration potential political and financial risks that investment projects could incur in the host countries. Hence,

***Hypothesis 1.** Essential components of political risk – government stability, absence of internal conflict and ethnic tensions, basic democratic rights and ensuring law and order – and financial risk, such as exchange rate stability, have negative impact on the government’s decision to include a country into the investment guidelines. In addition, market size, growth rate are positively associated with a country’s inclusion into the guidelines.*

## *(2) Determinants of Chinese outward FDI and the goals related policies*

Further, if the investment by Chinese enterprises overseas is the manifestation of Chinese official policy goals as argued by some China observers, factors defining

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<sup>486</sup> UNCTAD, *World Investment Report 1998 Trends and Determinants* (New York and Geneva: United Nations, 1998), accessed July 12, 2014, [http://unctad.org/en/docs/wir98\\_en.pdf](http://unctad.org/en/docs/wir98_en.pdf).

<sup>487</sup> David Lim, “Fiscal Incentives and Direct Foreign Investment in Less Developed Countries,” *The Journal of Development Studies* 19, no. 2 (1983): 207-212.

<sup>488</sup> UNCTAD, *World Investment Report 1998*.

actual investment should explain the contents of Guidelines I and II. Quer, Claver, and Rienda find that the decision to invest in a particular country seem to be associated with the volume of Chinese exports to the host country, belonging to a mining-quarrying industry, as well as the firm size.<sup>489</sup>

Findings of the empirical tests for the relation between Chinese outward FDI and the host country's political risk differ from theoretical arguments. Some argue that it has no effect on the FDI location patterns,<sup>490</sup> while Buckley, Clegg, Cross, Liu, Voss and Zheng go even further and argue that Chinese outward FDI is attracted rather than deterred by political risk.<sup>491</sup> Based on quantitative study of China's FDI in 29 African countries, Kolstad and Wiig conclude that Chinese FDI is attracted to natural resources especially in countries with weak institutions.<sup>492</sup>

Chinese outward FDI is promoted by the state<sup>493</sup> as an essential element in its "going global" strategy. When it was first included into the Tenth Five-Year Plan in 2001, the strategy listed out five main investment types that were to be encouraged: project contracting, overseas processing trade, exports, and resource exploitation.<sup>494</sup>

Eleventh Five Year Plan calls for the encouragement of enterprises to participate in

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<sup>489</sup> Diego Quer, Enrique Claver, Laura Rienda, "Political Risk, Cultural Distance, and Outward Foreign Direct Investment: Empirical Evidence from Large Chinese Firms," *Asia Pacific Journal of Management* 29, no. 4 (2012): 1089-1104.

<sup>490</sup> Quer et al, "Political Risk, Cultural Distance"; Ken Morita and Yun Chen, "Political Economy of 'The Rise of China': Outward Foreign Direct Investment, Mercantilism, and International System," *The Hiroshima Economic Review* 36, no. 3 (March 2013), 19 (in Japanese).

<sup>491</sup> Buckley et al., "The Determinants of Chinese Outward Foreign Direct Investment."

<sup>492</sup> Kolstad and Wiig, "Better the Devil You Know?"

<sup>493</sup> For a detailed review of the evolution of China's overseas investment policies and legal regulations since 1979 see Huang and Wilkes, *Analysis of China's Overseas Investment Policies*.

<sup>494</sup> "Implement the 'Going Global' Strategy," in *Tenth Five-Year Plan*.

infrastructure construction overseas.<sup>495</sup> Twelfth Five-Year Plan expands the area for investment support and lists out technology research and development, investment cooperation abroad, outward FDI by leading enterprises in the manufacturing industry to create internationalized marketing and sales channels and famous brands, cooperation in the agricultural sector and overseas project contracts, labor cooperation and cooperation projects that can improve living standards in local areas.<sup>496</sup>

Policy documents, regulating outward FDI in particular, include only very general provisions in regards to the resources or industries the state prioritizes. In 2003, the National Development and Reform Commission together with the Export-Import Bank of China promulgated that credit support for overseas investments would be given to resource development projects, which can make up for the relative insufficiency of domestic resources, productive projects and infrastructure projects which can give impetus to the export of domestic technologies, products, equipment, and labor services, research and development centers, which may utilize internationally advanced technologies, management experiences and professional talents, overseas enterprise acquisition and merger projects which can improve the international competitiveness of enterprises, and accelerate exploration of international markets.<sup>497</sup>

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<sup>495</sup> “Implement the ‘Going Global’ Strategy,” ch. 37, sect. 1 in *Economic and Social Development Eleventh Five-Year Plan (2006–2010)*, adopted by the Fourth Plenum of the Tenth NPC, March 16, 2006 (in Chinese), accessed July 19, 2014,

<http://news.sina.com.cn/c/2006-03-16/16158457479s.shtml>.

<sup>496</sup> “Coordinate ‘Bring in’ and ‘Going out,’” in *12th Five-Year Plan (2011–2015)*.

<sup>497</sup> *Notice of the National Development and Reform Commission and the Export-Import Bank of China on Relevant Issues on Providing Credit Supports to the Key Overseas Investment Projects Encouraged by the State*, no.26 [2003], May 9, 2003 (exp. 27 October 2004) (in Chinese).

The same priorities were enlisted into the later revision of the document in October 2004.<sup>498</sup>

Considering these multiple factors:

***Hypothesis 2.** The government's decision to include a country into the investment guidelines is positively associated with the country's natural resource endowments, and related to the target country's political system.*

For the natural resource endowments, the analysis considers fuel exports (as a percentage of total merchandise exports), ores and metal exports (as a percentage of total merchandise exports), forest area (sq. km), arable land area, agriculture (value added as a percentage of GDP), and food production index.

### *(3) Foreign Policy Goals: China as a Responsible Player*

Over the last decade there has been a growing body of literature arguing that China has been seeking to present itself as a responsible player. In 2009, Chen noted that Chinese foreign policy was gradually shifting away from the guidelines laid out by Deng Xiaoping in the early 1990s to keep a low profile toward a “do something” approach. While it was not necessarily a fundamental shift, the new discourse indeed marked an “important shifting trend in China’s foreign policy.”<sup>499</sup> There was a strong

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<sup>498</sup> Notice of the National Development and Reform Commission, the Export-Import Bank of China on Giving Credit Support to the Key Overseas Investment Projects Encouraged by the State, adopted October 27, 2004 (in Chinese).

<sup>499</sup> Zhimin Chen, “International Responsibility and China’s Foreign Policy,” in *China’s Shift: Global Strategy of the Rising Power*, ed. Masafumi Iida (Tokyo: The National Institute for Defense Studies, 2009), 8.

impetus for this change from the outside of China<sup>500</sup> and also among the academics. On the other hand, Chinese leadership has followed this discourse and, in fall 2005, Chinese President Hu Jintao stated that China was a responsible state, promoting world peace, stability, development, and prosperity.<sup>501</sup>

There have been continuous efforts to define, what a responsible state is and what kind of a responsible state China should be.<sup>502</sup> Chen identifies four sets of international responsibilities for China, mainly, internal responsibilities of China as a large developing state, the legal responsibilities of China as a sovereign state, the additional responsibilities of China as a great power, and the special responsibilities of China as a permanent member of the UN Security Council.<sup>503</sup>

In the context of this analysis, China's efforts to appear as a responsible state is relevant not in the way that this status can be achieved but how Chinese leaders would avoid undermining the country's image as a responsible player. In regards to China's FDI specifically, Jakobson, while agreeing that China's engagement in Africa is driven

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<sup>500</sup> In September 2005, US Deputy Secretary of State Robert Zoellick urged China to become a "responsible stakeholder" (Robert B. Zoellick, "Whither China: From Membership to Responsibility?" Remarks to National Committee on U.S.-China Relations, September 21, 2005, accessed July 11, 2015, <http://2001-2009.state.gov/s/d/former/zoellick/rem/53682.htm>).

<sup>501</sup> Embassy of the PRC in the US, "Chinese President Hu Jintao Meets with US President George W. Bush," September 14, 2005, accessed July 15, 2014, <http://www.china-embassy.org/chn/zmgx/t211962.htm> (in Chinese).

<sup>502</sup> For example, see Liping Xia, "China: a Responsible Great Power," *Journal of Contemporary China* 10, no. 26 (2001): 17-26; Feitao Liu, "Power, Responsibility and Big Power Identity: On the Should-be Attitude of China towards its International Responsibility," *Pacific Journal* 12 (2004): 25-32 (in Chinese); Baojun Li and Zhengyuan Xu, "China's Self-Identity Construction as a Responsible Power in the Post-cold War Era," *Teaching and Research* 1 (2006): 49-56 (in Chinese); Bates Gill, Dan Blumenthal, Michael D. Swaine, and Jessica Tuchman Mathews, "China as a Responsible Stakeholder," Carnegie Endowment for International Peace, June 11, 2007, accessed July 11 2015, <http://carnegieendowment.org/2007/06/11/china-as-responsible-stakeholder/2kt>.

<sup>503</sup> For a detailed discussion on these responsibilities see Chen "International Responsibility and China's Foreign Policy," in Iida, ed., *China's Shift*, 9-14.

by its growing need for resources, points out that this is only one side of a coin. Arguably, China's increased activity in Africa is a part of its overall strategy to promote an image of a peacefully rising and responsible major power.<sup>504</sup> By now, Chinese foreign policy makers are already aware how its investments overseas could damage the country's image as a responsible player, as was the case with Sudan<sup>505</sup> or Angola.<sup>506</sup> Then they are expected to at least avoid further undermining China's international image by encouraging Chinese enterprises to engage in investment projects in controversial places. Thus, it can be expected to avoid undermining this image.

Considering the timing of these policies, it is expected that factors related to China's image in the international community would play a more significant role in drafting the Guidelines II when compared to Guidelines I. Jakobson notes that "[s]ince early 2007 China's credibility [as an international player] has been a recurring theme in internal discussion involving officials, foreign policy advisors, and scholars."<sup>507</sup>

Based on such considerations, the following hypothesis is set:

***Hypothesis 3.** Especially in the case of Guidelines II, Chinese government is reluctant to recommend its companies investing in countries, which are listed as sponsors of terrorism, sanctioned by the US, EU, or UN Security Councils, has poor human-rights record, or are defined in the West as the "rouge states."*

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<sup>504</sup> Jakobson, "China's Diplomacy toward Africa," 403.

<sup>505</sup> Ibid.

<sup>506</sup> Brautigam, *The Dragon's Gift*.

<sup>507</sup> Ibid, 424.

To verify the above hypotheses, analysis observes a number of independent variables, which are summarized in the table in *Appendix 7B*.

### ***7.3.2 Analysis Results: Factors Determining Guideline Contents***

The above-raised hypotheses were tested analyzing two documents – Guidelines I and Guidelines II. Interestingly, although the time lag between the release of the two sets of guidelines is not that wide, they differ considerably, which suggests that a policy shift has occurred. While Guidelines I include 127 countries, the later list is reduced to 115 countries. Yet, this is not to say that a number of countries were simply eliminated from the earlier list. Instead, some 28 countries were removed from the list<sup>508</sup> and 19 countries absent from the earlier list were added.<sup>509</sup> Only 99 countries are on both lists.

Seeking to find a model, which explains the lists of countries in the two sets of guidelines in different observation periods, significance of independent variables – various characteristics of the countries – was tested through logistic regression analysis.

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<sup>508</sup> Afghanistan, Angola, Argentina, Barbados, Brunei, Bulgaria, Democratic Republic of the Congo, Cuba, Dominica, East Timor, Estonia, Guinea, Guyana, Iran, Jamaica, Qatar, North Korea, Libya, Oman, Samoa, Slovakia, Spain, Sudan, Surinam, Syria, Trinidad and Tobago, The United States, and Zimbabwe.

<sup>509</sup> Bosnia, Cape Verde, Central African Republic, Côte d'Ivoire, Djibouti, Eritrea, Georgia, Guinea-Bissau, Italy, Latvia, Macedonia, Malawi, Oceania, Panama, Rwanda, Senegal, Serbia, Switzerland, and Togo.

Below is the summary of analysis results for each set of guidelines, that is the following factors that best explain the list of countries recommended by the government for outward investment by Chinese companies:

***Guidelines I:*** *exchange rate stability, external intervention index, fuel exports (as a percentage of merchandise exports), and forest area (sq.km).*

***Guidelines II.*** Two models appear to have similar explanatory power:

*(1) exchange rate stability, UN Security Council sanctions, agricultural land (as a percentage of the total land area), and also to some extent the number of previous investment projects;*

*(2) exchange rate stability, UN, EU, and the US sanctions, and agricultural land (as a percentage of the total land area).*

A combination of different factors explains the contents of each set of guidelines, although some similarities can be observed. Among the financial risk indicators, only exchange rate stability was found to be a significant component explaining a country's inclusion into the guidelines, which suggests that the Chinese government was conscious of financial performance of Chinese companies throughout the observation period. This finding is in line with the observation by Hayakawa, Kimura, and Lee on the role of financial risk components in FDI flows.<sup>510</sup>

Next, in regards to political risks, which are also related to China's international image, for the period of 2004 to 2011, external intervention index was found to be a significant component, while since 2011 international sanctions were found to be

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<sup>510</sup> Hayakawa et al, "How Does Country Risk Matter?"

significant. External intervention index used was defined as the “levels of foreign assistance as well as imposed interventions, such as sanctions or military invasion.”<sup>511</sup> While this index<sup>512</sup> also encompasses sanctions imposed on the country, the variables for UN Security Council sanctions or UN Security Council, EU, and US sanctions are significantly narrower and include a much smaller number of countries. This suggests, that in drafting Guidelines II, sanctions, which was observed as an indicator of China’s consciousness of its international image, rather than political risk in general was a significant component.<sup>513</sup> This can be interpreted as a reflection of a change in China’s foreign policy strategy, as suggested in the literature.

Interestingly, among the factors related to a country’s natural resource endowments, different resources were found to be significant components in the case of the two sets of guidelines. While for Guidelines I it was fuel exports (as a percentage of merchandise exports) and the country’s forest area (sq.km), for the later one it was agricultural land (as a percentage of the total land area) only. In 2007, No.1 Central Document, the first major policy document released by the CCP Central Committee and the State Council in the beginning of each year, had “developing modern agriculture and steadily promoting the construction of a new socialist

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<sup>511</sup> *Fragile States Index*, accessed July 14, 2015, <http://foreignpolicy.com/fragile-states-2014/>.

<sup>512</sup> The index is measured from 1 to 10, which 10 being the poorest and 1 – the best score.

<sup>513</sup> The shift of policy makers' attention from political risks as expressed by intervention of external actors index toward international sanctions only, also explains why several countries, absent from the Guidelines I, were later included into Guidelines II, their high intervention of external actors index notwithstanding: Central African Republic (index 9.00), Georgia (8.20), Bosnia and Herzegovina (8.80), Cape Verde (7.90), Djibouti (7.60), Malawi (7.40), Serbia (6.80), Macedonia (6.40).

countryside” as its main topic, and in this context declared the determination to promote agricultural “going global” strategy.<sup>514</sup> While the Guidelines I was issued in three parts in 2004, 2005, and 2007, and, thus, does not reflect this policy, Guidelines II clearly incorporate it.

The following section discusses how the actual investments by Chinese companies overseas match these official policy goals.

#### **7.4 Chinese Companies – the Agents of the State?**

There is a mainstream argument in the literature that outward FDI by Chinese companies is follows the state’s policy guidance,<sup>515</sup> especially its economic goals related to domestic development.<sup>516</sup> However, overview of the outward FDI regulatory framework above shows that there has been tendency toward deregulation of Chinese companies’ investment overseas.<sup>517</sup> At the same time, analysis in the preceding section

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<sup>514</sup> *No.1 Central Document*, issued by the CCP Central Committee and State Council, January 29, 2007, accessed May 15, 2015, [http://news.xinhuanet.com/politics/2007-01/29/content\\_5670478.htm](http://news.xinhuanet.com/politics/2007-01/29/content_5670478.htm) (in Chinese).

<sup>515</sup> For example, see John Child and Suzana B. Rodrigues, “The Internationalization of Chinese Firms: A Case for Theoretical Extension?” *Management and Organization Review* 1, no. 3 (2005): 381-410; Buckley et al, “The Determinants of Chinese Outward FDI”; Max Boisot and Marshall W. Meyer, “Which Way through the Open Door? Reflections on the Internationalization of the Chinese Firms,” *Management and Organization Review* 4, no. (2008): 349-365; Ping Deng, “Why do Chinese Firms Tend to Acquire Strategic Assets in International Expansion?” *Journal of World Business* 44, no. 1 (2009): 74-84; Dylan Sutherland and Shujie Yao, “Chinalco and Rio Tinto: A Long March for China’s National Champions,” *China Quarterly* 199 (2009): 829-836; Yadong Luo, Qiuzhi Xue, Binjie Han, “How Emerging Market Governments Promote Outward FDI: Experience from China,” *Journal of World Business* 45 (2010): 68-79.

<sup>516</sup> Morita and Chen note that there is a dominant view that Chinese OFDI in addition to resources-rich countries also flows mainly to tax heaven countries and territories (Morita and Chen, “Political Economy of ‘The Rise of China,’” 18-19).

<sup>517</sup> Moreover, after the observation period of this research, outward FDI regulations were further eased, and, as a result, only investments in sensitive countries and regions, as well as sensitive industries became subject to the approval by the government.

shows that Chinese government has become particularly sensitive to investment in sanctioned countries. And in those cases, government control has remained, or, in other words, even having eased regulatory framework, the government has retained tools to assure that outward investment by the companies were in line with overall foreign policy strategy.

In this context, the question that calls for more attention is whether the shift in policy has affected the actual activities of the Chinese companies. Particularly, do these companies follow government objectives and, moreover, is the government able to control their investment activities in the places less favored by the government itself?

	Total No. of projects		Projects in countries not included into the <i>Guidelines II</i>		Projects in UNSC-sanctioned countries	
Agriculture	27	4%	4	3%	2	6%
Chemicals	6	1%	0	0%	0	0%
Energy	188	31%	42	<b>31%</b>	13	<b>38%</b>
Finance	15	2%	4	3%	0	0%
Metals	75	12%	15	<b>11%</b>	12	<b>35%</b>
Real estate	104	17%	27	20%	2	6%
Technology	26	4%	7	5%	0	0%
Transport	135	22%	27	20%	2	6%
Others	34	6%	11	8%	3	9%
<b>TOTAL</b>	<b>610</b>	<b>100%</b>	<b>137</b>	<b>100%</b>	<b>34</b>	<b>100%</b>

Table 7.1. Number of investment projects in the second observation period (regulated by *Guidelines II*).

To answer this question, logistic regression findings were compared with China's actual investment. While it is difficult to draw any conclusions from the first observation period, this comparison was of special importance in the period from 2011, since Guidelines II demonstrate the government's attempt to control Chinese investments in politically sensitive countries. *Table 7.1* above summarizes the data on investment projects in the period from 2011 until July 2014, covered by Guidelines II.

The table shows the total number of projects (investments and contracts) during the observation period by sector, and also the share of the sector among all the projects. Energy sector amounted to nearly one-third of the projects (31%), with number of projects in transport industry (22%) and real estate (17%) coming the second and the third respectively. Distribution of projects among sectors in the countries not included into Guidelines II is similar with the same three industries taking the lead – 31, 20, and 20 percent of the total number of projects in those countries respectively. That is, the overall patterns of investment and the patterns of investment in the countries excluded from Guidelines II are nearly the same.

However, this is not the case when sectorial distribution of investment projects in UN Security Council-sanctioned countries is observed. In these countries, Chinese FDI is dominated by energy and metal sectors, which comprise 38 and 35 percent of the total number of projects. There is a significant difference especially in the metals sector, which share of the total number of projects is only 12 percent. In the sanctioned

countries, only two projects from each – transport, real estate, and agricultural sector – were observed.

In the observation period, regulatory framework provided that the government. As showed above, in 2011, official policies had displayed reservations regarding Chinese investment in these countries, and this was later formally stipulated. While this does not mean that investment projects would go down to zero the sanctioned countries, overall sectorial distribution of investment projects and that in sanctioned countries suggests that companies in certain industries act less as agents of the state when compared to others. Moreover, although in 2007, the government has designated agriculture as one of the important sectors for outward FDI through the promotion of “going global” strategy, it did not elevate the industry to the extent that investment projects in the sanctioned countries would be approved.

### **7.5 Concluding Notes**

This chapter conducted a preliminary study to examine, whether overseas investment in those industries, which companies have more extensive networks to the state, compromise the official foreign policy goals more than the others. For this purpose, the chapter examined how outward FDI-related policies are fitted into China’s overall foreign policy strategy. It found, that especially in the period from 2011 the government attached more attention to regulating Chinese investment in the countries,

which were subject to international sanctions, which suggests that it was more considerate of China's international image.

However, analysis results show that this did not prevent Chinese companies from investing in the sanctioned countries. Moreover, companies from energy and metals sectors relative to the other sectors were especially active there. Importantly, companies from the industries in these sectors, mainly petroleum, coal, and non-ferrous metals, were found to have the closest links to the state institutions, SASAC in charge of China's large central SOEs in particular.

While this is a preliminary analysis and further studies are needed, the findings suggest that the links to the state institutions may provide the companies with a certain advantage. China's outward FDI is dominated by SOEs. Most of the companies surveyed in the analysis in preceding chapters are China's large central SOEs, which are actively investing overseas as well as their subsidiaries.

Alternative explanation of why there has been comparatively more investment in energy and metals sectors in the sanctioned countries could be the importance these sectors play in Chinese economy. On the other hand, this explanation does not explain, why investment in agriculture, which has been designated as one of the important sectors, does not display a similar pattern.

# CONCLUSIONS

## Outline of the Research

This research examined how the Chinese party-state has (dis-)integrated itself with business entities in the course of the reform. Research design was built on an assumption that institutional separation of business entities from the state does not reflect the full picture of this relationship. Acknowledging that the CCP-led regime has implemented numerous institutional reforms (discussed in *Chapter 3*) in its attempt to adapt to changing socioeconomic environment (illustrated by a case study of China's distant water fisheries industry in *Chapter 2*), this dissertation has fixed its attention on the dynamics of informal institutions in this process. In particular, it observed how the patterns of networks, which are created between companies and party-state institutions through managers' career mobility, have evolved. The analysis surveyed the companies that have been of strategic importance in the course of the reform launched in late 1970s.

*Chapter 4* examined preceding career paths of incumbent managers to unveil the party-state's (dis-)integration with business entities. Observing whether the patterns of networks were further consolidated, *Chapter 5* traced managers' career mobility to party-state institutions after the observation years. Aimed at verifying the findings produced in these chapters, also at explaining the factors that facilitate company networks, in a follow-up analysis, *Chapter 6* focused on the careers of the leaders of the State Planning Commission, also SASAC and SOE supervisory bodies. Aimed at a preliminary evaluation of how these company networks influence the outcomes of

policy-making, *Chapter 7* conducted a case study of Chinese outward FDI policy and implementation. It examined whether company networks explain why some companies are able to compromise official policy preferences in their investment overseas.

## **Findings of the Analysis: Patterns of Managers' Career Mobility and Company Networks**

### ***Dynamics of Company Networks in the Course of Institutional Reform***

*Research question one* of this study (RQ1) inquired how institutional reform, which separated business entities from the state, affected informal networks between business entities and the party-state institutions. Analysis findings across four groups of company networks – those with the central government institutions, local governments, with the NPC and the CPPCC, and with the CCP Central Committee – falsified *hypothesis 1*, which was based on a rather straightforward application of the logics of regime adaptation argument. Instead, the findings lend more support to the *null hypothesis 1*, which, set up on the new-institutionalist argument, suggested that overall institutional reform does not explain the dynamics of company networks. Analysis has displayed diverse, although not necessarily conflicting results.

In regards to the company networks with the central government institutions, the overall observation is that as a result of institutional reforms, company links with the state institutions narrowed. On the other hand, it is important to observe that institutional reform did not eliminate informal links. Many of them remained as late as

2010. This demonstrates the *persistence of informal networks*. During the reform, companies were separated from relevant ministries and their officials were transferred to the companies. As some of them later retired, company networks weakened, however, some of the old government officials remained in the companies and as a result the companies maintained their links to the state institutions. This observation links to the research problem discussed in the *Introduction*, whether perfect adaptation is possible. As the analysis shows, *old institutions remain, which limits the effect of institutional reform*. In other words, full separation of the state and business has not been implemented. Moreover, *a small number of companies even strengthened their links* with state institutions, mainly as a result of the inter-system appointments to SASAC, the main supervisory body of China's large SOEs (*Chapter 4, section 4.2*). Even more interesting is the observation that while earlier links in the company networks mainly concentrate within the boundaries of the industry of that company, these newly established links go beyond these boundaries.

Further, compared to weakening but still remaining company networks with the central government institutions, company networks with the NPC and the CPPCC strengthened throughout the observation period. So did the networks with the CCP Central Committee through the managers' alternate membership. Starting with the observation year 2005, more managers either had been previously (*section 4.5*) or were later (*section 5.5*) selected to the Central Committee as alternate members. There seems to have been a change in China with the 16<sup>th</sup> CCP Central Committee. This

trend goes counter to the institutional reform, but at the same time is in line with Jiang Zemin's Theory of Three Represents, announced in 2000, which provides that the Party should always represent the requirements for developing China's advanced productive forces.<sup>518</sup> On the other hand, neither the institutional reform, nor Jiang Zemin's theoretical principles had significant influence on the patterns of managers' previous or later selection as regular members of the CCP Central Committee. It has remained *limited to the managers of a small number* of companies from traditional pillar industries.

Institutional reform had no significant effect on the patterns of managers' inter-system career mobility at the local government level. Companies from primary sector, mainly petroleum and steel producers, remained their networks throughout the observation years both as a result of managers' previous terms in local governments and later appointments. Moreover, company networks with local government have even expanded. In mid-2000s managers from automotive industry were appointed to the top positions in local governments, and since 2011 – also those from defense, especially aerospace or aviation, industry.

All in all, it can be concluded that *with some exceptions*, at the central government level, the state has disintegrated with business entities as a result of the institutional reform. On the other hand, the remaining or newly established links

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<sup>518</sup> News of the Communist Party of China, "Three Represents," June 23, 2006, accessed May 15, 2015, <http://english.cpc.people.com.cn/66739/4521344.html>.

between *a very small number of companies*, particularly from petroleum, metal, and coal industries and central government institutions were of significant importance, as is discussed below. Further, at the local level, a trend toward integration of companies and the party-state can be observed. Again, although *a limited number of companies* continued to be linked to them through their managers' preceding or later careers, diversity among the companies increased. Moreover, the company networks with China's democratic institutions expanded and the Party has also integrated itself further with strategically important companies through the alternate membership of the CCP Central Committee, while *only a handful of companies from traditional industries had links to the Central Committee* through their managers' regular membership in it.

One cannot help but relate these specific patterns of networks between companies and state institutions in China with the practice of *amakudari* or, literally, a "descent from heaven," in Japan, where movement from a ministry or an agency to private business by retired officials has been a common practice. Primarily a postwar development, *amakudari* has been common in traditional industries – petroleum, steel, also electric power generation, construction, and later – computer industry. While such career mobility also creates networks of links between the companies and the state institutions, several differences stand out. First, generally, retired ministry officials tend to be employed by companies in Japan. In China, this was the case during the restructuring of enterprises, but recently the opposite seems to be the case – managers from companies are appointed to state institution by the regime. Second, as the section

below discusses, the purpose of such appointments has been significantly different. While in China the regime has sought to take advantage of the managers' expertise, in Japan, often the companies continued to hire ex-bureaucrats not only for the information flow as in the 1960s and early 1970s, but also for their special expertise and professional knowledge.<sup>519</sup> On the other hand, Johnson notes that *amakudari* is also one aspect of the implementation of the so-called administrative guidance in Japan.

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### ***Origins of Company Networks***

#### *Persistent Informal Institutions*

*Research question two* of this dissertation (RQ2) has inquired what facilitates persistence or emergence of informal networks, institutional reform notwithstanding. On the one hand, often company networks were observed to be *leftovers from the old institutional arrangements*. This was the case with the networks of China State Shipbuilding Corporation and China Petrochemical Corporation (in 1998 reformed into China Petrochemical Group Corporation or Sinopec Group) with the State Planning Commission. Officials from the Ministry of Shipbuilding Industry and the Ministry of Petroleum Industry were appointed to the leading posts in the State Planning Commission. Later during the enterprise reform, they were appointed as managers of

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<sup>519</sup> Chalmers Johnson, *Japan: Who Governs? The Rise of the Developmental State* (New York: W.W. Norton and Company, 1995), 152.

<sup>520</sup> *Ibid*, 156.

the companies. As a result, these two companies had links to the State Planning Commission in the 1990s, and Sinopec Group – as late as 2005, which were a leftover of the old institutional arrangements. That is, the old institutions persist, even after formal institutional arrangements are dismantled (through enterprise reform) or stop to exist (e.g. NPC delegate’s term end). In other words, company networks being a product of earlier policies or career transfers are unintentionally created by the regime.

Moreover, these links were found to have a *tendency to accumulate*. It was observed that more managers in 2010 had previously been delegates to the NPC. However, rather than reflecting the trend of more managers becoming delegates, this was an accumulative outcome of remaining old links.

#### *Outcome of Multiple Institutional Reforms*

Another observation is that company networks are an accumulative outcome of multiple institutional adjustments, many of which were implemented as the regime sought to enhance its governance capacity. The above-discussed example of the networks of China State Shipbuilding Corporation and China Petrochemical Corporation, which extended to the State Planning Commission, were the result of earlier economic and industrial policies, when officials from the ministries in charge of shipbuilding and petroleum, the two pillar industries, were appointed to the leading positions at the State Planning Commission. Visualization of company networks resulting from the managers’ previous careers (*Figures 4B-1 to 4B-4 in Appendix 4B*)

demonstrates that other companies also had former vice ministers (officials of this rank were often appointed to the State Planning Commission) as their managers, yet, none of them had been appointed to the State Planning Commission chairmen or vice chairmen. These former policies, coupled with later enterprise reform and the practices of appointing former highest-level ministry officials as managers of reformed business entities, led to the emergence of informal networks between a small number of companies and the State Planning Commission, the key institutions in charge of China's economic development.

Similarly, the same factor partially explains why a handful of companies extended their networks to SASAC and supervisory boards for large key SOEs. As a result of *several institutional adjustments over a longer period of time*, their managers were appointed to those institutions. First, the SOE administrative rank, which was reformed in the 1990s, conditioned those appointments. It seems to have limited appointment of managers from other companies. Second, the managers' expertise, especially extensive managerial experience or career record of successful managerial performance has played a role. The size of the company was also significant.

As a result of multiple reforms and adjustments, only a small number of companies acquired networks to the state. There is nothing to indicate that such particular pattern has been provisioned by the reformers themselves.

### *In Search of Expertise*

In addition to the significance of managers' expertise for the appointments of officials at the central government level, regime's search for specific expertise or managerial skills has also been reflected in the managers' inter-system career mobility patterns at the local level. The patterns of company networks with local governments show that the managers with experience in particular industry tend to be promoted to the posts there. For example, Wei Liucheng, a corporate manager from oil industry, as deputy secretary of Hainan Province Party Committee as Beijing sought to develop natural gas and petroleum deposits in the South China Sea. Also, there was a trend of intra-system appointment in the locality, where the company is based.

It has to be noted that at the local level the Party and the state remained to be closely integrated, as often the managers observed were appointed to the leading posts in both the party committee and the people's government.

### *Evaluating the Findings of the Analysis*

The patterns of manager appointments to the state institutions and their selection to the CCP Central Committee reveal the model of governance the regime has attempted to create over the last two decades. Nearly non-discriminative selection of managers from strategically important companies as alternate members of the CCP Central Committee and less frequent inter-system appointments, limited to specific state institutions, suggest that the regime has allocated a very different role to the state

as opposed to the party. While the later one is to gather information and thus draft policies, the former one – the state – is to administer it. It can be concluded that in the course of the reform the regime has sought to strengthen the rule of the Party at the expense of the state. The CCP Central Committee was increasingly made an entrance point of information, leaving to the state institutions administrative prerogatives. Specifically, until the second half of 1990s, managers were appointed to or had previously served in the institutions in charge of economic policies (State Planning Commission, State Economic Commission, State Council Economic and Trade Office, State Economic and Trade Commission) and, since around 2000, they have been entrusted with specialized, administrative positions at the central government.

In this respect, the findings of this research confirm the consensus in the literature regarding the relationship between the party and the state (government), the most important aspect of the Chinese political system. It exposes the Party's increasing domination over the state. The findings demonstrate further division of labor, where the state is the administrator.

However, the Party's domination over the state is not always absolute,<sup>521</sup> and it is in this light that the empirical problem identified in this research becomes significant.

As Zheng explains:

*Many factors such as functionary differentiation between the Party and the*

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<sup>521</sup> Yongnian Zheng, *The Chinese Communist Party as Organizational Emperor: Culture, Reproduction*, (New York: Routledge, 2010), 100.

*state, and professionalism on the part of the state, show that the state is not helpless in facing the Party. The power of the state is not simply delegated by the Party; instead, the state has its own “field” of power.*<sup>522</sup>

This statement to a high degree applies to the SASAC. SASAC is the principle institution in charge of China’s large SOEs, the drivers of China’s economic growth and the expansion of Chinese business overseas, and it is also the institution in charge of the restructuring of the SOEs. Appointment of company managers as leaders of those institutions forms networks of links between them. Several interrelated problems surrounding these networks exist.

First, such networks create channels for the flow of information and other resources, which could put “connected” companies at an advantageous position over those without such networks. This assumption, based on network theory, was also illustrated in this study in *subsection 6.2.3* and preliminary analysis in *Chapter 7*. The latter showed that those industries, companies of which are better connected to the state, were able to compromise China’s foreign policy preferences more considerably. Yet, this was a preliminary study and further empirical verification is needed.

Second, these networks resemble policy networks as discussed in the literature on Western political systems.<sup>523</sup> The idea of policy networks, which emerged in the

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<sup>522</sup> Ibid.

<sup>523</sup> For a discussion on the American, British, and European literature on policy networks see Grant Jordan, “Sub-governments, Policy Communities and Networks: Refilling the Old Bottles?” *Journal of Theoretical Politics* 2, no. 3 (1990): 319-338, David Marsh, “The Development of the Policy Network Approach,” in David Marsh, ed., *Comparing Policy Networks* (Buckingham: Open University Press,

United States in the 1950s and 1960s,<sup>524</sup> “emphasized regular contacts between individuals within interest groups, bureaucratic agencies and governments, which provided basis of a sub-government.”<sup>525</sup> The sub-government literature emphasizes the role of a limited number of privileged groups possessing close relations with governments.<sup>526</sup> To borrow this terminology, SASAC in China can be referred to as a sub-government. As a state agency it is in charge of particularly specialized policies, but at the same time is in regular contact with the party-state leadership, and also has stronger links, as demonstrated in this study, with a small number of companies, which can be considered interests groups. The literature argues that sub-governments exclude other interests and make policies.<sup>527</sup> While it would be difficult to argue this far in the case of China, in addition to providing channels for information flow, the actors in the networks do have incentives to promote certain interests more than others. Literature on the United States political system talks about a triangular *symbiotic* relation, with Peters titling it as an “iron triangle.”<sup>528</sup> For the regime, the symbiotic nature of this relationship becomes visible, when the economic role of the companies with wider networks to SASAC is considered. These are mainly petroleum and, to a lesser extent, coal companies, crucial for China’s economic development. Thus there exists a basis

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1998); “Policy Networks in British Politics,” in David Marsh and R.A.W. Rhodes, eds., *Policy Networks in British Government* (Oxford: Clarendon Press, 1992).

<sup>524</sup> Jordan, “Sub-governments, Policy Communities and Networks,” 320.

<sup>525</sup> Marsh, “The Development of the Policy Network Approach,” in March, ed., *Comparing Policy Networks*, 4.

<sup>526</sup> Ibid.

<sup>527</sup> Ibid.

<sup>528</sup> Guy Peters, *American Public Policy* (Basingstoke: Macmillan, 1986), 24, cited in Jordan, “Sub-governments, Policy Communities and Networks,” 324.

for a symbiotic relation with the regime. Aluminum, railways and nuclear power companies, also only a small number from those surveyed, have their networks extending to supervisory boards, which are directly under SASAC.

Based on such considerations, there is a necessity to consider whether the networks between a small number of companies from limited industries and SASAC may compromise state capacity, that is, prevent the much-needed SOE reform and in a long-run possibly undermine the success of China's reform. For some of China observers, this has become an argument to back up their forecast for the nearing end of the success of China's economic reform. Guilford's analysis under an assertive title of *Zombies Once Destroyed Japan's Economy—Now They're Infecting China's*, comparing present-day China to Japan of the 1980s, offers a representative piece of these views.<sup>529</sup> Murphy notes that in the case of Japan, "MITI [Ministry of International Trade and Industry] coordinated the process of industry selection <...>, but <...> Ministry of Finance and its operating arm, the Bank of Japan, <...> had to ensure the *right* industries got funding when they needed it"<sup>530</sup> [emphasis added]. Further, Murphy writes "the entire system was designed to pour scarce capital into targeted industries. First came massive investment by large, *well-connected companies*"

<sup>531</sup> [emphasis added]. One of the major problems later faced by Japan was that it was

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<sup>529</sup> Gwynn Guilford, "Zombies Once Destroyed Japan's Economy—Now They're Infecting China's," *Quartz*, April 29, 2014, <http://qz.com/198458/zombies-once-destroyed-japans-economy-now-theyre-infecting-chinas/>.

<sup>530</sup> R. Taggart Murphy, *The Real Price of Japanese Money* (London: Weidenfeld and Nicolson, 1996), 74.

<sup>531</sup> *Ibid.*

not able to adapt to new environment and reorient its industrial structure in a timely manner. As noted by Vogel, “the country needs a political system to respond effectively to problems in a long-term way.”<sup>532</sup> In her analysis, Guilford argues that China is “likely to suffer a fate more like Japan’s: a ‘zombie infection’ in which large companies feed off credit while the economy stagnates.”<sup>533</sup> Guilford quotes Patrick Chovanec, an expert on Chinese economy, saying that “[Japan and China are] two very different countries but they ended up with a banking system that basically produces the same result—the outcome being a rapid deceleration of (hitherto high) growth, as well as zombie banks and corporations.” By this Chovanec is referring to “what happens when, during economic slowdowns, banks or the government refuse to let unprofitable companies die, keeping them alive on a steady drip of new credit.”<sup>534</sup>

The patterns of informal networks between a small number of companies and the Chinese state, SASAC in particular, as exposed in this study, comes in for support to this argument. These links between the regime and several industries seem to have penetrated the system. Yet, before jumping to a conclusion too fast, it is important to note the essential difference, also grasped in this analysis, between the governance model in China and that of Japan.

As noted above, over the last two decades the regime in China has strengthened

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<sup>532</sup> Ezra F. Vogel, “What Happened to Number One?” in *Remaking Japan: The Quest for a Future that Works*, eds. Clay Chandler, Heang Chhor, and Brian Salsberg (San Francisco: VIZ Media, 2011), 69.

<sup>533</sup> Guilford, “Zombies Once Destroyed Japan’s Economy.”

<sup>534</sup> Ibid.

the rule of the Party, leaving to the state administrative prerogatives. Moreover, analysis has revealed that alternate membership in the CCP Central Committee has been overall inclusive of the companies surveyed, which may be a sign of the regime's coping strategy utilized to enhance the regime's ability to draft timely policies and avoid the crisis Japanese economy faced. Thus on the one hand, more caution is needed when drawing conclusions about further development of China based on the experience of Japan. Findings of this analysis show that no straightforward comparison is possible. On the other hand, more research is needed to further explore the regime's coping strategies. In particular, direction of information flows between SASAC and party institutions should be further observed. Also, more detailed, exhaustive research on the actual powers of SASAC in policy-making is needed.

#### *Implications for China's Long-Term Development*

This problem links to the degree of the state capacity to draft and implement necessary policies. And as the stability of the regime has been built on its performance – a direct result of the state capacity – these networks may have a negative effect on regime stability over a long term, especially when effective governance calls for a change in the established patterns of relations.

The next several years will be the testing time for the model of governance the regime has created so far. 2010 witnessed a shift in industrial focus in Chinese economic planning. On September 8, Standing Committee of the State Council

approved the *Decision of the State Council on Accelerating the Cultivation and Development of Strategic Emerging Industries*.<sup>535</sup> It identified seven strategic emerging industries, which were to be strengthened and encouraged: energy saving and environmental protection, next generation information technology, biotechnology, high-end manufacturing (e.g. aeronautics, high speed rail), new energy (nuclear, solar, wind, biomass), new materials (special and high performance composites), clean energy vehicles (PHEVs and electric cars). The 12<sup>th</sup> Five-Year Plan approved by the NPC in March the following year also included provisions on industrial policies to support clean energy industries and related technologies. It provided that the new strategic emerging industries should be developed seeking to cut back on high pollution and energy-consuming sectors.

This most recent Five-Year plan is an explicit stipulation of the goal to transform China's economic growth model to focus on quality and sustainability, driven by emerging strategic industries. Yet, there is the question to what extent it would be possible to replace the "old" strategic industries, generally, national defense, telecommunications, electricity, oil, coal, airlines and marine shipping, which the state has controlled throughout the decades of the reform. 70-80 percent of centrally-

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<sup>535</sup> Central People's Government of the PRC, "State Council Passes the Decision on Accelerating the Cultivation and Development of Strategic Emerging Industries," September 8, 2010, accessed April 10, 2015, [http://www.gov.cn/ldhd/2010-09/08/content\\_1698604.htm](http://www.gov.cn/ldhd/2010-09/08/content_1698604.htm) (in Chinese).

controlled SOE assets and profits are concentrated in these seven strategic industries.<sup>536</sup>

Importantly, the 12th Five-Year Plan also sets pollutions reduction targets, which have considerable implications for the petroleum industry. It provides that sulfur dioxide (SO<sub>2</sub>), a major contaminator from burning petroleum, emission should be reduced by eight percent, and ammonia nitrogen and nitrous oxides – by ten percent each.<sup>537</sup> These binding targets imply that there should be a shift away from the petroleum industry or it should significantly improve the quality of its products.<sup>538</sup>

The argument here does not imply that the regime in China is rigid and lacks ability to adapt. Analysis revealed that inter-system appointments at local level reflect aeronautics industry identification as one of the strategic emerging industries in 2010. As argued in the *Introduction*, the problem is not regime's ability to adapt but instead its ability to deal with the informal institutions that emerge on the sidelines of the adaptation process and persist even as formal institutional arrangements are dismantled. As informal networks are conditioned by earlier policies and reforms, previously rather than currently important industries are put at an advantageous position. As socioeconomic environment evolves and poses new challenges, the current patterns of

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<sup>536</sup> HSBC, "China's Next 5-Year Plan: What it Means for Equity Markets," October 2010, accessed March 30, 2015, [http://www.fccihk.com/files/dpt\\_image/3\\_news/Company%20news/HSBC/China's%20next%205-year%20plan%20-%20What%20it%20means%20for%20equity%20markets.pdf](http://www.fccihk.com/files/dpt_image/3_news/Company%20news/HSBC/China's%20next%205-year%20plan%20-%20What%20it%20means%20for%20equity%20markets.pdf).

<sup>537</sup> "Main Targets," ch. 3 in *12th Five-Year Plan (2011–2015)*.

<sup>538</sup> Crude oil refineries in China, those built earlier in particular, were designed to process high-sulfur oil. A shift toward low sulfur oil or setting of sulfur dioxide emission targets at lower levels put Chinese oil corporations at odds with the official policy.

networks suggest that there exists some rigid elements that could obstruct the state capacity to respond to new issues. The time will test, whether increasing inclusiveness of the alternate membership of the CCP Central Committee in particular and the Party in general will be enough to balance against these rigid elements. Even more so considering that the access to the pinnacle of political power – the regular membership in the CCP Central Committee – has remained limited to the old traditional economic elites.

As demonstrated in this study, the networks between companies and party-state institutions have developed over several decades. They are not formed at an *ad hoc* basis and have existed over a longer period of time, therefore can be defined as institutions, although informal. Eliminating these institutions gradually would be very difficult if not impossible, since they have penetrated the system. Thus, seeking to reset the current path of development, radically tearing apart these solidified links appears to be the only way to dismantle existing networks, which could at least partially explain the large-scale anti-corruption campaign that has been taking place in China over the last several years.

### **Theoretical Implications: Long-Term Outcomes of Institutional Reform**

#### ***Argument of this Research***

Setting aside empirical findings, this dissertation was motivated by a theoretical inquiry related to the long-term implications of regime adaptation, in particular, the

dynamics of informal institutions that take place in the shadow of institutional reform and adjustment. The case of the party-state's (dis-)integration with business entities was utilized as a convenient angle to approach this problem. Fundamental intellectual inquiry that has driven this research was whether the logics of institutional adaptation could be applied when foreseeing long-term stability of the regime. This research argues that *the patterns of networks between strategically important companies and the party-state institutions in China is a result of a longer-term, path-dependent development. It is a display of continuous multiple formal institutional adjustment intertwining with the existing previously established institutions.*

Thus, perfect adaptation, when policy makers foresee and anticipate accurately the outcomes of institutional reform, is hardly possible, as there exist unintended outcomes and, moreover, at the level of informal institutions, which is difficult to observe. Company networks emerge on the sidelines of institutional adjustments, such as cadre appointment policies, which suggests that there exist limits on regime's capacity to implement effective institutional adjustments. Over a longer period of time, institutional adaptation may produce more significant unanticipated outcomes. Furthermore, company networks in some cases were shown to be a cumulative outcome of several institutional adjustments that, again, had not been foreseen in advance. Such findings of the analysis show that *the emergence of networks of certain companies is a path-dependent process*, which takes roots in institutional adjustments implemented previously. This argument applies in particular to the company networks

with state institutions at the central and local government levels.

### ***Theoretical Implications***

Based on such observations, this study argues that caution is needed when drafting long-term predictions for regime stability based on its ability to adapt. Over a short period of time, the logics of regime adaptation argument holds true. However, considering the development over a longer period of time, the following aspects in particular should be taken into consideration:

(1) can institutional reform fully eradicate existing institutions, also, can it overcome the influence of earlier institutional arrangements? This study has shown that, institutional reform notwithstanding, informal networks, as a kind of informal institutions, persist;

(2) the dynamics of informal institutions in the background of formal institutional adjustments. It is necessary to inquire how formal institutional adjustments shape informal links between actors and institutions, since they do not necessarily follow the logics of formal institutional reform. These links, or networks, emerge not only through career mobility of individuals, but also as a result of meetings and other exchanges between institutions, organizations, or actors;

(3) future implications of new institutional arrangements. Analysis here has demonstrated how certain institutional adjustments later manifested in the patterns of informal networks, although their intended purpose was different. The patterns of

company networks with SASAC and supervisory bodies under it were conditioned by the cadre selection policies introduced in 1980s, also the decision to leave ministerial and vice-ministerial ranks to several companies. It was also discussed how specific institutional arrangements later influenced policies (*subsections 6.2.3*).

Consideration of these issues have been rather absent from the literature on regime adaptation so far. Two factors explain this state of affairs. First, so far stability of the CCP regime has been overwhelming to many of China observers.<sup>539</sup> Thus, intellectual inquiry has been guided by a different question – what explains regime resilience rather than what could undermine it. For a while, many appeared to be satisfied with an explanation of regime’s adaptation strategy rather than looking for flaws in it. Second, most of the analyses, although with some exceptions, under the umbrella of authoritarian resilience, or regime adaptation, argument focus on a particular institutional element in Chinese political system and as a result fix their attention on formal institutions.

In this respect, this dissertation takes a step further as it applies the logics of regime adaptation argument to a longer period of time and traces the actual outcomes – the reality – of regime adaptation rather than its intentions.

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<sup>539</sup> In the 1990s, in the literature, there was a general consensus that the regime in China would collapse before long. However, as time passed by, the regime proved to be resilient, which facilitated a discussion among China observers about the factors behind this phenomenon.

## Methodological Contribution to the Studies of Chinese Politics

In the *Introduction*, three aspects of the contribution this dissertation was aiming at were stated. In addition to its theoretical and empirical objectives, this work has also sought to contribute a rather new (in this particular field) set of tools to the study Chinese politics, elite politics in particular. By utilizing social network analysis approach in general and social network analysis software in particular, this work has demonstrated the methodological advantage this set of tools offers for our understanding of career mobility patterns and relations between the elites in China. While opening-up has provided more available information on all aspects of Chinese politics, elite studies continue to be important and necessary for understanding authoritarian regimes like China.<sup>540</sup>

Two aspects of methodological contribution this work offers need to be noted.

First, the set of tools, which this research has combined to analyze patterns of career mobility of company managers, enables the researcher to observe an overall pattern of relations that is the networks of links between institutions. While this was the first attempt to apply this methodology, there exists a significant potential in utilizing it in understanding the networks of relations between members of political elites or institutions. The biggest challenge in the field is systemic observation and

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<sup>540</sup> Victor Shih, Wei Shan, and Mingxing Liu, "The Central Committee, Past and Present: a Method of Qualifying Elite Biographies," in *Chinese Politics: New Methods, Sources and Field Strategies*, ed. Alan Carlson, Mary Gallagher, Kenneth Lieberthal, and Melanie Manion, ch. 3, 51-68 (New York: Cambridge University Press, 2010), 51.

analysis of the large datasets. For example, Shih, Shan, and Liu present the process of creation of an extensive dataset of Central Committee members that combine traditional elite studies with new coding and statistical methodologies.<sup>541</sup> Their dataset, comprising career information of Central Committee members could be visualized and then manipulated for analysis with the *Cytoscape* software tested here. On the other hand, the dataset can also be prepared and data manipulated using basic spreadsheet software such as *MS Excel*. For large datasets more sophisticated data preparation techniques might still be needed, but this analysis offers an example of how relatively large<sup>542</sup> datasets on career trajectories can be used to expose links between institutions and individuals. This could be especially useful tool to trace down factional ties between elite members, if one holds that experience at the same institution – school or workplace serves as a basis for that.<sup>543</sup>

Second, this research methodology makes it possible to expose “hidden” – old or minor – links between institutions, companies and party-state institutions in particular. *Subsection 5.5.2 (Chapter 5)* showed that literature sometimes overlooks existing company links to the CCP Central Committee. This is the case when an individual’s membership in the CCP Central Committee and a their position at a company occur at relatively remote points in time. Visualization of individuals’ career paths as networks

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<sup>541</sup> Ibid.

<sup>542</sup> The four datasets prepared by the author for this analysis included a total of 468 managerial positions (years 1992, 2000, 2005, and 2010 combined), which resulted in a total number of 2049 career records – job titles, membership in organizations, etc.

<sup>543</sup> Lieberthal and Oksenberg, *Policy Making in China*, 156.

of links between institutions they have worked at makes it easy to grasp those links. Further, findings of the analysis in *section 4.4 (Chapter 4)* demonstrated how this research methodology could expose the hidden links between institutions (or individuals) that tend to accumulate over time. That is, visualizing career paths of surveyed individuals displays the overall path of their careers and pattern of links they create between institutions in this process. Importantly, the visualization produced is easy to manipulate for analysis purpose. In addition to making it possible to observe how institutions are interconnected, this set of tools allows drawing conclusions about experiences and identities of single individuals even with multiple data entries. Thus it becomes a convenient methodology, considering that in authoritarian regimes the preferences, values and background of the elite continue to play a crucial role in shaping political and economic outcomes.<sup>544</sup>

Third, in a wider perspective, observation of Chinese politics through the lens of social network analysis contributes to the conceptualization of the field, which has been lagging behind. Previous literature provides extensive accounts on the role of informal networks and links in Chinese politics, but has not been able to put China in comparative perspective and its ability to overcome cultural bias has been limited.

This methodology has potential to be applied in further studies of the field to enhance our understanding of the workings of Chinese politics.

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<sup>544</sup> Shih, Shan, and Liu, “The Central Committee, Past and Present,” in *Chinese Politics: New Methods*, ed. Carlson et al., 53.

## Scope of This Research and Its Place in the Literature

To set directions for further research more clearly, it is necessary to once again state what this research is and what it is not. Analysis here focused on the links between the party-state institutions and business entities with an aim to expose the channels of business influence on the party-state. Two points related to the scope of this analysis need to be emphasized.

First, this work did not attempt to unveil all possible channels of business influence on the party-state and its policies. As explained in the *Introduction*, the main research interest driving this analysis was those channels of influence, or, to put it in the terms employed in this analysis, informal networks, that have been created by the regime, which adjusted or reformed formal institutions, in its attempt to adapt to changing socioeconomic environment. Needless to say, this analysis does not imply that informal networks, which emerge as a result of personnel appointment between the companies and party-state institutions, are the only possible channels that companies can utilize to exert influence on policy process. There are also networks that companies acquire by hiring former government officials. These channels of influence are created by the companies, as opposed to those created by the party-state, which were the main focus of this analysis. While analyzing this is essential to understanding the comprehensive pattern of existing channels to the policy process business entities in China possess, this question forms an independent research topic, as it requires fundamentally different dataset. Further, there exist formally institutionalized channels

for business entities to voice their interests and policy preferences, such as business associations. Analysis of it would form yet another pillar of the analysis of channels, which business entities in China possess to voice their policy preferences. That is to say, by focusing on the channels that were created by the party-state specifically in the course of institutional adjustment and reform, this research constitutes an important part of the literature on a wider problem of the channels of the flow of information between business entities and policy process.

# **APPENDICES**

## *Appendices to Chapter 1*

*Appendix 1A. Company managers in the CCP Central Committee (from the 12<sup>th</sup> to the 18<sup>th</sup> Central Committee) (serving congruently or having taken managerial position within one year after joining the Central Committee).*

Name of the Member		Members hip	Company name in English
English	Chinese		
<b>12th CCP Central Committee (1982 – 1987)</b>			
Peng Shilu	彭士祿	Alternate	China State Shipbuilding Corporation
<b>13th CCP Central Committee (1987 – 1992)</b>			
Zhang Wanxin	张万欣	Alternate	China Petrochemical Corporation
<b>14th CCP Central Committee (1992 – 1997)</b>			
Zhou Yongkang	周永康	Alternate	China National Petroleum Corporation (CNPC)
Li Yizhong	李毅中	Alternate	China Petrochemical Corporation
Zhang Junjiu	张俊九	Alternate	China North Industries Group Corporation
Luo Bingsheng	罗冰生	Alternate	Shougang (Capital Steel) Corporation
Liu Qi	刘淇	Alternate	Wuhan Iron and Steel Company
<b>15th CCP Central Committee (1997 – 2002)</b>			
Zhou Yongkang	周永康	Member	China National Petroleum Corporation (CNPC)
Sheng Huaren	盛华仁	Member	China Petrochemical Corporation
Liu Jiyuan	刘纪原	Member	Chinese General Company of Astronautics Industry
Zhu Yuli	朱育理	Member	Chinese General Company of Aeronautics Industry
Le Enjie	乐恩杰	Alternate	Chinese General Company of Astronautics Industry
Li Yizhong	李毅中	Alternate	China Petrochemical Corporation
Xu Penghang	徐鹏航	Alternate	China State Shipbuilding Corporation
Zhang Zhu	张华祝	Alternate	China National Nuclear Corporation
Liu Jie	刘玠	Alternate	Anshan Iron and Steel Group Company
Tao Jianxing	陶建幸	Alternate	Chunlan (Group) Corporation
Wang Qimin	王启民	Alternate	China National Petroleum Corporation (Daqing Petroleum Administration Bureau)
Ni Runfeng	倪润峰	Alternate	Sichuan Changhong Electric Company
Xie Qihua	谢企华	Alternate	Baoshan Iron and Steel Complex Corporation (Group)
Liu Haiyan	刘海燕	Alternate	Beijing Yanshan Petrochemical Group Co Ltd.
<b>16th CCP Central Committee (2002 – 2007)</b>			
Li Yizhong	李毅中	Member	China Petroleum and Chemical Co (Sinopec Ltd.)
Zhang Qingwei	张庆伟	Member	China Aerospace Science and Technology Corporation
Ma Fucai	马富才	Alternate	Petro China Company Ltd.
Ma Geng	马之庚	Alternate	China North Industries Group Corporation (NORINCO)
Li Chang Yin	李长印	Alternate	China Shipbuilding Industry Corporation
Wei Liucheng	卫留成	Alternate	China National Offshore Oil Corporation (CNOOC)

<b>17th CCP Central Committee (2007 – 2012)</b>			
Kang Rixin	康日新	Member	China National Nuclear Corporation (CNNC)
Su Shulin	苏树林	Alternate	China Petrochemical Group Corporation (Sinopec Group)
Jiang Jiemin	蒋洁敏	Alternate	China National Petroleum Corporation (CNPC)
Wang Yupu	王玉普	Alternate	Daqing Oil Field Corporation
Zhang Guoqing	张国清	Alternate	China North Industries Group Corporation (NORINCO)
Liu Shiquan	刘石泉	Alternate	China Aerospace Science and Industry Co
Lin Zuoming	林左鸣	Alternate	China Aviation Industry Corporation I
Li Changyin	李长印	Alternate	China Shipbuilding Industry Corporation
Zhang Xiaogang	张晓刚	Alternate	Anshan Iron and Steel Group Company
Xu Lejiang	徐乐江	Alternate	Baosteel Group Corporation
Chen Chuanping	陈川平	Alternate	Taiyuan Iron and Steel (Group) Corporation
Liu Zhenya	刘振亚	Alternate	State Grid Corporation of China
Shi Dahua	石大华	Alternate	China Railway Engineering Corporation
Xiao Yaqing	肖亚庆	Alternate	Aluminum Corporation of China Ltd.
Wang Xiaochu	王晓初	Alternate	China Telecom Corporation Ltd.
Zhu Yanfeng	竺延风	Alternate	China FAW Group Corporation
Zhang Ruimin	张瑞敏	Alternate	Haier Group Corporation
<b>18th CCP Central Committee (2012 –)</b>			
Jiang Jiemin	蒋洁敏	Member	China National Petroleum Corporation (CNPC)
Ma Xingrui	马兴瑞	Member	China Aerospace Science and Technology Co
Xu Dazhe	许达哲	Member	China Aerospace Science and Industry Corporation
Zhang Guoqing	张国清	Member	China North Industries Group Corporation
Lin Zuoming	林左鸣	Member	Aviation Industry Corporation of China
Wang Yongchun	王永春	Alternate	China National Petroleum Corporation (CNPC)
Qian Zhimin	钱智民	Alternate	China National Nuclear Corporation
Zhang Xiwu	张喜武	Alternate	China Shenhua Energy Company
Cao Guangjing	曹广晶	Alternate	China Three Gorges Corporation
Liu Shiquan	刘石泉	Alternate	China Aerospace Science and Industry Corporation (The Fourth Research Institute)
Jin Zhuanglong	金壮龙	Alternate	Commercial Aircraft Corporation of China Ltd.
Kin Donghan	金东寒	Alternate	China Shipbuilding Industry Corporation
Ren Hongbin	任洪斌	Alternate	China National Machinery Industry Corporation
Wu Manqing	吴曼青	Alternate	China Electronics Technology Group Co
Wang Xiaochu	王晓初	Alternate	China Telecom Corporation Ltd.
Xu Lejiang	徐乐江	Alternate	Baosteel Group Corporation
Zhang Ruimin	张瑞敏	Alternate	Haier Group Corporation
Guo Mingyi	郭明义	Alternate	Anshan Iron and Steel Group Company
Wang Yongchun	王永春	Alternate	Daqing Oil Field Corporation
Liu Shiquan	刘石泉	Alternate	China Sanjiang Space Industry Group

**Appendix 1B.** *List of companies surveyed*<sup>545</sup> (each block of companies describes evolution of one company, including mergers and separations into several companies), compiled by the author.

	Company name	Company name in Chinese	Time in existence	Sector: industry (sub-industry)	Notes	Selection basis <sup>546</sup>
1	Chunlan Group Corporation	春兰集团公司	1993 –	Consumer discretionary: home appliances, consumer electronics	<ul style="list-style-type: none"> <li>• Founder Tao Jianxing takes over management of Taizhou Cooling Equipment Factory in 1985</li> <li>• Known under the current name since 1993</li> <li>• Leading manufacturer of air conditioners; expanded into electrical appliances, automobiles and new energies areas</li> <li>• Headquartered in Taizhou, Jiangsu Province</li> </ul>	CC
2	Haier Group Corporation	海尔集团	1984 –	Home and office products: home appliances, consumer electronics	<ul style="list-style-type: none"> <li>• Founded as Qingdao Refrigerator Co</li> <li>• Outstanding performance after joint venture with German refrigerator company Liebherr</li> <li>• 30% (in 20004) market share in refrigerators and electric household appliances</li> <li>• In 2008, the 1st among Chinese companies on the Financial Times list of the most respected global companies</li> <li>• Headquartered in Qingdao, Shandong Province</li> </ul>	CC
3	Shougang (Capital Steel) Corporation	首都钢铁公司	1966 – 1996.11	Materials: iron and steel (steel producers)	<ul style="list-style-type: none"> <li>• Originally established in 1919</li> <li>• In 1996, renamed to Shougang Group Corporation</li> </ul>	CC

<sup>545</sup> For the purpose of analysis, smaller subsidiaries of a large group or corporation, which manager was also in the CCP Central Committee as a manager of that parent corporation, were excluded (Daqing Oil Field Corporation (fully-owned subsidiary of Petro China), China Sanjiang Space Industry Group subordinate to China Aerospace Science and Industry Corporation, China Petroleum and Chemical Corporation (Sinopec Ltd.), subsidiary of China Petrochemical Group Corporation (Sinopec Group)).

<sup>546</sup> This list was comprised based on a number of selection criteria, as explained in *subsection 1.5.2* in *Chapter 1*. The notes in this column stand for the following: CC – company managers in the CCP Central Committee (*Appendix 1A*); CC\* – the original company (which manager was in the Central Committee) before or after restructuring; “CC later” – the manager was selected to the CCP Central Committee later in their careers or they took managerial positions later after the CCP Central Committee term, and thus their name does not appear on the lists in *Appendix 1A*; other – the company was selected by the author additionally.

	Shougang Group Corporation	首钢集团	1996.11 –	Materials: iron and steel (steel producers)	Formerly known as Shougang (Capital Steel) Corporation	CC*
4	Taiyuan Iron and Steel Group Corporation (TISCO)	太原钢铁集团有限公司 (太钢)	1934.08 –	Materials: iron and steel (steel producers)	<ul style="list-style-type: none"> <li>Changed name in 1996</li> </ul>	CC
5	Wuhan Iron and Steel Corporation (WISCO)	武汉钢铁公司	1958 –	Materials: iron and steel (steel producers)	<ul style="list-style-type: none"> <li>Headquartered in Wuhan, Hubei Province</li> <li>Under SASAC</li> </ul>	CC
6	Anshan Iron and Steel Company	鞍山钢铁公司	1948 –	Materials: iron and steel (steel producers)		CC*
	Anshan Iron and Steel Group Company	鞍山钢铁集团公司	2005.05 –	Materials: iron and steel (steel producers)	<ul style="list-style-type: none"> <li>Found after a merger of Anshan Iron and Steel Group Company and Pangang Group Ltd. Company</li> <li>Under SASAC</li> </ul>	CC
7	State Power Company	国家电力公司	1997.01 –	Utilities: electric utilities (utility network)	<ul style="list-style-type: none"> <li>Reorganized according to the <i>Electric Power System Reform Program</i> adopted by the State Council, March 2002</li> </ul>	CC*
	State Grid Corporation of China	国家电网公司	2002.12 –	Utilities: electric utilities (utility network)	<ul style="list-style-type: none"> <li>Formed after reforming State Power Company</li> <li>Under SASAC</li> </ul>	CC
8	China National Nuclear Industry Corporation	中国核工业总公司	1988.09 – 1999.07	Energy: renewable energy (renewable energy project development)	<ul style="list-style-type: none"> <li>Formed based on the former Ministry of Nuclear Industry (formerly, the Second Ministry of Machine Building)</li> <li>Restructured into CNECC and CNNC</li> </ul>	CC
	China Nuclear Engineering-Construction Corporation (CNECC)	中国核工业建设集团公司	1999.07 –	Industrials: engineering and construction services (infrastructure construction)	<ul style="list-style-type: none"> <li>Oversees all aspects of China's civilian and military nuclear programs</li> <li>In 2004, named one of the 49 key SOEs approved by the National Property Supervising Management Committee of the State Council. Its three main business categories confirmed as military construction, nuclear power engineering, application of nuclear power and research.</li> <li>Under SASAC</li> </ul>	CC*

	China National Nuclear Corporation (CNNC)	中国核工业集团公司	1999.07 –	Renewable Energy (Renewable Energy Project Development)	<ul style="list-style-type: none"> <li>• Reorganized China National Nuclear Industry Corporation</li> <li>• Under SASAC</li> </ul>	CC
9	China Shenhua Group Corporation	神华集团公司	1995.10 –	Energy: oil, gas and coal (coal operations)	<ul style="list-style-type: none"> <li>• At first known as China Shenhua Coal Corporation</li> <li>• Under SASAC</li> </ul>	CC
10	China National Machinery Industry Corporation (Sinomach)	中国机械工业集团有限公司	1997.01 –	Industrials: machinery (industrial machinery)	<ul style="list-style-type: none"> <li>• Under SASAC</li> </ul>	CC
11	Chinese General Company of Astronautics Industry	中国航天工业总公司	1993 – 1999.07		<ul style="list-style-type: none"> <li>• Established after restructuring Ministry of Aerospace Industry into China National Space Administration and Chinese General Company of Astronautics Industry</li> <li>• In 1999, restructured into China Aerospace Science and Technology Corporation (CASC) and China Aerospace Science and Industry Corporation (CASIC)</li> </ul>	CC
	China Aerospace Science and Technology Corporation (CASC)	中国航天科技集团公司 (中国航天)	1999.07 –	Industrials: aerospace and defense (defense primes)	<ul style="list-style-type: none"> <li>• Established based on some departments under the former Chinese General Company of Astronautics Industry</li> <li>• The main contractor for the Chinese space program</li> </ul>	CC
	China Aerospace Science and Industry Corporation (CASIC)	中国航天科工集团公司 (航天科工)	1999.07 –	Industrials: aerospace and defense (defense primes)	<ul style="list-style-type: none"> <li>• Established based on some departments under the former Chinese General Company of Astronautics Industry</li> <li>• Under SASAC</li> </ul>	CC
12	Chinese General Company of Aeronautics Industry	中国航空工业总公司	1993.06 – 1999.07	Industrials: aerospace and defense (aircraft and parts)	<ul style="list-style-type: none"> <li>• Established after restructuring Ministry of Aviation Industry</li> <li>* In 1999, divided into AVIC I and AVIC II</li> </ul>	CC
	China Aviation Industry Corporation I (AVIC I)	中国航空工业第一集团公司 (中国一航)	1999.07 – 2008.11	Industrials: aerospace and defense (aircraft and parts)	<ul style="list-style-type: none"> <li>• Formed based on a part of former Chinese General Company of Aeronautics Industry</li> </ul>	CC

	China Aviation Industry Corporation II (AVIC II)	中国航空工业第二集团公司 (中国二航)	1999.07 – 2008.11	Industrials: aerospace and defense (aircraft and parts)	<ul style="list-style-type: none"> <li>Formed based on a part of former Chinese General Company of Aeronautics Industry</li> </ul>	CC
	Commercial Aircraft Corporation of China Ltd. (COMAC)	中国商用飞机有限责任公司 (中国商飞公司)	2008.05 –	Industrials: aerospace and defense (aircraft and parts)	<ul style="list-style-type: none"> <li>Established jointly by Aviation Industry Corporation of China, Aluminum Corporation of China, Baosteel Group Corporation, Sinochem Group, Shanghai Guosheng Corporation Limited and SASAC</li> <li>Under SASAC</li> </ul>	CC
	Aviation Industry Corporation of China (AVIC)	中国航空工业集团公司	2008.11 –	Industrials: aerospace and defense (aircraft and parts)	<ul style="list-style-type: none"> <li>Formed after merging AVIC I and AVIC II</li> <li>Under SASAC</li> </ul>	CC
13	China National Offshore Oil Corporation (CNOOC)	中国海洋石油总公司	1982.02 –	Energy: oil, gas and coal (exploration and production)	<ul style="list-style-type: none"> <li>Under SASAC</li> </ul>	CC
14	China National Petroleum and Natural Gas Corporation	中国石油天然气总公司	1988.09 – 1998	Energy: oil, gas and coal (refining and marketing)	<ul style="list-style-type: none"> <li>Reorganized Chinese Ministry of Petroleum</li> <li>In 1998, reorganized into China National Petroleum Corporation CNPC</li> </ul>	CC
	China National Petroleum Corporation (CNPC)	中国石油天然气集团公司	1998 –	Energy: oil, gas and coal (refining and marketing)	<ul style="list-style-type: none"> <li>Reorganized China National Petroleum and Natural Gas Corporation</li> <li>Under SASAC</li> </ul>	CC
15	Petro China Company Ltd.	中国石油天然气股份有限公司 (中国石油)	1999.11 –	Energy: oil, gas and coal (integrated oils)	<ul style="list-style-type: none"> <li>Subsidiary of the CNPC</li> </ul>	CC
16	China Petrochemical Corporation	中国石油化工总公司	1983.02 – 1998.07	Energy: oil, gas and coal (exploration and production)	<ul style="list-style-type: none"> <li>Reorganized into Sinopec Group</li> <li>In February 1988 put directly under the State Council</li> </ul>	CC
	China Petrochemical Group Corporation (Sinopec Group)	中国石油化工集团公司	1998.07 –	Energy: oil, gas and coal (exploration and production)	<ul style="list-style-type: none"> <li>Established on the basis of the former China Petrochemical Corporation</li> <li>Parent company of Sinopec Ltd.</li> <li>Under SASAC</li> </ul>	CC

17	China State Shipbuilding Corporation	中国船舶工业总公司	1982.05 – 1999.07	Industrials: transportation equipment (shipbuilding)	<ul style="list-style-type: none"> <li>Divided into CSSC and CSIC</li> </ul>	CC
	China State Shipbuilding Corporation (CSSC)	中国船舶工业集团公司 (中船集团公司)	1999.07 –	Industrials: transportation equipment (shipbuilding)	<ul style="list-style-type: none"> <li>Formed based on a part of the reformed China State Shipbuilding Corporation</li> </ul>	CC
	China Shipbuilding Industry Corporation (CSIC)	中国船舶重工集团公司 (中船重工)	1999.07 –	Industrials: transportation equipment (shipbuilding)	<ul style="list-style-type: none"> <li>Formed based on a part of the reformed China State Shipbuilding Corporation</li> <li>Under SASAC</li> </ul>	CC
18	China FAW Group Corporation	中国第一汽车集团公司	1953.07 –	Consumer discretionary industry: automotive (automobiles)	<ul style="list-style-type: none"> <li>At first known as First Automobile Works</li> <li>Under SASAC</li> </ul>	CC
19	China North Industries Group Corporation	中国北方工业(集团)总公司	1988.08 – 1990.01	Industrials: aerospace and defense (defense primes)	<ul style="list-style-type: none"> <li>Established under the Ministry of Machinery and Electronics Industry of China to take charge of the ordnance industry</li> </ul>	CC
	China Ordnance Corporation	中国兵器工业总公司	1990.01 – 1999.07	Industrials: aerospace and defense (defense primes)	<ul style="list-style-type: none"> <li>Renamed to China Ordnance Corporation in 1990</li> <li>Reformed into NORINCO Group and China South Industries Group Corporation</li> </ul>	CC*
	China North Industries Group Corporation (NORINCO, CNIGC)	中国兵器工业集团公司/中国北方工业集团公司(兵工集团)	1999.07 –	Industrials: aerospace and defense (defense primes)	<ul style="list-style-type: none"> <li>Group divided into four sectors, over 300 sub-elements – factories, research institutes and trading companies; include defense products, heavy-duty equipment, optical-electronic information technology and special chemicals</li> <li>One company, two brands</li> <li>Under SASAC</li> </ul>	CC
20	China Electronics Technology Group Corporation (CETC)	中国电子科技集团公司 (中国电科)	2002.03 –	Industrials: electrical equipment (electrical components)	<ul style="list-style-type: none"> <li>Established on the basis of Electronics Research Institute and high-tech enterprises under the Ministry of Industry and Information Technology</li> <li>Under SASAC</li> </ul>	CC

21	China Electronics Corporation (CEC)	中国电子信息产业集团公司 (中国电子)	1989.05 –	Technology: semiconductors (semiconductor manufacturing)	<ul style="list-style-type: none"> <li>• Four semiconductor divisions: computer software/hardware and system integration; telecom. Network and terminals; digital home appliances</li> <li>• One of the largest producers of telecom equipment</li> <li>• Under SASAC</li> </ul>	CC
22	China Telecom Corporation Ltd.	中国电信集团公司	2002.09 –	Communications: telecommunications (telecom. carriers)	<ul style="list-style-type: none"> <li>• Former Directorate General of China Post and Telecommunications Bureau</li> <li>• The third largest service provider in China</li> </ul>	CC
23	China Railway Engineering Corporation (CREC)	中国铁路工程总公司	1989.07 –	Industrials: engineering and construction services (infrastructure construction)	<ul style="list-style-type: none"> <li>• Ministry of Railways Administration Engineering Bureau and Design Bureau established in 1950; changed to Infrastructure Bureau later</li> <li>• In 1989, CREC established instead of the abolished Infrastructure Bureau</li> <li>• Under SASAC</li> </ul>	CC
24	Aluminum Corporation of China Ltd.	中国铝股份公司	2001.02 –	Materials: metals and mining (base metals)	<ul style="list-style-type: none"> <li>• Subsidiary of Aluminum Corporation of China, which has 66 affiliated companies with operations in 20 countries and regions worldwide</li> </ul>	CC
25	Baoshan Iron and Steel Complex Corporation (Group)	宝山钢铁联合(集团)公司	1978 – 1998.11	Materials: iron and steel (steel producers)	<ul style="list-style-type: none"> <li>• In 1998, absorbed the Shanghai Metallurgical Holding Group Corporation and the Shanghai Meishan Group Co. to form Shanghai Baosteel Group Corporation</li> </ul>	CC
	Shanghai Baosteel Group Corporation (Baosteel)	上海宝钢集团公司 (宝钢)	1998.11 – 2005.10	Materials: iron and steel (steel producers)	<ul style="list-style-type: none"> <li>• Formed based on Baoshan Iron and Steel Complex Corporation (Group)</li> <li>* In 2005, registered as a state company according to the Company Law, and changed name to Baosteel Group Corporation</li> </ul>	CC*
26	Baosteel Group Corporation (Baosteel)	宝钢集团有限公司 (宝钢)	2005.10 –	Iron and steel (steel producers)	<ul style="list-style-type: none"> <li>• Parent company of Baoshan Iron and Steel Co Ltd.</li> <li>• Under SASAC</li> </ul>	CC
	China Three Gorges Project Corporation	中国长江三峡工程开发总公司	1993.09 – 2009.09	Energy: renewable energy (ren. energy project development)	<ul style="list-style-type: none"> <li>• In 1993, changed name to China Three Gorges Corporation</li> </ul>	CC*

	China Three Gorges Corporation	中国长江三峡集团公司	2009.09 –	Energy: renewable energy (ren. energy project development)	<ul style="list-style-type: none"> <li>Formerly known as China Three Gorges Project Corporation</li> <li>Under SASAC</li> </ul>	CC
27	Dongfeng Motor Corporation	东风汽车公司	1969 –	Consumer discretionary industry: automotive (automobiles)	<ul style="list-style-type: none"> <li>At first known as Second Automobile Works</li> <li>Under SASAC</li> </ul>	CC later
28	China Mobile Communications Corporation (China Mobile)	中国移动通信有限公司 (中国移动)	2000.04 –	Communications: telecommunications (telecommunications carriers)	<ul style="list-style-type: none"> <li>Under SASAC</li> </ul>	CC later
29	China National Coal Mine Corporation	中国统配煤矿总公司	1988 – 1993	Energy: oil, gas and coal (coal operations)	<ul style="list-style-type: none"> <li>Est. to replace the abolished Ministry of Coal Industry to centrally administer enterprises and institutions outside northeastern China</li> <li>Closed down, when the Ministry of Coal Industry reestablished.</li> </ul>	CC later
30	China National Coal Industry Import and Export (Group) Corporation	中国煤炭工业进出口集团公司	1982.07 –	Energy: oil, gas and coal (coal operations)	<ul style="list-style-type: none"> <li>Reorganized and name changed in 2009</li> </ul>	other
	China National Coal Group Corporation	中国中煤能源集团公司	2003 – 2009.04	Energy: oil, gas and coal (coal operations)	<ul style="list-style-type: none"> <li>Under SASAC</li> </ul>	other
	China National Coal Group Corporation (China Coal)	中国中煤能源集团公司	2009.04 –	Energy: oil, gas and coal (coal operations)		other

### *Appendices to Chapter 3*

*Appendix 3A. Reform of the institutions under the State Council and other relevant institutions since 1949, including the SOEs that were established on their basis.*

#### **Institutions in Charge of National Economy**

<b>Time in existence</b>	<b>Name in English</b>	<b>Name in Chinese</b>	<b>Notes</b>
1954.09 – 1988 1988 – 1998	State Planning Commission (SPC)	中华人民共和国国家计划委员会 (国家计委)	<ul style="list-style-type: none"> <li>Abolished together with the State Economic Commission during State Council reform in 1988, and reestablished</li> </ul>
1998 – 2003	State Development Planning Commission (SDPC)	中华人民共和国国家发展计划委员会	<ul style="list-style-type: none"> <li>In 2003, merged with the State Council Office for Restructuring the Economic System (SCORES) and SETC, and reformed into NDRC</li> </ul>
2003.03 –	National Development and Reform Commission (NDRC)	中华人民共和国国家发展和改革委员会 (国家发改委)	<ul style="list-style-type: none"> <li>Oversees the National Energy Administration (NEA), which ensures the state's energy needs and works to strengthen the integrated administration of energy industry in concert with the NDRC.</li> </ul>

<b>Time in existence</b>	<b>Name in English</b>	<b>Name in Chinese</b>	<b>Notes</b>
1980.05 –	System Reform Office of the State Council	国务院体制改革办公室	
1982.05 – 1998	PRC State Commission for Restructuring the Economic System	中华人民共和国国家经济体制改革委员会 (国家体改委)	<ul style="list-style-type: none"> <li>Established to oversee the overall design of the economic system reform</li> <li>Subordinate to the State Council</li> <li>Chaired by the Premier</li> </ul>
1998 –	PRC State Commission for Restructuring the Economic System	中华人民共和国国家经济体制改革委员会 (国家体改委)	<ul style="list-style-type: none"> <li>Formal status changed to a high-level State Council deliberation agency</li> <li>The director and chairman no longer reports to the constituent ministries and commissions of the State Council</li> </ul>
1998 – 2003.03	Economic Restructuring Office of the State Council	国务院经济体制改革办公室 (体改办)	<ul style="list-style-type: none"> <li>In 2003, abolished; functions transferred to the newly established National Development and Reform Commission</li> </ul>

### Institutions in Charge of Industry

Time in existence	Name in English	Name in Chinese	Notes
1949.10 – 1952.11	Financial and Economic Committee	中国国务院财政经济委员会	
1952.11 – 1954.09	Central People's Government State Planning Commission	中国人民政府国家计划委员会	<ul style="list-style-type: none"> <li>Established to draft long-term and annual national economic development plans</li> </ul>
1954.09 – 1988	State Planning Commission of the PRC	中华人民共和国国家计划委员会 (国家计委)	<ul style="list-style-type: none"> <li>Established to draft long-term and annual national economic development plans, supervise the implementation of plans by each ministry and local governments, research important problems in the planning of national economy</li> <li>At the end of 1954, 25 departments and 1621 staff.</li> <li>In May 1956, annual economic planning functions taken over by State Economic Commission</li> </ul>
1956.05 – (1966.09) 1970.06	State Economic Commission	中华人民共和国国家经济委员会 (国家经委)	<ul style="list-style-type: none"> <li>Established to administer formulation of annual economic plans based on five-year plans and long-term economic development plans</li> <li>Comprehensive national authority in charge of macro control of industry and transportation system</li> <li>From 1966 till 1970, exists merely in name; functions of industrial production administration transferred to the State Planning Commission</li> <li>In 1970 abolished; functions officially merged into the State Planning Commission</li> </ul>
1966.09 – 1978.03	State Planning (Revolutionary) Commission of the PRC	中华人民共和国国家计划 (改革)委员会	<ul style="list-style-type: none"> <li>Administers industrial production in place of the State Economic Commission</li> </ul>
1978.04.11 – 1982 1982 – 1988.04	State Economic Commission	中华人民共和国国家经济委员会 (国家经委)	<ul style="list-style-type: none"> <li>Restored pre-Cultural Revolution State Economic Commission (industrial production functions separated from the State Planning Commission)</li> <li>In the restructuring of 1982, economic functions of National Machinery Industry Committee, National Energy Commission, and State Department of Finance and Trade Team merged with the State Economic Commission. New State Economic Commission established.</li> </ul>

1989.12 – 1991.07	[Production Committee]	生产委员会	
1991.07 – 1992.05	Manufacture Office of the State Council	国务院生产办公室	<ul style="list-style-type: none"> <li>Administrative body of the State Council, established to guide production work of regional planning, economic, or production commissions.</li> <li>Main functions: participates in drafting annual production plans, supply distributions, and transportation plans</li> </ul>
1992.05 – 1993.03	Economic and Trade Office of the State Council	国务院经济贸易办公室	<ul style="list-style-type: none"> <li>Est. on the basis of Manufacture Office of the State Council</li> <li>Comprehensive State Council organ, in charge of national economy and coordination of routine economic work.</li> </ul>
1993.03 – 1998.03 1998.03 – 2003.03	State Economic and Trade Commission (SETC)	中华人民共和国国家经济贸易委员会 (国家经贸委)	<ul style="list-style-type: none"> <li>Est. as a department under the State Council after the 1993 State Council institutional reform</li> <li>Regulation of the near-term operations of the national economy.</li> <li>In 2003 merged with the Ministry of Foreign Trade to establish Ministry of Commerce</li> </ul>

### Arms (Ordnance) Industry

Time in existence	Name in English	Name in Chinese	Notes
1960 – 1963	The Third Ministry of Machine Building of the PRC	中华人民共和国第三机械工业部	<ul style="list-style-type: none"> <li>Comprehensive ministry in charge of defense-related industries</li> <li>In 1963, divided into four independent ministries</li> </ul>
1963 – 1982	The Fifth Ministry of Machine Building of the PRC	中华人民共和国第五机械工业部	<ul style="list-style-type: none"> <li>A part of the former Third Ministry of Machine Building</li> <li>In charge of ordnance industry</li> </ul>
1982.05 – 1986.11	Ministry of Ordnance Industry of the PRC	中华人民共和国兵器工业部	<ul style="list-style-type: none"> <li>Renamed former Fifth Ministry of Machine Building</li> </ul>
1986.12 – 1988.04	State Machine Building Industry Commission	中华人民共和国国家机械工业委员会	<ul style="list-style-type: none"> <li>Established on the basis of the abolished Ministry of Machine Building Industry and Ministry of Ordnance</li> </ul>

### Aerospace and Astronautics Industry

Time in existence	Name in English	Name in Chinese	Notes
1956.10 – 1964.11	Ministry of National Defense No.5 Research Academy	国防部 第五研究院	
1964.12 – 1982.04	The Seventh Ministry of Machine Building of the PRC	中华人民共和国 第七机械工业部	<ul style="list-style-type: none"> <li>Set up on the basis of the No.5 Research Academy under the National Defense Ministry to carry out the unified management of the scientific research, design, development production and construction of the missile and rocket industry.</li> <li>In 1981, the Eight Ministry of Machine Building merged into the Seventh Ministry of Machine Building.</li> </ul>
1982.05 – 1988.04	Ministry of Astronautics Industry of the PRC	中华人民共和国航天工业部	<ul style="list-style-type: none"> <li>Renamed former Seventh Ministry of Machine Building Industry.</li> </ul>
1988.07 – 1993.06	Ministry of Aerospace Industry of the PRC	中华人民共和国 航空航天工业部	<ul style="list-style-type: none"> <li>Established on the basis of the abolished Ministry of Astronautics Industry and the Ministry of Aeronautics Industry</li> <li>In charge of national space program</li> </ul>
1993.06 – 1999.07	Chinese General Company of Astronautics Industry	中国航天工业总公司	<ul style="list-style-type: none"> <li>Ministry of Aerospace Industry abolished</li> <li>On the basis of the abolished ministry the Company and the CNSA established</li> <li>CNSA is PRC' national space agency; a subordinate agency of the State Administration for Science, Technology and Industry for National Defense (SASTIND); under the Ministry of Industry and Information Technology (MIIT))</li> </ul>
	China National Space Administration (CNSA)	国家航天局	
1999.07.01 –	China Aerospace Science and Technology Corporation (CASC)	中国航天科技集团公司 (中国航天)	<ul style="list-style-type: none"> <li>Established based on some departments under the former Chinese General Company of Astronautics Industry</li> <li>CASC together with CNSA is in charge of the space development program (previously under the Ministry of Aerospace Industry)</li> </ul>
	China Aerospace Science and Industry Corporation (CASIC)	中国航天科工集团公司 (航天科工)	

### Aviation Industry

Time in existence	Name in English	Name in Chinese	Notes
1960 – 1963	The Third Ministry of Machine Building of the PRC <sup>547</sup>	中华人民共和国第三机械工业部	<ul style="list-style-type: none"> <li>In 1963, divided into the Third Ministry of Machine Building (in charge of aviation industry), the Fourth Ministry of Machine Building (electronics industry), the Fifth Ministry of Machine Building (ordnance industry), and the Sixth Ministry of Machine Building (shipbuilding industry)</li> </ul>
1963 – 1982	The Third Ministry of Machine Building of the PRC	中华人民共和国第三机械工业部	<ul style="list-style-type: none"> <li>Oversees aviation industry</li> </ul>
1982.05 – 1988.04	Ministry of Aviation of the PRC	中华人民共和国航空工业部	<ul style="list-style-type: none"> <li>The renamed former Third Ministry of Machine Building</li> </ul>
1988 – 1993	Ministry of Aerospace Industry of the PRC	中华人民共和国航空航天工业部	<ul style="list-style-type: none"> <li>Established on the basis of the abolished Ministry of Astronautics Industry and the Ministry of Aeronautics Industry</li> <li>See table above <i>Aerospace and Astronautics Industry</i></li> </ul>

### Mining Industry

Time in existence	Name in English	Name in Chinese	Notes
1952.08.10 – 1954	Ministry of Geology of the Central People's Government	中央人民政府地质部	<ul style="list-style-type: none"> <li>Changed name in 1954 to the Ministry of Geology of the PRC</li> </ul>
1954 – 1970 1979 – 1982.05	Ministry of Geology of the PRC	中华人民共和国地质部	<ul style="list-style-type: none"> <li>Abolished in 1970 and reestablished in 1979</li> </ul>
1982.05 – 1998.03	Ministry of Geology and Mineral Resources of the PRC	中华人民共和国地质矿产部	<ul style="list-style-type: none"> <li>Changed name from the Ministry of Geology in 1982</li> </ul>
1998.03 –	Ministry of Land and Resources of the PRC	中华人民共和国国土资源部	<ul style="list-style-type: none"> <li>Ministry of Geology and Mining, State Administration of National Land, State Oceanic Administration, and State Bureau of Surveying and Mapping merged to form the Ministry of Land and Resources</li> </ul>

<sup>547</sup> There were four different ministries under the name of the Third Ministry of Machine Building: 1954-1955 in charge of local electric equipment manufacturing industry (became Ministry of Electrical Equipment Manufacturing Industry in 1956), 1956-1958 – nuclear industry, 1960-1963 comprehensive ministry, as indicated here above, 1963-1982 in charge of aviation industry.

### Metallurgy Industry

Time in existence	Name in English	Name in Chinese	Notes
1956.05 – 1998.03	Ministry of Metallurgic Industry	中华人民共和国冶金工业部	
1998.03 – 2001	State Bureau of Metallurgic Industry	国家冶金工业局	<ul style="list-style-type: none"> <li>Subordinate to the State Economic and Trade Commission</li> <li>SETC takes over all functions after abolition</li> </ul>

### Electric Power Industry

Time in existence	Name in English	Name in Chinese	Notes
1949.10 – 1954	Ministry of Water Resources of the Chinese Government	中央人民政府水利部	<ul style="list-style-type: none"> <li>Department in charge of water administration</li> </ul>
1954 – 1955	Ministry of Water Resources of the PRC	中华人民共和国水利部	
1955.07 – 1958	Ministry of Electric Power Industry	中华人民共和国电力工业部	<ul style="list-style-type: none"> <li>Established after abolishing Ministry of Fuel Industry</li> </ul>
1958.02 – 1979.02	Ministry of Water Resources and Electric Power of the PRC	中华人民共和国水利电力部	<ul style="list-style-type: none"> <li>The two ministries consolidated into Ministry of Water Resources and Electric Power and divided again in 1979</li> </ul>
1979.02 – 1982.03	Ministry of Water Resources of the PRC	中华人民共和国水利部	<ul style="list-style-type: none"> <li>The two ministries merged again in 1982</li> </ul>
	Ministry of Electric Power Industry	中华人民共和国电力工业部	
1982 – 1988	Ministry of Water Resources and Electric Power of the PRC	中华人民共和国水利电力部	<ul style="list-style-type: none"> <li>In 1988, divided into two. Water administration-related duties and electric power administration-related duties transferred to each ministry respectively</li> </ul>
1988.04 –	Ministry of Water Resources of the PRC	中华人民共和国水利部	<ul style="list-style-type: none"> <li>In 1998, some functions of Ministry of Water Resources transferred to different institutions. Remains until present.</li> </ul>
1988 – 1993	Ministry of Energy of the PRC	中华人民共和国能源部	
1993 – 1998.03	Ministry of Electric Power Industry	中华人民共和国电力工业部	<ul style="list-style-type: none"> <li>Replaces Ministry of Energy</li> <li>Abolished in 1998. Administration of political functions of electric power industry transferred to SETC</li> </ul>

### **Machine Building and Electronics Industry**

<b>Time in existence</b>	<b>Name in English</b>	<b>Name in Chinese</b>	<b>Notes</b>
1954 – 1958	The Second Ministry of Machine Building of the PRC	中华人民共和国第二机械工业部	<ul style="list-style-type: none"> <li>In charge of weapons, tanks, aviation industry</li> <li>In 1985, incorporated into the First Ministry of Machine Building</li> </ul>
1958 – 1982.05	The First Ministry of Machine Building Industry of the PRC	中华人民共和国第一机械工业部	<ul style="list-style-type: none"> <li>Restructured multiple times</li> </ul>
1963 – 1982.05	The Fourth Ministry of Machine Building of the PRC	中华人民共和国第四机械工业部	<ul style="list-style-type: none"> <li>Separated from the Third Ministry of Machine Building</li> <li>In 1982, merged with other institutions</li> </ul>
1980.02 – 1980.12	State Council Machine Building Industry Commission	国务院机械工业委员会	<ul style="list-style-type: none"> <li>Newly established</li> <li>Renamed in December 1980, still under the State Council</li> </ul>
1980.12 – 1982	National Machine Building Industry Commission	中华人民共和国国家机械工业委员会	<ul style="list-style-type: none"> <li>Supervises institutions in charge of machine building (incl. electronics) industry: Ministry of Agriculture Machinery, the First, the Fourth, the Sixth Ministries of Machine Building, State Bureau of Instruments and Meters Industry, National Bureau of Radio and Television Industry, State Administration of Computer Industry</li> </ul>
1982.04 – 1986.12	Ministry of Machine Building Industry	中华人民共和国机械工业部	<ul style="list-style-type: none"> <li>Established after merging the Ministry of Agriculture Machinery, the First Ministry of Machine Building, State Bureau of Instruments and Meters Industry, and National Bureau of Complete Industrial Plants</li> </ul>
1982.04 – 1988	Ministry of Electronics Industry	中华人民共和国电子工业部	<ul style="list-style-type: none"> <li>Established after merging the Fourth Ministry of Machine Building Industry, National Bureau of Radio and Television Industry, and State Administration of Computer Industry</li> <li>Among other functions, to serve construction of national defense</li> </ul>
1986.12 – 1988	State Machine Building Industry Commission	中华人民共和国国家机械工业委员会	<ul style="list-style-type: none"> <li>Est. on the basis of the abolished Ministry of Machine Building Industry and Ministry of Ordnance</li> </ul>
1988 – 1993.01	Ministry of Machine Building and Electronics Industry	机械电子工业部	<ul style="list-style-type: none"> <li>Formed after merging Ministry of Electronics Industry and State Machine Building Industry Commission</li> <li>Divided into two in 1993</li> </ul>
1988.08 – 1990.01	China North Industries Group Corporation	中国北方工业(集团)总公司	<ul style="list-style-type: none"> <li>Established under the Ministry of Machine Building and Electronics Industry, after merging State Machine Building Industry Commission and Ministry of Electronics Industry to take charge of the arms industry</li> </ul>

1993.03 ~	Ministry of Electronics Industry	中华人民共和国电子工业部	<ul style="list-style-type: none"> <li>Renamed to China Ordnance Corporation in January 1990</li> <li>Industrials sector, aerospace and defense industry (defense primes)</li> <li>In 1998, merged with Ministry of Post and Telecommunications into the Ministry of Information Industry</li> </ul>
1993.03 – 1998.03	Ministry of Machine Building Industry	中华人民共和国机械工业部	
1998.03 ~	State Bureau of Machine Building Industry	国家机械工业局	<ul style="list-style-type: none"> <li>Downgraded Ministry of Machine Building Industry</li> <li>Under SETC</li> </ul>
1998.03 ~	Ministry of Information Industry of the PRC	中华人民共和国信息产业部	<ul style="list-style-type: none"> <li>Merged Ministry of Post and Telecommunications and the Ministry of Electronics Industry</li> </ul>

### Nuclear Industry

Time in existence	Name in English	Name in Chinese	Notes
1955 – 1958	The Third Ministry of Machine Building of the PRC	中华人民共和国第三机械工业部	<ul style="list-style-type: none"> <li>Supervision of nuclear industry development and construction of nuclear weapons</li> </ul>
1958 – 1982	The Second Ministry of Machine Building of the PRC <sup>548</sup>	中华人民共和国第二机械工业部	<ul style="list-style-type: none"> <li>In charge of nuclear industry</li> <li>Renamed in 1982</li> </ul>
1982.05 – 1988.04	Ministry of Nuclear Industry of the PRC	中华人民共和国核工业部	<ul style="list-style-type: none"> <li>Guidance from both State Council and Central Military Commission</li> <li>Among its functions – serve construction of national defense and national economy</li> </ul>
1988.04 – 1999.07	China National Nuclear Industry Corporation	中国核工业总公司	<ul style="list-style-type: none"> <li>Formed on the basis of the former Ministry of Nuclear Industry</li> <li>Energy sector, renewable energy industry (renewable energy project development)</li> </ul>

<sup>548</sup> Different from the Second Ministry of Machine Building from 1954 to 1958.

### Petrochemical and Coal Industries

	Time in existence	Name in English	Name in Chinese	Notes
1949-1954	1949 – 1954	Ministry of Fuel Industry of the Central People's Government	中央人民政府燃料工业部	<ul style="list-style-type: none"> <li>Under one ministry there are different departments in charge of coal, petroleum, and chemical industries</li> </ul>
1954	1954 – 1956	Ministry of Fuel Industry of the PRC	中华人民共和国燃料工业部	
1956 – 1970	1956 – 1970	Ministry of Coal Industry of the PRC	中华人民共和国煤炭工业部	<ul style="list-style-type: none"> <li>Three ministries established on the basis of relevant departments at the abolished Ministry of Fuel Industry</li> </ul>
		Ministry of Petroleum Industry of the PRC	中华人民共和国石油工业部	
		Ministry of Chemical Industry of the PRC	中华人民共和国化学工业部	
1970-1975	1970 – 1975	Ministry of Fuel and Chemical Industries	中华人民共和国燃料化学工业部	<ul style="list-style-type: none"> <li>The three above ministries merged in 1970 and divided again in 1975</li> </ul>
1975-1978	1975 – 1988	Ministry of Coal Industry of the PRC	中华人民共和国煤炭工业部	
1978 – 1988	1975 – 1978	Ministry of Petrochemical Industry of the PRC	中华人民共和国石油化学工业部	<ul style="list-style-type: none"> <li>Remains unreformed since 1975</li> </ul>
		Ministry of Coal Industry of the PRC	中华人民共和国煤炭工业部	
		Ministry of Petroleum Industry of the PRC	中华人民共和国石油工业部	
1978 – 1982; 1982 – 1988	1978 – 1998	Ministry of Chemical Industry of the PRC	中华人民共和国化学工业部	<ul style="list-style-type: none"> <li>Divided Ministry of Petrochemical Industry</li> </ul>
		China Petrochemical Corporation	中国石油化工总公司	
		State Council Energy Commission	国务院能源委员会	
1988 – 1993	1988 – 1993	Ministry of Energy of the PRC	中华人民共和国能源部	<ul style="list-style-type: none"> <li>Established to take charge of 39 companies that had previously been a part of either the Ministry of Petroleum, the Ministry of Chemical Industry, or the Ministry of Textile Industry</li> <li>Ministry-level</li> <li>In 1982, merged into the reformed State Economic Commission</li> <li>Established on the basis of four abolished ministries coal, petroleum, water resources and electric power, and nuclear industry)</li> </ul>

1988 – 1993	China National Coal Mine Corporation	中国统配煤矿总公司	<ul style="list-style-type: none"> <li>Replaces Ministry of Coal Industry</li> <li>Established on the basis of the former Ministry of Petroleum, mainly to take charge of oil and gas upstream operations.</li> <li>Directly under the State Council, endowed with certain governmental administrative functions.</li> <li>Reorganized in July 1988 to become an integrated group with businesses covering oil and gas upstream and downstream operations, as well as oilfield services and engineering construction.</li> <li>Replaces China National Coal Mine Corporation</li> </ul>
1988 – 1998	China National Petroleum and Natural Gas Corporation (later CNPC)	中国石油天然气总公司	<ul style="list-style-type: none"> <li>Remains during the State Council reforms of 1982, 1988, and 1993</li> <li>Under the State Economic and Trade Commission (SETC)</li> </ul>
1993 – 1998	Ministry of Coal Industry	中华人民共和国煤炭工业部	<ul style="list-style-type: none"> <li>Ministry of Coal industry downgraded to the State Bureau of Coal Industry</li> <li>Under the SETC</li> <li>Coordinates energy policies</li> </ul>
1978 – 1998	Ministry of Chemical Industry of the PRC	中华人民共和国化学工业部	
1998.03 –	State Bureau of Petroleum and Chemical Industry	中华人民共和国国家石油和化学工业局	
1998 –	State Bureau of Coal Industry	国家煤炭工业局	
2010.01 –	National Energy Commission	国家能源委员会	<ul style="list-style-type: none"> <li>Vice-ministerial level</li> <li>Institution under the same name established in 2008</li> <li>The new NEA was to take over the functions of the State Electricity Regulatory Commission</li> <li>Remains under the supervision of NDRC</li> <li>The new one was to remain under the NDRC, and take responsibility over drafting and implementing energy development strategies, plans and policies, advising on energy system reform and regulating the sector</li> </ul>
2013 –	National Energy Administration	国家能源局	

### **Institutions in Charge of Science and Technology**

<b>Time in existence</b>	<b>Name in English</b>	<b>Name in Chinese</b>	<b>Notes</b>
1958.10 – 1959.04	Ministry of National Defense Commission of Science Technology and Industry for National Defense	国防部 国防科学技术委员会	<ul style="list-style-type: none"> <li>Formerly known as Aviation Industry Commission under the Ministry of National Defense</li> </ul>
1959.04 – 1965.02	PLA Science and Technology Committee	中国人民解放军国防科学技术委员会(国防科委)	<ul style="list-style-type: none"> <li>Ministry of Defense Fifth Department and Armament Department incorporated into PLA Science and Technology Committee</li> </ul>
1961 – 1969 1973 – 1982	State Council National Defense Office	国务院国防工业办公室	<ul style="list-style-type: none"> <li>From 1969 to 1973, substituted by Central Military Commission Defense Industry Leading Small Group</li> <li>From 1973, led by both the State Council and Central Military Commission</li> <li>In 1982, merged into COSTIND</li> </ul>
1982.05 – 1998.03 1998.03 – 2008.03	Commission for Science, Technology and Industry for National Defense (COSTIND)	中华人民共和国国防科学技术工业委员会 (国防科工委)	<ul style="list-style-type: none"> <li>“New” COSTIND established in 1998 reform to take charge of the original defense industry functions of the Commission, functions of the National Defense Department of the State Planning Commission, and governmental functions previously undertaken by various military units.</li> <li>Former nuclear management function of the Commission integrated into the National Energy Bureau in 2008.</li> </ul>
2008.03 –	State Administration for Science, Technology and Industry for National Defense (SASTIND)	国家国防科技工业局 (国家国防科工局)	<ul style="list-style-type: none"> <li>Established in place of the Commission for Science, Technology and Industry for National Defense</li> <li>A subordinate agency of the Ministry of Industry and Information Technology (MIIT)</li> <li>Subordinate: China National Atomic Energy Authority and CNSA</li> </ul>

1958 – 1998	State Scientific and Technological Commission	国家科学技术委员会	<ul style="list-style-type: none"> <li>Merged Science Planning Commission and State Technology Commission</li> <li>Merged with Chinese Academy of Social Sciences in 1970, reestablished in Sept. 1977</li> </ul>
1998 –	Ministry of Science and Technology	科学技术部	<ul style="list-style-type: none"> <li>Renamed and restructured State Scientific and Technological Commission</li> </ul>

## Shipbuilding Industry

Time in existence	Name in English	Name in Chinese	Notes
1950.10 – 1953.01	Ministry of Heavy Industry of the PRC Shipbuilding Industry Department	中央人民政府重工业部 船舶工业局	
1953.01 – 1958.02	The First Ministry of Machine Building Industry of the PRC Shipbuilding Industry Administration	中央人民政府 第一机械工业部 船舶工业管理局	
1954 – 1958	The Second Ministry of Machine Building of the PRC <sup>549</sup>	中华人民共和国 第二机械工业部	<ul style="list-style-type: none"> <li>• In charge of weapons, tanks, aviation industry</li> <li>• In 1958, incorporated into the First Ministry of Machine Building of the PRC</li> </ul>
1958.02 – 1960.09	The First Ministry of Machine Building Industry of the PRC Ninth Industry Administration Bureau	第一机械工业部 第九工业管理局	<ul style="list-style-type: none"> <li>• Name changed after merging the Second Ministry of Machine Building Industry into the First Ministry of Machine Building Industry in 1958</li> </ul>
1960.09 – 1960.12 1960.12 – 1963.08	The Third Ministry of Machine Building Industry of the PRC Ninth Industry Administration	中华人民共和国 第三机械工业部 第九工业管理局	<ul style="list-style-type: none"> <li>• Name changed after restructuring the First Ministry of Machine Building Industry in September 1960 and merging parts of it into the Third Ministry of Machine Building Industry</li> <li>• Ninth Industry Administration in charge of shipbuilding became a part of the Third Ministry; in December 1960 changed name from the Ninth Industry Administration Bureau to the Ninth Industry Administration</li> </ul>
1963.09 – 1982.05	Sixth Ministry of Machine Building Industry of the PRC	中华人民共和国 第六机械工业部	<ul style="list-style-type: none"> <li>• The Ninth Industry Administration separated from the Third Ministry of Machine Building Industry into a separate ministry in charge of shipbuilding</li> <li>• In charge of shipbuilding industry</li> <li>• Abolished in 1982</li> </ul>
1982.05 – 1999.07	China State Shipbuilding Corporation	中国船舶工业总公司	<ul style="list-style-type: none"> <li>• Established on the basis of the Sixth Ministry of Machine Building Industry and units of Transportation Ministry in charge of shipbuilding industry</li> <li>• In 1999, divided into CSSC and CSIC</li> </ul>

<sup>549</sup> At different periods of time there existed different ministries under the same name. In the case of the Second Ministry of Machine Building, from 1954 to 1958, it was in charge of weapons, tanks, and aviation industry. It was merged into the First Ministry of Machine Building of the PRC in 1958. From 1958 to 1982, the ministry under this name was in charge of nuclear industry and was renamed the Ministry of Nuclear Industry in 1982.

### **Postal Services and Telecommunications**

<b>Time in existence</b>	<b>Name in English</b>	<b>Name in Chinese</b>	<b>Notes</b>
1949.11 – 1954.09	Ministry of Post and Telecommunications of the Central People's Government	中央人民政府邮电部	
1954 – 1998	Ministry of Post and Telecommunications of the PRC	中华人民共和国邮电部	<ul style="list-style-type: none"><li>• In 1993, merged with the Ministry of Electronics Industry</li></ul>
1998.03 –	Ministry of Information Industry of the PRC	中华人民共和国信息产业部	<ul style="list-style-type: none"><li>• Merged Ministry of Post and Telecommunications and the Ministry of Electronics Industry</li></ul>

## *Appendices to Chapter 4*

### *Appendix 4A. Notes to the Appendices 4B to 4E and 5A to 5D.*

1. In the figures, names of the companies are abbreviated as summarized in the table below.

<b>Abbreviation used</b>	<b>Full name of the company</b>	<b>Time in existence under the name</b>	<b>Sector: industry (sub-industry)</b>
Aeronautics Ind.	Chinese General Company of Aeronautics Industry	1993.06 – 1999.07.01	Industrials: aerospace and defense (aircraft and parts)
Aerospace Science and Ind.	China Aerospace Science and Industry Corporation (CASIC)	1999.07.01 –	Industrials: aerospace and defense (defense primes)
Aerospace Science and Techn.	China Aerospace Science and Technology Corporation (CASC)	1999.07.01 –	Industrials: aerospace and defense (defense primes)
Aluminum Co	Aluminum Corporation of China Ltd.	2001.02.23 –	Materials: metals and mining (base metals)
Anshan Iron and Steel	Anshan Iron and Steel Company	1948 –	Materials: iron and steel (steel producers)
	Anshan Iron and Steel Group Company	2005.05 –	Materials: iron and steel (steel producers)
Astronautics Ind.	Chinese General Company of Astronautics Industry	1993 – 1999.07.01	
Aviation Ind.	Aviation Industry Corporation of China (AVIC)	2008.11.06 –	Industrials: aerospace and defense (aircraft and parts)
Aviation Ind. I	China Aviation Industry Corporation I (AVIC I)	1999.07.01 – 2008.11.06	Industrials: aerospace and defense (aircraft and parts)
Aviation Ind. II	China Aviation Industry Corporation II (AVIC II)	1999.07.01 – 2008.11.06	Industrials: aerospace and defense (aircraft and parts)
Baoshan Iron and Steel	Baoshan Iron and Steel Complex Corporation (Group)	1978 – 1998.11.17	Materials: iron and steel (steel producers)
Baosteel	Shanghai Baosteel Group Corporation (Baosteel)	1998.11.17 – 2005.10.17	Materials: iron and steel (steel producers)
	Baosteel Group Corporation (Baosteel)	2005.10.17 –	Iron and steel (steel producers)
China Mobile	China Mobile Communications Corporation	2000.04.20 –	Communications: telecommunications (telecommunications carriers)
China Petrochemical	China Petrochemical Corporation	1983.02.19 – 1998.07	Energy: oil, gas and coal (exploration and production)
China Coal	China National Coal Group Corporation	2003 – 2009.04	Energy: oil, gas and coal (exploration and production)
	China National Coal Group Corporation (China Coal)	2009.04 –	Energy: oil, gas and coal (exploration and production)

Chunlan	Chunlan (Group) Corporation	1986 –	Consumer discretionary: commercial services (commercial services)
Coal Ind. Imp. and Exp.	China National Coal Industry Import and Export (Group) Corporation	1982.07 –	Energy: oil, gas and coal (exploration and production)
Coal Mine Co	China National Coal Mine Corporation	1988 – 1993	Energy: oil, gas and coal (coal operations)
Commercial Aircraft	Commercial Aircraft Corporation of China Ltd.	2008.05.11 –	Industrials: aerospace and defense (aircraft and parts)
Dongfeng Motor	Dongfeng Motor Corporation	1969 –	Consumer discretionary industry: automotive (automobiles)
Electronics Co	China Electronics Corporation (CEC)	1989.05 –	Technology: semiconductors (semiconductor manufacturing)
Electronics Techn.	China Electronics Technology Group Corporation (CETC)	2002.03.01 –	Industrials: electrical equipment (electrical components)
First Automobile FAW	China FAW Group Corporation	1953.07.15 –	Consumer discretionary industry: automotive (automobiles)
Haier	Haier Group Corporation	1984 –	Home and office products (home improvement)
National Nuclear Co	China National Nuclear Corporation (CNNC)	1999.07 –	Renewable Energy (Renewable Energy Project Development)
Offshore Oil CNOOC	China National Offshore Oil Corporation	1982.02.15 –	Energy: oil, gas and coal (exploration and production)
National Petroleum CNPC	China National Petroleum Corporation (CNPC)	1998 –	Energy: oil, gas and coal (refining and marketing)
Petroleum and N. Gas	China National Petroleum and Natural Gas Corporation	1988.09.17 – 1998	Energy: oil, gas and coal (refining and marketing)
North Ind.	China North Industries Group Corporation	1988.08 – 1990.01	Industrials: aerospace and defense (defense primes)
	China North Industries Group Corporation (NORINCO)	1999.07.01 –	Industrials: aerospace and defense (defense primes)
Nuclear Eng. Construction	China Nuclear Engineering Construction Corporation (CNECC)	1999.07 –	Industrials: engineering and construction services (infrastructure construction)
Nuclear Ind.	China National Nuclear Industry Corporation	1988.09.16 – 1999.07	Energy: renewable energy (renewable energy project development)
Ordnance Co	China Ordnance Corporation	1990.01 – 1999.07.01	Industrials: aerospace and defense (defense primes)
Petro China	Petro China Company Ltd.	1999.11.05 –	Energy: oil, gas and coal (integrated oils)
Railway Eng.	China Railway Engineering Corporation (CREC)	1989.07.01 –	Industrials: engineering and construction services (infrastructure construction)

Shenhua	China Shenhua Energy Company	1995.10 –	Energy: oil, gas and coal (coal operations)
Shipbuilding Ind.	China Shipbuilding Industry Corporation (CSIC)	1999.07.01 –	Industrials: transportation equipment (shipbuilding)
Shougang	Shougang (Capital Steel) Corporation	1966 – 1996.11.08	Materials: iron and steel (steel producers)
	Shougang Group Corporation	1996.11.08 –	Materials: iron and steel (steel producers)
Sinomach	China National Machinery Industry Corporation (Sinomach)	1997.01 –	Industrials: machinery (industrial machinery)
Sinopec	China Petrochemical Group Corporation (Sinopec)	1998.07 –	Energy: oil, gas and coal (exploration and production)
State Grid	State Grid Corporation of China	2002.12.29 –	Utilities: electric utilities (utility network)
State Power	State Power Company	1997.01.16 –	[Utilities: electric utilities (utility network)]
State Shipbuilding	China State Shipbuilding Corporation	1982.05.04 – 1999.07.01	Industrials: transportation equipment (shipbuilding)
	China State Shipbuilding Corporation (CSSC)	1999.07.01 –	Industrials: transportation equipment (shipbuilding)
Taiyuan Iron and Steel	Taiyuan Iron and Steel (Group) Corporation (TISCO)	1934.08.08 –	Materials: iron and steel (steel producers)
Telecom	China Telecom Corporation Ltd	2002.09 –	Communications: telecommunications (telecommunications carriers)
Three Gorges Co	China Three Gorges Project Corporation	1993.09.27 – 2009.09.27	Energy: renewable energy (renewable energy project development)
	China Three Gorges Corporation	2009.09.27 –	Energy: renewable energy (renewable energy project development)
Wuhan Iron and Steel	Wuhan Iron and Steel Company (WISCO)	1958 –	Materials: iron and steel (steel producers)

2. The figures depict managers' career mobility patterns in the following manner:

- Each figure shows a particular year (1992, 2000, 2005, or 2010). This is an observation year, when the manager was incumbent at the company.
- Each figure shows company managers' career mobility between the company and a party-state institution.
- Light blue color nodes represent the companies, surveyed in the analysis, and darker blue nodes – party-state institutions. Grey nodes indicate the companies, which were in the dataset, but manager career data for that particular year (1992 and 2000) was missing.
- Edges (lines connecting the nodes) connect the company surveyed and a party-state

institution. This indicates that the manager has worked at that institution prior to (*appendices 4B to 4E*) or after (*appendices 5A to 5D*) the observation year.

- Multiple edges show the number of managers with the career background in that same institution.
- The length of the edge is random and does not indicate strength or specifics of the link.
- Data on the edge displays the details related to the manager's position at the party-state institution (time in service, position, etc., where applicable). In figures for the CCP Central Committee and the NPC and the CPPCC only the starting year is provided, when managers served one term, and both starting and end date, in cases where they served several terms.

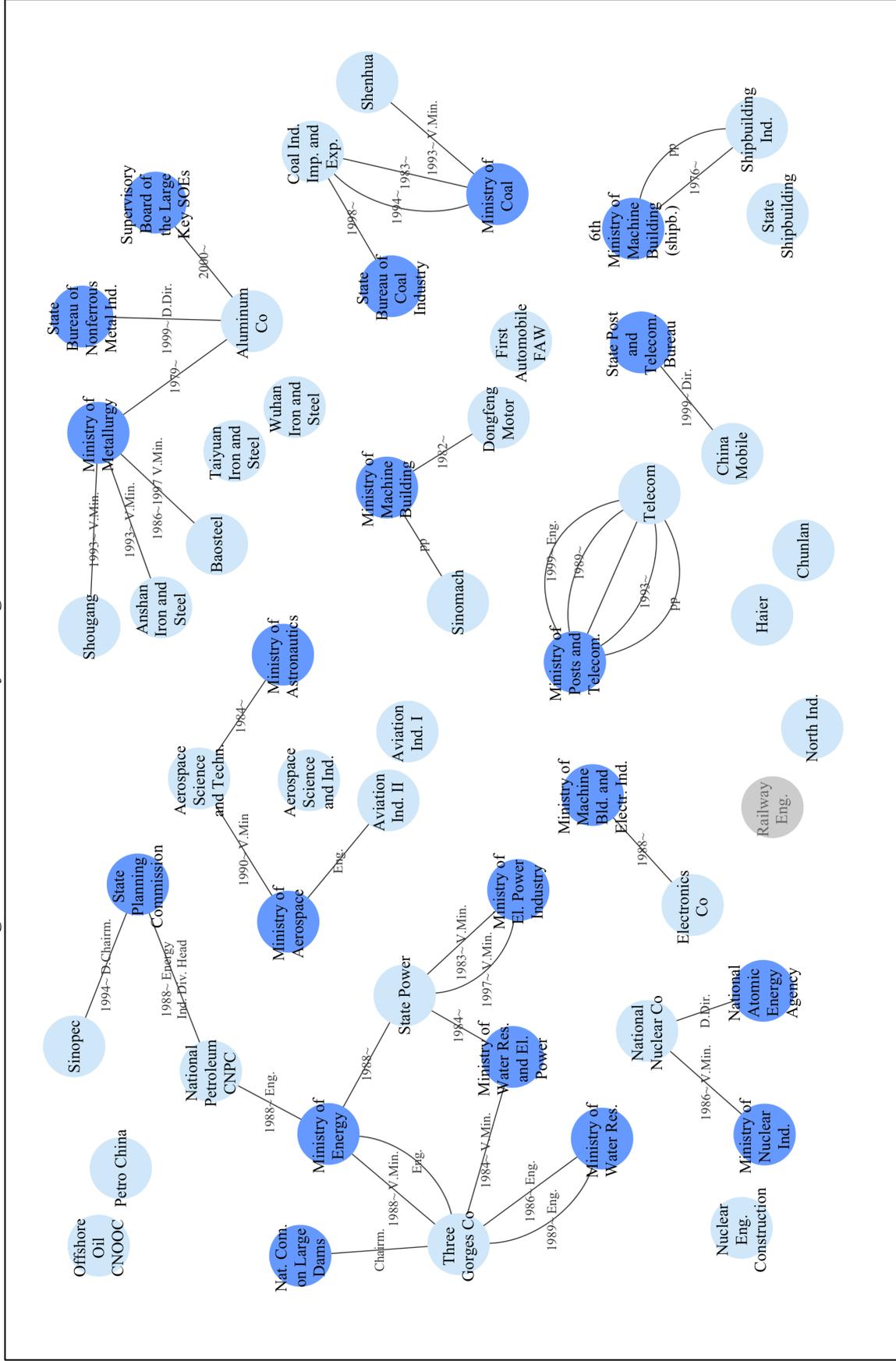
### 3. Regarding the data:

In those cases where the company did not yet exist in the observation year, but was established within one year after, list of managers upon the establishment of the company was used:

- ds1992: Chinese General Company of Aeronautics Industry, Chinese General Company of Astronautics Industry – data from 1993;
- ds2000: Aluminum Corporation of China Ltd. – data from 2001. In the case of China Telecom Corporation Ltd, which was established under this name in September 2002, data Directorate General of China Post and Telecommunications Bureau (China Telecom) from 2000 was used.



Figure 4B-2. Previous career record in central government institutions of managers in 2000.

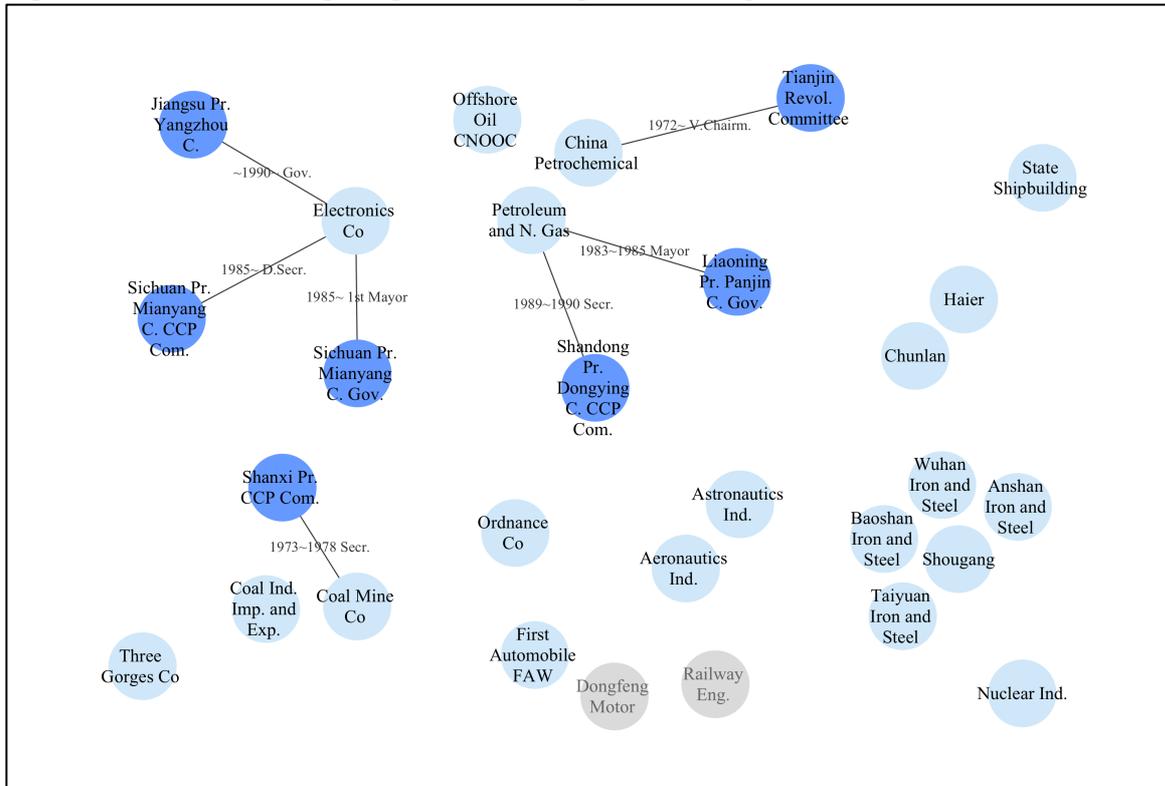






**Appendix 4C.** Visualization of networks between companies and local governments in 1992, 2000, 2005, and 2010 as seen from the management careers.

*Figure 4C-1. 1992 managers' posts in local governments prior to 1992.*



*Figure 4C-2. 2000 managers' posts in local governments prior to 2000.*

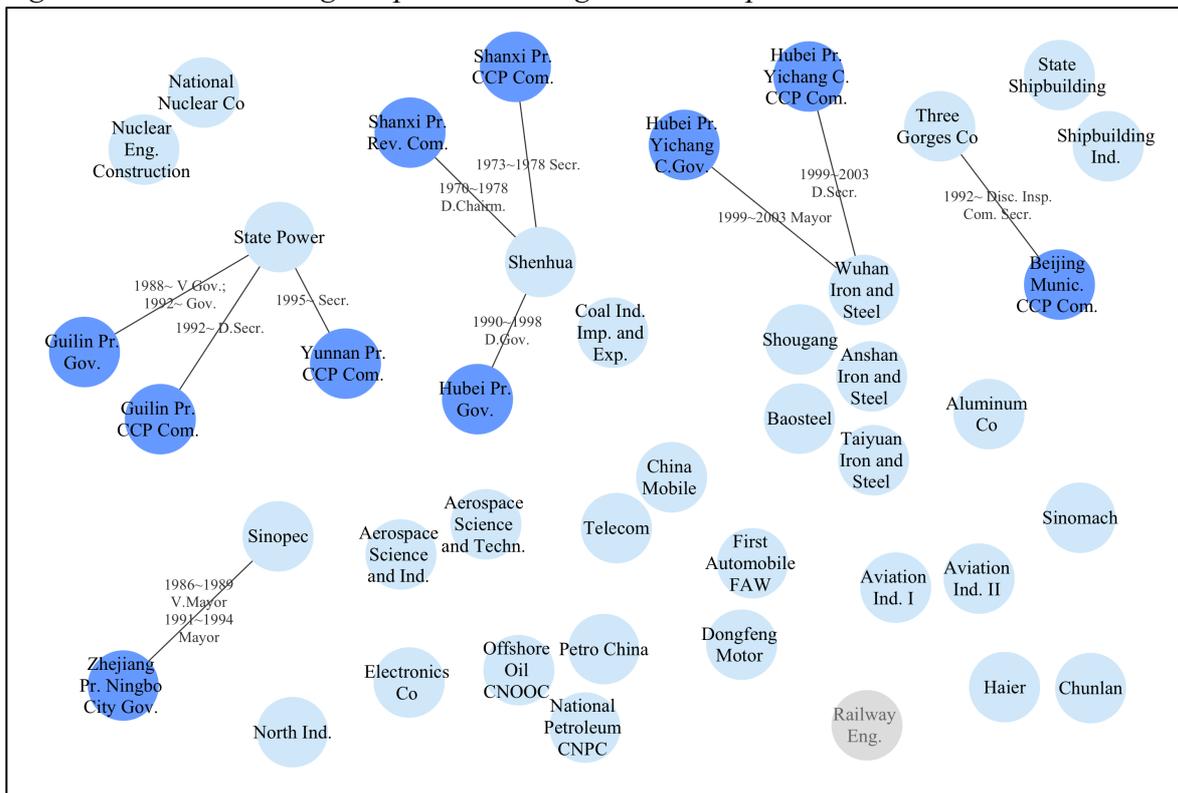


Figure 4C-3. 2005 managers' posts in local governments prior to 2005.

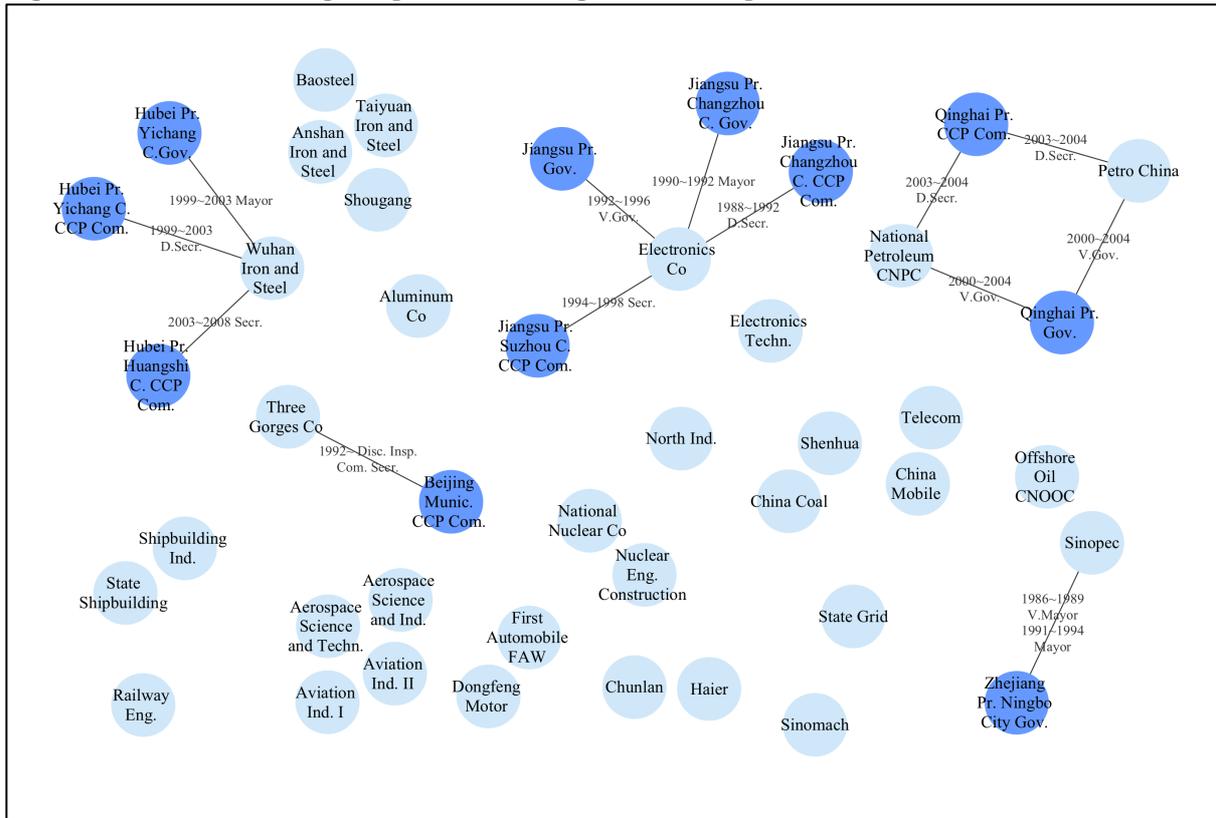
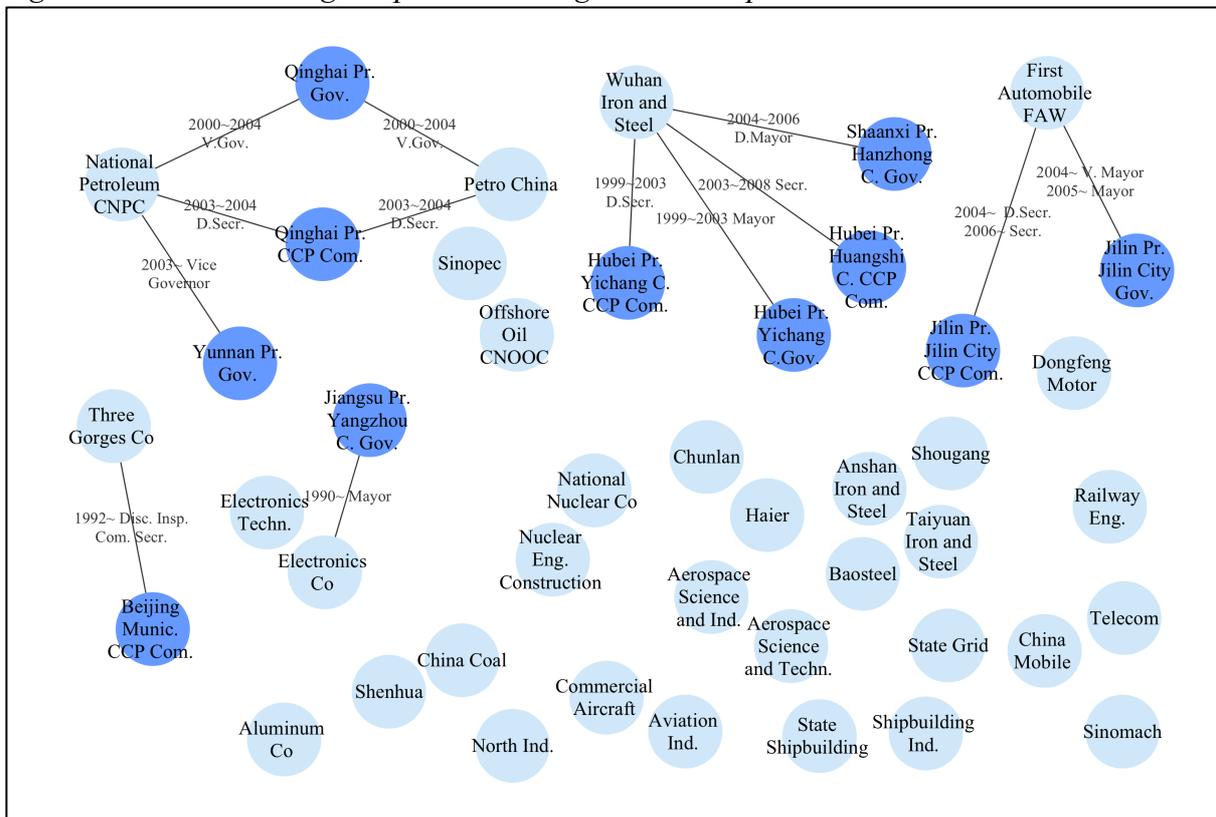


Figure 4C-4. 2010 managers' posts in local governments prior to 2010.



**Appendix 4D.** Company managers' terms in the NPC and the CPPCC, starting prior to the observation year.

Figure 4D-1. 1992 company managers in the NPC and the CPPCC.

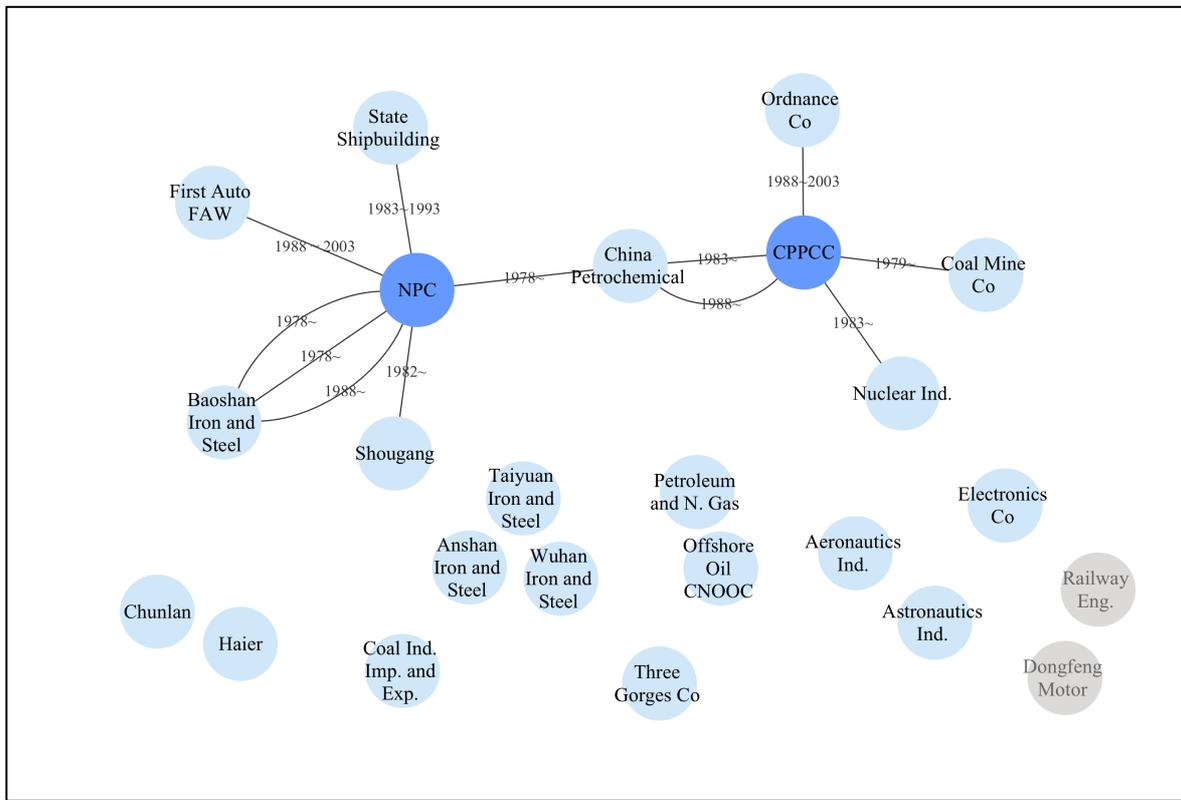


Figure 4D-2. 2000 company managers in the NPC and the CPPCC.

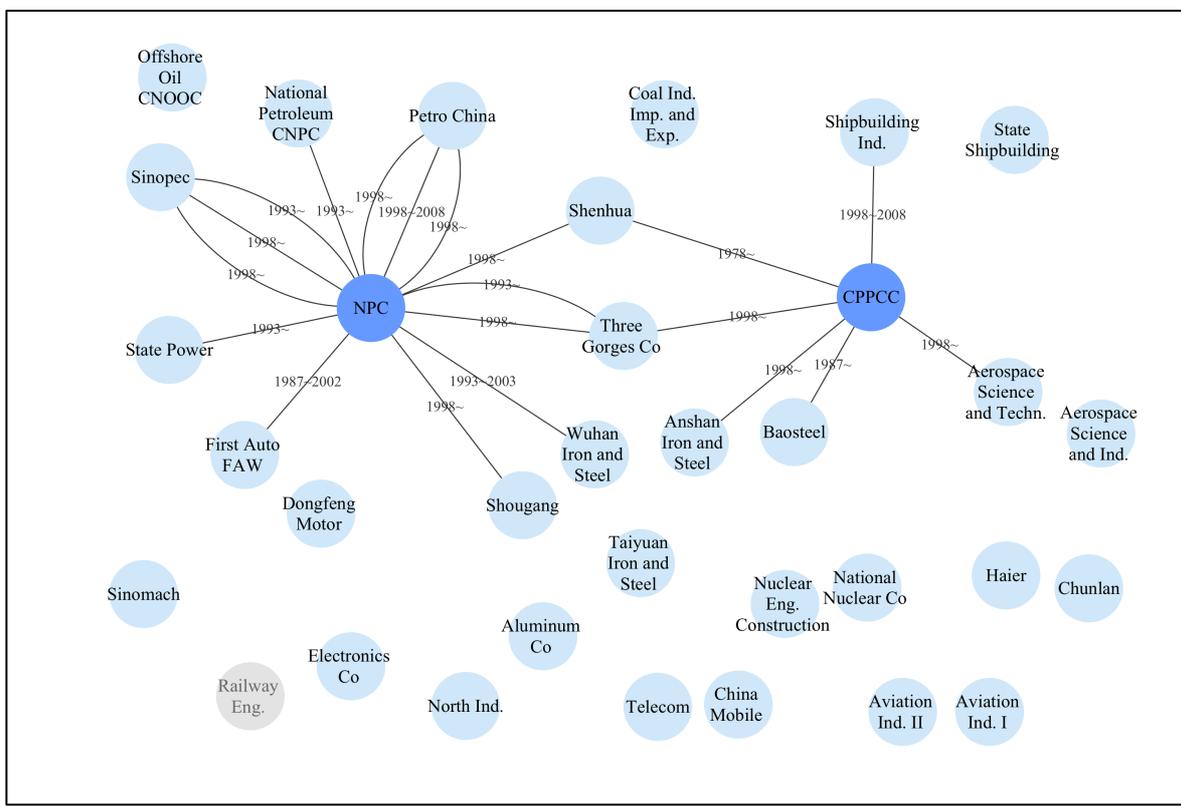


Figure 4D-3. Company networks with the NPC and the CPPCC in 2005.

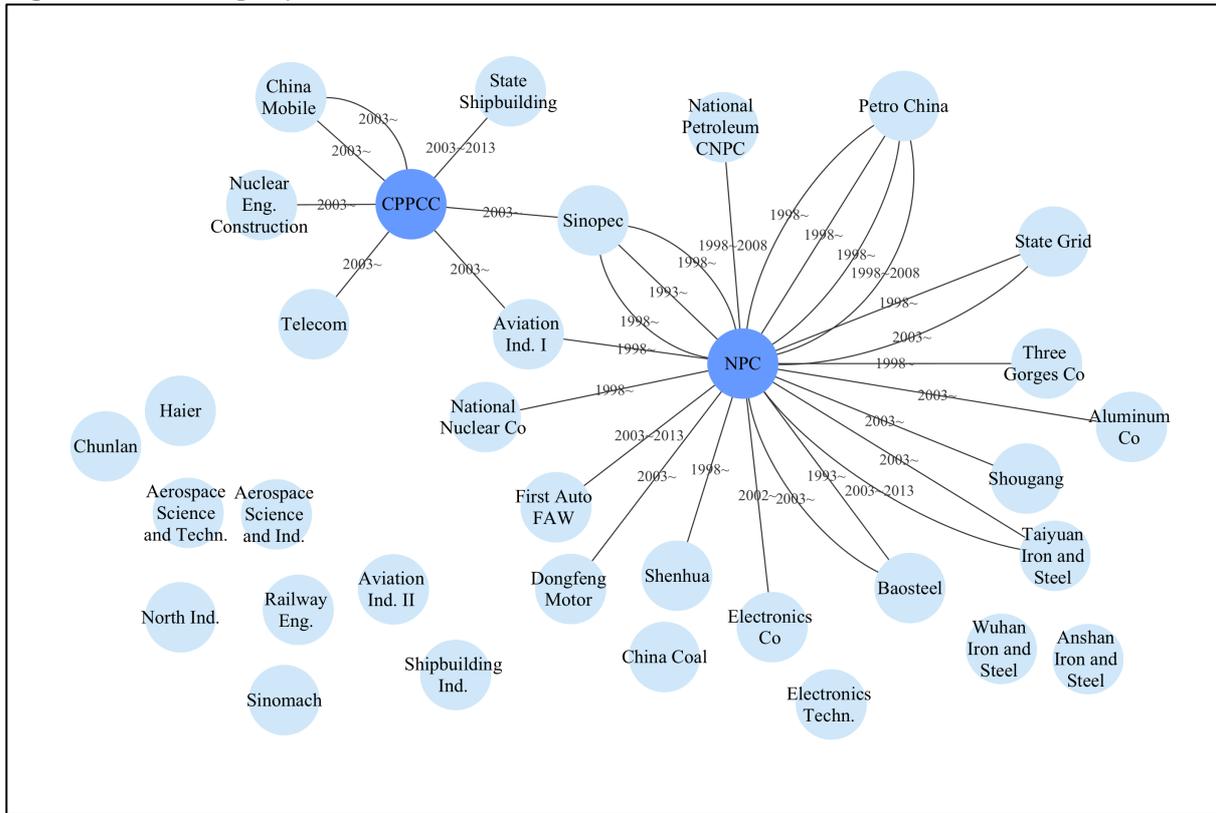
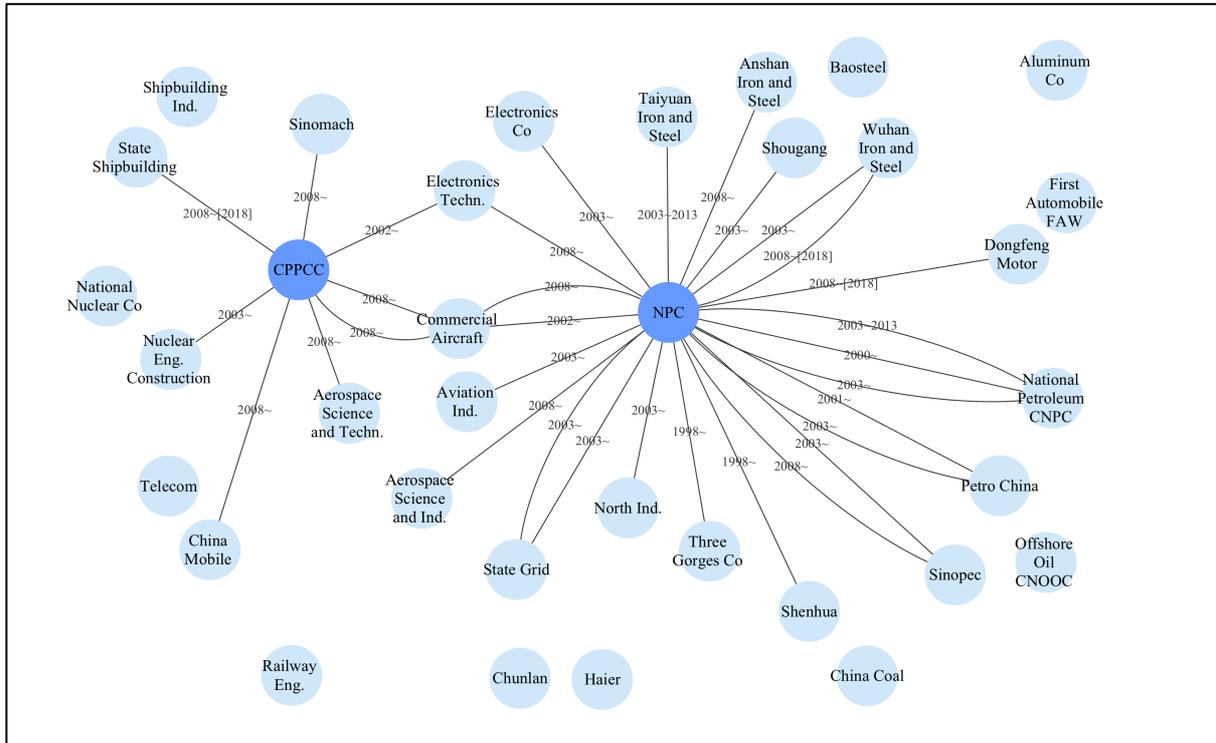
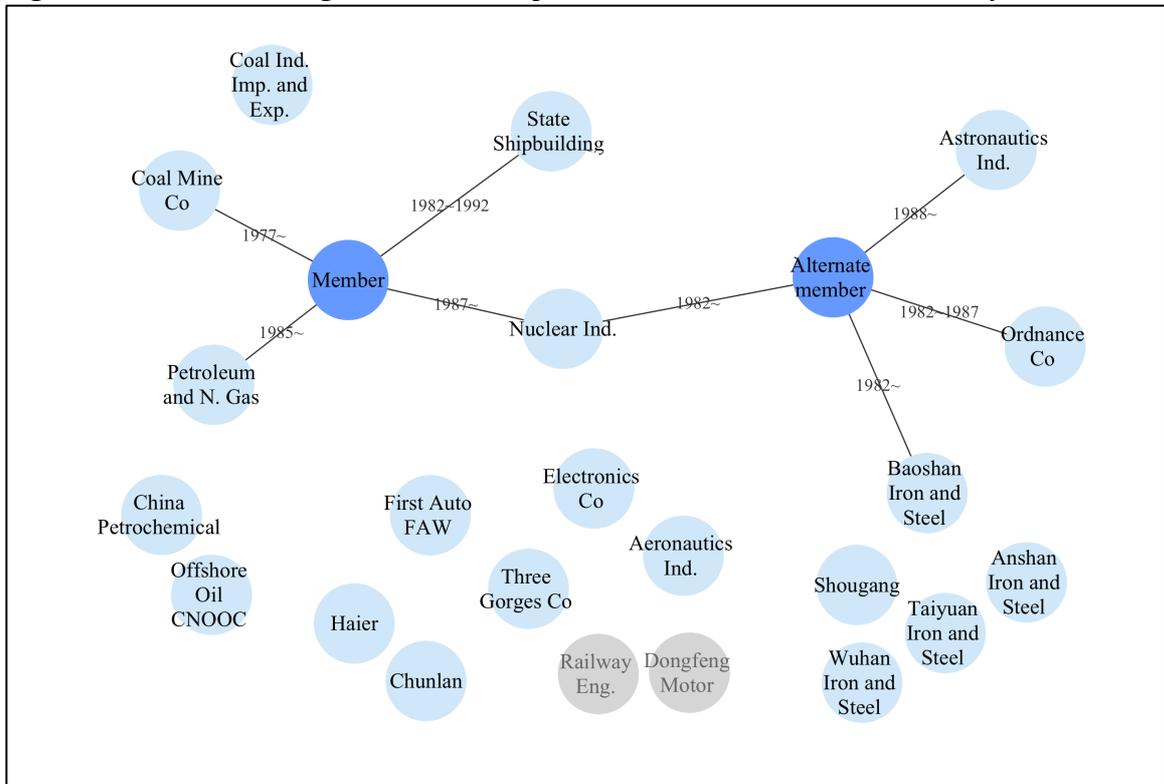


Figure 4D-4. Company networks with the NPC and the CPPCC in 2010.



**Appendix 4E.** Company managers' CCP Central Committee terms, starting prior to the observation year.

*Figure 4E-1.* 1992 managers' membership in the CCP Central Committee before 1992.



*Figure 4E-2.* 2000 managers' membership in the CCP Central Committee before 2000.

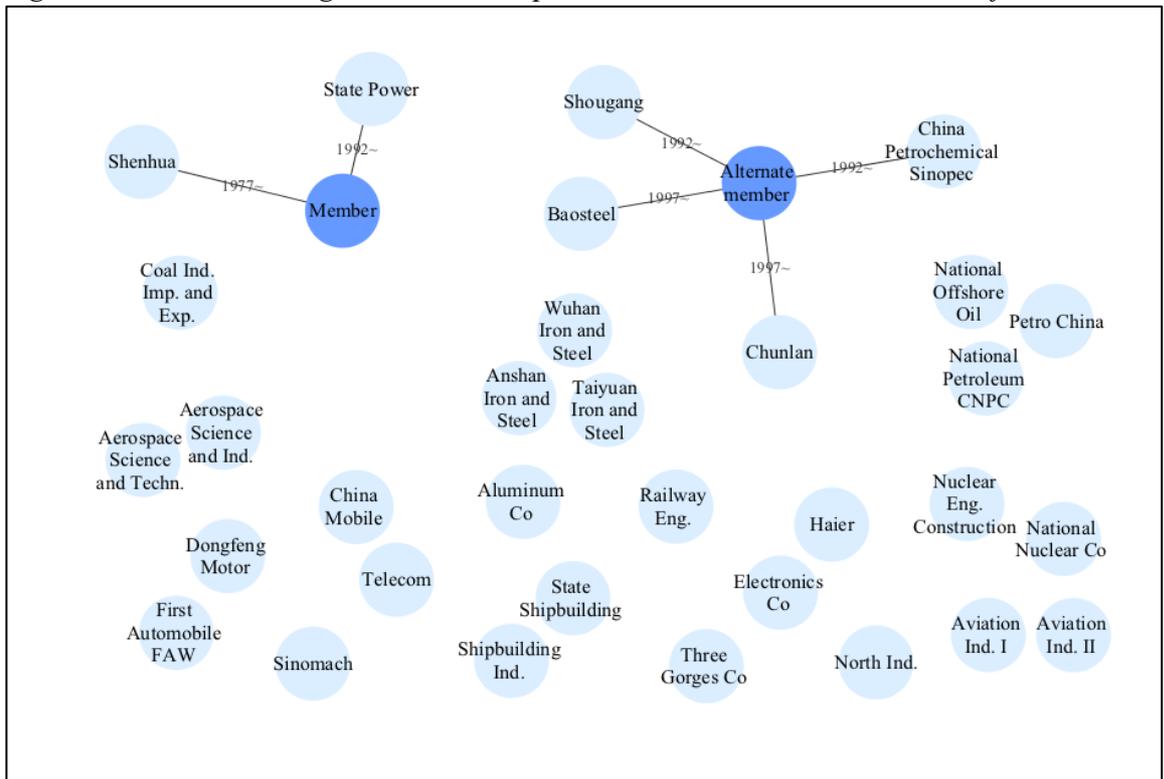






Figure 5A-3. Later appointments of 2005 managers to central government institutions.

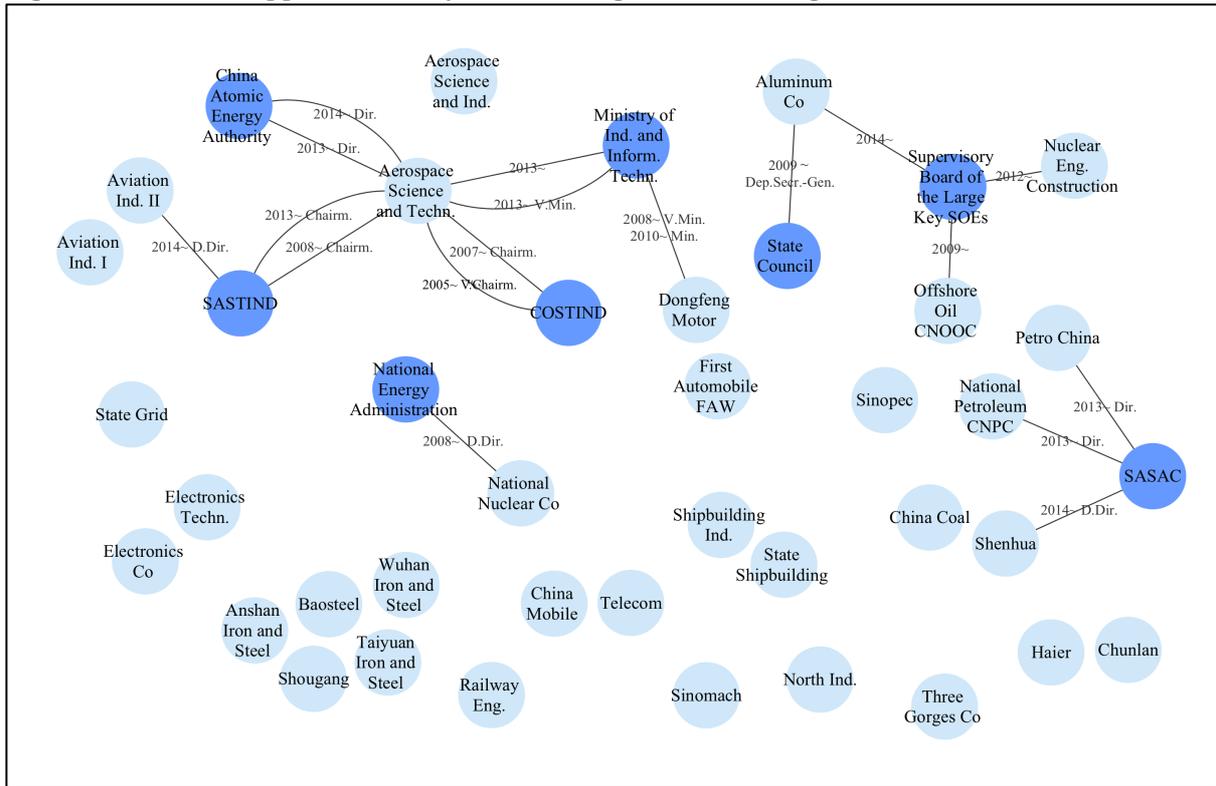
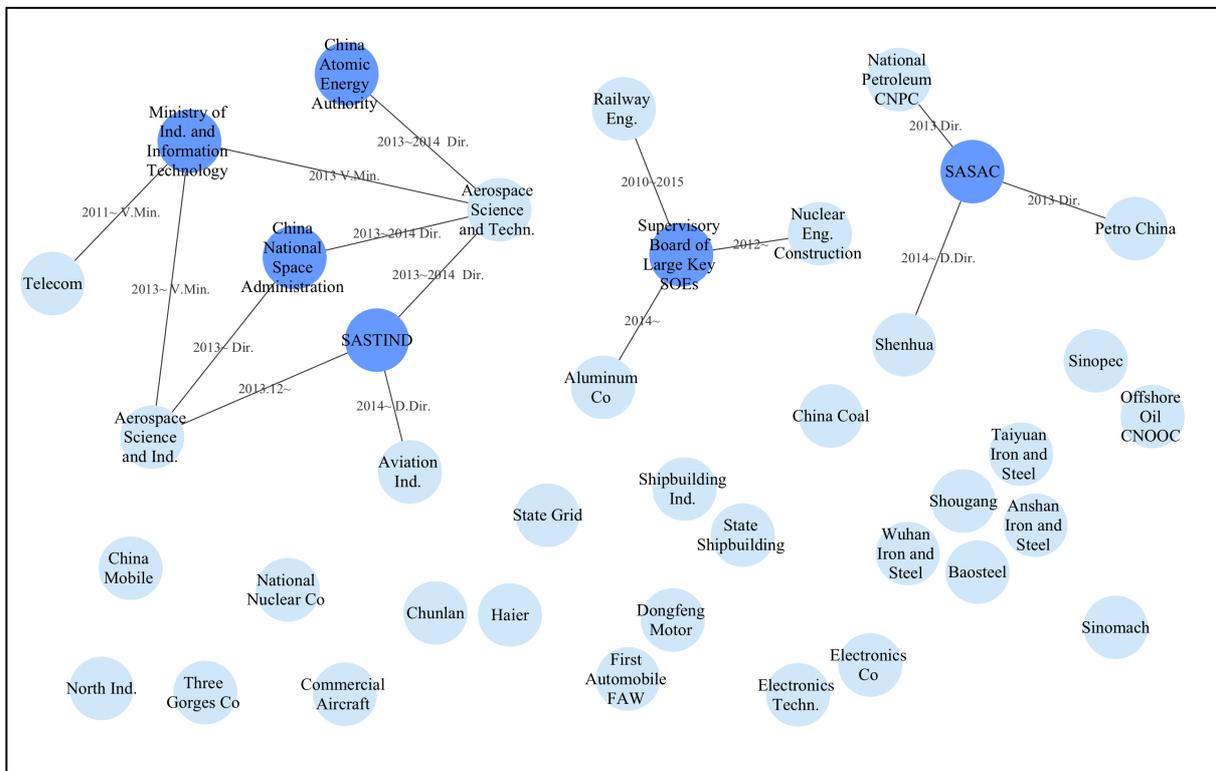
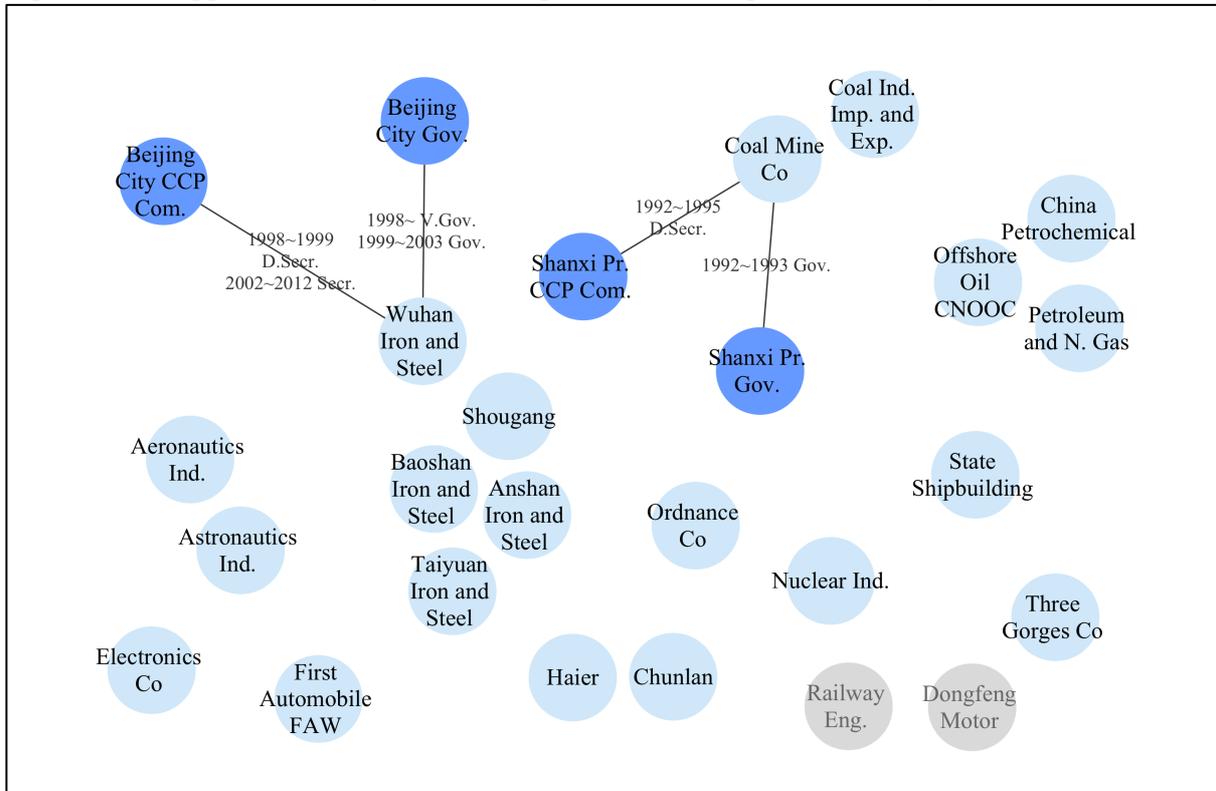


Figure 5A-4. Later appointments of 2010 managers to central government institutions.



**Appendix 5B.** Appointment of managers to local government institutions (people's governments and CCP committees).

*Figure 5B-1. Appointments of 1992 management to local governments after 1992.*



*Figure 5B-2. Appointments of 2000 management to local governments after 2000.*

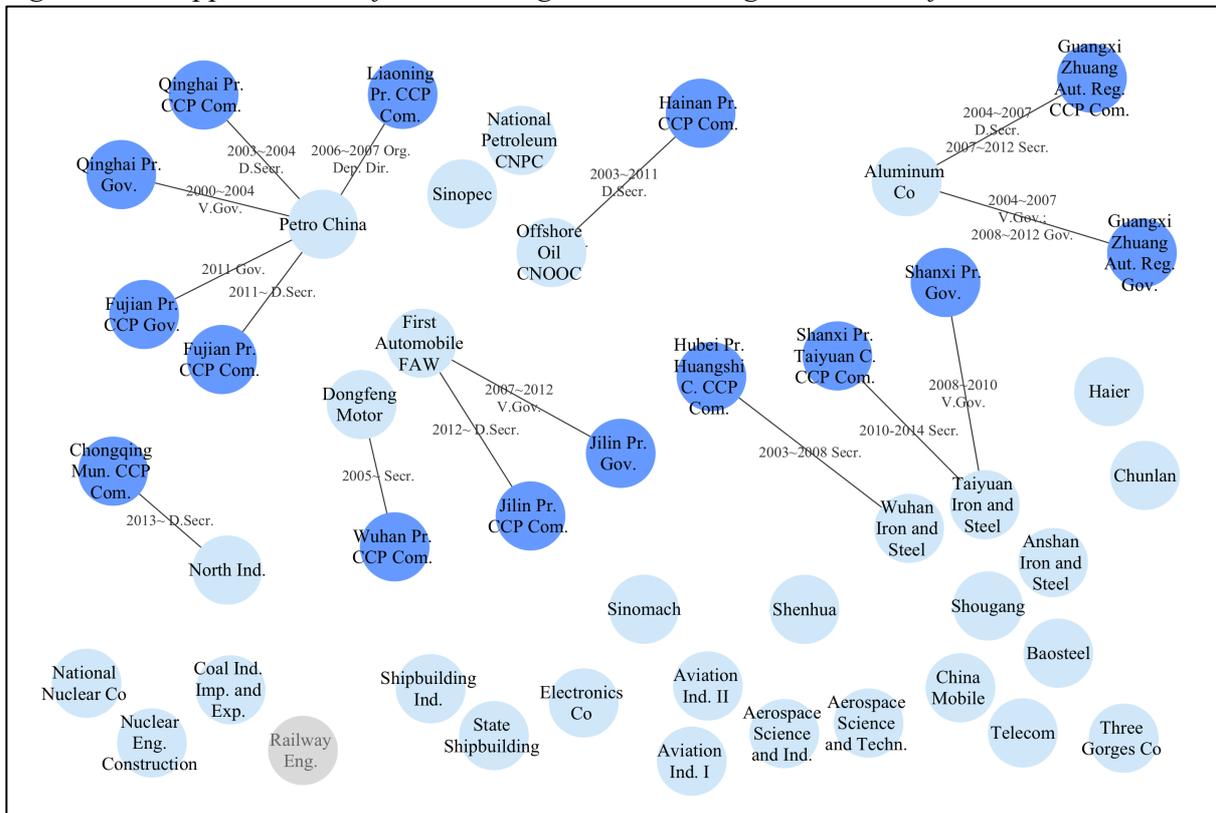


Figure 5B-3. Appointments of 2005 management to local governments after 2005.

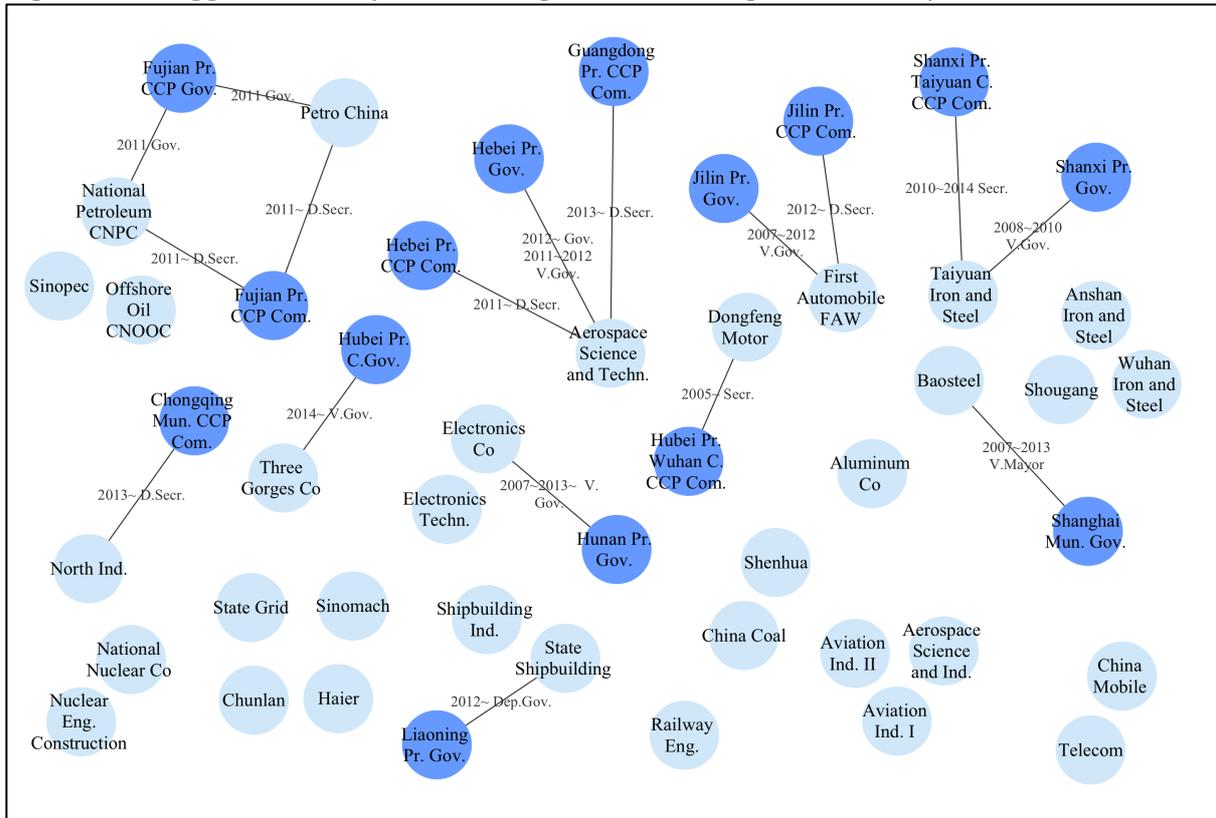
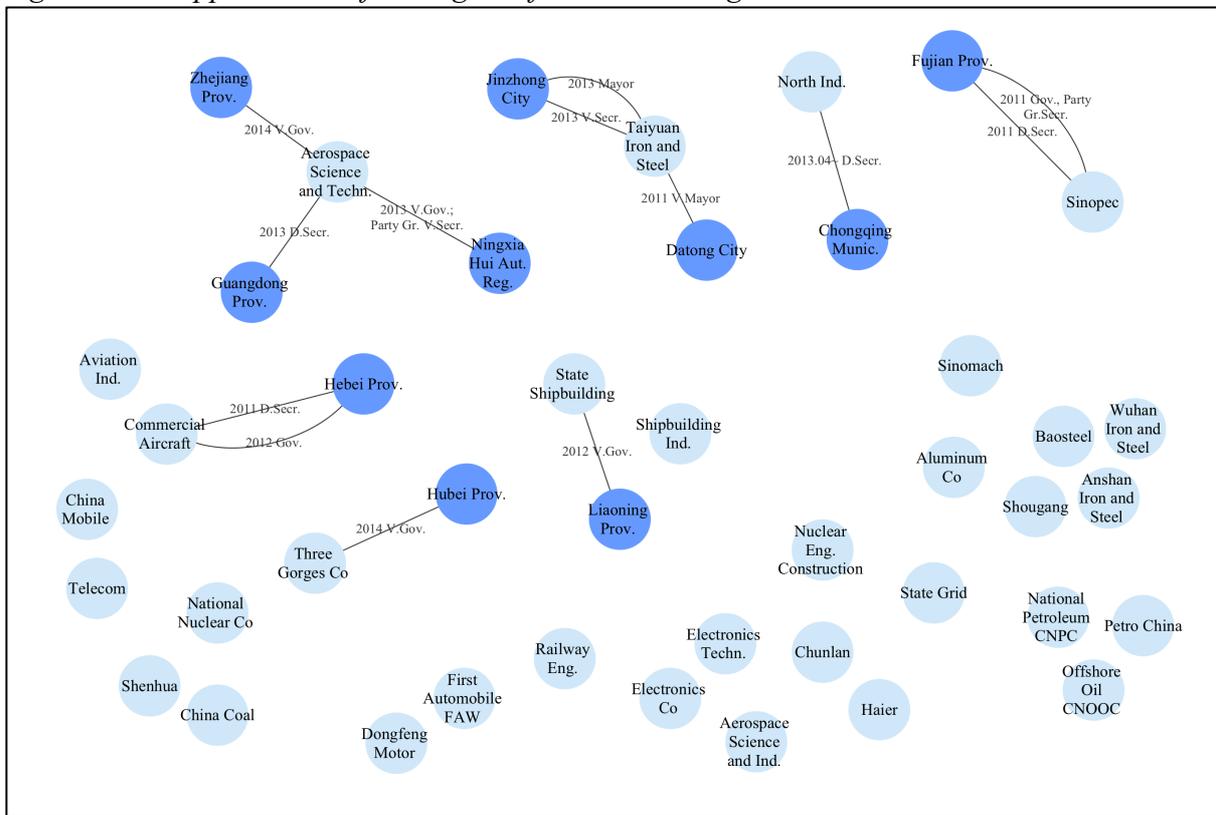
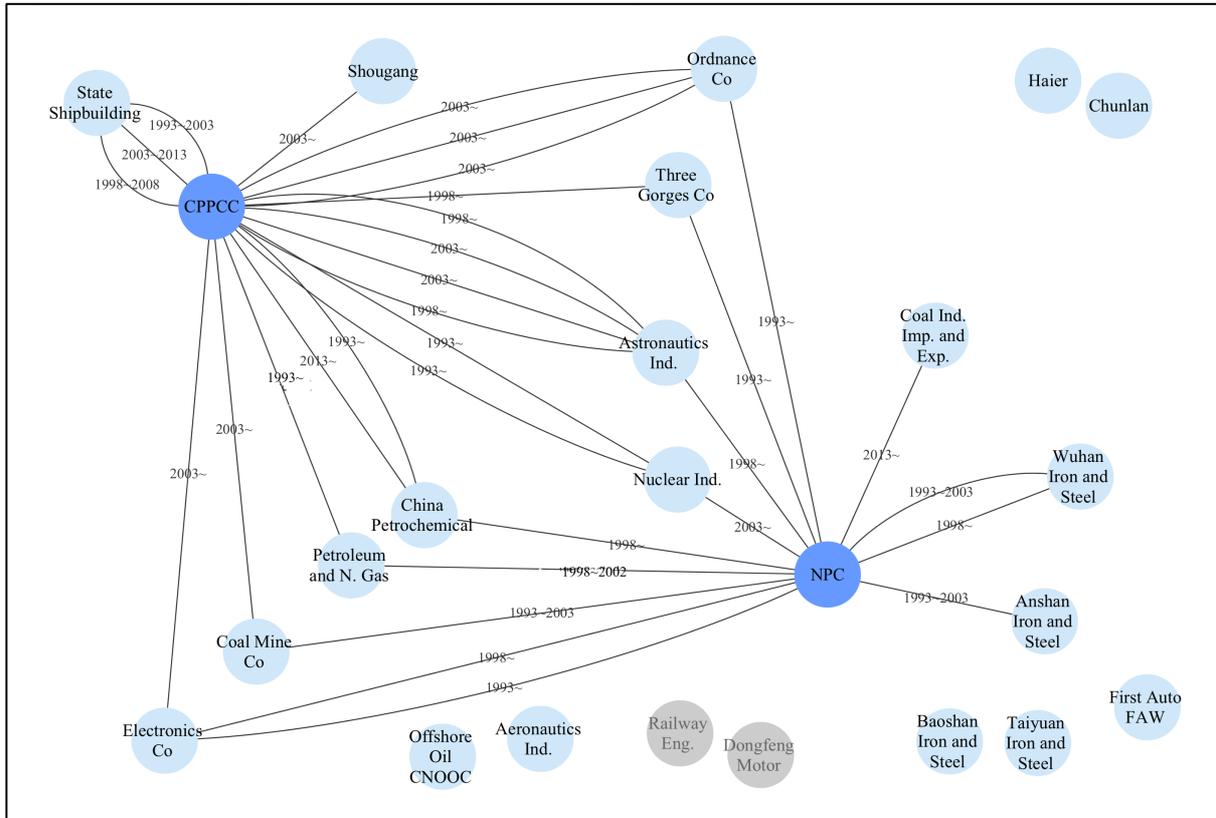


Figure 5B-4. Appointment of managers of 2010 to local governments.

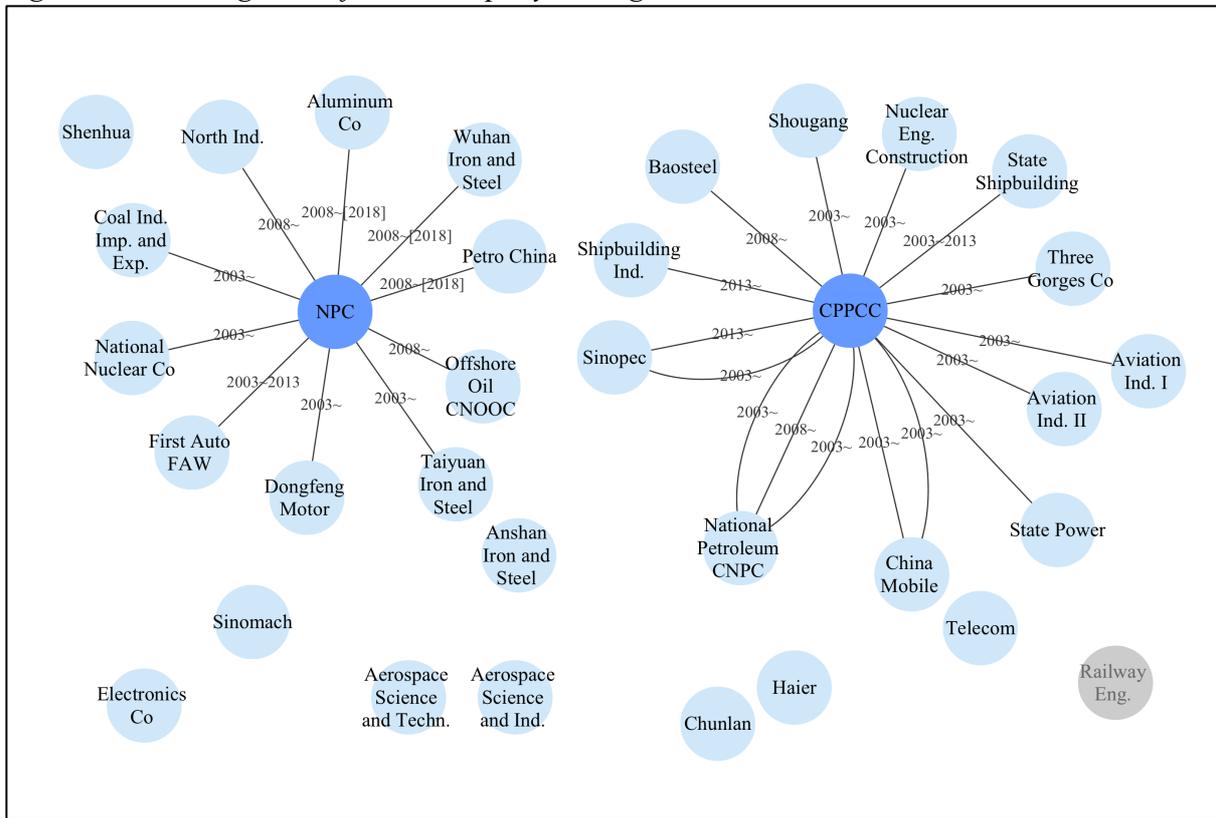


**Appendix 5C. Delegation of managers to the NPC and the CPPCC after the observation year.**

**Figure 5C-1. Delegation of 1992 company managers to the NPC and the CPPCC.**



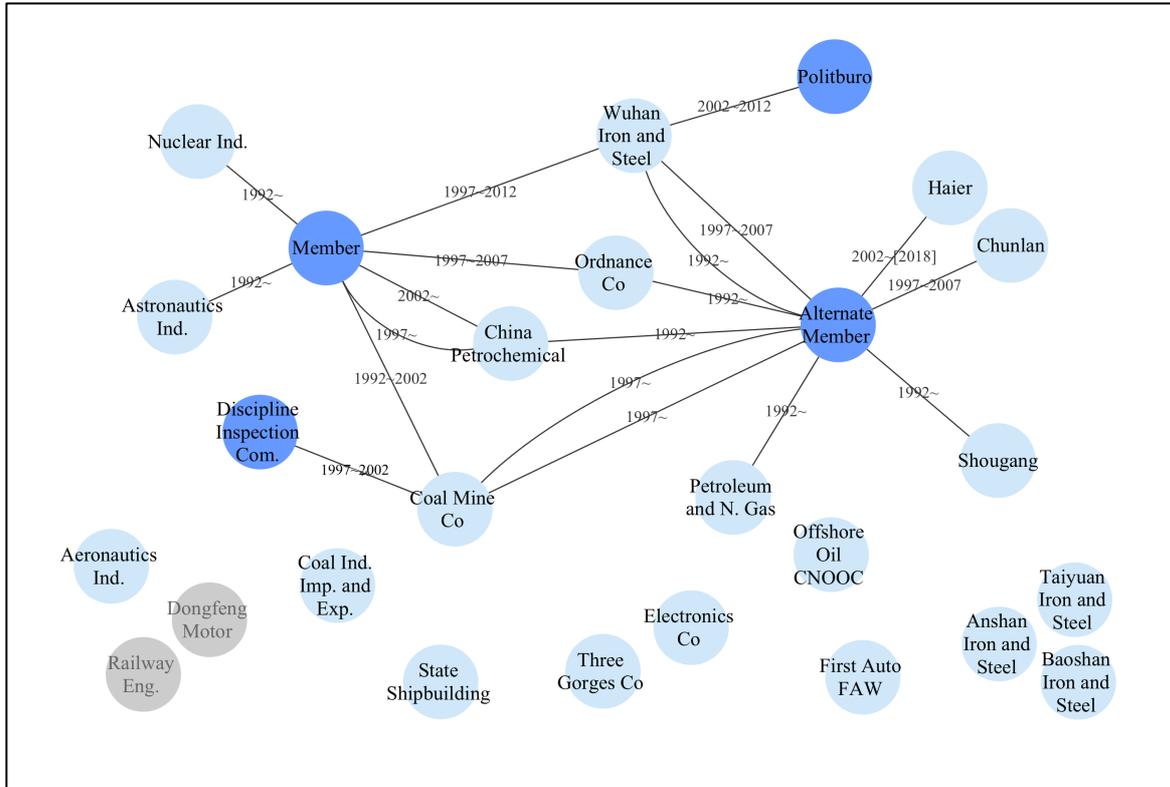
**Figure 5C-2. Delegation of 2000 company managers to the NPC and the CPPCC.**





**Appendix 5D.** Selection of incumbent managers to the CCP Central Committee after the observation year.

*Figure 5D-1.* Later selection of 1992 company managers to the CCP Central Committee.



*Figure 5D-2.* Later selection of 2000 company managers to the CCP Central Committee.

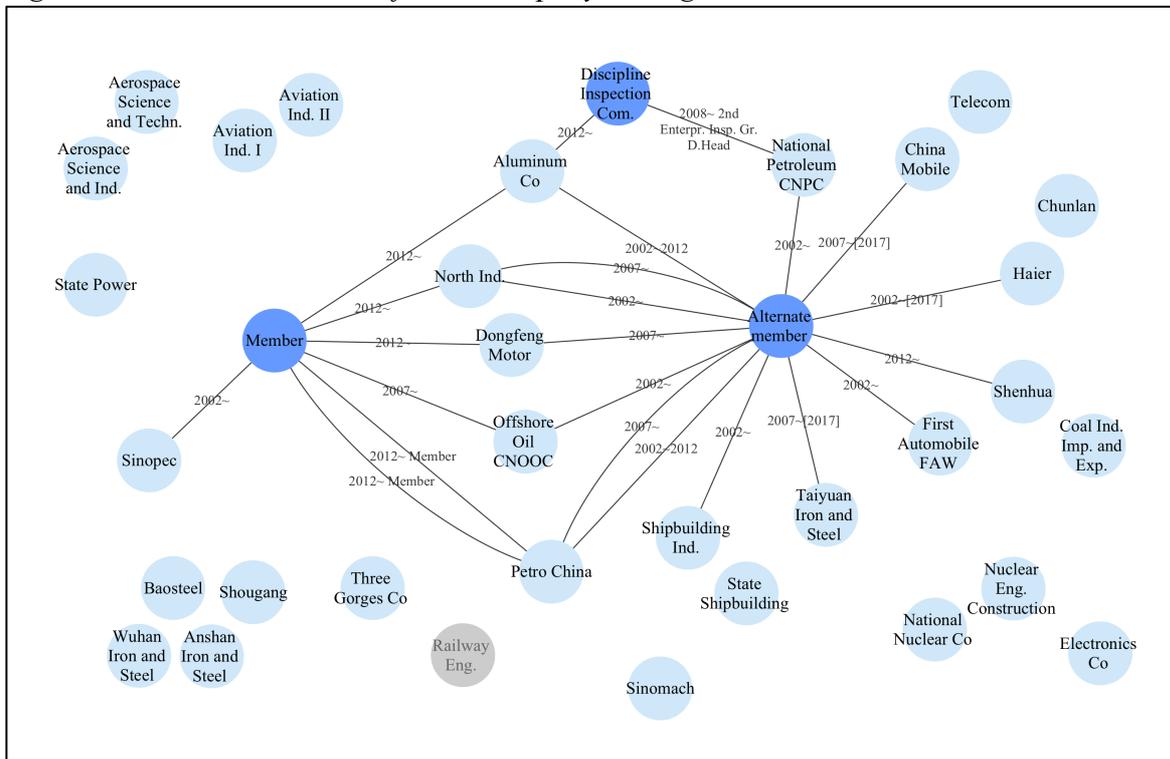


Figure 5D-3. Later selection of 2005 company managers to the CCP Central Committee.

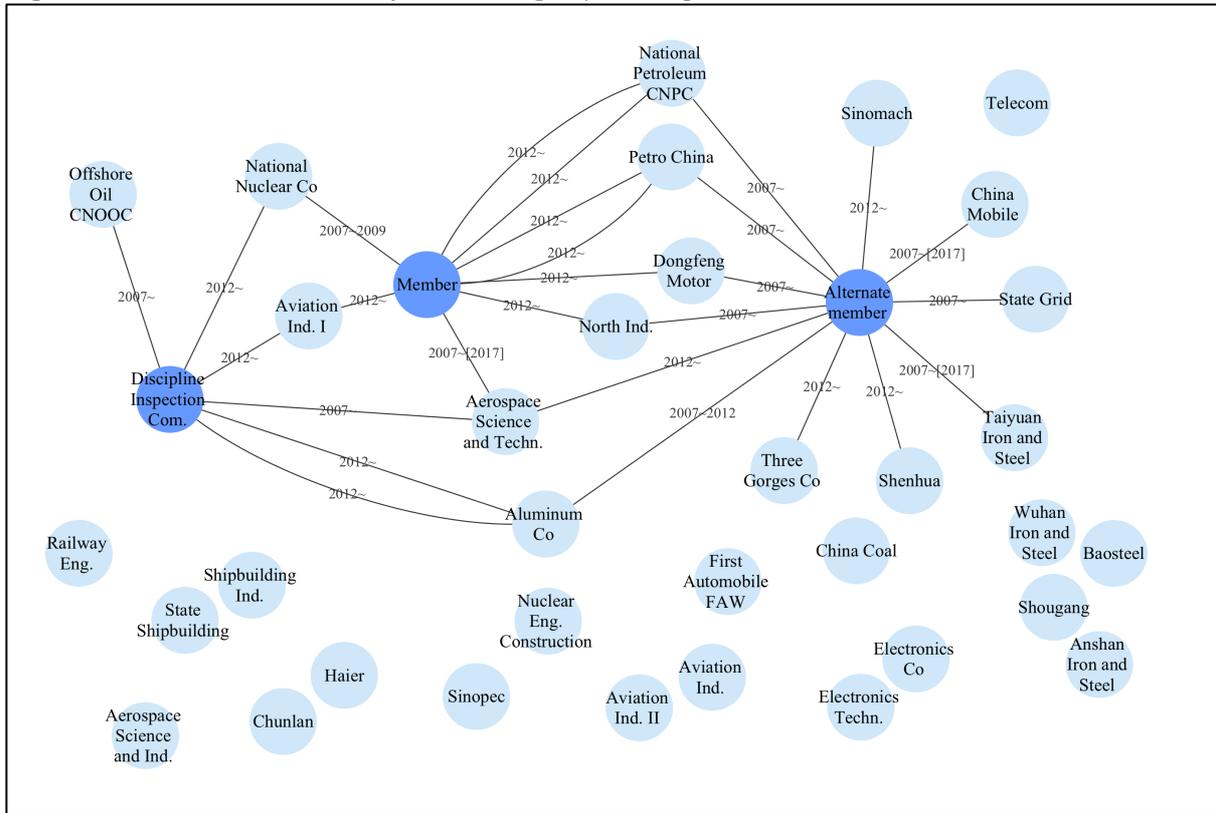
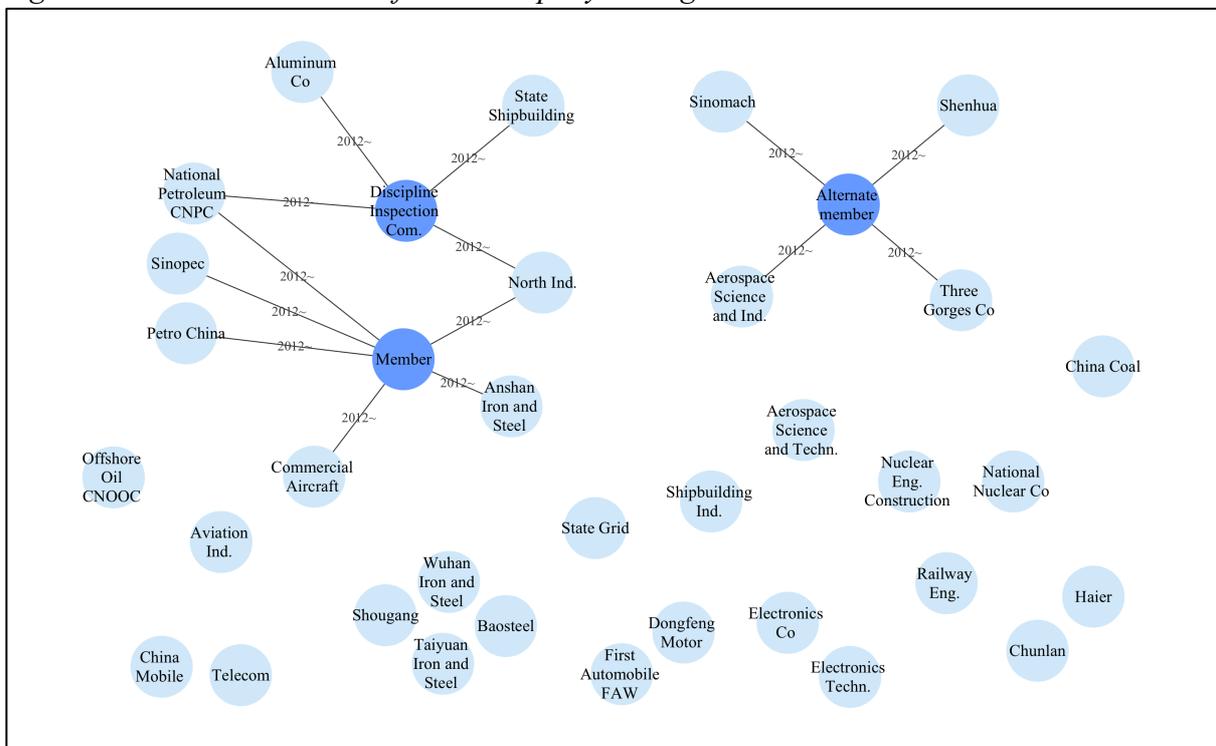


Figure 5D-4. Later selection of 2010 company managers to the CCP Central Committee.



## *Appendices to Chapter 6*

*Appendix 6A. Company managers with previous career record in the State Planning Commission (compiled by the author).*

<b>Individual</b>	<b>Company position</b>	<b>Posts held in State Economic Commission</b>
<b><u>Managers in 1992</u></b>		
Zhang Shou 张寿	General Manager (1989.10 – 1992.10) China State Shipbuilding Corporation	Vice Chairman (1982.10 – 1989.09)
Li Renjun 李人俊	Chairman, Board of Directors (1983.07.12 – 1992~) China Petrochemical Corporation	Vice Chairman (1972 – )
Ma Yi 马仪	Vice Chairman (1986.01.14 – 1992~) China Petrochemical Corporation	Vice Chairman (1977.07 – )
<b><u>Managers in 2000</u></b>		
Wu Yaowen 吴耀文	Deputy General Manager (1996.04 – 2003.12) China National Petroleum Corporation (CNPC)	Head of Energy Industry Division (1988 – 1994)
Chen Tonghai 陈同海	Deputy General Manager (1998.06 – 2003.03) China Petrochemical Group Co (Sinopec Group)	Vice Chairman (1994 – 1998)
<b><u>Managers in 2005</u></b>		
Chen Tonghai 陈同海	Chairman, General Manager (2003.03 – 2007.06) China Petrochemical Group Co (Sinopec Group)	Vice Chairman (1994 – 1998)
<b><u>Managers in 2010</u></b>		
–		

## *Appendices to Chapter 7*

### *Appendix 7A. Descriptive statistics. Dependent variables in logistic regression.*

Dependent variable for this analysis is the countries included into or excluded from the Guidelines 2004-2007 and Guidelines 2011. To define the list of countries for the analysis, 192 countries were selected – all members of the United Nations (UN) besides the PRC. However, the final list as provided in *Table 7-1* constitutes of 167 countries, as some countries were eliminated as explained below seeking to produce more accurate results.

First, the countries that had no diplomatic relations with China at the time when the *Guidelines* were released were eliminated, since absence of official relations *per se* perfectly explains why these countries were not on the list. With an exception of Panama in 2011, neither of the guidelines includes the other countries that had no official diplomatic relations with China at that time (Burkina Faso, the Gambia, Sao Tome and Principe, Swaziland, Belize, Dominican Republic, Honduras, Paraguay, St. Vincent and the Grenadines, Kiribati, Marshall Islands, Nauru, Palau, Solomon Islands, Tuvalu, El Salvador, Guatemala, Haiti, Nicaragua, St. Kitts and Nevis, St. Lucia). For the purpose of analysis, Republic of Costa Rica was also excluded. Although it established official diplomatic relations with the PRC in June 2007, there were no diplomatic relations when the first set of guidelines was released.

Second, South Sudan gained its independence from Sudan only in July 2011. Since the first set of guidelines was released before that, this country is also excluded from the analysis.

Third, Oceania (大洋洲) as a region was also included into the *Guidelines 2011*. Yet, it is not covered by this analysis, considering that it is a region rather than a country and it would be difficult to collect accurate data to describe this unit.

Based on this list of 167 countries and the two sets of guidelines released by Chinese authorities, binary variables *inc1* (Guidelines 2004-2007), *inc2* (Guidelines 2011), and *inc3* (both sets of guidelines combined) were created. Each of them takes value 1, if the country was included into the guidelines, and 0, if otherwise.

Information regarding dependent variables is summarized in *Tables 7-2* to *7-5*. From the 167 observed countries, *Guidelines I* list out 127 (or 76.05%), while in *Guidelines II* this number is even lower – 115 (68.86%). Interestingly, only 99 countries (59.3%) are constantly enlisted, while 24 (14.4%) of them are not included at all, meaning that policy toward 44 countries (26.3%) is different depending on the time period. Such a gap suggests that significantly different factors determined which countries were cataloged each time.

Table 7A-1. Full list of countries included into the Guidelines I and Guidelines II.

Countries observed			Guidelines I	Guidelines II
1.	Afghanistan	阿富汗	1	
2.	Albania	阿尔巴尼亚	2	1
3.	Algeria	阿尔及利亚	3	2
4.	Angola	安哥拉	4	
5.	Argentina	阿根廷	5	
6.	Armenia	亚美尼亚	6	3
7.	Australia	澳大利亚	7	4
8.	Austria	奥地利	8	5
9.	Azerbaijan	阿塞拜疆	9	6
10.	The Bahamas			
11.	Bahrain			
12.	Bangladesh	孟加拉国	10	7
13.	Barbados	巴巴多斯	11	
14.	Belarus	白俄罗斯	12	8
15.	Belgium	比利时	13	9
16.	Benin	贝宁	14	10
17.	Bermuda			
18.	Bhutan			
19.	Bolivia	玻利维亚	15	11
20.	Bosnia and Herzegovina	波黑		12
21.	Botswana	博茨瓦纳	16	13
22.	Brazil	巴西	17	14
23.	Brunei	文莱	18	
24.	Bulgaria	保加利亚	19	
25.	Burundi	布隆迪	20	15
26.	Cambodia	柬埔寨	21	16
27.	Cameroon	喀麦隆	22	17
28.	Canada	加拿大	23	18
29.	Cayman Islands			
30.	Cape Verde	佛得角		19
31.	Central African Republic	中非共和国		20
32.	Chad			
33.	Chile	智利	24	21
34.	Colombia	哥伦比亚	25	22
35.	Comoros			
36.	Congo, Democratic Republic of the	刚果(金)	26	
37.	Congo, Republic of	刚果(布)	27	23
38.	Costa Rica	哥斯达黎加		24
39.	Côte d'Ivoire	科特迪瓦		25
40.	Croatia	克罗地亚		27
41.	Cuba	古巴		29
42.	Cyprus	塞浦路斯		28
43.	Czech Republic	捷克		31
44.	Denmark	丹麦		32
45.	Djibouti	吉布提		30
46.	Dominica	多米尼克		33
47.	Ecuador	厄瓜多尔		34
48.	Egypt	埃及		32
49.	Equatorial Guinea			
50.	Eritrea	厄立特里亚		33
51.	Estonia	爱沙尼亚		36
52.	Ethiopia	埃塞俄比亚		34
53.	Fiji	斐济		35
54.	Finland	芬兰		36
55.	France	法国		37
56.	Gabon	加蓬		38
57.	Georgia	格鲁吉亚		39
58.	Germany	德国		40
59.	Ghana	加纳		41
60.	Greece	希腊		42
61.	Grenada			
62.	Guinea	几内亚		45
63.	Guinea-Bissau	几内亚比绍		43
64.	Guyana	圭亚那		46
65.	Hungary	匈牙利		44
66.	Iceland	冰岛		45
67.	India	印度		46
68.	Indonesia	印度尼西亚		47
69.	Iraq			
70.	Iran	伊朗		50
71.	Ireland	爱尔兰		48
72.	Israel	以色列		49
73.	Italy	意大利		50
74.	Jamaica	牙买加		53
75.	Japan	日本		51
76.	Jordan	约旦		52
77.	Kazakhstan	哈萨克斯坦		53
78.	Kenya	肯尼亚		54
79.	Kyrgyzstan	吉尔吉斯斯坦		55
80.	Korea, Democratic People's Republic of	朝鲜		59
81.	South Korea	韩国		56
82.	Kuwait	科威特		57

83.	Laos	老挝	62	58
84.	Latvia	拉脱维亚		59
85.	Lebanon			
86.	Lesthoto			
87.	Liberia			
88.	Libiya	利比亚	63	
89.	Liechtenstein			
90.	Lithuania	立陶宛	64	60
91.	Luxembourg			
92.	Macedonia	马其顿		61
93.	Madagascar	马达加斯加	65	62
94.	Malawi	马拉维		63
95.	Malaysia	马来西亚	66	64
96.	Mali	马里	67	64
97.	Malta			
98.	Mauritania	毛里塔尼亚	68	65
99.	Mauritius	毛里求斯	69	66
100.	Mexico	墨西哥	70	67
101.	Micronesia	密克罗尼西亚	71	
102.	Moldova			
103.	Monaco			
104.	Mongolia	蒙古国	72	68
105.	Montenegro			
106.	Morocco	摩洛哥	73	69
107.	Mozambique	莫桑比克	74	70
108.	Myanmar	缅甸	75	71
109.	Namibia	纳米比亚	76	72
110.	Nepal	尼泊尔	77	73
111.	The Netherlands	荷兰	78	74
112.	New Zealand	新西兰	79	75
113.	Niger	尼日尔	80	76
114.	Nigeria	尼日利亚	81	77
115.	Norway	挪威		78
116.	[Ocenia]	大洋洲	82	79
117.	Oman	阿曼	83	
118.	Pakistan	巴基斯坦	84	80
119.	Panama	巴拿马		81
120.	Papua New Guinea	巴布亚新几内亚	85	82
121.	Peru	秘鲁	86	83
122.	The Philippines	菲律宾	87	84
123.	Poland	波兰	88	85
124.	Portugal	葡萄牙	89	
125.	Qatar	卡塔尔	90	
126.	Romania	罗马尼亚	91	86

127.	Russia	俄罗斯	92	87
128.	Rwanda	卢旺达		88
129.	Samoa	萨摩亚	93	
130.	Saudi Arabia	沙特阿拉伯	94	89
131.	Senegal	塞内加尔		90
132.	Serbia	塞尔维亚		91
133.	Seychelles	塞舌尔	95	92
134.	Sierra Leone	塞拉利昂	96	93
135.	Singapore	新加坡	97	94
136.	Slovak Republic	斯洛伐克	98	
137.	Slovenia	斯洛文尼亚	99	95
138.	South Africa	南非	100	96
139.	Spain	西班牙	101	
140.	Sri Lanka	斯里兰卡	102	97
141.	Sudan	苏丹	103	
142.	Suriname	苏里南	104	
143.	Sweden	瑞典	105	98
144.	Switzerland	瑞士		99
145.	Syrian Arab Republic	叙利亚	106	
146.	Tadjikistan	塔吉克斯坦	107	100
147.	Tanzania	坦桑尼亚	108	101
148.	Thailand	泰国	109	102
149.	Timor-Leste	东帝汶	110	
150.	Togo	多哥		103
151.	Trinidad and Tobago	特立尼达和多巴哥	111	
152.	Tunisia	突尼斯	112	104
153.	Turkey	土耳其	113	105
154.	Turkmenistan	土库曼斯坦	114	106
155.	Uganda	乌干达	115	107
156.	Ukraine	乌克兰	116	108
157.	United Arab Emirates	阿联酋	117	109
158.	United Kingdom	英国	118	110
159.	United States	美国	119	
160.	Uruguay	乌拉圭	120	111
161.	Uzbekistan	乌兹别克斯坦	121	112
162.	Vanuatu	瓦努阿图	122	
163.	Venezuela	委内瑞拉	123	113
164.	Vietnam	越南	124	114
165.	Yemen	也门	125	115
166.	Zambia	赞比亚	126	116
167.	Zimbabwe	津巴布韦	127	

Table 7A-2. Countries included into the Guidelines I.

Included into the Guidelines I	Freq.	Percent	Cum.
0	40	23.95	23.95
1	127	76.05	100.00
Total	167	100.00	

Table 7A-3. Countries included into the Guidelines II.

Included into the Guidelines II	Freq.	Percent	Cum.
0	52	31.14	31.14
1	115	68.86	100.00
Total	167	100.00	

Table 7A-4. Countries included into the Guidelines I and Guidelines II.

Included into the Guidelines I	Included into the Guidelines II		Total
	0	1	
0	24	16	40
1	28	99	127
Total	52	115	167

Table 7A-5. Countries included into the Guidelines I and Guidelines II.

Included into the guidelines	Freq.	Percent	Cum.
0	24	14.37	14.37
1	143	85.63	100.00
Total	167	100.00	

*Appendix 7B. Descriptive statistics. Independent variables used in logistic regression analysis.<sup>550</sup>*

<b>Variable name</b>	<b>Description</b>	<b>Data source</b>
inv	Number of investment projects in the country by Chinese companies, 2004-2011 (no.)	<i>China Global Investment Tracker</i> database
trouble	Number of troubled transactions among investment projects by Chinese companies, 2004-2011 (no.)	ibid
trouble2	Share of troubled transactions (%)	ibid
unsanc1	UN sanctions in force 2004 (Yes - 1; No - 0)	various sources
unsanc2	UN sanctions in force 2010-2011 (Yes - 1; No - 0)	various sources
unsanc	UN Security Council sanctions in force 2000-2011 (Yes - 1; No - 0)	various sources
sanctions	UN, EU, or US imposed sanctions in force	various sources
rating	Credit rating (stable - 1; negative - 0)	
resources1	Total natural resources rents in 2004 (% of GDP): the sum of oil rents, natural gas rents, coal rents (hard and soft), mineral rents, and forest rents	<i>The World Bank</i> , <a href="http://data.worldbank.org/indicator/NY.GDP.TOT.L.RT.ZS">http://data.worldbank.org/indicator/NY.GDP.TOT.L.RT.ZS</a>
resources2	Total natural resources rents in 2010 (% of GDP), see above	
afr	Geographic location of the country: Africa (Yes - 1; No - 0)	
eur	Geographic location of the country: Europe (Yes - 1; No - 0)	
mid east	Geographic location of the country: Middle East (Yes - 1; No - 0)	
namer	Geographic location of the country: North America (Yes - 1; No - 0)	
samer	Geographic location of the country: South America (Yes - 1; No - 0)	
carib	Geographic location of the country: The Caribbean (Yes - 1; No - 0)	
camer	Geographic location of the country: Central America (Yes - 1; No - 0)	
oceania	Geographic location of the country: Oceania (Yes - 1; No - 0)	
asia	Geographic location of the country: Asia (Yes - 1; No - 0)	
exr2005	Exchange Rate Stability Index for 2005: measured as annual standard deviations of the monthly exchange rate between the home country and the base country	Joshua Aizenman, Menzie Chinn, and Hiro Ito, <i>The Trilemma Indexes</i> , <a href="http://web.pdx.edu/~ito/trilemma_indexes.htm">http://web.pdx.edu/~ito/trilemma_indexes.htm</a>
monin2005	Monetary Independence Index for 2005: the extent of monetary independence is measured as the reciprocal of the annual correlation between the monthly interest rates of the home country and the base country	
finop2005	Financial Openness Index for 2005	
exr2010	Exchange Rate Stability Index for 2010	

<sup>550</sup> In the cases, where data was unavailable for the observation year, data from the closest year available was used.

monin2010	Monetary Independence Index for 2010, see above	
finop2010	Financial Openness Index for 2010	
ofdi4	China's Outward FDI flows in 2004	"2010 Statistical Bulletin of China's Outward Foreign Direct Investment," Table 1, pp.82-87
ofdi5	China's Outward FDI flows in 2005	
ofdi6	China's Outward FDI flows in 2006	
ofdi7	China's Outward FDI flows in 2007	
ofdi8	China's Outward FDI flows in 2008	
ofdi9	China's Outward FDI flows in 2009	
ofdi10	China's Outward FDI flows in 2010	
ores2005	Ores and metals exports in 2005, % of merchandise exports. Ores and metals comprise the commodities in SITC sections 27 (crude fertilizer and crude minerals); 28 (metalliferous ores and metal scrap), and 68 (non-ferrous metals)	<i>The World Bank,</i> <a href="http://data.worldbank.org/indicator/TX.VAL.MMTL.ZS.UN">http://data.worldbank.org/indicator/TX.VAL.MMTL.ZS.UN</a>
ores2010	Ores and metals exports in 2010, % of merchandise exports, see above	
fuel2005	Fuel exports in 2005, % of merchandise exports	<i>The World Bank,</i> <a href="http://data.worldbank.org/indicator/TX.VAL.FUEL.ZS.UN">http://data.worldbank.org/indicator/TX.VAL.FUEL.ZS.UN</a>
fuel2010	Fuel exports in 2010, % of merchandise exports	
land	Land area (th. sq. km) as of 2004, a country's total area, excluding area under inland water bodies, national claims to continental shelf, and exclusive economic zones. In most cases the definition of inland water bodies includes major rivers and lakes	<i>The World Bank,</i> <a href="http://data.worldbank.org/indicator/AG.LND.TOTL.K2">http://data.worldbank.org/indicator/AG.LND.TOTL.K2</a>
arland1	Arable land (% of land area) in 2004, includes land defined by the FAO as land under temporary crops (double-cropped areas are counted once), temporary meadows for mowing or for pasture, land under market or kitchen gardens, and land temporarily fallow. Land abandoned as a result of shifting cultivation is excluded	<i>The World Bank,</i> <a href="http://data.worldbank.org/indicator/AG.LND.ARB L.HA.PC">http://data.worldbank.org/indicator/AG.LND.ARB L.HA.PC</a>
arland2	Arable land (% of land area) in 2010, see above	
arlandperc1	Arable land (hectares per person) in 2004, includes land defined by the FAO as land under temporary crops (double-cropped areas are counted once), temporary meadows for mowing or for pasture, land under market or kitchen gardens, and land temporarily fallow. Land abandoned as a result of shifting cultivation is excluded.	<i>The World Bank,</i> <a href="http://data.worldbank.org/indicator/AG.LND.ARB L.HA.PC">http://data.worldbank.org/indicator/AG.LND.ARB L.HA.PC</a>
arlandperc2	Arable land (hectares per person) in 2010, see above	
agric1	Agricultural land (% of land area) in 2004, refers to the share of land area that is arable, under permanent crops, and under permanent pastures. Arable land includes land defined by the FAO as land under temporary crops (double-cropped areas are counted once), temporary meadows for mowing or for pasture, land under market or kitchen gardens, and land temporarily fallow. Land abandoned as a result of shifting cultivation is excluded. Land under permanent crops is land cultivated with crops that occupy the land for long periods and need not be replanted after each harvest, such as cocoa, coffee, and rubber. This category includes land under flowering shrubs, fruit trees, nut trees, and vines, but excludes land under trees grown for	<i>The World Bank,</i> <a href="http://data.worldbank.org/indicator/AG.LND.AGR I.ZS">http://data.worldbank.org/indicator/AG.LND.AGR I.ZS</a>

	wood or timber. Permanent pasture is land used for five or more years for forage, including natural and cultivated crops.	
agric2	Agricultural land (% of land area) in 2010, see above	
for1	Forest area (sq. km) in 2004, a land under natural or planted stands of trees of at least 5 meters in situ, whether productive or not, and excludes tree stands in agricultural production systems (for example, in fruit plantations and agroforestry systems) and trees in urban parks and gardens.	<i>The World Bank,</i> <a href="http://data.worldbank.org/indicator/AG.LND.FRS.T.K2">http://data.worldbank.org/indicator/AG.LND.FRS.T.K2</a>
for2	Forest area (sq. km) in 2010, see above	
food1	Food production index (2004-2006 = 100) in 2004, covers food crops that are considered edible and that contain nutrients. Coffee and tea are excluded because, although edible, they have no nutritive value.	<i>The World Bank,</i> <a href="http://data.worldbank.org/indicator/AG.PRD.FOOD.XD">http://data.worldbank.org/indicator/AG.PRD.FOOD.XD</a>
food2	Food production index (2004-2006 = 100) in 2010, see above	
farm1	Agriculture, value added (% of GDP) in 2004, corresponds to ISIC divisions 1-5 and includes forestry, hunting, and fishing, as well as cultivation of crops and livestock production. Value added is the net output of a sector after adding up all outputs and subtracting intermediate inputs. It is calculated without making deductions for depreciation of fabricated assets or depletion and degradation of natural resources. The origin of value added is determined by the International Standard Industrial Classification (ISIC), revision 3. Note: For VAB countries, gross value added at factor cost is used as the denominator.	<i>The World Bank,</i> <a href="http://data.worldbank.org/indicator/NV.AGR.TOTL.ZS">http://data.worldbank.org/indicator/NV.AGR.TOTL.ZS</a>
farm2	Agriculture, value added (% of GDP) in 2010, see above	
gdpgr2005	GDP growth, annual % in 2005, at market prices based on constant local currency. Aggregates are based on constant 2005 U.S. dollars. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.	<i>The World Bank,</i> <a href="http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG">http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG</a>
gdpgr2009	GDP growth, annual % in 2009, see above	
gdpgr2010	GDP growth, annual % in 2010, see above	
gdp1	GDP (current USD) in 2004, at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in current U.S. dollars. Dollar figures for GDP are converted from domestic currencies using single year official exchange rates. For a few countries where the official exchange rate does not reflect the rate effectively applied to actual foreign exchange transactions, an alternative conversion factor is used	<i>The World Bank,</i> <a href="http://data.worldbank.org/indicator/NY.GDP.MKTP.CD">http://data.worldbank.org/indicator/NY.GDP.MKTP.CD</a>
gdp2	GDP (current USD) in 2010, see above	
gdpcap1	GDP per capita (current USD) in 2004, gross domestic product divided by midyear population. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for	<i>The World Bank,</i>

	depletion and degradation of natural resources. Data are in current U.S. dollars		
gdpcap2	GDP per capita (current USD) in 2010, see above		
e11	Electric power consumption (kWh per capita) in 2004, measures the production of power plants and combined heat and power plants less transmission, distribution, and transformation losses and own use by heat and power plants	<i>The World Bank,</i>	
e12	Electric power consumption (kWh per capita) in 2010, see above		
roads1	Roads, paved (% of total roads) as of 2004, those surfaced with crushed stone (macadam) and hydrocarbon binder or bituminized agents, with concrete, or with cobblestones, as a percentage of all the country's roads, measured in length	<i>The World Bank,</i>	
roads2	Roads, paved (% of total roads) as of 2010, see above		
oil1	Oil exports in 2004		
oil2	Oil exports in 2004		
oil3	Oil exports in 2004		
dem5	Mounting Demographic Pressures index in 2005: includes pressures and measures related to natural disasters, disease, malnutrition, water scarcity, environment, population growth, pollution, youth bulge, food scarcity, mortality	<i>Failed State Index 2005,</i> <a href="http://ffp.statesindex.org/rankings-2005-sortable">http://ffp.statesindex.org/rankings-2005-sortable</a>	
ref5	Massive Movement of Refugees or Internally Displaced Persons index in 2005: includes pressures and measures related to displacement, refugee camps, IDP camps, diseases related to displacement, refugees per capita, IDPs per capita, absorption capacity		
gap5	Uneven Economic Development		
pov5	Poverty, Sharp or Severe Economic Decline		
leg5	Legitimacy of the State		
pubserv5	Progressive Deterioration of Public Services		
rulelaw5	Violation of Human Rights and Rule of Law		
sec5	Security Apparatus		
elite5	Rise of Factionalized Elites		
extinterv5	Intervention of External Actors		
fsi5	Total		
dem7	Mounting Demographic Pressures		<i>Failed State Index 2007,</i> <a href="http://ffp.statesindex.org/rankings-2007-sortable">http://ffp.statesindex.org/rankings-2007-sortable</a>
ref7	Massive Movement of Refugees or Internally Displaced Persons		
gap7	Uneven Economic Development		
pov7	Poverty, Sharp or Severe Economic Decline		
leg7	Legitimacy of the State		
pubserv7	Progressive Deterioration of Public Services		
rulelaw7	Violation of Human Rights and Rule of Law		

sec7	Security Apparatus		
elite7	Rise of Factionalized Elites		
extinterv7	Intervention of External Actors		
fsi7	Total		
demogr	Demographic Pressures for 2010	<i>Failed State Index 2010,</i> <a href="http://fsi.fundforpeace.org/rankings-2010-sortable">http://fsi.fundforpeace.org/rankings-2010-sortable</a>	
refug	Refugees and IDPs for 2010		
legit	Legitimacy of the State for 2010		
pubser	Public Services for 2010		
roflaw	Human Rights and Rule of Law for 2010		
secur	Security Apparatus for 2010		
elites	Factionalized Elites for 2010		
extinterv	External Intervention Index for 2010: levels of foreign assistance as well as imposed interventions, such as sanctions or military invasion		
fsi	Total score for 2010		
rulelaw1	Rule of law indicator in 2004, reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.		<i>The Worldwide Governance Indicators</i> (estimate of governance (ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance))
rulelaw2	Rule of law indicator in 2010, see above		
stab1	Political stability and absence of violence/terrorism indicator in 2004, reflects perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism		
stab2	Political stability and absence of violence/terrorism indicator in 2010, see above		
gov1	Government effectiveness indicator in 2004, reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies		
gov2	Government effectiveness indicator in 2010, see above		
corr1	Control of corruption indicator in 2004, reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests		
corr2	Control of corruption indicator in 2010, see above		

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