1 The advance of the state in China: the power of ideas

Two combinations of four characters have much to reveal about change in the Chinese economy. In 2004, Hong Kong economist Larry Lang raised the alarm about corrupt management buyouts (MBOs) of state-owned enterprises (SOEs) and applied the phrase 'retreat of the state, advance of the private sector' (*guotui minjin* 国退民进) to the ills of SOE privatization. Lang's public skewering of refrigerator tycoon Gu Chujun for acquiring state assets at below market value stirred controversy on the mainland, leading ultimately to Gu's arrest and an end to officially sanctioned MBOs. A few years later, the same characters arranged in slightly different order described a very different trend. In the wake of the 2008 Global Financial Crisis, a series of high-profile takeovers of private enterprises by China's central-level SOEs gave rise to a new, and quickly ubiquitous, phrase: 'advance of the state, retreat of the private sector' (*guojin mintui* 国进民退). In the span of less than a decade, in other words, hand-wringing about the Chinese economy has come full circle. Whereas concern once focused on curtailing private entrepreneurs' predations in the weakened state sector, policy debate now centres on how to shield private enterprises from the unwanted advances of massive and centrally backed SOEs (*yangqi* 央企). What has happened?

The analysis offered here finds that the advance of the state in China is a longer-term and slower process than the above vignette would suggest. Commentators have sometimes characterized central SOE assertiveness since 2008 as marking a turning point in Chinese economic development – as a decision for state capitalism and against slow but steady marketization (e.g. Wines 2010). A closer look at the evidence shows that the state's advance reaches much farther back in time. To be sure, the Chinese government's US $586 billion post-crisis fiscal stimulus plan, which heavily favoured the state sector, did play to the advantage of large SOEs and hastened the 'retreat' of private enterprises from several industries including steel, real estate and airlines. But this was a moment of culmination more than inception. Today's muscular *yangqi* are, in some measure, the product of twenty years of sustained effort to mould state-owned national champions in key industries. While previous work has focused on the contribution of institutions and interests to

https://doi.org/10.1017/CBO9781316402191.002 Published online by Cambridge University Press

the advance of the state, this study demonstrates the formative role played by ideas, stressing the economic *and* political significance of state-controlled large enterprise groups.

The advance of the state: events, debate

The phrase 'advance of the state, retreat of the private sector' entered common parlance along with events linked to the Global Financial Crisis of 2008–9. While SOEs have long enjoyed privileged access to financial resources as compared to non-state enterprises, the government's 2008 fiscal stimulus plan was interpreted by some as having substantially boosted the competitive advantages of SOEs, above all SOEs under the authority of the central government, as well as hastening the retreat of private enterprises from certain industries. Unveiled in November 2008, the US $586 billion stimulus plan was subsequently tied to the implementation of the 'Ten Industries Revitalization Plan' (2009) which aimed to promote industrial consolidation via mergers and acquisition as well as technological upgrading in the steel, auto, shipbuilding, textiles, light industry, non-ferrous metals, equipment manufacturing, IT and logistics industries. Since industrial SOEs in these industries tend to be much larger than private enterprises, industrial consolidation often squeezed non-state enterprises into state-owned enterprise business groups (Economist Intelligence Unit 2009: 23). Perhaps the most audacious example of consolidation by administrative fiat took place in Shandong Province where the Rizhao Company, a thriving private steel enterprise, was heavily pressured by the provincial government into accepting a takeover by struggling state-owned Shandong Steel in September 2009. In the wake of the financial crisis, *guojin mintui* was also seen to be taking place in a number of other key industries. Chapter 3 examines the phenomenon of *guojin mintui* in the airline industry more closely.

As some domestic commentators have pointed out, China was hardly alone in marrying fiscal stimulus to industrial policy in the immediate post-crisis period. But the deep resonance, if also the fuzziness, of continuing debate about *guojin mintui* in China is distinctive. In late 2012, a little more than four years after the collapse of Lehman Brothers, at a time when public discussion had moved well past arguments for and against bank bailouts and nationalization of industry in other crisis-afflicted countries, *guojin mintui* was said to be the single most important matter of economic policy at the Eighteenth Party Congress, the occasion for Xi Jinping and Li Keqiang to take over national leadership from Hu Jintao and Wen Jiabao. Indeed, in his opening remarks to the Congress, outgoing General Secretary Hu Jintao strived to appease both camps. In one breath he called for 'enhancing the vitality of the state-owned sector of the economy and its capacity to leverage and influence the economy'

https://doi.org/10.1017/CBO9781316402191.002 Published online by Cambridge University Press

before declaring that the government ought to 'unswervingly encourage, support, and guide the development of the non-public sector' (quoted in Rabinovitch 2012).

In the fray, it is not always clear just what, or whom, is being indicted. As Li Zheng points out, the phrase *guojin mintui* is very much open to interpretation:

> The 'state' (*guo*) and 'private' (*min*) in 'advance of the state, retreat of the private sector' are all unclear, making it easy to have misunderstandings. To be specific, *guo* can refer to the country, to the state economy or to SOEs. *Min* can indicate the public, the private economy or private enterprises. And 'advance' (*jin*) and 'retreat' (*tui*) could each refer to long term or short term, qualitative or quantitative, active or passive forms of advance or retreat. (Li 2010)

Indeed, defined as an aggregate ownership trend, a number of prominent economists have argued that *guojin mintui* does not in fact exist, since, economy-wide, the proportion of state ownership in industry continues to decline while the share of non-state forms of ownership marches ever upwards (Hu 2012; Ma 2010; Wei and Zhang 2010; Li 2010). Nicholas Lardy points out that, by 2011, SOEs produced just 26 per cent of industrial output with non-state firms accounting for nearly all the rest (Lardy 2014: 20).

Others contend that the aggregate trends do not do away with arguments for the existence of an advancing state. In a detailed analysis of *guojin mintui*, economists from the Unirule Institute, a think-tank known for advancing views at right angles to the official line, concede to *guojin mintui* sceptics that, while the share of SOEs contribution to gross industrial output continues to fall, 'in certain resource-based and basic industries, the role of state-owned capital has increased' (Sheng and Zhao 2012: 155). They also find that the degree of industrial concentration in several industries increased between 2002 and 2007, including elements of the non-ferrous metal, tobacco and oil industries (ibid. 132). The analysis concludes, too, that industries with the highest levels of concentration were those home to the largest proportion of SOEs.

Others understand *guojin mintui* as nothing less than an about-face in China's approach to economic development, one that, while difficult to pinpoint in the official statistics, nevertheless represents a profound break with the past. Wang Hongqie writes:

> Some scholars think that the current *guojin mintui* is not a few isolated events but has become a general trend; it is not the behaviour of a few individual enterprises, but is quite common among SOEs, especially central SOEs; it is not a few industries, but is widespread in many important industries; it is not limited to a few upstream, so-called related-to-people's-livelihood-and-state-security-natural-monopolies but touches on many other industries. (Wang 2010: 16)

As discussed below, to some participants in China's 'theory world' (*lilunjie* 理论界), *guojin mintui* has contributed to a reform stall.

What is beyond debate in this empirically murky and often emotionally charged discussion is that central SOEs are a force to be reckoned with. This is itself a remarkable turn of events and, to some observers, the growing economic clout, size and political influence of central SOEs constitutes the primary evidence for an advancing state and a retreating private sector, even if the aggregate numbers might suggest a different conclusion. Yasheng Huang (2008), for example, offers the controversial conclusion that the apotheosis of private sector development actually took place in the 1980s after which point the tide began to turn, slowly but surely, against rural private enterprises in particular, as government at all levels placed steadily greater emphasis on building up large, state-owned enterprises in urban areas. In recent years, the central government has stressed the importance of the hundred-odd central SOEs under the State Council 'going big and going strong' (*zuo da zuo qiang* 做大做强), by which is meant expanding the scale of SOE business groups via mergers and acquisitions while improving their competitiveness. One study finds that, in accordance with this policy, the largest state-owned business groups have rapidly scaled up in recent years. In 2000, 538 parent company SOEs controlled a total of 6,805 subsidiaries and had an average of 12.6 subsidiaries each; in 2007, a smaller number of parent company SOEs – 301 – held fewer total subsidiaries (5,002) but the average number of subsidiaries per SOE had risen to 16.6 (Lee and Kang 2010: 221). Within this group, the 131 business groups under the watch of either the State Council or central government are particularly dominant. Of China's 2,926 business groups, these central groups, which account for just 4.5 per cent of the total number of registered groups, held 48 per cent of total assets and contributed 42 per cent of total revenue in 2007 (ibid. 220). This, too, has generated controversy. In recent years, some have characterized the expanding scale of central SOEs as predatory: 'More than a few scholars as well a segment of public opinion see the efforts of central enterprises to get bigger and stronger as 'central ferocity' (Wang 2010: 16). Central SOEs are not only growing, they are also suddenly awash in cash.

Since China's debt-ridden SOEs were once albatrosses around the necks of Chinese leaders, the surging profitability of state-owned, large enterprise groups in the so-called 'monopoly sectors' (*longduan hangye* 垄断行业) is perhaps the most significant, and certainly the least anticipated, change in the Chinese economy since the turn of the century. In 1998 just 31 per cent of all SOEs were reported to be profitable, as compared to 57 per cent of SOEs in 2007 (Zhongguo Caizheng Nianjian 2008: 429). Yet these official figures largely reflect strong profitability among central SOEs. Many provinces with a large state sector continue to struggle even after the massive restructuring efforts of the late 1990s. Official figures record that between 2001 and 2009 central SOE net profits more than quadrupled. While there can be no doubt that state sector profitability has remarkably improved, there are good reasons to treat these numbers cautiously (Sheng and Zhao 2012: 51). First, despite notable improvements in data-gathering and measurement, official figures published by the National Bureau of Statistics are still seen as lacking reliability (Koch-Weser 2013). Second, economists caution that this surge in profitability (see Figure 1.1) should not be too easily interpreted as evidence of vastly improved economic performance. While today's SOEs tend to be better managed and shoulder lighter social obligations than they did prior to restructuring, state sector profits are padded by certain non-market benefits which are generally not extended to non-state enterprises. In particular, large SOEs often acquire resources at below market rates, enjoy lower financing costs than non-state enterprises and receive various forms of government subsidies (Sheng and Zhao 2012: 51–73).

The central SOEs advance is not taking place evenly across industry, however. They are the leading players in just a select few strategic industries, although their tendrils extend deep into many non-priority, 'competitive' industries. As defenders of the status quo have pointed out, this development is aligned with a government policy first outlined in the late 1990s. The Fifteenth Party Congress (1997) first established the guiding principle for pruning the once-universal state economy such that SOEs were to remain the 'commanding presence' in 'lifeline industries and key areas' but could begin to retreat from non-priority sectors in which non-state enterprises were expected to become the dominant force. Following years of clamorous internal debate about how exactly to define 'lifeline industries' and 'key areas' (cf. Eaton 2011: 86–93), the central government finally signalled, in late 2006, the industries from which SOEs would not retreat. Although the associated central government policy was actually more ambiguous and noncommittal than many observers realized at the time, this was the first time a central bureaucracy had put a name to the 'lifeline industries' in which SOEs were to maintain absolute control, namely: defence, power grid, petroleum and petrochemicals, telecommunications, coal, civil aviation and shipping.[1]

[1] In December 2006, the State Council issued an important policy on SOE retreat and advance, which was widely interpreted as having clearly demarcated the industries from which SOEs should retreat and those in which they should advance. Indeed, in the official *Xinhua* media report of the press conference, the policy is made to sound crystal clear on the matter of which industries count as lifeline industries: 'the state sector should maintain absolute control in national security and lifeline industries including in the seven big industries: defence, the power grid, petroleum and petrochemicals, telecommunications, coal, civil aviation and shipping.' In fact, the actual text of the policy says only vaguely that the 'state's controlling force' should increase in 'important industries and key areas'. Interviewees suggested that the marked discrepancy between the *Xinhua* version of events and the actual text of the policy reflects a last-minute difference of opinion between SASAC and the State Council (10BJ0629; 10BJ0702). The press release version listing seven lifeline industries reportedly reflects the contents of a SASAC report

Central SOEs in these strategic industries – regarded as the stars of China's 'national team' (Sutherland 2001)[2] – are every bit a 'commanding presence' and, behind high administrative barriers to entry, they have contributed the most to the surge in SOE profits in recent years. In 2009, petrochemical enterprises industries that were relatively off limits to private capital accounted for 32 per cent of total SOE profits, and SOEs in telecommunications, another protected sector, contributed 20 per cent of the total (Sheng and Zhao 2012: 40).

And while the expanding market share of non-state enterprises in non-priority sectors explains why the overall proportion of state ownership continues to fall, the sprawling business groups under these national champion SOEs include lines of business well outside of their core domains. An internal report drafted by the bureaucracy charged with managing these behemoths, the State-Owned Assets Supervision and Administration Commission (SASAC), acknowledged that, in spite of a concerted effort to focus central SOE business on their designated core areas of business (*zhuye* 主业), national team subsidiaries remained 'too broadly' dispersed across Chinese industry and were found in fully eighty-six of China's ninety-five official industries (SASAC 2007: 166). The shadowy role of central SOEs in one such non-lifeline industry, China's booming urban real estate markets, has earned them public opprobrium as well as the epithet 'land kings' (*diwang* 地王). One study finds that a surge in real estate investment by central SOEs in connection with a flood of stimulus funds in the immediate post-crisis period fuelled a housing bubble in 2009, the effects of which are still being felt (Deng *et al.* 2011)

In the context of China's internationalizing economy, the so-called advance of the state has implications well beyond Beijing. The national team's increasingly bold 'going forth'（*zou chu qu* 走出去）into global markets has brought the phoenix-like rise of central SOEs to the world's attention. Anyone who has spent time in Beijing cannot fail to notice Sinopec's imposing headquarters opposite the Ministry of Foreign Affairs on Chaoyangmen Dajie, a potent reminder of the state-owned oil giant's record of multi-billion-dollar investments around the world. Besides the massive resource enterprises, China's

which had been submitted to the State Council and which was supposed to have accompanied the policy that was unexpectedly rejected by the higher level.

2 There is some confusion about the precise origins of the term 'national team' in the literature on Chinese business groups. Dylan Sutherland (2001) was the first to use the phrase 'national team' in the English secondary literature to describe the so-called trial group enterprises under the central government's authority; however, it seems to have had some currency among Chinese policymakers and academics prior to that publication. For instance, a 1992 article by Sun Xiaoliang, a scholar and member of the State Commission for Restructuring of the Economy (SCRES), the organization with primary responsibility for the trial groups at the time, wrote of the importance of developing a 'national team' (*guojia dui* 国家队) to compete with global players (Sun 1992: 27).

Table 1.1: *Mainland enterprises on the Fortune Global 500 list (2003, 2014)**

	2014		**2003**	
	Number	**% of total (Global 500)**	**Number**	**% of total (Global 500)**
Total mainland enterprises	95	19	12	2.4
Total state-owned enterprises (SOEs)	71		10	
	Financial (Huijin)	**Non-financial (SASAC)**	**Financial**	**Non-financial**
Central-Level SOEs	5	46	4	6
Top five mainland enterprises (Fortune 500 rank)	1. Sinopec Group (3) 2. China National Petroleum (4) 3. State Grid (7) 4. Industrial and Commercial Bank of China (25) 5. China Construction Bank (38)		1. China Petrochemical Corp. (68) 2. State Power Corporation of China (77) 3. China National Petroleum Corporation (83) 4. Industrial and Commercial Bank of China (213) 5. China Telecommunications Corporation (228)	

Source: Fortune Global 500 annual ranking, available at: fortune.com/fortune 500.
*The year 2003 is chosen as a comparator since that was the first year that China's current state asset management system came into existence. With a few exceptions, China's central-level SOEs in non-financial sectors fall under the authority of SASAC. Responsibility for oversight of the largest central-level financial institutions lies with Central Huijin Investment Ltd.

service sector SOEs are also increasingly active in global mergers and acquisitions markets. And prior to the Global Financial Crisis, global capital markets were kept busy with a wave of big-ticket 'red chip' SOE initial public offerings (IPOs) that peaked with the world's biggest-ever listing: the Industrial and Commercial Bank of China's 2006 offering for US $19 billion. Yet these IPOs made the national team enterprises public companies in name only; foreign and non-state investors were sold minority stakes that did not entail a substantive transfer of corporate control away from the state (Walter and Howie 2010). The national teams' overseas listings have helped them quickly advance up the ranks of the Fortune Global 500, a closely watched list in Beijing which is often treated as a measure of central SOEs' success in 'going big and going strong'. In 2003, only twelve mainland enterprises were to be found on the Fortune 500 list, of which ten were SOEs. By 2014, the total number of Chinese companies had jumped to ninety-five, of which fifty-one are central-level SOEs.

The question now on people's minds is whether this 'advance' of central SOEs is a cause for celebration or despair. While the dramatic reversal of fortunes in China's state sector is understandably a source of pride for SASAC officials as well as senior SOE managers, the pages of a new corps of liberal-leaning mainland media outlets such as *The Economic Observer* and *Caixin*, as well as social media sites, are littered with complaints about profiteering and official corruption in the so-called 'monopoly sectors'. In a biting piece surveying the challenges and achievements of thirty years of economic reform, *éminence grise*, Wu Jinglian, described the state economy in perilous terms as evidence of a reform stall:

> In the beginning of reform, much of the initial resistance came from ideology but now it comes mainly from vested interests … state-owned monopolies and government departments have been enjoying the fruits of reform for a long time and further reforms will harm their interests. Pushing reform of the state-owned monopolies and that of the political system means that the government will have to reform itself. Consequently, reform has entered a more difficult battle and progress has slowed significantly. (Wu 2009)

Scholars critical of the state's advance argue, too, that the huge increase in government investment and the ever-expanding base of SOEs is gradually dragging down the efficiency of the entire economy (Zhan 2013). Tian Guoqiang (2011) argues that *guojin mintui* is indicative of a mistaken approach to economic development in China, which he see as predicated on a 'three heavies, three light' (*san zhong san qing* 三重三轻) principle: 'heavy on government, light on market; heavy on national wealth, light on people's wealth; heavy on development, light on service'. Reflecting on such criticisms, former head of SASAC, Li Rongrong, articulated what many SOE reform insiders see as something of a bitter irony: 'I don't understand it: why it is that when SOEs did poorly you swore (*ma* 骂) at them and now that they are doing well, you also swear at them?' (quoted in Wang 2010: 16).

Other influential economists contend that what we are seeing is not the betrayal of reform but rather its fruition. Influential Tsinghua professor, Hu Angang, argues that the hybrid economy now emerging in China offers both a sensible and a durable basis for a market economy with Chinese characteristics, one which brings into play the relative strengths of private and state-owned enterprises:

> In the socialist market economic system, state-owned enterprises and private enterprises play different roles. In market competition, state-owned enterprises are more like an elite field army. They are resource-intensive, capital-intensive, technology-intensive enterprises and their core mission is to engage in fierce competition with the world's top 500 companies and Global 2000 enterprises. Their aim is not only to take their place in this group, but also to rise rapidly to become industry leaders. Private enterprises are more like regional forces. They are job-creating, labour-intensive and employment-intensive

enterprises, which can effectively help local development, while at the same time making use of private enterprises' advantages in flexibility and innovation to gain prominence in international competition. (Hu 2012)

Others with similar views suggest that when Wu Jinglian and other liberal-minded economists characterize the increasing heft of central SOEs as contrary to the spirit of reform, they in fact misunderstand the very spirit they invoke. Whereas liberal economists have assumed, or perhaps hoped, that China's gradual reform would lead SOEs to the margins of the economy and eventually into oblivion, others argue that this was never the outcome envisioned by state leaders in the reform era. Two Renmin University economists suggest that SOE reform has always been a task of curing and strengthening rather than harm reduction and euthanasia: 'The basic aim of SOE reform has been to use institutional innovation to help SOEs adapt to the requirements of market competition so that they could become the main body of the market (*shichang jingji zhuti* 市场经济主体) and develop strength in market competition, in this way fruitfully combining the socialist system of public ownership with the market' (Lin and Zhang 2013: 12).

The debate outlined above has at its heart the question of what an advancing state could portend for the future of China's economic development. For social scientists and others drawn to trying to form an image of reform-era China in the long view, there remains the all-important, backward-looking *why* questions to dissect. The following pages turn, for clues about the deep causes of the advancing state, to three master concepts of social science inquiry: interests, institutions and ideas. While there have been a number of interesting and insightful studies of this topic, broadly conceived, in the institutionalist and interest traditions, there has as yet been comparatively little analysis from an ideational perspective, a void this study begins to fill.

Seeking the origins of the state's advance

China studies scholars have sometimes been accused of engaging too seldom and too listlessly with theoretical developments in the social science disciplines (cf. Reny 2011; Kennedy 2011). While that may be true, the field is in no way isolated from theoretical innovation in the social sciences. The following brief review of the scholarship examining the factors behind the precipitous advance of the state shows that China scholars have drawn very strongly from two pillars of late twentieth-century social science thought, institutions and interests. The basic, powerful insight of institutionalism is that social life is shaped strongly by myriad 'rules of the game'. Since these rules supply many of the constraints in which actors operate, so the argument goes, theory with a purchase on the real world cannot avoid reckoning with institutions. In the late twentieth century, this stream of institutionalism was blended into the work of many leading rational choice scholars, for whom interests and preferences comprise the core variables. The vision of social behaviour given by rational choice is of purposive, goal-oriented choice-making under constraint; institutions come in as 'scripts that constrain behavior' (Shepsle 2006). While institutions serve to channel behaviour, interests are the hard ground of action in a rational choice world, 'the stable foundations on which actors' preferences over policy shift as their situation and the policy vary' (Milner quoted in Schonhardt-Bailey 2006: 23). In recent years, both institutional and interest-based modes of analysis have been brought to the analysis of the advancing state in China.

While a later section of the chapter summarizes the key attributes of the ideational approach to political economy, it is worth here briefly differentiating the ideational approach from its closest relative, institutionalism. Of course, the choice of brevity means trading off against accuracy to some extent since there is considerable ambiguity within the social sciences about both the meaning of 'institutions' and 'ideas' as well as the relationship between the two (cf. Searle 2005; Schmidt 2011). This study follows an important recent work in conceiving of ideas as 'the foundations of institutions' which 'give rise to people's actions and as those actions form routines, the results are social institutions' (Béland and Cox 2011: 9). Ideational analysis is seen as a necessary corrective to institutional approaches that tend to treat institutions as social givens rather than products of social construction with a story of their own. Key ideational variables encountered in this literature include 'theories, conceptual models, norms, world views, frames, principled beliefs, and the like' (Campbell 2002: 21).[3] In the arena of politics, various species of idea that meet with the right circumstances are 'able to become a durable or *institutionalized* part of life' (Berman 2013: 229), while others less fortunate wind up in the dustbin of history. To date, a number of scholars have provided a thorough inventory of institutions shaping the advance of the state in China but we have, as yet, much less work examining the ideational provenance of institutions and the process through which they came into existence.

[3] Certain institutionalists would consider some of these variables as institutional rather than ideational. Indeed, Schmidt (2011: 54) writes that 'In the sociological tradition, one cannot talk about a move into ideas as such, since ideas have always been at the basis of this approach – as norms, cognitive frames and meaning systems.' Recent work in comparative politics on informal institutions also includes in its ambit some social phenomena that others would think of as ideas. For example, Gretchen Helmke and Steven Levitsky's widely cited work gathers norms under its definition of informal institutions as 'socially shared rules, usually unwritten, that are created, communicated, and enforced outside of officially sanctioned channels' (Helmke and Levitsky 2004: 727).

The role of institutions

A number of studies have shone a light on the distinctive institutions, or rules of the game, that contributed to the formation of large, state-controlled business groups in the reform period. Critical of the neoclassical view that minimal government intervention in the economy and free competition between small firms furnish the best conditions for growth, Nolan (2001) argues, with evidence drawn from in-depth case studies of members of China's national team, that the various institutions established to support the development of large enterprise groups were largely beneficial to industrialization. Nolan also suggests that the increasing emphasis China's policymakers have placed on consolidating the state sector reflects a widely held view in government that these measures will help Chinese enterprises adapt to the realities of the 'global business revolution', the defining feature of which is a sharp increase in market concentration in many sectors over the last two decades. Lisa Keister's (2000) excellent study analyses the ways in which China's large-scale business groups developed in response to an industrial policy drive that began in the mid 1980s. Common to major works in this literature is an interest in evaluating the merits of these rules for both improving economic performance at the level of the firm and advancing towards developmental goals set by central policymakers. Dylan Sutherland's (2003) first-rate work both unearthed the policy origins of the large enterprise strategy and provided in-depth analysis of the development of business groups in the auto industry. In recent years, researchers in the business and management fields have taken the study of China's nebulous business groups in many interesting directions.

Business groups

Growing interest in China's business groups has coincided with an upsurge in business group research more generally. While the immense diversity of business group forms in different national settings presents some difficulties in coming to an agreed definition of the term (Colpan *et al.* 2010), Yiu *et al.*'s definition nicely extends across this diversity. They define a business group as 'a collection of legally independent firms that are linked by multiple ties, including ownership, economic means (such as inter-firm transactions) and/or social relations (family, kinship, friendship) through which they coordinate to achieve mutual objectives' (Yiu *et al.* 2007: 1553). From the standpoint of classic economic theory, the 'ubiquity' of business groups outside the United States and the United Kingdom (Khanna and Yafeh 2007) presents a puzzle in the form of a 'second Coasian question', namely 'why is it that in every known capitalist economy, firms do not conduct business as isolated units, but rather form cooperative relations with other firms[?]' (Granovetter 1995: 94). The literature has produced a wide range of answers to this question, with some researchers characterizing business groups as 'parasites', formed primarily so that insiders may reap particularist benefits, while others see them as 'paragons' established in order to fill 'institutional voids' in emerging markets (Khanna and Yafeh 2007). Pyramidal business groups are seen by sceptics as especially prone to parasitism because they present hidden opportunities for 'tunnelling' – typically defined as the expropriation of minority shareholder wealth but which some see as extending to 'non-pecuniary benefits from controlling a vast business group – political influence, social status, power, over even a degree of impunity from the rule of law' (Morck 2010: 615). The paragon perspective suggests that there are compelling, non-corrupt incentives for firms to form groups in circumstances where finance, labour and product markets are underdeveloped, since choosing hierarchy over market can benefit firm development by bringing down transactions costs (Guest and Sutherland 2009: 618).

To date, research on China's business groups has tended to support the paragons hypothesis although recent contributions have presented a more nuanced picture.[4] Employing panel data on China's forty largest business groups between 1988 and 1990, Keister (1998) found that the presence of interlocking directorates and finance companies were significantly associated with better financial performance and productivity. In the context of roaring debate about privatization, Smyth (2000) concluded that advocates of privatization and downsizing at the World Bank had painted an excessively negative picture of the financial performance of China's large state-controlled enterprise groups and argued that there was good reason for government to promote state-owned enterprise groups. Guest and Sutherland's (2009) research on firms affiliated to the 'national team' business groups analysed their economic performance in terms of profitability, Tobin's Q and share returns. They came away with the 'surprising' result that affiliated firms outperformed other listed firms on all three performance variables.

Two recent articles offer more qualified conclusions. Lisa Keister's most recent work on this topic has found a declining benefit in group membership over time such that while 'business groups may be advantageous early in reform, increasing internalization of ties may create inefficiencies that have negative long-term consequences' (Keister 2009: 21). Sutherland *et al.* (2011)

[4] The National Bureau of Statistics defines an enterprise group in China as follows: 'a collection of legally independent entitites that are partly or wholly owned by a parent firm and registered as affiliate firms of that parent firm . . . the core company of a business group in China should have a registered capital of over 50 million RMB plus at least five affiliated companies, and the business group should have a total registered capital (including the core and other affiliated companies) of over 100 million RMB' (quoted in Colpan *et al.*, 2010: 10).

find that labour productivity has been steadily improving in all categories of Chinese business groups, above all in the national team groups. But their paper also points to the signs of parasitism. They analysed China's fifty largest business groups and concluded that eighteen of them are pyramidal in shape. Looking in detail at transactions within one such group, Shanghai Electric Group, they argue that such pyramids may have parasitical qualities and 'could form part of an entrenchment process of certain elites – mainly controllers of the non-listed group corporations – looking to enrich themselves personally as well as elevate themselves politically' (Sutherland *et al*. 2011: 176).

Contributors to this literature also draw attention to a ripple effect whereby business groups have proliferated beyond and below the national team. Dylan Sutherland (2003) took note of a boom in business groups at the sub-national level. In 1991, large 'provincial teams' had already emerged in Shandong, Guangdong, Shanghai and Jiangsu provinces with Liaoning, Jilin, Shanghai, Jiangsu and Fujian later following suit (Sutherland 2003: 153). Sutherland and colleagues highlight the large number of private business groups in existence – 1,290 nationwide in 2008 – although changes in data-gathering and reporting in 2006 make it difficult to identify trends (Sutherland *et al.* 2011: 168). While experts on the national team business groups concur that their formation was very much a product of the visible hand of the central state (discussed below), the more spontaneous emergence of business groups below the central level, and especially in the private sector, suggest prima facie the relevance of the 'institutional voids' perspective in explaining the development of Chinese business groups.[5]

In addition to identifying the key characteristics of Chinese business groups, this literature has also provided insight into the ideational foundations of the institutions behind their development. Contributors have emphasized how sharply Chinese policies have diverged from the policy recommendations of the world's leading development organizations. The conventional understanding of China's miraculous growth after 1978, what Nolan and Wang (1999) refer to as the World Bank's 'transition orthodoxy', emphasizes the contribution of small-scale, non-state enterprises – especially Township and Village Enterprises (TVEs) – to economic growth and characterize large SOEs as perennial laggards destined for privatization. Typical of this view, Harry Broadman, a lead economist for the World Bank, claimed in the year of China's WTO entry: 'It is increasingly recognized – both within and outside China – that the SOE sector is the Achilles heel of China's otherwise remarkable economic performance' (Broadman 2001: 849). Nolan and Wang (1999: 169) countered that Chinese policymakers did not then perceive SOEs as

[5] The author is grateful to an anonymous reviewer for sharing insight on this point.

'stagnant fossils waiting to die' and, through institutional innovations associated with the large enterprise strategy, had done much to transform target enterprise groups into increasingly vital and competitive entities. And Keister's field research in the 1990s uncovered a widespread belief in the benefits of scaling up among her interview subjects:

> [One] reason managers frequently cited for their willingness to join [enterprise] groups was *guimo*, literally 'scope'. *Guimo* is the collective power of the group derived from having many firms working together. Power can refer to economic, political or social aspects of the word, so *guimo* indicates not just economies of scale but also the increased influence over political issues that comes with size. When asked why they wanted to join a business group, many managers smiled and said (in English, in many cases the only English they knew) 'bigger is better!' Academics, particularly those who had read E. F. Schumacher's *Small is Beautiful*, were quick to mention that bigger may not be better. However, academics and managers both acknowledged that the economies of scale achievable though business group membership might help Chinese firms overcome the state of market development in their own country and allow them to compete globally. (Keister 2000: 74)

The following chapter presents evidence on the continuing relevance of Keister's findings for understanding the logic of Chinese industrial policy.

Yet, while the distinctive concepts behind the formation of large business groups has been carried over some period of time, this is not a simple story of institutional path dependence. We now know a considerable amount about how decisionmakers and market participants tend to regard the function and importance of large enterprise groups, but comparatively less about when, how and why these views came to be embedded in the institutions of Chinese policymaking. There is a puzzle here not simply because of the obvious disconnect between these views and the common knowledge circulating elsewhere in the world but also since, as the next chapter shows, this outlook was also quite out of step with China's official ideology as recently as the late Maoist period.

Political economy

The work of political economists has drawn us closer to the questions of what organizing principles and beliefs have informed these institutions. A number of scholars have looked at the norms underlying these interventionist policies. Margaret Pearson's (2005) widely cited piece argues that calibrating a state of 'managed competition' (*youxu jingzheng* 有序竞争) among large, mostly state-owned enterprises is a bedrock norm of the regulatory institutions overseeing the commanding heights of the domestic economy. In a subsequent contribution, she argues persuasively that the Chinese regulatory state is in fact 'tiered' (Pearson 2011). Whereas the state takes a relatively hands-off approach to a

https://doi.org/10.1017/CBO9781316402191.002 Published online by Cambridge University Press

lower level of competitive industries in which non-state enterprises tend to be the main players, industrial policy is often employed in a middle layer of the economy containing pillar industries such as the automobile industry which brings together non-state, state-owned and hybrid forms of ownership. In the top-level strategic tier of the economy the state carefully manages oligopolistic competition between large SOEs through the medium of industry regulators, powerful economic ministries and enterprise managers themselves, who are entwined with officialdom through such institutions as SOE Party Committees.

Similarly, Ed Steinfeld's (2006) analysis offers clues as to why government officials have seen it necessary to exercise a high degree of market control in the strategic sectors. On the basis of long experience interviewing senior officials in the economic bureaucracy, Steinfeld concludes that officials tend to see the process of creative destruction among small local firms as largely beneficial and appropriate, but place much less faith in the market selection mechanism in industries populated by large enterprises: 'When such firms run into trouble, the conclusion is generally that something unrelated to the market has occurred, something that requires not the dissolution of the firm but rather a policy treatment' (Steinfeld 2006: 482). These analyses help to illuminate the significance of what Steinfeld characterizes as an idiosyncratic but widely held 'market vision' among Chinese senior officials in shaping the industrial policies analysed by Nolan and others. But here, too, Steinfeld's market vision comes into the analysis as explanans rather than explanandum.

Popular accounts

While scholars of Chinese political economy have focused on specifying the content of these idiosyncratic institutions, a number of more sweeping accounts of the ideas and purpose behind the modus operandi in China's political economy have appeared in recent years. A former senior editor of *Time* magazine, Joshua Cooper Ramo, first coined the term 'Beijing Consensus' to describe a set of novel ideas upheld by a commitment to pragmatic experimentation which he characterized as a compelling alternative model for developing countries. 'China's new development approach', he writes, 'is driven by a desire to have equitable, peaceful high-quality growth, critically speaking, it turns traditional ideas like privatisation and free trade on their heads' (Ramo 2004: 4). Mark Leonard's (2008) book, *What Does China Think?* has a similar purpose (and some similar limitations) although his knowledge of the terrain of economics and international relations debate in China is much firmer. Political consultant Ian Bremmer has branded China a state capitalist system, one that threatens to unseat liberal market economies as the normative ideal. Stefan Halper (2009, 2010) argued that China is actively 'exporting' the 'corrosive' idea of 'market authoritarianism', a trend which he see as a potent, indeed *the* greatest, threat to Western pre-eminence in the world order: 'The expanding appeal of China's governing model is shrinking the West – making our notions of society and government less relevant – and will do more to alter the quality of life for Americans and the West in the 21st century than any other development' (Halper 2009).

Both Ramo's sanguine view and Bremmer's and Halper's alarmism have found an enthusiastic readership worldwide, if considerably less praise among Chinese political economy specialists (cf. Ferchen 2013; Zhao 2010; Kennedy 2010; Naughton 2010). In a special issue of the *Journal of Contemporary China* examining debate over the 'China Model' of modernization, Scott Kennedy (2010) describes Ramo's Beijing Consensus as a 'misguided and inaccurate summary of China's actual reform experience'. Barry Naughton (2010) cautions against touting the pathway taken by reform-era China as a ready example for other countries to follow, since China on the eve of economic reform was characterized by a number of fortuitous, and uncommon, initial conditions which were subsequently crucial to rapid development. Matt Ferchen's (2013) excellent piece faults Ramo and Halper for failing to engage with ongoing debate within China between so-called 'New Left' and 'New Right' public intellectuals over how to define the country's system of economic governance. Ferchen argues that the complexity of the Chinese economy and conflicting trends therein – sides of contemporary China largely glossed over in the above accounts – defy any sort of easy categorization. Drawing from Pearson's work, Ferchen does, though, identify certain hard facts about Chinese political economy: 'This is not, however, an argument for absolute relativism. Among other things, China does not have a competitive political party system and it does seek to strategically regulate certain sectors of the economy in order to create national champions' (Ferchen 2013: 411).

In varying degrees of precision and accuracy, the works mentioned above have illuminated the institutions of central importance to the advance of the state in China. The work of business group researchers has shone light on the policies and practices that encouraged large enterprise groups, primarily but not exclusively state-owned, to form business groups and pursue means of expanding their market share in the 1980s and 1990s. The group of masssive central SOEs under the wing of SASAC and other central government ministries bear the legacy of these policies with their group structures and commanding position in priority sectors.[6] Political economists have added insight

[6] While SASAC assumed responsibility for many of the largest SOEs overseen by the central government, there are significant portions of the state-owned economy that remain beyond its range. Financial SOEs, principally the Big Four commercial banks along with a handful of state-owned securities companies, fall under a separate state asset oversight system. Beyond finance, the SASAC system also does not extend over the politically powerful rail SOEs and the state-owned tobacco industry.

into the question of why these institutions have come into being. Yet, in locating the institutions that give shape, substance and staying power to these policies, the basic question reappears one level down the chain of analysis. Somewhat ironically, casual observers of China writing for a non-specialist audience have been most ambitious in taking up the question of what particular ideas and purposes animate China's distinctive market vision. While China scholars have, for the most part, found these analyses wanting, there has as yet been little work on this important question to emerge from within the field.

Interests: the particularist view

A relatively recent trend in the study of Chinese political economy is the emergence of a literature employing the tools of interest group analysis to explain policy outcomes. At first blush, it would seem something of an awkward fit. What could an approach devised for the analysis of pluralist systems possibly have to reveal about the nature of policymaking in authoritarian China? Yet, as proponents of this approach contend, authoritarian China in 2015 is a world apart from the 1978 version. In an article cited widely among Chinese academics, Cheng Hao and colleagues from the Shenzhen University School of Management argue that a fundamental transformation in the nature of state–society relations has taken place in which 'the entire social interest structure has undergone differentiation and reorganization. The original structure of social interests has been broken and new interest groups and new strata of interests are forming' (Cheng *et al.* 2003: 63). The more powerful of these new groups are seen to have successfully tunnelled into policymaking circles at all levels of government – via *guanxi* ties, business associations and direct lobbying (Steinberg and Shih 2012; Deng and Kennedy 2010). In his pathbreaking book on corporate lobbying in China, Scott Kennedy (2005a: 3) argues that this amounts to a qualitative change in the nature of governance: 'The consequence has been a transformation of both the process and substance of public policy. China's national economic policies can no longer be viewed as the clear intentions of a strong state or as only the product of bargaining between government agencies.'

One species of interest group argument that has proven especially influential is Joel Hellman's Partial Reform Equilibrium (PRE) model. Hellman, a long-time specialist in the politics of economic reform transition at the World Bank, deeply shook established views about the dilemmas of transition with the 1998 publication of his *World Politics* article. To that point, Adam Przeworski (1991) and other proponents of the 'J-curve' theory were seen to have the most insight into the volatile politics in countries of the former Eastern bloc then trying to establish market economies (Przeworski 1991; Haggard and Kaufman 1992). Przeworski emphasized the potential for reforms to be derailed or even preempted by raucous political opposition from the prospective *losers* of economic reform. Since inflation, rising unemployment and goods scarcity are some of the more common short-term problems associated with the introduction of market reforms, the J-curve theory posits that the basic challenge facing reformist leaders is managing to, in effect, shield themselves from the demands of reform losers in order to maintain momentum through the deep valley of initial reform. Hellman effectively stood Przeworski on his head by arguing that the primary political challenge faced by reformers is not in fact pacifying reform losers, but instead minimizing the policy influence of the beneficiaries of early-stage economic reforms, the so-called 'short-term winners' who derive considerable rents from arbitraging between the price differentials in the planned and market segments of the economy.

In recent years, scholars thinking about the politics of China's transition have found the PRE model a useful heuristic. Perhaps the most widely read is Minxin Pei's (2006) account of China's 'trapped transition' which argues that there are deep problems written into China's gradualist approach to economic transition and continued one-party rule. Pei argues that the lure of short-term winnings, and not a general preference for prudence and experimentation in policymaking (as has often been claimed), explains why China eschewed a big bang approach to economic reform: 'Under the logic of political survival, the advantages of gradualism appear self-evident to authoritarian regimes. Unlike the big bang, gradualism allows the ruling elites to protect their rents in vital sectors and use retained rents to maintain political support among key constituencies' (Pei 2006: 31). Pei contends that this logic explains the state's 'selective withdrawal' from the economy such that 'low rent' sectors like agriculture were liberalized relatively quickly while 'high rent' sectors like telecommunications and oil and gas remain squarely within the state economy. Victor Shih (2006) employed the partial reform model in his study of financial reform in the late 1990s and his analysis of the determinants of financial policy under Premier Zhu Rongji challenges the widely accepted view of Zhu as a defiant technocrat reformer (e.g. Yang 2006; Naughton 2007; Heilmann 2005). Shih argues that various actions of the central government in the financial sector since the late 1990s – especially the recentralization of banking authority, the absorption of massive amounts of state-owned banks' bad debt, the maintenance of high barriers to entry for private banks and the failure to liberalize interest rates – were shaped strongly by the personal interests of 'politicized technocrats' in the policymaking elite. He contends that these policy choices served elites' interests by either padding their patronage resources or making them appear as indispensable problem-solvers. Finally, Zhang Qi and Liu Mingxing's (2010) study of local governance employs the PRE model in arguing that local political elites not effectively held to account by village elections will tend to devise means of selectively implementing reform policies in order to protect both their intake of economic rents and their future opportunities for rent-seeking behaviour.

While the above studies characterize government officials themselves as short-term winners stymieing reform, other close observers instead direct their attention to the shadowy networks of well-connected managers of SOEs in the so-called 'monopoly sectors' (*longduan hangye* 垄断行业). Indeed, discussion of central SOEs as an interest group (*liyi jituan* 利益集团) has become a regular feature of mainland news sources (e.g. *Xinhua* 2006a; Zhou 2009; Wu, 2009). Wu Jinglian's aforementioned 2009 *Caijing* article was another bold critique, the force of which may have contributed to his being sidelined in matters of economic policy and to accusations, printed in *The People's Daily*, that he was spying for the United States (Barboza 2009). Since the Third Plenum of the Eighteenth Party Congress in November 2013, a historic gathering which unveiled a bold slate of reforms (discussed in the concluding chapter), senior Party officials have often spoken of the need to curtail the influence of interest groups in the state sector as one of the fundamental challenges China now faces. The leadership's primary means of combating vested interests is a sweeping anti-corruption drive which has netted a large number of both 'flies' (low-level bureaucrats) and 'tigers' (senior leaders) since 2012.

A growing number of studies suggest that, in recent years, central SOE managers have exercised an increasing measure of power vis-à-vis government agencies and policymakers. Barry Naughton examined the complex interplay between SASAC and the central SOEs in its charge and found that when SASAC pushes hard against the interests of these enterprises, as it has in the effort to harvest their dividends for central government coffers, it 'makes progress only slowly and tentatively, as it grinds against the formidable power of large, wealthy, and politically connected organizations' (Naughton 2008: 8; Mattlin 2009). Drawing from Kjeld Erik Brødsgaard's (2012) recent work on the political implications of state-owned business groups, Carl Walter and Fraser Howie (2010) argue that the inclusion of the chair/CEOs of central SOEs on the Party's central *nomenklatura* list acts as a considerable constraint on the authority of regulatory bodies, since regulators often hold a lower official rank than the managers they are tasked with policing. Wang Junhao (2008: 57) said of the regulators' predicament: 'The cat wants to catch the mouse, but the mouse is bigger than the cat.' Besides their high official rank, which confers considerable power vis-à-vis industry rule-makers, central SOE CEOs also increasingly exercise a more direct form of power as members of the policymaking elite. In recent years, as growing numbers of central SOE managers have been appointed to senior positions in the government and Party, SASAC firms have come to be seen as 'incubators' for spots in the top leadership (*China Economic Review* 2013). Since the conclusion of the

Eighteenth Party Congress in November 2012, a number of leading government positions in the State Council and government ministries have been filled with former SASAC firm leaders.[7]

There is also evidence to suggest that central SOEs' power and influence have been developed into regulatory capture in industries where SOEs are the commanding presence. Erica Downs argues that the powerful National Oil Companies (NOCs) are becoming progressively 'more autonomous and less influenced by the party-state' (Downs 2008: 125). As an example of the power the NOCs wield vis-à-vis the fractious energy bureaucracy, she cites their influence in the National Development and Reform Commission's (NDRC) decision to partially liberalize the domestic prices of gasoline and diesel which have traditionally been kept artificially low to stave off consumer unrest. In 2005, as the spiralling price of international crude oil vastly outpaced modest domestic price increases, thereby putting considerable downward pressure on NOCs' profit margins, the companies began to use their considerable market power to pressure the central government to raise domestic prices. The NOCs' most effective tactic was selling a portion of their diesel and gasoline products into international markets, leading to widespread shortages at home. Outrage over the shortages combined with sustained lobbying by NOC bosses – three of whom were alternate members of the Central Committee at the time – reportedly resulted in the NDRC's capitulation in March 2006 when it raised domestic prices on petroleum products by 3–5 per cent and by a further 10–11 per cent in May of that year (ibid. 130).

Along with increased media scrutiny of state sector interest groups have come various proposals, sometimes from surprising corners, for reining in their influence and eliminating monopoly privileges. In early April 2012, then-Premier Wen Jiabao declared on a national radio programme that, due to their 'monopoly position', the four largest Chinese state-owned banks 'make profits far too easily' and concluded briskly that 'we have to break up their monopoly' (quoted in Chang 2012). Wen's surprising comments triggered a massive sell-off of the 'Big Four' banks' shares. 'New Right' economist Zhang Weiying claims that the most egregious forms of rent-seeking in China are found within the state economy and has called for the elimination of all administrative monopolies (e.g. Zhang 2006). Some leftist and statist thinkers have also considered this problem and proposed more moderate solutions. Hu Angang,

[7] They include: Guo Shengkun, State Councillor and Minister of Public Security who previously held top positions in both the state-owned China Nonferrous Metals Industry Corporation and the Aluminum Corporation of China; Wang Yong, a newly appointed State Councillor, who made his name in aerospace SOEs before joining SASAC, where he served as Director from 2010 to 2013; Miao Wei, new head of the powerful Ministry of Industry and Information Technology, who held leading positions in the Dongfeng Automobile Motor Corporation for many years.

for one, is in favour of increased government scrutiny of central SOEs business activities as well as a more determined effort to separate government from business (*zhengqi fenkai* 政企分开) in the state sector so that SOE managers may shed their dual identities as half 'political man', half 'economic man' and focus purely on the latter role (Cheng *et al.* 2003: 71).

Interests: the national view

Others seeking to explain the determinants of the hybrid nature of China's economy look not to the self-serving impulses of short-term winners but rather to central policymakers' dispassionate calculations of the *national* interest. In this vein, Roselyn Hsueh (2011, 2012) has offered the most sophisticated analyses to date. Seeking to explain the government's selective removal of FDI restrictions across industry, Hsueh argues that China has adopted a 'liberalization two-step' such that:

> it [China] employs a bifurcated strategy to meet its twin goals of complying with WTO commitments and retaining some control. In strategic sectors – those important to national security and the promotion of economic and technological development – the government centralizes control of industry and strictly manages the level and direction of FDI. In less strategic sectors, the Chinese government relinquishes control over industry, decentralizes decision making to local authorities, and encourages private investment and FDI. (Hsueh 2011: 3)

Hsueh's exhaustively researched work is excellent in many way but to readers in the field now accustomed to thinking of particularist interests as a driving force in China's political economy, the analysis seems to falter somewhat where it readily takes official pronouncements at face value. In an incisive review of Hsueh's book, Kun-Chin Lin stresses the difficulties of employing 'strategic value' as an explanatory variable 'without trapping oneself in the artifact of official categorization' (Lin 2013: 181–2). In the absence of corroborating evidence beyond the text of official pronouncements, one cannot easily dispense with the rival argument, offered by Minxin Pei and others, positing that the designation of strategic sectors in China is itself a highly politicized process in which the preferences of short-term winners play no small part.

Different species of interest-based analysis have become increasingly common in the China studies literature. This is an entirely natural and appropriate response to the particular changes to the Chinese state and society wrought by more than three decades of economic reform and opening to the global market. The insights offered in this body of work have significantly advanced the painstaking work of prying open the black box of the Chinese state in the reform era. Yet we should not lose sight of the fact that politics is about much besides interests. In the category of 'other' factors, ideas in particular loom large.

The difference that ideas make

Students of Chinese political economy have employed institutions and interest analysis to good effect, but the study of ideas, a recently resurgent area of inquiry in the social sciences, has, as yet, had comparatively little impact on the field. The following pages outline in brief the main tenets of ideational analysis, an approach which this author sees as crucial to understanding the advance of the state in China. While it is true that more than thirty years of reform have created a more 'porous' state (Kennedy 2005b), the People's Republic of China remains a steadfastly authoritarian polity in which a relatively small number of people wield enormous power over the national policy agenda. It is in no way naïve to suppose that the ideas such policymakers have about the world around them shape their decisionmaking. As Blyth (2002: 32) argued in his pathbreaking study, ideas 'are important because without having ideas as to how the world is put together, it would be cognitively impossible for agents to act in that world in any meaningful sense'. Likewise, institutional analyses have pinpointed the rules, regulations and norms that, in the manner of newly laid railway tracks, have propelled the state's advance. Yet they tell us little about the impulse to build the railway in the first place.

Ideas have been rescued from social science obscurity in recent years. To many early twentieth-century thinkers, the causal significance of ideas was very nearly self-evident. John Maynard Keynes famously concluded his *General Theory* with the grim assertion that 'soon or late, it is ideas, not vested interests, which are dangerous for good or evil' (Keynes [1936] 1997: 384). Max Weber ([1915] 1946: 280) staked a different position on the materialism/idealism debate but also saw considerable power in ideas: 'Not ideas, but material and ideal interests govern men's conduct. Yet very frequently the "world images" that have been created by "ideas" have, like switchmen, determined the tracks along which action has been pushed by the dynamic of interest.' Somewhat curiously, given the political context in which social science was conducted in the Cold War period, it was the Marxist view of interests as primary that formed the ontological basis of mainstream political economy. For many years, the literature was relatively silent on questions once seen as vitally important, namely how ideas, and not self-interest, shape policymaking (Campbell 2002: 21).

A growing number of scholars pressing for the resuscitation of ideational inquiry have drawn attention to the shortcomings of interest-based approaches. Many are troubled by circularity in some interest-based argumentation, especially the tendency to 'impute a comfortable "fit" between policy outcomes and structures of political interests' (Pierson 2005: 45) and failing to prove the hypothesized link between cause and effect (cf. Béland 2009; Blyth 2007;

Woods 1995). Daniel Béland (2009: 708) notes the errors to which this can lead: 'Although the concrete economic and institutional position of policy actors affects the way they mobilize and understand their interests, two actors who occupy the same basic economic and institutional position can have contrasted views about what their interests are.' Mark Blyth (2002) suggests that interests are particularly indeterminate in circumstances of crisis when 'Knightian' uncertainty prevails, i.e. when agents are not only unsure of the best means of pursuing their interests but are fundamentally uncertain about what those interests are. Under such circumstances, actors turn to ideas, which can be defined most economically as 'causal beliefs' (Béland and Cox 2011), for guidance about the content of their interests. For this reason, the emerging view in this literature is that interests and ideas are not, in fact, conceptual rivals but instead 'interdependent variables' or 'cluster concepts' (Blyth 2002; Steinmo 2003; Hay 2011).

The turn to ideas has also drawn momentum from institutionalists searching for a more satisfying theory of institutional change. Both rationalist and historical institutionalists have been accused of theorizing continuity more ably than change. Rational choice institutionalists tend to perceive institutional change as a path-dependent, evolutionary process, yet, in the eyes of one of the principal architects of this approach, Douglass North, theorists remain 'simply, ignorant' about the particular causal mechanisms driving this form of change (quoted in Campbell 2004: xvi–xvii). Along with path-dependent forms of change, historical institutionalists have also embraced concepts of radical breaks in order – 'punctuated equilibria' and 'critical junctures' – as sources of rapid institutional transformation, or 'moments when substantial institutional change takes place thereby creating a "branching point" from which historical development moves onto a new path' (Hall and Taylor, 1996: 242). While the salience of such historical contingencies is, to many eyes, plain to see, the study of exogenous shocks has been hampered by the absence of agreed criteria defining the precise features of such events (Capoccia and Kelemen 2007; Hogan 2006). As such, much of the empirical work employing these concepts is seen to have a certain ad hoc quality. Vivien Schmidt (2011, 2010, 2008) has argued that ideational analysis, or 'discursive institutionalism', is uniquely positioned to fill in the blanks since it 'endogenizes change, explaining much of how and why public actors bring about institutional change through public action' (Schmidt 2010: 21). Examples of such ideational modes of inquiry which have shed light on otherwise puzzling instances of institutional change include 'epistemic communities' (e.g. Adler and Haas 1992) – or networks of knowledge-based experts – and 'policy paradigms' (Hall 1993; Blyth 2002) such as Keynesianism. Policy paradigms are said to prescribe the content of policy options 'until they no longer provide answers to the problems these actors face' whereupon 'a search is launched for a new paradigm that, when found, ushers in a new set of policies and institutions' (Campbell 2004: xxvii).

Of particular relevance to this study is the work of ideational scholars who have looked in close detail at the policy process through which institutions become unstuck and eventually unseated by new institutions. Drawing on the work of John Kingdon (1984), some scholars have suggested that it is useful to distinguish between the operation of ideas at different levels, including 'policy solutions' and 'problem definitions' (Mehta 2011; Béland 2009). Regarding the former, Keynesianism and monetarism were, at different junctures, accepted by a critical mass of policymakers as appropriate and feasible solutions to economic crisis and, accordingly, came finally to topple prevailing orthodoxy. Jal Mehta argues persuasively for closer attention to the way in which such crises are defined: 'Homelessness, for example, can be seen as the product of a housing crisis, high unemployment, or a lack of individual gumption. The way a problem is framed has significant implications for the type of policy solutions that will seem desirable, and hence much of political argument is fought at the level of problem definition' (Mehta 2011: 27). The findings of Chapter 2, which examines the ideational and institutional foundations of the advancing state in China, lend empirical support to the claim that the particular framing of problems is integral to the selection of policy solutions.

This book brings the tools of ideational analysis to study the advance of the state in China. In common with the work of Blyth and others at the forefront of discursive institutionalism, the approach taken in this book does not deny the significance of interests and institutions, but holds that ideas comprise an important component of social science explanation. With regard to the particular subject matter of this book, ideational analysis has much to reveal about prominent puzzles in the literature, chief among them: *why* and *how* did rules of the game behind the advancing state come into existence? While the existing literature has examined the content of these institutions in close detail and analysed their consequences for firm performance as well as regulatory practice, this body of work reveals less about institutional provenance. Likewise, interest-based explanations give us only a partial account of the factors contributing to the advance of the state. In particular, these works tell us very little about the process by which these powerful interest groups came to develop into such a powerful force in the Chinese political economy. An argument developed here is that interests were not, in fact, the ground on which the institutions of the advancing state were built but rather the reverse: ideas and institutions supplied the conditions for the formation and effective expression of state sector interests.

Book overview and key findings

The core argument of the book is that the advance of the state in China has developed from a set of ideas regarding the political and economic significance of developing state-controlled large enterprise groups. The argument is based on extensive qualitative research involving semi-structured interviews and document analysis. The author undertook fieldwork in China at different points between January 2008 and June 2012. Interviews were conducted with a wide range of knowledgeable informants, including current and retired officials in central government ministries and regulatory bodies, government advisors, SOE managers, managers of private enterprises, journalists and scholars. In the text, interviews are referenced by the date and city in which they took place and take the form 'Year/City/Month/Day', e.g. '09BJ1205' denotes that the interview took place on 5 December 2009 in Beijing. The analysis also draws from a large volume and wide range of Chinese-language sources including Party periodicals, industry journals and national leaders' memoirs. Of particular value is the author's collection of dozens of internal documents drawn from issue-by-issue review of *Jingji Yanjiu Cankao Ziliao* (Reference Materials for Economic Research), *Neibu Wengao* (Internal Manuscripts) and *Gaige Neican* (Internal Documents on Reform) between 1985 and 2002.[8] These materials were especially helpful to examining the ideas behind the core institutions linked to the advancing state and provide much rich detail about the policy process.

Chapter 2 examines the ideational foundations of the institutions most closely associated with China's national champions strategy. The chapter shows that these institutions developed incrementally as solutions to a widening series of problems faced by China's leaders in the reform period. At different junctures since 1978 the development of large state-controlled enterprise groups was framed as a partial fix to pressing reform dilemmas. Economic concerns were, of course, central in this process, but so too were political leaders' apprehensions about the implications of economic opening for preserving political stability and continued one-party rule. Indeed, the push of China's national champions has clearly had a political dimension. In the

[8] The *Jingji Yanjiu Cankao Ziliao* series of documents covers 1985–97. The *Neibu Wengao* documents are from 1993 to 1999. *Gaige Neican* documents cover 1994 to 2002. Such internal documents are categorized into three levels of secrecy: 'top secret', 'secret' and 'confidential' (Yan and Zhao 1993: 75). The above publications fall into the category of internal reference materials, the function of which is to provide timely reports on current issues and theoretical developments to officials and which are typically accorded a low degree of confidentiality. In theory, these publications are to be distributed only to government officials. In practice, the internal reference materials consulted here are not viewed as especially sensitive and some mainland libraries and electronic databases have holdings of them.

context of a rapidly growing non-state sector and a teetering state sector, policymakers thought of state-owned large enterprises as key elements of the market-conforming model of state control they began to envision and work towards beginning from the 1980s.

Chapters 3 and 4 turn to the national champions themselves. The analysis is of the reform pathway of two 'lifeline industries' (*mingmai hangye* 命脉行业) now dominated by oligopolistic SOEs, airlines and telecommunications services. The two industries make for an interesting comparison because of their very different starting points. Whereas Deng Xiaoping himself designated airlines as destined for rapid reform and opening, policymakers took a much more cautious approach to telecommunications, and command economy institutions remained firmly in place well into the 1990s. Following the logic of Hellman's Partial Reform Equilibrium model, one would expect airlines' policymaking to be much less likely than telecommunications to fall prey to the politics of 'partial reform', since concrete steps towards market liberalization were taken relatively quickly and with sustained pace after 1978.[9] And yet, thirty years on, the airline and telecommunications service industries now have a relatively similar market structure in which central SOEs comfortably dominate the market. Prima facie, then, interests alone would seem a poor guide to explaining how similar outcomes could result from such different starting points.

Chapter 3 looks in detail at the process of airline reform in China. This chapter traces the circuitous route of China's airline industry into the ranks of China's strategic sectors. While the airline industry now belongs to a small group of industries characterized by oligopoly among state-owned enterprises, the initial reform pathway in airlines in the post-Mao era hinted at a different future. Indeed, a pronounced puzzle in the study of China's airline industry is why the trajectory of gradual state retreat was abruptly reversed in 1997 when regulators began a bold retrenchment leading finally to an administrative restructuring of the industry around the 'Big Three' state-owned carriers. This chapter argues that this policy reversal was shaped strongly by central policymakers' increasing emphasis on developing state-controlled national champions.

Chapter 4 analyses the gradual advance of the state in the telecommunications sector. It shows that every major turn in Chinese telecommunications policy has been preceded and shaped by vigorous debate about the role of

[9] In Hellman's (1998) rendering, early-stage partial reforms strongly predispose policymakers to adopt a more protectionist policy stance later on when short-term winners are well placed to capture the policymaking agenda in order to prevent the diminution of their rent streams. He suggests that more comprehensive approaches taken early on are more easily deepened at a later stage because the accumulated rents accruing to short-term winners are much less than they would be under a partial reform scenario.

telecommunications in China's rapidly changing economic and social structures. In these moments of uncertainty, different visions of the possible futures of Chinese telecommunications emerged, the merits of which were widely debated among academics, officials and, occasionally, the wider public. While the telecommunications industry exhibits a form of institutional change very different from the airline industry – a gradual form of 'bricolage' (cf. Carstensen 2011) rather than punctuated equilibrium – as in airlines, the anxious climate of the late 1990s gave rise to intense industry debate over telecoms' market structure. As new institutionalists would expect, debate was not far removed from questions of material benefit; in a manner similar to the process of the airline policy reversal of the late 1990s, short-term winners in the telecommunications industry argued powerfully for the ideas that they perceived as beneficial to their interests.

After reviewing the argument, the concluding chapter examines the future prospects of the advancing state. In recent years, debate between leftist and liberal thinkers has generated increasingly divergent, even incommensurable, visions of China's economic future. In the lead-up to the Third Plenum of the Eighteenth Party Congress the two groups vied for influence with the new leadership under Xi Jinping. The analysis finds that while reforms unveiled at the Plenum have altered the institutional environment of the state sector in significant ways – principally by raising the costs of corruption and increasing competition in the strategic sectors – this does not amount to a radical departure from the status quo, but is rather an effort to strengthen China's 'two-legged' economic system.