Firm Control: Governing the State-owned Economy Under Xi Jinping

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ABSTRACT: How has the Xi Jinping administration recentralised authority over China’s politics and economy? Studies of Xi’s rule often suggest that his “core leader” status, revolutionary heritage, and informal network of loyalists underpin this consolidation of central control. In contrast, this article focuses on the state sector to highlight how the Xi administration’s recentralisation of authority is grounded in existing governance mechanisms and techniques: central leading small groups, the cadre management system, Party committees, and campaigns. Using policy documents and an original dataset on central state-owned enterprise leaders, I provide evidence that the Xi administration has leveraged each of these four methods to reclaim central authority relative to the preceding Hu Jintao administration. These findings contribute to scholarship on adaptive authoritarian governance and economic reform in China by underscoring that administrations can use existing instruments of central control in divergent ways.


Introduction

The lack of a clear successor to Xi Jinping among the members of the Politburo Standing Committee of the Chinese Communist Party (CCP) announced in October 2017 was a fitting end to the administration’s first five years (see the article by Dimitar Gueorguiev in this issue). With Xi already established as China’s “core leader,” the 19th National Party Congress enshrined his political thought, his signature Belt and Road Initiative, and his supply side structural reform approach in the Party Constitution. Popular comparisons of Xi and Mao Zedong have become commonplace. Both men are portrayed as exceptionally powerful individual leaders, willing to embrace the personalised use of authority, and deeply committed to the Party as a force in political and daily life. And like Mao, Xi has shown he is willing to rewrite the rules and norms of Chinese politics, most recently by amending China’s constitution in March 2018 to eliminate term limits for the positions of president and vice president. Yet analysis of how Xi and his administration have successfully consolidated authority over China’s politics and economy must be grounded in close study of the structure and functioning of the country’s political system. In this article, I investigate the Xi regime’s recentralisation of authority in the critical realm of China’s state-owned economy.

Despite the Hu Jintao administration’s early efforts to strengthen central authority over the state sector, Hu’s time in office ultimately became a period in which state-owned enterprises grew more politically influential and difficult to monitor. Many state firms and their leaders became increasingly autonomous from the central government in practice, even where this autonomy was not enshrined in policy (Xu 2016; Xu 2018). In 2003, the incoming Hu administration attempted to bolster central authority by establishing the State-owned Assets Supervision and Administration Commission (guoyou zichan jiandu weiyuanhui 国有资产监督管理委员会 – SASAC) and authorising it to administer an initial portfolio of 189 central state-owned enterprises. (1) The National Development and Reform Commission (NDRC) also played a growing role in governing the state sector through its authority over domestic infrastructure spending and approvals for outbound investments, both of which increased dramatically after the onset of the global financial crisis in 2008.

However, as the 2000s went on, SASAC’s efforts to corporatise and marketise state firms faltered on state firms’ recalcitrance and greater involvement by the Central Organisation Department, which had grown concerned with declining Party authority. Just as importantly, rapid growth in state-owned enterprises’ size, complexity, and global reach throughout the 2000s simply outstripped the central government’s monitoring capacity. The average number of central state-owned enterprise subsidiaries, for example, more than doubled from 82 in 2003 to 191 in 2010 (Hsieh and Zheng 2015: 21). As SASAC found itself unable to rein in state-owned enterprises’ empire building at home, the NDRC struggled to supervise their shopping spree in energy and natural resources overseas.

Facing this situation, the Xi administration has utilised and also enhanced four existing governance mechanisms and techniques to reclaim authority over China’s state-owned enterprises and the reform process. Specifically, these governance mechanisms and techniques are: central leading small groups, the cadre management system, Party committees, and campaigns. First, by creating new central leading small groups and empowering their staff offices to direct policy coordination and formulation, the Xi administration weakened the authority of other actors engaged in state-owned enterprise reform, most notably SASAC and the NDRC. The regime also used the cadre management system and its practices—in particular leadership rotation and joint appointments—to shake up enterprise management and increase Party control over the largest and most strategically important state firms. In addition, the Xi administration strengthened Party committees’ leadership role in the governance of state-owned enterprises through

1. Prior to SASAC’s establishment, multiple Party and government bodies shared authority for state-owned enterprise affairs, including: the Central Planning Commission, the Ministry of Labor and Social Security, the Ministry of Finance, the State Council’s Inspector’s Office, the Organization and Personnel Departments, the Central Work Committee for Large Enterprises, and the State Economic and Trade Commission.
high-level statements and changes to corporate charters and the Party Constitution. Finally, the new leadership launched a far-reaching anti-corruption campaign in which the state sector was a top focus. I reach these findings through analysis of policy documents and an original dataset on central state-owned enterprise leaders.

Research on the shifting locus of central authority in China often concentrates on formal changes in decision-making authority for personnel appointment, resource allocation, and policy-making and implementation. Such changes include the extension or withdrawal of authority for a particular issue area among different levels of government. These formal modifications also encompass the creation, modification, or elimination of rules, governance mechanisms, and techniques in a given policy domain. For instance, scholars might investigate new regulations in a particular area, such as environmental or fiscal policy, or even entirely redesigned institutional arrangements, such as experiments with participatory budgeting (He and Warren 2017; Yan and Xin 2016; Ye 2018).

In contrast, this article emphasises that the recentralisation of authority can also occur by altering actual practice—changing how existing governance mechanisms operate by taking advantage of the discretion that is often built into formal institutions. For example, the Party centre may use its longstanding power of personnel appointment to deliberately place officials with stronger ties to central-level government and Party organs in wealthier provinces with larger private sectors and greater openness to foreign capital (Huang 2006). Since formal analysis of institutional mechanisms cannot reveal practices such as selecting installed personnel in key posts, empirical analysis of how governance mechanisms actually function—across bureaucratic units and over time—is essential in order to understand the Chinese leadership’s evolving strategies of control.

Multiple factors make the state-owned economy a critical site in which to analyse the Xi administration’s governance. The first factor is the state-owned economy’s enduring material and ideological importance in China. State-owned enterprises’ contribution to gross industrial output has been estimated at between 25 percent and 30 percent as of the mid-2010s, and their share of fixed-assets investment has actually been rising since 2012 after decades of decline (Lardy 2014). In addition, the sheer size and global expansion of Chinese state-owned enterprises mean that how China’s leadership governs the state sector impacts markets, local communities, and the environment worldwide. China’s “national champions” are among the world’s largest firms by revenue—67 companies owned by the central government ranked on the 2017 Fortune Global 500 list—and hold 6 trillion yuan (904 billion USD) in assets in more than 185 countries as of 2017. Finally, since state-owned enterprises embody the nexus between the government and the economy, state sector reform provides a lens on a range of broader governance issues, such as changing ideas about the state’s role in the economy, the ends and means of state influence, and the shifting balance between political control and market liberalisation.

This article contributes to scholarship on adaptive authoritarian governance and economic reform in China in several ways. First, it stresses that administrations can consolidate central authority through existing governance mechanisms and techniques, not only by creating, modifying, or eliminating institutions and rules. The second contribution is that the piece analyses empirically whether different administrations employ these instruments in divergent ways in order to increase central government control. In doing so, it goes beyond formal, theoretical analysis of particular institutional mechanisms and techniques, such as the cadre management system’s function of integrating fragmented government bureaucracies or that system’s role in fostering competition among local officials (Bødsgaard 2012; Bødsgaard 2016; Chen 2016; Landry 2008; Zhou 2018). Finally, unlike scholarship that emphasises institutional entrepreneurship or institutional origins, this article highlights institutional flexibility—how existing mechanisms and techniques of governance in a particular policy area can yield divergent empirical outcomes in the hands of different administrations (Heilmann and Perry 2011; Jin and Tsai 2011; Li, Feng, and Jiang 2006).

Central state-owned enterprises

This study focuses on the non-financial state firms owned by China’s central government (zhongyang guoyou qiye 中央国有企业) and administered by SASAC. At the end of 2017, there were 97 such firms. Central state-owned enterprises are concentrated in strategically important industries with limited competition, such as defence, electricity, petroleum, and telecommunications (Hsu 2011). But they also operate in more commercially-oriented and competitive industrial sectors, ranging from automobiles to metals to electronics. Central state-owned enterprises have long been key players in China’s domestic industrialisation and industrial policy. Today they also play a leading role in economic statecraft abroad, most notably in the Xi administration’s Belt and Road Initiative to advance infrastructure connectivity and economic development across regions from Central Asia to Africa.

Central state-owned enterprises are officially separated into two groups based on their size and strategic importance. The first group is a batch of “core” firms termed “important backbone state-owned enterprises” (zhongyao gugan guoyou qiye 重要骨干国有企业). This set includes China’s largest and best-known state firms, such as State Grid, China National Petroleum Corporation, and Sinopec. There were 53 core central state-owned enterprises at the start of Xi’s leadership term in 2012 (Bødsgaard 2012). The second group, comprising the remaining central state-owned enterprises, is more diverse. It includes a mix of global industry leaders, lesser-known industrial conglomerates, and state-run research and design institutes. Due to this variation in size and strategic importance, central state-owned enterprises and their leaders have different formal administrative standing; those in the first group have the equivalent of vice-ministerial ranking (fubuji 副部级) and those in the second one possess the equivalent of department-level ranking (zhengtingji 正厅级).

Central state-owned enterprises are typically structured as large enterprise groups (qiye jituan 企业集团). At the apex of each enterprise group is a state holding company wholly owned by SASAC. Below this is a multi-layered and often opaque constellation of as many as 100 to 200 member companies, including joint venture firms, research institutes, finance companies, and other bodies. Each member company may itself have subsidiary companies or hold stakes in multiple other enterprises (Millhaupt and Lin 2013).
Within a single central state-owned enterprise, its member companies may vary significantly in their size, performance, industry focus, and geographic location of operations (Leutert 2016). The following analysis addresses how the Xi administration has governed these central state-owned enterprises, and the state-owned economy more broadly, during its first term.

**Reclaiming central authority under Xi**

**Central leading small groups**

When Xi assumed leadership in 2012, he faced the aftermath of a decade of rapid expansion and weak internal discipline in the state sector. The first way in which his administration has reclaimed central authority is by extending the existing governance mechanism of central leading small groups (zhongyang liangdao xiaozu 中央领导小组), especially those associated with Party bodies, deeper into the economic realm. Leading small groups are supra-ministerial, extra-constitutional organisations that bring together high-ranking officials from the government agencies, Party organs, and/or the military who are involved in decision-making for particular policy areas (Heilmann 2017). Leading small groups are a long-standing governance mechanism in China present at all levels of Party and government organisation (Grünberg 2015; Hamrin 1992; Miller 2008; Zhou 2010; Zhou 2015).

In theory, by convening officials from same-ranked bureaucratic units under a higher authority, leading small groups serve as an institutional mechanism for negotiation and decision-making by breaking stalemates among relevant players. This function is especially important when reform policies significantly alter existing allocations of resources and authority (Grünberg 2016). At the central level, leading small groups’ staff offices further support this function by preparing independent assessments based on input from group members and by commissioning research from government-affiliated think tanks (Heilmann 2017). The Chinese leadership may charge these groups with carrying out broad, strategic policy mandates or more specific, issue-oriented objectives; they may be permanent (changshe xing 长设型) or term-based in nature (jieduan xing 阶段型) (Grünberg 2015; Zhou 2010).

During the Hu administration, central leading small groups did not play a major role either in making policy or in coordinating state-owned enterprise reform. Instead, Hu intended for the newly-created SASAC to take the lead with the NDCR playing a supporting role. SASAC’s full ministerial rank and relatively large personnel allocation reflected the authority originally vested in it to guide future state-owned enterprise reform. Under Hu, the NDCR also participated in reshaping the state sector by coordinating among state-owned enterprises and mediating their disputes, especially in electricity and coal, and by supervising state firms’ overseas investments. The only central-level leading small group responsible for economic matters—the Central Leading Group on Financial and Economic Affairs—served as a body for deliberation on economic strategy and crisis management than it did as a key player tasked with advancing the policy agenda in specific areas such as state-owned enterprise reform (Miller 2008).

In contrast, the Xi administration actively employed central leading small groups to direct state-owned enterprise reform during its first term. In 2013, the regime created the Central Leading Group for Comprehensively Deepening Reforms (zhongyang quanmian shenhua gaige lingdao xiaozu 中央全面深化改革领导小组), which Xi himself chaired. This body had a specialised subgroup for Economic System and Ecological Civilization System Reform (jingji tizhi he shengtai wenming tizhi gaige 经济体制和生态文明体制改革), which senior economic bureaucrats Liu He and Xu Shaoshi jointly chaired. In practice, the staff office for daily operations of the pre-existing Central Leading Group on Financial and Economic Affairs functioned during Xi’s first five years as the de facto headquarters of the Economic System sub-group (Naughton 2014).

This staff office, headed by Liu He, became the highest authority for coordinating with relevant players to create a state-owned enterprise reform roadmap under the aegis of Xi’s “top-level design” (dingceng sheji 顶层设计). Its assumption of this role reduced the authority of previously powerful bodies such as the NDCR and SASAC, which was further weakened by the removal of its head Jiang Jemin on corruption charges in 2013. In a “push and seize” approach, central leading small groups aimed to make major policy advances while minimising the influence of other actors who would have benefited from maintaining the status quo (Heilmann and Perry 2011). On paper, a flurry of activity has occurred: during the first five years of the Xi administration, the Central Leading Group for Comprehensively Deepening Reforms met 38 times and approved 12 policy documents related to state-owned enterprise reform.

However, the limits of using central leading small groups to advance state-owned enterprise reform are increasingly apparent. The first of these constraints is that while broad, consensus-based decision-making can effectively integrate information and views from multiple stakeholders, these stakeholders continue to advocate for their own particularistic interests, dragging out the policy-making process and potentially diluting its products. For example, the first major policy deliverable of the Central Leading Group for Comprehensively Deepening Reforms and its Economic Reform subgroup, the “Guiding Opinions of the Central Committee of the Communist Party of China and the State Council on Deepening the Reform of State-Owned Enterprises” (zhonggong zhongyang, guowuyuan guanyu shenhua quan shengtai pingkai de jiaoju) 中共中央、国务院关于深化国有企业改革的决定, was delayed repeatedly. Upon release in September 2015, the “Guiding Opinions” drew criticism by some as lacking a vision for transformative change, being unclear about action points, and not specifying a timeline for next steps. A second limitation is that the strength of leading small groups as supra-ministerial coordinating mechanisms during the policy-making stage becomes a source of weakness during policy implementation. This is because implementation ultimately relies on the very bureaucratic entities that leading small groups were originally set up to circumvent. The last but not least pitfall is that the Xi administration’s embrace of leading small groups to design the reform agenda narrows the space for bottom-up experimentation and innovation, by circumscripting potential experimentation within largely preordained formal pilot programs.

**Cadre management system**

The next mechanism by which the Xi administration has reclaimed central authority over state-owned enterprises is the cadre management sys-
Special feature

heads of China’s central state-owned enterprises are not simply corporate executives; they are also government officials appointed, transferred, and removed by the Party-state (Bradsaard 2012; Chen 2015; Leutert 2018). The Central Organisation Department, in consultation with higher Party authorities, appoints the top executives for the core central state-owned enterprises. Specifically, these positions are: Party committee secretary (dangwei shuju 党委书记), general manager (zongjingli 总经理) or president (zongcai 总裁), and chair of the board of directors (dongshizhangan 董事长), if one exists. Using original data on the leaders of China's core central state-owned enterprises, I find that the Xi regime has used two of the cadre management system’s tactics—joint appointment and leadership rotation—in a somewhat different manner from the preceding regime. (17)

Joint appointments among central state-owned enterprise leaders—in which an individual holds two or more of the top three executive positions simultaneously—are an important yet under-theorised means of central control. (18) These appointments function as a mechanism to centralise authority because consolidating decision-making power in the hands of a smaller number of individuals, or even of a single individual, simplifies the chain of command between the Party-state and central state-owned enterprises. In effect, this practice reduces the number of organisation-level veto points to superiors’ directives. Such joint appointments between top managerial and Party positions, which dissolve the division of labour and implicit separation between commercial and political affairs, can also be seen as a way to restrict managerial independence by bringing enterprise managers firmly into the political realm. Analysing the incidence of joint appointments can thus illuminate changes in the Party centre’s exercise of authority over state-owned enterprises, with higher incidence of joint appointments indicating greater centralisation of authority.

Leadership rotation—when the head of one central state-owned enterprise is appointed directly to a top executive position in another—is another key mechanism of central control over state-owned enterprises. (19) The Party centre can use this tactic to shake up existing leadership teams and to limit the potential risk of departmentalism (benwei zhuyi 本位主义), a phenomenon in which long-serving individuals in specialised bureaucracies come to evaluate policy priorities from the perspective and interests of their own organisations (Lieberthal and Oksenberg 1988). Rotating the top executives of state firms in a particular industry limits their ability to develop deep personal networks and autonomous bases of influence in their enterprises. The Party centre can also use leadership rotation as a step in an anti-corruption investigation, because moving an executive from one state firm to another can help to facilitate scrutiny of potential illicit behaviour in the original firm. (20) Higher frequency of leadership rotation thus suggests an increase in central control over state-owned enterprises.

Drawing on an original dataset on China’s central state-owned enterprise leaders, I find that the Xi administration has used both joint appointments and leadership rotation to centralise its authority relative to the Hu administration. (21) First, the data show that the incidence of joint appointments combining two or more of the top three executive positions in the core central state-owned enterprises has increased under Xi. The average incidence of any combination of joint appointments during the first term of the Xi administration (2013–2017) was 89%, up from 76% during the Hu administration (2003–2012).

In addition, the specific leadership roles that joint appointments combine have varied between the Hu and Xi administrations (see Figure 1 below). By the end of Xi’s first term in 2017, the percentage of China’s core central state-owned enterprises led by leaders serving simultaneously as board chairman and Party secretary topped 90%. The dominance of board chair–Party secretary joint appointments during the Xi administration diverges from the Hu regime, when the general manager–Party secretary pairing was prevalent and the board chairman–Party secretary combination was also common but less frequent. A key reason for this difference is the fact that many core central state-owned enterprises did not establish boards of directors at the holding company level until the early 2010s. Increase in the incidence of joint appointments combining the board chairman and Party secretary positions under Xi thus reflects a dual ambition to develop formal corporate governance institutions in the core central state-owned enterprises—and to ensure the Party’s leadership role within them.

The Xi administration also significantly increased the frequency of leadership rotation among China’s core central state-owned enterprises. During the decade-long Hu administration, 14 transfers of top executives from one core central state-owned enterprise to another took place, with leadership rotation occurring at an average rate of 1.4 transfers per year. In contrast, 19 such transfers have already taken place during only the first five years of the Xi administration, with the average rate of leadership rotation more than doubling to reach 3.8 transfers per year (see the Appendix for a detailed list of transfers). This increase suggests that the Party centre under Xi is taking a more hands-on approach to managing personnel affairs in China’s largest and most strategically important state firms.

Party committees

The third way in which the Xi administration has centralised its authority over state-owned enterprises is by strengthening Party committees’ role in corporate governance. In 1999, the top leadership under Jiang Zemin mandated that state firms establish “an effective corporate governance structure” (youchao de faren zhili jiegou 有效地法人治理结构)—the first time that the term “corporate governance” appeared in an official document. (22) State-owned enterprises began to set up the “new three committees” (xin san hui 新三会) at the holding company level: the board of directors, the supervisory board, and the Party committee.

11. In this section’s empirical analysis, I only examine core central state-owned enterprises and their leaders, rather than both core and non-core central state-owned enterprises and their leaders. Pooling these two sets of firms and their leaders together for analysis is not advisable because different bodies appoint their heads. The Central Organization Department appoints the heads of the core central state-owned enterprises in conjunction with higher Party authorities, whereas SASAC appoints the heads of the non-core central state-owned enterprises.
12. There are four possible types of joint appointments combining the top three executive positions: general manager–Party secretary, board chairman–Party secretary, general manager–board chairman, and general manager–Party secretary–board chairman.
13. In addition to the centralisation of authority, leadership rotation can also serve other aims, such as facilitating the planned consolidation of state-owned enterprises in a particular sector or fostering organisational learning.
14. For example, this was the case with Chang Xiaobing, who was rotated from China Unicorn to China Telecom while under investigation for corruption and who served there briefly until his arrest in December 2015.
15. This database covers the period between 2003 and 2017 and includes information on central state-owned enterprise leaders’ leadership rotation and joint appointments compiled from their official CVs, which were available on company websites or publicly online; the Chinese Political Elites database hosted by National Chengchi University; and official Chinese media reports. I choose 2003 as the starting point because SASAC was established in that year, 2017 marks the endpoint of Xi’s first leadership term.
16. The Chinese term initially used for corporate governance was “faren zhili jiegou 法人治理结构” and it was also commonly referred to as “gongsi zhidu 公司治理制度” or “gongsi zhida 公司制度.” Central Committee of the Communist Party of China, “中共中央关于国有企业改革和发展若干问题的决定” (Zhonggong zhongyang guanyu guoyou qiye gaige he fazhan ruogan zhengce de jueding, Decision on major issues concerning the reform and development of state-owned enterprises), 22 September 1999.
The objective was to increase operational efficiency through an implied division of labour between state-owned enterprises’ political, social, and personnel affairs, which Party committees would continue to manage, and their commercial affairs, which the board of directors and supervisory committee would lead with shareholder input. These steps to develop corporate governance expanded enterprise managers’ autonomy for company decision-making relative to central-level government and Party authorities, even if this independence remained limited.

The Xi administration has bolstered existing Party committees’ role in corporate governance in two complementary ways. The first is high-level statements affirming Party committees’ leadership role and authority to participate in “major decisions” involving state-owned enterprises’ operations, personnel affairs, investment, and spending. In May 2016, for example, SASAC’s Party Committee published an article in a leading Party journal stating that major decisions must be first discussed by the Party committees of state-owned enterprises before being decided by their boards of directors. In October 2016, Xi Jinping personally addressed a national meeting on Party building in state-owned enterprises and emphasised that Party organisations should serve a “leadership core” function as well as a “political core” function in state firms.

The second way in which the Xi regime has increased Party committees’ influence in corporate governance in two complementary ways. The first is high-level statements affirming Party committees’ leadership role and authority to participate in “major decisions” involving state-owned enterprises’ operations, personnel affairs, investment, and spending. In May 2016, for example, SASAC’s Party Committee published an article in a leading Party journal stating that major decisions must be first discussed by the Party committees of state-owned enterprises before being decided by their boards of directors. In October 2016, Xi Jinping personally addressed a national meeting on Party building in state-owned enterprises and emphasised that Party organisations should serve a “leadership core” function as well as a “political core” function in state firms.

The second way in which the Xi regime has increased Party committees’ influence in the governance of state-owned enterprises is by institutionalising their leadership role. In January 2017, SASAC ordered central state-owned enterprises to revise their corporate charters to formalise requirements for Party-building work and the Party committee’s part in corporate governance. In September 2017, SASAC announced that all of the then 98 central state-owned enterprises under its supervision had implemented this change. The Xi administration further enshrined the Party committee’s authority to “play a leadership role” in state-owned enterprise decision-making by adding this phrase to the Party Constitution at the 19th Party Congress in October 2017.

While affirming and formalising Party committees’ influence in state-owned enterprises sends a powerful signal of central authority, it does entail several real-world costs. First, bolstering the Party’s leadership role risks undermining the Xi regime’s “mixed ownership” strategy for state-owned enterprises.

17. The “old three committees” (laosan hui 老三会) referred to the Party committee, workers representative assembly, and workers union.
20. SASAC, "关于加快推进中央企业党建工作总体要求纳入公司章程有关事项的通知" (Guanyu jiakuai tuijin zhongyang qiye dangjian gongzuo zongti yaoqiu jieru gongsi zhangcheng youguan shixiang de tongzhi, Notice on matters regarding speeding up and advancing the inclusion of overall requirements for central state-owned enterprises’ Party-building work in corporate charters), 3 January 2017.
21. "国资委：要吸引各种所有制企业参与国企改革" (Guoziwei: yao xiyin ge zhong suoyouzhi qiye canyu guoqi gaige, SASAC: Enterprises of all ownership types should be attracted to participate in state-owned enterprise reform), Southern Weekly, 29 September 2017, http://www.infzm.com/content/129480 (accessed on 1 May 2018).
enterprise reform. (22) Buy-in from the private sector is essential for “mixed ownership” to succeed. But many potential investors remain sceptical that their interests as minority shareholders will be protected, despite existing formal guarantees in state-owned enterprises’ corporate charters (Lin and Chang working paper). Affirming Party committees’ role in company decision-making will further exacerbate private firms’ wariness, because it underscores the state’s willingness to subordinate commercial objectives, such as profit maximisation, to political imperatives, such as stability or employment. More broadly, formalising Party committees’ “leadership role” in corporate governance has reputational costs, especially for state-owned enterprises operating overseas. Amid rising concern in capitals around the world about Chinese state-owned enterprises’ foreign investments, this move is likely to heighten perceptions that these companies are directed and supported by the state.

Campaigns

The final means by which the Xi administration has recentralised authority over state-owned enterprises and the reform process is its use of campaigns. Campaigns differ from central leading small groups, the cadre management system, and Party committees because they are a technique rather than a mechanism of governance. Employed widely during the Mao era and continuing in use thereafter, campaigns leverage high levels of bureaucratic and citizen mobilisation to transform existing organisations and practices in a particular policy area (Looney 2012). Campaigns vary along multiple dimensions: their objectives, their scope (the number, administrative ranking, and geographic location of the organisations or individuals targeted), their duration, and the severity of the punishments they mete out.

The “managed campaigns” of the reform era can serve to centralise Chinese leaders’ authority in several ways (Perry 2011). In the short term, this governance technique mobilises mass participation and resources toward goals that leaders determine, shaking up the status quo in the process. Leaders can also use campaigns to target and facilitate the removal of individuals perceived to be their present or potential future political adversaries, and to promote political allies in their place. In the long term, these mobilisations can also bolster central authority by demanding loyalty and increasing pressure for ideological conformity.

The far-reaching anti-corruption campaign that Xi launched in 2012 after assuming leadership has become a key hallmark of his rule. Central state-owned enterprises, notorious for their weak oversight and Byzantine organisational structures, quickly found themselves in the crosshairs of Xi’s anti-corruption drive. The Central Commission for Discipline Inspection (CCDI) carried out three successive waves of anti-graft inspections targeting the core central state-owned enterprises—at 2 firms in 2013, 10 firms in 2014, and 43 firms in 2015—before it reported this phase of the campaign officially complete in 2016. (23) By the end of Xi’s first five years in office, 12 top executives of the core central state-owned enterprises had fallen on corruption charges. (24)

In contrast, the Hu administration’s efforts to combat corruption were narrow in scope, ranked lower among official priorities, and were typically amalgamated into broader Party building initiatives. (23) During the Hu regime, the CCDI was not the muscular political and policy actor that it would later become under Xi. While anti-corruption featured regularly in official reports and remained a key component of Party education in the Hu years, there were no far-reaching, coordinated campaigns focused primarily on this issue. Only two top executives of the core central state-owned enterprises were officially removed on corruption charges under Hu—far fewer than the 12 top executives removed under Xi. (24)

But while campaigns can deliver rapid change and even catalyse broader transformation in a particular policy area, their utility is ultimately restricted. Since Xi’s anti-corruption campaign operates outside existing systems of governance in SASAC and central state-owned enterprises, it has limited ability to facilitate the structural changes essential for genuine long-term improvement in areas like auditing and information reporting and transparency. In addition, the uncertainty and fear that campaigns induce can disrupt or even paralyse enterprise operations, as individuals seek to avoid mistakes or worry about punishment for past actions that were previously condoned but that are now targeted. While the stress that campaigns deliberately cause can help to weaken resistance to their policy aims and promote self-monitoring in the short term, this atmosphere cannot be sustained in the long term without improving operational efficiency and incurring significant psychological and physical costs for individuals (Mertha 2017).

Conclusion

A recentralisation of policy-making, personnel, and Party authority has characterised the Xi Jinping administration’s governance of the state-owned economy. Through analysis of policy documents and an original dataset on central state-owned enterprise leaders, this article identified four existing governance mechanisms and techniques that the Xi administration has used to consolidate central control. By expanding central leading small groups deeper into the economic realm and empowering their staff offices to direct policy-making, the Xi administration weakened the authority of other actors engaged in state-owned enterprise affairs and state sector reform. Through leadership rotation, joint appointments, and strengthening existing Party committees, it succeeded in shaking up firm management and increasing Party control over corporate governance. Last but certainly not least, the Xi administration’s far-reaching anti-corruption campaign sent shockwaves through the state sector and felled numerous top executives. Instead of assuming that authority can only be recentralised through reconfiguring networks of the ruling elite or by creating, modifying, or eliminating institutions
and rules, this article reveals that administrations can achieve this aim by using existing instruments of central control in divergent ways.

The Xi administration’s centralisation of authority over the state sector has concurrently negated the separation between the government and the Party that was a key legacy of the Deng era (as the Gueorguiev article has also discussed in this issue). By increasing board chairman–Party secretary joint appointments and by strengthening Party committees’ leadership role in corporate governance, the Xi regime has expanded Party authority beyond political and personnel affairs to encompass a broader range of enterprise matters. The Xi administration’s March 2018 announcement of plans to overhaul Party, government, and legislative institutions—including the conversion of the Central Leading Group for Comprehensively Deepening Reforms into the Central Comprehensively Deepening Reforms Commission (zhongyang quanmian shenhua gaige weiyuanhui 中央全面深化改革委员会)—suggests that the Party’s subsuming of the government is moving steadily from de facto to de jure. In the coming years, Xi’s drive to formalise and institutionalise Party influence—and his own ruling position—may involve greater efforts to change China’s governance system, not only leveraging existing tools of central control.

Yet despite the Xi administration’s moves to consolidate central control, state-owned enterprises are not simply tools of the state. The Xi regime has paired its recentralisation of political authority in the state-owned economy with limited steps toward economic liberalisation. Such steps include experimentation with “mixed ownership” and state capital management, which entails granting enterprise leaders greater autonomy for decisions about operations and managing capital. Overseas, central state-owned enterprises are quietly shaking off the hand of the state—commercially, if not politically—by investing more of their own capital in international markets instead of only serving as contractors or relying on funds from state-owned banks. More unitary chains of political command linking the Party centre and central state-owned enterprises might provide clearer channels for political influence, but they do not necessarily equate linear commercial control.

Future research on the governance of China’s state-owned economy could address three areas. First, further investigation is needed to assess whether this article’s empirical findings concerning cadre management can be extended beyond the core central state-owned enterprises. Do similar trends of increased leadership rotation and joint appointments also exist among the non-core central state-owned enterprises or firms owned by lower levels of government? A second issue for inquiry concerns specific configurations of joint appointments. Patterns of joint appointments may vary not only between different administrations but also among state firms in different industries, depending on central leaders’ assessments about their “perceived strategic value” (Hsueh 2011; Hsueh 2016). Are joint appointments between top Party and managerial positions more widespread in central state-owned enterprises in industries that the State Council has tapped for “absolute control” by the state than in more competitive sectors? Finally, a third question concerns how changes to the Party’s leadership role in state-owned enterprises are articulated and envisioned. While all central state-owned enterprises have now revised their corporate charters to affirm Party committees’ leadership role, the precise language used and its potential variation across state firms have yet to be examined. Do central state-owned enterprises’ corporate charters vary in the scope and content of the authority granted to their Party committees? Research addressing these areas would offer additional insight into the governance of China’s state-owned economy.

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