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THE PARTY-STATE ORDER: ESSAYS ON CHINA'S POLITICAL ORGANIZATION AND POLITICAL ECONOMIC INSTITUTIONS

PhD Series 03-2018

Nis Grünberg

# THE PARTY-STATE ORDER

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HANDELSHØJSKOLEN

# **The Party-state order:**

Essays on China's political organization and  
political economic institutions

Nis Grünberg

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PhD School in Economics and Management  
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and  
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*For my grandfather, who taught me to ask questions*

## Foreword:

Needless to say, this project has been possible only because of the help, advice, and guidance of many people. It has been a real privilege to be allowed to dig into a subject for such an extended period of time, and with the support of many people and the resources offered by CBS and SDC. Many people have served as inspiration, as teachers, as guides, and many have given advice and tips without knowing. The most important ones, however, deserve credit here.

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Along the way, countless discussions with colleagues and friends have helped me develop my ideas. Among these, the many discussions and teaching sessions with Andreas Møller Mulvad have been a constant and inspiring source of theoretical insights, as well as one of my most important testing grounds for the development of arguments and concepts. The (too few) discussions and exchanges with Wendy Leutert and her inquisitive and well-structured mind have been a great inspiration, and a reminder to the importance of being thorough and attentive to details. I have also gained from the constructive advice from Sarah Eaton, Nis Høyrup and Ari Kokko, among many others.

I thank my family for the unquestioned support of the odd and enigmatic life I chose (i.e. academia). My two brothers and sister for sharing their youth (and wine) with me. A big Cheers to my many good old friends, Müller, Janus, Christian, Iona, Elisabeth, Camilla, Jakob, Bjørn, Mau and all the others, who have put up with my coming and going for years now, always leaving the door open once "I'm back from China". They are, after all, the reason I come back at all. Axi deserves special thanks for helping me through a dark time.

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Finally, I am grateful for the financial support of The East Asiatic Company Foundation, Otto Mønstedts Fond, and the Sino-Danish Center.

## **Abstract:**

The present dissertation is a compilation of three individual papers, and an introduction chapter. While the introduction lays out the theoretic backdrop of the project as a whole, the papers represent interventions into three specific dimensions of China's Party-state order: structural organizational issues, decision-making institutions, and political economic dynamics. These three dimensions are presented as aspects of the same political organizational order, a Party-state order assembled around the hegemony of the Communist Party of China's (CPC), conceptualized in the introduction using a Gramsci-inspired theory of the state. Employing a historical institutional approach, the three papers engage with specific strands of literatures of China Studies in a conceptual and theoretic manner, while also contributing with empirical findings. They discuss the concept of Fragmented Authoritarianism (FA), the organization and institutionalization of Leading Small Groups, and the social embeddedness of state-owned enterprise (SOE). FA has been an influential concept to explain structural issues of China's bureaucracy, and with China's energy administration as example, I review its value as a theoretic notion today, 30 years after its inception. Discussing the growing importance of Leading Small Groups, the second paper addresses some of the institutional "fixes" to decision-making and policy coordination, which have evolved in response to structural fault-lines described in the FA paper. The third paper takes the dissertation into the political economic dimension of the Party-state order, providing a case study of how China National Petroleum Corporation, a central, state-owned and CPC led SOE, is organizationally rooted in its local operations, remaining institutionally embedded in local society through its legacy as a socialist work unit (*danwei*). Using Polanyi's concept of embeddedness, the paper reveals how SOEs are split into two tiers each tasked with the respective objectives of economic development and political stability, and thus as Party-state organizations are used to flexibly support CPC hegemony.





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## **Abbreviations:**

CNPC:	China National Petroleum Corporation
CNOOC:	China National Offshore Oil Corporatino
CPC:	Communist Party of China
DPA:	Daqing Petroleum Administration
FA:	Fragmented Authoritarianism
LSG:	Leading Small Group
LSGCDR:	Leading Small Group for Comprehensively Deepening Reform
MoE:	Ministry of Energy
MoF:	Ministry of Finance
NEA:	National Energy Administration
NEC:	National Energy Commission
NDRC:	National Development and Reform Commission
SASAC:	State-owned Asset Supervision and Administration Commission
SC:	State Council
SDPC:	State Development and Planning Commission
SERC:	State Electricity Regulatory Commission
SETC:	State Economic and Trade Commission
SOE:	State-owned Enterprise

## Introduction: Conceptualizing China as Party-state order

“领导者...要有‘治大国如烹小鲜’的态度”

(Xi Jinping 2013)<sup>1</sup>

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<sup>1</sup> Xi Jinping: “ruling a large country is like cooking small fish, this must be the conduct of leaders”, see: Xinhua 2013. He refers to a Lao Zi quote from the Dao De Jing: Ruling a large country is like cooking small fish, you fry it *as a whole* and don’t dissect it into parts.

## **Introduction and Research Motivation:**

The present dissertation is a collection of three independent but related articles, connected by their interest in the institutions and political organization of the Chinese Party-state order. The project takes its departure from research in China studies, but intersects with political science and political economics. One of the main interests of this body of research is the question how the Chinese political system, a Leninist party-state structure, has been able to maintain its stability, effectuate economic growth and development, and reform itself to adapt to the challenges brought about by social and economic development and globalization. The “China’s rise” narrative is often presented as a paradox, the puzzle being how China could avoid systemic convergence assumed to happen in the 1990s (Fukuyama 1991; Chang 2001; Guo 2003), and how a socialist system has been able to contain capitalist modes of production and the emergence of an increasingly affluent middle class, while keeping the power of the Communist Party of China (CPC) firmly in place, arguably even strengthen its organizational grasp over society.

Within this literature, there has been a relatively small but strong and growing group of China specialists, writing specifically about China’s administrative structure, decision-making mechanisms, CPC ideology, and political economic policy. Among this group of scholars, the relations between the particular bureaucratic setups of the Party-state (e.g.: Lieberthal and Oksenberg 1988; Mertha 2009), history and institutional path-dependence (e.g.: Bian 2008; Zheng 2010), and CPC organization and ideology driven developments (e.g.: Schurmann 1968; Brødsgaard and Zheng (eds.) 2006) have been some of the major reoccurring themes.

When Andrew Nathan (2003) stated that China’s Party-state represented a new form of resilient authoritarianism, he represented a changing perception towards the systems’ robustness, and today only the most ardent skeptics continue to predict imminent regime collapse (notably Gordon Chang and Minxin Pei) or democratization (Guo 2003). Weathering both the Asian financial

crisis (1997) and the global financial crisis (from 2009) better than most expected,<sup>2</sup> and in fact standing increasingly strong in international politics, security, and trade regimes today, the adaptive capacity of the political system of China, and especially the role of the CPC as its organizational core, has become one of the main issues China specialists are looking at.

The focus on the political system has since led to deeper insights into the CPC ideology and organization (this field of research has one of the longest tradition, dating back to “sinological times” of e.g. Franz Schurmann), the effects on society of an encroaching political organization centered around Party authority, and the statist features (state capitalism) of the Chinese political economy and its state-owned enterprises (SOE).

The motivation for this dissertation arises out of a still wanting insight into the logic of political organization of Chinese society around the CPC, i.e. Party-state system and its role in social and economic developments and organization. It is also an attempt to combine methods and approaches from both Sinology and political sciences. This approach of using theories and methods from political economy and area studies (sinology) respectively, is chosen out of a conviction that certain aspects of China’s political organization, and in particular the central role of the CPC, is best understood through a non-comparative, qualitative, and historical approach. This approach aims at revealing the Party-state’s institutional logics by understanding the mechanisms and foundations it operates by. Here, this project applies a technique to better decode the Party-states organizational rationality, that is to “see like the CPC”, or in other words, to explore the Party-state as a purposefully and consciously designed system (order) by using its own meaningful conceptual framework as compass. Here the Marxism-inspired social theory which the CPC operates by plays in, which in many ways is a historic construct particular to China, and one of the reasons this project was designed as a non-comparative one.

More specifically, it sets out to reveal three aspects of its institutional and organizational logic; bureaucratic fragmentation (centrifugal forces), coordinating and decision-making (centripetal forces), and the socially embedded

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<sup>2</sup> Although the full fallout of the huge debt accumulation which came as a result of the financial stimuli reacting to the financial crisis remains to be seen.

nature of state-owned enterprise in China's "socialist market economy" (tensions between accumulative and redistributive forces). These seemingly unrelated aspects are shown to share an important organizational logic, as they are distinct features of the hegemony of the CPC,<sup>3</sup> which dominates political organization throughout Chinese society. While the three papers concern themselves with what could be called "organs of the state" (the central energy administration), "Party organizations" (leading small groups), and "the political economy" (State-owned enterprises), the hegemonic rule of the CPC integrates virtually all important organizations in state, economy and society under its institutional order. Therefore, the Chinese system, that is, the model of China's political organization of society, is in this dissertation referred to as the Party-state order. The choice of "order" indicates that this dissertation does see political organization as a society-wide project, carried out by the power elites, which in contemporary China gravitates around the CPC.<sup>4</sup>

At a more abstract level, the three articles included in this dissertation are concerned with structural issues of the Chinese Party-state organization (article 1), with decision-making processes of this organizational field (article 2), and the dynamics the structural and decision-making patterns lead to in the political economy over time and space (article 3). As such, the three articles also speak to slightly different literatures and academic discussions, albeit all within the field of China Studies. This introduction chapter will outline the dissertations' theoretic, methodological, and conceptual foundations, and lay out the ontological considerations that bind together the three papers. This latter part will, while being an important part of the introduction, as it discusses some conceptual issues arising when studying political China using concepts and theories often developed outside of China, be largely restricted to the introduction. Future work will have to verify and advance our understanding of ontological and epistemological variations in the way

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<sup>3</sup> A more detailed discussion of the concept of hegemony will be given below. Suffice to say here, that hegemony entails the ability of the political elite to define social norms and organization by way of coercion, but more importantly and predominantly, by way of establishing consent towards its goals as the common sense. See also Antonio Gramsci (1971).

<sup>4</sup> Others have discussed the benefits of conceptualizing political organization not as closed units of "the state" or "the government", but as an institutional order that inscribes its particular (political) organization on society. See e.g. Li Chen 2015.

fundamental concepts, such as the State, Civil Society, or the Political Party are understood.

### **State of the Art and Contributions:**

Over the last decade it has become clear that China will not follow the path of the Soviet Union or former Eastern European countries, and an ever growing number of researchers from an increasingly diverse range of disciplines are interested in the institutional and organizational figurations of the Chinese Party-state. An increasingly rich and developed China, with an ever-growing influence internationally, has only increased the number of research from disciplines other than area studies and Sinology looking at China, a development that has had a strong impact on the ways we study and understand China today. Until the late 1980s Sinologists largely dominated academic research on China (e.g. Franz Schurmann; Alice Miller; Ezra Vogel; Orville Schell). Since then, China specialists trained in social sciences, in particular political science (e.g. Kenneth Lieberthal; Susan Shirk) but also sociology (e.g. Andrew Walder), economics (e.g. Barry Naughton; Nicholas Lardy) and other disciplines, have become the perhaps more influential voices on China-related research.

The effect of more and more researchers from social science applying their disciplines' particular ontology and theory to China as a case, however, has led to a significant increase in the scope and quality of research on China. The rise of China in global politics and economy, and a growing realization that the Chinese communist regime showed remarkable resilience and adaptive capacity, naturally led to rising interest in and need for knowledge about China. The increase of social science disciplines and methods in China Studies has also meant that one of the most reoccurring general themes is the state's role in social organization, and the political authority of the CPC. With a Party going into the 21<sup>st</sup> century stronger than ever, an increasing number of social scientists now focus on features of the Chinese socialist Party-state. This cross-fertilization of Sinology and social science disciplines

should very much be seen as strength of contemporary China Studies, which this project contributes to.

Today, China is a major area of interest for scholars from a large variety of academic backgrounds. Large numbers of studies exist on her political system (e.g.: Lieberthal 1995; Heilmann 2001; Brødsgaard and Zheng (eds.) 2004), the Chinese economy (e.g.: Naughton 2007; Pettis 2013; Guo 2017), and social transformation during the post-1978 reform era (e.g.: Guo 2003; Lee 2007; Chan *et al.* 2009). More recently, with growing knowledge about economic and political conditions in China, political economic approaches have been on the rise, reflecting an increasing interest in the inherently political rationality behind the (economic) decision-making in the Chinese Party-state.<sup>5</sup>

The area focus of scholarly works on China at times make clear distinctions in terms of discipline somewhat problematic, as many sinologists also are trained in other disciplines, and both methods and theoretic outlooks are highly differentiated. China studies, in other words, has become a very interdisciplinary field, albeit with a gravitational center around theory and methods from history, political science (including political economy), and sociology. This dissertation falls within this general branch of literature, attempting to make visible the particular interdependence of political institutions, organization, and decision-making, but also developing a recently emerging approach viewing China's political, economic, and social systems as dimensions of a general, societal order (e.g.: Li 2015; ten Brink 2013; Zheng 2010). This view of China as one system presented in this introduction is also influenced by neo-Marxist theory, and not least the study of the Chinese Party-state's own state theory, the latter of which is a too seldom appreciated factor of how China is politically organized, and how CPC governance unfolds in practice.

More specifically, this dissertation builds on theoretic insights from political economy (e.g. Karl Polanyi; Sarah Eaton), neo-Marxists (e.g. Antonio Gramsci), while as a whole locating itself within China Studies (drawing on e.g.: Franz Schurman; Zheng Yongnian; Kenneth Lieberthal; Li Chen; Harro von Senger; Kjeld Erik

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<sup>5</sup> Two of the first to explicate the strongly political logic behind economic reforms were Stuart Schram (1984) and Susan Shirk (1993).



Brødsgaard).<sup>6</sup> As such, it takes the stance of viewing China as a distinct social system, and that a certain knowledge about the specificities of this entity, in terms of historical, organizational, and institutional insights, are instrumental for its thorough understanding, and a prerequisite for comparative and theoretical work. It also works with an institutionalist understanding of social organization that opposes the strict separation of state, economy, and society into distinct and independent spheres. As a more general goal of this dissertation, I develop a reading of the political organization of the Chinese Party-state as an order, which avoids some of the shortcomings of a separate, dichotomous conceptualization of Party - state, and state - society relations (or: state – market relations). The following will briefly introduce the main strands of literatures and discussions this dissertation engages with.

### **Literature on the Party-state Bureaucracy and Policy-making Processes**

Given its long existence, the structure of China's bureaucracy more generally has naturally been subject to sinological research for many decades (early studies are e.g.: Fairbank 1960; Balazs 1967). With a few notable exceptions (Franz Schurmann, Doak Barnett, and John Lewis did pioneering work on the PRC's bureaucratic and political organization), the political organizations of the People's Republic of China (PRC), and with that the CPC, was little researched before the 1980s, not least because of the extremely limited access to information.

Perhaps because of the opaque and non-transparent nature of the CPC and decision-making processes especially at central level, the limited existing research on the organization of the Party has always enjoyed a relatively high status in the field of China Studies. Several scholars have written on the CPC and its institutional integration with the state apparatus (e.g.: Shambaugh 2008; Brødsgaard and Zheng (eds.) 2006; Zheng 2010; McGregor 2010), as well as elite politics (*China Leadership Monitor*; Li Cheng 2001; 2016), and even individual leaders (Brown 2012; 2016; Lam 2015).

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<sup>6</sup> Much of the literature is of course spanning across these crude categories of literature.

After opening up in the 1980s, researchers started to gain insights on the hitherto closed Chinese administration, and a number of groundbreaking studies were published. Michel Oksenberg and Kenneth Lieberthal (1988), and David Lampton and Kenneth Lieberthal (eds.) (1992) were some of the first to more systematically study post-reform Party-state bureaucracy and decision-making, coining the Fragmented Authoritarianism (FA) notion still used to describe China's political structure today (e.g. Mertha 2009; Brødsgaard (ed.) 2016). Since then, the FA concept has been used by several scholars, looking mostly at fissures and bottlenecks of the Party-state's policy-making and implementation structure (e.g.: Lema and Ruby 2007; Landry 2008; Mertha 2009).

Also the energy sector has been subject to a large number of studies (both administration and the state-owned businesses dominating energy), mapping structure and institutions of China's energy sector (e.g.: Andrews-Speed 2010; Arruda 2003; Downs 2008), and tracing the protracted reform process of the energy administration and its major SOEs (e.g.: Andrews-Speed 2000; Xu 2016). Two main questions are raised by this research. The main issue is the impact of structure on decision-making, that is, how bureaucratic and administrative organization aids or hampers efficient policy making and coordination both vertically and horizontally. The second issue pertains more specifically to the energy sector, which is one of the fields often used to show protracted reform and a high degree of governmental control in the industrial economy, where former industrial ministries have gradually become SOEs, and where the introduction of modern governance structures and the coordination of horizontal policy-making has proven to be hampered by exactly those structural features of the Chinese bureaucratic organization discussed in the FA literature (e.g.: Xu 2016; Downs 2008). With its paper on FA, I contribute to the literature on China's structurally determined decision-making processes by providing an updated reading, and a conceptual discussion of the relevance of FA today, almost three decades since its inception, and not least after several rounds of restructuring and reform of the bureaucracy.

In the paper on leading small groups (LSG), the focus is taken away from centrifugal forces, and turns its attention to integrative mechanisms that have so far held the Chinese Party-state in place, and more importantly, flexible and capable of

overcoming the structural fault lines described by the FA literature.<sup>7</sup> These groups have received growing attention, especially after the establishment of several central level groups of significant scope and authority under Xi Jinping (e.g.: Johnson and Kennedy 2015), however, little about their internal workings and their more general functions as Party-state organizations is known.

Viewing LSGs as a centralizing and coordinating mechanism that has developed endogenously in the Party-state system, enabling horizontally coordinated decision-making in situations where vertical bureaucracies are in conflict over policy, is a new perspective on and a function of LSG as institution that has not been discussed before. Literature and detailed knowledge on LSG of even more general type is extremely scarce, and only very few scholars have written on the topic. Alice Miller (2008; 2014) is one of the few scholars who has written on the topic in English. Even in the Chinese literature only two scholars, Lai Jingping and Zhou Wang, have written more systematically on LSG. The dearth of literature is addressed by the LSG article, by reviewing the available policy and legislation since the establishment of the PRC, providing a detailed and systematic discussion of the development, function, and organizational structure of LSG in the Chinese system. Investigating the historical institutional development of leading small groups has not been done before this way, and this paper is an important contribution to the literature on the organizational and institutional structure of decision-making in the Chinese Party-state order.

## **Literature on China's Political Economy and the Public Sector**

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<sup>7</sup> This article is currently in r&r at *The China Quarterly*, the version included in this dissertation is a draft, and is currently undergoing changes according to the reviewers' requests. The main ones are to 1: include a more detailed and in-depth case study of a leading small group, favorably the new Leading Small Group for Comprehensively Deepening Reform, led by Xi Jinping himself. 2: Discuss LSG in relation to Chinese decision-making literature. I am currently working on satisfying both demands to the extent possible, especially the first one is challenging since, as I repeatedly mention in the article, it is extremely difficult to get access to information on these groups' internal workings, and even more so in case of central level groups. Regarding the requests for reflections on decision-making, the discussion will clarify the role of LSG as decision-making mechanisms in themselves, underlining their ability to act as flexible and both weak and strong organs embedded in a bureaucratic hierarchy.

Widening the gaze to include important institutions supporting the Party-state order, the third paper investigates state-owned enterprise and its embeddedness both as economic foundation of local China, but also as a historically rooted Party-state institution of considerable ideological and socio-economic significance. Using the case of China National Petroleum Corporation (CNPC), this article connects two strands of research: literature on state-owned enterprise, and literature on China's (local) political economy. Both are fairly established research areas and literatures. The paper here, however, contributes a novel reading of SOEs as integrated organizations of the Party-state, embedded in local society and economy. SOEs are, in other words, viewed as Party-state organizations with economic objectives rather than economic enterprise captured by the state. They are therefore understood as working towards both political and ideological ends (being historically rooted institutions of socialist ideals of resource distribution), and serving as economic foundation of industrial centers.

Research on China's state-owned sector and SOEs forms its own body of literature. Early studies looked, among others, at sociological issues (e.g. Walder 1986; 1991; 1995), and the restructuring of socialist industrial organization (e.g. Bjorklund 1986). Peter Nolan (2001; 2004) wrote on the establishment and reform of the 'National Champions', designated SOEs in strategic sectors that had government support and still remain some of the largest conglomerates today. John Hassard (2007; (ed.) 2010) has authored multiple studies looking at the state-owned sector and SOE reforms more generally, and more recently, scholars such as Zhang Jin (2004), Sarah Eaton (2015) and Xu Yi-Chong (2016) have focused on specific sectors and individual SOEs, providing in-depth studies of the political economy of industries and SOEs. China-based scholars have often discussed the benefits of a strong public economy, and influential voices such as Justin Yi-Fu Lin (2001) have written on China's new structural economics, while some more critical voices have pointed out shortcomings in management (e.g.: Child 1994; World Bank 1995; Muira 2015), as well as more serious issues such as structural corruption and rent-seeking (Sheng and Zhao 2013). Over the last few years, also the role of the CPC in SOE management (and the role of SOEs for Party leadership) has become more widely discussed topics (e.g. Brødsgaard 2012).

There is, however, a dearth of literature on how SOEs actually are operating with both political and socio-economic objectives, especially at local level. This includes SOEs' role as local foundations of the economy, which presents them with different sets of objectives, one central and one local. More precisely, this pertains to the question of the intended and *de facto* functions of SOEs in China's political economy, and in more general terms, the social relations of Chinese capitalism (see also: Gallagher 2015). How these at times conflicting objectives of SOEs as variegated organizations are negotiated and structured, has so far been little researched, and it is here the third paper makes its main contribution.

### **Method and Data:**

Doing research in China, and especially research on Party-state and its political economy can be challenging. For text-based desk studies, which have built the foundation of the dissertation, data access is the first major problem. Although Chinese statistical data and government information (laws and regulations, public speeches and Party documents) have become much more accessible over the last years, there are still many barriers to access of primary data. Qualitative approaches employing fieldwork are often necessary to verify or even obtain information, and here some limitations apply regarding access to ranking officials in Party-state or SOE organizations.

Whereas State legislation is (mostly) publicly available,<sup>8</sup> it is much more difficult to access CPC decisions and internal documents. Unfortunately, it is often these Party decisions that carry far-reaching implications for the way administrative regulation is unfolding, since they have normative and guiding authority for the formulation and implementation of regulation. For example, according to Party regulation (which trumps state regulation) the Party group of a SOE will discuss important issues before the board of managers of a SOE takes them up and decides

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<sup>8</sup> "State legislation" refers to legislation passed not by CPC organs but by the state administration, i.e. the State Council and below. Laws and regulations are available online at national level on [www.gov.cn](http://www.gov.cn). Also local level regulation issued by local governments is now more frequently available online. The same counts for central SOEs, which have updates on major decisions and activities on their homepages.

on them. This is not only one way by which CPC hegemony through formal authority structure is exercised, but it also sets limitations to research on these mechanisms, because Party group decisions almost always are classified, or “internal” (内部), and thus not available for outsiders. This forces researchers to opt for a second best approach, which effectively means working with an abductive approach, constantly trying to verify textual data and conclusions, and try to establish causal links by going forth and back from archival data and fieldwork data, as well as testing conclusions against statements and information obtained from various sources. Given the non-transparent nature of the Chinese system, also deductive research methods are useful, comparing textual fact against facts playing out in reality, or the lack thereof, as the paper on the National Energy Administration illustrates. Another well-known issue is the reliability of Chinese statistical material. Statistics are selectively available, and numbers are often disputed and may even contradict other official statistics issued by different organizations<sup>9</sup>. Official data is used as the best data available in this dissertation, and should in general be seen as a good indicator of real trends and actual conditions.

A third and quite important issue when studying just about any topic in China, is language. Whenever possible written material used in this project were the original Chinese versions (legislation, speeches, CPC documents etc.),<sup>10</sup> and most interviews were conducted in Chinese. Also Chinese language secondary literature (scholarly works) was consulted in order to gain insights not only into the Chinese discourse on the relevant topics, but also in order to understand the slightly different conceptual understanding of certain issues in administration, organization, and ideology (especially the papers on FA and China National Petroleum Corporation have benefitted from a close study of the official Chinese discourse). Nevertheless, this project and the conceptual issues touched upon in the introduction are only a starting point for a more nuanced look how Chinese conceptual understanding of

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<sup>9</sup> Matthew Crabbe (2014) has penned a good discussion on the issue of usage and limitations of statistics in China.

<sup>10</sup> Whenever it makes sense for reasons of clarity and to avoid misunderstanding, or when longer quotes of Chinese text are given I have included *pinyin* (romanization), or added the Chinese original text. Chinese names are written the Chinese standard form, family name before given name.

social organization and political institutions (i.e. its social theory) is influenced by historical and philosophical references in ways that vary somewhat from e.g. the European history of thought.

Lastly, the research process of the project as such as had important bearing for the chosen methods and theoretic approaches of the papers and the introduction. Starting out with a focus on central state-owned business groups (such as CNPC), I quickly discovered the difficulty of finding data on the internal organization of SOEs, as well as extremely vague information on the exercised degree of political control over company decision-making. General company data exists only for listed companies (at least available for researchers outside the system), and only few of the group members are usually listed. In the case of CNPC for example, the main holding company (i.e. CNPC) is not listed, and therefore we have only the superficial information provided in annual reports and official company press releases. Its main subsidiary PetroChina, on the other hand, is listed both in China and abroad, and all information required for listed companies can be found. However, how PetroChina is controlled, what decisions come from its owner CNPC, and what financial transaction it has with non-listed entities, again lies beyond the event horizon. The constraints on information, together with the lack of access to company officials for interviews (attempts to contact central SOE officials were unsuccessful), led to a refocusing on a more theoretic approach to SOEs as organizations embedded within the Party-state.

What emerged during early stages of this project, was that SOEs are much more responsive to Party-state objectives than they were to economic reforms, in the sense that political goals always are the key driver behind institutional and organizational change in the state-owned sector.<sup>11</sup> Therefore, I turned towards the Party-state structure as the institutional order of which SOEs (and state-ownership as institution) are a part of.

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<sup>11</sup> Another reading is of course, that SOEs are to be seen as vested interest groups, resistant to the status quo merely out of an interest to maintain the rent-seeking opportunities in place, see e.g.: Sheng Hong and Zhao Nong (2013). This reading has some truth to it, but I have always been wary to accept a view that basically disregards ideological factors, and sees corruption as the only reason for the fact that the Party-state maintains a strong state-owned economy.

The two first papers (on FA in the energy administration and on the evolution of Leading Small Groups) are mainly desk studies, reviewing all the primary (Party decisions, legislation, official documents) and secondary data (academic literature and news reports), that was available in English, German and Chinese language. A number of interviews (around 20 semi-structured formal as well as informal) were conducted with officials in various positions in Chinese public organizations (SOEs, think tanks such as the Development Research Center, and Chinese academics), but in the end were not included in the two papers, because they either did not contain enough relevant information, or – this was mostly the case – simply repeated what was already learned from official Party-state discourse. In other words, when it comes to important decision-making in Party organs, state bureaucracy, or SOEs, the informants I had access to did either hide behind official boilerplate, or did themselves not know enough to be able to say anything insightful. This repetition of formal discourse is in itself a piece of important information, as it illustrates an important point made in the theoretic discussion of this introduction, which is the reproduction of the Party-state order by way of consent.

Contrary to what might intuitively make sense, the effectiveness of Party hegemony does not mean that all officials believe in it. Reproduction of the Party-state's desired order is based on compliance to it. Party-state ideology remains dominant by virtue of consent to its daily enactment by officials, and is indirectly supported by everybody who is not actively opposing it. Hegemony as an act of (political) articulation (Laclau and Mouffe 2001: 85-86), lies in the enactment of it, and whoever joins this act of articulation, be it by merely following suit or through social action, must be considered as agent of the hegemonic "class" or elite. This means, that even though a given Party-state official does not believe in the Party's program (the hegemonic project so to say), is irrelevant as long as he "does his job", (re-)articulating the official language and organization structure, thus reproducing and supporting the Party-state's hegemonic project, and its position in society. Considering this, I have not used the interviews simply repeating or contextualizing decision-making and organizational structure in those two papers.

The third paper (on CNPC) has evolved differently, and was to some extent born out of the frustration with the lack of access to SOEs. Looking at an



opaque and incredibly complex SOE such as CNPC, I decided to “look up” instead of down, and assume a point of view that looks at its position from its local foundations. Doing fieldwork in both Beijing and Daqing, including interviews and visits at local CNPC subsidiaries in Daqing, revealed a very different set of social and political features of the “National Champion”. Only three employees at CNPC subsidiaries agreed to an interview, and felt uncomfortable with recording the interview. I took notes during and after the interviews, and tried to grasp the reoccurring themes and explanations. Apart from these semi-structured interviews, I had longer conversations with around a dozen or so residents of Daqing, working (or formerly doing so) in the oil sector. The information gleaned from these conversations is only used as anecdotal evidence, but it did serve me well as guide to asking more pointedly about the local Party-state-CNPC relations in the formal interviews.

While the paper by no means is developed to its fullest, it does serve as the starting point for potential future work on the way local embeddedness of industrial SOEs plays out. It also raises questions about the social relations of China’s *Spielart* (mode) of Capitalism. More interviews and local fieldwork needs to be done, not only in Daqing but also in other localities with strong CNPC presence, in order to verify the “test drilling” done in Daqing, and in order to generalize about the way that industrial restructuring will change the institutions of state-ownership, and the modernization of the distribution of public goods connected with SOEs historically.

### **The Historical Institutional Approach**

The general research approach taken throughout this project is a historical institutional approach. Understanding why social and political organization is shaped the way it is cannot be gained by ahistorical accounts that simply slice through time and describe a structure. Historical institutional approaches are well established (e.g.: North 1990; Mahoney and Rueschemeyer (eds.) 2003; Mahoney and Thelen (eds.) 2010), and suitable for research that reveals institutional and organizational rationalities beyond simple phenotype autopsy, in which structure is shown without explanations of their origin and rationality as evolving social constructs. In order to

get beyond descriptive understanding of “how”, the historical nature of social, and with that the path-dependence also of political organization, needs to be taken into account especially when we try to make sense of the changes in the way social systems are organized. David Stark (1992) urges us to take path dependence in economic transformations seriously. The shift from communism to capitalism in Eastern Europe is, as he shows, not a transition, but a transformation. This process is highly influenced by institutions in place, and, as King and Széleányi (2005, p. 206) point out, a process where a new system is “built with the ruins of socialism”, rather than merely on top of it.

Considering this contextually of the specifics of institutional change, it quite possibly makes sense to talk about a distinct “Chinese modernity”, which draws upon a particular historical experience and perception or interpretation thereof (Dirlik 2003; 2012). Methodologically, in more finely granulated studies, borrowing concepts and approaches from various schools of thought (Hall 2010: 220), in the case of this project sinology, official Chinese discourse and political economy, is beneficial to research illuminating the institutional dynamics of the Chinese model. The articles included in project are aiming to achieve exactly that, by combining structural-organizational (FA article), historical institutional (institutional change in the LSG article), and contextual case-material (CNPC article) in order to discuss various origins of change in the organization of China’s Party-state order more generally.

History and path-dependence do matter also in China. Traditional imperial (and republican) institutions predate the PRC, and which were partially absorbed by the Socialists (Bian 2015), remain part of the institutional landscape even today. Building with institutions, as pointed out by King and Széleányi (2005) is not merely a passive, unconscious process, but also includes also deliberation and choice. Ideas and ideology play an important role in changing certain institutions and organization (von Senger 1996; Blyth 2002), and are to be seen as institutions themselves. In the case of China it is well documented how ideas and ideology has an important influence on institutional and organizational change (e.g. Holbig 2006; Bian 2008; Heilmann and Perry 2011). Sarah Eaton (2013) also shows how ideas are investigated and discussed within the Chinese political elite, deliberating

institutional change and political economic policy, leading to a rather organic adaptation rather than a wholesale introduction of “markets” or bottom-up capitalism. This view on institutional change and social organization has implications for research on and understanding of the Chinese political economy, for its formally stated regulatory goals, and the desired model of redistribution of resources.

Lastly but importantly, historical institutionalism also provides a view on institutions as social artefacts that must be seen as being shaped by and shaping a social order, a view this project shares. This order, i.e. society at large, has several levels, which are organically connected and integrated with one another. John Ikenberry (1988: 226) famously identified three levels, from specific government institutions to general state structures, and lastly, “the nation’s normative social order”.<sup>12</sup> This view on institutions and social order informs the ontology and the social theory of this dissertation (to be more precise, this dissertation’s view on how China as a social system is organized politically). It calls for a holistic approach to the analysis of social systems, including historical and contextual data, is also shared by the literature that forms the basis for the conceptualization of “the state” and the integrated or embedded nature of social order presented here (e.g.: Polanyi 1944 [2001]; Zheng 2010; Li 2015). Reflecting Ikenberry’s three levels of institutional order, this dissertation includes an analysis of specific administrative mechanism, discusses some of the institutional dynamics of the Party-state, and lastly, presents a discussion of the social, political order more generally (below).<sup>13</sup>

The historical institutional approach enables the researcher to view China not as unique, but as a distinct project of modernity (Dirlik 2003), similar to

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<sup>12</sup> This third layer has been criticized as too vague and perhaps not of institutional character by Kathleen Thelen and Sven Steinmo (1992:2). The ontology of viewing society as one system in which institutions, both formal and informal, permeate the entire system, however, remains valid, and is shared by the main works that have defined the social theory outlined in this project.

<sup>13</sup> While I agree with Thelen and Steinmo on the potential vagueness of analysis of societal order in terms of institutions (see supra note), the articles in this dissertation clearly suggest that “macro” institutions and organizations, such as CPC organization, ideology, and historically rooted norms on e.g. resource distribution (the danwei is a case in point here) do work society-wide, and therefore this third layer of general social order should be appreciated by any analysis of institutions and organizations also on the sub-layers. The ambiguity and potential for overstating (or underappreciation) of this general order and its implications for e.g. political organization (an example is how much CPC ideology actually influences decision-making, and how much other more immediate governance concerns do so), is also one of the weaknesses of this approach, and this dissertation (see also conclusion).

other societies in that its constitutive elements are the same,<sup>14</sup> but with its own constellations and historic experience, giving it a distinct emancipatorial agenda, which can be referred to as the Chinese “model” of (Dirlik 2012). The short and blunt answer to the question of: “what China is a case of” would be, that China is a case of a human society, or what Lars Bo Kaspersen has called “survival unit” (Kaspersen 2008). As such it is an internally stable political and social system, able to identify and protect itself against others within a system of survival units.<sup>15</sup> The exact composition of political and social order within units, are historically and organically developed differently in any unit. It is the goal of this study to identify the specific permutations of social organization that define China’s political order, and its manifestation as a political system, and thus the political organization of society at large. The following section will outline the ontological and conceptual backdrop for the general outlook on how to study social and political systems, in the case of China based on the notion of the Party-state order.

### **Ontology and Theoretic Considerations**

The conceptual view of the state employed by this dissertation builds on the work of both neo-Marxist thinkers and China specialists. At a general level, the state theory assumed by this project builds upon Antonio Gramsci’s concept of the state. Gramsci (1972) developed a notion of the state that defined it as the elite structure exercising political authority, both directly and indirectly (see below). Building on this understanding of the state and its political organization, Zheng Yongnian (2010) developed his reading of the CPC as the “organizational emperor”. Also others, such as Li Chen (2015), indirectly share this approach to China’s political and economic systems as one order rather than separate fields. Last but not least, ideology and discourse of China’s political core, the CPC itself, represents one of the clearest proponents of this ontology.<sup>16</sup> To some extent, the CPC tries to do what Gramsci

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<sup>14</sup> Such as capitalism, development of a certain state capacity, social development etc. It is not, in other words, dependent on culture or “Chineseness”. See also: Arif Dirlik (1997).

<sup>15</sup> Admittedly, the definition given here is a crude simplification of Kaspersen’s sophisticated theory.

<sup>16</sup> It might seem odd to include official political documents as primary sources. This exercise of “seeing like a state” (Scott 1998), however, lets the observer understand a given political

envisioned, and the Chinese Party-state is probably the closest example of a “Gramscian state” in which formal administrative state organizations as well as social institutions are constantly scrutinized and adjusted in order to remain tuned in on Party hegemony.

This approach of viewing society, the state, and a hegemonic CPC as being parts of one order rather than individual sectors or disparate fields, allows the individual papers to focus on distinct aspects of the Chinese Party-state individually, yet in reference to the main logic of the general hegemonic order. These sectors, e.g. the state apparatus, can be looked at separately for reasons of analysis of its internal features. Societal (political) order formally organized around the CPC as a main feat of the Chinese system is thus a matrix through which otherwise unrelated sectors are revealed to be shaped by and/or in dialectical relationships with the institutional push and pull factors of Party-state organization and ideology. Bureaucratic organization, decision-making institutions, and political economic dynamics of SOEs in local China all are central aspects of the same Party-state order. It is this order that is seen as the main force behind organization and political institutions in contemporary China, and which brings together these empirically different sites of academic investigation. When seen as one project, however, the three papers and introduction of this dissertation come to force by illuminating the Chinese order from different angles, and by unraveling some of the general organizational dynamics that define the Chinese Party-state and the institutional order it represents as a model.

The Chinese Party-state’s own practice of strategic political control over society, including the economy, is clearly reflected – and in fact openly stated - in the CPC’s political program of establishing a socialist market economy. Here SOEs are a central element (Chan 2009), while state control and free markets are not irreconcilable opposites, but negotiable poles on a spectrum (Osburg 2013). With an conceptual outlook based on Chinese historic institutions and Marxist epistemology (Zheng 2010), it allows a different experimentation of state and market – as long as the overarching Party hegemony is not violated - blending market forces,

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organization, and has been quite useful in the case of this project, as it has enabled a more nuanced understanding of the structural and ideological foundations of the Party-state.

monopolies, mixed ownership types, and political control of private actors (Perry 1994; Huang 2012).

Analysis conceptualizing state and society as two distinct “institutional spheres” with different logics (McNally 2015), creates a conceptual barrier to seeing the interconnected nature of institutions and organizations that span across the state – society (or state-market) divide. The state meddling in market transactions (e.g. subsidizing or establishing entry barriers), is criticized to be encroaching on another institutional sphere (Walter and Howie 2011). The Chinese Party-state, however, has no normative qualms about these transgressions because it attaches far less importance to them (if any at all), all being part of the one institutional structure of Party-state order.<sup>17</sup> Also running for-profit enterprises owned by the state, or Party organizations active in managing civil society organizations is considered legitimate in the official Chinese discourse on the state (Huang 2012), in fact, ruling a society means exactly to have the ability to do so, in order to establish, support and protect your rule.

This understanding of social organization not as segmented into a state-market, or state-society dichotomy, is shared by sociological institutional approaches, and indirectly historical institutionalism. Victor Nee and Paul Ingram (1989: 19) note, that an: “[...] institution is a *web of interrelated norms* – formal and informal – governing social relationships. It is by structuring social interactions that institutions produce group performance, in such primary groups as families and work units as well as social units as large as organizations and entire economies.” Here they indirectly acknowledge that institutions are social norms that structure not distinct and demarcated sectors of society, but are organizing societal order across conceptual divides of e.g. economy or state. Wolfgang Streeck (2011: 138) points out, how the political economy in fact is an artificially demarcated part of general social order, and views: “[...] society and economy together as densely intertwined and closely interdependent” [in which] “economic action is but a subtype of social action and must therefore be analyzed in basically the same way.”

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<sup>17</sup> One of the clearest examples for this is the one-child policy, which had its own dedicated bureaucracy engaging in monitoring and interfering with the (female) population on a deeply personal and physical level.

## The Chinese Party-state Order as a Gramscian State:

Gramsci defined the state as “... the entire complex of practical and theoretical activities by which the ruling class not only justifies and maintains its dominance, but manages to win the active consent of those over whom it rules ...” (Gramsci 1971, p. 244). Somewhat simplified, the State here is political society + civil society, although the relationship between them, and the degree of integration of political and civil society (meaning non-governmental organizations (NGOs) in a broader sense) varies, as his comparison between Russia and the West shows. The main point, however, is that social organization in its essence always is political, and as such organized under the aegis of the state as the highest order within a given society. This understanding of the intrinsically political nature of social life engenders all social activities (be it art, associations, business etc.) as political acts, and in effect renders sociology a subgroup of political science (ibid.). Social life at large is essentially *political* life, since it is relational, and always entangled directly or indirectly with the state (in other words the governmental apparatus of the ruling group). This relational, organic, and dialectical understanding again matches surprisingly well with the official view on society and state expressed by the CPC, and described here as the Party-state order.<sup>18</sup>

What then constitutes the Chinese model, or the particularity of the *Herrschaftssystem* (Leese 2016) of the Party-state?<sup>19</sup> Building on Gramsci’s notion of hegemony, and developing a reading of the social theory and political philosophy expressed in the Chinese Party-state discourse. In the following, I formulate a more theoretic understanding of the political organization of Chinese society, centered on the Chinese Party-state.<sup>20</sup> Zheng Yongnian’s (2010) work on the Communist Party of

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<sup>18</sup> It also points back to the institutionalist view on the existence of a general social order, as expressed by Streek (2011) and Ikenberry (1988), and the existence of a Chinese model in the sense of a state project (Dirlik 2012).

<sup>19</sup> *Herrschaftssystem* can be translated loosely as leadership system, or system of dominance.

<sup>20</sup> The Gramscian concept of hegemony alluded to here is not to be conflated with more recently developed ones, used predominantly in International Relations. The concept Gramsci developed covers political organization of one society under one class, and the power relation between the dominant and dominated classes. Among these more recent, and not strictly Gramscian uses of hegemony, see e.g.: Liu (1997); Blecher (2002); Meyer-Clement (2015); Huang (2015).

China (CPC) as “organizational emperor” has shown, that using the Gramscian concept of hegemony is an apt way to grasp the logic of political organization of society under the Party. While Zheng focused his attention on explaining the CPC’s position in the state (see below), i.e. the politically dominant class and its bureaucracy, I think it is necessary to extend this view to society at large, and the political economy in particular. The implications of both the Gramscian reading of the CPC as hegemonic Party and the review of Chinese official thought on government are, that the CPC is not only claiming dominance in the state apparatus, but throughout society at large, in order to promote and defend its position as political, organizational, and ideological hegemon.

An examination of the ontological foundations of the official CPC discourse on political philosophy and organization (Su 2011; Xie (ed.) 2013; also reiterated by: Xi 2014), reveals the absence, indeed opposition to liberal ideals of an arms-length separation of political leadership and society. On the contrary, the theory on social and political organization presented by the CPC clearly indicates the perceived necessity of society-wide integration, i.e. hegemony under Party leadership as a precondition for stable rule and national progress. This holistic approach to political organization includes all types of organization within a society as an integrated and interconnected political order. The Party-state is thus the gravitational center of political power, and the expansion of its hegemony is seen as necessary for both control and development of society as an order. The Party-state is thus not only the sum of CPC organs and state administration, but is a comprehensive *Herrschaftssystem* (Leese 2016), which projects its organizational and ideological agency on social organization more generally, by way of both formal legislation, but also by creating coercive mechanisms penalizing any opposition. The Party-state is a state-in-society rather than the administrative (state) apparatus of China.

Figure 1 illustrates the state theory shining through the CPC discourse, and shows the similarity with the Gramscian view of state-society as dialectical set of forces, set within one system. The CPC builds the core of authority and political organization (or the ruling class in Gramsci’s terms). It has organized the state apparatus around its political rule, integrating administration under normative Party



politics and objectives. The vectors of control (hegemony) also radiate into society more generally, where CPC organization captures, and at the very least monitors and keeps veto rights over, important positions in economy, society, and other areas of political import. Society, or the Chinese nation, is conceptualized as one system, and ruling China therefore means control over all important aspects of that society, in order to be able to align the system with the preferences of the political project of the core: the Party-state.

In simple terms, the praxis of political organization of society exercised by the Party-state is one of the Party-state as the power elite, or ruling class, and that of society ruled by it, one of commanding heights and one of society at large, i.e. the sum of all social action outside the Party-state. Society is to be integrated under Party-state authority and ideology as much as possible, and the Weberian separation or “disenchantment” of politics would be contradictory (and disastrous) to the hegemonic project the way Gramsci or the CPC understands it.

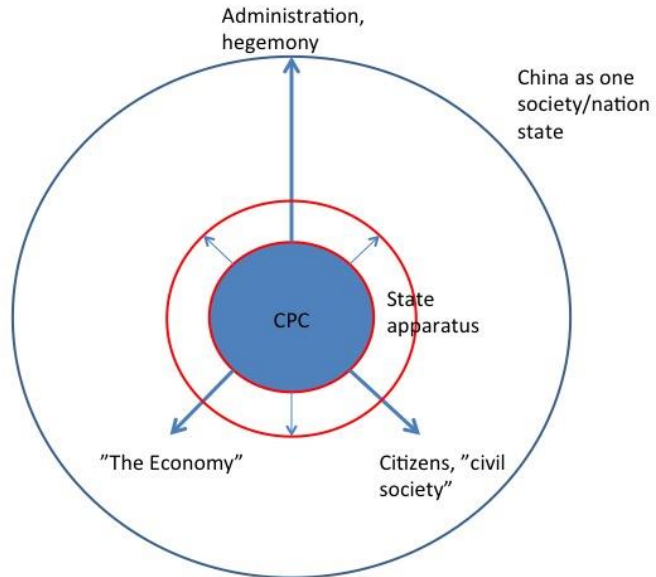


Figure 1: The Party-state order (author's own illustration).

The CPC must, according to this view and the Party's claim to leadership, be firmly in place at the "commanding heights" of not only the political system and the economy, but control all major veto points with political relevance. The hegemonic project (in terms of a "state-building" project), of the CPC revolves around this conception of political organization of society around a single political class (the Party), and the CPC's position on the "commanding heights of society" is both *raison d'être* and precondition of effective rule of society according to official PRC political organization and philosophy (see e.g.: Xi 2014).

A Gramscian view on the state, and the Marxist (and certainly the CPC's) view on society at large as being a social order with constant internal contestation, where power relations and resource distribution change both as result of top-down organization (coercion), but also based on bottom-up resistance (revolution), and adaption of existing organization to changing needs (reform) by the State. While

Marx himself had a rather simple approach to the State as the set of coercive institutions by which the bourgeoisie controlled the proletariat (Hay 2008), the CPC conceptualizes the State as a constantly negotiated set of relations and forces, including human subjectivity, dominating society.

Moreover, according to Gramsci it is not possible to dominate social order only by coercion, but if the State (or rather the dominating class) wants to keep and bolster its *legitimate* domination, it has to win “hearts and minds”, by establishing hegemony. For the State to maintain and solidify its rule over society, it needs to establish “hegemony protected by the armor of coercion” (Gramsci 1978: 263), in other words legitimizing its domination by establishing consent to the reproduction of its preferred set of power relations and resource distribution, while controlling the means of violence to enforce this order if necessary. Important economic agents such as SOEs, or what would be considered civil society in other contexts, are as much “the state” as the formal state administration is, since they form the elite of society at large, and thus are reproducing the hegemonic project as defined by the political elite (Gramsci 1978).

How does this unfold more concretely in the Chinese case? In his ingenious study of the CPC as “organizational emperor”, Zheng Yongnian (2010) shows how the CPC must be seen as a cultural artifact that has developed within a historical and distinctively Chinese setup of political and organizational institutions and norms.<sup>21</sup> This setup, Zheng contends, has for millennia regarded political power and administration as inseparable; the emperor and his administration (the state) were always two sides of the same coin. A Weberian reading of the CPC as a political party filling the state apparatus with its agency does not hold in the Chinese case. Here, the state apparatus, that is institutions and bureaucratic organization, have been modeled around the CPC as its power core, and its legitimization (ibid.).

Being the ruler, or ruling class, and establishing hegemony also requires the creation of a narrative that can include and persuade the not only members of the leading class (i.e. Party-state agents) but also general populace. Already Gramsci

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<sup>21</sup> Already before Zheng Yongnian, Franz Schurmann named the CPC the “post-revolutionary successor to the gentry” (1968: 9), pointing out the similarity in the way organization and ideology revolve around the Party as the center of political organization.

stressed the need for the establishment of continuity, that is, actively engaging in shaping the “tradition” evolving around the “organising centre of a grouping” (Gramsci 1978: 195). He pointed out that the “organic development” of continuity under a grouping’s rule is a core problem, not least regarding the legitimacy of the group’s claim to rule. Moreover, this “juridical problem”, i.e. the problem of assimilating the entire grouping to its most advanced fraction is a problem of education of the masses, of their adaptation in accordance with requirements of the goal to be achieved.

In fact, the CPC leadership has never made a secret of its attempt to control all positions of political influence in Chinese society, but has always had this as part of the official Party program. The claim is also included in the preamble of the constitution (NPC 2004), reading:

Under the leadership of the Communist Party of China and the guidance of Marxism-Leninism, Mao Zedong Thought, Deng Xiaoping Theory and the important thought of Three Represents, the Chinese people of all nationalities will continue to adhere to the people’s democratic dictatorship [the CPC] and the socialist road [...].

The State, as the national administrative apparatus operates here under the guidance of the CPC, and serves the Party’s political rule. This conception of the State apparatus is underlined by a comment in the People’s Daily (1989).<sup>22</sup> Here, the state is defined as the set of coercive institutions serving ruling class (the CPC) in its rule over other classes:

Everybody knows that the State is organization of power safeguarding the rule of one class’ over another. Every

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<sup>22</sup> People’s Daily is the official CPC mouthpiece, directly under the control of the Party’s Central Committee. It should be noted that the timing, exactly one month after the Tiananmen incident, is important for the militaristic tone in this definition. Its essence of a ruling class in charge of overall leadership of formal institutions has, as shown in illustration 1, not changed.

sovereign state needs a complete state apparatus, including military, police, courts, prisons and other coercive institutions, in order to protect the class' rule and the security and interest of the state.<sup>23</sup>

While the language shows a CPC still true to Marxist epistemology and ontology, the ideological underpinnings are a blend of Marxist, Leninist, and Chinese political thought (von Senger 1994). Discussing the CPC's ideology and political theory, Franz Schurmann (1968: 45) notes: "[...] the Communist party plays the role of unified leadership and coordination in society [...]. The Party is an organization that fulfills executive roles in society."

China's contemporary Party-state therefore comes quite close to Gramsci's conceptualization of the State in terms of being a coherent and coordinated political class, which by means of coercion *and* consent systematically tries to steer power relations and distribution of resources. Illustration 1 provides a graphic approximation of the way the CPC dominates political organization from the core to the periphery, integrating state institutions, administrative bureaucracy, and social and economic organizations. Also the economy, and even more so the public economy, is entangled and embedded in the Party-state order.

It should be noted that, while it makes sense to call the Chinese state a Party-state, an important division of labor between CPC and state administration remains at both the conceptual and organizational levels. The state is a Party-state, in that it is constructed and integrated around Party rule, but the Party remains above the state. That is, while the state consists of the administrative apparatus, its administrative capacity is serving the general hegemonic project defined by the CPC.<sup>24</sup> Within the CPC's political philosophy and practical ideology, "reform"

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<sup>23</sup> Original text: "大家知道, 国家是维护一个阶级对另一个阶级统治的强力组织", see: People's Daily (1989).

<sup>24</sup> In this conceptual relationship between Party, state, and society, it is hard to underestimate the role of ideology, not only as ideal type set of goals or utopia, but more importantly as operational guideline, in form of a practical ideology. Franz Schurmann (1968: 108) has pointed out that: "If the Communist party plays the role of unified leadership and coordination in society, then it is only the ideology, ultimately, which provides the cement for such unity. The Party is an organization that fulfills executive roles in society. [...] The more unified such decision-making is supposed to be, the greater number of discrete units it involves, the more important are values and norms. The

therefore means the constant adaptive change of the Party-state, in order to upkeep and improve the capacity to govern society at large. This control is important not only for the sake of power alone, but is seen as prerequisite for the ability of the Party-state to direct social progress towards desired ends. These ends are both captured by the vague and lofty goals stated in e.g. the CPC constitution, but also concrete developmental goals stated in five-year plans and economic policy.

### **The Commanding Heights of the Economy and National Champions:**

For the public economy (and SOEs), the concept of a Party-state order means that certainly all those organizations overseen and owned by the Party-state must also be seen as extension of the state. SOEs constitute the “commanding heights of the economy” (经济制高点), doubling as a potential vehicle for supporting Party-state hegemony. Strategic state-owned enterprises (SOE) are identified as “important backbone companies” (重要骨干企业), today consisting of 15 financial enterprises and 53 central SOEs (Xinhua 2015), and are called the “lifeline of the economy” (经济命脉). These SOEs, controlled by the central Party-state and their leadership appointed by the CPC Organization Department (Brødsgaard 2012a), are part of the “National Team” (国家队) (Sutherland 2001), dominating (or monopolizing) strategic sectors and industries, while combining economic and political objectives as shown in paper three. Main objective of the public economy (that is the state-owned sector), is to maintain its position as the “main part” (主体) of the economy, in order to earn profit the state can tax, but also to work as transmission belts for the ruling party’s socio-economic plans (CPC 2013).

The continued strategic Party control via state-ownership has been an unbroken constant, and is clearly outlined key Party documents, such as Jiang Zemin’s report to the 14<sup>th</sup> CPC Congress in 1992, (Jiang 1992), the Decision on establishing a “Socialist Market Economy System” adopted a year later (CPC 1993), the earmarking of seven sectors for strong state control (State Council 2006), and

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maintenance of ideology is therefore crucial to executive function and the continued role of a Communist Party.”

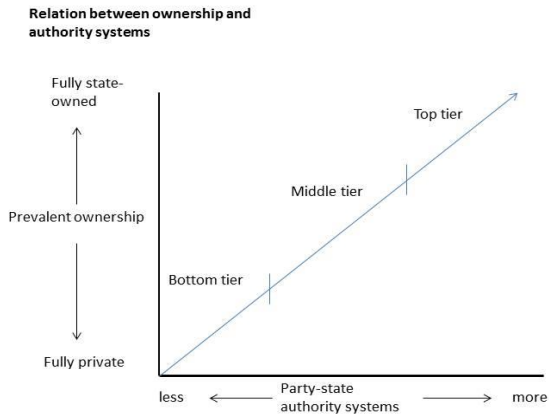
most recently, the Decisions adopted at the third Plenum of the 18<sup>th</sup> CPC Congress in 2013 (CPC 2013).

While efficiency, streamlining, and a growing role of the market are among the priorities of the general reform agenda, it is equally clear that the ability to maintain control over political goals are of overarching importance also in economic policy. Accordingly, while “separation of company and administration”, and modern corporate governance systems are important goals, the role of Party groups in SOEs as political guides, as well as the monopoly positions of strategic “extra-large enterprises”, and the ability to exercise “macro-economic adjustment” through SOEs, are mentioned in tandem in many key policy documents (e.g.: State Council 1998:14; CPC 1999).

Economic reform and political economic organization as part of ruling a society at large is of central concern to the CPC, rather than an arms-length regulation of the “economic realm” by a state administration. Rather than pushing only efficiency and depoliticized SOE management, “SOE reform and development is a complex, social system project”, and “Upholding the Party’s leadership role [in SOEs] is a major principle” (CPC 1999). Overall, a clear hierarchy of objectives looms behind the policy, from CPC hegemony, to concrete national or economic interest, to company performance, a logic clearly emerging from the CNPC case discussed in paper 3.

There are, however, qualitative differences between SOEs of different sectors and industries. The ‘National Champions’, or ‘economic lifeline’ (经济命脉) in strategic industries (including CNPC), operating in what Margaret Pearson (2011) calls the “top tier”, are here considered to be the ‘commanding heights’, economically protected and politically integrated by Party-state systems. Large central level SOEs such as CNPC represent a sophisticated integration of commercial entities and interests, and a parallel potential as politico-economic organizations of support to the Party-state’s broader socio-economic and political interests (i.e. hegemonic project). In absolute numbers, there are far more SOEs in the middle and bottom tier, but the top tier remains closely integrated with the Party-state (e.g. direct oversight by the State-owned Asset Supervision and Administration Commission, leaders appointed by the central Organization Department, quasi-

monopolies in their respective industries).<sup>25</sup> The degree of strategic importance the Party-state ascribes to a company/industry, or proximity to the center as in figure 1, translates into degrees of state-ownership and control (see figure 2). Sectors in which state-ownership is dominant, such as Oil, are characterized by very high degree of state-ownership (close to 100%), while less important sectors are allowed to be privately owned, and less connected with Party-state authority systems.



Author's own illustration based on: Pearson (2015)

figure 2: Relation between ownership and Party authority.

Studies disregarding the complex and variegated structure of China's endogenous political and economic institutions, at times remains locked in a binary conception of development as either top-down and bottom-up, contrasting the big bang approach of the former Soviet Union with China's gradual market liberalization (e.g. Huang 2008; Nee and Oppen 2012). This linear view on political (and societal) organization

<sup>25</sup> Industries considered of the least direct political relevance are e.g. in manufacturing and retail, and private companies have largely taken over this bottom tier.



and development falls short of convincingly explaining China's political order, because it oversimplifies state and market into independent entities. Within the paradigm of the Party-state as an order, or *Herrschaftssystem*, the political-economic field is governed and organized as part of societal order at large, under the general, society-wide hegemonic project of the CPC. Epistemologically, the social theory behind political organization and governance of the economy as one facet of social action, regards a holistic control over all social action as necessary foundation of sovereignty. Therefore, even at a conceptual level, the separation of political control and economic forces (and vice versa) are impossible in the CPC's formal political philosophy. The "encroachment," or advance of the state onto the economy is therefore in the natural interest of the ruling class/party (Eaton 2015), since it is vitally necessary in order to carry out general and society-wide governing, that is, the hegemonic project.

The notion of the Party-state order, and its integration of economic activity under political organization, stands in contrast to some well-known accounts on the Chinese economy, where so-called state-intervention is in the way of efficient allocation of resources, and where the market, as an idealized regulative stand in a zero-sum game over regulatory power in the economy (Osburg 2013).

Analyses conflating the complex order of institutions and organizations of China's political economy into one linear development logic (i.e. liberalizing vs. statist, or 国进民退 vs. 民进国退), have difficulty to fully grasp this complexity. As Li Chen (2015: 15) notes: "neoclassical economics and many proponents of statist industrial policy assume there is a clear-cut organizational and functional boundaries between the state, firm and market, or between 'hierarchy' and 'market'." Huang Yasheng (2008), for example, presents a view on post-reform China where the unleashed force of small entrepreneurs, finally unshackled of state control, are the driver behind economic growth and social development. In a similar vein, Walter and Fraser (2011) assess that China's success hinges upon more market and less state, and potential systemic risks – even financial crisis – are best avoided by less state intervention and economic regulation. Edward Steinfeld (2010) goes even further, claiming that China already is "Playing our game", and that deregulation is unavoidably the main driver of growth.

Here two highly abstract and undefined versions of the concepts of state and market are presented as standing in contest over influence over the economy, where market logic equals rational decision-making, and state intervention leads to inefficiency and waste, at best (World Bank 1995; Sheng and Zhao 2012). While these assessments may or may not be correct, what is strikingly evident is the epistemological rift between approaches mentioned above on the one hand, and the official Chinese thought on political organization on the other. State intervention and market logic, in this latter view, have two fundamentally different objectives, and are in fact conceptually different to a degree where the juxtaposition of the two is meaningless. The state, as the umbrella of political power and organization, as well as the market, as a particular logic for capital (resource) distribution, are two different units of analysis, and while the former can use the other, the market can never trump the state.

The conceptual separation of economy, state, and Party has at times led to some misunderstanding, or biased evaluation of the economic reforms after 1978. Confusion about these intended ends of Chinese economic policy after 1978 had already been observed by Start Schram in 1984, who pointed out that understanding the post-78 reforms without seeing them within the larger ideological and theoretical framework of the CPC is futile (Schram 1984). Economic reform was not a paradigmatic shift in the sense that the CPC started to break down its hegemony or even detach itself and retract from the economy, it was, however, a new approach to reach economic goals, i.e. an inclusion of new means to the same ends. Party hegemony itself was never questioned.<sup>26</sup>

Schram also pointed out how “reform” (as in opening up and reform, or 改革开放) never was meant as change of the political system, but as “learning from practice”, and the dialectic adaption of the Party to new economic (material) realities. Party hegemony, in other words, was never up for discussion (Schram 1984: 428; von Senger 1994). It was in fact fiercely debated how far economic opening should be permitted, underlining the fact that post-1978 reforms never were

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<sup>26</sup> Of course there was debate and conflicting opinions about this in society and within the Party, it seems clear though that leaders such as Deng Xiaoping and Chen Yun never questioned the central role of the CPC in politics, and party-building as constant and necessary undertaking. See also: Ezra Vogel (2011).

intended as a turn towards liberal capitalism and limits to Party control over state and society. Thus, while economic modernization and development was the main agenda after 1978 (and arguably has been until Xi), ideology and Party hegemony was never questioned as the foundation of political organization. Quite on the contrary, the institutional logic with the Party-state at the core shown in illustration 1 has repeatedly been underlined as basic political organizational principle. The Party as organizational emperor, and a unitary concept of the state in society, has been a constant. In the words of Schram (1984: 461):

“It can be argued that, neither in the realm of organization nor in that of ideology and culture would Mao and his successors have striven so hard to promote uniformity if the unitary nature of the state had not been accepted, for the past two thousand years, as both natural and right.”

### **Concluding Remarks:**

This introduction has presented the dissertation’s underlying understanding of China’s political system as a Party-state order, in which the CPC constitutes the institutional power core and in which administration and the general political organization of society is aligned to CPC hegemony. Apart from bringing a new perspective to the study of China’s political system, it also forms the wider circle around the project as one investigating said system as having three main features, which individually are known to the literature, but which seem to contradict each other when looked at isolated. First, China’s state bureaucracy has been described as fragmented and ridden with systemic roadblocks hampering efficient policy-making and implementation. At the same time, research more recently has started to look more carefully at a second feature; the adaptive and resilient capacities of the Party-state. A third and more recent branch of literature has been looking at these capacities more specifically in the economy, and especially in the case of state-

owned enterprise. Here, I show how the complex embeddedness of SOEs in society *and* the political system unfolds in local China, where economic, social, and political goals are negotiated in ways that are invisible to analyses looking only at SOE headquarters and national level policy-making.

While all parts of the dissertation speak for themselves, I hope that this introduction serves as a starting point for a new approach to study some of the institutional dynamics and the organizational and ideological features of the Chinese Party-state. As an ontological foundation, it also connects the three papers around the shared interest in political order of China as society, and CPC hegemony as crucial factor for its understanding.

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# Revisiting Fragmented Authoritarianism in China's Central Energy Administration<sup>27</sup>

## Introduction:

The concept of Fragmented Authoritarianism (FA), outlined during the broad restructuring of China's industrial and bureaucratic systems during the 1980s, sought to explain the interrelation of bureaucratic decision-making processes and China's institutional structure, i.e. the bureaucratic Party-state structure. FA became an important contribution to the study of China's political economy, showing how the rationality of policymaking and restructuring in post-1978 China was highly influenced by formal institutional structures. Introduced in the ground-breaking volume *Policy Making in China: Leaders, Structures, and Processes* by Kenneth Lieberthal and Michel Oksenberg (1988), the model laid an important foundation for our understanding of China's disjointed bureaucracy, the policy- and decision-making processes taking place within and across them, and the central vertical and horizontal mechanisms at work in the Chinese system.

A few years later in 1992, the seminal volume *Bureaucracy, Politics, and Decision Making in Post-Mao China* was published. This volume built upon the growing body of works on the centralization-decentralization forces triggered by post-1978 reforms (Lieberthal and Oksenberg 1988; Lampton 1987a), and reflected on the FA model by testing its application to various levels and bureaucratic clusters of the Chinese system, trying to gauge its value as a more general model for bureaucratic policymaking processes. Focusing on the effects of increased decentralization during the 1980s, a major concern was the (re-)distribution of resources and authority and the decision-making processes that underpinned this. Seeing how ideology had taken a step back in favour of politico-economic goals and

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priorities, the FA model aimed to assess the underlying logic of a changing, experimenting and opening China. The FA model viewed bureaucratic authority as “fragmented and disjointed”, and this fragmentation could lead to situations “in which it is often necessary to achieve an agreement among an array of bodies, where no single body has authority over the others”, thus requiring “bureaucratic entrepreneurship” and bargaining (Lieberthal 1992:8-9). Arguing that rational-actor and power models were not sufficient to explain the decision-making processes in contemporary China, the FA model pointed towards structural features of the bureaucracy and the particular processes they lead to in decision-making and implementation. In short, the decentralizing reforms after 1978 reshaped the bargaining and opportunity constellation through institutional restructuring, changing and diversifying authority over budgets and resources vertically and horizontally, and across bureaucratic systems and constituencies.

Contemporary China’s bureaucratic missions and policy agendas are, with few exceptions, very different from those of the 1980s. Nevertheless, as will be argued, the FA model has not altogether lost its value as an analytical framework to describe the important structural features and operational mechanisms of China’s political system. While political, economic and social realities are vastly different from those when the FA model was introduced, a time when China’s reform and opening-up period was hardly a decade into its unfolding, the two basic components of the FA model – ‘fragmentation’ and ‘authority’ – remain two of the defining features of the political setup. More recently, Andrew Mertha (2009) further developed the conceptual inventory of the FA framework. Pointing out that in today’s far more plural and responsive (official) China, bargaining still plays an important role for decision-making. Mertha shows how this takes place between bureaucracies and state agencies, but new actors have also joined the bargaining table. Increasingly, techniques of ‘issue framing’ and individual or groups of ‘policy entrepreneurs’ are pushing agendas and specific outcomes.<sup>28</sup> This development towards a more plural and somewhat more inclusive governance of the increasingly politically aware and engaged society was also noted by He and Thøgersen (2010),

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<sup>28</sup> A feature that was briefly touched upon, but not fully examined, in Lampton - presented here as: “Whipping up Support and Faits Accomplis” by local leaders (1992:55).

who argued that an increasing variety of policy entrepreneurs (NGOs, the media, etc.) are able to actively influence policymaking. Others have since referred to the concept of FA, pointing out the successful combination of decentralization and authoritarianism through elite integration by the CPC as the integrative agent, working against the centrifugal forces of fragmentation (Landry 2008; Brødsgaard 2012), and even the conscious utilization of fragmentation as opportunity, or “experimentation under hierarchy”, for regionally adjusted yet coordinated policymaking (Heilmann 2008: 2).

While only making use of the FA model indirectly, these approaches agree on its key features, namely the central roles of authority (in the form of CPC leadership) and structural fragmentation, rendering policy- and decision-making a complex process played out among multiple actors of different kinds. While the position of the Party as the overarching authority in the “Chinese model” is hardly disputed by anyone, much more has been said about the fragmenting forces. Institutionally, the built-in fault lines of the Chinese system run both horizontally across organs at the same level/rank (*kuai*) leading to bargaining over resources (e.g. the finance department and the NDRC office of a provincial government, or competing provincial governments), and vertically (*tiao*) within bureaucratic systems or levels of local governments. Looking at these structural fault lines, the FA model, or rather the institutional rationality it describes, lingers on today even though China has reformed its Party-state structures several times. Given these continued similarities in spite of structural and institutional changes, a review of the analytical value of the FA model today seems adequate. This is even more the case, since the early work mostly focused on the centrifugal force of decentralization and the disruptive effects of bargaining among bureaucracies, while more recent research is trying to understand the integrative, centripetal mechanisms keeping China from falling apart (i.e. Zheng 2009; Brødsgaard 2012). Moreover, Leading Small Groups are moving into the focus, as they represent and illustrate the system’s reliance on vertical (CPC) authority as kick-starters for decision-making, and the structural “fix” against horizontal fragmentation and implementation biases.

This chapter will progress as follows: important bureaucratic institutions in charge of energy policymaking will be presented against the backdrop

of China's energy administration and the reforms it has undergone up until the time of writing.<sup>29</sup> The case of the 2010 National Energy Commission will be presented to illustrate how fragmentation and uncertain outcomes of bureaucratic bargaining seem to persist. Lastly, a range of more methodological and theoretical issues surrounding the FA model will be discussed, in order to assess the validity and value of the FA model for academic research today.

### **Fragmented Authoritarianism in China's Energy Sector:**

China's vast energy sector - the main field of research of Lieberthal and Oksenberg's 1988 volume - continues to draw attention from scholars trying to dissect the institutions, policies and development pathways of the various organs populating the sector (e.g. Andrews-Speed 2010; 2012; Arruda 2003; Downs 2008; 2008a; Lim 2012; Xu 2010). With few exceptions, a select group of powerful institutions stand at the centre of most studies, and of national policymaking and strategic coordination as well. First and foremost, the National Development and Reform Commission (NDRC) exercises far-reaching control over long-term planning, pricing, large investments and tendering, and other central issues for policymaking in energy. Under the roof of the NDRC, the National Energy Administration (NEA) is the main organ in charge of energy issues, dealing with the more concrete policymaking, regulation, planning and research. Another important organ is the National Leading Small Group for Addressing Climate Change and Energy Conservation and Emission Reduction Work (*Guojia yingdui qihou bianhua ji jieneng jian pai gongzuo lingdao xiaozu*, hereafter: NLSG), which through its high-ranking members and bureaucratic affiliation with both the State Council and the NDRC is an influential discussion platform for strategic decisions across bureaucracies. Additionally, the central state-owned enterprises (SOEs) in the energy sector (two grid operators, three oil companies, and five generation companies) are an important group. SOEs have to comply with policies and regulations in the energy industries, such as new industry standards and energy development plans. At the same time these corporations are

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<sup>29</sup> The time of writing was 2014, with a few additions made in early 2015.

urged to become efficient for-profit companies, and this tension between industrial policy on the one hand and profitability on the other creates its own stresses, even at the downstream ends of energy policy.

Adding another player to these well-established institutions, the National Energy Commission (NEC) was set up in 2010. It is a bureaucratic addition that will be used in this chapter to illustrate how China's energy administration still suffers from some of the same challenges described by the FA model. Revisiting the energy administration, and analysing it through the lens of the FA model, suggests that the NEC succumbed to the "bargaining treadmill" (Lampton 1987), leaving it as a "super ministry" on paper, yet offering an empty shell in reality. Moreover, institutionalizing the state of exception, leading small groups emerge as the real 'fixers' when formal, specialized Party-state institutions fail to effect authoritative decisions.

### **The Bumpy Road to NEA and NEC**

On January 27<sup>th</sup> 2010, the State Council (SC) announced the establishment of the National Energy Commission (NEC). Initially planned in 2008 (State Council 2008), it was chaired by then Premier Wen Jiabao and Vice-Premier Li Keqiang (as Vice Chairman), reporting directly to the SC. The daily management was situated within the National Energy Administration (NEA), then headed by Liu Tienan (State Council 2010). The NEC was praised as an effort to enhance the central administration's authority over the strategic energy sector, bolster the coordination of policymaking, and increase planning and coordination efficiency (China Daily 2010). The fact that the NEC was headed by the Premier, and had 21 members from various – mainly ministerial rank – organs in state, China's Communist Party (CPC), and the People's Liberation Army (PLA), justified the assumption that the NEC was an ambitious effort to reform the energy sector. Some observers praised the new "Super Ministry" (ibid.) as a quasi-Ministry of Energy that could supervise and coordinate important policy across the fragmented and ill-coordinated energy sector (Hong 2010; Cai 2010). Given the persistence of fragmented authority and bargaining among the



bureaucracies as described by the FA literature (Lieberthal and Oksenberg 1988; Lieberthal and Lampton 1992; Mertha 2009), especially in the important energy sector, this overdue consolidation of administrative authority at the central level seemed logical.

Others were not so optimistic. They questioned the actual novelty of the NEC (Downs 2008), and with its office placed under the NEA, itself under the NDRC, energy insiders such as Zhang Guobao (former director of the NEA and director of the Energy Experts Advisory Commission) and Li Junfeng (vice-director of the Energy Research Institute, a key think tank under the NDRC) remained sceptical of the NEC having any real authority vis-à-vis other powerful and well-established organs (EnergyNet 2010; Xinhua 2010). Even though a top-level discussion platform had been formally created with the NEC, they both pointed out that placing the NEC's daily-work responsibility under the NEA would in fact boost the NEA's clout, rather than creating an authoritative NEC.

The sceptics were correct in their doubts about the NEC. It has produced no visible output, in stark contrast to 'rival' organs sharing authority over energy issues, such as the NDRC (and the NEA), the NLSG, and even the Ministry of Finance (MOF). No official press releases by or about the NEC have been issued since 2010, apart from a personnel update after the leadership change at the People's Congress in March 2013 (NEA 2013). Two main points regarding the weakness of the NEC vis-à-vis other institutions are particularly important. One is that the NEC is a different type of organization to other established organs, an important fact that will be discussed later in the chapter. More immediate, though, is the observation that the 'failure' of the NEC appears to be the consequence of the very problem it was meant to resolve: the fragmentation of authority over energy issues dispersed among established bureaucratic organizations that continue to resist sharing or ceding their authority over energy.

The establishment and failure of China's NEC seems less surprising when seen in the perspective of a series of unsuccessful attempts to create a central organ in charge of the comprehensive and integrated administration and supervision

of the energy sector.<sup>30</sup> Shortly after the founding of the People's Republic of China in 1949, the Ministry of Fuel Industry was established and given broad authority over the energy industries. The ministry was dismantled in 1955, and split up into three ministries, one for coal, oil, and electrical power, respectively (Arruda 2003). The years between 1955 and the start of the reform era saw several rather erratic restructurings of the energy sector, a shrinking of the entire government during the Great Leap Forward and the Cultural Revolution, and finally the return to centrally orchestrated and more coordinated capacity building after 1978 (Lieberthal and Oksenberg 1988; Yang et al. 1994).

In order to build an efficient central administration, in 1980 the National Energy Commission (same name, different organization) was established as a strategic coordinator for the sector, a function it never was able to exercise until it was abolished again only two years later (Bo 2010). The next round of restructuring in 1988 saw the Ministries of Coal, Nuclear Industry, and Water Resource Conservancy merged into the Ministry of Energy (MoE), a setup that lasted until 1993. Overshadowed by the powerful State Planning Commission (renamed State Development and Planning Commission (SDPC) in the same year) as guiding authority, the MoE never assumed real administrative authority and the energy administration was once again separated into various organs (Yang et al. 1994; Arruda 2003). Also in 1993, the State Economic and Trade Commission (SETC) was established, absorbing the Ministries of Coal and Electric Power in 1997, which in 2003 merged with the SDPC to form the NDRC.<sup>31</sup>

Certainly one of the most far-reaching changes, the merger of the SDPC and the SETC, created a substantial concentration of administrative authority in the NDRC, which still exercises authority over a wide array of issues, including the energy sector. Housed within the NDRC, the State Electricity Regulatory Commission (SERC) was established in 2003 as independent electricity regulator (Hu 2009). Furthermore, in 2005 the Energy Bureau was formed, also under the roof of the NDRC, to officially

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<sup>30</sup> The process of restructurings here only sketched out briefly, for a more comprehensive overview see Fuqiang Yang et al. (1994); Arruda (2003); Yu (2010); Zhao et al. (2011); Wu (2003); Andrews-Speed et al. (2000).

<sup>31</sup> The SPC/SDPC proved to be one of the most persistent organs in the history of the PRC, being established already in 1952, and serving as long-term planning authority until its merger with the SETC to form the NDRC.

manage concrete energy-related planning, even though some areas, such as hydro power, still were governed by other ministries and commissions (Yu 2010). The most recent reshuffle came in 2008, establishing the administrative bureaucratic setup still in place, with only a few minor changes, in 2015. The Energy Bureau was upgraded to vice-ministry level, renamed National Energy Administration (NEA), and equipped with nine departments, each taking over responsibilities from various areas within the energy sector, such as coal, renewable energy and international cooperation. During this process, the National Energy Leading Group (established under the SC in 2005 to support the Energy Bureau), unable to assert real influence in energy issues, was disbanded and all its responsibilities transferred to the NEA (Downs 2008a). Bolstering the NEA as a bureaucratic institution, the SERC was placed under the NEA after the most recent restructurings following the National People's Congress meeting in March 2013. Wu Xinxiong, former head of the SERC, took over as head of the NEA (Xinhua 2013).

Also the energy industries were subjected to substantial restructurings throughout the 1980s and 90s. After the disbandment of the Ministry of Energy in 1993, and Ministry of Coal and Ministry of Electric Power both in 1997, the State Power Corporation was formed in 1997 as a ministry-level organ in charge of overseeing electricity generation and grid operation. This professionalization of energy industries away from industrial ministries and towards corporatization had already started in the oil sector in 1982, with the creation of China National Offshore Oil Corporation (CNOOC), and the China Petro-Chemical Corporation in 1983 (restructured in 1998 to form the today's China Petrochemical Corporation, or Sinopec Group which is parent of the Sinopec Corporation established in 2000). The third 'oil champion', China National Petroleum Corporation (CNPC) was established in 1988, with its main subsidiary PetroChina established in late 1999. By restructuring ministries into large SOEs, Beijing extended the general SOE reform programme of 1997/98, known as 'grasp the large and release the small' (*zhua da fang xiao*), into the energy sector. This effort was further deepened with the landmark reforms of 2002, when transmission and generation were separated, with five 'energy giants' (Huaneng, Guodian, Huadian, Datang and China Power Investment Corp.) and two grid companies (State Grid and Southern Grid) carved out

of the State Power Corporation (Arruda 2003; Yu 2010). In 2003, the State-Owned Asset Supervision and Administration Commission (SASAC) was established to represent the government as the formal owner/investor of the 196 SOEs (reduced to 112 at the time of writing), including the energy SOEs, pushing corporatization and keeping an eye on efficiency and profitability (Naughton 2004; 2006).

If nothing else, this continuous restructuring illustrates the continuous protracted and incremental nature of reforms in the energy sector and the way the Chinese government struggles to consolidate a central energy administration, including the NEC. Clearly, some institutions are more powerful than others and these stand out by marshalling the most important aspects of decision-making processes in energy policy, as shown in the following section.

### **The NDRC**

The NDRC is probably the most powerful of all the ministry-level organizations, even bearing the moniker ‘small State Council’ because of its broad mandate. With long-term planning (including drafting of five-year plans), electricity pricing authority, and the influential NEA under its roof, the NDRC stands out as the real ‘super ministry’ and has little incentive to give away its powers (Yeo 2010). Importantly, the office of the NEC lies within the NEA and, as such, under the authority of the NDRC. This means that the NEC is positioned under the NDRC and NEA. Moreover, given that the NEA, the NEC, and the NLSG all are located under the roof of the NDRC, the NEC might simply be seen as an obsolete organ, since it does not offer institutional capacities the existing organizations cannot provide, be it daily administration or connectedness with top-level decision-makers.

Besides housing central energy-related organs, the NDRC has been able to assert its inherited influence in the energy sector, especially since energy was earmarked by Beijing as a strategic sector (NPC 2011), and with its mission to oversee large investments and national tendering. The NDRC’s 32 departments and bureaus cover virtually every policy area, from overseas investments, pricing policies, to resource conservation and retired officials. Most departments have vice-ministry rank, while five (vice-) Chairmen hold ministerial ranks, up from three prior to 2012, each

overseeing powerful bureaucratic systems (NDRC 2012). The NDRC has played a major role in planning, approval and assessment of energy projects, such as renewable energy tender bidding (e.g. the seven national wind power bases; see Li et al. 2010), electricity pricing, and the broader energy planning and investment strategy formulation. As such, the NDRC remains a central actor in policymaking on both macro- and meso-plan, overriding most other institutions with its influence (NDRC 2015). Its broad mandate seems to be both a blessing and a curse, since its high concentration of power means that its policy output has significant political weight throughout the system (mirror institutions of the NDRC exist at most local levels, except villages) and across bureaucratic clusters. At the same time, the NDRC's strong and concentrated mandate weakens other department's policy coordination in those energy related issues stretching beyond the NDRC's own bureaucratic mission.

### **The NLSG**

Another important organization of high relevance for strategic energy planning is the National Leading Small Group on Climate Change (NLSG, see above). This organ has received very limited attention, in spite of its high-level involvement in policy discussions, strategic planning and especially international cooperation on climate and emission policy. As with all Leading Small Groups (*lingdao xiaozu*), internal discussions and influence over policymaking processes are even more opaque than in regular state institutions. Solid research, official press releases, and even anecdotal evidence are only thinly spread.<sup>32</sup> Under the Xi Jinping administration some first official news about Leading Small Groups (LSG) started to appear, including the disbandment of 130,000 leadership groups in a step against the counterproductive “mountain of documents and ocean of meetings” (*wenshan huihai*) they create (Xinhua 2014). The large number of leadership groups suggests how extensively this type of institution is used as an important forum for negotiation and decision-making, gathering various horizontally related organizations under a

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<sup>32</sup> The only scholars presenting more systematic research on small leading groups' structure and functions are Zhou (2010; 2015) and Lai (2014).

higher ranked authority (e.g. the CPC secretary of a local government), thereby enabling it to override potential stalemates between equally ranked parties in conflict over authorities or resources. There has been a string of new leading small groups at the central level under Xi Jinping, targeting important political agendas of his administration, such as reform implementation, security issues and SOE reforms. Apart from showcasing Xi's resolve and his stern intention to push his reform agenda, the necessity to establish leading small groups in order to actually push reforms certainly underlines the fact that bureaucratic bargaining and negotiations over resources, and authority between interest groups, remains a real problem.

More generally, leading small groups mostly meet on an *ad hoc* basis, formed by (internal) decree outside the normal Party-state *bianzhi* (NFZM 2012). They include the leading cadres of the organs related to the group's policy area in a quasi-formal organization that cuts horizontally across ministries and departments at the same level (State Council 1997; 2007b).<sup>33</sup> The first national LSG were established in 1957/58<sup>34</sup> and, since being placed directly under the leadership of the SC and/or the CPC Politburo, has held significant influence over policy coordination as well as more strategic planning (Zhou 2010; 2015; Lai 2014; Miller 2008). Currently the the SC oversees around 21 LSG, while the Politburo oversees 24 groups, such as the Finance and Economy LSG and the new leading small group for comprehensively deepening reform, headed by Xi Jinping. Xi himself is the leader of nine groups, an unprecedented centralization in post-reform China.<sup>35</sup>

There are three different kinds of small groups: permanently established, term-based, and short-term leading small groups. These exist at all levels in the state and Party system (Zhou 2010). Permanent groups are mostly located under central CPC organs (such as the Finance and Economy LSG), while term-based and short-term groups are established to address specific tasks or problems and are far more common throughout the system, Leading Small Groups

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<sup>33</sup> Formal authority of LSGs to serve as cross-ministerial discussion and coordination organs was endowed to them by Article 6 of State Council Decree No. 227 (State Council 1997).

<sup>34</sup> Being a spin-off of the 1949 'Central Commission for Finance and Economics', the first LSG was the 'Central Five Person Small Group for Economic Work' (*Zhongyang jingji gongzuo wuren xiaozu*), set up with Chen Yun as Chairman, becoming the still existing and highly influential Leading Small Group for Financial and Economic Affairs (*Zhongyang caijing xiaozu*) a year later (see: State Council 1957; 1958).

<sup>35</sup> See Nis Grünberg, "The Rise of Leading Small Group Governance" (forthcoming).

under the SC are formally classified as one of three forms of “discussion and coordination organs” (*yishi xietiao jigou*), the others being commissions (*weiyuanhui*) and directing departments (*zhihuibu*) (State Council 1997; 2008).<sup>36</sup> Such central LSGs have high rank, given that their members mostly are at ministry level, and chairmen are Politburo or Politburo Standing Committee members. As for the NLSG, Premier Li Keqiang, Vice-Premier Zhang Gaoli, and State Councillor Yang Jiechi enhance its formal bureaucratic authority by serving as chairman and vicechairmen, while its daily office is placed under the NDRC, with (NDRC vice-chairman) Xie Zhenhua as its director.<sup>37</sup>

As an established type of quasi-formal organization binding together the Party-state, leading small groups have undergone a continuous development of formalization and institutionalization. Initially only counting five groups consisting of a handful of top leaders in 1958 (CPC 1958), they became more numerous and more important during the 1980s, when they were first accepted as part of the formal system as “ad hoc organs” (State Council 1988). Later, in 1993, they became so important as flexible additions to the rigid Party-state bureaucracy, that they were formalized as institutions under the State Council, and given their current name as “discussion and coordination organs” (State Council 1993). In 1997, the State Council (State Council 1997) confirmed these organs as formal part of the system. Since then, leading small groups have proliferated and become important problem solvers to fragmentation of authority, illustrated by their rise as important political, central-level organs under Xi Jinping.

The composition and bureaucratic positioning of the NEC and the NLSG show significant overlap (see table 2.2 and 2.3). Including chairman Li Keqiang and vice chairman Zhang Gaoli, 16 members, including some of the most powerful ministers and top-level politicians, such as Xu Shaoshi (NDRC Chairman), Xiao Jie (Deputy Director-General of the State Council), Luo Jiwei (Minister of Finance) and Wang Yi (Foreign Minister), are members of both the NLSG and the NEC. One

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<sup>36</sup> Because of the lack of consistent information, this paper will treat state and party LSGs as the same. There seems to be the usual division of labor, with government functions coordinated under State Council LSGs, and the more ideologically loaded ones under the CPC. More research is clearly needed, to give some clarity and proof to these assumptions.

<sup>37</sup> Xie retired in February 2015 from his post at the NDRC, but was shortly thereafter posted to the United Nations as a special representative for climate change issues.

difference is that the PLA is represented in the NEC. Both the NLSG and the NEC share the administrative status of Commission/LSG under the SC (they are both described as “discussion and coordination organs”) and this *formally* renders them with similar authority over cross-ministerial coordination of energy issues.

<Table 2.2 and 2.3 approximately here>

However, in spite of shared qualities in terms of structural form and membership profiles, the NLSG is considerably more visible and has produced far more activities and policy output than the NEC. Part of the explanation may lie in a subtle difference to their bureaucratic mission and organizational structure, specifically the double function of the NLSG. One function or subgroup is the National Leading Group to Address Climate Change for international cooperation on climate change, and the other is the State Council Leading Group for Energy Conservation and Emission Reduction, the latter mostly being a domestic platform. Curiously, both subgroups have their own secretariat, both with the Premier as chairman, Xu Shaoshi (director of the NDRC) as director, and Xie Zhenhua (also chief negotiator on international climate summits) as vice-director. Additionally and importantly, Xie Zhenhua oversees both groups from the group’s office placed under the NDRC (Zhu 2010).

The strong cross-ministerial influence of the NLSG is bolstered by the fact that the member ministries of the NLSG are required to establish coordinating offices (work groups), in order to implement the group’s decisions across their respective vertical departments (State Council 2011; Hubei Daily 2011; Ministry of Agriculture (MOA) 2011). In other words, the NLSG is institutionally integrated both horizontally *and* vertically, with its apex under the daily leadership of an influential minister-level official. Given its strong record and deep cross-ministerial integration, the NLSG can push and coordinate its activities more effectively than the NEC, and perhaps even the NEA, when it comes to matters within its broad mandate over climate-related policy. Its task to coordinate and guide decision-making in cases where multiple ministries are involved, serving as a seemingly neutral forum to discuss strategic energy planning, renders the NLSG a highly influential and well-



connected organ central to the energy sector (NFZM 2012; inewsweek 2013). It is integrated directly under the NDRC – the most important organization for energy related work -, and has a director, Xie Zhenhua, who enjoys high standing among China’s leaders, not least in his double role as top climate official and outspoken chief negotiator for China on international climate issues (Bloomberg 2009; Delman 2011). He has long been the go-to person for climate issues at the UN, as demonstrated by his high status posting as special representative at the United Nations. The NLSG has acquired significant influence under Xie’s leadership.

### **Central Energy SOEs**

The central energy SOEs (the three oil corporations, the five ‘energy giants’, and the two grid companies), all of which are the offspring of former industrial ministries, still have an influential voice in Beijing. Some of their chairmen are alternate members of the CPC’s Central Committee, and all the 112 SASAC companies’ chairmen have departmental or vice-ministerial (*tingji* or *fubuji*) rank (Xinhuanet 2012; Brødsgaard 2012). The combination of their monopoly in energy markets, the nation’s dependence on stable and predictable growth of generation capacity, and functional, stable grids to fuel the nation’s economic and social development renders energy SOEs powerful interest groups (Andrews-Speed 2010). Given the fundamental role these central corporations (also called China’s economic lifeline, *jingji mingmai*) in strategic sectors play in the general development of the Chinese economy, and boosted by the political legitimacy of the CPC these central SOEs (*yangqi*) have become “too big to fail” (Walder 2011: 18). To some extent, the Chinese government sits in a position of mutual dependence with the big energy SOEs. They hold tremendous political capital, both as a side-effect of the government’s reliance on their success, but also as a deliberate result of the SOEs’ hold over ‘natural monopolies’ (i.e. energy), thus protecting the “national champions” from competition (Nee and Oppen 2010; Sheng and Zhao 2012). Strategic sectors such as energy do not qualify as market economies, but still form a tightly controlled state corporatist environment beyond the reach of anti-monopoly laws, and

favoured by government procurement rules (Pearson 2012; Fox 2007; Matechak and Gerson 2010).

The most important factor, however, may be the political integration of SOEs through the CPC. Their relationship is cemented by the approval of leading executives and board members by the CPC Organization Department, and in the case of the top 53 central SOEs (the *'wushisan da'*, also including the energy SOEs) by direct appointment, a mechanism through which the CPC maintains the ultimate authority over these strategic businesses. Nevertheless, these leaders, including Party secretaries, are able to drive or block reforms within the companies, and the energy industry is especially susceptible to slow reform implementation, e.g. corporate governance reform. Close government-SOE relations and political priorities regarding development and energy security mean that the central SOEs have thus far been able to resist a 'downgrading' into public service units (*shiyedanshi*) (Tsai 2011).<sup>38</sup> In other words, the central SOEs in energy can – by virtue of rank and position in the political system – leverage their status, economic influence and, in some cases, the personal interests of their leaders,<sup>39</sup> in order to negotiate and lobby policy-makers.

Additionally, central institutions often rely on SOEs for their expertise, industry and market information, and economic muscle (Downs 2008a). This reliance on SOEs for cooperation and information exchange seems even more important given the critical understaffing of key administrations such as the NEA. Although the NEA is the main organ in charge of daily work, former NEA director Zhang Guobao notes that it has just over 100 personnel, compared to the US energy administration, which has a staff in excess of 10,000 (dongfang Zaobao 2012).<sup>40</sup> Especially at local levels, where SOEs do the actual work of fulfilling development plans, constructing infrastructure and implementing industrial policy, they can potentially exert

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<sup>38</sup> All the energy corporations and groups mentioned in this paper are central SOEs, being listed on both the SASAC list of 113 central SOEs, as well as on the CPC *nomenklatura* list of 53 most important corporations managed by the CPC Central Organization Department, see Brødsgaard (2012).

<sup>39</sup> The Zhou Yongkang/CNPC case is a good example, although of more extreme character. Still, it shows the many potential influence SOEs can wield also on the local level through their linkages with the political sphere. For a sum-up of the case see e.g.: <http://www.scmp.com/topics/zhou-yongkang> (accessed August 18 2014).

<sup>40</sup> This number doubled after merging with SERC, still it is significantly smaller than equivalent organs even in small countries; Denmark has over 300 people in the ministry.

considerable influence, largely unmatched by most local administrative-regulatory institutions (Lin and Purra 2010; Tsai 2011). There are occasional reports of internal debates on a further consolidation of the SOEs, especially at the central level, including a merger of the already huge energy corporations, but this has not so far materialized. The reports seem to suggest, however, that the energy sector will see continued restructuring, especially given Xi Jinping's revitalized reform drive.

Apart from the three main groups discussed above, other influential institutions include the MOF, which remains in charge of a number of financing mechanisms such as subsidies (i.e. in the strategic renewable energy sector), tax and accounting (State Council 2008; MOF 2009; DANIDA 2010), and the Ministry of Industry and Information Technology (MIIT), which among others absorbed the Commission of Science, Technology and Industry for National Defence (COSTIND) in 2008, increasing its clout over central industry policy (Yeo 2010; State Council 2008). For energy policy alone, there are 80 organs with partial authority over energy issues (see Table 2.1 for the most important central-level institutions).<sup>41</sup>

<Table 2.1 approximately here>

Although there is a certain spread, authority appears highly concentrated in the few institutional 'powerhouses' presented above. In principle, the 2010 NEC should have moved to the top of this hierarchy of energy governance, since the leaders of all the key offices are NEC members. In practice, however, other institutions that deal with energy issues are more powerful and have been reluctant to give away or share their authority over this strategic sector with the NEC. With the Premier as chairman, the NEC formally ranks at the same level as the NDRC, yet the latter commands greater resources and authority and is therefore the *de facto* superior organ. The NEC has remained a paper tiger rather than the "discussing and coordinating organ" it was designed to be. The fact that not one single meeting has been held there since its

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<sup>41</sup> One example is the feed-in tariff for solar and wind power, which was set by the MOF, although negotiated (as one would suspect when wearing FA glasses) with the Ministry of Science and Technology and the NEA. See MOF 2009.

establishment perhaps serves as the best illustration of its failure as “super ministry”, according to one NEA employee (author’s own interview)<sup>42</sup>. The case of the NEC, seen in the light of the continuous existence of powerful institutions involved in energy policy, serves as case in point for the value and validity of the FA model for describing cross-institutional and bureaucratic processes. Nevertheless, the model has some limitations, as laid out in the following section.

### **The NEC and Fragmented Authoritarianism:**

China’s energy administration is currently more concentrated and institutionally consolidated than ever before, facilitating a significantly more efficient and coordinated policy process than seen in the 1980s. Yet, as the review of the energy administration and the case of the NEC illustrate, the notion of FA is still broadly applicable to the Chinese system. Moreover, the authoritarian solution to this fragmentation – top-down intervention to reach final decisions – attests that FA in many ways still describes one mode of governance in the Chinese Party-state bureaucracy. Decades of shunting authority back and forth among ministries, the continued absence of one consolidated, unified energy administration, and the rise of professional, corporatized SOEs have seemingly solidified the existing setup of a few powerful institutions at the top with multiple actors negotiating the policy implementation downstream. The 1997-98 and 2002-03 restructurings pushed modernization and professionalization of the energy industries and the development of a regulatory state-type administration (Zhang and Heller 2004; Pearson 2012; Hsueh 2012), with reforms such as ‘*zheng qi fenkai*’ and ‘*zheng jian fenli*’ (‘separation of government and businesses’ and ‘separation of governance and regulation’). Still, powerful agencies are able to keep influencing all spheres of the Chinese polity: business, the CPC, and state agencies (Tsai 2011). Institutional inertia and vested interests have so far prevented the materializing of a full consolidation in energy governance. This is nowhere more visible than in the poorly supervised monopoly over energy held by SOEs, directly challenging other parts of the political system and

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<sup>42</sup> The interview was held in Beijing on April 11th 2014.

society at large, leading to rent-seeking behaviour, inefficiency and the exclusion of competition (Sheng and Zhao 2012).

The continuous restructuring of the energy administration suggests that Beijing clearly recognizes the symptomatic fault-lines in the political system, namely the scattering of authorities throughout horizontal and vertical systems, leading to a system of FA over policy-spheres. Beijing struggles with the fact that efficient supervision and oversight by one specialized ministry is next to impossible without simultaneously dissolving authority over similar policy spheres in other firmly established organs. So far all attempts to create a unified administration covering the energy sector, such as the 1980 NEC and the 1988 MoE, and even the Energy Leading Group under (then) Premier Wen, failed to assume authority over their institutional competitors in bureaucracy and industry (Yeo 2009). In the light of this, the more recent intention to push for a 'super ministry reform' (*dabuzhi gaige*),<sup>43</sup> with ministries powerful enough to take over and centralize authority, seems to be a case of wishful thinking. Rumours of the creation of such an energy ministry exist (China Daily 2010), but the systemic roadblocks - explained by the FA model - have so far blocked a more radical restructuring. As the historical review shows, the trend is geared towards consolidation, streamlining and a more efficient administration. According to scientific advisor to both the NEC and the NLSG Lin Boqiang, there was an "unprecedented drive" to press for a new Energy Ministry by 2013, he acknowledges that the main question remains how to extract the relevant authority from the NDRC (Dongfang zaobao 2012). A functional, autonomous Energy Ministry would only be possible after a consistent effort to strip the NDRC of its energy-authorities, including either the abolishment of the NEA and probably the NLSG, or a transfer of their offices *and* authority into any new entity.

One crucial point remains to be underlined. Even though all the presented groups form powerful 'opponents' to the NEC in energy politics, the Party remains in key positions. The CPC secretaries at all times hold the highest rank in any bureaucratic organization, and Party secretaries outrank directors (or CEOs) in

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<sup>43</sup> Other sectors, such as finance and banking, have a similar history of comprehensive but powerless regulators, and have also seen calls for a 'super coordinating commission', which could gather all regulatory authorities, see: Walter and Howie (2012).

organizations. The deep integration throughout the system cements the CPC's role as the chief "unifying or articulating instrument" (Andrews-Speed 2010: 24) of power, and the Party and its cadre management system form the backbone of authority throughout the system. This leads to the question of the role of secretaries in the bargaining, sabotaging or blocking of policies and reforms. The Party is in itself a plural entity and it also seems to struggle with internal coherence and fragmentation. The recent campaign against corruption, led by Xi Jinping and chief discipline watchdog Wang Qishan, must also be viewed as a concerted effort to deal with the problem of principal-agent issues and policy compliance in a horizontally and vertically unaligned incentive structure, and structurally enabled rent-seeking behaviour.

The main challenge with regard to the central energy SOEs remains the establishment of an independent regulatory authority to aid supervision of their operation, especially at local levels. The integration of Party officials on the boards of central SOEs can, however, also be turned around and seen as a co-opting of businesses by the Party. The precise degree of SOE autonomy and the vectors of influence between SOEs and the CPC are unclear, with some arguing that SOEs have significant autonomy and power (Cunningham 2007; Sheng and Zhao 2012), while other voices (especially from within the system) state that SOEs are ultimately towing the line when ministries or central CPC organs step in (author's interviews with SASAC and SOE officials). Nevertheless, central SOEs clearly remain powerful actors opposing any change to the status quo brought about by newly established, higher ranking organizations. Here a careful reservation should be noted. Applying the FA lens in SOE-state relations can be theoretically crude, since it discounts their commercial rationality in favour of a political, institutional perspective. Other approaches that look at industrial relations, state capture or corporatism, for example, are probably equally suited to analysing the complex field of Party-state and SOE relations. The set up of state-led capitalism in China generates a certain type of horizontal competition for vertical authority, which is not squarely captured by the structure-process rationality inherent to the FA framework.

Given the above review, it seems justified to talk about continuing fragmentation since Lieberthal and Oksenberg wrote their seminal study in 1988,

albeit with more specialized and diversified organizations in recent years. Moreover, it seems not only that the rationale of bargaining described by Lieberthal and Oksenberg remains in place, but that the entrepreneurial nature of the incentive contracts between the different stakeholders described by later contributions building on the FA model (Mertha 2009) have in fact increased, as have the number of interests influencing the policy process. While the streamlining of the central government over the past three decades has reduced the number of ministries from over 60 to 23, this has - in the energy sector - led to the existence of only slightly fewer, albeit more powerful, institutions. Adding the corporatized SOEs to the mix (in the 1980s many of them were still branches of industrial ministries), what presents itself is a number of diverse interest groups negotiating policymaking and concrete implementation. Calls for an energy super ministry did not materialize, suggesting that opposition to reform by a few strong actors at central level renders authority fragmentation an unresolved problem.

Quite possibly, consolidated and unified energy governance in one single organ may not be something the administration wants in the first place, since a certain degree of fragmentation is viewed as the better overall governance solution. The single Energy Ministry model (as seen in the US) might not be what China's leadership is opting for, fearing the risk of enhanced rent-seeking in total administrative monopoly over energy, but also acknowledging regional differences, and policy experimentation and entrepreneurship, which have long become the accepted repertoire for decision- and policymaking (Heilmann 2008; Heilmann and Perry 2011). We are left to ponder these questions, working with the sparse information that trickles out of Beijing.

### **Conclusion - FA 3.0?:**

Given the significant changes in the Party-state system and the wider society, the toolbox of the FA model needs to be updated if it is to be used meaningfully today. The ways in which politics and decision-making take place is constantly changing in response to changing socioeconomic and political realities. The updated Fragmented

Authoritarianism “2.0” introduced by Andrew Mertha (2009) was a timely and necessary revitalization of the concept. Contemporary China’s pluralizing society, modernized and differentiated SOEs, and the increasingly sophisticated Party-state administration make it necessary to re-examine our theoretical and conceptual approaches. Although certain logics and structural features persist, any significant change in reality should translate into a review and, if needed, adjustments of theory. In the scholarship on China’s political system, ‘integration’ rather than fragmentation has found its way into the theoretical lexicon. When it became clear that the Party-system not was going to “wither away” or collapse, its “resilience” (Nathan 2003), and the forces that keep China together were examined more carefully (Brødsgaard and Zheng 2006; Tsai 2006; Brødsgaard 2012a). As a key integrative force, the CPC permeates virtually all horizontal and vertical levels of the administration, from the centre of authority in the Politburo’s Standing Committee down to village level units. Horizontally the integration mechanisms exist through CPC groups in all organizations in the state apparatus, SOEs, social organizations and even in many private businesses. CPC integration has become a major force in efforts to tackle fragmentation, while simultaneously positioning the party in the sole position to influence all decisions at all levels.

This addiction to authority for integration is most clearly visible in the important role of leading small groups for decision-making. Leading small groups have developed a special quality as focused and often task-based organizations across bureaucratic divides, adding a flexible, yet authority-based organizational mechanism to the rigid and fragmented bureaucratic structure. Although it increasingly appears to be an important factor behind the Party-state’s ability to function despite all the issues pointed out by the FA literature, this quality of being a top-down mechanism for facilitating decision-making in the Chinese authority-centred system has been overlooked by scholars in the field. The leading small groups serve as key Party organizations that connect the CPC’s political agenda setting with the general state administration, interlocking normally horizontally fragmented bureaucracies under a centralizing and coordinating authority. Leading small groups are the “authority fix” to structural problems that arise because of the



very system's addiction to vertical authority, and thus is a natural institutional response to many of the issues described by the FA model.

With these conceptual additions of (CPC) integration, pluralization of interest groups, changing policy processes, and the constant streamlining of the public sector, the FA model remains useful for building an understanding of the real changes that happen within the Chinese administrative apparatus. Conversely, concepts such as pluralization or integration can be enriched through the insights provided by the FA model about the logic of decision-making and institutional change in the bureaucracy. The strength of the model fully comes to light when viewing pluralization and integration as mutually complementary concepts, representing distinct features of the same system. Embracing the seemingly paradoxical nature of the Chinese system, and focusing on the dynamic process of decision-making influenced by structural factors is exactly what constitutes the value of a FA-informed analysis. The open and generic nature (critics might call it imprecision) of the FA model also points to the flexibility of the Chinese system itself. As masterfully illustrated by Kellee Tsai (2006), Sebastian Heilmann (2008), Andrew Mertha (2009), and others, mechanisms that some consider to be fragmented and disruptive also prove to be assets to the system, integrating and reacting to pressures from both within and outside the formal institutional structure in an organic way.

At times China appears to be an integrated collection of fragments, rather than a fragmented unity. The flipside of the FA model, which was originally developed to show the centrifugal forces of decentralization and bureaucratic infighting, is a focus on the CPC's authority as an *integrative*, centripetal force, for better or worse. This perspective has been under-utilized, and is now slowly emerging in the literature (see Brødsgaard 2012a). China has not collapsed as some predicted (and continue to predict), and although challenges to the current system are amassing, nothing – arguably – points to life-threatening crisis more immediate than it did in 1989 or the late 1990s. What makes the FA concept so durable is its generic nature and flexible, almost system-wide, applicability. Therefore, FA as basic framework to understand the Chinese system remains valid if seen as exactly that: a basic framework that needs additional 'filling' and context. Trying to describe

something as complex as China's political system under one simple concept has obvious limitations, one must not forget that a coin has two sides. The focus on centrifugal and disruptive forces in the structure must therefore only be viewed as one side of the coin, and the integrative, cohesive mechanisms should be examined equally carefully. This task has, started by the string of works cited above, both in direct and indirect reference to the FA framework.

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## The rise of “leading small group governance”: evidence of fragmentation or source of resilience?

### **Abstract**

*After Xi Jinping took office in 2012, powerful Leading Small Groups (LSG) have been established, most prominently the Leading Small Group for Comprehensively Deepening Reforms. These groups have been viewed as symptoms of centralization and concentration of power under Xi Jinping, and the emphasized “top-level design”. However, LSGs are not new to China’s political system, but have existed in growing numbers ever since the 1950s. While only five groups existed in the 1950s, today thousands of LSGs exist at all levels, having become common organizations in the Chinese political system. This paper traces the historical development of LSGs as a distinct type of organization of the Chinese Party-state, and discusses their role as a governance institution. It argues that LSGs should not merely be seen as power concentrators, since they seem to be an endogenous fix for governance issues stemming from structural features of the Party-state. They do so through their ability to coordinate fragmented bureaucracies, serving both consultative and decisive functions in policy-making processes. Research on their operation and utility for the political system remains very limited, and by reviewing extant Chinese and English sources, this paper hopes to motivate a more thorough and empirically backed investigation of LSGs.*

## Introduction:

In late 2013, at the 3<sup>rd</sup> Plenum of the 18<sup>th</sup> CPC Congress, the establishment of the Leading Small Group for Comprehensively Deepening Reform (hereafter: LSGCDR) was announced. A few weeks later, on January 22<sup>nd</sup>, the new group held its first meeting, boasting an impressive list of officials including Xi Jinping as group leader. Since then, a trend in the Xi administration to increasingly rely on more centralized and concentrated governance has been observed, including the establishment and reliance on leading small groups (LSGs), which appear to be important vehicles for Xi Jinping's policy agenda. The LSGCDR has since its establishment (and by time of writing) met 27 times,<sup>44</sup> almost once a month, underlining its importance as a core governance organization of the Xi administration. Since 2013, 16 LSGs have been established at central level (including the LSGCDR), some of them with extremely broad and strategic policy mandates, as well as specifically task-oriented ones. Strengthened LSGs at the central level seem to be part of Xi's strategy to overcome resistance to his ambitious reform package from so-called vested interests in the party-state system, as well as a way to consolidate and centralize authority of the party-state at large, as well as the center's effective governance reach within the Communist Party of China (CPC).

However, LSGs in themselves are not a particularly new type of organization in the Chinese political system, but appear to be an endogenous organizational response to some of the party-state's structural challenges. In fact, they are so common in the party-state system, their number and frequent establishment has become a problem itself. During the latest "clean up" in 2014, the State Council announced the disbandment of over 130,000 small groups and "coordinating organs" that were clogging the system with "mountains of documents and an ocean of meetings" (*wenshan huihai* 文山会海).<sup>45</sup> Their number had been

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<sup>44</sup> People's Daily (2016) "Tu jie: 159 ge zi! Zhongyang zheyang pingjia shiba jie san zhong quanhui yilai gaige chengxiao" ("图解：159 个字！中央这样评价十八届三中全会以来改革成效"), available online: <http://politics.people.com.cn/n1/2016/0902/c1001-28687171.html>.

<sup>45</sup> Xin Jing Bao (2014) "Quanguo kandiao mantou ban deng 13 wan ge ""lingdao xiaozu" ("全国砍掉馒头办等 13 万个"领导小组")".

swelling over the years up to 2014, all originally established to address temporary tasks and local projects, but never shut down after completion of their mandates. Although LSGs have only received wider attention after Xi Jinping took office, this immense number of LSG illustrates the importance of these somewhat quasi-formal organs for decision-making throughout the Chinese system. They fulfill an important role as a particular type of organization within the Chinese political system. They also serve as reminder of how important formal authority, and with that the Communist Party of China (CPC), remains the core of decision-making in China's party-state bureaucracy.

LSGs seem to be important for solving governance problems brought about by the very structure of the system, some of which described by e.g. the "fragmented authoritarianism" concept,<sup>46</sup> but also known from the Chinese discourse on governance, e.g. "*zhongyang difang maodun*" (中央地方矛盾), "*shan gao huangdi yuan*" (山高皇帝远), *duikou* (对口) etc. These issues have been widely discussed in research on China's political system, pointing at implementation problems and weak coordination within and among bureaucratic organizations as structural weakness of the party-state. LSGs seem to be an endogenous mechanism the Chinese system uses to tackle some of these structural problems. They serve a governance-aiding purpose by establishing a horizontally coordinating and binding authority over specific policy-areas, based on vertical (Party) authority. In a bureaucratic system ridden with bargaining for recourses and poor inter-departmental coordination of tasks, they work as integrating agent for policy deliberation through their ability to endow decisions with binding formal authority for the group's affiliated organs. This is important in cases where policies can lead to increased costs or disadvantageous outcomes for stakeholders, who might otherwise ignore, sabotage, or distort these policies.

As a *type* of organization, all LSGs (regardless of their specific task or administrative level), share this functionality, although higher-ranking groups naturally have wider reach and authority. While there certainly are differences

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<sup>46</sup> See e.g.: Lieberthal, K. G. and Oksenberg, M. (1988) *Policy Making in China: Leaders, Structures, and Processes*, Princeton: Princeton University Press; Lieberthal, K. G. and Lampton, D. M. (eds.) (1992) *Bureaucracy, Politics, and Decision Making in Post-Mao China*, Berkeley and L.A.: University of California Press; Brødsgaard (ed.) (2017).

between central-level Party groups and sub-national LSGs below (and to some extent also between CPC and state LSG), their utility for the system and role as organizations is here regarded to be of similar nature. Central LSGs such as the groups for Economy and Finance decide on issues with systemic implications, while local level groups deal with implementation and coordination of policy and individual tasks. More generally though, as type of organization LSGs can provide a missing “joint” that connects otherwise “fragmented and disjointed” bureaucracy,<sup>47</sup> adding an authority-induced flexibility in important - or dead-locked - decision-making processes.<sup>48</sup> As such, they can bridge gaps between party-state departments and, under a clearly defined leadership, work out an interdepartmental policy task of the respective LSG. This is not to say they are a silver bullet absolving the system from all its structural problems, and many implementation problems remain unsolved. Considering the constant reiteration of the necessity to stick to the reforms in state media,<sup>49</sup> many implementation problems seem to remain unsolved even with the centralized governance style of the Xi administration, and its stronger emphasis on central LSGs.

One somewhat unclear feature is the difference (if at all measurable) between LSGs based in the state, and groups based in CPC organs, especially after Xi’s boost of central CPC authorities. While they are similar in organization and function, the more politically heavy and strategically oriented groups are the CPC LSGs, while many State Council (and state apparatus) based groups are of a more task-based, even technical nature, suggesting a division of labor among state (coordinating policy implementation and administration) and CPC (coordinating policy making and norm setting) groups. This would reflect the relationship between

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47 Lieberthal, K. G. and Lampton, D. M. (eds.) (1992), pp. 8.

48 Zhou Wang (2011) “Zhongguo zhengfu jigou zhong de danxing yaosu – jiyu yishi xietiao jigou de yixiang fenxi” (“中国政府机构中的弹性要素 – 基于议事协调机构的一项分析”), in: *Sichuan xingzheng xueyuan xuebao* (四川行政学院学报), No. 5, pp. 5-8.

49 E.g.: People’s Daily (2016) “Jianding buyi ba quanmian shenhua gaige tuixiang qianjin” (“坚定不移把全面深化改革推向前进”), 31-08-2016, p. 1; People’s Net (2016) “Xin yi lun guoqi gaige jinru ‘shigongqi’ duo xiang shidian jiasu tuijin” (“新一轮国企改革进入“施工期” 多项试点加速推进”), available on: <http://politics.people.com.cn/n1/2016/0901/c1001-28683069.html> [accessed on 14-09-2016].

CPC and state apparatus, which to a certain extent goes along the same lines.<sup>50</sup> Nevertheless, in both Party and state these groups do share their integrative function of facilitating the decision-making process in policy areas involving multiple departments.

Surprisingly, Western literature on LSG is rare, and what little has been written has mostly been anecdotal and partial, limited by the very scarce documentation of LSGs and their work.<sup>51</sup> Serving as an illustrative example of the dearth of knowledge and attention to LSGs, at least in Western academia, one recent textbook on China's political system spends hardly a page on them, referring to only one single article on the topic.<sup>52</sup> In Chinese scholarly literature there are a few detailed and more systematic publications, even though here too the discussion is quite limited.<sup>53</sup> And while LSG have existed ever since the 1950s, little to nothing about their inner workings, and the extent of their use is usually communicated to the outside.

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<sup>50</sup> Kjeld Erik Brødsgaard and Zheng Yongnian (eds.) (2006) *The Chinese Communist Party in reform*, London: Routledge; Zheng Yongnian (2008) *The Chinese Communist Party as Organizational Emperor*, London: Routledge.

<sup>51</sup> Some of the few existing works are e.g. Alice Miller (2008) "The CCP Central Committee's Leading Small Groups", in: *China Leadership Monitor*, No. 26; (2014) "More Already on the Central Committee's Leading Small Groups, in: *China Leadership Monitor*, No. 44; Russel Hsiao (2013) "Taiwan Work Leading Small Group under Xi Jinping", *China Brief*, 13(12).

<sup>52</sup> William Joseph (ed.) (2014) *Politics in China: An Introduction*, Oxford and New York: Oxford University Press.

<sup>53</sup> Main contribution to knowledge about LSGs is the research by Zhou Wang and Lai Jingping, who provide a more systematic and empirically rich material. See: Zhou Wang (2010) 中国“小组机制”研究, Tianjin: Tianjin People's Press; (2010) "Zhongguo 'xiaozu' zhengzhi moshi jixi" ("中国'小组'政治模式解析"), in: *Yunnan Shekexue* (云南社会科学), No. 3, pp. 14-18; (2011) "Yishi xietiao jigou gaige de sikao" ("议事协调机构改革的思考"), in: *Zhonggong zhejiang shengwei dangxiao xuebao* (中共浙江省委党校学报), No. 4, pp. 18-22; (2011) "Zhongguo zhengfu jigou zhong de danxing yaosu – jiyi yishi xietiao jigou de yi xiang fenxi" ("中国政府机构中的弹性要素 – 基于议事协调机构的一项分析"), in: *Sichuan xingzheng xueyuan xuebao* (四川行政学院学报), No. 5, pp. 5-8; (2015) "'lingdao xiaozu' ruhe lingdao? – dui 'zhongyang lingdao xiaozu' de yi xiang zhengtixing fenxi" ("'领导小组'如何领导? – 对'中央领导小组'的一项整体性分析"), in: *Lilun yu gaige* (理论与改革), No. 1, pp. 95-99; Lai Jingping and Liu Hui (2011) "Zhiduhua yu youxiaoxing de pingheng – lingdaoxiaozu yu zhengfu bumen xietiao jizhi yanjiu" ("制度化与有效性的平衡 – 领导小组与政府部门协调机制研究"), in: *Zhongguo xingzheng guanli* (中国行政管理), No 8, pp. 22-26; Lai Jingping (2012) "Lingdao xiaozu zhidu de jiangou, yanxu yu bianqian – yi zhongyang fangzhi xuexichong bing gongzuo lingdao xiaozu wei gean" ("领导小组制度的建构, 延续与变迁 – 以中央防治血吸虫病工作领导小组为个案"), in: *Gaige yu fazhan* (改革与发展), No. 1, pp. 62-66; (2014) "Dangdai zhongguo lingdao xiaozu leixing de kuozhan yu xiandai guojia chengzhang" ("当代中国领导小组类型的扩展与现代国家成长"), in: *Zhonggong dangshi yanjiu* (中共党史研究), No. 10, pp. 49-59.

This article will try to flesh out the more general governance purpose of LSGs, which has so far been overlooked and underappreciated in the literature on the Chinese political system. Considering the influential role of the new central-level LSG established under Xi, and regarding that they are common organizations throughout the entire political system, more systematic and theory-driven research seems to be justified. Hoping to contribute to this task, I will first look at the LSGs development as organizations in the PRC, and then move on to present a discussion on some of the more general governance functions of LSGs in the party-state system, assuming that they do serve a particular purpose as a type of organization. This latter part mainly builds upon the literature on the Chinese bureaucracy and CPC-state relations. Moreover, this chapter also presents LSGs as a source of institutional resilience of the party-state, which has proven to be more flexible than expected, considering all the pitfalls of bureaucratic bargaining, competition, compliance issues etc., as described in e.g. the literature on Fragmented Authoritarianism. While not going as far as presenting a theory of LSG governance, it seems justified to take a closer look at leading small groups as an institution in the Chinese political system, and even draw some more general conclusions. In the future, much more empirical work and analysis is needed to solidify the arguments presented in this chapter.

### **Development and Structure of LSGs:**

Looking at the historical development of LSGs as party-state organizations, a trend of steady institutionalization and formalization emerges. Initially counting five elite committees of top-leaders for discussing strategic issues in the 1950, LSGs have since become recognized as *ad hoc* organs in 1988, became part of the formal portfolio of types of state organizations in 1993, and finally rose to prominence as central Party-state institutions under Xi (see table 1). Their role as a particular type of organization has, in other words, gone from obscure elite forum to important governance organs since 1949, in a process of institutionalization as organizations of the Chinese party-state.

The first central LSGs were formally established in 1957-58 (LSG for Finance and Economy; Foreign Affairs; Science and Technology; Governance and Law; Culture and Education), and bureaucratic offspring of these early groups still exist today.<sup>54</sup> Before that, only local LSG had existed to combat more specific problems.<sup>55</sup> These first central-level LSG were placed directly under the leadership of the CPC Politburo and Standing Committee, wielding significant influence over strategic policy planning and coordination.<sup>56</sup> The extent and influence of LSGs during the 1960s and 70s is unclear and documentation is extremely scarce, but it seems that, apart from a hand full of central groups, LSGs only started to pop up more frequently throughout the party-state after 1978.<sup>57</sup> In 1986 a State Council notice called for a clean-up among the “ad hoc organs” (*fei changshe jigou*, 非常设机构), demanding for them to pass through the State Council *bianwei* (the department responsible for drafting human resource allocation in the party-state, working together with the CPC’s organization department) for formal verification and establishment.<sup>58</sup> In 1988, the State Council issued another notice listing 48 central-level ad hoc organs in an attempt to clarify their responsible ministries, including 11 LSGs and six “coordinating small groups” (*xietiao xiaozu*, 协调小组).<sup>59</sup> In 1993, during another round of government restructuring, the ad hoc organs were given their current classification of “discussion and coordination organs” (*yishi xietiao jigou*, 议事协调机构), indicating a formalization of the LSG as a particular type of organization within the Chinese system of political organization.<sup>60</sup> The 1993 notice also included a list of 85 existing central groups within this category, disbanding 59

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54 Zhonggong Zhongyang (1958) “Guanyu chengli caijing, zhengfa, waishi, kexue, wenjiao xiaozu de tongzhi” (“关于成立财经、政法、外事、科学、文教小组的通知”).

55 See: Lai Jingping and Liu Hui (2011) and Lai Jingping (2012).

56 Miller (2008), Pearson, Margaret M. (2005) ‘The Business of Governing Business in China’, in: World Politics, 57 (2), pp. 296-322.

57 Lai Jingping (2014).

58 State Council (1986) *Guofa Nr. 100: Guowuyuan guanyu qinglilfei changshe jigou de tongzhi* (国发 100 号：国务院关于清理非常设机构的通知).

59 State Council (1988) *Guofa Nr. 7: Guanyu yishi xietiao jigou* (国发 7 号 关于议事协调机构); State Council (1988) *Guofa Nr. 56: Guowuyuan guanyu fei changshe jigou shezhi wenti de tongzhi* (国发 56 号：国务院关于非常设机构设置问题的通知).

60 State Council (1993) *Guofa Nr. 27: Guanyu Guowuyuan yishi xietiao jigou he jianshi jigou shezhi de tongzhi* (国发 27 号：关于国务院议事协调机构和临时机构设置的通知).



of them. Similar notices followed in 1998, 2003, and 2008, disbanding hundreds of groups that had become obsolete.

The gradual institutionalization of LSGs as “normal” organizations became obvious when the State Council began issuing notices on their formal establishment as “discussion and coordination organs” in the early 1990s. However, their role as a particular structural mechanism for solving governance problems has not been discussed more theoretically. After Xi Jinping took office in 2012, Chinese media suddenly started to report on them, mentioning individual meetings in the state broadcaster CCTV’s national news, and presenting infographics about them in the People’s Daily.<sup>61</sup> Foreign observers too have picked up on this new stream of information,<sup>62</sup> which, although still selectively and anecdotal, has started to show a clearer picture of the role LSGs play in the party-state system. The formalization of LSGs as organizations (rather than being last-resort exceptions) for smooth functioning of the party-state, has become more obvious. Moreover, their potential as political ‘power tool’ is prominently shown by Xi, who in an attempt to break resistance to reform, employs them to work around the established bureaucratic structure of the party-state.

In 1997 (and for local levels in 2007), it was confirmed by that “discussion and coordination organs” needed the approval of the State Council when establishing their inter-ministerial organizations, showing the status of LSGs as a formal institution in the state.<sup>63</sup>

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61 E.g.: People’s Net (2013) “Yi zhang tu rang nin liaojie lingdao xiaozu” shi ruhe yunxing de” (“一张图让您了解”领导小组”是如何运行的”), available on:

<http://politics.people.com.cn/n/2013/0708/c99014-22112002.html>; People’s Net (2014) “Tu jie zhongyang quanmian shenhua gaige lingdao xiaozu” (“图解中央全面深化改革领导小组”), available on: <http://cpc.people.com.cn/n/2014/0123/c164113-24208994.html>.

62 See e.g.: Christopher Johnson and Scott Kennedy (2015) “The Un-separation of Powers: the blurred Lines of Party and Government”, in: Foreign Affairs, July 24th; Chris Buckley (2015) “Q. and A.: Christopher K. Johnson on the Heavy Thumb of Xi Jinping”, in: NYT, July 28th; Cary Huang (2014) How leading small groups help Xi Jinping and other party leaders exert power”, in: South China Morning Post, January 20<sup>th</sup>.

63 Formalization of LSGs as cross-ministerial discussion and coordination organs was strengthened by the State Council: (1997) *Guofa Nr. 227: Guowuyuan xingzheng jigou shezhi he bianzhiguanli tiaoli* (国发(1997)227号 国务院行政机构设置和编制管理条例); (2007) *Guofa Nr. 486: Difang ge ji renmin zhengfu jigou shezhi he bianzhi guanli tiaoli* (国发(2007)486号 地方各级人民政府机构设置和编制管理条例).

**Table 1: Institutionalization stages of LSG:**

<b>Year:</b>	<b>Change of status</b>	<b>Document/decision</b>
1958	Formal establishment of LSGs (LSG for Finance and Economy, Foreign Affairs, Science and Technology, Governance and Law, and Culture and Education).	CPC Central Committee (1958) “Notice regarding the establishment of small groups for Finance and Economy, Political Legal, International Relations, Science and Technology, and Culture and Education” (see note 11).
1986-88	Acknowledgement of the existence of “ad hoc organizations” in the party-state apparatus, and their need to undergo <i>bianzhi</i> scrutiny.	State Council (1986) Notice No. 100; State Council (1988) Notice No. 7; State Council (1988) Notice No. 56 (see notes 15 and 16).
1993	Formalization of LSG as particular form of discussion and coordination organizations. New central LSGs to be announced by State Council notice.	State Council (1993) Notice No. 27 (see note 17).
1997	Discussion and coordination organizations as formal organizations under the State Council.	State Council (1997) Notice No. 227 (see note 20).
2013-15	3 <sup>rd</sup> Central Committee of the 18 <sup>th</sup> CPC Congress establishes the LSGCDR, several central-level LSG of significant scope and size follow in the months after.	CPC Central Committee (2013) <i>Decisions</i> (see note 28); see also table 2 and 3.

Source: Author’s own compilation.

While the category of “discussing and coordinating organs” includes other organizations, notably the commission (*weiyuanhui*, 委员会) and the directing department (*zhihuibu*, 指挥部), LSGs set themselves apart by their number and frequency of use. When it comes to authority of an organization, rank and influence of its head still remains the main cue to look for, regardless of its title. Here, apart from a few central Commissions (e.g. the National Development and Reform

Commission or the Political Legal Commissions (*zhengfawei*, 政法委)) LSGs appear as the most important ones, not least because of their role as vertical authority axis under a group leader, including integrative horizontal arms. The titles of some organs included in this paper being “commission” (not to be confused with the ministerial organizations such as the National Development and Reform Commission), or “coordinating group” (*xietiao xiaozu*, 协调小组) are few, and therefore these exceptions of discussion and coordination organs *de facto* working like LSGs (such as the State Security Committee), are included under the term LSG.<sup>64</sup>

Several scholars have attempted to establish taxonomic systems of LSGs, pointing out different types in terms of horizontal and vertical structure, and based on their task. According to Zhou Wang’s (2010) often cited typology, permanent groups (常设型) are the most important ones, acting as strategic, policy-guiding organs, and overseen by CPC top-leaders (e.g. the LSG for Economy and Finance, and likely the new State Security Committee). Period- or term-based LSG (阶段型) have the task to oversee more specific policy agendas and projects, after which completion the LSG is to be disbanded (e.g. the LSG for the 3<sup>rd</sup> National economic consensus, and in principal also the LSGCDR). Lastly, there are the short-term LSGs (短期型), established to deal with specific events or projects of relatively short duration (e.g. the already disbanded LSG for the Olympic Games, or the Wenchuan Earthquake group). This last type is the most numerous one, and most of the thousands of groups disbanded in 2014 were short-term left in place after the completion of their original task.<sup>65</sup> While there certainly is value in these fine-grained descriptions, the more general question of their *raison d’être* of LSG and their underlying utility as formal, organization and institution of the party-state has not been discussed.

Apart from the State Council small groups, which today are announced by formal notice, LSGs are established by internal decree outside the *bianzhi* (编制)

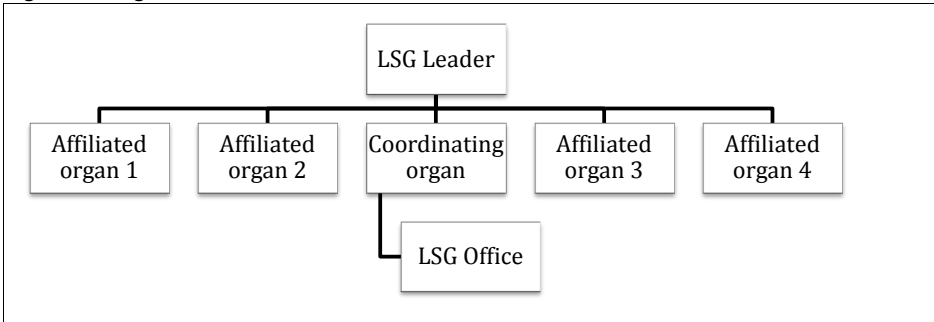
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<sup>64</sup> Another “commission” LSG not mentioned in this paper is the National Energy Commission, established in 2010. This LSG was dysfunctional from its establishment, and can serve as an example for a failed attempt of establishing a coordinating LSG at the top level, see: Nis Grünberg (2017) “Revisiting Fragmented Authoritarianism in China’s Central Energy Administration”, in: Brødsgaard (ed.) (2017) *Chinese Politics as Fragmented Authoritarianism*, London: Routledge.

<sup>65</sup> See Lai Jinping (2014) for a good overview of these various categorizations, and not least, her own sophisticated taxonomy.

system.<sup>66</sup> They include the leading cadres of the organs related to the group’s policy area in a quasi-formal organization that cuts horizontally across ministries and departments under the leadership of a higher-ranking group leader (figure 1).

**Figure 1: LSG general structure:**



Source: Zhou Wang (2010).

In terms of their organizational structure, LSGs consist of two main components: its vertical axis, and the horizontally attached organizations (figure 1).<sup>67</sup> These latter organizations are those included in the group, i.e. organizations affiliated with the group participating in meetings, constituted by all those departments relevant for its mandated policy area, e.g. the ministries represented in the LSGCDR. The central axis is the authority core of the group, consisting of the leader and vice Leader (*zuzhang*, 组长 and *fu zuzhang*, 副组长), and the Director in charge of the group’s office (*zhuren*, 主任 or *ban zhuren*, 办主任). In larger, central LSGs there may be (as is the case with the LSGCDR) additional work offices. The Director usually is a leading cadre of the organization housing the group’s office, and is ranked lower than the formal leader of the group. For example, while State Councilor Ma Kai is leader of the LSG

66 NFZM (2012) (Lingdao xiaozu zenme lingdao? (“领导小组怎么领导?”), available on: <http://www.infzm.com/content/80226> [accessed on: 5-08-2014]; Kjeld Erik Brødsgaard (2002) “Institutional Reform and the Bianzhi System in China”, *The China Quarterly*, No. 137, pp. 35-52.

67 Zhou Wang (2010) “Zhongguo ‘xiaozu’ zhengzhi moshi jixi” (“中国‘小组’政治模式解析”), in: *Yunnan shekexue* (云南社会科学), no. 3, pp. 14-18.

for SOE Reform, the Director of its office based in the State-owned Asset Supervision and Administration Commission (SASAC), is SASAC's Director Xiao Yaqing. In case of the LSGCDR, Xi Jinping is the leader, while Li Keqiang, Liu Yunshan, and Zhang Gaoli are deputy leaders. Director of the group's office is Wang Huning. In a provincial LSG, the governor or Party secretary might serve as leader, while a bureau-level (*juji*, 局级) chief of the department housing the LSG office serves as Director. Thus endowed by its leader, the LSG has higher bureaucratic rank than the horizontally attached organizations at the administrative level where the LSG operates. Theoretically, this enables the system to overcome horizontal fragmentation of authority, and can override gridlocks brought about by resistance to policies, and competition for resources among equally ranked organizations. Bridging this fragmentation and circumventing the "bargaining mill",<sup>68</sup> LSG can work as integrating agent where weak coordination or interest conflicts emerge.

By time of writing and given that the available information is complete, 22 Leading Small Groups were placed directly under the State Council, while the Politburo (and Standing Committee) oversees 24, with eight directly under Xi Jinping (see table 2 and 3).<sup>69</sup> It is noteworthy that 17 of these groups have been established after Xi took office, and two of them (LSGCDR, and the State Security Committee) are of a new quality in terms of size, scope, and authority.

### **Xi's Reform Agenda and Implementation Push through LSGs:**

When Xi Jinping and his administration took office, it soon became clear that economic reforms and even some structural changes were high on the agenda. However, how exactly to realize the announced reform package, which among others openly addressed structural issues in the state-owned sector, or "public economy", was not so clear. Here reforms had been announced before, yielding modest results, since local governments and ministerial departments enjoyed significant leeway in terms of implementation. Also state-owned enterprises (SOEs) had long been able to shirk policy considered detrimental to their business interests,

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<sup>68</sup> Lampton and Lieberthal (1992).

<sup>69</sup> These numbers are based on my own counting, and are probably not exhaustive. Especially the number of State Council LSGs is most likely larger, as many task-specific LSG exist at ministerial level.

due to their bureaucratic rank within the party-state system and by way of CPC integration.<sup>70</sup> Reforms in the economic sector, and especially SOEs, had largely stalled during the latter half of the Hu and Wen administration, which in 2003 had started out with calls to create a more efficient public economy with modern, international corporations, among others the establishment of SASAC. With the *Decision of the Central Committee of the Communist Party of China Regarding Major Issues Concerning Comprehensively Deepening the Reform* (from hereon: *Decisions*) adopted at the 3rd Plenum in 2013,<sup>71</sup> reform was put high on the agenda again.

Looking back, the Xi administration has already been able to push the reform agenda much farther than was thought possible prior to 2013, both in discourse and in practice. Take the SOE sector. Mergers of central business groups intended to boost competitiveness and efficiency, renewed calls to establish boards of directors for better corporate governance in SOEs,<sup>72</sup> and repeated call for reduction of overcapacity all indicate how serious the reforms are meant.<sup>73</sup> On the other hand, also the current administration faces resistance, and many of the planned steps have yet to fully materialize.<sup>74</sup> Also numerous new regulations in the financial industries, legal reforms, significant changes is the CPC's own guidelines, and a string of new laws and regulation in cultural and social areas all are footprints of a more efficient decision-making process. While actual results in many of the addressed areas remain to be evaluated, many of the reforms have been launched

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<sup>70</sup> Kjeld Erik Brødsgaard (2012) "Politics and Business Group Formation in China: the Party in Control?", in: *The China Quarterly*, No. 211, pp. 624-648; Ciqi Mei and Margaret M. Pearson (2014) "Killing a Chicken to Scare the Monkey? Deterrence Failure and Local Defiance in China", in: *The China Journal*, No. 72, pp. 75-97; Tucker van Aken and Orion A. Lewis (2015) "The Political Economy of Noncompliance in China: The Case of Industrial Energy Policy", in: *Journal of Contemporary China*, 24 (95), pp. 789-822; Kjeld Erik Brødsgaard (2012).

<sup>71</sup> Zhonggong zhongyang (2013) *Zhonggong zhongyang guanyu quanmian shenhua gaige ruogan zhongda wenti de jue ding* (中共中央关于全面深化改革若干重大问题的决定).

<sup>72</sup> State Council (2015) "Li Keqiang: yi shenhua gaige de hongli zengqiang guoqi huoli he jingzheng li zai tuidong wo guo jingji tizhi zengxiao zhong shixian shengji fazhan" ("李克强：以深化改革的红利增强国企活力和竞争力在推动我国经济提质增效中实现升级发展"), available online:

[http://www.gov.cn/guowuyuan/2015-09/20/content\\_2935535.htm](http://www.gov.cn/guowuyuan/2015-09/20/content_2935535.htm); Reuters (2015) "UPDATE 1-COSCO, China Shipping Group in merger talks – source", available online: <http://www.reuters.com/article/2015/08/11/china-shipping-merger-idU5L3N10M31U20150811>.

<sup>73</sup> Caixin (2016) "China Behind on Plans to Trim Overcapacity", available online: <http://english.caixin.com/2016-08-16/100978359.html>.

<sup>74</sup> State Council (2015a) "Zhonggong zhongyang, Guowuyuan guanyu shenhua guoyou qiye gaige de zhidao yijian" ("中共中央、国务院关于深化国有企业改革的指导意见"), available online: [http://www.gov.cn/zhengce/2015-09/13/content\\_2930440.htm](http://www.gov.cn/zhengce/2015-09/13/content_2930440.htm) [accessed on: 12-09-2016].

by new LSGs, most importantly the LSGCDR, which so far has issued 172 policy documents.<sup>75</sup>

When the LSGCDR was announced in the 3<sup>rd</sup> Plenums *Decisions*, this indicated the urgency the Xi administration attaches to reforms. Tasked with the implementation of the points announced in the *Decisions*, this LSG also marked the beginning of an increased, LSG-enabled centralization of authority of the Politburo and Xi Jinping's closest aides. Shortly after the LSGCDR, the State Security Committee was announced, almost equally comprehensive and broad in scope. Also the establishment of the LSGs for National Defense and Troop Reform, and the LSG for State-owned Enterprise Reform in late 2014 indicated an emphasis on centralized top-down decision-making in prioritized issues. As such, the new groups are central part of the programmatic "top-level design" (*dingceng sheji*, 顶层设计), by which the Xi administration aims to force its mode of pushing its reforms of both the hardware (organizational structure) and the software (official's work ethics and attitude) of the Chinese polity, top-down

The LSGCDR is emblematic for this development. Since its establishment (and by time of writing), 27 meetings had been held by the group, issuing central level policy across an extremely broad array of areas, including Party building, SOE reform, rural development, environmental policy, legal reform etc. Its core group has 23 members, while the entire group including the sub-groups has many more (43 at least) (see table 4). Perhaps even more significantly, although even the group's six work offices each have a Politburo-level Director, meetings are usually chaired by Xi Jinping himself, underlining the importance of the LSGCDR for Xi's reform agenda and vice versa.<sup>76</sup> With a rarely seen publicizing of its activity, the LSGCDR 172 policies have been issued addressing the programmatic points outlined in the *Decisions*.<sup>77</sup> Wang Huning, close aide of Xi and Director of the CPC Policy

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<sup>75</sup> See supra note 1.

<sup>76</sup> People's Daily (2015) "Pandian zhongyang shengai xiaozu 17 ci huiyi shenyi 80 yu fen wenjian" ("盘点中央深改小组 17 次会议 审议 80 余份文件(表)"), available online: <http://politics.people.com.cn/n/2015/1014/c1001-27695137.html>.

<sup>77</sup> See: supra note 32.

Research Office, is the group's General Director. Under him, six work-groups each have their respective policy areas of:<sup>78</sup>

- Economic System and Ecological Civilization Reform
- Democratic and Legal System Reform
- Cultural System Reform
- Social System Reform
- Party-Building System Reform
- Discipline Inspection System Reform

All of the *Decisions'* 336 policy initiatives are supposed to be taken up by the LSGCDR, and delegated to the work-groups. Bearing the bulk of the tasks, the sub-group on Economic System and Ecological Civilization Reform is headed by Liu He (Director of the LSG for Finance and Economy, and vice Chair of the NDRC) and Xu Shaoshi (Chairman of the NDRC).<sup>79</sup> All provinces and most municipalities and prefectures have also established branches of the LSGCDR, in order to implement the group's decisions and extend its organizational reach at local level. Also the local branches have their respective highest-ranking official (CPC secretary) as leader, emulating the structure of the central level.<sup>80</sup> Compared to many other central CPC groups, the LSGCDR has a remarkably broad mission, including structural and technical policy, topics otherwise often left to the State Council. Moreover, the impressive activity undoubtedly demands a lot of resources, and the LSGCDR has been given the authority to request assistance from other organizations.<sup>81</sup> Given the breadth, frequency of meetings, and its organizational integration also at local levels, the group is in fact similar to a small State Council, or a "reform *Xitong*".

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78 CPC (2015) "Zhongyang quanmian shenhua gaige lingdao xiaozu xia she 6 ge zhuanxiang xiaozu" ("中央全面深化改革领导小组下设 6 个专项小组"), available online: <http://cpc.people.com.cn/n/2014/0123/c164113-24203585.html>.

<sup>79</sup> Mathew Goodman and Andrew Parker (2015) *Navigating Choppy Waters – China's Economic Decisionmaking at a Time of Transition*, Lanham and Boulder: Rowman and Littlefield, p. 95.

<sup>80</sup> CPC (2014) "Xi Jinping: Ge sheng qu shi yao jinkuai jianli quanmian shenhua gaige lingdao xiaozu" ("习近平：各省区市要尽快建立全面深化改革领导小组"), available online: <http://cpc.people.com.cn/n/2014/0123/c164113-24204561.html> [accessed 2.8.2015];

<sup>81</sup> See supra note 33.



The LSGCDR illustrates the way the Xi Jinping administration is pushing centralized small group governance as part of the "top-level design" program, which critics might characterize as LSG rule at the expense of established party-state bureaucracy. With the new groups, and in particular the LSGCDR, Xi Jinping has established a strong vertical line of formal authority extending from him to the main departments in charge of pushing the reforms, circumventing or overriding the organizations and posts that until 2013 had been in charge of these tasks. These organs, such as the NDRC, SASAC, the Ministry of Finance etc. all are part and parcel of the LSGCDR, but the latter has become the agenda-setting authority, coordinating implementation of its decisions in a centralized structure overseen directly by Xi Jinping and his close allies.

The LSGCDR has already become a central part of the administration, not only coordinating policy making, but also reacting to major events in the political and economic spheres. As such, it has become a governance organ taking over functions from the state apparatus normally in charge of addressing these events. An example is the concerted effort to stabilize the faltering stock market in summer 2015, where various organizations simultaneously and jointly issued statements about stabilizing measures. This indicates a coordination of measures to react in a certain way within the top-level, very likely concerted by the LSGCDR, in order to prevent paralysis by fragmented interests and unclear authorities over potentially disruptive decisions. To be fair, how much the LSGCDR can, and is willing to intervene in ongoing events remains speculative, yet it is exactly in these cases where quick and coordinated action is made possible by LSGs.

Overall and except for the new central-level groups, LSGs have increasingly become core parts of the party-state system, and for a good reason. They provide the otherwise rigid and horizontally fragmented structure of the party-state with flexibility, joining various bureaucracies around a vertical authority channel to push specific policy issues or projects. They are widely used for this purpose, and for the same reason some scholars have proposed their

institutionalization into regular state organizations, in order to boost their efficiency and increase system stability.<sup>82</sup>

### **Small Group Governance or Small Group Rule?:**

For the central-level groups led by Politburo members (including State Council groups), the most powerful mechanism is their flexible integration capacity, giving them strategic influence over a designated bureaucratic field. In case of LSGs at ministerial/provincial level and above, these can establish corresponding groups nested in their attached organizations, at times even vertically at local levels. Examples are the LSGCDR, but also other groups with broad policy agendas, such as the LSG for Addressing Climate Change, Emission Reduction and Resource Conservation (chaired by Li Keqiang and its office under the National Development and Reform Commission, which has established liaison departments in the attached organizations, and corresponding small groups in the provinces and even some district-level cities). This vertical integration of attached organizations under the guidance of a LSG is central to Xi Jinping's reliance on "small group governance", made especially clear with the LSGCDR.<sup>83</sup>

Looking at LSGs more generally, two of their main features as a type of governance institution are obvious. First, the already discussed integrative mechanism, enabling them to tie departments together, and align them over specific policy agendas under a unified leadership. This means that LSGs serve as transmission belts, aligning horizontally fragmented departments for policy making and coordination, and thus facilitating decision-making when the ordinarily existing bureaucracy is unable to overcome departmental fragmentation and/or resistance to policy implementation. Equally important however, is a LSG's unique nature in terms of its easy and only quasi-formal establishment without the otherwise necessary fiscal and personnel allocation procedures, and their flexibly defined bureaucratic jurisdiction. These qualities of the LSGs to solve structural problems inherent to the Chinese system have become an important and common feature of

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<sup>82</sup> Lai Jingping and Liu Hui (2011), p. 24.

<sup>83</sup> See: supra note 37; CPC (2015) "Zhongyang quanmian shenhua gaige lingdao xiaozu xia she 6 ge zhuanxiang xiaozu" ("中央全面深化改革领导小组下设 6 个专项小组"), on: <http://cpc.people.com.cn/n/2014/0123/c164113-24203585.html> [accessed 2.8.2015].

the party-state as a system, not least indicated by their number. Therefore, Beijing's increased reliance on LSGs also suggests a focused attempt to push its agenda compared to the previous Hu-Wen administration.

On the other side, however, this necessity of LSGs for pushing policy implementation even at central level shows that reform has become extremely difficult to achieve through the existing system, and that top-level (Party) authority vested in LSGs has become the only thing able to align bureaucracies. Resistance to the status quo seems to have reached levels where any change in policy needs to be forced through by the very top of the CPC, and pushed forcefully throughout the system - yet around the existing bureaucracy - by means of the described LSG mechanism of overriding horizontally diverging interests, aligning them under a higher-ranking leader. In other words, LSGs establish a new "1<sup>st</sup> hand" (*di yi ba shou*, 第一把手) for the designated policy task of the respective group, shifting discretion over decisions from the leading cadres of individual and fragmented departments to the LSG Director, who answers to the LSG leader. This upward shift in decision-making authority, ideally speaking, can increase deterrence of non-compliance and policy-shirking among the LSGs affiliated organizations, while also simply aligning the departments in order to enable better coordinated policy making capacity. Its necessity, however, also indicates a governance crisis in the existing organizational structure, or at least a strong inertia against changes to the status quo.

Looking at this theoretically, in ideal type terms, LSGs are adding organizational flexibility (弹性) to the rigid and departmentalized "*tiao-kuai*" (条-块) structure of the Chinese system, balancing the centralization-decentralization paradox. LSGs bank on cadres' compliance to higher-ranked authority even when it is not organizationally present at all times. However, an LSG's ability to actually push decisions as discussed above, also hinges upon the rank and influence of its Leader and Director. The "interdependence of real and imagined", the constantly looming potential of authority behind LSG's decisions ("*xu shi xiang yi*", "虚实相依"), is paired with the function of LSGs to expand and contract authoritative decision-

making power at the discretion of the Leader (“*peiliang zeng jian*”, “*倍量增减*”).<sup>84</sup> By doing so, (still talking in ideal types) LSGs can ensure that a decision made by the higher-ranking leader of the LSG is binding to all horizontally affiliated organizations, and is implemented vertically within them even though there are no extraordinary supervision mechanisms in place. For example, when a provincial branch of the LSGCDR, with a province’s Party Secretary as leader, issues a policy, it becomes binding to all affiliated departments even though it doesn’t come from the departments’ own leadership. Any decision made by the local LSGCDR branch, in other words, is Provincial level policy by virtue of its leader.

Xi’s strong personal presence in the LSGCDR’s activity makes the groups quite unique in terms of authority. This is even more so, since all its work groups are headed by Politburo members of high status in the Xi administration, strengthening Xi’s influence on the operational layer of the group even more. This type of top-down integration of fragmented units is known also in business organization, here as so-called ambidextrous organizational designs:

“[...] the top management team serves as the point of integration between these contrasting agendas. It is the top management team that makes the decisions regarding organizational forms, cultures, and resource allocation processes, such that their firms can both explore and exploit [...]. An important function of the senior team is therefore to create meaning in the context of contradiction and to extract the benefits associated with contradictory strategic agendas”<sup>85</sup>

The surprising similarity to LSGs’ utility in the Chinese party-state is obvious, and further illustrates that the LSG type of agenda-integrating organization indeed can boost governance efficiency throughout a system.

Still, however beneficial LSGs might be for alleviating structural bottlenecks for their respective tasks in theory, there also are risks that the

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<sup>84</sup> Zhou Wang (2011) “Zhongguo zhengfu jigou zhong de danxing yaosu – jiyu yishi xietiao jigou de yi xiang fenxi” (“中国政府机构中的弹性要素 – 基于议事协调机构的一项分析”), p. 6.

<sup>85</sup> Wendy Smith and Michael Tushman (2005) “Managing Strategic Contradictions: A Top Management Model for Managing Innovation Streams”, in: *Organization Science* 16(5), p.: 524.

increased reliance on “small group rule” under one leader turns into a more permanent power block. The apparent need to push reforms from outside and above existing administrative organs, and the rise of individual LSG rule can also serve as potent argument by those pointing at structural problems of the Chinese system. It also confirms that very strong opposition to reform exists in the Chinese party-state bureaucracy, reluctant to accept any change of the status quo that could change the distribution of resources, and thus alter benefits and rents that, both legally and illegally, can be extracted by officials and organizations. LSGs certainly are a viable solution to push these kinds of changes through, but there are also risks of a normalization of the use of LSGs for decision-making on a regular basis. This could have the effect of weakening the “normal” bureaucratic structure (ministries, departments etc.), leading to an extremely concentrated authority structure. In this scenario, communication and coordination among ministries cannot take place on a normal basis without LSGs as middlemen, and decisions only can be made by small groups, slowing the overall efficiency of the system.<sup>86</sup> LSG would fall prey to the very authority fragmentation and contestation they were meant to resolve.

This danger is normally averted by defining LSGs as term- or task-based. In fact, their ability to serve as kick-starters and drivers for decision-making, hinges upon the balance between centralization and decentralization of the decision-making authority, or the ability to expand and contract its capacities and authority (“*peiliang zheng jian*”, “*增量增减*”).<sup>87</sup> In other words, LSGs are good for initiating and aligning policy-making, but when nothing gets done without an authoritative decision made by a higher-level official (the LSG leader), the design defeats its purpose, creating simply a new type of gridlock. It also remains to be seen how effective normalized policy making by LSGs is. So far, it seems, arriving at a decision through the forceful voice of a LSG’s leader is one thing, implementing it throughout the bureaucracy is another. In the long run, the balance of centralized decisions for coordination and alignment at Leader/Director level and the decentralized implementation, hinges upon the leadership’s ability to convince rather than coerce group affiliates. A LSG’s success is thus strongly dependent on the

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<sup>86</sup> See Lai Jinping (2014).

<sup>87</sup> See *supra* note 39.

compliance of the leading cadres in the LSG affiliated departments. Here, typical principal-agent problems of compliance and information asymmetry remain unsolved as such, since, apart from facilitating decision-making, there are no additional mechanisms attached to LSG that can ensure compliance to the decisions made in LSG. As one SOE official notes regarding the LSGCDR implication for his local SOE: “Something will happen, but what exactly and for how long remains to be seen”.<sup>88</sup> In other words, even though Xi Jinping heads the LSGCDR, the implications at e.g. city-level are unclear, and at sub-provincial local levels the implementation issues mentioned above might remain unaffected altogether.

Nevertheless, the forced structural changes so far *are* hurting the “vested interests” by changing the distribution of resources. The new top-level LSGs are driving the Xi administration’s reform agenda further than many had thought possible, even though this process also has shown how severe the resistance is. The parallel anti-corruption drive sends a clear signal to follow the central policies, at least the prioritized ones. As one commentator points out, “There will be disputes everywhere since the plan will change the current distribution of power, money and resources. [...] There are disputes between state departments, within SOE management, between government agencies, and between central and local state-owned enterprises.”<sup>89</sup>

## **Conclusion:**

As type of organizations in the party-state system, LSGs have undergone a remarkable development. From their initial status as small elite groups of leaders (5 to 10 top-level CPC top-level cadres in the first 5 groups of 1958), to become large and powerful central-level organizations in charge of both restarting the reform process at large, and driving specific policy in particular under Xi Jinping. Their historical development shows a clear trend toward their institutionalization as governance organizations (in the Chinese discourse described as “going from informal to formal” (*tuo fei ru zheng*, 脱非入正) or “leaving inferiority entering the

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<sup>88</sup> Authors own interview of a SAIC official, Shanghai 2015.

<sup>89</sup> Li Jin, of China Enterprises Reform and Development Research Association quoted from: Keira Lu Huang (2015)

formal” (*tuo ya ru zheng*, 脱亚入正),<sup>90</sup> and today they are fully integrated and formalized as specialized party-state organizations. Yet, they have retained a special quality of being more focused and task-based in their mission, adding an ambidextrous, authority-based organizational design to the otherwise rigid and fragmented bureaucratic apparatus. This quality of being a top-down mechanism for facilitating decision-making in an authoritarian system that is, by nature, overwhelmingly based on authority, may prove key to effectuate Xi Jinping’s reform agenda. Rather than merely being a new way of centralizing power (which they certainly *also* are, and whether or not if they will turn out as means or ends is still open), they are far more common and supplemental to the party-state system’s governance at large than the dearth of research on them suggests.

Although the “top-level design” *de facto* is driving a more centralized rule under the Xi administration, and largely through the new central LSGs, it remains to be seen if this will be a permanent governance mode. Looking from the more theoretic perspective of LSG’s governance utility outlined in this paper, it seems that the LSGs’ ability to effectuate the Xi administration’s reform agenda, and after that, a return to the governance of the “normal” institutional structure, will be the decisive factor defining their long-term success. In other words, a return from the “top-level design” to a more sustainable, decentralized governance that does not require permanent leveraging by a strong central leader such as Xi Jinping (who naturally must step down at some point) will be necessary at some point. Perhaps the time frame set for the LSGCDR, with its task formally ending in 2020 when the completion of the *Decisions* of the 3<sup>rd</sup> Plenum of the 18<sup>th</sup> CPC congress is set to be achieved, is a realistic point at which the effect of such centralization can be assessed.

Looked as in ideal type terms, LSGs certainly have evolved to become an important integrative mechanism, and a flexibility-inducing institution used to facilitate decision-making in an authority-based system. Still, as the number of disbanded LSGs indicates, they can themselves become institutional flotsam,

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<sup>90</sup> Lai Jinping (2014), p. 59.

especially at local levels.<sup>91</sup> Especially the new, large central LSGs are themselves byzantine constructs, exceedingly large and powerful, evolving to become more ministerial in scope and power, and working counter a unified and formalized governance mode even at the central level. Without more thorough insights, so far it is up to the observer to decide whether they are to be seen as symptoms of structural weakness, vehicle for centralization of power under a handful of allied leaders, or as the party-state’s endogenous fix evolved to overcome its weak spots of horizontal coordination and bureaucratic fragmentation, balancing its addiction to authority and hierarchy in decision-making processes.

Many questions remain, such as the difference between state-based LSG and CPC-based LSG. They certainly work as integration of the administration under the political leadership of the Party, but their general and intended function extends beyond that, being a mechanism for “getting things done”. On a more theoretic level, much more research is needed, and their governance function and institutional qualities need to be better understood. Even though one can detect a qualitative difference between the new top-level LSGs and the many thousand groups at local levels, I hold it is important to look at LSGs as type of organization, one that has become important as an institution of the formal bureaucratic structure of the party-state. This chapter hopefully can serve as starting point to this task, putting forward some claims to be tested, as much more empirical work needs to follow up on the points raised in this paper.

**Table 2: (stars mark groups established after 2013, and dotted lines mark the break between Politburo-level leaders and below)**

Central-level CPC LSG:	Chinese Name:	Head:
Comprehensive Deepening Reform*	中央全面深化改革领导小组	Xi Jinping
State Security Committee*	中央国家安全委员会	Xi Jinping
Internet Security and Informatization*	中央网络安全和信息化领导小组	Xi Jinping
United Front work*	统一战线工作领导小组	Xi Jinping
Economy and Finance	中央财经领导小组	Xi Jinping

<sup>91</sup> See note 1.



Foreign Affairs (National Security)	中央外事工作 (国家安全) 领导小组	Xi Jinping
Taiwan Affairs	中央对台工作领导小组	Xi Jinping
<i>Nat. Defense and Troop Reform*</i>	中央军委深化国防和军队改革领导小组	Xi Jinping
Tibet Affairs	中央西藏工作协调小组	Yu Zhengsheng
Xinjiang Affairs	中央新疆工作协调小组	Yu Zhengsheng
Party Building*	中央党的建设工作领导小组	Liu Yunshan
Mass Line Education and Experience*	中央党的群众路线教育实践活动领导小组	Liu Yunshan
Propaganda and thought work	中央宣传思想工作领导小组	Liu Yunshan
Hong Kong and Macau	中央 港澳工作领导小组	Zhang Dejiang
One Belt One Road*	一带一路(工作)领导小组	Zhang Gaoli
Central Supervision	中央巡视工作领导小组	Wang Qishan
Culture System Reform and Development	中央 文化体制改革和发展工作领导小组	Liu Qibao
Agriculture and Villages	中央农村工作领导小组	Wang Yang
Prevention and Handling of the Problem of Religious Sects	中央防范和处理邪教问题领导小组	Meng Jianzhu
Comprehensive Govern Public Security	中央社会治安综合治理委员会	Meng Jianzhu
Stability Maintenance	中央维护稳定工作领导小组	Meng Jianzhu
Judicial System Reform	中央司法体制改革领导小组	Meng Jianzhu
Talent development work	中央人才工作协调小组	Zhao Leji
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Encryption Work	中央密码工作领导小组	Zhang Yanzhen

Source: author's own compilation.

**Table 3: (dotted lines mark the break between Politburo-level leaders and below)**

Central-level LSG under the State Council:	Chinese Name:	Head:
Science and Technology Education	国家科技教育领导小组	Li Keqiang
Informatization	国家信息化领导小组	Li Keqiang
Addressing Climate Change and Resource Conservation 国家应对气候变化及节能减排工作领导小组		Li Keqiang
Institutional Organization Commission	中央机构编制委员会	Li Keqiang
Northeast Industrial Base Revitalization	振兴东北地区等老工业基地领导小组	Li Keqiang
Western China Development	西部地区开发领导小组	Li Keqiang
Third National Economic Consensus*	第三次全国经济普查领导小组	Zhang Gaoli
Jing-Jin-Ji Integration*	京津冀协同发展领导小组	Zhang Gaoli
First National Geographic Consensus*	第一次全国地理国情普查领导小组	Zhang Gaoli
Migrant Workers Work*	农民工工作领导小组	Ma Kai
Integrated Circuits*	国家集成电路产业发展领导小组	Ma Kai
SOE Reform*	国企改革领导小组	Ma Kai
National Manufacturing Development	国家制造强国建设领导小组	Ma Kai
Small and Medium Enterprise Promotion	促进中小企业发展工作领导小组	Ma Kai
Deepening Reform of Pharmaceuticals and Health Care System 深化医药卫生体制改革领导小组		Liu Yandong
Soccer Reform*	中国足球改革领导小组	Liu Yandong
Education System Reform	国家教育体制改革领导小组	Liu Yandong
Poverty Alleviation	扶贫开发领导小组	Wang Yang
Third National Agriculture Consensus*	第三次全国农业普查领导小组	Wang Yang
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Oil and Gas Pipeline Security Reform*	油气输送管道隐患整改工作领导小组	Wang Yong
Industry Associations, Chambers of Commerce and Administrative Units Integration work* 行业协会商会与行政机关脱钩联合工作组		Wang Yong
Strengthen Civil-Military relations	全国双拥工作领导小组	Wang Yong

Source: author's own compilation.

**Table 4: LSG for Comprehensively Deepening Reform members:**

Leader:	Name of affiliated organization(s), other known LSG memberships
Xi Jinping	CPC Chairman, President (LSGCDR Head)
Li Keqiang	Vice-Chairman, Prime Minister (LSGCDR Vice- Head)
Liu Yunshan	Politburo standing committee, director of secretariat (LSGCDR Vice- Head)
Zhang Gaoli	Politburo standing committee, Vice-Premier (LSGCDR Vice- Head)
Wang Huning	Director, Central Policy Research Center (LSGCDR Director)
Ma Kai	Vice-Premier, Leader of LSG for SOE Reform
Liu Yandong	Vice-Premier
Liu Qibao	Minister of Publicity
Xu Qiliang	CMC Vice-secretary
Li Jianguo	First NPC Vice-chairman, All-China Federation of Trade Unions Chairman
Wang Yang	Vice-Premier
Meng Jianzhu	Secretary of the Central Political and Legal Committee
Zhao Leji	Central Organization Department
Li Zhanshu	Director of CPC General Office, Director of the State Security Committee's general office
Du Qinglin	First Vice-chairman of CPPCC
Zhao Hongzhu	First Vice-secretary of CCDI
Wang Chen	Vice-Chairman of NPC Standing Committee and Secretary-general
Guo Shengkun	Minister of Public Security

Zhou Qiang	Secretary and President of the Supreme Court
Cao Jianming	Supreme People's Procuratorate Attorney
Zhang Qingli	Vice-chairman of CPPCC
Wang Zhengwei	Vice-chairman of CPPCC, Director of State ethnic Affairs Committee
Zhou Xiaochuan	Vice-chairman of CPPCC, Governor of People's Bank
Xu Shaoshi	Director of NDRC
Yuan Guiren	Minister of Education
Wang Zhigang	Secretary of Ministry of Science and Technology (Minister Wan Gang is not a Party-member and cannot serve in the LSG apparently)
Miao Wei	Minister of Industry Information
Lou Jiwei	Minister of Finance
Yin Weimin	Minister of Human Resources and Social Security
Han Changfu	Minister of Agriculture
Zhou Shengxian	Minister of Environmental Protection
Gao Hucheng	Minister of Commerce
Li Bin	Chairwoman of National Population and Family Planning Commission
Huang Shuxian	Vice-secretary of CCDI, Minister of Supervision
Li Yufu	Vice-secretary of CCDI
Zhang Jun	Vice-secretary of CCDI
Chen Wenqing	Vice-secretary of CCDI
Luo Shugang	Vice-Minister of Publicity
Liu He	Vice-director of NDRC, Secretary-general of LSG for Finance and Economy
Chen Xiwen	Vice-secretary of LSG for Finance and Economy, Secretary-general of LSG for Agriculture and Villages
Zhang Yi	Director of SASAC

Mu Hong	Vice-Director of NDRC
Pan Shengzhou	Vice-director of Central Policy Research Center

Source: Author's own compilation. Sources used for compilation in tables 2-4 are the Chinese official media reports quoted throughout the paper. This list is based on the reported physical presence of officials at the group's meetings in late 2015, and might not be exhaustive.

**Learning From Daqing – Again: The local embeddedness of a National  
Champion**



(Chinese propaganda poster "Industry Learning from Daqing")

**Abstract:**

*This paper uses a “test drilling” case study method to reveal the socially embedded nature of industrial State-owned enterprises (SOEs) in local China. SOEs are conceptualized as Party-state organizations, however, given their operations located in local areas, where cities such as Daqing developed around present day SOE’s organizational ancestors, the danwei, they remain often entangled in their legacy as public service institutions, and still today are deeply embedded in local economy and society. This puts “National Champions” such as China National Petroleum Corporation (CNPC) in a position where they as organizations have to negotiate their economic objective of generating profit for their owner, the state, but also work as local public institutions, putting stabilizing objectives such as local employment safety before economic objectives. This double layer has split industrial SOEs into two tiers, one operating with economic objectives in mind, and one as caretaker of its legacy organizations economic. Using a framework inspired By Gramscian reading of the state, and the Polnyian concepts of embeddedness, this paper reveals how the local embeddedness of SOEs is a symptom of the Party-state’s order to put hegemony and stability before efficiency and profitability of industrial SOEs.*

## Introduction:

Far up in China's North-East lies Daqing, an unspectacular Prefecture-level city of 2.9 million people, spread out in the desolate prairie of Heilongjiang Province's South-West. The name Daqing, which means "big celebration", was given to the place where oil was struck in 1959,<sup>92</sup> and as an oil field, production unit, and later as a city it quickly became a symbol of China's ambitions in national industrial development. The city's growth and status was fueled by the large quantities of oil in the ground, estimated at over 2 billion tons, and the flood of eager workers coming to be part of the "Learning Industry from Daqing" experience. Almost six decades later, even with the revolutionary gleam of industrialization long gone, in China Daqing is still widely known as the nation's oil capital.

Today, Daqing's oil industry is managed by the giant State-owned Enterprise (SOE) China National Petroleum Corporation (CNPC), a vast business group formally owned by the Chinese state, but with a substantial footprint in local production centers such as Daqing. As a city, as a society, and as an economy, this has meant for Daqing that it went from being a large a work unit organized along socialist principles (in Chinese: *danwei*), to a city that economically remains largely dependent on the corporatized inheritor of the former *danwei*'s industrial assets, today managed by the China National Petroleum Corporation (CNPC) group. Today, while the CNPC headquarter in Beijing oversees a number of production bases that all went from being small *danwei* societies to become branches of corporatized business, attention has shifted towards economic growth, efficiency, and internationalization.

The radical change of Daqing's oil industry from being self-contained, socialist *danwei* society to become a branch of a global, profit-oriented business group, has had profound impact on both the local society of Daqing, but also on CNPC as a SOE with assets located within the city of Daqing. This development is not unique to Daqing, however, as virtually all industrial SOEs underwent the same transformation after China gradually reformed and modernized its economy after 1978, and many

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<sup>92</sup> Daqing became the name for the place, and formally only became a municipality in 1981. Before that, it was administratively under Anda municipality.



other areas with large heavy industry presence are in similar situations. While this economic development has been well researched, the fact that state-ownership remains a strong institution has somewhat been ignored as a conscious choice, and has mostly been discussed as hindrance for real reform. The political logic, and the rationality of the Party-state to maintain SOEs also as political instruments, either because of political strategy or for historical reasons, has not yet been examined thoroughly in the literature. In order to understand SOEs, I argue, we need to add to economic analysis a better understanding of their role as Party-state organizations, the still ongoing organizational change from *danwei* to corporation, and their continuously strong role as socioeconomic institutions in local China.

Research on China's state-owned sector and SOEs is rich, and has over the last decades formed its own bulk of literature, albeit a very heterogeneous one, approaching the topic from different disciplines and methodological directions. Early studies shortly after the policy shift of opening up and reform (*gaige kaifang*) focused on the restructuring of the institutions of an hitherto entirely state-owned economy (e.g.: Walder 1986; 1991; 1995; Tálas 1991; Walder and Oi (eds.) 1999; Oi 1992; Hu 2000; Lin 2001), and later focused on the development of SOEs reform in China (Sutherland 2003; Hassard *et al.* 2006; 2007; 2010; Liu 2006; Chan 2009; Naughton and Tsai (eds.) 2016; Jefferson *forthcoming*; Li 2015). Extensive research has looked at changing management and corporate governance practices in the state-owned sector (e.g.: Jackson 1986; Lockett 1988; Child 1994; Lü and Perry (eds.) 1997; Lockett and Littler 1983; Tsui and Lau (eds.) 2002; Qiang 2003; Lu and Yao 2006; Shi 2010; Mattlin 2009; Walder 2010), and the restructuring of state-owned assets into business groups (e.g.: Fischer 1998; Keister 2001; Eaton 2013). There is also a small but detailed literature on the integration of SOE leaders with the Party-state, among others through the appointing of Party Secretaries at the top of SOE management (Brødsgaard 2012; 2012a; Lin, Nan 2010; Yang *et al.* 2012; Li 2016).

Numerous studies have pointed out the strategic internationalization drive of SOEs (Nolan 2001; 2004; Child and Rodrigues 2005; Sutherland 2009; Gonzalez-Vicente 2011; Li *et al.* 2014; Wei *et al.* 2015; Song *et al.* 2011). There is also a considerable amount of studies on specifically the development of the strategic energy sector (Arruda 2003; Andrews-Speed 2004; 2011; Kambara and Howe 2007;

Downs 2004; Eaton 2015; Li 2015), and the political economy of energy SOEs (Zhang 2004; Downs 2008; Shi 2010; Taylor 2012; 2014; Xu 2017). Finally, although there is a number of detailed SOE studies, including CNPC (Zhang 2004; Jiang 2012; Sheng and Zhao 2013; Li 2015; Hassard *et al.* 2007), what has been missing are in-depth studies of how SOEs actually are integrated with the political and socio-economic objectives of the Party-state, especially at local level.

While a small number of studies acknowledges the complexity of SOEs in China (e.g.: Zhang 2004; Li 2014; Xu 2015; 2017), especially given their historical legacy as *danwei*, many studies today adopt an ahistorical view, and some observers see SOEs merely as “Dinosaurs” (Ralston 2006), feeding a popular narrative of SOEs able resist reform (World Bank 1995; Broadman 2001; Cunningham 2007; Miura 2015). Here, SOE have become “Zombies” under the “shelter” of bureaucrats resisting the abolishment of SOEs as inefficient form of business (Wildau 2016; FT 2017), the bastion of crony capitalism (Pei 2016).

When reading official Chinese material on the desired political outcomes and economic rationales for the state-owned sector, however, a different narrative emerges (e.g.: Xi 2014; *People’s Daily* commentary; CPC 2013; CPC and State Council 2015). Even though the problems of SOE resistance to reform, and the existence of “zombie firms” are problems Chinese leaders themselves acknowledge (Li 2015; Fu 2017), the non-economic objectives of state-owned capital and SOEs clearly loom through the official discourse, rendering SOEs as complex organizations which fulfil more purposes than maximizing profit as firms. This public administration dimension of SOEs is especially important at local levels, where local SOEs are utilized to offset socioeconomic pressures. The overarching objective of SOEs are thus two-fold: maintaining and increasing the value of state-owned assets, but also to support Party-state hegemony, meaning that SOEs at time have to offset economic policy in favor of other priorities deemed more important to the political elite, quasi state-building, such as infrastructure or employment and social stability.

In other words, while the economic nature of SOEs is hardly disputed, literature focusing on this aspect has difficulties in explaining the persistence, or institutional choice, to keep state-ownership as the “backbone” of the economy, since it makes no economic “sense” to keep poorly performing SOEs. Literature

looking at the economics of SOEs, simply put, is somewhat blind towards the political and ideological aspects behind the Party-state's favoritism of SOEs in certain sectors. And even though China by any counts has embraced capitalism, Tsai and Naughton (2015: 3) rightly point out that public ownership still has "enduring political and ideological factors", and the strategic sectors are openly favored and used for political goals (Hsue 2016).

Even less research exists on the political logic of integration (or lack thereof) of the vertical, internal SOE relationships, and the horizontal SOE-local Party-state relationship, especially at the sub-national level. Industrial SOEs in particular have a tremendous role to bear as employers and owners/operators of public services, and the enduring policy burden of supporting local economies, and thus the local Party-state.<sup>93</sup> Here, this paper will add empirical data and suggest theoretical considerations for a better understanding of the still poorly researched SOE-Party-state nexus (Brødsgaard (2012).

Some scholars have pointed at an important ontological difference between Western state theory and the Party's view on state-market and state-society relations (see intro chapter, and: Perry 1994; von Senger 1996; Huang 2012; ten Brink and Nolke 2013).<sup>94</sup> And even though the Chinese leadership clearly thinks of state intervention in the economy as entirely legitimate and as an integral part of statecraft and governance (see e.g. Xi 2014; Xie 2013), there is a dearth of systematic research regarding the political and socioeconomic functions of SOEs claimed by this conceptual outlook. As has been argued in the introduction chapter, the CPC's ideology on political organization seeks strategic control over the economy's and society's "commanding heights", and the SOE sector is exactly this; it constitutes the macro-economic and socio-economic levers necessary for influence over economic and economy-related issues. The leadership thus has at its hands two conflicting tasks, one of economic growth and one of political and societal management, which

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<sup>93</sup> The work on *Danwei* (see below in the text), and especially the works of Andrew Walder and Jean Oi are some of the few studies on the interrelated nature of enterprise organization, sociopolitical forces, and Party-state actors.

<sup>94</sup> Also Deng Xiaoping's comment on markets and plan being mere tools rather than defining logics of a system (Deng Xiaoping 1993), illustrate this readiness of the Chinese Party-state to allow varying permutations of state-market relations within the system.

it claims to be able to balance through CPC integrated leadership in government and business.

Using a case study method, this paper is thought as a “test drilling”, or plausibility probe, exploring the deeper levels of entanglement between the SOEs and the Party-state, and going beyond merely seeing SOEs as a macroeconomic function. By looking at the *state* in state-owned enterprise, this paper aims at showing how historical legacy, local socio-economic issues, and the Party integrated leadership system (see below) of China’s economy renders SOEs as being not only businesses, but also Party-state organizations. As local governments struggle with their specific socio-economic issues, the Party-state integration of the local assets under central SOEs renders these places the heartlands of the “national champions”, global giants deeply entangled in policy burdens inherited from the former *danwei* system throughout China. The integration of SOEs economic goals with the Party-state social and political objectives is very close to Polanyi’s concept of “embeddedness” (Polanyi [1944] 2001; Barber 1995), or the integration of markets under society, i.e. economics embedded in social and political relations, as will be discussed below.

This paper is in large part the result of an extensive study of archival material and secondary literature on the oil sector, SOEs, and the political economy of the Party-state. Many of the points risen are based on the cumulative knowledge gained through the research done for the other papers of this PhD project. Its main findings, however, are the result of fieldwork, including interaction and interviews with Chinese Party-state and SOE officials, which have revealed the complex realities and thought processes behind the otherwise hardly animated study of policy documents and official discourse. Interviews used in this paper were undertaken in Beijing and Daqing on several research stays between 2014 – 2016. While the number of interviews I have been able to conduct (i.e. in Daqing and of CNPC officials and employees) is very limited, they nevertheless have contributed significant insights into the local organization and the political economy of CNPC and Daqing city. Nevertheless, it should be pointed out that longer fieldwork and more interviews both in Daqing, and in the central units of CNPC would enhance this article. This has to be done in the future in order to support the arguments discussed

here, but also to shed more light into the organization of CNPC and the many intricate ways it is organically embedded in the political economy of Daqing.

The same should also be done for other local branches of CNPC, e.g. in Liaoning or Xinjiang, where former *danwei* have developed into large cities. The main reason for the limitation of interviews obtained for the article is first and foremost the time constraint faced in a PhD project. Since this article was the last one conceived, there was limited time to develop contacts and trust in Daqing and CNPC. The second reason is the political climate currently in China (and in Daqing), which has become detectably more cautious even over the short time of this PhD project. It has been increasingly difficult to interview SOE and Party-state officials, and even at local level in Daqing, informants were wary and cautious about being interviewed, and asked not to be recorded. Issues concerning Party integration and leadership were, if not entirely off limits for inquiry, a touchy issue few wanted to talk about.<sup>95</sup> A longer research stay in Daqing or another location with heavy industrial SOE presence would most certainly be helpful in confirming the findings of this paper. In terms of the archival materials used, this paper makes use of public documents (e.g. policy, company material, public announcements in press and Party-state homepages), as well as secondary literature, and primary data collected on research stays in Beijing (several stays between 2013 and 2016) and in Daqing (2016).

Reflecting the conceptual discussion presented in the introduction chapter of this thesis, this paper shows how CNPC straddles across the central-local dimension as a vertical business group, but at the same time in horizontally integrated and conducive to the political and socio-economic objectives of a hegemonic Party-state – its owner – at both central and local levels respectively. As such, this paper presents an innovative approach to study the multiple dimensions of a Chinese SOE. By way of an in-depth look at the local dimension of a national SOE, this paper also adds empirical knowledge to the muddled relationships of SOE holding (CNPC), main subsidiary (PetroChina), and their vast network of local

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<sup>95</sup> One CNOOC official said early into the interview that: "The State Council and the Party are two systems. [...] But let us not overly discuss this issue." ("这个党国务院这是两个体系. [...] 然后这个问题就不想过多的讨论"), interview 1: (1-04-14).

subsidiaries, and how the restructurings of state-owned assets at the local level have played out.<sup>96</sup> This local level illustrates how SOEs have yet to fully shed their former functions and institutional legacy as socioeconomic branches of a socialist Party-state, and how these functions still are used to resolve some of the tensions brought about by economic development. The historically sensitive analysis shows how the *danwei* legacy of SOEs remains something that cannot be fully ejected for the sake of business profitability, even though capitalist modes of growth have entered the picture. The “social relations of Chinese State Capitalism” (Gallagher 2015) are sticky institutions manifest in a social contract between SOE and society, where a CPC-integrated leadership have to negotiate capitalist redistribution reforms and social security maintenance, especially at the local level. Here SOEs remain not only an ideologically enshrined “backbone of the economy” (CPC 2013), but also an “integral part of the local economy” (Jiang 2012: 396), and even part of the identity of local societies that grew around *danwei* before they became for-profit businesses.

In order to get a handle on the issues outlined above, I argue that understanding four interrelated dimensions of China’s SOEs is important: SOE/*danwei* history (1), current enterprise structure (2), their integration with the local economy on the one hand (3), and with the larger hegemonic project Party-state on the other (4). This paper will proceed as follows. After providing a brief historical institutional backdrop of state-owned enterprise in China,<sup>97</sup> illustrated by the development of CNPC from ministry to SOE, and of Daqing from *danwei* to city, the integration of CNPC with Party-state will be analyzed. The paper then provides a detailed discussion of some of the concrete ways the dual nature of CNPC, as SOE and as Party-state organization, unfolds in the case of CNPC’s local presence in Daqing.

### **From Ministry to Business Group: CNPC in Historical Perspective:**

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<sup>96</sup> As Jiang Binbin (2012: 389) points out: “it is unclear how much success the traditional PABs [Petroleum Administration Buros, such as the Daqing Petroleum Administration, the original *Danwei* in charge of Daqing’s oil industry] had with restructuring.”

<sup>97</sup> A more detailed overview is given in the introduction chapter of the thesis.

This historical legacy of SOEs as work units, or *danwei*, is probably the most important factor when it comes to understanding the persisting social and public administration aspects of local SOEs, including the branches of national champions. *Danwei* were organized like small societies rather than simply enterprises in their structure, providing their designated population not only salary, but also cradle-to-grave social and welfare services (Henderson and Cohen 1984; Lu and Perry (eds.) 1997; Guo and Wang 2005; Xie and Wu 2008). Under the *danwei* system, which in the case of Daqing lasted up to 1997, workers and their families (like much of urban China) were organized in planned cradle-to-grave societies, with public services and welfare almost completely accounted for within the confines of the *danwei* (Lü and Perry (eds.) 1997; Zhang 2004). The gradual dismantling of this system meant for Daqing's prestigious and large oil industry, that it went from being a powerful *danwei* under the Ministry of Petroleum, organized more like a small country than a firm (Zhang 2004), to devolve into branches under a central SOE, which took over most administrative powers and split it into a core business, and a non-core business tier.

The *Danwei* as form of organization in fact has an institutional tradition extending to the republican period prior to 1949 (Solinger 1997; Bian 2008), and as institution the *danwei* continues to play a role in social organization and identity, also in Daqing. Even though the *danwei* organization of social space and activity is far less important today than it was up to the 1990s (Bjorklund 1986), The multi-layered structure of *danwei* with "mother" units and subordinated, subsidiary *danwei* (*ibid.*), strongly reminds of today's diversified business group structure of SOEs. *Danwei* affiliation and social identity too remain somewhat connected. Andrew Walder (1991) has shown, that *danwei*-affiliation had a role in the formation of protests of workers during the 1989 protests in China, and in a historical institutional approach, Corinna-Barbara Francis (1996) illustrated how even companies established in the 1990s tended to reproduce the long-established *danwei* institutions of employee welfare and benefits. It still is common today to ask

“what danwei are you working at” when asking about one’s employment,<sup>98</sup> and given the direct descent of SOEs from *danwei*, and the prevailing role of the *danwei*, or more precisely the institution of a social contract between company and employees, it is therefore not surprising that some authors conflate *danwei* with SOE (e.g. Yang 2007; Hassard *et al.* 2006).

Prior to the 1980s, CNPC did not exist in its current corporate form, but the industrial assets in the petrochemical industry were managed by ministries, mainly the Ministry of Oil Industry and the Ministry of Chemical Industry, formed in the 1950s and 60s (see introduction chapter). Daqing was singled out by Mao Zedong as model for industrial organization in 1964, and this “Learning about Industry from Daqing” (工业学大庆) campaign became emblematic for the type of “large and comprehensive” (大而全) organization of industrial *danwei* (CPC 1964; Hama 1980). The campaign drove not only workers to Daqing, but created a self-contained micro-society around the core of a growing up-stream oil industry, which was “run like a little country” more than like a business (Zhang 2004: 76).<sup>99</sup>

Local “oil administrations” (石油管理局), e.g. the still existing Daqing Petroleum Administration (大庆石油管理局, from hereon: DPA), were the production headquarters of China’s oil industry, and at the same time the administrative core of their *danwei*. They reported to Ministry of Oil Industry, while the State Council appointed the leadership, and the State Planning Commission drafted production plans. These administrations, of a non-corporatized and heavily administrative form existed in all major oil producing localities, and were reorganized only during the 1990s.

The institutional change from *danwei* to corporatized SOEs has been gradual, and remains incomplete, in particular because of SOEs function as guardians of social and economic stability in troubled localities. This process started in earnest after 1994, when China adopted its Company Law in 1994 in order to clarify property

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<sup>98</sup> Several interviewees were referring to their *danwei* when talking about their work place, and were referring to other companies as “that *danwei*” (那个单位).

<sup>99</sup> See also the section on *danwei* above. Implied here is, that a large *danwei* such as the Daqing Petroleum Administration constituted its own centralized welfare system, including cradle-to-grave services for its members, i.e. employees and their family, and livelihood organized according to socialist planning.



rights, authorities, and responsibilities, and to establish a basic code for corporate governance. Prior to this, the first corporatizations of the state-owned sector during the 1980s were still rather irregular and experimental in form (Zhang 2004). Seeing the huge successes in terms of economic growth in the township and village enterprises, enterprises reform was seen as a necessary step to boost the inefficient and bloated industrial state-owned sector. The first SOE in the oil sector to be corporatized under the State Council's "oil company" experiment, was China National Offshore Oil Corporation (CNOOC) in 1982, when it was carved out of the Ministry of Oil Industry in order to develop offshore oil and gas reserves in cooperation with foreign companies (Kambara and Howe 2007). CNPC was at that time still managed by the Ministry of Oil Industry, and when the ministry was disbanded in 1988, CNPC was assembled from its industrial assets, while administrative authorities were placed in the newly established Ministry of Energy. Sinopec, another national oil giant, had in 1983 been formed as experimental company in the downstream petrochemical industry, from assets of the Ministries of Chemical Industry, Oil Industry, and Textiles Industry. CNPC joined the oil company experiment in 1989, starting to restructure the local oil administrations (石油管理局), into business groups around the core of an oil company (Zhang 2004).

By order of the State Council under Zhu Rongji (State Council 1998:14; China Oil Monthly 1998), "two extra-large oil companies" were established by merging and corporatizing existing assets in China's domestic oil industry: Sinopec and CNPC (while CNOOC remained in charge of offshore oil assets). Both these new oil giants were structured as business groups in accord with the new Company Law. Geographically, the physical assets in the oil sector, including companies, infrastructure, capital, and human resources, were divided into two regions, with China's 12 most Northern provinces going to CNPC, and the "Southern" parts (including Beijing, Tianjin, and Shanxi), going to Sinopec (State Council 1998:14). Two State Council orders followed, one for CNPC (State Council 1998:57), and one for Sinopec (State Council 1998:58), transferring 6 oil fields to Sinopec from the CNPC group, and 16 of Sinopec chemical facilities and refineries to CNPC, in order to create two "comprehensive" oil companies that could compete, also internationally (Wu 2000). This consolidated the hitherto very fragmented oil sector, establishing a field

of three oil giants, and two smaller ones: Sinochem and China National Star Petroleum Corporation, and crated business groups out of the many local oil administrations as subsidiaries of Sinopec and CNPC. The latter two “lost” in terms of size and dominance in the oil sector during the restructuring from 1998-2003, and while National Star Petroleum was merged with Sinopec, Sinochem remains to be a producer and trader of petrochemicals.

In the case of CNPC, 87 local oil production enterprises (plus their subsidiaries) were reorganized in a vertically integrated business group, directly overseen by the State Council. This new “national champion” took over local organizations and centralized authority and resources away from the local constituencies, which now were merely subsidiaries under a national holding. Intense negotiation between CNPC and local units over the amount of targeted profits to be handed over to the holding were common, and the proud centers of industry such as Daqing felt let down by this restructuring (Zhang 2004). However, given the size of the group and the lack of a watchdog inside or outside the CNPC group, little could CNPC do to tightly monitor and control budgets and investment plans of local branches. Although the central CNPC financial department was in charge of inspecting and monitoring annual budgets, even discussing them at annual budget conferences, prevailing soft budget constraints within the corporation, waste, and abuse of power remained a big problem between 1994 and 1998. The byzantine structure of the newly reorganized and immense conglomerates with multiple layers of legal persons, and poor managerial vertical alignment was addressed in the late 1990s and under the State-owned Assets Supervision and Administration Commission’s (SASAC) watch after 2003 (Wu 2000; Li 2015).

### **CNPC Today:**

The transformation of China’s industrial sector since the early 1980s has been remarkable. Still, after nearly four decades of economic reforms, state-owned enterprises (SOEs) still make up a significant portion of China’s economy. This is as much a choice as it is a historical legacy, and SOEs are seen as the motor behind

China's developmental success story (e.g.: Lin *et al.* 2001; Naughton and Tsai (eds.) 2015; Jefferson *forthcoming*). Even though private and foreign companies have made substantial inroads (Huang 2008; Lardy 2014), SOEs remain the designated "backbone" of the economy (CPC 2013), and they continue to dominate or even monopolize strategic sectors. Representing around one third of national GDP (US Dept. of State 2016), the approximately 114.000 existing SOEs at all levels (SASAC 2015: 699), reported 63 trillion Yuan revenue in 2016, with the 102 central level SOEs accounting for more than half of that (MOF 2017). CNPC is one of them, ranking 2<sup>nd</sup> in size only after State Grid (Forbes 2017). Even though SOEs only account for less than 0.6% of the total number of companies registered in Chin (in 2016, 26 million companies were registered, see: Xinhua 2017), SOEs should be seen as a strong economic base supported and prioritized by the political center.

One important reason for this is their importance as employers. In 2012, SOEs employed roughly 40 million people (SASAC 2013: 713), showing a steep increase in the size of the SOE workforce after the stimulus packages of 2009, reacting to the global financial crisis. Between 2002 and 2009, the number had remained relatively stable around 33 million (Burns 2006; SASAC 2010: 767). By 2012 the SOE workforce thus accounted for around 5% of total employment. In recent years both the number of SOEs and of SOE employees has dropped significantly, likely an effect of the SOE reforms launched under Xi Jinping. While there were 152.000 SOEs in 2012, employing 39 million, in 2014 the numbers had dropped to 114.000 SOEs and 31 million employees (SASAC 2013: 713; SASAC 2015: 699).

Even though the numbers of private and self-employed people has risen dramatically over the last decade, with private unit employees tripled from 35 in 2005 to 90 million in 2014, and self-employed swelling from 28 to 70 million, the number of those employed in SOEs remained relatively stable, continuing to be a bedrock of employment in spite of repeatedly announced market reforms, streamlining, and restructurings.<sup>100</sup> CNPC, with its 1.5 million employees is even within this group of companies a large player.

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<sup>100</sup> Given that China has a total workforce of around 800 million, (World Bank 2017), these numbers seem small and odd. On top of private and SOE employees, public servants and public service organ employees (*shiye danwei*) are a large group of estimated 40 million people (Brødsgaard and Gang

What many refer to as CNPC (中国石油天然气集团公司),<sup>101</sup> is in fact only the holding company at the apex of a vast business group.<sup>102</sup> It is fully owned by the state, not listed, with SASAC formally in charge of exercising the state's (i.e. State Council's) ownership rights. As a whole, the CNPC group employs around 1.5 million people in hundreds of subsidiaries and branches across China and globally. While CNPC forms the spearhead for economic as well as political decisions for the group, it seems to work more like a centralized headquarter, rather than a company, coordinating the group's core business assets with its service (non-core business) assets, and linking it with strategic, political decision making in Beijing. While the CNPC group as a whole is a byzantine complex that makes generalizations about its features difficult, a pattern is visible in the way core business and non-core business are structurally kept in two distinct yet integrated silos.

The holding company's corporate governance structure is made up by a board of directors, an advisory board, and a Party group at the top. Chairman of the CPC group, at time of writing Wang Yilin, concurrently holds the position of director of the board. The General Manager, Zhang Jianhua, is vice-secretary of the Party group, and in this double leadership team, Wang formally ranks higher due to his CPC position. The appointment of the Party secretary/chairman is not made by the board, but by the CPC central organization department, and due to the bureaucratic rank of vice-minister equivalent it has to be confirmed by the Politburo (Brødsgaard 2012; Cai 2014).

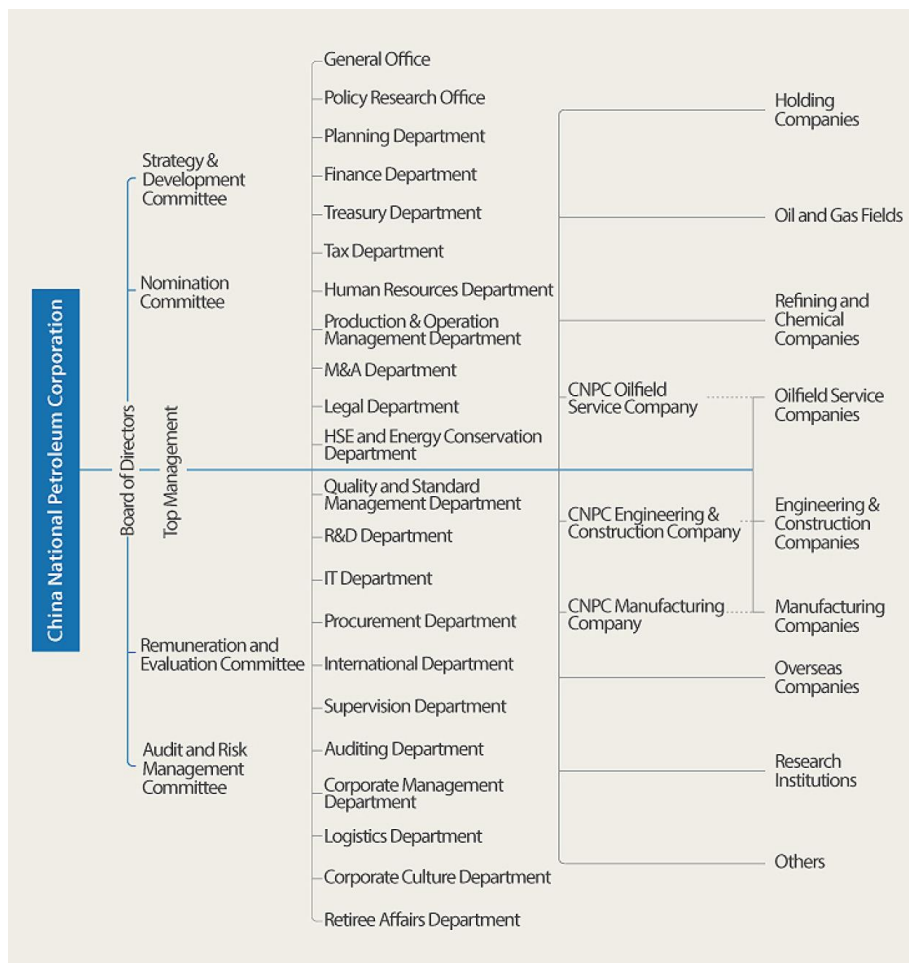
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2014). The reliability of statistics in China remains a contentious issue, see Matthew Crabbe (2014), and albeit should be treated with care, can serve as good statistical indicators. As the findings of this paper suggest, there is also a large number of indirect or hidden employment, as well as in-house retirement, which could at least account for some of the remaining millions of employees in the balance.

101 From hereon, when referring to CNPC, only the holding is meant. When referring to the entire CNPC conglomerate, including all its subsidiaries, I will write CNPC group. PetroChina is the main subsidiary of CNPC, and forms the top of the CNPC group's core business assets.

102 A business groups in the Chinese context (according to the relevant State Administration for Industry and Commerce regulation (1998) is defined as a group, where the mother company must have a registered capital of at least 50 million RMB, it must have at least five affiliates, and a total registered group capital of at least 100 million RMB. Affiliation is included in the registration.

**TABLE 1: CNPC corporate governance chart:**



Source: CNPC homepage (2017).

Apart from the general office and the Party committee, 20 functional departments are in charge of various areas from retiree affairs to policy research (see table 1). Furthermore, CNPC has three specialized branches (分公司) each in charge of several companies within their respective technical area (seven companies in manufacturing, six in engineering and construction, and five in oilfield service). In

2012, at the first tier under the holding level there are 68 companies, including those 18 under the specialized branches. Among these 68 subsidiaries, five are majority owned subsidiaries (one of them Petro China Co Ltd. (中国石油天然气股份有限公司), hereafter: PetroChina). There are furthermore 9 corporatized oil and gas fields, 10 refining and chemical companies, 8 overseas companies, 10 research institutes, and 8 classified as “others” in CNPC official material (CNPC 2012; 2015). Many of these 1<sup>st</sup> tier subsidiaries again have several subsidiaries, and this way a central SOE, that is the holding group company at the top, is often only the tip of the iceberg consisting of hundreds of subsidiaries in various business sectors and localities.<sup>103</sup>

Moreover, five majority-owned holding companies under CNPC serve individual strategic purposes for the CNPC group as a whole. PetroChina is the main subsidiary in charge of the group’s core business, commercial and industrial operation of its oil and gas assets. China Petroleum Finance Co Ltd. (中油财务有限责任公司), established in 1995, is responsible for the group’s overall financial management and strategy. CNPC Asset Management Co Ltd. (中油资产管理有限公司) is responsible for overseeing the group’s vast amount of assets and investment portfolio, and finally, CNPC has its own bank and a financial leasing company, Bank of Kunlun (昆仑银行) and Kunlun Financial Leasing Co Ltd. (昆仑金融租赁有限责任公司). These last two were incorporated under CNPC in 2009 when CNPC acquired Karamay City Commercial Bank, and established the financial leasing company a year later, with 6 billion RMB in capital (CBRC 2010).

As a result of the corporatization, meant to gear SOEs towards floatation after 1998 (重组上市), the CNPC group was reorganized in two vertical tiers, one for its core business (under PetroChina), and one for the remaining assets in non-core business sectors servicing the core businesses, but also including the remaining legacy operations such as hospitals, schools, power plants etc. While CNPC remains the holding company at the top of the conglomerate, all the main commercial and core business operations, also at local level, are therefore subsidiaries of PetroChina. This formal structural separation of companies

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<sup>103</sup> For a graphic illustration of the complexity of another SOE group, Shenhua, see: Lin and Milhaupt 2012. Note that the web of relations in their illustration only includes listed firms, and not the dozens, if not hundreds, of unlisted non-core business firms

designated as core business organized under PetroChina, and operations designated as non-core business under CNPC and its branches (see corporate governance chart), masks a complex and muddled relationship among these companies at local levels. Many of them were one *danwei* now split into one company in charge of commercial activities, and one (or several) assisting its sibling with technology and service (see below and table 4). In practice the separation is less clear, and as sibling companies the core business units heavily rely on the service and assistance of the non-core units. In fact, as one interviewee pointed out, the rationality of the separation is more a “method of book keeping” (“记账方式”, interview 2), designating commercial value and profit to one tier, rather than strict separation of operations. This way, the corporatized core businesses are profitable businesses, while the non-core businesses often run a deficit.

#### **Petro China Co Ltd.**

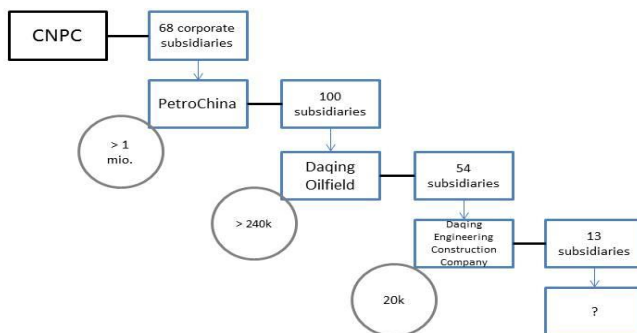
Petro China Co Ltd. is a holding company directly under CNPC and the main corporation of the CNPC group (see Table 2), forming the core business of the CNPC group by managing the bulk of the group’s oil-industry and commercial assets. CNPC is its majority owner, holding 86.5% of shares (Petro China 2015). PetroChina has, like CNPC, close to a dozen departments in charge of the various managerial and administrative tasks, including a CPC group, an international department, auditing etc. (CNPC 2012). Somewhat similar to CNPC, its main business operations are organized under five branch companies. These specialized branches cover the respective areas of exploration and production, refining and chemical industry, sales, pipelines, and finally international exploration and development. Under these branches, around 100 subsidiaries operate in a regional division of business operation.

Under the 100 direct subsidiaries of PetroChina, hundreds of companies operate at several levels (see tables 2 and 3). One of the largest ones, The PetroChina subsidiary Daqing Oilfield Co. Ltd. (大庆油田有限责任公司, hereafter: Daqing Oilfield) for example, again has 54 subsidiaries, ranging from training institutions, drilling

companies, water supply, and hospitals, employing over 240.000 workers (Daqing Oilfield 2016).<sup>104</sup>

The size and complexity of the CNPC group as a whole, illustrated by the interwoven organizational structure in these examples, is one of the more practical reasons of why reforming and streamlining SOEs is such a difficult task. SOE leaders often favor economically rational decisions, but political priorities are an overriding factor in decision-making (interview 1)

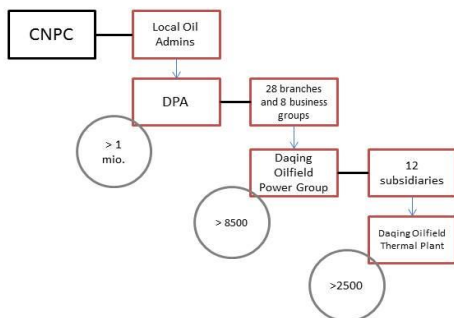
**Table 2: Structure of on selected branch of the CNPC group’s core business tier in Daqing:**



<sup>104</sup> This suggests that the officially posted number of close to 1.5 million employees under CNPC does not account for the 3<sup>rd</sup> tier and below (with CNPC as 1<sup>st</sup>, and PetroChina 2<sup>nd</sup> tier). If one third tier subsidiary (Daqing Oilfield) alone has 240.000 employees, the number for total employees of the entire CNPC group is likely to be much higher.



**Table 3: structure of one selected branch of the CNPC group’s non-core business tier in Daqing:**



Source: Authors own illustration. Numbers in grey circles are employees of the adjacent entity.

### Local Embeddedness: CNPC in Daqing:

Looking at the business group structure of Petro China and CNPC, the complicated process of an evolutionary change from government-managed administration to corporation immediately becomes clear. Also the muddled outcomes of restructuring a vast, “large and comprehensive” *danwei* enterprise into a two-tier group (core and non-core business), become clear when looking at a local case such as Daqing. The development of the oil industry took off after oil was discovered, led to the growth of an entire society around it, and its industrialization around the Daqing Petroleum Administration, is a lucid illustration of how socio-political and politico-economic organization of localities and their SOEs can be extremely difficult

to separate. Daqing in effect does exist as city because of the oil field, and most of its infrastructure and public service was until the 1980s built and managed by the DPA and its branches. Still today, while some public services and administrative functions have been transferred to the local state, the DPA still owns and operates schools, electric power plants, water works etc. Like any other SOE, apart from its industrial branches the DPA was a comprehensive social service and welfare organization, in charge of everything from water supply, hospitals, housing etc. (Zhang 2004).

This local “miniature government” with industrial arm was forced to devolve and reform after the establishment and corporatization of the CNPC group, and the subsequent subordination of the DPA under the central CNPC in 1998. Under the “restructuring and flotation” and “separation and separate establishment” (分开分立), and “business group-ization” (集团化) programs the 1997/98 restructurings cut the *danwei* into two tiers, core-business assets such as Daqing Oilfield under PetroChina, and non-core assets under the DPA (Jin and Li 2004).

A similar separation of core and non-core assets, and the vertical organization under respectively CNPC and PetroChina, also happened in other local branches of CNPC/PetroChina. In the Liaohe region (located in and around Panjin city in Liaoning Province), under the restructuring and floatation reform the local Petroleum Administration (Liaohe Oil Exploration Administration, 辽河石油勘探局) and its industrial branch established in 1980, the Liaohe Oil Field Company (辽河油田公司), had their core-business assets carved out and merged under a new established corporation under Liaohe Oilfield Company, the Liaohe Jinma Co. Ltd. (辽河金马油田股份有限公司). The separation here was carried out somewhat differently from Daqing. The local Petroleum Administration issued 110.000 shares of this new corporation, shifting majority control to PetroChina by transferring to it 90.000 shares upon floatation (Jinma 1999). The Liaohe Oil Exploration Administration remains structurally organized under CNPC while Liaohe Oilfield Company is in the business tier by virtue of its oversight of Liaohe Jinma Co. Ltd.

In principle, Daqing’s municipal Party-state administration and the local branches of CNPC in Daqing, being subordinates of Beijing in their respective regards, should feed into the policies/objectives handed down to them, i.e. energy

security and profitable energy business. The complex reality, however, is that both the SOE as a business group, and the Party-state have multiple dimensions and ambiguous objectives. The central Party-state incentivizes the central CNPC group to be a strategic player for energy security and generation of profit on energy markets, and the local Party-state uses the local CNPC branches to solve more immediate concerns of state-building and social stability nature. Vertical and horizontal alignment of singular objectives such as economic growth in SOEs such as CNPC thus becomes difficult, if not impossible, since the overriding hegemonic project of the Party-state, and with that stability, has priority before profitability. Recognizing SOEs also as Party-state organizations, with a still present *danwei* legacy therefore shows a complex and multi-leveled picture of SOEs, functioning as both socio-economic organizations and business groups at the same time.

This split-up of core and non-core assets under respectively PetroChina and the mother company CNPC, is often also visible in the legal status of subsidiaries, with the, often listed, core business assets restructured as incorporated limited liability companies (“有限责任公司”), while assets in the CNPC tier often have retained their former names of “ordinary” company or even administrative titles (公司, 局). The non-core business subsidiaries left with the economically non-viable assets fulfill service functions and technology assistance for their corporatized core business “sibling” (“兄弟企业”). Daqing Oilfield is one example of core business carved out of a former *danwei*, with the latter remaining non-core business group. This split is indicated in table x, showing the DPA in the blue tier under CNPC, and Daqing Oilfield in the blue tier under PetroChina.

However, even though the DPA still is a non-core business Daqing Oilfield “sibling” (Daqing Oilfield 2010), the separation remains much clearer on paper than it is in reality, and linkages between core and non-core businesses units remain strong. According to one mid-level cadre at Daqing Oilfield’s subsidiary Daqing 1<sup>st</sup> Oil Extraction Company (大庆第一采油厂), the DPA and Oilfield companies were separated and merged twice since 1997, and ownership and operation responsibilities of public service organizations and utilities are in often still shared among the two, having been a single organization for decades prior to the 90s

(interview 2). Another employee at a Daqing Oilfield subsidiary confirmed the close cooperation and often only formal separation of his unit with the DPA (interview 4). Company material explains that the DPA works as a supporting unit for engineering technology, while Daqing Oilfield is in charge of business activities in exploration, upstream, and downstream operations. This means that the lucrative oil business falls squarely into the responsibilities of Daqing Oilfield, while DPA with its many public service units is left without many options for income. The fact that DPA and Daqing Oilfield were merged and separated repeatedly, and the fact that they are – although appearing separately in organization charts – listed as one unit in CNPC’s annual reports (CNPC 2012: 295), suggests that the two tiers at local level remain tightly connected, and that *danwei*-type integration of the oil industry in Daqing remains.

DPA and Daqing Oilfield are themselves conglomerates with numerous subsidiaries, and their integration and embeddedness in local society runs deep. This is not only because oil is the main economic foundation of Daqing’s economy, but also because the industry is main provider of jobs. The DPA today has 111.000 employees in 28 branches, including 8 business groups (down from 12 in 1998) in e.g. electricity generation, public heating, and schools and hospitals (Jin and Li 2004; Yu and Chen 2006). Also Daqing Oilfield, with more than 240.000 employees in 54 subsidiaries, is a sizable business group (Daqing Petroleum Administration 2016; Daqing Oilfield 2016, see also table 2 and 3). One cadre of a Daqing Oilfield Subsidiary estimated that as many as 70% of Daqing’s population are directly or indirectly dependent on jobs in the oil industry, i.e. the CNPC group and its subsidiaries (interview 2). Others estimated similar numbers (interview 4, and anecdotal evidence from several informal discussions with Daqing residents).<sup>105</sup> While the actual number probably is lower, there is little question about the socio-

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<sup>105</sup> One bar owner lamented that, after Xi Jinping had launched the anti-corruption campaign, and an inspection team had visited the city, many bars, karaoke parlors and restaurants had closed, because employees of the state-owned subsidiaries of CNPC were restricted from using public company funds (公款) for entertainment and in restaurants. In an ironic twist, this was a common complaint by many I talked to in the service industry, blaming Xi and the anti-corruption efforts for drying out the non-oil related local service sector, thereby sabotaging the local governments efforts to shift employment away from the increasingly weak oil sector. Anecdotal evidence such as this could indicate some of the problematic and at times contradictory roles the local state (including SOEs) has in its task to maintain hegemony and upkeep social and economic stability.

economic importance of the CNPC group as the prime force in the local economy, especially as employer. Table 2 and 3 show how large individual branches of the CNPC group (the Daqing red and blue tiers) can be. As shown, the selected subsidiaries are merely individual branches, and many of the other subsidiaries have equally sized chains of subsidiaries. One interesting point is the number of employees, indicated in the grey circles. If Daqing Oilfield already has 240,000 employees, or one fourth of the number quoted by PetroChina, and bearing in mind that PetroChina has dozens of other large subsidiaries with their own local branches, it seems highly unlikely that the number of 1 million is enough.

The weight on local CNPC as support mechanism for local society, was pointed out by what many informants referred to as local protectionism and “protecting local employment” (保护本地职业) (interview 2; 4). This means that the local, Daqing branches of the CNPC group are “looking after local [Daqing] residents and provides jobs to them”.<sup>106</sup> One interviewee (4) said that he came back to Daqing after studying in Harbin, because he knew he would get a well-paid job easily, given his *hukou* (household) registration and family background in Daqing. He acknowledged that “outsiders”, i.e. people with non-Daqing *hukou* moving to Daqing would only in very few cases find employment, since jobs in the oil industry were in decline. To the question how locals could get jobs in this situation, she responded that because of local protectionism, “there will always be a job for a local”. Similar accounts were repeated during virtually all conversations about this matter in Daqing, both in formal and informal interview settings. Local residents could, according to these accounts, rely on jobs within the local CNPC branches effectively subsidizing local employment.<sup>107</sup>

This practice is, so I argue, not only a matter of localism particular to Daqing and the CNPC group, but it is tolerated by the leadership because it is seen as an important support for the local Party-states interest in social stability, especially

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<sup>106</sup> The interviewees in Daqing did not want to be recorded, and quotes here are from my notes taken during the interviews.

<sup>107</sup> If and how kinship and personal connections play a role could not be assessed, but likely also have an impact. However, all local residents I talked to had family and friends working in the oil industry, and therefore virtually everyone from Daqing has connections to oil industry companies.

employment in an area where industrial layoffs are an acute threat.<sup>108</sup> This state-building or social responsibility function vested in SOEs is hardly a new phenomenon, and informal networks were commonly used to secure employment in *danwei* (Solinger 1997). Structurally, although exact numbers are hard to come by, large SOEs are known to have absorbed many of the laid-off workers during the restructurings in the late 1990s and after (Jiang 2012), and “internal retirement” (离岗退养 or 内部退休), in which workers are retired but stay on the company payroll in internal retirement plans, has been a common practice to cut staff without disrupting social stability (Liu 2014; Wang and Zhang 2016).

Considering how private and township village enterprises were vastly more efficient than SOEs, internal retirement was introduced as a policy to relieve SOE’s burden of labor cost and excess staff (State Council 1993: 111), giving the government more time to establish public pension schemes (Song 2011). During the 1998 restructurings, however, internal retirement was widely used (or misused) to slash employees in a way that avoided overburdening the local government’s limited capacity to catch the large numbers of layoffs. This was also the case in Daqing, where core and non-core business were carved out of one *danwei*. In Daqing’s DPA the number of employees prior to restructuring in 1998 was around 500,000, and many of the 150,000 that were laid off subsequently went through an internal pension scheme (Yu and Chen 2006) One informant mentioned the example of his parents, where one was put on an internal retirement plan during the late 1990s, while the other parent, who was in a leadership position, was able to negotiate her continued full employment (interview 4). Also in other “post-*danwei*” societies such as Lanzhou (also part of the CNPC group), the split-up led to close to 10,000 employees on internal retirement, a number that only in 2014 was down at 1084 (Liu 2014).

The long history of *danwei* organization and the strong identity of Daqing’s oil industry, the praxis of local protectionism point at the heart of the role of SOEs as not only economic enterprise, but also as safeguards of local, socio-economic stability, supporting the Party-state’s claim for a legitimate leadership position. This

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<sup>108</sup> This claim needs to be backed by further investigation and evidence of similar practices in other local economies that are dominated by individual SOEs.

is not simply petty local politics taking place hidden from the far-away headquarters in Beijing, since the leader of the local main branches in Daqing DPA and Daqing Oilfield, who certainly knows about this practice, concurrently is a high ranking official in PetroChina. It indicates a strategic choice, tolerating employment safety in structurally weak areas such as Daqing as an imperative for company policy. The important point here is, that this type of “local protectionism” is not simply a case of misconduct at the cost of company efficiency, but it is a social function of a locally dominant SOE as a (Party-) state-owned organization. For the CPC’s concern about the legitimacy of its hegemonic position, maintaining a *danwei*-type of social security through local state-owned organizations is as much part of the “performance legitimacy” (Yang and Zhao 2015), as is economic growth and development. In order to ensure that the latter do not disrupt the social fabric in areas challenged by changes of the economic structure, the Party-state clings to its claim that an omnipresent Party leadership is indispensable.

### **Leadership Integration: CNPC and the Party-state System:**

As a SOE, the CNPC leadership as well as that of its subsidiaries is not only supervised by the state administration (notably through organizations such as SASAC), but also closely integrated with the CPC. Just like any state administration, the leadership of SOEs, as discussed above, is made up by Party secretaries at the apex of the enterprise’s corporate governance structure, and party groups are in place in all its branches and affiliated organizations. And the degree of Party mobilization and organization of its (CNPC employed) members is not insignificant. In 2011, the 646.223 Party members employed in the CNPC group were organized in 33.997 Party groups at all levels, illustrating just how deep the Party is integrated with the SOE. In these groups, which at the top level discuss important management issues even before they are formally discussed by the company board, everything from ethics, company management, career paths, and political issues are discussed, and they have an important influence on daily work routines, according to one interviewee

(interview 2). Also trainings, mandatory study sessions of Party policy, and voluntary work is organized by Party groups.

One example illustrating how there is a strategic organizational and ideological function vested in Party groups, underlining an conceptualization of SOEs as embedded organizations spanning across society at large, is the formal mission statement of the CNPC Party groups' work program of the "three big responsibilities"; economy, politics, society (CNPC 2012). The case of Daqing illustrates that this is not only a window dressing messages printed in annual reports, but a locally reproduced organizational policy (see section on Daqing Oilfield's development plan below), not least because of the *danwei* legacy and the socio-economic entanglement of SOE and local society.

Structurally, CNPC is not only under the supervision of the central administration – its formal owner - but also tightly connected with the local Party-state. Horizontally, this means a close integration of local SOE assets and Daqing's local government. In a city that virtually grew around a SOE, enterprise management and city government remain in a interdependent relationship, and two of the 13 highest ranking officials in Daqing's municipal leadership concurrently serve as leading executives of local PetroChina subsidiaries (Wang Deyi is CEO of Daqing Petrochemical Company, and Wang Kun is Vice-Chairman of Daqing Oilfield Co. Ltd.).<sup>109</sup>

There is a considerable integration of leadership between the entities of the CNPC group, indicating how corporatized (core business) and legacy units non-core business) are interconnected by way of leadership integration. The central level leadership team of PetroChina largely overlaps with CNPC's (the holding), and Wang Yilin serves as Party Chairman and Chairman of the Board in both companies, alongside a few other board members who hold leading positions in both PetroChina and CNPC, such as Liu Hongbin, who is Executive Director (执行董事) in both

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<sup>109</sup> There are of course practical implications of the overlap of not only managers within the CNPC group, but also local governments. This is a complex issue I cannot elaborate on here, not least because it would require significantly more detailed research and data, without which I don't think one can draw sound conclusions. It suggests, however, that the *danwei* legacy of local SOEs remains an important factor in shaping the local political economy and socio-political policies.



companies. PetroChina does have its own CEO,<sup>110</sup> Wang Donjin, while 8 of the 10 top leaders of CNPC concurrently hold positions in the top leadership of Petro China. The two exemptions of the “rule”, Zhang Jianhua and Xu Jiming, both entered the CNPC group only recently, coming from Sinopec and the National Audit Office respectively.

At the local level, the integration of CNPC and PetroChina is exemplified by the case of Liu Hongbin and Sun Longde, whose careers shows how management of CNPC, PetroChina, and the two main subsidiaries in Daqing is connected. PetroChina’s Vice-President Sun Longde, is also General Manager (总经理) of Daqing Oilfield Co. Ltd. and Director (局长) of the DAP (representing both the “blue” and the “red” tier at the first level under central level on table x), aligning the management of the two main units in Daqing of both CNPC and PetroChina (Daqing Daily 2016). Sun is also chairman of the “CNPC Heilongjiang- based company Coordination Group”, and Party group member in all the mentioned organizations. Sun’s case is not unusual, but seems to follow a common career pattern. Sun took over all mentioned posts in Daqing from Liu Hongbin in 2016 (see table 4), when Liu was promoted to become concurrently Vice President (VP) (副总经理) of CNPC, and

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<sup>110</sup> The formal titles used for management in Chinese companies are somewhat difficult to translate into Western corporate governance categories, and managers have differing titles depending on whether or not the company is listed. In general, SOE top leadership consists of a Party Secretary, a General Manager (GM) or CEO, and a Chairman and a Director of the Board at the very top. They are followed by a number of Vice-Presidents (VPs), executive Director(s), and CFO (i.e. an equivalent Chinese title: 会计师). The highest ranking official, or “first hand”, is the Party Secretary (党委书记), who also serves as Chairman of the Board (董事长).<sup>110</sup> Under the top leader, there is a Director of Board (董事), and the equivalent of a CEO or General Manager. There seems to be a differentiation in the Chinese titles depending on whether or not a SOE is incorporated as limited liability company or not, and the translations of titles must be seen as approximations to the Western titles used in corporate governance. 总经理, mostly used in non-incorporated companies such as CNPC, is translated as GM (in a non-incorporated), and 总裁 as CEO (in a limited liability company such as Petro China), while both 副总经理 and 副总裁 are equivalent to VP. Under this second level there usually are a number of managers equivalent to Vice Presidents, 副总经理 in firms such as CNPC, and 副总裁 in e.g. Petro China. Moreover, there are a few Executive Directors 执行董事 and Non-Executive Directors (非执行董事).

Most managers at this level have more than one title, and often serve top level positions in both mother company and a subsidiary, as the case of CNPC and Petro China illustrates. Importantly, the Party group of a company includes all the top managers, and the Party Chairman today has to be Chairman of the Board, according to CPC regulations. Moreover, important decisions are discussed in Party groups first, before they are discussed and decided upon in a company board (CPC 2015). The CPC thus is tightly integrated with the core of SOE leadership, not only through the power to appoint management, but also through this organizational integration with management and decision-making protocols.

Executive Director and VP (副总裁) of PetroChina. Before that, from 2014 Liu concurrently served not only as GM/Director of the two Daqing subsidiaries, but was also Executive Director and VP of Petro China. Liu has thus served in various managerial leadership functions in both Petro China's and CNPC's main subsidiary in Daqing, while also shuffling between posts in PetroChina and CNPC, serving concurrent positions in the companies' leadership (CNPC website; Petro China website). Sun seems to follow a somewhat similar career path, hinting at the close integration of management across the top layer of the CNPC group.

**Table 4:** Lines mark the discontinuation of a position held above the line, and the start of a new position in the row below the line.

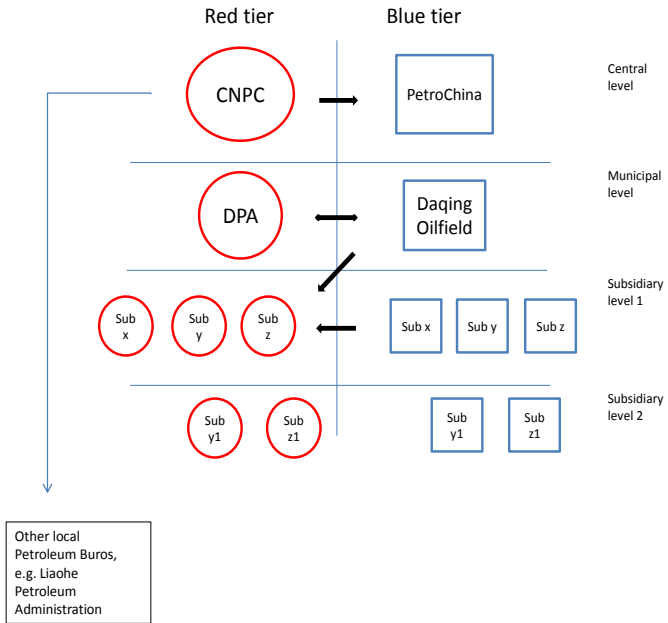
### Liu Hongbin career path

	CNPC subsidiary (sales branch)	CNPC	PetroChina	DQ Oilfield	DPA
2010	GM and vice Party sec				
2011					
2012					
2013		Vice GM; Party group member	Vice president	Exec. Director of board; GM ; vice Party sec.	Director
2014			Executive director of board		
2015					
2016		Vice GM; Party group member	Non-exec director		

Source: author's own illustration

This interlinkage of leaders of the local core and non-core business units (i.e. red and blue) is not unusual, as most local operations of CNPC have the same person in charge of the main organization of both tiers. In Liaohe (in Liaoning Province) for example, Zhang Zhidong serves as director and Party secretary of Liaohe Oilfield Company as well as Liaohe Oil Exploration Administration (the latter is the former *danwei* equivalent to the DPA). Prior to this posting, Zhang had served as leader in the two main units (red and blue tier) in the Tulufan-Hami oilfield, and his predecessor in Liaohe, Xie Wenyan, was posted to head the two main companies of the red and blue tier in the Talimu (Tarim) oil region when Zhang Zhidong took over. This underlines the commonality of a coordinated, connected leadership structure of the core business and non-core business tiers in the local branches of CNPC.

**Table 5: CNPC red and blue tiers in Daqing:**



DPA = Daqing Petroleum Administration; Sub = subsidiary. Some subsidiaries under both the DPA and Daqing oilfield shown as Sub x thru z (e.g. Daqing Electricity Generation Group (大庆电力集团公司) under the DPA and Daqing First Oil Extraction plant (第一采油厂) under Daqing Oilfield)) are large enterprises with subsidiaries themselves. These are shown as Sub x1 thru z1. Bold arrows indicate relations of authority by way of rank (e.g. CNPC outranks PetroChina) or authority in cooperation, as suggested by informants in Daqing. Source: interviews, public material of the displayed organizations.

## **SOEs as Embedded Economic Institutions, or the Social Relations of Chinese Capitalism:**

Thus far, the paper has analyzed the structure of the CNPC group, its leadership integration both vertically (within the group) and horizontally (at local level) of cadres in red and blue tier balancing different objectives of the Party-state's hegemonic project, and the institutional legacy of embeddedness of SOEs.

The role of the CNPC group for China's energy economy is obviously an important one, both at local and national level, and these two dimensions serve as illustration of the variegated nature of its organizational tasks. On the one hand CNPC's core business part (blue tier, i.e. PetroChina and Daqing Oilfield Company and its subsidiaries) has a mission of generating revenue, working towards radically redistributive goals of e.g. the 18<sup>th</sup> CPC Congress' third Plenum's Decision, stating that SOEs by 2020 are to submit 30% of their profit as tax, and to operate according to "decisive" market logic (CPC 2013). On the other hand, through its legacy units in the non-core sector (red tier, i.e. DPA and its subsidiaries), the CNPC group's branches remain caretakers of locally embedded institutions, pillars of the social contract that has defined the *danwei* for decades, and for which the state apparatus has not yet built sufficient social security capacity to supplant. Non-core business units are still involved in important social services, forming the CNPC group's socio-economic foundation, operating key infrastructure and public services, without which Daqing as a society would collapse.

The embeddedness of the CNPC group in Daqing's society is obvious by numbers. Together, DPA and Daqing Oilfield directly employ 350.000 people, making them quite important for most aspects of political, economic, and social policy. The importance of the CNPC group for Daqing as a socio-economic space also shines a different light on a SOE's potential as a Party-state organization, than analyses that look at only economic performance and rationalities of an SOE as a firm suggest. First, the institutional path-dependence of SOEs as not only economic, but socio-economic centers of gravity that are deeply embedded in local societies, and organizationally integrated across central-local and sectoral lines of economic and

social policy, illustrates the structural inertia of the state-owned sector in China, and its bureaucratic system. Second, when seen through the lens of the Party-state (see also introduction chapter), the utility, and, ideologically speaking, the core function of SOEs, is one of serving as vehicles for supporting Party-state hegemony, underlining why the Party is reluctant to release control over strategic SOEs, the commanding heights of the economy.

Moreover, seen as a relationship between central and local Party-state, the flexibility, or “tethered relationships” between administrative units within the system (Blecher and Shue 1996), formally align local and central policy and incentives, while local government and decision-making in reality unfolds in ways that are bound by local socio-economic factors, priorities, and manipulation (ibid. p. 89). This is not necessarily to be seen as detrimental to the (national) economic *raison d’être* of SOEs, but the ability to use them as support for the local party-state, helping it to tackle challenges such as unemployment and ultimately social stability, is a conscious strategy of the “Gramscian” state view the Party presents us with (see also introduction). We can thus discern between different analytical gazes directed at SOEs, depending on whether we want to see them as national champions, international competitor, local industry, or socio-economic organizations of the Party-state.

Employment in the two tiers of Daqing’s CNPC branches shows a disproportionate ratio in favor of the economically non-viable red tier (red:blue = 2:1), defying a rational choice market logic of focusing on efficiency and profitable operations. The tiered function of SOEs is crucial for an understanding of Daqing’s (and China’s) political economy and, using Polanyi’s vocabulary, the embeddedness of economics under society, that is, SOEs’ economic gains under the Party-state’s socio-political objectives. The red tier is not merely institutional legacy, the social contract SOE’s inherited from their times as *danwei*, but it is also a consequence of the Party-state’s hegemonic projects demands for socio-political objectives such as social stability and security.

Applying a Polanyian reading, there is striking parallel in the way CNPC has kept a double-tiered structure of core and non-core business, reminiscent of Polanyi’s concepts of habitation (red tier) and improvement (blue tier). Economic

improvement, in Polanyi's work, indicates a demand for growth and development, in his word the "improvement in the tools of production" (Polanyi [1944] 2001: 35). The blue tier of PetroChina is tasked with this economic growth objective, feeding both into the national growth and development agenda of the CNPC group, as well as local growth and development. Habitation is more loosely defined in Polanyi's writing, pointing at the habitation of land, that is, social activity not for the sake of economic improvement, but as maintenance of people's livelihood. Social security, welfare, and basic social service functions of the red tier can be attributed to this dimension, including the aforementioned practice of "local protectionism", providing jobs to locals simply because they are members of Daqing as a society, and not based on an economic need to increase the labor force. Maintaining a red tier, i.e. habitation, also serves as a counterbalance to the tensions often brought about by economic improvement (Polanyi [1944] 2001:66-68; Watson 2009).

Social stability, including the maintenance of basic welfare of the general populace, evidently is crucial to the Party-state's hegemonic project, just as much as economic growth is. Priorities can be very different, responding to local conditions (Mulvad 2016). In absence of structures that can ensure the continued stability of the red tier (e.g. a fully developed "welfare state"), simply devolving the social contract of SOEs seems utterly unrealistic, given this structural legacy of *danwei*-based social security institutions in places such as Daqing. In local societies with such strong reliance on SOEs for employment and pensions, the consequence could be an implosion of the social infrastructure. Experience from mass lay-offs and disbandment of large enterprises' non-core business during the late 1990s and early 2000s had resulted in disruptive strong popular responses (Lee 2007), a consequence officials are rarely willing to take. The crucial point is, that as Party-state organizations, SOEs are responsible for tasks falling into both habitation and improvement, i.e. both the economic development of China, and the maintenance of the stability of its social fabric.<sup>111</sup>

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<sup>111</sup> It is worth mentioning that this is not merely the result of a mastermind CPC, but, as has been pointed out above, institutional inertia, the historic legacy of SOEs and ideological considerations all are at play. Yuen Yuen Ang (2015) has masterfully pointed out, that the development path of China must be understood as complex, and in constant adaptation, and the local embeddedness of CNPC is a clear example of how complexity creates its own logics.

How the embeddedness of a SOE such as CNPC in local society is not only a social reality detectable by scientific analysis, but in fact is conceptualized and reproduced by the formal organization of SOEs as Party-state organizations, is brilliantly illustrated in the official development plan published by Daqing Oilfield. The Daqing Oilfield Sustainable Development Program (Daqing Oilfield 2010) outlines the company's responsibility to advance the "8 Daqings" (eight point program for Daqing), including the "Political Daqing", "Economic Daqing", "Social Daqing", "Spirit of Daqing", "Technological Daqing", "Opening up", "Harmonious Daqing", and "Development of Daqing". Especially the first three points clearly stress the nexus the company sees itself in, as supporter of the Party's political project, China's economic development, and its function as bedrock of local society (ibid.):

Political Daqing. Uphold Party leadership, follow the Party's call, keep a high degree of consistency with the central Party in matters of political affairs, thought, and action; Comprehensively implement the scientific outlook on development, proactively explore ways of new industrialization, let Daqing's red banner fly high.

Economic Daqing. In order to sustain a high level of contributions to the development of the national economy, we make it our duty to ensure national strategic oil security, achieve stable crude oil production throughout all stages, try hard to increase natural gas production, submit more tax, consolidate and ensure the position of the important national energy production base.

Social Daqing. Fully employ the function of big state-owned enterprises as mainstay and backbone [of the economy], the pull of regional economic development spreading outwards, the comprehensive carrying out of the "three big



responsibilities”,<sup>112</sup> and establish a corporate image of responsibility.<sup>113</sup>

Notably, these three points mirror the aforementioned “three responsibilities” of CNPC’s general program (CNPC 2012), making clear that these points are part of an integrated set of ideas, an ideology of organization. As a company policy paper, it reveals the way in which local socio-economic development, understood as economic improvement, a guarantee of habitation/social security, and Party hegemony are seen as both means and ends of the local CNPC structure. The instrumental role of SOEs as both for-profit business, and as policy tools with the capacity to deal with local challenges is presented as a programmatic element of the Party-state’s hegemonic project. Moreover, it expresses a deeply embedded social identity of the Daqing oil industry in a “Daqing Spirit” (sometimes the “Iron Man Spirit”, after the idolized oil worker Wang Jinxi),<sup>114</sup> and conceptualized within the national setting of Party leadership and national development.

Moreover, the development of Daqing Oilfield is presented to be tied intimately to the Party’s, and the nations embrace and wellbeing.<sup>115</sup> This narrative illustrates how, on an ideological and theoretical level, the Party-state’s hegemonic project, state-owned enterprise, and local socio-economic development are conceptualized in an integrated way. The SOE here remains a transmission belt between government and society. Organizationally, SOEs such as CNPC are not a

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<sup>112</sup> The three big responsibilities are stated by public material of CNPC as “politics, economics, and society,” and mirror the three points translated here. They emphasize the important functions of the CNPC group in all sectors of Chinese society at large, similar to the points in Daqing Oilfield’s program. See CNPC (2012: 235).

<sup>113</sup> Author’s own translation. Original text: 政治大庆。坚持党的领导、听从党的召唤，在政治上、思想上、行动上同党中央保持高度一致；全面落实科学发展观，积极探索新型工业化道路，让大庆红旗高高飘扬。经济大庆。以保障国家石油战略安全为己任，实现原油分阶段持续稳产，努力为国家多产油气、多缴利税，巩固和保持国家重要能源生产基地的地位，为国民经济发展持续做出高水平贡献。社会大庆。充分发挥国有大企业的支柱、骨干作用，辐射拉动区域经济社会发展，全面履行“三大责任”，树立负责任的大企业形象。

<sup>114</sup> Virtually all the interviews and informal conversations with Daqing-born residents reflected a strong localism and a feeling of the Daqing “spirit”, along the lines of a pride of being the nation’s “oil capital”, and the accomplishments of the early generations of oil workers founding the city. Even more so, there was a strong sense of disappointment towards the economic decline of the economy, following the decline of the oil industry, “the blood of Daqing has dried up” (“大庆血液流干了”), a phrase often repeated in conversations).

<sup>115</sup> See Daqing Oilfield (2010): “大庆油田的发展，始终得到党和国家的亲切关怀，始终同国家和民族的前途命运紧密联系在一起。”

*danwei* anymore, but have become corporatized and specialized conglomerates. Nevertheless, the historical policy burden remains strong at local levels, and compartmentalized in the red tier. Reform and modernization of enterprises into entirely for-profit firms is complicated by the continuously strong integration of the conflicting objectives of SOEs as businesses on the one hand, and Party-state organizations (or agents) on the other.

SOEs are not only large corporations based in Beijing, but they are local corporate citizens, and they have a dual nature as vertically integrated for-profit business, and as a state-owned organization that is utilized to support state-building objectives of the Party-state at all administrative level. This entails supporting the local Party-state by bolstering e.g. socio-economic stability through employment, subsidized public services etc. (Gallagher 2015; Rithmire 2015). The social contract is shaped historically and locally, depending on the structure of the local economy, where SOEs are key organizations that stretch throughout social layers (housing, work place, public service etc.), having economic, but also socio-political objectives and functions (Chai 2014).

SOEs thus serve an important politically integrative function, by being a beltway for the Party-state's hegemonic project in the sense that they connect economic activity with political and social organization, also across the central-local dimension. Moreover, as this paper argues, they can do this quite flexibly. In localities where socio-political issues are of more immediate concern for example, SOEs are expected to balance their profit maximization objectives with other aspects of the Party-state's hegemonic project. Social stability, security, employment and welfare are all issues that are of concern to the local leadership as part of the broader hegemonic project of the CPC, and as part of that Party-state, it is for SOEs too.

## **Conclusion:**

Using a "test drilling" case, this paper has revealed some of the more concrete effects of the embeddedness of Chinese SOEs in the political system and society at

large, providing some empirical detail to the literature. The case of CNPC in Daqing, it must be noted, is likely a representative case of localities where industrial SOEs have been the main pillar of employment for decades, which is the case in many cities of China's "rustbelt" (the Northeast). However, future research needs to verify these effects of embeddedness and the functions of SOEs as political organizations, not only in other industrial centers, but also in areas with less concentrated SOE-dependency regarding employment and social identity. Also the transition to a service- and knowledge-based economic model will effectuate shifts (and is already), putting the resilience and adaptive qualities of the Party-state order in structurally weak areas to a test. These areas should therefore be subject to more in-depth, qualitative and longitudinal research. This paper has raised some of these issues, and pointed out some of the central tensions at play.

Applying a historical view, this paper has illuminated the hybrid social, political, and economic functions of a SOE such as CNPC. Apart from the economic rationale of SOEs, the paper points out the weight of the historical legacy vested in SOEs locally as former *danwei*, based on the necessity to maintain a certain degree of social stability as a function of Party-state hegemony. Just like the CPC as a political system, SOEs are a "cultural artefact" (Zheng 2010: 17), politically deeply integrated with the Party-state structure, and embedded in local societies and economies. As such, large industrial SOEs have a double-layered relationship both vertically and horizontally. They stretch from central to local as vertically integrated business group, but also as organizations reproducing Party hegemony. Equally, they operate as both businesses and socio-political organizations at local levels, constituting "red" and "blue" tiers that organizationally maintain economic and social functions.

This happens in a field where the "[...] foremost interest of the CCP is to maintain its domination over the state and society, and to reproduce and reconstruct such domination in accordance with changing socio-economic environments" (ibid. p. 23). SOEs must be seen as the commanding heights of the economy, ultimately underlying Party hegemony. This is not to say SOEs have no agency themselves. The ability of SOEs to influence, ignore, even sabotage policy at all levels has been discussed by various scholars. However, when it comes to core

interests of the Party-state, such as social stability are concerned, in the organizational reality of contemporary China SOEs ultimately have to adhere to the authority of a Party-state centered order. This SOE-Party-state runs both ways. Their deep embeddedness in local society renders them too important politically to be managed independently and with profit maximizing strategies in mind only, as disruptions would pose a threat to the CPC's goal of solidifying its consent-based hegemony. At the same time, by way of their Party-integrated leadership, and the CPC Organization Department's authority over evaluations, appointment, and promotion of the SOE leadership, there are structural top-down incentives for Party loyalty.

The case of CNPC in Daqing illustrates how the local, social embeddedness and integration with Party-state objectives of the local operations of SOEs - the same *yangqi* often touted for their ability to ignore government policy - entangles them in hybrid functions, and as organizations they straddle across the political, social, and economic spheres, as well as the local and central dimensions. While CNPC or PetroChina might be able to evade tax or influence energy policy in Beijing, and thus potentially work against Party-state interest, they remain both dependent on (for oil) and hindered by (*danwei* legacy) their local branches. Their embeddedness also renders them far less independent and detached from Party-state interests as it might seem when looking at the holding company at the apex of the CNPC group. It also illustrates how the reliance of the (local) Party-state on SOEs seems less irrational than some the literature focusing on inefficiency and lagging reform suggests. A bias towards social stability and security remain a vital interest and core of the hegemonic project of the Party-state, even if this entails the inability to devolve the social contract vested in SOEs, at the cost of efficiency and the market-focused elements of SOE reform.

This reading of state-owned enterprise as an integral part of the Party-state and the "socialist market economy", brings forth the complex organizational nature of SOEs, and the socio-economic and political functions vested in them. The review of formal CPC discourse and organizational rationalization also lays bare an ontology, even a social theory, of a non-division between "state" and "market", linking remnants of socialist institutions of redistribution of resources, and the

maintenance of the Party-state's political control over the "commanding heights" of the economy (and in fact over society at large). The function of SOEs to serve as instruments for the Party-state's core interests is reflected in the state theory and ideology of political organization practiced by the CPC (see introduction paper). The conscious integration of economy (i.e. the commanding heights of the economy) and society *under* the political leadership of the CPC, reveals an ontology of economic action of SOEs under the umbrella of social action at large, and not as a separate realm with its own rationality (i.e. market mechanism). Since the claim of hegemony by the CPC encompasses society at large, the social theory of the Party therefore naturally sees SOEs as reproducers and supporters of this hegemony. Moreover, according to the CPC's formal ideology, being the core of the state apparatus, it has an almost natural right of leadership of the state, and thus of state-owned enterprise (People's Daily 1989).

The CPC's hegemonic project of leading China towards "wealth and power" (富强),<sup>116</sup> the "ideology of state capitalism" (Gallagher 2015: 238), requires both economic growth (Polanyi's "improvement"), but also includes socialist ideals of redistribution. It also accepts the vital necessity of a minimum of social security to prevent the tensions brought about by economic growth from undermining social stability, and Party hegemony over the "common sense". Here, the red- and blue-tiered structure of SOEs has evolved as an instrument for the Party-state to limit potentially dangerous levels of disruption brought about by the effects of "improvement", e.g. mass lay-offs or bankruptcies, when it comes to important pillars of local society's economic socio-structure such as CNPC's presence in Daqing.

Together, the historical institutional approach, and the dissection of an industrial National Champion reveal the peculiar integration of economic, social, and political objectives vested in SOEs, which appear embedded in both society and Party-state, telling us a great deal about how contemporary Chinese capitalism works. It shows how the tensions under the surface of national accounts and the macro gaze on large SOE holdings at central level lead to a complex and negotiated patchwork, where employment and social stability in local areas remains important

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<sup>116</sup> As presented in Xi Jinping's *The Governance of China* (2014), but also discussed as a long held ambition predating the PRC by Orville Schell and John Delury (2013).

enough to challenge central reform priorities of growth end efficiency. The remaining elements of socialist ideology and redistribution, and the core interest of the Party-state to maintain its status as legitimate hegemon loom large in places where SOEs for decades have been the bedrock of society. Both the legacies of the *danwei* social contract, and a CPC's striving to balance capitalist growth (improvement), and the maintenance of safe livelihoods (habitation), constitute a complex, negotiated local setup. Two main goals stated by the Party leadership visibly stand in contrast in Daqing. Economic development and growth is key objective of SOEs as economic organizations, yet the complicated structure of employment and social security in Daqing make a one-sided focus on reform towards economic ends infeasible, unless mass protest, social crisis, and therefore legitimacy are considered. The Polanyian tension between improvement and habitation becomes a striking reality in the case of Daqing, and a telling example of the reasons for stalled economic reforms in the case of energy and heavy industries, where socialist redistribution ideals and social stability are prioritized. In order to maintain consensual hegemony the Party-state leadership has little choice but to walk a middle way, preventing social disruption at the cost of surrendering maximum economic efficiency.

A final word should be said about the structural features of the Chinese political system described in the papers on FA and on Leading Small Groups, the existence of both bureaucratic fragmentation, and integration through Party-state ideology and organization. The way by which CNPC is organized in vertical tiers as a business group, and yet being deeply integrated horizontally with local society and government, reminds of the basic *tiao-kuai* (条块) structure of Chinese Party-state bureaucracy.<sup>117</sup> This *tiao-kuai* structure has been discussed (in the West) by the literature on fragmented authoritarianism (Oksenberg and Lieberthal 1988; Lampton and Lieberthal (eds.) 1992; Mertha 2009), and has since been described as a basic principle of organization in the Party-state (Brødsgaard (ed.) 2016). Structural fragmentation in the bureaucracy is of course also an issue discussed in China, and

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<sup>117</sup> Referring to vertical bureaucracy silos under ministries, and horizontal bureaucracies at one administrative level, a structure that has made decision-making and policy implementation and coordination difficult, see also paper 1.

already in the early 1980s scholars lamented the detrimental effect of vertical “ministerial ownership” (部门所有之) and horizontal “area ownership” (地区所有之) on coordination of industrial policy (Jingji Guanli 1982; Gu 1983; Wu 1988). Even today academic discussions revolve around the right way to integrate *tiao* and *kuai* organizations in e.g. regional economic integration, or local development plans (e.g.: Liu 2007; Zhang 2014). Corresponding to the findings of paper 1 and 2, this paper confirms the existence of both the structural fragmentation of the administrative apparatus, of which industrial SOEs are a direct descendant, and the integrative force of Party integrated organization and ideology.

Overall, it becomes clear that these systemic issues still replicate in state-owned enterprise, and why it has been difficult to go forth with the repeatedly announced market reforms and structural disentanglement from the administration. In the light of these challenges of embeddedness, it also remains unclear how much restructuring – and with that socio-economic disruptions at local level – the Party-state is able to swallow without real alternatives in place.

## **Interviews:**

(1-04/14) Interview 1, personal assistant of a manager at CNOOC, in Beijing, April 2014.

(2-10/16) Interview 2, mid-level manager (副处级) at Daqing 1<sup>st</sup> Oil Extraction Plant, a direct subsidy of Daqing Oilfield, Daqing, October 2016.

(3-04/14) Interview 3, leader of a research department at the Development Research Center of the State Council, Beijing, April 2014.

(4.10/16) Interview 4, mid-level manager at Daqing Oil Drilling, a subsidiary of

Daqing Petroleum Administration, Daqing, October 2016.

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## Concluding remarks:

The present dissertation is the result of more than four years of work. During these years, the angle and empirical focus has shifted from solely looking at state-owned business groups, to become both broader and deeper. Instead of looking at only one institution – state-owned enterprise (SOE) – it has become a richer project, looking at various facets and features of the institutional logic at the center of China’s contemporary political organization including SOE: CPC hegemony and the Party-state order.

Assuming that China will continue to grow as economy and international actor, and that the Party-state in its current form more or less will remain stable, understanding the political institutions and the system’s organization better seems of import to not only academia. While the Chinese model, centered on CPC hegemony, might sound disheartening to proponents of a liberal democratic order, ignoring official Chinese self-understanding and the increasingly strong ideological and organizational reach of the CPC seems naive. This project does not intend to make normative assumptions for or against the Chinese model. Even though it presents us with an authoritarian, less liberal and participatory system than that of e.g. Denmark or Germany, many of the Chinese officials and cadres I have met and interviewed are genuinely vested in China’s development as nation, and the betterment of the livelihood of the Chinese people. Taking China’s political system and its state project seriously, and trying to understand how the CPC views China’s political organization as an ideal type, is therefore not a futile task. This dissertation is trying to contribute to this understanding.

The CPC’s hegemonic project to restore China’s grandeur of past times is perhaps the largest social experiment in history (superlatives are in high favor in Beijing), and it has been remarkable to observe just the short period of 13 year I have “watched” China. We have a shared interest in better understanding how this process will play out, and what the institutional logics are that shape China’s development as a nation, and as a political system in the wider international community.

## **Research Contributions**

As a research project, this dissertation contributes to important debates taking place within the field of China Studies. Moreover, the three papers plus introduction address two general research interests in the contemporary literature: important structural features and dynamics of the Chinese political system, and the institutional logic of the Party-state.

The dissertation has picked up and added empirical depth alongside a theoretic discussion of the literature on fragmented authoritarianism, which for some years now has been a widely respected framework for understanding of bureaucratic dynamics, and structural issues of the administrative system of China. It provides novel, systematic research on Leading Small Groups, which have become a hot topic over the last few years, corresponding to their rise in importance as central level decision-making institutions. Here, I have shown how these organizations have become the endogenous institutional fix for the structural fissures, contributing some important and so far unpublished background to the literature discussing decision-making in the Party-state. Lastly, providing a reading of state-owned enterprise as Party-state institution, I contribute to the literature on SOEs and the political economy with a new perspective on the embeddedness of SOEs in society, and more generally the social relations of Chinese capitalism, that is, the so-called Socialist Market Economy with Chinese Characteristics. Here, the more theoretic considerations presented in the introduction serve as conceptual backdrop, laying out a theory of the Party-state as a political system of order. I hope that these papers contribute to not only the field of China Studies, but also can inform other social scientists by lending empirical and historical depth to more comparative analysis including China as a case.

## **Shortcomings and Future Research**

There are, of course, also shortcomings and limitations to this project. Two main limitations that need to be addressed relate to the part of the project's theoretic focus (1), and methodology (2).

1: The dissertation as a whole has chosen, what effectively amounts to a state-centric view on China specifically, and political organization more generally. As discussed in the introduction this has its merits, especially in a system such as the Chinese, where state (i.e. Party-state) organizations are incorporated in virtually all major social organizations. It does; however, tend to overlook those aspects of the system that take place beyond the gaze of the Party-state. These actions might be consciously shirking or even opposing political control by the CPC (e.g. non-governmental rights groups, interest groups and associations), or be of too little political importance to be more closely integrated with the political body (e.g. small private firms).

Although the CNPC paper shows how Party-state and local society are embedded within each other, the ontology applied in the article has a strong bias towards focusing on the vector reaching from Party-state to society/economy. Bottom-up forces, more nuanced micro-dynamics taking place within SOEs at local level, the local government, and the impact of agents not representing Party-state organs (such as local business associations or *ad hoc* pressure groups) are weakly covered by this approach. At a theoretic level, this means that the top-down biased view is at risk of overstating the reach and actual force of CPC hegemony and policy implementation at local level. It regards political negotiation as a process of down-stream adjustment to local conditions, and frames variation as flexibility instead of poor implementation or mission creep. While this may quite possibly be the right way to interpret local politics of the type discussed by this project, it should nevertheless be verified by more in-depth case study research, including longer fieldwork periods, more interviews, and more cases.

To some extent, this also pertains to the paper on leading small groups, where more in-depth research on the concrete work of these groups is revealed. This is, however, immensely challenging, since the closed and secretive nature of the CPC does not allow any non- group member (i.e. ranking officials) to take part in their meetings. What we have is mainly structural information and historical records



of major groups, and in absence of the possibility of qualitative approaches such as participant observation or interviews, the historical institutional approach used in the paper is currently the best way to glean more systematic information about LSG as organizations, and as decision-making institutions.

Nevertheless, the state-centered approach, and the developed model of the Party-state as an order was chosen because of its ability to highlight the historic and normative depth of the CPC as institutional core of the political system. Moreover, it speaks to and builds on newer literature using this Gramsci-inspired theorizing on the state, and a view on political organization and economy as an institutional order.

2: The project is mainly comprised of textual research. While desk study is an important part of preparing and investigating any topic in China Studies, or Social Science, prior to any other qualitative methods, future research will have to verify and extend some of the analyses presented in this dissertation. Given the limitations of access to information on the issues studied here, abductive reasoning leads to conclusions that should be supported and verified as much as possible by fieldwork and in-depth case studies. This has not been exhausted to the fullest in this project, and future work needs to verify some of the conclusions, and not least, the value of a view of CPC hegemony as overarching institutional vector in China's political system. Especially at local level, and within the vastly heterogeneous state-owned sector, more case studies, and longitudinal research have to be conducted in order to learn more about the social relations of capitalism, and the embeddedness of SOEs as public institutions in society.

Overall, however, I believe the dissertation contributes with new empirical material and theoretic perspectives to the respective academic debates addressed by the papers, and opens up new perspectives on topics of interest to contemporary China Studies. Methodologically, the historical institutional approach might seem somewhat dusty to some scholars who favor more sophisticated research techniques, it seems to me that as a first step, when discussing fundamental social institutions such as political organization, a relational, historical, and area-specific approach still is one of the best ways to learn about individual systems. Hopefully this has convincingly been done in this dissertation, and hopefully

it has been able to point out some perspectives worthy of future research also by others.

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