The Narrow Road to Reform

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The reform policy process this year will culminate in the Third Plenum, which has now been pushed back to November. While the process is on track, delays show the difficulty in crafting a reform design that must adapt to the privileged position of state-owned enterprises (SOEs) and other limitations on reform design. Turbulence in short-term financial markets in June indirectly illuminates some of these problems.

At the 18th Party Congress in November 2012, Xi Jinping and Li Keqiang made a clear commitment to economic reform. Actual formulation of a reform program, though, is more difficult, and certainly more time-consuming, than a simple policy commitment. On August 27, a Politburo meeting announced that the key Third Plenum of the 18th Party Congress would take place in November, later than the October date that has become standard over the past two decades.[1] While this could be considered a delay, it is perhaps best understood as testimony to the sheer complexity of a major reform package, and the political challenges it faces. Indeed, it is telling that the last time the Third Plenum was held in November, precisely 20 years ago (November 11, 1993), the document that ultimately emerged was to prove the most significant and consequential reform design package in the current era.[2]

Certainly the policy-drafting process is not proceeding quickly. Although a writing group has been created and is at work crafting a programmatic document, there have been no leaks about the document's proposed content and it is clear that many important questions are still unresolved. For example, although there is wide agreement that reforms of the fiscal system should be an important part of the reform, a variety of proposals are circulating and tough choices still need to be made concerning the issues to be tackled in the first stage.

Although the contours of the reform program have not yet emerged from obscurity, we can still infer a great deal about the structure of coming reforms by examining some of the crucial statements and events of the last several months. These early stages of the process reveal some of the constraints on the policy process, and just how narrow the path is down which a successful reform program must travel. It is a commonplace that the Chinese reform process is constrained by "politics," or by "interest groups." In this piece I attempt to pick out two important practical constraints that have shaped (and help to explain) what we have seen in reform policy-making over the past nine months.

State Enterprise Reforms Will Not Be a Main Plank of the Reform Program

State sector restructuring and downsizing was the central component in the most dramatic phase of China's economic reform, under Zhu Rongji in 1997–2001. This will certainly not be true in today's reform. Indeed, many observers of China's reform will be disappointed by the absence of major state enterprise reforms in the reform program that will be unveiled in November. It is not merely that privatization is off the table: after all Chinese policy-makers have never embraced privatization, even in previous periods when substantial actual privatization occurred and other forms of ownership transformation were ubiquitous. Rather, today there is simply no appetite to directly challenge the role of state enterprises in the economy. As a result, those designing a reform package simply have to work around the huge continuing importance of state firms in the economy.

This may surprise some analysts who are aware of the impact of the *China 2030* report, produced in February 2012 by the World Bank, in conjunction with the Development Research Center (DRC) of the State Council. The report raised the issue of state enterprises in an exceptionally clear and coherent fashion, and made some especially sharp contrasts between the productivity and profitability of state and non-state enterprises. The report drew added attention from the fact that it was co-authored with the DRC, an important Chinese think tank, and from the fact that Li Keqiang, then vice-premier, actively facilitated the project.[3] However, the actual impact of the report in China was limited. In the first place, it was not even available in Chinese during its period of maximum media visibility. Only after Li Keqiang became premier in March 2013 was a Chinese-language version produced, although since then it has been prominently posted on the front page of the DRC website.[4]

More importantly, by the time the World Bank/DRC report was available in Chinese, the 18th Party Congress had already come and gone. The 18th Party Congress Report endorsed economic reform in broad and vague terms, but scarcely at all when it comes to state enterprises. Indeed, the report actually endorses "consolidation and development" of the public sector of the economy, which is to say, strengthening and expansion.[5] It is no accident that bolder reforms of the state sector were not in the draft: according to insiders in the process, modest proposals for a more activist approach that surfaced in early drafts were systematically stripped out of the final version.

Why Are State Enterprise Reforms Off the Table?

The retreat from state enterprise reform can be best understood in terms of four factors. First, there is simply no obvious pressing financial need for state enterprise reform. Back in the 1990s, the state enterprise sector as a whole was barely profitable, and many firms were bleeding red ink: there was a crisis that impelled action. That is not true today: In 2012, the firms subordinate to central government SASAC (the State Asset Supervision and Administration Commission) recorded a total of 1.3 trillion RMB in profit, equal to 2.5 percent of GDP.[6] Of this total profit, about a quarter is paid in profit tax, and another large chunk pays dividends to minority shareholders of SOEs listed on stock exchanges. More than half, however, is "real money," which is divided up among the state-owned enterprises and their superior organs.[7] These firms now pay "dividends" to the government, but these are modest in size (95 billion in 2012), and in fact are mainly rebated to SASAC to spend as it sees fit. The State Audit Bureau reviewed those SASAC expenditures for the first time this year and its report was scathing: although the dividends are supposed to be spent on restructuring and technology priorities, control is lax and 22 percent of the total ended up being spent on construction, commerce, or tourism.[8] In a way, remitting dividends to SASAC has only served to cut SASAC in as a full-time participant in the state-owned interest group. In sum, although state enterprises are less profitable than non-state enterprises (even after their privileges and protections are factored in), this is not a problem for those who control the substantial profits they do make. Bureaucratic and enterprise interests are happy with the status quo.

Second, given the basic solvency of state enterprises, policy-makers are happy to use state enterprises for diverse public policy purposes. We now see Chinese state firms actively engaged in a vast range of policy arenas: China Mobile invests heavily in China's domestic 3G and now 4G telecommunications standards, a centerpiece of the "indigenous innovation" policies. State firms are mobilized for disaster relief and Western development. State natural resource firms lead the "going out" investment strategy as they seek to diversify sources of energy supply and reinforce friendly regimes. SOEs determine projects to display their social responsibility. Of course, SOEs also provide stable employment and benefits to their own labor forces. Since SOEs provide them handy instruments to achieve their objectives, policy-makers, generally speaking, are happy with the status quo.

A third factor contributing to support for state enterprises is that powerful families are able to enrich themselves through their connections to these firms. To be sure, the Bo Xilai trial demonstrated that influential politicians don't need to control SOEs in order to become wealthy: private businessmen such as Xu Ming were willing to shower Bo Xilai's family with money and gifts in order to curry favor that might be valuable later. However, for many powerful politicians in China, the road to personal wealth goes directly through the state enterprise sector, and other politicians have managed to throw at least some SOE business in the direction of their own relatives. This obviously creates a constituency at the top which opposes radical SOE reforms. Transparency is a key component of SOE reform, and corrupt officials hate transparency. State firms that are corporatized and listed on stock markets disclose *much* more information about insider deals and ownership than firms that are not restructured in this way. It is not accidental, therefore, that many powerful state firms have held back significant pieces of their corporate empires, trying to protect them from scrutiny.

The intertwining of wealth and power means that any strategy to reform SOEs must also be a strategy to neutralize or outmaneuver politicians at or near the apex of power who oppose scrutiny of their business interests. This problem is exemplified right now by the case of former Politburo Standing Committee member Zhou Yongkang. A string of recent arrests of close associates of Zhou unmistakably indicate that he is under assault, and he faces at best personal disgrace, loss of his family's assets, and destruction of his political network, and at worst a trial for corruption. This would be unprecedented: China has not charged a present or former Standing Committee member with corruption since the beginning of reforms in 1978.[9] Zhou Yongkang is clearly being targeted for "political" reasons: he was an ally of Bo Xilai; he presided over a dangerous aggrandizement of the political-security apparatus; and he was rumored to be plotting to disrupt carefully arranged and agreed succession arrangements. Thus, Xi Jinping, Li Keqiang and Wang Qishan have plenty of "political" reasons to go after Zhou Yongkang.

Nevertheless—and in contrast to the Bo Xilai case—at the core of the case against Zhou Yongkang are allegations of very serious and large-scale corruption involving state-owned enterprises.

Zhou Yongkang is deeply enmeshed in an alleged web of corruption involving not just any SOE, but rather the single most profitable SOE, the China National Petroleum Corporation (CNPC). Zhou began his career in the petroleum system, and worked there for 32 years, reaching the top managerial positions; was then made minister of Land and Resources in 1998; and first party secretary of Sichuan 1999–2002. In 2002 he was elevated to the Politburo, and became a Standing Committee member and head of the Politics and Law Commission in 2007. Rumors have been circulating in the Chinese blogosphere for almost two years about problems with the massive 36.2 billion yuan Sichuan Petrochemical Ethylene Plant (Penghou) (四川石化乙烯项目[彭州]), which neatly links Zhou Yongkang's deep roots in the petroleum sector and his time as headman of Sichuan. The plant is alleged to have run into major operational problems; several engineers were alleged to have received sexual favors in Japan in return for their acceptance of substandard equipment from the Shimadzu Corporation; and the plant has caused mass demonstrations by neighbors concerned about paraxylene (PX) pollution. Finally, the company that supplied equipment to the plant, the Huisheng Corporation (上海惠生公司), according to persistent but unverified rumors, is a front for the interests of Zhou Bin (周斌), Zhou Yongkang's son.[10]

Whether or not this specific case is as closely linked to Zhou Yongkang as is alleged, this is merely the most damaging of a cascade of revelations that have involved five high-level officials in the petroleum industry, plus several high-level government officials in Sichuan. Indeed, one of the Sichuan officials already detained, Guo Yongxiang (郭永祥), was in fact Zhou Yongkang's executive secretary (大秘书) for 18 years, and followed him from the petroleum sector, to the Ministry of Land and Natural Resources, and then to Sichuan Province (where Guo stayed and eventually met his end).[11] Most of the detained officials (and some of the key "private" businessmen) involved in the scandal trace their careers back to the Shengli Oilfield when Zhou ran it.[12] The Shengli connection has most recently extended up to Jiang Jiemin, the (short-lived) head of SASAC, who began his long career in the state petroleum sector there, and steadily moved upward in the shadow of Zhou Yongkang.[13] Thus, even the most casual empiricism tends to implicate Zhou Yongkang, who ended up more or less as the godfather of the petroleum industry, and was directly linked to virtually every one of the officials currently under investigation.

Is it possible to "reform" CNPC if Zhou Yongkang's political network is intact? Does it make sense to even try? Yet conversely, if the taboo against prosecuting top leaders for corruption is broken, where will it end? Will it lead to an explosive political free-for-all? Evidently, these sensitive political issues greatly complicate the problem of finding a workable SOE reform strategy. At the same time, the CNPC case also potentially provides renewed impetus for SOE reform. Reformist media have been quick to point out that the problems at CNPC are not merely the result of a few rotten apples, but reflect systemic features and built-in temptations.[14]

The fourth factor contributing to the relative insulation of SOEs from the reform program is the increasingly tight role that SOEs play in China's political system. As career management in China has been increasingly regularized—with term limits, age limits, and regular promotion—SOEs have become one of the important pathways of upward mobility for ambitious bureaucrats. Perhaps as a result, the official Communist Party view of SOEs has shifted in important ways. Beginning in the mid-2000s, official documents began to refer to SOEs as "an important foundation of Communist Party rule."[15] This endorsement means that SOEs cannot be viewed simply as an economic problem, since they are now explicitly regarded as a political asset. This approach has been explicitly endorsed by none other than Xi Jinping, who as far back as 2009 made an significant speech on the importance of SOEs, using exactly this terminology. Appropriately, the speech was made at Daqing Oilfield, the cornerstone of China's petroleum kingdom, on its 50th anniversary.[16] Exactly how this approach to SOEs fits in with Xi's revival of some parts of Mao's legacy remains to be seen, and perhaps even Xi does not yet know how far things will go. However, it is certain that this political approach moves SOEs off the front lines of economic reform.

When these four factors are considered together, it is overwhelmingly obvious that SOEs will not be a major part of whatever reform document emerges from the Third Plenum. There is no conceivable alignment of political forces that could overcome all four of these considerations. And yet, the rhetorical commitment to economic reform remains strong, and important measures are being taken in various areas. What should we make of this?

Can Reform Proceed without Privatization?

One of the lessons of early Chinese economic reform was that incremental reforms could progress and succeed without privatization. Competition was more important than privatization.[17] This approach, once outside the mainstream, is now fairly broadly accepted among students of China's early reform, but is it still true? In a way, the reform strategizing of 2013 represents a gamble that this is still true, that a comprehensive reform program that focuses on improving the overall market environment—and particularly on creating more equal competitive conditions—can restart China's progress toward a reformed market economy. By targeting the most obvious departures from fair competition, reformers can create momentum toward further institutional transformation. Most of the main provisions under discussion for the November Third Plenum can be clearly understood in these terms.

In fact, this approach was also adopted by the World Bank and DRC in their 2012 report. While the discussion of SOEs was pointed, the report's policy proposals were careful, modest and even understated. For example, a key recommendation was "China's own past experience, together with that of other countries, shows that increased domestic competition can result in significant improvements in productivity. With these reforms, state enterprises can, over time, withdraw gradually from contestable markets."[18] Notice the emphasis on "contestable markets": this means markets where there are no economic impediments to entry by private businesses, and where fair competition will therefore eventually result in the dominance of private enterprise. State firms may continue to be dominant in sectors where there are substantial externalities, public goods provision, or national security considerations.

For such a process to unfold, the government must dismantle the system of administrative approvals and licensing, which creates barriers to entry. Since taking over the premiership, Li Keqiang has consistently pushed the policy of reducing administrative approvals (行政许可). The campaign was acknowledged and sustained at State Council meetings on August 21 and September 6.[19] Of course a campaign like this in isolation would be an exercise in futility, but in the context of a broader reform push can play a positive role. Moreover, it is a practical demonstration that the "shift in government function" which Li has espoused is not merely a theoretical concept.

Resource pricing should also be seen in this context. China's oil and petroleum products pricing system is a mess. While the three petroleum firms generate huge profits, they also engage in an enormous amount of cross-subsidization and receive significant subsidies from the government, because of distortions imposed on the pricing system. Each of these subsidy flows creates an opportunity for lobbying and diversion of funds. Opening up the price formation system to market forces therefore should be an important component of reforms in the fall.

Of course, a far bigger issue is the role of local governments and their place in the government taxation and expenditure system. The long-run direction is clear: local governments need to be weaned off dependency on land development revenues, and put on a more sustainable financial footing. Yet this policy area is so complex, and involves so many interconnected issues, that we can only hope for a few important initial steps to be taken this fall.

Thus, we are likely to see a reform document at the Third Plenum in which reducing administrative approvals, reforming natural resource pricing, and reforming local government finances plays a prominent role. In and of themselves, these measures might seem something of a letdown, but it is important to understand their logic. These steps are among the most necessary in order to clear away distortions and allow for healthier market development. They are remedial reforms: They are necessary to remove key distortions that create a self-sustaining cycle of distortion: the mis-pricing of resources and the inadequate fiscal institutions continuously elicit "corrective" administrative actions which penetrate into the heart of practical microeconomic decision-making; these lead to further distortions because they enable and encourage corruption in hard and soft forms. Eliminating the most fundamental distortions is thus a necessary part of a reform package, and we should expect such measures to be prominently featured. But they are clearly not enough, in themselves, to kick-start a significant reform process. For that to happen, there must also be important progress in reform of the financial system.

Driving Policy with Finance

Of all the economic arenas that can help to create fair competition and a "level playing field," the most important is finance. China's current financial system provides privileged, cheap access to financing for state-owned firms, and introduces distortions into the system at every level. China is already transitioning away from its customary dependence on bank finance. However, the transition to a more diversified financial system with different kinds of lenders and different debt instruments playing a role is still in its infancy, and is troubled by all sorts of problems. Clearly, the issue of financial reform is too large and too complex to be tackled in the short confines of a *China Leadership Monitor* piece. But we can quickly lay out some of the structural features that favor and hinder a finance-based approach to reform.

On the positive side, using financial reform to drive overall economic reform has the great advantage that in this sector, the existing governmental leadership is already in place and is strongly reformist. The finance bureaucracy, though certainly not immune to problems of corruption and interest-group representation, has a relatively strong group of regulators and policy intellectuals. Presiding over the system, People's Bank of China (central bank) head Zhou Xiaochuan has a long and impressive résumé as a designer, implementer, and advocate of market-based economic reform. The central bankers and regulators have practical control over day-to-day operations, but they do not have true independence, nor do they have the authority to set and announce national policies. For example, the People's Bank of China (PBC) seems to have been able to change reserve requirements by itself, but lacks the ability to change interest rates without approval from higher governmental levels. Today, the PBC has clearly been given the go-ahead by Li Keqiang to take the lead in financial reforms, but only in fairly general terms, such that it still needs to check in with the political leadership before big steps can be taken. This operational control by "techno-pols" is still highly positive, since it means that financial reforms can move forward in serious ways with a fairly light touch from top policy-makers.

However, the idea of driving reform forward through finance also suffers from some important negatives. First, a huge disadvantage is that financial policy simply has to do too many things with too few instruments. While promoting institutional reform, finance policy-makers must also maintain macroeconomic stability with a moderate rate of growth, and push forward the restructuring of flimsy investment vehicles and corporations, all without crashing the system. These are formidable challenges, and while the financial bureaucracy has many instruments, it does not have enough instruments to specifically target each of its goals simultaneously. All these objectives are consistent in the (theoretical) long run. If financial reforms can create a broader, more competitive, more diversified financial system, long-run growth can be sustained as investment is reallocated toward the most efficient borrowers. This will also put sustained pressure on inefficient borrowers who have had easy access to cheap credit but now cannot repay, driving restructuring.

The finance reforms could perhaps reconcile these competing objectives if they were able to commit to a smooth path to financial liberalization. After all, central bankers in the U.S., UK, and Japan have all made transparency and pre-commitment an important part of their macroeconomic policy toolkit. For example, Ben Bernanke in the United States has laid out a series of commitments about interest rates, unconventional stimulus policy, and the level of the unemployment rate that will be reached that will trigger withdrawal from so-called "quantitative easing."[20] However, these options are simply not available to Chinese monetary and financial authorities. The People's Bank of China could conceivably lay out a roadmap for where it wants to go, but the truth is that it does not have the ultimate authority to follow through on its roadmap. The key decisions will ultimately be made by the Standing Committee of the Politburo, and everybody knows it. So the PBC cannot overcome the problem of instruments by embedding them in a long-term, transparent set of commitments. These limitations lie behind some of the dramatic events of the past few months.

The June Days in Financial Markets

During the second half of June, a series of remarkable events shook Chinese financial markets. Money supply and liquidity had been growing rapidly through most of the first half of the year (in part because of rapid expansion of bank rediscounting of commercial paper), when a variety of short-term factors suddenly reduced liquidity in the market for short-term financing. In this situation, the central bank declined to step in and provide additional liquidity, as it would normally have done. The result was that interest rates shot up, with the Shanghai Interbank Offer Rate (SHIBOR) hitting the equivalent of a 30 percent interest rate on Thursday, June 20. Rumors of defaults on payments by a number of smaller banks flew around the market. Over the weekend, rumors and fears of financial distress rippled outward to other markets, and on that Monday the Shanghai Stock Exchange fell 5.13 percent in a single day. Stocks continued to fall on Tuesday until it became clear that the PBC had changed stance and was quietly injecting funds into a range of banks, ensuring that adequate liquidity would be available. Gradually, things returned to normal.[21]

The objectives of the central bank were admirable, and some action was necessary. To drastically simplify a complex situation, the essential problem was that many financial actors had developed a lucrative business based on "borrowing short, and lending long." That is, they were borrowing short-term funds in order to pay interest on long-term debts, thus keeping them current. This situation is dangerous—because the short-term financing is by definition unreliable and a cut-off in the short-term financing would cause bankruptcy and panic. Moreover, many of the long-term loans are to projects that will never be repaid and need to be restructured, but the kind of lending operations the bank was targeting allowed borrowers and lenders to sidestep the necessary restructuring process. A whole "shadow banking" network has sprung up that generates profitable business from rolling over debts and postponing the inevitable restructuring. The central bank, by letting short-term interest rates spike, was sending a very strong message to institutions involved in this business that they were overextended. Short-term funding could be very expensive—in which case profits would disappear—or it could be unavailable altogether. In that sense, the "money drought" was a warning, a shot across the bow of firms engaging in risky behavior.

In this process, mistakes were made. Market participants were utterly in the dark about what was going on, and there was never any announcement by the central bank authorities about their motives, instruments, or intentions. It was not just an occasional failure of transparency: the process was completely opaque. Moreover, the retreat from the bank's tough stance took place quietly, outside the glare of publicity, perhaps to avoid embarrassment. In this type of environment, rumors and fears inevitably multiplied. The central bank's basic job, though, is to manage liquidity and maintain confidence that essential transactions can be carried out in an environment of stability. If the instrument of central bank intervention in short-term money markets is used to drive a restructuring process, it is (by definition) not available to stabilize money markets and provide a lender of last resort. Trying to achieve too many things at once ended up eroding the central bank's ability to provide the essentials.

It is hard not to feel some sympathy with the central bank, though. One could argue that the reason the bank policy was opaque was that they lacked the power to be transparent. A clear statement of bank policy and intentions would clearly arrogate the ultimate decision-making authority of the Politburo Standing Committee (or at least the premier). Lacking the ability to give clear comprehensive guidance, the bank resorted to sending a rather crude signal. Economists who study signaling emphasize that for signals to be meaningful, they must be costly: that is, the central bank had to demonstrate that it was willing to push financial institutions to the brink, and stare into the abyss without blinking. It was in that sense a game of "chicken."

As it played out, the episode clearly became a setback for the central bank and its reformist leader Zhou Xiaochuan. During the worst of the turbulence, an ad hoc coordination group was set up at the top government level to exercise oversight, with Vice-Premier Ma Kai serving as chair. This cannot have been comfortable, since Ma Kai, while an able technocrat, comes out of the planning bureaucracy that has so often butted heads with the finance bureaucracy (headed by Zhou). Still, the damage did not seem to be major. According to (unverifiable) rumors, both Xi Jinping and Li Keqiang expressed support for what the bank was attempting to achieve. Moreover, by August, the State Council had posted a letter on their website, approving a People's Bank of China proposal to set up an interagency coordination group for financial regulation, convened by PBC head Zhou Xiaochuan.[22] This seems to indicate that after the normalization of financial markets, the State Council has been willing to take a step backwards, and once again delegate day-to-day management of the financial system to the PBC. The entire episode demonstrates the limits of relying on government bureaucracies—no matter how capable—to carry out major policy shifts. Only the top leadership really can set that direction, and we will need to wait for the Third Plenum to see how they will do it.

Conclusion: Reform Checkpoints

The events of the past few months clearly show the challenges and limitations confronting the reform process. At the same time, they show that overall the reform process remains on track. At each step in policy since last fall, we have seen concrete actions taken that are consistent with a further development of the reform process. Both Xi Jinping and Li Keqiang have maintained a strong verbal commitment to economic reform. Despite the difficulties, the policy process leading to market-oriented reform is flowing ahead reasonably smoothly.

Most recently, at a meeting with province-level leaders in Wuhan on July 23, Xi Jinping heard suggestions about economic reform, and then weighed in with his own principles. Although this was to a certain extent merely a routine symbolic gesture—showing Xi's engagement in, and support for, the reform process—Xi's comments were nonetheless encouraging. He laid out six aspects of reform that should be the basis of further study: the first was "creating a unified national market system and a development environment of fair competition. [We should] take as the main direction for deepening reform bringing into play the fundamental role of the market in resource allocation; speeding up the creation of a market system that is unified, open, with competitive procedures, exerting effort to get rid of market barriers and raise the efficiency of resource allocation."[23] Xi's comments were general enough to be dismissed as mere rhetoric, but more importantly it was the right kind of rhetoric, designed to keep Xi aligned and identified with the reform push. Occurring at a time when most of the concrete economic reform measures are more closely identified with Premier Li Keqiang (most recently, the Shanghai Free Trade Zone), Xi's remarks were clearly designed to show that there was not much policy space between Xi and Li. And of course, that Xi is the boss. Overall, momentum continues to November.

Notes

[1] Xinhua News Agency, with commentary by *Bejing Youth Daily* (北京青年报), "The Third Plenum of the 18[th] Congress will be held in November; It's the latest in 20 Years (Complete Text)" (十八届三中全会将于11月召开 系20年来最晚一次 [全文]), August 28, 2013, *Beijing Youth Daily*-北京青年报, accessed at http://news.163.com/13/0828/04/97BB8NTI0001124J_all.html.

[2] See *China Leadership Monitor*, no. 40, and the sources cited in endnote 2, for references to this important precedent.

[3] These points were all made in commentary from the *Economist* at the time. DM (pseud.), "2030 vision: China and the World Bank," February 28, 2012, *Economist* blog, accessed at http://www.economist.com/blogs/analects/2012/02/china-and-world-bank.

[4] See http://www.drc.gov.cn/. 2030年的中国: 建设现代 "和谐" 有创造力的社会. Beijing: Zhongguo Caizheng Jingji Chubanshe, 2013 [March].

[5] In the original, 要毫不动摇巩固和发展公有制经济. The entire passage in the official translation (Section IV, subsection 1), "We should unwaveringly consolidate and develop the public sector of the economy; allow public ownership to take diverse forms; deepen reform of state-owned enterprises; improve the mechanisms for managing all types of state assets; and invest more of state capital in major industries and key fields that comprise the lifeline of the economy and are vital to national security. We should thus steadily enhance the vitality of the state-owned sector of the economy and its capacity to leverage and influence the economy." Accessed at http://news.xinhuanet.com/english/special/18cpcnc/2012-11/17/c_131981259_5.htm.

[6] "Total central enterprise profit increased 2.7% last year, and 1.9 trillion RMB in profits remitted" (央企去年利润总额增2.7% 上缴税金总额1.9万亿), February 9, 2013, accessed at http://news.xinhuanet.com/fortune/2013-02/09/c_124340181.htm.

[7] He Zongyu and Hou Dawei 何宗渝、侯大伟, "SASAC Spokesman answers questions on profit and social responsibility" (国资委新闻发言人就央企利润、社会责任等答问), China.com (中国网), March 10, 2011, accessed at http://www.china.com.cn/finance/txt/2011-03/10/content_22097634.htm.

[8] Total dividend payments to the state are just over 6 percent of total pre-tax profits. SASAC accounts for over 80 percent of this total. Ministry of Finance, "Explanation of of the 2013 Central State Capital Management Budget" (关于2013年中央国有资本经营预算的说明), March 22, 2013, accessed at http://yss.mof.gov.cn/2013zyczys/201303/t20130322_784806.html. See also, "About 4,000 enterprises under Central Ministries have not been included in the State Capital Management Budget" (约4000户中央部门所属企业未纳入国有资本经营预算), a news account of Chief Auditor Liu Jiayi's 刘家义 report

to the NPC Standing Committee, June 27, 2013. Accessed at http://www.chinanews.com/gn/2013/06-27/4978027.shtml.

[9] "Zhou Yongkang, former security tsar linked to Bo Xilai, faces corruption probe," *South China Morning Post*, 30 August, 2013, accessed at http://www.scmp.com/news/china/article/1300525/zhou-yongkang-former-security-tsar-linked-bo-xilai-faces-corruption-probe.

[10] The Huisheng Engineering Company has officially denied this and said that all shares directly and indirectly owned by Hua Bangsong 华邦嵩, the controlling shareholder and company president, are held in his own interest. Qu Lili and Ye Wentian 屈丽丽, 叶文添, "Huisheng Engineering Corporation experiences life on the bottom; CNPC is one of its biggest customers" (惠生工程身世起底 中石油为其大客户之一), *China Business Journal* (中国经营报), September 7, 2013, accessed at http://www.cb.com.cn/index.php?m=content&c=index&a=show&catid=22&id=1012017&all.

[11] Li Chao 李超, "An attractive female official of the Sichuan SASAC is being investigated in conjunction with the Guo Yongxiang Case" (四川国资委一貌美女官员因郭永祥案被调查), *New Capital Times* (新京报), July 25, 2013, accessed at http://leaders.people.com.cn/n/2013/0725/c58278-22317928.html.

[12] "Key figures in the CNPC corruption case, like Guo Yongxiang, are members of a 'Shengli faction'" (中石油反腐案关键人与郭永祥同属 "胜利系"), *People's Net* (人民网), August 31, 2013, accessed at http://news.sohu.com/20130831/n385556778.shtml.

[13] Tang Chao 唐朝, "CNPC Scandal: Failings that have been covered up" (中石油窝案：被掩盖的缺失), *21st Century Business Herald* (21世纪经济报道), September 2, 2013, accessed at http://biz.21cbh.com/2013/9-2/4ONDE3Xzc1MzU4OA.html.

[14] "We need to be even more alert to the loss of public assets" (更需警惕国资隐性流失), editorial, *Economic Observer* (经济观察报社论), September 9, 2013. Accessed at http://www.eeo.com.cn/2013/0909/249585.shtml; Liu Shengjun 刘胜军, "The web of scandals at CNPC and the Re-start of SOE Reform (中石油案与国企改革重启), *Caixin Net* (财新网), September 5, 2013, accessed at http://opinion.caixin.com/2013-09-05/100578184.html.

[15] It is not clear whether this formulation (提法) was launched in a major party document, or gradually became more common as an extension of the basic principle that base-level party organizations are the foundation of party rule. Of the 5.3 million managerial and administrative personnel in public enterprises, 56 percent, just shy of 3 million, are party members. For comparison, of the 7 million government and party civil servants, 5.8 million, or 83 percent, are party members. Organization Department, CCP 中共中央组织部, *Statistical Report on China's Human Resources 2010* (2010 中国人才资源统计报). Beijing: Zhongguo Tongji, 2012. Pp. 21–23 and passim.

[16] Xi Jinping 习近平："SOEs are an important foundation of our Party's rule" (国有企业是我们党执政的重要基础), excerpted from *China Petroleum News* (中国石油报), September 23, 2009, accessed April 2011 at http://www.chinasoe.com.cn/news/leader/2011-03-31/2031.html; original speech entitled "Speech at the 50th Anniversary of the Discovery of Daqing Oilfield" (在大庆油田发现50周年庆祝大会上的讲话), accessed at http://news.cnpc.com.cn/system/2009/09/23/001259157.shtml.

[17] John McMillan and Barry Naughton, "How to Reform a Planned Economy: Lessons from China." *Oxford Review of Economic Policy*, 8:1 (Spring 1992).

[18] World Bank and Development Research Center, *China 2030: Building a Modern, Harmonious and Creative Society*. Washington, DC: World Bank, 2012. Accessed at http://www.worldbank.org/content/dam/Worldbank/document/China-2030-complete.pdf. Quotation at page 27.

[19] "Li Keqiang presides over State Council meeting; decides on measures to strictly control new administrative procedures" (李克强主持召开国务院常务会议; 决定出台严格控制新设行政许可的措施), August 21, 2013. Accessed at http://www.gov.cn/ldhd/2013-08/21/content_2471362.htm; Yuan Jin 原金, "State Council will produce detailed measures within a limited time period to get rid of the 'glass barriers' blocking private investment (国务院破解民间投资 "玻璃门" 限期出台改进措施), *Daily Economic News* (每日经济新闻), September 9, 2013, accessed at http://news.hexun.com/2013-09-09/157833935.html.

[20] Even with these declarations, not everyone active in financial markets takes Bernanke and the Fed at their word, but nobody doubts that Bernanke and his board are the ultimate decision-makers.

[21] The Chinese literature on this episode is already vast. For a single, reasonably comprehensive report, see Zhang Yuzhe, Huo Kan, Wen Xiu, and Li Xiaoxiao 张宇哲 霍侃 温秀 李小晓, "Banks go through a dangerous strength" (银行履险), *Caixin New Century* (财新《新世纪), July 1, 2013, pp. 32–42. Accessible at http://magazine.caixin.com/2013-06-28/100548416.html. For a latter reflection, Wu Jinglian 吴敬琏, "Looking at the short and long-term of the Chinese economy from the perspective of the 'Money drought" (从"钱荒"看中国经济的短期和长期), *Caixin China Reform* (中国改革), September 5, 2013, accessed at http://opinion.caixin.com/2013-09-05/100578401.html.

[22] State Council, "Approval by the State Council Agreeing to the Establishment of an Inter-Ministerial Financial Regulation Coordination Commission," (国务院关于同意建立金融监管协调部际联席会议制度的批复), State Council Letter Number 91 of 2013 (国函〔2013〕91号), August 15, 2013, accessed at http://www.gov.cn/zwgk/2013-08/20/content_2470225.htm.

[23] Xinhua Report, "Xi's speech underlines commitment to reform," July 29, 2013, accessed at http://english.cpc.people.com.cn/206972/206976/8344326.html; "Xi Jinping convenes a meeting in Wuhan with some of the leaders of provinces and cities" (习近平在武汉召开部分省市负责人座谈会), *People's Daily* (人民日报), July 25, 2013, accessed at http://cpc.people.com.cn/n/2013/0725/c64094-22317375.html.