Waves of Criticism: Debates over Bank Sales to Foreigners and Neo-Liberal Economic Policy

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Financial reform policies have moved ahead rapidly in China in the past year. At the same time, a mood of disillusionment within Chinese society has been seized upon by critics of reform. General criticisms of "neo-liberal" policies worldwide have fed into specific criticisms of the government's practice of selling shares in state-owned banks to foreign financial institutions. Vigorous debate has been joined. Thus far, the debate has had limited impact on economic policymaking, which is still dominated by technocrats. However, the official sponsorship of such "leftist" critiques has contributed to increased tension in Chinese politics generally.

In the past few years, public discussion in China has shifted dramatically to the left. There is much more criticism of markets and of the shortcomings and inequities of China's economic reforms. An air of disillusionment has swept across China. Ironically, even as the world seems more aware of China's emergence and future prospects than ever before, people within China seem more self-critical and doubtful about the country's path.

This shift in public mood is a very complex phenomenon, and to describe it fully would be far beyond the scope of a short piece on Chinese economic policy. In this piece, instead, I select two strands directly related to economic policy from the larger debate. The first strand is the critique of "neo-liberalism" in economic policy, and the second is criticism of the sales of shares in Chinese state-owned banks to foreign financial institutions. Those two strands may help to illuminate some of the complexity of the discussions taking place. In both cases, we find elements of healthy discussion and open debate. Indeed, the fact that a mood of self-questioning has swept over China should in itself probably be viewed as a positive development. A decade ago, many people in China seemed preoccupied with improving their own personal economic position. Today, many people have achieved an improvement in their own personal standard of living, and devote more effort and thought to exploring alternatives and acknowledging shortcomings. The emergence of this discussion corresponds to a serious public discussion about China's current and future development strategy and approach to economic reform. The emergence of this kind of public debate can only be a good thing. At the same time, given the lack of democracy in China, such debates are also inevitably distorted, and we see evidence of this in both areas discussed below.

Criticizing Neo-Liberalism

"Neo-liberalism" as a prescription for economic policy is being criticized everywhere in the world today. The package of policies labeled the "Washington consensus" by John Williamson in the 1980s, are widely perceived to have disappointed. The two most widely cited pieces of evidence of this disappointment are the inappropriate response of the International Monetary Fund (IMF) to the Asian Financial Crisis of 1997–98, and the failure of extensive "neo-liberal" reforms in Latin America to significantly improve growth rates in that region. The empirical evidence that demands a reconsideration of neo-liberalism and the Washington consensus is overwhelming. Indeed, even in institutions like the IMF and World Bank, a significant process of criticism and self-criticism is underway, as economists struggle to figure out what went wrong, and what policies would better serve development. In this international discussion, China is frequently held up as a model of an alternative path to neo-liberalism. While observers do not necessarily agree on what the key elements of a "Chinese model" (or, perhaps, a "Beijing consensus"?) might be, it is widely acknowledged that China has gone its own way, and certainly never mechanically followed the policy prescriptions of the Washington consensus.

Ironically, however, within China, concern has been growing that its reform policies may have been unthinkingly influenced by neo-liberal ideas, and that the country is becoming more like Latin America. It is well documented that economic reform in China has been accompanied by dramatic increases in income inequality, widespread official corruption, and a failure of public-services provision in areas like health and education. Moreover, there is an emerging combination of political and economic interests of truly impressive scope. The basis for concern about Chinese society under reform is entirely well founded, and in fact there is widespread agreement over the problems, but vigorous debate over the proper responses. An entire spectrum of positions has been advocated. On one end of the spectrum are those who argue that economic reform ideas have been misguided, and that what is needed is more government control and a rethinking of the whole approach to reform. At the other end of the spectrum are those who argue that economic reform on the whole has been successful, but it needs to be pushed further, so that market forces and increased political participation can reduce the distortions and misappropriations caused by entrenched interest groups. At both ends of the spectrum, and in numerous intermediate positions, we can find serious individuals making constructive arguments.

Yet in China public discourse is complicated by the presence of political controls. The Propaganda Department of the Communist Party censors some viewpoints and promotes others. In the past few years, the Propaganda Department, riding on genuine concerns widespread in the population, has begun promoting a critique of "neo-liberalism" (*xin ziyou zhuyi*) that comes close to being a criticism of the economic reform policies carried out by China. This critique began as a reasonably scholarly research project carried out within the Chinese Academy of Social Sciences (CASS). According to a widely accepted anecdote, Li Changchun, the Standing Committee member responsible for propaganda, returned from a visit to Cuba in 2003 and initiated this research program.

Fidel Castro had alerted him to the dangers posed worldwide by neo-liberalism. The project was strongly promoted by CASS head Chen Kuiyuan who, as Hu Jintao's successor as Party Secretary in Tibet, was perceived as being in tune with Hu Jintao as national Party Secretary as well. By late 2004, some products of this research program were available, and they were propagated in a series of meetings.[1] These studies were typically academic: parts were interesting and accurate, and parts were slipshod and misleading. Marxist terminology was used, but not always successfully.[2] The ideas and critiques have then been circulated, not only through official media, but also through "New Left" publications and websites, such as "Utopia" (*Wuyou zhixiang:* www.wyzxsx.com). Thus, this strand has been picked up and woven into the broader public discourse.

What lessons do these critics derive from the experience of neo-liberalism, in Latin America and elsewhere? The broad lessons are all negative. China should heighten vigilance and beware of four things: absolute liberalization, comprehensive privatization, complete marketization, and globalization. Thus, the critique of neo-liberalism, in general, contributes to a kind of overall justification for continued government control, obstruction of democratization, and continued control of media. More specifically, though, the critique of neo-liberalism is most focused when it discusses the process of financial liberalization. New Leftists oppose financial opening, arguing—with justification—that the process of financial liberalization has often been accompanied by costly financial crises in other developing economies. The New Left economist Yang Bin argues that "the core move of neo-liberal globalization is the liberalization of the financial arena and capital markets. . . . As we implement bank and stock market reforms we must never believe in the financial liberalization promoted by the Americans, and we certainly shouldn't believe in the necessity of 'linking up with international practice (*guoji jiegui*)' and blindly open the market."[3] At this point, the critique of neo-liberalism enters the immediate policy agenda for China, because financial liberalization is very much at the top of the current agenda. Moreover, those critiquing neo-liberalism rather ominously add that "the next step is to show the harmful effects that have been created by neo-liberalism's influence on the Chinese reform process."[4]

Financial Reform

In recent years, financial reforms have been at the center of Chinese economic reform policy. Moreover, the overall direction of financial reforms has been precisely to gradually liberalize, and move toward opening and harmonization with world best practices. Chinese policymakers are certainly aware of the record of neo-liberal policies in the rest of the developing world, and they have no desire to "follow in the tracks of an overturned cart," as the Chinese expression puts it. Thus, Chinese policymaking has been cautious and gradual. Foreign exchange reserves are, to put it mildly, substantial; and controls in capital flows have been maintained, even though they are extremely leaky. There is no reason to believe that China will simply replicate the mistakes of the past. But one area where China has moved very quickly in the last two years has been in the sale of significant stakes in its state-owned banks to foreign institutions. Under the pressure of

WTO accession, which decrees open competition in banking beginning in 2007, China has rapidly moved from complete exclusion of foreign capital to significant participation in a short period. That movement has elicited debate and discussion.

Ironically, the policy of bank restructuring has been, by most standards, remarkably successful. Not long ago, China's state-owned banks were in a disastrous state.[5] Non-performing loans (NPLs) were over 40 percent of total lending, and, since worthless loans were much bigger than bank capital, the banks were essentially bankrupt, with zero net worth. Since that time, the government has poured an enormous amount of money into the banks, allowing them to write off most of their bad loans, while at the same time restructuring the banks and trying to improve operations. Without going into all the details of this process, we can say that the central difficulty in this process was how to bail out the banks and set them on a sound financial foundation, without simply creating further dependence and an expectation of future government bail-outs. Could the government bail out the banks while also credibly committing to the idea that this would be the last bail-out ever?

In order to get as close as possible to this objective, the technocrats who run the financial system developed a road map for the banks. Huge sums of old bad loans were purchased from the banks beginning in 1998. Then new capital was injected into the banks (from China's foreign exchange reserves) by the newly formed Huijin Corporation. Using this new capital, the banks were to further write down bad loans, and improve supervision and management procedures. When an individual bank was deemed to have made sufficient progress, it was restructured into a joint stock corporation. At that time, it was allowed to begin negotiations with potential strategic partners, that is, foreign financial institutions that would take a significant ownership stake in the bank, and participate in management. After agreement was reached with strategic stakeholders, that bank would then be given permission to list on the stock market, raising further funds and further diversifying ownership. With new corporate governance institutions, diversified ownership, and a clean balance sheet, the banks would be in a position to achieve independence and competitiveness. Since new listings on the Shanghai and Shenzhen markets have been suspended, pending completion of share conversion, listing would take place on the Hong Kong stock exchange. In October 2005, the China Construction Bank became the first bank to emerge from this process, listing in Hong Kong, and raising a whopping $9.23 billion (USD). The Bank of China and the Industrial and Commercial Bank of China (ICBC) are close behind in the queue, and set to list in 2006 or early 2007. According to numbers released by the China Bank Regulatory Commission, a total of 18 foreign financial institutions had committed a total of $13 billion to 16 Chinese banks by the end of October 2005.[6]

Criticizing Bank Sales to Foreigners

While the policies cited above have been very successful in achieving their immediate objectives, a number of articles and web postings have vigorously criticized them. Many of the complex trends in China's public discussion about economics are evident in the

debate over the sale of stakes in China's government-owned banks for foreign "strategic investors." A number of articles and web postings have vigorously criticized this policy. In general, these criticisms are better characterized as "nationalistic" rather than "leftist," but in playing on nationalist sentiments they strike many chords that are consonant with leftist critiques and feelings. Moreover, they share with leftist critiques the fact that they assail policies of economic reform.

The most vigorous criticism came from those who argue that finance is a strategic sector that China cannot allow to fall into the hands of foreigners. Borrowing from the rhetoric and concerns of New Leftists, critics of the bank sales argue that they will lead to economic colonization, "Latin Americanization," and loss of economic sovereignty. For example, one account goes:

> A top executive of Hong Kong and Shanghai Bank gazed at the Bank of Communications Tower in Pudong and said "It won't be long before the name of the Bank of Communications Tower is changed to the Hong Kong and Shanghai Bank Tower." Stealthily controlling Ping'an Insurance, gaining control of the Bank of Communications, then controlling a securities company, a fund management company and a trust company, and finally completing the setup of a comprehensive financial trust company in China, this is the strategy of the foreign "strategic investors" such as Hong Kong and Shanghai Bank.[7]

Of course, this probably *is* the strategy of the Hong Kong and Shanghai Bank, but why this should be so alarming—and why the authors can't distinguish between naming rights to a building and control of a large country with over a billion people—is not entirely clear. They argue that finance and military power are the key sectors of national dominance, and hint darkly that if the current rush to sell stakes in banks to foreigners continues, foreigners might control more than half the stock in China's financial firms in 10 years.

Since these arguments aren't very compelling on their own, the authors knit them into a scenario of capital inflows and RMB appreciation, followed by financial crisis and national weakness, along the lines of the Asian Financial Crisis of 1997–98. While this is indeed a potential risk scenario to financial liberalization, the authors regard it as a blueprint for financial domination by foreign banks,[8] which seems a little far-fetched. In an even more breathtaking piece of speculation, one anonymous author claimed that the sale of bank shares to foreigners was really just like the situation around the time of the Opium War, because foreigners were once again unscrupulously seeking to prevent the emergence of a long-term Chinese trade surplus. In this view, financial domination, under cover of technical and managerial superiority, would be just one part of this drive for overall economic domination.[9]

The more balanced criticisms simply argue that the stakes in the banks were sold for too cheap a price. Here the critics have a plausible argument, since, by a variety of benchmarks, the price foreign financial institutions paid for bank shares was relatively low. For example, the $3 billion that the Bank of America paid for a 10 percent share of the Construction Bank was about 20 percent over the book value of assets, which from one point of view would not adequately reflect the value of the market position, retail

network, and brand identity the Construction Bank already has in the Chinese market. Moreover, bank profitability was high in 2005, so strategic investors could anticipate earning their investment back in only a few years. Finally, when the Construction Bank listed on the Hong Kong market, its shares were many times over-subscribed at the offer price—itself significantly higher than the price paid by strategic investors—and they climbed in value substantially in the following months.[10] Thus it seems as if strategic investors got a "good deal."

However, defenders of the bank policy were able to quickly refute these arguments. The basis of the rebuttal was that in fact China's banks have numerous problems that limit their market value, and it was precisely because of the success in bringing in strategic investors that China's banks have been able to enjoy such a rich valuation in the aftermath of the Construction Bank listing. The fact that non-performing loans (NPLs) are currently low and profits high is the result of short-term government policy, and does not guarantee that NPLs will not again increase in the future. The fact of a high share price for the Construction Bank today does not reveal a shortcoming in the bank restructuring plan, it actually demonstrates its success. By inviting in strategic investors, China increased the value of the banks and, since the government is still the majority shareholder, increased the value of public assets. These points, along with many other arguments, are made by the mainstream finance economists.[11]

In fact, during the process of negotiation with potential strategic investors, the Chinese finance technocrats felt they were under enormous pressure. A scandal at the Bank of Construction exploded during the negotiation process, and two successive bank heads were charged with criminal misconduct; one is already in prison. Chinese negotiators had been told by the head of Citibank's investment bank services in China that Citibank would bid for a strategic stake in the Construction Bank, but this promise had not been approved by Citibank's board of directors, and was abruptly reversed.[12] Chinese negotiators found themselves in a very difficult position with few negotiating options. They were reported to be extremely grateful that Bank of America did not drop out of the negotiations, and instead concluded a deal expeditiously. The head of the Huijin Corporation, Xie Ping, described the bargaining process as a protracted negotiation in which potential foreign strategic investors used every defect of the Chinese system as a bargaining chip to gain a lower price. Concerned about government intervention, scandals, labor and employment rigidities, and accounts from previous years that had not been certified by outside accountants, some foreign banks dropped out, and the bargaining became tougher. Moreover, some of the banks most interested in China had already entered the China market by buying stakes in smaller commercial banks. That limited their ability to buy into the big state banks either because they had signed noncompetition agreements, or because their involvement with multiple banks would be deemed restraint of competition by Chinese bank regulators.[13] In the end, this left China's two preferred partners—Citigroup (the world's biggest financial corporation) and HSBC (the sixth biggest)—out of the running for the "Big Four" state banks.

To the critics, it was precisely this unequal bargaining relationship that was the flaw with the policy. Too many Chinese banks were chasing too few potential foreign

partners. The result was that the Chinese bargaining position was too weak. Critics passed around an anecdote according to which a representative of a foreign bank was in a negotiating session with one Chinese bank when he received a call on his cell phone from a different bank offering a better deal.[14] To these critics, the remedy should be fairly straightforward: open up the bargaining process so that Chinese companies could also bid to be strategic investors. Such a proposal would defeat one part of the strategic investor concept, which is precisely that they would bring in international state-of-the-art practices in bank management and corporate governance. But the proposal is consistent with the nationalism of the critics, who often seem to be less "leftist," and more interested in representing the interests of aspiring domestic financial capitalists. Critics would like to see greater protection for domestic companies, and they believe that excluding domestic investors from the opportunity to take significant stakes in state-owned banks is obstructing the development of strong domestic financial companies. [15]

The authors of one critical article, for example, consistently advocate the interests of domestic financial firms to explain why foreign firms should be restricted:

> If the financial services sectors are completely controlled by foreigners, domestic capital will be unable to continue its upgrading (from agriculture and industry to the service industry) and will instead run into a glass ceiling…In Taiwan, the insurance industry was protected for 30 years, giving Guotai Life Insurance and Xinguang Life Insurance a significant market share when the sector was finally grudgingly opened after 1993, and the people of Taiwan as shareholders were able to benefit from this.[16]

The authors' recommendations also reflect a consistent position of economic nationalism: China should foster a consciousness of economic sovereignty, prevent foreigners from taking advantage of impending RMB appreciation, take stakes in the banks that are investing in Chinese banks, use domestic investment banks as advisers, and consider auctioning off management rights to domestic managers as an alternative to selling stakes to foreign banks.

These same authors argue strongly against the proposition that bringing in foreign strategic investors is an effective way to improve managerial techniques. They argue the foreign banks have not in fact transferred much in the way of valuable managerial skills, because they are worried about trade secrets. They point to the example of HSBC, which, while it has not bought a stake in one of the big four state-owned banks, has a 19.9 percent stake of the smaller Bank of Communications. The critics argue, rather incongruously, that HSBC hasn't been able to improve corporate governance at the Bank of Communication, because the Communist Party still appoints the managers. As a result, the board of directors has not really begun to play the key role in rewarding and monitoring managers. These points seem to be arguments for a stronger role for foreign banks, not a weaker one, and suggest that foreign banks need to be given time to rebuild management structures. Instead, critics hold up China Merchants Bank as an example of a domestic bank, without foreign strategic investors, that they argue is already well managed.

To some extent, then, the different sides of the debate about the sale of bank shares to foreigners reflect the views of different interest groups. This has led to a series of rather nasty exchanges, in which each side has accused the other of trying to shape national policy in its own individual interests. Conveniently, a single issue of *Securities Market Weekly* published attacks from each side. One bank critic argued bitterly that a stratum of banking professionals have crafted the bank sales policy in their own interest.[17] Their talk of complex negotiations and "international rules of the game," according to this author, is just a cover for their attempt to establish themselves as a new stratum of privileged managers. "Improved corporate governance," to this author, simply means weakening Chinese government oversight and establishing managerial autonomy.

Conversely, defenders of the policy have noted that many of its critics have links to the Chinese domestic securities industry. Domestic securities companies are extremely troubled: they have always been deeply implicated in webs of influence and profiteering.[18] Since the prolonged bear market that began in 2002, most securities companies have been deep in debt and technically bankrupt, much like the banks were several years ago. People at these securities firms would very much like to receive government protection and bail-outs, and support as a Chinese national industry. They are afraid that the government will allow foreign firms to take over and restructure existing securities companies, taking over their debt in return for permission to enter the Chinese market, and throwing out existing management. Indeed, the government adopted precisely this policy with the take-over of Beijing Securities by UBS in September 2005. By raising a hue and cry against foreign entry, securities professionals make this kind of take-over much less likely.[19] Passions sometimes run high. At one discussion in Beijing, a bank professional denounced one of his critics, saying, "You are the ones responsible for the deterioration of bank assets; what right do you have to criticize this policy?" Calmer voices argued that rational discussion of the issues was still possible, and more in the national interest.[20]

Impact on Policymaking

The intense criticism of sales of bank shares to foreigners has had a real, but modest, impact on policy. In mid-December 2005, the State Council convened a work meeting to discuss financial reform questions, with the issue of whether state banks had been sold too cheaply at the center of discussion.[21] Not surprisingly, around this time, defenses of the policy became more numerous and vocal. The policies have certainly gone forward, but some adjustments have been made around the edges. One of the weakest strands of the publicly announced agreements was the large role played by Temasek, the holding company controlled by the government of Singapore. Not a bank itself, Temasek doesn't have the obvious management expertise that could be directly transferred to a Chinese bank, yet Temasek was to buy 10 percent of the Bank of China, after having already bought a 5.1 percent stake in the Construction Bank and a 4.55 percent stake in the smaller Minsheng Bank. The board of directors of Huijin, which controls the Bank of China, vetoed the original plan. However, since Temasek does have significant

experience and access to expertise, and because it had been a constructive partner during the toughest part of negotiations, the Chinese side was not willing to cut Temasek out of the Bank of China altogether. In the end, Temasek's cash contribution and stake in the Bank of China were both cut in half, and it ended up with a 5 percent stake.[22] The controversy has also been given credit for adjustments to the policy that in fact probably would have occurred anyway. More attention is being given to bringing domestic stakeholders into the process. The National Social Security Fund has been approved to take 10 billion-yuan stakes in the ICBC and Bank of China. Moreover, although the Bank of China will list first in Hong Kong, during the first half of 2006, it will try to follow up with a domestic listing in Shanghai in the second half of the year. In that case, Chinese citizens will get the chance to buy shares. But dual listing poses some technical difficulties that might delay that process.

Conclusion

Complex trends are shaping Chinese discussion of economic issues in recent years. A mood of disillusionment is evident, and official media have picked up on this trend, and also contributed to it. A valuable and wide-ranging discussion has also been used as an occasion for an attack on reform and opening. Why is this happening now? At a minimum, Hu Jintao opened the door to the leftist critique with his speech to the Fourth Plenum (the "political" plenum) of the CCP in October 2004. This speech has never been openly published, but it is widely believed that Hu advocated tight control of the press, and emphasized the need for continuing vigilance.[23] Since Hu Jintao had previously been exceedingly cautious about expressing his own personal views, these comments undoubtedly legitimized some of the criticisms of neo-liberalism, and indirectly of the whole thrust of current Chinese economic reforms. Naturally, this makes some reformers extremely uncomfortable. Recently, *Caijing* magazine published a general pro-reform piece, reminding readers of the accomplishments of reform, by "Huang Puping."[24] Huang Puping is the pseudonym of a commentator who was widely credited with providing the occasion for the revitalization of reform in 1991–92. It was the reformers' way of reasserting their belief in the need for continued reform, to be sure, but it was also a way of reminding readers that some of the older "New" Leftists were in fact implicated in the failed rollback of reforms in 1990–91, just after the Tiananmen incident. The New Leftists have criticisms, some of them valid, but they have no practical program for China.

Thus far, we have seen very little impact on policymaking in the financial arena. This policymaking continues to be dominated by a group of finance-oriented technocrats, informally led by central bank head Zhou Xiaochuan. These technocrats have continued to craft policies that, on the face of it, appear to have been extremely successful. In other areas, we see continuity of policymakers, and dominance of the policy formulation process by technocrats, but perhaps a slowing of the trend toward privatization. Perhaps the simplest observation we can make is that Hu Jintao is using the leftists as a counterweight to other factions. Hu is in the position of supporting both reformers and leftists. By playing off factions against each other, it may be that Hu consolidates his own power. Perhaps that gives Hu greater control during the run-up to the 17th Party Congress,

in 2007. Over the next year, the decisions will gradually be made about who will be promoted, who will take the key policy portfolios, and who will make up the Politburo Standing Committee. This is the opportunity for Hu to fully imprint his stamp on the political system, but in the short run it seems to be associated with increased tension in that system.

Notes

[1] For some examples of this research project, see "Strengthen the Research of Western Neo-Liberalism," Shanghai Association for Social Sciences Website, 2004, at www.sssa.org.cn/allinto/info_content.cfm?infoid=2411; accessed September 25, 2005; "Brief report on the discussion at publication of 'Analytic Criticism of Neo-Liberalism'" June 20, 2004, at www.media.tsinghua.edu.cn/article/article.php/852; accessed September 25, 2005; and Li Ruiying, "Be alert against the Neo-Liberal Thought Trend," *Guangming ribao*, November 9, 2004.
[2] Li Ruiying cites Li Qiqing as reminding us that neo-liberalism has a class nature, temporal specificity, and a dual nature: "On one hand, neo-liberalism has its historical necessity, and advances the development of capitalism and eases the basic contradictions of capitalism; on the other hand, it creates new contradictions and crises in world capitalism, especially by increasing the polarization and contradiction between developed and developing countries and among developed countries." Indeed.
[3] Li Ruiying, "Be alert."
[4] "Brief report on the discussion."
[5] The classic account of this financial crisis was Lardy, Nicholas R., *China's Unfinished Economic Revolution*. Washington, DC: The Brookings Institution, 1998.
[6] Zhao Jiangshan, "Zhou Xiaochuan recalls bitterness, and responds to those arguing banks were sold cheaply," *Jingji cankaobao*, November 7, 2005. Accessed at http://finance.people.com.cn/GB/1040/3832966.html.
[7] Yu Yunhui (Debang Securities) and Luo Deming (Bank of Shanghai) represent this viewpoint. Their article "The debate about selling stakes in the banks too cheaply reaches a crescendo: who will control China's financial industry in the future?" The article was published in *Yinhangjia zazhi* (Banker magazine), December 7, 2005, with a disclaimer from the editors that it is published for discussion only. Available at http://news.hexun.com/detail.aspx?lm=1670&id=1439389.
[8] Yu and Luo, "The debate about selling stakes."
[9] "One who argues banks were sold cheaply ('Jianmai lun' zhe)," [a pseudonym], "Who is behind the cheap sell-off of China's financial system?" *Zhengzhuan shichang zhoukan* (Securities market weekly), December 26, 2005. Accessed at http://finance.sina.com.cn/g/20051226/09332227506.shtml.
[10] Chen Gong, "China is selling its own banks at too cheap a price," *Renminwang*. September 16, 2005. Accessed at http://finance.people.com.cn/GB/1045/3701900.html.
[11] Hu Zuliu, "Do we need international strategic investors to reform state-owned banks?" *Jingji guanchabao*, December 5, 2005, is a long, well-documented and carefully reasoned response to critics of the bank sales. Accessed at http://www.eobserver.com.cn/ReadNews.asp?NewsID=15818. See also Zhao Jiangshan, "Zhou Xiaochuan recalls bitterness"; Zhong Wei, "Since the transaction is reasonable, the State banks have not been sold cheaply," *Yingcai*, December 2, 2005, at http://finance.sina.com.cn/review/zlhd/20051202/11192167215.shtml; Yi Xianrong, "How can inviting foreign strategic investors be considering cheap selling?" *XinJing bao*, December 9, 2005. Accessed at http://theory.people.com.cn/GB/49154/49155/3929960.html. "Dissecting the behind-the-scenes; Guo Shuqing refutes the theory the Construction Bank was sold cheaply," *Meizhi jingji xinwen*, November 21, 2005. Accessed at http://finance.people.com.cn/GB/1040/3873952.html. All four of these authors have academic backgrounds. Today, the fourth of them, Guo Shuqing, is head of the Construction Bank, the policies of which he is of course defending. The first, Hu Zuliu, is General Manager of Goldman Sachs Asia and a professor at Qinghua Management School. Zhong Wei is professor and head of the Finance Research Center at Beijing Normal University, and Yi Xianrong is a researcher at the Chinese Academy of Social Sciences Finance Research Institute and a prominent analyst of the Chinese banking system.

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[12] "Who are those drumming up the 'Banks Sold Cheap' Theory?" *Zhengzhuan shichang zhoukan* (Securities market weekly), December 26, 2005. At http://finance.sina.com.cn/review/20051226/09432227547.shtml.
[13] Zhao Ji and Wu Yushan, "Huijin's way of advancing and retreating; Xie Ping reveals the 'Five Kinds of Bargaining Discount,'" *21 Shiji Jingji Baodao*, September 19, 2005, pp. 1–2.
[14] Chen Gong, "China is selling its own banks."
[15] Yu and Luo, "The debate about selling stakes."
[16] Ibid.
[17] "Who is behind the cheap sell-off of China's financial system?" *Zhengzhuan shichang zhoukan* (Securities market weekly), December 26, 2005, at http://finance.sina.com.cn/g/20051226/09332227506.shtml.
[18] See my "The Politics of the Stock Market," *China Leadership Monitor* 3 (summer 2002).
[19] "Who are those drumming up the 'Banks Sold Cheap' Theory?" *Zhengzhuan shichang zhoukan.*
[20]The incident is recounted by Wu Jinglian, arguing for civility, in "Wu Jinglian: Who is drumming up the 'Banks sold cheap' theory? Get this straight, and then discuss," *Xinfu*, December 2005, at http://news3.xinhuanet.com/fortune/2005-12/09/content_3897609.htm; Deng Haijian, "Is there really absolutely nothing worthwhile in the 'Banks sold cheap' theory?" *Zhongguo Qingnianbao*, December 13, 2005, at http://finance.people.com.cn/GB/1045/3939024.html.
[21]"Who are those drumming up the 'Banks Sold Cheap" Theory?" *Zhengzhuan shichang zhoukan.*
[22] Su Bei, "Bank of China sells 5% stake before IPO," *China Daily*, February 17, 2006, page 9; Reuters, "Temasek to buy 5% of Bank of China," *China Daily*, December 26, 2005, http://www.chinadaily.com.cn/english/doc/2005-12/26/content_506677.htm.
[23] Some reports have held that Hu praised North Korea and Cuba for their tight social controls. But these reports have also been denied by some present at the Plenum.
[24] Huang Puping, "We cannot vacillate in reform," *Caijing*, No. 2, January 28, 2006.