The Regulatory Storm: A Surprising Turn in Financial Policy

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A surprisingly strong and concerted regulatory effort is shaking up the Chinese financial sector. New regulators are now in place in each of the three regulatory commissions, and a storm of new financial regulation has ensued. The new effort seems to spring from the domestic shocks of the 2015 stock market meltdown and the 2016 hostile takeover efforts launched by Foresea Life Insurance. These regulatory efforts have an unprecedented level of top political support, exemplified by Xi Jinping's speech in April. However, there are many unanswered questions about the persistence and purpose of the regulatory crackdown.

2017 has generally been expected to be a quiet year for Chinese economic policy. Stimulus measures launched in 2015–2016 were remarkably successful in supporting economic growth, giving policy-makers breathing room. Although progress on market-oriented reforms has been disappointing, it has been widely thought (including by this author) that not much would happen for most of the calendar year. Most important, with a party congress coming in October or November 2017, it was thought that Xi Jinping would prize stability above all else.

It has been a surprise, then, to see a "regulatory storm" blow into the Chinese financial sector since the end of March. A large, coordinated regulatory effort across various financial sectors has been launched. Credit availability has tightened and, in response, both stock and bond markets have declined substantially. Andrew Batson has declared that "the biggest source of uncertainty for the Chinese economy at the moment is the sudden, sharp financial crackdown launched in March."[1] The regulatory crackdown does not (at this time) threaten economic growth, but it certainly creates new kinds of risk even as it displays regulators' willingness to tackle existing sources of risk in the economy.

Where did this sudden shift of policy come from? What does it portend? This piece puts the regulatory crackdown in context, discussing some of the political and economic factors driving the current effort. The specifics of the regulatory measures are complex and evolving quickly, and cannot be adequately covered in a short piece of this type. However, we can show that the shift in regulatory policy is not just a technical matter or a superficial policy initiative. Rather, it is a major turn in direction with potentially large economic and political implications. These implications include possible effects on the coming 19th Party Congress, although these are still in the realm of conjecture.

A Bit of Background

Since 2003, China has had a financial regulatory system characterized as "The central bank + three commissions" (一行三会). While the central bank (the People's Bank of China, or PBC) manages monetary policy, it also has important regulatory functions. Moreover, its long-serving chief, Zhou Xiaochuan, is widely regarded as one of the smartest, most strategic, and most capable technocrats in the Chinese system. The PBC is therefore the single most important institution, but perhaps "first among equals" when it comes to specific regulatory actions. Each of the three commissions has a specific financial sector to govern. The China Banking Regulatory Commission (CBRC) is in charge of oversight and rules for China's banks. The China Securities Regulatory Commission (CSRC) is in charge of the stock market (primarily), but also bond and futures markets. Finally, the China Insurance Regulatory Commission (CIRC) manages insurance companies.

The financial regulatory architecture reflects the general logic of the Chinese political and bureaucratic system. The Regulatory Commissions are "in charge of" their industries. While they "regulate," they also sometimes simply issue commands, including various kinds of "window guidance" that may be completely off the record. This is familiar, and helps keep bureaucrats accountable. After the structure was introduced in 2003, it worked reasonably well. The CBRC had a fairly good record under its first chairman, Liu Mingkang, as the banking system grew enormously and was restructured into profitable modern banks listed on stock markets (though with government control assured). The CSRC had a decidedly more mixed record, trying to develop and regulate China's stock market, but dogged by regulatory blunders and charges of corruption. The CIRC was an also-ran, presiding over a clearly underdeveloped insurance sector. However, in China's bank-dominated system, the regulatory architecture was not especially problematic.

From 2009 through 2011, this all began to change. During the 2009 Global Financial Crisis, China's regulators adopted a much more permissive attitude toward the financial system. Eager to ensure financing to investment—including local government investment—to counteract the global recession, regulators turned a blind eye to the emergence of various kinds of off–balance-sheet lending. A "shadow banking system" began to grow up, as funds were channeled into non-bank entities, even though these were often controlled by the banks themselves. Financial flows among institutions accelerated rapidly. Often banks used promises of higher interest rates to households to attract savings into these channels. To grow the business, they would imply (falsely) that the investments were very safe, or even guaranteed.

At first, the growth of shadow banking was primarily an issue within the banking system itself. After 2011, though, differences between the regulators and the domains they controlled began to emerge. To a certain extent, competitive liberalization occurred, as regulators tried to attract business into their regulatory areas. The insurance regulator, Xiang Junbo, was especially aggressive. He allowed insurance companies to invest in a broader range of riskier, higher-return products. He also gave insurance companies much greater leeway to raise money through selling insurance "policies" that were thinly disguised investment products. The most egregious of these were the so-called "universal" (万能) insurance polices, which typically provide nominal "insurance" against death or injury for a few years, along with a guaranteed return. Most such policies were redeemed in a few years, or rolled over into new policies. Xiang's aggressive relaxation of insurance regulation created pressure on other regulators to liberalize, encouraging "venue shopping" among financial firms seeking to raise money through shady financial schemes.

The explosive growth of internet finance also created new challenges. Regulators adopted a highly permissive attitude toward the growth of online payments and savings options. Peer-to-peer lending took off. Alibaba's Yu'ebao became the world's largest money market fund, by a huge margin. Light regulation could be justified in that it accommodated rapid financial innovation, and allowed funds to escape from the rigidly controlled low-interest environment of the state banking system into more market-driven environments.

However, there were also major problems. Debt grew rapidly, as chains of indebtedness grew. Transparency was extremely low. Many institutions could be seen to be borrowing short-term money to invest in long-term projects. They would be extremely vulnerable to fluctuations in liquidity: if they could not roll over their short-term sources of funding, they would be forced to sell off investments in a "fire sale" environment. Without much transparency, it was hard to tell how leveraged some of these institutions were. In general, leverage amplifies profit, but also risk, and in the financial sector risk-takers can often shift the burden of risk onto the public, because everyone knows the government will step in to prevent financial crisis. All of these factors gave good reason to believe that systemic risk had been increasing. Certainly, regulators seemed more and more concerned with accumulating problems. The period of regulatory forbearance could not go on forever.

Three Critical Changes of Personnel

Lying behind the recent change of policy is an important change in personnel: all three of the top financial regulators have been replaced. This in itself is not surprising: it is ordinary that new top regulators would be appointed to the financial system in the run-up to the 19th Party Congress in October or November 2017. Indeed, about a year before the 18th Party Congress, just over five years ago, new heads of all three financial regulatory agencies were appointed on a single day, October 29, 2011.[2] However, in this case, the personnel turnover has emphatically not been normal, and each of these personnel shifts tells an important story.

Liu Shiyu Replaced Xiao Gang as Head of CSRC: February 2016

First to go was the head of the Chinese Securities Regulatory Commission (CSRC), stock market regulator Xiao Gang (肖钢), replaced in February 2016. Appointed in 2013, Xiao Gang presided over a series of disasters in the stock market, so it is hardly surprising that he was fired. Indeed, if anything, it is surprising that he lasted as long as he did.[3] The disastrous stock market meltdown of June–July 2015 wiped out trillions of dollars in value, and (even worse) the subsequent injection of state funds to stabilize the market paralyzed the effort to reform and liberalize the market. In January 2016, a renewed fiasco in the market came as an experimental implementation of a "circuit breaker" led to renewed turbulence. Only then was Xiao Gang publicly replaced.

The leadership turmoil at the CSRC was heightened by reports that people with connections to the CSRC had leaked information about the stock market bailout that their friends had used to "front-run" policy interventions, thus profiting from the public's misfortune. Three top officials of the CSRC were detained for investigation during 2015–16.[4] It was widely reported that the anti-corruption campaign was moving into the financial sector, which had previously been largely untouched.

The new CSRC head, Liu Shiyu 刘士余, is a finance-sector bureaucrat and manager with an exceptionally close association with former Premier Zhu Rongji. Liu received a master's degree from the Tsinghua University School of Economics and Management way back in 1987, when Zhu Rongji was the honorary dean, and immediately began his career in the Shanghai Economic System Reform office, which from that same year was under Zhu Rongji, soon to be named mayor of Shanghai.[5] In 1991, when Zhu became vice premier, Liu moved with him to Beijing, and worked in the national Economic System Reform office until 1996. Liu then moved into the People's Bank of China system and worked there for 18 years, ultimately becoming vice-head (in 2006). Liu performed many jobs during that time, but probably the most outstanding was serving as the operational head of the commercial bank restructuring that took place mainly from 2003 to 2006. While the overall program was designed by PBC head Zhou Xiaochuan, Liu was responsible for much of the concrete implementation. This program wrote off more than a trillion yuan of bad debt, restructured the commercial banks, brought in strategic investors, and listed the banks on the stock market. Liu was then made head of the Agriculture Bank in 2014, which he had overseen during the restructuring and listing process.

Liu Shiyu thus represents a tremendous change at the CSRC. Liu is considered to be a practical, understated, and hard-working bureaucrat. Moreover, he is a reliable reformist, with extensive experience and a proven track record of close cooperation with both Zhu Rongji and Zhou Xiaochuan.

Guo Shuqing Took the Reins at the CBRC: February 2017

Like Liu Shiyu, Guo Shuqing has strong credentials as a reformer, and years of experience working under Zhu Rongji and Zhou Xiaochuan. Their personalities could hardly be more different, though. While Liu Shiyu is an experienced bureaucrat with an emphasis on policy implementation, Guo Shuqing is a classic policy intellectual, self-confident, a good talker as well as a bold policy designer. Guo Shuqing is several years younger than the policy intellectuals Zhou Xiaochuan (still head of the PBC) and Lou Jiwei (until recently minister of finance), and he has long been seen as a kind of reformist heir apparent in the financial sector.

Guo Shuqing's involvement in reformist policy-making goes back to the mid-1980s, when he was in his 20s. Guo was a junior member of the "comprehensive economic reform team" headed by Wu Jinglian and Zhou Xiaochuan that attempted to draw up a program of overall reform for Premier Zhao Ziyang.[6] While working primarily in economic and financial policy, Guo has also served twice as a local official, vice-governor in Guizhou (1998–2001), and governor of Shandong (2013–2017). Such stints in regional office are often part of an upwardly mobile career path for a Chinese official.[7]

Yet there has always been some uncertainty regarding Guo's prospects. Ultimately, this comes down to doubts about whether his brash style is compatible with the more conservative style and political glad-handing expected of most political leaders. After replacing Shang Fulin as head of the CSRC in 2011, Guo immediately put his personal stamp on the administration, unleashing a storm of regulatory measures designed to increase transparency, restrain insider trading, and make the process of listing stocks more rule-driven (with less regulator discretion). After only 18 months, Guo was replaced by the far less impressive Xiao Gang and packed off to Shandong Province, which raised lingering questions as to whether he was being groomed for further promotion, or whether his activist style had simply ruffled too many feathers too suddenly in the financial arena. His regulatory initiative abated quickly after Xiao Gang took over at the CSRC, but Guo went on to stir things up in Shandong Province, by many accounts, rather successfully.

Now Guo Shuqing has returned to Beijing, and has once again succeeded Shang Fulin, this time as head of the CBRC. Once again, Guo has unleashed a storm of regulatory actions.[8] This time, though, instead of being potentially the actions of an isolated reformer (a regulatory loose cannon, as it were), these measures have attracted increasingly visible support from the top leadership. This time, the top leaders seem to have appointed Guo Shuqing head of CBRC in the full knowledge that he would shake things up. They knew what they were getting, and they were prepared to support him.

Xiang Junbo Dragged off from the CIRC: April 2017

The third critical personnel change was the fall of Xiang Junbo (项俊波), head of the Chinese Insurance Regulatory Commission (CIRC). Hong Kong media reported rumors that Xiang was under investigation on February 10, 2017, and the rumors proved to be true on April 9, when the CDIC announced that he was being probed for "serious violations of party discipline."[9] A few days later, he was officially fired. Xiang is a colorful figure, author of novels and popular screenplays, around whom rumors have swirled for years. He is also a Central Committee member.

As described earlier, Xiang has had an important influence on the development of financial markets in China. Why would an insurance regulator adopt such policies? Insurance companies are supposed to reduce risk, not increase it. Xiang clearly hoped that rapid expansion of the insurance sector would add luster to his political career, showing him to be a successful advocate of financial development. However, perhaps simple corruption was an explanation as well. We shall have to wait and see.

Xiang's successor has not been officially named. The CIRC website, in the place where the top leader is usually listed, gives the name of Chen Xinquan, head of the disciplinary inspection team that has occupied the CIRC.[10] CIRC is being led on a day-to-day basis by its vice-chairman, Chen Wenhui. In any case, CIRC has certainly not acted like a leaderless, paralyzed organization. On the contrary, CIRC, like CBRC, has unleashed a storm of regulation since April, designed to increase transparency and decrease abuses. One of the main targets? "Universal life insurance" policies.[11]

Support from the Top Leadership

Personnel is not everything. Financial regulators need support from the top to impose rules on individuals who are, almost by definition, rich and powerful, and they need clear signals from the top to know that they can push ahead with a controversial agenda. The CSRC, for example, laid out an ambitious set of "eight bottom lines" for securities market regulation way back in March 2015—before the stock market fiasco—but they did not have the will or the top-level support to make those "bottom lines" into a reality.[12]

We do not know exactly when the top leadership adopted a new attitude toward financial regulation, or when and how they signaled a new policy stance, but from mid-2016 until April 2017, the emphasis on regulatory stringency has steadily increased.[13] In April 2017, Xi Jinping publicly identified with the regulatory crackdown, displaying personal buy-in and an effort to stamp his personal brand on the regulatory cleanup.

In retrospect, a crucial turning point came on December 3, 2016. On that date, Liu Shiyu, who had been CSRC head for more than six months, suddenly went off script at the annual meeting of the industry association for investment funds. He said:

> Some people combine the attributes of a bully, a seductress and a scoundrel! By means of their specialized financial licenses, they enter financial markets and use the people's money to engage in so-called leveraged buy-outs . . . The people whose money it is ought to be those with the ability to bear risk, [but] now certain agencies directly develop and sell financial market products so that the risks are not borne by the agencies [themselves] that sell these products, but actually by ourselves the whole body of investors [i.e., the public].[14]

Everybody knew that Liu Shiyu was talking about the attempted hostile takeover of the Vanke Real East Corporation by the Qianhai [Foresea] Insurance Company earlier in the year (described in the following section). This was by far the strongest official denunciation of the Qianhai attempted takeover, and it came in surprisingly vehement fashion from the normally understated chairman of the CSRC. Liu's willingness to indulge in such overheated vocabulary clearly indicated that something had changed in the attitude of top policy-makers, emboldening the regulator to go on the offensive. The top leaders must have decided, just before December 3, 2016, to support a regulatory crackdown.

On February 24, 2017, the appointment of Guo Shuqing was suddenly announced. A few days later, on the 27th, a meeting of the Finance and Economics Leadership Small Group was convened, in which Xi Jinping emphasized regulation and controlling risk, but this was just one topic among many.[15] By the end of February, the CIRC chair was publicly supporting Liu Shiyu's denunciation of speculators as "crocodiles." The PBC began to lay out new principles for regulation. In March, the PBC began to tighten liquidity modestly, raising interest rates in certain types of credit markets, but tellingly, not on commercial bank loans themselves. In April, the "regulatory storm" really got going, with a succession of new regulatory edicts from Guo Shuqing's CBRC, followed by similar proclamations from the CIRC.

In this context, it was a significant step when, on the afternoon of April 25, Xi Jinping convened a Politburo "collective study session" entirely devoted to the topic of financial security.[16] All four of the principals spoke: Zhou Xiaochuan, head of the PBC, and each of the three top regulators put in place at the CBRC, CSRC, and CIRC over the past year. This was unusual. This was the 40th Politburo study sessions, and nearly every previous session has featured an academic or think tank intellectual—after all, that's what makes them "study sessions" rather than regular government or party meetings. In this case, the Politburo members were "studying" the reports of their own financial bureaucrats. After the initial expert presentations, press coverage focused on the important speech that Xi Jinping made summarizing the results. Xi elevated "financial security" into the small circle of privileged forms of national security that he has made the hallmark of his administration. Financial work is as important as anything to the nation. Clearly, this was a strong sign of support for the initiative being undertaken by his regulatory team.

What Triggered the Change in Policy?

While outside observers have been worried about China's increasing debt burden for years, the debt load seems to have been an afterthought to China's leaders. Certainly they have been willing to pile on debt to maintain the overall economic growth rate at its targeted level (above 6.5 percent). Instead, it seems that a few internal shocks finally focused the attention of Xi Jinping on financial risks. The first of these, to be sure, was the stock market meltdown of 2015, a traumatic event that shocked and surprised China's leaders. There have been persistent stories both of speculative abuses that fueled the stock market bubbles and of market and regulatory insiders who utilized insider information to trade ahead of the giant government bailout. Rumors link these abuses to top politicians and their families.

However, the incident that is most directly linked to the regulatory crackdown is the hostile takeover launched by Yao Zhenhua 姚振华 for Vanke Real Estate. Yao is a 47-year-old billionaire who moved to Shenzhen from Chaozhou in the early 1990s. He established the Baoneng Group in 1992, and gradually built it into a diversified commercial empire based on property development. In September 2011 he acquired an insurance license, set up the Foresea (前海) Life Insurance Company and soon learned to focus on selling universal life insurance. These policies provided Yao with a huge stream of finance—he earned 78 billion RMB in premiums in 2015—which he then used as collateral to borrow even more money.

In the fall of 2015, after the stock market crash, Yao began aggressively accumulating shares in China Vanke Real Estate, the country's largest residential developer and something of an icon of middle-class real estate aspiration. While Baoneng was not a small company, it was dwarfed by Vanke. Yet, with his premium income, Yao was ultimately able to gain control of about 25 percent of Vanke shares, and in the process pushed the share price up 70 percent. He also acquired a considerable stake of the Gree Corporation (格力电器), the world's largest manufacturer of air-conditioning units, within two weeks in November 2015. Yao's growing stakes in these valuable companies led him to be listed as China's fourth richest person in the 2016 Hurun "Rich List.' He tried to achieve direct control over Vanke, an action which, after an enormous amount of complicated maneuvering, was ultimately blocked.[17]

These actions attracted an enormous amount of attention, with Yao having his supporters as well as detractors. Supporters admired his boldness, claimed that everything he was doing was legal, and pointed out that hostile takeovers have a legitimate role in a market system. Detractors, though, pointed out that Yao was essentially playing with funny money. He was exploiting regulatory inconsistencies and selling high-return saving products to ordinary citizens with whispered implicit guarantees. He was then taking this short-term money, leveraging it up, and using it to make extremely risky bets. Moreover, the companies he was threatening to take over were generally well-run companies, by Chinese standards of corporate governance. They were profitable and growing, and had extremely positive public images. The perception that Yao was a corporate raider preying on nice companies undoubtedly played a role in his ultimate failure.

Regulators blocked the acquisition. In February 2017, then insurance-regulator Xiang Junbo (already under investigation for corruption) changed his attitude and denounced Yao Zhenhua. Yao was banned from the insurance industry for 10 years. More fundamentally, Foresea was ordered to stop selling universal life insurance policies altogether. In December 2016, nine insurance companies (including Foresea) had been reprimanded for abuses in the sale of universal insurance products, and major restrictions were put on further sales. "Premiums" for the sale of these policies had surpassed a trillion yuan by the end of 2016, but in the first quarter of 2017 dropped by 61 percent year on year. Yao was bearing the brunt of a broader crackdown, and that crackdown was a central element in the overall regulatory clamp-down.[18] With their inflows suddenly cut off, Foresea and other firms have been pushed to the brink of insolvency.

Elements of a New Regulatory Approach

The specific moves against universal life insurance and Foresea Insurance merged into a new approach to financial regulation. The current approach is dramatically different for a number of reasons.

(1) Regulatory competition and arbitrage has been replaced, at least temporarily, by a coordinated and concerted regulatory effort. All of the top regulators share similar backgrounds and objectives, and are able to communicate reasonably well.

(2) Companies are being required to report their overall leverage ratios and to estimate the total effect of all the different credit market transactions in which they are engaged.

(3) Certain types of transactions most susceptible to abuses—including universal life insurance and peer-to-peer online lending—have been singled out for special restrictions.

(4) Liquidity costs have been allowed to rise in funding markets—including those for Treasury bond repurchases and inter-bank transactions—while overall bank lending costs have been kept stable. This reduces the incentives to fund project lending with short-term fund-raising.

These approaches may not be enough to reduce risk in China's tangled financial markets, but they are a good start. The regulatory storm has the potential to be part of a much better package of regulatory policies.

Xi Jinping's Approach to the Financial System

As documented in recent pieces for the *China Leadership Monitor*, Xi Jinping's support for market-oriented economic reforms has been disappointing. Since the Third Plenum of 2013, Xi has failed to give strong or consistent backing to any of the most important market-oriented reforms. Yet abuses in the financial system seem to have finally caught Xi's attention. Why?

On the one hand, it must be said that the new financial regulation policies chime well with Xi's long-standing emphases on discipline and anti-corruption. Xi would obviously find attractive a vision of authoritative regulators aggressively interpreting regulations to keep the financial sector under control, and risks at bay. Some close adviser who understood Xi's worldview must have convinced him that financial risks were real and that this time of reform was necessary. Even if Xi is hesitant to back other reforms that require giving up control, he could be brought behind this one.

It should also be noted that stirring things up in the financial sector gives Xi additional leverage over potential rivals in the run-up to the 19th Party Congress. The specific regulatory crackdown currently under way almost certainly has direct and indirect links to the families of top politicians. Almost every Politburo Standing Committee member has a child or other relative in private equity, hedge funds, or other aspects of financial markets. It would be surprising if none of them were implicated in the shady practices currently under review. The four largest sellers of universal life insurance policies are Foresea, Anbang, Evergrande, and Tian'an Life Insurance. Rumors have swirled for years about Anbang Insurance, controlled by Wu Xiaohui, who was once married to Deng Xiaoping's granddaughter.[19] Anbang is now reeling from the restrictions on its most lucrative product, and Wu Xiaohui has maneuvered to retain political viability by identifying himself with current Chinese policy goals and (ludicrously) suing Caixin for libel. Tian'an Life Insurance is part of the Tomorrow Group, controlled by Xiao Jianhua, the billionaire abducted from the Four Seasons Hotel in Hong Kong in January 2017, said to be financial agent for many "princeling" families. Who knows where the strands of these tangled webs lead?

Lurid stories have filled unofficial media and garnered plenty of attention, and have even made their way indirectly into official media. In this welter of conflicting interests, it may well be that Xi Jinping sees such a crackdown as an effective way to keep pressure on his potential rivals, and ensure a smooth consolidation of power at the 19th Party Congress. It may also simply be that Xi Jinping was spooked by the magnitude of the financial resources that a relatively small fish (Yao Zhenhua) could mobilize in his takeover effort for Vanke. After all, don't financial resources on that scale potentially indicate a threat to Xi's "political security," just as financial insecurity could lead to a threat to "national security"?

Conclusion

The issues of personal power and influence should not distract us from the fact that something systematic and important is going on. China's financial markets have expanded enormously in the past decade, but expanded in a way that is chaotic, distorted, and corrupted. If a new and better regulatory regime can be created, it could push this financial development in a positive direction, support a broader financial restructuring, and potentially lead to a sustainable growth path.

There are many unanswered questions. Who will replace Zhou Xiaochuan as head of the central bank (PBC)? Will the three regulatory bodies be combined into a single super-regulator? We just don't know the answer to these questions, and it appears that policy-makers do not yet know either.

Previous efforts to clamp down on excess liquidity have been short-lived. As soon as credit restrictions begin to cut into growth, such efforts are abandoned. Regulators have lacked top political support and backed down many times before. Will this time be different?

Notes

[1] Andrew Batson, "Regulatory Stress Is Still Bearable," *Gavekal Economics*, May 15, 2017, http://research.gavekal.com/article/regulatory-stress-still-bearable (paywall).

[2] This is a more specific sense in which the financial sector is just like the rest of the political system. The "regulators" are the top officials managing the financial sector, with ministerial/provincial rank, and will therefore be replaced or reappointed as part of the process of personnel appointment that takes place—from the bottom up—for about 18 months before the party congress. Filling these jobs thus selects important bureaucrats while also indirectly influencing the membership of the Central Committee. Two of the current outgoing financial regulators, Shang Fulin (CBRC) and Xiang Junbo (CIRC) served full five-year terms, heading their agencies from late 2011 through early 2017. The third regulator appointed in 2011 was Guo Shuqing, who lasted only 18 months as CSRC head, and was then transferred to become governor of Shandong Province in March 2013. See Barry Naughton, "Macroeconomic Policy to the Forefront: The Changing of the Guard," *China Leadership Monitor*, no. 36 (Winter 2012).

[3] One rumor reported in the Hong Kong press was that the State Council engaged in an extensive search for a replacement, eventually whittling down the list of candidates to the long-serving mayor of Chongqing, Huang Qifan, and Liu Shiyu. The two names were then submitted to Xi Jinping, who chose Liu.

[4]Vice-chairman Yao Gang 姚刚; Assistant Chairman Zhang Yujun 张育军, and Section Head Liu Shufan 刘书帆.

[5]Chen Weishan 陈惟杉, "Of the CSRC leadership, four are out and three new people are in; Liu Shiyu is former subordinate of Zhu Rongji" (证监会领导班子三进四出 刘士余系朱镕基老部下), *China Economics Weekly* (中国经济周刊), March 1, 2016, accessed at news.financeun.com/News/201631/2013cfn/111456433100.shtml.

[6] Keith Bradsher, "China Names Guo Shuqing, a Rapid-Fire Regulator, to Oversee Troubled Banks," *New York Times,* February 24, 2017, accessed at https://www.nytimes.com/2017/02/24/business/china-banks-guo-shuqing.html. See the section on the 1980s in *Wu Jinglian: Voice of Reform in China* (Barry Naughton, ed., Cambridge, Massachusetts: MIT Press, 2013). While this group was not successful in the 1980s, their ideas strongly shaped the subsequent reform decade under Zhu Rongji. Guo Shuqing's performance in Shandong is discussed briefly in Naughton, "Supply-Side Structural Reform at Mid-year: Compliance, Initiative, and Unintended Consequences," *China Leadership Monitor*, no. 51 (Fall 2016).

[7] Qing Ping 青苹, "Guo Shuqing enters the capital a second time; His initial public appearance shows a change in official style" (郭树清 "二进京" 首秀亮眼 官场风气有变), *Duowei News* (多维新闻), March 2, 2017, accessed at http://china.dwnews.com/news/2017-03-02/59803175.html.

[8] Wu Hongyuran, Han Yi, Wu Yujian, and Han Wei, "Banking Watchdog Unleashes Regulatory Frenzy," *Caixin Global*, April 17, 2017, accessed at http://www.caixinglobal.com/2017-04-17/101079381.html.

[9] China News Group 中國新聞組, "'Serious criminal conduct': CIRC Chairman Xiang Junbo is under investigation" (「罪行嚴重」保監會主席項俊波被查), *World Journal* (世界日报), February 11, 2017, accessed at http://www.worldjournal.com/4829759/; Yang Qiaoling and Han Wei, "Who Was China's Fallen Insurance Regulator Xiang Junbo?," Caixin, April 11, 2017, accessed at http://www.caixinglobal.com/2017-04-11/101077076.html.

[10] "陈新权 纪检组组长" http://www.circ.gov.cn/web/site0/, accessed May 16, 2017. Of course, similar disciplinary inspection teams have occupied state organizations and enterprises throughout the country.

[11] Lin Jinbing and Wang Yuqian, "Chinese Insurer Warns of Liquidity Crunch," Caixin, May 18, 2017, accessed at http://www.caixinglobal.com/2017-05-18/101092274.html; Cheng Zhu 程竹, "A strong regulator is removing hidden bombs; insurance investment will become more cautious," (强监管 "排雷" 险资投资或趋谨慎), *China Securities Daily* (中国证券报), May 18, 2017, accessed at http://www.cs.com.cn/xwzx/201705/t20170518_5286727.html.

[12] "One bank plus three commission are reducing risk; the CSRC lays out eight 'bottom lines' for wealth management" (一行三会风险化解证监会为财富管理划定八条监管底线), *Investment Bulletin* (投资快报), March 30, 2015, accessed at http://finance.sina.com.cn/stock/y/20150330/071921840914.shtml.

[13] Li Wei 李维 and Xu Huiyao 徐慧瑶, "The art of balancing by the PBC and regulatory commissions; Shrinking the shadow balance sheet and the leverage balance sheet while maintaining stability" (一行三会风险化解平衡术: "影子缩表" 与 "杠杆缩表" 下的 "稳中出清"), *21st Century Commercial Commentary* (21 世纪商业评论), May 19, 2017, accessed at http://www.21cbr.com/article/75178.html.

[14] The timing is odd, because it came several days before the December 9 Politburo meeting and subsequent Economic Work Conference that affirmed the "progressivity amid stability" catch-phrase for 2017. "Liu Shiyu and Dong Mingzhu both denounce a 'barbarian,' a combined bully, seductress, and scoundrel" (刘士余董明珠齐声讨 "野蛮人", 集土豪、妖精及害人精于一身!), December 4, 2016, *21st Century Commercial Commentary* (21 世纪商业评论), accessed at http://xinwen.eastday.com/a/161204103049828.html.

[15] Xinhua News Agency, "Xi Jinping presides over the 15th Meeting of the Finance and Economics Leadership Small Group" (习近平主持召开中央财经领导小组第十五次会议), February 28, 2017, accessed at http://news.163.com/17/0228/18/CECOBB4U00018AOQ.html.

[16] Xinhua News Agency, "Xi Jinping presides over 40th Politburo Collective Study Session; Emphasizes that financial liveliness and stability is economic liveliness and stability, and that finance work must be done well and financial security maintained" (习近平在中共中央政治局第四十次集体学习时强调; 金融活经济活 金融稳经济稳; 做好金融工作维护金融安全), April 26, 2016, accessed at http://news.xinhuanet.com/politics/2017-04/26/c_1120879349.htm.

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