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## **RELEASING THE SMALL AND SEIZING THE LARGE: SEMINAL CHANGES IN CHINA'S STATE-ECONOMY RELATIONSHIP FROM 1992 – 2003 AND BEYOND**

This article assesses the evolution of the relationship between the Chinese Party-State and Chinese State-Owned Enterprises as a result of political and economic reforms between 1992 and 2003. Based on the premise that economy is a fundamental component of society, and that economic enterprises constitute social organizations, this investigation merges the heuristic framework of “state and society” scholars with the subject matter of economic historians and political economists, synthesizing a qualitative longitudinal analysis of Chinese state-economy relations. More specifically, this article focuses on shifts in the relationship between the Chinese Party-State and three national oil companies (NOCs) – China National Petroleum Company (CNPC), Sinopec, and China National Offshore Oil Company (CNOOC).

Applying Margaret Pearson’s (1999) heuristic framework of state-society relations to the evolving relationship between the Chinese Party-State and the NOCs, this investigation reaches two core conclusions. First, following Deng Xiaoping’s 1992 southern tour and subsequent reforms, the State-NOC relationship shifted towards relative clientelism, with noteworthy pluralist characteristics. Second, following the 2003 establishment of the State-Owned Assets Supervision and Administration Commission (SASAC), there was a bifurcation of the relationship between the Chinese Party-State and economic society, whereby SASAC enterprises like the NOCs experienced a corporatist turn, and the rest of economic society continued to enjoy a clientelist-pluralist relationship with the Party-State. Notably, however, this post-2003 “bifurcation” of Chinese state-economy relations remains imperfect, as evidenced by the “creep” of corporatism into the nominally “private” economy through the expansion of hybrid firms.

## Releasing the Small and Seizing the Large:

Seminal Changes in China's State-Economy Relationship from 1992-2003 and Beyond

By

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### 1. Introduction: Applying the “State and Society” Heuristic to Chinese Economic History

The restructuring of China's state-owned enterprises (SOEs) has been a core aspect of China's post-Mao Reform and Opening period (*gaige kaifang* 改革开放) (Lo 2019; Naughton 2015). The period between Deng Xiaoping's 1992 “southern tour” and the establishment of the State-owned Assets Supervision and Administration Commission (SASAC) in 2003 constituted a particularly rapid and fundamentally pathbreaking period of change for China's SOEs. While economic historians and political economists have spilled a great deal of ink analysing the reform and restructuring of China's SOEs (e.g. see Naughton 2015; Downs 2008; Lewis 2007), another core group of scholars, largely composed of political scientists, has concerned themselves with a more abstract line of inquiry – the evolving relationship between the Chinese state and Chinese society over the past several decades (e.g. see Perry and Wong 1985; Wakeman 1993; Rowe 1993; Howell 1994; Rankin 1997; Wright 2010; Guo 2014).

This article responds to a research question which has already received substantial academic treatment: How has the relationship between the Chinese Party-State and Chinese SOEs – in particular, China's state-owned oil companies – evolved as a result of political and economic reforms that occurred between 1992 and 2003? Based on the premise that economy is a fundamental component of society, and that economic enterprises constitute social organizations, this investigation merges the heuristic framework of “state and society” scholars with the subject matter of economic historians and political economists, synthesizing a qualitative longitudinal analysis of Chinese state-economy relations. By applying the state and society framework to observations from the economic history and political economy fields, this article offers fresh insights towards the nature and implications of China's 1992-2003 reform efforts as they relate to the shifting relationship between three prominent state-owned corporations and the Chinese Party-State.

In concrete terms, this article focuses on shifts in the relationship between the Chinese Party-State and three national oil companies (NOCs) – China National Petroleum Company (CNPC), Sinopec, and China National Offshore Oil Company (CNOOC) – from 1992 to 2003. These three firms, operating in the same strategic sector, were selected for several reasons, outlined under the “case justification” heading of the methodology section.

This paper adopts the heuristic framework outlined by Margaret Pearson’s typology of state-society relationships (Pearson 1999). In applying Pearson’s framework of state-society relations to the evolution of the relationship between the Chinese Party-State and CNPC, Sinopec, and CNOOC from 1992 to 2003, this investigation reaches two core conclusions. First, following Deng’s southern tour and subsequent reforms, the Chinese state-NOC relationship shifted towards relative clientelism, with noteworthy pluralist characteristics. Second, following the 2003 establishment of the SASAC, there was a bifurcation of the relationship between the Chinese Party-State and economic society, whereby SASAC enterprises like the NOCs experienced a corporatist turn, and the rest of economic society continued to enjoy a clientelist-pluralist relationship with the Party-State.

The following section briefly outlines the article’s research methodology. Next, the paper highlights prominent applications of the state and society approach in China studies scholarship, and outlines Margaret Pearson’s typology of state-society relations. The third section explores political economy analyses of China’s Reform and Opening; and distinguishes these approaches from the state and society framework adopted in this investigation. The fourth section presents a historical overview of the Chinese Party-State’s economic reform and restructuring efforts from 1992-2003. Fifth, Pearson’s analytical framework is used to analyse the historical facts of China’s 1992-2003 economic reforms, with the goal of identifying salient changes in the state-NOC relationship. The final section concludes by underscoring the importance of adopting sufficiently flexible iterations of the state and society framework in future research.

## 2. Methodology

This article’s methodology integrates three core components. First, the existing state and society literature is reviewed, with particular emphasis on Margaret Pearson’s heuristic framework. Second, economic history scholarship pertaining to China’s Reform and Opening from 1992-2003 is utilized to create historical context for the application of state and society theory. Third, state and

society theory are deployed to analyse the historical facts of China's economic reform from 1992-2003, particularly with respect to changes in the Party-State's relationship to CNPC, Sinopec, and CNOOC. This application of state and society theory evaluates changes in the explanatory power of Pearson's five ideotypical models of state-society relations as applied to the state-NOC relationship between 1992 and 2003.

By utilizing state and society heuristics to analyse findings from Chinese economic history scholarship, this article offers fresh insights into the implications of China's Reform and Opening, particular with regard to China's national oil companies. Additionally, this investigation's application of state and society theory is specifically designed to address shortcomings in the state and society framework: by limiting the application of state and society theory specifically to the Chinese state-economy relationship this investigation elides fetishization of politically-oriented Eurocentric civil society, an unfortunate characteristic of some early state and society research.

This article focuses on the shifting relationship between the Chinese Party-State and China's "big three" NOCs – CNPC, Sinopec, and CNOOC. The reason for this focus is twofold: First, it privileges precision over generality – given the vast size and heterogeneity of the contemporary Chinese economy, sweeping generalizations about the entire state-economy relationship are often as misleading as they are enlightening. Second, China's NOCs are extraordinarily influential international economic actors, meaning that while conclusions regarding the NOCs may not be generalizable (except to other ministry-level SOEs in strategic industries), they are valuable in their own right.

Of course, there are also drawbacks to the article's methodology. As indicated above, interaction between the Party-State and China's NOCs is not necessarily representative of the overall state-economy relationship. Lastly, this article draws heavily upon secondary sources, and exclusively upon English-language scholarship.

### 2.1. Case Justification: Why National Oil Companies?

China's modern NOCs were cobbled together from government assets during the reform years of the 1980s, with the intention of stimulating oil production by decreasing political interference in the industry (Lieberthal and Oksenberg 1988). China National Offshore Oil Company was incorporated in 1982, and granted purview over China's offshore oilfield exploration and development, as well as the administration of production sharing agreements with foreign

corporations (Francisco 2013: p. 9). In 1983, Sinopec was formed from downstream assets of the Ministry of Petroleum Industry (MPI) and Ministry of Chemical industry, and CNPC was incorporated in 1988 using the MPI's upstream assets (Zhang 2004). Together, CNPC, Sinopec, and CNOOC are responsible for the bulk of China's domestic oil production, refining, and import activities.

Since the 1950s, the key political imperative of China's petro-industrial complex has been self-sufficiency. Mao's push to develop domestic extraction and refining capability paid off in 1965, when China attained self-sufficiency in oil production, the gold standard of energy security (Zhang 2004). Although China's rapid developed outpaced its domestic oil production capacity in 1993 (when the PRC became a net oil importer), the Party-State continues to place a premium on energy security, and NOCs have taken state-directed steps to guarantee that the flow of petroleum to Chinese consumers continues uninterrupted (Francisco 2013). NOCs have strategically enhanced the diversity of China's crude suppliers to improve import security (Pascual and Zambetakis 2010: p. 31; Tessman and Wolfe 2011; Yergin 2006: p. 13), often with the support of "resource diplomacy" efforts executed by the Party-State (Francisco 2013: p. 50). Additionally, China's NOCs strategically invest in resources and infrastructure that circumvent the Strait of Malacca, through which approximately 80% of China's oil imports flow (Odgaard and Delman 2014). The so-called "Malacca Dilemma" – China's reliance on imports through the Strait, a key choke point guarded by the U.S. Navy – has animated Chinese energy security strategy since at least 2003, when Hu Jintao brought it to public salience (Yergin 2012). China's NOCs also frequently invest in so-called "pariah states" sanctioned by Euro-American governments, where international competition for oil resources is less fierce (Nötzold 2012: p. 139; Yetiv and Lu 2007: p. 209).

Thus, China's petro-industrial complex, and the state and economic actors operating within it, have undergone a remarkable transformation over the past 70 years. The massive size of China's oil industry (China is the world's largest oil importer, and second-largest consumer) (U.S. Energy Information Administration 2015), oil's status as a "strategic industry," the importance of oil consumption in China's rapid economic development, and the corresponding relationship between NOCs and the Chinese state make China's oil industry a unique case for the application of the state and society framework. Rather than taking an unrepresentative sample from a far larger field – the entire universe of Chinese economic actors – this investigation narrows its scope by considering the most influential players in a largely idiosyncratic industry. Finally, the unique nature of the Chinese petroleum industry has already attracted a substantial body of research from diverse

disciplines, providing fertile historical background information to which the state and society framework can be applied. Thus, China's petro-industrial complex and the three core firms which occupy it, present an ideal venue for the application of the state and society framework to Chinese economic history.

### 3. An Introduction to State and Society Theory

In 1994, Elizabeth Perry published an article in *The China Quarterly* heralding the arrival of a new heuristic paradigm in China Studies: the "state and society" approach (Perry 1994). According to Perry, this third generation of scholarship had been first identified by Harry Harding in 1984 (Harding 1984), and was reflected in the subsequent publications of preeminent scholars including Christine Wong (Perry and Wong 1985), Jeffrey Wasserstrom, (Wasserstrom and Perry 1994) Jonathan Unger (Unger and Barmé 1991), Andrew Walder (1988), Vivienne Shue (1990), and Harding (1987) himself.

The state and society approach, as applied to Chinese studies, is distinguished by its rejection of the binary between the totalitarian and pluralist models which animated the first and second generations of Chinese studies scholarship (Perry and Wong 1985: p. 704). Instead, Perry posited, this third generation of scholarship initially appropriated European frameworks of state society relations (in comparison to Soviet-inspired totalitarianism and American-inspired pluralism) to analyse a rapidly reforming People's Republic of China (PRC) (Perry and Wong 1985: p. 704). In doing so, various scholars began to utilize more nuanced and abstract theoretical frameworks like corporatism, clientelism, state capitalism, and civil society to describe and explain Chinese social, political, and economic phenomena (e.g. see Wakeman 1993; Rowe 1993; Howell 1994; Pearson 1999). Such research has inspired also more recent work by other scholars (e.g. see Nathan 2016; Wright 2010; Guo 2014; Pringle 2017; Fewsmith and Nathan 2019).

Early state and society scholarship typically sought to measure the reality of Chinese social, political, and economic reform against a platonic ideal of European "civil society." Especially in the 1990s, "civil society" was frequently cast as a panacea for China's social, political, and economic ills (Kenny 2016), and scholars quantified the success of reforms based on Chinese society, polity, and economy's approximation of idealized European civil society.

Almost as soon as it was popularized, however, the state and society framework was criticized for its failure to divest the platonic ideal of “civil society” from its Eurocentric connotations (Kenny 2016). As a result, the state and society framework was attacked as orientalist, casting western-style civil society as intrinsically superior to purportedly “premodern” state-society arrangements (Kenny 2016). These attacks were supplemented by the incisive criticism of Rowe (1993), who pointed out that there is no term analogous to “civil society” in modern Mandarin Chinese. To Rowe, this indicated that civil society was not a social fact of the modern Chinese experience, and that state and society theory’s extrinsic imposition of the civil society construct was entirely baseless.

This investigation deploys the third generation of Chinese studies scholarship in a manner designed to inoculate it against eurocentrism and orientalism. First, rather than attempting to analyse the entirety of the state-society relationship, this article focuses explicitly on the interplay between state and economy, with a particular focus on three important firms over a short time period. Second, this article subscribes to an interpretation of the state and society theory which posits that no singular model of state-society relations ever perfectly describes China at any given point in time. Instead, the relative explanatory power of particular models (i.e. totalitarianism, pluralism, clientelism, civil society, and corporatism) fluctuates as state-society relations shift over time.

To introduce the heuristic models of state-economy relations deployed in subsequent sections, this article relies on Margaret Pearson’s (1999) typology of state-society relations as applied to the China studies context. Pearson outlines five distinct models of state-society relations: totalitarianism, pluralism, clientelism, civil society, and corporatism. Pearson’s typology is not the most current, nor is it the most detailed, but it is used here because of its balanced and cogent elucidation of five widely accepted models of state-society relations.

Pearson’s heuristic categories are introduced as “off the rack” approximations of common state-society relationships. The main thrust of this investigation subsequently seeks to chronicle the fluctuations of each of these five heuristics’ explanatory power with regard to the relationship between the Party-State and CNPC, Sinopec, and CNOOC from 1992-2003. Pearson’s heuristics are valued primarily for their generalizability, parsimony, and clarity, rather than their objective accuracy – future research would benefit from the application of alternative models of state-society relations (i.e. heuristic typologies designed by other scholars), as divergent findings would help reveal the strengths and weaknesses of different analytical approaches.

Pearson's (1999) totalitarianism model entails the state's complete dominance over society. Totalitarianism assumes that a monolithic Chinese Party-State rules from the top down, granting no genuine autonomy to non-state social actors (p. 23). The totalitarian state is completely immune to dissension and factionalism, both within the central state and between different levels of government (Pearson 1999: p. 23). Claims that the Chinese state has been characterized by pure totalitarianism at any point since 1978 are undermined by persistent factionalism at the highest levels of state leadership (Pearson 1999: p. 23), as famously documented by Lieberthal and Oksenberg (1988: pp. 46–47).

Pearson's pluralist model of state-society relations focuses on social groups as the fundamental building blocks of society. Pluralism assumes that the state does not intervene to privilege any social group over another: in a pluralist system, different interest groups and individuals freely compete to gain access to the state and assert their individual group interests (e.g. see Walzer 1983). Pearson (1999) dismisses the pluralist model's applicability to the Chinese case in part because truly pluralist state-society relations preclude the existence of the patron-client networks that undeniably pervade Chinese business, politics, and social life (p. 23). This investigation concurs, finding that when and where Chinese state-society relations take on pluralist attributes, they are often accompanied by the interpersonal horse-trading characteristic of clientelism.

Pearson's (1999) clientelist model of state-society relations is founded on the existence of informal personal relationships between individuals within the state structure, and those governed by it. A fundamental aspect of clientelist relations is the existence of social or political inequality between the patron and the client (Briquet 2007: p. 95). Subordinate non-state actors can leverage clientelist relationships in order to influence state policy, while Party-State actors can utilize their monopoly control over the distribution of state resources to incentivize policy compliance (Briquet 2007: p. 96; Pearson 1999). Thus, the discretionary dispensation of public resources is an intrinsic characteristic of clientelism (Briquet 2007: p. 96). Pearson (1999) identified several implications of clientelist state-society relations during the late 1990s, all of which are relevant to this investigation. First, within the clientelist model of state-society relations, if the Party-State's perceived authority or legitimacy declines, then the ability of the state to induce certain behaviours from social actors will also decline (Pearson 1999: p. 34). Thus, as reform and opening grants certain actors autonomy from the state, and as the state's total authority over the distribution of physical resources decreases, clientelist state-society relations will further weaken (Pearson 1999: p. 35). Conversely, however, Pearson theorizes that partial marketization strengthens informal clientelist relations by



empowering influential state actors to oversee important transfers of state assets into the nascent private sector (Pearson 1999: p. 36).

Pearson's civil society model of state-society relations draws from modernization theory's hypothesis that economic reforms necessarily create pressure for political liberalization (Pearson 1999: p. 25). According to this model, political liberalization contributes to the development of independent civil society organizations, powerful non-government actors which defend rights and freedoms from state encroachment (Pearson 1999: p. 24). However, modernization theory's assumption that economic liberalization necessarily leads to political liberalization has not withstood the test of time, especially in the Chinese case, exposing a critical flaw in Pearson's "civil society" model.

Pearson bases her model of corporatist state-society relations on Philippe Schmitter's (1974) definition of corporatism. According to Schmitter (1974), corporatist states create or license artificial social units (like SOEs) to represent the interests of a particular base of constituents (pp. 93–94). These units are granted the sole authority to represent their functional area at the state level in return for directing resources towards important state projects and allowing state actors to control the selection of the units' leaders (Barndt 2008: p. 140; Schmitter 1974: pp. 93–94). Corporatism is set apart from the pluralism, clientelism, and civil society models by the fact that it is foisted upon society by the state – like totalitarianism, corporatism is a fundamentally top-down model of state-society relations (Pearson 1999: p. 36). Social organizations licensed by the state are expected to subjugate their individual interests (and those of their constituents) to the national interest, or risk losing their state-endowed power (Pearson 1999: p. 37). In a corporatist system, "interest groups" are merely intermediary institutions licensed by the state to carry out state goals, enforce state policy, and co-opt potential non-conformers (Barndt 2008: p. 140; Pearson 1999: p. 37). Pearson raises a key issue with the application of the corporatist model to the contemporary Chinese context: it is unlikely that the complex interrelation between Chinese state and society is characterized by the singular lens of corporatism (Pearson 1999: p. 41).

Margaret Pearson's critique of the corporatist framework is generalizable to the other four frameworks she proposes: in the complex context of modern Chinese state-society relations, it is highly improbable that any single model will be sufficiently descriptive. This essay resolves Pearson's critique by treating the above models as five ideal types, each of which can present certain characteristics even when a different model predominates. This allows for a much more nuanced understanding of China's state-economy relationship.

#### 4. The Political Economist's Approach to China's Reform and Opening: Distinctions from the State and Society Framework

Political economists have produced a formidable body of research regarding China's Reform and Opening, much of which focuses on the 1992-2003 timeframe highlighted in this investigation. A great deal of China-oriented political economy scholarship, which often draws heavily from development economics and world systems theory, debates the existence and nature of the so-called "China Model" for economic growth and development. This section summarizes several prominent political economy analyses of China's Reform and Opening, with the intention of drawing a distinction between the political economy and state and society disciplines as deployed to analyse China's reform era.

Shaun Breslin (2011) assesses the identification of a unique "China Model" for economic development, ultimately asserting that the PRC's trajectory is not fundamentally different from a typical strong state "Listian" development path. Though Breslin admits that unique circumstances have contributed to China's miraculous growth, he asserts that China's economic dynamism is not the result of an idiosyncratic development model, but rather a garden-variety statist model with certain Chinese attributes (Breslin 2011: pp. 1323-1324). Whereas neoliberal advocates of the "Washington Consensus"<sup>1</sup> assert that China is in a stage of incomplete liberalization, Breslin finds the Party-State's guidance over economic policy is an important feature, not an oversight, of China's development strategy (Breslin 2011: pp. 1328-1331). Gerard Strange (2011), however, problematizes Breslin's characterization of China's development. He asserts that the PRC is a "Post-Listian" state (p. 544) that defies neoliberalism through its actions in international organizations like the International Monetary Fund and World Trade Organization, while simultaneously encouraging foreign direct investment and export-led growth (Strange 2011: pp. 549-554). Strange ultimately characterizes China's development model as market-oriented capitalism, albeit with a distinct opposition to neoliberal economic policies advocated by the "Washington Consensus" (Strange 2011: pp. 556-557).

Jamie Peck and Jun Zhang (2013) analyse China's economic miracle using the "varieties of capitalism" framework: they claim that, although state socialism is a core characteristic of China's

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<sup>1</sup> The "Washington Consensus" refers to the package of neoliberal "best practices" for economic development that emanated from prominent American government agencies, Washington, D.C. based think tanks, and international organizations in the 1990s (Williamson 1990). The neoliberal reforms proposed by the "Washington Consensus" have been criticized for attempting to impose a "one size fits all" guide to economic development, which arguably contributed to the Latin American Economic crisis of the 1980s (Breslin 2011: pp. 1337-1338; Williamson 1990).

development model, China is now by and large a capitalist economy (Peck and Zhang 2013: p. 367). Although some aspects of China's current political-economic superstructure align with liberal market economies, and others are better described by the coordinated market ideotype, Peck and Zhang ultimately find that China's current state-economy relationship may not fit anywhere within the "varieties of capitalism" continuum (pp. 360-365). Ultimately, Peck and Zhang (2013) disagree with Breslin, concluding that China's economic evolution has not accorded with any extant strategy or model, and has largely occurred on Beijing's own terms (pp. 374-375).

Andrea Boltho and Maria Weber (2015) outline the core features of the "East Asian Development Model," and assess China's development strategy in comparison with those of Japan, Taiwan, and South Korea. Despite identifying important differences between China and its neighbours (for example, China's relatively weak industrial policy and rapidly rising income inequality), They conclude that, in an international comparative context, China's development strategy is closely aligned with those of Japan, Taiwan, and South Korea (Boltho and Weber 2015: pp. 277-278). Sebastian Heilmann and Leah Shih (2013) offer supporting evidence for Boltho and Weber's conclusions by documenting China's adoption of Japanese-style industrial policy since the late 2000s. They find that four key coalitions of Chinese policymakers advocate for divergent strategies of economic development: market liberalization, industrial policy, indicative planning, and imperative planning (Heilmann and Shih 2013: pp. 18-19). While market liberalization has reigned supreme since 1992, they find that market liberals have increasingly collaborated with advocates of Japanese-style industrial policy since the Hu-Wen administration's ascension in 2003 (Heilmann and Shih 2013: pp. 11-14).

There are fundamental differences between the political economy perspectives outlined above, and the state and society framework as it is applied in this investigation. Political economists attempt to document the evolution of China's state-economy relationship, and characterize that shift using existing theories of economic organization and development models: state socialism, market socialism, neoliberal capitalism, keiretsu capitalism, state capitalism, developmental capitalism, socialism with Chinese characteristics, and so on (e.g. see Peck and Zhang 2013; Boltho and Weber 2015). The state and society perspective, on the other hand, frames the evolution of the state-economy relationship more broadly, and with reference to relatively more abstract heuristic ideotypes, i.e. totalitarianism, pluralism, clientelism, civil society, and corporatism (e.g. see Pearson 1999; Rowe 1993). Whereas the political economy framework often adopts a comparative approach, weighing China's development against existing economic systems through heuristic

devices like the “varieties of capitalism” framework (Peck and Zhang 2013), modern state and society scholars adopt abstract heuristics, and use inductive, as opposed to comparative, analyses (e.g. see Wakeman 1993). Both perspectives have advantages and disadvantages: the political economy perspective is useful for assessing and contextualizing China’s Reform and Opening vis-à-vis other economies but is bogged down by debates over the idiosyncratic nature of China’s unique development process (Breslin 2011; Strange 2011). Meanwhile, the state and society approach is adept at identifying subtle changes that may not be revealed through comparison to existing economic systems, and analysing the implications of those shifts within China’s unique institutional ecosystem, but is not immediately useful for predicting future challenges or identifying inefficiencies based on the experience of other states (Howell 1994). This investigation utilizes the state and society framework because it aims to analyse subtle shifts in a narrow, singular aspect of China’s state-economy relationship, and does not offer predictions of future challenges or assessments of current inefficiencies.

### 5. Historical Overview: General Changes in the State-Economy Relationship from 1992-2003

In order to understand the significance of the watershed shift in Chinese state-economy relations that took place between 1992-2003, it is first necessary to have a general understanding of the post-Mao social, political, and economic reforms that began when Deng Xiaoping assumed paramount leader status in the late 1970s. In 1978, nearly 100% of Chinese industry was controlled by state-owned firms (Naughton 2018: p. 343). Under Deng’s leadership, the Party-State took economic modernization as its principal goal, and new corporate forms, including foreign firms and Sino-foreign joint-ventures, began cropping up across the PRC’s “special economic zones” (SEZs) (Zhao 2001: p. 343). Zhao Ziyang’s “dual track” and “contract responsibility” systems, implemented in 1987, not only allowed for the entry of non-state economic actors, but also allowed SOEs to devote excess production capacity towards the production of non-plan goods, and do business with private firms (Song 2015: p. 184). The emergence of new non-state enterprises constituted the creation of a new form of social organization, and thus required a shift in the Chinese Party-State’s relationship to a rapidly changing society (Howell 1994: p. 197).

In 1989, however, the transition of state-society relations from relative totalitarianism under Mao (Zhao 2001: p. 42) to Deng’s more pragmatic framework came to a grinding halt. Many conservative leaders of the Chinese Communist Party (CCP) attributed the pro-democracy

demonstrations of Spring and Summer 1989 to Deng's relaxation of Mao-era totalitarian control, as well as the "contagion" of foreign influence that had contaminated China due to Deng's "open-door" policy (Moise 2014: p. 84). Conservative elements of the CCP affected a short-lived "crackdown," which largely reflected a panicking CCP's scramble to consolidate legitimacy rather than a long-term return to totalitarianism (Moise 2014: p. 84; Zhao 2001: p. 47). This conservative *revanche* set the stage for Deng's 1992 southern tour, marking the formal beginning of the period analysed in this paper.

In early 1992, Deng Xiaoping embarked on a 5-week tour of several special economic zones in Southern China. The SEZs, which Deng had established a decade prior, embodied the liberalizing ideals of Deng's post-1978 Reform and Opening project, and Deng's 1992 endorsements of the SEZs jump-started reforms after two and a half years of conservative stagnation (Naughton 2018: p. 100). Deng's southern tour was seen as the formal beginning of the "privatization" era of Chinese economic reform (e.g. see Song 2015: p. 188; Wright 2010). Indeed, Deng's call for a "socialist market economy," echoed throughout the southern tour, has been described as a "euphemism for capitalism" (Li 2008: p. 64). The 1992 14<sup>th</sup> Party Congress elaborated on Deng's message by calling for property rights reform and legitimizing the privatization of SOEs (Li 2008: p. 64), as well as formally endorsing Deng's "socialist market economy" as a legitimate goal of reform (Qian 2000: p. 15). Deng Xiaoping's appointment of Zhu Rongji to oversee economic policy also reenergized reform efforts: whereas Zhao Ziyang had been reluctant to privatize SOEs, and preferred to foster competition through the entry of new non-state economic actors or foreign joint ventures, Zhu Rongji was a proponent of downsizing the state sector and privatizing SOEs to deepen the reform process (Naughton 2018: p. 104).

With SOE performance declining across the board in the early 1990s, renewed calls for economic liberalization led reformers to formulate strategies intended to boost state enterprise performance through restructuring (Song 2015: p. 188). In November 1993, the "Decision on Issues Concerning the Establishment of a Socialist Market Economic Structure" was formally adopted by the 14<sup>th</sup> Party Congress (Qian 2000: p. 15), largely in response to poor SOE performance (Song 2015: p. 188). This set of reforms aimed to clarify the muddled system of property rights surrounding SOEs (which many reformers believed to be the cause of their poor performance) through the complete privatization of small and medium enterprises, and by delineating the Party-State's regulatory obligations from its management responsibilities in larger enterprises (Song 2015: p. 188). In 1994, the NPC adopted the Company Law, allowing SOEs to reorganize as limited liability companies,

and in some cases to list on domestic stock markets (Naughton 2015: p. 114). “Corporatization” was intended to increase SOE performance by aligning the interests of the firm’s managers with those of its owners – however, the 1994 Company Law preserved a modicum of state control over SOEs, asserting the Party-State’s right to appoint members to remaining SOEs’ boards of directors (Naughton 2018: p. 345).

Corporatization was taken a step further at the 15<sup>th</sup> Party Congress in 1997, when the CCP endorsed the strategy of “seizing the large, letting go of the small” (*zhuo da fang xiao* 抓大放小), privatizing all SOEs save for “national champion” juggernauts under the slogan “seizing the large, letting go of the small” (Milhaupt and Zheng 2015). After the endorsement of *zhuo da fang xiao*, local authorities were encouraged to take reforms into their own hands – however, due to the poor economic performance of SOEs during the mid-1990s, devolved “owners” of SOEs often encouraged privatization to defend local coffers from bloated and inefficient enterprises (Naughton 2018: pp. 116–117). In 1998, Zhu Rongji took reforms further by abolishing the central government’s industrial ministries, responsible for the ownership and oversight of some of the state’s largest SOEs (Naughton 2015: p. 48). As a result, China’s largest SOEs, including the “big three” NOCs, effectively functioned without central ownership for five years, until the formation of SASAC in 2003.

In March 2003, the SASAC was created to administer Party-State control over the PRC’s remaining state enterprises. SASAC is situated under the State Council, the highest organ of state administration in the Chinese political system (Saich 2011: p. 119). Therefore, SASAC’s formation brought China’s largest SOEs directly under the supervision of the commanding heights of the Chinese Party-State. Since its formation, SASAC has largely succeeded in stabilizing and recentralizing Party-State control over China’s largest SOEs (Naughton 2015: p. 50). The SOEs not brought under SASAC control in 2003 were passed down to local governments – as during the *zhuo da fang xiao* reforms of the previous decade, local governments often privatized the former state enterprises (Naughton 2015: p. 48).

SASAC control over remaining SOEs is primarily exercised through the appointment of Party loyalists to firms’ boards of directors. The chairpersons of China’s 53 SOEs with “vice-ministerial” rank are all appointed directly by the Organization Bureau of the CCP Central Committee (Naughton 2018: p. 351). Because the Party-State holds a majority stake in almost all SASAC enterprises, there is usually no pushback against CCP nominations to the boards of SASAC SOEs

or their subsidiaries (Naughton 2015: p. 61). Unsurprisingly, corporate chairpersons appointed by the Organization Bureau face long-run career incentives to pursue CCP interests over those of SASAC or their enterprise itself (Naughton 2015: p. 61). As Erica Downs (2010) notes, while SASAC formally exercises control over China's "core" SOEs, in reality, the imposition of the nomenklatura system onto corporate boards constitutes the most powerful instrument of Party-State influence over the uppermost strata of China's economy.

When SASAC was created to manage China's 196 largest SOEs, one of its professed goals was "corporate governance reform" – ostensibly, the reorganization of SOEs in accordance with the 1994 Company Law (Naughton 2018: p. 349). However, SASAC's implementation of corporate governance reform has been excruciatingly slow, especially among SASAC firms operating in protected or strategic industries like oil and gas (Song 2015: p. 197). The plodding pace of corporate governance reforms among SASAC firms operating in strategic industries is probably intentional – since the formation of SASAC, China's strategic SOEs (especially the NOCs) have been increasingly deployed as "instruments of government policy" (Naughton 2015: p. 64), and the Party-State is reluctant to hand over control of these strategic enterprises to independent corporate boards. In addition to improving corporate governance, SASAC is also tasked with concentrating SOEs in areas with national security, natural resource, or natural monopoly characteristics: In 2006, Li Rongrong, head of SASAC, reiterated the Administration's commitment to maintaining full control of enterprises in seven sectors, including oil (Naughton 2015: p. 57).

## 6. Analysis: State-NOC Relations from 1992-2003 and Beyond

This section applies the state and society framework, as elucidated in the second section, to the historical facts presented above. What follows is an analysis of Chinese economic history that is premised on how the relationship between the Party-State and three NOCs changed following three watershed events: the 1992 southern tour, the 1997 affirmation of *zhuo da fang xiao*, and the 2003 establishment of SASAC.

### 6.1. The Liberalization of the State-Economy Relationship from 1992-2003

To understand how the 1992-2003 institutional reforms affected the Chinese Party-State's relationship to CNPC, Sinopec, and CNOOC, it is first necessary to understand the importance of energy security to the CCP. In the 21<sup>st</sup> century, economic development is largely predicated on the uninterrupted consumption of fossil fuels (Li 2016: p. 16). As demonstrated by the global economic

crises of 1974-1975 and 1980-1982, impediments to oil consumption can have excruciatingly dire consequences for capitalist economies (Li 2016: p. 16). Given that CCP initiatives are often animated by the fear of a crisis of legitimacy, and that continued economic performance is a core aspect of the Party's current legitimacy, it follows that the Chinese Party-State will generally take political action to guarantee steady access to oil at reasonable prices for China's domestic market (Nötzold 2012; Calabrese 2004).

State-NOC relations were frequently characterized by clientelism from 1978-1989, as documented by Kenneth Lieberthal and Michel Oksenberg's (1988) seminal study of political factionalism within China's petroleum sector. This system of clientelist state-society relations was bolstered by the fact that the chief "patron" the clientelist state, Deng Xiaoping, had connections to China's petroleum industry (Lieberthal and Oksenberg 1988: p. 84), and likely maintained informal relationships with NOC executives after attaining "paramount leader" status. Throughout the 1980s, however, the incorporation of China's NOCs injected elements of corporatism into the state-society relationship. Each of the NOCs was effectively handed monopoly control over a sector of the oil industry (onshore exploration and development for CNPC, offshore exploration and development for CNOOC, and refining for Sinopec) in exchange for allowing their leaders to be appointed by the state and accepting state guidance on high-level decision-making (Lewis 2007: p. 11; Zhao 2001: pp. 8-9). During the 1980s, the Nomenklatura system allowed the CCP's organization department to ensure the alignment of Party and NOC interests by appointing Party loyalists to key positions within the three NOCs (Downs 2008: p. 123). The State Council also retained the ability to directly influence the marketing, pricing, and investment decisions of the three NOCs (Zhao 2001: p. 27), further evidencing the extent of corporatist controls over the infant NOCs.

However, the Party-State's corporatist control over the NOCs deteriorated rapidly after 1992. Administrative authority over the NOCs was transferred from the State Council to the Ministry of Energy (MOE) in 1988, which was abolished less than five years later in the wake of the southern tour (Zhao 2001: p. 8). Following the abolition of the MOE, the NOCs, which had retained ministerial rank within the Chinese state bureaucracy, often circumvented the anaemic oversight of the State Development Planning Commission, State Assets Management Bureau, and State Economic and Trade Commission (Naughton 2015: p. 48), dealing directly with CCP elites to negotiate production targets, price levels, and resource distribution (Downs 2008: p. 129). Because China's NOCs retained their ministerial status, and many CCP elites had close ties to the powerful



“petroleum faction” (Downs 2008: p. 134), the 1992-2003 era in State-NOC relations came to be characterized by extreme clientelism.

The introduction of clientelist state-society relations, especially in the absence of complete marketization, has the potential to foster rampant corruption (Pearson 1999: p. 35). In China, this “clientelist shock” was precipitated by Zhao Ziyang’s 1987 “dual track” and “contract responsibility” systems, and widespread corruption soon followed. New corporate “social groups” frequently sought to maximize profits by extracting state protection and resources through informal channels (Zhao 2001: p. 49). However, these “social groups” still required Party-State permission to operate within the PRC (Zhao 2001: p. 50). This was not the rise of pluralism, but instead the ad-hoc creation of a new clientelist-corporatist mode of state-society relations, whereby the Chinese Party-State exercised ultimate control over emergent “social” organizations, often through purpose-built “semi-official” organizations (Howell 1994: p. 204), which themselves had a corporatist relationship to the Chinese state.

As the Party-State’s monopolistic control over domestic resources has become increasingly diffuse over the course of post-1992 reforms, some scholars contend that the relationship between Chinese state and economy has become pluralistic (Lampton 2014: pp. 95–96). In 1998, Sinopec, CNPC, and CNOOC were restructured into vertically-integrated oil companies, and their most attractive assets were repackaged into subsidiary corporations that were subsequently listed on the New York and Hong Kong stock exchanges (Naughton 2015: p. 55). The Chinese State retained majority equity ownership of the three NOCs’ foreign subsidiaries (Downs 2008: p. 123), but neither these subsidiaries nor their NOC parent companies were required to pay dividends to the central government until 2007 (Milhaupt and Zheng 2015: p. 679). That the core NOCs were operating without central supervision in competitive foreign markets indicates that a degree of pluralism may have been injected into the State-NOC relationship prior SASAC’s formation in 2003.

The State Council’s ability to manipulate NOC behaviour through investment controls also declined during the 1990s, largely due to the NOCs’ retention of earnings generated by their subsidiaries in international stock markets (Milhaupt and Zheng 2015: pp. 678–679). The weakening of the State Council’s investment controls was compounded by the general collapse of state supervision over the NOCs during the 1990s, most obviously manifested by the abolition of the Ministry of Energy (Naughton 2015: p. 48). Additionally, the compensation of SOE executives

through performance-based salaries (perceived as an important step towards corporatization) made high-level NOC personnel less accountable to the CCP Organization Department, further attenuating Party-State Control over the NOCs (Milhaupt and Zheng 2015: p. 680). The central Party-State's gradually decreasing ability to control NOC investments and executives evidences the declining explanatory power of clientelism, and rising explanatory power of pluralism, to describe Chinese State-NOC relations in the late 1990s.

Thus, from 1992-2003, the relative financial independence and political clout of China's NOCs (and their patrons) often allowed NOCs to put their corporate interests before those of the Party-State (Downs 2008: p. 125). The NOCs' pursuit of their corporate interests was facilitated by the emergence of a hybrid pluralist-clientelist State-NOC relationship, in which influential patrons of the NOCs granted the NOCs more autonomy than had been afforded to them under the largely corporatist state-NOC relationship of the 1980s. The policy shifts that made the "clientelization" of the state-NOC relationship possible had in turn been caused by a broader push for economic liberalization and reform by Deng Xiaoping and Zhu Rongji following the 1992 southern tour.

Despite the undeniable emergence of pluralist elements in the state-economy relationship after 1992, the Party-State's retention of the right to appoint members to SOEs' boards of directors (as stipulated by the 1994 Company Law), as well as the outsized influence of CCP members within the Chinese economy (Goodman 2016) indicates that clientelism continued to dominate state-NOC relations from 1992 to 2003. Chinese businesspeople generally understood that their success was dependent on keeping a low profile, cultivating good relations with local officeholders, and making sure that their commitment to national development was beyond reproach (Naughton 2018: p. 339). Further, the Chinese Party-State maintained strong controls over domestic banking and finance – as a result, maintenance of clientelist relationships with influential financial officials remained an important condition of success for Chinese firms (Naughton 2018: pp. 340–341). Given the persistent clientelist elements of China's post-1992 "socialist market economy," it is not surprising that as of 2007, one-third of China's 800 richest individuals were members of the Chinese Communist Party (Hart-Landsberg 2011: p. 69).

## 6.2. The Party's Over: 2003 SASAC Formation and the Return of Corporatism

In March of 2003, the era of pluralist-clientelist State-economy relations came to an end for CNPC, Sinopec, and CNOOC with the creation of the SASAC. The foundation of SASAC constituted a fundamental bifurcation of the state-economy relationship: whereas most Chinese firms continued

under the clientelist-pluralist state-economy relationship pioneered after 1992, following SASAC's formation in 2003, China's largest state-owned firms found themselves back under the corporatist umbrella of the commanding heights of the Chinese Party-State.

For CNPC, Sinopec, and CNOOC, the establishment of SASAC predicated an unequivocal return to corporatism. The most obvious manifestation of this "corporatist revanche" is that SASAC now holds roughly a 70% stake in each of the "big three" NOCs (Francisco 2013: p. 19). As with other large SASAC firms, the CCP's Central Organization department also continues to appoint the board members of the NOCs, and individuals appointed to executive positions at NOCs are almost always members of the CCP's Central Committee, officials who can be trusted to support party interests (Downs 2010: p. 75). The "revolving door" between the highest echelons of the Party and the NOCs' executive boards ensure that the NOCs' corporate goals remain aligned with those of the Party-State (Downs 2010: p. 76).

Firms under SASAC supervision tend to act in ways that set the foundation for China's continued economic growth and fulfil important national policy goals (Naughton 2015: p. 63). In the case of China's NOCs, these activities often take the form of acquiring oil and gas resources internationally and ensuring their secure delivery to the PRC – indeed, Chinese officials have publicly acknowledged that China's NOCs are required by the state to enhance China's energy security by acquiring foreign hydrocarbon assets (Downs 2010: p. 81). The classic example of China's NOCs "going out" to secure oil and gas resources in pursuit of State interests is CNOOC's failed purchase of the US firm Unocal in 2005, for which CNOOC received massive loans at preferential interest rates from its SASAC parent company (Naughton 2015: p. 63). However, there are plenty of additional examples of the Party-State deploying its NOCs to pursue state objectives since 2003, such as insulating Chinese markets against market fluctuations and supply disruptions by purchasing equity in foreign oil reserves (Francisco 2013: p. 36), granting loans-for-oil deals to states subject to American sanctions (i.e. Iran and Sudan) (Nötzold 2012: p. 139), undermining American interests in the Middle East by pursuing arms-for-oil deals with Iran, Iraq, and Saudi Arabia (Yetiv and Lu 2007: pp. 209–210), and attempting to circumvent the strait of Malacca by developing LNG and pipeline infrastructure in India and Pakistan (Rafiq 2015; Shaikh et al. 2016).

The Party-State's repeated deployment of its NOCs to achieve strategic objectives, in conjunction with SASAC's majority ownership stakes, speaks to the corporatist nature of state-NOC relations in post-2003 China. The Party-State protects NOCs' natural monopolies and allows them to retain large portions of profits in exchange for supporting national security objectives and allowing the

CCP to appoint influential members to their boards. The NOCs are not alone in this regard. Like the NOCs, many SASAC firms' profitability is premised on the preservation of natural monopolies. As a result, these firms' success is predicated on the state's maintenance of sufficiently high barriers to entry in their respective industries, a core attribute of corporatist state-society relations.

There are indications, however, that the post-2003 "bifurcation" of the state-economy relationship – that is, the retrenchment of corporatism for SASAC firms and continued pluralism-clientelism for private firms – remains incomplete. The CCP's adoption of "shareholding companies" as a form of state ownership most clearly evidences the "imperfect bifurcation" of the state-economy relationship. Despite the fact that firms not enveloped by SASAC were spun off to provinces, and often subsequently privatized, state-owned shares of strategic industries (including oil and gas) have actually *increased* in recent years (Song 2015: p. 199), due to the CCP's endorsement of "shareholding companies" as a vehicle of state ownership (p. 193). State-owned "shareholding companies" – often un-corporatized, SASAC-level parent firms – allow SOEs to purchase hefty (or even controlling) shares of potential competitors. As a result, many modern "private" corporations are actually "hybrid" enterprises: subsidiaries of SASAC firms characterized by a high degree of state ownership (Goodman 2016: p. 8). The Party-State's enabling of centrally controlled SOEs to purchase controlling stakes in private actors constitutes the "creep" of corporatism into Party-State's relationship with the private economy.

## 7. Conclusion: The Critical Importance of "Spectrum-like" State-Society Frameworks

This article has conducted parallel literature reviews of Chinese studies scholarship from the state and society and economic history fields and applied the state and society framework to the evolution of China's State-NOC relationship from 1992-2003. Application of the state and society framework to the Party-State's shifting relationship with CNPC, Sinopec, and CNOOC reveals two primary conclusions. First, following the 1992 southern tour and subsequent reforms, the state-NOC relationship evolved towards a clientelist-pluralist framework. Second, after SASAC's establishment in 2003, there was a bifurcation of the relationship between the Chinese Party-State and economic society, whereby SASAC enterprises like the NOCs have experienced a corporatist "revanche," but other economic actors continue to enjoy a clientelist-pluralist relationship with the Party-State. Importantly, however, the post-2003 "bifurcation" of Chinese state-economy relations remains imperfect, as evidenced by the "creep" of corporatism into the nominally "private" economy through the expansion of hybrid firms.

This article's analysis demonstrated that the clientelist and pluralist models of state-society relations had the greatest explanatory power over state-NOC relations from 1992-2003. After the incorporation of SASAC in 2003, the state-economy relationship in general remained relatively unchanged (clientelism and pluralism continued to dominate), while the explanatory power of the corporatism model eclipsed that of the clientelist and pluralist models in the specific case of state-NOC relations.

This investigation's finding that the post-2003 bifurcation of Chinese state-economy relations remains incomplete illustrates the critical importance of adopting a "spectrum-like" framework when using a state and society-based theoretical approach. Rather than viewing typologies of state-society relationships as concrete categories, future scholarship should be careful to view them as ideotypes; benchmarks on a sliding scale of relationships between the state and society. The use of a less flexible heuristic framework will undoubtedly result in a reductive analysis of state-society relations by failing to consider trace elements of one ideotype when another predominates, thereby reducing the accuracy and explanatory power of the model.

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# J C M

No 3

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## BIO

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