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The rise of the 'shareholding state': financialization of economic management in China

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Abstract

Using the rise of the Chinese 'shareholding state' as an example, this article attempts to extend the study of financialization from the economy to the state. It documents a historical and institutional process in which the Chinese state refashioned itself as a shareholder and institutional investor in the economy and resorted to financial means to manage its ownership, assets and public investments. I demonstrate that financialization of economic management in the Chinese state contain three processes: the introduction of shareholder values by the state to managing its asset, the expansion of state asset management bodies and the provision of structured investment vehicles by these institutions to fund fixed asset investment. By uncovering the mutually leveraging effect between sovereign power and finance, this study illustrates a politically endogenous model for the rise of finance in state-directed economies.

Key words: financialization, institutional political economy, China, state, public finance, public sector reform

JEL classification: N Economic History, H Public Economics, L Industrial Organization

1. Introduction

In 2003, Central Huijin Investment Ltd was created by the Chinese state to capitalize and become a major shareholder of China's state-owned commercial banks. Without much fanfare or publicity, Central Huijin has snowballed its assets in the past decade to nearly 23 times that of USA's largest financial holding company—JPMorgan Chase & CO. Huijin has expanded its business into areas of insurance, securities and investment. It also participated in sponsoring the dissemination of structured financial products for the purpose of financing infrastructure projects and urbanization in China. Huijin's meteoric surge embodied the rapid construction of the Chinese shareholding state following the corporatization of its

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public sector. To better exercise the ownership rights of the state, hundreds of state asset management bodies have sprung up across the nation in various organizational constellations—as state asset supervisory agencies, state holding corporations or state asset management and investment companies—to represent state ownership as well as manage and appreciate the value of state assets. This state asset management system has not only given additional abilities to the state, it has fundamentally altered the structure and orientation of the state and reset the ways in which the Chinese state managed the economy and undertook public investment. This article surveys the origin, expansion and consequences of this process and in so doing attempts to chart the institutional trajectory for the rise of finance in a state-led context.

The above trend echoes the formative elements of financialization as documented in the literature. The rise of shareholder values and the increasing prominence of financial actors and channels in shaping the economic activities in China ostensibly paralleled financialization as a worldwide phenomenon. In the Chinese case, the omnipresence of state actors, however, poses challenges to the central presuppositions of the existing literature. First, in existing accounts of financialization, the 'object' that was being 'financialized' was, first and foremost, the economy; states were suppliers of (de)regulation policies that facilitated financialization (Fligstein, 1990; Carruthers and Kim, 2011). Second, financial investment has been perceived as a zero-sum game with productive activities (Boyer, 2000; Stockhammer, 2004; Crotty, 2005; Orhangazi, 2008). These two presuppositions, while doing justice to cases of liberal and developed economies, would likely encounter difficulties when squared with historical instances and national contexts where states were weighty financial actors themselves, especially as they tried to link state finance to articulated notions of development and the industrialization of the state.

The Chinese case is a prime example. The Chinese state itself owns massive amount of state assets and invests on the financial market. It is also the vanguard of financial technology and innovation. Government actors actively use structured financial schemes to leverage assets and fund their public investments. The largest issuer of securitized products in China is a state-owned development bank. These facts superimpose a statist tale onto the current narrative and suggest that financialization is not only a sign of post-industrialization, but a new stage of late development.

Empirical challenges require conceptual adaptations. To better characterize the Chinese case, I adjust the definition of financialization to describe the transformation of the economy and capture the behaviour of the state. Financialization in this article refers to a process in which the state increasingly relies on a set of financial means (financial market, financial indicators and financial instruments), to manage its assets and fund public investments. These financial means involve three interrelated components: (a) the introduction of shareholder values by the state to managing its assets, (b) the expansion of non-banking financial institutions to manage these assets and (c) the provision of financing vehicles by these institutions for state-led fixed asset investment.

Besides reconceptualization, this article also intends to bring political power into the explanatory picture. Finance did not outgrow politics and replace it. The political logic looms large at every stage and consideration both in terms of the deliberate choices that the state actors made and the catalytic effect that political power had over financial expansion. Financialization was a peculiar choice added to the conventional toolkit of the state, including functions like regulation and budgeting. As China's past economy was initially organized around planning and government budgeting before the economic reform, the transition to

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financialization appears particularly drastic and merits explanation. I will demonstrate that resorting to financial means in the Chinese case was a political choice and innovation made by the state when its budget constraints were hardened. These financial means, which involved borrowing, investing and repaying, however, inexorably introduced chained financial risks to political entities. The exercise of financial entrepreneurship by various state or parastate agencies also embedded market competition in political and bureaucratic processes, which caused the conflation of state and market in an expected fashion. It is regarding these larger political consequences that the term financialization in this article is intended to provoke consideration.

The Chinese case also offers a historical instance to investigate the results of the collusion between the power of the state and the magic of finance. I will show that the rapid expansion of state asset managers, both administrative and corporate, was based on their ability to utilize their state or parastate statuses. In order to participate in this shareholding competition, state asset management bodies have been creative in translating inherently public resources, such as favourable access to cheap credit, regulatory favours, public revenue streams and essentially sovereign confidence, into capital or borrowing capacity. Such politically leveraged finance inevitably raises questions about sustainability. This article hopes provide avenues of inquiry for this question.

To demonstrate both the quantitative and organizational changes, this study draws on data and evidence from a variety of sources. To gauge the magnitude of the shareholding state, I have assembled statistics from various types of yearbooks regarding assets of public enterprises and government entities. To my knowledge, a systematic calculation of the volume of assets of the Chinese state as attempted in this article is the first of its kind. To disclose the intention of shareholding state builders, this article relies on writings, speeches and interviews of decision makers and their advisors. To map the organizational histories of emergent state shareholders, I piece together information by looking through policy documents issued by the shareholding organizations and news reports on their investment activities.

I will first summarize the current literature on financialization and highlight studies of similar historical cases where the role of the state proved instrumental to the rise of finance. I will then proceed to delve into the Chinese case and examine the origins of the shareholding state and the motivations of its designers in envisioning the financialization of state control. The third part of the article surveys the proliferation of state asset managers after the corporate reform. It details how state actors used state resources to raise funds, expand their business, engage with each other in a competition over shareholding and finance public investment. The discussion section assesses financialization in relation to China's development model. It argues that attention to the role of sovereign power in the rise of finance can inform us about the Chinese model's durability.

2. Financialization and the State

In the current literature, financialization, broadly defined, refers to 'the increasing role of financial motives, financial markets, financial actors, and financial institutions in the operation of domestic and international economy' (Epstein, 2005, p. 3). The rise of finance is certainly not a recent phenomenon, but scholars have argued that it has reached a new historical phase. Observed on a firm level, financialization is marked by changes in the guiding principles of corporate behaviour. The rise of shareholder value oriented corporate management towards driving up stock prices and increasing the wealth of its shareholders (Lazonick and

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O'Sullivan, 2000; Mizruchi and Kimeldorf, 2005; Fligstein and Shin, 2007). Assessed in terms of national economies, financialization refers to new accumulation regimes 'in which profits accrue primarily through financial channels rather than through trade and commodity' (Krippner, 2005, p. 174). Scholars emphasized that the emergence of this accumulation pattern was a reaction to the declining profit rate in productive activities and has the effect of further 'crowding out' fixed asset investments by its discouraging long-term investment (Boyer, 2000; Stockhammer, 2004; Crotty, 2005; Orhangazi, 2008).

The current account of financialization holds two implicit assumptions about two sets of relationship that fall short of fully accounting for the Chinese case. One is on the relationship between the state and economy, the other between finance and fixed asset investment. In the current explanatory framework, states were mostly suppliers of (de)regulations which facilitated the financialization of economies (Fligstein, 1990; Carruthers and Kim, 2011). State regulations, a centerpiece of which has been macroeconomic policy such as the calibration of interest rates and exchange rates, have acted as market levers and induced firm behaviour from a distance. In other words, states were policy-makers not economic actors themselves. The rise of finance was also marked by its exclusionary effect over fixed asset investment, such as those on infrastructure, property, plant and machinery. Non-financial corporations that engaged in financial investments prioritized short-term financial gains over long-term investment, diminishing the rate of capital accumulation overall (Crotty, 2005; Krippner, 2005; Orhangazi, 2008; Tellalbaşı and Kaya, 2013). Finance and the real economy are portrayed as being in zero-sum struggle for a limited amount of capital and policy resources.

But if we look for the usual signs of financialization in the economy, we find many of these in China as well. The vast majority of Chinese firms have been corporatized and shareholder values have begun to gain traction in the business community (Meschi and Cheng, 2007; Lin *et al*, 2009; Zhao and Xu, 2013; Dong *et al.*, 2014). The booming capital markets offered attractive investment channels for firms and households (Walter and Howie, 2001; Wang *et al.*, 2014). Highly structured financial products have sprung up unabated after the 2008 financial crisis (Law, 2014). However, a preoccupation with the economy causes one to overlook the preponderant role that the Chinese state has played in spearheading the application of shareholder values and in creating China's financial markets. A focus on the specifics of China's financial markets obscures the real purpose of those financial products, their embeddedness in state hierarchies and their linkages to developmental strategies.

The current downplay of both state and industry in the literature might be an honest reflection of the respective national contexts of existing studies. Most of our existing knowledge of financialization has been drawn from case studies of liberalized and developed economies (Jürgens *et al.*, 2000; Goyer, 2006; Correa *et al.*, 2012). Much less research has been done on other economies, where states continuously play strong roles in directing economic development and where industrialization is the developmental strategy (Akkemik and Özen, 2014; Tavasci, 2013).

However, even in presumably liberalized economies, states can participate in financial markets through state ownership, government-controlled assets and various credit guarantee schemes (The World Bank, 2012). These linkages have provided the state with means of intervention in moments of economic crisis. Yet the purpose of state-led finance often goes further beyond the fending off of macroeconomic instability than we are willing to acknowledge. Liberal states have funded welfare programmes and public investment when the fiscal budget was politically unfeasible while credit financing had the advantage of avoiding

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democratic domains. One example unexpectedly comes from the archetypical case of a liberalized economy—the United States. Scholars have uncovered that the American state, both federal and local, is more active in facilitating financialization than is commonly believed (Davis, 2009; Pacewicz, 2012; Quinn, 2010, 2014; Schwartz, 2012). The two mortgagee corporations, Fannie Mae and Freddie Mac, both of which were at the forefront of the 2008 financial crisis, were government-sponsored and owed their existence to the USA's longstanding political tradition of relying on credit to provide public welfare (Prasad, 2012; Quinn, 2014). Likewise, in the wake of budget deficits many US local governments have started to create bonds similar to structured asset-backed securities and hire finance professionals to build local development projects (Pacewicz, 2012).

Historical examples of state-led finance abound, although they remain scattered in individual monographs and have yet to be studied as a family of comparable phenomena. Here I will highlight a few to make historical connections and set the stage for the Chinese case. From 1930s to 1970s, many Western European countries maintained large public enterprises and experimented with various formulae for state shareholding (Holland, 1972; Toninelli, 2008). Those states which still hold up sizable public sectors in spite of waves of privatizations, such as France, are actively legitimating its control over state-owned enterprises (SOEs) using the shareholding model (Coutant, 2014). In the realm of connecting high finance and industrialization, the Japanese state has proven a prominent precedent. To avoid budgetary outlays and unpopular taxation, the Japanese Liberal Democratic Party from the 1930s until the 1990s resorted to a Fiscal Investment Loan Plan (FILP) to channel credit from the Postal Saving System to industrial sectors (Park, 2011). This state-arranged financial scheme did not shy away from using investment-driven inflation to fuel high-speed growth (Metzler, 2013). These cases all invite research that may cast new light on state-led development in a financial age. Compared with these examples, the Chinese case still stands out for the enormous magnitude of its state sector[1] and heavy state intervention in economic development on a wider range of fronts (Yang, 2006; Walter and Howie, 2011; Eaton, 2013; Li, 2014). This extreme case provides a rare opportunity to view what happens as the motivations of the state superseded those of private market actors.

Related studies on China fall into two strands. One category mainly focuses on SOEs' corporate restructuring (Lin and Zhu, 2001; Hassard *et al.*, 2007; Zhang, 2008; Oi, 2011). This body of literature is well developed and empirically rich. Yet few of them have situated SOEs' shareholding reform in a larger state scheme to financialize state/economy relations or pay sufficient attention to the new set of supporting structures that have been built to discipline the SOEs. The other strand in the literature began to heed state asset managers as emergent organizations in the public sector. But existing portraits have been limited to individual organizations, mainly those that can be easily cast behind a legible organizational façade, such as the Sovereign Wealth Fund, but these portraits failed to capture the emergence of the state asset management system as a concerted and related phenomenon (Fung *et al.*, 2004; Shih, 2009; Eaton and Zhang, 2010).

I argue that China's shareholding reform has not only 'modernized' SOEs but provided the state with new interests, positions, capacities, instruments, ideas and time horizons, resulting

1 State-owned firms hold one half of total assets, produce one-third of industrial outputs and hire one-fifth of China's employees. Data from 'OECD Economic Surveys: China' published in March 2013 and *The Yearbook of Industrial Economy in China, 2012*, p. 19.

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in what I call the rise of the 'shareholding state'. The shareholding state is not an abstract concept. It is embodied presently in a proliferation of 'personified' state shareholders and institutional owners who exist between the abstract state and operative SOEs. The middle-tier state asset management system was built to centralize financial resources and the financial management of the public sector. The number of state organizations involved has been large enough to serve as a playing field unto itself, with players competing to grab favourable financial access and resources, maximizing their holdings, and climb the shareholding ladder to control the appointment of managers and investment decisions.

The construction of the shareholding state in the past two decades is a qualitatively different phase of state building. Scholars have attempted to grasp the evolving nature of the Chinese state after the recession of the planned economy with terms like the 'entrepreneurial state' (Duckett, 1998), 'developmental state' (Xia, 2000) and 'regulatory state' (Yang, 2006). These attempts have successfully captured some aspects of the new development but have so far neglected how state developmentalism and entrepreneurship coupled with financialization to become something entirely new. I posit that the shareholding state altered the way in which the state invests, develops and regulates, thus meriting an analysis of its own.

3. Building the shareholding state

This section explores the origin of the shareholding state by investigating the intentions of its early designers. Observers and scholars deemed that the corporatization (gufenzhi gaige) of SOEs was 'a Chinese way of privatization' (Ma, 2010; Walter and Howie, 2011). They pointed out that the number of industrial SOEs plummeted from 120 000 in the mid-1990s to 31 750 in 2004 after the shareholding reform; industrial output of SOEs as share of China's total also dropped from 56% in 1994 to 35% in 2004.[2] This array of evidence overlooks the amount of capital assets that remain in the hands of the state. Figures 1 and 2 show how the assets held by the Chinese government and SOEs soared in the past 10 decades. Measured against GDP, neither of the trends showed signs of downsizing. I argue that this outcome was consciously envisioned by early designers of the shareholding reforms in their attempts to revitalize loss-making SOEs without relinquishing state control. Uncovering the motivation behind shareholding reforms will further shed light on the means adopted to corporatize and recapitalize SOEs.

3.1 From managerialism to the revolt of owners

There is no question that SOE reforms have been one of the top agendas of China's overall economic reform since the end of 1970s, but much less attention has been given to the fact that SOE reforms have followed a linear path of transition but undergone a fundamental shift in its focus and method. In the 1980s, SOE reform was premised on enhancing management; in the 1990s, reformers strove to activate the disciplinary effect of shareholders. This shift in philosophy from managerialism to shareholder value is curiously isomorphic to what happened to western corporations from the 1960s to the 1990s (Mizruchi and Kimeldorf, 2005) and possibly indicates some diffusion. The key difference lies in the

2 Statistical Yearbook of China, 1995 and 2005.

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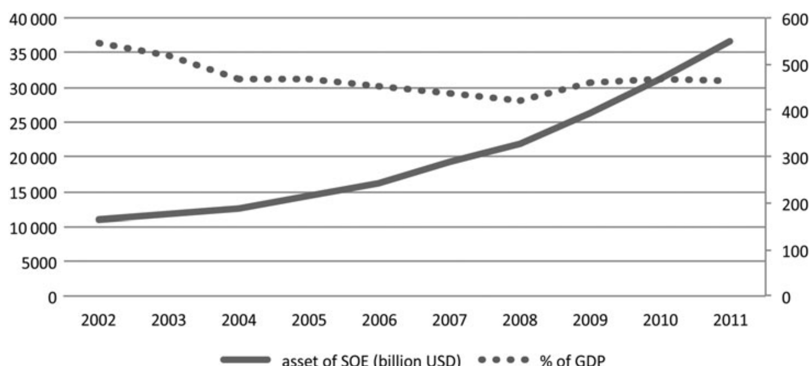
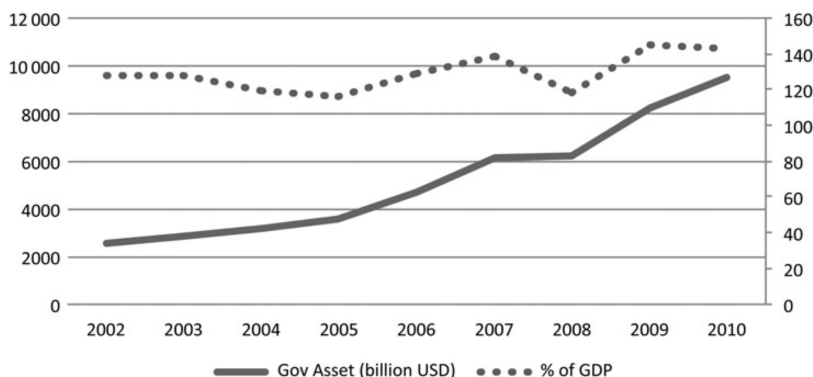


Sources: Assets of SOEs is complied from ten Yearbooks of China's State Asset Supervision and Administration from 2003 to 2012; calculation of its percent of GDP is done by the author.

Figure 1. Assets of SOEs and its percentage of GDP.



Note: Government assets include those of both central and local governments. Assets encompasses financial assets (equities, land reserves, savings) and non-financial assets (government shares in unlisted firms and non-operating assets).

Source: Complied from a study on national assets and liabilities by the Chinese Academy of Social Science, published in *A Study on National Assets and Liabilities*by Social Science Publisher in 2012.

Figure 2. Government asset and its percentage of GDP.

driving force. Shifting corporate principles were not so much a result of corporations' voluntary reactions to changing market and regulatory environments as methods employed by the state to reorganize the public sector.

The transition reflected changing notions of public sector management among the Chinese policy elites. In the early period, SOE reforms centred around increasing the autonomy of managers rather than restructuring ownerships. Throughout the 1980s, the deterioration of SOEs' performance was prevailingly diagnosed as a managerial problem. To grant incentives to SOE managers, Chinese reformers implemented a profit contract system to decentralize administrative control over SOEs. It was a time when Japanese managerialism caught the imagination of Chinese officials in their pursuit of corporate modernity. Study tours were dispatched to Japan and take-home

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guidelines were assembled and circulated. Foreign experiences were considered valuable as an opportunity to encounter 'advanced management methods.' (Li, 1981; Yuan, 1991). My examinations of the speeches and writings of key leaders show that the managerialist diagnosis prevailed until the early 1990s. In 1994, Premier Zhu Rongji still attributed SOEs' falling profit rate and their lag in technological innovation to the lamentable degeneration of the socialist managerial class in China (Zhu, 2011, p. 376).

Opportunism and malpractices among SOE managers mushroomed following the decentralizing approach to managerial reform. Managers attempted to hide information from central planners and siphoned off state resources for their own private businesses. They also developed their constituencies by colluding with local government officials in stripping assets, extracting state resources and corruption. Some managers forged alliances with workers by ignoring wage planning and discretionarily increasing workers' salaries and consumption expenses. Such practices allegedly trigged the rise of consumer prices and derailed national economic plans. The growing power of managers culminated in the massive use of Chinese-style management buyouts and a real wave of privatization; managers of these enterprises acquired controlling stakes or even full ownership via off-market negotiations with local officials (Leng, 2009, p. 76). Around 1994, this way of privatizing SOEs, which resulted in a heavy loss of state assets, alarmed the public and the central leadership.[3]

At this conjuncture, the diagnosis of the SOEs' plight by policy elites started to gravitate towards the problem of ownership representation. This shifting locus of SOE reform reflected the vision of the post-Tiananmen leadership and their alleged 'neoauthoritarian' approach to economic liberalization which attached importance to both state control and the development of modern market institutions (Sautman, 1992; Perry, 1993).[4] Among the policy circles of the new administration, I find that the 'Integrated Reform School' (*zhengti gaige pai*) (Wu and Zhou, 1988), a self-organized policy advocacy group, presented the most coherent voice in constructing the alternative. The School turned out to be instrumental in supplying the post-1989 leadership with a renewed theoretical justification and concrete organizational blueprint to proceed with public sector reform.

This School consisted of state think tank researchers and junior officials associated with the financial arms of the state, mostly the People's Bank of China (PBOC) and the Ministry of Finance (MOF). They were versed in Western tenets of corporate governance and agency theory but also politically well connected, especially on account of their amenable relationship with Premier Zhu Rongji.[5] Their proposal centred on addressing the problem of absent owners and aligning the ownership reform with shareholder value.

In the Mao period and the first decade of China's economic reform, the documentation of ownership for SOEs was terribly unclear even though SOEs were nominally 'owned' by the state; state ownership came with vaguely defined obligations and responsibilities.[6] The

3 A search in the Chinese journal database Duxiu shows that the number of articles on the topic of 'state asset loss' jumped from 11 in 1993 to 171 in 1994. Half of them were written by government officials and researchers.

4 This paradigmatic shift was instrumental in promoting the recentralization and sealing the fate of the decentralizing approach associated with the fallen Hu Yaobang/Zhao Ziyang administration.

5 Interviews of colleagues of the School, Beijing, 06/27/2013.

6 Multiple government agencies (such as The Ministry of Finance, the Planning Commission, and the Ministry of Labor) with different objectives divided the right to supervise SOEs. They imposed *ad*

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School argued that the absence of owners in conjunction with vaguely defined owners' rights and incentives were major reasons for the loss of state assets and the SOEs' disappointing performance (Wu and Qian, 1993; Wu and Xie, 1994; Zhou *et al.*, 1994). Their solution was to institute shareholding reforms so that shareholders' rights, that is, the state's rights in the Chinese case, would be safeguarded.

The School played the role of exporting Western practices of corporate governance and agency theory through US-based Chinese economists such as Qian Yingyi. They also helped universalize and politically neutralize these theories for the socialist context. They argued that Chinese SOEs were suffering from their own versions of the 'insider control problem' as 'big corporations' in liberal economies once did. This problem was particularly acute in a socialist economy because state ownership was neither personified nor clearly documented. They encouraged the state to exercise shareholder activism and discipline managers. To this purpose, they emphasized that the corporate governance mechanism was essential to modern corporations. Corporate boards and board meetings were institutional venues where shareholders' interests and rights could be exercised (Wu and Qian 1993). Overall, the School depoliticized shareholding, presenting it as a universal trend of the socialization of capital and the protection of investors' rights (Zhou *et al.*, 1994). Through meetings and personnel connections with the leadership, they seized every opportunity to hammer their ideas home. In 1997, President Jiang Zemin, thoroughly convinced, reported to the National Congress that shareholding ought to be part of the official guidelines for SOE reforms. Jiang asserted 'The shareholding system is an efficient way of organizing capital. Capitalism uses it. Socialists can use it too' (Jiang, 2006). By 1999, 84.8% of state-owned industrial firms had been corporatized and reconstituted with corporate governance structures (Zhou and Zhang, 2005, p. 14), which introduced shareholder conferences, the board of directors and the board of supervisors (Garnaut *et al.*, 2005). In 2005, the revised Company Law became the key legal framework for consolidating these three tiers of control under which the shareholder conference elected directors and supervisors. Since state ownership was dominant, and the chairman of the board of directors and the CEO were often combined in China, this chain of control implied that the government could legally exert overwhelming influence over managerial appointments and incentives (Shan and Round, 2012).

3.2 The discovery of financial mechanisms of state control

Corporatizing SOEs in a socialist economy logically led to two sets of major changes: state assets would be converted into a common dominator—equities; and investment opportunities would be open for non-state sources of funds. This twin process posed two challenges to the party-state: first, would equity control be more effective than other types of control? And second, would shareholding reform open floodgates to privatization and the eventual loss of control? I find that the initial design of China's shareholding system bore out both of these concerns.

The first question was raised in the context of the handling of bad loans held by the SOEs. Since the early 1990s, debt had already become one of the SOEs' major obligations to the state. About 30% of them turned sour in 2000 and inflicted considerable damage to the state banks which lent them (Hu, 2004, p. 55). China had not had prior successful experience dealing with

hoc administrative interferences and, more often than not, generated conflicting signals; yet no single entity was made ultimately responsible for SOEs performance (Leng, 2009, p. 65).

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bad loans and the choice was not obvious. The state had three options: fiscal injection, writing them off or a debt-to-equity swap. In 1994, Officials from the School suggested to the State Economic and Trade Commission (SETC, the overarching economic decision-making body at the time) that fiscal solutions for dealing with bad loans—writing them off or fiscal injection—were no longer sustainable given the dropping tax revenues of the central state. Instead, converting these non-performing loans into share capital could improve the asset quality and capital structure of state banks without burdening the national budget. By careful calculation, the School's leading advocate, Zhou Xiaochuan, then a researcher People's Bank of China (China's central bank) and now its governor, was confident that the total sum of state assets, after a debt-to-equity swap, would not shrink (Zhou and Wang, 1994).

The leadership's worries surrounding shareholding reform were not put to rest until they were convinced that the state's reign over the economy would not diminish but be reinvigorated through financial control. Initially, party leaders associated shareholding reform with decentralization and privatization. Key leaders in the early 1990s found that the Soviets' voucher system having developed into outright privatization cast a long shadow over Chinese leaders' perception of shareholding reform (Zhu, 2011, Jiang, 2006). Premier Zhu Rongji, in particular, expressed concerns with China's homegrown trend of experimenting with employee ownership plans (Zhu, 2011, p. 449). The School, however, assured that as long as the state kept majority stakes in strategic sectors, it would not only continuously enjoy the rights of the largest shareholder, but would also be able to suck in and 'leverage' funds of private sources through capital market finance. SOEs would be able to tap into the growing national surplus more effectively. The School's key member, Guo Shuqing, urged the leadership to update their notion of state control, arguing that the state's control in the age of finance was not merely measured by the amount of capital which it directly owned, but by the leverage and influence that the state's capital would be able to command (Guo, 2008).

The 1997 Asian Financial Crisis jolted the leadership and fortified their determination to overhaul the Chinese banking system and clear SOEs' bad loans. In 2000, SETC officially rolled out the debt-to-equity programme nationwide. At the same time, shareholding reform was finishing up its last stroke, with other forms of governmental contributions including funds and physical assets also appraised and converted. The stock market had become a popular venue to raise capital while the peculiar design of SOEs' shareholding structure also avoided the possibility of eroding the majority ownership of the state. This is because shares of listed companies were divided into three major types of shares—state shares (guoyou gu), legal person shares (faren gu) and A-shares. Only A-shares were tradable on the stock market while 'state shares', which were held by governmental institutions, and 'legal person shares', which were invested by state-controlled enterprises, were non-tradable. Of all listed companies, it is estimated that non-tradable shares constituted at least two-thirds of total shares of all listed companies (Yu, 2013). Non-tradable shares thus were the safe haven of state ownership. Since 2007, more SOEs have been taking advantage of the stock market. Until 2012, 953 state-controlled corporations were listed. This number accounted for 40% of all listed companies and 51% of total market capitalization on the A-share market.[7]

7 *Source*: 'the National Meeting of the Supervision and Management of State Asset,' SASAC, 01/10/2013.

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4. The rise of state asset management systems

The state needed to designate concrete organizations to 'personify' shareholders and exercise its rights. A new command level, constituted of personified shareholders, was put in place. This organizational vacancy attracted multiple state and parastate bidders. This section charts and explained the contested process which underpinned the expansion of the organizational apparatus of the shareholding state.

4.1 SASAC, Huijin and the changing state structure

In 2003, the State-owned Asset Supervision and Administration Commission (SASAC) was established against the backdrop of a new wave of public criticism over state asset loss during unmonitored and predatory privatization. SASAC, an administrative agency under the State Council, was made to be the 'sole representative of state ownership' designated to 'perform (state) investors' responsibility' for 196 central SOEs in the non-financial sector (*yangqi*, SOEs controlled by the central government). By 2005, the local branches of SASAC had replicated this function at the provincial and municipal levels to supervise local SOEs. One of SASAC's core missions was to 'establish and improve the index system for preservation and increase of the value of state-owned assets'.[8] Since 2005, SASAC started a yearly record of 'the rate of preserving and appreciating the value of state assets' (*baozhi zengzhi lv*) for each central SOE and publicized their rankings by this measurement. To better reflect the opportunity cost of state's capital, SASAC added the metric of Economic Value Added (EVA) as a baseline evaluation in 2010. EVA is a shareholder-value-based measure popularized after waves of shareholder activism in Anglo-Saxon economies in the 1980s (Froud *et al.*, 2000). EVA now accounted for 40% of the criteria evaluating SOEs' executive performance. The reminder targeted profits and industry-specific metrics. In an interview with media the head of the Bureau of General Affairs of the SASAC, Liu Nanchang, explained the rationale behind the change, 'Previously, we viewed the large and high-profit-generating firms as good ones. The concept has changed now. Profitable enterprises don't necessarily mean that they have created enough value for shareholders'.[9] SASAC, by way of developing tools and metrics to discipline SOEs, has reached its institutional maturation and grown closer to identifying with a typical corporate shareholder in spite of its administrative status. I grouped all the policy documents SASAC has issued since its establishment to 2014, 201 in total. The largest subset, about one-third of them, had to do with the management of SOEs' shares, assets and dividends. Other policies indicative of shareholders' typical functions include those on evaluations of performance, downsizing non-core business and keeping executive compensation in check.[10] To the public, the most tangible change occurred in the area of dividend policy. After a period of paying no dividends at all, SOEs were educated and ordered into handing over their shares of profit to the state at a hiking rate. SOEs had to pay 10, 20, or 25% of their profit depending on the profitability of the sectors they were in. A recent decision on 'Some Major Issues Concerning Comprehensively Deepening the Reform' made in 2013 by the Party

8 *Source*: SASAC official website.

9 Jiang Xufeng, 'China's SOE Watchdog Pushes for Value Creation Mindset,' Xinhua Press, accessed at http://news.xinhuanet.com/english/2010-01/15/content_12816923.htm, on November 12, 2014.

10 The 23% of the policy documents involved improving management, 10% on budget reporting and 10% investment; these functions would be considered more 'heavy handed' than those of a typical shareholder.

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was aimed at bring the average rate of SOEs dividends at 30% in 2020, allegedly in line with what SOEs have done in foreign countries.[11]

The above account applies to the industrial realm. State asset management in the financial sector followed an even more corporate route. Before the corporatization of state-owned banks, the MOF vaguely 'owned' the state banks. Fiscal injection from state coffers through the MOF was the standard practice for beefing up or bailing out the socialist banks. After shareholding reform, China Central Huijin, a financial holding corporation, was set up to garner controlling shares on behalf of the state. If the SASAC was an administrative body and tempted to do more than a shareholder would (Naughton, 2005), Huijin pledged not to intervene in state banks' 'managerial decisions' but focus solely on their financial performance. According to my source at Huijin, Huijin has cast two-thirds of the total negative votes at meetings of the board of directors, mostly centering on issues of M&A, the procurement of capital assets and senior managers' salaries and bonuses.[12] Huijin clearly wanted to act as responsible shareholders acted rather than a rubber stamp.

The emergence of these asset management bodies transformed the Chinese state structure from vertical alignment to a more horizontally configured organization. In the 1980s and through the first half of 1990s, the public sector was managed along ministerial and sectoral lines (see Figure 3). After that, as Figure 4 shows, the abolishment of industrial ministries opened up space for new overseers. Holding companies and state management bodies occupied these positions and asserted a new type of control. They centralized the state's supervision of SOEs and state-owned banks and financialized the terms of such supervision. In contrast to the vertical lines of authority enacted by ministries and their SOEs, these horizontal financial structures to some extent obscured the sectoral identities of the state's capital. New types of industrial knowledge emerged in correspondence with these cross-sectoral positions and financial perspectives. The new generation of financially savvy industrial managers started to look out for the market value of industrial projects and the opportunity cost of invested capital. This group of state investors frequently cited GE Capital and Singapore's government-owned investment company Tamesek as models for emulation.[13]

4.2 The bureaucratic battle for shareholding

Structural positions of shareholding had been carved out in the state, but there was no legal designation concerning which state organizations were allowed to hold shares in the public sector. Various state organizations took notice of opportunities in this new administrative field, to which all the conventional stakes of bureaucratic struggles over jurisdiction, resources and personnel equally apply. As any kind of investment requires initial capital, the problem for administrative agencies was to acquire it. State administrative bodies themselves were not

11 The full text of the Decision of the Central Committee of the Communist Party of China on Some Major Issues Concerning Comprehensively Deepening the Reform, http://news.xinhuanet.com/politics/2013-11/15/c_118164235.htm, on November 12, 2014.

12 Interviews of PBOC officials, Beijing, 07/22/2013.

13 For example, managers at SASAC's largest industrial holdings—State Development and Investment Corporation (SDIC)—have aimed to development SDIC according to both models. See 'Building China's Temesek: An Interview of State Development and Investment Corporation's CEO Wang Huisheng,' *Economic Herald*, No. 24, 2006. 'SDIC: To be China's GE', *International Financing*, 2008, No. 10.

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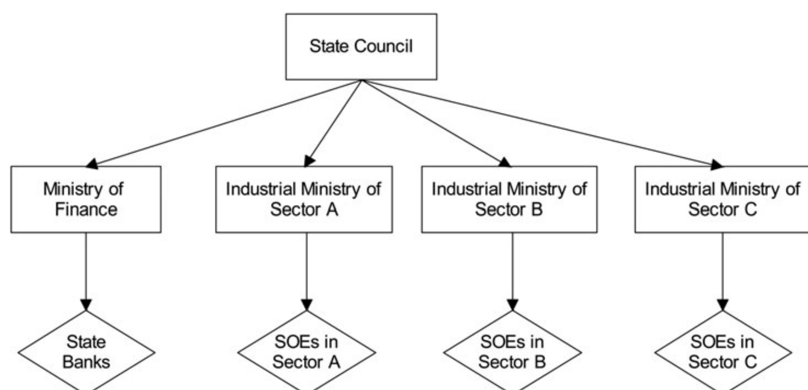

Figure 3. Positions of SOEs and state-owned commercial banks in the state structure in the 1980s before industrial ministries were abolished (black arrows represent administrative and supervising ties). Note that industrial ministries and SOEs under their supervision were divided by sectors.

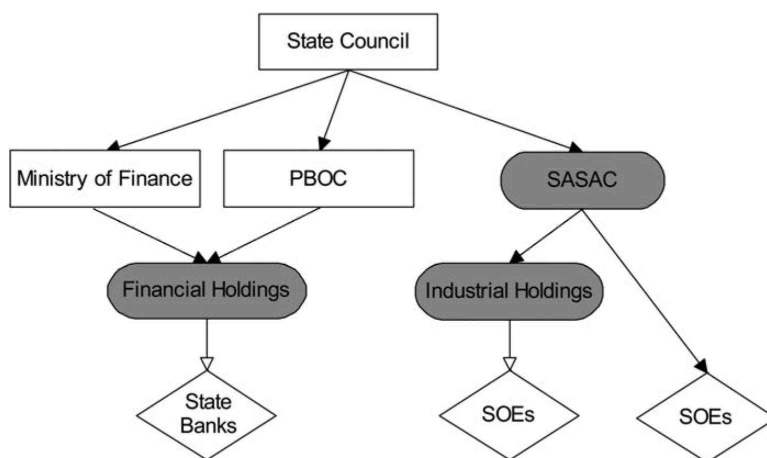

Figure 4. Positions of SOEs and state-owned commercial banks in the state structure at present. Note that state asset management bodies (presented in oval shapes) constitute the intermediate structure that closed off sectoral divisions. White arrows represent ties of ownership.

profit-making, they possessed only scant budgets for the sole purpose of defraying administrative costs. In this regard, the Chinese state organizations have demonstrated exceptional bureaucratic entrepreneurship in fund raising. They learned to 'capitalize' institutional resources like sovereign promises, institutionally housed assets (e.g. reserves) and favourable accesses to cheap credit and licensing, and convert them into investable capital, all done through extra-budgetary means.

The shareholding competition could be intense among equally resourceful state organizations with comparable administrative status. The MOF–Central Bank rivalry for holding the controlling shares of the state-owned commercial banks epitomizes this bureaucratic entrepreneurship. It began with the moment the state-owned commercial banks needed to shed their

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non-performing loans and recapitalize in preparation for heightened international competition following China's incoming entry into the WTO in 2001. This new round of recapitalization would put an unbearable budgetary burden on the MOF, the nominal owner. As the MOF felt reluctant to reach into its pocket again, PBOC stepped up. With China's trillions of foreign reserves multiplying under its supervision, PBOC officials had been searching for better investment opportunities than the low yields of US treasury bills. PBOC officials Xie Ping (one of the leading voices of the Integrated Reform School) and Yi Gang (a professor of economics previously at the University of Indiana), among others, suggested using reserve holdings to set up a corporate entity—China Central Huijin—to recapitalize the four big banks.[14] After the Bank of China and China Construction Bank were restructured in 2003 under PBOC's scheme, the MOF realized that its capital contribution in these banks was significantly diluted. In addition, via Huijin, PBOC immediately became a behind-the-scenes shareholder; PBOC filled Huijin's board of directors with its own people.

The MOF, previously a budget maker, soon caught up and financialized its own restructuring programme. The MOF jumped on the restructuring bandwagon and got rid of the bad loans of the remaining two state banks—Agriculture Bank of China and Industrial and Commercial Bank of China—by transferring them to a co-managed account.[15] What the banks received though was not cash from the MOF but what could be called 'MOF IOUs' (Walter and Howie, 2011). Such 'receivables' would be funded by the MOF's future claims in the banks' dividends, income taxes and interest-bearing bonds. In other words, the banks would be paying themselves back for MOF's initial 'investment'. This amounted to an elegant exercise in 'leveraged buyout'. It proved to be an ingenious way for the MOF to ensure its shareholder stakes in these banks. Table 1 presents the end result of this round of competition.

From the case of Huijin, the MOF also realized the importance of having a corporate agent of its own; in 2007, China Investment Corporation (CIC) was established. CIC was claimed as the official Wealth Sovereign Fund for China but its domestic motives soon surfaced when it acquired Huijin immediately after its establishment, to the great chagrin of PBOC. In other words, the MOF now crowned itself atop the pyramid structure of China's banking system. After losing Huijin, PBOC kept a low profile for its remaining asset management company—Huida.[16] Huida was set to deal with PBOC's own troubled assets. Its operation has been shrouded in mystery as it does not sell its debt portfolio on the open market.

5. The statist routes to financial control and credit generation

Other state or parastate organizations did not have the credit creation functions the MOF did. Nor did they have organizationally parked assets as PBOC did. Nevertheless, they jumped on the bandwagon of shareholding and financial investment through four other means, all made possible by their status as government-backed entities and the possession of public resources. They (a) set up corporate holding companies, (b) issued bonds, (c) collected financial licenses and (d) used state asset companies as special purpose vehicles. This section takes stock of them and delves deeper into the state-of-the-art tactics state actors used to exercise financial control and generate credit without being full market actors.

14 Interviews of PBOC officials, Beijing, 07/22/2013.

15 'Understanding the Asset Disposal Scheme', 21st Century Business Herald, 10/23/2008.

16 Interviews of PBOC officials, July, 2013.

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Table 1. Shareholder composition at the year of corporatization of China's state-owned commercial banks

	Year of corporatization	Largest shareholder	Second largest shareholder
Bank of China	2004	Huijin 100%	N/A
China Construction Bank	2004	Huijin 85.2%	China Jianyin Investment 10.6%
Industrial and Commercial Bank of China	2005	MOF 50%	Huijin 50%
Agriculture Bank of China	2009	MOF 50%	Huijin 50%

5.1 Setting up corporate holding companies

This method was used mainly by central administrative agencies. We have seen that PBOC initially set up Huijin to house and invest its foreign reserves. The MOF established CIC to annex Huijin. The State-owned Assets Supervision and Administration Commission (SASC), the supervisory body over industrial SOEs, also attempted to upgrade its own organizational charts. SASAC did not reap dividends or profit off SOEs. That is, it had no capital assets of its own. Developing financial agents under its control appeared an optimal strategy. Since 2005, SASAC has uprooted three industrial SOEs under its supervision—State Development and Investment Corporation (SDIC), China Chengtong Group and China Guoxin Corporations—from their sectoral production and remoulded them into holding and investment companies. These industrial holdings were intended to be intermediate layers between SASAC and SOEs (refer to Figure 4), so that they could lend SASAC a direct financial means to amass industrial assets and a platform to optimize its portfolios. Although so far neither of the three companies had enough capital to acquire the mightiest SOEs, they began to take over the less profitable and medium-sized ones. In a political reality where SASAC has the same administrative ranking as SOEs' other regulator, the industrial policy maker the National Development and Reform Commission (NDRC), these financial platforms were promising levers for SASAC to maximize its expertise and influence.

5.2 Issuing bonds of 'sovereign' status

State-owned financial institutions also borrowed to acquire equities and conduct investments, exercising what amounts to a 'leveraged buyout', copying from the playbook used by the MOF in its acquisition of the state-owned commercial banks. More importantly, they borrowed in the form of public bonds, that is, at very low cost. This does not mean that they borrowed through treasury bonds, but from their own bond issuing. Nevertheless, bonds they issued were treated as sovereign bonds. Their interest rates were kept artificially as low as treasury bonds. International rating agencies typically pegged the ratings of these bonds to those issued by the MOF. Central Huijin and China Development Bank (CDB) are two state-owned corporate entities that have exercised this privilege. In 2010, Huijin issued $31 billion long-term bonds to capitalize the struggling Export-Import Bank of China and China Export-Credit Insurance Corporation to prepare for their corporatization.[17]

17 'The Export-Import Bank of China and China Export-Credit Insurance Corporation Secured $31 Billion Injection from Huijin', *First Financial Daily*, 02/04/2010.

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CDB is China's largest policy bank. But unlike policy banks in some other countries, CDB was made explicitly independent of the national budget after its corporatization in 2008. It funded itself through debt issuance on the interbank market and has made quite a few high profile share acquisitions in state-owned, private and international companies. CDB is now the second largest bond-issuer in China, second only to the MOF. For lack of better a term, international observers dubbed the Chinese state-backed acquisition and capitalization 'public equity' (Sanderson and Forsythe, 2013, p. 31).

5.3 Collecting financial licenses and expanding lines of financial services

Aside from organizational restructuring and debt-financing, state-owned asset management bodies and financial holdings also expanded their reach through the grabbing of financial licenses. With a full collection of licenses in hand, the previous passive holding structures are morphing into aggressive investors. China's Commercial Bank Law issued in 1995 banned savings banks from directly investing in the securities market or acquiring equities. Non-banking financial institutions sprang up to take their seats. Regulations regarding how non-banking financial institutions could invest remained uncharted. Financial licenses were approved at the State Council on an individual basis. License-grabbing thus became another critical area of lobbying and competition.

Leading players such as the state-bank owners Huijin and CIC were among the first to flex their muscles in all parts of the financial sector. After recapitalizing the state-owned commercial banks from 2003 to 2005, Huijin moved on to acquire controlling shares in five state-owned securities companies, three insurance companies, two investment firms and one policy bank. In 2012, the 'Huijin Empire' held equity stakes in 19 financial institutions, all above 30% of shares.[18] The booming domestic financial industry was too alluring for CIC to stay a full time Sovereign Wealth Fund. CIC spent a large portion of its foreign exchange money on capitalizing two state-owned commercial banks. It also established a wholly owned subsidiary in Hong Kong and made inroads into the bond and stock markets, consulting, and even economic research.[19]

The Big Four Asset Management Firms (Cinda, Great Wall, Huarong, Orient), previously established in 1999 to take over non-performing loans from the state-owned commercial banks,[20] also refashioned themselves into financial holding and investment firms after most of the bad loans were disposed of. Around 2009, they found themselves busy with building their own specialized subsidiaries and operating in all areas of banking, futures, securities, trust and real estate; they also engaged in the business of underwriting, equity holdings and merger and acquisition. CDB also capitalized on the legal fact that it is not a savings bank. It expanded into every conceivable area of China's financial universe, including securities, private equity, leasing, credit guarantee, rating and local government financing (Sanderson and Forsythe, 2013).

With these licenses in hand, a convergent trend emerged in which the above holding institutions became China's state-owned 'Goldman Sachs' and 'JP Morgan', in spite of themselves. These corporate agents acted increasingly like 'normal' market actors, in a bid to acquire as

18 'How Big is Huijin', *Beijing Business Today*, 06/17/2013.

19 'Breaking up CIC Draws Near: CIC HK Serves as Investment Platform', *Global Entrepreneur*, 11/28/2011.

20 These Asset Management Firms were modelled on US Resolution Trust Corporation during the savings and loan crisis in the 1980s.

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much as they could of China's newly tradable state assets, before the private investors and 'foreign wolves' could catch up.

5.4 Using state asset management firms as special purpose vehicles

This method is deployed mostly by Chinese local governments. Chinese local governments have used the newly created state asset management systems as special purpose vehicles, which came to be known as 'local financing platforms,' (LFP, *difang rongzi pingtai*) to fund urban development and infrastructure projects. Because this local financing scheme is embedded in a more complicated organizational network, influences a unique set of local government resources and has direct connections to developmental strategies, I will go to some lengths to flesh out its operations. China's local governments were drawn to this type of financing scheme because their hands were tightly tied by the current fiscal and regulatory constraints. Local governments are responsible for 80% of government spending while receiving only half of the nation's fiscal revenue and strongly beholden to tournament-like economic competition.[21] Yet they were not allowed to run a fiscal deficit. Neither could they resort conventional channels of borrowing such as issuing bonds or taking loans from banks. To fill this gap, they have invited financial experts from development and commercial banks to help them package state assets into LFP and dress them up to seek short-term loans and sell bonds. According to a survey by the National Audit Office in 2013, there were 7170 'local financing platforms' nationwide, whose loans accounted for 40% of local government debts.

A large proportion of financial products packaged on the state asset management platforms are highly structured products such as collateralized debt obligations. LFP mined a large range of rising state-owned assets and used them as collaterals. Public assets such as leased public facilities, stakes in local state-owned companies or even tax revenues have all served collateral. The most popular of them though has been mortgaged public lands. Land in China is owned by the state but the sale and leasing rights belong to local governments. The real estate boom of the past two decades has exponentially increased the market value of urban land. Sale revenue from land became the largest source of projected income for local governments. Backed by the expected income streams from these public assets, local governments leveraged their borrowing to invest in long-term projects. This has contributed to soaring local government debts. In June 2013, local debt has hit $2.95 trillion; 37% of this was backed by land sales.[22]

This pattern of securitization thus speaks to China's unique public debt profile. The recent fiscal activism after the 2008 global financial crisis and the ambitious urbanization plans carried out by the current administration have accelerated this trend, generating a trend starkly opposite to the scaling-back of such products in the West. In the 4 trillion yuan ($586 billion) stimulus package, more than three-fourths of the new investment funds were distributed through non-budgetary channels, via loans and bonds, largely through 'local financing platforms' (LFP, *difang rongzi pingtai*).[23] The majority of this structured investment was directed towards

21 'China's Fiscal Reform Needed', *China Daily*, 11/12/2014.

22 'The Audit Result of Local Government Debt', announced on the website of National Audit Office, accessed at http://www.audit.gov.cn/n1992130/n1992150/n1992500/n3432077.files/n3432112.pdf, on November 12, 2014.

23 'News Conference on the Implementation of Policies on Expanding Domestic Demand and Stimulating Growth', Ministry of Finance, http://www.mof.gov.cn/gongzhongcanyu/tuwenzhibo/ft090527-03.html, on November 12, 2014.

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infrastructure construction and public projects. With the current Xi Jinping administration anchoring new engines of economic growth on urbanization, regulatory authorities have turned on more green lights for securitization in areas of urban renewal, railway construction, municipal infrastructure building and the leasing of large equipment.[24]

Norms of institutional investment in the West disfavoured infrastructure bonds because of their scale, complexity and the political risks involved in big projects.[25] Chinese investors know too well that precisely because of the long-term and government-led aspects of infrastructure projects, returns can be more or less guaranteed. This confidence warrants certain grounds if we examine how the local financing platforms were embedded in a larger state-sponsored financial system. CDB, itself funded by bonds with long maturity, has been instrumental in assisting local governments in setting up state asset management companies and acted as an upstream packager of local debts on these financing platforms (Sanderson and Forsythe, 2013). In fact, this policy lender is the vanguard of securitization in China and has issued 31% of China's total securitized products by 2014.[26] Down the transaction chain, state-owned commercial banks purchased 80–90% of these structured products and repackaged them as 'wealth management products' they passed on to retail consumers.[27] Because of the involvement of state banks and local government, rating agencies invariably gave local state asset management firms favourable ratings, assuming that behind the interlocked networks was the implicit backstop of the central government (Sanderson and Forsythe, 2013, pp. 26–27, p. 33).

The aggressive utilization of financialized products for infrastructure and urbanization presents a curious countertrend in which financialization, instead of crowding out fixed asset investment as the literature has posited, has facilitated its expansion. The shareholding state was the institutional mechanism of liquidizing state assets and capitalizing state-sponsored creditworthiness for long-term projects.[28] Whether the financial side of the operation acquires a speculative life of its own and starts to suck capital away from fixed asset investment is yet to be shown. It suffices to highlight that the Chinese government appeared to have learned its lesson from the 2008 financial crisis and has since vowed to use financial innovation merely to serve the real economy.[29] I have shown in this article that so far it has done so through a statist formula by

24 From News Conference of the China Securities Regulatory Commission, reported on CSRS's website on 08/01/2014, accessed at http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwdd/201408/t20140801_258572.html, on November 12, 2014.

25 The Economist reported that in the $50 trillion of capital managed by pension funds, sovereign-wealth funds, insurance companies and other institutional investors. Only 0.8% of this is currently allocated to infrastructure. See 'Investing in Infrastructure: The Trillion dollar-gap', *The Economist,* 11/12/2014.

26 'CDB Issued the Largest Product of Credit Securitization', *China Security Times*, 05/15/2014.

27 'Securitized Products Await More Diversified Investors', *Shanghai Security Times*, 09/17/2012.

28 What has coincided with the increasing financialization of the Chinese state is China's rising investment rate. China's gross capital formation, an indicator of a nation's fixed asset investment, has steadily climbed from 35% of GDP in 2000 to 49% in 2012. *Source*: The World Bank.

29 For example, Premier Li Keqiang made this point in his Government Work Report of 2015; CDB's whole operation is alleged to be founded on the philosophy of making 'targeted-development finance' 'with sovereign assistance' (Chen, 2003); the director of China Securities Regulatory Commission at various occasions pledged to 'improve the capacities and qualities of serving the real economy of China's capital market' with one example can be assessed here, http://finance.people.com.cn/stock/n/2014/1114/c67815-26021370.html, on November 24, 2014.

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relying mostly on limiting the number of players to those who have state-backed credentials and making the transmission conduits narrow and controllable.

6. Discussion

This article extends the study of financialization from the economy to the state. Financialization of the state refers to the process in which the Chinese state transforms its management of the economy from administrative intervention and fiscal allocation to supervising its massive state assets according to shareholder value. The institutional expression of this process is a proliferation of state asset management bodies and a new wave of shareholding competition and credit generation at these state asset management platforms. Its consequences are the orientation of bureaucratic actors to shareholding competition, the growing sovereign debt incurred by a variety of government agencies and the increasing use of financial products for fixed asset investments.

How does financialization described in this article define or redefine the so-called China Model? The adoption of the shareholding model is a middle road the Party-state has chosen between 'dirigisme' and complete liberalization. To put a price tag on state assets is to place importance on their market value and inform potential bidders and the costs of these assets. But China did not have the full intention of making these assets available to non-state bidders and relinquishing state ownership and control. The dilemma is classic: how can markets be created for the purpose of centralization? At the root, the solution described in this article boils down to the use of the state as a tool to create markets, or to transform the state field into a market field. The resultant market composed of multi-layered state actors, many profit-driven, introduced some measure of discipline, competition and efficiency into administrative relationships. Whether this oligarchic market arrangement can bring out the true cost of state capital though is an important question to explore and tests the limits of the shareholding state model.

Granted that China will continue this path for a lengthy period of time, government-back financing also raises the question of sustainability. Critics point at the soaring government debts and the maturity mismatch risk incurred from the discrepancy between short-term borrowing and long-term investment, typically seen in investment-driven growth regimes (Zhang and Barnett, 2014). Such a mismatch, coupled with a slowing down of the economy and a drop in land value, will send larger repercussions into the overall economy and may incur economic crisis. In this case, the model of 'development financing' might implode before the government succeeds in adjusting it. This article makes no prediction on when the model will collapse, but encourages expanding our analytical scope for such projections from discussing specific operations of financial markets to contemplating the relationship between sovereign power and finance. Sovereign power is the government's capacity to define exceptional conditions and its monopoly over last decisions (Schmitt, 2007). The powers of legislation, adjudication, enforcement, taxation and war-making are its iterations. Manifested in finance, we can add to the gamut the availability of a last resort in lending, including credit guarantees and bailout by the central government. What really leveraged the development financing and public investments were financial techniques as much as the ambitious deployment of sovereign power by multiple state actors along the financial chain, where they functioned as borrowers, underwriters, creditors, buyers and raters. These actors are interlocked in a tightly connected web. Interlocking, as I demonstrated in the article, facilitated moving money

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between different parties, which required a little bit of financial manoeuvring and accounting innovation. Interconnectedness helps fend off crisis by encouraging coordinated action on account of the distribution of risks, but such endogeneity also risks exacerbating a cascade effect as the crossholding firms in Korea and Japan demonstrated in the Asia Financial Crisis.

The last possible challenge to the durability of the shareholding state model might come from those agents of the state themselves. As these state asset management corporations grow more independent and feel entitled to their hard-sought assets, they might act like independent fiefdoms and refuse to come to each other's rescue under the pretense of adhering to business principles. In this scenario, the market creation activities of the state inevitably cultivate centrifugal forces within the state itself. The continuation of this model in the face of defiance depends on whether the Chinese state still possesses a political pinnacle, in the form of an effective leadership or a nodal agency, to coordinate the enlarged financial network of the state. A rigorous analysis of this possibility is beyond the scope of this article, but such hypothetical situations suffice to show that in any instance of Chinese financial development, its genesis, expansion or possible crises, we should include the state in the explanatory formula.

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