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The Boom and Crash of a "National Bull Market": Hybrid Regulatory Regime, Campaign-style Governance and China's Stock Market Crisis 2014-2015

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The boom and crash of a "national bull market": hybrid regulatory regime, campaign-style governance and China's stock market crisis 2014-2015[1]

Abstract

The state-led development of stock market has been a key element of China's economic reforms. However, the complex interface of regulation and control between the Chinese party-state bureaucracy and its evolving capital market still belong to the least-understood components of China's political economy. Between 2014 and 2015, China's stock market experienced a major policy-driven boom and crash, with profound impact on China's financial stability and reforms. This article examines the policy processes and instruments involved in the rise and fall of this so-called "national bull market". It uses a conceptual model of "campaign-style governance" to characterize and analyze how the institutional legacy of the Chinese Communist Party (CCP)'s Leninist control and policy styles have shaped China's stock market regulatory regime. It provides an important case study on how China's hybrid model of financial governance regime affects and constrains its stock market development.

Key words
Stock market, financial regulation, policy regime, campaign-style governance

1. Introduction

China's market-oriented reforms have been carried out under a Leninist system of party-state control. Unconventional forms of institutional adaptation and hybridization have featured prominently in the Chinese model of economic governance. The state-led development of stock markets has been a key element of China's economic reforms. However, the complex interface of regulation and control between the Chinese party-state bureaucracy and the rapidly evolving financial market still belong to the least-understood components of China's political economy (Heilmann, 2005). In the 1980s and 1990s, breaking the power of the state bureaucracy and introducing the Western rule-of-law institutional infrastructure was widely seen as the key issue of reforming former communist economies (Aslund 1991; Lipton and Sachs, 1993). The Leninist institutions and administrative governance mechanisms were seen as incompatible with the development of modern market systems. The reforms of Russian and East European transition economies focused on rapidly launching financial market development by mass privatization programs plus the replacement of existing Communist bureaucracy governance by the Western-style court-cum-regulator model of legal governance (Boycko et al, 1995; Pistor and Xu, 2005a, b).

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China has followed a different path of stock markets development, with the reforms to jump-start the markets closely guarded by administrative governance of existing party-state bureaucracies. The legal framework for stock markets has only been gradually established in China as the market development evolves, and despite considerable improvement, the law enforcement remains relatively weak. However, as Pistor and Xu (2005a, b) argue, contrary to the mainstream analyses, on many standard measures of stock market performance, China performed better than those transition economies transplanting the Western-style governance, especially in terms of the ability of raising funds for listed companies and the liquidity of stock markets. They argue that China's relatively superior performance is based on an administrative governance structure that "used and refined pre-existing governance mechanisms" and served as an effective substitute for the legal governance during the early stage of stock market development (Pistor and Xu 2005a: 9). As Pistor and Xu (2005a, b) admit, there are intrinsic defects in the Chinese model of stock market governance regime. The over-reliance on administrative control mechanisms can fundamentally constrain China's financial development in the long term.

A central finding in the recent literature on China's financial governance is that China has made great achievement in learning from the formal-legal regulatory regimes of the Western market economies, however, underlying the apparent convergence and compliance with the Western standard practices, China still maintains a distinctive model of Leninist party control in governing its financial system (Heilmann 2005; Pistor; 2012; Allen and Shen 2012; Chen, 2013). The peculiar combination of the Western liberal-market regulatory arrangements with China's own Leninist tradition of governance and control has generated unusual features in the policy instruments and processes in China's stock market regulations. Between 2014 and 2015, China's stock market experienced a major policy-driven boom and crash, with profound impact on China's financial stability and reforms. It provides an important case to analyze and evaluate how China's hybrid model of financial governance affects and constrains its current stage of stock market development. This article examines the policy processes and instruments involved in the rise and fall of this so-called "national bull market". It develops a conceptual model of campaign-style governance to characterize and analyze how the institutional legacy of the Chinese Communist Party (CCP)'s Leninist control and policy styles have shaped China's stock market regulatory regime and distorted the path of market development.

The rest of this article is organized as follows. Section One briefly reviews the process of China's stock market development and examines its hybrid financial regulatory regime. It emphasizes that the peculiar combination of the Western liberal-market regulatory arrangements with China's own Leninist tradition of governance and control has generated unusual features in China's stock market regulatory regime. Section Two examines how the events leading to China's stock market crisis in 2015 had evolved. It divided the boom and bust of this "national bull market" into three stages: 1) policy campaigns and bubble formation in 2014; 2) market crash and immediate policy responses to manage crises and control damage in 2015; 3) regulatory adjustments and cleaning up to further stabilize the market and restore eroded credibility. Section Three uses a conceptual model of "campaign-style governance" to characterize the distinctive pattern of governance mechanisms and policy processes in China's hybrid financial regulatory regime during the market boom and crash in 2014-2015. It concludes with a discussion on the inherent tensions and conflicts in the Chinese model of financial governance that constrain its stock market development.

2. The development of China's hybrid stock market regulatory regime

The development of China's modern stock markets initially started from various spontaneous policy experiments encouraged by local governments for state-owned enterprises to raise capital in the 1980s. Later in the early 1990s, the Chinese central authorities stepped in and centralized the control over the emerging stock markets by establishing two stock exchanges in Shanghai and Shenzhen and requiring that stock trading activities nationwide to be restricted in these two stock exchanges. Now China has two main boards in Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchanges (SZSE), as well as a few supplementary layers of markets such as the Small and Medium Enterprise Board (SME board, launched in 2004) and ChiNext Board (GEM board, launched in 2009) in SZSE, which cater to small-cap and high technology stocks. With only around two and a half decades, the Chinese stock market has rapidly grown from a negligible size to be the world's second largest market in terms of market capitalization and the largest market in terms of total equity funds raised by listed companies. By the end of 2015, there were a total of 2,827 companies listed on the Shanghai and Shenzhen Stock Exchanges and the combined market capitalization reached over RMB 53 trillion, an equivalent of 78.5% of China's GDP. Between 1992 and 2015, Chinese stock market has raised a total of over RMB7.4 trillion for listed companies through IPO and secondary issuance. It has a total of over 99 million investor accounts and 125 securities companies with total assets of over RMB 6.7 trillion (CSRC, 2016). Among former central planning economies undertaking market-oriented transition, China has created the most dynamic and rapidly growing stock market.

Unlike stock markets in the Western advanced economies that have evolved over centuries driven by bottom-up market forces, the Chinese stock market is primarily a creation of the state-led efforts to reform and develop its formerly central-planned economy. From its very beginning, China's stock markets were conceived as a set of institutional instruments to serve the broader policy goals of the Party and the state's development strategies, such as facilitating China's state-owned enterprise reforms. Unlike the "big bang" reforms in Russia and East Europe, the transplantation of an established institutional "blueprint" played a much less important role in structuring China's stock market than the adaptive efforts of the Party's cadre-officials in "crossing the river by feeling the stones". The continuous involvement of the party and state in designing and governing China's stock markets had given rise to peculiar features in the structure and operations of the markets, such as the dominance of administrative control in favor of state-owned enterprises and the share segmentation system which artificially segmented the shares of the same company into tradable versus non-tradable shares and restricted various types of tradable shares to be traded in different separated markets (Allen and Shen 2012; Chen 2013)

In particular, the stock markets were positioned as a key tool to finance and facilitate state-owned enterprise reforms in China. A key structural feature of China's stock market has been the dominance of administrative control in favor of state-owned enterprises. The state controls the process of selecting enterprise candidates for public listing first by an administrative "quota allocation" system and later by an alternative "review-approval" system. In screening the potential candidates for public listing, the state has prioritized the needs of large state-owned enterprises. Indeed, since the late 1990s, the central plank of China's industrial policy and SOE reform strategy was to restructure and amalgamate the core SOE entities in the "commanding height" industries into a small number of giant corporations listed in the stock market. This led to the corporatization and IPOs of China's "national champions" companies such as China Mobile, Sinpec, PetroChina and the Big Four banks (ICBC, Bank of China, ABC and CCB). These giant state-controlled corporations now still dominate the Chinese stock markets in terms of market capitalization and trading volumes.

Since 2003, China has accelerated its pace of reforms to further liberalize its financial system.[2] Given large SOEs' dominant status in Chinese stock markets, small-and-medium-size enterprises (SMEs), especially non-state enterprises, have no adequate access to channels of funding from stock markets. To improve the access to capital for SMEs, the CCP launched a series of pilot reforms under the slogan of "building multi-layer capital market", including establishing SME Board at SZSE in 2004 and creating GEM at SZSE in 2009. It also encouraged financial innovations such as the introduction of margin financing and stock index futures on an experimental basis to improve market liquidity and efficiency. In the 3rd Plenum of the 18th CCP Central Committee in 2013, "developing multi-layer capital market" was decided as "a key strategic mission" to promote China's economic transition and improve the market institutions, and "the multi-layer capital market" was conceived as a way to push towards further marketization, reduce administrative interference and make China's financial system more balanced and inclusive (CSRC 2007; 2016).

2.1 The formal-legal regulatory structure

The development of China's formal stock market regulatory structure can be summarized into two main stages. The first is between the 1980s and the late 1990s, which is an era of extensive administrative policy experimentation with very weak formal-legal regulatory institutions at the national level. Before 1992, it's up to local governments (mainly Shanghai and Shenzhen) and the local branches of the People's Bank of China (PBOC) to provide some light supervision over the emerging share issuance and trading activities in their jurisdictions. There was no nationwide formal legislation and regulatory arrangements governing China's emerging stock markets. Following the establishment of

[2] The 3rd Plenum of the 16th CCP's Central Committee was held in 2003, which decided to develop "a multi-layer capital market system".

Shanghai and Shenzhen Stock Exchange in 1990 and 1991 and some protests by retail investors triggered by market malpractices in 1992, the State Council established the Securities Committee of the State Counsel (the SCSC) and the China Securities Regulatory Commission (the CSRC) to consolidate the stock market supervision and establish a centralized regulatory framework at the national level. SCSC was composed of ministerial-level officials from major economic ministries and commissions at the time such as the Ministry of Finance, State Planning Commission and the People's Bank of China. It focused on setting long-term strategies, drafting rules and coordinate policy implementation. CSRC essentially served as the executive arm of the SCRC. Despite rivalries among various state organs at the local and central levels, CSRC managed to gradually establish its authority over the stock markets between 1993 and 1998.

Against the backdrop of the Asian Financial Crisis in 1997, the Party centre and the State Council strengthened the efforts to centralize financial market governance by establishing a "vertical leadership structure". Under the Party's supervision, CSRC merged with SCRC and was formally made a ministry-level agency under the State Council in 1998. It gained the unified regulatory authority over the stock exchanges and their clearing and settlement organs as well as securities firms and fund management companies. It also developed a regional supervision system by taking over the provincial securities regulatory offices from local governments. However, up until 1998, the regulation of China's stock markets was entirely based on administrative governance by the government and party organs. There was no formal statutory law to regulate the share issuance and trading activities until the enactment of the *Securities Law* in 1999, the content of which drew heavily from the experience of the Western market economies and global standard practices.

From the late 1990s onwards, China's financial governance has entered into a new stage, making great strides in the formalization and institutionalization of financial regulations. With clearer legal authority and mandates granted by the *Securities Law*, CSRC has profoundly strengthening its regulatory capacity since 1999, especially after a series of major market manipulation incidents and cases of securities firms misappropriating clients' funds for speculation were exposed in the early 2000s. In recognition of the regulatory weaknesses, CSRC expanded its enforcement bureaus to work closely with the Ministry of Public Security, and centralized its enforcement system by setting up the Sanction Committee, Chief Enforcement Office and the Law Enforcement Task Force in the headquarters. To avoid conflicts of interests and promote professionalism, CSRC also managed inspection and sanctions as separate functions within the CSRC.

Between 2000 and 2013, China's stock market experienced two major cycles of boom and bust. Following each of the major crashes, China has apparently managed to push forward new reforms to improve the institutional designs of both the stock markets and their regulatory structures. The first was between 2000 and 2005, during which the Shanghai Composite Index (SHCOMP) climbed to a record-high of 2,245 points in June 2001 and then slumped to a low of 998 in June 2005. Both IPOs and refinancing became difficult for companies during this period. Securities firms experienced an industry-wide crisis. Against this background, the State Council launched a new round of market-oriented reforms in 2004 to address the structural problems of China's capital market.[3] CSRC was at the forefront of carrying out the policy experiments in restructuring loss-making securities firms, implementing non-tradable share reform, liberalizing the fund management industry and promoting the development of institutional investors. The key themes of these reforms, as CSRC put it, was "market liberalization, standardization of rules and regulations, and globalization", and in particular, "with the gradual approach for market liberalization, China's capital markets are gradually adopting international practices in rules and regulations" (CSRC 2007: 199-200). Starting with pilot programs, these reforms were later formalized into the amendment of the *Securities Law* in 2006.

A more volatile boom-bust cycle unfolded between 2006 and 2008, during which the Shanghai Composite Index rose to its all-time-high of 6,123 points alongside with RMB appreciation and increasing capital inflow before it crashed back to below 2,000 points in 2008 as the Global Financial Crisis broke out. The immediate response of the Chinese authorities to the Global Financial Crisis focused on economic stimulus policies and CSRC served as an instrument in the Party's broad growth-supporting strategies. However, there were also substantial policy efforts targeting on long-term institutional reforms in financial governance. Again, CSRC led policy experimentation during this period in a wide range of areas such as reducing the extent of administrative control, reforming IPO approval process to make it more accessible for small-medium-sized private enterprises as well as further opening up domestic stock market. Building on the CSRC's pilot programs, the State Council has launched a new series of financial market reforms in 2014, which focused on developing a "multi-layer" capital markets that can provide more diversified channel of finance for different types of companies and investors and more effective regulatory mechanisms of investor protection, information disclosure and corporate governance.[4] These reforms are being formalized into a new round of the amendment of the *Securities Law*.

During the recent two decades, the Chinese party-state has been trying to increasingly institutionalize China's stock market governance with Western-style market-preserving regulations and laws. The formal-regulatory structure and approach of the CSRC appeared to have been influenced by the US Securities and Exchange Commission (SEC). The CSRC's functions as specified by the *Securities Law* are consistent with the Western regulatory approaches that emphasize on setting formal rules, standards and codes of conduct to supervise market practices. However, as Allen and Chen (2012) argue, despite CSRC's efforts in strengthening its regulatory capacity, the effectiveness of CSRC's enforcement in the previous decades still seemed limited by global standards and in comparison with its counterparts in the Western advanced market economies.

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[3] The State Council issued *Opinions of the State Council on Promoting the Reform, Opening and Steady Growth of Capital Markets* in January 2004.

[4] In 2014, the State Council promulgated *The Opinions on the Sound Development of Capital Markets*.

2.2 The Party's mechanisms of control in financial governance

As Pistor (2012) emphasizes, there are multiple forms of financial governance and the adoption of some standard governance practices may disguise the real allocation of authority and control rights. While China has made great efforts in establishing a formal-legal regulatory structure that is in many aspects similar with the Western models of regulation, there has been an alternative set of governance mechanisms based on the Communist Party control that underpins China's financial governance regime. At the core of these mechanisms is the Party's controlling power to select, appoint, dismiss and punish its cadre-officials according to the policy commitments and organizational rules of the Party. Such power is exercised through two main channels: 1) the Party's personnel control and human resources management system; 2) the Party's disciplinary forces (Li, 2015).

CCP's personnel control and human resources management functions are built around its *nomenklatura* system under which the Party divides and controls the appointments of leading personnel positions across different spheres such as government agencies, state-owned enterprises and financial institutions and universities. In the China's financial sector, the Party controls the career prospects of its leading cadres in all financial regulators and major state-owned financial institutions. The top-level cadres in China's financial system are groomed and directly monitored by the Party's Central Organization Department (COD). The Party often rotates and transfers its financial cadres among different financial institutions and regulatory agencies and even local government leadership positions. They are motivated by both political achievement and professional achievement and can be moved back and forth across the political hierarchy and state-controlled corporate hierarchy under the Party's command (Lin, 2011; Li, 2015). The leading financial cadres can directly participate into the Party's top-level political processes. Many of them have been elected to the CCP's Central Committee, which is formally the Party's highest organ of authority and is vested with the power to elect the top leadership team of the Party. As shown in the table 1, there were a total of seven cadre-officials who served as the CSRC Chairman (and Party Secretary) between 1992 and 2016. All of them had extensive experience leading major state-controlled banks before heading CSRC. Six of them served as Vice Governor of China's central bank (PBOC) before and were either alternative member or full member of the CCP Central Committee.

Table 1. The list of cadre-officials serving as the CSRC Chairman (and Party Secretary)

Name • **Education** • **Period serving as CSRC Chairman**	**Key Positions before CSRC**	**Membership in the CCP Central Committee**
Liu Hongru • PhD in Economics • 1992-1995	Depute Director, The State Council Economic Reform Commission; Vice Governor, PBOC	Alternative Member

Zhou Daojiong • High school • 1995-1997	Vice Governor, China Development Bank; President, China Construction Bank	——
Zhou Zhengqing • College degree in Finance • 1997-2000	Deputy Secretary-General, the State Council; Vice Governor, PBOC	Alternative Member
Zhou Xiaochuan • PhD in Engineering • 2000-2002	President, China Construction Bank; Vice Governor, PBOC	Member
Shang Fulin • PhD in Finance • 2002-2011	President, Agriculture Bank of China; Vice Governor, PBOC	Member
Guo Shuqing • PhD in Economics • 2011-2013	Chairman, China Construction Bank; Vice Governor, PBOC	Member
Xiao Gang • Master in Law • 2013-2016	Chairman, Bank of China; Vice Governor, PBOC	Member

While the core principles of the CCP's personnel control are consistent with the traditional *nomemklatura* system of the Communist governance regime, the CCP has made great efforts in upgrading and modernizing this system to strengthen its functions in human resources management. Over the past two decades, it has developed a sophisticated system to select, train, monitor and evaluate the performance of the Party's cadre-officials according to the policy commitment and rules set by the Party. It tries to establish a meritocratic system that can identify and groom cadres with both high political loyalty and professional competence. It has actively promoted cadre training by establish programs with leading international academic institutions and recruited cadres with overseas educational and work experience. For example, in the aftermath of global financial crisis in 2008, the CCP launched a major talent recruitment program aimed at the Chinese talent overseas ("The 1000 Plan"). Under this program, CSRC and its subsidiary institutions recruited several batches of mid-level financial professionals with substantive experience in the US financial system.

The CCP's disciplinary forces led by its Central Discipline Inspection Committee (CDIC) are another key mechanism of control shaping the incentives facing China's financial cadres. The core mandates of the CDIC and its subcommittees include, among others, safeguarding the Party's rules and inspecting the implementation of the Party's policies, organizing anti-corruption work, investigating cases of breaches of the Party discipline and determining the punishment for the Party members in such cases. There are Party disciplinary subcommittees at each layer of the governance structure of China's state-controlled financial sector, including the regulators and major financial institutions. The formal-legal provisions are not clear on how the CDIC and its subcommittees should excise their power. When the Party's disciplinary forces initiate and coordinate anti-corruption campaigns, they can exert enormous pressure on the formal hierarchy of state bureaucracy and create tremendous uncertainty and even panics among concerned cadre-officials. They are the ultimate sticks in the Party's governance toolkits to ensure the cadres comply with the Party's rules and policy lines. During the past decade, the Party's disciplinary forces carried out several rounds of anti-corruption investigation that targeted the corrupted stock market regulators, striking down top CSRC officials such as Wang Yi (former Vice Chairman, CSRC) in 2009 and Yao Gang (former Vice Chairman, CSRC) in 2015. Following the leadership succession in 2012, the Party has intensified its anti-corruption efforts with more weight put on upgrading its disciplinary forces with clearer rules, more resources and new investigation technologies.

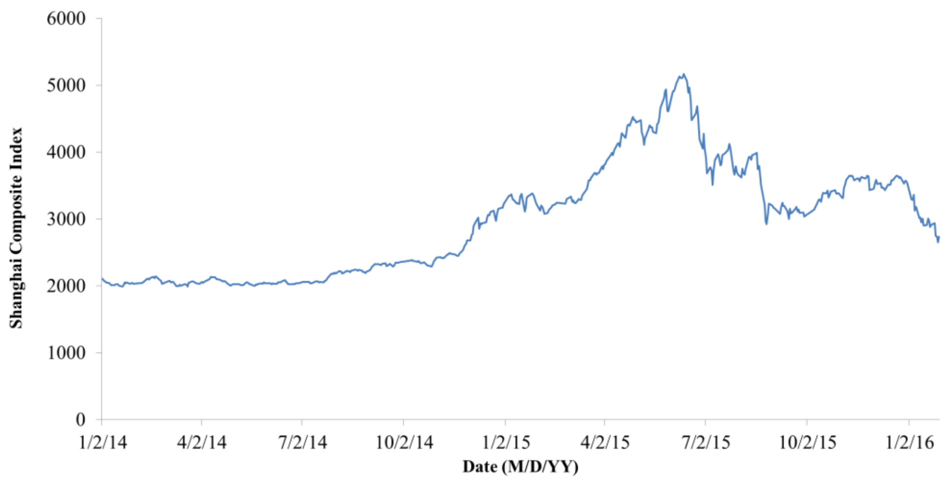
Overall, as the Chinese financial system become increasingly liberalized and market-oriented, the state organs have generally reduced the extent of traditional administrative intervention, however, the Party's control over its financial cadres through the human resources management and disciplinary forces have not declined but arguably increased in its strength and sophistication. Such control still formed the bedrock of China's stock market governance regime underneath the formal-legal regulatory structures. Moreover, the Party not only shapes China's stock market development through its direct control over the careers of its financial cadres, but also indirectly through its distinctive policy style and processes. For instance, as Heilmann (2008, 2011) point out, underlying the CCP's ability to implement reforms is its distinctive policy style of "experimentation under hierarchy," which combines hierarchical control with decentralized policy experiments. This policy style has featured prominently throughout the development of China's stock market and its regulatory structures, which have been marked by a series of pilot reforms and experimental schemes. Unlike highly legalistic administration in the Western rule-of-law systems, the policy processes of China's stock market regulatory development are characterized by policy cycles that start from a combination of top-down commitments and decentralized policy experimentation backed by such commitments, then if successful, rolling out the pilot policy programs to a larger scale, and then if deemed mature, formalizing the policies into regulations and laws, and then starting a new feedback loop of trial-and-error reform initiatives. While such policy style and processes have animated China's financial reform with remarkable flexibility and adaptability, it has also made the Chinese governance practices much more volatile, arbitrary and prone to rent-seeking and manipulation than the standard rule-of-law based governance systems in the Western advanced market economies (Heilmann, 2008; 2011).

3. Bubble and crash with Chinese characteristics: the stock market crisis 2014-2015

During the recent decade, it has become increasingly challenging and complex to regulate China's rapidly evolving financial sector. China withered the global financial crisis with large-scale fiscal stimulus programs and credit expansion to maintain growth. However, the continued growth was achieved with a rapid increase in debt and hidden risks in China's financial system. Under a loose liquidity environment, this period has witnessed the ballooning of shadow banking activities in China, which renders the financial sector increasingly inter-linked and highly-leveraged while weakening the effectiveness of financial regulations (Sheng and Ng, 2016). In the meantime, China's real sector economy has to adjust to a new normal of slower growth in the context of weak external demand, rising labor cost and debt burdens, excess industrial capacity and lagging productivity improvement.

Following the leadership transition in 2012-2013, the CCP launched a new package of reforms that aims at simultaneously enhancing the role of markets and modernizing the state's governance capacity with stronger and more centralized Party control. Since the CCP centre announced its overall policy commitment and strategies through these reform blueprints, the bureaucracy has been under enormous pressure to come up with specific policy solutions to carry out the policy lines and reach the targets. While these reforms should facilitate the rebalancing of the Chinese economy in the long-term, their effects are more limited in the short term. In 2014, as China's growth continued to slow down, the profitability of China's corporate sector worsened and non-performing loans were piling up in the banking system. The market consensus was that the performance of China's real sector economy was weak and fundamental factors cannot justify a stock market boom (Xu, et al 2015).

Figure 1. Shanghai Composite Index 2014-2015



Source: datastream

However, China' stock market started a major rally in 2014, fed by credit expansion and widespread expectations that it's the state's deliberate strategy and policy commitment to promote the rise of a "national bull market" to facilitate China's economic restructuring. According to Xu et al (2015), the divergence between the stock market performance and the real economic performance sharply diverged during the bubble period between 2014 and 2015, and the divergence had never been so wide in China before. This so-called "national bull market" eventually crashed in 2015, with profound impact on China's financial stability and reforms. It provides an important case to analyze how China's hybrid model of financial governance affects and constrains its current stage of stock market development. This section examines how China's stock market boom and crash in 2014-2015 has evolved. It divides the process into three phases: 1) policy campaigns and bubble formation in 2014; 2) market crash and immediate policy responses to manage crises and control damage in the summer of 2015; 3) regulatory adjustments and cleaning up to further stabilize the market and restore eroded credibility.

3.1 Phase One: Policy campaign and bubble formation

While stock market was mainly used as an instrument of facilitating SOE reform in the 1990s, it has increasingly taken up more diverse policy missions such as promoting technology start-up companies and reducing China's reliance on debt financing. As early as in 2004, the State Council had committed to use "the development of capital market" as a key national strategy to achieve the Party's economic growth target.[5] Between 2013 and 2015, China's State Council launched several policy campaigns that intended to extensively mobilize resources from financial system to achieve the state's economic policy goals, including the campaigns to "mobilize financial system to support small and micro-enterprises" and "promote enterprise mergers, acquisitions and restructuring", as well as major economic policy campaigns for "mass-innovation; mass-entrepreneurship" in 2014-2015, which aimed not only at mobilizing the mass to innovate and start entrepreneurial ventures but also at mobilizing the entire state bureaucracy to come up with new policies to stimulate and guide the bottom-up mass initiatives in innovation and entrepreneurship.

As a key component of these campaigns, CSRC was mobilized to experiment and expand novel policies to promote entrepreneurial finance, relax regulation, speed up the growth of Small-Medium Size Enterprise Board and Growth Enterprise Board (ChiNext), and stimulate financial instrument innovation. These campaigns and policies reinforced an increasingly accommodative regulatory environment that allowed a proliferation of financing tools such as margin-financing, stock-collateralized lending and internet-based borrowing platforms, which increased leverage and risks in the system. Moreover, under these campaigns, there were increasingly widespread expectations formed among investors that the state authorities wanted to generate a bull stock market and maintain rising stock prices to achieve its economic policy targets (such as promoting selected enterprises to raise capital, facilitating mergers & acquisitions and stimulating entrepreneurship and innovation).

In 2014, the state-controlled propaganda media, such as the People's Daily and Xinhua, increasingly published bullish commentaries on the stock market, encouraging investors to buy shares. From July 2014 onwards, China's stock market started a continuous rally. Later the stock market boom was further fueled by the loosening of monetary policy by the PBOC with a series of interest rates and RRR cut, which further expanded liquidity and credit in the system. In March 2015, the Governor of PBOC made the public statement that "the flow of liquidity into stock market can support the real economy", which is widely interpreted as a major signal of the state's policies of stimulating a bull market.

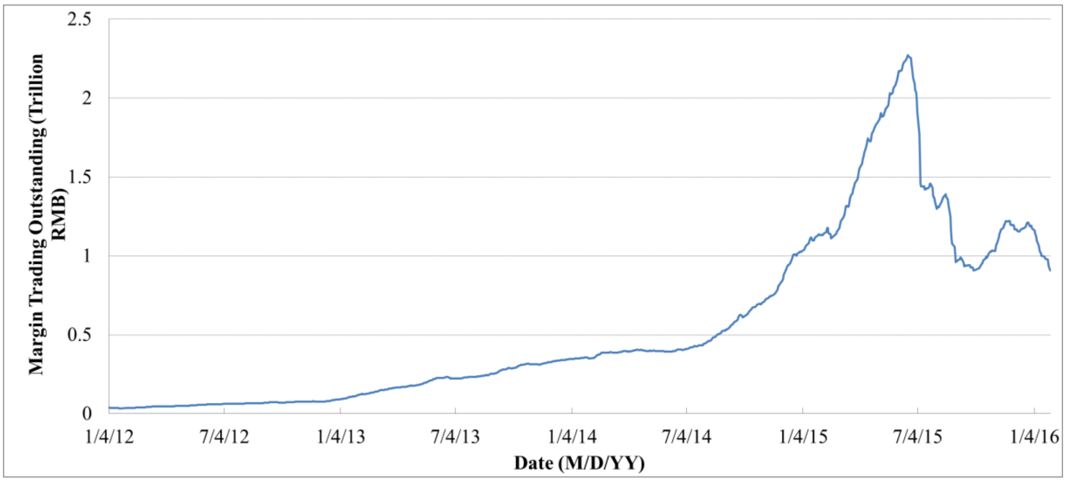
[5] The State Council, *The Opinions on Promoting the Reform, Opening and Steady Growth of Capital Markets*.

In the following two months, China's stock market rallied rapidly with SHCOMP surging over 30% (Figure 1). Consistent with the policy campaigns, the stocks of small enterprises involving the policy themes of promoting "innovation" "entrepreneurship" "mergers and restructuring" "mass innovation, mass-innovation" (mostly listed in the Small-Medium Size Enterprise Board and Growth Enterprise Board in Shenzhen Stock Exchange) became extremely popular among investors and their stock prices skyrocketed. With the rise of the stock prices, it became popular in the press to refer to this round of stock market rally as a "state-led bull market" "policy-driven bull market" or "national bull market" to aid companies to raise capital.

However, the stock market boom was achieved by a rapid building up of leverage and risks. A variety of channels of borrowing to invest in stocks blossomed in China's stock market between 2014 and 2015. In particular, there was an explosive growth of margin financing (borrowing money from securities brokers to buy stocks, with the loan secured against the shares purchased). Margin financing was not allowed in China before 2006. After four years of small-scale initial experiments, CSRC formally launched a pilot margin-trading system in 2010, which allowed qualified investors to use margin financing and short selling with selected securities brokerage firms, but the transactions were strictly limited by regulations and the volume was small. Between 2013 and 2015, CSRC permitted the expansion of margin-trading system with more and more investors and brokerage firms allowed to participate into margin trading. Starting from a negligible size, the total outstanding balance of margin trading and short selling rapidly grew and reached over RMB 2,000 bn in May 2015, with margin financing accounted for 99% of the total outstanding balance (Figure 2). The ratio of margin trading balance to China's stock market capitalization had rapidly increased from 0.9% (July 2013) to 2.4% (December 2014) within only 17 months, while the New York Stock Exchange took 13 years to increase this ratio from 0.9% to 2.4%. By the end of 2014, China's stock market had ranked among the highest globally in terms of the ratio of margin trading balance to stock market capitalization (Xu et al 2015). In addition to margin financing with securities brokers, many investors used alternative channels of borrowing through the shadow banking system, such as trust companies products and internet-based borrowing and trading platforms. These borrowings outside the regulated margin trading system generated multiple and opaque layers of leverages that were difficult for the regulators to monitor. It's been estimated that around 20% of trading positions in China's stock market were funded by borrowed money before the market crash.

The risks created by over-leverage were further compounded by three structural weaknesses of China's stock market. First, trading activities in China's stock market are dominated by retail investors who are highly susceptible to speculative herding. Second, short selling towards individual stocks is restricted and cumbersome, which prevented efficient price discovery and valuation. Third, there is a general lack of market depth and liquidity in the SME Board and Growth Enterprise Board (ChiNext). Stocks prices can be easily swept up and down by relatively small-scale flow of funds. When the market was going up, the herding behaviours of investors were unconstrained by counter-balancing short-selling forces. In a market relatively lack of depth and liquidity, their purchases can quickly drive the prices of those popular stocks further up.[6] However, when the market crashes, leveraged investors would suffer margin calls and be forced to deleverage. A self-reinforcing avalanche of selling would become inevitable under such conditions.

Figure 2. Margin trading outstanding in China's stock market (RMB trillion)



Source: Datastream

3.2 Phase Two: Market crash and crisis management policy responses

With surging share prices and large amounts of borrowed money flowing into the stock market, China's central authorities became increasingly concerned about risks in the system. In June 2015, CSRC's decided to toughen monitoring and control over margin lending and the practices of "off-line fund matching" which circumvents the leverage limits imposed by regulators to borrow money from outside the regulated brokerage systems to purchase stocks. This triggered a market crash. SHCOMP dropped over 30% from its peak on June 14 (15?) of 5178 and declined over 30% within 17 trading days/three weeks afterwards, with shareholders losing a total of around RMB 21 trillion wealth. SME Board and ChiNext Boards saw around 49% and 46% of gains wiped out in a fortnight. As stock prices collapsed, numerous leveraged investors suffered margin-calls and were forced to liquidate their shareholdings, and in turn worsened price decline. The selling pressure was particularly high for those who borrowed from unofficial channels and had a much higher leverage than official margin lending from brokerage firms. To avoid further evaporation of their market capitalization, over 1442 listed companies filed for suspension of trading on 8 and 9 July, which accounts for more than 50% of all the listed companies in the Shanghai and Shenzhen Stock Exchanges. By then, China's stock market had stopped much of its functioning due to the chaotic process of deleveraging.

[6] The valuation of China's stock market had become a huge bubble by the middle 2015, especially for small tech companies listed in the Shenzhen Stock Exchange (SZSE). Over 55% of the companies listed in SZSE reached above 100 in their average price-earnings ratios. About 40% of the stocks listed in SHSE reached above 100 in their average price-earnings ratios (Sheng, 2015).

Following the stock market crash, the Party Centre and the State Council immediately mobilized policy actions from various state organs to intervene and stabilize the markets. Among others, the People's Bank of China (PBOC) stepped in by cutting benchmark interest rates and reducing the reserve requirement ratio (RRR). Later it committed to provide ample liquidity to support the CSRC's bailout efforts. The Ministry of Human Resources & Social Security and the Ministry of Finance issued draft policies to allow pension funds managed by local governments to invest up to 30% of their net value into the Chinese stock markets, which would provide potential new flows to the share market up to about RMB 600 billion. China Insurance Regulatory Commission (CIRC) required insurance companies to keep net buying stocks and relaxed regulations to encourage insurance companies to buy more stocks. China Banking Regulatory Commission (CBRC) relaxed regulations to allow banks to roll over matured loans pledged by borrowers with stocks and encouraged banks to provide liquidity support to the CSRC's bailout efforts. Central Huijin, a key subsidiary of China's sovereign wealth fund CIC, directly intervened to purchase RMB 12bn shares in the form of exchange-traded funds (ETFs) and vowed not to reduce its shareholding positions. The State-Owned Asset Supervision & Administration Commission (SASAC) and the Ministry of Finance directly ordered China's largest state-owned enterprises and state-owned financial institutions to buy back the shares of their listed companies to shore up the market and not to reduce existing equity holdings. Even the Ministry of Public Security and the police forces were called forward to commit their support to market stabilization efforts and investigate the "malicious" short-selling activities. Various state-controlled propaganda organs were mobilized to advocate for market confidence and against "malicious selling". Some state media and brokerage firms even appealed to patriotism to encourage stock buying, with popular slogans such as "to purchase stocks for the nation is the most heroic" (“侠之大者，为国接盘”).

CSRC was at the forefront of orchestrating the market bailout policies. It loosened regulations on margin trading requirements and granted securities brokerage firms with new channels of financing, such as issuing short-term bonds. It requested listed companies to adopt measures such as share buybacks to support their share prices. It committed to stop all new initial public offerings (IPOs) and any secondary market fundraising above RMB5bn until SHCOMP returns to 4500. It also committed to launch enforcement campaigns to investigate and punish market manipulation activities. As part of its bailout policy mixes, the CSRC used its subsidiary industrial associations, including the Securities Association of China (SAC) and Asset Management Association of China (AMAC) that were founded as "self-regulatory organizations" for the securities and asset management industries, to advocate for market confidence and coordinate concerted actions. A total of 21 brokerage firms were coordinated to invest 15% of their total net asset (around RMB 120bn) in blue chip stocks and committed not to reduce their proprietary equity holding positions until SHCOMP returns to 4500 level. A total of 94 mutual fund management companies vowed to help stabilizing the market. To complement CSRC's policy actions, Shanghai and Shenzhen Stock Exchanges also cut transaction fees by 30%. China Financial Future Exchange (CFFEX) suspended many short-selling accounts and tightened restrictions on index futures trading.

Most importantly, the CSRC directly injected liquidity and implemented several rounds of large and broad-scale share purchases to bail out the market through its subsidiary company China Securities Finance Corporation Limited (CSF). Backed by the support from the State Council and PBOC, the CSRC and CSF raised a total of over RMB2 trillion through a variety of financing channels, including capital injection (about RMB76bn), issuance of short-term notes (about RMB80bn), funds committed by 21 brokerage firms (around RMB120bn) and credit from PBOC and state-controlled commercial banks (over RMB1.5trillion). Over the two trading days of 7 and 8 July, the CSF spent over RMB40bn buying blue chip SOE shares to counter with the market selling pressures. Later it extended over RMB260bn credit quota to 21 securities brokers to allow them buy more stocks, especially small-medium cap stocks. With the CSF as the central vehicle, the CSRC essentially orchestrated a "National Team" of share buyers to purchase shares at an unprecedentedly huge scale. For instance, Citic Securities, one of the leading state-controlled securities brokers participating in CSRC's bailout program, bought over RMB62bn worth stocks, including equities of 76 small and medium cap companies listed in the Shenzhen Stock Exchange's SME Board and Growth Enterprise Board (ChiNext) in a single day on 8 July (Jiang and Liu, 2015). There were no clear mechanisms of accountability on the purchasing decisions, which were arbitrary and focused on shoring up the market in the short-term. It generated enormous space for those actors with insider knowledge to potentially profit from the state's bailout policies. While there were similar practices in other countries to purchase blue chip stocks to bail out the market, it's peculiar for China's "National Team" to buy equities of many small and medium cap companies (including technology star-ups) listed in the SME Board and Grow Enterprise Board (ChiNext) to maintain market stability.

After consuming an enormous amount of state-backed bailout funding, China's stock markets finally showed signs of stability by the early August, with SHCOMP hovering around 3800. However, such apparent stability was built on the fragile expectation that the "National Team" will not exit any time soon from the market bailout mode. When the CSF sold a chunk of its stockholding brought in previous bailout actions to Central Huijin on August 14, it was interpreted by many market participants as a sign of starting exits. Amplified by concerns about RMB depreciation triggered by the PBOC's actions to reform RMB exchange regime in August 11, many investors went into panics and China's stock market collapsed again, with SHCOMP further crashing around 20%, reaching below 3000. Already burdened by its earlier bailout actions, CSRC became more restrained in dealing with this round of collapse and focused on buying blue ship SOE shares to shore up the market through the CSF. The market eventually calmed down in September and bounced back a bit towards the end of 2015.

3.3 Phase Three: Regulatory cleaning up and enforcement campaigns

The worst of China's stock market crash and deleveraging had been over by September 2015. Sharp sell-offs stopped, market confidence started to recover and the amount of margin financing declined substantially. While the extraordinary policy interventions and bailout measures mobilized by the Chinese state helped to rescue the market in the short term, they heavily undermined the credibility of China's financial regulation and market-oriented reform programs. To restore the eroded credibility, the State Council launched broad enforcement campaigns aimed at cleaning up the financial sector in the aftermath of the stock market crash. Trying to identify and punish culprits responsible for the crisis, CSRC initiated large-scale crackdown of the grey "off-line fund matching" platforms and launched major investigations together with the police force against malicious short selling and insider trading. It investigated over 190 fund management companies and 141 internet-based borrowing platforms in its enforcement campaigns in 2015. CSRC punished over 760 institutions and individuals in 2015, an increase of over 100% from 2014. The fines that CSRC charged against malpractices in 2015 reached RMB5.4bn, which is 150% more than the total fines that CRSC charged over the previous ten years (Xiao, 2016).

In the meantime, the Communist Party's disciplinary forces also started scrutinizing the conduct of top cadre-officials at the CSRC and state-owned financial institutions involved in the stock market crisis. As the probes deepened, the authorities arrested a number of senior officials of CSRC and leaders of large securities brokerage firms that had played importance roles in the bailout efforts. In particular, the CEO and several senior executives from Citic Securities, China's largest state-controlled investment bank, were arrested as part of the enforcement campaigns against malpractices during the stock market crisis. Widely seen as one of China's national champions in securities industry, Citic Securities played an instrumental role in the state's bailout efforts to rescue the stock market in July and August 2015. It committed over RMB20bn to support CSRC's bailout fund and served as a leader in the "National Team" of state financial institutions in managing the stock market crisis. However, during the enforcement campaign, half of Citic Securities' senior management team were arrested or placed under investigation on allegations in connection with insider trading. Later in November 2015, as the investigations escalated, the Party's disciplinary forces struck down and arrested CSRC's Vice Chairman (Yao Gang) and Assistant Chairman (Zhang Yujun) on suspicion of "severe disciplinary violations".

As the market further stabilized, CSRC started to gradually unwind the emergency policy measures implemented during the bailout efforts, including stopping the suspension of IPOs and allowing new listings in November 2015. It also launched new policy experiments aimed to mitigate market instability in the future. In particular, it decided to introduce "circuit break" mechanisms supposed to automatically curb panic selling.[7] The "National Team" of state

[7] This policy experiment turned out to be very short-lived. CSRC launched the circuit breakers in Shanghai and Shenzhen Stock Exchange on January 04 2016. However, instead of mitigating market volatility, it appeared to have magnified volatility and triggered panics. Within four trading days after its launch, circuit breakers were triggered four times and CSRC decided to suspend the circuit breakers on January 08 2016.

financial institutions also began to incrementally reduce their stock holdings accumulated during the collective bailouts. However, the scale of such reduction was still tiny in comparison with the total holdings. How to orderly exit from the bailout positions without causing market disruptions remains a huge challenge that may require many years for the Chinese state to tackle with. Despite the regulatory cleaning up and enforcement campaigns, overall, the policy responses in managing the crash of China's stock market crisis have profoundly weakened the credibility of China's financial governance regime and market-oriented reforms.

4. Campaign-style governance and the policy processes in China's stock market crisis in 2014-2015

As Kindleberger and Aliber(1996) have summarized, the boom-bust cycle of financial instability in market economies typically goes through the following stages: 1) displacement; 2) monetary expansion and euphoria; 3) overtrading and manias; 4) revulsion, panics and discredit. The process that leads to a financial crisis start with a 'displacement,' defined as some exogenous, outside shocks to the economic system, which would change the outlook of market participants and lead to bullish sentiments and increasing borrowing. Such shocks or displacement may range from technological and financial innovations to government policies, varying from one speculative boom to another. The boom is typically further fueled by the expansion of monetary and credit supply. Asset prices continue to increase as optimism and credit spreads. Euphoria might develop as investors enjoy the capital gains associated with the price increases. Then the market evolves into a phase of manias and bubbles characterized by overtrading and excessive leverage, with an increasing amount of investors borrowing heavily to speculate on further rises of securities prices that are divorced from economic fundamentals. Eventually, a turning point occurs and the market goes through revulsion. Asset prices fall sharply and highly leveraged investors get wiped out first. As the securities prices continue to decline, more and more investors go into panic and rush to exit. Banks become more cautious in leading as well ("discredit"), causing shrinkage in market liquidity. These responses would generate positive feedback effects that magnify selling pressure and worsen the market crash. Finally, governments and central banks in some cases step in as a lender of last resort to provide liquidity to forestall the market panic and crash (Kindlerbger and Aliber, 2005:25-33; Sheng, 2009:87-88).

China's stock market crisis in 2014-2015 followed a similar cycle of mania, panics and crashes, but what differentiated it from the typical Minsky-Kindleberger model of financial crisis are the patterns and roles of government policies. Both the boom and bust of China's "national bull market" were heavily shaped by China's hybrid financial governance regime dominated by the party-state bureaucracy. The patterns of market instability and specific policy responses cannot be appropriately understood without probing further into the operational logics and characteristics of this regime. The Chinese party-state bureaucracy consists of a complex multi-layer, multi-branch architecture, with the Party centre and the State Council at the top of the hierarchy, various subsidiary governing units spreading out both horizontally along different layers and blocks of local jurisdictions, and vertically along different branches of governance functions. In this setting, the Party's control over its cadre-officials serves as an "organizational spider" that interweaves various arms of the bureaucracy together underneath the formal-regulatory arrangements and facilitates the integration of the bureaucracy by selecting, motivating, monitoring and disciplining its cadre-officials to perform various governing roles, including financial governance. As Rothstein (2015) argues, China has developed a specific cadre (or missionary) organizational model of public administration, resulted from combining the Communist party rule with performance-based, mandate-style management. This "cadre organization" model differs fundamentally from the Western mainstream model of the Weberian rule-of-law-oriented, impartial, apolitical bureaucracy/legal governance. As Bo Rothstein puts it, cadre organization model is not "based on steering by formal and/or precise rules, by any rule-of-law conception of tasks, or on steering by economic incentives", but by "a strong ideologically based commitment from the personnel/the cadre to the specific policy doctrine of the organization" (Rothstein 2015: 540).

As shown in the recent literature on China's anti-corruptions and environment protection campaigns (Wedeman 2005; Liu et al 2014), the policy implementation of the Chinese party-state bureaucracy is often characterized by "extraordinary mobilization of administrative resources under political sponsorship to achieve a specific policy target within a defined period of time", which can be referred to as "campaign-style governance" or "campaign-style enforcement" (Zhou, 2012; Liu et al 2014). The typical policy process of China's campaign-style governance can be summarized as follows. The Party centre and the State Council (or "The Centre") set the overall policy goals and formulate a "top-level design" of policy lines and strategies. They set the performance evaluation standards through the personnel management system. Cadre-officials are incentivized and evaluated not only by the *de jure* mandates of the agency that they currently serve, but also by the broader competences, experience, loyalty and contributions to the overall system. From time to time, the Centre would launch campaigns to give a big push in policy implementation, especially when the performances of policy implementation through the routine or regular mechanisms are not satisfactory. During the normal period, the subsidiary units are given relatively broad discretion and policy space to experiment and adapt, and in many cases, to maneuver and take advantage of their policy space, often hiding from the span of the Centre's effective monitoring. However, when the Centre launches major policy campaigns, the pressure of cadre mobilization would cascade down the different levels and branches of the hierarchy. The subsidiary units of the bureaucracy are mobilized to act and carry out the Centre's policy lines, conduct policy experimentation, allocate departmental resources to fulfill the targets or policy goals. The *ad hoc* responses of different subsidiary units to the Centre's policy campaigns are often not coherent and may even be contradictory. It's up to the Centre to be the ultimate guarantor and orchestrator to coordinate, consolidate and integrate the policy actions from different subsidiaries, selectively scaling up or stalling the policy initiatives of different subsidiary units, adjusting the mixes and pace of concerted policy actions, as well as rewarding and punishing the relevant cadre-officials.

Figure 3: Campaign-style governance and China's stock market boom and crash in 2014-2015

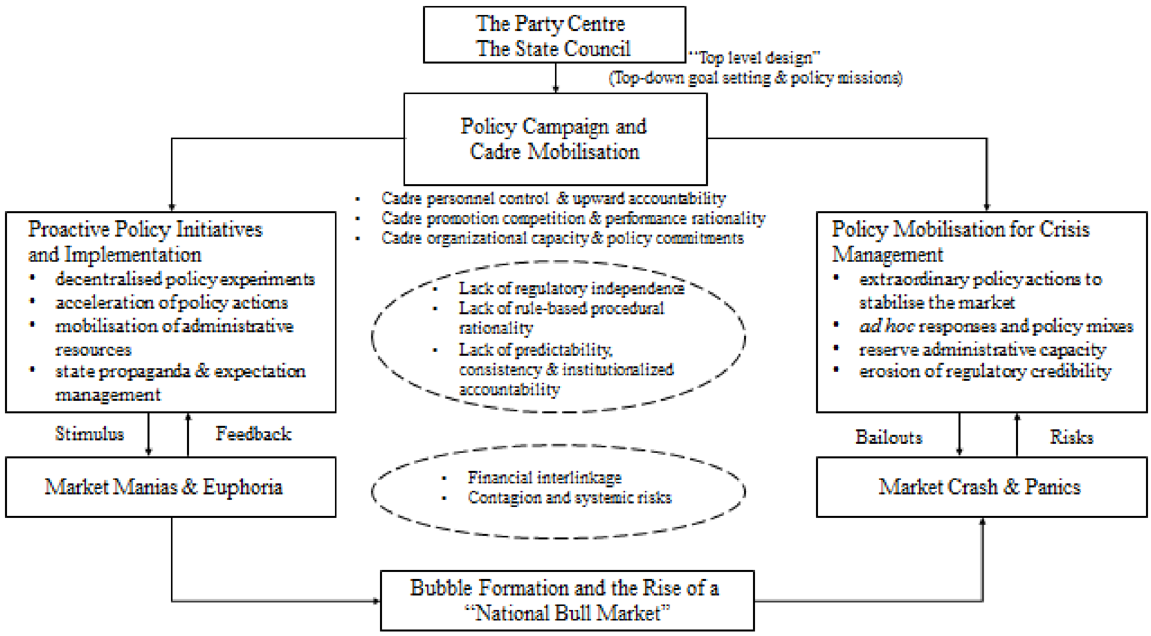


Figure 3 summarizes how the pattern of campaign-style governance in the China's hybrid financial regulatory regime shaped the evolution of China's stock market crisis in 2014 and 2015. Given the Party's cadre personnel control and performance evaluation mechanisms, there is intense promotion competition among cadre-officials in various agencies and units involved in China's financial governance. For CSRC and other government agencies involved in China's stock market policy processes, there are no regulatory independence from the political processes and overall policy goals of the party-state. They have to handle multiple and often mutually incompatible policy mandates and tasks in accordance with the Centre's policy commitments and doctrines. Given their limited resources and spans of control, how they choose and prioritize actions in policy making and implementation often depends on the specific political sponsorship and top-down policy campaigns mobilized by the Party and the State Council during a given period of time.

During major policy campaigns, various state-controlled units (including government agencies, state-controlled enterprises and media) were mobilized to respond with specific policy solutions to achieve the Centre's overall policy goals. The State Council provided broad-sketched policy frameworks to divide the areas of responsibility and even some preliminary breakdown of policy targets. However, substantial ambiguity in the specific policy measures was still maintained. The top-down policy campaigns and cadre mobilization led to proactive policy initiatives and implementation by agencies such as CSRC, characterized by decentralized policy experiments, rapid acceleration of policy actions and mobilization of administrative resources as well as active expectation management through state-controlled propaganda machinery. These initiatives fed an increasingly accommodative regulatory and liquidity environment as well as widespread market expectations that it was a "national development strategy" to generate a policy-driven bull market to fulfil the state's economic policy goals. Consequently, a super-charged "national bull market" formed, fuelled by rapid building up of leverage and speculation.

As the bubbles eventually went bust and market euphoria turned into panics, the chaotic deleveraging process caused systemic risks. Then the Centre immediately launched crisis management campaigns to urgently mobilize various subsidiary units to stabilize the market. In absence of clearly-defined bailout procedures and accountability mechanisms, a constellation of disparate policy actors including the central bank, financial regulators (CSRC, CBRC, CIRC), SASAC and the major state-owned enterprises, industrial associations and stock exchanges, local governments' social securities funds, the police and security force as well as state-controlled medias were all mobilized to come up with *ad hoc* policy responses to help stabilize the market, with many bending their existing standards and regulatory rules. Extraordinary policy actions were taken during the bailout efforts at the expense of regulatory credibility, such as orchestrating a "National Team" to directly purchase stocks (including shares of small and medium-sized technology companies). The regulatory bureaucracy had to extensively draw the reserve capacity of its administrative resources and committed huge amount of public funds in the bailout efforts. After the market started to stabilize, the Party and the State Council went on to initiate enforcement campaigns to clean up the financial sector in the aftermath of the stock market crash, investigating and punishing the culprits including corrupted cadre-officials who violated the Party's disciplines. Despite these efforts to restore confidence, the credibility of China's stock market governance and reforms was still substantially impaired.

As shown in Table 2, the Chinese authorities can use a wide set of policy actors and instruments to mobilize administrative resources across *de jure* institutional boundaries to achieve its policy commitment. It can steer the stock market through several complementary channels, including 1) proactive expectation management; 2) direct administrative interventions in stock market demand & supply; 3) control and modification of market rules and regulatory standards; 4) enforcement campaigns and punishment. However, the usage of these instruments and channels are not bound by clearly-defined rules, standards and accountability mechanisms, but shaped by the cadre-officials' commitment, discretion and initiatives to respond to the Party's specific policy missions and campaigns. Regulatory rules are often malleable, subject to cadre-officials' arbitrary power, discretion and incentives in the broad context of promotion competition. While this model of campaign-style governance can generate considerable flexibility for policy makers, especially under circumstances that require rapid concerted actions, it also profoundly distorts the stock market development. The lack of regulatory independence and institutionalized accountability mechanisms has fundamentally limited the credibility of China's financial regulatory regime.

Table 2. Policy instruments and mixes in China's campaign-style stock market governance

Categories of policy mixes	Examples of specific policy instruments
▪ Expectation management	▫ Use state-controlled media and government "mouthpieces" to interpret policies and guide market
▪ Direct administrative interventions in stock market demand & supply	▫ Mobilize state-linked entities (such as the national team financial institutions, large SOEs under SASAC and Social Security Funds) to directly purchase stocks; ▫ Adjust the investment quota approvals for domestic mutual funds, insurance companies, trusts and foreign investors ("QDII" "QFII") ▫ Adjust the amount, pace and timing of IPO and secondary issuance approvals ▫ Adjust relevant taxes and transaction fees
▪ Control and modification of market rules and regulatory standards	▫ Adjust rules and standards such as trading suspension and disclosure rules, price change limits, margin financing regulatory standards
▪ Enforcement campaigns and punishment	▫ Launch anti-corruption campaigns targeting stock market regulators and executives in state-controlled financial institutions ▫ Launch enforcement campaigns to fight insider trading, "malicious shorting" and market manipulations

Source: CSRC (2016)

5. Concluding remarks

Governance is crucial for financial development, but it may have different forms, styles and models in different political-economic systems. What functions well in some systems and at certain stages of development may not work properly in different contexts. Among former central planning economies undertaking market-oriented transition, China has created the most dynamic and rapidly growing stock market. It has made great achievement in imitating the formal-legal regulatory regimes of the Western market economies, and has also maintained a distinctive model of Leninist party control in governing its financial system. The peculiar combination of the Western liberal-market regulatory arrangements with China's own Leninist tradition of control has generated unusual features in the policy regime of China's stock market regulations.

This article examines the development of China's hybrid stock market regulatory regime and investigates the case of how the Chinese authorities managed the major stock market bubble and crash between 2014 and 2015, which had profound implications on China's financial stability and reforms. It shows that state actions featured prominently in both the upturn and downturn of this "national bull market". It uses a conceptual model of campaign-style governance to analyze how the institutional legacy and governance styles of the Chinese Communist Party (CCP) have shaped the policy processes, mixes and effects of China's stock market regulations during the boom and crash of 2014-2015.

There are inherent tensions and conflicts in China's hybrid model of stock market governance regime. On the one hand, the Chinese party-state has been trying to increasingly institutionalize China's stock market governance with Western-style market-preserving regulations and laws. CSRC has made the establishment of "fair, transparent and efficient markets" as the strategic objective of China's capital market development. On the other hand, the stock markets are still used as policy instruments for the party-state bureaucracy to pursue its general development goals. The primary mission of the CSRC is to adhere to the policy commitment of central authorities and serves the party-state's overall policy lines and strategies. However, the policy missions of serving the state's grand development strategies and the Party's policy commitment can be incompatible with the logic and required practices of establishing fair, inclusive and efficient markets. China's stock market governance regime is thus enmeshed in tensions among conflicting policy directions, which lead to policy volatility and policy-induced market volatility. CSRC often has to muddle through in handling with its dual mandates of advancing state policy while also protecting investors. As shown in the case study on China's stock market boom and crash in 2014-2015, despite the considerable flexibility that it brings about for policy makers, the campaign-style governance can profoundly distort the China's stock market development. The lack of regulatory independence and institutionalized accountability poses a fundamental limit on the credibility of China's financial regulatory regime, rending stock market governance highly volatile and prone to opportunities behaviors.

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