

Capturing the controller: State-owned companies' political influence in China

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Abstract

Why do countries choose under-performing economic reforms? This article stresses the influence of Chinese state-owned enterprises as an interest group in explaining a significant policy change in the 2000s, away from state sector downsizing and towards the expansion and concentration of state assets favoring large state firms. In contrast with the existing literature stressing the importance of elite or bureaucratic fragmentation to allow interest groups to affect policymaking in autocratic settings, I stress how centralization reforms can strengthen their influence. Using Social Network Analysis, I show how the creation of a central administration in charge of overseeing state-owned enterprises has led to the reorganization of personal ties between state and business actors, establishing a cohesive and coordinated interest group. This article contributes to the literature on interest group politics in opaque authoritarian regimes highlighting how institutional changes towards more centralization can reshape personal ties and coalition mechanisms, potentially leading to unexpected effects on policy.

Introduction

How do business interest groups influence policymaking in authoritarian systems? Studies have stressed how their influence can lead to a “partial reform equilibrium,” as policy choices made to reform the economy sequentially create entrenched interests, and groups are incentivized to resist future reform or direct policy changes in another direction (Hellman 1998). Yet, despite wide-ranging interest in groups’ influence in autocracies (Skilling and Griffiths 1971; Skilling 1983; Gandhi 2008; J. C. Teets and Grömping Forthcoming), we know little about how interest groups, including business groups, lobby policymakers in opaque systems, and how their influence may change over time. Without formalized or transparent lobbying avenues, their impact is often assumed and remains challenging to study systematically (Schneider 2004), primarily how different institutional frameworks may shape it.

Through the case study of Chinese state-owned enterprises’ (SOEs) influence on the country’s economic reforms, this article contributes to the literature on policymaking in authoritarian regimes by highlighting the impact of centralization reforms on the ties between business and state actors and how that may translate into inefficient economic reforms. The presence of interest groups within the Chinese party-state, and in particular collusion between SOEs managers and officials, has been a longstanding issue. Reviewing the debates on SOE reforms, Sarah Eaton shows that since the 2000s many Chinese economists have been concerned with resistance to reform among SOEs, not based on ideological issues as it was the case in the early years of economic reforms, but on vested interest (Eaton 2018). In a classic partial reform equilibrium, these actors had been enjoying the fruits of initial economic restructuring and further liberalization reforms would harm their interests (Hellman 1998; L. Chen 2010). This popular phrase encapsulates the SOEs’ potential policy influence: “There are no state-owned enterprises, only an enterprise-owned state” (Kroeber 2016, 104).

However, the opaqueness of authoritarian politics makes it difficult to get to the mechanisms of lobbying and policy influence in the Chinese context (Kennedy 2009). Regarding SOEs in particular, how are these actors controlled by the party-state able to influence policy and what explains that their influence seems to have grown since the 2000s, decades after the initiation of the liberalization reforms?

This article focuses on a specific policy change to explore the political influence of SOEs. After decades of public sector downsizing, the Chinese party-state turned in the early 2000s towards a strategy of state assets expansion and concentration, despite longstanding evidence of its negative effect on firms’ performance (Rosen, Leutert, and Guo 2018; Naughton 2017; Lardy 2019; Sheng and Zhao 2013). Between 2003 and 2019, the number of central-level state-owned enterprises went from 196 to 97, but their assets increased ten-fold, from 8 to 87 trillion RMB.¹ This concentration of assets is the result of a policy of SOE mergers, which has deepened since

¹ Source: SASAC data

2012 under the Xi Jinping administration. As a result of these megamergers, 59 central SOEs made it to the 2020 Fortune 500 list.²

Beyond purely economic factors, a branch of literature stresses the importance of social and political factors in explaining the strengthening of the state sector. A large state sector allows the party-state to maintain control over industries with high strategic value, including defense, electricity, telecommunications, and transportation (Hsueh 2016). It also ensures a coherent investment strategy abroad. In the context of the Belt and Road Initiative, Chinese SOEs have expanded abroad like never before and provide the majority of Chinese overseas direct investments (Leutert 2016). A large state sector also contributes to the regime's stability and performance legitimacy: SOEs hire excess labor and bear large amounts of retirement benefits (K. J. Lin et al. 2020), they provide rents to the state (Zhang, Zhang, and Liu 2017), and they form a central part of the government's toolkit to avert financial crisis (Leutert 2016). These explanations for the maintenance and development of the state sector, however, fail to account for the policy change that took place in the early 2000s and to justify a strategy of over-concentration which aims chiefly at increasing the companies' size and not at profitability or restructuring unhealthy assets. This policy goes counter to Beijing's overt goal to let the market play an increased role in the economy and improve its largest firms' competitiveness (Leutert 2016; Naughton 2017).

Going beyond systematic factors, I argue that domestic politics, especially the transformations in the SOEs' capacity to lobby the central government, explain this policy change. More specifically, I show that creating a central administration in charge of strengthening state supervision over SOEs has, paradoxically, increased their policy influence. The establishment in 2003 of the State-Owned Assets Supervision and Administration Commission of the State Council (SASAC) has been a turning point in China's SOE reform, marking the end of the downsizing of the state sector (Naughton 2017). This agency, which has been described as "the world's largest controlling shareholder" (L.-W. Lin and Milhaupt 2013), exercises the government ownership rights over government firms and is in charge of fructifying state assets. While studies have mentioned the symbiosis between the SASAC and the central SOEs (Zheng and Huang 2018; Xu 2017), this relationship has not been studied in-depth.

To explore how reforms towards centralization surprisingly helped business actors to influence policy in an authoritarian context, I not only look at the SOEs' representation within the key policymaking institutions but also at the personal connections between SOEs and party-state leaders. While the reform did not increase the number of seats SOEs occupy in the Chinese Communist Party's main policymaking arena, I show through a detailed analysis of personal networks within the Central Committee of the Chinese Communist Party (CCP) that SASAC's establishment led to a restructuration of ties between SOEs' managers and state officials and created a cohesive coalition in favor of mergers. I also stress that, while in the 1990s SOE managers present in the Central Committee were primarily organized around sectorial bosses advancing specific interests, SASAC emerged as a central actor able to coordinate and unify

² Source: Fortune 500 ranking 2020 (<https://fortune.com/fortune500/>, accessed on January 19th 2021)

SOEs and relevant bureaucracies towards shared interests. Moreover, I underscore that this group's influence has been more palpable during party-state leadership transitions, when the emerging leadership needs political support.

This paper contributes to understanding the conditions under which interest groups can influence policymaking in authoritarian systems. While most studies focus on access to policymakers, stressing that elite or bureaucratic fragmentation can help in that regard, I show that, for actors such as large SOEs who do not have access issues, reforms that limit fragmentation can enhance their ability to influence the administration and form policy coalitions. While various studies have shown that connections to top leaders help political elites advance their careers (V. Shih, Adolph, and Liu 2012; Doyon and Keller 2020; Keller 2016), the effect of networks on policymaking in nondemocratic regimes remains largely understudied (Razo 2008). Based on the premise that personal connections facilitate information sharing and coalition building, I stress how changes in elite network configurations alter the structure of interest groups and therefore their ability to influence policy (Nelson and Yackee 2012; Bernhagen 2012). Political leaders then have to be sensitive to the policy preferences of powerful interest groups which constitute their “selectorate” to minimize the cost of staying in power (Bueno de Mesquita et al. 2003; Shirk 1993).

The remainder of the article is divided into four sections. First, I review the literature regarding interest group politics in authoritarian systems and the case of Chinese state firms in particular. Second, I trace the reforms leading to a centralization of SOE management in the 2000s in China and how it led to a policy change that favored large central SOEs, moving away from state sector downsizing and towards the expansion and concentration of state assets. Third, I stress the limited power of the newly created institution in charge of SOE management, SASAC, which facilitated its capture by large SOEs. Its inability to constrain them led SASAC to become an advocate of large SOEs' interests. Fourthly, I rely on Social Network Analysis to scrutinize personal ties within the CCP's Central Committee before and after SASAC's creation, to show how it could unify a pro-big SOE coalition around itself, including the firms but also relevant administrations.

Interest groups in authoritarian settings: the limits of authoritarian fragmentation

In a similar way to what happens in democratic settings, autocratic politicians are also targeted by interest groups and lobbies aiming at influencing policymaking. However, due to the closeness of these regimes lobbying tactics have to be particularly ‘adaptive’ (J. C. Teets and Grömping Forthcoming). While information need for autocratic regimes is as high as in democracy, interest groups providing such information must be particularly conscious of the issues' political sensitivity (Kelley 1972) and how to frame their message (Mertha 2009) in order to be heard and be influential in the policymaking process. Existing research has shown how in such restricted contexts interest groups rely on innovative policy ideas and pilot projects to showcase their expertise to the leaders (Ayana, Arts, and Wiersum 2018; Kostka and Mol 2013; Yi-chong 2018). Most importantly, while the need to build policy coalitions with regime insiders to shape policy outcomes is important in democracy (Maloney, Jordan, and

McLaughlin 1994), it is crucial in autocracies (J. Teets 2018; Bindman, Kulmala, and Bogdanova 2019; Jiang and Zhou 2021). Building on the “interest group model” developed by scholars of Soviet politics (Skilling and Griffiths 1971), various studies have stressed that even autocratic regimes have a certain level of pluralism in policymaking (Lieberthal and Oksenberg 1988; Shirk 1993; V. C. Shih 2008), leading to policy coalitions (Shirk 1993; Lü, Liu, and Li 2020), and that lobbyists and advocates can use niches in the policy process to their advantage, being elite divisions or fragmented governance (J. C. Teets 2013; Collord 2021). Jane Duckett describes such policy networks spanning policy and societal actors as well as domestic and international ones, and their influence on policy, as the basis for “network authoritarianism” (Duckett 2019).

How do interest groups access policymakers to build such coalitions? This question is particularly daunting in contexts where the limited number of access points means they are less likely to reach receptive policymakers (Ehrlich 2007; Steinberg and Shih 2012). Authoritarian systems vary in how much access they provide to such groups, either through legislatures (Gandhi and Przeworski 2007), party institutions (Brownlee 2007; Liu, Shih, and Zhang 2018), or the bureaucracy (Hagan et al. 2001; Lieberthal and Oksenberg 1988; Ma 2022).

Since the economic reforms of the early 1980s, the People’s Republic of China has often been described as a “fragmented authoritarian” system and is widely seen as having quite low barriers of entry into the political process (Lieberthal and Oksenberg 1988; Mertha 2009). Many studies have indeed stressed the pluralization of the policymaking process and the influence of various state and non-state actors (Hamrin, Zhao, and Barnett 2019; Unger 2002; Shambaugh 2002; Mertha 2009; Duckett 2019; Huang and Chen 2020). In China, like in other autocratic regimes, the actual mechanics of policy influence in China remain however opaque and little is known about how changes in the institutional setting may affect the behavior and success of interest groups. This article aims to partially fill this gap by exploring the effect of reforms aiming at more centralization of power within the state apparatus on interest groups’ influence: do they limit their influence by reducing fragmentation, or do they make the state more prone to being ‘captured’ as the groups only need to focus their effort on a handful of leaders (Hellman et al. 2000)?

The state firm lobby in China

To explore the mechanism of interest group influence in an autocratic setting, I focus on the case of Chinese State-Owned Enterprises (SOEs). Both Chinese and Western foreign observers have repeatedly warned against the increasing political power of SOEs, and their ability to influence or block economic reforms (Zhou 2009; Shambaugh 2015). In contrast with studies that stress the control mechanisms the Chinese state and the Chinese Communist Party (CCP) have on these firms (Brødsgaard 2012; L.-W. Lin and Milhaupt 2013), case studies on specific sectors, such as electricity (Yi-chong 2018; L. Chen 2010) or oil (Downs 2008), have stressed how their close connections with the Chinese party-state can be leverage by state firms to push for favorable policies. This “in-house lobbying” (Sheng and Zhao 2013) sometimes relies on

formal venues such as business associations (Kennedy 2009). The China Group Companies Association, for instance, brings together senior government officials and SOE managers and is a vehicle for SOEs to report, as well as air issues, to the State Council, the Chinese equivalent of the state cabinet (L.-W. Lin and Milhaupt 2013). Yet, large central SOEs rarely need to go through such associations as they have direct access to political leaders (Deng and Kennedy 2010) either through formal bureaucratic links or personal connections (Wank 1999; Steinberg and Shih 2012). Daily interactions with state officials, through various meetings and seminars (Z. Chen 2017), but also the routine exchange of personnel between SOEs and the administration (Brødsgaard 2012; Leutert 2018), facilitate this access.

SOEs are also present in various party-state bodies, in particular at the National People's Congress (NPC), the national state legislative body, and the Chinese People's Political Consultative Conference (CPPCC), a central-level advisory body (L.-W. Lin and Milhaupt 2013). The NPC and CPPCC have, however, essentially a symbolic power, as even the National People's Congress mainly rubberstamps decisions that have been first taken in the Chinese Communist Party's leading bodies. The CCP's Central Committee is, in fact, a much more powerful institution. It is widely seen as constituting the main 'selectorate' in contemporary China (Shirk 1993; Liu, Shih, and Zhang 2018), meaning the group of individuals on whom the leadership depends to hold onto power, and who can therefore influence critical political decisions. The Central Committee counts around 300 members selected by incumbent leaders among the top party officials occupying crucial positions in central party-state organs, local administrations, as well as in SOEs and the military. Its membership is renewed every five years - the last time was in 2017. SOEs are represented in the CCP's Central Committee, but only in small numbers. Between 1993 and 2017, they stood for between four and five percent of Central Committee members, oscillating between 13 and 20 seats.³ Moreover, most SOE representatives are alternate members of the Central Committee, rather than full members, meaning they do not have the right to vote on decisions. The number of SOE managers with full membership actually decreased between 1993 and 2017, from four to two.⁴

While the unique access of Chinese SOEs to party-state officials puts them in the category of 'influential firms' as defined by Hellman et al. (2000), having the potential to impact policy without necessary recourse to private payments to public officials, their representation in decision-making instances is limited and has decreased in the past two decades (Zhang, Zhang, and Liu 2017). How to reconcile this decrease with the overall assessment that SOEs' political influence has grown in recent years? As we will see in the remainder of this paper, we need to go beyond the number of representatives in policymaking instances and explore how institutional change affects the structure of interest groups to understand the mechanisms behind interest group influence in authoritarian settings.

³ These numbers include only non-financial SOEs, which are the ones managed by SASAC.

⁴ See Part 4 for more detail on the database of CCP Central Committee members used in this article.

Towards the expansion and concentration of state assets

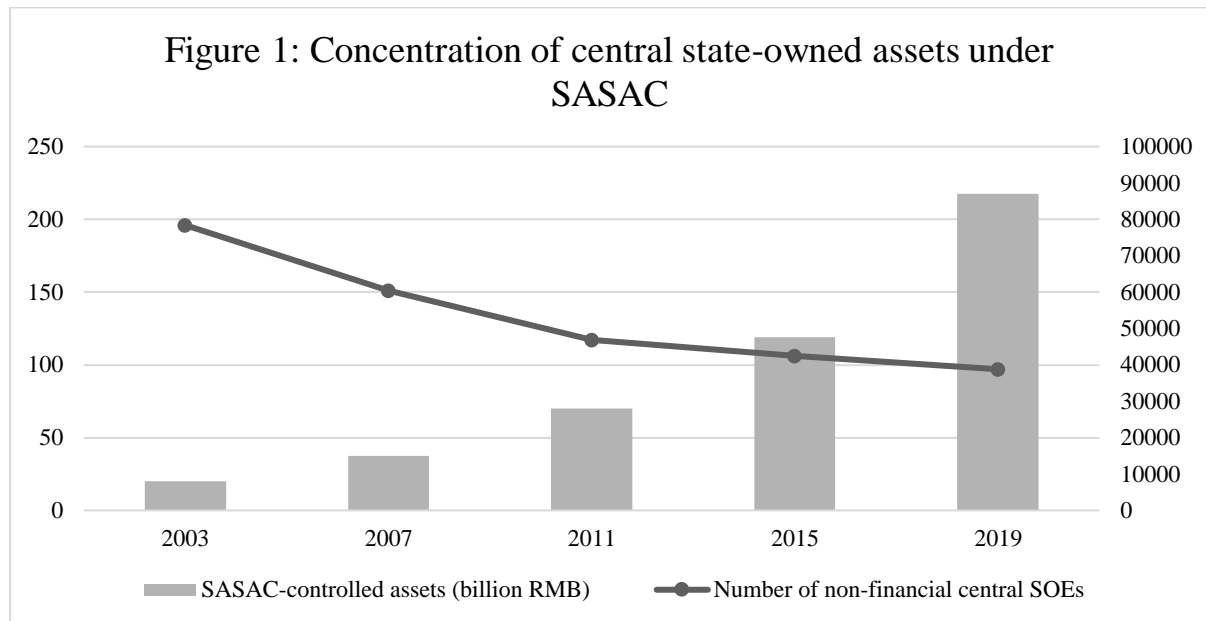
The centralization of Chinese state firms' management that occurred in the early 2000s allows us to study how various institutional settings might affect interest groups' influence in an authoritarian environment. A few years after abolishing most industrial ministries which controlled different sectors of the state economy, the Chinese party-state established in 2003 The State-Owned Assets Supervision and Administration Commission (SASAC), a specific administration in charge of supervising and administering state-owned assets. Moving away from a system in which many administrations were directly in charge of SOEs management, this unique ministerial-level institution under the direction of the State Council was given a dual mandate to own and manage central SOEs in the public interest (Naughton 2003; Chen Li 2016). The core SOEs were consolidated in 196 central-level business groups under SASAC, while local governments were directed to establish their own agencies to manage local-level SOEs (Naughton 2015). These SASAC-controlled companies are non-financial firms spanning strategic and commercial sectors, which essentially enjoy monopolistic or oligopolistic status.

The main objective of creating SASAC was to clarify and strengthen SOE management. Yet, it also went together with a change of policy: the government stopped the state sector's downsizing and the size of central SOEs began to increase rapidly.

Up to 2003, the liberalization reforms, in particular the “grasp the large, let go of the small” policy of the mid-1990s, had led to drastic downsizing of the state sector while at the same time building a small group of national champions (Nolan 2001). The number of industrial SOEs went from 127,600 in 1996 to 34,280 in 2003 (Lardy 2014, 45). In parallel to privatizations, large SOEs with advanced technology were encouraged to increase their capability by acquiring the assets of smaller SOEs with low production capacity (Naughton 2015). This strategy led to the creation in the early 2000s of protected markets with limited competition. Generally, two or three incumbent firms competed in each market (K.-C. Lin 2003; Pearson 2005; Eaton 2013). The goal was an oligopolistic configuration and Chinese experts indeed argued that, while the development of prominent national champions could bring about economies of scale and help them to be competitive abroad, the government had to prevent monopolies (Pearson 1997; Eaton 2014).

This trend was reversed after 2003. Looking into the employment of industrial workers, Barry Naughton has shown that while their number declined rapidly until SASAC's creation, it started to stabilize from 2004 and increase after 2008. This shift is even clearer among SASAC-controlled SOEs, which began to grow as soon as 2003 both in numbers of workers and the total value of assets (Naughton 2015, 49). This increase in assets went together with a policy of SOE mergers, leading to the further concentration of these assets, as shown in Figure 1. These state-driven mergers have affected a myriad of sectors, ranging from transport and energy to machinery, steel and agriculture. State assets concentration further deepened in the following years, especially under Xi Jinping (Leutert 2018). At the same time, state-owned enterprises' share of fixed-asset investment started to rise in 2012 after decades of decline (Lardy 2014). When it comes to central SOEs more specifically, the result is that a smaller and

smaller group of firms, currently 97, sit at the apex of the Chinese business system, controlling expanding assets. The total assets of central SOEs reached 87,000 billion RMB in 2019.



Source: SASAC

At first glance, this strategy of asset concentration appears in line with the “national champions strategy” of the 1990s. Officially, merging these companies helps combine complementary capacities and increase resources to promote international competitiveness. It also allows the state to remain in control of large segments of the economy (Leutert 2016). Yet, this policy of mergers differs from previous practice as it explicitly aims at limiting competition among Chinese SOEs (Rosen, Leutert, and Guo 2018). In SASAC's leadership's own words: "The problem is that dozens of enterprises are competing in the same industry, thus causing heavy friction between them" (State Council Information Office 2017). This policy of megamergers is moving away from the oligopoly objective of previous years, creating monopolistic conglomerates that dwarf domestic and international competitors.⁵

Creating even larger SOEs exacerbates pre-existing financial and organizational issues (Sheng and Zhao 2013). Making de facto monopolies puts little pressure on SOEs to improve the quality of their goods or their efficiency. Moreover, mergers tend to lead to redundancy and communication issues, as well as acute internal clashes and turf battles as they transform internal hierarchies and create winners and losers (Leutert 2016). In 2017, the IMF noted that, compared to the private sector, China's SOEs had experienced a substantial decrease in profits,

⁵ Recent examples include: the merger of China State Shipbuilding Corporation and China Shipbuilding Industry Company in late 2019 to form the largest shipbuilder in the world; the 2017 merger of Shenhua Group, the country's largest coal producer, and Guodian Group, one of the largest power generation company globally; the 2015 creation of China Railway Rolling Stock Corporation, the world's largest builder of trains, resulting from merging China CNR Corporation Limited and China South Locomotive & Rolling Stock Corporation Limited (Blanchette 2020).

mainly due to overcapacity and weak corporate governance (IMF 2017). The return on assets of Central SOEs has decreased from 6% in 2005 to 2,6% in 2017 (Lardy 2019, 156), and their significant revenues largely rely on subsidies and privileged access to cheap loans from state banks in particular (Berkowitz, Ma, and Nishioka 2017).

The centralization of state firms' management and the emergence of SASAC as a unique controller went together with a policy turn towards the expansion and concentration of state assets. Why did SASAC see it as its mission to “rescue state firms” (*China Economic Weekly* 2010), as its inaugural director put it and has supported mergers since its creation, despite their adverse effects on performance?

Capturing SASAC

When established, SASAC was tasked by the State Council with a long list of functions and duties, in particular: preserving and enhancing the value of state assets, appointing and removing SOE leaders (top executives of key central SOEs remain under the purview of the Chinese Communist Party), and drafting regulations on the management of SOE assets. The result is that SASAC combines ownership and regulatory functions, and, as Barry Naughton puts it, is both the “ally and adversary” of SOEs (Naughton 2008). It has a dual mission to strengthen the oversight over SOEs and restructure them to enhance state assets.

At the same time, SASAC has little stick to enforce this dual mission. Its primary control mechanism is through the evaluation and appointment of SOE leaders. Yet, among the firms under SASAC's supervision, the leaders of the core ones concerning national security and the lifeline of the national economy, remain managed by the Chinese Communist Party's Organization Department, which oversees party-state officials' appointments. SASAC only assists the Organization Department in managing these positions. There were 53 of these core firms out of 196 central SOEs at the time of SASAC's creation, and they are now 51 out of 96 (Brødsgaard 2012; Beck and Brødsgaard 2022). Despite the many mergers we previously described, the number of these firms has remained quite consistent: as we will see in the next section, these core central SOEs tend not to be on the losing side of mergers as they are generally the ones represented in the party's key policymaking body, the Central Committee, and can defend their interest.

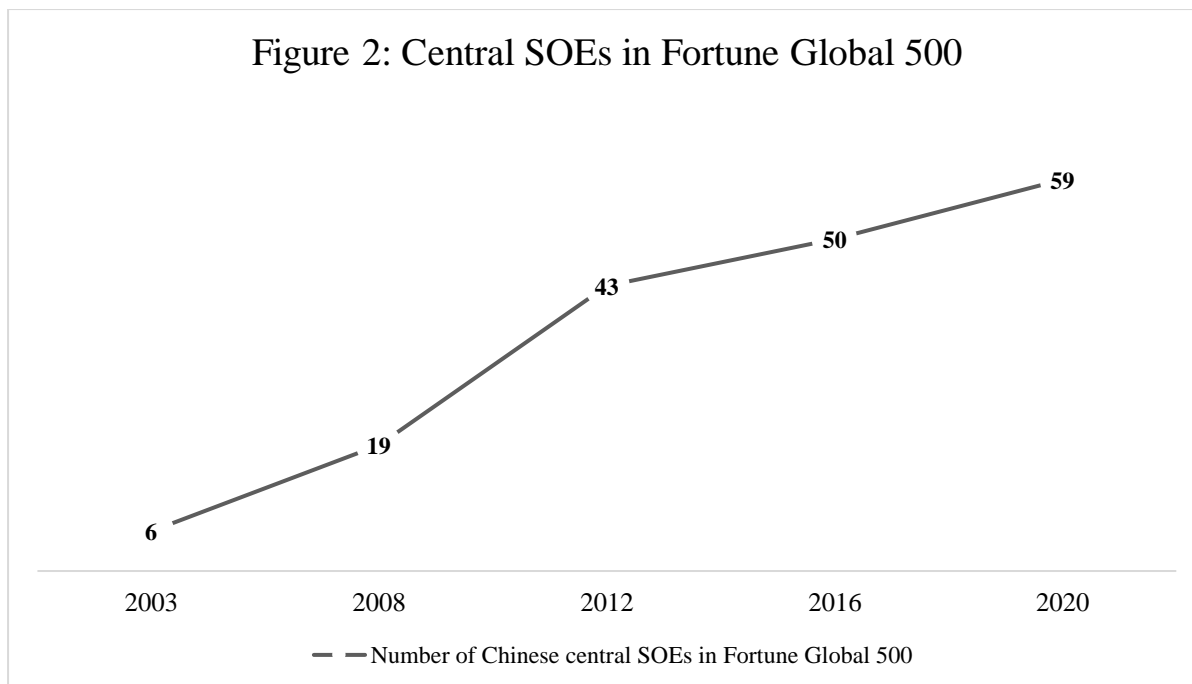
More broadly, SASAC has shown to be a weak controller vis-à-vis large SOEs which have more resources, an equivalent administrative rank, and an information advantage over it (Brødsgaard 2012). It has been unable to force SOEs to comply with information-reporting requirements and, more critically, to obtain the dividends it sought from profitable SOEs. While after a bureaucratic battle SASAC officially obtained in 2007 the right to collect 5 to 10 percent of SOEs' profits, in the following year firms only turned over about 2 percent of their profits on average (Leutert and Eaton 2021).

As it did not have the power to control or punish large SOEs efficiently, SASAC made itself their advocate. In particular, SASAC could see competition as a way to improve state assets, but instead it tends to understand its mission to “cultivate state assets” in a manner consistent with the large firms’ interest to increase their size via absorbing smaller ones and making them monopolistic. Since its early years, SASAC has pushed for SOE mergers in its policy documents. As early as 2006, it put forward the target of decreasing the number of central SOEs to 80-100 by 2010 (SASAC 2006). While it did not go as fast as planned, SASAC has now reached this target. Mergers can appear to be in the bureaucratic interest of SASAC as it means fewer agents to control. Still, it also strengthens the disproportionate power of large SOEs it is supposed to oversee. As a result of this self-reinforcing policy, it has become difficult for SASAC to move away from its pro-big SOEs policy.

At the individual level, SASAC leaders are also incentivized to push for mergers. Like most Chinese officials, they stay in their post for only a few years before being posted elsewhere (Li Rongrong, SASAC’s founding director had the longest tenure so far as he remained for seven years as the agency’s director). They therefore tend to favor short to mid-term solutions, such as mergers, in increasing central state-owned assets, on which they are evaluated, sometimes at the cost of long-term performance. Reflecting SASAC’s slogan about making central SOEs “bigger, better, and stronger,” Li Rongrong and his successors have repeatedly argued in favor of further consolidation through mergers to protect and increase the value of state assets (Z. Chen 2017). Li even published in 2004 a book titled “Mergers and acquisitions: the only way for enterprise development.”

In line with its pro-big SOEs policy, SASAC has relied on a measure of SOEs’ size and revenue, rather than their financial performance, as a benchmark of its own success: The Fortune 500 ranking. SASAC’s first director embraced the Global Fortune 500 list, which ranks firms based on annual revenue, as a standard for success. He explicitly aimed at having 30 to 50 in the Global Fortune 500. As Figure 2 shows, this initial target has now been exceeded. Since then, SASAC leaders have mentioned the Fortune 500 ranking in almost all their speeches (Naughton 2015). For SASAC leaders, this ranking has a legitimizing value at home and abroad. Domestically, it provides the party-state with a clear and external evaluation method, an international standard, to monitor the success of central SOEs and SASAC. Internationally, it boosts the SOEs’ image, which helps to expand their overseas business (Z. Chen 2017). SASAC’s focus on increasing the size of a few national champions, crowned by the Fortune 500 ranking, is very much in line with the interest of the larger central SOEs which gain from mergers.

Figure 2: Central SOEs in Fortune Global 500



Source: Fortune 500

To remain relevant despite its limited power to control the firms it is missioned to oversee, SASAC has become the advocate of large central SOEs. Yet, alignment of interest is not enough to successfully lobby for controversial policies. How has this coalition made of SASAC and central SOEs been able to organize as an interest group and push through its agenda of megamergers within the selectorate?

Creating a unified lobby

As noted earlier, the existing literature shows that interest groups' political influence in authoritarian regimes relies heavily on their ability to form a coalition with policymakers. Different coalitions provide policy alternatives to senior policymakers who have the final say on what line to follow. Power-maximizing senior policymakers take on policy suggestions that can muster the broadest support within the selectorate in order to maximize their chance to remain in power (V. Shih 2017). While final decisions on important policy issues, such as mergers,⁶ are ultimately taken by top party-state leaders (in particular, the seven top party officials who form the Politburo Standing Committee, and also sit on the Central Committee), SOEs and relevant agencies can inform and influence them (Zhang, Zhang, and Liu 2017; Steinberg and Shih 2012).

To be heard, interest groups have therefore to muster a large coalition able to provide a clear and unified message. As in democratic contexts, coordination and cohesiveness are central to

⁶ Policy documents describing the merger process outline the various state and party administrations involved. As a result, none of them can make these decisions alone, including SASAC, and must refer to the higher authority of the Politburo Standing Committee (State Council 2010).

explaining the influence of coalitions and interest groups (Olson 1965). Cohesiveness, based on close connections between coalition members, allows for stronger monitoring and limits free-riding (Hojnacki 1998). Also, groups that speak with a unified voice are more likely to get the attention of state actors, who are looking for clear sources of information and want to know where the ‘bulk of support lies’ (Chalmers 2013).

Coming back to SOEs, the interconnectedness between the firms and their administrative overseers is the basis of their cohesiveness as an interest group. The top management of central SOEs rotates regularly between firms, as well as with administrations. For example, in 2010, the leadership of China’s three major oil companies was reshuffled. The party secretary and general manager of the China National Offshore Oil Corporation (CNOOC) moved to Sinopec, while a senior executive at China National Petroleum Corporation (CNPC) was appointed as chairman and party secretary at CNOOC (MacGregor 2012). Looking at the past experiences of SASAC leaders, they all had experience working in SOEs or other ministries dealing with state firms. Analyzing in-depth the corporate governance structure of central SOEs, Lin and Milhaupt show how different entities, and their managers, are indeed highly interconnected, creating an "encompassing coalition" facilitating information sharing and collusion among SOEs and administrations in charge of overseeing them (L.-W. Lin and Milhaupt 2013). This overall interconnectedness however does not explain why this encompassing coalition has been much more efficient at pushing for the extension and concentration of state assets after 2003 compared to before.

I rely on Social Network Analysis to explore how the limited centralization of SOE management that SASAC embodies has changed the structure of the pro-SOEs coalition. I use an updated and expanded biographical dataset of CCP central committee members, building on Shih et al. (2015),⁷ to construct the network tying members together and locate individuals within this overall network. As mentioned earlier, as the CCP’s main policymaking body the Central Committee constitutes the regime’s selectorate. Two individuals are deemed connected when they have worked in the same ministerial or provincial level unit at the same time for over one year (Individuals who served together as NPC representatives are not counted as connected as these positions imply minimal direct interactions, the representatives meeting only once a year). As surveying the Chinese top political elite is not an option, we have to rely on an indirect approach to account for personal ties. In addition to other proxies, such as family ties, China watchers have often used shared work experiences to infer connections (Cheng Li 2016; Bo 2007). Moreover, while this approach has shortcomings, as it does not capture other occasions in which elite members may have formed ties and as co-workers may have been mere acquaintances or even competitors, it has the advantage of transparency and replicability, unlike insider information, and does not lead to systemic bias (Keller 2016).

⁷ To supplement this dataset, I used officials' and SOEs managers' CVs available on the website China Vitae (<http://chinavitae.com>) and the Chinese Communist Party and state cadres' database website (<http://cpc.people.com.cn/gbz1/>).

My analysis is based on the premise that pre-existing personal ties between individuals facilitate information-sharing. In opposition to a factional perspective that often assumes that connected individuals have shared political interests (Nathan 1973), I merely construe ties as channels of coordination that enable or restrict coalition formation (Keller 2016). From that perspective, even weak links among remote colleagues are relevant as they allow for the circulation of information (Granovetter 1973; Bernhagen, Dür, and Marshall 2015).

To capture the effect of SASAC's establishment on networks, which took place in 2003, I look at three central committees spanning 25 years before and after: the 14th (1992-1997), the 16th (2002-2007), and the 18th (2012-2017). They embody moments of both power transitions and policy junctures in the realm of SOE restructuring. The 14th Central Committee took place at the beginning of the Jiang Zemin administration and marked the initiation of the “grasp the large, let go of the small” reforms which led to an overall downsizing of the state sector. In 2002, we saw a change of leadership, with Hu Jintao taking power. SASAC was created a year later, followed by an increase in central state assets and further concentration through mergers, as presented earlier. The 18th Central committee marks Xi Jinping's accession to power and a deepening of the SOE mergers strategy. The size of the three networks varies between 319 (12th Central Committee) and 377 (18th Central Committee) nodes (individuals), with between 3004 and 3911 ties connecting them.

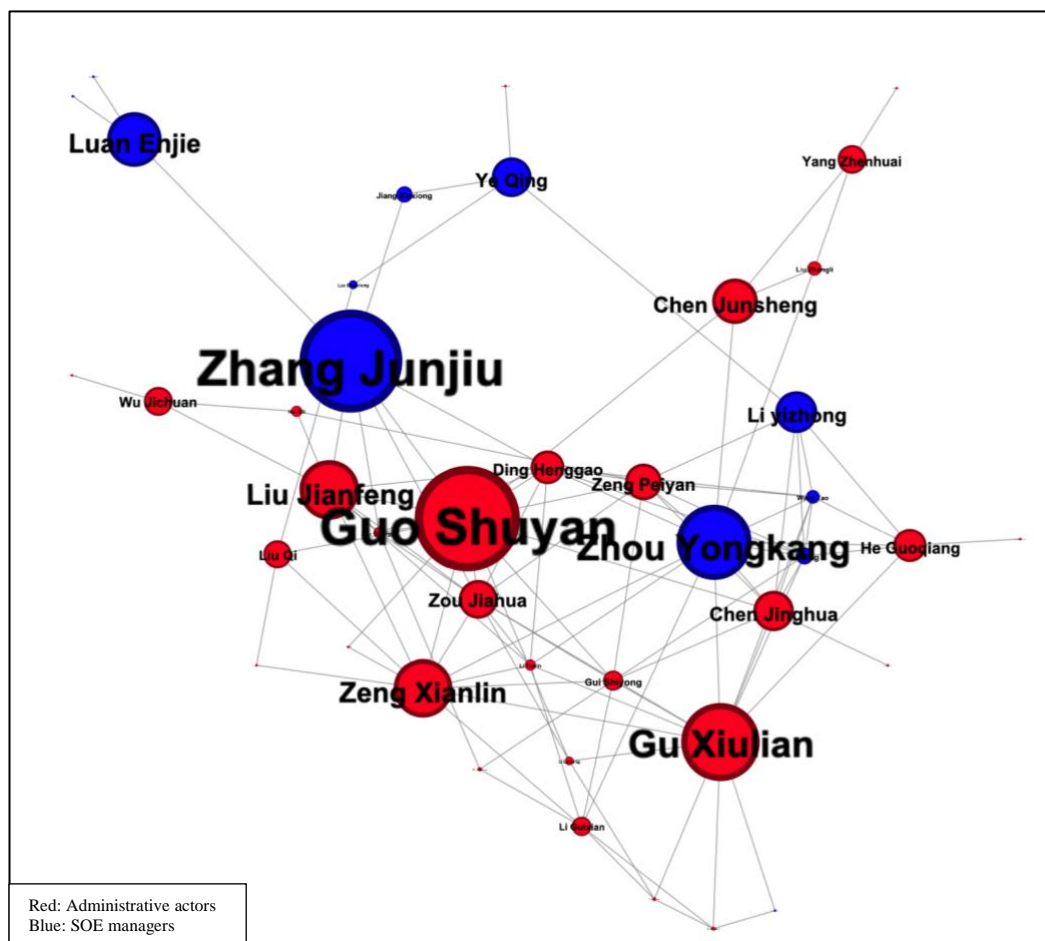
Once the networks are constructed, each central committee member is coded as part of a sub-group based on their position when joining the committee (e.g., central officials, local officials, SOEs managers...). This allows identifying different constituencies within the overall network, under the premise that the interests of individuals align with their unit's as their work will be evaluated based on the unit's performance. It also permits to zoom on specific groups within the network, to analyze the evolution of these sub-groups' structure in order to evaluate their level of cohesiveness and coordination around central nodes. In particular, I look at how non-financial SOE managers, the ones under SASAC's purview, and officials from the agencies central to SOE supervision (e.g., SASAC, the National Development and Reform Commission, the Ministry of Finance, the Ministry of Industry and Information Technology, as well as sectorial regulation agencies such as the China National Space Administration or the State Administration for Science Technology and Industry for National Defence) connect with each other. This “SOE policy sub-network” includes the individuals who are the most directly involved with SOE policy and can therefore most directly influence top party leaders on these issues.

Figure 3 represents the SOE policy sub-network within the 14th Central Committee (1992-1997), during a period of state sector downsizing. For clarity, the figure focuses on the main component of the network, as only three unconnected nodes remain separated. The layout algorithm (Force Atlas implemented via the open-source software Gephi) brings connected individuals closer. The nodes in red represent officials from SOE supervision agencies, including various ministries which owned SOEs at the time, while in blue we have SOE managers. To gauge the sub-network cohesiveness, I rely on network density. Network density measures the portion of all the potential connections between nodes in a network that are actual

connections. A cohesive network such as a family or clique, in which most nodes are directly tied to each other's, has hence a higher network density than a group of people who are not directly connected, who find themselves in the same public transport for instance.

Their level of betweenness centrality determines the size of the nodes. Betweenness centrality counts how often a node acts as a bridge along the shortest path between two other nodes. Social network literature has stressed the power of such a position, as it allows individuals to manipulate information and gain a brokerage advantage within a network (Padgett and Ansell 1993; Burt 2009; Keller 2016). The more an individual functions as a central node in a coalition, connecting different players in the interest group, the more it can use its control over information fluxes to coordinate, and potentially manipulate by deciding to share information or not, among nodes. The interest group literature has also highlighted that, with tight schedules, policymakers are more likely to provide access to the nodes holding central positions in the coalition as they can provide them with information on the coalition's views (Daniel P. Carpenter, Kevin M. Esterling, and David M. J. Lazer 1998; Beyers and Braun 2014). It also means that they can potentially present these views in a manner that fits their interests. In this context, I argue that betweenness centrality reflects a person's strategic position as coordinator of an interest group.

Figure 3: Main component of the SOE policy sub-network, 14th CCP Central Committee (1992-1997)



With one main component, and only three unconnected nodes, Figure 3 verifies the interconnectedness of SOE managers and administrative actors mentioned earlier. Yet, its cohesiveness is not that high, with a network density of 0.27 (if all nodes are directly connected to all other nodes in the network, density equals 1). Moreover, the group has no clear central coordinator. Some individuals stand out for their centrality: Guo Shuyuan and Gu Xiulian on the administration side, and Zhang Junjiu and Zhou Yongkang on the SOEs' side. Guo Shuyuan was, at the time of the 14th Central Committee, the vice-chairman of the Three-Gorges Project Construction Committee, and Gu Xiulian was the Minister of Chemical Industry. Zhang Junjiu represented the weapon industry as head of China National Ordnance Industry Corporation, and Zhou Yongkang the oil sector as the General Manager of China National Petroleum Corporation. Rather than group leaders that could organize the sub-network towards a coherent objective, they are sectorial bosses, defending the interests of specific industries.

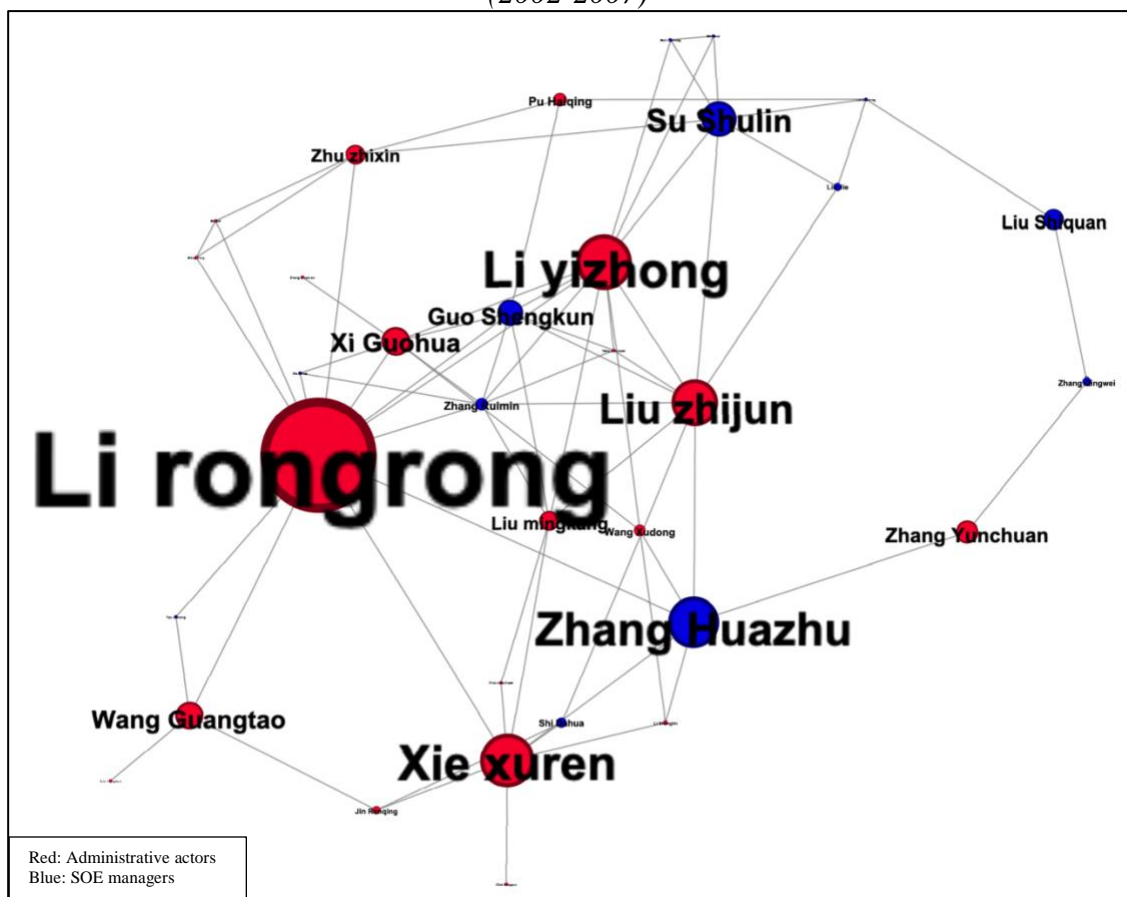
The shape of the SOE policy sub-network changed with the creation of SASAC. Figure 4 represents the network at the time of the 16th Central Committee (2002-2006). This Central Committee mandated in 2002 the establishment of SASAC, with Li Rongrong as its head. SASAC was then formally established in June 2003 after authorization from the NPC (R. Li 2003). It again shows a connected sub-group with one main component and only four unconnected nodes. The network density is slightly higher than in the previous sub-network at 0.28. Yet, the main change is the emergence of a single central node: Li Rongrong, SASAC's inaugural director. Interestingly, Li Yizhong, SASAC's inaugural deputy director, is the second most central individual. SASAC leaders are hence ideally situated in the network to coordinate the interest group to speak with one voice, across sectors. As we have seen, under the 16th Central Committee a policy shift takes place toward stopping the downsizing of state assets and the expansion and concentration of central SOEs.

As we have seen in the previous section, the push for SOE mergers exemplified SASAC's pro-big-SOEs policy, which it could effectively lobby for as the coordinator of a cohesive SOE policy sub-network. Looking at which SOEs are represented in this network, they are mainly the largest central SOEs under the dual leadership of SASAC and the CCP's Organization Department (which maintains the last say in appointing their leaders) (13 out of 17 at the 16th CCP committee), and the winners of mergers. The trajectory of Lin Zuoming exemplifies well the logic at play here. While the Aviation Industry Corporation of China (AVIC) was split up into two firms in 1999 to induce limited competition, this decision was reversed in 2008 as the AVIC I and AVIC II merged. Lin Zuoming, then head of AVIC I was a clear winner of this merger as he became the head of the reorganized AVIC. He was in fact a CC member at the time and the third most central individual in the SOE policy sub-network. By contrast, the head of AVIC II, Zhang Hongbiao, was not a CC member and therefore less able to lobby for his and his company's interest as it was merged. The merger's outcome was much less favorable for him as he was appointed to chair AVIC's Science and Technology committee.

Overall, looking at the three central committees that followed SASAC's establishment (16th, 17th, and 18th CC), none of the SOE leaders in the Central Committee ended up on the losing side of mergers. An interesting quasi-exception is the Shenhua Group. Shenhua merged in 2017

with China Guodian to create the world's largest power utility company. Despite the larger size of the company (it was listed on Fortune 500, while Guodian was not) and its political clout - its head was a member in the 18th CC (2012-17), it did not emerge as a clear winner of the merger process as Guodian's former head obtained the chairmanship and party secretaryship of the newly minted company, the National Energy Investment Corporation. This case, however, does not go against the logic presented in this paper as the merger interestingly took place a couple of years after Shenhua's head Zhang Xiwu, who had a seat on the Central Committee, was replaced by Zhang Yuzhuo, who was not present at the CC to defend the company's interest. Also, the merger occurred when Shenhua's former head Zhang Xiwu was under disciplinary investigation, weakening the firm's political standing. This example illustrates the importance of being part of the CC and to lobby for one's company.

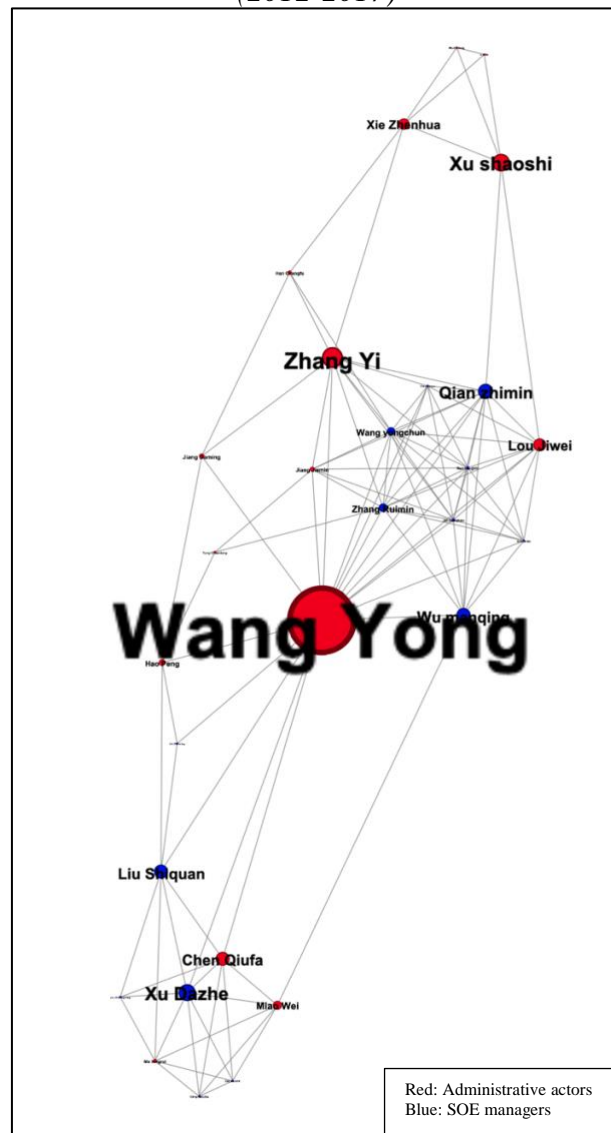
Figure 4: Main component of the SOE policy sub-network, 16th CCP Central Committee (2002-2007)



The reorganization of the SOE policy sub-network deepened over time. This is clear when looking at the structure of the SOE policy sub-network a decade after SASAC's creation, at the time of the 18th Central Committee (2012-2017). Again, we find a network structured around one main component, represented in Figure 5, with five unconnected nodes. Its cohesiveness has, however, increased with a network density of 0.44. Furthermore, we find at the center of this group, Wang Yong, who was the head of SASAC at the beginning of this Central

Committee’s tenure and until 2013. The second most central individual is Zhang Yi, then SASAC’s deputy director who will become its director in 2013. Interestingly, and beyond what we have seen with the 16th Central Committee, SASAC’s policy influence is verified if we look at the overall 18th Central Committee network: Wang Yong is ranked third in betweenness centrality across the whole central committee network. The strengthening of SASAC’s position as a leader in the SOE policy sub-network, and its emergence as an influencer in the overall selectorate, made possible the deepening of the policy of state assets concentration and the push towards SOE monopolies after 2012. The pro-merger coalition in fact became more visible during that period as SASAC and 11 other state departments, most of whom represented in the SOE policy sub-network, jointly issued in 2013 a “Guiding Opinions on Accelerating Mergers, Acquisitions and Restructurings of Enterprises in Key Industries” calling for the acceleration of mergers in various state-dominated industrial sectors (Ministry of Industry and Information Technology 2013).

Figure 5: Main component of the SOE policy sub-network, 18th CCP Central Committee (2012-2017)



The three network structures we just analyzed show that the creation of SASAC in 2003 facilitated the emergence of a cohesive and coordinated interest group, including large SOEs and state administrations able to lobby leaders within the Central Committee. SOEs managers and party-state officials in charge of SOE supervision were already well connected in the 1990s, but after SASAC's creation this group became increasingly cohesive. SASAC's leaders also emerged as the group's central coordinators. As such, they were in an ideal position to unify SOEs and administrations behind a shared goal and push for a policy of mergers. This policy favored major SOEs present in the Central Committee and aligned with SASAC's own interest of expanding the assets under its control. SASAC could also use its central position, and control over information, to tone down the voices of other members of the interest group that could be less inclined to support mergers, in particular agencies which have chiefly a planning and regulatory function such as the National Development and Reform Commission and which tend to emphasize SOEs' competitiveness rather than their size (Xu 2017).

Alternative explanations for the correlation between the evolution of the network's structure and the push for SOE mergers have also to be considered. At first glance, it seems that the story might have gone the other way around, rather than the interest group led by SASAC influencing top party-state leaders, the latter may have wanted to launch this policy in the first place, creating the agency and posting the right people at the right places for it to be swiftly implemented. Yet, this alternative narrative cannot account for SASAC's weakness in pushing for policies not favoring big SOEs as discussed, nor the fact that the networks portrayed here, representing the central committee at times of power transitions, are inherited rather than shaped by the ascending leaders. In line with previous research that shows how the support of key interest groups is particularly important during power transition and how potential leaders court them to build a winning coalition (Shirk 1993), it is more likely that the policy shifts resulted from Hu Jintao's administration, and later Xi Jinping's, negotiations with a cohesive and coordinated interest group led by SASAC, to obtain their backing. The "SOE policy sub-network" in fact represents a sizeable group within the Central Committee: expanding beyond only SOE managers and remaining around 10% of the committee's overall membership over the period.

Conclusion

Through an exploration of state-business relations in China, this article unpacks the mechanisms behind interest group influence on policymaking in authoritarian regimes. In contrast with studies describing how institutional reforms can help to avoid the partial-reform equilibrium (Malesky 2009), it shows how centralization reforms can therefore facilitate interest group influence in autocratic settings. While fragmentation is important to facilitate access to leaders for many groups and lobbyists, reforms aiming at clarifying principal-agent relationships and making control lines clearer can make it easier to capture key bureaucratic actors and build a coalition for already well-connected groups. The establishment of SASAC in 2003, which aimed at clarifying and strengthening the state's supervision over SOEs, has in fact led to an increase in SOEs' political influence. SASAC's limited power made it easy to

capture by large SOEs as it had to become their advocate in order to remain relevant. The emergence of SASAC also structured the ‘SOE policy sub-network’ into a cohesive and coordinated interest group. This group was instrumental in pushing for the expansion and concentration of state assets, despite adverse economic effects.

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