

The Rise of the Investor State: State Capital in the Chinese Economy

Hao Chen
Meg Rithmire

Working Paper 20-120



The Rise of the Investor State: State Capital in the Chinese Economy

Hao Chen

University of Southern California

Meg Rithmire

Harvard Business School

Working Paper 20-120

Copyright © 2020 by Hao Chen and Meg Rithmire.

Working papers are in draft form. This working paper is distributed for purposes of comment and discussion only. It may not be reproduced without permission of the copyright holder. Copies of working papers are available from the author.

Funding for this research was provided in part by Harvard Business School.

The Rise of the Investor State: State Capital in the Chinese Economy

Hao Chen

Postdoctoral Fellow, University of Southern California
Department of Political Science and International Relations
3518 Trousdale Pkwy, VKC233B
Los Angeles, CA 90089
hchen075@usc.edu

Meg Rithmire

Associate Professor, Harvard Business School
Business, Government, and International Economy
267 Morgan Hall
Soldiers Field Road
Boston, MA 02163
mrithmire@hbs.edu

(Authors' names listed alphabetically)

Acknowledgements: The authors wish to thank the Department of Faculty Research and Development of Harvard Business School for research funding and support. For helpful comments and suggestions, we thank anonymous reviewers for this journal, Josh Aizenman, Jude Blanchette, Gao Chen, Andy Collier, Nancy Dai, Rafael DiTella, Joseph Fewsmith, Jimmy Goodrich, Jingsheng Huang, Saori Katada, Kristen Looney, Jonas Nahm, Barry Naughton, Margaret Pearson, Tony Saich, Stacy Tan, Kellee Tsai, and participants at the 2019 Society for the Advancement of Socioeconomics meeting and the USC Marshall China Research Workshop. For research assistance, we thank Yihao Li, Jamie Chen, Andy Fan, Dave Hicks, Mike Shao, and Zhiying Xie.

We have no conflicts of interest to declare.

Abstract: The nature and extent of the role of the Chinese state in the economy is fundamental to many empirical and theoretical debates about that country's political economy. We document and explain the rise of a novel form of intervention on the part of the Chinese state: the expansion of state capital beyond ownership of state firms. We argue that state investment as a mode of state intervention in the economy is conceptually distinct from both "state capitalism" and the "developmental state" in its introduction of new agents to distribute state capital to firms and new mechanisms through which states, especially authoritarian ones, monitor and influence business actors. We document the growth of the investor state in several ways. Case studies of three high-profile shareholding firms in China demonstrate that state capital can be deployed strategically, for example to respond to financial crisis or facilitate industrial upgrading, but also generates moral hazard, resulting in corruption and resource misallocation, and international alarm about the intentions of Chinese firms. We further compare the rise of state shareholding firms in China to similar phenomena in Brazil and Malaysia, concluding that the practice has both economic and political logics.

Keywords: China's political economy, state shareholding, state-business relations, state capitalism, China's financial system

Comparative political economy is premised on the idea that a range of important phenomena, from growth and competitiveness to political stability and inclusion, are related to the institutions that structure firm preferences and the role of the state in the economy. For the past two decades at least, scholars of the political economy of development have recognized a range of productive roles for the state in guiding economic development (e.g. Evans 1995; Haggard 2018), with some even heralding the arrival of “state capitalism” as a sometimes viable alternative to market-led development (Musacchio, Farias and Lazzarini 2014). These debates about the impact of state intervention in the economy turn on the precise mechanisms of intervention and the incentives they create, requiring scholars to “get the facts right” (Huang 2008, xvii) about both the state’s role and the firms with which the state interfaces.

Debate about nature and extent of the role of the state in the economy is especially pronounced in the case of China. Arguments about how China managed rapid economic growth without capitalist political institutions (Woo 1999; Rawski 1999; Huang 2008; Ang 2016), the sustainability of China’s economic and political system (Pei 2006; Bell 2015; Shirk 2007; Shambaugh 2008, 2013), and the potential for the country to integrate into versus challenge the global economic system (Steinfeld 2010; Economy 2018) all turn on whether the state’s role in the economy is attenuating and how. Most recently, with the rise of Xi Jinping, the launch of large-scale, state-led economic initiatives (like Made in China 2025 and the Belt and Road Initiative), most China watchers have concluded that the state sector will stay strong for the foreseeable future (Naughton and Tsai 2015). Others have gone further, questioning whether China has reached the “end of an era” of economic reforms (Minzner 2018; Lardy 2019).

By and large, empirical and theoretical debates about the role of the state in the economy center on the role of state-owned enterprises (SOEs) or the “state sector,” firms that are majority

owned by various levels of the Chinese party-state. Indeed, the trajectory and limits to reforms of SOEs are the focus of most political economy work on “state capitalism” in China (Naughton and Tsai 2015). This focus on SOEs has neglected another ascendant and novel form of state power in the economy, namely the financialization of the state’s role through state investment and shareholding, especially in non-state-owned firms. While some scholarship has examined the financialization of the state’s relationship to majority state-owned firms, the growing reach of state capital in nominally *privately*-owned firms is a more recent trend, and one that requires a rethinking of the “state-private” dichotomy that has held sway over Chinese political economy for most of the reform era.

This article focuses on a specific mode of state intervention in the economy that has been undertheorized in comparative political economy and especially work on China, namely the role of the state as investor. In contrast to state majority ownership or the state as provider of industrial policy or guidance, the “investor state” pursues the economic and political goals of the state through widespread investment in a range of firms, though not necessarily as majority shareholder. The investor state is conceptually distinct from both state capitalism, which typically entails state ownership of the “commanding heights” of the economy, and the developmental state, which involves government intervention to optimize macroeconomic fundamentals and coordinate industrial policy, but embraces private sector firms rather than state capital (Haggard 2018; Woo-Cumings 1999). Specifically, the “investor state” mode empowers private firms as economic actors with the state as bearer of financial risk, a combination featured in neither developmental states nor “state capitalism.”¹ As such, state investment as a mode of

¹ Relative to the “developmental state,” which is well-theorized and defined, state capitalism is a fuzzier concept in the literature. Bremmer (2009) calls defines it as a system in which, “the state acts as the dominant economic player and uses markets primarily for political gain” (p.5), while the most definitive volume on state capitalism in China (Naughton and Tsai 2015) defines it as “a strong and robust

economic intervention has distinct consequences for both state and business. On the state side, the investor state model introduces additional agents to the state's influence over the economy in the form of the firms—and individual managers within firms—that deploy state capital. As the case studies will show, the relationships between these capital managers and the state as well as the firms in which they invest determine whether resources are allocated to pursue the state's strategic objectives or instead toward waste and corruption. These new agents are empirically novel in China and present challenges to existing literature on central-local relations and economic policy-making in China. Managers of state capital, especially those who work for private firms entrusted with managing state investment or given explicit state backing, reside beyond the party-state personnel system, which scholars of Chinese politics have argued constitutes the primary mechanism of discipline and control, especially in the management of the economy (Huang 1996; Shih, Adolph, and Liu 2012; Landry 2008; Landry, and Lü, 2014). For business, state investment challenges the distinction between private and “state” sectors and introduces a new means through which the state can monitor, influence, and discipline business actors, activities that take on particular importance in authoritarian regimes. Internationally, the suffusion of state capital has contributed to raised suspicions of all kinds of Chinese firms, generating backlash against China's economic and global ambitions.

We document the rise and expansion of large state-run shareholding companies and attempt to measure their presence in the wider economy; to our knowledge, this is the first paper to undertake such a task. We further examine the phenomenon of financialization by looking in

state sector for the long term” (p. 2). We acknowledge that state minority investment is ideologically consistent with state capitalism as defined broadly by Bremmer, the mechanism of state investment in non-state firms requires explicit empirical investigation and theoretical consideration.

detail at several shareholding companies, including ones definitively owned by the state (Central Huijin and China Securities Finance Corporation) and others with murkier ownership (China Minsheng Investment Group). We argue that the activities of the shareholding companies can be both strategic, channeling state capital toward strategic state goals such as industrial upgrading and financial stability, and haphazard, misallocating resources and generating significant losses. Specifically, we find evidence of two moral hazard problems generated by state investment: first, that managers seek to enrich themselves rather than pursue the state's strategic objectives, and, second, that expectations that state-investments "can't fail" remove market discipline. Lastly, we discuss the "investor state" as a model of state-business relations, comparing China with other countries, namely Brazil and Malaysia, where state capital is widely present in the economy. We conclude that state capital permeates the private sector with both political and economic logics.

I. The Rise of the State as Investor

Political economy scholarship over the last two generations has concluded that tremendous power is vested in those who enjoy control over capital for investment (Lindblom 1977; Winters 1994). In the developing world, as Gershenkron (1962) observed in the middle of the last century, economic "backwardness" can require the mobilization of investment capital in capital-scarce environments, engendering a stronger role for states in mobilizing capital themselves and through their relationships with banks. State mobilization of capital, of course, varies widely. "Developmental states" relied on bureaucracies to coordinate industrial policy and credit-based financial structures to execute that policy (Zysman 1983), while other systems planned investment directly through public ownership of firms (Waterbury 1993). Large literatures have

developed to examine the impacts of either financial institutions and banking systems or corporate governance systems on various economic and political outcomes (e.g. Gourevitch and Shinn 2005; Hall and Soskice 2001).

The phenomenon we document in China and compare to similar practices in Brazil and Malaysia is distinct from both state ownership of firms (typical of state socialism and, more recently in other forms, called “state capitalism”) and state provision of preferential credit to firms (associated with the developmental state model). The investor state entails widespread state investment capital and equity stakes in firms of all kinds, and especially minority stakes in nominally privately-owned firms. The extension of capital in this form engenders a new role for the state in corporate governance, generates novel principal-agent problems between the owners and managers of capital, and provides an alternative means for states, especially authoritarian ones, to push political agendas through their stakes in firms.

The expansion of state capital beyond state-owned firms and into the private sector is a novel empirical phenomenon that challenges dominant ways of thinking about China’s political economy. Research on “state capitalism” in China typically focuses on the firms with majority state ownership and the nature of the state’s management of those firms. As Naughton and Tsai observe, state-owned enterprises (SOEs) are now seen as an “enduring feature of the Chinese economy” and the defining characteristic of China’s version of “state capitalism” (Naughton and Tsai 2015). A productive research agenda has developed around the sectoral variation, corporate governance, and political effects of SOEs in China (Oi and Zhang 2014; Leutert 2018; Li 2015, 2016; Brødsgaard 2012; Naughton and Tsai 2015).

In recent years, scholars have focused on the “financialization” of the state’s role in managing SOEs. Wang Yingyao (2015) defines financialization as “a process in which the state increasingly relies on a set of financial means (financial market, financial indicators and financial instruments), to manage its assets and fund public investments.” She highlights three features of financialization: the introduction of shareholder values to managing state assets, the expansion of non-bank financial institutions to manage assets, and the provision of financing vehicles by these institutions for state-led fixed asset investment. The solidification of the State-owned Assets Supervision and Administration Commission (SASAC) in 2003 streamlined the state’s ownership of firm assets and was replicated throughout the administrative hierarchy. With financialization, the state’s role shifted “from classic state owner to capitalist asset manager,” and with significant effects: Guthrie, Xiao, and Wang (2015) find that SASAC-owned firms are more profitable than firms directly owned by various state offices.

The phenomenon we describe goes beyond financialization of the state’s approach to managing firms it owns. The “investor state” indeed relies on financial means to manage its assets (rather than direct ownership via state ministries, for example), but with goals that extend beyond maximizing shareholder returns like a “capitalist asset manager” and relationships that expand outside the realm of traditionally state-owned companies. Moreover, the expansion of state investment beyond the state sector involves and empowers firms and managers that the CCP does not control through its own organizational department and personnel systems. As we show, these new agents of CCP economic policy have proven difficult for the party-state to manage. While Wang and others argue that “financialization” of the management of SOEs has been relatively effective, we find that the “investor state” mode has generated mixed results with substantial resource misallocation. Furthermore, state investment is not just about asset

management, but is a new means through which the party-state penetrates economy and society. Below, we discuss three manifestations of state capital's rise in the economy outside the state sector: state capital funds for industrial upgrading, central state investments in non-state-owned firms, and local state capital positions in the private economy.

State capital for industrial upgrading

China's most recent industrial policy, Made in China 2025, has controversially called for comprehensive upgrading and localization of China's manufacturing capabilities. The primary means of implementing the policy has been the creation of "government industrial guidance funds" (政府产业引导基金, or industry funds) in strategic sectors, such as semiconductors, artificial intelligence, and electric vehicles, among others. Funds are initially supplied by the state at many levels—central ministries, provincial or municipal governments, and so forth—but matched by private funds and managed by private capital management companies. In 2014, the State Council called for the creation of multiple professionally managed private equity funds to make equity investments on behalf of the state, a model Beijing had piloted (with the Ministry of Industry and Information Technology's encouragement) in 2013 with two private firms to serve as managers of the Beijing Integrated Circuit Industry Investment Fund with \$1.2 billion in target capital.²

² China State Council, "Guideline for the Promotion of the Development of the National Integrated Circuit Industry", <https://members.wto.org/CRNAttachments/2014/SCMQ2/law47.pdf>, accessed December 2018; Ministry of Industry and Information Technology, "Public Announcement on Selecting Management Companies for the Private Equity for Integrated Circuit Industry Development," (关于北京市集成电路产业发展股权投资基金遴选管理公司的公告) December 18, 2013, <http://www.miit.gov.cn/n1146285/n1146352/n3054355/n3057643/n3057649/c3625593/content.html>.

By 2018, more than a dozen such funds had been established by governments at various levels, including MIIT's own National Integrated Circuit Industry Investment Fund with initial capital of \$21 billion. By some estimates, more than \$160 billion in government funding would become available to the domestic Chinese semiconductor industry through these funds.³ To be sure, large-scale state funding for industrial upgrading is not novel in China, but the matching of public and private funds is, as is the large-scale provision of state capital for the private sector. Ding Wenwu, president of the national fund, explained: "we separated the ownership and management of the fund. All personnel appointments of the management company follow ordinary market principles and no executive is a government official... But contrary to the private sector, we would also invest in risky projects that may not yield short-term financial returns but hold strategic value."⁴ Moreover, because state capital will be matched by "social capital," the state itself is an equity investor in private firms but only as a minority investor or "limited partner," in the language of private equity.

The suffusion of state capital throughout the Chinese political economy has had definite effects on foreign perceptions of state-business relations in China. Again, the semiconductor sector is instructive. In December 2016, President Obama blocked an acquisition of Aixtron, a German maker of specialty machinery to produce chips, by Fujian Grand Chip Investment, which claimed to be a private company. The rejection, under the auspices of the Committee on Foreign Investment in the United States (CFIUS), came on the grounds that Fujian Grand Chip

³ Note that the fund totals are "targets" for both state-provided capital and matched private contributions, so it is quite difficult to know how much money is actually available. Gorgon Orr and Christopher Thomas, "Semiconductors in China: Brave new world or same old story?", August 2014, McKinsey & Co, <https://www.mckinsey.com/industries/semiconductors/our-insights/semiconductors-in-china-brave-new-world-or-same-old-story>.

⁴ China Electronics News, "Scoop: Ding Wenwu Interprets the Big Fund," "独家：丁文武详解大基金" October 23, 2017. http://www.sohu.com/a/199698015_464075.

Investment was linked to another Fujian-based semiconductor firm, San'an Group, which had suddenly canceled a large order from Aixtron the prior year, crippling the company and forcing its management to seek an investor. The two companies appeared connected through a complex web of interconnected shareholdings by government funds, though Fujian Grand Chip's CEO insisted the companies were unrelated, going as far as taking out a full-page advertisement in a German newspaper (Mozur and Ewing 2016). Whether or not the two transactions were coordinated (and indeed this is unknown), the suffusion of state capital throughout the sector has led host countries to be wary of all Chinese overtures in semiconductors, effectively ending global transactions in that sector for China.

The industry funds, and therefore the scale of state capital for industrial upgrading in China, has expanded rapidly in recent years. Estimating the size of the funds is complex, since many funds are announced with target figures, much of which is to be matched by private investors. One report cites 442 such funds set up in 2016 alone with a goal of raising 3.6 trillion RMB (Fuller 2019). Another cites \$1.7 trillion USD in more than 2,000 total government-backed investment funds, which is equal to one-third of the assets in the global private equity market (Atkinson 2019). The role of state capital—rather than state firms—in guiding industrial policy in China presents a set of questions and challenges that are unaddressed by traditional research on the “state sector.”

State-Owned Capital Investment and Operation

The growth of central and local shareholding companies and their expansion into the non-state sector has come on the heels of the “financialization” of the state's role in the state sector

documented by Wang (2015) and others. The introduction of investment as a function of state capital, however, entails a delegation of authority to firms, both state and private, as managers of state capital that involves far more autonomy for them than the “state as asset manager” model describes. In November 2013, at the Third Plenum of the 18th Party Congress, a Central Committee decision on “comprehensively deepening reform” formally encouraged the establishment of “state-owned capital operation companies” (国有资本运营公司) to shift from “managing enterprises” to “managing capital.”⁵ In July 2014, the first two official “state capital investment companies” were established under two SASAC-managed SOEs, COFCO (a food processing company) and SDIC (an investment holding company).⁶ A year later, a state directive on SOE reform explicitly encouraged state capital into private firms: “state-owned capital invests in non-state-owned enterprises in various ways” to “focus in public services, high-tech, eco-environmental protection, and strategic industries... and non-state-owned enterprises with large development prospects and strong growth potential.”⁷

That policy document also set a 2020 deadline for “decisive achievements” in SOE reform, requiring SOEs to demonstrate progress in “mixed ownership reform.” The deadline may explain why some local SOEs have pursued the purchase of listed, non-state companies: to provide shells for SOEs to enter markets and appear as if they have conducted mixed-ownership reforms. After the promulgation of the policy 2015, the number of listed firms owned by either the central or

⁵ State Council. “Decision on Major Problems of Deepening Reform.” 《中共中央关于全面深化改革若干重大问题的决定》 November 15, 2013. http://www.gov.cn/jrzq/2013-11/15/content_2528179.htm.

⁶ State capital investment companies are called 国有资本投资公司 in Chinese. SASAC. “SASAC Held Press Conference on the ‘Four Reform.’” 《国务院国资委举办“四项改革”试点新闻发布会》 July 15, 2014. <http://www.sasac.gov.cn/n2588020/n2588072/n2591426/n2591428/c3731034/content.html>

⁷ State Council. No. 22 Document. “Guiding Opinions on Deepening Reform of State-Owned Enterprises.” 《关于深化国有企业改革的指导意见》 September 13, 2015. http://www.gov.cn/zhengce/2015-09/13/content_2930440.htm.

local state have increased: from 344 to 368 for central firms and from 662 to 700 for local firms (all the while, the number of total firms listed has remained 3682).⁸

In February 2016, two new “state-owned capital operation enterprise” pilots were established within China Chengtong Holdings Group and China Reform Holdings, both asset management holding companies governed by SASAC. Both established multiple funds, with additional shareholders primarily drawn from other SOEs, that provided capital for SOEs to buy listed private firms. By the end of 2018, these two managed total assets of RMB 900 billion (Li 2019, p. 16).⁹ By December 2018, an additional 18 central SOEs were designated to be state-owned capital investment enterprises.¹⁰ A policy document issued in 2018 established implementation guidelines for these types of pilot firms, stating the objectives to include “promoting the rational flow of state-owned capital, optimizing the investment of state-owned capital, concentrating on key industries, key areas and advantageous enterprises” in “good service of national strategy needs.”¹¹ While official language remains vague about the distinction between capital investment and operation, interviews suggest that capital operation firms may take a more active investment stance, perhaps managing distressed assets, while investment firms would handle more passive investments.¹²

Rather ironically, an economic rationale for extending state capital to the private sector is as a fix to other institutional and economic problems generated by the outsized influence of the

⁸ Interestingly, the share of market capitalization owned by the state has stayed relatively steady at both levels, around 24% for the central state and around 19% for the local state. This would mean that the firms that fall under state ownership are not of substantial value. Data collected from WIND and calculated by authors.

⁹ China Chengtong Holdings Group’s website lists these partners in the establishment of the group’s “China Structural Reform Fund Corporation Limited.”

http://www.cctgroup.com.cn/cctgroupen/about_us/group_profile/index.html.

¹⁰ We provide a list of these firms in Supporting Information Table 1.

¹¹ State Council. Document 23. “State Council suggestions on implementing the pilot program in promoting state-owned capital investment and operating companies.” 国务院关于推进国有资本投资运营公司改革试点的实施意见. Document No. 23. July 14, 2018. http://www.gov.cn/zhengce/content/2018-07/30/content_5310497.htm

¹² Interview with former CSRC official (August 2019).

state sector. Private firms have been systematically excluded from China's capital markets (Huang 2008), leading them to rely on a "shadow banking" ecosystem in which lenders connect to firms beyond the reach of regulators, sometimes using banks as intermediaries but off the balance sheet (Hachem 2018). China's shadow banking industry has ballooned in recent years, and regulators have sought to combat the "systemic risk" of corporate debt and un- and under-regulated financial products by cracking down on shadow banking platforms and big borrowers. While the crackdown on shadow banking may have reduced associated risks, it nonetheless further restricted financing for non-state firms, ironically prompting the state to offer itself as financier to the private sector.¹³

Local State Capital

As the central state has emphasized the need for state capital investment and operation, local governments have joined central shareholding funds and SOEs in pursuing investment in the private sector. Beginning in the second half of 2017—after the establishment of central-level experimental state capital investment and operation enterprises but before the 2018 Document providing official guidance on these firms—local SASACs began to establish state-owned capital investment and operation companies. Local investment companies have, in many cases, gone beyond minority investment, frequently engaging in "ownership transfer" of private, listed firms—essentially nationalization through open market equity purchases.

¹³ Xiao Gang. "Manage the Pace and Intensity of Risk Management and Promote the Healthy Development of the Asset Management Industry – Report for the 2019 China Wealth Management 50 Forum." Xinhua News, August 20, 2019. http://www.xinhuanet.com/money/2019-08/20/c_1124896522.htm Note: Xiao Gang is the former Chairman of China's Securities Regulatory Commission.

According to formal reports from the Shanghai and Shenzhen stock exchanges, these kinds of transfers are not large in number, but the trend is a significant one. Since 2016, listed firms have changed their controlling owner from private to state at an average rate of ten per year. This number was as high as 23 firms in 2018. Of all of the listed firms that undergo major ownership reforms, the clear trend in 2017 and 2018 is that most of these firms are private, not state-owned (306 in 2018, double the number of privately-owned firms to undergo equity transfer in 2017) (Li 2019 pp. 2 and 9). Ultimately, the rate of open-market nationalization appears to exceed privatization in an upending of the connotation of “mixed ownership reform,” which has been the emphasis of SOE reform in recent years.

Most examples of private firms falling under state control involve distressed firms or large conglomerate firms under tremendous political and financial pressure. In many cases, firms experiencing a suspension in trading for a significant amount of time are eventually purchased by local SASACs, as was the case with a technology company in Anhui (Changxin Technology) and several others in Fujian in 2018. Those who have welcomed state capital have argued that state investment or ownership helps distressed firms access capital and resources, while others (especially academic economists) have worried that “mixed ownership reform” is inviting state capital into the private sector rather than the other way around. In the cases of large, distressed conglomerate firms, heavy pressure from regulators has forced companies like HNA, Dalian Wanda and Fosun to unwind some of their global purchases; HNA reportedly sold its 7.6% stake in Deutsche Bank to a group comprising a number of state shareholding firms, including CIC and CMIG, profiled below. Some of Anbang Insurance’s assets were taken over by local SOEs in Xiamen and Shenzhen after the company was nationalized and its chairman jailed in early 2018 (Chen 2018).

Documenting state shareholding

To understand the prevalence of state capital in China's financial industry, we first obtained a list of all investment and asset management firms in China from the Emerging Markets Information System (EMIS) database, yielding 3,372 firms established before 2017.¹⁴ To get a better sense of the structure of ownership of these firms, we collected firm-level information on all the investment firms with total assets above or equal to 1 billion RMB, a total of 1,044 firms.¹⁵ In looking at individual firms, our interest was in determining ultimate ownership to identify whether firms were controlled by central or local levels of the state itself or by private individuals or companies. Tables 1 and 2 provide basic summary information on the distribution of ownership of these 1,044 companies.

The clear finding is that the vast majority of capital is controlled by state-owned investment and asset management companies, equally distributed between the central and local levels. Collectively, the 1,044 firms claim 18.45 trillion RMB in assets, 46.51% of which is controlled by central-level state firms and 45.18% of which is controlled by locally-owned firms. The majority of investment firms themselves (610 of the 1,044) are owned by local levels of the state. As Table 1 shows, the different ownership groups vary dramatically in the size of their assets: the mean centrally-controlled firm is nearly six times larger than the average locally-controlled firm, and more than 17 times larger than the average non-state-owned firm. The

¹⁴ It is, of course, possible that the firms listed on EMIS do not constitute a "universe" of investment and asset management firms in China, but it is the largest and only list of such firms we were able to locate. We have no reason to think it is less than representative.

¹⁵ To collect firm-level data, we rely on WIND and EMIS databases. EMIS has data on firm assets and date of incorporation, and WIND has data derived from corporate filing records for both publicly-listed and privately-held firms. In particular, WIND allows us to follow a firm's ownership structure and discover the ultimate controller.

largest investment firm in China, Central Huijin, which we profile below, controls over 4 trillion RMB worth of assets, over a fifth of the total stock of capital controlled by all 1,044 firms.

Table 1: Total Assets by Ownership (2017 Fiscal Year in RMB billions)

Ownership	No. Obs.	Mean	Std. Dev.	Max
Central State-owned	106	80.9	452	4300
Local State-owned	610	13.7	27.9	385
Private	328	4.67	5.33	32.3

Table 2: Distribution of investment firms by ownership, 2017 (in RMB trillions)

Ownership	#	Percentage	Sum of Total Assets	Percentage
Central	106	10.15%	8.6	46.51%
Local	610	58.43%	8.3	45.18%
Non-state	328	31.42%	1.5	8.31%
TOTAL	1044	100.00%	18.4	100.00%

The firm-level data offer other interesting observations. First, the top ten firms by asset size are all state-owned; five centrally-owned and five controlled by provinces (Tianjin, Hubei, Jiangxi, Shandong, and Zhejiang). Among the largest 100 firms, only five are non-state-owned, and many central SOEs appear to have multiple investment firms. The private firms that do feature among the largest 500 firms belong to well-known and quite large business groups. For example, Wanda has 15 investment or asset management firms and Ping'an Insurance has three. Ultimately, this look at the non-banking financial industry shows that state capital appears to dwarf privately-owned and managed capital in the Chinese economy. But the above analysis tells us little about the kinds of investments that these firms make. We turn to this below.

Another way to measure the prevalence of state capital in China is to look at ownership of public equities. To this end, we took the top ten shareholders of every firm listed on the

Shanghai and Shenzhen stock exchanges for each year, 1993-2018. We then count each time a shareholder is named and find the top 20 shareholders (measured by number of firms in which they hold shares rather than the size of the shares held) for each year. We examined ownership structure for each shareholder to code as either a Big Four Bank (Bank of China, China Construction Bank, Agricultural Bank of China, and Industrial and Commercial Bank of China), a central shareholding firm, a local shareholding firm, a pension fund, private firms, and other. Figure 1 shows the number of firms in which shareholders by each of these types were invested. The figure visualizes a few trends. First, private shareholders appear dominant in the late 1990s and early 2000s, after which the Big Four Banks appear to hold large numbers of firms after 2003. Second, central and local shareholding firms play an increasingly large role beginning in 2006; after 2012 and especially after the stock market crisis of 2015, central shareholding firms constitute the dominant shareholder in the Shenzhen and Shanghai exchanges.

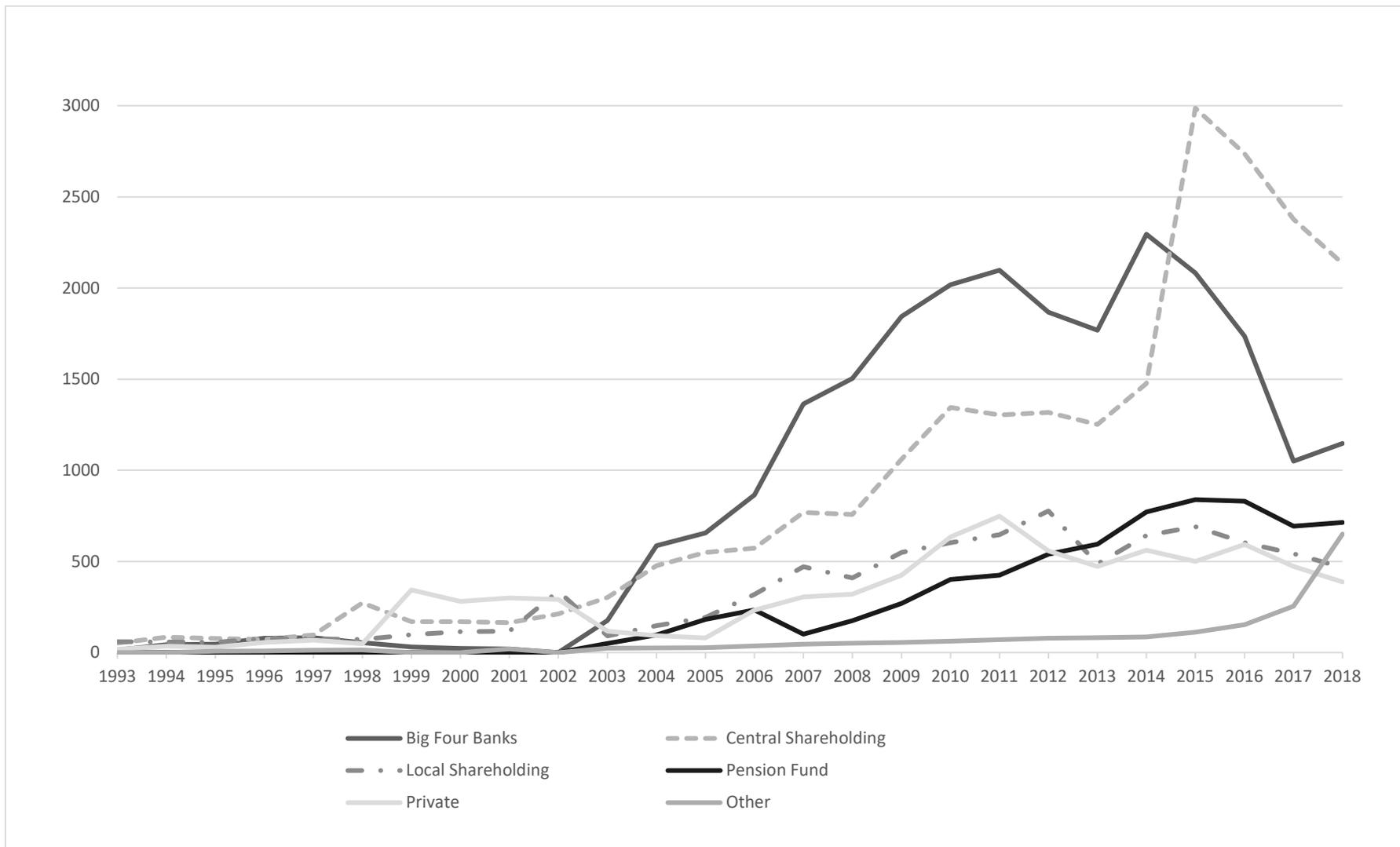


Figure 1: Number of Invested Firms by Shareholder Type, Top 20 Shareholders

Source: Calculated by authors using WIND database.

*Other refers to Hong Kong-based investors.

II. Case Studies

As we discussed above, a strategic logic—maintaining financial stability and facilitating industrial upgrading—appears to motivate the deployment of state capital into the private sector in China. Yet the use of state capital in practice is as haphazard as it is strategic, encountering principal-agent problems in implementation. Specifically, two moral hazard problems emerge from case studies of state shareholding firms: first, managers of state capital pursue their own enrichment rather than the state’s strategic goals, and second, expectations that the state efforts “can’t fail” seem to protect firms from scrutiny and generate market actors ready to benefit from state largesse.

We select three cases that are broadly representative of the deployment of state investment from different vantage points. The first two cases (Central Huijin and CSF) are two very large, centrally-owned and managed holding companies, and the third (China Minsheng Investment Group) is ostensibly private capital with the political imprimatur of state investment. All cases are quite recent examples of the logic of state investment. Central Huijin and CSF show the logic of using state capital to manage prices and markets in the context of crisis, and CMIG was designated as a major source of state-directed investment for strategic industrial upgrading. Looking at ostensibly private sector and definitively public sector cases approximates a “most different systems” design (Przeworski and Teune 1970): the firms are different in ownership and participation and their goals are different (emergency intervention and industrial policy implementation), but because all have explicit state backing, they appear to follow a similar

trajectory: massive deployment of resources with modest achievements and clear moral hazard problems that contribute to waste and corruption.

Central Huijin and CSF

Central Huijin is by far the largest shareholding company in China with 4.3 trillion RMB in assets under management. The company was founded in December 2003 with 45 billion USD in registered capital. Originally controlled by the PBoC, the fund became a subsidiary of the China Investment Corporation (CIC), China's sovereign wealth fund, in 2007. Before and after its transfer to CIC, Central Huijin was a shareholding vehicle for restructuring and recapitalizing financial firms, bank and non-bank. China Securities Finance Corporation (CSF) is a subsidiary company of the CSRC, established in 2011.¹⁶ Like Central Huijin, CSF raised money through interbank borrowing, and it primarily interacted with other securities firms to assist with lending, margin financing, and restructuring. During the 2015-2016 stock market crisis, both companies began large-scale investments in the non-state sector, investments they have maintained even as the stock market has stabilized. Their combined activities are evidence of the shift to a state as shareholder model in the CCP's relationship with the country's private sector.

Beginning in June 2015, a massive crisis wiped out nearly all of the gains made in both the Shenzhen and Shanghai stock exchanges over the previous year. In addition to suspending

¹⁶ China Securities Finance Corporation is not state-owned in the same sense as Central Huijin, as its shareholders include both Shanghai and Shenzhen Stock Exchanges and other commodities and future exchanges which are legally not a part of the state but categorized as "non-profit, social entities" administrated by the China Securities Regulatory Commission. These stock exchanges are, however, de facto governed by the state. The Shanghai Stock Exchange, for example, has an Organizational Department and a Discipline Inspection Department, both of which are CCP organs. Also, as we discuss below, CSFC was a definitive part of the "national team" in the 2015 crisis. Moreover, the Chairman and management teams (such as Nie Qingping and Xue Wenshi) are all CCP cadres with extensive career histories in the party-state and SOEs, especially banks.

IPOs, arresting journalists accused of spreading “rumors and sensationalism,” detaining high profile financiers, and investigating firms associated with new financial technologies and / or short selling, the CCP deployed financial resources to arrest the decline in share prices. The so-called “national team” (国家队), principally comprising Central Huijin and CSF, made over 1.3 trillion RMB worth of purchasing on China’s two stock exchanges between June and September 2015, eventually holding shares in half of all listed firms (Li and Zheng 2019).

In the summer of 2015, the purchases by the national team were said to be random and were assumed to be temporary—an infusion of state capital at a moment of crisis to avoid a total collapse in asset prices. Yet, four years on, CSF and Central Huijin appear to retain very large stakes in China’s equity markets. For each firm, we examined corporate filings to collect data on the companies in which they hold stakes. We then look at the ownership structures of those invested companies to determine whether they are owned by various levels of the state or are non-state, private firms.¹⁷ The results are displayed in Tables 3 and 4.

¹⁷ To determine state versus non-state ownership, we focused on the ultimate controller of each firm. If ultimate controllers were organs of the state, including various levels of government and ministries as well as universities, we coded them as state.

Table 3: Investments of Central Huijin

	State		Non-State		Total		Share Size			Total Investment
	Number	%	Number	%	Number	%	Mean %	Min %	Max %	Billions RMB
2015	373	41.77	520	58.23	893	100	1.46	0.09	4.99	309
2016	363	43.11	479	56.89	842	100	1.49	0.09	5	265
2017	368	43.55	477	56.45	845	100	1.45	0.113	4.99	302
2018	361	43.03	478	56.97	839	100	1.42	0.12	4.99	219
2019	335	44.37	420	55.63	755	100	1.46	0.09	4.99	247

Note: Central Huijin actually comprises two companies, Central Huijin Investment Co, Ltd (中央汇金投资有限公司) and Central Huijin Asset Management Co., Ltd (中央汇金资产管理有限公司). This table displays data on Central Huijin Asset Management, as it holds most of the assets that Central Huijin Investment still held at the end of 2015 and is the main stock market investing vehicle. 2019 data are as of July 2019

Table 4: Investments of China Securities Finance Corporation (CSF)

	State		Non-State		Total		Share Size			Total Investment
	Number	%	Number	%	Number	%	Mean %	Min %	Max %	Billions RMB
2015	270	57.82	197	42.18	467	100	1.68	0.13	3.29	469
2016	210	59.66	142	40.34	352	100	1.86	0.2	4.33	430
2017	209	55.73	166	44.27	375	100	2.34	0.11	5.01	688
2018	233	54.57	194	45.43	427	100	2.14	0.11	5.01	478
2019	180	45	220	55	400	100	1.68	0.13	3.29	509

As the tables show, even in 2019, nearly half the invested firms were non-state firms (58% for Central Huijin and 42% for CSF). While both companies were invested in fewer firms overall in 2019 than they were in 2015, divestment is not as significant as one might expect—Central Huijin went from owning shares of 893 firms in 2015 to 755 in 2019, and CSF appears to have decreased its shareholding from 2015 to 2016 and then invested in ever greater numbers of companies each year since 2016. Nearly all of that growth is driven by investments in non-state firms, and the size of shares held remains quite small.

The large-scale interventions by Central Huijin and CSF appear to be strategic, keeping equity markets afloat by deploying state capital. While the intervention of the “national team” may have staved off further collapse, the use of state capital was not unproblematic. By the end of 2015, six out of 21 securities companies on the “national team” were under investigation for short selling or insider trading. According to one person, “People at CITIC and other firms were calling up their friends saying ‘Tomorrow, I am buying [whatever firms].’”¹⁸ Moreover, initial investment from the national team seemed to have moved the market, but subsequent investments are perceived as failures. Because state capital was essentially rescuing collapsing companies, “people were happy for the national team to buy because they wanted to sell.”¹⁹ Essentially, after revealing that they would intervene at such a scale, the intervention then failed to move the market because it simply generated counterparties. These outcomes underscore the moral hazard problems generated by state investment. The introduction of a layer of firms and managers who deploy state capital offers opportunities for their self-enrichment, which can make state capital less effective in achieving strategic objectives. In addition, expectations of state

¹⁸ Interview with private institutional investor, Shanghai (May 2017).

¹⁹ Interview with private institutional investor, Shanghai (May 2017).

rescue—literal, in this case—allowed counterparties to improve their portfolios and staved off market discipline for both struggling firms and investors.

China Minsheng Investment Group

The case of the China Minsheng Investment Group (CMIG)²⁰ presents the complexities of hybrid financial organizations in stark fashion, demonstrating that the CCP is experimenting with novel forms of both state and private capital, and that both encounter significant problems in implementation. CMIG is a nominally privately-owned and managed firm with significant state backing and formal approval from the State Council. CMIG was established in August 2014 in Shanghai with 59 shareholders and registered capital of 50 billion RMB. CMIG is the first private firm with the term “Zhong” (indicating China) in the title, a fact that led many to believe that the firm was indeed state-backed and state guaranteed, leading them to privilege the company in deals. Furthermore, members of high profile political bodies, such as the National People’s Congress, are overrepresented among CMIG’s shareholders.²¹ The rationale for CMIG’s establishment, which was backed by Premier Li Keqiang, was to aide China’s industrial upgrading and economic reforms.²² The idea of establishing a private investment bank emerged from the annual meeting of the All-China Federation of Industry and Commerce, a state

²⁰ In Chinese, 中国民生投资有限公司, or 中民投.

²¹ Among CMIG’s shareholders, seven are Vice Chairman of the All-China Federation of Industry and Commerce, four are Representatives of the National People’s Congress, and seven are member of the National People’s Political Consultative Conference.

²² “The vision and first steps of CMIG: A conversation with Dong Wenbiao.” 《中民投的愿景和第一步，对话董文标》 2015-11-12. <https://www.cm-inv.com/cn/ourtalk/1012.htm>.

corporatist umbrella chamber of commerce group, in March 2013 with reference to the role that J.P. Morgan played in providing funds for industrial upgrading in the early 20th century U.S.²³

The founding chairman of CMIG, Dong Wenbiao, claimed that CMIG “will create a strong investment team that helps firms to re-shape their balance sheets,” adding that “many Chinese firms know little about finance and they put all their good assets and bad assets together.”²⁴

Dong proposed that CMIG would inject capital and help restructure corporate governance so that firm balance sheets would be more attractive to investors and significant liabilities would not affect a whole family of firms.²⁵ In 2019, CMIG had 62 shareholders, 57 of which held 2% or less and only one more than 4%. That one shareholder, which held 16.91% of CMIG in March 2019, was a shell company owned and controlled by CMIG’s own management team. The idea behind the dispersion of the shareholders was to preserve the independence of the company’s management, a model borrowed from China Minsheng Bank, a major privately-owned bank where Dong had spent most of his career.

The company appears to have relied heavily on bank loans to expand and invest, with China Exim Bank as the company’s largest lender.²⁶ Therefore, despite the nominally private ownership, the supply of capital from the state itself and the implicit and explicit state backing make CMIG an interesting case in which to observe dynamics of the investor state. The company’s failed efforts in the PV cells industry, a key industry for innovation and upgrading according to state planning guidelines (Nahm 2017), points exactly to confusion over its status.

²³ Ibid.

²⁴ Ibid.

²⁵ This strategy clearly replicates that of the asset managers and SASAC committees for public sector firms and resembles the “puzzling demerging and decentralization” of public firms in Hungary described by David Stark in the 1990s. Just as in the Hungarian case, restructuring of balance sheets results in the creation of networks of firms with corporate satellite structures (Stark 1996).

²⁶ Corporate filings show that the Asset-Liability ratio for CMIG went to .67 in 2015 and then over .75 for 2017 and after. Accessed through WIND database, August 2019.

In 2014, the company invested an estimated 30-50 billion RMB build a large PV project with a capacity of 3-5 GW in Ningxia, making it the single largest PV plant in the world. The end plant successfully generated 1.1GW, but the company only secured license quota for 380 MW to connect to the existing grid. Investors assumed that the company's status meant it would have no problem getting appropriate licenses to connect to the grid, but in the end, it failed to outmaneuver mostly provincially-owned power companies to secure quota.²⁷

Although the company's heavy debt burden—some reports estimate more than 300 billion RMB in debt—and questionable asset composition came to light in 2019, one person remarked that, “No one would dare let it go bankrupt because of its ‘China’ title” (Mi and Hu 2019). In February 2019, China Great Wall Asset Management Company, a state firm that specializes in distressed state assets, agreed to manage the non-performing loans of CMIG.²⁸ Three months later, in May 2019, Zhao Leji, a member of the Politburo Standing Committee and one of President Xi's closet ally in the Politburo, visited the company in a signal of support for its reforms.²⁹ In August 2019, the board and management team of CMIG disappeared from its official website, and the company is now managed by Emergency Management and Executive Committees.³⁰

Pathologies in the management and organization of CMIG, ones related to the company's hybrid status as nominally private with state sanctioning, contributed to the company's debt

²⁷ Interview with private investor (July 2019). “CMIG and Ningxia Autonomous Region sign joint strategic collaboration agreement.” CMIG press release. August 28, 2014. <https://www.cm-inv.com/cn/companyNews/659.htm>.

²⁸ “CMIG and China Great Wall begin collaboration on all fronts.” CMIG press release. March 1, 2019. 《中民投与中国长城资产开展全面合作》 <https://www.cm-inv.com/cn/companyNews/2299.htm>.

²⁹ “Zhao Leji visits CMIG.” 《央视新闻联播：赵乐际到访中民投股东单位》 CMIG Press Release. May 22, 2019. <https://www.cm-inv.com/cn/companyNews/2351.htm>.

³⁰ Chen Yanrong. “A new management structure for CMIG has surfaced.” 《中民投新管理架构浮出水面》，China Financial News, August 27, 2019, http://www.financialnews.com.cn/jigou/rzzl/201908/t20190827_166818.html

burden and failure. First, the shareholding structure provided little oversight of the management team, who, according to interviews, made reckless and even corrupt decisions based on personal relationships.³¹ Many shareholders saw the CMIG as a platform through which to enrich themselves and their own companies, for example investing in CMIG and expecting loans from a CMIG subsidiary. For example, CMIG leased expensive equipment to its investors and shareholders for their personal use, shareholders pledged shares for loans, and CMIG and its subsidiaries made (ultimately loss-making) investments in companies connected to its shareholders.³²

CMIG was also characterized by a culture of risk-taking and informal relationships. According to interviews, the company's operational mode was more “do it first and ask later” (先弄再说了) and “mutual enrichment” (一起吃肉, literally “eating meat together”) than careful assessment of investment opportunities and professional management of capital. It is hard to imagine that CMIG would have operated this way, with such extensive involvement from banks and shareholders, were its status not an apparent hybrid between state and market. Risks were perceived as low and projects came easily given the company's “China” status and assumed official backing, but discipline from investors and shareholders was in short supply for the same reason. The result is a mounting debt crisis and a failed financial firm that pursued some investments in critical industries but mostly misappropriated loans from state-owned banks to enrich the company's principals. That the State Council appears to be saving the company with intervention from a major state-owned asset management company shows that those who took risks with expectation of state insurance were not wrong.

³¹ As one analyst put it, “The shares of the CMIG are too scattered. No one really cares about the company's money, nor does it care whether a project is really making money. I am afraid it is a fatal problem.” Wu Hongwei, “CMIG seeks to survive by breaking its own arm.” 《断臂求生中民投》. Caixin, February 18, 2019.

³² Interview, Shanghai (July 2019).

III. Comparison and Discussion

The rise of state investment in the private sector is a novel form of state economic intervention for China, but state investment does feature prominently elsewhere in the developing world. The phenomenon of partial state ownership or “hybrid” governance has a literature in business and management scholarship (Inoue, Lazzarini, and Musacchio 2013a; Boardman and Vining 1989; Gupta 2005; Wu 2011), but few social scientists have examined the political and macroeconomic causes and consequences of the phenomenon (Musacchio 2014; Stark 1996; Keister 2004). Here, we discuss Brazil and Malaysia as two comparative cases of large-scale state investment, with very different political logics and consequences. In different ways, the experiences of each country shed light on similar practices in China.

In Brazil, Musacchio, Farias and Lazzarini (2014) detail how the rise of “Leviathan as minority investor” constitutes a distinct chapter in Brazil’s long history of state capitalism. Following experiments with majority state-owned enterprises, Brazil undertook privatization efforts following macroeconomic shocks during the 1980s (debt and financial crises). Brazil’s national development bank, BNDES, was deeply involved in privatization “not only to deflect criticism that the state was losing its grip on the economy” but also to provide a market signal for attracting private capital investment to auctions for shares in SOEs. In this sense, minority state investment was means of channeling state and non-state investment toward preferred firms, which is similar to the Chinese case, especially to the state capital “industry funds” that provide seed capital and are intended to attract private investment as well. Also like the Chinese state’s

shareholding practices, the Brazilian state has proven a tenacious minority investor: in 2009, Brazil had at least five state-owned holding companies with 68 subsidiaries and total assets in the hundreds of billions of USD.

The Malaysian experience has been motivated more by political than economic crisis. The Malaysian regime that gained independence in 1958 on the heels of a decade-long fight against a communist insurgency deeply embraced private control of capital and inherited an economy dominated by foreign owned enterprises and businesses owned by Malaysian families of Chinese descent. After the 1969 elections turned violent and the country's delicate ethnic balance seemed to threaten national integrity, the ruling coalition, led by the United Malays National Organization (UMNO) embarked on an ambitious, multi-decade project of "coercive distribution" (Albertus, Fenner, and Slater 2018). The New Economic Policy (NEP), which began in 1971, had two goals: to eliminate poverty and to eliminate the association of race with economic function. More concretely, the policy aimed to vastly increase the share of economic wealth owned by Malays—from less than 2% to 30% by 1990 (Gomez and Jomo 1999)—and to nurture a cohort of ethnic Malay businesspeople.

Implementation of the ambitious project would require participation of large, public shareholding firms which would be active in equity markets, providing capital to favored businesses but also holding the country's economic assets on behalf of the ethnic Malay *bumiputera* class. These "government-linked investment companies" (GLICs) managed the state's assets and trained a new class of Malay managers. The 1980s and 1990s saw a maturation of the NEP from asset takeovers and redistribution to the "selective distribution of government-created rents to a select group of businessmen" (Gomez 2006). The idea was to transition the country from a government "trusteeship" model by which the state itself is the dominant

shareholder in the economy to a model in which business elites, albeit politically loyal ones, dominate the economy. The period of privatization brought frustration; the regime's political elites were frustrated by their inability to cultivate competitive national champion brands, move up the value chain, and create large companies that could sustain their own profitability without reliance on the state for rents (Gomez 2009). The Asian Financial Crisis in 1997-1998 brought economic devastation and an existential threat to the regime; in the aftermath, the regime returned to the public shareholding model and reliance on GLICs, rather than private business elites, to manage its political economy. In contemporary Malaysia, shareholding firms like Permodalan Nasional Berhad (PNB) participate extensively in Malaysia's equity markets; in 2018, PNB, whose mission is to elevate *bumiputera* ownership and management, boasted a portfolio of hundreds of companies and assets under management of 271 billion MYR, over 10% of the market capitalization of the Bursa Malaysia.³³

China's adoption of state investment seems to have elements of the more economically-motivated Brazilian approach and the politically-driven Malaysian approach. Like Brazil, China's program of state investment was born during an apparent privatization push and amidst economic crisis, including both the general slowdown and the acute stock market crisis of 2015. Moreover, the provision of state capital in both Brazil and China was said to target financially constrained firms. The major difference between Brazil and China is that the Brazilian state became a minority investor as the state as a whole was retreating from a commanding role in the economy. In China, however, the rise of widespread shareholding accompanies a more general chilling toward the private sector, a whole-hearted embrace of the role of the state in the economy, and a resurgence of the party-state as the locus of power in Chinese society at the

³³ Data from Emerging Market Information Systems (EMIS) 2018 and PNB Annual Report.

macro and meso levels (Hou 2019; Economy 2018). This reality may make the Chinese experience quite different from Brazil's, where minority investment from the state is found to positively affect firms, especially those with constrained opportunities. Inoue et al suggest this is possible "unless the government has some sort of residual ability to intervene" (Inoue, Lazzarini, and Musacchio 2013b), which is exactly what the Chinese party-state retains.

China shares with Malaysia the use of large shareholding vehicles as means of organizing state-business relations to avoid cronyism and particularistic patronage. To be clear, it is Malaysia's re-embrace of state institutional shareholding, after a failed experience in empowering private businesspeople, that bears the most in common with the Chinese experience. Malaysian state shareholding companies enjoy a board presence in many Malaysian firms, and minority investment facilitates state monitoring and some interference with firm decisions. The interference is not the point of the shareholding, at least not in stated intention, but UMNO has pressured various firms into entering industries or pursuing lines of business they may not otherwise.³⁴ As one observer said of Malaysia post-NEP, "businesses are employed to champion social and even political causes rather than for the sole purpose of economic gain" (Ling 1992). The CCP has not, of late, articulated a rationale of social transformation that would compare to Malaysia's NEP, but there is evidence that the CCP is recruiting private firms to engage in social projects, such as poverty alleviation efforts.³⁵ Reports have circulated since 2016 that the CCP is

³⁴ This observation based on author's interviews with Malaysian business elites, October 2018.

³⁵ Beginning in 2015, the China Federation of Industry and Commerce, in cooperation with the State Council, launched a campaign that calls for private firms to participate in poverty alleviation in China. Over 30,000 private firms participated in this campaign. Some big firms such as Alibaba, Tencent, Baidu, and Wanda, etc. have spend billions. By June 2018, Tencent, for example, donated RMB 1.5 billion for poverty alleviation. Jack Ma at Alibaba in December 2017 announced that Alibaba will invest RMB 10 billion in poverty alleviation. See: "Private Firms Put Great Efforts in Poverty Alleviation, What have Tencent and Alibaba done?" Sina Finance. October 17, 2018. <https://finance.sina.com.cn/chanjing/gsnews/2018-10-17/doc-ihmhafis2859513.shtml>; Fan Su. "Participating in Poverty Alleviation, Effects between State-owned Firms and Private Firms." *Caixin*. July 30, 2017. <http://m.china.caixin.com/m/2017-07-30/101124007.html>

pursuing one percent ownership in China's biggest tech companies in exchange for board representation, an arrangement that would provide the party-state with greater monitoring capacity and involvement in the decisions of Chinese firms that have tremendous presence in the country's social and economic life (Li 2017).

IV. Conclusion

The role that the Chinese party-state plays in the economy has changed substantially over the last two decades. The state's role as owner of firms has narrowed to include a set of large, national champion firms at the central level, but the deployment of state capital has morphed form rather than abated. As we have shown, the state invests broadly in the private sector in a number of forms, a fact that complicates the "state versus private" dichotomy that has dominated the study of China's political economy during the reform era. Further, the deployment of state capital into the wider economy has accompanied a change in the structure of the state; hundreds of shareholding firms, large and small and owned by local and central levels of the state, now interface extensively with private firms, can intervene with ease in stock markets, and appear to constitute new agents in the execution of the CCP's overall economic policy.

We have argued based on case studies that, at least so far, the investor state model has had mixed effects. Deploying state capital on a large scale allowed the party-state to respond to an acute crisis in financial markets, but not without negative effects (such as insider trading and resource misallocation). Entrusting private managers with state capital, in the form of funding or implicit bailout guarantees, has enabled the state to move beyond "state sector" firms in steering

industrial policy and has perhaps made finance available to firms in need, but it has also generated waste, corruption, excessive risk-taking, and counterproductive international suspicion of Chinese firms of all kinds. The rise of state investment is certain to transform the role of the state in the economy and impact state-business relations, but the nature of its impacts depend on how well the party-state learns to manage this new manifestation of state-market hybrid and monitor and discipline the managers of capital and the firms who receive it.

In a comparative sense, political economy scholars would do well to pay attention to state investment capital as a form of state economic intervention with a logic and set of potential consequences distinct from either “state capitalism” or “developmental states.” Critically, state investment entails state ownership of capital but nominally private control rights over firms that receive it. In the Chinese case, state investment further entails separation of the ownership and control of capital itself, as the state appears to involve private capital managers to allocate its funds. In none of the cases we discuss here was state investment a product of capital scarcity; Brazil, Malaysia, and China all boast economies with sufficient capital outside of the state’s fiscal resources. The difference, therefore, between investor states and the state-led development that Gershenkron detailed and predicted is that investor states seem to emerge in environments in which private capital exists but political elites, for different reasons in different countries, do not trust private capitalists to allocate it. Future work can do more to evaluate the precise mechanisms that give rise to this mode of state economic intervention and the political and economic effects it produces.

References

- Albertus, Michael, Sofia Fenner, and Dan Slater. 2018. *Coercive Distribution* (Cambridge University Press: New York).
- Ang, Yuen Yuen 2016. *How China Escaped the Poverty Trap* (Cornell University Press: Ithaca, NY).
- Atkinson, Robert. 2019. "Testimony of Robert Atkinson at Hearing on "Made in China 2025 and the Future of American Industry"." 2019. *Senate Small Business Committee*.
- Bell, Daniel. 2015. *The China model : political meritocracy and the limits of democracy* (Princeton University Press: Princeton).
- Boardman, Anthony E., and Aidan R. Vining. 1989. 'Ownership and Performance in Competitive Environments: A Comparison of the Performance of Private, Mixed, and State-Owned Enterprises', *The Journal of Law and Economics*, 32: 1-33.
- Brødsgaard, Kjeld. 2012. 'Cadre and personnel management in the CPC', *China*, 10: 69-83.
- Chen, Li, and Zheng Huanhuan. 2019. "Boom and bust, Chinese Style: Hybrid Financial Governance and China's Stock Market Crisis in 2015." In *Society for the Advancement of Socio-Economics*. New York City
- Chen, Yanqing. 2018. 'Entry of local state capital into private enterprises continues: more than 10 private a-share companies will become state-owned this year (地方国资入主民企再掀高潮：今年超 10 家民营 A 股公司将变身国企)', *Tencent News: Finance*, October 9, 2018
- China, State Council of. 2018. "State Council suggestions on implementing the pilot program in promoting state-owned capital investment and operating companies (国务院关于推进国有资本投资、运营公司改革试点的实施意见)." In.
- Economy, Elizabeth. 2018. *The third revolution : Xi Jinping and the new Chinese state* (Oxford University Press: New York, NY).
- Evans, Peter. 1995. *Embedded Autonomy: States and Industrial Transformation*. (Princeton: Princeton University Press).
- Fuller, Douglas B. . 2019. 'Searching for China's Technological Champions: What Past Structural Flaws and Policy Failures Tell Us about the Likelihood of Success for Current Policies', *EAI Working Paper*.
- Gerschenkron, Alexander. 1962. *Economic Backwardness in Historical Perspective*. Cambridge: Harvard University Press.
- Gomez, Edmund Terence. 2006. 'Malaysian Business Groups: The State and Capital Development in the post-Currency Crisis Period.' in Sea-Jin Chang (ed.), *East Asian Business Groups: Financial Crisis, Restructuring, and New Growth* (Oxford University Press).
- . 2009. 'The Rise and Fall of Capital: Corporate Malaysia in Historical Perspective', *Journal of Contemporary Asia*, 39: 345-81.
- Gomez, Edmund Terence, and K. S. Jomo. 1999. *Malaysia's political economy : politics, patronage and profits* (Cambridge University Press: Cambridge ; New York).
- Gourevitch, Peter, and James Shinn. 2005. *Political Power and Corporate Control: The New Global Politics of Corporate Governance*. Princeton: Princeton University Press.
- Gupta, Nandini. 2005. 'Partial Privatization and Firm Performance', *Journal of Finance*, 60: 987-1015.

- Guthrie, Douglas, Zhixing Xiao, and Junmin Wang. 2015. 'Stability, Asset Management, and Gradual Change in China's Reform Economy' in Barry Naughton and Kellee S. Tsai (eds.), *State Capitalism, Institutional Adaptation, and the Chinese Miracle* (Cambridge University Press: New York).
- Hachem, Kinda. 2018. 'Shadow Banking in China', *Annual Review of Financial Economics*, 10: 287-308.
- Haggard, Stephan. 2018. *Developmental States. Elements in the Politics of Development*. Cambridge University Press. New York.
- Hall, Peter and David Soskice. 2001. *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. New York: Oxford University Press.
- Hou, Yue. 2019. 'The Private Sector: Challenges and Opportunities During Xi's Second Term', *China Leadership Monitor*.
- Huang, Yasheng. 1996. Central-local relations in China during the reform era: the economic and institutional dimensions. *World Development*, 24(4), 655-672.
- , 2008. *Capitalism with Chinese characteristics : entrepreneurship and the state* (Cambridge University Press: Cambridge ;New York).
- Inoue, Carlos, Sergio Lazzarini, and Aldo Musacchio. 2013a. 'Leviathan as a minority shareholder: Firm-level implications of state equity purchases', *Academy Of Management Journal*, 56: 1775.
- Keister, Lisa. 2004. 'Capital Structure in Transition: The Transformation of Financial Strategies in China's Emerging Economy', *Organization Science*, 15: 145-58.
- Landry, Pierre. F. 2008. *Decentralized authoritarianism in China*. New York: Cambridge University Press, 6, 31.
- Landry, Pierre, and Xiaobo Lü, 2014. "Show me the Money: Interjurisdictional Political Competition and Fiscal Extraction in China." *American Political Science Review*. 108 (3) : 706-722.
- Lardy, Nicholas R. 2019. "The state strikes back : the end of economic reform in China?" In, 1 online resource. Washington, DC: Peterson Institute for International Economics,.
- Leutert, Wendy. 2018. 'The Political Mobility of China's Central State-Owned Enterprise Leaders', *The China Quarterly*, 233: 1-21.
- Li, Chen. 2015. *China's centralized industrial order : industrial reform and the rise of centrally controlled big business* (Routledge: Abingdon, Oxon ; New York, NY).
- . 2016. 'Holding "China Inc." Together: The CCP and The Rise of China's Yangqi', *The China Quarterly*, 228: 927-49.
- Li Chen and Zheng Huanhuan. 2019. "Boom and Bust, Chinese Style: Hybrid Financial Governance and China's Stock Market Crisis in 2015." Paper presented at the Society for the Advancement of Socioeconomics Annual Meeting. New York City, 2019.
- Li, Yifang. 2019. "Increase in A Share Equity Transfer: Reason, Future, and Policy Recommendations." (A □ □ □ □ □ □ □ □ □ □ 、 □ □ □ □ □ □ □) *Shanghai Securities Research Report* (□ □ □ □). Number 8.
- Li, Yuan 2017. 'Beijing Pushes for a Direct Hand in China's Big Tech Firms', *Wall Street Journal*, October 11, 2017.
- Lindblom, Charles. 1977. *Politics and Markets: The World's Political Economic Systems*. New York: Basic Books.

- Ling, Sieh Lee Mei. 1992. 'The transformation of Malaysian business groups.' in Ruth McVey (ed.), *Southeast Asian Capitalists* (Cornell Southeast Asia Program Ithaca, NY).
- 'The meaning behind the “sale” of private enterprises to state capital (民企“卖身”国资背后的信号)'. 2018. *Sohu.com*, September 18, 2018.
- Mi Na and Hu Liuji. 2019. “中民投生死劫：负债 3000 亿 已很难从金融机构借到钱。” *新浪财经*. April 18.
- Minzner, Carl. 2018. *End of an era : how China's authoritarian revival is undermining its rise* (Oxford University Press: New York, NY, United States of America).
- Mozur, Paul, and Jack Ewing. 2016. 'Rush of Chinese Investment in Europe’s High-Tech Firms is Raising Eyebrows', *New York Times*.
- Musacchio, A., Farias, A. M., & Lazzarini, S. G. (2014). *Reinventing state capitalism*. Harvard University Press.
- Nahm, Jonas. 2017. 'Exploiting the Implementation Gap: Policy Divergence and Industrial Upgrading in China's Wind and Solar Sectors', *The China Quarterly*, 231: 705-27.
- Naughton, Barry, and Kellee S. Tsai. 2015. *State capitalism, institutional adaptation, and the Chinese miracle* (Cambridge University Press: New York, NY).
- Oi, Jean C., and Xiaowen Zhang. 2014. 'Creating corporate groups to strengthen China’s state-owned enterprises.' in Kjeld Brødsgaard (ed.), *Globalization and public sector reform in China* (Routledge London).
- Pei, Minxin. 2006. *China's trapped transition : the limits of developmental autocracy* (Harvard University Press: Cambridge, Mass.).
- Przeworski, Adam, and Henry Teune. 1970. *The Logic of Comparative Social Inquiry*. (New York: Wiley-Interscience).
- Rawski, Thomas G. 1999. 'Reforming China's Economy: What Have We Learned?', *The China Journal*: 139-56.
- Shambaugh, David L. 2008. *China's Communist Party : atrophy & adaptation* (University of California Press ;: Berkeley Washington, D.C. Woodrow Wilson Center Press.).
- . 2013. *China goes global : the partial power* (Oxford University Press: Oxford ; New York).
- Shih, V., Adolph, C., & Liu, M. 2012. Getting ahead in the communist party: explaining the advancement of central committee members in China. *American Political Science Review*, 106(1), 166-187.
- Shirk, Susan L. 2007. *China : fragile superpower* (Oxford University Press: Oxford ; New York).
- Stark, David. 1996. 'Recombinant Property in East European Capitalism', *American Journal of Sociology*, 101: 993-1027.
- Steinfeld, Edward S. 2010. *Playing our game : why China's economic rise doesn't threaten the West* (Oxford University Press: Oxford ; New York).
- Wang, Yingyao. 2015. 'The rise of the ‘shareholding state’: financialization of economic management in China', *Socio-Economic Review*, 13: 603-25.
- Waterbury, John. 1993. *Exposed to Innumerable Delusions: Public Enterprise and State Power in Egypt, India, Mexico, and Turkey*. New York: Cambridge University Press.
- Winters, Jeffrey. 1994. “Power and the Control of Capital.” *World Politics*. Vol. 46, Issue 3: pp. 419-452.

- Woo, Wing Thye. 1999. 'The Real Reasons for China's Growth', *The China Journal*: 115-37.
- Woo-Cumings, ed. 1999. *The Developmental State*. Ithaca, NY: Cornell University Press.
- Wu, Hsueh-Liang. 2011. 'Can minority state ownership influence firm value? Universal and contingency views of its governance effects', *Journal of Business Research*, 64: 839-45.
- Zysman, John. 1983. *Governments, Markets, and Growth: Financial Systems and the Politics of Industrial Change*. Cornell University Press: Cornell Studies in Political Economy.

Supporting Information

Table 1: Firms selected for experimental "state capital" status

Date of experimental designation	Chinese Name	English Name	Type of Experiment
July 2014	中粮集团	COFCO (China National Cereals, Oils and Foodstuffs Corporation)	investor
July 2014	国投集团	SDIC (State Development & Investment Corporation)	investor
July 2016	神华集团	Shenhua Group	investor
July 2016	宝钢集团	Baowu Group	investor
July 2016	武钢集团	Baowu Group	investor
July 2016	中国五矿	China Minmetals	investor
July 2016	招商局集团	China Merchants Group	investor
July 2016	中交集团	CCCC (China Communications Construction Corporation)	investor
July 2016	保利集团	China Poly Group	investor
December 2018	航空工业集团	AVIC (Aviation Industry Corporation of China)	investor
December 2018	国家电投	SPIC (State Power Investment Corporation)	investor
December 2018	国机集团	SINOMACH (China National Machinery Industry Corporation)	investor
December 2018	中铝集团	CHALCO (Aluminum Corporation of China)	investor
December 2018	中国远洋海运	COSCO SHIPPING (China COSCO Shipping Corporation)	investor
December 2018	通用技术集团	China General Technology Group	investor
December 2018	华润集团	CRC (China Resources Corporation)	investor
December 2018	中国建材	CNBM (China National Building Material)	investor
December 2018	新兴际华集团	Xinxing Cathay International Group	investor
December 2018	中广核	CGN (China General Nuclear Power Group)	investor
December 2018	南光集团	Nam Kwong Group	investor
February 2016	诚通集团	China Chengtong Holdings Group	operator

February 2016	中国国新	China Reform Holdings	operator
------------------	------	-----------------------	----------

Source: Various news reports and press releases. State-Owned Assets Supervision and Administration Commission of the State Council. “New Experimentation and Organization in State Capital Investment and Operation Companies.” (国有资本投资、运营公司探索新体制、新机制、新模式). November 21, 2017.

<http://www.sasac.gov.cn/n2588025/n4423279/n4517386/n8258891/c8258953/content.html>.